FIRST EDITION

Healthcare Investing in Europe

European Healthcare Investor Association

Delivering for investors in Healthcare

The largest association of private capital providers investing in healthcare companies in Europe

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in Europe

FIRST EDITION

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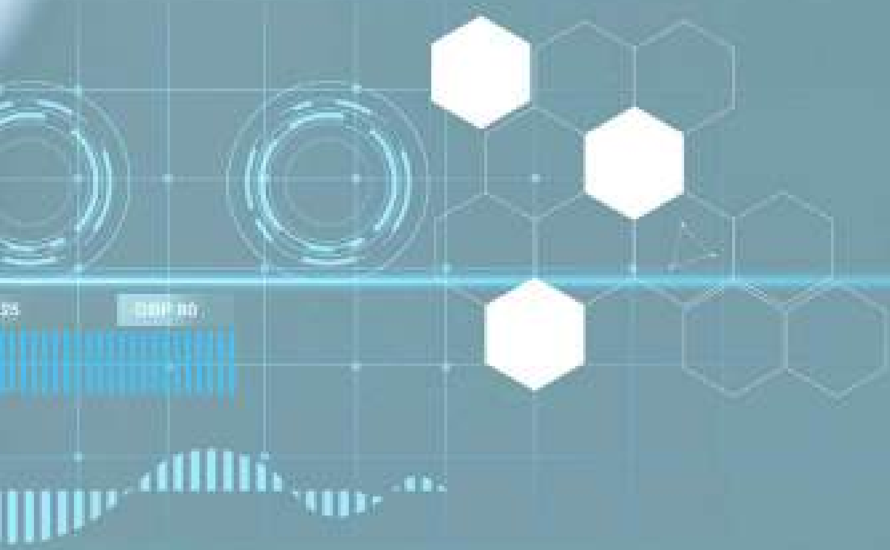
Welcome

Launched in the middle of lockdown in 2020, the European Healthcare Investor Association (EHIA) is already the largest association of private capital providers investing in healthcare companies in Europe. Our aim is simple - to promote a better understanding of investors' contribution to the healthcare economy, to provide networking and training opportunities to our members and to deliver sector focussed market data and analysis. The Association has grown rapidly to over 50 members including investors, senior managers, advisors and other members of the healthcare investing community, all focussed on building successful healthcare businesses.

We are a not-for-profit, working in partnership with strategic partners in the advisory community including McKinsey & Company (strategy consulting), JP Morgan (investment banking), McDermott Will & Emery (legal), Compass Executives (executive search), Marwood Group (regulatory consulting), FTI Consulting (cybersecurity and strategic communications), Knight Frank (real estate), RSM Ebner Stolz (accounting) and Real Deals (media).

Our coverage is deliberately broad, both in terms of geography by being pan-European (and not too London centric), and in terms of market sub-sector coverage including Healthcare Services, Life Sciences and Pharma, and Veterinary, but with an emphasis on growth markets of interest to members such as pharma services, tech enabled models and capex-lite clinic delivered services (for example fertility, dentistry and diagnostics).



Looking across the portfolios of EHIA member firms, both specialists and generalists, it is clear to see the strength and depth of high-quality high-growth businesses that flourish within the healthcare sector.

As a founder partner of healthcare specialist GHO it has been a joy to see a thriving EHIA - nurturing awareness and mutual respect among the many successful investment professionals focused on healthcare and based in Europe.

Alan Mackay, Chair, European Healthcare Investor Association

Having joined EHIA as Executive Director in early 2023, it has been wonderful to connect with so many of our members both virtually and in person. I am delighted by how our reputation is growing, and to witness the significant increase in membership by over 40% in just 9 months.

In the summer of 2022 McKinsey undertook a project to understand the benefits that our members really value. The outcome was a strategy which establishes the Association as a convener and an informer of healthcare investors. My remit is to deliver on that strategy by providing valuable benefits for our members, and my door is always open. I look forward to exchanging ideas with our members on ways to further develop the association and create additional value.

Sarah Ward, Executive Director, European Healthcare Investor Association

The genesis of the idea

The concept of the EHIA was not original. The genesis of the association was inspired by the Health Care Private Equity Association ("HCPEA") based in Virginia in the US and run by Executive Director Melissa Gardiner. The HCPEA was the first industry focused professional association for private equity founded in 2010 and is a dedicated network that supports the needs, knowledge, and relationships of the healthcare private equity community. Initially discussions were had with the HCPEA about extending their membership to Europe. However, their mandate as a US based 501(c)(6) professional/business association made this challenging, and so the European Healthcare Private Equity Association was born.

Launched with a virtual wine and cheese tasting tutorial generously sponsored by McDermott Will & Emery who also incorporated the association as a pro-bono project, the event was a success despite encountering some post Brexit logistical challenges, including the inability to courier French cheese and wine from the UK to France.

Initially, the EHIA was a 100% virtual association, attending a virtual JP Morgan Healthcare Conference, hosting webinars and partnering for the virtual McDermott Healthcare Private Equity Europe conference, but the association has evolved materially since then.

European Healthcare Investor Association

EHC PEA EUROPEAN HEALTH CARE PRIVATE EQUITY ASSOCIATION

HCPEA HEALTHCARE PRIVATE EQUITY ASSOCIATION

www.hcpea.org
HCPEA, 2500 Williston Drive,
Charlottesville, VA 2290
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Our strategy

In summer 2022 McKinsey & Company undertook a five-week strategy project to benchmark the association against other similar organisations and interview members on what they would like the association to offer.

Member's Feedback

"Something like this is needed in a European context - I believe in the underlying purpose of EHIA"

"EHIA is a great concept - it's still early in its maturity, but it's an idea everyone can get behind"

"This isn't an industry that organizes itself well so there are some real opportunities for EHIA in Europe"

"EHIA could do a lot just by orchestrating members to share existing knowledge"

Our purpose

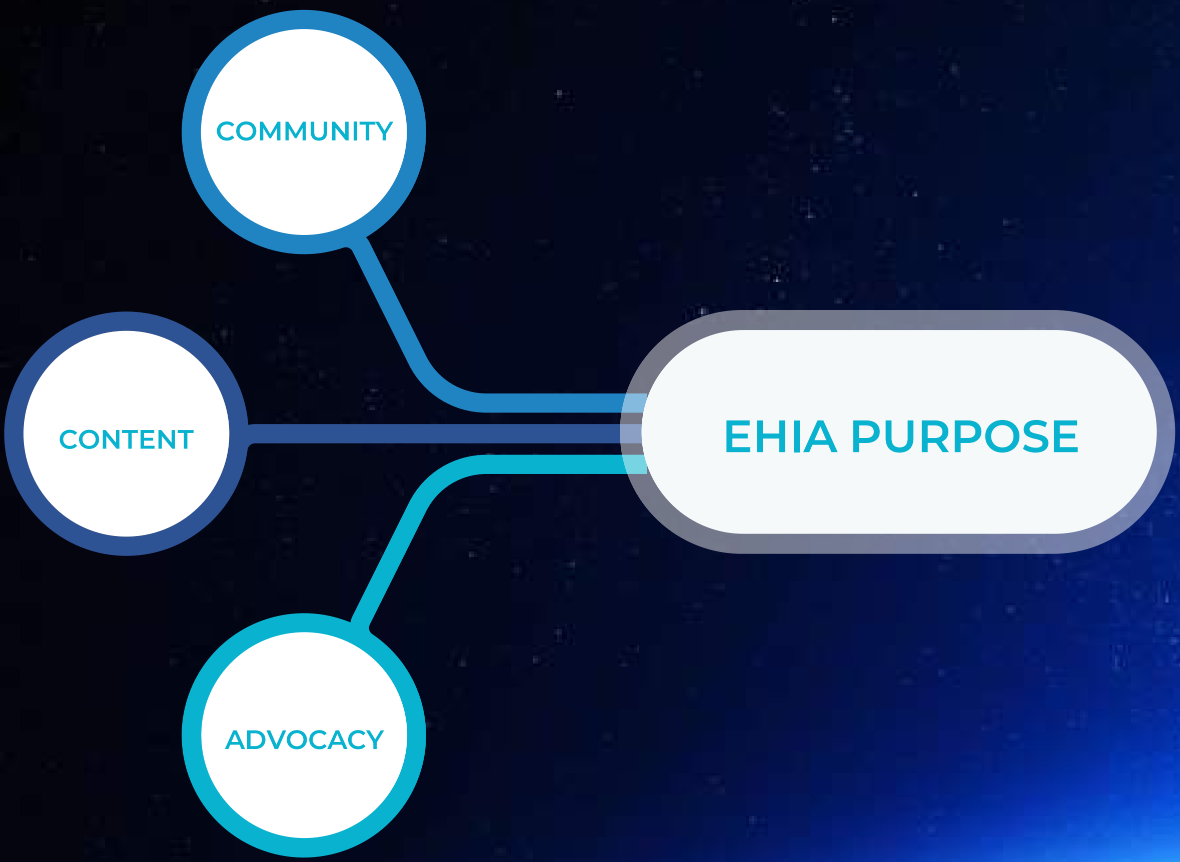
Our purpose is to be a convener and an informer of healthcare investors to enable them to originate and make investments. To achieve this we have an integrated strategy combining information sharing, networking events, and a focussed digital offering.

Focus on ALL investors in healthcare

Feedback from members to the McKinsey strategy work led to a clearer roadmap including a name change, from the European Healthcare Private Equity Association to the European Healthcare Investor Association. Apart from being shorter and simpler, it also reflected the increasingly diverse membership as Novo Holdings (a foundation), Mubadala (a Sovereign Fund) and H R L Morrison (an infrastructure investor) joined – all active healthcare investors but not technically private equity. That mandate to broaden the membership continues with a focus on family offices and the healthcare real estate investor market that underpins many of the healthcare services investments, as well as expanding the individual members who are current or former CEOs, Chairs or Non Executive Directors of healthcare companies.

Communicating with our membership

Members are time poor, and therefore focussed, relevant content available in an easily digestible format is key. Perhaps as a result of the "virtual" start to the organisation, communication has by necessity been digital - via an active LinkedIn feed with over 4,000 followers and growing, via a members and non-members monthly newsletter with deals, people moves and market reports, and online via the website with a Resource Hub with a growing library of member only content. Increasingly, Sarah Ward has also been building personal relationships with members as more in person events are held.



1. Community

Networking at all levels in a neutral environment

Convening people and networking is a key role that the EHIA can help facilitate, in part as a non-aligned neutral participant in the market. At the senior level, smaller networking dinners for partners in funds enables them to have confidential conversations, but also to get to know their peers in a non-deal environment. Assets are often sold to and from peers in the sector, and the benefit of a personal relationship outside of a transaction can be very valuable.

Below partner, deal teams have also expressed an interest in meeting their peers and in having access to events with a particular focus – for example we now run an annual Women in Healthcare Private Equity networking drinks with Level 20 (www.level20.org), a not for profit that encourages participation by women in private equity, especially in leadership positions, with a goal for women to hold at least 20% of senior positions. There are many women in finance and investing events, but feedback was that having a sector focus made it much more relevant and useful to those who attended.

More generally, we aim to host events at all the major healthcare conferences (eg JP Morgan, Jefferies), trade shows (eg CPHI, MEDICA) and investor events (eg SuperReturn, IPEM) during the annual calendar, and increasingly to enable senior managers to access the association and meet with investors as well. We are also event partners for the McDermott flagship Healthcare Private Equity Europe conference and the Basel Healthtech Conference and continue to look for new opportunities.

2. Content

Relevant, timely, accessible

Increasingly, EHIA is becoming the focal point for sector relevant content and a useful point of distribution of content to a small, focussed and high quality audience. We are indebted to our strategic partners for the high quality of the content we share through webinars and events.

Webinars have included an in depth series on pharma services from McKinsey (all available on demand from the Resource Hub on the website), podcasts with SAID Business School, webinars from McDermott on legal changes and from their healthcare conference and more. Particularly popular are our "Meet your Members" portfolio company spotlight webinars, where the CEO of a portfolio company and the partner who led the investment are interviewed for an hour and present the investment case with a live Q&A. Well ahead of any sale process, this is a unique forum to update the investor community on developments in a portfolio company. Selected examples include:

Portfolio Company	Fund
Rodenstock	Apax
DORC	Eurazeo
Sterling Pharma Solutions	GHO Capital
Atida	Marcol Health
Advanz Pharma	Nordic Capital
Clearview Healthcare Partners	GHO Capital

Many of our partners also produce excellent sector research including Marwood (regulatory), Knight Frank (real estate) and JP Morgan (economic) and more, again all available from the Resource Hub.

3. Advocacy

No lobbying, just positive profile building

Some members are part of larger financial institutions with their own government affairs and lobbying policy, and if the EHIA were to lobby this would create conflicts. In any event, Invest Europe (www.investeurope.eu), the British Private Equity & Venture Capital Association (www.bvca.co.uk) and other national private equity associations already exist to lobby on behalf of the sector.

The EHIA therefore focuses on promoting healthcare investing more broadly, with an emphasis on the companies being built, innovation, quality of care, new products being developed, people being employed, jobs being created, investment being made and the tax being paid and returns being generated for fund investors such as pension schemes and institutions.

In conclusion

There is a real opportunity for the healthcare investing community in Europe to raise its profile and to build on the success it has already achieved. The EHIA has been created to help facilitate that and has an exciting program of new initiatives including a members directory, an asset portfolio database and a journal. If you would be interested to join, please do contact Sarah Ward and we would be delighted to speak to you.

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Going private

Private equity has been instrumental in building some of the leading healthcare providers in the UK and Europe. The 'circle of life' for many of these companies has been: consolidation with leverage; a sale to a larger PE fund with more consolidation and leverage; and then either a public market exit (Synlab, Mehiläinen, Cambian, Attendo, Spire), a sale to a public company (Alliance Medical, Priory, Partnerships In Care, Cygnet) or occasionally a restructuring (Southern Cross, Four Seasons and Alliance Medical).

However, over the Summer of 2023 the pace of take private transactions accelerated as the mispricing of public equity and the availability of leverage (albeit at a higher cost) enabled private equity to offer material premiums to where stocks traded, and for strategics to purchase assets, often with the benefit of signficant synergies. In terms of subsectors, pharma services and life sciences predominated, with real estate and healthcare services driven more by acquirors with significant ownership of the asset already and seeing a value play in a take private (MSC/Remgro and Mediclinic and the Sheikh brothers and Caretech).

With some €25bn+ of tradable equity leaving the European listed sector just in healthcare over the last three years, the universe of investable stocks for public investors has continued to shrink. This is reflective of a broader, potentially existential, threat to the public markets as liquidity and research dry up. Does this really matter? The reduction in the listed ecosystem has numerous ramifications in terms of:

- Economic growth, given that small & midcap companies generally are growing, whereas many of our larger companies are shrinking their workforce.
- Lower attraction of the EU (versus the US) as a listing venue, particularly as many companies leaving the market are in growth sectors.
- Reduction in sector peers and depth of knowledge, which further reduces the attraction of listing. This is most obvious in the healthcare sector with the recent departures of companies below and technology with Aveva, Avast and Ideagen also leaving.

> "However, the "circle of life" may in fact be turning again with a couple of recent announcements of PE backed IPO mandates being awarded to investment banks, with more likely to be in the pipeline, and this may herald a return to the public markets of key assets."

- Negative impact on a broad range of professional services firms, which is a particular area of expertise and knowledge
- Reduction in corporation tax due to the new ownership structure (eg Asda & Morrisons).
- Reduced importance of capital markets in international indices, resulting in lower attention from international investors.
- Quoted companies generally have conservative balance sheets, enabling greater capability to manage economic shocks and interest rate cycles. The benefit of permanent capital should not be underestimated.
- There is a change from broad to narrow ownership.
- Circularity of negativity, whereby valuations are low, liquidity is depressed and companies exit the market as long-term prospects/valuation are not being adequately recognised.

However, the "circle of life" may in fact be turning again with a couple of recent announcements of PE backed IPO mandates being awarded to investment banks, with more likely to be in the pipeline, and this may herald a return to the public markets of key assets.

Selected Take Private Transactions

Date	Company	Value	Sector	Advisor	Acquiror	Advisor
Sep-23	Synlab	€2.2bn	Diagnostics	LAZ	Cinven	MACQ/DB
Aug-23	Instem	£203m	Pharma Services	ROTH	ARCHIMED	MOE
Aug-23	Ergomed	£703m	Pharma Services	JEF	Permira	ROTH
Aug-23	abcam	$5.7bn	Life Sciences	MS/LAZ	Danaher	JEF/BAR
Aug-23	Civitas Social Housing	£485m	Healthcare Real Estate	PG/LIB	CK Asset Holdings	HSBC
Apr-23	Dechra Pharma	£4.6bn	Animal Health	INV	EQT/ADIA	MS/JEF/BofA
Apr-23	Medica	£269m	Diagnostics	EVER/NUM/LIB	IK Partners	JEF
Jun-22	CareTech	£870m	Healthcare Services	PG/NUM	Sheikh Family	DB/CITI/LAZ
Jun-22	EMIS	£1.3bn	HCIT	DB	United Health	RW
Dec-21	Clinigen	£1.6bn	Pharma	NUM/RBC	Triton	JPM/HSBC/BAR
Jul-21	Vectura	£1bn	Pharma	ROTH/JPM	Philip Morris	BofA
Jun-22	Mediclinic	£2bn	Healthcare Services	MS/UBS/STANB	MSC/Remgro	UBS
May-21	UDG Heathcare	£2.9bn	Healthcare Services	GS/ROTH	Clayton Dubilier	DB/CITI/JPM
May-20	Huntsworth Health	£400m	Healthcare Services	ROTH	Clayton Dubilier	HL/BofA/RBC/BAR

Going Public (again)

Company	Est Valuation	Sector	Owner	Advisors
Stada	€10bn	Pharma	Bain/Cinven	JEF/ROTH/JPM/MS
Sunrise Medical	€2bn	Medtech	Nordic Capital	BofA/UBS/JEF

Private equity laid bare

My book, Private Equity, Laid Bare, is the opposite of about everything you'd expect from a PE textbook.

It starts with the cover: countryside, bare versus the usual urban setting, sky scrapers, bling-bling.

The writing style is informal and makes complex constructs as simple as possible: Alice explains how to conduct the Leveraged Buy-Out (LBO) on a house located in Wonderland.

It covers both failed and profitable deals, always shows both sides of the argument. For instance, it describes the current tensions on fees and expenses, using a dialogue between Alice (the general partner, or GP) and Hatter (limited partner, or LP) to highlight each point of view in an engaging way. There are no sections and sub-sections; it is all about reaching a natural flow, to avoid the usual dictionary-style. I believe a course should be as engaging as watching a movie. For it you need to have

The private equity course at Oxford was not just one of the first such courses ever offered in a business school, but also claims to be one of the most advanced and comprehensive offered in the world. In addition, an innovative online executive course has been launched covering the full spectrum of private markets, but with a focus on buyouts and limited partnership structures. Course leader **Ludovic Phalippou** gives an overview of his book, which forms a core of the learning on offer

that flow, that logical order, that build up. The original book has been heavily revised and the 3.0 version came out in July 2021.

It now includes impact investing and ESG, emerging markets and two extensive case studies: One of the most profitable LBO of all times (the $14 billion earned by Blackstone with Hilton Hotels; and one about the Queen's College Endowment, one of the best performing ones in the world, which I know from the inside and has a very different investment approach, especially when it comes to private markets).

Also a chapter on private equity in developing markets, and impact investing has been added. Importantly the book is self-published, which among other things, has enabled me to offer nearly 400 pages of dense content for £20 for the paperback, a far cry from all these books in Private Equity that can cost anywhere between £60 and £700... and with content that might not be that deeply researched or be original. The book is also unique in that it spends an equal amount of time on GP and LP issues - instead of adopting a GP-only view.

Plus, it is fun. Content rich with a light style, rather than taking a dry style in order to mask light content. It employs role plays as a learning tool, and shows original and confidential documents (anonymised) to see practice from up close.

Many practitioners have reviewed the material to make sure it is accurate and in line with current practice.

Eight key learning points

1 The amount of debt in an LBO positively affects the value added only if the target was bought below its competitive value.

Implications: i) when asset prices are at all-time highs (like now) there should be less (not more) leverage used in LBOs; ii) the primary determinant of leverage in an LBO should be the likelihood the company was bought on the cheap. A company bought at a competitive auction, for example, should be less levered.

2 The usual decomposition of value added into leverage, multiple arbitrage and earnings growth does not make any sense conceptually and its practical implementation (via a value bridge) is biased to exaggerate the contribution of earnings growth.

3 Most of the controversies around LBOs are when companies end up financially bankrupt.

A financial bankruptcy is one that would not have happened without the extra debt from an LBO. I show that most bankruptcies in PE are of this type. These bankruptcies should actually not be the controversial ones since a purely financial bankruptcy should not, in principle, disrupt the underlying business. There should just be a change of ownership (to some of the debt claimants). If there is a disruption, attention should turn to bankruptcy laws, not PE.

4 Presenting fees as 2-20 is misleading. Headline fees are only remotely related to the actual fee bill.

Fees depend on how every single clause is written and how each element is defined. Contracts are incredibly difficult to read and understand. Hence, the magnitude of the fees is very difficult to anticipate. Another consequence is that recording (and discussing) headline numbers is pointless. LPs claiming victory because headline management fees went down is misguided.

5 Portfolio company fees and expenses (and fund expenses) have been swept under the carpet up until recently.

These practices open the door to massive conflicts of interests for GPs.

6 The commonly held belief that PE fund performance is staggering, especially for top quartile funds, is mainly based on IRRs.

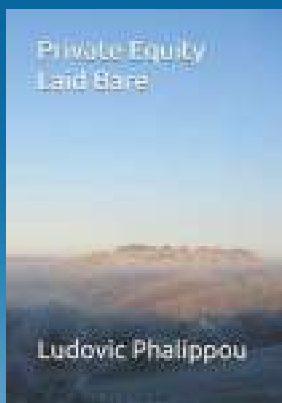
IRRs are not rates of returns and can readily be manipulated. When performance is measured properly, numbers are a lot more sobering and realistic.

7 The fees, conflicts of interest and performance evidence lead a number of investors to avoid PE funds; thereby following the Canadian model by investing directly in companies.

The main challenge and pitfall is to realise that human resource decisions are de facto long term portfolio allocation decisions, which significantly restrict tactical asset allocation choices for many years to come.

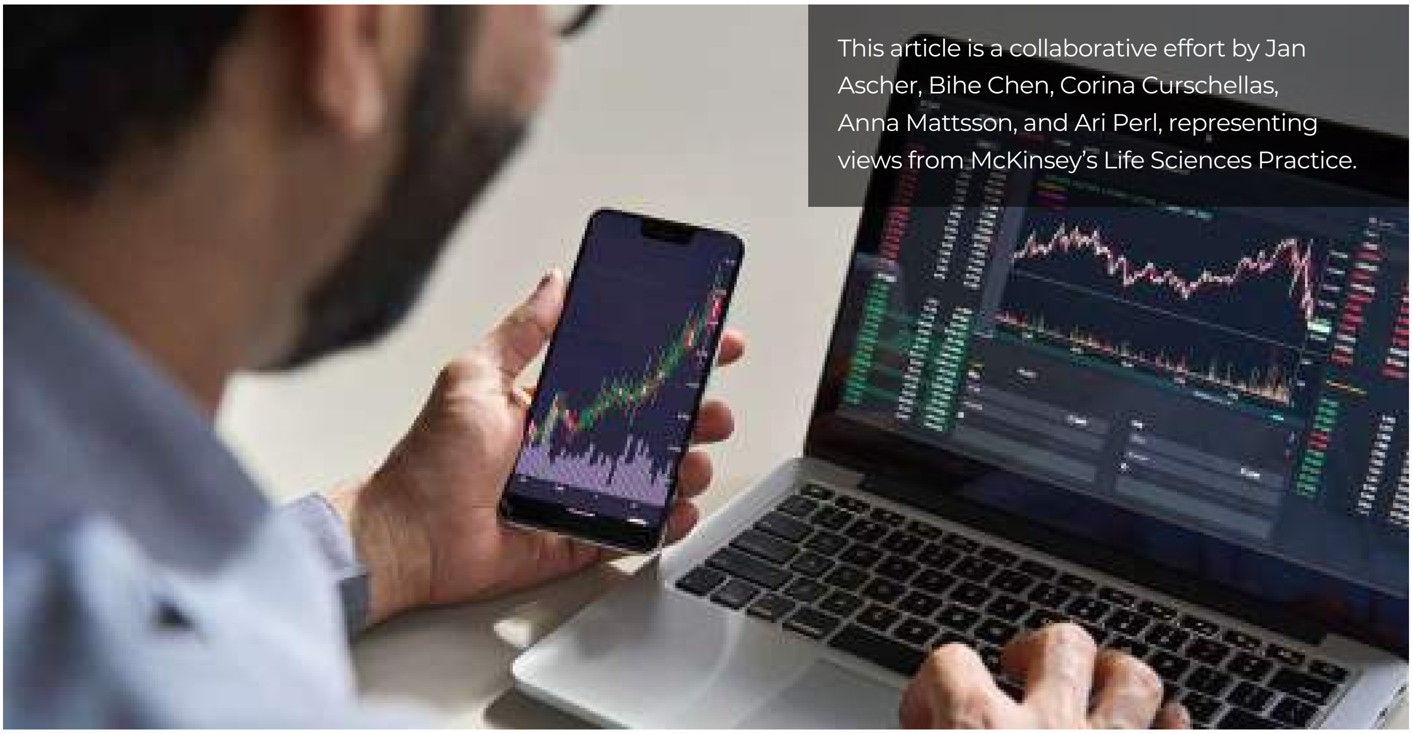
8 Valuation is to be thoughtful or not to be.

I warn on pitfalls of using the usual NPV and Comparable approaches. I describe the conceptual framework with which to approach LBO modelling and valuation.



Ludovic is Professor of Financial economics and a Faculty member of the Said Business School at the University of Oxford, a Fellow at The Queen's College Oxford. He sits on the investment committee of his college endowment and was named as one of "The 40 Most Outstanding Business School Professors Under 40 In The World"

European Healthcare Laid Bare Podcast: an interview with Ludovic Phalippo, is available in the Resource Hub on the EHIA website



This article is a collaborative effort by Jan Ascher, Bihe Chen, Corina Curschellas, Anna Mattsson, and Ari Perl, representing views from McKinsey's Life Sciences Practice.

Five ways biopharma companies can navigate the deal landscape

The biopharma investment landscape is changing. Companies that grasp recent macro trends in dealmaking and how they affect deal success could position themselves well for attractive opportunities.

Dealmaking has long been a hallmark of the biopharma industry, playing a crucial role in most firms' growth strategies. Historically, the sector has seen more and bigger transactions than even the tech industry. Because innovation comes slowly in biopharma, mergers, acquisitions, and other partnerships to boost the new-product pipeline have been an existential necessity for successful companies.

That's been especially evident in recent years - with some notable shifts. M&A activity has increased over the past five years, but steady growth in deal volume and relatively stable deal value (except in 2019) indicates that the relatively small number of mega deals seen in the early 2010s have given way to a greater number of smaller transactions (Exhibit 1). Partnerships have increased over the same period, including some notably unconventional pairings in therapeutic areas not known for collaboration and between players teaming up for the first time. There have also been upticks in deals focused on digital assets, as the industry's demand for big data and advanced analytics intensifies, and on more localized deals around the globe, as companies look to emerging markets as growth engines.

Combined, these macro trends suggest a potential inflection point for the industry. Companies that recognize the new opportunities in this dealmaking landscape and pursue them programmatically- that is, through a minimum of two small or midsize deals a year with a market capitalization of 20 to 30 percent - will be best able to strengthen their portfolios with accelerated growth and value creation.

Five macro trends in biopharma dealmaking

Companies in the biopharma sector have had significant levels of available cash to make deals. McKinsey's analysis shows that the top 12 biopharma companies will have more than $290 billion in cash available to invest at the end of 2022, nearly double their pre-COVID-19 levels.

But there is more to this story than the size of biopharma coffers alone. After all, these companies could use their cash to pay down debt or deliver dividends to shareholders. Digging deeper into the data, we have uncovered five key dealmaking macro trends.

Trend 1: Seeking portfolio transformation

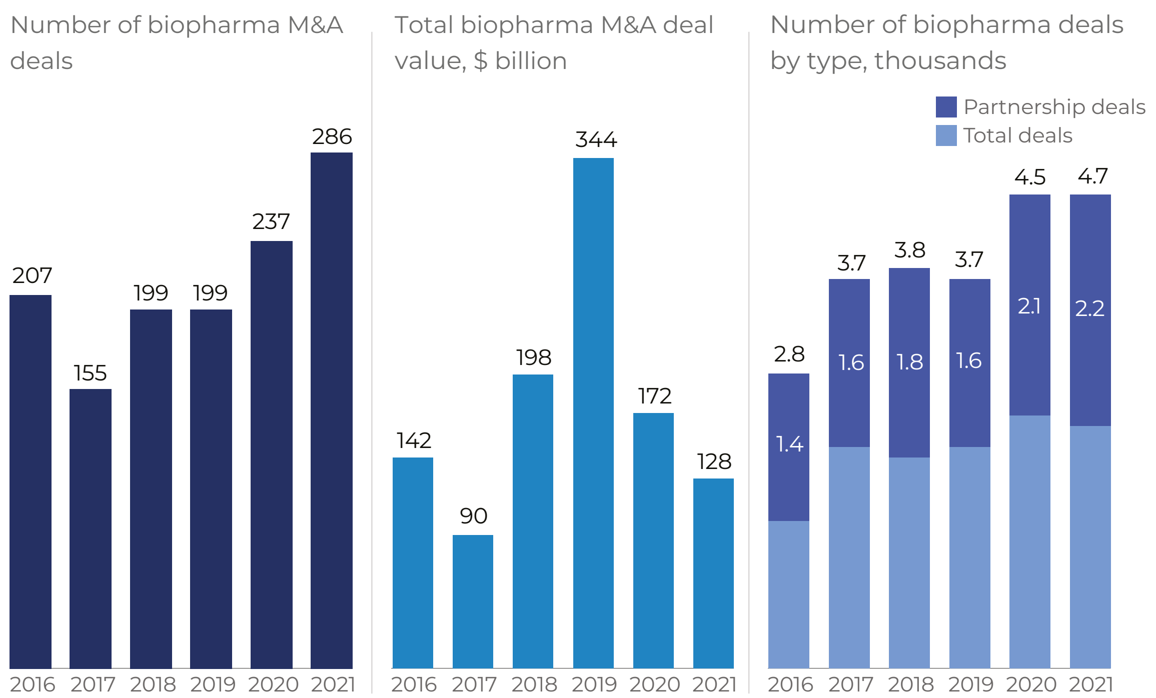
Active portfolio management is a key value driver for any company, and it's essential for success in the biopharma industry, as it accelerates growth and fuels value creation. It allows companies to focus on their scientific and operational strengths, realign with areas of greatest patient need and growth potential, optimize synergies among various assets, and update their portfolio as key drugs lose exclusivity. Companies that rotate their portfolios through programmatic M&A and partnerships typically outperform their peers, achieving higher total shareholder returns than those that pursue alternative growth strategies like selective dealmaking and organic growth (Exhibit 2). Even during the COVID-19 pandemic, programmatic M&A outperformed other growth strategies across industries.

Divestitures—the flip side of M&A—are also an important element of active portfolio management. Divestiture activity has picked up over the past few years as most biopharma companies have continued to focus on their strategic cores in terms of both therapeutic areas and innovation (Exhibit 3).

Since 2019, many of the industry's largest players, including Lilly, Merck, Novartis, and Pfizer, have divested or spun off non innovative pharmaceutical assets, such as established medicines and generics, and non pharmaceutical assets in consumer health, animal health, and medical technologies. Some more recent announcements, such as Johnson & Johnson's spin-off of its consumer health business and Novartis' spin-off of Sandoz, confirm a continuation of this trend, which can boost efficiency and performance.

Exhibit 1

Biopharma mergers and acquisitions activity continues to increase, but so have other deal types.



Source: McKinsey analysis of S&P Global Market Intelligence data (includes deals above $25 million only)

Exhibit 2

Biopharma companies pursuing programmatic M&A and divestitures outperform those pursuing other deal types.

Comparing shareholder return at large pharma companies by deal type,[1] Jan 2010–19

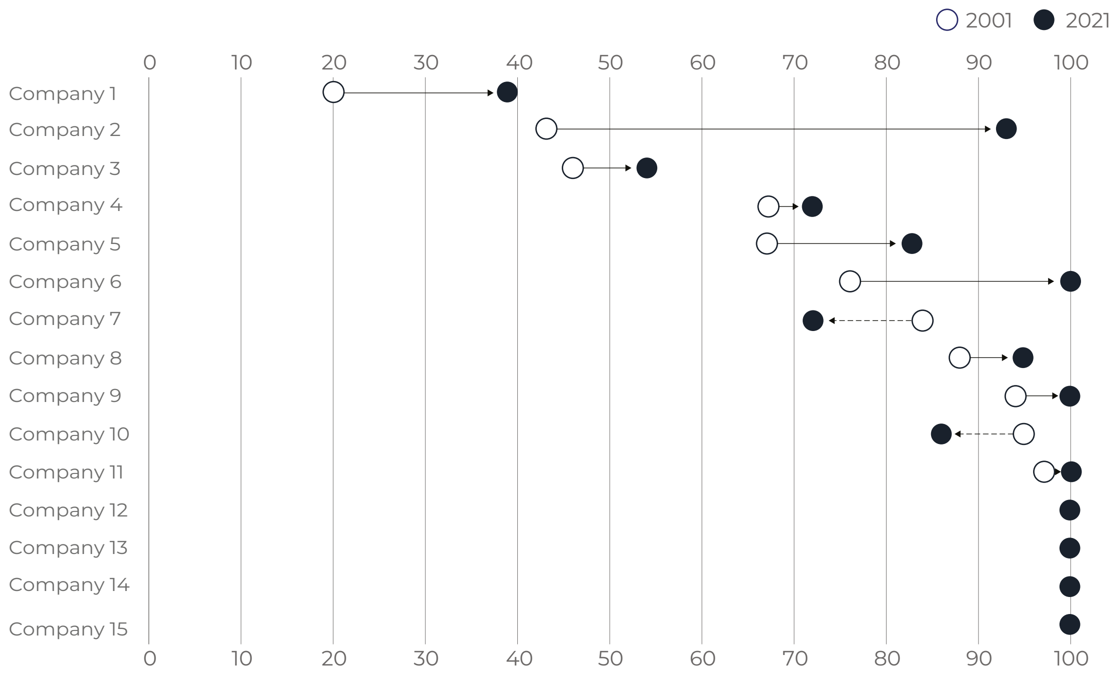
M&A strategy	Partnership activity [2]	Median excess total shareholder returns, %
Large deals (n = 25)	At least 1 deal with 30% or greater of acquirer market cap	–0.6
Programmatic (n = 13)	Programmatic or selective M&A plus high partnership activity	1.2
Selective (n = 51)	Programmatic or selective M&A plus low partnership activity	0.3
Organic (n = 20)	Minimal M&A activity	0.9

[1] Global 2000 Pharma are companies that were among the top 2,000 companies by market cap (greater than $3.7 billion) and were still trading on Dec 31, 2020, excluding companies headquartered in Latin America or Africa and those with a sample size less than 5.
[2] Annual partnership deal activity measured by average annual number of deals from 2007 to 2017, and average annual revenue from 2 010 to 2019; categorizes as high if above the 50th percentile and low if below it.
Source: Dealogic; McKinsey analysis of S&P Global Market Intelligence data

Exhibit 3

Most biopharma companies increased the proportion of sales from pharma over the past 20 years, often through divestments or spin-offs.

Change in pharma sales as a share of total sales, top 15 largest pharma companies, 2001–21,[1] %



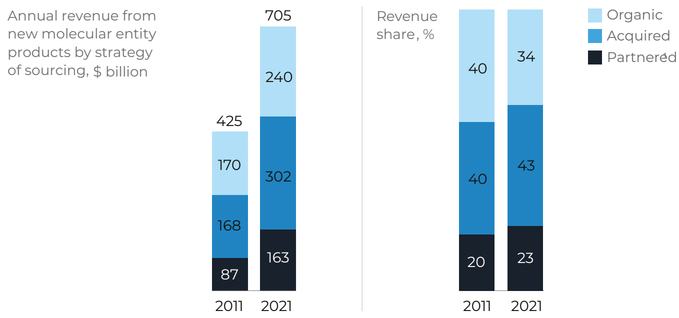
[1] Total company sales include vaccines but exclude generics, alliance/co-promotion revenue, and royalty and licensing income, with select adjustments for eliminations and joint ventures.
Source: EvaluatePharma, Evaluate Ltd, August 2022

Trend 2: Buying innovation

Biopharma players are increasingly looking for growth acquisitions to enrich their pipelines. Over the past decade, the percentage of revenue from externally sourced pharmaceutical innovation, particularly preclinical, has increased, and this trend is expected to continue (Exhibit 4). By buying innovation, biopharma companies can acquire at least partially de-risked revenue and increase their chances of R&D success. Smaller biopharma companies are expected to drive more than two-thirds of revenue growth over the next five-plus years, making partnerships and acquisitions even more attractive for larger firms.

Exhibit 4

External innovation drives revenue growth.



[1] In-licensing or co-development.
Source: EvaluatePharma, Evaluate Ltd, 2022; Pharmaprojects 2022

Trend 3: More conventional—and more unconventional—partnerships are setting the stage for future deals

In addition to increasing their M&A activity, biopharma companies have also intensified their partnership activity over the past several years. The COVID-19 pandemic led to an unprecedented increase in unconventional partnerships between players that have not worked together before and in therapeutic areas not usually known for intercompany collaboration, like infectious diseases. Companies are also pursuing partnerships to explore new areas through shared capabilities and to de-risk their investments—for example, by using deferred payments and options in licensing deals.

As the industry contends with rising discovery costs and external innovation becomes a more significant component of revenues, this deal making approach should continue to increase. It will become a popular element of the biopharma dealmaking toolbox.

Trend 4: An appetite for data and analytics capabilities

The power of big data and advanced analytics in the healthcare industry is not new, but as demand for them has surged, more deals have focused on digital assets. In 2020 alone, the top ten biopharma companies saw 28 deals totaling more than $2 billion in value—twice the value compared to five years ago.[1]

While the pandemic fueled some of this activity, it is likely to continue as the industry's need to manage decentralized clinical trials and adopt new digital management tools escalates. Biopharma companies will continue building their digital and AI capabilities across the value chain to create differentiated solutions. Indeed, since the beginning of 2022, several large biopharma players announced new partnership deals and achievements focused on data and analytics. Sanofi, for example, signed a research collaboration and licensing agreement with the AI company Exscientia. AstraZeneca announced the discovery of a novel AI-generated chronic kidney disease target from its collaboration with BenevolentAI.[2]

Trend 5: Opportunities are growing in emerging markets

The growth potential of emerging markets is increasingly attractive for the biopharma sector. Dealmaking in various forms—including creating local innovation hubs, clinical and commercial partnerships, broader joint ventures, and traditional M&A—is likely to increase.

China-based biotech firms have seen a 100 times increase in total market value to more than $300 billion from 2016 to 2021.[3] Biopharma companies are exploring China and other emerging markets, not simply as avenues for commercial expansion but also for acquisition and partnership targets to boost innovation.

> "As the industry contends with rising discovery costs and external innovation becomes a more significant component of revenues, dealmaking activity should continue to increase."

Implications for biopharma companies

These trends underscore some best practices for biopharma companies pursuing inorganic growth as they explore mergers, acquisitions, divestitures (M&A&D), and partnerships to increase innovation and focus. To take advantage of them, consider the following practices.

a. Take a programmatic M&A&D approach to portfolio rotation.

Companies can focus their portfolios on the high-value market segments with the highest odds of success, making strategic bets based on growth potential—in attractive new modalities like cell and gene therapy and adjacent therapeutic areas, for example. Creating a portfolio road map with targeted sequencing of strategic M&A and divestitures is critical. The latter can be a key lever for increasing the portfolio's focus and freeing up cash for deals. Challenge: Actively rotating the portfolio requires an appetite for risk. It can be easier to default to known therapeutic areas or franchises, but while established medicines provide steady cash flows, they offer limited growth. To succeed in portfolio rotation, biopharma players must be prepared, both financially and culturally, to disrupt the status quo.

b. Make external sourcing of innovation a core capability.

It's important for biopharma companies to actively refresh their portfolio road maps to target high-growth external assets that can supplement the overall strategy. Companies should build out their M&A and integration capabilities to more rapidly identify, execute, and integrate these deals and drive value over the long term.

Challenge: Looking outside for innovation opportunities requires a mindset shift away from relying on legacy capabilities and ways of working. Unfortunately, nearly half of biopharma growth deals lose value after two years,[4] so leveraging and rapidly integrating (where beneficial) the unique talent and science of an acquired entity is critical to capturing the total value of external innovation. The best programmatic dealmakers can chart a path incorporating a "best of breed" approach across assets, talent, and processes to maintain the innovation engine and accelerate the value capture.

c. Pursue partnerships as aggressively as M&A.

Targeting clinical and commercial collaborations at every stage of product life cycles can improve deal flow and derisk the pursuit of external innovation. Various payment structures and other levers are available to enhance near-term value and retain the option for acquisition later.

Challenge: Successful partnerships must be structured thoughtfully. They require a long term commitment from both parties, early agreement on guiding principles such as asset prioritization, and a good cultural fit to deliver long-term value. The unique nature of these transactions forces companies not only to size up a potential partner but also to make clear to that partner the value they bring to the table.

d. Explore data and analytics deals to boost innovation.
M&A and partnerships are constructive avenues for gaining the leading edge data and analytics capabilities biopharma companies need to foster innovation and strengthen their pipelines. To ensure maximum value, companies should be clear about what they want to achieve—for instance, service offering expansion, acquisition of specific data, or pursuing digital therapeutics—and match the digital play to those outcomes.

Challenge: Digital and analytics are hot topics, but the results of these deals can vary. In particular, companies seeking to shift to a product-plus-software model, which demands new capabilities such as AI and digital, often lower ROI expectations to start, and different customer expectations and behaviors will face significant challenges. When executed well, connected products can offer unmatched competitive differentiation, but companies must define their digital strategy and business model ahead of any transactions.

e. Explore emerging market deals for innovation and expansion.
Companies should prioritize opportunities that provide locally sourced innovation and a stronghold for commercial expansion. To maximize their chance of success, they can explore bolder transaction types like joint ventures and spin-offs in addition to traditional M&A and partnerships.

Challenge: While deals that expand a company's reach beyond the United States or Europe hold the promise of accelerated growth, they often require a different capability set and risk appetite. Companies that pursue these deals also must be comfortable with an unpredictable return profile, especially given recent changes in some countries' pricing regulations—for example, volume-based pricing in China. Furthermore, geopolitical disruptions can strain long-term cash flows, restricting M&A and deal making appetite in the respective regions. Companies that can invest with a growth mindset, frame these deals appropriately, and take advantage of varied deal structures can create a strong foothold for long-term value creation.

The coming years will be an active time of accelerated dealmaking with great promise for value creation in the biopharma industry— especially given the accumulation of cash by large companies and the lower prices of many potential targets resulting from the recent market downturn. Companies that can activate a portfolio rotation effort through programmatic M&A&D and deploy thoughtful deal making approaches, responding to market trends and opportunities, will be best positioned to advance their overall strategies and outperform their peers. As noted, doing so will not always be easy. But with a concerted effort by the C-suite and the strategy and business development teams, companies can maximize value by making deals effectively.

Notes
1. In 2020 alone, the top ten biopharma companies saw 28 deals totaling more than $2 billion in value, doubling in both deal count and value compared to five years ago.
2. "BenevolentAI and AstraZeneca achieve collaboration milestone with novel AI-generated chronic kidney disease target," BenevolentAI, Jan 27, 2021.
3. McKinsey analysis based on S&P Capital IQ data, May 2022; has not been reviewed by S&P Capital IQ analysts.
4. EvaluatePharma, Evaluate Ltd, October 2020; McKinsey analysis.

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Healthcare investing becomes global

EHIA Deputy Chair, Henry Elphick, looks at how geographic boundaries are changing in private capital healthcare investing

Investors looking for outperformance when investing in private equity often look for single sector exposure – in fact nearly 20% of investors have this single sector exposure and it is to a handful of sectors, namely energy, technology and healthcare.

While there have been private equity funds focused primarily or exclusively on healthcare in the US for many years, until recently that had not been the case in Europe.

The US is a larger, deeper, more active market. So much so, that a not-for-profit trade association called the HCPEA (Healthcare Private Equity Association) exists with a mission to support the healthcare private equity community in the US and Canada.

Founded 13 years ago in 2010 by Brian Miller of Linden Capital Partners and based just outside Washington DC in Virginia, it was the first sector focused trade association in private equity and aims to promote a greater understanding of private equity's contribution to the healthcare economy by supporting initiatives that make healthcare an appealing industry for investment. It also provides professional development opportunities to members and facilitates collaboration between investment professionals and the larger healthcare community.

As part of that programme of support it publishes a quarterly M&A deal track-er, healthcare segment spotlights (i.e. behavioural health, dental) and regulatory updates as well as hosting events at the biggest industry conference, such as the JP Morgan conference in January in San Francisco and the Jefferies conference in June in New York.

HCPEA members

HCPEA's 105 investor member firms must be focused on investing in leveraged buyouts and late stage growth equity, require a minimum of two healthcare-related portfolio companies and are among the best known, most respected private equity firms employing over 400 investment professionals and invest across healthcare services, information technology, pharmaceuticals and medical devices amongst others.

Collectively, HCPEA member firms have over $4.3 trillion AUM and are invested in 1,500+ healthcare businesses.

The European landscape

Nearly 40% of HCPEA member have an office in the UK, 21% of them have an office elsewhere in Europe, and 10% are also members of the EHIA. Existing members such as Apax, Cinven, EQT, Nordic and SV Health Investors were all founded in Europe while others such as CVC and Advent International are more active in Europe than the US. Novo Holdings, a holding and investment company that is responsible for managing the assets and the wealth of the Novo Nordisk Foundation (currently €108bn) is the world's largest philanthropic enterprise foundation focussed on healthcare (more than twice the size of the Bill & Melinda Gates Foundation and the Wellcome Trust) and is a member of both the HCEPA and EHIA, having started in Copenhagen, and now expanding in the US with offices and teams.

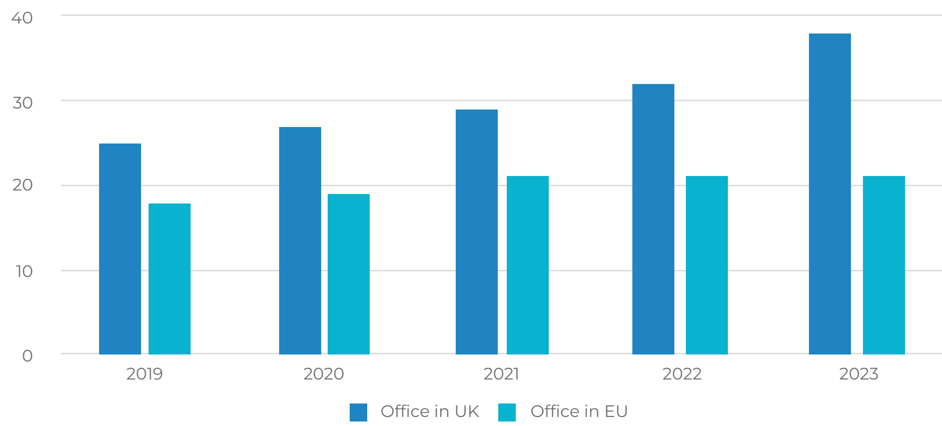
Going Global

One of the key themes emerging in healthcare investing is that it is becoming increasingly global, and that funds are adapting to reflect that.

While the largest fund managers such as Advent International, Apax, Bain, Blackstone, Hellman & Friedman and KKR have invested globally across sectors and asset classes for some time, there are now larger European funds that are increasingly active in the US and often have fully staffed offices, with names such as Bridgepoint, BC Partners, Cinven, CVC, EQT and Nordic Capital investing on both sides of the Atlantic. Driving this has been the focus on investment themes such as pharma services, HCIT and medtech that are by there very nature global and where an understanding of and postion in the US market is often critical for success. Perhaps a more interesting development is that of funds focused exclusively on healthcare and Europe. Historically, a handful of generalist funds have had a very strong track record in European healthcare such as

Bridgepoint, Cinven, BC Partners, Blackstone, CVC, Hg Capital and 3i. Now there are emerging health-care-only funds in Europe, three are headquartered in London, one in France, and one in the Netherland. The founders of these funds come with established track records in the industry, having held investment positions with firms such as 3i (ARCHIMED and GHO Capital Partners), Apax (G Square) and Nomura (Apposite). These funds have seen a healthy deal flow, three have raised larger second funds and the two longest established also have a strong track record of exits.

% of HCPEA members with offices in UK and Europe (exc.UK)



HCPEA member firms 2023

NOTE: Firms in bold are members of EHIA

Firm name	Office in UK	Office in EU
Abry Partners	Y	N
Advent International	Y	Y
Advocate Aurora Enterprises	N	N
Apax Partners	Y	Y
Archimedes Health Investors	N	N
Ares Management LLC	Y	Y
Arsenal Capital Partners	N	N
Ascend Partners	N	N
Assured Healthcare Partners	N	N
Audax Private Equity	N	N
Bain Capital	Y	Y
Blackstone Group	Y	Y
Blue Sea Capital	N	N
BPOC	N	N
Brookfield Asset Management	Y	N
Centerbridge Partners	Y	N
Charlesbank Capital Partners	N	N
Chicago Pacific Founders	N	N
Cinven	Y	Y
Clayton Dubilier & Rice	Y	N
Comvest Partners	N	N
Concord Health Partners	N	N
Coppermine Capital	N	N
Court Square Capital Partners	N	N
The Cranemere Group	Y	N
Cressey & Company	N	N
CRG	N	N
Curewell Capital	N	N
CVC Capital Partners	Y	Y
CVS Health Ventures	N	N
Declaration Partners	N	N
Deerfield Management	N	N
DW Healthcare Partners	N	N
EQT	Y	Y
EW Healthcare Partners	Y	N

Firm name	Office in UK	Office in EU
FFL Partners	N	N
Flexpoint Ford	N	N
Frazier Healthcare Partners	N	N
General Atlantic	Y	Y
GI Partners	Y	N
Goldman Sachs Asset Managemen	Y	N
Granite Growth Health Partners	Y	N
Great Hill Partners	N	N
Gryphon Investors	N	N
Gurnet Point Capital	N	N
Hamen Equity Partners	N	N
Harvest Partners	N	N
HealthEdge Investment Partners	N	N
Health Enterprise Partners	N	N
Hellman & Friedman	Y	N
H.I.G. Capital	Y	Y
InTandem Capital Partners	N	N
Kelso & Company	N	N
KKR	Y	Y
Leavitt Equity Partners	N	N
Lee Equity Partners	N	N
Linden Capital Partners	N	N
LorientCapital	N	N
Madison Dearborn Partners	N	N
Martis Capital	N	N
M&F Healthcare Partners	N	N
Morgan Stanley Capital Partners	Y	Y
Mubadala Investment Company	Y	Y
Nautic Partners	N	N
Nordic Capital	Y	Y
Northlane Capital Partners	N	N
Norwest Venture Partners	N	N
Novo Holdings	Y	N
Oak HC/FT	N	N
Oak Hill Capital	N	N

Firm name	Office in UK	Office in EU
Odyssey Investment Partners	N	N
ONEX	Y	N
Ontario Teachers' Pension Plan	Y	N
Partners Group	Y	Y
Patient Square Capital	N	N
Peloton Equity	N	N
Permira Advisers	Y	Y
PSP Investments	Y	N
Revelstoke Capital Partners	N	N
The Riverside Company	Y	Y
Sheridan Capital Partners	N	N
Stonepeak Partners	Y	N
Stone Point Capital	N	N
Summit Partners	Y	Y
Svetica Capital Management	N	N
SV Health Investors	Y	N
TA Associates	Y	N
Thomas H. Lee Partners	N	N
Torquest Partners	N	N
TowerBrook Capital Partners	Y	Y
TPG	Y	Y
Trilantic North America	N	N
Two Sigma Impact	Y	N
Varsity Healthcare Partners	N	N
Vesey Street Capital Partners	N	N
Vestar Capital Partners	N	N
The Vistria Group	N	N
Vitruvian Partners Ltd	Y	Y
Warburg Pincus	Y	Y
Water Street Healthcare Partners	N	N
Webster Equity Partners	N	N
Wells Fargo Strategic Capital	N	N
Welsh, Carson, Anderson & Stowe	N	N
WindRose Health Investors	N	N

Looking forward to a changing tide for healthcare private equity

McDermott Will & Emery

At the end of September, law firm McDermott Will & Emery once again gathered several hundred healthcare professionals, investors and dealmakers at The Langham hotel in central London for HPE Europe 2023. The Firm's programme of healthcare private equity (HPE) conferences includes similar annual events in New York and Miami and has been running for many years, with McDermott one of the first law firms to carve out a healthcare private equity practice nearly 20 years ago and able to draw on deep industry networks and expertise.

Sharon Lamb, partner and head of UK life sciences and healthcare at the Firm, says: "The year 2023 has been a difficult one for healthcare investors as it became clear that valuations and multiples could not continue to increase. We were delighted to be able to gather so many industry heavyweights in the room in London to talk about the issues of the day, covering everything from strategies for closing deals in the current conditions to what's around the corner for the future of healthcare."

She adds: It was encouraging to find both investors and investment bankers optimistic about the outlook for health and life sciences deals in 2024, with talk of a golden age of innovation set to drive more activity in Europe in the year ahead.

Investing in the future of healthcare

Healthcare private equity professionals remain bullish about the outlook for transactions going forward, despite a slow year for deals. We have seen more and more specialist investors emerging in Europe over the past decade and institutional investors are increasingly keen to back managers that recognise that healthcare is heterogenous and its many sub-sectors all come with their own complexities, headwinds and drivers.

For managers that are deeply embedded in the space, there is much opportunity on the horizon. Panellists felt Europe is entering a new golden age of innovation in healthcare, with many new drugs being discovered and advances in cell and gene therapies building on significant learnings gained during the pandemic. Further, the fast-moving integration between drug development and diagnostics is contributing to a major step-change in how things are being done.

McDermott Will & Emery

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Some of the sub-sectors that are currently in focus for healthcare investors in Europe include pharma services, medtech, life sciences and specialty pharma, with a particular appetite for assets embracing the use of data science and artificial intelligence. Value creation strategies are also increasingly focused on using technology to bring efficiencies into the system and reduce cost, particularly at a time of significant wage inflation.

One investment banker talked of the tide turning for healthcare deals in Europe, with opportunities being created by regulatory and political change, technology adoption that is now more tangible on this side of the Atlantic than ever, and the need to address pinch points in value chains.

Closing deals in the current market

Despite bullish views on the medium to longer term, much of the discussion at HPE Europe centred around the challenges that currently stand in the way of deals getting done, and how those might be overcome.

One of the biggest difficulties, which is not unique to the healthcare industry, is the ongoing mismatch in pricing expectations between buyers and sellers, which those present felt has led to a bifurcation of deal activity. There is a big disparity in appetite, delegates felt, between Tier A and Tier B assets, with the financing and demand still available for premium companies but much harder to achieve for others.

This observation led to much talk about what distinguishes a Tier A asset from others. It was felt that opportunities that offer clear paths to growth based on either embracing technology to drive efficiencies or pursuing geographic expansion to diversify risk across markets are a focus for investors. Limited partners are also increasingly focused on the impact that can be achieved through healthcare investing, so assets with a clear story to tell around the potential to improve patient outcomes, increase accessibility and/or decrease the cost of care for the system are also in high demand.

The tight M&A environment and depressed public markets are driving innovation in deal structures, with more take-privates, club deals, minority deals and continuation funds taking place in Europe. I addition, when it comes to exits, there is a shift in the buyer landscape in favour of strategics. We expect these themes to continue as the deal landscape improves, with further use of structuring to close the gap between buyer and seller demands.

Challenges and opportunities in the financing markets

Another big focus for healthcare investors today is clearly the changing dynamics in the financing markets, where the era of cheap debt is undoubtedly over and access to finance providers is much more limited than it is has been in recent years. Panellists felt the uncertainty was highlighting the paramount importance of strong relationships with lenders, who themselves are now much more focused on risk than they are on absolute returns.

Looking forward, the consensus at the conference was that private credit is going to continue to grow as a source of lending to the healthcare industry in Europe, but bank lenders will be more active in 2024 than they have been, and we can expect the syndicated markets to start to revive. The hope is that interest rates have finally peaked, allowing investors to at least transact with a little more certainty in the new environment.

Predictions for 2024

Many of the speakers and delegates present at HPE Europe were asked to look into their crystal balls and predict what the next 12 to 18 months might have in store. For most, the expectation was of a busy year for healthcare deals in 2024, thanks in part to pent up demand from both buyers and sellers, as well as significant dry powder sitting on the sidelines and keen to transact.

Lamb says: “Our attendees were optimistic about 2024, whilst recognising that there may be volatility around both the UK general election and US presidential election in the second half of the year. Most expect strong demand for good assets, continued elongation of processes whilst buyers remain highly selective and the continued popularity of continuation funds to deal with strong assets that GPs are not ready to sell.”

The healthcare private equity deal markets in Europe may not immediately return to the heady levels of 2021, but many in the industry feel there is plenty more investment activity to look forward to in the year ahead.

Resource Hub

Our Resource Hub provides access to the latest research, reports and guides from our Strategic Partners, alongside sector-focused market data and analysis. Exclusive Member-only content includes a regular schedule of Meet your Members and Strategic Partner webinars, all of which are available "on demand" in our library, plus a subscription to Curis, a proprietary portfolio and deals database. Past webinars available to watch on Demand include:

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- Eurazeo and Dorc
- GHO Capital and Sterling Pharma Solutions
- Marcol Health and Atida
- Nordic Capital and Advanz Pharma
- GHO Capital and ClearView Healthcare

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A series of informative webinars presented by our strategic partners and chaired by EHIA Deputy Chair Henry Elphick.

McDermott Will & Emery Webinars

- New EU filing from October for M&A deals

McKinsey & Company Webinars

- Biosimilars – time to invest?
- Drug Delivery CDMOs
- AI in biopharma research: A time to focus and scale
- Clinical CROs: opportunities for the "CRO of the future"
- MedTech CDMOs: Where the opportunities lie in Europe
- The Gathering Storm
- Cell Gene Therapy CDMOs
- Large Molecule CDMOs
- ESG

Sam Leighton-Smith
Group Managing Director
Compass Executives

Henry Elphick
Deputy Chair
European Healthcare
Investor Association

Investing in European healthcare: the leadership landscape

Sam Leighton-Smith in discussion with Henry Elphick.

Sam Leighton-Smith (SLS), Group Managing Director of the award-winning executive search advisory services provider, Compass Executives, sat down with Henry Elphick (HE), Deputy Chair of European Healthcare Investor Association, to discuss the leadership landscape of the private equity backed healthcare sector.

HE: What do you see as the best opportunities for the investment community in the healthcare sector at the moment?

SLS: At the expense of sounding evasive the best opportunities remain well run businesses which have a dynamic and energetic leadership team who are fit for purpose for a growth journey and have the capability to hit and exceed a robust business plan. There is no doubt that the macro trends are cyclical and at any given point there are “hot market spaces”, currently these are probably in the NHS outsourcing space, tech enabled businesses that circumvent people challenges, and businesses that offer provisions around a virtual ward concept.

investment community. We are planning for this activity to translate into deals and as such an uptick in enquiries from investors looking to bring in talent.

HE: How do you see investors reacting to potentially a new government in 2025 (maybe 2024)?

SLS: Traditionally a Labour government (supposing they get in) is seen as a good thing for the National Health Service and sometimes indifferent for PE given its tax positions and reluctance to privatise. That being said there isn’t really much difference between the 2 parties on tax, the debt markets have stabilised to some extent and the backlogs within the NHS will remain at a high level regardless of the government of the day.

> “.....the private sector is essential to help deliver a National Care Service...”

HE: What is your forecast for the remainder of 2023 and heading into 2024?

SLS: There is a fundamental misalignment currently between buyers trying to chip and businesses that are performing. This is down to the banks, uncertainty in the market and the cost of capital. That being said investors need to spend and health and care are still attractive propositions. After a sluggish summer we are seeing an uptick in IM’s and a gear change in interest from the

Wes Streeting has indicated he recognises the private sector is essential to help deliver a National Care Service for all and via the Fabian Society has released a report with 48 recommendations as to how this could happen. This acknowledgement along with increased consumer spending in the fields of preventative pay, self-pay and health tech provides ample opportunity for investors to feel there are returns to be made in a variety of sector spaces. The population dynamics also remain unchanged.

This will result in a competitive landscape so it is not a stretch to suggest that investors will also be competing over board and management talent. Tapping into out of sector talent pools alongside those already in the industry is a must when shortlisting for your portfolio businesses.

HE: Why is board composition pre and post-transaction important to the success of healthcare investments?
SLS: The texture of a leadership team and its composition is important at any point in time but from an investor angle the team that is assembled pre / post transaction is arguably the most critical. Investors ordinarily bring an expectation commercially that requires a level of pace, dynamism and focus on operational quality that typically wasn't there before. Marrying the commercials with quality and ensuring there is a laser focus on your people retention and upskilling are the four pillars, if executed, will lead to greater success.

HE: What advice would you give to healthcare investors trying to identify and recruit the most talented and suitable individuals for senior positions at their healthcare-related portfolio companies?
SLS: Threefold. Firstly, it sounds obvious, but you need to be at the end of a search process with two high quality, hireable options. We live in an extreme counter-offer environment, to the extent that capable candidates do not comprehend their value to their current businesses until their notice is submitted. It can really complicate a process if you only have one option. Two mitigates this risk.

Secondly, I really believe a good search firm should be guiding investors through the process and consulting on certain pitfalls. Whilst these may appear to add value can sometimes have the adverse effect. An example of this is that of online interviewing, yes it expedites time and efficiency and connects candidate to investor / provider quicker etc., It doesn't however test the candidate's engagement or commitment to the position. Very easy to move 10 yards to your bedroom for an online session, far harder to drive 2 hours each way for a provisional conversation. The balance needs to be correct and a blend of both at the appropriate time.
Lastly is assessment; IQ, EQ and CQ needs to be rigorously tested equally at all stages of the process. Healthcare is fundamentally group of people organisations delivering care in some guise to people. Their commodity and lifeblood is people so the way in which leaders lead, communicate and articulate themselves with their staff is critical. We utilise extensive referencing, social psychologists, and psychometrics as well as commercial evaluation to ensure that the candidates in process are challenged and tested specifically towards the brief in question.In short – get the basics right.

HE: Have you observed any recent changes to the leadership landscape of PE backed healthcare business?
SLS: Compass Executives recently hosted a roundtable with the industry's leading CPOs of investor backed healthcare business addressing how people leaders are now a firmly recognised profile within the C-suite offering. There is a new paradigm where CPO key responsibilities for people is more critical than ever in driving top and bottom line in a new era of value creation for the healthcare sector: investors and boards recognise their unique insight into human capital they invest and manage. CPOs are now showing data to their investors demonstrating how poor colleague engagement can impact returns: a 7-8% growth in NPS score can drive a 20% growth on the top line.

HE: Why can it be helpful for private equity firms to use a specialist healthcare recruiter to fill senior positions in healthcare-related portfolio companies?
SLS: Speaking strictly about ourselves the benefits are obvious. First and foremost, our knowledge is unparalleled from an industry perspective. PE are always speaking to an expert. We are completely immersed in our sector, visiting hundreds of services, we have a granular understanding of the nuances and intricacies of people services businesses that ultimately save and assist lives and well beings. We are adept at testing out of sector candidates in the right areas and assessing their drivers for potentially moving into the sector. 70% of our shortlisted candidates are now out of sector so matching their capability with our industry understanding is probably the secret sauce that adds real value to our investor partners. We are 13 years old now and can point to 2 full investment cycles where our placements have yielded significant returns to their respective shareholders.

A complimentary copy of Compass Executives' Why Chief People Officers have really joined the C-suite report is available to all EHIA members on request. Please contact Sarah Ward, Executive Director European Healthcare Investor Association to request a copy. sarah.ward@ehia.org

Social infrastructure

The new asset class growing in popularity

Given the supply and demand imbalance between committed capital and available opportunities, traditional 'core' infrastructure assets such as toll roads, telecom towers, utility companies, ports and airports have seen asset prices rise, putting pressure on returns for new deals.

Funds are therefore moving into core+, looking at new sectors and increasing their risk profile, while maintaining target returns of 13-14% IRR. Healthcare is one such sector that is seeing increasing interest from infrastructure investors in Europe. Billions of pounds are being poured into the UK healthcare sector by large global infrastructure funds, targeting areas that were historically dominated by private equity, such as adult specialist care and children's services.

This new investor class also approaches assets differently from private equity and approach auction processes differently as well. They are more focused on the longer term outlook for the business given they tend to hold it for longer, they use lower leverage, often like a running yield from the asset and therefore need an 'infra' financing structure rather than the traditional LBO leverage finance structure.

Pension, insurance and sovereign entities

- Have established a portfolio of core infrastructure funds
- Now looking and have moved up the risk curve for investments
- Have established dedicated 'Core+' teams
- Can do 100%

Traditional infrastructure funds

- Core infrastructure now bid below their hurdle rates
- Are selling core infra assets given market re-rating
- Need to chase Core+ in order to meet investment targets
- Focus on core geographies rather than go elsewhere

Specialist Core+ capital

- Smaller groups of funds/capital that have always looked at this asset class
- Private Equity firms establishing capital to target these opportunities

Core+ characteristics

1. Essential Service
2. Strong and predictable cashflows
3. Underlying asset base, such as real estate or long term contracted cashflows
4. High barriers to entry and low risk of substitution
5. Low risk business model with consistent performance with low volatility

The focus around adult specialist care (otherwise known as disabled care, learning disabilities, mental health and residential behavioural health) can be attributed to how the real asset backing, long average lengths of stay (AVLOS) of many years in some cases, high average weekly fees (AWF), nearly 100% government funding and high margins make the sector attractive.

However, the acute and mental health hospital sector, clinical labs, children's services, diagnostic services and even crematoria have also seen infrastructure investment.

Experts suggest that this asset class is finding a niche by positioning the investments as being more 'ethical' with a more long-term vision compared to private equity. The development of such a niche is important to diversify investment types and to continue increased focus on a sector that delivers attractive returns and is key to improving population welfare.

Healthcare is part of a broader 'social infrastructure' mandate, and while only a few funds have invested in healthcare to date, there are an increasing number of infrastructure funds with an explicit 'social infrastructure' mandate. Social infrastructure covers a range of services and facilities that contribute towards improvement in the quality of life. It includes health provision and services, education, community, play, youth, sports and recreation, faith and emergency facilities and is increasingly becoming the focus for global investment funds, especially those with ethos reflecting ESG (Environmental, Social and Governance) standards.

	Private Equity	Core+ Infrastructure
Approach to valuation	Shorter term hold period (4-5 years)	Longer term hold period (5-7 year and up)
	Traditional LBO model with exit multiple driving valuation	DCF based (30+ years), using vendor model with model audit
	More focus on growth and can price M&A strategy more aggresively	High value often attributed to organic over in organic growth
	Higher return targets - 18%+ IRR	Lower return targets - 12-15%+ IRR
Approach to due diligence	Less reliance on advisors - more needed for the financing banks	Appoint advisors early on
	Can develop in house business plan	More detailed DD early in process
Financing	Typically more aggressive capital structure	Typically lower leverage
	Can include additional tranches including mezzanine, preferred equity (PIK/PAYC)	Tend to avoid sub debt structure
	Speak to multiple financing sources (banks, unitranche, funds)	Look for cash pay yield
Process	Can move quickly	Small teams, so limited bandwidth
	Often have sector expertise and dedicated healthcare team	Require more lead time and can be slower

The pandemic changed a lot for infrastructure, and thrust healthcare into the spotlight and high-lighted how robust and resilient the sector can be when growth in sectors like retail or travel faltered or there was suddenly no income at all. So what healthcare targets, including long-term care, are suitable for 'infra-like' investment in the cur¬rent environment of a pandemic turning endemic, a major war in Eastern Europe and Middle East and the return of the inflation bogeyman.

Infrastructure investment has normally comprised two segments: economic and social.

'Economic' contains the core you might visualise as traditional infrastructure: transport (roads, bridges, ports and airports), energy, utilities, telecommunication and more recently, digital and cloud services. These fundamental assets are the foundation of a strong economy. These are essential services, with low risk and no real alternatives that offer strong, predictable cash flows into the long-term future. Pension funds are the typical investor example, where liabilities extend out decades into the future.

> Too much capital chasing safe investments has sent prices up and [has] encouraged fund managers to look to alternatives for their core returns

Core investments typically have effectively monopolies as they fully meet the need of the area and there's no need for a further toll road or a power station. It would not make economic sense to build a competing asset, and there would not be backing from authorities to do so.

However, too much capital chasing these safe investments has sent prices up and encouraged fund managers to look to alternatives for their core returns, joining that smaller percentage already set-aside for higher risk/return assets. Infra-like investments

The social segment comprises services and facilities that contribute to a good quality of life, including healthcare but also housing, education, culture and recreation. There is an estimated social infrastructure funding gap in Europe of between €100bn and €170bn annually.1,2

Recently acute hospitals have been the busiest sector, see Table One, with specialist care seeing a number of deals.

Infrastructure investors have also started to look at children's services (special schools often with a residential element) and elderly care homes, with their property portfolios mitigating against execution risk and market growth. Mental health hospitals would also be there, but provider pricing power has been less predictable than those segments. Otherwise investors seek to own and manage the capital equipment needed in adjacent sectors such as clinical laboratories, mobile operating theatres or diagnostic imaging MRI or CT suites.

Traditional healthcare infrastructure investments would also have been in assets such as large hospitals, as part of public-private partnerships or what the UK called private finance initiatives (PFI). Once developed, these assets are then rented to national operators such as the NHS. This funding method has become less popular in Europe, and represents smaller investment sizes compared to most economic infrastructure investments. The most well-known example were the PFIs from the 1990s into the 2000s, used in the UK for £13bn in new hospitals.3

The rationale was that construction companies would build for a set price (and be accountable to their shareholders for delivering the asset on budget and in-time) and then would lease the building to the state for 30 years. Cynics argued that the state (or the UK government in power) avoided the debt on the balance sheet but had to pay private sector interest rates for 30 years, and therefore far more in total than if construction had been funded directly by the state. The proponents would argue that without the risk being held by the construction companies, and if they were able to charge cost-plus, the original cost estimate would have always substantially exceeded and the net present value of the cost equal or greater to the taxpayer.

From academic research, we can see that investors made an attractive return on capital, which we define as greater than the investors' cost-of-capital as calculated by those same academics.Outside some poorly negotiated early projects, we surmise the PFI hospital building program was a reasonable deal for taxpayers along with being a good opportunity for investors. Though to be sure we would need more insight into the counter-factual world where PFI had not existed, based on international or historical examples. This is only theoretical since there isn't any apparent interest in such projects from the current UK government. It doesn't help that modern accounting standards (IFRS 16 to be precise) mandate that long leases be capital- ised, though of course this isn't the only factor. There's no sign yet of whether the expansion of state debt from the Covid pandemic measures will encourage the government to look again at PFIs. Infra-like, also known as infra-adjacent or core+ investments, have a higher risk profile than traditional infrastructure investments. They must still be deemed 'essential'. However, the definition has stretched to include the operating businesses along with the physical environment and its rent.

Healthcare as infra-like

Health and social (long-term) care have a good story to tell the investment committee, since we are not getting any younger and until very recently at least, we were living longer with ever-growing entitlements to healthcare. Demand for healthcare is inelastic; treatments will be required regardless of economic outlook and developed countries prioritise health- care spending.

Table one - infrastucture investment in healthcare

Hospitals were first, then specialist care which demonstrated its predictability through the covid pandemic

Type	Investor	Investor Location	Asset	Asset location	Date
Acute hospitals	Franklin Templeton	UK	Healthcare Centre (Brighton)	UK	Jul-19
			Medical Clinic (London)		Jan-19
	Infravia capital	France	Mater Private Hospital	Ireland	Jul-18
	Macquaire	Australia	Vaimed Salud	Spain	oct-20
	Meridiam	France	Four Public Hospitals	Spain	Nov-20
			Felix Bulnes Hospital	Chile	Apr-20
			Bursa Healthcare Campus	Turkey	Jun-19
			Elazig Healthcare Campus		Jul-18
			Adana Hospital		Sep-17
			Yozgat Hospital		Jan-17
	QIC	Australia	Evolution Healtcare	New Zealand	Dec-21
			Nexus Hospital	Australia	Dec-19
	Wren House Infrastructure	UK	Almaviva Sante	France	Jul-21
Adult Specialist care[1]	AMP Capital	Australia	Achieve together (a merger of Care Management Group and Regard)	UK	Dec-18 and Dec-17
	Ancala	UK	Iris Care Group	UK	Apr-20
	iCON Infrastructure	UK	Nua	Ireland	Jan-20
			Choice Care Group	UK	Oct-18
	Wren House Infrastruc-ture	UK	Voyage Care	UK	Jan-22
Children's services	Antin Infrastucture Partners	France	Hesley Group	UK	Feb-18
			Kisimul		Jul-17
Clinical labs	Omers Infrastructure, Goldman Sachs and AXA IM	Canada, USA and France	Amedes	Germany	Jul-21
Diagnostics & Cancer care	DWS	Germany	RadioOnkologieNetzwerk	Germany	Nov-21
			Medipass	UK and Italy	Aug-20
	EQT	Sweden	Evidia	Germany	Jul-21
	ICON Infrastructure,	UK	Alliance Medical	UK	Oct-23
Elderly care	EQT	Sweden	Colisse	France	Aug-20
	Franklin Templeton	UK	Two care homes (London)	UK	Jul-19
	I Squared Capital	UK	Romergarten (bolt on to Do-midep)	Germany	Nov-20
			Domidep	France	Oct-19
	InfraVia Capital	France	Carechoice	Ireland	May-17
Mobile Operating theatres	iCON Infrastructure	UK	Vangaurd Health	UK	Jan-21

Notes 1 Predominantly Learning Disabilities. Reits Have Been Excluded
Source: Infrastructure Investor, Mansfield

Other sectors like care homes and retirement villages are property backed. Be warned that much UK elderly care stock is very dated and may not be suitable for a long investment period of c.20-30 years.

However, there are plenty of high quality, future-proof properties, and these will remain so if maintained. Elderly care homes' local authority and NHS payors do not default.

One Octopus Group healthcare infrastructure survey found that 60% of global healthcare infrastructure investors are focused primarily on the UK (n=100).4

Traditional infrastructure investments provide a rate of return between 8-15%. Infra-like investments possess an increased risk-profile, and therefore investors demand an increased reward. Healthcare assets can achieve much higher rates of return in the realm of 20%, as targeted by private equity (PE), however the long-term goals differ. The yields required by PE are 20%+ over a shorter investment period. The priorities of PE are to maximise the exit multiple over a 3-5 year investment period, and as such invest profits into growing businesses rapidly.

Infrastructure investments have a longer term outlook of c.ten years, but have a focus on achieving strong cash yields over that period to receive dividends payments. There is a focus on value creation over the long-term, often driven organically, which supports creating processes for maintaining high quality environments to achieve this. This long-term position, with fewer changes of ownership, can be seen as more attractive to management and other business stakeholders.

Healthcare drawbacks

There are of course some drawbacks to healthcare investment for infrastructure investors. Infrastructure investors have typically avoided taking on operational and reputational risk, and healthcare is seen as a sector which can pose both.

Operational risk can be mitigated against by choice of model. Traditionally, UK private hospitals tried to offer a model which minimises clinical risk exposure; the hospital provides the physical site, equipment and nursing staff, while patients paid surgeons separately for the procedure. This is no longer the case, as providers such as Spire Healthcare spend substantially more on clinical governance than they did a decade ago in order to lessen reliance on the clinical direction of external surgeons. They have found that necessary to maintain their public reputation, inspection ratings and avoid legal risks.

Of course, the major PFI deals in state hospitals had no such clinical exposure risk, and neither should propco only investors in UK private hospitals.

In other segments, it can be safer for investors to invest directly in operators and retain direct control over service quality and avoid defensive capex falling between the opco and propco's responsibilities.

Reputational risk is present through healthcare, but once again being selective in the quality of acquisitions can minimise this exposure. Indeed, many argue that core infrastructure investments offer similarly high levels of reputational risk as faults or failures can affect the public. Unfortunately, bridges and other concrete structures can fail and smart motorways may not that be that smart reputationally.

The rewards offered by the long-term macro trends and value creation opportunities in healthcare should warrant the performance risk.

Future trends

Long-term tail winds for healthcare, and value creation opportunities are sufficient mitigants against the risks posed by the sector. Coupled with limited core opportunities, infrastructure interest in healthcare is continuing to rise. Given the global uncertainty and rising inflation, healthcare is a safe option seen as an inflation hedge and has the added benefit of diversifying infrastructure funds' portfolios.

Over the past 15 years, digital has emerged as a leading sector for in- frastructure investment. Who's to say healthcare can't follow? That Octopus Group research argued that $200bn could be invested in global healthcare infrastructure over the next five years. Our analysis of factors by segment - see Table Two - helps explain why investors have prioritised different segments when aspiring for infra-like returns.

Looking outside the almost traditional segments of hospitals and specialist care - and now that the Covid catastrophe has passed by - we expect more interest in the absolute highest quality mental health and elderly care assets.

Notes 1 Georg Inderst, Inderst Advisory, Social Infrastructure Finance and Institutional Investors, A Global Prespective, March 2020. 2 Boosting Investment in Social Infrastructure, European Commission, January 2018. 3 IPPR, September 2019. 4 Healthcare Infrastructure Report, Octopus Group, 202

Table two - sectors prioritised

Mental health and elderly care are next closest to being essential and infra-like but no big block pfi-like contracts are available

Sector		Essential service	Growth in need	Payor Predictability	Physical assests	Local barriers to entry	Strong precedent for infrastucture investment
Social Care	Elderly care	●	●	◑	◑	◑	✓
	Adult specialist care	●	◔	●	●	◔	✓
	Mental health hospitals	●	◑	●	◑	●	?
	Children's care	◑	◕	●	●	●	✓
	Fostering	◑	◕	●	○	◔	✗
Acute hospitals		●	●	●	◑	●	✓✓
Diagnostic imaging		◑	●	●	●	◔	✓
Specialist clinics		◑	●	●	●	◑	✓
Doctors' practices		◑	●	●	◑	●	✗
Pharmaceutical manufacturers		◔	●	◑	●	●	✗
Clinical labs		◔	●	●	●	●	✓
Fertility		◔	●	●	◔	●	✗
Dentistry		◑	◑	◑	◑	●	?

Notes 1Run Through Wars and Pandemics
Source Mansfield View

European healthcare real estate: market update

Ryan Richards
Associate, Knight Frank

Broad in its coverage, the case for investment into healthcare is not only consistent across sub-sectors but also across European borders. As private equity, REITS, and institutional investors continue to chase the robust and long income generated, there is also growing interest in healthcare's ability to aid ESG investing strategies. Across the board, the fundamentals that create the case for investment flows into healthcare are evident. The graphic below highlights seven factors that continue contributing to the case for healthcare.

Key market contributors include Welltower and Aedifica when considering cross-border acquisitions, while domestic REITs remain active within their respective geographies.

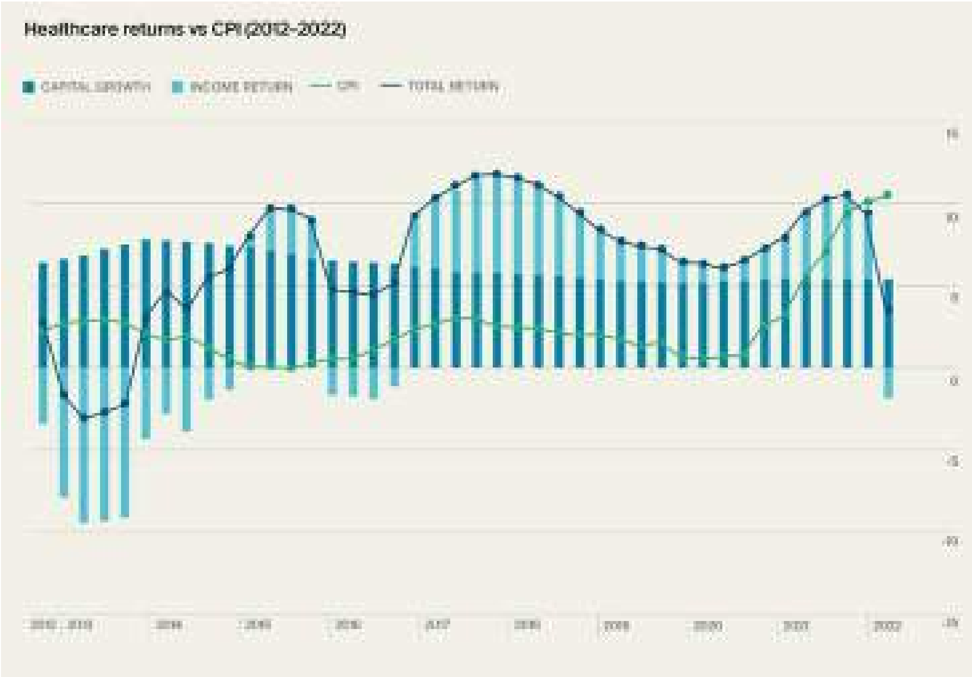
According to Real Capital Analytics, 2022 ended with European transaction volumes across healthcare-related real estate of circa. €9.37bn. In comparison, the first half total for 2023 sits at €3.59bn, €2.12bn of which have come from portfolio transactions.

United Kingdom:

Reported transactions for the first six months have been relatively muted, with key market participants seeming to be gauging markets and pricing. We have seen private capital reasonably active in the year to date. It is quite likely that the second half of 2023 will hold most of the transactional activity for healthcare. This is where we will possibly see more active overseas capital. Many investors will likely use this time to explore asset management/

Source: Knight Frank Research

value-add opportunities across their portfolios while awaiting new opportunities at the correct levels. US-based capital placement within the UK has historically been split between elderly care and private hospital assets, while European capital has seen more focus on elderly care.



Source: Knight Frank Research

With many economic factors influencing views on real estate over the past year, it is more than ever crucial to 'zoom out' and acknowledge the bigger picture. The chart below compares inflation to healthcare returns, from which we can see that there has only been, except for the current period, one other period (2013/14) whereby inflation has been greater than total returns. Despite this, income returns remain consistent, even when capital growth hasn't. This long and secure income capability of healthcare can be considered reassuring amidst a somewhat cyclical broader asset class.

Our healthcare capital markets (covering investors with a combined four thousand care assets) sentiment survey further represents this view. The responses highlight an average cost of debt at 4.2%, with an average remaining term of 4.6 years, and 24% of respondents suggesting no reliance on debt. This direct and on-the-ground insight indicates that the sector may be more insulated from the current climate than presented by some. Even more promisingly, the survey responses suggest a further £14bn in capital commitments to deploy, given the correct opportunities.

4,113 Total care assets

£74bn

Approximate value of care assets under the management of survey participants globally

£14bn

The amount of capital currently available and committed for surveyed investors to deply on care assets

Source: Knight Frank Research

99%	4.2%	37%	4.63	1.81x	91.1%	24%
Average rent collection percentage for participants' portfolios	Average cost of debt among survey participants	Average loan to value among survey participants	Average years remaining on term of survey participants' debt facilities	Average rent cover across survey participants' portfolios	Average percentage of survey participants' debt that is hedged	Percentage of survey respondents that report no use of debt

Source: Knight Frank Research

France

Healthcare property investment volumes, unlike other conventional asset classes such as offices, have risen steadily over the past five years. From €700m in 2017, investment in France has almost doubled, reaching €1.4 billion in 2022. The increase has been supported by approximately €500m in portfolio disposals, including the Heka portfolio sale to PRIMONIAL REIM for €135m. The sector remains favorable to investors looking to diversify their holdings by adding more robust and resilient asset classes.

Germany

The German care market is caught between increasing care needs due to an aging population and ensuring an adequate supply. We are seeing consolidation with more international operators becoming visible in the German market. Eight of the 20 largest nursing home operators have a European background, with French operators leading this statistic. With the acquisition of Vitanas by Oaktree Capital in 2017, US capital is also represented. Today, inpatient care stands alongside other alternative concepts. Depending on the region, there is still much catching up to do in the outpatient sector and in making the whole industry more barrier-free.

Belgium

Elderly care investment volumes in Belgium had somewhat cooled off the back of the global pandemic. 2022 saw at least €492m invested in Belgian healthcare real estate. The first half of 2023 has recorded three investment deals, two of which were portfolios, which equated to a total of EUR 149 million deployed into elderly care across 896 registered beds. This year's most notable acquisition has been the EUR 100 million purchase of a portfolio including five nursing homes (510 beds) in Flanders by BNP Paribas REIM from Baltisse at a yield of 4.50% on a triple-net lease.

Ireland

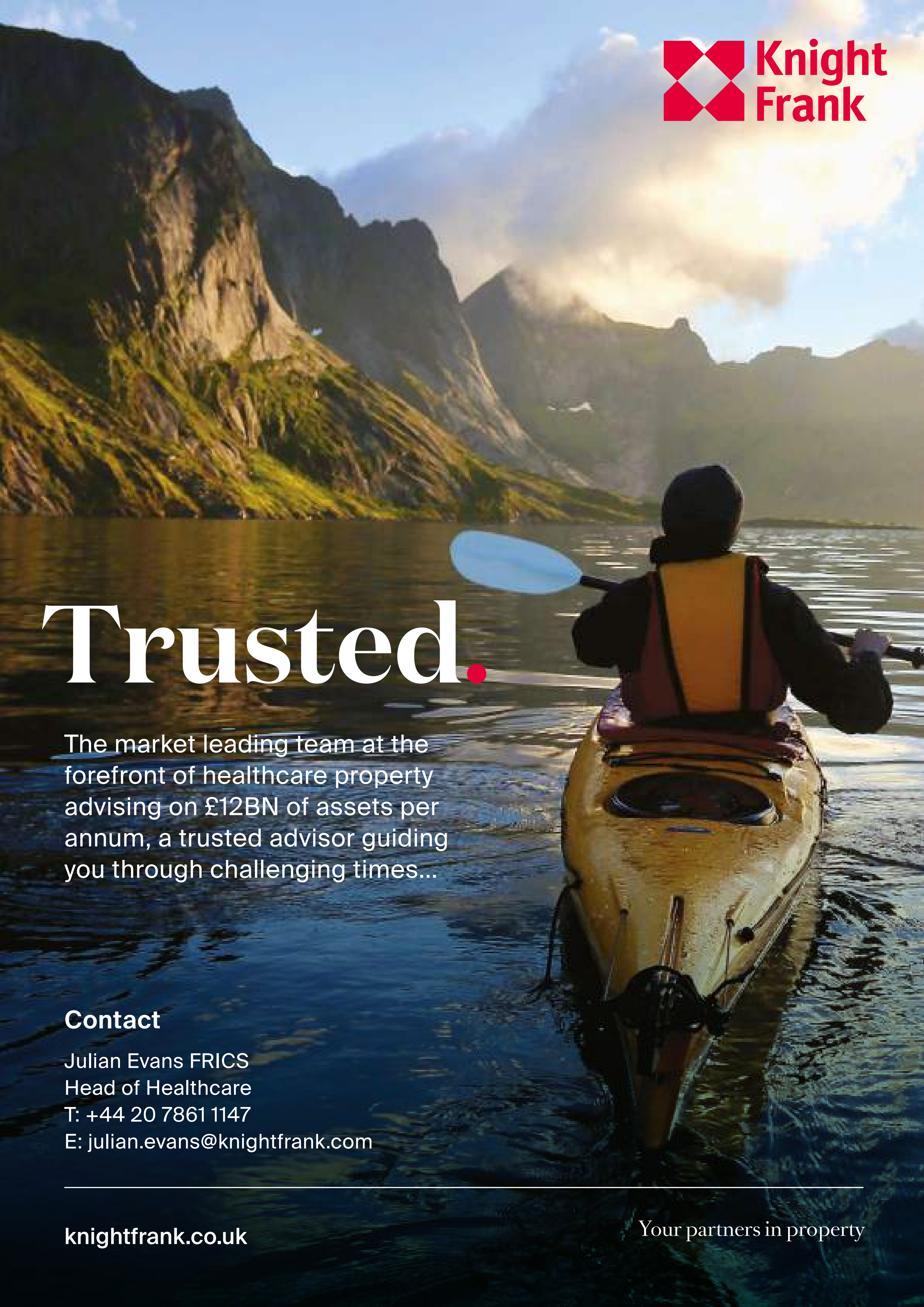
Ireland's healthcare market is an evolving one. Elderly care settings accounted for most of the healthcare investment between 2018 and 2023 at €239,500,000 over five deals. Such deals have included Belgian REIT Aedifica, with a €78.5m investment in four care homes across the Greater Dublin and Sligo Areas. They were also involved in 2022's Project Sapphire, which consisted of the sale and leaseback of three nursing homes in Dublin and one forward commitment for circa. €161m.

Spain

European-based capital, such as Adriano Care, has dominated the Spanish market. With European cross-border capital most active on the buy side, this is closely followed by domestic REIT, private and institutional capital. Reported transaction volumes year-to-date 2023 sit at approximately EUR 52m, compared to EUR 322m for 2022, across healthcare and senior living.

Netherlands

Over 150 elderly care settings are operated by the l argest five providers in the Netherlands. Institutional and private capital account for the majority of capital composition for the sector in the Netherlands. There is a significant Dutch representation amongst the top market participants on the buy side. For the year 2022, the Netherlands saw an overall reported volume of €688m across healthcare and senior living, while year to date, 2023 sits at approximately £186m. We take a deeper dive into these and many more markets in our upcoming 'Global Healthcare Report'; however, please do feel free to contact the team with any further questions regarding the sector.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The market leading team at the forefront of healthcare property advising on £12BN of assets per annum, a trusted advisor guiding you through challenging times...
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Event Roundup

European Healthcare Investor Association provides its members with invitations to exclusive healthcare breakfasts and dinners, report launches, and networking drinks receptions. We are continually enhancing our portfolio of networking events.

In 2024, we will host an Investors in Healthcare Drinks Reception on 7 January at The University Club in San Francisco during the JP Morgan Conference, a drinks reception during Arab Health in Dubai, an Investing in Healthcare dinner in June during Healthcare Business International London Conference, our annual dinner in November during Jefferies in London plus a number of specialist events including Women in Healthcare Investing and a Young Investors Breakfast.

During 2023, we hosted a number of events that were very attended and generated exceptional feedback for the quality of the content, and the excellent peer-to-peer networking opportunity.

Women in Healthcare Private Equity Evening

European Healthcare Investor Association, Apax Partners and Level 20 hosted a Women in Healthcare Private Equity evening, held at Apax Partners' 33 Jermyn Street 6th floor venue on 15 June, 2023.

There are many events for women in financial services, but this evening offered something different: an opportunity to meet women focused on healthcare investing from across the community – investors, advisors, lenders, and CEOs.

The evening included talks from two inspirational leaders – Mary Trout, Chief Commercial Officer at Candela, an Apax portfolio company, and Gurpreet Manku, CEO, Level 20, a not-for-profit organisation aligned around a common vision of improving gender diversity in the sector.

Innovation in Healthcare Dinner

European Healthcare Investor Association hosted an exclusive invitation-only dinner for healthcare investors on 21 June, 2023 in the spectacular surroundings of the Institution of Civil Engineers at One Great George Street. The evening provided an excellent opportunity for CEOs and private equity investors to network and discuss healthcare investment trends and opportunities.

The theme was “Innovation in healthcare”, bridging healthcare services, digital and health-tech. Our generous sponsors were J.P. Morgan and McKinsey & Company, and the Head of UK Private Equity M&A, Managing Director Alex Bruce, and the Co-Head of European Healthcare PE Practice, Jamie Littlejohns, spoke on the M&A and financing environment and the key market themes for investors respectively.

McKinsey & Company J.P.Morgan

In the Diary

Healthcare investing has a regular annual rhythm of events. Depending on your market or sub-market of interest, there are a number of conferences and trade shows that any investor, advisor or company should attend. European Healthcare Investor Association. holds its own events alongside a number of these during the year. This guide highlights a selection of the key ones.

JANUARY 7 2024 **SAN FRANCISCO**	**Investors in Healthcare Drinks Reception**	An exclusive drinks reception for healthcare investors held on the evening prior to J.P. Morgan's 42nd Annual Healthcare Conference. The evening will provide an excellent opportunity for CEOs and private equity investors visiting from Europe to network and discuss healthcare investment trends and opportunities with their peers, and US colleagues https://www.ehia.org/investors-in-healthcare-drinks
JANUARY 8 – 11 2024 **SAN FRANCISCO**	**42 nd Annual J.P.Morgan Healthcare Conference**	This premier conference is the largest and most informative health care investment symposium in the industry which connects global industry leaders, emerging fast-growth companies, innovative technology creators and members of the investment community. https://www.jpmorgan.com/about-us/events-conferences/health-care-conference
JANUARY 23 – 25 2024 **CANNES**	**IPEM Cannes**	Since 2016, IPEM Cannes has brought a different essence to the industry by gathering its key decision-makers in a conducive environment for meaningful exchanges. It cultivates an unparalleled and exceptional atmosphere, building a strong network and evoking powerful emotions.- With its vibrant ecosystem, IPEM Cannes provides the ideal platform for investors, fundraisers, dealmakers, and advisors to connect and make impactful deals. https://www.ipem-market.com/cannes-2024/
JANUARY 25 – 26 2024 **BASEL**	**Basel Healthtech Conference**	Scaling Digital Health Innovation in Europe, MTIP's Conference on Digital Health, Innovation & Growth Investing is held in Basel. The conference will bring together Europe's most innovative minds, celebrated scientists, healthtech entrepreneurs, and investors to exchange ideas, and to accelerate innovations and solutions in digital health. https://baselhealthtech.com
JANUARY 29 – 1 FEB 2024 **DUBAI**	**Arab Health**	Arab Health provides a platform to address and outline global healthcare challenges while providing attendees with opportunities to network with industry leaders from around the world and enables companies to showcase progress and achievements in the sector. https://www.arabhealthonline.com/
JANUARY 30 – 31 2024 **LONDON**	**Real Deals ESG conference**	Real Deals and The Drawdown's ESG Conference will build on Real Deals' 20 years of experience in the European private equity sphere, to provide an exclusive platform for fund managers, investors and expert solution providers to tackle one of the most rapidly evolving and topical issues facing the industry: ESG. https://rdesg.com/esgconference2024
FEBRUARY **LONDON**	**Real Deals Mid-Market**	Over the years, the event has become a must attend event for GPs, LPs, advisers and suppliers who attend to learn and share practical insights from fellow leaders executing private equity strategies. https://rdmidmarket.com/

FEBRUARY 2024
NEW YORK

ACG NY Annual Healthcare Conference

The ACG NY Annual Healthcare Conference welcomes Middle Market Healthcare payers, providers, systems as well as top private equity, family office and strategic buyers representing billions of dollars ready to invest in the North American Healthcare Sector. The conference includes one-on-one curated deal meetings with investment bankers, great discussion and quality networking including bourbon tasting hosted by Private Equity Sponsors

https://www.acg.org/nyc/events

MARCH 6 - 7 2024
MIAMI

HPE Miami

Join McDermott to hear from and connect with leading investors, executives and founders who will share insights around the most pressing topics and trends impacting healthcare investing right on the beach in Miami.

https://www.mwe.com/events/hpe-miami-2024/

MARCH 12 – 15 2024
CANNES

MIPIM - The Global Urban Festival

Established in 1990, MIPIM is the real estate event to meet the most influential players from all sectors of the international real estate industry. It brings the entire value chain together and gives unrivalled access to the greatest number of development projects and sources of capital worldwide.

https://www.mipim.com/

MARCH 11 – 15 2024
ORLANDO

HIMSS GLOBAL

HIMSS unites thought leaders, disruptors and changemakers representing every sector across the global health information and technology spectrum. Join peers and experts to develop, strengthen and learn from the relationship of health and technology. Continue your journey to better global health during this unique conference experience

https://www.himss.org/global-conference

APRIL 18 2024
LONDON

Real Deals Private Equity Awards

The annual Real Deals Private Equity Awards are the longest running and most prestigious private equity awards in Europe. The awards recognise and reward those who have made an outstanding contribution to the industry.

https://privateequityawards.com/2024

MAY 29 – 31 2024
ROME

HIMSS EUROPE

HIMSS24 Europe is the destination to learn, connect, innovate.

Better patient outcomes and stronger workforces are a team project. At HIMSS24 Europe, we've built a programme to arm you and your peers with the insights you need to transform health systems back at home.

https://www.himss.org/event-himss-europe

JUNE 4 – 7 2024
BERLIN

SuperReturn International

Network at the leading gathering in private capital. 5,000+ decision-makers. 1,500+ LPs. 2,400+ GPs. From 70+ countries. Get the inside track on innovation, ESG, growth, private debt, value, regeneration and return

https://informaconnect.com/superreturn-international

JUNE 5 2024
LONDON

HealthInvestor Awards

The HealthInvestor Awards promote excellence and recognise innovation in the independent healthcare sector and attract more than 1,200 guests each year to the JW Marriott Grosvenor House

https://healthinvestorawards.com

JUNE 5 – 6 2024 **NEW YORK**	**Jefferies Healthcare Conference**	A balance to the JP Morgan Healthcare Conference in January in San Francisco, this East Coast conference in the middle of the year is the other major sector conference for the sector. With 400 participating companies and over 2,700 attendees, the conference features an extensive range of public and private healthcare companies across the Biopharmaceuticals, Life Sciences, Healthcare Services, Healthcare IT and Medical Technology sectors. https://www.jefferies.com/IdeasAndPerspectives/ConferenceList/Investment-Conferences/159
JUNE 10 – 12 2024 **LONDON**	**Healthcare Business International**	BI brings together the CEOs of big health care service providers with investors and payors across EMEA and beyond. Delegates come away refreshed with actionable insights on new business models, tech, workforce, sub-sectors and regions. Join us to plan the future. https://www.healthcarebusinessinternational.com/events/
SEPTEMBER 17 – 18 2024 **LONDON**	**PRIVATE EQUITY EUROPE FORUM**	Private Equity Europe Forum is the leading investor-centric event for LPs investing in private markets across Europe and globally. The forum brings together investors, fund managers, and advisers for a one-day meeting to discuss sectors, due diligence, and private equity investment opportunities in Europe and around the world. https://www.marketsgroup.org/forums/private-equity-europe-forum-2024
SEPTEMBER 2024 **LONDON**	**HPE EUROPE**	Join investors, key players from the private equity community, healthcare companies and operators, advisers and health industry experts. The conference will share the insights and strategies shaping the future of healthcare and healthcare investing and discuss the latest and most important trends in HPE this year https://hpeeurope.cventevents.com/
SEPTEMBER 2024 **CHAMONIX**	**Convention on Health Analysis and Management**	The convention brings together decision-makers and leading experts from a variety of backgrounds: institutions, hospitals and clinics, health professionals, universities, industries, insurance and mutuals, associations and unions, politicians. CHAM participates in the transformation of the organization of health systems to better protect the population, treat and rehabilitate patients in an equal quality of care, taking into account technological, scientific, societal, environmental and ethical developments. https://www.canalcham.fr/en/
OCTOBER 2 2024 **LONDON**	**Healthcare Summit**	Bringing together the whole industry under one roof. Join leading operators, investors, advisors and suppliers in this fantastic central London location. Take part in content-led market overviews and thought-provoking panel discussions. https://healthcare-summit.co.uk/
OCTOBER 7 – 9 2024 **PARIS**	**IPEM Paris**	With $2.6 trillion under management and over $10 trillion in institutional capital, Paris is the n°1 hub for private markets in Europe, and the perfect stage for a decisive industry gathering https://www.ipem-market.com/#events
OCTOBER 7 – 9 2024 **MUNICH**	**EXPO REAL**	Expo Real is an international trade fair for property and investment, which takes place once a year on the fairgrounds in Munich. As largest B2B trade fair for the industry in Europe, the fair stands for business-oriented networking for cross-industry and transnational projects, investments and financing. Exhibitors and visitors include project developers and project managers, investors and financiers, consultants and agents, architects and planners, corporate real estate managers, expansion managers and also economic regions and cities reflecting the entire value chain of the real estate industry. https://exporeal.net/en/

OCTOBER 8 – 10 2024
MILAN

CPHI

Uniting thousands of pharma suppliers and buyers across the full supply chain, CPhI Worldwide enables attendees to source, connect and learn within the industry.

https://www.cphi.com/en/attend/our-events.html

OCTOBER 2024
CHICAGO

NIC Fall Conference

With thousands of senior housing and care leaders in attendance, the NIC Fall Conference is the place to deepen existing relationships, create new partnerships, and discover innovative strategies to adapt to an evolving market

https://fallconference.nic.org/

NOVEMBER 11 – 14 2024
DUSSELDORF

MEDICA

With over 4,500 exhibitors from 66 countries and more than 81,000 visitors from all over the world, MEDICA in Düsseldorf is one of the largest medical B2B trade fairs in the world. A wide range of innovative products and services from the fields of medical imaging, laboratory technology, diagnostics, health IT, mobile health as well as physiotherapy/orthopaedic technology and medical consumables are presented here.

https://www.medica-tradefair.com/

NOVEMBER 2024
ZURICH

SuperInvestor

The latest on fundraising, secondaries, LP allocations, co-invests and more. Network with 1,800+ decision-makers including 550+ LPs and 900+ GPs

https://informaconnect.com/superinvestor/

NOVEMBER 2024
LONDON

Investors in Healthcare Annual Dinner

Scheduled to coincide with the middle day of the Jefferies London Healthcare Conference, European Healthcare Investor Association's annual event takes place in London, and provides an excellent opportunity for CEOs and private equity investors to network and discuss healthcare investment trends and opportunities.

https://www.ehia.org/investors-in-healthcare-dinner-november

NOVEMBER 2024
LONDON

Jefferies London Healthcare Conference

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Healthcare insights for Europe: Spain

KEY MESSAGES

- Since Covid-19, Spain has focused on modernising its healthcare system with reforms focused on digitalising the national health system (SNS) and providing expanded access to public-pay services such as fertility treatment
- Reforms have also focused on improving drug pricing procedures and reformulating co-payments for prescription drugs
- A potential area of legislative change for 2024 remains the possible introduction of limits to independent provision within Spain's SNS

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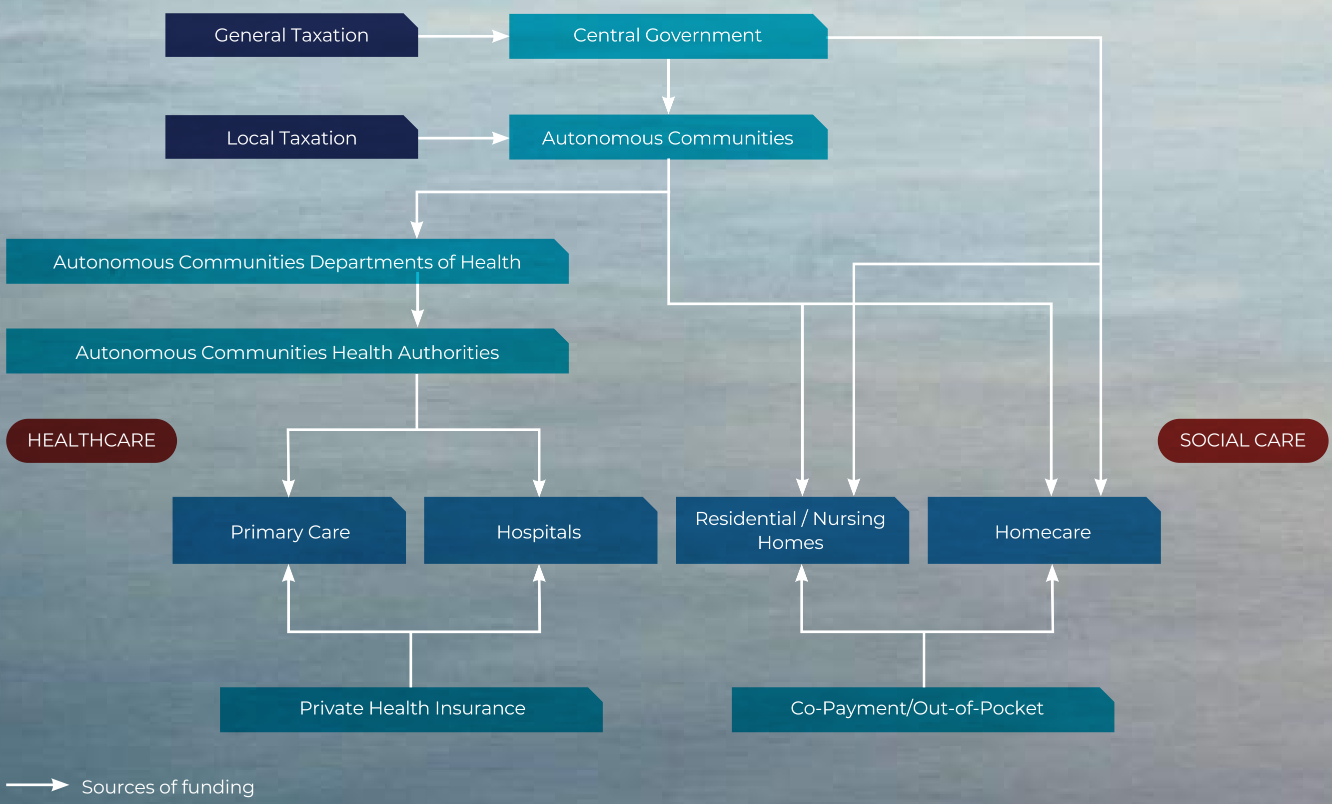
Health and social care funding flows



Source: Marwood

Fertility Services

Spain has a relatively liberal approach to fertility and is seen as a premier European destination for fertility travel from France, Italy, the UK, and Germany. The Spanish fertility sector is driven by a supportive regulatory environment which has enabled:

- Amongst the widest fertility coverage in Europe, with same-sex couples and single women eligible to access fertility service provision
- A wide range of fertility service options, many of which are not available in other countries, including PGS testing, crypto preservation on non-medical grounds, and the ROPA method [1]
- A good supply of egg donors from a wide range of different ethnic backgrounds readily available to independent clinics so patients do not have to spend lengthy time on waiting lists
- A wide choice of clinics, with price points varying by location expanding access to a wider population
- Transparency in clinics' success rates via an independent source - the Spanish Fertility Society

Legally available fertility services in Spain

Legally Available Fertility Services - By Country									
Country	Eligible Populations	Max IP Age (F)	IVF/ ICSI/ IUI	Embryo Cryoprservation	Gamete Donation	Donor Anonymity	Donor Compensation	Genetic Tests	Surrogacy
Spain	• Heterosexual • Lesbian couples • Single women	50	✓	• Medical • Social	✓	✓	✗ Expenses only	• PGD • PGS	✗

Table 1 – Source: Marwood

Fertility Services Covered by Public Payor - By Country							
Country	Eligible Populations	Max IP Age (F)	IVF/ ICSI/ IUI	Cryoprservation	Embryo Freezing	Genetic Tests	Reimbursement Levels
Spain	• Heterosexual, married • Lesbian couples, unmarried • Single women • Same sex couples	50	✓	✗	✓	• PGD • PGS	Regional variations determine number of cycles, and may impose further age, BMI and/or childlessness criteria

Table 2 – Source: Marwood

Fertility – expanded public-pay coverage

Despite national legislation setting out entitlements to public-pay access to fertility treatment in Spain. Autonomous Communities (AC) can, and frequently do, impose further criteria as a way to contain costs. As demographic and social factors evolve, many ACs have steadily eased eligibility restrictions to progressively expand public-pay fertility services coverage.

- Historic AC restrictions have included:
- BMI criteria
- Age criteria
- Infertility diagnosis
- Intended Parents with prior children
- Intended Parents with prior voluntary infertility procedure
- Limits on number of cycles.

[1] ROPA stands for 'Receiving oocytes from the partner'. The ROPA method is a method of assisted reproduction in which same sex female couples can opt for shared motherhood.

Spolight on: the community of Madrid expands access to fertility treatment

In 2022, the Community of Madrid announced it would raise the age limit for access to fertility treatments in the public-pay health system from 40 to 42 years of age, with the intention of progessively increasing it to 45 years. Free choice was also introduced so Intended Parents (IP) can select the fertility clinic where they access services. It was also announced that eligibility restrictions of IP with prior children would be removed, and that the maximum number of IVF cycles available via public-pay would be increased from 3 to 4.

Aside from AC restrictions, domestic public-pay provision has also been limited by waiting times. Waiting lists vary across the country and are often the result of AC budget pressures. However, they are also influenced by saturation of the health system, capacity of public clinics and public-pay access to egg donors.

Although independent clinics are permitted to provide public reimbursed services, it is not common in fertility provision due to a lack of financing and low priority status for the treatment across ACs. As the example of Madrid shows, this may be changing as demographic and social factors evolve and may be enabled by dynamics such as those in Andalusia, where public and independent clinics have historically shared egg banks.

Fertility - potential repeal of donor anonymity

Under current law, both egg and sperm donation are strictly anonymous, with the donor's medical history and genetic information only revealed if the descendant's life is at risk. However, due to a growing debate around the benefits of anonymity, there may be risks to the stability of donor anonymity on the longer-term horizon.

Throughout 2019 and into early 2020, Spain saw a great deal of public debate on the principle of anonymity. Several prominent bodies weighed in, such as the National Bioethics Committee which argued against anonymity on the basis that people should have the right to know their ancestry (i.e., the identity of their biological parents) from the age of 18. The arguments of this group seem to have left a mark due to their standing as an independent consultative body with expertise in bioethics.

However, the Spanish Fertility Society published a position paper in favour of anonymity on the basis that countries which have repealed anonymity have seen a steady decline in donations. This decline would be undesirable given the high demand for fertility treatments in Spain from both domestic and international patients. In addition, various Medical professional associations have argued that donor anonymity should be maintained.

Despite this opposition, in 2020, the National Bioethics Committee requested that the government review the law on assisted human reproduction and consider repealing donor anonymity in both sperm and eggs. However, due to the onset of the Covid-19 crisis, this was not completed, and discussions were largely paused as the country worked to manage the crisis.

In 2023, the issue remains controversial due to the potential harm to the Spanish fertility market's position as an international player due to its flexible options. If taken forward, the changes would likely require new fertility legislation.

Potential changes to underpinning legislation of pharmaceutical reimbursement and pricing

The pharmaceutical sector is one of the most regulated healthcare sectors in Spain. The regulation primarily applicable to pharmaceuticals is set out in the Act for Guarantees and Rational Use of Medicines and Health Products (Law 29/2006). This Law ensures the provision of medicines in the SNS, as well as the rational use of medicines so that all citizens have access to the medicine they need. Over the last decade, changes to the Law, have been driven by the intention to contain costs. Some examples are detailed in Table 3.

Legislation	Change
RDL 4/2010	Reduced drug prices in drugs already under the refernce pricing scheme and for some not yet included.
RDL 9/2011	Expanded the reference pricing policy guaranteeing homogeneity across the country, accelerated generic prescription through the prohibition of brand-name prescription, and created a Committee on the Cost-Effectiveness of Pharmaceuticals and Health Products, which report on the pricing policies developed by the Intermenstrual Commission on Drugs Pricing
Law10/2013	Modifies technical aspects of Law 29/2006 by emphasising the need for the ACs to avoid policies that could lead to differences in pharmaceutical benefits and prices, and to the distortion of the in-country 'single market'
RD 177/2014	Deepened the regulation of reference prices for groups of homogeneous drugs, also regulates the information system for drugs pricing and ACs financing

Table 3 – Source: Marwood, Spanish Government

Pharmaceutical Drug Pricing

Reference prices are the Spanish Government's primary tool for containing pharmaceutical spending. The reference price is the maximum amount at which medicines within a type of pharmaceutical products are reimbursed when they are prescribed and dispensed via the public-pay system.

Changes expected late 2023 seek to increase access to drugs while containing costs

Pharmaceutical legislation is a key area of potential change in Spain, with the coalition government committed to passing further reforms to the Law on Guarantees and Rational Use of Medicines by December 2023. These greatly anticipated reforms are expected to modify the Spanish system of reference prices for medicines.

During its development of reforms to the pharmaceutical legislation, the Ministry of Health published an evaluation of the existing Law and associated proposed amendments. These included general price increases, with the stated aim of rebalancing the system. The pharmaceutical sector has long called for changes to the reference pricing system, and more recently for reference prices to be updated to reflect economic circumstances such as increased costs of production in the post-Covid-19 environment.

Pricing procedures have also been subject to criticism from other national regulators. The National Commission for Markets and Competition (CNMC) have repeatedly raised concerns on the lack of transparency and predictability of pricing mechanisms, and criticised that neither the reports backing the decisions, nor the actual decisions were made public. The Spanish Court of Auditors have also pointed to excessive discretion by the Ministry of Health in the procedures and criteria used in drugs pricing.

While developments may have been slower than many in the industry would wish, the government has clearly indicated that price uplifts are the most likely direction of travel. In 2022, the Ministry of Health published a Ministerial Order updating the system of reference prices for medicines in the SNS, including creating new categories of drugs, primarily for hospital drugs, and revising the prices of some products already included in existing categories.

Because decisions on pharmaceutical drug reimbursement and pricing lay with the Ministry of Health, while pharmaceutical care expenditure is managed by the ACs, there is a systemic disconnect between prices set nationally and ACs' budget constraints. This means that while national prices may rise, there may be equal focus on containing costs at the AC level. This is likely to mean Spain sees an increasing number of policies focused on the rational use of medicines, by reducing unnecessary prescribing and the consumption of pharmaceuticals with limited clinical benefit.

Removing co-payments for prescription drugs may be a further area of change

Co-pays for pharmaceutical products whereby patients are required to contribute to the costs of drug products covered by the SNS, have long been in place in Spain. The co-pay is dependent on the level of income of the patient and the type of products. For some categories of products for instance, there is a reduced co-pay of 10% of the cost, and for vulnerable groups the co-pay may be zero.

Removing co-pays for pharmaceutical products has been a key priority of the leftist coalition government since 2020. During 2022 and 2023, Spain's government has progressed a draft bill which includes a proposal to remove co-pays for more categories of products. The draft bill on Equity includes a proposal to remove co-pays for a greater range of products for vulnerable groups.
If passed, the bill may significantly increase the volume of pharmaceutical products accessed via the SNS, as co-pays may act as a barrier for patients. It is expected that ACs will need to allocate funding to cover this additional volume, and that some cash-strapped regions will look to modify the eligibility criteria in order to contain costs. However, this will need to be in keeping with the national legislation.

Potential Changes To The Independent Sector In Delivering Outsources Health Care

Independent sector provision is a fundamental part of the SNS in Spain and outsourcing from the SNS has existed since 1986. Historically, outsourcing has been used by ACs of all political persuasions, with the SNS typically outsourcing a certain volume of activity to independent providers, usually due to a lack of public capacity. The independent sector has a significant presence across Spain with 56% of the total number of hospitals and 32% of the hospital beds run independently, as well as 12,000 independent outpatient centres. Despite significant use of the independent sector, long waiting lists for elective procedures remain a key issue in Spain, mostly due to limited AC health budgets.

Despite the historic co-existence of the public and independent sectors, in late 2021, the socialist led Spanish government put forward a draft bill to limit the use of the independent sector in health care delivery as part of the SNS. This has been spearheaded by the leftist government's minority partners during 2022 and 2023, who are in support of reducing the role of the independent sector in healthcare. The bill, which was in the parliamentary process for over a year, became a major source of disagreement between the two main partners in the government coalition, primarily since it did not propose a total ban on outsourcing.

Given the financial realities of ACs, long waiting times and the extent of the reliance on the independent sector, the exclusion of the independent sector from the SNS seems unlikely. However, given the uncertainty caused by the results of the general elections in July 2023, and potential continuation of a Socialist-led coalition, the issue remains critical for investors considering healthcare assets in Spain.

Valencia in-housed diagnostic services which were historically outsourced, and then reversed this decision following AC elections in May 2023

- The SNS contracts with independent providers for approximately 45% of all public pay diagnostic tests
- From 2019, Valencia had a coalition government comprising the socialist, and conservative Christian democrat parties
- In December 2021, Valencia's health department announced that MRI services in almost all Valencian public hospitals would return to public management, after being contracted to an independent provider for over a decade
- Following the AC elections in May 2023 in which right-leaning parties won control, Valencia has reversed this decision to re-instate outsourcing in a bid to reduce long waiting lists

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Founded: 2021

Key People:
Alan MacKay, Chair
Henry Elphick, Deputy Chair

At the beginning of the 21st century, European private equity firms began taking inspiration from their US counterparts and started a sector-specific approach to private equity investments. In 2000, Gilde Healthcare began investments that were focused on the healthcare sector, followed by Apposite Capital in 2006 and G Square Capital a year later.

Fast forward to 2021, and the establishment of the European Healthcare Investor Association (EHIA) has facilitated the formation of a network that includes the leading healthcare private equity, infrastructure, Sovereign Funds and not-for-profits investing in Europe. The EHIA aims to improve the understanding of healthcare private equity so that member firms can help build great healthcare businesses across the continent through effective and efficient investment of capital and expertise. It is the largest association of private capital providers with offices in Europe investing in healthcare companies in Europe and globally.

EHIA's coverage is diverse across the sectors of Healthcare Services, Life Sciences and Pharma, and Veterinary services. Such a portfolio offers members a wide range of investment options that can suit different strategic investment aims and objectives.

Alan is an Executive Partner and co-founder of GHO Capital and has been a private equity investor for 30 years in roles including Senior Partner and Global Head of Healthcare at the private equity firm 3i Group plc. He was appointed to the board of 3i plc in 1993 and became CEO of 3i Nordic plc, based in Stockholm, upon the acquisition of Sweden's largest listed private equity company Atle AB in 2001. Alan has served on the boards of a number of healthcare companies. He has been Managing Partner, CEO, and Chairman of the Investment Committee of Hermes GPE, an active co-investor in private equity backed healthcare. Alan holds a Bachelor's degree in Law, an MSc in Enterprise and is a graduate of the Advanced Management Programme at INSEAD. He was Chair of the BVCA for 2016–2017 and has chaired its Responsible Investment Advisory Board.

Alan Mackay, Chairman

Henry is Chair of Mansfield Advisors, a leading strategy consultancy specialising in commercial due diligence and corporate strategy projects for investorts in healthcare, life sciences and veterinary markets. He is also a Senior Advisor to Savills Operational Capital Markets, a global real estate advisor in living real estate, Chair of healthcare search and recruitment firm Compass Recruitment Solutions, and an Advisor to the International Longevity Centre think tank. Previously, Henry was CEO of healthcare market intelligence provider LaingBuisson for five years and had a 20 year career advising healthcare companies as an investment banker with Jefferies, UBS and Rothschild, having qualified as a solicitor with Linklaters. He was also a trustee of the charity Turn2Us and formerly the Chairman for eight years of care home provider Elizabeth Finn Homes. He has an MA in Law from the University of Oxford.

Henry Elphick, Deputy Chair

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Healthcare

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- Dental
- Fertility
- Clinical Labs
- Diagnostics
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- Insurance
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- Consumer Healthcare
- Distribution
- Digital Health/Healthtech
- Funeral Services

Social Care & Education

Social Care
- Care Homes
- Homecare
- Complex Behavioural Care
- Supported Living
- Retirement Housing

Education
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- SEN Schools
- Children's Residential Services
- Nurseries

Life Sciences & Pharma

Life Sciences

IVD
- Reagents
- Tools

Medtech
- Diagnostics
- Life Sciences & Pharma
- Medical Devices and Implants
- Hospital Equipment
- Healthcare IT

Pharma

Manufacturing
- Generics
- Specialty Pharma
- OTC

Services
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- Bioinformatics
- Medical Communications

Veterinary

- Veterinary Clinics
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EHIA Investor Members

Note: A small number of members have requested that their membership is not made public and are therefore not represented on this page

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