

# Trends driving sector M&A

## Healthcare Services



### BUOYANT DEAL VOLUMES IN 2019 SET SCENE FOR STRONG 2020

Deal volumes are at their highest level since 2015

Deal volumes in the UK healthcare services sector have remained robust. In fact, volumes are at their highest level since 2015, a record year for transaction activity. Last year saw 179 deals complete, an increase of 17% on 2018. Many services are fragmented and deliver an attractive investment rationale for a range of domestic and international strategic acquirers and financial investors (including private equity, REITs, infrastructure and alternative funds). In 2019, almost 60% of acquisitions involved a trade counterparty, be that a listed entity or an existing platform which is expanding due to a domestic consolidation strategy (single site or smaller group acquisitions).

High-quality assets, both in terms of operational excellence and regulatory compliance, remain scarce in traditional areas. Capital during 2019 was increasingly invested into highly specialist services with potential for growth, including sexual diagnostics clinics, non-surgical care centres and transitional services where there is a clear pathway programme for integration back into community settings.

Plentiful liquidity and low interest rates continue to sustain strong market valuations for high-quality assets involved in capital events. The owners and management teams of these businesses have the opportunity to realise attractive levels of shareholder value.

International players seeking to deploy significant capital into UK-based transitional care services



The UK general election result in December has started to create a more stable political and economic environment. European buyers have generally been more concerned about the UK's exit from the EU than their North American and Asian counterparts. This theme was highlighted in late November when Ardenton Capital, the Canada-headquartered private investment vehicle, made its first investment in healthcare with the acquisition of Pebbles Care.

Pebbles Care is an outstanding-rated operator of residential care for the most vulnerable young people across the North of England and Scotland. The group currently operates 41 residential care homes alongside four specialist academies and provides continuing care across the spectrum of health, wellbeing and education, supporting those children in need within a therapeutic environment.

Pebbles Care, and similar businesses such as Graphite-backed Horizon Care, represent a clear opportunity for private equity and alternative capital providers to develop best-in-class services alongside successful incumbent owners and management teams seeking support to deliver long-term sustainable business growth by expanding services and increasing capacity.



Two key elements are needed for M&A, confidence and liquidity. Going into 2020, confidence is returning and there remains plentiful liquidity. These factors, combined with the strong M&A drivers underpinning the healthcare sector, are creating a positive backdrop for attractive deal levels this year.

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## Pressure on NHS funding is increasing demand for specialist outsourced solutions



Specialist outsourced solutions are increasingly relied upon to provide low cost and highly-efficient diagnostic and treatment solutions. Government austerity measures, alongside the rationing of services deemed non-essential, continue to constrain those commissioning these services. The private sector is being used to absorb capacity and hopefully to improve NHS delivery through partnership models. Specialist services providing faster access to primary care through quicker diagnostics or the use of cutting edge operational and clinical technologies are visibly helping to ease the growing public sector burden. This has led to the emergence of small, high-growth businesses which are attracting significant attention from venture capital funds looking for attractive returns from sub-sectors underpinned by market fundamentals.

An example of this is Palatine investing £10m in Veincentre, which delivers specialist treatment for varicose veins using Endovenous Laser Ablation, a non-invasive and non-surgical procedure. This unique approach reduces scarring and treatment and patient recovery times dramatically when compared with other standardised treatment practices. Palatine will look to fund the business further as Veincentre delivers on its acquisition and greenfield clinic pipeline.

Synova Capital has invested in Preventx. The business relieves pressure on local authorities by shifting sexual health diagnosis out of the traditional clinic settings via online self-sample testing while also improving service user experience. Synova will continue to support the business as it scales up its coverage, develops relationships with more local authorities in England, and expands the range of self-sampling services.

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## Fragmented consumer healthcare markets present consolidation opportunities



The rising awareness of mental health and physical wellbeing is being reflected in consumer discretionary spending trends and, in turn, the emergence of a consumer healthcare marketplace. This can be categorised by both the level of medical need and the specialist nature of procedures. Services range from physiotherapy to fertility and dermatology and typically use a multi-site business model.

Consolidation is an ongoing theme in these markets, many of which are highly fragmented. While financial investors have achieved a successful record in traditional areas such as residential elderly care, dentistry, veterinary and fertility, these markets are increasingly dominated by a handful of leading providers. High-quality assets that can act as transformational bolt-ons, either through service capability or geographic coverage, are now scarce.

Clinically-led physiotherapy, rehabilitation and sports medicine are good examples of this theme. Providers such as Ascenti, IPRS and Sano Physiotherapy are looking for further acquisitions to bolster their presence.

In July, the Soligen-backed platform Sano acquired the Yorkshire Physio Network, having acquired Nottingham-based Physio Direct Sherwood at the end of 2018. These acquisitions have increased overall patient volumes to over 150,000 physiotherapy appointments per annum and they have enabled the creation of a holistic provider of private physio, rehabilitation, occupational health and ongoing care services.

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