ALANTRA

Possibility is in the ascent

Sector Update: Healthcare

M&A market remains strong for high-quality healthcare assets

MARCH 2021

Healthcare shows its resilience

Much of Europe's healthcare industry has proved resilient in the face of the Covid-19 pandemic, despite considerable day-to-day operational challenges.

The life sciences sector has continued to make scientific advances, and found itself in the spotlight amid the search for Covid-19 vaccines and treatments. In healthcare services, nursing home operators have benefited from state support as they have battled the pandemic. Medtech operators have been able to continue working and their innovation has never been so needed. Even in consumer health, where parts of the sector have suffered amid lockdowns and other restrictions, manufacturers of items such as food supplements and vitamins have benefitted.

Against this backdrop, healthcare M&A and investment activity has remained strong, with transactions continuing at pace during 2020 and set to accelerate once again during 2021. Listed market deal volumes and values were down compared to 2019, though the second half of last year saw a strong recovery. But in the unlisted market, the appetite of private equity and other investors for high-quality healthcare assets continues unabated.

Alantra's healthcare team remains busy, having completed 23 deals worth more than $7bn last year. France and the UK led the way, with Germany, Spain, Italy, the Nordics, Belgium and Switzerland all seeing healthy deal activity. The stage is set for further transactions over the year ahead.

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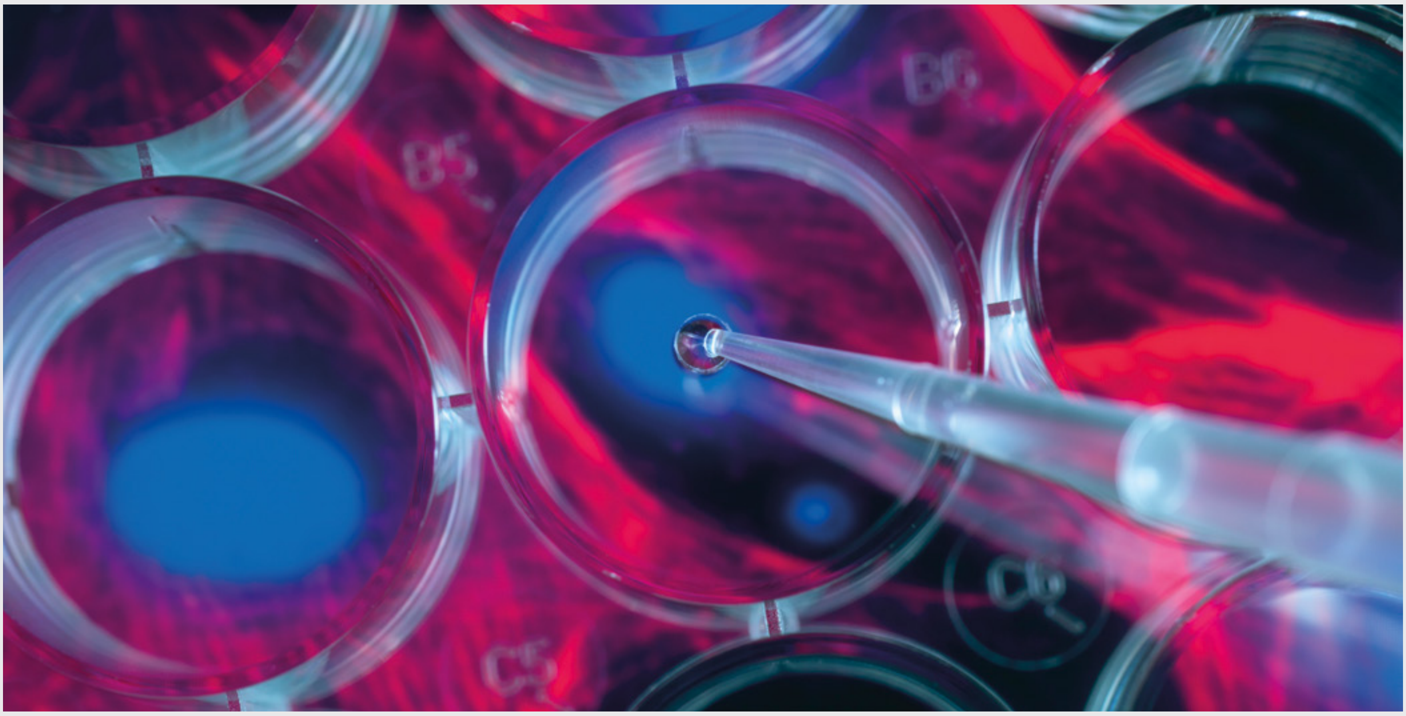

The impact of Covid-19

The pandemic's impact on the healthcare industry is sector specific. Overall, however, the industry has offered strong defensive qualities, underlining its allure for investors already attracted to the structural growth drivers in healthcare.

Pharma and life sciences has, for the most part, been less severely affected by the crisis. Many businesses have been able to move seamlessly to remote working, though laboratory work has sometimes been more challenging and supply chain disruption has been problematic. Moreover, Europe's pharma sector has played a crucial role in advances with the potential to defeat Covid-19, including the vaccines developed so rapidly by AstraZeneca and the University of Oxford in the UK, and by Germany's BioNTech in conjunction with Pfizer. Such breakthroughs provide a showcase for Europe's world-leading innovators and scientists.

In healthcare services, meanwhile, nursing home operators have found themselves at the centre of the storm. The first wave of Covid-19, in particular, left many operators scrambling to protect residents and service users, with shortages of personal protective equipment and staffing difficulties causing particular issues. Such problems inevitably increased operators' costs, threatening the bottom line, though across much of Europe, government interventions have provided at least some compensation. Operators were able to use the summer months to prepare for subsequent waves of Covid-19 and were generally in a better position as the virus surged in the final months of 2020 and into 2021. Looking ahead, moreover, the sector remains in a strong position to capitalise on trends such as Europe's ageing population and the retreat of the state from direct provision of care services.

The picture is more mixed for other service providers. For example, clinics offering services considered non-essential have been forced to close, or at least to restrict their services, during lockdowns. This is impacting the cosmetic surgery and dentistry sub-sectors, for example. By contrast, radiology and ophthalmology chains have remained open, even if some more profitable activities have slowed. Elsewhere, over-the-counter products sold through supermarkets and pharmacies remain available, with these retail outlets typically excluded from lockdown measures. But sales of treatments for coughs and colds, for example, have slowed markedly; social distancing measures appear to have significantly reduced such infections in many countries.

By contrast, the case for medtech solutions has been boosted by the Covid-19 crisis. For example, virtual consultations and remote diagnostics, where some physicians have previously been cautious, have been pressed into service. The role of artificial intelligence in drug discovery offers exciting potential. The move to remote working and operations has underlined the need for platform-based healthcare businesses to invest in back-office technology.

FRANCK NOAT
MANAGING PARTNER, FRANCE

Sustained low interest rates have created a challenging investment environment. Those investors who have focused on industries addressing essential needs and macro trends in order to generate returns and protect themselves from a downturn have been shown to have made the right call. Covid-19 has reminded us that healthcare constitutes an essential need, it is resilient in a crisis and will be supported by governments – "whatever it costs". As such, we are now seeing healthcare becoming a core investment area.

Deal-making continues at pace

The strong deal activity seen during 2020 (at both Alantra and more broadly) underlines the ongoing appetite for the best healthcare assets across every sector of the industry. Moreover, competition for these assets is increasingly fierce, with the industry attracting a growing cast of potential suitors as it matures.

Trade bidders continue to scour the sector, with M&A representing an opportunity to acquire intellectual property and new skillsets in growth areas. The purchase last year of SciBite, the British artificial intelligence specialist, by global information business Elsevier provides one leading example.

Private equity investors also remain active players in healthcare, as they continue to look for new opportunities to deploy record amounts of dry powder. Indeed, the range of firms focused on healthcare is increasing given the diminishing opportunities in some other sectors in the current market environment.

In many cases, private equity is driving consolidation, building healthcare businesses that operate on a platform basis, boosting returns with centrally-provided services and business development. The potential for buy-and-build strategies in more fragmented areas of healthcare is significant. In France, for example, there is an ongoing opportunity to consolidate in areas such as dentistry, ophthalmology, radiology and dermatology where there are currently no national chains. The veterinary services market is attracting similar attention across Europe, including in the UK.

These deals are already taking place. Last year, for example, saw Alantra advise the sk:n group on its acquisition of Adonia Medical Group, which runs the Courthouse Clinic chain of health and wellbeing centres; the deal is the latest stage of sk:n's strategy of building a national chain of dermatology clinics in the UK.

Moreover, the drive for consolidation in 2021 may come from sellers as well as buyers. In the nursing home market, for example, smaller operators – often family-owned and run – have found the Covid-19 pandemic particularly challenging and may now be minded to exit the sector. In the UK, anticipation of capital gains tax reforms that would reduce the relief available to some business founders on divestment may hasten sales. And even business owners that remain committed to the sector may seek funding given the increasing need for capital investment to secure growth.

However, private equity firms do not have the market to themselves. Healthcare businesses are increasingly catching the eye of global infrastructure and pension funds, which value the sector's highly visible – and often sovereign-backed – cashflows, as well as its long-term return profile. Last year's purchase by Alantra's client Domidep, the French nursing home operator backed by the global infrastructure investment manager I Squared Capital, of Germany's Römergarten Residenzen is a good example.

Asset-backed businesses in areas such as care services are particularly sought after, offering exposure to real estate that has defied the broader downturn in most areas of commercial property. Investment volumes in European care homes in the first three quarters of 2020 are reported to have reached over €3.5bn. Belgium's Aedifica and Cofinimmo have been particularly acquisitive with investments in the UK, France, Finland, Germany, Spain and Ireland.

Meanwhile, global property funds are also taking an interest; New York Stock Exchange-listed Omega Healthcare Investors, for example, has bought into the UK's care home market.

With such a broad range of actors pursuing deals, the outlook for valuations in 2021 is positive, particularly given pent-up demand from 2020 when some investors inevitably felt compelled to postpone their plans. Deal multiples are certainly increasing for high quality assets and the owners and management teams of these businesses have the opportunity to realise attractive levels of shareholder value. In the care sector, for example, bidders are routinely now valuing targets at around 15 times' earnings, up from a more typical 12 times' in more recent years; high quality assets in the pharma sector, meanwhile, typically command high double-digit valuations; at the top end, certain medtech businesses are looking for multiples of 20 times' or more.

High valuations, moreover, will further drive consolidation as investors look to build larger organisations to drive the cost and revenue synergies required to deliver returns on their investments. The search for scale is therefore likely to be an ongoing theme of healthcare deal activity.

Clearly, elevated valuations introduce additional risk. But such are the qualities of healthcare assets – both defensive and growth-oriented – that investors consider prices worth paying. Indeed, on listed markets, rising healthcare share prices were a vital driver of the strong performance of global stock markets during the final months of 2020 and into early 2021.

The rise of the machines

While valuations for healthcare businesses have been rising across the board, deals with a technology angle are completing at particularly rich multiples. The potential of technology to transform healthcare businesses – both the value proposition they offer to customers and the way they operate – continues to excite the market.

This is a global phenomenon that is increasingly generating mega deals. In tele-medicine, for example, US businesses Teladoc Health and Livongo last year combined in an $18.5bn deal. In Europe, Germany's Siemens Healthcare paid $16.4bn for Varian Medical Systems, an American specialist in machine learning and data analytics. There have also been significant numbers of smaller transactions, such as Civica's purchase of the health software business Chameleon Information Management in the UK.

Indeed, in many cases, it is smaller technology businesses operating in discrete niches that are driving innovation. In the pharma sector, for example, the greatest excitement surrounds the growing number of companies using artificial intelligence to accelerate drug discovery, reducing the time and cost of moving into clinical trials. The Danish company Evaxion Biotech, for instance, is raising $30m via an IPO on Nasdaq. The Phase 1/2 biotech uses its proprietary artificial intelligence-driven platforms to develop novel immunotherapies for the treatment of cancers, bacterial diseases and viral infections.

Covid-19 is playing its part in driving technology take-up. In Germany, for example, research shows that doctors held 1.2 million hours of video consultations during the second quarter of 2020, up from just 583 hours in the same period of 2019. In the care home sector, several small independents are vying with Facebook to provide access to digital communications portals that allow residents to stay in touch with their loved ones.

New technologies are also being deployed at pace in healthcare business's back offices, boosting productivity, cost-effectiveness and communications. Such tools are particularly valuable to the growing number of platform businesses, underpinning streamlined operating processes that can be easily scaled.

Data and analytics is another area in focus. The UK scientific information business Dotmatics, for example, last year acquired BioBright of the US, which works with scientists to automate data collection, augmenting its "smart laboratory" services.

Tech-enabled healthcare businesses represent an increasingly attractive investment proposition, with high levels of demand for both providers of technology and those making the most effective use of the tools available. Such businesses' use of technology may provide the key to unlocking more rapid growth, or it may be vital in driving efficiency and agility; either way, these tools offer a route to enhanced returns, justifying premium valuations during the deal process.

JUSTIN CROWTHER
PARTNER, UK

> The world has never been so engaged with healthcare as it is now, from how medicines are made and the application of technology to how we care for the vulnerable and elderly. The resilience of many healthcare businesses during the pandemic is attracting significant interest from financial investors and strategic acquirers looking to gain technology, expertise, scale and operating efficiencies. We are in a supportive environment for business owners and management teams of high-quality assets who are keen to go to market.

CASE STUDY

Cross-border sale to leading strategic acquirer

Aposan is one of the most recent M&A deals in the fast-growing pharmaceutical homecare sector

APOSAN is the leading specialized homecare provider in the field of outpatient parenteral antibiotic therapy, one of the fastest growing segments in the German homecare market, as well as parenteral & enteral nutrition and ophthalmic injectables. Founded in 1991 and headquartered in Cologne, APOSAN serves over 15,000 patients per year.

Deal background

After advising IK Investment Partners (IK) on its acquisition of APOSAN in 2016, Alantra stayed closed to both IK and the business. With IK's support, APOSAN continued its successful growth strategy by rolling out its offering and new treatment areas to a growing patient base while investing significantly in its production capacity expansion, sales force and homecare specialists. At the start of 2020, IK decided it was the right time to exit and we were asked to advise them on selling the business.

How we achieved the right solution

Just as the sale process was starting in March, it was put on hold due to Covid-19. During this period, we continued to prepare for all aspects of the deal process, including valuation and due diligence, to ensure we could deliver a transaction swiftly and with little disruption to APOSAN once the process resumed. APOSAN continued to trade well through the pandemic.

As a highly regarded player in its sector, we knew that APOSAN would attract a high level of interest from both strategic buyers and private equity investors. One of those buyers was Santé Cie, which is backed by Ardian. Established in 2016, Santé Cie is the third largest homecare provider in France. The company has over 1,700 employees across 80 agencies supporting over 160,000 homecare patients.

The acquisition of APOSAN supports Santé Cie's international growth strategy. Our deep understanding of the business combined with our knowledge of the European healthcare market and strong relationships with the key strategic and financial players meant we recognised that Santé Cie would be a strong partner for APOSAN and support the next stage its growth. The strength of Santé Cie's bid combined with our earlier preparations enabled us to complete the transaction in just three weeks and the deal achieved a great outcome for all shareholders.

"APOSAN has achieved strong growth over the past years. We now look forward to working with Santé Cie to further build on this success. We would like to thank the ALANTRA team for their strong support which enabled the management team to navigate through this accelerated sales process."

RAINER SCHMITZ,
CEO of APOSAN

CHRISTOPHER JOBST
MANAGING DIRECTOR, ALANTRA

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Through the support of IK Investment Partners, a high quality, scalable business with strong growth prospects has been created. This made APOSAN particularly attractive to strategic acquirers and investors alike. Santé Cie understands the fast-growing specialist homecare well and, as such, is a natural partner for the APOSAN team.

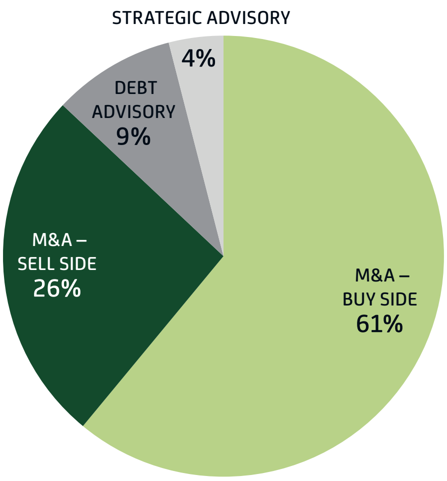
Alantra Global Healthcare team

Alantra's Global Healthcare team of over 30 dedicated professionals have completed more than 100 transactions in the last five years. Activity is focused on Healthcare Services, Consumer Health & OTC, Pharma & Life Sciences, and MedTech. The team advises business owners, management teams and financial investors throughout the investment lifecycle to help them create and realise value. This includes providing strategic advisory solutions for M&A transactions, raising private and public equity and debt capital.

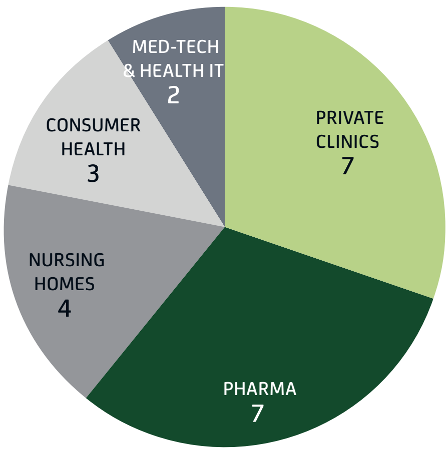
Activity in 2020

23 DEALS	€7.2bn COMBINED VALUE
30% CROSS-BORDER	€358m AVERAGE DEAL SIZE

DEALS BY TYPE



DEALS BY SUB-SECTOR



2020 Healthcare transactions

Pharmaceuticals

- 2020 — Bridgepoint — Buy-side advisory — PharmaZell Group
- 2020 — ferrer — Debt financing — European Investment Bank, BBVA, CaixaBank
- 2020 — Optimus Holding Ltd — Buy-side advisory — OM Pharma, Vifor Pharma
- 2020 — IK Investment Partners, APOSAN — Sell-side advisory — ARDIAN, Santé Cie
- 2020 — 90'ten — Sell-side advisory — Envision Pharma Group
- 2020 — Investindustrial — Buy-side advisory — OFI, Alto Partners SGR

Pharmaceuticals

- 2020 — Bridgepoint — Buy-side advisory — LDC, Fishawack Health

Private clinics

- 2020 — Le Noble Age Groupe — Buy-side advisory — Groupe Clinique Développement
- 2020 — Korian — Buy-side advisory — 5Santé
- 2020 — Korian — Buy-side advisory — Inicea
- 2020 — Trispan, sk:n — Debt financing — adonia medical group ltd
- 2020 — Trispan, sk:n — Buy-side advisory — The MOLE Clinic

Private clinics

- 2020 — ELSAN — Buy-side advisory — Groupe C2S, eurazeo
- 2020 — g.en.e.r.a. — Sell-side advisory — Investindustrial

Nursing homes

- 2020 — EQT — Buy-side advisory — IK Investment Partners, Colisée
- 2020 — Amundi, Société Générale Capital Partenaires — Buy-side advisory — Vivalto Vie
- 2020 — iSquared Capital, Domidep — Buy-side advisory — Römergarten Senioren-Residenzen GmbH
- 2020 — Philogeris Résidences — Sale and leaseback — Pierval Santé

MedTech

- 2020 — ARDIAN, Dedalus — Strategic advisory — AGFA HealthCare
- 2020 — bactosus, pharmaxo, Microgenetics — Buy-side advisory — Event Store

Consumer health

- 2020 — Chr. Hansen — Buy-side advisory — UAS Labs
- 2020 — Abénex, Laboratoire Lescuyer — Sell-side advisory — Lehning Laboratoires

Alantra Global Healthcare team

Franck Noat
Managing Partner
franck.noat@alantra.com

Guillermo Arbolí
Global Head of Healthcare
guillermo.arboli@alantra.com

Marcello Rizzo
Managing Partner
marcello.rizzo@alantra.com

Christian Barrot
Managing Director
christian.barrot@alantra.com

Jonas Bauréus
Managing Partner
jonas.baureus@alantra.com

Anthony Harrington
Partner
anthony.harrington@alantra.com

Fabrice Scheer
Managing Partner
fabrice.scheer@alantra.com

Justin Crowther
Partner
justin.crowther@alantra.com

Christopher Jobst
Managing Director
christopher.jobst@alantra.com

Joseph Downing
Partner & Managing Director
joseph.downing@alantra.com

Sebastian Hougaard
Managing Partner
sebastian.hougaard@alantra.com

Wim Goossens
Managing Director
wim.goossens@alantra.com

Gianni Casanova
Partner
gianni.casanova@alantra.com

ALANTRA

POSSIBILITY IS IN THE ASCENT

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France
Germany
Greece
Ireland
Italy
Latin America
Netherlands
Nordics
Portugal
Spain
Switzerland
United Kingdom
United States

Alantra is a global investment banking, credit portfolio advisory and alternative asset management firm focusing on the mid-market with offices across Europe, the US, Latin America and Asia.