



INDUSTRY UPDATE

QUARTER 3
YEAR 2021

Healthcare/Care Homes

Underpinned by an ageing population and the current NHS patient backlog, there is significant pressure on the UK's public healthcare system.

These factors are expected to drive future growth opportunities and M&A activity for service providers in both traditional and alternative healthcare markets.





Overview

With COVID-19 having impacted all aspects of life, the UK healthcare industry has consistently been in the spotlight over the past 18 months through unprecedented challenges that have and will continue to create opportunities and drive M&A activity.

Given the ageing population, increasing influence of technology, and growing demand for home care, there are significant growth opportunities on which both trade and financial dealmakers can capitalise.

Although healthcare covers a wide array of subsectors, this report will focus on healthcare services and care homes, offering two contrasting yet parallel perspectives of the ever-evolving healthcare industry.

Market Structure

The healthcare sector is broad, consisting of businesses that generate, commercialise, and provide goods and services used for maintaining and recovering health.

Although much of UK healthcare is publicly funded, the private sector forms an integral part of the country's healthcare provision. The infrastructure of the NHS has always been composed of both private and public enterprises, with GPs, dentists, pharmacies, and other stakeholders operating as private businesses.

Healthcare Services

Most UK health services are organised locally, with general practitioners (GPs) providing initial consultation, care, and treatment as a first point of contact for patients. Patients can be subsequently referred to secondary service providers such as medical specialists and hospitals, where appropriate.

Demand for industry services is growing significantly due to the UK's ageing population, as health care requirements tend to increase with age, particularly with medical issues such as obesity and diabetes.

According to the ONS, the median age of the UK population was 40 years in 2019, with 12 million people aged 65 and above. The ageing population required additional healthcare spending and puts additional pressure on industry operators, all of which is against a backdrop of ever-increasing pressure on NHS budgets.

Combined with pressure from managing the spread of COVID-19, there is a significant NHS backlog of over five million people waiting for routine healthcare operations and procedures. It is expected that this will drive growth in alternative healthcare provision channels that will bridge the demand-supply gap, most notably the private healthcare, home healthcare, and healthtech markets. Growth in these markets is expected to drive future M&A activity and financial sponsor investments as healthcare service providers compete for service contracts and market share.

Care Homes

Operators within the care home industry provide residential and intensive nursing care for elderly and/or disabled people.

With COVID-19 posing the greatest risk to people over the age of 80, the elderly residential care sector has also been in the spotlight. A survey by Knight Frank reported an 8.5% decline in occupancy rates following the first wave of COVID-19, although it stabilised quickly.

It is expected that care homes will remain attractive from both a real estate investment and business acquisition perspective. Research by Knight Frank found most care homes only experienced a single digit fall in occupancy during the pandemic, a moderate decrease compared to other sectors. There also remains a long-term need for care homes given the UK's ageing population.

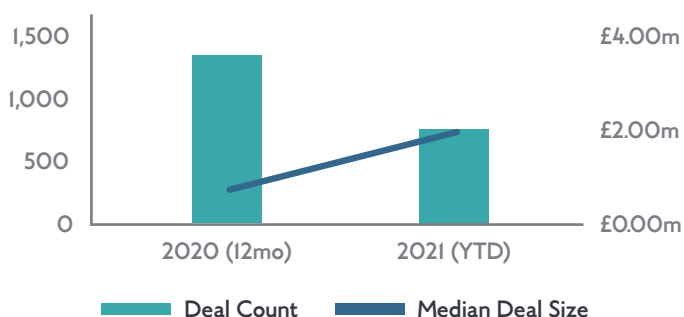
M&A Activity

An Active Market with Bigger Deals

With 1,300 completed healthcare transactions, 2020 was the UK's most active ever year for healthcare deals.

Having recorded 807 completed transactions in the first eight months of this year, UK healthcare continues to be a highly active market in 2021. The successful COVID-19 vaccine rollout and gradual opening of the economy have helped enable a clear increase in investor confidence, with a median reported deal value of £2.02m, the highest recorded median since 2008.

UK Healthcare Deals



Healthcare Services M&A

Market analysis of UK M&A activity in the healthcare services sector reveals an active transactional environment with over 260 deals completed in the year to-date.

i. Financial investors have taken an active interest in healthcare service providers, both as direct investments and bolt-on acquisitions for portfolio companies:

Deal Date	Company	Buyer	Deal Size (£m)
18-Jul-21	Mologic	Soros Economic Development Fund, Bill & Melinda Gates Foundation	30.00
03-Mar-21	Fortius Clinic	Affidea (via Waypoint Capital)	65.00
08-Jan-21	Helios Medical Communications	NorthEdge Capital	57.20
01-Jan-21	Vanguard Healthcare Solutions	iCON Infrastructure	Undisclosed

ii. Consolidation has been a longstanding trend within the healthcare sector, and this continues to be reflected in transactions used to scale or reinforce a company's position in the private healthcare markets:

Deal Date	Company	Buyer	Deal Size (£m)
13-Aug-21	The Birth Company	HCA Healthcare	Undisclosed
05-Jul-21	Great Glen Pharmacy	M&D Green Group	Undisclosed
10-Jun-21	Healthwork	Marlowe	17.20
02-Jun-21	Alliance Healthcare	Amerisource Bergen	6,500.00

iii. Health technology businesses, ranging from machine learning genetic compatibility systems to diagnostic technologies and SaaS patient-management platforms have attracted extensive investment from venture capital and private equity investors:

Deal Date	Company	Investor	Deal Size (£m)
11-Aug-21	Elemental Software	Servelec (via Montagu Private Equity)	Undisclosed
06-Jul-21	Evergreen Life	Undisclosed	7.86
09-Apr-21	Mendelian	Crista Galli Ventures	0.77
31-Mar-21	Biofortuna	Undisclosed	0.53
15-Jan-21	Diagnostic Healthcare	G Square Healthcare Private Equity	Undisclosed

Deal Date	Company	Buyer	Deal Size (£m)
09-Mar-21	Inspiration Care	Choice Care Group (via iCON Infrastructure)	Undisclosed
03-Mar-21	Teapot Home Care	Carewatch Care Services (via BGF)	Undisclosed
02-Mar-21	Eclipse Homecare	City and County Healthcare Group (via Investec et al.)	Undisclosed
01-Mar-21	MC Care Services	City and County Healthcare Group (via Investec et al.)	Undisclosed

Care Home M&A

Analysis of care home M&A in the UK reveals an active transactional environment, with over 50 deals completed during the first eight months of 2021.

i. Care home businesses have been highly attractive targets for private equity bolt-on acquisitions:

ii. There has been considerable market consolidation amongst care home service providers:

Deal Date	Company	Buyer	Deal Size (£m)
14-Jul-21	Flightcare	We Care Group	Undisclosed
09-Jul-21	Clarence House	Southey Care Dorset	Undisclosed
03-Feb-21	Carers at Home	Wynayabbie	Undisclosed
01-Feb-21	Care 24-7	Cpl Resources	Undisclosed





iii. With increased demand for home-based healthcare, venture investors have actively deployed capital into technology-oriented health businesses presenting solutions that enable the delivery of care in the home:

Deal Date	Company	Investor	Deal Size (£m)
09-Aug-21	Mirthy	Ascension Ventures, Ada Ventures, Redrice Ventures	0.80
08-Jun-21	Lifted	Fuel Ventures	4.54
01-Apr-21	Béa Fertility	Calm/Storm Ventures	0.80
15-Feb-21	Bia Care	Atomico, Tiny VC, Jamet Ventures	0.45

Outlook

Underpinned by the UK's ageing population and the current NHS patient backlog, there is a strong level of demand for healthcare services above that supplied by traditional publicly funded service providers.

Demand for care home services is also expected to grow. According to projections from the Office for National Statistics, the number of people aged 85 and over will have nearly doubled by 2043. In light of this, care homes are expected to continue being attractive real estate-backed investment targets, with growth opportunities emerging due to the UK's ageing population.

Increased funding as part of the NHS Five Year Forward View plan will somewhat support the industry, with 50,000 new nurses and 6,000 GPs expected to provide 50 million additional GP appointments annually by 2024. However, it is expected that there will be significant market growth in the private healthcare, home healthcare, and healthtech markets. Notably, many private healthcare providers have signed a four-year deal with NHS England worth up to £10bn to help clear the NHS backlog.

With patients increasingly shifting towards alternative channels of healthcare provision, significant continued M&A activity is expected amongst healthcare service providers, driven by firms seeking to consolidate and expand their service capabilities.



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