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INSIDE

HEALTHCARE REPORT 2023

LEADER *Taku Dzimwasha*

Welcome

Amid macroeconomic turmoil, healthcare is an island of stability. That is the consensus from most private equity market participants that *Real Deals* spoke to for this special healthcare report.

Despite an overall dip in European private equity deal numbers, certain sub-sectors within healthcare, such as biopharma, continue to perform well and have even seen an uptick in transactions.

But, investing in healthcare doesn't come without some risks. GPs deploying in the sector need to be wary of potential regulatory changes, particularly as governments continue to grapple with rising healthcare costs. There is also always a degree of uncertainty when it comes to clinical trials and drug approvals, which can impact the success of investments in biopharma.

Overall, the healthcare sector remains an attractive option for private equity investors, particularly those that are able to navigate the risks and capitalise on the opportunities within the space.

As we continue to navigate these uncertain times, it is reassuring to know that healthcare is a reliable source of stability and growth in the market.

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EUROPEAN HEALTHCARE ON THE MEND

As private equity continues to make inroads in the healthcare sector despite challenging macro conditions, *Taku Dzimwasha* talks to key players in the market

Following a near record-breaking first half of 2022, the second half of last year saw European private equity healthcare M&A activity plunge, according to Bain's *Global Healthcare Private Equity and M&A Report*.

The slowdown was caused by a cocktail of macro issues including geopolitical uncertainty, rising inflation, tight credit markets and labour force shortages, the report says.

Overall European buyout volume in the first half of 2022 kept pace with the record numbers seen in 2021, with total disclosed deals amounting to $25.3bn during the period.

In contrast, there were fewer disclosed healthcare deals in the second half of 2022, according to the report, which translated to a total deal value of $3bn.

Those headline figures disguise the underlying resilience of some healthcare sub-sectors, however, says Franz-Robert Klingan, managing partner at Bain, one of the authors of the report.

"There has been a slowdown in activity caused by a multitude of reasons, including macro challenges. However, some sub-sectors have proven to be resilient, like biopharma and biopharma services – and retail health enjoyed a strong 2022," Klingan says.

GPs have continued to invest in healthcare sub-sectors such as biopharma services, medtech services, retail health and healthcare IT. These sectors continue to be in relatively high demand in view of the digitalisation of healthcare, continued outsourcing and distributed provision of care trends, according to Klingan.

Amar Shah, partner within the healthcare and life science M&A advisory team at Deloitte, agrees.

"Within the pharma, medtech and digital healthcare sub-sectors, we've actually seen a growth in activity," he says. "Covid created a situation where people were looking for an alternative solution to in-person medical interaction, so there was a huge uptake in technology and digital solutions. These technologies were already around but Covid was the accelerant."

According to Shah, private equity is able to leverage its networks to bring radical changes to healthcare businesses because they can tap into the expertise they have not just in healthcare, but software, technology and other sectors to help build the healthcare companies they acquire into efficient and modern businesses.

Focusing on the mid-market healthcare space where the most deals occurred, the deal pipeline remained strong last year.

The healthcare sector is regularly called 'recession proof' because of its core fundamentals. Some of the key drivers for the healthcare sector, particularly in life sciences, are an ageing population and the fact there are many illnesses that have yet to be cured, especially among the elderly population. These drivers have boosted mid-market healthcare dealflow in the space, according to Alan MacKay, managing partner and co-founder at GHO Capital Partners.

He says: "At GHO, we receive 200 to 300 projects a year. Over 100 of those are within the mandate of our fund, and we actively pursue the very best two or three deals, so there is plenty of capacity in the market."

Sanjay Panchal, partner at Livingbridge, agrees: "The fundamental driver of healthcare investment is that market demand is greater than supply. The question is: who is going to make up the difference? That's where PE comes into play. PE can play an important role in the sector by doing the things that we do best, such as creating efficiencies, building businesses, etc."

Exit options left

While the healthcare deal pipeline is strong within the mid-market bracket, executing deals remains a challenge. Also, in terms of exits, the public markets are all but closed, adding a level of complexity to private equity firms looking to sell assets. However, most mid-market GPs that invest in healthcare have other options when it comes to realising an exit, according to Paul Tomasic, head of European Healthcare at Houlihan Lokey.

"The IPO markets have rarely been a key driver of the exit dynamic, particularly for mid-market private equity," he says. "In that range, private equity firms grow the businesses and either sell them to a strategic or a larger PE in a secondary or tertiary buyout."

GPs are getting around the issue of value when exiting because larger funds are still raising, therefore there is still plenty of dry powder available, he adds.

Additionally, healthcare is also seeing other types of capital investments in the sector. For example, impact funds are becoming active in the space, and infrastructure funds are also looking. One such deal was EQT Infrastructure-backed Evidia buying 4ways, a UK and European tele-diagnostic company, from ECI Partners, Tomasic highlights.

Also, there is Middle Eastern money coming in – for example Mubadala-backed M42 buying Nordic dialysis clinic chain Diaverum.

Serving 'big pharma'

One of the most active sub-sectors in healthcare is the pharmaceutical (pharma) industry, dominated by so-called 'big pharma', which includes the likes of AstraZeneca and Pfizer. However, private equity firms have moved into the sub-sector, sometimes even competing with those listed strategic pharma companies.

The industry appeals to private equity because many of the businesses within the space have seen lots of organic growth, according to Ben Long, partner and head of healthcare at Inflexion.

"We've seen a number of private equity firms outbidding strategic pharma companies in recent months," he says. "Previously, the model would have been to acquire a pharma company and use the cashflow to buy more companies and assets, but that model has been upended. Now, private equity firms are able to create new platforms that have good levels of organic growth themselves."

Examples of some notable pharmaceutical firms that are backed by private equity and which have strong organic growth include Neuraxpharm, the Permira-backed company focused on the treatment of CNS disorders, which was acquired in 2020; and Karo Pharma Aktiebolag (Karo Pharma), the EQT-backed Swedish firm initially supported in 2018.

More recently, there have been several notable deals in the space, including The Carlyle Group acquiring Theramex, a London-based firm that produces women's health products; TPG Partners acquiring DOC Generici, a manufacturer of generic pharmaceuticals in Italy; and Ardian investing in Biofarma, an Italian drug firm.

Within the pharma space, pharma services – which includes procurement, storage, and distribution of pharmaceuticals, as well as outsourcing companies that provide clinical research and development services to pharma and biotech companies – has developed into one of the most attractive sub-sectors within healthcare.

The Covid-19 pandemic led to an influx of both traditional business services investors and private equity investors entering the pharma services industry.

In particular, biopharma and related services accounted for about 70% of disclosed private equity deal value in 2022, according to the Bain report.

But the Covid-19 pandemic was not the only catalyst for private equity interest in the pharma services space. The industry has been performing well over a long period of time, according to Shah.

He says: "Covid wasn't the only driver of PE interest in pharma services. Prior to Covid, pharma services were growing by 20% organically and cash generation was strong. PE interest in the space was a natural step because of those figures and because the sector is fragmented, with lots of small businesses that enable buy-and-build. Also, there is an easier international play to be made because a lot of your customers are already international."

Inflexion's Long seconds that view. But investing in the space requires private equity firms to focus on a particular niche rather than dealmaking in an opportunistic manner.

"The pharma services industry is particularly attractive because in general, it has strong structural growth," Long says. "However, our view is that you have to find the right niche. An example of this is our recent investment in Proteros Biostructures GmbH, a Germany-based, founder-led contract research organisation focused on early-stage drug discovery."

Retail health and services

The majority of the provider and related services sector in Europe is composed of retail health deals, followed by healthcare information technology and other services, according to the Bain report.

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> ***Amar Shah, Deloitte***

The retail health sector was the most active in terms of volume during 2022.

"Retail health returns over the past decade have been driven by revenue growth, and roll-up activity is a proven way to buy growth," the report states. One such consolidation play in the space was Innova Capital acquiring Polish dental clinics Medicadent and Dentaurus in 2022.

Meanwhile, healthcare services have experienced a dropoff in activity post-Covid. The sub-sector has been hampered by issues with labour shortages, wage inflation and questions about overall funding models.

However, there has been some activity in certain niches in space, showing that there is some resilience to the sub-sector, says David Jones, partner in the healthcare and life sciences corporate finance advisory practice at Deloitte.

He says: "We have seen some activity in the elderly care home, mental health and learning disabilities sub-sectors but at a much-reduced level. There's a lot more activity around real estate and people light models such as occupational health, IVF clinics, and ophthalmology. "

Healthcare specialists

Within the private equity healthcare space, there is a host of specialist GPs and VCs that focus solely on healthcare. Firms such as GHO, Forbion, ArchiMed, to name a few. Those firms have been able to establish a foothold in the healthcare mid-market space, according to GHO's Mackay.

He says: "Fifteen years ago, most of the mid-market healthcare deals in Europe were done by the healthcare groups of 3i, which I used to lead, Bridgepoint and HG when it had a big healthcare team, plus global players such as Warburg Pincus. Those houses for their own reasons drifted away from a sector focus into a multi-tier focus, so the pan-European generalists left a little bit of a vacuum, which GHO and others stepped into. While it is more difficult for new entrants now, I think there's still plenty of room in the market."

But what are the overall benefits of being a specialist compared to a generalist? GHO's Mackay believes that being immersed in the sector gives a fund a competitive advantage.

He says: "There really is a deal-by-deal advantage in being immersed in that sector, because the management team you're talking to has been immersed in the same sector throughout their careers. Therefore, you get a peer-to-peer exchange, rather than a 'we're the finance guys and you're the industry guys' dynamic, which can hinder that relationship."

However, Livingbridge's Panchal has an alternative view.

He contends: "We've always looked to understand the specific nuances of investing in healthcare to shape our investment strategy rather than apply a general investing philosophy. For us, it's always been about a very high bar on quality, clinical governance, and outcomes measurement alongside a focus on having the best employee proposition and a culture of quality and transparency. "

LPs flocking to healthcare

Despite a tough fundraising environment last year and the beginning of this year, healthcare has proved its resilience with the number of LPs still looking to allocate to healthcare-focused funds.

According to the Rede Liquidity Index 2H 2022 Report, 30% of investors canvassed planned to increase allocations to healthcare-focused funds. "As there are fewer dedicated healthcare-focused GPs than there are GPs focused on other sectors such as technology, Rede expects quality, healthcare-focused GPs to achieve strong fundraising results over the coming months," the report says.

This opinion is prescient as several healthcare GPs and VCs raised bumper funds this year, including Forbion amassing €1.35bn across two funds, which represents the largest fundraising for the firm to date; and Gilde Healthcare raising €600m for its Venture & Growth VI fund, which is also the firm's largest to date.

Speaking to *Real Deals* on the announcement of the fundraise, Dirk Kersten, general partner who heads the Growth Opportunities Fund at Forbion, says: "LPs' appetite for healthcare-focused strategies is still strong. We've been pretty successful in raising new capital funds, with our latest growth fund closing late last year above the target size on €600m, and we're about to close our latest venture fund, which shows the appetite is still strong."

Kersten believes that the stability and resilience of the healthcare sector as a whole make it an attractive proposition for LPs.

He says: "LPs look for consistency. During Covid, there were some managers that saw paper values that were going through the roof. But in the end, it's all about consistency and DPIs. Over the last 15 years, our firm has had a consistent top-quartile track record, which has high DPIs. When we sell a company to pharma, we get cash back, which is different to when you list a company on the Nasdaq, where you're holding paper that's illiquid. So if the value goes sky high, but you can't sell it at a price, then you have a problem."

Despite the obvious LP appetite for healthcare strategy, GPs still need to be conscious of the inherent risks associated with healthcare investing.

Regulations

The biggest risk to mid-market private equity investment is regulations. Not healthcare regulations or rules, which are the basis for providing healthcare and are in place to protect patients, but administrative regulation.

"Administrative regulations in Europe tend to have political considerations and are more restrictive than in the US," Bain's Klingan suggests. This view is echoed by other market participants.

"We are seeing regulatory considerations weighing more on investment cases than we have over the last several years," opines Houlihan Lokey's Paul Tomasic. "For example, in Germany, there has been quite a lot of noise concerning legislation for consolidating healthcare services businesses around MVZ, which has rattled the market for buy-and-builds in that country. Meanwhile, in the UK, there's some uncertainty arising due to the upcoming general election and a potential change in government, and what that'll mean for certain businesses."

In Germany, MVZs (Medizinische Versorgungszentrens) are outpatient medical practices that are owned and operated by a group of healthcare professionals, such as doctors, dentists, or therapists. They have in the past attracted private equity investment because they offer opportunities for consolidation, cost savings and improved efficiency.

However, there have been concerns in Germany about the impact of private equity ownership on healthcare quality and access, and the financial sustainability of MVZs in the long term.

Meanwhile, in the UK, the centre-left Labour Party is at the time of going to press ahead in most polls and the next general election in the country will be held no later than 28 January 2025. It is likely therefore that regulations surrounding healthcare in the UK will change.

Meanwhile, across the European Union, the Medical Device Regulation, which governs the safety and performance of medical devices, including in-vitro diagnostic medical devices, sold within the EU, introduced a more stringent and comprehensive regulatory framework for medical devices, including increased scrutiny of clinical data, post-market surveillance and traceability. This has a knock-on effect of increasing the cost and complexity of bringing new medical devices to market.

"If I went back 10 years ago, the regulatory environment was more favourable in Europe for medtech companies compared to the US," says Tomasic. "So, product approvals would happen more readily first in Europe and then they would go to the US. Now, with the regulatory environment in Europe being challenging for product approvals, companies tend to go to the US first."

Regulations also weigh heavily in the healthcare services sector. This is the main concern for funds, Deloitte's Jones says: "It's not for the faint-hearted. In the UK, you're dealing with so many different regulators depending on the type of service such as Ofsted and CQC. The CMA is also looking at parts of the market where we have seen significant consolidation, such as children services, dental and veterinary."

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>
> ***David Jones, Deloitte***

A healthier future

Despite the regulatory risk, healthcare continues to be an attractive space for private equity.

Innovation in biopharma not only promises to mitigate symptoms of long-term incurable illnesses, but it could actually cure patients.

GHO's Mackay says: "In biopharma, we're seeing a revolution in biologics, also known as large molecules; in devices we're seeing a revolution in both the miniaturisation and the connectivity to the central nervous system using electrical connectivity; and in diagnostics we're starting to see personalised medicine, where diagnostics are able to accurately predict the right combinations of medicine."

Despite some of the regulatory challenges, the outlook for private equity investment in healthcare remains positive.

"The market remains very underpenetrated and private equity firms will continue to be highly active in it," predicts Inflexion's Long. "Private equity as a concept is quite new within the sector so there is a lot of unfamiliarity among entrepreneurs regarding what we do and how we can add value."

While there are still plenty of opportunities for investment in healthcare and life sciences, you need to look into the niches within the niches, according to Deloitte's Jones.

He says: " I'm bullish that there is still huge untapped opportunities which will unlock as our healthcare system evolves and reforms. Opportunities in healthcare, particularly outsourced services, which are tech-enabled, offer a high-quality service at a fair price will continue to be attractive, driving valuations."

Healthtech: the new frontier

Christoph Kausch, managing partner at MTIP, speaks to *Real Deals* about the opportunities and challenges of investing in healthtech and how to scale up businesses within the sub-sector

Healthcare was one of the key investment verticals that benefited from tailwinds in the wake of the Covid-19 pandemic. What is the picture three years on from that in terms of opportunities and, therefore, dealflow?
Christoph Kausch: Fuelled by Covid-19, digital health investments around the world hit an all-time high of $59.6bn in funding in 2021.

The pandemic has helped highlight the importance of digital health, accelerated digitalisation and changed patient expectations about care delivery, with models like telemedicine becoming more commonplace and trust in digital solutions increasing.

Healthcare providers were faced with an urgency to come up with innovative solutions in digital healthcare. Despite the rapid drop in funding and valuations in 2022, with players like Teledoc having seen up to 90% decline in valuations on the listed stock market, Covid-19 sparked the move to rebuild healthcare in a more affordable, accessible and efficient way that can't be undone. It has paved, and will continue to pave, the way for healthtech startups to become more visible and noticed by the public and potential investors.

Since our inception, dealflow increases year after year have generally been consistent. At the moment, however, the market environment is obviously quite uncertain. Most companies have tried to avoid fundraising if they can, as valuations plateau at best and drastically decline at worst, especially for direct-to-customer consumer businesses.

As a result, we've been getting increased dealflow from companies that have not been able to proceed into the next 12 to 18 months without any additional financing. From an investor perspective, it's a good time to seek investment opportunities, but at the same time it's understandable that investors are extra cautious.

What opportunities do you see in healthtech, especially in comparison with more generalist healthcare strategies?
Kausch: At MTIP, we recognise the complexity of the healthcare ecosystem. Investing in healthtech requires, firstly, a specific sector expertise at the intersection of healthcare and tech. For us, everything in which IT and digital solutions are applied to the old-fashioned healthcare industry is basically in scope. It can even go as far as cybersecurity for hospitals. With that said, most of the deals from our second fund have been in digital solutions for the pharmaceutical industry, as the business need for that industry is enormous. Traditional specialist investors, on the other hand, focus on pharma, biotech, medtech or tech.

Secondly, healthtech investing requires operational experience to support portfolio companies' growth and international market expansion. As an investor with healthtech expertise, we are well connected with key people in our space, which improves our ability to identify opportunities in prospective investments in a more efficient manner. Sharpening our focus builds credibility and trust with the prospective management teams of our portfolio companies.

What is your sweetspot in terms of the types of businesses you like to back?
Kausch: At MTIP, we are committed to investing in the most innovative companies that can revolutionise the global healthcare system while generating top-quartile returns to our investors, by improving health outcomes and reducing medical costs. Our purpose is to empower innovation that improves lives by leveraging key emerging technologies such as artificial intelligence, cloud computing, big data and virtual reality for solutions that improve the accessibility, affordability and quality of care. We do this across digital health products, tech-enabled healthcare services, and connected medical devices.

As a growth equity investor, we focus on bridging the gap between venture and Ebitda+ buyouts, investing at a key inflection point for minimal risk and outsized returns. MTIP invests primarily in scale-up companies that have demonstrated a good product or market fit, significant market traction, as well as a clear pathway to profitability. We have invested in companies with growth rates of an average 60% year on year, with some expanding by even more.

How do you approach value creation? Are the needs of entrepreneurs and management teams in that space different?
Kausch: We believe it is crucial for success to be a hands-on, value-adding impact investor. We do see ourselves as the sparring partner for the executive team and supporting their successful international scale-up without taking over operational roles.

Typically, our active ownership investment approach can be clustered around the following areas:

- Leading the negotiations and driving due diligence
- Having a strong voice on the portfolio company's board to set and agree on the strategic direction
- Guiding the company for international expansion, which can be complemented by buy-and-build strategies
- Providing expertise through our in-house data scientist, medical doctor, biomedical engineers, investment and tech professionals
- Supporting organisational development as well as the selection of C-suite and board-level hires
- Institutionalising the company by strengthening governance, financial reporting and HR
- Being the largest equity shareholder, as we are in all of our Fund II investments.

Next to capital investments, making operational improvements to create value requires deep sector expertise and that's where MTIP comes into play. With each investment, our knowledge of the sector increases and our industry clout gets stronger, so we can also bring this to portfolio companies.

What is a standout example from your portfolio that encapsulates your strategy?
Kausch: All our portfolio companies encapsulate our strategy well, but let's take the

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> *Christoph Kausch, MTIP*

first investment from our second fund: Oviva, a digital platform that simplifies the management of chronic diseases. The company works with dietitians to deliver personalised coaching, nutrition and lifestyle advice to patients living with diabetes and obesity, to empower them to change their eating and lifestyle habits.

I knew the CEO, Kai Eberhardt, since we both worked at McKinsey. At MTIP, we followed the progress of Oviva from the start and once the company established successful operations across Germany, the UK and Switzerland and reached sizable revenues, we decided it was the right time to invest. By summer 2019, the company had treated more than 100,000 patients, and scientifically proved its claim in the market, with customers willing to pay for the product on a recurring basis. Then, in December 2019, we led the $21m series-B financing round and have been the largest shareholder since then.

Following accelerated growth, we concluded an $80m series-C financing round with substantial continued investment from us. I have represented MTIP on the board of directors since the investment, supported by Magdalena Plotczyk from my team, and we remain in close contact with the management team, speaking on a weekly or bi-weekly basis. To date, Oviva has treated more than 400,000 patients and been able to demonstrate consistent growth over the years.

Healthcare investing has significant ramifications when it comes to societal impact. How do you approach ESG as an investor?

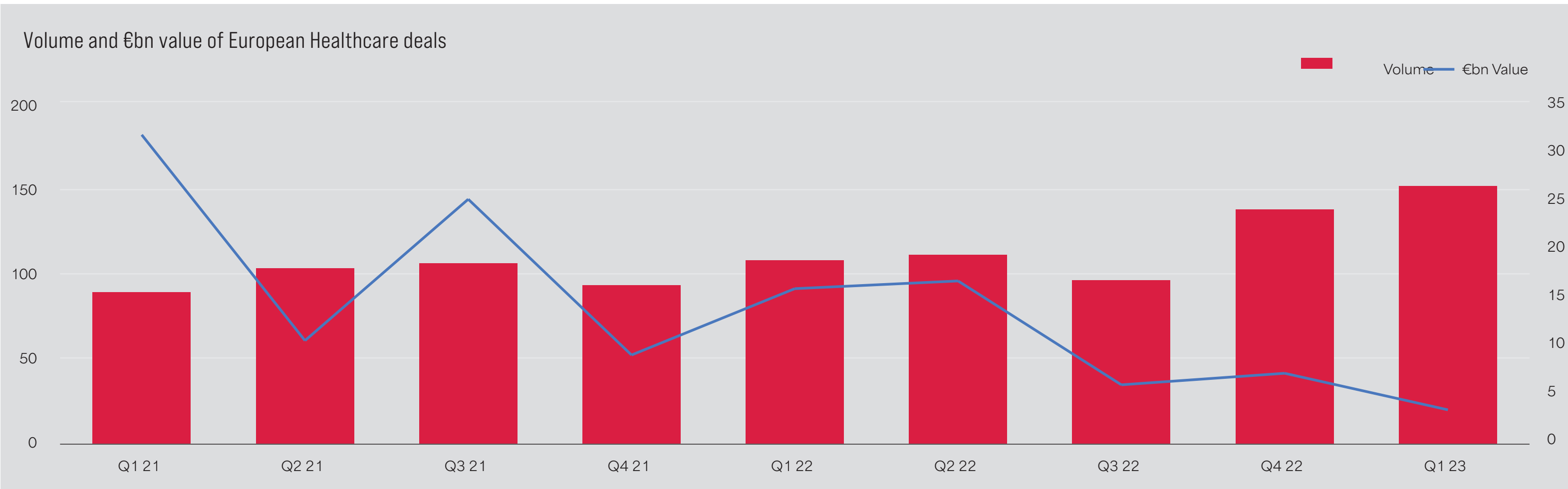
Kausch: MTIP is an impact investor and seeks solutions addressing the world's most pressing challenges in healthcare. Thus, taking ESG aspects into account does not only create value for companies, but also for investors and other stakeholders by tackling risk management as an opportunity to grow and establish added value.

At MTIP, we start by checking whether a company fits our ESG criteria, which it might not if, say, it has suppliers that work with the military industry. If it fits our ambition by providing a solution that creates better accessibility, affordability and quality of healthcare, then we start our due diligence process, which includes a detailed ESG questionnaire that is analysed as part of our investment decision. Of course, we don't expect companies to already have all ESG practices set up at our point of entry. Together with the company, we create a plan of what we need to see in the future and then regularly discuss with the board how it has improved on these dimensions.

We have been signatories to the United Nations Principles for Responsible Investing since 2017 and made it our purpose to adhere to the six principles. We also are proud to be SFDR Article 9 compliant with MTIP Fund II, which is characterised as one of the first 'dark green' funds, with its products targeting sustainable investments. Moreover, we are working with all our portfolio companies to actively align with the United Nations' Sustainable Development Goals (SDG). Of these goals, good health and wellbeing (SDG #3) is our primary focus, but we also seek to incorporate gender equality (SDG #5), industry, innovation and infrastructure (SDG #9), reduced inequalities (SDG #10), and sustainable cities and communities (SDG #11) into our decision making, to create a lasting impact for society.

Healthcare sector deals: a growing pool but smaller fish

As is the prevailing trend throughout the European private equity landscape, dealflow in the healthcare space continues to impress but larger opportunities are dwindling. *Julian Longhurst* reports

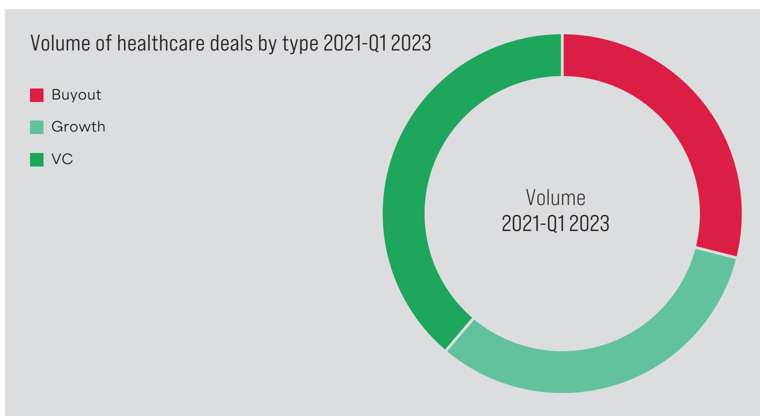


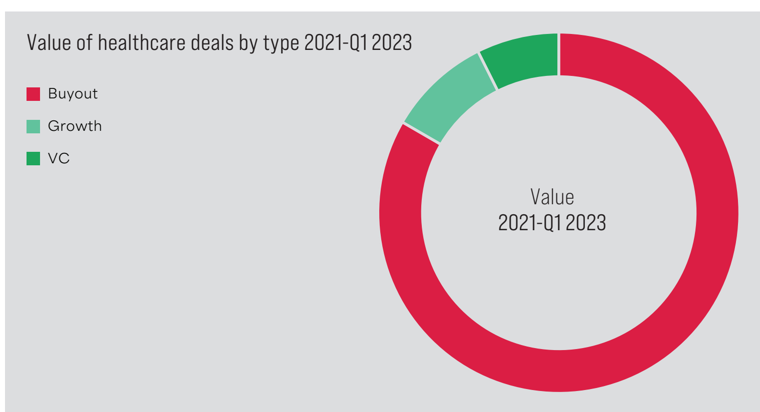
According to the latest data from *Real Deals*' Data Hub, a total of 1,005 investments worth more than €117bn have been recorded involving European healthcare-related businesses between Q2 2021 and the end of Q1 2023. This equates to some 16% of the total dealflow in that timeframe, making it an important component of the overall regional investment landscape. Given the significant drivers of an ageing population on one hand and an increased focus on mental and physical health/wellbeing (especially among younger generations) on the other, the sector will continue to present a strong flow of investment opportunities and be relatively well protected from other economic and geopolitical headwinds.

During the period covered, the quarterly volume of healthcare deals trended slowly but steadily upwards until the final three months of 2022 and first quarter of 2023, though this spike in coverage can be partly explained by increased research capacity in the *Real Deals* data team, which specifically added to the breadth of VC coverage. Stripping out the VC content shows a slight downward trend in dealflow, with the 48 deals recorded in Q1 2023 representing the low point in the whole period.

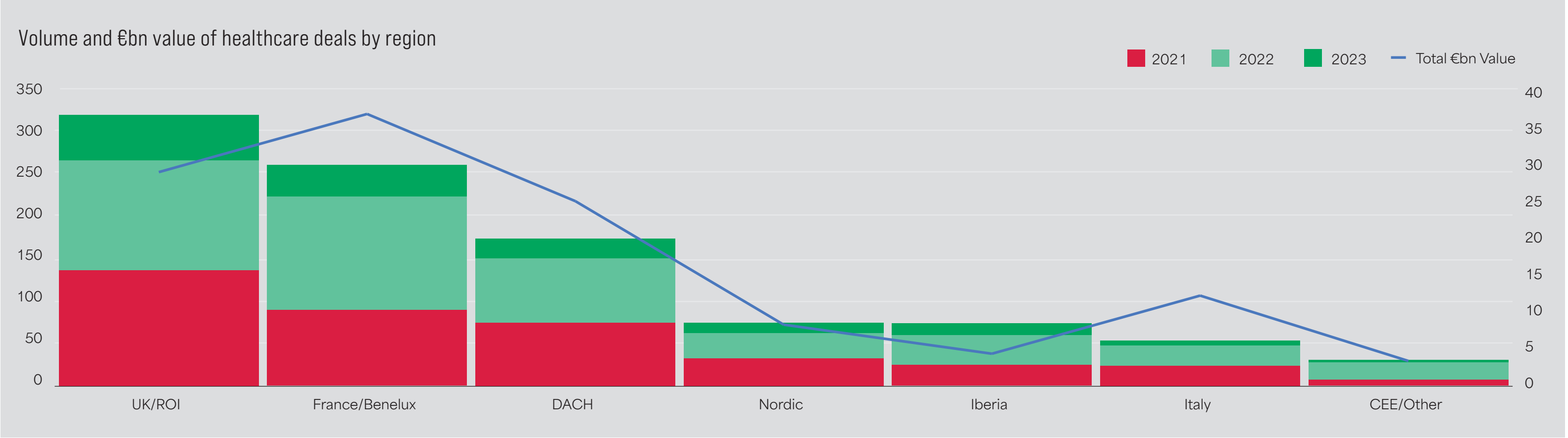
However, the more striking trend is that of overall value, which has plummeted during the nine-quarter period, as the flow of larger healthcare deals has dried up. While it is these deals that tend to drive the quarterly spikes in deal value (Q1 2021 at €31bn and Q3 2021 at €24bn), the average quarterly total has dropped from €18bn in 2021 to €10.5bn in 2022, and the Q1 2023 value sat at just €2.4bn. While this phenomenon is visible across other sectors, it is especially pronounced in the healthcare space: only three €1bn+ deals in the sector have been recorded since the end of H1 2022, compared with the 10 that were seen in Q1 2021 and eight in Q3 2021. Without the buyouts of Neopharmed Gentili (Ardian, NB Renaissance), Spectrum Medical (CVC Capital Partners) and Unither Pharma (GIC, IK Partners), the overall fall in the value of healthcare deals would have been even more profound.

Until interest rate pressure begins to ease and the cost of capital becomes more affordable, it is unlikely that the squeeze on dealflow at the larger end of the market – in the healthcare space or elsewhere – will loosen. On the plus side, a poll at the recent *Real Deals* Healthcare event in London backed up other anecdotal feedback that investment conditions could start to improve as early as H2 2023 and certainly into the first half of 2024.





1. Healthcare activity by European region



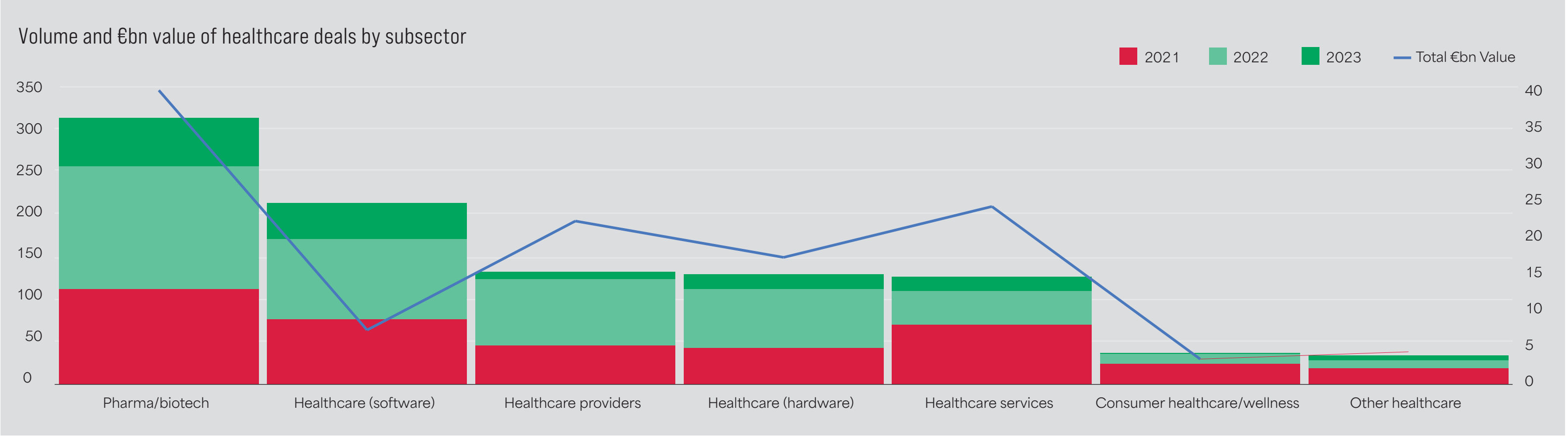
1.1. The UK/ROI is the leading region for healthcare deals in volume terms and although the number of deals recorded fell slightly in 2022, activity levels in Q1 2023 have been robust thanks to VC activity in the space. In value terms the UK/ROI produced €29bn of healthcare deals, with 24 estimated to be worth €250m or more. The standout deals (all in 2021/22) involved IVC Evidensia (EQT, Silverlake), Pharma Intelligence (Warburg Pincus, Mubadala), Advanz Pharma (Nordic Capital) and Theramex (PAI, Carlyle).

1.2. While the number of larger deals in France/Benelux was similar to the UK/ROI, the largest were more significant, resulting in a total value of €37bn – 31.5% of the European total. The three largest alone – the buyouts of Cerba HealthCare (EQT Partners, Public Sector Pension Investment Board), DomusVi (Mérieux Equity Partners et al) and Cooper (CVC) – were valued at a combined €10.9bn. In volume terms, the region saw strong growth in 2022, up from 91 the year before to a Europe-leading 137. The 38 deals recorded in Q1 2023 also represent a strong start to the year.

1.3. Overall, the DACH countries contributed more than 175 healthcare deals in the period. While the region is a European hub for early-stage activity, it has also produced a good supply of larger deals, including 13 worth more than €250m, which has produced a €25bn market value for the period. The three largest – Lonza Specialty Ingredients (Bain Capital, Cinven), CeramTec (BC Partners) and CordenPharma (Astorg) were worth more than €10bn between them.

1.4. Apart from the Nordic market, which saw more than €12bn of healthcare deals, thanks to two large transactions by EQT (Recipharm AB and WS Audiology), the remaining European regions typically produced smaller deals. The Nordic and Iberian markets produced about 75 deals each in the period, with Italy weighing in with 54.

2. Healthcare deals by subsector



2.1. The pharma/biotech subsector is easily the most important area in the healthcare space overall, producing nearly a third of all deals by volume (320) and 34% by value (€40bn). This space produced the lion's share of €1bn+ deals, helped by acquisitions of large pharmaceuticals and speciality chemicals businesses (such as Lonza, Recipharm AB and Cooper).

2.2. Next on the list in volume terms is the subsector focused on healthcare software, which is an increasingly important area. While deals in this space are typically smaller, VC-focused situations, there was strong growth between 2021 and 2022, and a very strong start to 2023 (44 deals in Q1 alone).

2.3. Deals involving healthcare providers and medtech businesses have also shown strong growth in the period, with both almost doubling in 2022, and producing a total of about 135 deals during the whole timeframe. Between them, deals worth almost €40bn were recorded in the period.

2.4. While the number of healthcare services deals (such as diagnostics, data/intelligence and contract research services) dropped in 2022, their overall value (€24bn) was boosted by some large examples (Cerba HealthCare, IMA Group and Pharma Intelligence).

2.5. Although the consumer healthcare/wellness space is likely to remain an area with potential to grow, the current squeeze on consumer spending is likely to have a negative impact on the space for the time being.

Healthcare M&A resilience

Matthew Lee and *James West*, managing directors of healthcare and life sciences at Lincoln International, speak to *Real Deals* about the state of healthcare sector M&A and debt financing activity

By *Jennifer Forrest*

> Only the best companies transacted in the difficult period of Q4
>
> ***Matthew Lee***

What trends have you seen in the last quarter in relation to valuations in the healthcare space?
Matthew Lee: It's early days to get an accurate read on valuations as investors are still finding their landing zone, given inflation and where banks are regarding which sectors they're prepared to lend in, what leverage multiples and at what cost, which all influence valuations, especially for the bigger deals.

Our valuations team completes more than 4,000 valuations per quarter for portfolio companies mainly within credit funds, but also for private equity, including on transactions where they're asked for fairness opinions.

Transaction valuations data suggests that valuations didn't drop materially in Q4 2022, despite debt market travails, but that masks the fact that the number of transactions completed was significantly down.

If you dig deeper, what you're seeing is that only the best companies transacted in the difficult period of Q4, but investors were still willing to pay premium multiples for those assets.

James West: If you see this as supply and demand, the demand is definitely there as investor interest and levels of M&A remain high. However, on the supply side, it depends whether those opportunities are of sufficient quality for the buyers and if sellers have the confidence to take their businesses to market.

Has increased economic uncertainty meant more creativity in M&A processes? Are deals getting done?
Lee: The best quality assets will trade, with a lag in valuation expectations from vendors. Vendors were pitched at a certain value 6-12 months ago, before the market wobble in Q4 last year, meaning the change in market temperature has created a pricing mismatch. Where there is a price mismatch we are having to think creatively about deal structure.

We expect that it will take into H2 to normalise. As a result, there's currently a lower volume of transactions coming through to the market, and more structuring.

Looking positively ahead, there's a lot of money sitting in the wings, waiting to be deployed. All parts of the market are still fundraising, big and small on both equity and debt sides, albeit at a slower pace than before. There'll be additional dry powder building up and once market valuations have stabilised, that will just unlock and deal volumes will accelerate as we saw after the Covid-induced break in investing.

What are the current trends in financing and debt raising for healthcare assets?
West: We've seen a big change over the last six months. Making sure there's the right debt advice and taking the right approach for a transaction is critical. We see that across the board, for both more established, large companies and for the high growth early-stage businesses.

The change in debt pricing, as well as debt availability, does impact the certainty of getting a deal done. We work very closely with our debt advisory colleagues across Lincoln on almost every transaction we work on.

Lee: Inflation in the cost base of a business is a key diligence item for banks and investors as they look at leverage quantum in debt structures, given debt is no longer cheap. In a typical levered debt structure, the cost has gone up materially, by between 4% and 5%. In Q4, we were seeing structures where you were pricing deals off of about 11%, given increases in SONIA rate and margin. The interest increase could take about 25% of your Ebitda in servicing interest alone. It's quite a material change in how much you can leverage a business. We're not seeing the simple multiple of debt being the limiting factor on leverage appetite, but more the cost of servicing the debt and debt service coverage covenant ratios.

Which particular sub-sectors have you seen maintain particular interest for investors?
West: Life sciences is a broad market and in the last couple of years private equity investors have become highly educated, so there's more investment in the space.

Within that, gene therapy has become a really hot sector. Pharmaceuticals have moved from small molecules to large and the next stage is personalised advanced therapy medicines. Looking at the pipeline across pharma, there's only a handful of those that are approved for use, but there's a huge wave of candidates moving through the development pathway.

Businesses that support the supply chain of advanced therapy are attracting significant PE interest.

Lee: People-heavy healthcare services businesses have remained of interest, but the above factors are challenges that have softened prices in some sub-sectors (for example, within social care). We're also seeing more deals coming forward now on the medtech side; we would expect to see that continue to accelerate post-Covid, with these businesses growing strongly as hospital surgical operations continue to recover.

Animal health is now coming back into the spotlight, with a market leader up for sale in the UK, as well as a couple of CMA-led transactions opening the market up for re-entry investment stories.

What is the biggest threat to dealflow or quality assets in healthcare, besides an inflationary environment?
West: There's been a lot of supply chain disruption across the last year and that's affected sub-sectors, such as life sciences. Making sure they've been robust enough has definitely impacted how people have looked at their own businesses, particularly larger conglomerates that operate in either big chunks of that supply chain or those who outsource parts of the supply chain.

Lee: Prior to the recent banking failures in the US and Europe, I would have said the biggest threat to dealflow is probably a too-slow rebasing of valuation expectations by sellers. I would be confident that subject to the recent banking news, this would resolve itself as we get into H2 2023, as debt markets normalise and the picture of interest rate path and peak becomes clearer. ●

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Healthcare investment landscape

Sam Leighton-Smith, director for board, leadership and private equity practices at Compass, discusses today's healthcare investment landscape and reveals how a specialist recruiter can add value

How has Covid-19 changed the healthcare sector?
Covid-19 did not fundamentally change the healthcare sector. However, it did accelerate trends and initiatives that had been forming prior to the pandemic.

We saw the private equity community reverse the view that having a one-customer (ie. the state pay) business was less of a threat and leads to dependable revenue, immune to consumer trends and pandemic-related swings. Some investors are capitalising on the inefficiencies of our national healthcare system and backing businesses operating in outsourced NHS areas, including in extremely competitive markets such as optometry, endoscopy, and mobility. Other investors are entering diagnostics, in particular, those that can produce results in for example Australia.

How important a trend is the rise of telemedicine?
Any tool that gives customers quick access to health professionals is important. As long as quality is maintained, expect the trend to continue. But do not forget older generations who may not be tech-savvy – there is a need for education here that must not be ignored.

What do you see as the best current investment opportunities in healthcare at the moment?
Current hot market spaces include NHS outsourcing, tech-enabled businesses that circumvent people's challenges, and businesses that offer provisions around a virtual ward concept.

Who do you think are the most interesting investors in healthcare?
Inflexion and CapVest work under the radar, picking up high-quality, large-scale acquisitions. CVC is a prolific investor across the globe, with a high proportion of its portfolio in Europe.

What do you think have been some of the most successful healthcare investments of recent years?
One domestic success story is The Binding Site Group, which was sold by Nordic Capital and Five Arrows to Thermo Fisher Scientific in a £2.25bn deal.

BC Partners' sale of Elysium Healthcare to Ramsay Health Care was also a huge success. This carve-out from the Priory business was supported by the Competition and Markets Authority in the interests of creating a competitor in a monopolised market space. The acquisition was shrewd and high-quality, and a regulatory success.

Why is board composition important to the success of healthcare investments?
The board that is assembled post-transaction is critical. Investors ordinarily bring an expectation commercially that requires a level of pace, dynamism and focus on operational quality that typically was not there before. These commercial priorities plus a laser focus on people, retention and upskilling are the four pillars of success.

What recruitment advice do you have for healthcare investors?
First, you need to reach 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 often only realise their value to their current businesses when they give in their notice. Having two options mitigates this risk.

Second, there are certain pitfalls to be aware of. For example, online interviewing connects candidates and interviewers efficiently, but does not test the candidate's commitment to a position. It is easy to move 10 yards to your computer, but far harder to drive for two hours.

Lastly, IQ, EQ and CQ all need to be rigorously assessed equally at all stages of the process. People are the main commodity and lifeblood of healthcare organisations, so the way in which senior managers lead and communicate with their staff is critical. We use extensive referencing, psychological analysis, and commercial evaluation to ensure that candidates are thoroughly tested on IQ, EQ and CQ, specifically with regard to the job in question.

Why should private equity firms use a specialist healthcare recruiter like Compass Executives?
Our industry knowledge is unparalleled. We are completely immersed in our sector, frequently visiting hundreds of healthcare services, so have a granular understanding of their nuances and intricacies. 70% of our shortlisted candidates are out-of-sector, so matching their capabilities with our industry understanding is probably the secret sauce that adds real value to our investor partners. We are adept at testing out-of-sector candidates in the right areas and assessing their drivers for potentially moving into healthcare.

Finally, note that we are now 13 years old, so over two full investment cycles our placements have yielded significant returns to our clients' shareholders.

What are you doing to promote diversity and inclusion in the recruitment process?
We have frequent conversations with leaders in the healthcare sector to explore how we can improve diversity and inclusion, and also leverage these to be a competitive asset – healthcare businesses with diverse leadership are 45% more likely to report growth in market share. In today's tight labour market, it is also worth noting that more than one in three early talent or middle management employees have left their current organisation to join a more inclusive one.

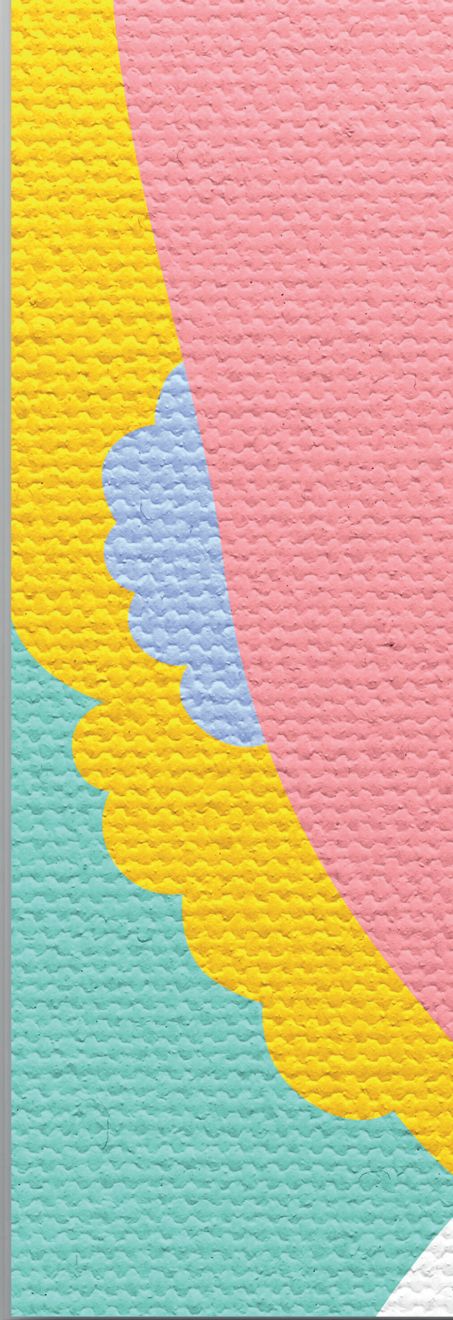
Diversity and inclusion efforts must include a focus on personal attributes (including gender, racial/ethnic background, sexual identity, disability, mental health, cognitive characteristics and class) and on bringing in talent from adjacent consumer-facing industries, which also drives diversity of thinking and promotes innovation.

We suggest healthcare investors should encourage their portfolio companies to track progress on diversity and inclusion.

Other important areas to focus on include pay transparency, and career mentoring and sponsorship. Finally, investors should remember that healthcare businesses that are already diverse should be reminded to continue to pay attention to inclusion.

Pucker up!

PRIVATE EQUITY FALLS FOR MEDICAL AESTHETICS



As healthcare remains the hottest sector attracting private equity investment, GPs are increasingly looking for creative ways to get in on the action. Medical aesthetics is one notable sub-sector that has drawn the eye of healthcare PE investment

By *Jennifer Forrest*

Healthcare has spent the last few years on the podium as one of the most active sectors when it comes to private equity investment. However, a recent boom in medical aesthetics deal-doing is proof that GPs are looking to continue diversifying their approach to healthcare.

Any preconceptions that the sub-sector is exclusively focused on lip fillers and botox can be quashed, as medical aesthetics often assist with remedying low-level injuries, dental healthcare and much more.

The 2022 Medical Aesthetics Global Market Report found that the global medical aesthetics market is predicted to grow in value to $15.63bn in 2026, at a CAGR of 12.3%.

"It's a fast-growing market, both historically and looking to the future," says Kamil Gajdzinski, investment manager at Abris Capital Partners. "That is, of course, a very good sign for private equity."

Gajdzinski's words come after earlier this year, newly launched Omni Partners, a London-based investment management firm, acquired Warrington-based LED phototherapy business Aesthetic Technologies.

"The business operates 75% in the UK – through both B2B and B2C – and 25% from export. Our value creation plans include bringing in a new CEO to drive export growth. We also plan to grow through product development and a shift into medical use cases, as opposed to exclusively on aesthetical use cases," Charles Gallagher-Powell, head of private equity, tells *Real Deals*.

Supporting the public sector

The sub-sector is perfectly poised to attract healthcare interest from investment professionals, but also to pique the interest of those looking to explore more consumer options too.

Paul Rosen, a partner at law firm Mayer Brown, notes that assets that fall under the medical aesthetics sub-sector can benefit from public sector tenders, making them even more attractive for PE deal-doers

"Where it probably becomes more interesting for certain PE houses and de-risks it from the consumer play is where there's revenue from the NHS or NHS equivalent. With dental services, there are NHS practices which are predominantly NHS funded, or less so if they have an orthodontic offering. Although there is a consumer element to it, some of it gets de-risked because it falls into the NHS revenue side of things."

That is exactly how Omni plans to proceed with Aesthetics Technology. They're currently exploring the possibilities around working alongside a regional NHS Trust, although so far it looks like this may be a longer-term value-add.

"We're currently in a trial with NHS Bedford on the use of LED therapy to heal ulcers. When you're talking about relatively low-impact indications with established treatment pathways, it's very hard to get on to the NHS delivery framework," Gallagher-Powell explains. "As such, I would think our transition into medical treatments will be more on the private side."

Social benefit

Investing in this sub-sector, however, isn't a post-pandemic phenomenon. In October 2018, Abris invested in MatexLab Group, a company that sells its innovative aesthetic medicine products under the Neauvia brand, from its third fund.

Its core offering is smart combination therapy, which combines all the products from its portfolio – dermal fillers, cosmeceuticals and energy-based devices – to create a single protocol delivered from doctor to patient. In the holding period to date, the business has expanded with about 40% revenue CAGR since initial investment, having achieved almost €50m in 2022.

"The market is also resilient during downturns, and is driven by a number of secular trends, as well as by product innovation, such as smart combined therapy," Gajdzinski says.

As Abris specialises in ESG transformation, the firm needs to consider the ESG credentials within each and every one of its portfolio companies, according to Gajdzinski. With Neauvia, it has focused on improving the packaging of its cosmetics, to a more sustainable offering – using recycled glass as opposed to plastic.

However, the social requirements within ESG could have pressed the brakes on this sort of transaction. Yet, Abris felt the positive social benefits of Neauvia

outweighed preconceptions of the bad, and proceeded to highlight how supporting the business is a force for good.

"The aesthetic market fits well in promoting benefits for society, and Neauvia strongly promotes ethical sales practices across its business. We view aesthetic medicine as being about dignified ageing and inspiring confidence – if we can help people feel more confident, that's worth doing," Gajdzinski explains. "The goal of the aesthetic industry is not to stop or reverse ageing, because that's simply not possible. The goal is to help people age in the best way possible and to stay confident throughout this process."

There are quite a few societal changes that come into play here. Ageing and increased longevity of the population create a demand for people to want to feel and look younger for longer, and then there is an increased interest from the male population – perhaps made more acceptable by social media and television. That too and the growing affluence of society, which, regardless of market conditions, encourages spending on aesthetics and how we look.

Navigating regulations

However, the regulatory environment related to medical aesthetics isn't the easiest to navigate. Investors' growth plans for new product launches or even international expansion face significant hurdles. In the UK, Omni's Gallagher-Powell believes Brexit has slowed deal processes down, which has ultimately impacted plans for internationalisation. "Post-Brexit, the regulatory environment has become so much more difficult because the systems are just so overwhelmed. Internationalising the business is going to be especially difficult but we're really keen to grow its export proposition. Regulatory requirements differ from geography to geography, with product labelling for example."

Nonetheless, this problem isn't solely felt in the UK, but throughout Europe too. Businesses may struggle with overseas or international buy-and-build strategies. "Generally, PE has in the past liked the sector because it's quite fragmented, which works well especially if they're considering buy-and-build strategies. There's also country risk with these deals, in regards to buy-and-build opportunities," Rosen adds. "In more regulated businesses, differing cross-border regulatory environments may make it more difficult to develop cross-border synergies and economies of scale to help them grow."

Netherlands-based BB Capital holds a majority shareholding in Cosmetique Totale, and has done so since 2020. The investment benefited from the pandemic lockdowns, as its bolt-on acquisition-focused growth strategy focused on rolling up the market of local players, professionalising each business along the way and ultimately building up the business as a regional player.

"There were a lot of mostly young women who were operating out of one or two locations who lost their source of income during the lockdowns. They were uneasy about that happening again, and losing the business, so we were able to acquire those smaller businesses and accelerate the building out of our network," partner Mathijs Biesta tells *Real Deals*. "Once that foothold was established, the size of the acquisitions then grew to businesses with up to nine locations, and in adjacent non-surgical aesthetics services, such as injectables."

On the regulatory side, BB Capital has faced the challenge of providing medical training for staff. "To apply laser aesthetics, you need educated physicians. In the Netherlands, they are equal in education level to nurses. Last year, we acquired a business in the injectables market, which requires doctors to administer," Susan van Koeveringe, founder and CEO explains.

Biesta adds: "The level of training and the amount of regulatory compliance around that differs per country. You need to invest in your organisation, of course, but it also means that the overall quality level of the market is increasing. As a result, the barriers to entry from the outside for new entrants are higher, and the smaller players in the market have a tougher job. It therefore makes sense that these companies join a bigger group so that they can benefit from the scale and innovative power of a larger player."

Recession proof?

It should also be noted that in today's turbulent economic climate, winning over LPs with these opportunities may be trickier. As the market may force GPs towards safer assets, the classic type of deal is easier to do because a roadmap is already set. Mayer Brown's Rosen believes that with debt already difficult to obtain for even the best deals, the healthcare and consumer hybrid businesses may be less convincing for banks.

"Even if the PE houses aren't too wary of the consumer focus, the debt side of the transaction is likely to be more tentative, because it falls under discretionary spending," he explains. "Although there's a risk with the discretionary spend, it's generally seen as less when there's a need for them."

And yet, the uncertainty of today's market, and a potential recession on the horizon, may be the very factors this sub-sector needs in order to thrive. The 'lipstick effect' theory suggests that in an economic crisis, consumers turn to buying smaller and more affordable luxury goods, such as cosmetics, as a way to feel good about themselves, rather than splashing out on the larger, more expensive items that are for now out of reach.

Perhaps there is hope therefore for PE's new-found interest in medical aesthetics, but there are plenty of nuances to be considered. ●

Investing in healthcare

Real Deals speaks to LDC partners *Aziz Ul-Haq* and *Christian Bruning*, and investment director *Matt Newbold*, to assess the main drivers of M&A in the sector, what the firm looks for and what the future holds

13	£500m	133%	2.5x
LDC healthcare investments since 2017	combined enterprise value of healthcare investments since 2017	average revenue growth for exited healthcare investments	average returns generated by exited healthcare investments

LDC is an active investor in the healthcare sector. What's your view on the current level of M&A activity and the main market drivers?
Aziz Ul-Haq: Healthcare is one of the UK economy's biggest sectors and investor appetite has never been higher. We see a market that is robust and resilient, and recognise the huge opportunity for innovative problem solving to drive growth.

We know growth is driven by long-term demand and this is especially true during times of significant change. We've invested £350m in medium-sized UK-based healthcare businesses since 2013 and have seen a lot of success because businesses need a long-term partner to invest, support and provide stability as they grow.

Matt Newbold: One area that's driving private investment in the sector, and something that has been accelerated by the pandemic, is the development of at-home testing and the benefits this can bring both in terms of convenience and relieving pressure on hospitals and GP surgeries.

Christian Bruning: Real Digital (RDI), a 2021 LDC investment, is a good example of this. RDI is a specialist data and fulfilment business that is helping its healthcare clients grow the home-testing and screening market, having developed the National Bowel Cancer Screening Programme with the NHS.

When investing in a business, the team is just as important as the company itself. What do you look for in a new investment?
Bruning: The healthcare sector often has business leaders who have worked in the industry over many years, starting their company after spotting a problem or gap that needed addressing. As a result, there are lots of purpose-driven leaders who want to make a real difference, with a genuine focus on high quality and clinical governance. This is really attractive.

Left to right: Christian Bruning, Aziz Ul-Haq and Matt Newbold

Newbold: We invest in businesses that are run by teams with a strong track record and those that can point to future opportunities, to scale their companies. This could be through an effective buy-and-build strategy or targeting international expansion.

What are the key themes, challenges and opportunities you see across LDC's healthcare portfolio?
Ul-Haq: One of the main opportunities across our current portfolio of 11 healthcare businesses is the use of innovation to differentiate and drive scale. For example, in January 2022, we invested in EMS Healthcare (EMS), one of the UK's leading providers of mobile clinical solutions, focused on making healthcare and clinical trials more accessible. We're backing the management team to expand its range of bespoke services and facilities, including diagnostics, which can be configured to suit a range of healthcare needs and clinical environments. Our support is helping EMS to deliver the NHS-Galleri Trial, a new way to screen for cancer, and we've already helped the business grow revenues to £24m last year.

Newbold: Acquisitions are also an effective route to growth. We supported the management team of healthcare equipment manufacturer Prism Medical who acquired four complementary businesses during our partnership. This, along with new product launches and expanding internationally, led to a 54% increase in revenues to £40m.

Bruning: As for challenges, healthcare is not alone in facing a talent shortage. There's a real demand for highly qualified people with a combination of industry experience and commercial acumen, so managing recruitment and retention to support growth is one of the key challenges facing business leaders across the healthcare sector.

What's your outlook for the sector over the next five years?
Ul-Haq: The UK has a world-renowned pharmaceutical industry, and pharma services is certainly an area of healthcare we spend a lot of time in. Given its standing on the international stage, expansion overseas remains one of the key growth opportunities, often enhanced by a focused M&A strategy.

We have considerable experience in supporting UK healthcare businesses on their international journey. An example is our £38m investment in UK-headquartered global healthcare communications agency Fishawack Health, supporting the management team's international buy and build strategy. We provided £18.5m of follow-on funding for five acquisitions, which helped Fishawack cement itself as a key player in North America and Europe. ●

Q&A

Taking the temperature of healthcare

Bevan Brittan partners *Sarah Skuse*, *Carlton Sadler* and *Vincent Buscemi* outline the opportunities and challenges that exist when investing in healthcare in the UK

What makes this sector so attractive to investors?
What's not to like about healthcare? At the heart of UK healthcare, the ageing population living with multiple co-morbidities and chronic health conditions, underinvestment in the NHS and social care services, and the opportunity to deliver a positive social impact, are driving higher allocations to this sector.

Healthcare is a vibrant, rapidly evolving market at the forefront of technological innovation, offering investment opportunities to those who are seeking asset-backed opportunities and also to those whose investment strategies lean towards technology.

Digital solutions to improve operational efficiency, an appetite to take on development risk (both real estate and technology), the rise of consumerisation in health and social care, and the drive for innovation are major trends in healthcare offering investors a wide range of opportunities for investment.

For those attracted to real estate-backed assets, inflation, economic headwinds and structural changes within traditional property markets have moved investors into alternatives and the sector's lower cyclicality and defensive characterises are driving higher allocations.

What are the key trends in healthcare?
Technology is being adopted widely and at pace to provide solutions to some of the most intractable challenges in healthcare, whether that be tackling the backlog in elective and non-urgent surgery, integrating the broader health and care ecosystem or improving health outcomes and reducing health inequalities.

Innovative solutions are being applied across the healthcare economy to increase capacity and improve patient flows and experience, via remote care and virtual ward models; streamlining triage and pre-assessment systems by gathering data to better signpost services, profile patient risk and reduce non-attendances; and improve screening and diagnostics with the deployment of artificial intelligence in medical imaging, as well as virtual and augmented reality in fields such as ophthalmology.

Technology is likely to play an ever more important role in wellness, self-care and preventative medicine, whether that be via wearables and implantables to monitor chronic conditions such as diabetes, cardio health and asthma, or the increased prevalence of IoT devices to support social care, assisted living and integrated retirement communities. Femtech, genomics and stem cell therapies are also likely to drive the revolution in personalised healthcare.

What are the challenges in healthcare now?
Healthcare is a highly regulated environment with high barriers to entry and ongoing compliance and enforcement regimes to meet. There is a range of different regulatory permits required depending upon the type of services provided, including:

Overarching service regulators such as the Care Quality Commission (CQC), for health and adult social care providers, and Ofsted (for children's services) in England, plus their counterparts in Scotland, Wales and Northern Ireland

Service–specific regulators such as the General Pharmaceutical Council, for community pharmacies and pharmacy professionals, and the Medicines and Healthcare Products Regulatory Agency (MHRA), which licenses the manufacturing and distribution of medicines and medical devices (including AI and software as medical devices).

Furthermore, some of the challenges faced by the healthcare sector include:

The global workforce shortage – particularly in relation to clinical staff and its impact on operators' ability to provide additional capacity and, at times, to deliver safe and effective care.

Cost Inflation – as with all sectors this brings pressures, particularly for services with exposure to high levels of wage, food and energy costs. There are, however, some advantages here for digital services.

Government funding strategies for social care – with many providers reliant on private payers to cross-subsidise publicly funded service users, the social care funding reforms (although currently delayed until 2025) may present challenges to providers, particularly if the lifetime cost cap and the right to request local authorities to arrange care means more people can access local authority payment rates.

The focus on safety – the trend towards increased regulatory action in response to safety incidents may result not only in increased sanctions in terms of criminal and civil liabilities, but also consequent reputational damage and contractual embargoes imposed by public sector commissioners and insurers.

Different regulatory approaches – taken by the various regulators in the sector, from those that are relatively hands off (such as the MHRA), to those that are less so. For instance, the CQC:

- Has moved to an increasingly risk-based approach, which means that while the frequency of inspections has reduced, when they do happen they lead to increasingly harsh consequences
- Has strengthened its monitoring of services for people with learning disabilities and autism
- Is increasingly exercising its financial regulatory powers over those social care providers captured by its Market Oversight Regime.

Investors need to ensure they stay ahead of the game and have in place a strategy around corporate structuring generally and more specifically with regards to the regulatory considerations on exits.

What is your outlook for the sector?
Positive and disruptive healthcare technologies are accelerating and bringing with them opportunities; one of the major challenges will be for regulators and legislators to keep pace. AI and machine-learning solutions pose unique challenges because of the potential scale and replicability of harm.

Opportunities abound for investors in the areas of interoperability, data security and integrated care records, as well as in medtech – AI and software as medical devices and tech bio. Funding and investment in solutions that improve patient outcomes and in new devices that employ AI are likely to reap considerable rewards.

We expect the continued and significant reallocation of institutional capital away from core real estate markets into health (and education), with particular opportunity for investing in fixed income assets and for those with appetite for development.

FUND IN FOCUS

Speaking to *Real Deals*, *Pieter van der Meer*, co-founder and managing partner at Gilde Healthcare, talks about raising the firm's latest fund in a difficult environment

Gilde Healthcare raises €600m for Venture & Growth VI fund

By *Xhulio Ismalaj*

Gilde Healthcare has raised €600m for its Venture & Growth VI fund, marking the firm's largest fund to date. Speaking to *Real Deals*, Pieter van der Meer, co-founder and managing partner of Gilde Healthcare, says the vehicle reached its target size but still has "room for latecomers".

Gilde Healthcare's managing partner, who started the firm in 2006 as a spinoff from Gilde Investment Management, says that since the fund launched in Q4 last year, it has received "loyal support" from existing LPs like Philips, as well as adding "big names" like Irish pharmaceutical service provider ICON to its cap table, which the GP says is the first European fund the company has supported.

In addition to corporates and banks including BNP Paribas, which provided the "bulk" of the capital, the fund was also backed by pension funds including Netherlands-based PME, insurers, fund-of-funds, sovereign wealth funds, endowments, family offices and entrepreneurs, as well as the GP itself.

Almost all of the investors are European, largely centred in the Netherlands, UK, Germany, Denmark and Ireland, reflecting the regions in which Gilde mainly looks to invest.

"Fundraising wasn't a huge problem for us as we were able to increase the fund size compared to our last fund," says van der Meer. "But it's impossible to defy gravity, so we did end up talking to struggling parties that couldn't currently allocate to private equity because of the denominator effect. On the flip side, we were able to attract new parties that are just opening up to the sector."

The approach of the new fund is to support companies developing solutions that improve the quality of care for healthcare patients while remaining affordable.

Managing partner van der Meer elaborated: "It's difficult to see how we can afford the continued growth in healthcare-related costs. In the US, expenditure is already exceeding 20% of GDP. In Europe, we are at around 12%, but it continues to grow. This is not sustainable, so companies that are enabling better care while reducing the cost base will have a competitive edge going forward."

Gilde's dedicated venture and growth team will specifically invest in companies active across digital healthcare, medical technology and therapeutics, with roughly up to one-third of deals made in the US. At least two-thirds of transactions will largely focus on the Northwestern Europe regions, including the UK, Benelux, France, Germany, Denmark and Sweden.

Gilde's van der Meer also flagged Ireland as an area of interest to the firm, saying: "There's a lot of innovation happening there due to the presence of some medtech corporations. We see it as an interesting source of dealflow, but you never know where the most interesting companies might appear."

Currently a blank slate, the new fund will invest €10-60m per new portfolio company, seeking to take "large" minority stakes of approximately 30% in growth and venture-stage companies equally. The GP said it is open to co-investing alongside other PE and VC houses, as it has done in the past.

The firm is currently looking at a pipeline of opportunities, expecting to make its first deal from the fund in Q2 this year. Venture & Growth VI will aim to complete about 18 investments in total.

Regarding dealmaking in the current macro environment, van der Meer commented: "A year or longer ago, hairy deals were even able to get financing, but right now they are really struggling. Meanwhile, sought-after deals are still able to attract finance at an attractive value. So, the market has become much more careful and selective. From the 1,000 deals we see annually, we select about five, and that will indeed be the dominant force going forward."

Asked how the GP will create value for its new fund's portfolio companies, Gilde pointed to its Boston-based venture and growth team as a means of scaling European companies in the US. It also highlighted its group of operating partners – "domain experts", "technology specialists" and executives – who support companies with their product pipelines, sales, marketing and regulatory reimbursement considerations. These partners are involved from the earlier due diligence stage to later as board members or advisers.

Further to its venture and growth strategy, Gilde added a second private equity franchise focused on lower mid-market investments in 2010, which has raised four funds to date. Together with the last Venture & Growth fund (closed in 2020) and Gilde Healthcare Private Equity IV (closed in 2022), the GP has raised €1.5bn in capital during the last three years. It currently manages more than €2.5bn in total.

Glide received advice from Jones Day (legal) and Loyens & Loeff (tax). No placement agents were employed.

Q4 2022
fund launched

€10-60m
investment into portfolio companies

18
fund investments in total

Q&A

Carve-out specialism results in healthy outlook for Montagu

Guillaume Jabalot and *Tim Cochrane*, partners at Montagu, outline why healthcare is such an interesting investment opportunity, and the GP's carve-out-led strategy within the sector

What are the key drivers for private equity investment in the healthcare sector?
Guillaume Jabalot: It's clear that private equity is increasingly interested in the healthcare sector. This is due to several factors, including an ageing demographic, rising income levels, and the increasing prevalence of chronic diseases. Additionally, the critical nature of healthcare means that people are willing to pay for it no matter the macroeconomic conditions. These factors make healthcare a resilient and non-cyclical investment.

With so many private equity firms investing in healthcare, how do you differentiate yourselves and maintain a competitive advantage?
Jabalot: The healthcare sector is heavily regulated and thus complex; maintaining a competitive advantage is challenging given the level of interest from other private equity firms. However, Montagu's experience and expertise in healthcare, as well as our ability to identify and invest in high-growth areas early, sets us apart. In our last three funds, Montagu IV, V and VI, healthcare investments made up more than 40% of each fund, and more than 50% in the case of Fund IV – this has always been a significant part of what we do.

We look for businesses that are differentiated with hard-to-replicate know-hows, which is the flipside of complexity, and most of our deals are carve-outs or primary buyouts. Once partnered, we prioritise building strong relationships with management teams and focusing on patients first to drive innovation and growth.

Finally, we have a rigorous approach to due diligence and risk management, which helps us mitigate potential challenges and maximise returns for our investors.

What specific trends in the healthcare sector are you most focused on?
Jabalot: There are several global trends in healthcare that we are particularly focused on. First is the growing decentralisation of

healthcare, which involves providing more care outside of hospitals and clinics, including remote home monitoring and decentralised clinical trials for new drugs, such as our investment in *Nemera*, which designs and manufactures drug delivery devices for the self-administration of drugs by patients. The focus on 'ageing well' is another trend, illustrated by our 2022 investment in *HTL Biotechnology*, the world leader in providing critical pharmaceutical-grade biopolymers used in aesthetics and other medical applications.

Another interesting trend is innovation in clinical treatments, such as minimally invasive surgery, robotics, implants, cell and gene therapy, and immuno-oncology. We are also excited about the potential for AI and machine learning to facilitate early diagnostics and predictive medicine. These trends provide both defensive characteristics and opportunities for significant returns on investment.

Which healthcare subsectors do you focus on and why?
Jabalot: Our focus within the healthcare sector has historically been on medtech, including surgical implants and surgical instruments, such as our respective investments in *RTI Surgical* and *Intech* in 2020 and 2021, and medical devices such as insulin pens and asthma inhalers. We have also looked at diagnostics and pharma products, and artificial insemination for the veterinary market with our 2021 investment in *IMV Technologies*.

Our approach is to identify positive long-term drivers and invest in companies that are at the forefront of these trends. Intech, which specialises in surgical instruments for robotics, aligns with the trend towards innovation in clinical treatment. Overall, our focus within the healthcare sector is broad, but we partner with innovative companies that are well positioned to take advantage of positive long-term trends.

Can you give us a quick overview of how you work with your Full Potential Partners' team and the management teams of your portfolio companies?
Tim Cochrane: Most of our deals tend to be carve-outs. We're investing in companies that are growing fast and often want to expand internationally, launch new products, optimise their processes and take costs out. That means we'll spend the first period of time with the management team putting together a plan for the business, articulating how we're going to work with the CEO and their team to create value.

Are there any specific considerations you need to mitigate during a carve-out process, and what are the major risks when investing in the sector?
Cochrane: There are a lot of complexities in a carve-out process. The main challenge is to fully understand what you are acquiring and what you need to have a standalone business. This involves the regulatory team, finance, IT operations, sales and marketing. It's important to assess the cost base and to make the right assumptions around what is required for the standalone cost base, as well as the one-off costs to separate the business. Underestimating costs can have a huge impact on the return of the business, and underestimating regulatory issues can also have a significant impact.

Another challenge is that the management team may have never done a carve-out before, so finding talent to help manage the process and separate the business is important; you may need to appoint an interim management team to help the CEO manage the process on a short-term basis. It's also important to have a permanent solution for those roles.

Montagu has completed 28 carve-outs during the last couple of years, and we have a detailed playbook on how to diagnose the cost base and what is required to ensure the business can successfully stand alone. We have a large network of talent that we use repeatedly for different carve-outs, and a track record of delivering on budget and on time, giving us comfort and confidence in our underwriting case.

Jabalot: The healthcare sector is heavily regulated, and this creates considerable risk. Regulations touch everything, from commercial relationships with customers or suppliers to product innovation, quality standards, and manufacturing practices. Despite this, the sector is still attractive to investors, as the complexity and regulations create differentiation among businesses. Montagu looks for businesses that bring something unique to the table and have a right to exist long term. The company scouts the market for opportunities and meets with potential sellers and management teams to understand their ecosystem and business evolution.

Cochrane: Despite the complexity of the sector, Montagu's distinctive investment approach – by driving growth through partnership – ensures we can continue to thrive as a carve-out and sector specialist, bringing more to the table than just financial backing. We will continue to leverage our playbook and experience to help ensure the next generation of healthcare innovators reach their full potential. ●

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HEALTHCARE GP LEAGUE TABLES (2021-Q1 2023)

Healthy appetite for investing

Julian Longhurst digs into *Real Deals*' Data Hub to find the most active GPs in the healthcare sector across the last nine quarters

Later-stage investments (growth/buyout)

Investor name	Deals backed
Apposite Capital	22
EQT Partners (incl. Life Sciences)	16
BPI France	14
Gilde Healthcare	14
ArchiMed	13
Ardian	11
BNP Paribas Développement	10
Extens	10
BGF	9
CVC Capital Partners	9
Keensight Capital	9
Eurazeo	8
Inflexion	8
Main Capital Partners	8
Waterland	8
Astorg	7
BC Partners	7
Foresight Group	7
Limerston Capital	7
Siparex	7

Early-stage/VC investments

Investor name	Deals backed
BPI France	21
EQT Partners (incl. Life Sciences)	17
Novo Holdings	17
Sofinnova Partners	16
Forbion	15
High-Tech Gründerfonds (HTGF)	13
Andera Partners	11
Kurma Partners	11
Advent Life Sciences	8
Boehringer Ingelheim Venture Fund	8
Gilde Healthcare	8
Mercia Asset Management	8
Omnes Capital	8
Parkwalk Advisors	8
V-Bio Ventures	8
Pfizer Ventures	7
Pureos Bioventures	7
Seventure Partners	7
Bayern Kapital	6
HealthCap	6

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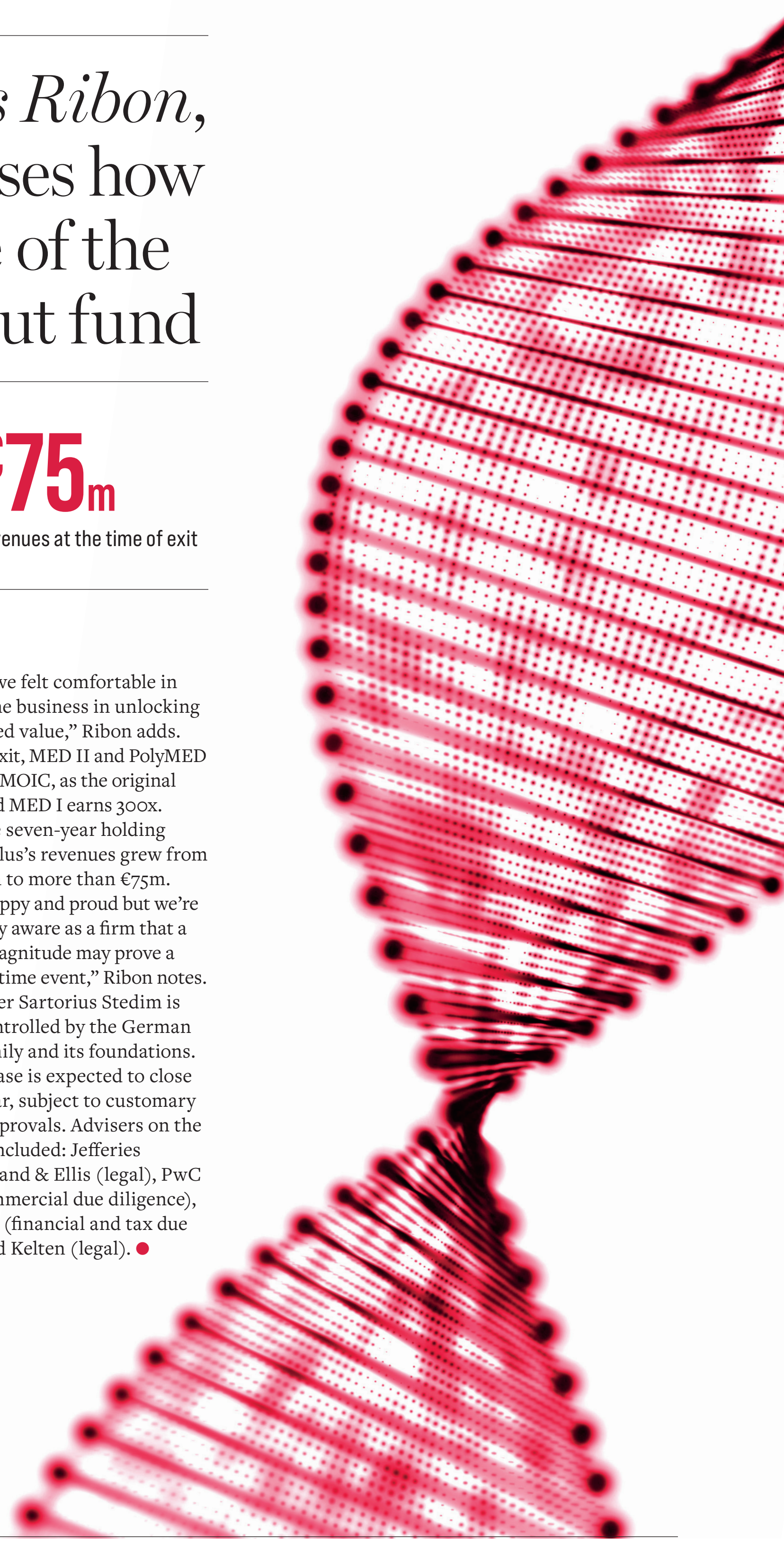
ArchiMed scores 300x return for Polyplus exit

Speaking to *Real Deals*, *Denis Ribon*, chairman of ArchiMed, discusses how the specialist GP achieved one of the largest-ever exits by a PE buyout fund



€10m	€2.4bn	€75m
initial investment	Polyplus EV	company revenues at the time of exit

By *Jennifer Forrest*

ArchiMed, the healthcare-focused GP, has bagged a 300x return with the sale of Polyplus, a biologic and cell and gene therapy production company, in an exit Preqin reported as one the largest ever from a PE buyout fund.

Strasbourg-based Polyplus was sold to listed Sartorius Stedim Biotech for €2.4bn.

ArchiMed originally invested €10m from its inaugural MED I fund, acquiring a 90% shareholding in 2016.

During that four-year holding period, ArchiMed supported the business as it professionalised, growing from a University of Strasbourg spinout to a specialist in cellular delivery of DNA and RNA.

Speaking to *Real Deals* after the deal was announced, Denis Ribon, chairman of ArchiMed, says: "We supported the business as it transformed from an indirect sales model to a more direct approach. As such, we also redirected where the business was selling the product to – from academic labels to biopharma customers, which includes biotech companies and big pharma companies."

He adds: "The investment into the business therefore grew, which accelerated its R&D capabilities. As a result, it created a new generation product and improved the manufacturing process of its existing product."

Upon entering the asset, its CEO was set to retire, so hiring a new CEO became a priority. The new CEO and ArchiMed worked together to refocus its activities on the US market, successfully expanding in the region. Sales in the US grew 20-fold – twice as fast as the company's activities everywhere else.

In 2020, the healthcare-focused investor then moved to a co-investment ownership structure alongside Warburg Pincus. That transaction saw Archimed exit half of its stake for a 70x return. As part of this transaction, the management also halved their shareholding – from 10% down to 5%.

"We went through a whole process in 2020 because we believed it would crystallise value, but also to begin a new phase of growth," Ribon explains. "The CEO we'd hired in those four years was now looking to retire also, so there was a need for a breath of fresh air, a new era."

ArchiMed's halved stake from 2020 was funded by MED I, MED II plus its continuation vehicle PolyMED, which capitalised €242m to fund any bolt-on acquisitions. Its investment team was led by Ribon and partner Loïc Kubitza.

"In that process, we received a number of firm offers from strategic buyers. However, we decided on Warburg Pincus within a GP-led structure as we felt comfortable in supporting the business in unlocking more untapped value," Ribon adds.

From the exit, MED II and PolyMED will earn 4.5x MOIC, as the original investing fund MED I earns 300x.

During the seven-year holding period, Polyplus's revenues grew from less than €5m to more than €75m.

"We are happy and proud but we're also incredibly aware as a firm that a deal of this magnitude may prove a once-in-a-lifetime event," Ribon notes.

Listed buyer Sartorius Stedim is indirectly controlled by the German Sartorius family and its foundations.

The purchase is expected to close in Q3 this year, subject to customary regulatory approvals. Advisers on the transaction included: Jefferies (M&A), Kirkland & Ellis (legal), PwC Strategy (commercial due diligence), PwC Finance (financial and tax due diligence) and Kelten (legal). ●