



Overview of M&A and Capital Raising in the UK Healthcare Sector



Recent transactions

- HC-One's £300m acquisition of 122 Bupa elderly care homes and its agreement with AXA IM to operate homes and care services for Retirement Villages Group
- Antin Infrastructure's £200m acquisition of Kisimul
- Apposite's acquisition of Swanton Care and Community
- Antidote.me, a clinical trial matching platform, has raised £11m from Smedvig Capital, Octopus Ventures and Merck Global Health Innovation Fund
- Porthaven sold to Fremont Realty Capital

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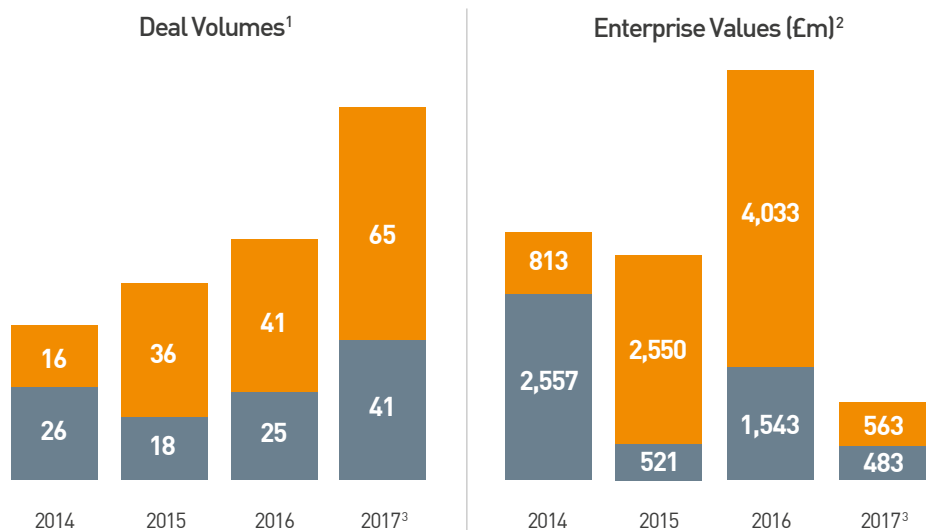
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Key observations

The UK healthcare sector continues to demonstrate strong M&A activity, despite ongoing uncertainty around Brexit and other systemic factors, such as nursing shortages and austerity. The principal drivers are: strong underlying fundamentals, such as, ageing population; policy and political focus, for example, mental health initiatives; and the supply of capital (including private equity, hedge funds, REITs and family offices) looking to invest in highly fragmented sub-sectors with a 'buy and build' consolidation opportunity.

A recent transaction of note is HC-One's £300m acquisition of 122 Bupa elderly care homes: one of the largest ever care home acquisitions in the UK. Coming on the back of other large acquisitions, such as Meridian (30 homes) and Helen McArdle (20 homes) and a significant refinancing, the transaction is the latest phase of HC-One's transformative growth strategy since its formation as a result of the Southern Cross collapse in 2011. The transaction, which is subject to regulatory approval, will create the largest care home group in the UK. HC-One also announced in October an agreement with AXA IM to operate 11 of its care homes and manage eight domiciliary care services for Retirement Villages Group as part of its strategy to focus on strong regional growth.

HC-One's recent acquisitions highlight the opportunities that exist within elderly care beyond the trend towards South East, private-pay, residential care homes. However, despite a healthy supply of capital, the lack of 'backable', strategic management teams in elderly care has led to an increasing focus on other sub-sectors, such as learning disabilities and dental, leaving the door open for strategic acquirers, like HC-One, to acquire elderly care businesses cheaply.



Source: Market IQ, Merger Market, Adam Street Advisers' Research

¹ Adam Street has excluded single asset transactions for deal volumes calculation

² Data for enterprise values includes disclosed values only

³ 2017 deal data as at 14 November 2017

■ Strategic
■ PE/Other Financial

Politics, regulation and policy

Health and social care continues to dominate the UK political landscape, with policy announcements arguably having a significant bearing on the General Election. The CQC's annual report raised concerns about the sector's ability to maintain quality levels in the face of rising demand and staff shortages. Despite the political debate centring on funding, the anticipated Green Paper on the funding of social care has, once again, been pushed back and is now expected to be published in the first half of 2018.

As public policy is a key Government driver of investment decisions in the sector, we include here a summary of the key initiatives and announcements emanating from the October party conference.

The number of doctors reportedly increased last year and the Health Secretary also wants to increase the number of nurses by 25% – a permanent increase of more than 5,000 nurse training places every year was announced. Jeremy Hunt announced that new flexible working arrangements will be offered to all NHS employees during this Parliament and will start next year with 12 trusts piloting a new app-based flexible working offer to their staff. In addition to this, when NHS land is sold, first refusal on any affordable housing built will be given to NHS employees, benefitting up to 3,000 families.

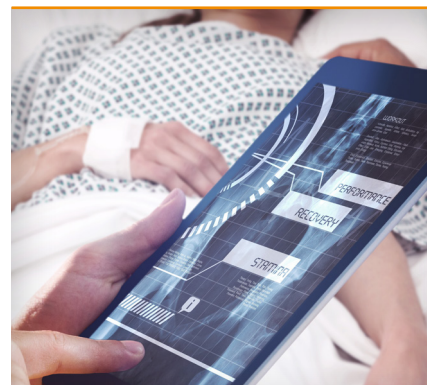
Areas of opportunity

Specialist care — A more favourable funding environment, increasing political and public awareness, and management teams looking to grow rather than exit, has given increasing focus to learning disabilities and more specialist and complex care models. Apposite's acquisition of Swanton gives them a platform for growth through consolidation in the residential and supported living sector for adults with complex learning disabilities, mental health disorders and acquired brain injuries. The £200m sale of Kisimul, an operator of residential schools for children with autism, complex learning difficulties and challenging behaviours, to French infrastructure fund Antin, is an example of foreign investment into the UK to fund the consolidation of fragmented health and social care sub-sectors. Opportunities continue to exist to acquire platforms for consolidation, but competition for these assets looks set to continue to drive up prices.

Dental — Consolidation continues in other fragmented sub-sectors such as dental. Traditionally owner-operated practices, M&A activity was initially driven by retirement sales and a move towards employed clinicians allowing the consolidators to benefit from economies of scale and the centralisation of corporate functions. We are now seeing the combining of platforms to create larger groups to realise further synergies. CBPE Capital recently invested in Rodericks Dental alongside chief executive Shalin Mehra.

Rodericks operates 71 dental practices across the country employing over 750 people. Last year Oasis Healthcare was sold to Bupa for a record £835 and in April, the Swiss based family office, Jacobs Holding acquired Southern Dental. The deals reflect the growing appetite for dentistry businesses amongst domestic and foreign investors.

Elderly care — HC-One's acquisition of 122 Bupa care homes, which are mature, public sector focused residential and nursing homes, and its recent foray into providing domiciliary care services in retirement villages, demonstrate that there is opportunity in the sector outside the 'new-build, future-proof, private-pay, South East, residential' bubble. The care home market remains highly fragmented with a number of independently-owned, small to medium sized, often regional, groups looking to exit. There is a wealth of capital from PE, REITs, family offices and larger strategics, looking to invest. However, investors have struggled with the lack of 'backable' strategic management teams to replace exiting owner-operators. Unless sellers can demonstrate credible succession planning with a future growth strategy, their universe of buyers, and thus the exit value they can achieve, is likely to be limited. The recent HC-One/Bupa transaction should help to reset value expectations. Therefore, opportunities exist for investors who can partner with strategic as well as operational management to acquire platforms for consolidation.



Sub-sectors to watch

- Health-tech investors are increasingly looking at innovative technological solutions to health and social care issues, from medical devices to digital healthcare start-ups such as babylon
- A number of high profile health-tech companies have either raised or are currently raising capital including: babylon, Doctify* and Push Doctor



Rumours

- Elderly care home group Maria Mallaband/Countrywide (MMCG) is rumoured to be nearing a deal
- Aspen Healthcare, the private hospital chain owned by US group Tenet, is on the market
- A number of mid and lower mid-market PE firms are looking for elderly care acquisition platforms
- Runwood Homes is understood to be looking for a buyer. The business is expected to fetch around £350m

* Adam Street is currently advising Doctify

Deal tracker

Date	Bidder	Target	EV (£m)	Target Description
Nov-17	Bridges Fund Management	Shaw Healthcare	-	Mental Health
Nov-17	L&G	Renaissance Villages	-	Senior Living
Nov-17	Priory	Aspire Scotland	-	Learning Difficulties
Nov-17	Salutem Healthcare	Clearwater Care	-	Learning Difficulties
Nov-17	Medigold Health Consultancy	Medical & Safety Services (IMASS)	-	Consultancy
Nov-17	LXI REIT	5 purpose-built care homes	28.5	Care Homes
Nov-17	Fremont Realty Capital	Porthaven Group	-	Care Homes
Nov-17	Healthcare 21	Medscope	-	Medical Devices
Nov-17	Elysium Healthcare	Broadham Care	-	Learning Difficulties
Nov-17	The Raphael Hospital	Glenside Care Group	-	Mental Health
Oct-17	Advinia Healthcare	Bupa (22 care homes)	-	Veterinary Care
Oct-17	AXA Investment Managers	Retirement Villages Group	-	Senior Living
Sep-17	ABB Technology Ventures, LGT Global Invest and Cambridge Innovation Capital	Cambridge Medical Robotics	-	Medical Devices
Sep-17	CBPE Capital	Rodericks Dental	-	Dental Care
Sep-17	CVS Group	B&W Equine Veterinary Group	-	Veterinary Care
Sep-17	Merck Global Health Innovation Fund, Smedvig Capital and Octopus Ventures	Antidote.me	-	Medtech
Sep-17	Draper Esprit and Touchstone Innovations	Ieso Digital Health	-	Medtech
Sep-17	Charme Capital Partners	Witherslack Group	-	Learning Difficulties
Sep-17	Aurora Group	Foxes Academy	-	Learning Difficulties
Aug-17	ArchiMed	Crystal Palace Physio Group	-	Physiotherapy Clinics
Aug-17	Voyage Care	Focused Healthcare	-	Mental Health
Aug-17	HC-One	Bupa (122 care homes)	300.0	Care Homes
Aug-17	Elysium Healthcare	Lighthouse Healthcare	45.0	Learning Difficulties
Aug-17	August Equity	Genesis Dental Group	-	Dental Care
Jul-17	Sussex Travel Clinic	Vaccination UK	-	Primary Care
Jul-17	Antin Infrastructure Partners	Kisimul Group	200.0	Learning Difficulties
Jul-17	Apposite Capital	Swanton Care & Community	-	Learning Difficulties
Jul-17	Business Growth Fund	Dolphin Homes	-	Learning Difficulties
Jul-17	City and County Healthcare Group	Constance Care	-	Domiciliary Care
Jul-17	The Regard Partnership	Adelphi Care Services	-	Learning Difficulties
Jun-17	Elysium Healthcare Ltd	Stanley House Ltd	-	Mental Health
Jul-17	City & County Healthcare Group	Constance Care	-	Domiciliary Care
Jul-17	The Regard Partnership	Adelphi Care Services	-	Learning Difficulties
Jun-17	Business Growth Fund	Dolphin Homes	-	Learning Difficulties
Jun-17	August Equity	Orbis Education & Care	28.0	Learning Difficulties
Jun-17	Sanctuary Housing Association	Embrace Group (35 residential care homes and supported living scheme)	-	Elderly Care
Jun-17	CareTech Holdings	Selbourne Care	16.9	Learning Difficulties
Jun-17	Prospects Group	Homes 2 Inspire	11.4	Childrens Care Homes
Jun-17	Linnaeus Group	Village Vet	-	Veterinary Care
Jun-17	Endless Private Equity	Capita's healthcare recruitment arm	25.0	Recruitment
Jun-17	Medvivo Group	Expert-24	-	Consultancy
Jun-17	Vaccination UK	Sussex Travel Clinic	-	Primary Care
May-17	Panakes Partners, Earlybird, IP Group and Finance Wales	Alesi Surgical	-	Medical Devices
May-17	Private Group Led by Peter Dines and Jonathan Leonard	Integrated Care Clinics	-	Rehabilitation
May-17	Direct Healthcare Group	Kirton healthcare	-	Medical Devices
May-17	Omega Healthcare Investors	Gold Care Homes	90	Elderly Care
May-17	Sanctuary Group	Three turnkey properties from LNT Care Developments	-	Elderly Care
May-17	Hill Care	Six Four Seasons homes	-	Elderly Care
May-17	Social Housing REIT	Five supported living properties	6.1	Supported Living
May-17	InnovaDerma	Ergon Medical	1.0	Medical Devices
May-17	Salutem Healthcare	Pathways Care	-	Learning Difficulties
May-17	Schoen Klinik Verwaltung GmbH	Newbridge Care Systems	-	Eating Disorder
Apr-17	Ramsay Health Care UK	Clock House Healthcare	-	Primary Care
Apr-17	Jacobs Holding AG	Southern Dental	-	Dental Care
Apr-17	Benslow Management Company	Jade Country Care	-	Care Homes
Apr-17	Salutem Healthcare	Modus Care	-	Learning Difficulties
Apr-17	NNS Holdings, Vostok New Ventures and Kinnevik	Babylon Healthcare	-	Medtech
Apr-17	Heidelberg Engineering	Medisoft	-	Medtech
Apr-17	Civitas Social Housing	Supported Living Property Portfolio	11.5	Supported Living
Apr-17	Management Vehicle	Amberleigh Care	-	Mental Health
Apr-17	G Square	Keys Group	-	Learning Difficulties

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Deal tracker continued

Date	Bidder	Target	EV (£m)	Target Description
Apr-17	Linnaeus Group	Shires Vets	-	Veterinary Care
Apr-17	Sodexo SA	Prestige Nursing + Care	25.0	Domiciliary Care
Apr-17	Elysium Healthcare	Badby Park	-	Mental Health
Apr-17	The Fertility Partnership	Ultrasound Direct	-	Fertility Clinics
Apr-17	Medical Imaging Partnership	Nuada Medical's MRI business	-	Medical Scanning
Mar-17	Penta Capital Partners; Toscafund Asset Management	Circle Holdings	76.1	Primary Care
Mar-17	Hollingwood Care Home	Elmcare	-	Elderly Care
Mar-17	Private Group Led by Bridges Evergreen	Reflexion Care Group	-	Learning Difficulties
Mar-17	Target Healthcare REIT	Two Care Homes in Wimborne	-	Elderly Care
Mar-17	Apposite Capital	Mitie Group (Complete Care Holdings, MiHomecare)	-	Domiciliary Care
Feb-17	Petrichor Opportunities Fund	LumiraDx	-	Medtech
Feb-17	St Cloud Care	LRH Homes	70.0	Elderly Care
Feb-17	National Care Group	Highlea Homes	-	Mental Health
Feb-17	Haus Kohlscheid	Internos Spezialfondsgesellschaft	-	REITs / Property
Feb-17	East & West Healthcare	Mews Nursing Home	-	Elderly Care
Feb-17	OH Assist	Working On Wellbeing	-	Health Services
Feb-17	Elysium Healthcare	Raphael Healthcare	-	Mental Health
Feb-17	Oasis Healthcare Group	Cranmore Excellence In Dentistry	-	Dental Care
Feb-17	Management Vehicle	RSL Steeper Group	-	Medical Devices
Feb-17	MMO International	Medstrom	-	Medical Devices
Feb-17	Qualia Care	Elder Homes Bradford	-	Elderly Care

Source: Market IQ, Merger Market, Adam Street Advisers' Research

Select ASA Group Engagements



About ASA Group

The ASA Group is regarded as one of the leading advisers in the healthcare and education sectors and has a global network of acquirers and investors that we are in regular contact with. Our team of 70 professionals includes highly experienced M&A, private equity and debt advisers. As sector specialists we are ideally positioned to advise shareholders and management teams on a wide range of transactions.

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