GUIDE TO
Investing in European Healthcare

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Contents

Introduction 4
Foreword 5
Executive summary 7
Healthcare in Europe 8
Opportunities for private equity 10
Sourcing investments 12
Strategies to generate returns 14
About the Sponsor: Duane Morris 16
Introduction

Welcome to the BVCA Guide to Investing in European Healthcare, the latest in a series of guides produced by the BVCA to act as an introduction to global markets and business sectors.

The European healthcare industry is beset by manifold problems, from an ageing population to a reduction in public spending. It is a sector which desperately requires investment and the role of private capital will be crucial in meeting the demands of the 21st century.

To use the UK as an example, the so-called ‘Nicholson challenge’ estimates that the National Health Service will have to make £15 billion to £20 billion of efficiency savings, around 4% year, between 2011 and 2014. There is also an urgent need to upgrade existing healthcare assets and finance new technologies, yet with spending pressures the ability for the NHS to oversee such a programme is limited.

Other countries face similar challenges. The shortfall between demand and supply is unlikely to be filled by the state which is why private investment is not only needed, but actively being sought as witnessed by the growth of outsourcing publicly-funded services.

Private equity has a long history of investing in the sector, and given the pressures on the public purse it will continue to play a significant role in modernisation and meeting increased demand for services. The capital our industry is able to deploy, accompanied by its business and operational expertise, means private equity can have a very significant and positive impact on the future of European healthcare.

The purpose of this guide is to give an overview of market trends and explain how private equity houses can best enter this market, highlighting both the opportunities and challenges inherent to healthcare investment. It is an area which rightly commands much public scrutiny and any investor requires detailed knowledge of the sector if it is to be successful.

We hope you find this guide useful and we would sincerely like to thank our sponsor, Duane Morris, for the expertise and support of its partners.

With thanks to

Eleanor Blagbrough
Investment Manager
ECI Partners

Aatif Hassan
Partner
August Equity

David Porter
Managing Partner
Apposite Capital

Philipp Schwalber
Head of Healthcare
HgCapital
Foreword

Private equity deals have slowed in 2013 and healthcare is one of the sectors that has suffered as a result. Interestingly, however, deal value for general healthcare rose by about 27% despite a volume decline of 4.1%. As of June, 2013, deal value of private equity backed healthcare deals globally was US$6.4 billion. At this stage it seems unlikely that the annual total for sponsor-backed healthcare deals will reach the levels of 2012 when US$14.7 billion worth of deals were closed.

However, the global healthcare industry continues to be an attractive one for private equity investment, as its growth is driven by the unstoppable forces of positive demographic trends, such as an ageing population, people living longer with chronic disease, the obesity and diabetes epidemics and the global reach of disease. What’s more, technological advances and the advent of personalised medicines promise future growth. In addition, the historically high returns of the healthcare market – many deals now fetching 10x – inevitably serve to attract private equity sponsors.

That said, the global healthcare industry is not without its challenges. The macroeconomic pressures on government budgets that impact reimbursement risk are a major concern for investors today, while cost controls, tighter regulation and falling pharmaceutical prices further serve to make this one of the more challenging sectors for investors. At the same time, the need for efficiency by governments driven by cost control policies and more stringent regulation in areas such as healthcare services present great opportunities for those investors that have the necessary knowledge and expertise.
For many years the United States has been the world’s largest healthcare private equity market, and that shows few signs of changing, particularly in the context of significant evolution driven by the Obamacare reforms package. But other private equity markets around the world are catching up. In Asia, the third quarter of 2013 saw KKR’s headline-grabbing US$1.7 billion acquisition of Panasonic Healthcare Co of Japan, and in Europe we are witnessing increased activity levels as well.

In 2012, three of the world’s five largest healthcare private equity buyouts took place in Western Europe: the US$1.6 billion acquisition of Germany’s BSN Medical by EQT Partners; Advent International’s US$1.4 billion deal for Mediq in the Netherlands; and Terra Firma’s US$1.3 billion UK buyout of Four Seasons Healthcare. The European healthcare private equity market continues to be dominated by a small number of players, with the large European and US funds like KKR, BC Partners, EQT, Advent International and The Carlyle Group investing heavily in the region. Middle market European funds such as Bridgepoint, HgCapital, Montagu and ECI Partners are also doing deals, as are smaller, much more specialist players such as Apposite Capital and August Equity.

In the second quarter of 2013, Bridgepoint acquired the UK’s largest private dental chain, Oasis Healthcare, from Duke Street, a transaction valued at over US$280 million, and in the third quarter of 2013, EDI Partners sold the information and technology company CliniSys to Montagu Private Equity for an undisclosed sum, estimated in the US$150 - $200 million range.

As such we find a very active industry, with indications that an increasing amount of capital is earmarked for deployment in healthcare on this side of the Atlantic. In developing this paper, we have spoken with a range of investors most focused on the healthcare space in Europe to discern their outlook for the sector in the years ahead, as well as their chief investment considerations when looking at healthcare deals.

All are challenged by uncertainties surrounding the amount of government or insurance funding available for healthcare going forward, particularly in countries like Spain, Portugal, Italy and Greece, where universal budget cuts will impact the sector. In larger markets like the UK and France, ongoing reforms will also impact healthcare businesses, often in unpredictable ways.

A big concern for investors seeking healthcare returns in Europe today, however, centres on sourcing acquisitions and beating strategic investors at auctions. Large healthcare players have for the most part completed divestment programmes in the last few years, and family-owned businesses remain reluctant to put up the “for sale” signs in what remains an unpredictable macroeconomic environment. So the biggest challenge continues to be finding good deals.

Nevertheless, our data show European deal levels strengthening in the four quarters since the start of Q4 2012, with cumulative values north of US$700 million for the four three-month periods in the sub-US$650 million deal bracket, after a quieter couple of years. The first quarter of 2013 saw average deal sizes top US$200 million for the first time in the past five years in Europe.

In conclusion, the healthcare sector provides the major ingredients of an attractive investing case: substantial growth prospects, the potential for efficiency improvements and a need for fresh capital. However, healthcare investing requires, more than many markets, specialist sector knowledge, focus on quality, assessment of specific risks and an appreciation of the industry’s unique interaction with government departments and taxpayer money. We hope you find our insights on the following pages useful, and look forward to hearing from you with your queries and perspectives.

Piero Carbone
Partner
Co-Head, Private Equity
Duane Morris LLP
Executive summary

While the trends for private equity investing in European healthcare tend to be relatively stable, this is a dynamic sector that is taking on new complexity with each passing quarter. In that regard, we found provocative themes emerging from our discussions with investors in this market, which we explore in more depth in this report. Chief amongst our findings are the following observations:

- Most healthcare investments are domestic in focus, with buy-and-build strategies largely played out within national borders.
- The majority of European healthcare deals take place in Western Europe, particularly in the UK and France.
- The avoidance of direct reimbursement risk pushes private equity investors towards assets like nursing homes, veterinary hospitals and fertility clinics, though companies with stable reimbursement levels can also be attractive.
- The three main healthcare subsectors – pharmaceuticals, medical technology and healthcare information technology (HIT), and providers and services – attract an even spread of activity, with healthcare services seen as a particularly strong area of growth in Europe.
- Sourcing good deals remains one of the biggest challenges for healthcare investors, which often build up teams of healthcare professionals to source deals direct. Competition from trade buyers is particularly strong in pharmaceuticals and medtech, where they can achieve greater synergies.
- Most European private equity deals are secondary buyouts, with private equity funds the biggest target market for sellers seeking exits.
- The European private equity healthcare market is becoming increasingly competitive but remains inhabited by a small number of focused players, including major US funds, major pan-European funds, European mid-market players and specialist healthcare investors from both sides of the Atlantic.
- Despite the attractions of healthcare to private equity players, investment brings with it considerable reputational, clinical and regulatory risk that needs to be properly appreciated and managed. The sector is inherently more complex than the majority of other industries, thanks to constantly changing regulations, government and other budgetary pressures, reimbursement rates and other issues.
The market for healthcare private equity deals in Europe today continues to be largely localised in its focus, operating along national lines as the complexities that arise from government policy tend to deter investors from cross-border strategic plays. While we do see buy-and-build investments taking place, these tend to focus within domestic borders rather than on the pursuit of pan-European roll-up objectives.

Our study of healthcare private equity deals in Europe over the last five years, using Pitchbook data, shows that the vast majority of activity takes place in the sub-US$650 million value range, where there were 162 deals between October 2008 and October 2013. These were spread pretty consistently across the period, with an average of around 30 to 35 transactions per year, despite a cooling of activity between Q2 2011 and Q4 2012. In the final four quarters of our study, activity has reignited.

Breaking deal volumes down across the region, we find the bulk of buyouts taking place in Western Europe – 112 as against 15 in Northern Europe, 13 in Southern Europe and 6 in Eastern Europe. By far the busiest markets for European healthcare private equity are the UK, where there were 43 deals, and France, with 40 transactions.

The UK has emerged as a favoured market thanks to its peculiarities. David Porter, managing partner at Apposite Capital, a specialist healthcare firm, says: “The reason we focus on healthcare services in the UK is that there is a huge opportunity if you can navigate your way around it successfully. You have this globally unique system where 90% of healthcare is paid for by the government, and the NHS has a zero-growth budget despite demand growing.”
“There is an ever-increasing gap between supply and demand that will have to be filled by the independent sector.” David Porter, Apposite Capital

pretty rapidly. That means there is an ever-increasing gap between supply and demand that will have to be filled by the independent sector.”

Outside of the UK many of the opportunities in healthcare services have so far been driven by consolidation plays, with a lot of the domestic markets still reasonably fragmented. Some of the larger French and German care homes businesses have been looking to internationalise into neighbouring countries, while in the Northern European markets consolidation has often driven private equity deals.

Philipp Schwalber, head of the healthcare team at HgCapital, points to his firm’s investments in Frösunda, a care provider for people with mental and physical disabilities in Sweden, and Mainio Vire, one of the first private social care companies in Finland. Both have grown through small acquisitions to build market share, which is in turn protected by strict regulation and high patient care requirements. “Most of those healthcare services markets are still reasonably fragmented,” he says, “and the majority of service provision is done by the public sector, so there is a driver for growth in doing acquisitions.”

While the avoidance of direct reimbursement risk is a theme pushing investors towards assets like nursing homes, veterinary hospitals and fertility clinics, businesses with stable reimbursement levels can be just as attractive. In markets like Sweden, Germany and Finland, fee rates generally continue to increase by 1% or 2% a year, as a result of regulatory issues and the general economic situation. In the UK fee rate decreases are on the agenda and create more of a challenge, but the binary risk of non-reimbursement remains relatively small.

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Case study: Apposite Capital

Apposite Capital is a London-headquartered private equity and venture capital firm focused exclusively on healthcare. It invests across all healthcare sub-sectors and is active in the direct secondary market. Apposite acquired a number of US healthcare company shareholdings from 3i. Although the firm has invested in life sciences and medical devices companies in the US, Apposite’s healthcare services investments have to date focused on the UK.

Apposite’s healthcare services portfolio includes a high quality fostercare company, By the Bridge, bought in 2006, and a network of state of the art cancer centres, focusing on radiotherapy services, called CancerPartnersUK. In 2012 the company sold SureCalm Healthcare, a specialist homecare provider for patients with long-term chronic conditions, for an internal rate of return of 45% after two years.

Managing partner David Porter says: “At the moment most healthcare in the UK is orientated towards episodic interventions, where someone gets sick, goes to hospital and is discharged. But actually the biggest problems are elderly people, people with chronic diseases and mental health issues, who do not always need to go to hospital, but need to be managed on a day to day basis to avoid unnecessary hospital stays.

“So any model of healthcare that fits in with that redesign of the system is of interest to us. Our investments tend to be businesses offering innovative models of care in a cost-effective way and where the patient comes first.”

Healthcare in Europe
Opportunities for private equity

Private equity investments in healthcare in Europe continue to be split fairly evenly across the three main subsectors of pharmaceuticals, medical technology and providers and services, though healthcare services remains the key growth market for funds. Our data shows that of the 137 companies in Europe that were involved in healthcare deals valued below US$650 million since 2008, 38 of those, or 28%, were in healthcare services, where that includes clinics and outpatient services, elder and disabled care, hospital inpatient services and laboratory services.

One of the biggest deals in the healthcare services market was Terra Firma’s US$1.3 billion acquisition in April 2012 of Four Seasons Healthcare, which is the largest independent provider of care homes in the UK. Others saw Kohlberg Kravis Roberts and Triton Partners pay US$1.5 billion for hospitals and nursing homes operator Ambea of Sweden, and Palamon Capital Partners and The Carlyle Group team up to pay US$700 million for Integrated Dental Holdings.

Outside of healthcare services a significant volume of deals is taking place in manufacturing, which accounted for 42 deals with an average value of US$300 million over the period in review. Almost half of those deals were for device manufacturers, where there were 20 deals, and a further 10 were in pharmaceuticals. The biggest healthcare deal to complete in Europe in the last five years was a therapeutic devices deal that

<table>
<thead>
<tr>
<th>Company</th>
<th>Date</th>
<th>Deal Size</th>
<th>Investors</th>
<th>Sellers</th>
<th>Location</th>
<th>Primary Industry</th>
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</thead>
<tbody>
<tr>
<td>BSN Medical</td>
<td>Aug-2012</td>
<td>2,229.13</td>
<td>EGT Partners</td>
<td>Montagu Private Equity</td>
<td>Hamburg, Germany</td>
<td>Therapeutic Devices</td>
</tr>
<tr>
<td>Marken</td>
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<td>1,523.28</td>
<td>AlpInvest Partners, Apax Partners</td>
<td>Intermediate Capital Group</td>
<td>London, United Kingdom</td>
<td>Distributors (Healthcare)</td>
</tr>
<tr>
<td>Four Seasons Healthcare</td>
<td>Jul-2012</td>
<td>1,287.03</td>
<td>Terra Firma Capital Partners</td>
<td>Qatar Investment Authority, Royal Bank of Scotland</td>
<td>Wilmslow, United Kingdom</td>
<td>Clinics/Outpatient Services</td>
</tr>
<tr>
<td>Ambea</td>
<td>Mar-2010</td>
<td>1,154.26</td>
<td>Kohlberg Kravis Roberts, Triton Partners</td>
<td>Stockholm, Sweden</td>
<td>Elder and Disabled Care</td>
<td></td>
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<tr>
<td>Mediq</td>
<td>Sep-2012</td>
<td>1,052.59</td>
<td>Advent International</td>
<td>Franklin Templeton Group, Silchester International Investors LLP</td>
<td>Utrecht, Netherlands</td>
<td>Medical Supplies</td>
</tr>
<tr>
<td>Permobil Holding</td>
<td>Mar-2013</td>
<td>844.05</td>
<td>Investor AB</td>
<td>Nordic Capital</td>
<td>TIMRÅ, Sweden</td>
<td>Therapeutic Devices</td>
</tr>
<tr>
<td>Integrated Dental Holdings</td>
<td>Jan-2011</td>
<td>708.97</td>
<td>Palamon Capital Partners, The Carlyle Group</td>
<td>North Cove Partners</td>
<td>Bolton, United Kingdom</td>
<td>Clinics/Outpatient Services</td>
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<tr>
<td>Cerba European Lab</td>
<td>Jun-2010</td>
<td>672.90</td>
<td>PAI Partners</td>
<td>IK Investment Partners</td>
<td>Paris, France</td>
<td>Diagnostic Equipment</td>
</tr>
</tbody>
</table>

Source: Pitchbook
Opportunities for private equity

saw EQT Partners take on BSN Medical of Germany from sellers Montagu Private Equity for US$2.2 billion. Montagu achieved a three times return on its investment in the German wound care firm, a result driven by making five acquisitions and growing sales by over 30%.

Indeed, the largest aborted European healthcare transaction of the past five years involved private equity when FTSE 100 engineering company Smiths Group failed to sell its profitable medical unit for as much as US$4.8 billion after it was unable to agree a price with potential buyers thought to include strategics and private equity bidders. The company previously turned down a US$3.89 billion approach by private equity group Apax in 2011 for the unit, which makes devices for hospitals and emergency services providers.

In the future, opportunities for private equity are expected to be focused around the tight funding outlook, which will mean changing care models and a drive to alternative healthcare providers and out of hospitals. Businesses providing services to medical technology and pharmaceutical companies will also be attractive, as increasingly will IT healthcare assets. IT healthcare businesses are a significant area of activity in the US private equity market, but have yet to achieve scale on this side of the Atlantic. In July 2013 Montagu Private Equity agreed to acquire CliniSys, a pan-European supplier of IT systems to clinical laboratories, from ECI Partners in a deal that attracted attention from many in the market.

“Most... healthcare services markets are still reasonably fragmented, and the majority of service provision is done by the public sector, so there is a driver for growth in doing acquisitions.”
Philipp Schwalber, HgCapital

Case study: HgCapital

HgCapital is one of the UK’s leading mid-market buyout funds, with 100 employees in two investment offices in the UK and Germany and with assets under management of £5.6 billion. The firm believes in deep sector focus and invests only in healthcare, industrials, services, TMT and renewable energy, the latter through a dedicated separate fund.

HgCapital focuses its buyout investments in the UK, Germany and the Nordic region, as well as selectively across the rest of Western Europe. The current portfolio includes four care services companies – Casa Reha in Germany, which provides elderly care and was bought in 2008; Frösunda in Sweden, which services people with physical or mental disabilities and was acquired in 2010; Mainio Vire, the largest social care company in Finland, bought in 2011; and Voyage Care, a UK residential care provider for people with learning disabilities acquired in 2006.

Past investments have included pharmacists, pharmaceutical and consumer health products companies, biotech firms and human resources providers for the healthcare sector. A recent exit saw the firm sell Mercury Pharma, a niche generic pharma business, to Cinven, having grown the business both organically and through in-licensing and product acquisitions.
Sourcing investments

One of the biggest challenges facing private equity investors in European healthcare is sourcing deals, with many public companies having completed planned disposal programmes in recent years and family-owned businesses reluctant to sell in the current climate. When healthcare assets do come up for sale they are attractive targets, and auctions can be hotly contested by strategic bidders.

The most established players in the healthcare buyouts market benefit from years of experience and have people on board who are deeply embedded in the business. At ECI Partners Eleanor Blagbrough is a former McKinsey management consultant with UK and US Healthcare experience, who also worked on healthcare reform for Tony Blair’s government, for example, while David Porter, the managing director at Apposite Capital, is a chemist and former member of the UK Government’s Health Reform Group. Such industry expertise can be critical to sourcing deals.

Blagbrough says: “We know the healthcare market well and look at growth trends to help us identify the attractive companies that we may want to invest into. Typically we source deals through this direct research and also by keeping in touch with the advisers who will be selling businesses – though often when a business comes to market we have already forged a relationship with it.”

At HgCapital, Philipp Schwalber says the expertise on the team means they spend 80% of their sourcing time going direct to attractive companies, while the remainder is spent with banks:

### European healthcare deal analytics, deals sub-US$650 million

<table>
<thead>
<tr>
<th>Year</th>
<th>Deal Count</th>
<th>Capital Invested Sum</th>
<th>Capital Invested Median</th>
<th>Valuation Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>23</td>
<td>2,948.42</td>
<td>38.66</td>
<td>282.52</td>
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<tr>
<td>2012</td>
<td>34</td>
<td>2,283.46</td>
<td>15.48</td>
<td>32.40</td>
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<tr>
<td>2011</td>
<td>29</td>
<td>2,160.26</td>
<td>15.82</td>
<td>124.31</td>
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<tr>
<td>2010</td>
<td>34</td>
<td>3,723.30</td>
<td>43.80</td>
<td>120.40</td>
</tr>
<tr>
<td>2009</td>
<td>35</td>
<td>2,159.77</td>
<td>25.63</td>
<td>32.47</td>
</tr>
<tr>
<td>2008</td>
<td>7</td>
<td>219.73</td>
<td>9.59</td>
<td>94.31</td>
</tr>
<tr>
<td>All</td>
<td>162</td>
<td>13,494.94</td>
<td>24.10</td>
<td>105.51</td>
</tr>
</tbody>
</table>
“Even when things come in through the banks, usually we will know the vendor already or the management team. Our sector focus allows us to be very focused on what we are looking for.”

Aatif Hassan is a partner at August Equity, and was previously a chief executive at a residential care homes business. His colleagues include managing partner Philip Rattle, who led JP Morgan Partners’ European healthcare investment practice in the past, and Stuart Quin, who has a PhD in Immunology and previously worked in Accenture’s health and life sciences strategy consulting practice in Washington DC.

Hassan says: “We have a very thematic approach to our investing, so upfront we will decide the areas where we think assets are most attractive. We look for key characteristics, such as strong visibility of earnings, excellent quality of care, a clear dynamic of outsourcing from either local or central government, and fragmented markets where we can consolidate and create businesses of scale.”

Most of the firm’s acquisitions are self-sourced through direct approaches to management, and Hassan says that when sourcing deals in competition with trade buyers, it helps that management teams are often vocationally driven: “You are dealing with doctors and health professionals in these businesses, so looking after their patients or residents is key. We find that demonstrating that all of our businesses have this very strong focus on quality and a strong ethos can be the most important thing. Secondly, we are nimble, because we have a small team and know our sector, which means we can operate in a way that gets things done faster than our peers.”

The ability to convince management teams is critical to sourcing deals in the current climate. Blagbrough adds: “Demonstrating to management teams that you can add value post-deal has become increasingly important in recent years as valuations have remained high for interesting assets but organic growth has frequently been harder to achieve given the weak economic backdrop. Sector experience and track record is a definite help here, as is having access to the right resources to help deliver support.”

Competition from trade buyers is often strongest in pharmaceuticals and medical technology, where they can achieve greater synergies, as opposed to the services side where competitors are predominantly other private equity investors because internationalisation is tougher.

Case study: ECI Partners

ECI has been investing in growth businesses for nearly 40 years and has built a successful track record across the healthcare market, from healthcare services and products to pharmaceuticals and healthcare technology. Its focus is on UK/Ireland headquartered businesses, often with international operations, that have the ambition and the market opportunity to grow. It typically invests between £10-80m of equity into businesses valued at between £20-150m.

In 2013 the firm successfully exited two healthcare IT businesses – Ascribe, sold to EMIS, and Clinisys, sold in a secondary deal to private equity. In 2012 it sold Harmoni, a provider of outsourced healthcare services, to Care UK.

Healthcare businesses in the current portfolio include AKW Medicare, the UK market leader in the design, sale and distribution of adapted bathroom and kitchen products, and Premier Care, the UK and US market leader in bathing solutions for people with mobility issues.
Strategies to generate returns

Achieving successful exits in the healthcare space generally means growing businesses through acquisition and improving management and efficiency with a view to consolidation with other private equity-backed businesses or an ultimate trade sale.

Some private equity houses also see international growth as a way to build value in the right circumstances. “We have a UK fund investing in UK/Ireland headquartered businesses, but international growth is an important feature in many of our investments,” says Eleanor Blagbrough of ECI. “Whilst some areas of healthcare are more domestic in nature, we have had success in helping healthcare technology and product companies to grow internationally.”

In Europe, sales to other private equity funds in secondary deals are the most common deal type in the recent years, with primary buyouts, spin-offs from public companies and public-to-private deals harder to source.

When it comes to exits for the relatively small group of private equity funds operating in the healthcare space there are a number of options, including the likes of US funds The Carlyle Group, Warburg Pincus and Advent International, pan-European funds like BC Partners, Cinven and EQT, and mid-market players including HgCapital, Montagu, Sovereign Capital and ECI Partners. Smaller niche players include August Equity and Apposite Capital, and there are also newer more specialist US funds entering the European market, such as Vista Equity Partners and RoundTable Healthcare Partners.

Trade buyers from across the globe are also interested in European healthcare assets.

“Quality of care is right at the top of our agenda.”
Aatif Hassan, August Equity

Case study: August Equity

August Equity is a lower mid-market private equity firm investing solely in the UK, with a focus on, but not exclusively operating in, the healthcare sector. The fund typically writes equity cheques of between £10 million and £30 million, so it is working with businesses that have enterprise values up to around £50 million, usually investing at the smaller end of its equity range at the outset and supporting businesses through acquisition-led growth strategies.

In healthcare alone, August Equity has made more than 100 acquisitions in the last five years across six or seven portfolio companies, earning a reputation for supporting organic and buy-and-build growth strategies. Last year the firm sold Lifeways Community Care, which at the time of sale was the UK’s leading provider of supported living services for adults with learning disabilities. August Equity bought the business in 2007 and grew it to £21 million EBITDA (earnings before interest, taxes, depreciation and amortisation) from around £3 million, selling for a reported £210 million to OMERS Private Equity. Lifeways grew through 11 acquisitions and organic growth from supporting 900 service users to over 3,700.

Last year the firm also exited Enara, a leading domiciliary care provider, having backed the management team in a buyout in 2008. The business completed more than 50 acquisitions during its four years with August Equity, growing from £1 million EBITDA to £12 million and selling for £120 million in a trade sale to Mitie Group. Both Enara and Lifeways were self-sourced deals.

Current investments include Independent Vetcare, a veterinary services and medicines group.
Strategies to generate returns

particularly in the pharma and medical technology space, where it is increasingly common to see Chinese and Indian buyers present in auction processes.

Yet despite the attractions of healthcare to private equity players, investment brings with it considerable reputational, clinical and regulatory risk. The private equity industry as a whole came in for criticism when Southern Cross, Britain’s largest care home operator at the time, collapsed after it was unable to pay its rent bills in 2011, despite having not been in the ownership of The Blackstone Group since 2007.

Quality of care is another key issue that private equity firms in healthcare need to get right. Hassan at August Equity says: “Quality of care is right at the top of our agenda. We have an independent quality board in all of our healthcare investments, which includes service users and industry experts who are there to make sure we keep focused on quality above all else.”

Maintaining good relationships with regulators is critical, even where that involves numerous local watchdogs. Hassan says: “We have to remain very current with policies, and we need people who really understand healthcare who can interact with civil servants and government to make sure we understand policy change.”

Schwalber at HgCapital concludes there are three key factors for success in healthcare investing: good sector knowledge, which allows you to gauge more consistently where the opportunities lie; sound investment judgement; and credibility with vendors and management teams, so as to triumph in auction processes where views on valuations are similar but strategic vision is the differentiator.

There is no doubt the European healthcare sector is a tough one for private equity investors, but it offers the potential for handsome returns.
About the Sponsor

Duane Morris LLP

With experienced private equity lawyers across our global platform, coupled with the deep capabilities of more than 700 lawyers across all practice areas with expertise across a broad range of industries, Duane Morris offers the resources to optimise transactional value for sellers and buyers in connection with acquisitions, disposals, joint ventures and restructurings; advise on formation of funds and other investment structures; counsel on strategy, commercial transactions and tax; and support portfolio company operations. Our PE Forums, LP Institute and Connections publications contribute to the thought leadership of the industry. Given our strategic firmwide focus on the PE space, broad experience in major industry sectors and an innovative culture deeply committed to client service, we are regularly called upon to work with the most sophisticated and demanding players in the private equity marketplace.

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