

NOVEMBER 2022

Orpea forced to take drastic steps to fix finances

Orpea has four months to clean up its finances and reach a new agreement with its creditors on debt restructuring. The conciliation period which it has agreed with the courts has bought it time to consider its options in the face of rising costs and interest rates, and a cooling real estate market. The main proposal under discussion is a debt/equity swap which would result in a drastic dilution of existing shares, but it is hard to see how the numbers could add up. HBI hears from analysts about the tough decisions facing the group.

The group is at risk of defaulting on several billion euros worth of debt in the latest twist in a saga which began in January, when accusations of widespread abuse and

malpractice were made against the company in the French press.

Its shares ceased trading on Monday 24 October, at the request of the Autorité des Marchés Financiers (AMF), "in order to ensure that the market is properly informed and pending the publication of a press release from the issuer pursuant to the European regulation on market abuse".

In other words, rumours were circulating that the company was facing financial problems and the share price, already 90% down since the beginning of the year due to the scandal, was at risk of imploding. The decision of the AMF is not an unusual move when a company is under severe financial difficulties.

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Opportunities abound as Saudi Arabia plans \$13bn private healthcare expansion

Saudi Arabia's health ministry is making \$13bn (SR48bn) plans for 100 healthcare projects that will involve the private sector. The public-private partnership proposals include constructing two new medical cities, a project to provide 900 beds for medical rehabilitation, and long-term care services, and it looks like foreign investors are actively being courted.

Preparations for this five-year plan are already in place, as regulations regarding investment are being relaxed and the procedures for issuing licences being loosened. A dedicated government call centre to provide advice for medical businesses looking to deal is also being put in place.

Saudi Arabia's Minister of Health Fahad Al-Jalajel formally announced the plans as he opened the three-day Global Health Exhibition based in Riyadh. Public-private partnerships will renovate, improve, and restructure some 200 primary health centres in the Kingdom in the initial phase, he said. The plan for partnerships thereafter includes establishing two medical cities, including 900 beds for

medical rehabilitation and long-term services.

The Saudi Ministry of Health (MOH), in collaboration with the National Center for Privatisation, has announced there are currently six companies and consortiums that will participate in the request for proposal (RFP) tender stage. These RFPs are for the King Faisal Medical City (KFMC)-Abha and Prince Mohammed Bin Abdulaziz Medical City (PMMC)-Al-Jouf projects. The participants are: Consortium of Al-Fanar Company and Steward Health Care International; Consortium of InterHealth Canada Management Ltd and Kifah Company; Rufaida Consortium; Consortium of Vision International Investment Company and Mouwasat Medical Services Company; Consortium of Tamasuk Holding Company and Al-Ghanim International and CIIML, Al-Fouzan, Sedr Consortium.

As reported in HBI, Saudi government spending currently accounts for over 60% of the country's healthcare expenditure. The plan is to invest over \$65 billion over eight years to develop the country's healthcare infrastructure. The private sector contribution is estimated to rise from 40% to 65% and the target is the privatisation of 290 hospitals and 2,300 primary health centres, according to the US International Trade Administration.

Howard Podolsky, group CEO of Cambridge Medical and Rehabilitation Center (CMRC), a specialised rehabilitation

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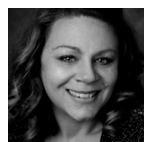
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This Deals + Insights briefing is published 10 times a year by
Healthcare Business International Limited, Commercial Unit A, 111
Seven Sisters Road, London, N7 7FN.
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Orpea forced to take drastic steps to fix finances... - cont.

When shares began trading again on Wednesday morning they plunged 45%, to a new low of €8. At the time of writing they sit at just €6.90.

On 26 October the company stopped short of saying it is on the verge of bankruptcy, setting out in stark terms the financial difficulties and stark options it is facing in a press release.

"The highly inflationary economic environment and the consequences of the strategic and financial review conducted, currently being finalised by the new management team since the company's last publications, have led the company in a situation requiring

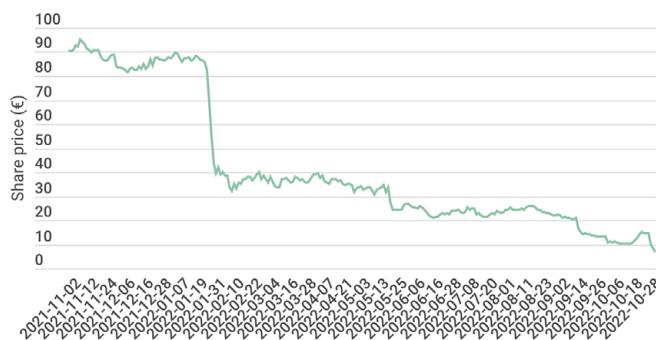
to renegotiate its debt, including the covenants contained in many of its financing lines, which may not be met as they stand at 31 December 2022. In addition, the current context also impacts the asset disposal program as envisaged in the financing plan agreed with the main banking partners in May of this year, which aimed at ensuring the group's liquidity."

Orpea has over €9.5bn of debt, €2.4bn of which is due by the end of 2023 and €5bn of which is unsecured. It has agreed a four-month conciliation period with the president of the Nanterre specialised Commercial Court, to "reach amicable solutions with ORPEA S.A's

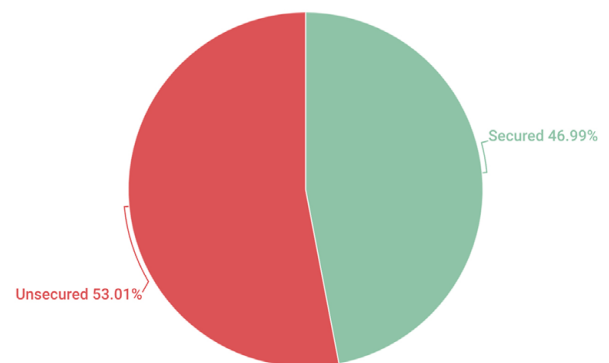
main financial creditors, under the aegis of a conciliator, in order to achieve a sustainable financial structure by drastically reducing its debt and securing the liquidity necessary to continue its activity".

Stephan Dubosq, equity analyst at independent asset management firm Kirao Asset Management, tells us: "The company is very indebted in large part because the previous managers did a lot of property acquisitions. It is now facing rising costs, rising interest rates and falling occupancy rates in its French nursing homes. The increasing cost of energy has hit the company's margins especially hard. And there is a very

ORPEA PRECARIOUS FINANCES



MOST OF ORPEA'S €9.5BN DEBT IS UNSECURED



Source HBI research

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Orpea forced to take drastic steps to fix finances... - cont.

direct correlation between occupation rates and margins. As a result of all this, the group will most likely find itself breaking covenants which it agreed with its creditors."

This is the second time the company has had to restructure its debt this year. In May it agreed a €1.7bn bailout with its main creditors (BNP Paribas, Crédit Agricole, BPCE, Société Générale, Crédit Mutuel Alliance Fédéral), in the face of rapidly rising costs and interest rates, as well as decreasing occupancy in its French nursing homes due to the unfolding scandal surrounding the company.

The May bailout agreement involved a commitment from Orpea to sell €3bn of its real estate assets by the end of 2025, and at least €1bn by the end of 2023. The company owns almost half of its nursing homes' real estate and these assets were valued at €8.1bn at the end of 2021.

Orpea has begun the process of selling off property. In July it announced the sale of €126m worth of property assets in the Netherlands. But progress appears to have been slowed by unfavourable market conditions.

"While Orpea does own a lot of property, current market conditions are significantly reducing its value," explains Dubosq. "There are two things that have an effect on the price of the property: occupancy rates and interest rates. Both of these are being negatively impacted for Orpea at the moment. Interest rates are rising for everyone, but even more for Orpea because lenders are charging the group a risk premium due to the scandal."

The company is therefore at risk of not being able to meet the covenants agreed with creditors when it restructured its debt earlier this year. The covenants place limits on the ratios of net debt to EBITDA ('R1') and net debt to equity ('R2') which the company has to stay

within. The limit for R1 is 5.5 and the limit for R2 is 2.0. As of June 30 R1 stood at 3.58 and R2 stood at 1.87. However, rising costs, in particular for energy and catering, mean the R1 limit could be exceeded in the second half. And asset write-downs amounting to several billion euros – due to both the decrease in the value of its property assets and intangible goodwill impairments – will likely mean R2 is soon exceeded as well.

The company is therefore thinking hard about new ways to pay down its €9.5bn pile of debt. Three options are on the table. The first is a debt/equity swap on €4.3bn of its unsecured debt. The second is an amendment to the limits on R1 and R2 (which would have to be agreed with creditors). And thirdly, it could restructure some of its existing secured debt "to facilitate the injection of new sources of financing, notably in the form of new secured debt on assets of the group free of any security interests and capital increase".

The preferred option at the moment appears to be the debt/equity swap. According to Dubosq, this is a sign of how much financial difficulty the company is in, as debt/equity swaps can be a last ditch attempt to avoid bankruptcy.

But how could €4.3bn of debt be traded for shares, given that the company's entire share value is currently barely more than €500m?

"The number of shares will have to increase by 8-10x," explains Dubosq. "This means there will be a huge dilution, there is no doubt about it. And of course, it will mean that the strong downward pressure on the share price will become even greater."

Yi Zhong, analyst at Alphavalue, tells us that it is unlikely that the entire €4.3bn will be converted into shares: "Many of Orpea's creditors may not be willing to accept the proposed debt-to-equity

conversion, especially those banks subject to strict regulatory risk-based requirements."

But Zhong also says that converting a large amount of debt to equity, and therefore a significant dilution of the shares, "seems inevitable" if the company is to avoid bankruptcy.

Orpea will be hoping to reassure investors and creditors when it presents its 'transformation plan' on 15 November. CEO Laurent Guillot says this will involve the company being "refocused on care and less focused on too rapid real estate and international growth".



STEPHAN DUBOSQ,
Kirao Asset Management

Opportunities abound in Saudi Arabia... - cont.

hospital and long-term care provider in Saudi Arabia and the United Arab Emirates, is excited at the prospect and aiming to be involved in the expansion.

"It is premature to discuss our role, but we expect further details from the Health Ministry towards the end of the year," Podolsky said.

CMRC is a unit of Dubai based Amanat, a listed company that invests in the Middle East and North African (MENA) region's education and healthcare sectors. Amanat recently received regulatory approval to raise foreign ownership from 49% to 100%. Its June report stated that CMRC had 256 operational beds with a 150-bed expansion underway in Saudi Arabia.

The Riyadh conference at which the projects were announced is the first of

two major healthcare conferences – the second is on November 6 – which show that the MOH is focussed on its "Vision 30" reforms over the next seven years. They are expected to generate substantial business for local and international for-profit operators.

Al-Jalajel met with executives from the private health sector and representatives of small and medium enterprises, insurance companies, and local pharmaceutical factories. Significantly, the Riyadh conference had a "medical lab zone" that highlighted the latest innovations and technologies in medical laboratories. There were also sessions that showcased the latest health care innovations and startups.

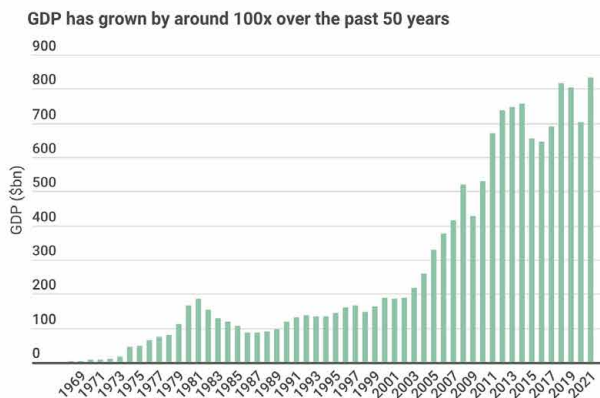
Saudi Arabia also intends to further promote health tourism as Al-Jalajel said that the government aims to

upgrade air travel services across the country.

The upcoming November Health Simulation conference, also to be held in Riyadh, will have 15 sessions and 40 workshops, the MOH announced. Academics and industry specialists will discuss improving health care simulation in education, research and evaluation, and enhancing applications in health care quality and patient safety. Participants will have the opportunity to sign "memoranda of understanding and agreements" between government and private firms from within – and outside – Saudi Arabia.

The MOH is keen to stress it has "comprehensive licensing procedures and regulatory norms to enhance commercial activities and attract investors".

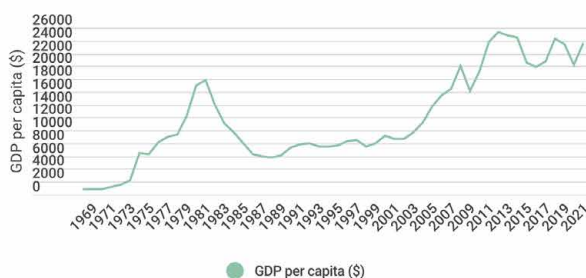
THE METEORIC RISE OF SAUDI ARABIA'S ECONOMY AND HEALTH SECTOR



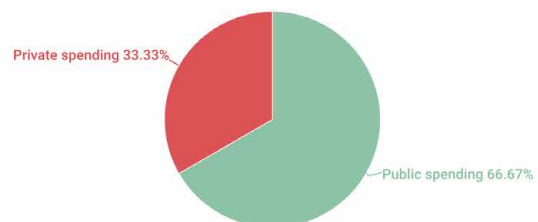
Saudi health care sector was almost as big as India's in 2019



GDP has risen a lot faster than GDP per capita, as the country has also seen rapid population growth



2019 private/public split



Source HBI research

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M&A health care deals slow on debt fears

After a heady 2021, activity in European health care M&A is slowing down. Big ticket auctions have been withdrawn and processes are often run more cautiously as dual track, rather than general auctions. But underlying demand for health care assets is strong, with PE sitting on trillions of recently raised dry powder. Listed groups look cheap. HBI catches up with bankers from across Europe for their take.

Sales underway include dialysis group Diaverum from Bridgepoint, and dentistry group EDG from Nordic. But KKR dropped its Ramsay bid in early September partly because of weak debt markets, and rumours surrounding Fresenius' plans to sell Quironsalud could stall as new CEO Michael Sen re-examines the strategy.

The combination of rampant inflation and business slowdown are already cutting profits, growth and hence

investment banker tells HBI that valuation multiples in some sectors have already dropped from 12x to 10x or lower. "People are dropping their exit assumptions and scaling back accordingly."

Debt is still available. Many of the big PE houses such as CVC, ICG and Bain have debt arms that are eager to lend at higher rates. But lenders, who were prepared to go as high as 7x EBITDA for health care service assets, have dropped back to 5-6x. The debt of anyone with a credit rating of CCC or lower is now regarded as unsaleable.

Expect many PE houses to transfer assets to a continuation fund and rollover debt with their existing providers rather than attempt a sale.

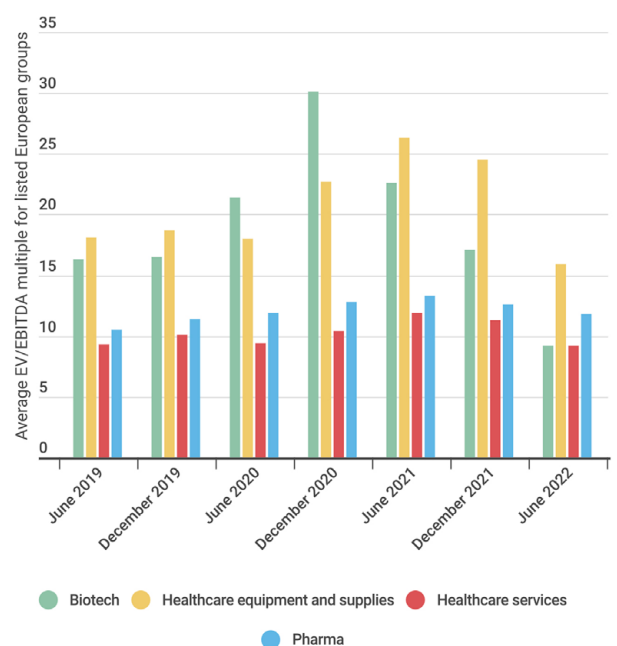
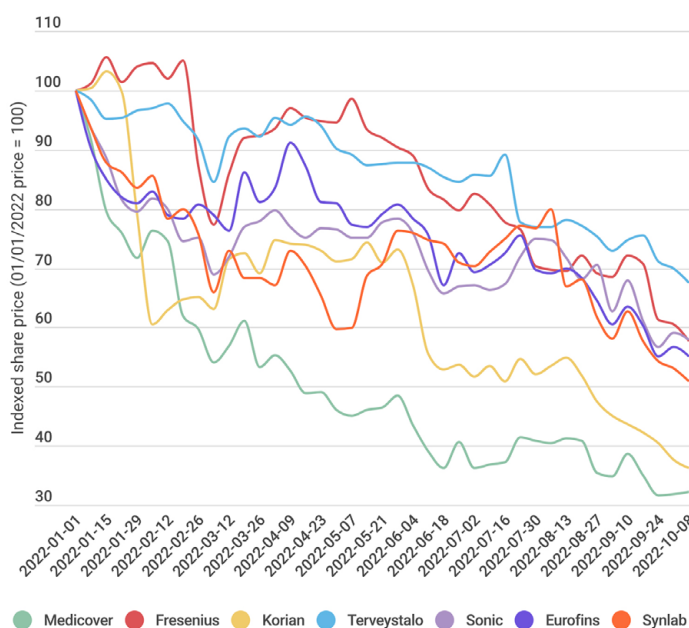
As interest rates rise, the value of health care property drops. This is reflected in the fall in the share price of REITs with

hold up well. And payors will cough up. German payors, for instance, are hiking rates by 10% plus for care homes to compensate for fuel and inflation. Governments will not want to see capacity diminish." He thinks that after a painful wait of six to nine months, rates and tariffs in most sectors and countries should compensate.

Vulnerable discretionary spend includes parts of dentistry and also UK private pay nursing homes: "Some operators have pushed through several years of 8-10% price hikes, but if the housing market slumps that will impact demand. If you can't sell granny's house for £1.5m, can you afford £2,000 a week in fees?"

Capital intensive sectors such as imaging services will also be affected by the rate hikes. The frenzied activity in German and French imaging at EBITDA multiples as high as 15x is likely to come to an abrupt halt.

LISTED EUROPEAN GROUPS ACROSS A VARIETY OF SUB SECTORS HAVE SEEN THEIR PROFITS AND SHARE PRICES OBLITERATED THIS YEAR



Please visit the HBI website for an interactive version of this infographic

Source HBI research

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M&A health care deals slow on debt fears - cont.

On the other hand, Central and Eastern Europe (CEE) did see a significant increase in deals, with deal volume rising by 60% across all health care, including services, pharma, biotech and medtech, in H1 2022. Around two thirds of the health care deals were health care services, amounting to 27 health care services deals.

HEAL Partners suggest in its analysis of the sector that "since the values of a large number of deals aren't disclosed, it is difficult to calculate the total value of the deals in the first half 2022".

One of our investment banker sources in the UK suggests that "Third and fourth quarters will likely demonstrate a further fall in the number of deals because of the surge in bank loan interest and the weaker corporate bond market."

OUR ANALYSIS: In particular the market is concerned about leveraged – high debt to capital – management buy outs and overpriced private equity funded deals, according to officials from the rating agencies, Moody's and S&P Global.

The first concern is cyclical interest rate risks, notably rising rates and sovereign bond yields which have risen because of inflation and central bank monetary tightening. The rise in those rates washes over into the corporate bond market. The second worry is credit risk which relates to the stress on companies that have previously leveraged. These are the companies that have raised the proportion of bank loans and bonds (corporate medium and long-term debt) in their balance sheets.

During a period of rising revenue and profits, and low interest rates, leverage works in favour of the companies, an official of Moody's said. But when operating profits decline due to a surge in costs and demand falls during a cost of living crisis the debt levers work in reverse. As a result, yields on investment grade BBB corporate bonds are higher than sovereign debt and triple A corporate bonds and junk, minus B or C grade debt yields have soared because the market perceives potential default risks.

Another problem relates to UK or European healthcare companies that borrowed in US dollars. The dollar has surged by 24% against the pound and by 21% against the euro in the past twelve months. The borrower thus has to find more pounds and euros to pay interest and repay the loans.



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Germany to reduce inpatients by a quarter, as hospitals face insolvency

German health minister Karl Lauterbach is to implement the country's first major health care reform in 20 years. From 2023, hospitals will aim to reduce spiralling costs and remedy the workforce crisis by shifting as much as 25% of their inpatient activity to outpatient and, eventually, closing some clinics and hospitals. HBI chats to German sources to find out more about what this means for for-profit operators.

HBI hears the consequences of the reform could include tariff changes causing a significant drop in inpatient payments per night stayed, and the possibility of a number of distressed

assets coming to market.

German business newspaper Handelsblatt (rather unflatteringly) describes the German health system as "expensive, dilapidated and inefficient". HBI previously reported that as many as 70% of hospitals could lose money this year due to inflationary pressures without a sufficient tariff uplift to compensate. Handelsblatt adds as many as 20% could face insolvency.

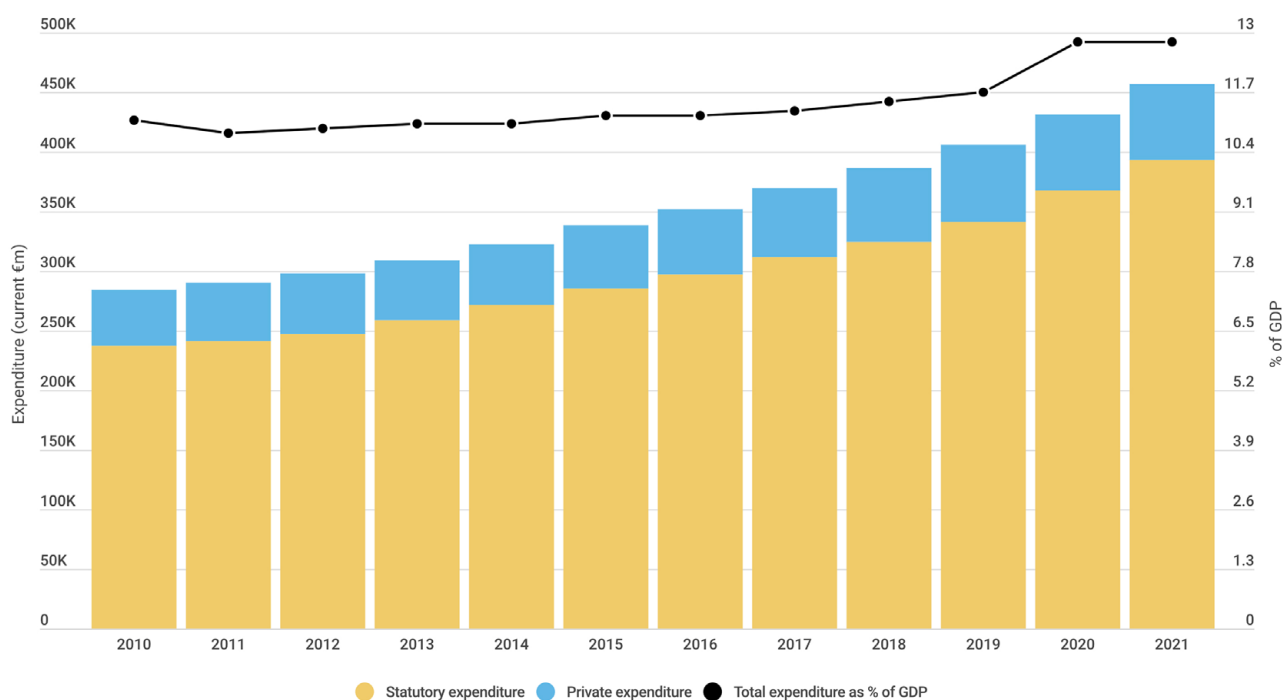
But the health minister now has a plan. Off the back of a recommendation from his "Government Commission for Modern and Needs-Based Hospital Care", Lauterbach has announced

that the German health care system is to make a dramatic shift towards outpatient care. From January 1, 2023, hospitals will be allowed to carry out many more treatments as day treatments.

The Commission estimates this could mean up to 25% of all inpatient treatments being done on an outpatient basis, in what its chairman, Tom Bschor, described as a "paradigm shift".

Commenting on the reform, one German operator tells us: "They're seeing the need to move towards more outpatient treatments, but they want hospitals to have some time to adapt.

GERMANY'S HEALTHCARE SPEND GREW 61% IN REAL TERMS BETWEEN 2010 AND 2021



Source HBI research

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Germany to reduce inpatients by a quarter, as hospitals face insolvency - cont.

To me it looks like the health minister just wants to save time because he's currently not willing to go through a huge reform in hospital licensing or decide which hospitals are going to be closed. Instead, they're incentivising hospitals to take on more ambulatory cases."

The proposal Lauterbach is putting forward sets out how tariffs would be adjusted for treatments that are moved from inpatient to outpatient, in line with the Germany's 'diagnosis-related flat-rate system' (DRG). The new pricing will involve the "hotel costs" of overnight stays being deducted from current tariffs, meaning an average reduction of €120-150 per night that would be spent in hospital under the current regime, according to Bschor.

"In a nutshell, as of now there's some talk about a compensation package and some general guidance on adaptation of prices but nothing really agreed yet," says our operator contact. "But hospitals will now be able to get a higher reimbursement for day cases rather than a real outpatient system – of course the health minister says they need to give a discount for the DRG because of the non-existent accommodation, but that's still higher than a normal outpatient rate."

Several outlets have reported Germany has a package of inflation support totalling €65bn for citizens and companies, with a particular target on energy prices. HBI has previously reported that hospital tariffs are only raised a year in arrears, meaning they were struggling with inflationary pressures.

The operator says this presents a struggle for insurers as well as hospitals: "Payors are missing a real structural reform to reduce hospital capacity and say that the discounted

DRGs are still higher than a comparable outpatient EBM reimbursement (reimbursement of services in the public outpatient sector in Germany is regulated in the EBM catalogue (Einheitlicher Bewertungsmaßstab)); therefore they believe expenses will be higher than they could be. But the government will not increase its tax-based payment to cover their deficit, so they could be under pressure too."

However, the reform seems to have been much more motivated by the workforce crisis. As German hospitals are required to have a set number of nurses in order to operate, those which don't reach those numbers have to close certain wards or even close entirely. The operator says this is a much more important lens through which to view the reform.

"I don't know if it helps them save money or if it just gives them the opportunity to do services without having to meet the minimum nursing and staffing requirements. In most medical areas you have minimum nursing requirements and if you don't have the staff you can't run wards."

As for what all this will mean for the risk of hospital insolvency next year, Dr. Stephan Rau, partner at global legal group McDermott Will & Emery, says he thinks the risk is not too high: "I expect some insolvencies to occur in the future, but certainly far from 20% of all hospitals. Rather, I assume that a higher number of distressed hospitals might come on the market and become a decent purchase opportunity for investors who plan to enter into the outpatient market and require a hospital vehicle."

OUR ANALYSIS: The move towards ambulatory surgical procedures is one of the real revolutions in healthcare. It can reduce the need

"In a nutshell, as of now there's some talk about a compensation package and some general guidance on adaptation of prices but nothing really agreed yet."

for bed capacity, and thus the need for expensive-to-maintain hospital capacity as well as staff and improve patient outcomes by reducing recovery times.

It should therefore be welcomed that the German government is pushing for this reform – even if their hand has been forced by crisis, and they aren't willing to immediately take politically difficult decisions. Perhaps even that hesitancy can be excused by the need to properly assess where hospitals are needed.

It now seems much less clear whether hospitals will be under the same pressure from inflation next year. Previously, HBI has been told while hospitals would "kick and scream" about inflation and tariffs which are only raised a year in arrears, they would "get on with it". Either this analysis was incorrect, the workforce crisis is so severe it has pushed a fifth of hospitals into financial crisis, or both.

KEY INFOGRAPHIC 1

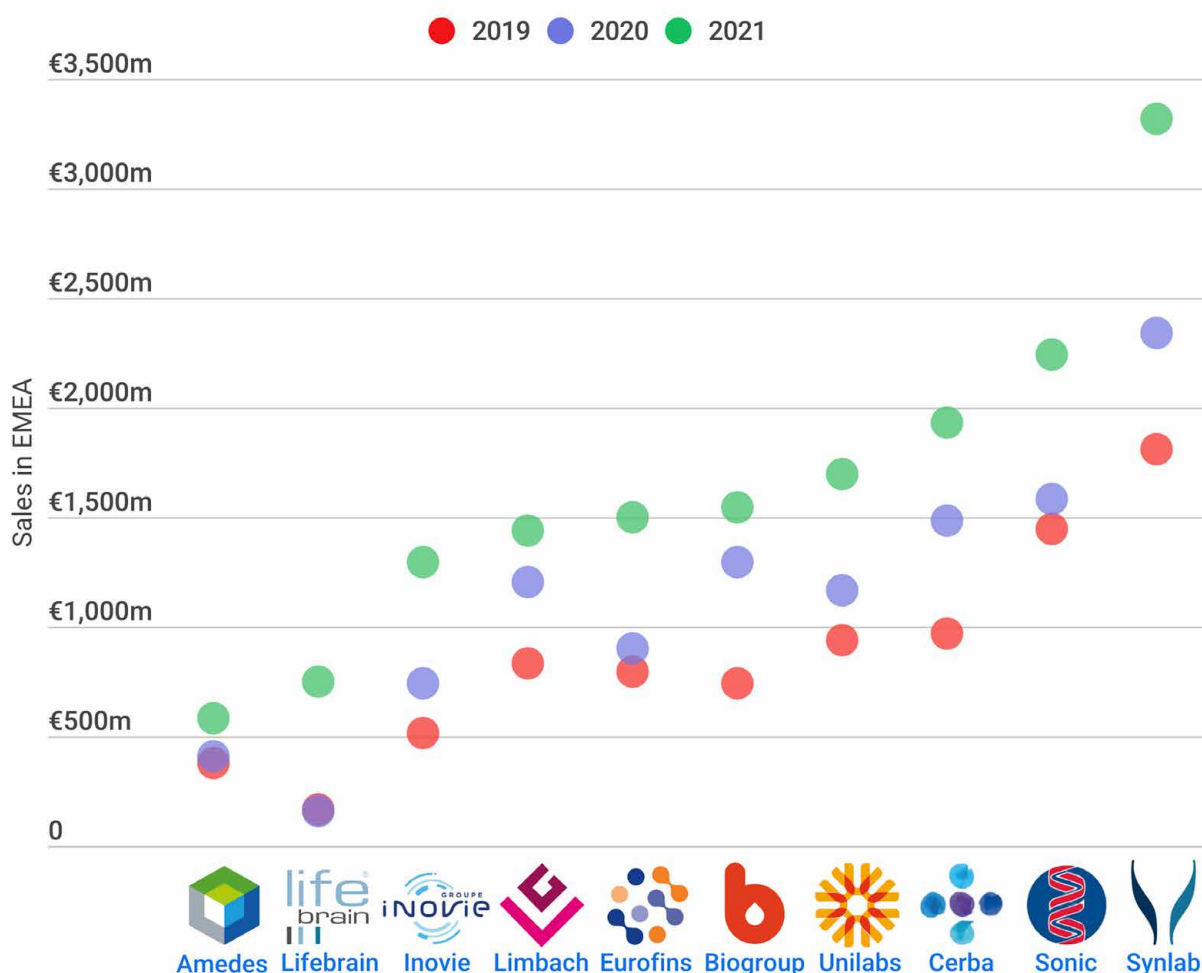
Top 10 EMEA labs groups made almost €8bn extra revenue in 2021

It's no secret that the diagnostic labs sector benefitted immensely from testing during the COVID pandemic. But now that 2021 revenue figures are available for many of the largest groups, it is clear that the scale of the testing windfall has been larger than anyone in the sector imagined.

This infographic shows diagnostic testing revenue figures for the top 10 largest EMEA labs groups in our database, for 2019, 2020 and 2021. The combined revenue of the 10 groups in 2021 was almost double what it was in 2019 (in 2019 it was €8.6bn and in 2021 it was €16.3bn).

Most of the groups saw a more than €700m uplift in 2021. A few of the groups saw their diagnostic testing revenue more than double between 2019 and 2021. Synlab, which was already the largest of groups in 2019, saw its revenue grow by a whopping €1.5bn, to €3.3bn in 2021.

COVID IMPACT ON THE TOP 10 PRIVATE LAB GROUPS EMEA



Please visit the HBI website for an interactive version of this infographic

Source HBI research

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GLOBAL, PAN-EUROPEAN OR MAJOR DEAL

Dollar Investors are ready and waiting to buy cheap European healthcare firms

The slump in health care listed stocks and downward valuations of private businesses are encouraging potential buyers to examine enticing European healthcare enterprises.

In particular the 20% depreciation of sterling and 18% euro fall against the US dollar in the past twelve months mean that companies are even cheaper for investors holding the American currency. Those with Hong Kong and Singapore dollars, Chinese Yuan and Swiss francs are also in a strong position to seek out good UK and European healthcare firms, bankers say.

"The ones with deals already on the go are at the greatest advantage," a London investment banker said. "They may have already agreed to a price and now benefit from the lower currencies. Other potential investors may well wait until market turbulence abates."

Besides the currency factor the bear market in healthcare stocks has cut valuations to more reasonable levels.

Analysts at HEAL Partners, a corporate finance firm, calculate that enterprise valuation ratios of listed companies had already "begun to drop markedly" in the second quarter of this year.

Based on listed companies' stock market performance, the average enterprise value to sales ratio (EV/sales ratio) of biotechnology fell from 32 times at the end of 2020 to 10.3x at the end of June 2022 and enterprise value divided by earnings before interest tax and depreciation (EV/EBITDA ratio) shrank from a peak of 30.1x in December 2020 to 9.2x at the end of June this year," HEAL Partners' analysts calculate. "Healthcare Equipment Supplies' EV/EBITDA ratio slid from 26.3 mid-2021 to 15.9 at the end of June 2022.

Since equity prices have fallen further since June, valuations can be estimated at even lower levels, analysts say. The downward direction of listed company valuation ratios can be applied to private companies, the analysts add.

Nordic area did well in first half but deal volumes are now slowing down

The Nordic region – comprising Denmark, Norway, Sweden, Finland and Iceland – experienced strong buyout performance in the second quarter said Tomas Almgren, a partner in Sweden at Clearwater International, a corporate finance firm.

"The Nordics maybe Europe's smallest region by population, but it consistently punches above its weight when it comes to deal generation," he said. He added that in the second quarter of 2022 private equity dealmakers inked a total of 41 transactions in the region, up from 37 in the first three months. Deal value, meanwhile, surged to €10.9 billion – an increase of 57% from €6.9 billion in the previous quarter.

M&A in the healthcare sector also attracted considerable attention in the Nordic area as in the first six months of 2022 eight deals amounted to €5.6 billion or 31.5% of the total €17.8 billion private equity deals.

"But inflation, rising interest rates and geopolitical uncertainty mean that weaker assets are more difficult to sell at the moment," cautioned Almgren. "Financing is becoming more challenging, particularly for big deals that require multiple bank lenders."

Healthcare assets, however, are at the top of the list for PE acquirers that are seeking to reduce their risk exposure, he emphasised.

The healthcare sector tends to be counter-cyclical contends Marcus Roberts, head of Europe Operational Capital at Savills, the global real estate agency. Investors with "dry powder"

especially in dollars and other strong currencies are in a position to provide equity capital to operating companies that are finding financing challenging, he says.

European Regulation hinders growth chances of small businesses- Osborne

Former UK Chancellor George Osborne who is a managing partner at 9Yards Capital, a US venture capital company, said that the firm was seeking opportunities in Europe.

Osborne spoke on a panel at a venture capital conference in Cannes recently, though not specifically on health care, saying that European regulators and governments should remove obstacles that hinder growth for start-up and early-stage businesses. Osborne had added that the "unicorns" needed access to capital and talent and that regulation shouldn't stifle new entrants or innovation.

OUR ANALYSIS: Despite the relative lower prices from valuations and currency depreciation, new M&A deals may take time to negotiate. A UK investment banker warns that arranging loans for new deals would be harder and more costly, e.g. higher interest and greater asset security. Partners of small to large healthcare businesses may have to be prepared to give away more equity in the business, he adds.

PMI premiums set to spike as medical costs soar

PMI premiums are set to spike in 2023 as medical costs are rising, according to a new report. HBI speaks to contacts around Europe to find out more.

The predicted rise is according to a new report by global advisory and broking group WTW. Having tracked medical costs from a global network of 257 insurers in 55 countries, it says rampant



MILO WICINSKI,
Infermedica

inflation and increased healthcare utilisation coming out of the pandemic are contributing to the highest projected increase in global medical costs in nearly 15 years.

According to WTW, in LATAM, average increases are projected to climb from 18.2% to 18.9%, in Asia Pacific from 6.9% to 10.2%, and in MENA from 10.5% to 11.5%. It adds: "Even Europe, which has traditionally seen much lower levels in the past, is not excluded from the record levels of trend. For 2023, the Europe trend is expected to increase to 8.6%, which is a significant jump over 2021 levels (5.6%)."

Milo Wicinski, business development executive for digital health company Infermedica, tells HBI: "Care is getting more expensive, and insurers always tell you this is because of overconsumption. Some even call it 'claim abuse', but we're also facing a shortage of healthcare staff. As supply goes down, price goes up."

He adds hospitals can be overactive in order to get reimbursed. As wages increase in an attempt to bolster workforce and in reaction to spiralling inflation, costs are certainly under pressure. But it's not just a matter of claim abuse. Wicinski also says part of the problem stems from a lack of a GP gatekeeper, which AI digital triage

programmes as used by insurers such as AXA and his company Infermedica can go some way to remedy.

"Theoretically digital triage should help decrease premiums, because what happens right now is generally insurers are just payors, or at best they book appointments but have no say on what decisions are made. Some people may go to the wrong specialist for example, which the insurers will call claim abuse, but they just aren't really sure.

"In my personal experience when I had an earache, I obviously went to the ear doctor, only to be told the problem was my wisdom tooth, so of course I claimed for both the ear doctor and the dentist, even though one shouldn't have happened.

"This isn't a case of more patients suddenly going to the doctor's unnecessarily, but the cost of going unnecessarily is rising because of the shortage of physicians, so it's a bigger problem than it used to be. All the insurers at the Prague insurance conference agreed insurers need a triage tool."

Inflation plays a part too. Medical inflation, which is typically twice as high as nominal GDP growth, seems to have slowed down. However, the projected global inflation rate from the Institute for Fiscal Studies sits at below 6% – meaning providers and consumers will be paying 4% above the rate of inflation on average for coverage regardless of where general medical inflation sits. But insurers are still paying for care costs inflated by high energy bills and more expensive wage bills.

A German provider tells HBI that a competitor has seen their energy bills jump from €9m a year to €54m per year: "They cannot simply pass this on to the consumer so on the provider side this is really serious and I expect without proper support many will go bankrupt. Materials are up around 13%, wages are up 5-7% when they're usually at around 2%. Insurance is going up for

many reasons, but generally these price increases – especially in the ambulance sector – are the reason."

A Dutch insurer tells HBI that because of inflation, statutory contributions in the Netherlands are going up in absolute (nominal) terms, but not as a percentage of GDP: "These contributions are linked to wages, so inevitably they will rise quite high in absolute terms as many unions are demanding pay rises of over 10%.

"As for PMI, the prices are negotiated between the industry and providers, and the payors are asking for increases of 8-15%. For patient insurance, i.e. private doctors, the premiums will increase along the inflation rate which is close to 10% as well."

However, a Swiss insurer told HBI that in Switzerland – the European country worst hit by premium rises – the increase has nothing to do with inflation: "This has nothing to do with rising energy and material prices, but instead the costs of catching up with care delayed because of the pandemic."

It is not all doom and gloom, however. In France, another country with a statutory insurer, hospitals seem to be fairly insulated from the price hike. Stephane Pichon, managing partner of real estate and healthcare consultancy Your Care Consult, said: "In France it's a peculiar situation because hospitals are paid 80% of their pre-COVID turnover regardless of the number of procedures they do, and fewer than 20% of patients have PMI. A potential increase is possible, but it wouldn't have a huge impact, unlike in Switzerland and Portugal.

"But the statutory insurer is a social charge, and that will go up on the employer and employee's payslip, and operators will try and charge more for the same service. Another important thing to note is in France we have relatively low inflation – around 6% – because of the shield on energy. That's being paid for by deficit, so it's not necessarily sustainable."

One estimate is insurance premiums will go up in France by 4.5%.

HBI is told patients also deserve some of the blame for soaring premiums, with sedentary lifestyles and an ageing population increasing risks for insurers. At a recent conference, the CEO of AXA reinsurance said payors are “running out of healthy lives to insure”.

OUR ANALYSIS: Insurance costs will likely continue to climb. An ageing population with ailing health fuelled by more food and less exercise means a smaller workforce and a larger cost burden on providers – and less healthy people to insure to prop the system up.

Digital triage programmes can help, but diagnosis by Zoom is not always the best option and doctors shouldn't be spending time triaging patients who don't need their intervention. And when companies such as AXA are already using digital triage and yet prices are still going up, it's clearly only a partial solution.

UNITED KINGDOM AND IRELAND

Optegra for sale

UK-based ophthalmology group Optegra is for sale, with three groups through to the second round. HBI speaks with three sources to find out more.

A UK-based source tells us: “It's on the market. IMs have been out a while, a lot of due diligence has taken place. It's worth noting that Optegra has, to a degree, gone down the (cataract-focused rival) Spa Medica route. They've swung away from multi disciplinary to single speciality almost, and that may be a factor in the sale.”

The group is owned by Western European investment group H2 Equity Partners, which acquired it early in 2021.

A large proportion of Optegra's revenue comes from its UK base, but it also has a significant presence in the Czech Republic and Poland.

A second continental-based operator source adds: “I see Optegra as a bet into further outsourcing and waiting lists remaining high, which you can put a question mark to, since the NHS will at some day come to discuss its tariffs.

“You can argue pricing is too high – and if someone could establish good relationships with local NHS contacts you could replicate the model at a lower price.”

HBI understands private equity groups Partners Group, CapVest and MidEurope are in the second round of the auction. A source tells HBI that Switzerland-based operator Sanoptis AG is out, as is US-based investor Ares Management.

Confusingly, HBI hears from a single source that MidEurope remains in at £230m, while Partners Group is in at £330m, making it the highest bidder. At the latter price, HBI understands this would represent around a 14x EBITDA margin.

A third source, based in the UK, tells us: “In the current climate, given that SpaMedica went for around 16x, it looks like a decent price. There's some risk with any business doing a lot of NHS work – the NHS is at some point going to look at the extent to which the private sector is operating here and say, hold on, we have nowhere left to teach and no space left to operate in and that could lead to a political/ideological intervention.

“But, without a question, Optegra is a well-managed and well-run business.”

Meanwhile in Germany, HBI has heard nothing recently regarding the prospective sale of Germany-based ophtha group Artemis Augenkliniken (currently owned by private equity firm Montagu), which multiple sources expected to sell after the summer with Goldman Sachs reportedly advising.

A source tells us buyers might be waiting for prices to drop: “The German market has become very competitive, in terms of valuation after (the sale of) Ober Scharrer, and multiples have gone mad, pushing into the high teens now. I don't think those multiples are sustainable when you are looking at service companies where you have to replace your kit every seven to eight years. It's not viable.”

Optegra, and the three groups reportedly still in the bidding, have been contacted for comment.

Transform Hospital Group closes clinics and lays off staff to secure its hospitals' future

Transform Hospital Group, a financially troubled UK-based medical aesthetics, cosmetic and weight loss surgery-focused business, has been forced to lay off staff to secure its future.

The group operates from two hospitals in South Manchester and Bromsgrove, and runs 11 clinics across the UK. It went into administration on Friday 11 October this year.

A spokesman for administrator Interpath Advisory, said: “Following a period of poor trading performance during which management concluded it had insufficient working capital for the company to continue to trade (...) the company engaged Interpath Advisory in September 2022 to help them assess the options available to them. After exploring these options, management concluded that it was in the best interests of creditors to place the company up for sale.

“This process resulted in the sale of certain parts of the business and assets of the company through a pre-packaged transaction.

“Immediately following their appointment, the joint administrators sold the two hospitals in South Manchester and Bromsgrove as going

concerns, along with certain assets relating to the clinics, to Transform Healthcare Limited and Y1 Global Assets FZE. A total of 311 employees will transfer to Transform Healthcare Limited as part of the transaction.

"Regrettably, a total of 47 employees working at the company's 11 clinics have been made redundant. The joint administrators and their team are providing assistance to these employees, including supporting them in making claims to the Redundancy Payments Office."

Howard Smith, managing director at Interpath Advisory and joint administrator, said: "We are pleased to have been able to conclude a transaction which secures the future of the two hospitals in Manchester and Bromsgrove, and which safeguards a significant number of jobs. We'd like to extend our thanks to all those who helped deliver this outcome within a short timetable, and wish Transform Healthcare all the best for the future."

The deal saves more than 300 jobs, but will result in the closure of 11 clinics. The group's two specialist hospitals – The Pines in Wythenshawe, South Manchester and Burcot Hall in Bromsgrove, in the West Midlands – will stay open.

HBI understands that, having saved its flagship hospitals, the group, led by Tony Veverka, the chief executive of Y1 Global Assets FZE and former chief executive of Transform Hospital Group, will transition to a more general surgical provider which still provides services in weight loss and cosmetic surgery.

A spokesman for the group tells HBI: "Transform Hospital Group has been rescued from administration in a pre-pack transaction, safeguarding 311 jobs and providing security for a significant number of self-employed surgeons and healthcare practitioners. The independent healthcare and wellbeing provider, which operates two specialist hospitals in Bromsgrove and Manchester, has been purchased by

Y1 Global Assets FZE and Transform Healthcare with a commitment to build a strong future for the business.

"Newly recapitalised, there are plans for the business to grow as it continues its transition to become a more general surgical provider, while maintaining its specialisms in cosmetic and weight loss surgery.

"The business' 11 clinics around the UK were not part of the purchase and will regrettably close, affecting 47 jobs. Transform Hospital Group has committed to honouring continuity of care for all patients."

Veverka added: "We are very pleased that the future of the business and many jobs have been secured, and plans are already underway to bolster the company as we begin this new chapter. Our focus is now firmly on the surgical services provided in our flagship hospitals by our expert clinical and support teams. Under our new ownership, these services will continue to expand and strengthen."

A UK-based consultant tells us: "It did well in COVID because it got NHS revenues; post COVID it realised it could get revenue from the NHS and also other cosmetic surgery companies. (Private equity owner which exited in August) Aurelius sold the hospitals to property investors off the back of that and got most of its money back. I don't know if the new owners have enough money behind them to wait until things get better – clearly with interest rates up and inflation high people have less money in their pockets for cosmetic surgery."

Leonid Shapiro, partner at consultancy Candestic, tells us: "Transform has always been owned by turnaround groups since the PIP scandal. Like all cosmetic groups in the UK, Transform was implicated in the PIP breast implant scandal in 2010. Pretty much every company that did breast implants went bust. So Transform was acquired by turnaround people. For the past seven years it was owned by Aurelius,



HOWARD SMITH,
Interpath Advisory

and I'm not sure why it took Aurelius seven years to fix it. I guess they tried to fix it over that period, then COVID happened, but it is surprising if it's still losing money given the bounce back we have seen with other operators since lockdown restrictions ended."

UK nursing homes: "We pushed back on fees, they stopped sending patients"

Are local authorities paying the right rate to the for-profit operators looking after our elderly – and what happens when operators push back and demand more? HBI catches up with Sanjeev Kanoria, the outspoken chairman and co-founder at private care provider Advinia Health Care.

Kanoria tells HBI that insisting on a "fair" rate of pay means he simply loses business, and his facilities simply won't be considered: "Local authorities/CCGs should be paying the right cost of care. It is their statutory duty. But they have significant market power, and they refuse to pay the right cost of care and have their own inappropriate models of costing.

"If a provider insists on the right cost – they just stop placing residents as has been our experience numerous times.



SANJEEV KANORIA,
Advinia Health Care

"Most providers have between 70 to 90% residents funded by local authorities and CCGs and this poses a significant challenge to the sustainability of the sector. Private residents have to not only fund their care but subsidise local authority/CCG residents to some extent."

The UK Office of National Statistics reports that in 2021, over 65% of all older care residents in England were self-funded, but overall occupancy for older person care home beds in England was at 77.8%, down from the pre-pandemic occupancy levels of over 87.4. HBI sources suggest that occupancy rates, although slow to recover, have rebounded to around 82%.

What about high dependency residents? Is there leeway there? Kanoria says not, and it is leading to a race to the bottom in pricing, and, inevitably, in quality: "Even if we provide evidence that one-to-one care is needed due to highly challenging behaviour, and that a resident has, say, urinary and faecal incontinence, [the authority] is reluctant to increase fees and it keeps delaying assessments."

"How can one carer look after four residents with such high needs? It's not possible. The authorities just say 'we can't pay higher fees, it is not in the contract' or that the provider nearby will take the client for much lower fees. This

compromises quality of care."

He adds that local authorities/CCGs blame the govt for not funding them, but whatever money they receive is "used up to fill their own financial black hole".

So what is a fair rate in the UK? "A minimum of £1,100 per resident per week which is then adjusted based on dependency and reassessments done regularly".

This is not happening.

The result, Kanoria says, is "a vicious cycle of hospital bed blocking by older people and the subsequent pressures on the health services which will not stop". Indeed, the problem will only get worse.

"Local authorities and CCGs use their market power to play providers against each other. We experienced this in the beginning of the year so last when we pushed back on low fees – and placements stopped. We had to reverse our policy. Even presenting objective evidence had no effect."

Kanoria – usually optimistic in our experience – reaches an uncharacteristically gloomy conclusion, at least for the moment: "The vicious cycle of older people blocking the 100,000 hospital beds available to the 63 million population of UK will not be broken. And a broken health service impacts the health and well-being of the working age population and economic growth will be affected."

Four Seasons facing breakup, final portfolio sales may not conclude until H2 2023

HBI understands a portfolio of homes owned by troubled UK elderly care operator Four Seasons will likely have to be split for sale, and some of these homes are not expected to sell until H2 2023.

A spokesman for Four Seasons Care Homes (FSCH) tells HBI the sale is "complicated", as the contract

conditions specify that all the homes should continue to run as nursing and care businesses, adding: "In terms of timing, the sales process is expected to complete in the second half of 2023."

Could the delayed sale be due to the geography, or nature of the assets? HBI has called a number of UK based operators and none expressed an interest in buying anything in the remaining portfolio, but HBI understands Christie & Co, the business broker in charge of the sale, has been receiving offers for parts of the portfolio.

The sale of the homes, with a total of 6,054 rooms, is an instruction from Alvarez & Marsal who are the administrators of Elli Investments, the owners of FSCH. Confirming that the homes would not be sold as a bulk portfolio, an administrator referred to a number of "sites" being for sale.

When the FSCH sale was announced in the summer, Christie said that "first bids should be in by the end of September". That deadline was extended to "early autumn" when HBI enquired what was happening. So far Christie executives have not provided details, saying only: "We have received extensive interest in the Four Seasons Healthcare Group from a wide range of parties including real estate investors, corporate buyers, regional groups, and small and medium sized operators."

Michael Hodges, MD – Care Consultancy at Christie, originally told HBI that the broker aimed to sell the full portfolio of 111 freehold and long lease care homes, trading under the Four Seasons and brighterkind brands. But when pressed, he admitted that some risk averse bidders might prefer to purchase fewer homes.

Two clients had asked for value and due diligence advice about potential FSCH purchases, an agent of a large competitor told HBI. One was interested in three homes in the portfolio and the other a single home. Due to staff shortages and costs they decided to withdraw, the agent said.

Is this market in trouble, or are FSCH's difficulties unique to it? "Despite recent economic challenges the care home real estate market remains active," maintains Mike Hatton, a founder of Knightstone Healthcare, business brokers that specialise in the sector. "The market remains resilient, and provided pricing is maintained at sensible levels, there will always be firm demand," Hatton says. "In helping firms sell their care homes, brokers need to analyse the businesses and assist with advice on core issues that may be restricting profitability.

"For example, assistance with the Home Office "certificate of sponsorship" scheme can help care providers provide foreign applicants visas to counter staff shortages. This helps raise profitability, and ultimately, the sale price."

Knightstone's latest deal comprises six purpose-built homes with an EBITDA of £3 million. At a multiple of 7.5 they are on offer circa £22.5 million.

Elsewhere Liam Prickett, Associate Director Healthcare at Colliers, is seeking bids for former 47 bed Well Meadow Lodge and 37 bed Wellmeadow House in the Newton Mearns Glasgow area. Both are refurbishment and development prospects.

CBPE Capital buys rapidly expanding UK varicose vein treatment chain

Dermatology is hot right now. UK private equity firm Palatine has sold its stake in Veincentre, the UK's largest chain varicose vein treatment provider, to CBPE Capital (another UK private equity group). This follows the acquisition of Dutch dermatology group Mauritskliniek last month.

HBI understands Veincentre was acquired by Palatine on the basis of a £5-6m EBITDA. Since Palatine acquired a significant minority stake in Veincentre in 2019 (for £10m) it has grown the chain from just seven clinics to 21. Revenue has also almost tripled

during this period. HBI understands CBPE Capital has plans to continue this aggressive growth path over the coming years.

Given this, the transaction could have valued the chain at as much as £100m (enterprise value).

Leonid Shapiro, a partner at consultancy Candestic who advised CBPE Capital on the deal, tells us: "It's a growing market, the current growth rates are in the high single digits."

Veincentre prides itself on having improved access to varicose vein treatment and alleviated the burden on the NHS.

"The NHS is increasingly covering only the major end of varicose vein treatment, and often with extensive wait lists, hence lots of people, even those with relatively severe and symptomatic disease, are having to go private," explains Shapiro. "So there is a lot of space for Veincentre to expand.

"There's also a large amount of latent demand. Demand is very much based on awareness of availability. If you don't know that varicose veins can be treated quickly and painlessly in a short outpatient procedure, and you don't know that there's a clinic nearby that can do it, you just live with it."

"Chief executive Maurice McLoughlin and his team have done a great job in creating the largest dedicated venous insufficiency business in the UK. It is a well invested business, substantially ahead of the smaller competitors, and we expect it to grow rapidly."

The opportunities in the market for treating varicose veins are not limited to the UK. Last month saw the sale of Mauritskliniek, a Dutch dermatology group which provides services for a range of skin issues, including varicose veins, to German dermatology chain Corius Gruppe. Corius currently has several clinics across Germany and Switzerland, but this is the group's first foray into the Netherlands.

AcalisCare acquires in Scotland with plans to be one of UK's largest operators

Scottish nursing home group Balhousie has been acquired by Belgium-based elderly care group AcalisCare. HBI speaks to Lieven Baten, partner at AcalisCare and the new chairman at Balhousie, about plans for growth inside and outside of Scotland.

AcalisCare has operations in Belgium, Turkey, Chile, Colombia and Uruguay. In Latin America it operates under the AcalisCare brand, but in Belgium and Turkey it operates under the brands of its subsidiaries (My-Assist in Belgium and Evin in Turkey). Balhousie will also continue to operate under the Balhousie brand.

"With Balhousie we are buying into a platform that is a respected brand and that has potential to grow," explains Baten. "We're planning to grow the business within Scotland as it is a Scottish brand."

Balhousie operates 26 homes with a total of around 1,000 beds. The plan is to grow this to 2,500 beds over the next year.

AcalisCare also has plans to expand into England: "We are in the process



LIEVEN BATEN,
AcalisCare

of acquiring a few other businesses in England. The UK is where we are currently focusing on to grow, we want to grow to 5,000 beds across the UK in five years and be one of the largest operators in the country. We are also in the process of making acquisitions in other major European markets."

As to whether there are plans to expand into other areas of elderly care such as assisted living, he says that in the long-term this is possible, but that the "primary focus is nursing homes and specialised care".

Recently the elderly care sector has received a lot of bad press in France in particular. But Baten is confident about how the reputational risk that comes as an inevitable part of working in the sector should be handled: "You need to deliver quality care and have very open conversation with all of your clients."

"Of course things can go wrong. But how you communicate, act and react is key. We prioritise quality of care, transparency and open communication with all of our stakeholders (residents, family, suppliers, employees, etc.). This is what all my colleagues are trying to do on a daily basis."

He is also confident that the fundamentals of the sector will remain strong, despite decreasing AVLOS (average length of stay): "AVLOS is decreasing and that's a good thing. The big difference between 20 years ago and today is that the people coming into nursing homes now are very frail and need 24/7 care. This is a big shift with the past, where people walked in and were quite independent throughout their stay."

"But there are other factors impacting demand. As well as the ageing population, birth rates are declining and there are an increasing number of single people. If you don't have children and have a smaller social network, you have to rely on institutions to care for you when elderly."

"COVID has proven that the health

and care sectors are essential and sustainable, from the investor point of view and society's point of view."

UK CMA gives Rodericks-Dental Partners merger green light

The CMA, the UK's competition authority, has given the green light to the merger between NHS-focused UK dental group Rodericks Dental and rival Dental Partners.

In August, the CMA raised concerns that the deal "could lead to reduced choice for patients in... two areas (parts of Doncaster, Yorkshire and Alfreton, Derbyshire), where the availability of NHS dental appointments is already limited", which led to an inquiry being launched in June.

In response, Rodericks' PE owner CapVest Partners offered undertakings to divest two dental practices "each either belonging to Rodericks Dental Limited or Dental Partners Group Limited".

This move was sufficient to appease the CMA, which announced on Friday 7 October that it had accepted the undertakings.

Opportunities in Irish dentistry

The dental market in Ireland may not be the largest in Europe, but it is largely (80% plus) a private market with very little consolidation. So why haven't we seen more consolidation? HBI speaks to a market expert to find out more.

With all European investor eyes on the opportunities in German dentistry, and recent activity in the UK, Ireland is often overlooked. This is despite the top five players (which includes Bupa Dental Care, and Dental Care Ireland) having barely 6-7% of the market.

Our source explains: "There are opportunities. Most practices don't do any publicly funded work. It's all private."

Ireland is a smaller country and there's only so much the government can fund. This market is ripe for consolidation, particularly in places like Cork, which is almost viewed as a separate country. But it's a tough nut to crack. Even Bupa hasn't done it, though it tried. Portman came in a couple of years ago too. But there's a way to go and it's behind Bupa and Dental Care Ireland, which are the number one and two."

Why is it so fragmented still? "For one, Dentists themselves are still quite snooty about corporates, fearing a cost cutting/bulk buying mentality. Also, they call Ireland one big village. People know the butcher, they know the doctor, and they know the family dentist. They go to see a person, not a corporate entity."

"And third, technically, companies aren't allowed to own dental companies under the Dentists Act, 1985. Only qualified dentists can own a practice."

HBI understands this prohibition is widely ignored, and never prosecuted, however – and the tide is turning. "Other sectors, like veterinary, have allowed corporates in, as has fertility, so there's no reason dentistry should be different. There has been consultation to bring in a new framework, but at the moment it doesn't seem forthcoming."

The global worker shortage is also hitting Ireland: "There's a shortage of dentists and nurses. Insurance is higher here than, say, the UK, and the personal tax rate is higher and this has an effect."

Our source adds: "An operator told me once there are only 20 or so practices left in Ireland worth buying and the rest are too small – lifestyle practices. I don't agree. As a corporate, or PE fund looking to consolidate, you won't make mega bucks – but if you can find and buy the good practices, it's a safe bet with a well-heeled population, especially around Dublin."

The HBI Intelligence report covering the Irish dental market will be substantially updated shortly.

GERMANY

Is Elliott stake a step towards Helios breakup?

American investment management firm Elliott has taken a minority stake in Fresenius Helios, the largest hospital group in Europe by revenue. The move prompts fresh questions about Fresenius' new CEO's intentions for the company.

One operator, who formally worked in the German hospital sector, thinks the minority stake could be a gateway to a breakup. Fresenius Group is comprised of four independently operated business segments including Fresenius Helios. Fresenius Medical Care specialises in chronic kidney failure. Fresenius Kabi supplies essential drugs, clinical nutrition products, medical devices and services to help critically and chronically ill patients, while Fresenius Vamed plans, develops and manages healthcare facilities.

Our source tells HBI: "I would say this was probably coming for a while. The synergy between the Fresenius subsidiaries has not been realised and there's a greater potential in going separate ways. I'm sure it follows the same logic as the breakup at Siemens

which Michael Sen was a part of. It was on the cards for a while, and they got someone in who they thought would be the right person to do it."

Fresenius SE had been seeking a minority partner for its hospital group since at least July, and HBI recently reported that rumours persist it also plans to sell off Helios' Spain-based subsidiary Quironsalud. Outlets such as Bloomberg and German business paper Handelsblatt suggest the move is indicative of Fresenius' wider plans to break the company up – another much-touted rumour which Fresenius itself has denied.

Michael Sen, Fresenius' new CEO, promised a "future Fresenius" in a video message released on his official appointment on 1 October, and said no one could be satisfied with the progress of the conglomerate and its share price. While Sen was previously responsible for the breakup IPO of Siemens Healthineers, HBI has been told by those close to both Siemens and Fresenius this may not be part of his strategy going forward – although common consensus among those outside the company is a break up is imminent.

It is not clear what Elliott's share in the company will be, but investors must disclose any stake once it crosses a threshold ranging 3% to 30%. This would be a threshold in the entirety of Fresenius SE, as Helios is a subsidiary which is not privately traded. Fresenius SE's stock is up 1.9% since 21 October, and currently sits at €22.14, but this is far from its 52-week high of €42.50.

A spokesman for the group tells HBI that CEO Michael Sen has publicly confirmed that there has been contact with Elliott and that the group's shareholders' "views on Fresenius' potential will be taken into account in our ongoing review and analysis. This is in line with our general approach of maintaining an open and continuous dialogue with all our investors." The group is on record saying no banks have been mandated for the sale of Helios.

OUR ANALYSIS: Finding a minority partner for Fresenius Helios does not automatically mean Sen plans a break up, though many commentators have suggested its proof of intent, and pointed to Sen's break up experience- even suggesting Sen has a dislike of hospitals. It could also be true Fresenius was simply looking for an investor and raising capital at a time when a loan is harder to come by.

It is also possible Sen, in referring to a "future Fresenius", wants to focus less on brick and mortar inpatient care, especially when Germany has a problem with an oversupply of hospitals – recent reforms in the German hospital market have pushed the country towards cheaper ambulatory care. The broader point is this: Sen's plans seem a total enigma. Perhaps more will be revealed on November 1, when Fresenius releases its quarterly results.

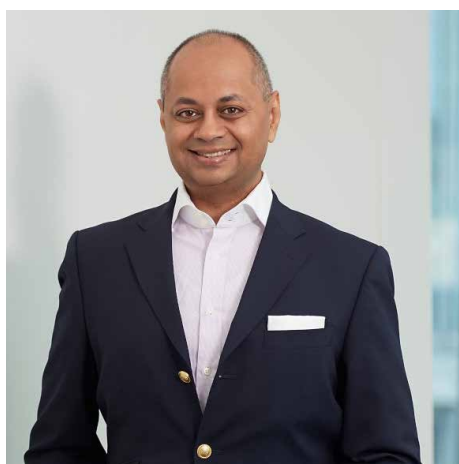
SPAIN

CVC to buy back Quironsalud?

Rumours circulate that Quironsalud, the Spanish hospital subsidiary of hospital chain Fresenius Helios, may be sold to private equity firm CVC or KKR, HBI hears. But others say the new CEO of Helios' parent, Fresenius SE, is unlikely to go for the strategy and suggest the dialysis arm could be put on the block instead.

Reuters suggests that KKR and CVC were looking at buying a minority stake in Quironsalud. Fresenius SE had previously floated the idea of selling a minority stake in Fresenius Helios.

CVC was the previous owner of Quironsalud and Inaki Cobo who ran CVC's healthcare arm has now moved to KKR, which nearly bought



MICHAEL SEN,
Fresenius

Ramsay Healthcare earlier in 2022. An investment banker said: "I'm sure both CVC and KKR would be interested in Quiron."

A Spanish provider says Sen's reported apathy towards hospitals means the entire hospital division, including Helios, could be in the firing line: "Apparently, the new CEO doesn't like hospitals and he is willing to sell the entire package. I don't know if that means only Quiron or Quiron-Helios."

But Quironsalud managers told HBI that such a deal was unlikely given Quironsalud's huge (and recent) investment in Latin America. An advisory source also thought an immediate sale unlikely: "Both Fresenius SE and the dialysis arm Fresenius Medical Care which has a separate listing got new CEOs, Michael Sen and Carla Kriwet, on 1 October. I would expect them to take 100 days to formulate their strategy and to announce it in February 2023 with the full year results."

He added: "Fresenius has quite high levels of debt, and selling anything now would be quite weird given the fall in asset value. Quironsalud is also a key asset for it. If anything it might sell its 38% stake in Fresenius Medical Care – but why do it now when it's trading at a 10 year low?"

"It also wouldn't be very logical given where this would leave Helios in their aim of building a global hospital brand. It would destroy all business logic." Fresenius SE announces its Q3 results on 1 November. Watch this space.

OUR ANALYSIS: The possibility of the sale comes as Sen, who was previously responsible for the break-up IPO of Siemens Healthineers, was appointed. Sen has promised a "future Fresenius". In a video message he says: "None of us can be satisfied with the performance of the last years, which is reflected in the Fresenius share price development. At the core it is about charting a new course and new direction for the

company." He did not specify what this new direction was – but, as our source says, he probably doesn't know yet.

This hasn't steadied the ship much. Since Monday 3 October, shares in Fresenius SE are down 8.1% from €21.82 to €20.05. Fresenius Medical is down 7.4% from €28.80 to €26.55. Both are well off from 52 week highs of €42.50 and €63.66 respectively.

HBI has frequently reported on an ongoing controversy over whether or not the conglomerate would be better served by breaking up. Sen has break up experience, and it's clear the different subsidiaries have radically different narratives making it hard to tell a consistent investor story.

FutureLife enters Spain and Italy

FutureLife, the Czech Republic-based fertility company, has entered Spain and Italy with its latest acquisition. Owned by PE companies CVC and Hartenberg Holding, the group has acquired Institut Marquès (IM), an assisted reproduction company based in Barcelona with clinics in Spain and Italy.

IM is being sold by its Catalan-based founding family owners in a deal brokered by Álvarez & Marsal (financial advisor) and Andersen (legal advisor) to the Spanish company, with FutureLife advised by Cuatrecasas (legal) and Mazars (financial and tax).

A European dental operator tells us the decision to enter Spain and Italy is "a very good strategic move".

He adds: "First, Spain is well known for access to anonymous egg donors and a hub for IVF tourism. Second, Italy is a primary feeder for Spain given the numbers of patients who are seeking donor treatment. And third, FutureLife continuing to diversify its portfolio outside of the Czech heartland with

Spain means it is also able to meet the need of some of the Northern European positions – Ireland, UK & Netherlands."

IM, which is over 100 years old, is an internationally renowned centre for gynaecology, obstetrics and assisted reproduction. Its founder, Dr. Vicens Marquès i Bertran, began practicing as a gynaecologist in 1922. One of the largest fertility clinics in Spain, it performs more than 3,000 egg collections per year, operating three clinics in Spain and two in Italy.

Matěj Stejskal, CEO and shareholder of FutureLife, said: "With the acquisition of Institut Marquès, we continue partnering with the top clinics in Europe focusing on patients and their overall experience during fertility treatment. We are very excited about our partnership with Dr Marisa López-Teijón, one of IVF's most visionary and influential individuals, and together with her we aim to continue to advance the field of assisted reproduction. Furthermore, we are pleased to support Dr Borja Marquès-Teijón, the new medical director of the company and the fourth generation of the Marquès family in the ongoing development of the company, and participate in their family legacy."



DR VINCENS MARQUÈS I BERTRAN,
Institut Marquès founder

FutureLife is a rapidly expanding player, with 45+ clinics in eight European countries performing around 45,000 IVF cycles annually, while also offering laboratory services, biological and surgical treatments.

Spanish “health robot” telehealth start-up to go international

Spanish digital health start-up Homedoctor is looking to go international. The company is reportedly looking for an equity investor to fuel expansion, with the aid of professional services firm KPMG.

The company is looking at potential venture capital investors both inside and outside of Spain to make an investment of €20-30m to help grow the business, according to multiple sources cited by Spanish business and finance publication *Expansión*. Just €5m has been invested in the start-up to date.

Currently Homedoctor only serves customers in its home market Spain, but the company reportedly has plans

to expand into Portugal, France and Italy in a first stage of international expansion, and then the UK, Germany, the Netherlands and Belgium later on. It is also looking into opportunities outside of Europe, in Latin America and the Persian Gulf.

Homedoctor was founded in 2017 and provides remote monitoring and telehealth consultations to 50,000 mostly elderly subscribers in Spain. The company provides its customers with a ‘health robot’ to install in their home. The electronic device checks vital signs and sends the data to Homedoctor’s medical team, who can immediately send an ambulance if required. The company also provides telehealth consultations with specialists in pediatrics, gynecology, internal medicine, dermatology, psychiatry, pneumonia, sports medicine, rehabilitation and nutrition.

The company expects to achieve a turnover of €4m and a low-but-positive EBITDA this year, and grow to €10m revenue by more than doubling its customers in 2023.



HOMEDOCTOR'S REMOTE MONITORING TELEHEALTH UNIT

BENELUX

Buurtzorg expands into nursing homes

Netherlands-based medicalised homecare specialist Buurtzorg is expanding into nursing homes. HBI catches up with a Dutch healthcare expert to find out more.

The group provides at-home healthcare across the Netherlands through more than 10,000 employees in 900 teams of up to 12 nurses, taking care of between 40 and 60 people within a particular area, serving 70,000 patients per year.

Dutch health care consultant Rune Aresvik from Vardetun says: “Buurtzorg has started developing small-scale physical elderly care locations. The building will be based on wood and will be built as prefab in a factory. Due to the low building costs rental costs will be below the limit for rent subsidies.

“The main idea behind the small locations is that these can be built in local neighborhoods enabling the elderly clients to keep their social networks.

“CEO Jos de Blok has an excellent reputation. He is also known as someone with strong opinions and who is not afraid of having public arguments with healthcare insurance companies and the government about how healthcare should be organized and financed.

“He believes in “de-medicalising” nursing home care, and expects that the social network of the clients can conduct many of the tasks now done by staff in a nursing home. It will be financed by VPT (long-term care at home), and will probably be provided by local Buurtzorg homecare teams.

The move follows Buurtzorg’s expansion into mental health with its Buurtzorg T offering.

Aresvik adds: “The first ‘BuurtWonen’ (‘neighbourhood living’) location is

under development and the plan is to develop one thousand apartments in one hundred municipalities. This will definitely be a good step in addressing the growing need for senior living in the Netherlands, and Jos de Blok is typically successful in what he decides to do."

According to HBI Intelligence, the group had revenue of around €470m last year.

NORDIC REGION

Attendo Stockholm contract will not be extended after court convictions

Pan-Nordic listed care provider Attendo has lost one of its contracts with the City of Stockholm to provide nursing home care. This follows the conviction of two Attendo employees earlier this week for violating whistleblower protection law when they reprimanded a carer employee for speaking to the press about the state of care in one of its homes during the height of the first COVID wave in 2020.

The City of Stockholm has decided it will not extend its contract with Attendo to provide care via Sabbatsbergsbyn nursing home (in central Stockholm), after the home in question became the subject of a scandal that resulted in the conviction of two Attendo employees for violating a law protecting whistleblowers.

Elderly and cultural citizen councilor Torun Boucher said on Thursday the decision was a direct result of the court's verdict: "We are not extending the agreement for Sabbatsbergsbyn. The verdict was a signal that things are not working at the residence, and that they turned a blind eye and did nothing about [the alleged issues]."

Attendo's share price fell 11% on Thursday morning. It has since regained 5%, currently sitting at 21.3 SEK.

Attendo care assistant employee Stine Christophersen spoke to Swedish newspaper *Expressen* in May 2020, alleging that proper precautions were not being taken to prevent infections spreading in the Sabbatsbergsbyn home where she worked.

Christophersen was reprimanded by her managers shortly after the article was published, receiving a written warning (which was later withdrawn). But Christophersen secretly used her mobile to record the meeting where two managers and an HR representative handed her the warning, and the whole affair ended up appearing in a documentary in September 2021.

In April of this year the two managers and the HR representative were charged with violating a law protecting whistleblowers which came into force in 2017. This is the first time a company has been prosecuted under this law in the Swedish courts.

The defence maintained that no crime was committed given that the warning did not specify any consequences for Christophersen's actions and that it was only handed down because she provided "false information" about another employee in a clip that was posted on YouTube, a medium not covered by the law.

But on Tuesday 18 October the Attunda district court convicted one of the managers and the HR representative, but acquitted the other manager.

HBI has contacted Attendo for comment.

SWITZERLAND

Swiss Medical Network subsidiary to become country's first payor-provider

Hôpital du Jura Bernois, a subsidiary of Switzerland's second largest hospital group Swiss Medical Network, is to become the country's first integrated

payor-provider, after health insurer Visana bought a 32.4% stake.

From 1 January 2023 it will offer insurance alongside its hospital and outpatient services to inhabitants of the Jura Arc region. The move will see Hôpital du Jura Bernois, which employs close to 1,200 people and serves 50,000 people in the Jura Arc region, rebranded as Réseau de l'Arc. Swiss Medical Network will stay on as a minority investor, holding a 35.1% stake.

Aevis Victoria, the Swiss holding company that owns 90% of Swiss Medical Network, said its consolidated turnover for 2023 "will decrease following the deconsolidation of Réseau de l'Arc. The overall profitability of the group will however increase, which will reinforce the value of the participation in Swiss Medical Network".

Aevis adds it hopes do more such deals in the future "in order to contribute to the improvement of health care services" in Switzerland.

GREECE

Henry Dunant-Euromedica merger unlikely to sell for three years

The company formed as a result of the merger between Euromedica and Imitheia, the parent company of Henry Dunant, Greece's largest private hospital, is unlikely to sell for three years, HBI hears.

In August, the Greek Competition Commission approved the acquisition of a 100% stake in Imitheia by Blantyre Capital. The transfer from Piraeus Bank precipitates the merger of Imitheia with another clinic operator, Euromedica.

An operator in the market tells HBI the product of the merger is unlikely to sell for a while as the potential for growth is substantial, and the owners are likely to want to maximise this opportunity for

at least three years. He adds it is also unlikely to sell at the moment because debt markets are largely closed.

Henry Dunant claims it is the largest private hospital in Athens with an overall capacity of 462 beds. Despite this, it only reported a revenue €44.4m in 2021, 19.5% of Athens Medical Centre's revenue in the hospital sector. HBI estimates the combined revenue market share of Henry Dunant and Euromedica at 11.6%.

Private equity house CVC, previously touted as the only potential buyer, is understood to face an uphill battle to buy should it want to as the PE house already owns between 30-40% of the Greek market, and thus would likely face resistance from competition authorities.

However, HBI hears that some have cause for concern and see the new entity as quite a threat: "CVC doesn't like the merger because Henry Dunant is a very good hospital which hasn't unlocked its growth potential yet. Competitors are afraid the merger will unlock these opportunities against and disrupt prices and volumes."

HBI have also heard rumours St Luke's is up for sale. They have reached out to a provider from the Greek hospital for comment.

OUR ANALYSIS: With CVC holding a large chunk of the Greek hospital market, they not only have vast expertise of the market but in creating efficiencies and unlocking potential, they would also be experts at recognising where the opportunities lie. So while CVC may know what they would do and what could be done, the real threat only comes if Blantyre Capital puts the right team in to exploit these opportunities.

It does beg the question though, if Henry Dunant alone was a gold mine why did CVC not make a play for Imitheia? Surely pre-merger it would

have been an easier proposition for the Greek Competition Commission. Now, especially given the competition authority's reported resistance with CVC's acquisition of insurer Ethniki, purchasing an entity worth a further 10%+ of the market seems a definite no go.

CENTRAL AND EASTERN EUROPE

Polish healthcare normalising after refugee influx

Both for-profit and public healthcare operators in Poland have been struggling to cope after the huge influx of Ukrainian refugees. HBI speaks to contacts in Poland to find out more.

Poland has the one of the lowest per capita spends on healthcare in the European Union, and an under-pressure NHS system coupled with a public health insurance fund (the NFZ). Millions of refugees flooded over the border from Ukraine following Russia's invasion.

John Stubbington, chief operating officer at Medicover Healthcare Services, an insurance company that also owns hospitals and diagnostic centres, tells HBI: "When the war began and there was a flood of Ukrainian families entering Poland, and their children had COVID, flu and other illnesses. There was an enormous strain on paediatricians working in the national health service and for-profit sector."

At its peak, Ukrainians accounted for nearly nine percent of Poland's population but that number has fallen, from over 3 million at its height to around 1.47 million, according to United Nations data – and business at the for-profit healthcare companies supplementing the national health service is returning to normality as Ukrainians slowly return home.

Stubbington says the impact from war is not as bad as it was earlier in the year, but admits it clearly hurt Medicover's own operations in Ukraine.

M&A has continued in Poland, however. Stubbington describes the Polish private healthcare market as fragmented, with numerous small companies. Medicover has made a number of acquisitions in Poland this year, including a €56.1 deal to acquire Centrum DiagnostycznoTerapeutyczne (CDT), a network of hospitals, clinics and laboratories in south west Poland; Poland Gym; Poland Vision Care; Czar-Dent Poland Dental; a mental health hospital and two laboratories.

The war has also brought groups together. The Warsaw Health Innovation Hub Council (WHIHC) comprising Polish medical, pharmaceutical and biotechnology companies negotiated co-operation deals with CEE businesses. These agreements have not only helped Polish healthcare but also other CEE nations that are helping a further 800,000 refugees.

According to Artur Wilk, Manager M&A at Navigator Capital Group, a Polish investment bank, there were 74 third quarter 2022 Polish M&A transactions, despite the war, including healthcare services. "The medical services market is consolidating and changing and will be of increasing interest to local



JOHN STUBBINGTON,
Medicover Healthcare

and foreign investors," he claims. "Tar Heel-backed Dentity and Innova-backed United Clinic SARL, are consolidating the dental market." Innova has also bought Dentaurus and Medicadent Stomatologia.

Scope Fluidics, a private equity "incubator for diagnostics and health protection start-ups", is reported to have sold Curiosity Diagnostics, which detects bacteria and viral infections to Bio-Rad Laboratories for €102m, going up a further €71.5m, if conditions are met.

Last year, the Polish Parliament promised that public spending on healthcare would be at least 7% of GDP or around €48 billion in 2021 compared with 6.4% in 2020 and 6.5% in 2019. Based on national/social health insurance, 72% of healthcare expenditure was the public sector.

The remaining 28% was split between private health insurance (8%) and out of pocket spending (20%), equating to an estimated €24.5 billion, the OECD notes. Out of pocket spending was dominated by pharmaceuticals at 12.6%, followed by outpatient care at 3%, dentistry at 2.2% and inpatient at 0.8%, the OECD estimates.

The WHIHC operates in conjunction with the Polish Medical Research Agency. It consists of entrepreneurs operating innovative medical, technological and legal solutions in the Polish medical, pharmaceutical and biotechnology sectors and cooperates with other CEE nations.

MENA

Saudi healthcare insurance boom

According to the Saudi Central Bank, gross healthcare insurance premiums in Saudi Arabia rose 32% to SR25.1 billion (€6.78 billion) between 2017 and 2021. Healthcare now totals as much as 59.7%



LOAY NAZER,
Bupa Arabia

of total insurance in the rich oil state.

The central bank states that the Kingdom of Saudi Arabia offers a comprehensive National Health Service scheme for all Saudi citizens and expatriates working in the public sector. Besides expatriates, local citizens working in the private sector are required to have some form of employer provided health insurance, according to recent regulatory changes.

Healthcare insurance is expected to grow rapidly, the central bank maintains. The US International Trade Administration (ITA) estimates that in 2022, the government will spend \$36.8 billion (€36.9 billion) on healthcare and social development – 14.4 percent of its 2022 budget.

"Currently government spending accounts for over 60% of the country's healthcare expenditure," the ITA says. "Under "Vision 2030", the government's reform programme, the plan is to invest over \$65 billion (€65.1 billion) to develop the country's healthcare infrastructure."

"During the next eight years the aim is to increase the private sector contribution from 40% to 65% and the target is the privatisation of 290 hospitals and 2,300 primary health centres," the ITA says.

During this time the working populace will increasingly obtain healthcare insurance, states the central bank while the ministry of health promotes preventive and integrated care.

Once an expat-focused industry, Loay Nazer, chairman of Bupa Arabia, a division of the UK insurance company, estimates that local employees now account for 77% of the insurance sector. It has created 17,000 jobs, he calculates.

The central bank adds that eight companies including Bupa and Axa, account for the bulk of healthcare and other insurance trade. Bupa, by far, is the leader.

To improve access to the health service, the Ministry of Health (MOH) plans to launch health clusters across Saudi Arabia. Each cluster will be an integrated network of health care providers serving approximately one million people.

Other MOH priorities include increasing the number of internationally accredited hospitals, doubling the number of primary healthcare visits per capita from two to four, decreasing the rates of smoking and obesity, improving the quality of preventive and therapeutic healthcare services, and expanding digital healthcare innovation.

The Saudi Central Bank (SAMA) and the Central Bank of the UAE signed a Memorandum of Understanding which aims at establishing a general framework for cooperation in supervision and control of their respective insurance sectors.

According to UAE official statistics, the nation spent 4.89 billion dirhams (AED) equivalent to €1.36 billion or 6.89% of the nation's budget on healthcare in 2020.

The World Bank estimates that the State contributes only around 52% of total healthcare spending of around AED9.35 billion (€2.62 billion) in 2020. The remaining AED4.46 billion (€1.26 billion) spending was in the for-profit sector.

Gulf PMI gets lift from Qatar's World Cup

Ahead of the World Cup in November the Qatari authorities have issued a proclamation demanding that some 1.5 million Gulf and other international football fans must have healthcare insurance of at least 50 Qatari riyals (€12). This is a boon to Gulf and other international private medical insurers (PMI) of at least QR75 million (€18 million).

The regulation follows a May 2022 new compulsory health insurance law that applies to all expatriates and visitors to Qatar.

"National insurance companies in Qatar are positioned well to capitalise on the momentum," contends Emma Higham, partner at legal firm Clyde & Co.

The extra lift will add to private medical insurance expansion in Saudi Arabia and United Arab Emirates (UAE).

"The World Cup has the potential to strain public health and preparation is critical," said Dr Hamad Al Romaini, Director of the Health Protection and Communicable Disease Control Department at Qatar's Ministry of Public Health. "Qatar's health-care sector has expanded throughout the last decade. In the public sector alone, we have opened 10 new hospitals and 16 new primary

health centres since 2010. Qatar also opened the region's largest trauma and emergency centre in 2019."

Latest estimates of the World Bank show that in 2019 Qatar spent only 2.9% of gross domestic product (GDP) or €4.2 billion on healthcare. The for-profit sector accounts for 27% of the total or €1.13 billion, the World Bank says. The statements of Al Romaini, however, indicate that overall spending is currently higher. Press and human rights reports, indicate that there has been a scandal of inequality that hurt the foreign workers who built the World Cup stands and infrastructure. A Guardian investigation claimed that there were 6,750 worker deaths and mental health problems were considerable. The Qatar government has issued a denial.

Burjeel sets price for "29x over-subscribed" IPO

Major UAE hospital group Burjeel Holdings has chosen to set its IPO price at just 2 dirhams (\$0.54) per share. It plans to sell 11% of its share capital (550.7 million shares) when it goes public on Monday 10 October, which will raise 1.1 billion dirhams (\$299.51 million) at this price.

The decision comes after the company said last week that it would set the price in a range between 2 and 2.45 dirhams per share.

The decision to set the price at the bottom of the range is a little surprising given that gross demand for the IPO at the end of the subscription period (which ran from September 30 to October 4) was more than 32 billion dirhams (\$8.71 billion) according to the company, "implying an oversubscription level of 29 times".

"The offer price reflects our desire to prioritise a supportive after-market performance post-listing," explained founder and chairman Shamsheer Vayalil Parambath.

The company expects to achieve a

market cap of about 10.4 billion dirhams (\$2.83 billion) when it lists on Monday. "We are delighted that Burjeel Holdings will be one of the largest private healthcare companies on ADX once listed," said Parambath.

Current majority shareholder VPS Healthcare Holdings will continue to hold its 70% stake in the company.

The IPO follows the acquisition of a 15% stake in the company by International Holding Company, an Abu Dhabi-based conglomerate chaired by the UAE's national security adviser Tahnoun bin Zayed Al Nahyan, in September, and the company's decision to enter the Saudi market in August.

Burjeel holdings is a spin-off of VPS, which it opened in 2017. It is one of the largest private health care groups in the UAE, operating 16 hospitals, 23 medical centres and 15 pharmacies in the UAE and Oman. The company had record revenue of \$912.4 million in FY2021 and profit of \$63.7 million. The company has grown at 18% compound annual growth rate over the three-year period from 2019 to 2021.

IMAGING AND LABS

French labs pushing back against €250m cut

French labs are presenting a united front pushing back against the €250 million worth of annual cuts proposed in the 2023 Social Security Budget. All of the sector's representative bodies have voiced outrage, and a joint letter from the directors of four labs syndicates sent to l'Assurance Maladie's (CNAM) general director demands tariffs be indexed to inflation saying the sector cannot support further cuts.

French private diagnostic labs groups are collectively fighting the proposed cuts to the sector which the government has argued are warranted given the high levels of consolidation, and large profits



EMMA HIGHAM,
Clyde & Co

being made in the sector.

"This is the first time that all the French labs groups are presenting a united front," Alain Le Meur, president of The Association pour le Progrès de la Biologie Médicale (APBM), tells us.

If the proposed cuts are implemented, it would mean a total of €250m being cut from the CNAM's annual spend on labs, regardless of testing volume (which rises each year). Le Meur estimates this amounts to about 7% of the private labs sector's revenue. Assuming a 3% increase in testing volumes, the effective cut in tariffs would be about 10% in 2023.

In a joint letter to the CNAM's general director, the directors of four syndicates representing the sector (Syndicat des Biologistes, Syndicat les Biologistes Médicaux, Syndicat des Laboratoires de Biologie Clinique and Syndicat National des Médecins Biologistes) said: "The budget for routine biology can no longer support price cuts and must, on the contrary, be indexed to the ONDAM (the National Objective for Health Insurance Spending) and inflation!"

The Association pour le Progrès de la Biologie Médicale (APBM), which all the major French labs groups are members of (including Eurofins, Synlab, Unilabs and Inovie), said in a statement that it was stupefied by the cuts and that to "amalgamate, as the government does, the COVID activity of the laboratories, which results from an exceptional and temporary situation, and their current activity, will have consequences deleterious to innovation, the deployment of digital technology, employment, the supply of care and our ability to respond to health crisis situations.

"We cannot accept a policy of blind cutting based on a senseless diagnosis: to slash our routine earnings on the basis of our COVID activity, which is exceptional in nature, can only lead to a deterioration in care, in our investments in innovation, in job cuts and the disintegration of the territorial network

which guarantees access to healthcare for all."

A French labs operator tells us: "The government wants to recuperate money gained from COVID, it's as simple as that. But the government can't force the cuts, it can only propose them. If the labs groups refuse, which they are doing, there's not much the government can do.

"It's true that cuts were normal before COVID, but they were always made on the basis of negotiations. Every two or three years the government would sit around the table with the labs groups and negotiate tariffs."

Indeed, APBM's letter states: "We, unions and medical biology laboratories, were ready to work on price regulation to participate in the control of health expenditure. We have been doing it for ten years: the value of all procedures fell by 30% [over the past 10 years], allowing the CNAM to save €5.2 billion." This equates to a roughly 3.5% cut per year.

Le Meur explains to us: "Since 2014, there have been three agreements between the labs groups and l'Assurance Maladie, and each time funding for the sector was cut. But the €250 million cuts being proposed now are much bigger. In total it will actually be €1 billion since it will be recurrent over four years."

Le Meur tells us the €250 million cut amounts to a 7% cut to the French private laboratory sector's annual revenue (in normal times, during COVID revenue was much higher). This is indeed a much more drastic cut than the 2-4% per year cuts that the sector was used to receiving pre-COVID.

Le Meur says the situation is made even more difficult by the fact that testing volumes increase each year: "Testing volumes increase by 3% per year (due to the ageing population). So each year the sector is effectively getting a 3% cut to tariffs by default, because l'Assurance Maladie imposes a funding ceiling, rather than paying by volume (in contrast to other sectors).



ALAIN LE MEUR,
Association pour le Progrès de la Biologie Médicale

"A study was done that showed that, even if inflation were 0%, the margins of labs groups would be halved if the proposed cuts are implemented. But with inflation at 6%, margins would be divided by six. Even the large labs groups would be forced to close some of their labs if this happened. And it would be the labs in rural areas which are less profitable which would be shut."

Le Meur has floated the idea that, instead of accepting the €250 million cuts, private labs groups pay a one-off 'COVID tax' as an "exceptional gesture", in recognition of the large windfall profits the sector made from COVID testing.

"During COVID the private sector did 90% of PCR tests (the price of which was lowered four times)," says Le Meur. "But we actually would have preferred to do a lower volume, focusing more on quality tests for vulnerable people, rather than the open-bar strategy that we did have.

"All private lab groups are on board with paying an exceptional input/contribution. This would be a one-off payment, in recognition of the fact that COVID was an exceptional event, like a natural disaster, which the sector made exceptional profits from."

The price of keeping up with care costs?

Care is getting more expensive. Insurance premiums are set to go up 10% internationally next year. People are living longer, more sedentary lives, and these are unsurprisingly characterised by an increase in chronic diseases. You might expect that as a population ages healthcare spending as a percentage of GDP will have to go up. There are, after all, surely limits on the efficiencies which

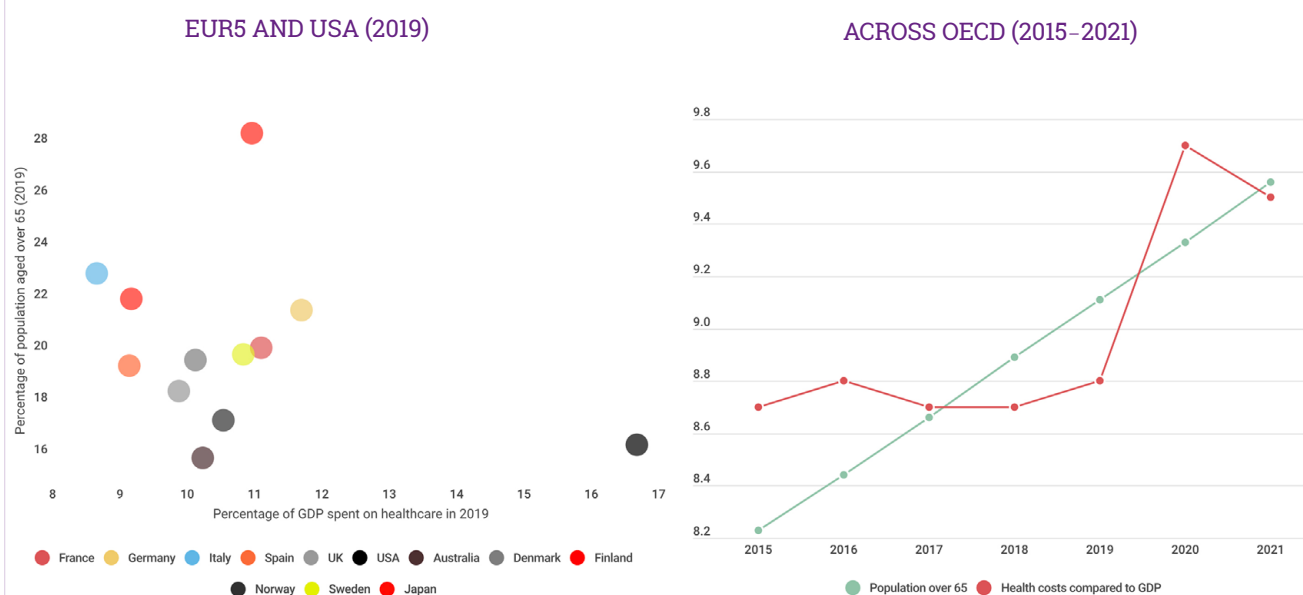
can be made. This, it seems, is not necessarily the case.

Ignoring 2020 and 2021, when healthcare spending rose to meet the challenge of the pandemic, healthcare spending barely grew as a proportion of GDP between 2015 and 2019 across the OECD, whilst the percentage of those aged over 65 grew continuously.

Surprisingly, the data suggests there may be little direct correlation between healthcare spending and an ageing population amongst rich countries – suggesting the relationship could be overblown – and where it's not, that digitalisation and labour-saving techniques could help win the battle of rising costs.

IS THIS SUSTAINABLE?

PERCENTAGE OF GDP SPENT ON HEALTHCARE VS PERCENTAGE OF POPULATION AGED OVER 65



Source OECD

© HBI, 2022

Creditors face Hobson's choice when groups face default



AUTHOR: David Farbrother

French elderly care giant Orpea has been given four months to fix its finances and placate its creditors. Could it learn from GCC hospital group NMC's similar experience?

London-listed NMC Health was floundering and facing liquidation last year, despite being fundamentally so interwoven into the fabric of the region's healthcare system that it seemed integral to it. A combination of savvy management and clever administration managed to keep the business afloat despite allegations of mismanagement and financial irregularities.

The allegations against Orpea are quite different in nature. The recent debacle was initially triggered by accusations of abuse and malpractice, but the current situation does have parallels. Like NMC, trading in shares in the group ceased – albeit temporarily – and the groups share price also went into free fall.

Even by Orpea's own admission, unless it renegotiates its

debt, the covenants contained in many of its financing lines may not be met. Like NMC, Orpea is trying to cut a deal with its creditors. And this is not entirely a crisis of its own making – rising interest rates, spiralling energy costs, the war in Ukraine and fall out from that – have all not helped.

NMC was at least able to sell off some of its assets; Orpea faces less favourable market conditions. But the key learning for Orpea, perhaps, is that NMC presented its creditors with just three choices. One, watch us go into liquidation. Two, watch as we hold a distressed asset sale. Three, take ownership of the group. Somewhat reluctantly, its creditors took option three, and the business continues now in a leaner, but far healthier state.

What then of Orpea? One option is a debt/equity swap on i£4.3bn of its unsecured debt. The debt to equity conversion would significantly dilute the groups share value. Would creditors accept this?

History shows with a take it or leave it offer, such a gamble can pay off, as NMC has proved – where the alternative for creditors is even less palatable.

Don't argue with us, or we'll stop sending you patients

AUTHOR: David Farbrother

Speaking to elderly care providers has become an increasingly depressing way for HBI journalists to spend their time – with a few notable and perennially optimistic exceptions.

Aside from the ongoing high-profile scandals (France, we are looking at you) one cannot ignore the continuing financial burden caused by an ageing population with increasingly medicalised needs coming up against ever-tightening public purses, all set against a backdrop of inflation and the threat of recession. Something has to give. At the moment, it's the price paid to operators for caring for society's most vulnerable.

So what happens when an operator says "enough is enough" and draws a line in the sand? When it demands fair pay, and justifies (objectively) why?

In short, it loses. As HBI Deals + Insights members can read elsewhere in this edition, the plug is pulled and the patient pipeline tap is turned off.

Take the UK. It doesn't seem to matter – because funding is siloed – that without the release valve of care homes, patients/residents languish in the purgatory of an underfunded hospital ward (if they are lucky) or corridor. Because that's someone else's problem (at least in the UK where our operator source is from).

The power, currently, lies completely with the payors. But if the current system continues, that may change. Basic supply and demand require it.

Because here at HBI we have spoken recently to a number of operators who tell us that they aren't sure the current rates of pay are worth it, certainly in the UK. Businesses may fold, voluntarily or otherwise. And that has the potential to create an almighty supply issue which will enable beleaguered operators to, for once, up their prices without being undercut by rivals in a race to the bottom which is where, HBI hears, many currently find themselves.

There's no point in winning the battle to pay operators less for care, if the war to actually look after the most vulnerable in society is lost as a result.

More bang for the buck could lead to US investor influx

AUTHOR: David Farbrother

Issues with the plummeting pound – slightly aided by the departure of the UK's shortest-lived prime minister – and the fall of the euro against the dollar, mean it's a great (cheap) time for our north American cousins to holiday in Europe. But it's also a great time to buy into healthcare services.

There are already, of course, some large US players active in Europe. On the operator front, some like Cleveland Clinic have made eye catching investments in high tech facilities, specifically targeting the top end of the market.

Investor-wise, the likes of American REITs like MPT have previously made it clear there is “no ceiling” on funds for European acquisitions – and that was before the current climate.

It's no surprise that although Europeans want to splash the cash, banks are making it increasingly costly to do so and increasingly the M&A tap looks to be being turned off.

But one answer may lie over the pond.

Those who have already done deals and trade in dollars will be benefiting from the lower currencies, while the 20% depreciation of sterling and 18% euro fall against the US dollar in the last year may prove too much of a bargain to ignore.

To build or to buy?

AUTHOR: Joe Quiruga



To build or to buy? When looking to build trust in the telehealth sector, Amazon decided building its own company with Amazon Care wasn't worth it. So, it closed Amazon Care and bid on AI/big data player Signify Health instead.

Why? To put it simply Amazon decided it couldn't accumulate the trust necessary for successful healthcare services through building its own company. Instead, it needed to acquire something which already had a good reputation. Even when it failed in its attempt to buy, with CVS beating it to the finish line, Amazon still decided to close down its in-house telehealth solution.

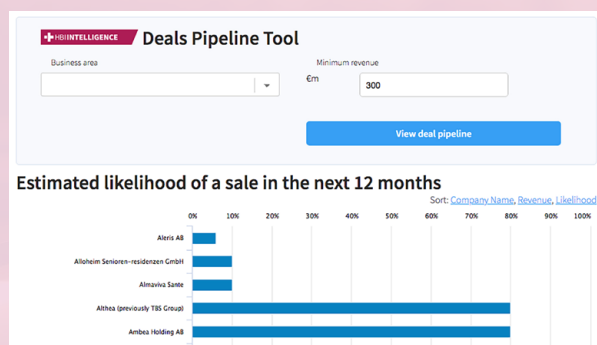
The benefits of acquiring don't just apply to trust and

telehealth. At the recent insurance conference in Prague, one provider told HBI the benefits also extend to scaling and efficiency. You may spend a long time building up piece by piece, spending a lot of capital in the hopes you'll eventually have the service solution of your dreams. In the meantime the market will probably grow at a much faster pace than you and leave you in the dust. Or you can buy it ready made with people who have knowledge of systems on the inside.

Of course, there are crucial considerations. The company needs to have synergies with yours as you'll eventually need to integrate. This is true when buying any business in the same sector as yours. And, of course, the quality of the asset in-and-of-itself has to always be properly assessed.

But in terms of oven-ready scale, nothing beats buying.

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Insurees health concerns, by age

At the recent healthcare insurance conference in Prague, HBI heard about insurees' concerns by age demographic – and how insurers were striving to address them.

Among those of university age and younger, 46% worry about mental health issue like stress, depression, and burnout. The prominence of these conditions is growing not least due to Covid.

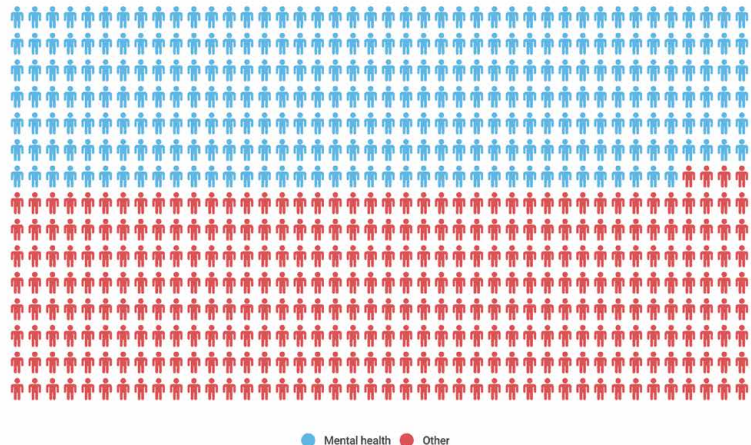
Greg Casson from Optum, subsidiary of UnitedHealth Group and pharmacy benefit manager and health care provider, says 44% of workers report daily stress.

Casson's solution is to provide a more human touch for employees and consumers alike: "Connectivity with apps and self-help guides are important, it's a great way to reduce the barriers of entry, but having been a service user myself and having experienced what burnout is like, having a resource to speak to a human and engage with them has better outcomes, and it's easier to give it 100% of your attention when it's a human.

"The two do complement each other."

Among those aged 25-40, the biggest concern was chronic illness such as obesity, diabetes and asthma.

WHAT ARE THEY WORRIED ABOUT? GEN Z AND STUDENTS



25-40 WITHOUT CHILDREN



25-40 WITH CHILDREN



Insurees health concerns, by age - cont.

This was an even larger concern to those in this age group with families, 59% of whom considered this their greatest concern compared with 41% of those without children. Laurent Pochat-Cottilloux, CEO of reinsurers AXA, said we currently live in a world of energy surplus where consumers eat too much – and exercise too little.

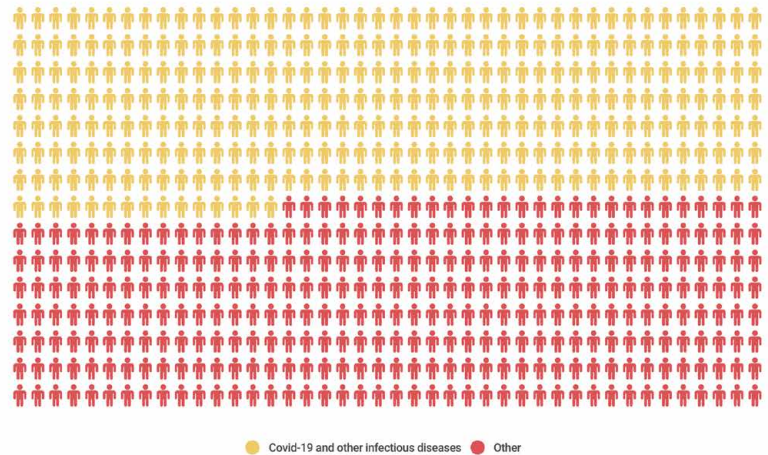
More integrated insurance solutions which incentivise prevention is part of the solution.

Of those aged 40-55 with families, 49% worried about being exposed to COVID-19 and other infectious diseases.

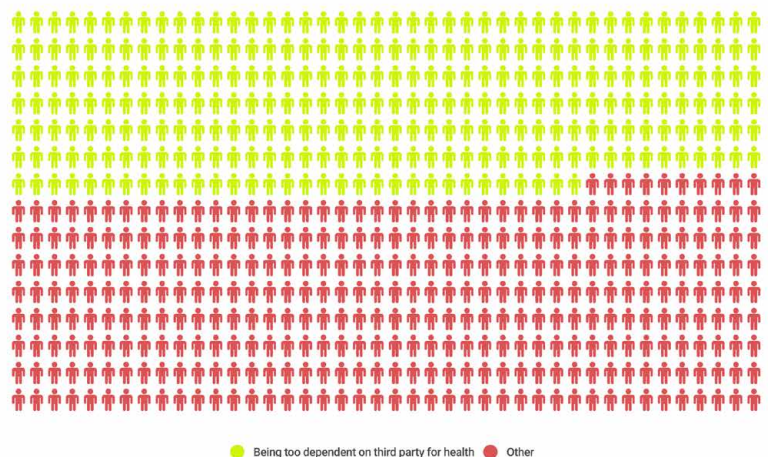
Active seniors, aged 50-65, were mostly concerned about relying on third parties to manage their health. Insurers getting more involved in prevention is one solution, as are digital platforms which allow consumers to take a more active, educated role in making choices which enable long term health.

“Having experienced what burnout is like, having a resource to speak to a human and engage with them has better outcomes, and it’s easier to give it 100% of your attention when it’s a human.”

WHAT ARE THEY WORRIED ABOUT? 40-55 WITH CHILDREN



ACTIVE SENIOR CITIZENS



Paresh Patel, CEO, OCL Vision

HBI chats with Paresh Patel, the new CEO of UK-based OCL Vision and former MD of UK, Czechia and Poland-based ophthalmology platform Optegra, about his new role, and the ophthalmology market in general.

Founded in 2018 by four surgeons, OCL is expanding its operations beyond London (where it has Harley Street and Elstree bases) to Hertfordshire, and further regional expansion and investment is planned. Paresh has a varied CV which includes helping to set up Optegra in 2008, and helping to guide its expansion into Czechia, Poland and China, working on ahead-of-its-time remote patient proposition Medvivo, investment management, and a stint as director of strategy and business growth at Ramsay Health Care UK.

He tells HBI: "OCL is owned by surgeons, focussed on medicine, and all about trying to collaborate with professional peers. There's no hard sell to patients. We do the full spectrum of ophthalmology – from basic cataracts to the most complicated retinal surgery and we also do corneal transplants."

Given the success of the likes of rival group SpaMedica which has seen huge success specialising in and cornering the cataract market, is the group spreading itself too thin? Paresh sees that as a strength: "Some of the other players are based around one discipline. We have the full spectrum. There are advantages."

"Our referrers can refer any patient to us and we have the right consultant. (Doing everything) gives us greater related opportunities to partner with leading medtech companies, enabling us to invest in technology which is not typical at all groups. We get economics of scope, and scale, and a high utilisation because a lot more consultants are using the same kit. So from a financial perspective, we get a

higher return in terms of utilisation.

"If you focus just on cataracts, once you have cleared the backlog, that's it. Cataracts are a one off visit if everything goes well. We believe in a very long term view, we're not about just a short term engagement with the patient, because we deal with chronic conditions as well. We're building a lifetime relationship with patients."

The group is certainly investing in tech, and is the first in the UK to offer a new form of keyhole laser eye surgery using an type of laser (Schwind ATOS) of which there are only 20 in the world.

OCL's referrers are "basically general ophthalmologists, high street opticians. We also have GPs who are referring to us. We put on a number of educational events for CPD (continuing professional development), the brand is out there, led by the consultants." While support and education is on offer, Patel stresses there are no payment is made to

referrers.

Key to the business is the relationships formed with "gatekeepers". "We have a strong partnership model (with our referrers), we have educational events, they can access consultants online if they have patients who are tricky or if they need counsel on a scan they can put it onto a forum and their ophthalmologist peers can respond to that or one of the consultants."

"It's a model we can expand and replicate. In April we set up a second site in Elstree, North London, and we have plans to open up other centres offering a similar sort of business mix. The rationale there is we will partner with other surgeons in the localities we go into."

Consultants are paid on a fee for service model: "There are other players in the market like Cleveland and Schön Klinik who employ doctors but we haven't walked down that road – we



PARESH PATEL,
OCL Vision

INTERVIEW

have recently qualified consultants who come to us and we help them build their business with patients from our marketing activity. We spend a lot of marketing dollars. We've now got 14+ consultants working with OCL."

The business does no NHS work at present though Patel concedes that may change as OCL expands outside London. "We're busy with self pay and PMI" he explains. Around 60% of the business is self-pay and 40% is PMI, and the business offers financing options to patients. "The best facilities, and the best surgeons, leads to best outcomes", he says.

He says there is increasing acceptance of ophthalmology platforms, explaining: "There's a shift in the younger consultant cohort coming to the market. They want a lifestyle balance, they want to come and do their

work and not worry about the fact an alarm has gone off or staff have not turned up – we take care of all of that. From a patient's perspective, one of the challenges of typical private practice models is the greater competitive than collaborative nature which can leave individual surgeons feeling isolated with more complex cases. Our collaborative model facilitates discussion between surgeons optimising potential clinical outcomes.

"(Our consultants) don't have to worry about taking a holiday, if there's a complicated patient they have peer to peer conversations. Individual consultants can find themselves left on their own. We take care of compliance overheads, have a back office dealing with PMI/billing.

"It's similar to what is happening in GP practices a lot in the UK. A lot of

younger GPs don't want to be partners, they want to be salaried."

Volume growth for procedures year on year is around 14%, he says, adding when asked about revenue that "margins have been stable and accounts have been filed". A quick look at Companies House for FY2020 and 2021 shows OCL enjoyed a 76% increase in revenue year-on-year to around £10.2m, while profit over the same period rose 102% to £3.75m. "The challenge is consumables have slightly gone up but margins are holding well at the moment".

Looking forward, further expansion is on the cards. Patel says: "We are being proactively being approached by consultants in other parts of the UK. This is a model built to scale up".



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Frederic Llordachs, CEO, and Carmen Pauline Rios Benton, COO, Doctomatic

HBI catches up with co-founders Frederic Llordachs, CEO, and Carmen Pauline Rios Benton, COO, of new chronic disease monitoring group Doctomatic, a remote patient monitoring solution for chronic conditions like diabetes, hypertension, COPD and heart failure, which uses AI to help detect problems at an early stage.

Llordachs explains how he is trying to carve a niche into an existing market: “Our USP is that our system is agnostic for medical devices. Our AI can get data from any medical device – the model, the age, the system is irrelevant – and there’s no painful integration which is the thing CIOs hate. It’s easy for the patients as they use their own medical devices which they are familiar with and have been using for years. We don’t look at it from an engineer’s point of view. We look at it from the user’s. We’re easy to use.”

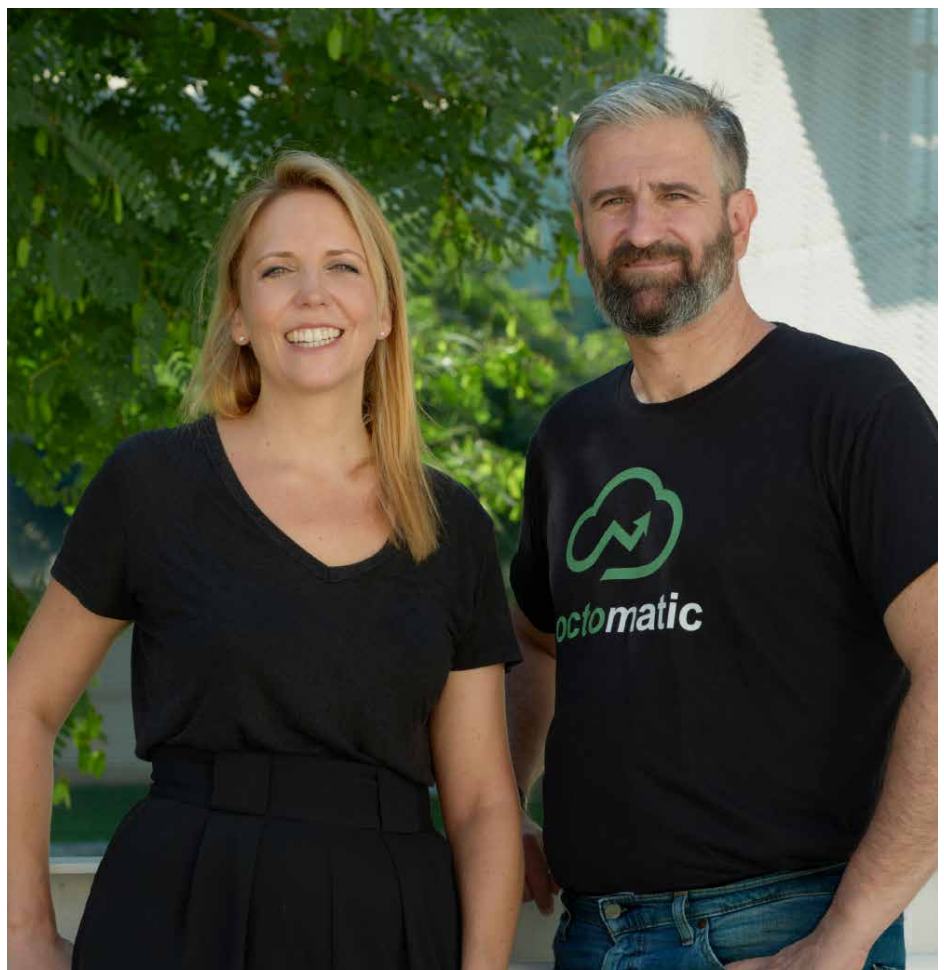
From the patient’s perspective, there’s simply an app to download. Rios Benton explains: “Say you have cardiac insufficiency. Your doctor will prescribe Doctomatic, and the patient gets an alert to take the reading, say blood pressure or weight – and you can use any scales – and the AI interprets the data (image) and sends it to the doctor’s platform, and it appears in a graph.” An automatic alert is triggered if something is amiss.

“We don’t just have a patient-facing app. We are also working with elderly care facilities. We won a tender with (pan-European elderly care specialist) Korian in Spain, and it is using our tech to better monitor and install preventative healthcare within its patient base and also to speed up processes for its gerontologists and nurses in its homes.”

So is this B2B or B2C? The group started out with a B2B2C model. Llordachs says: “At the end of the day, B2B is easier for us. We’re in a public hospital in Barcelona. Our idea is for Doctomatic,

at this point, not to be a standalone solution. This is a tool for doctors to better monitor patients’ healthcare. We are like an electronic nurse. We have the data and if something is wrong, we put a hand up.”

The group has been targeting innovation managers in hospitals, and medical centres, and speaking to insurers looking for post pandemic solutions. Llordachs adds: “We’re in the last wave of platforms like this but most platforms



CARMEN PAULINE RIOS BENTON AND FREDERIC LLORDACHS,
Doctomatic

INTERVIEW

like us are linked to medical devices. We're not linked to the hardware. " Rios Benton says: "Having removed the hardware from the equation, our USP of being able to use/recycle existing patient devices – old heart monitors or simple old scales, for example – is attractive to CIOs. And given how waiting lists are, simple is an attractive solution."

It's early days still for the group which was only founded in June last year, but it is looking to have approaching 2,400 patients on its books in the next three months. It has around 400 hospital patients lined up in Spain, and another 2,000 in 20 of Korian's elderly care facilities.

LATAM, however, is firmly in its sights and this is an area Llordachs knows well from his time at online appointment specialist Doctoralia (now part of Docplanner). He explains: "At Doctoralia, our main markets are LATAM. It's Mexico, it's Brazil, it's Colombia, it could be Peru. We are talking to companies over there.

"In Europe there's great primary care, but in Latin America there's a need for

primary care and there's a different mentality. Doctors are more open to solutions, and they know technology is not their enemy. Having the CE mark for medical devices helps with credibility and we are pleased we managed to get that so quickly."

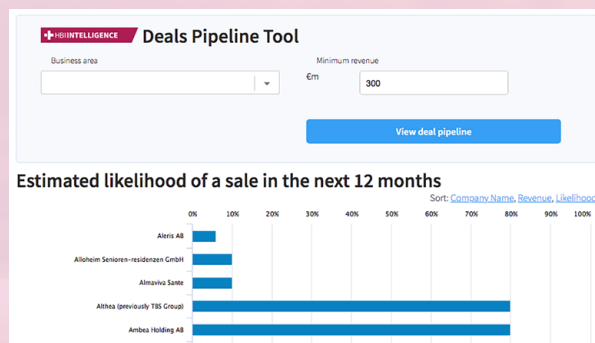
The company has already raised €415,000 from VC firm Encomenda Smart Capital, and Ship2B Ventures, a VC firm that invests in start-ups with high social and environmental impact.

Environmental, social, and governance (ESG) is becoming increasingly important to investors, says Rios Benton: "The pandemic triggered an interest in helping people and that's giving social impact businesses more of a relevance. We are in alignment with a number of sustainable development goals like health and wellness and sustainability. Even investors with no specific brief in this area take an interest."

Llordachs is aiming big: "We expect to break even in six months. We'll be asking for an A series. And the vision is, in five years, to have five million patients."

"In Europe there's great primary care, but in Latin America there's a need for primary care and there's a different mentality. Doctors are more open to solutions, and they know technology is not their enemy. Having the CE mark for medical devices helps with credibility and we are pleased we managed to get that so quickly."

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Dr. Charles Armitage, CEO and founder, Florence

Dr. Charles Armitage used to be a surgeon. Working for the NHS in various parts of the country he experienced first-hand the severe workforce issues the health sector faces. Six years ago he started a digital health company called Florence with co-founder Dan Blake to help solve the problem.

HBI: What led you to set up Florence?

Charles Armitage (CA): One of the big challenges society is facing is how to build a health and care workforce with an ageing population. There is a major supply and demand issue. Across the UK there are about 1.5m people employed in the NHS and a further 1.5m people employed in social care. Given the ageing population, social care will need to double by 2040. Whilst the workforce generally has been growing year-on-year, it hasn't been keeping pace with the increase in demand. And last year it actually shrank, as more left the sector than joined.

HBI: Why are people leaving the sector?

CA: Post-Covid health and care workers are burnt out and many are choosing to change career. They aren't getting paid enough, especially when compared to competing sectors. And for care workers in particular there is significant underinvestment in training. You can have 10 years of experience and your pay may only go up by 20p. This means there is not much of an incentive for people to stay.

Another big reason is Brexit. The government has brought in special visas for health and care workers, to compensate for the loss of EU workers. In theory this will open the sector up to the global talent pool. But it is still early days for this scheme, I haven't heard of any successes yet. But it has potential to help.

HBI: Why aren't wages being pushed up by the shortage?

CA: I don't fully have the answer to that,

but part of the reason is that the sector is funded through a mixture of private and public funds, whilst for the care sector providers are all private (not-for-profit and for-profit) operators. This means wages in the care sector are largely determined by local authorities rather than by supply and demand (and in the NHS they are entirely determined by the government). If you're a private provider funded by public money, it is very difficult to provide care at the rates

local authorities are paying. So you have a mixed model where you have local authority funding plus private funding to fill the delta.

Add to this the fact that care workers can go and work in other sectors where there is more competitive wage-setting, such as retail, hospitality and warehouse workers. For example, if Amazon sets up a warehouse in an area and gives everyone a £3,000 sign-



DR CHARLES ARMITAGE,
Florence

on bonus, a lot of the care workers in that area will choose to go work there instead. And across the global economy unemployment is at a really low level, not because of economic growth but because so many have left the workforce post-COVID.

HBI: So how does Florence help to solve this supply-demand problem?

CA: About 15% of health and social care positions get filled with temporary positions. That's fine. Ideally, you'd have a better supply of workers, but there are always going to be some temps. The problem we are trying to solve is how that supply and demand is brought together. Currently it is typically done with agency workers. That system is very fragmented, very expensive and widely resented.

Our core product is a platform which acts as a market place for temp health and care workers, cutting out the agency middleman. Let's say you run a nursing home. Rather than picking up the phone to a recruitment agency, you can come to Florence, choose how much to pay, and we'll connect you to workers who are available to work for that rate in the area. And we are able to do this very quickly; 80% of shifts on our platform get filled within an hour.

HBI: How is it different to using an agency?

CA: The big difference is that you, as a customer (a health or care employer), choose the price. Then we show you people who are willing to work for that rate in the local area. Since our platform is able to work at a much larger scale than recruitment agencies, we can do it at much smaller margins. We only take 15% on top of the hourly wage, whilst an agency could be taking more than 50%. So the rates our clients pay end up being at least 20% cheaper than agency rates.

The system also allows nursing homes to put their own staff and create their own internal system on our platform. Let's say you have a nursing home and have 100 staff members. Typically, the process now is that if you need a shift to be filled you phone up those 100, then if none of them can do it you phone an agency. With Florence you can contact those 100 on our system, then go beyond your own employees if need be, all on the same platform.

HBI: And the platform works for both health and care workers?

CA: Yes. Currently it's about 90% social care, because that's the area we started in. We only started to expand to NHS nursing staff last year, so there is still a lot of room for growth there, we're only operating in eight NHS trusts so far.

On the social care side, we are in pretty much all areas of the UK. We've grown to about 10,000 monthly active nurses and care workers and 4,000 care facilities across the UK. We've also just launched in France, and are about to launch in Germany and Canada. The market dynamics are for the most part the same in other countries: not enough healthcare workers and big reliance on staffing agencies. The differences are in the employment model or payment mechanism, but fundamental market dynamics are the same. Next year will probably launch into other countries.

The NHS segment is a little more challenging because it is so much more specialised than social care. With care work any nurse can work any nursing shift. NHS nurses are specialised into very specific areas, so you have to build liquidity in each of those domains. So matching and building up supply is a bit more complex.

HBI: It sounds like quite a simple idea, but one that serves a very important need. Is there anyone else who's come

up with a similar business model that you're competing against?

CA: It is a relatively simple model, but execution is a bit harder. In the UK we have some competitors that are doing something similar, but none have the scale that we've achieved. Florence was the first platform to do it, so it does have a bit of a first-mover advantage. The network effect is very important, as the platform is only as good as how many nursing homes and workers you have using it.

HBI: Matching the existing supply and demand of workers is of course very important, but as you said the sector also needs much greater supply. Is there anything Florence is doing to address this?

CA: Yes. Ultimately, we need to bring more people into the sector and train and upskill them. We have another platform called Florence Academy that helps introduce people to care work and can take them through training and can also help nurses up-skill within their own profession. It's all online learning. We're in the process of developing a peer-to-peer learning platform within this.

HBI: That sounds interesting. What other areas are you pursuing for growth?

CA: We've just raised a big round in May, which brings the total amount of funding we've received to date to £35m. All of the investment we've received has been spent on developing the tech side of the platform. With the latest round we are launching internationally, growing into the NHS in the UK, building from a product perspective, and on the worker side we are focusing a lot on building the learning side of the platform (Florence Academy).

Germany only big 5 country to spend more on outpatient than hospitals

Germany's health minister Karl Lauterbach is planning to shift as much as 25% of care which is currently done on an inpatient basis to outpatient, in the country's biggest health care reform in 20 years. But Germany is already unique amongst the big 5 in that it already spends slightly more on ambulatory care than inpatient care.

This infographic shows total national expenditure on outpatient care relative to total national expenditure on hospitals for Germany, France, the UK, Italy and Spain, using data from OECD Health Statistics 2022.

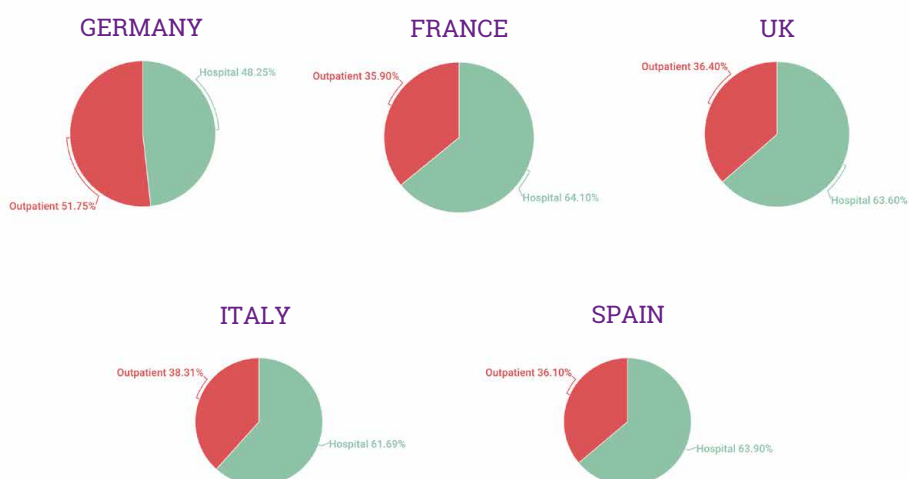
France, the UK, Italy and Spain each spend about twice as much on hospitals as they do on outpatient care.

Germany, by contrast, is unique in that it actually spends slightly more on outpatient care than it does on hospitals. If Lauterbach's proposed reforms go ahead, this difference will become much more pronounced.

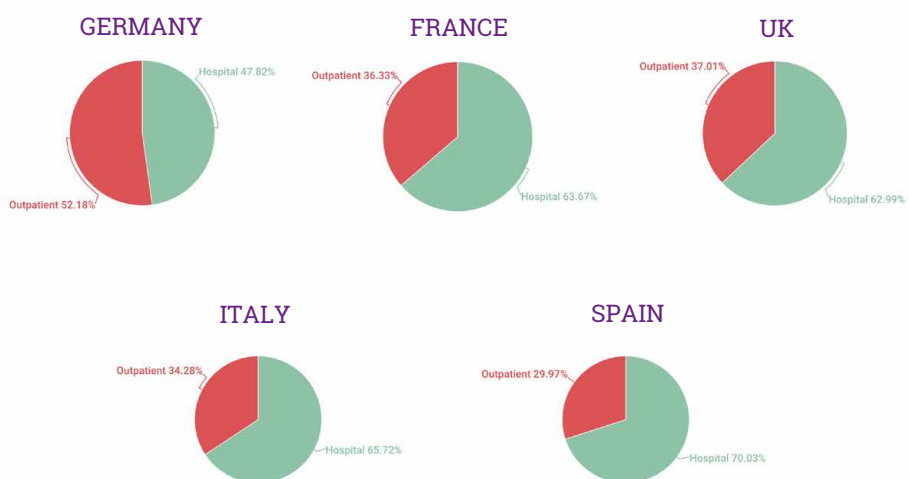
The data does not tell the whole story, however, as the expenditure is categorised by what type of facility it is spent on, rather than what type of patient.

Much of the UK's expenditure on hospitals, for example, goes to outpatients, who are required to come into hospital for various types of specialist care. In Germany, by contrast, a lot of this specialist care is done outside of hospitals, in specialist clinics.

TOP 5 OUTPATIENT VS HOSPITAL SPENDING 2010



2020



Insurers moving from payors to players

Should insurers be payors or players? Should they move from treatment to prevention? How do insurers get better data? These three questions were top of the agenda at the Global Health Insurance Conference in Prague last month. The annual shindig brought together around 100 CEOs and managers from insurers, reinsurers and digital platforms



All insurers say they want a stronger relationship with their customers with more touch points and decreased risks. That should increase loyalty too. The buzz phrase at the event was all about personalised care. That means digital apps and easy access to a range of preventive services.

Insurers are haunted by fear. Laurent Pochat-Cottilloux, CEO of AXA Life and Health Reinsurance Solutions, said that increasingly sedentary lifestyles mean "we are running out of healthy lives to insure. Customers are coming to buy insurance in their forties when they have enough disposable income,

but also when they already have health problems." Peter Ohnemus, CEO of health score platform Dacadoo, agrees there is a problem in a world where people retire at 70 but live to 100.

Insurers who have a key role to play in facilitating access to healthcare and digital solutions are at the heart of this. Dorutina Cobani, the health and accident manager at Italian insurance and financial services company Generali, said: "Accessibility is having easy access to treatment and information in one place, and for it to be easy to access the services from insurers. We need the best

network, treatment and keep in mind transparency for the client."

Ohnemus says insurance companies must take a more active role in maintaining the health of their clients. But like Pochat-Cottilloux, he thinks this is increasingly tough because of the unhealthy lifestyle of many developed countries: "We used to spend 20% of our income on food, now we spend 6.4% on food. But a frozen pizza can survive for four years at the back of our refrigerators, and our cancer rates have gone up."

Digitalisation provides potential solutions. "People are supposed to



LAURENT POCHAT-COTTILLOUX,
AXA Life and Health Reinsurance Solutions

be active for 150 to 300 minutes per week, but only a third of people are actually doing that, and that inactivity has only gotten worse over Covid.” The data used to create Dacadoo’s health scores can be used to identify problems, and Ohnemus says his data is GDPR compliant and all collection of client data is done on an opt-in basis and is not linked to the name of the client but instead the unidentifiable characteristics of their age, sex, weight, and height. He’s hoping to win the battle of trust which always surrounds data.



DORUTINA COBANI,
Generali

He added, bluntly: “If you are an insurer and your client lives to 95, you’re pretty well off. If they die at 60, you don’t get any more money.”

The public, it seems, does appreciate the risk they face. David Myers, the chief sales officer from financial services firm Allianz, said the main concerns of 41% of childless 25-40 year olds and 59% of 25-40 year olds with families were chronic illnesses such as obesity. The issue is how to incentivise them to do something about it.

Improving patient access, and giving the patient earlier access, is also vital. AXA announced in 2021 it was working with Microsoft to build a digital healthcare platform which includes self-assessment and prevention tools, a medical concierge, a teleconsultation interface, a digital document vault, home care services such as medicine delivery, and a directory of healthcare professionals. The reason why was simple: “With health expenditure outpacing GDP growth over the next 15 years in almost every OECD country, all health players involved in the patient journey, from providers to payors, must adjust their services and deliver on the promise of lower cost and more personalized services.”

Pochat-Cottilloux presented “three gates” of patient access: First, inclusive underwriting and the promotion of healthy choices. Second, digital access to primary care through a telemedicine programme. Third, care coordination with preferred providers and direction to medically-necessary, effective, reasonable and customary care. Pochat-Cottilloux called this healthcare’s iPhone moment, where many pre-existing ideas and technologies are brought together to one place and the simplicity of great service hides the complexity of the system.

Privacy is also increasingly in focus



PETER OHNEMUS,
Dacadoo

for insurers. Eithan Wolf, the CEO of international travel insurance and PMI group PassportCard, said: “Insurance is actually a very emotional issue. Even more so in health.” PassportCard sells B2B insurance where the only conditions disallowed are those the employers choose not to cover, meaning employees can maintain their privacy and don’t need to disclose their conditions to HR. HBI asked Wolf directly if this inclusivity could lead to higher premiums. Wolf says it doesn’t. “But in a B2B sense PassportCard doesn’t encourage companies to go for the cheapest option because the battle for workforce is not so much a battle for talents as it is keeping people on by being good to them.”

“We used to spend 20% of our income on food, now we spend 6.4% on food. But a frozen pizza can survive for four years at the back of our refrigerators, and our cancer rates have gone up.”



EITHAN WOLF,
PassportCard

At a time when call centres are often abroad, it uses local call centres in Hamburg. Wolf says this is expensive, but important for customer care: "What happens when a German person wants to speak to a person, and they have to go through a system that doesn't want to speak to them? Then when they finally speak to someone, it's in English? You might want to, or need to, be sick in your own language and be treated in your own language." The company issues its trademark insurance cards because consumers find having something physical comforting.

Tied in with prevention and the move to being a player is the increasing

"I can absolutely see that mental health has a direct link to obesity. Mental health and physical health can absolutely impact everything, even down to the cost of claims."

importance of wellbeing, and Covid has played its part, particularly on the mental health of both the insured and insurers. Greg Casson, global strategic development manager of UnitedHealth subsidiary Optum, which works with and supports insurers, said: "In Covid, Optum was in a situation where insurers called up asking how they could cope and survive and that had a real detrimental impact on the mental health of the people we support. We're still seeing the knock-on effects of that."

As well as Covid-caused burnout, employees are also suffering increased anxiety as a result of the cost of living crisis: "The immediacy of the data coming through is still linked to Covid burnout and employees saying they're stressed and under pressure at work. In the last three-four months the types of calls coming into the service are connected to financial worries. We're probably slightly ahead of the wave of data coming in on that, but as the cost of living really starts to pinch this will be evident. We're seeing it in the UK as people start to strike, and I think in the next few months the data will really start to be linked to pay."

Casson pointed to the staggering statistics that 70% of people worldwide who need mental health services lack access to care, 44% of employees report daily stress, and there has been a 25% increase in anxiety and depression globally. Insurance needs to address this, he says.

"These could be your long-term claimants either through psychiatric help or because of obesity when they're not looking after themselves," he said, "I can absolutely see that mental health has a direct link to obesity. Mental health and physical health can absolutely impact everything, even down to the cost of claims."

One solution mentioned by Casson was



GREG CASSON,
Optum

producing counselling, but rebranding counsellors as life coaches to prevent stigma. This has stimulated honest and frank conversation between co-workers. "Latin America, which tends to be quite a macho society, is seeing a huge uptake. India is a low utilisation sector because things are usually dealt with within the family but there is a huge increase in use of services despite the stigma."

As many providers have pointed out in other fields, this solution cannot be totally digital. "Connectivity with apps and self-help guides are important, it's a great way to reduce the barriers of entry but having been a service user myself, and having experienced what burnout is like, having a resource to speak to a human and engage with them has better outcomes, and it's easier to give it 100% of your attention when it's a human. The two do complement each other."



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