



Healthcare Newsletter

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



Recent Transactions

- BC Partners has agreed to buy 22 hospitals from The Priory Group, in a £320 million transaction
- Bupa are in the process of acquiring dental business Oasis for £835 million
- Cygnet Health Care has agreed to acquire Cambian Group's adult services division for £377 million



Sub-sectors to watch

- The domiciliary care market is highly fragmented. As such, private equity-backed players such as Alina Home Care are executing roll-up style transactions
- Care home REITS are an active segment especially given the current low interest rate environment

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Key observations

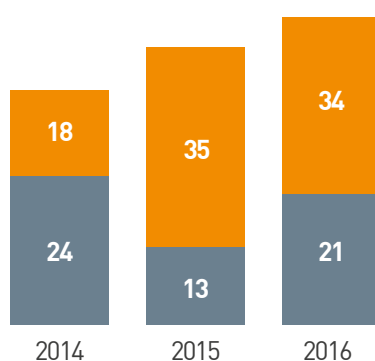
The healthcare sector maintained momentum throughout 2016. A growing and ageing population, earlier and better diagnosis of mental health problems and learning difficulties, and a fast changing world of assistive and diagnostic technologies all contribute to making the sector attractive to investors and acquirers of various sizes.

Adam Street expects the sector to continue to show strong M&A activity underpinned by relatively low interest rates and availability of bank debt; the entry of alternative capital into the sector such as Real Estate Investment Trusts (REITs) and numerous investors with a variety of investment strategies ranging from higher risk special situation to more conservative real estate funds. There is increasing interest in the UK healthcare market from countries such as China, US, Australia and South Africa among others.

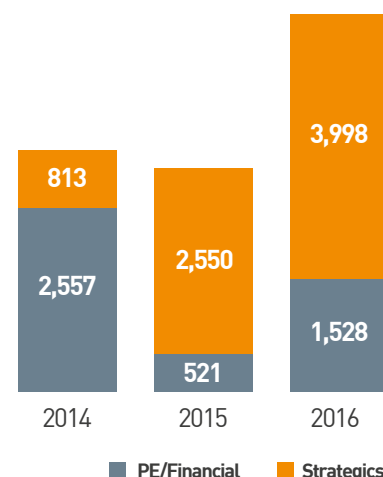
Healthcare remains a key sector on the radar of private equity investors. Real estate is a key component of the care home and hospital sub-sectors allowing investors the ability to highly-gear investments or to fund acquisitions with off-balance sheet structures such as sale-and-leaseback.

Since 2014, Adam Street has identified 145 significant transactions in the healthcare sector. Private equity investors have completed 58 transactions with strategics completing 87.

Deal Volumes



Enterprise Values (£m)



From 2014 to 2016, private equity backed strategics acquired 21 businesses with a disclosed value of £380 million. Other financials included businesses such as Cambian (2014) that listed on the London Stock Exchange with a market cap of £600m.

As discussed in other Adam Street publications, since the Brexit vote, the UK has commanded the highest share of European M&A both in volume and value according to Mergermarket. A weaker currency, among other factors, lifts UK deal opportunities for overseas buyers with the increase in demand for UK healthcare targets fuelling activity and valuation.

Areas of opportunity



The **elderly care home** market remains polarised between the high-value private and government funded models. The former category being the most preferred among corporate acquirers, investors and debt funders. Over 25 multi-asset care home transactions have been completed since January 2015. Among the largest investors in the sector were triple-net investor Omega Healthcare, acquirer of Healthcare Homes; private equity investor Carlyle, rescuer of Bond Care now Akari Care; special situation investor Monarch, owners of Embrace, and real estate investor Lone Star. All of the

major investors in the UK elderly care market in recent times have been US-based. UK-based Target REIT was the most active by volume of deals, transacting on no less than 10, mostly single asset, transactions in two years. Multiples recorded on the sale of single assets range enormously depending on quality of the property, location and percentage of private paying residents.

The **mental health and learning difficulties** market has also been incredibly active with over 20 transactions completed during the past two years. This is despite the majority of fees being government funded. One of the most notable transactions in 2016 was the £1.3 billion takeover of The Priory Group by Acadia Healthcare. The Competition and Marketing Authority (CMA) investigated the completed transaction prompting Acadia to sell 22 Priory hospitals to BC partners for £320 million. Furthermore, private equity investor Agilitas acquired Exemplar for £150 million.

The **healthcare real estate** sector is largely dominated by the US healthcare real estate funds which include a number of REITs. The main US players in the UK healthcare market are Omega, HCP, Sunrise and Welltower. Combined, they manage approximately \$80 billion of healthcare real estate in the US and Europe.

By comparison, UK real estate funds PHP, MedicX (Octopus) and Target manage, on aggregate, just over £2 billion of healthcare real estate. Year-to-date, all three funds have shown strong asset growth. Enterprise value (EV) as a multiple of EBITDA¹ for both PHP and MedicX is forecast to rise to approximately 19.5x in 2017 as confidence in the asset class continues. This is understood to be in line with an expected EV/EBITDA of 19.5x for US REIT, HCP, for the same period.

In the second quarter of 2016, Omega completed four transactions, one of which was in the UK. It comprised of a portfolio of 10 UK-based care home facilities with 743 registered beds for £83.9 million. Relatively new entrant, Lone Star, solidified its UK position by acquiring over 70 of Quercus' care home assets in the fourth quarter of this year.

In an innovative transaction CareTech has taken first mover advantage by executing a £30 million ground rent deal with real estate fund Alpha to recycle sale proceeds for further growth and development of their business.

Growth in the **domiciliary care** segment is largely driven by the government's objective to treat people in their own homes rather than in nursing homes or hospitals. Government pressure on funding has prompted a number of larger operators to exit the market; Mitie has recently announced that it would be selling its home care division. However, smaller specialist operators are doing well in a difficult market; Bridges Ventures backed Alina Home Care has recently completed its fourth acquisition.

Dental, Diagnostic, Primary and other: Significant transactions not falling into the categories above saw high values but low volume. BUPA is in the process of acquiring Oasis Dental Care, currently owned by Bridgepoint, for £835 million and South African-based Life Healthcare acquired Alliance Medical for £760 million.

On a smaller scale but no less important, Stryker Corporation acquired a manufacturer of orthopaedic implants, Stanmore, for £35.6 million; Westfield Medical, a provider of sterilisation barrier solutions, was acquired by Maven Capital Partners for £12 million and Medical Imaging Partnership was acquired by Apposite Capital also for £12 million.

¹ Earnings Before Interest, Tax, Depreciation and Amortisation



Rumours

- Four Seasons is understood to be in talks to restructure its debt which stands at £515 million
- Retirement Villages Group (RVG) has appointed JLL Corporate Finance to find an investor to back the business

The ASA approach



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

Deal tracker

Date	Bidder	Target	EV (£m)	Target Description
Dec-16	Cygnnet Healthcare	Cambian	377.0	Mental Health
Nov-16	Bupa	Oasis Healthcare	835.0	Dental Care
Nov-16	Life Healthcare	Alliance Medical	760.0	Diagnostics
Oct-16	Tracscare (G Square Capital)	New Bridges	-	Mental Health
Oct-16	Lone Star	Quercus Healthcare Fund	-	Elderly Care
Oct-16	BC Partners	22 Priory Group Hospitals	320.0	Mental Health
Oct-16	Bupa	The Links and The Lindsay care homes	-	Elderly Care
Oct-16	Octopus Healthcare	Three care homes (Apache Capital)	30.0	Elderly Care
Sep-16	Nestle Health Science	Phagenesis	-	Medical Device
Sep-16	SYNLAB International	Synergy Health Laboratory Services; Genon Laboratories	-	Other
Jul-16	The Carlyle Group	Akari Care	-	Elderly Care
Jul-16	PJ Care Group	PJ Care Holdings (95% Stake)	7.1	Mental Health
Jul-16	Harwood Capital; Continental Investment Partners	Source BioScience	66.6	Diagnostics
Jul-16	Charles Taylor	CEGA Group	29.8	Other
Jul-16	Steris	Medisafe	27.0	Other
Jul-16	Mediline Nurses and Carers	North West Community Services	-	Domiciliary Care
Jul-16	Synova Capital	Oakland Primecare	-	Elderly Care
Jul-16	Agilitas Private Equity	Exemplar Health Care	150.0	Mental Health
Jul-16	Aurelius	The Hospital Group Healthcare	-	Other
Jul-16	Mauser Group	Daniels Healthcare	-	Other
Jul-16	Octopus Investments	Spectra Care	-	Medical Device
Jun-16	Totally	About Health	7.7	Primary Care
Jun-16	Pharmaceutical Product Development; Jaguar Holding Company (The Carlyle Group)	Synexus	178.0	Other
May-16	InHealth Group	The Logan Health Group	-	Diagnostics
May-16	Creat Group Corporation	Bio Products Laboratory	820.0	Other
May-16	Medtronic	Smith & Nephew (Gynaecology business)	241.4	Other
May-16	Amadeus Capital Partners	Inotec AMD	-	Medical Device
May-16	Legrand Electric	Jontek	-	Other
May-16	Apposite Capital	Medical Imaging Partnership	-	Diagnostics
Apr-16	Healthcare Homes (Omega)	Abbey Care Homes (10 care homes)	-	Elderly Care
Apr-16	TRACOE Medical	Kapitex Healthcare	-	Medical Device
Apr-16	Iqarus (MML Capital Partners)	Exmed	-	Other
Apr-16	Össur hf	Touch Bionics	27.5	Other
Apr-16	NorthEdge Capital	Direct Healthcare Services	-	Other
Apr-16	Omega Healthcare Investors	Portfolio of 10 UK Care Home Facilities	83.9	Elderly Care
Apr-16	Stryker Corporation	Stanmore Implants Worldwide	35.6	Medical Device
Apr-16	Maven Capital Partners	Westfield Medical	-	Medical Device
Mar-16	Spring Ventures	Home from Hospital	-	Domiciliary Care
Mar-16	Lorimer Care Homes	Gate Healthcare	-	Elderly Care
Mar-16	CareTech	Oakleaf Care (Hartwell)	20.3	Mental Health
Mar-16	BM Polycy	Polycy (Group); HPC Healthline UK; Healthline Medical; Brosch Direct	-	Medical Device
Mar-16	Totally	Premier Physical Healthcare	0.4	Other
Mar-16	Oasis Dental Care	Goodteeth Dental Surgeries	-	Dental Care
Mar-16	Praxair	Noxbox	-	Other
Feb-16	City and County (Graphite Capital)	Abacaredig	-	Domiciliary Care
Feb-16	City and County (Graphite Capital)	Independent Community Care Management	-	Domiciliary Care
Feb-16	Stryker Corporation	Imorphics	7.4	Diagnostics
Feb-16	Celesio AG (McKesson Corporation)	Bupa Home Healthcare	-	Domiciliary Care
Feb-16	Alpha Real Capital	CareTech (41 facilities)	30.0	Learning Difficulties
Jan-16	Woodford Patient Capital Trust	Inivata	-	Other
Jan-16	Premier Medical	Capita Medical Reporting	-	Diagnostics
Jan-16	Management Vehicle	Birmingham Optical Group	-	Other
Jan-16	VWR International	Therapak Corporation; Therapak Pharma Services	-	Other
Jan-16	Monarch Alternative Capital	Portfolio of properties from Four Seasons	20.0	Elderly Care
Jan-16	Acadia Healthcare	Priory Group	1,451.4	Mental Health
Dec-15	Orchard Care Homes	21 care homes from Leyton Healthcare	-	Elderly Care
Dec-15	Bupa	5 cares homes from Hadrian Healthcare	50.0	Elderly Care
Dec-15	Alina Homecare (Bridges Ventures)	Extra Mile Care	-	Domiciliary Care
Dec-15	Priory Group (Advent International)	Progress Care	-	Learning Difficulties
Dec-15	CareTech	ROC Northwest	11.4	Learning Difficulties
Nov-15	Country Court Care	3 care homes from LACE Housing	-	Elderly Care
Nov-15	Target Healthcare	Two purpose-built care homes	12.7	Elderly Care
Oct-15	Barchester Healthcare	4 care homes from Bridges & Castleoak	40.0	Elderly Care
Oct-15	Precious Homes	Consensa Care	3.0	Learning Difficulties

**“It is health that is the real wealth
and not pieces of gold and silver.”**

MAHATMA GANDHI



Deal tracker continued

Date	Bidder	Target	EV (£m)	Target Description
Oct-15	Griffin-American	Crown Senior Care Portfolio	18.4	Elderly Care
Oct-15	Priory Group (Advent International)	Life Works	-	Drug Rehabilitation
Sep-15	HCP REIT	2 purpose-built care homes	26.0	Elderly Care
Sep-15	Anchor	24 homes from LNT Group (Ideal Care Homes)	-	Elderly Care
Sep-15	Anchor	Cavendish Healthcare Group	-	Elderly Care
Sep-15	Monarch Alternative Capital	Four purpose-built care homes	19.0	Elderly Care
Sep-15	ArchiMed (Sovereign Capital)	Rehabworks	-	Back to Work Rehabilitation
Jul-15	Health Care REIT	Avery Healthcare (9.9% stake)	-	Elderly Care
Jul-15	Tracscare (G Square Capital)	Brookdale Care	35-40	Mental Health
Jul-15	Partnerships in Care (Acadia Healthcare)	Manor Clinic	3.8	Drug Rehabilitation
Jul-15	CareTech	Spark of Genius	9.2	Learning Difficulties
Jun-15	Innomarydom	Bigod Care	-	Domiciliary Care
Jun-15	Mears Group	Care UK's domiciliary care division	9.0	Domiciliary Care
Jun-15	Partnerships in Care (Acadia Healthcare)	Mental health division of Care UK	47.6	Mental Health
Jun-15	Mediclinic International (Remgro)	Spire Healthcare	1,868.2	Description Hospitals
May-15	Bondcare	2 homes in Cheltenham and Eastington from The Grange Care	-	Elderly Care
May-15	Lifeways	Autism Care UK (Maria Mallaband Care Group)	66.0	Domiciliary Care
May-15	Health Care REIT	Four hospitals from Aspen Healthcare	226.0	Description Hospitals
May-15	Lifeways Group	Learning disability division of Care UK	66.0	Learning Difficulties
Apr-15	Partnerships in Care (Acadia Healthcare)	Rehab facilities from Choice Lifestyles	-	Drug Rehabilitation
Apr-15	Sevacare	Basing Care	-	Domiciliary Care
Apr-15	Omega Healthcare Investors	Healthcare Homes (Bowmark Capital)	115.2	Elderly Care
Apr-15	Partnerships in Care (Acadia Healthcare)	Hospital from Vista Healthcare	-	Mental Health
Apr-15	Carewatch (Lyceum Capital)	Jane Bowen Nursing	-	Domiciliary Care
Apr-15	Partnerships in Care (Acadia Healthcare)	Pastoral Healthcare	-	Mental Health
Apr-15	Partnerships in Care (Acadia Healthcare)	Two facilities from Choice Lifestyles	24.9	Drug Rehabilitation
Mar-15	Octopus Investments	2 care homes (The CarePlace Fund)	20.5	Elderly Care
Mar-15	Tenet Healthcare	Aspen Healthcare (Welsh, Carson, Anderson & Stowe)	151.4	Hospital Group
Mar-15	Prestige Nursing & Care	Elite Care (Scotland)	-	Domiciliary Care
Mar-15	Voyage Care	Redcliffe House	-	Mental Health
Mar-15	Cambian Group	Specialist care facility (Turning Point)	-	Mental Health
Feb-15	Embrace Group	9 UK care homes (Public Services Properties Investment)	34.5	Elderly Care
Feb-15	Ventas	Five Care Homes (Canford Healthcare)	-	Elderly Care
Feb-15	City and County (Graphite Capital)	Freedom Choice Care	-	Domiciliary Care
Feb-15	HC-One (Formation Capital)	Meridian Healthcare	100.0	Elderly Care
Feb-15	Cygnit Healthcare	Orchard Portman House	-	Mental Health
Feb-15	Health Care REIT (Cabot Square Capital)	Signature Senior Lifestyle	-	Senior Living
Feb-15	TIAA Henderson (TH) Real Estate	Three care homes (Care UK)	48.9	Elderly Care
Feb-15	Country Court Care	Two London homes from Paragon & Quintus Housing Trust	-	Elderly Care

Select ASA engagements



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