



# DC Discusses: A revitalized outlook for global Healthcare M&A



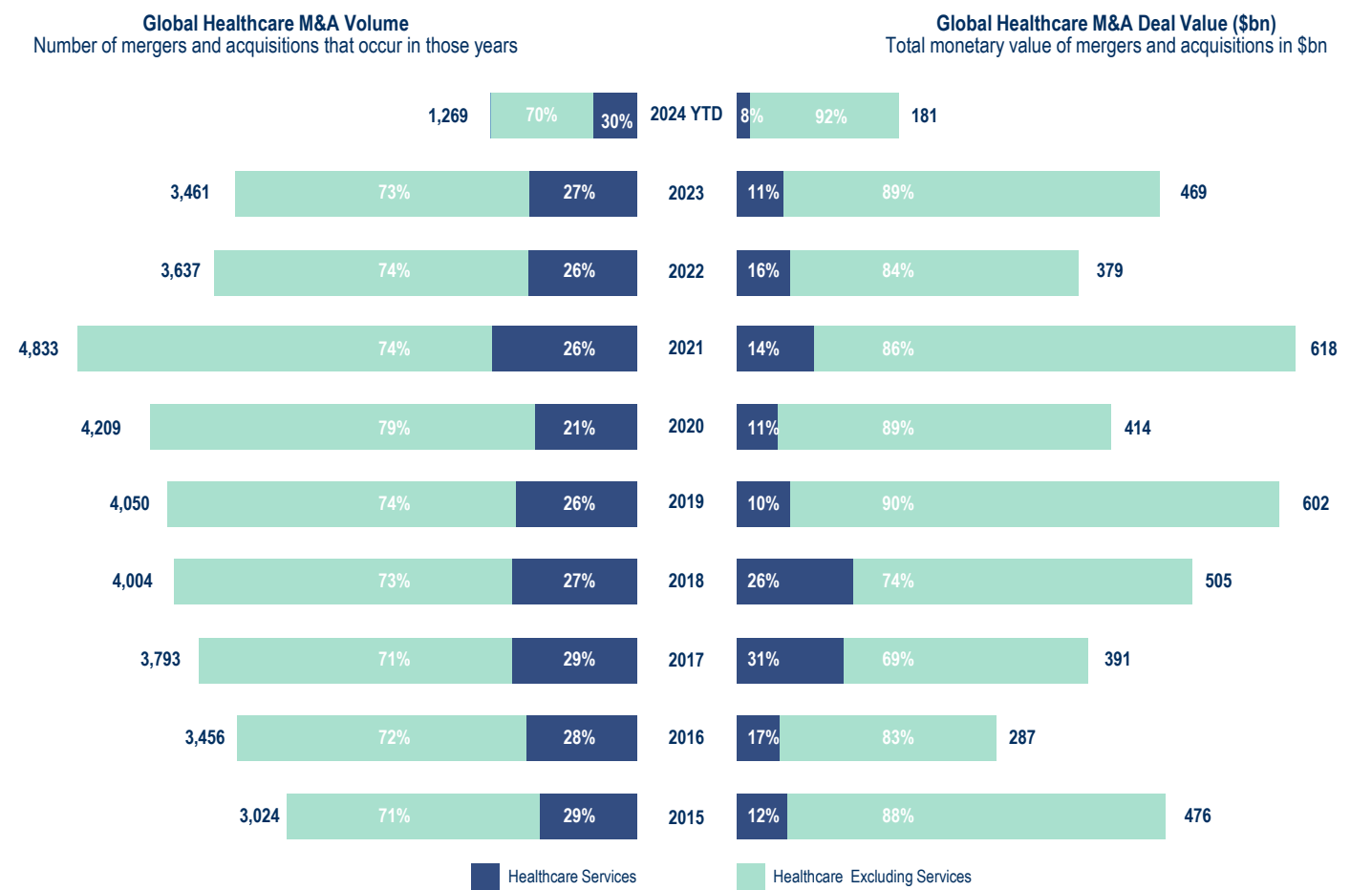
# DC Discusses: A revitalized outlook for global Healthcare M&A

Following the highs of global Healthcare M&A activity in 2021 and 2022, transaction volume in the sector has levelled back to 2016's pre-Covid levels [see chart below]. Whilst economic uncertainty and inflation continue to be concerning, we are optimistic that healthcare M&A growth will be accelerated by the following trends, themes and segments:

- Technology and innovation
- Valuation adjustments, carve-outs and consolidation
- Active sectors: Healthcare Services & Physician Practice Management, Pharmaceuticals, Medtech and Social Care
- Resilient fundraising and increased refinancings to position for growth

In the latest DC Discusses article, our global Healthcare team discusses the outlook for Healthcare M&A activity.

## Global M&A Activity in Healthcare



Source: Dealogic: transactions >\$100m announced between 01/01/15 and 28/06/24, including the following categories (hospital, clinics, outpatient care, care homes, nursing homes, practice management and health management organisations)

## Leveraging data analytics and AI

The Healthcare sector can increasingly leverage advanced data analytics and artificial intelligence (AI) to be more efficient and improve patient outcomes. They can enable healthcare providers to make better informed decisions, optimize their resources and deliver more personalized care. We expect the adoption of AI-driven tools and platforms to accelerate and become increasingly important to both private equity and strategic buyers when looking for acquisition targets.

## Valuations, carve-outs and consolidation driving activity

Valuation levels in the Healthcare sector have seen downward adjustments over the past few years, as evidenced in the public markets by the recent negative performance of the S&P Healthcare segment of the S&P 500 relative to the full S&P 500<sup>1</sup>. Despite these changes, we believe there has been limited evidence of significant drops in transaction values, except in specific distressed cases. In our view, the market remains stable, with strategic and financial investors finding value in well-positioned assets.

We observe a rising interest in carve-outs, where companies divest non-core business units to streamline operations and focus on their core business. Carve-outs can present acquisition opportunities for private equity firms and strategic buyers seeking to expand their portfolios and enter new markets.

We expect consolidation will continue to be a significant trend driving deal flow in the Healthcare sector. Organizations can pursue M&A to achieve scale, take advantage of synergies, and improve bargaining power with suppliers and payers. Consolidation can also enable healthcare companies to offer integrated and comprehensive services, improving patient outcomes and satisfaction. Illustrating this trend in Medtech:

- In June 2024, we advised Arlington Capital Partners, a US based private equity firm, and its portfolio company, Riverpoint Medical, a leading developer, designer and manufacturer of medical devices on the acquisition of CP Medical, a leading device manufacturer<sup>2</sup>. CP Medical brings a portfolio of

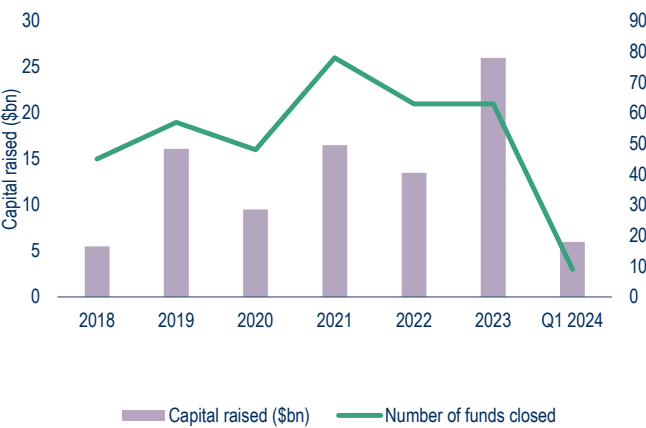
specialty surgical and animal health wound closure devices, which are complementary to Riverpoint's existing capabilities and offerings.

- In March 2024, we advised Eurazeo, a leading global investment group, on the sale of Peters Surgical, a France-based global manufacturer and distributor of high-quality surgical closure devices, to Advanced Medical Solutions Group plc<sup>3</sup>. The transaction allows Peters Surgical to benefit from significant synergies with Advanced Medical Solutions Group plc in terms of the combined portfolio of surgical products, of sales capabilities, commercial footprint in key territories and distribution networks.

## Resilient fundraising and increased refinancings to position for growth

Despite economic uncertainties, fundraising for healthcare-focused investments remains robust . Private equity firms and institutional investors continue to show strong interest in the Healthcare sector, at a time when private equity funds have high levels of dry powder to put to work. The resilience of fundraising efforts underscores the attractiveness of Healthcare Services as a stable and growth-oriented investment opportunity.

## Capital raised by healthcare focused private equity funds



<sup>5</sup>Source: Private Equity International: Capital raised by healthcare-focused private equity funds, funds closed, 2018 – Q1 2024

Refinancing existing debt can enhance the financial health of healthcare providers, positioning them for growth and investment opportunities. In July 2023, we advised H.I.G. Capital on its recapitalization of Advanced Dental Brands, to support further investment in the platform and enhance the Company's value proposition for doctors<sup>6</sup>.



## Physician Practice Management – return to tried-and-tested strategies

Physician Practice Management (PPM) M&A activity is undertaking a necessary reset back to the ‘core’ fundamentals that it strayed from during the post-COVID ‘feeding frenzy’ of Healthcare M&A during 2021 and 2022.

Today, PPM and Healthcare Services investors alike are going back to basics by focusing on the time-tested strategies that have created and supported many successful organizations over the past decade. Strategies include:

- Building regional density within a defined market or geography through a disciplined M&A strategy
- Constructing a multi-pronged growth strategy anchored by a strategic focus on de novo growth that can produce replicable and consistent financial performance
- Hiring a strong and experienced leadership team with a track record of successful exits
- Investing in corporate support infrastructure to enable economies of scale and sustainable growth
- Focusing on operational integration across the entire platform

In July 2024, we acted as exclusive financial advisor to the shareholders of Ortho Rhode Island, a leading regional provider of comprehensive orthopedic and musculoskeletal clinical services, on its partnership with Spire Orthopedic Partners, a portfolio company of Kohlberg & Co<sup>7</sup>. In partnership with Spire, ORI will access support and infrastructure to accelerate growth, enhance the overall patient experience and further develop a differentiated clinical model for the communities it serves.

## Healthcare Services – the market reset

As we enter the second half of 2024, we believe healthcare services organizations have digested direct market feedback and are now refocused on taking the necessary steps to position their businesses for a successful exit over near to medium term. Such steps include a renewed focus on operational and financial integration, an emphasis on de-levering the balance sheet, and the application of strict scrutiny to pro forma adjustments when underwriting earnings of future M&A opportunities. In the aggregate, these activities will enable more sustainable businesses resulting in a healthier and durable healthcare services M&A market in the long-term.

Private equity as an investor class within Healthcare Services will also foster increased sector M&A activity, as many firms seek to exit portfolio companies that have necessarily had a longer duration within the fund’s lifecycle. Further, the sheer amount of private equity investable capital, or dry powder, remains at near record levels in our view, which will also support increased healthcare services M&A activity as investors seek to put capital to work in new platform investment opportunities. As a result of these dynamics, we are now witnessing a higher number of healthcare services and provider-based companies preparing to go-to market and expect these assets to trade at relatively strong valuations. The great healthcare services market reset that we have borne witness to over the last 12+ months has in many ways served to create a much more resilient and durable investment segment, and as a result, we believe there will be increased M&A activity and continued consolidation of this attractive sector in the second half of 2024.

## Pharmaceuticals – Japan internal consolidation and international M&A opportunities

Japanese pharmaceutical companies are grappling with a challenging business environment due to the framework of regulated drug prices, which necessitates annual price revisions—primarily downward. Additionally, with major firms facing patent expirations for their key products, there is a growing trend toward large-scale M&A in significant overseas markets. This trend is likely to accelerate and may extend to mid-sized and smaller companies as well.

However, mid-sized and smaller companies are financially less robust than their larger counterparts and lack the resources for overseas expansion. The Japanese market is characterized by a higher number of mid-sized pharmaceutical companies compared to overseas markets, suggesting a potential for industry restructuring. This distinctive feature of Japan and the movement toward industry consolidation is particularly evident in the generic drug sector, a domestic industry where the likelihood of further restructuring is high.

## Medtech – healthy outlook for hospitals capex to fuel growth

In the fast-moving Medtech segment, we believe hospitals in the US have been on a hiring spree<sup>8</sup>, bolstering their staffing levels, leading to more resource to tackle the backlog of medical procedures that accumulated during the pandemic. The significant procedure backlog<sup>9</sup>, combined with improved staffing, can set the stage for increased demand for medical

devices and services. Patients are eager to catch up on postponed treatments, and hospitals are ready to accommodate them.

GLP-1 drugs, often used for weight loss and managing obesity, may have been a cause for concern due to their potential impact on medical procedure volumes, however recent research has eased those worries<sup>10</sup>. Hospitals are finding ways to work around any adverse effects, and patients are benefiting from these medications without compromising their treatment plans.

As confidence grows, the Medtech sector can expect a positive ripple effect on demand. Fewer reservations mean more procedures, and that should gain further M&A interest in device manufacturers and service providers.

Hospitals are feeling optimistic about their financial health. A strong outlook for hospital capex should mean they may be ready to invest in cutting-edge technologies and equipment. Whether it’s upgrading imaging systems, adopting robotic-assisted surgery platforms, or enhancing patient monitoring, hospitals are gearing up for a tech-driven future. Medtech companies can position themselves to benefit from these capex plans.

The Medtech landscape is embracing digitization and AI at an unprecedented rate. FDA approvals for AI algorithms are hitting record highs<sup>11</sup>. From diagnostic tools to personalized treatment recommendations, AI is revolutionizing patient care. Strategic acquirers are, in our view, eyeing surgical robotics, digital workflow solutions, and collaborative platforms. Medtech companies that harness AI’s power will, in our view, stay ahead of the curve.

The pandemic highlighted vulnerabilities in global supply chains, which has increased demand for near-shoring – the practice of bringing manufacturing closer to home. Medtech suppliers can benefit from this, ensuring a





steady flow of components and reducing dependency on distant suppliers.

Rising public market valuations are creating favorable conditions for M&A deals, as we believe investors are willing to pay a premium for promising Medtech ventures. Whether you're a startup with groundbreaking technology or an established player seeking expansion, we believe the valuation landscape is moving in your favor.

## Social Care – growing needs of ageing populations boost M&A activity

A significant demand driver for Healthcare Services is an ageing population requiring more acute care and additional hospital beds. This demographic shift can put a strain on public services, whilst accessibility of treatments, improved diagnostics, cultural changes (e.g. mental health awareness), and prevalent health conditions also contribute to increasing demand. Notable deals include TPG Rise and Investcorp's acquisition of Outcomes First<sup>12</sup>, a special education services provider in the UK, for approximately \$1 bn, and the acquisition of Hartford Care by Foundation Partners and Deer Capital<sup>13</sup>, a new entrant into the Elderly Care market.

In July 2024, we advised Clariane on its disposal of Les Essentielles, a French national operator of serviced senior residences to Groupe Duval, a French international real estate services provider, with operations extending across Europe, Africa, and Asia<sup>14</sup>. The transaction enabled Groupe Duval's subsidiary, Happy Senior, to increase the number of its serviced senior residences in France to meet the growing needs of an aging population.

The global Healthcare market has repeatedly demonstrated its ability to adapt and innovate in times of slowdowns and disruption. We believe there is a revitalized outlook for the sector, with accelerated M&A activity due in part to:

- Technology and innovation
- Valuation adjustments, carve-outs and consolidation
- Active sectors: Healthcare Services & Physician Practice Management, Pharmaceuticals, Medtech and Social Care
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To discuss any of the themes and trends explored in this article in more detail, please contact the authors below or our global Healthcare team here >

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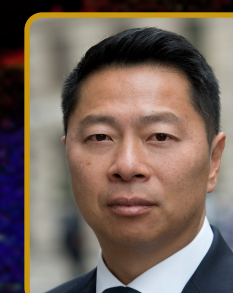
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