

# The 2023 Healthcare M&A Landscape

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# Revisiting last year's predictions...

1

**Overall, M&A deal activity is expected to slowdown in H2 2022...**



2

**...however Healthcare deal activity will remain pretty robust**



3

**Demand for resilient best-in-class Healthcare assets will sustain valuation premia....**



4

**...a potential reduction in the availability of credit is the most significant risk**





# Today's agenda

- 1 Recapping the last twelve months
- 2 Where are we now?
- 3 The impact on Healthcare Services M&A
- 4 Where are we going?
- 5 Investing in Healthcare is not over...

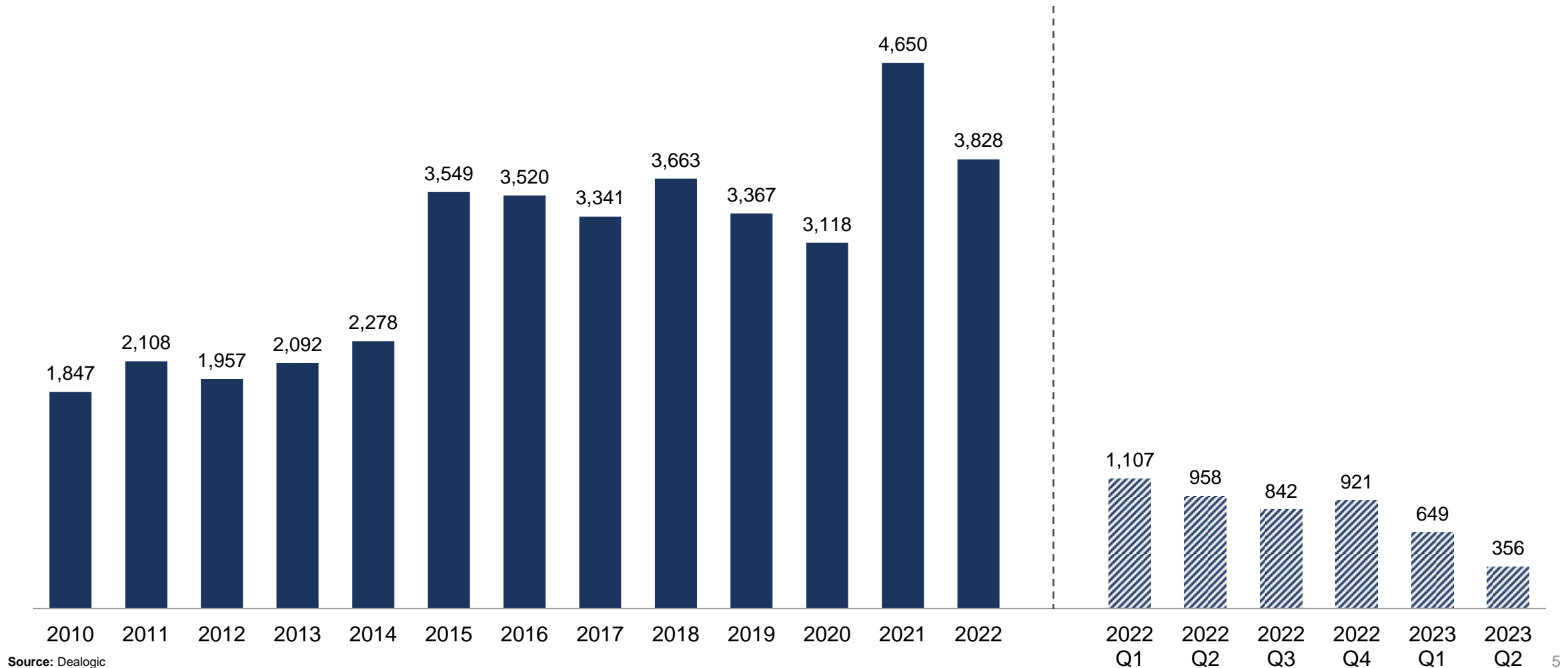
# 1

Recapping the last 12 months



# M&A volumes dropped off from H2 2022 and the trend continued in 2023

## Global M&A deal values (EURbn, completed deals)

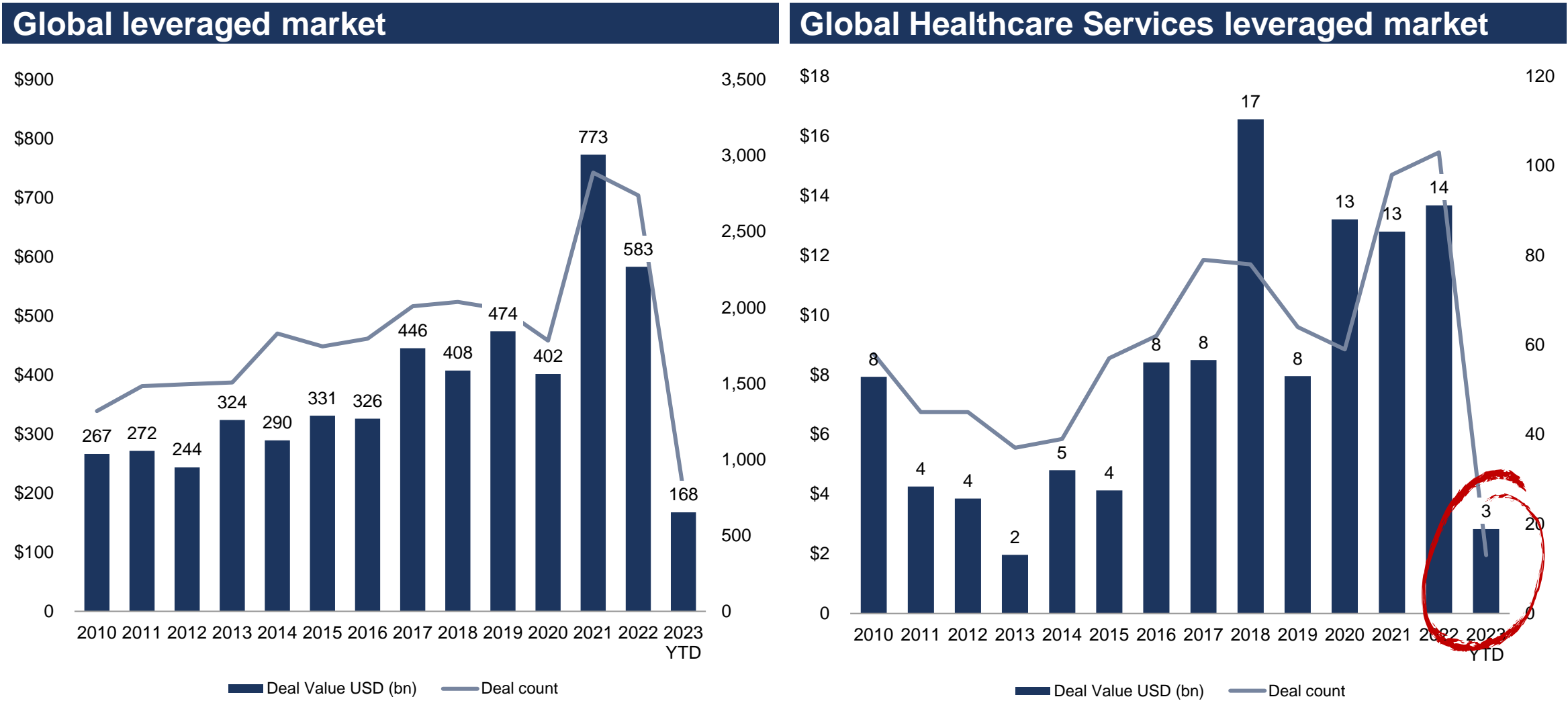


Source: Dealogic

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# Volume of 2023 buyout financing is at its lowest in recent history

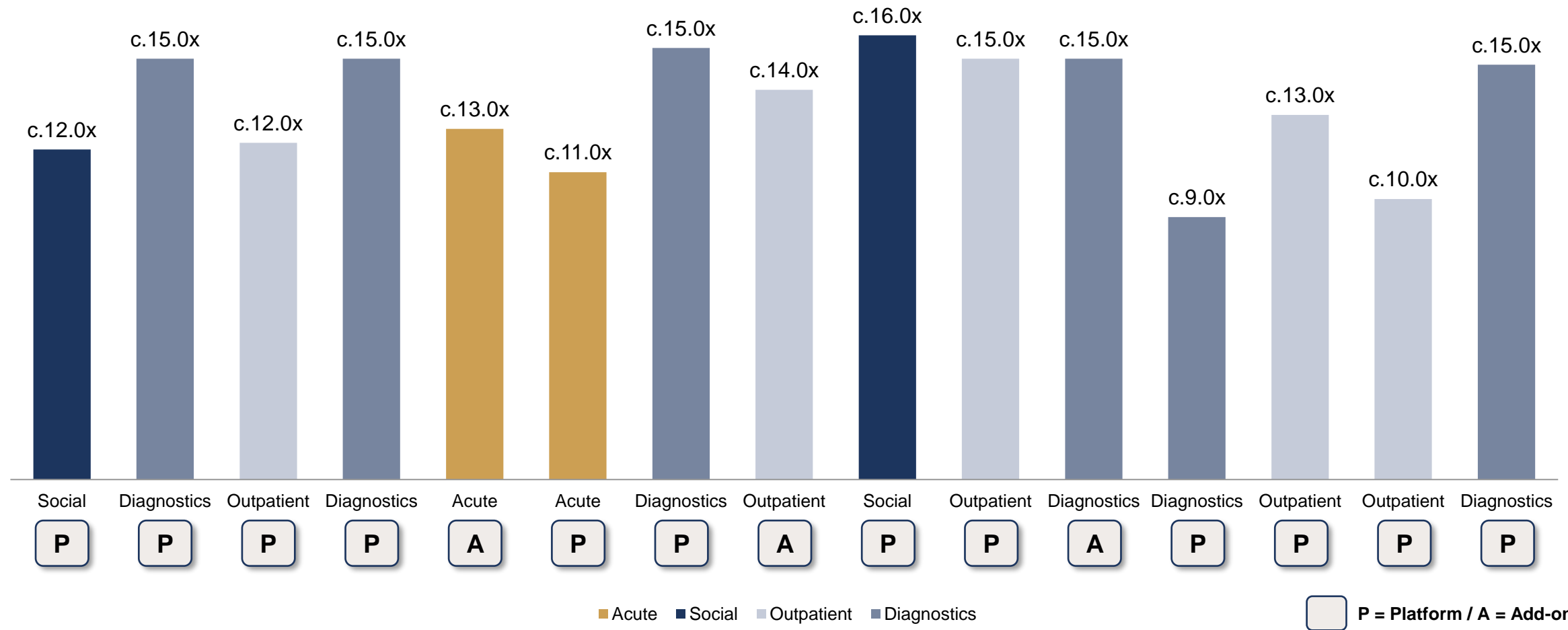




# Despite volumes being down, recent transactions demonstrate prices have been maintained

## EV/Pricing EBITDA – European Healthcare Services transactions LTM

Average: 13.3x



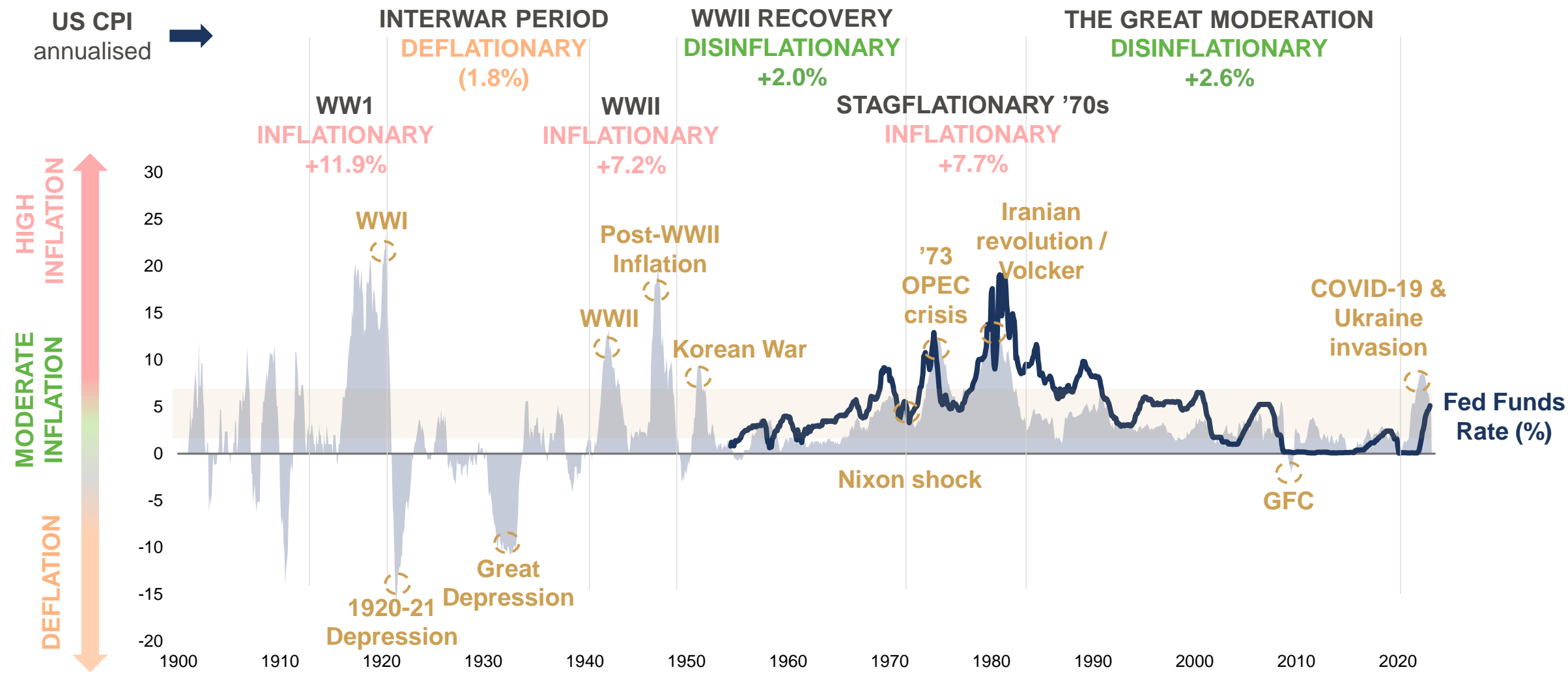
# 2

Where are we now?



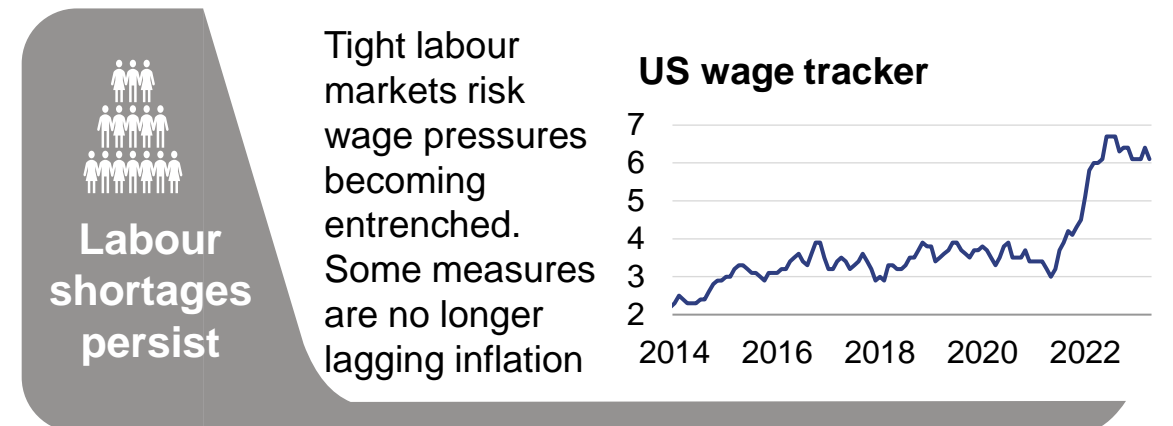
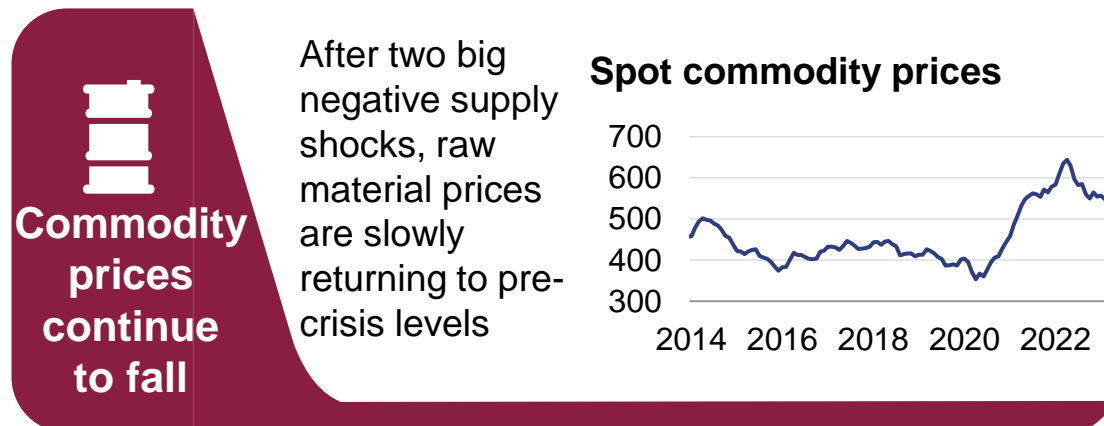
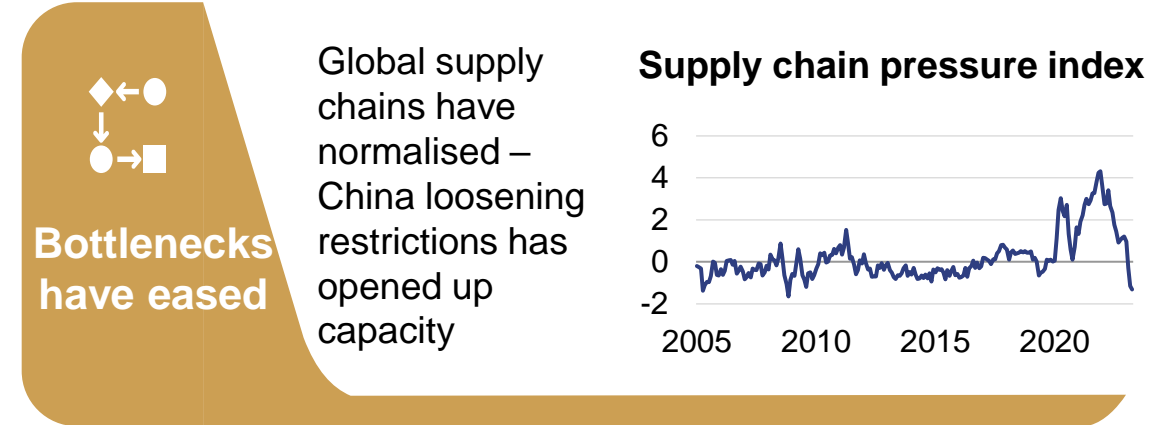
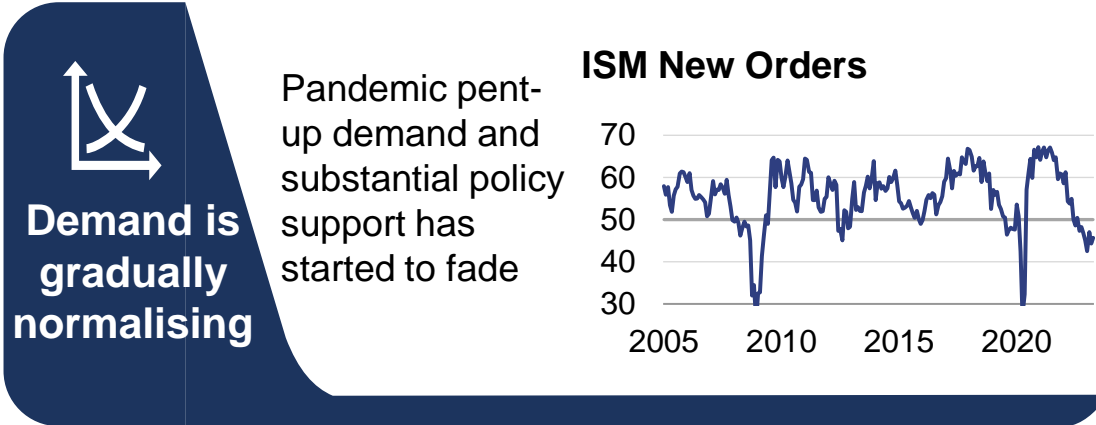


# Placing recent inflation in context





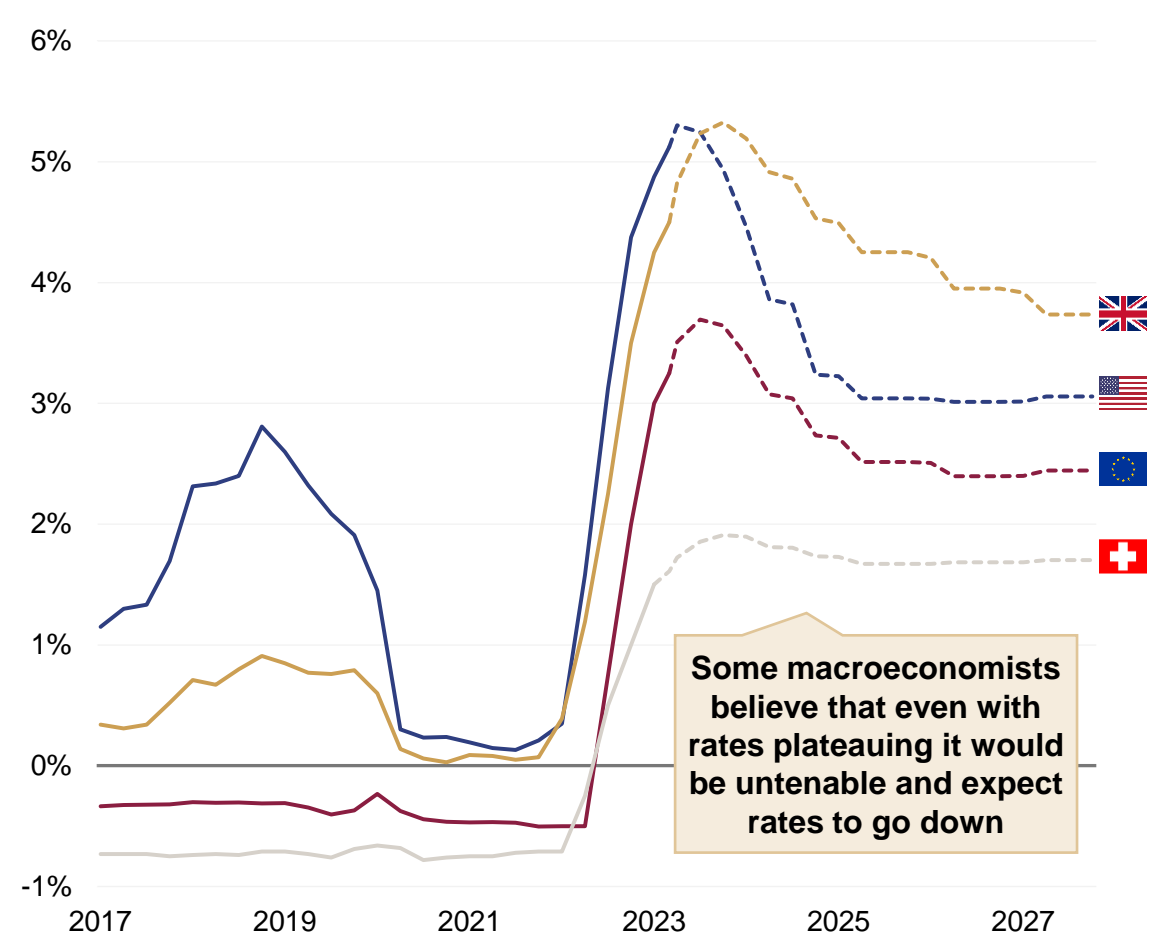
# A return to a moderate-to-above trend of 2-4% inflation is likely



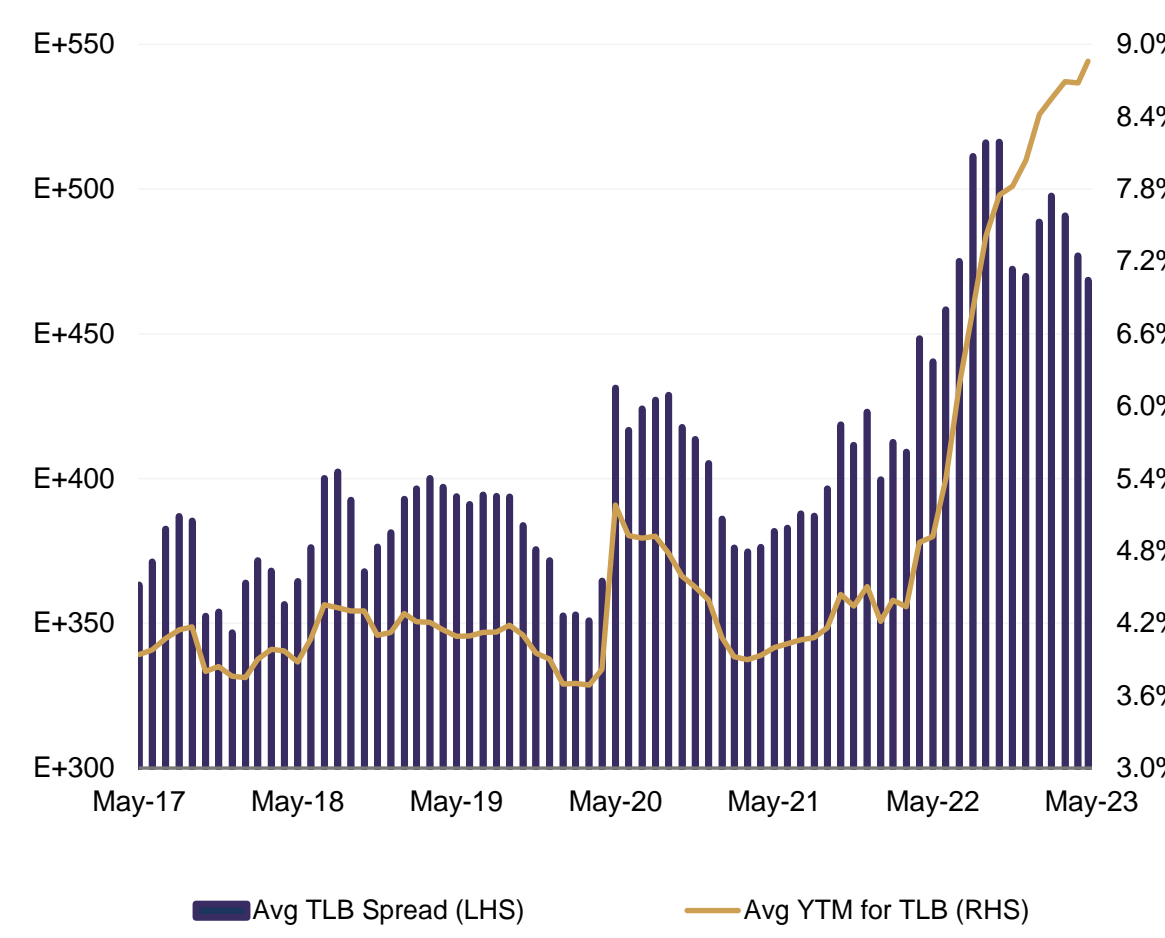


# Policy rates are unlikely to fall in the near-term but should plateau. Spreads to key reference rates continue at all time highs

Implied policy rates<sup>1</sup>



Spread and new issue yield on European TLBs



Source: Bloomberg, Pitchbook LCD  
1. Derived from OIS curves (three-month tenor: USD – SOFR; GBP – SONIA; EUR – ESTR; CHF – CHF OIS)  
2. TPI refers to the Transmission Protection Instrument.



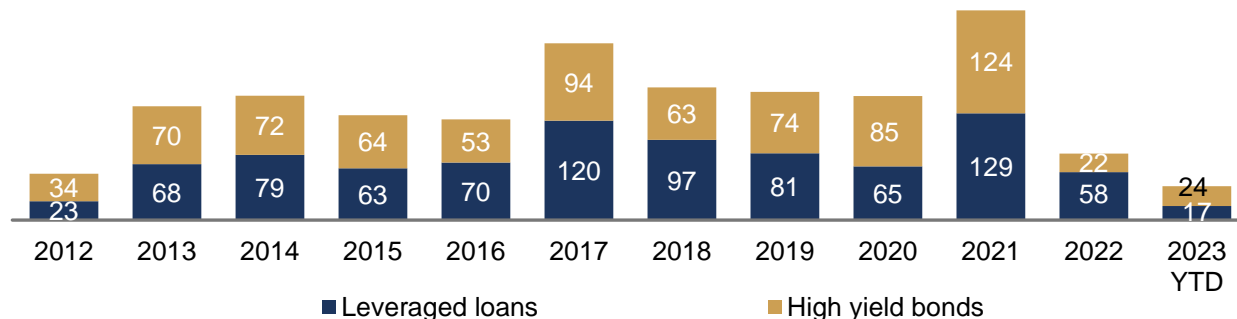
# Leveraged markets have improved, with a pick up expected in H2 23

Primary market continues to be open for new transactions albeit remaining credit selective and sensitive to new economic data & corporate earnings

## Capital markets

- **Environment in first half of 2023 has improved considerably vs. 2022**
  - Banks have now cleared hung LBO deals (at peak estimated to have been \$50bn of hung debt)
  - Indices have improved to closing levels from 2022
  - CLO formation is picking up
- **Bank's appetite to take on new underwrite risk is slowly returning**
- **Current primary activity levels driven** by well-known, repeat issuers and Amend & Extends
- **Capital markets have been more constructive through H1-23**, albeit expectation remains that volume will not fully recover until H2-23

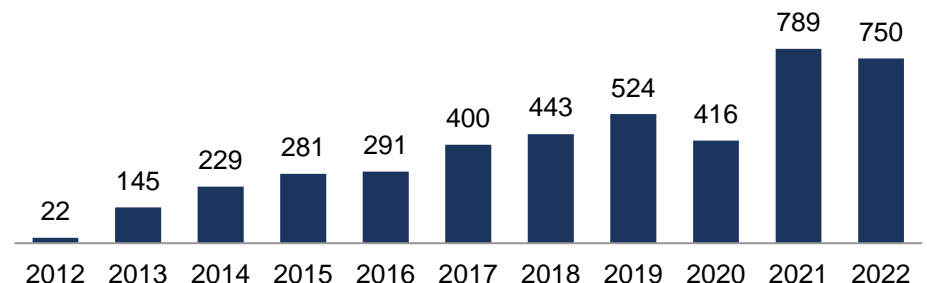
European leveraged market volumes (€bn)



## Private credit

- **Private credit has been resilient and continues to deploy capital**
- Credit committees focused on resilient, traditionally preferred sectors (including Healthcare)
- Market characterised by **high levels of credit selectivity, wider dispersion of terms**, and less consistent, **more unpredictable investment committee outcomes**

European private credit deal volume (#)



# 3

The impact on Healthcare Services M&A



# Deal volume and investor targets have been impacted globally

Global snapshot – deal activity by region ( $\geq \text{€}500\text{m}$ ) in the LTM...i.e. EVERYTHING

## North America

Policy rate: 5.4% ( $\Delta +3.8\%^1$ )

LTM Inflation: 3.4%



## LatAm

Policy rate: 21.8%<sup>2</sup> ( $\Delta +6.8\%^1$ )

LTM Inflation: 17.0%<sup>3</sup>



## Europe

Policy rate: 4.4% ( $\Delta +4.4\%^1$ )

LTM Inflation: 7.4%



## MENA

Policy rate: 6.2% ( $\Delta +2.9\%^1$ )

LTM Inflation: 8.3%



**Focus on outwards co-investment**

## APAC

Policy rate: 3.9% ( $\Delta +1.5\%^1$ )

LTM Inflation: 2.9%



Source: Mergermarket, CapIQ, IHS Markit

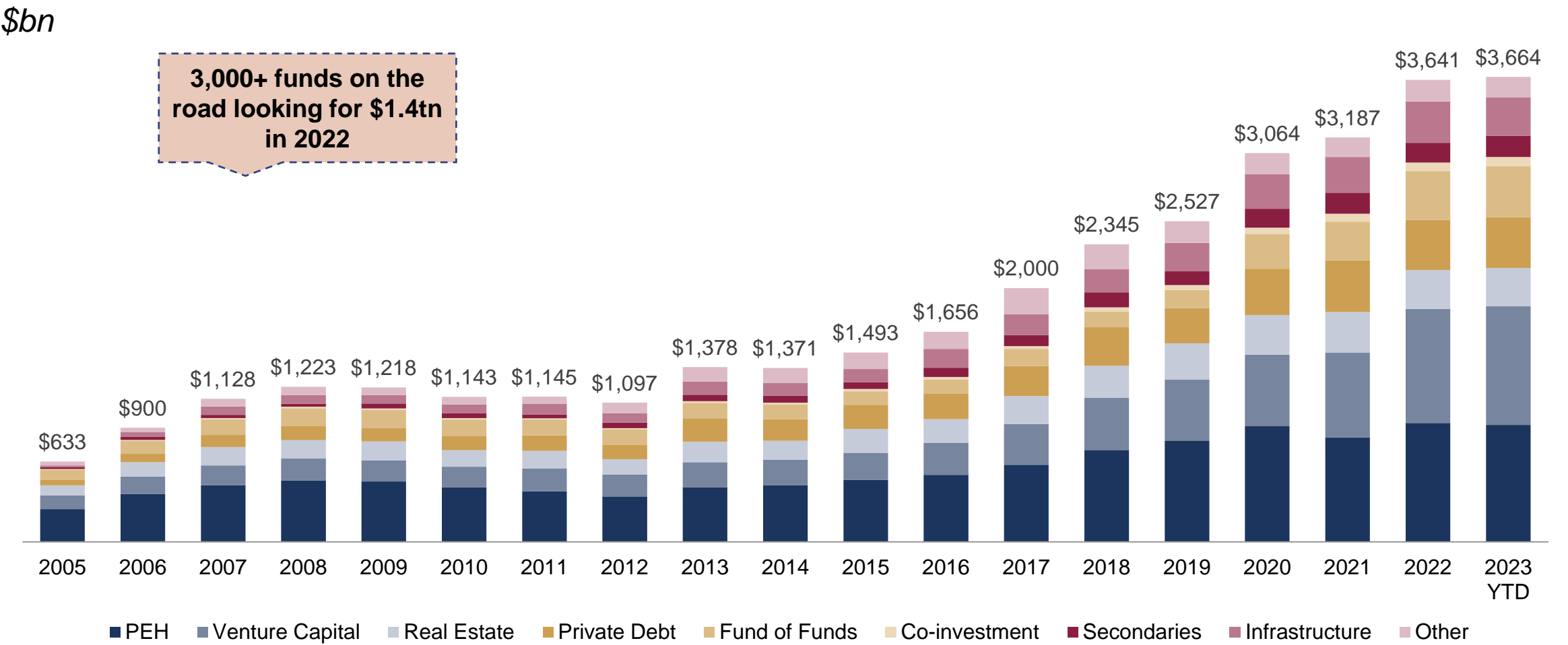
Notes: Announced (and or not yet closed) or completed transactions with disclosed transaction values above €500m

1. Change in the last 12 months; 2. Includes Mexico; 3. Excludes Venezuela



# Dry powder continues to be higher than ever, but now amidst greater pressure from LPs to return money

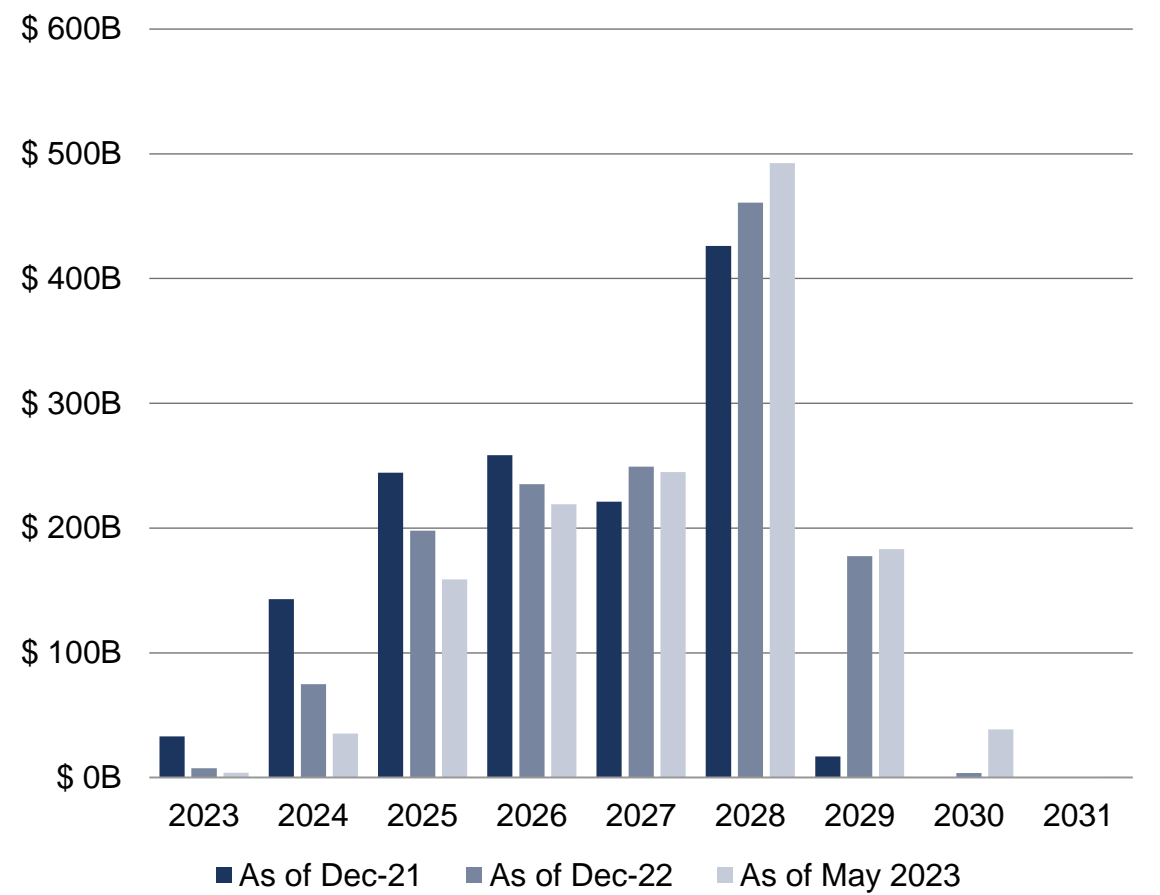
## Total dry powder value over time



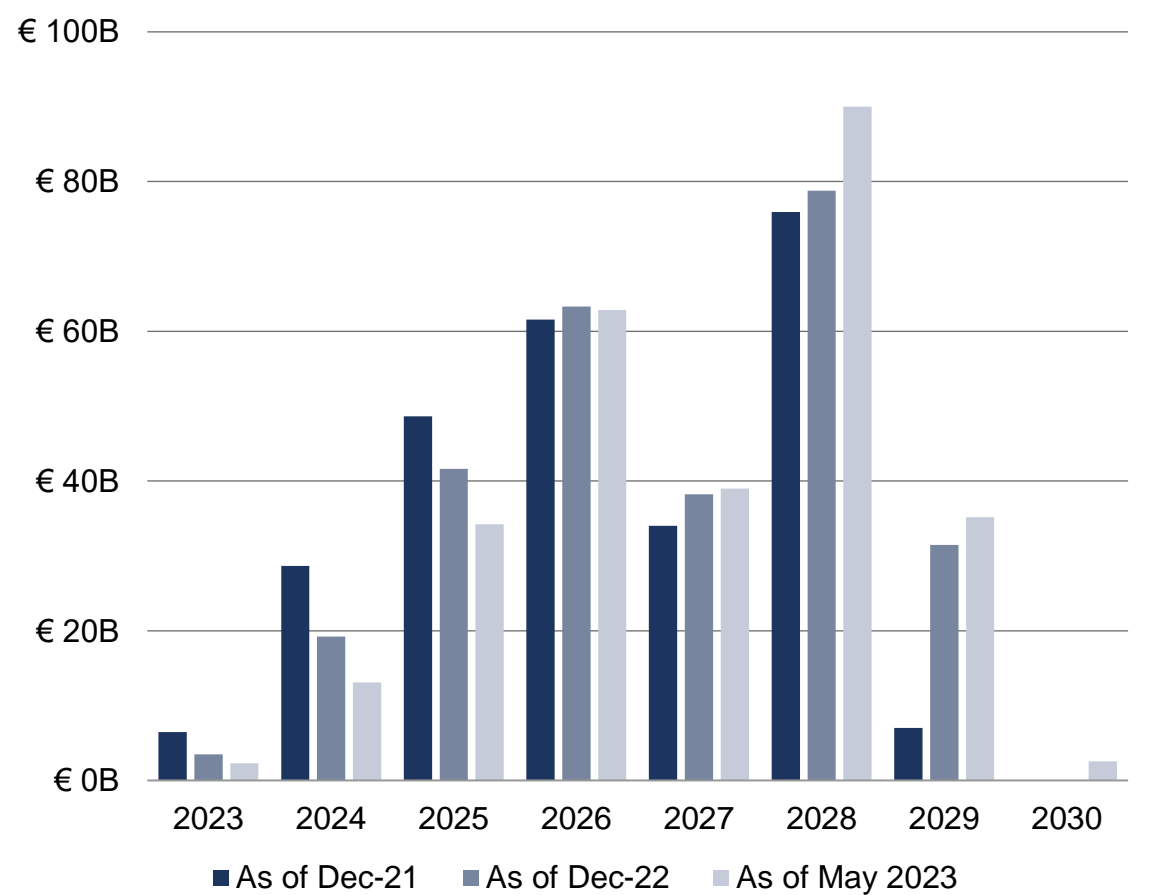


# Maturity profiles demonstrate significant near term refinancing requirements

US leveraged loan “maturity wall”



European leveraged loan “maturity wall”







# What options are available?

Do you opt to refinance debt at current rates or seek a short-term liquidity event?

## Worked example: Investor A acquires MidCo

### 2020: Entry

#### Entry assumptions

EBITDA	100
EV / EBITDA	15x
Enterprise value	1,500

Operating cash flow conversion	80%
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#### Debt financing

xEBITDA	7x
Debt quantum	700
All-in cost of debt	5%
Annual interest expense	35
Debt	700
Equity	800
Enterprise value	1,500
FCF after debt servicing	45

### 2023

#### Financial metrics

EBITDA	150
Operating cash flow conversion	80%

#### Financing

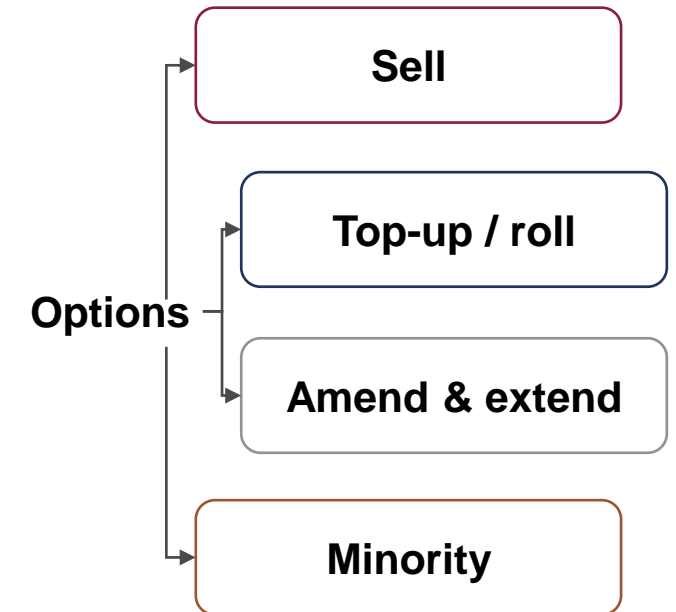
xEBITDA	7x
Debt quantum <sup>1</sup>	1,050

*Note: Refinancing requirement*

Refinanced debt (xEBITDA)	5x
Refinanced debt quantum	750

Equity 'top-up' required	300
All-in cost of debt	11%
Annual interest expense	83
FCF after debt servicing	38

## Strategic options available



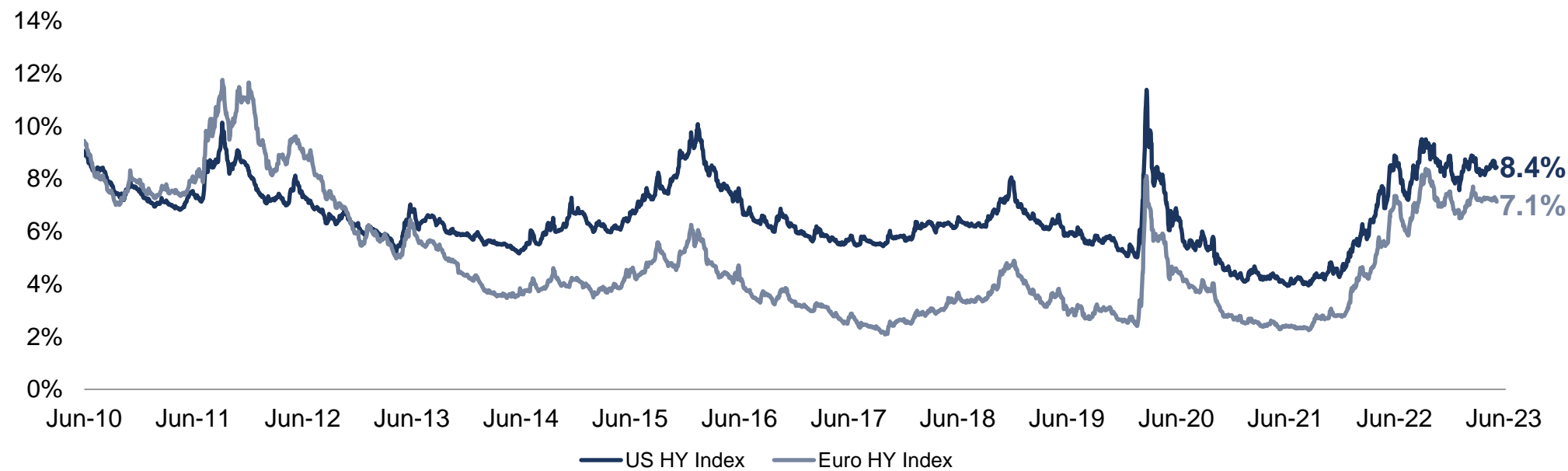
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Where are we going?

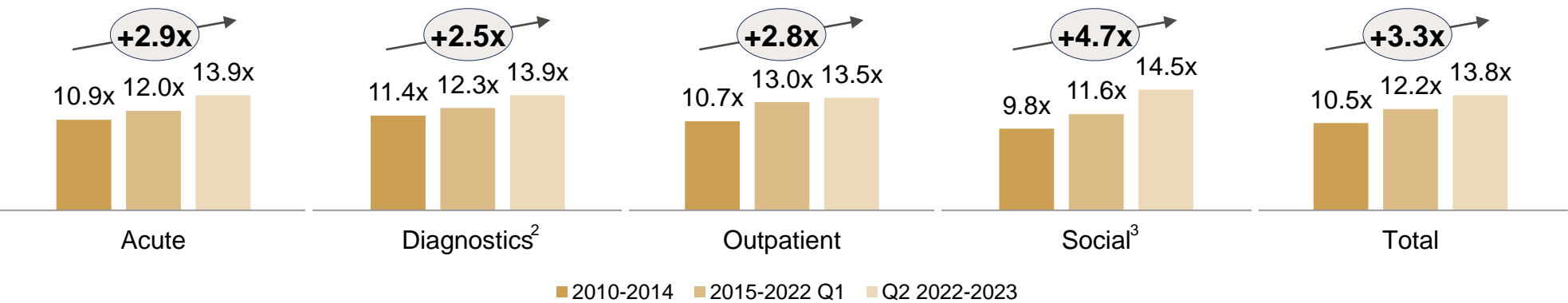


# The current cost of debt is not unprecedented but the tandem current high asset valuations are

Euro / US high-yield indices



HCS valuations (precedent transactions)<sup>1</sup>



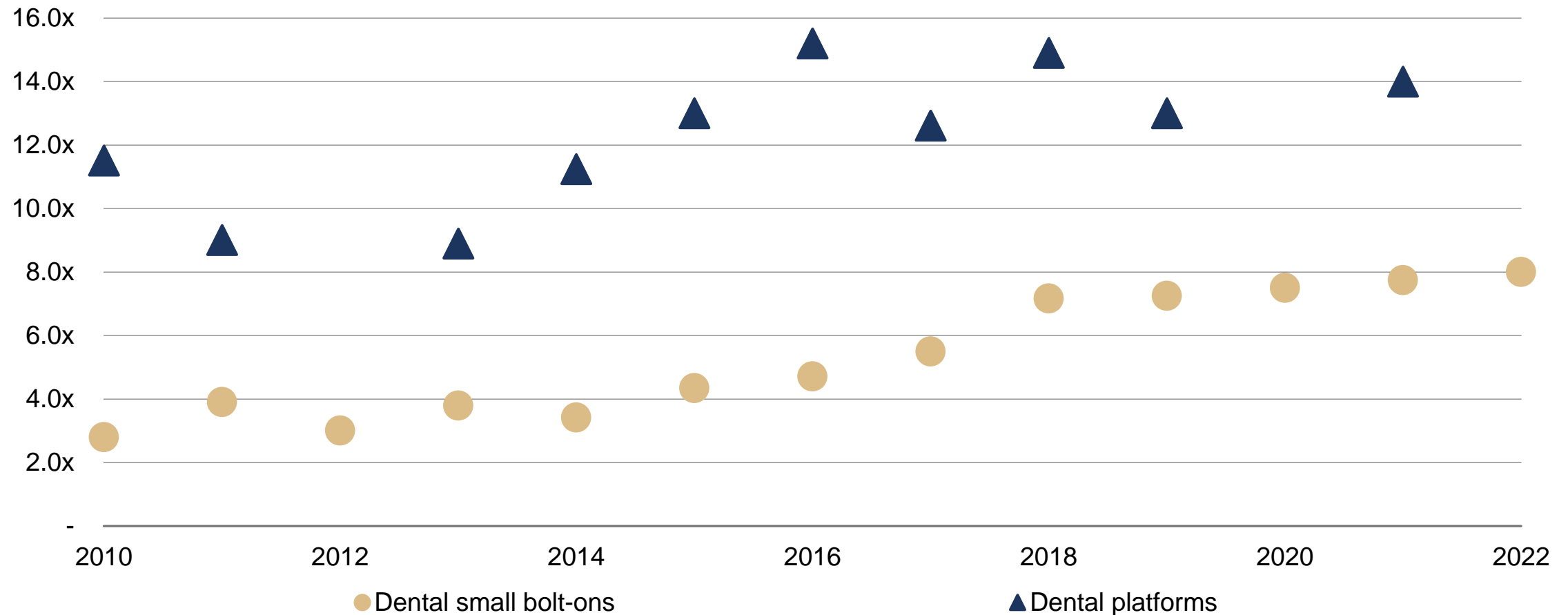
Source: BofA High Yield Index  
Notes: 1) Based on average across precedent transactions. Transaction comparables only include developed markets; 2) Diagnostics includes Labs, Imaging and Teleradiology; 3) Social includes Elderly and Specialist Care  
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# The price of add-ons has increased materially over the past decade

...they will come down, but bear in mind push factor and pull factors

## Average bolt on prices vs platform prices: a Dental case study





# The current environment has driven a renewed focus on organic models

## A M&A-led growth models

		EBITDA		Multiple		Investment		...of which debt		...& which equity		ROIC <sup>1</sup>
M&A	Old debt environment	€10m	×	10x	=	€100m		€70m (7x leverage)		€30m		33.3%
	New debt environment	€10m	×	10x	=	€100m		€40m (4x leverage)		€60m		16.7%

## B Focus on organic models

Greenfield	Old debt environment	€10m				€40m		€10m		€30m		33.3%
	New debt environment	€10m				€40m		€0m		€40m		25.0%

Note:

1. Defined as EBITDA / Equity deployed

# 5

Investing in Healthcare is not over...



# Healthcare megatrends underpin growth within the industry



## **Aging demographics**

- Increasing demand for geriatric care and specialised treatments



## **Rise in chronic illness**

- Growing burden of chronic conditions and need for ongoing care and disease management programs



## **Shift towards preventative healthcare**

- Emphasis on proactive approaches, including preventive screenings, vaccinations, and lifestyle interventions



## **Expansion of personalised diagnostics**

- Advancements in genetic testing and biomarker analysis unlock tailored diagnostics and treatments



## **Advances in medical technology**

- Adoption of telemedicine, AI-driven diagnostics, and remote monitoring systems



## **Increased focus on mental health**

- Growing recognition of mental health issues and rising demand for counselling, therapy, and psychiatric care



## **Urbanisation and lifestyle changes**

- Urban living and changing lifestyles contribute to heightened healthcare service needs



## **Digital health**

- Integration of technology (e.g. electronic health records, telehealth platforms, and wearable devices)



## **Demand for home therapy alternatives**

- Growing preference for receiving therapy and rehabilitation at home

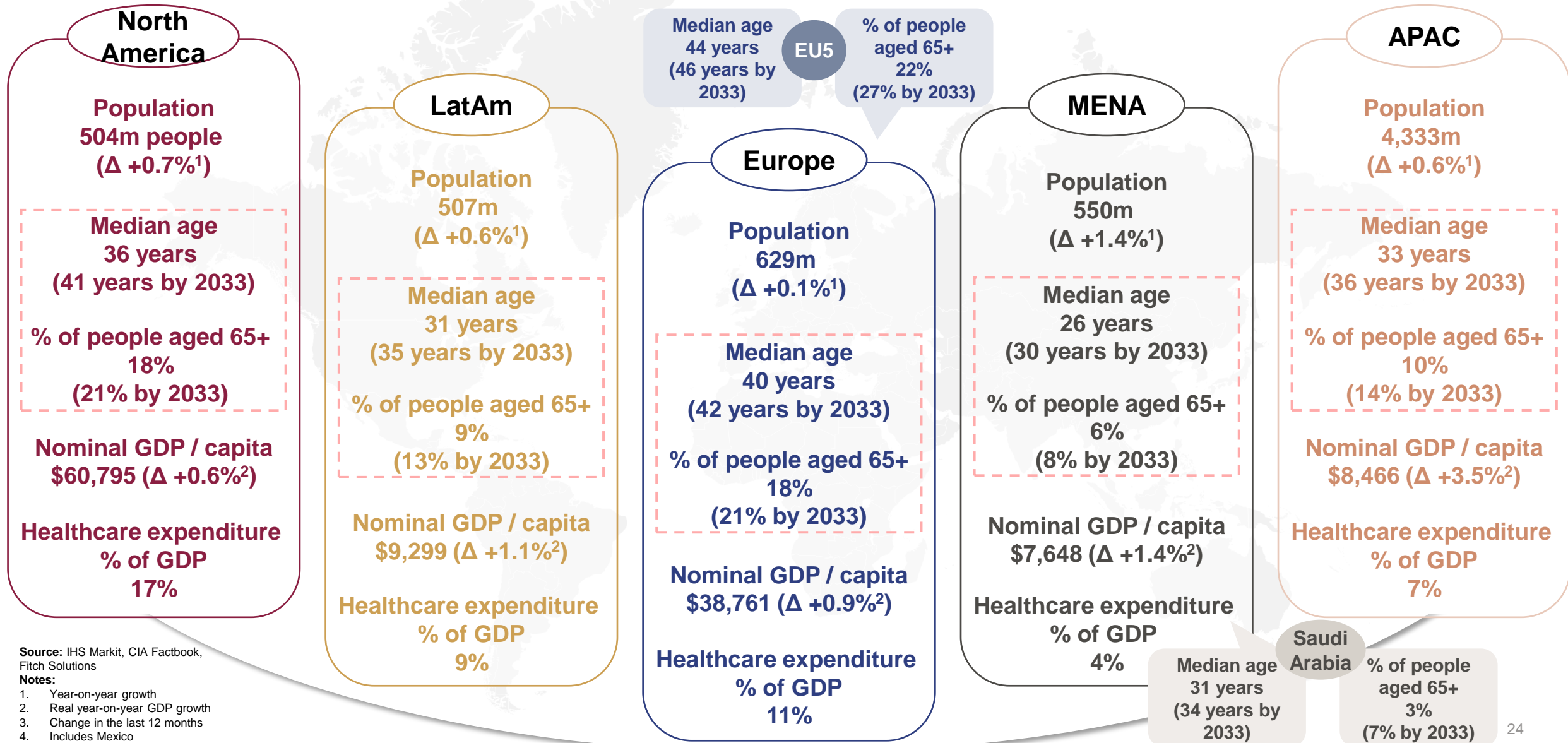


## **Global healthcare tourism**

- Increased travel for specialised treatments and surgeries



# Healthcare fundamentals are attractive globally

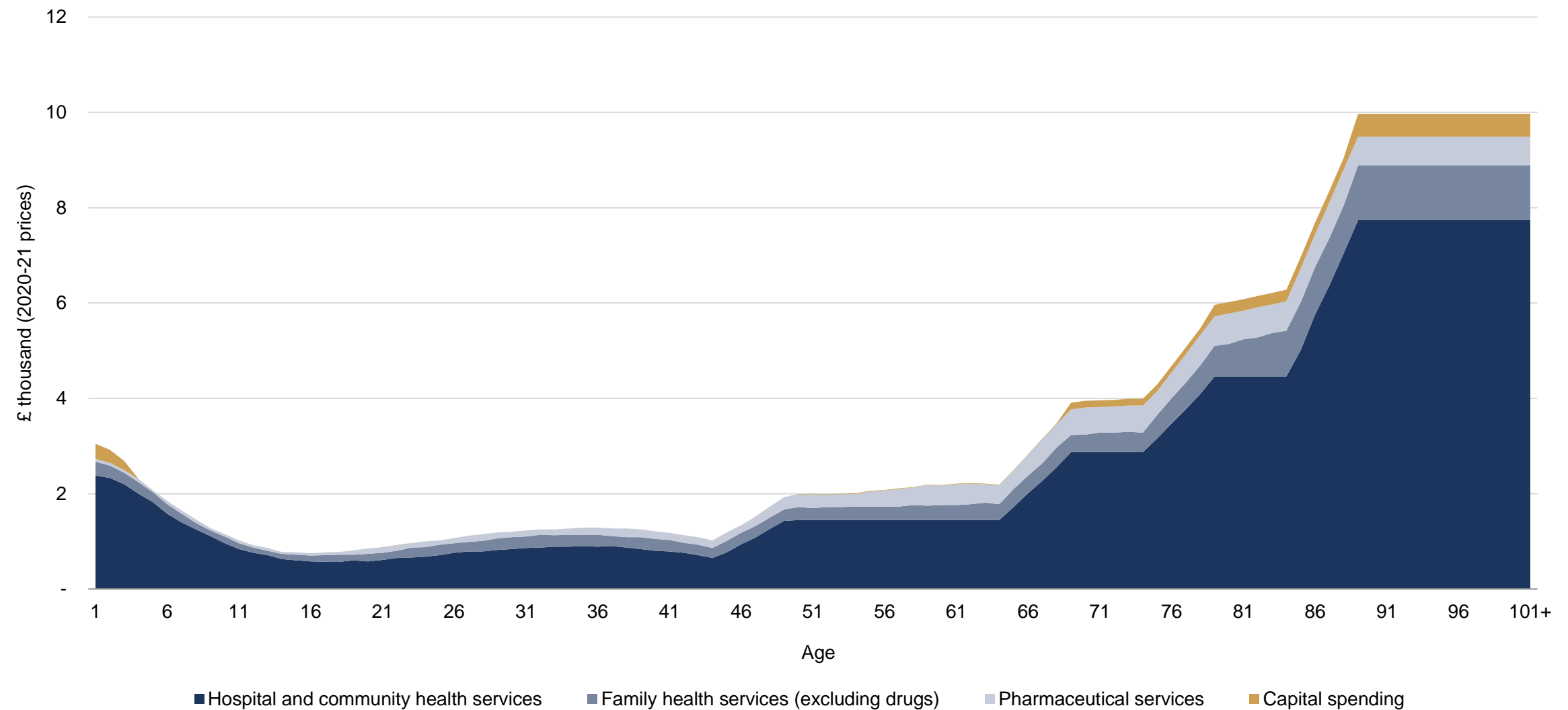






# Spend is clearly correlated with age

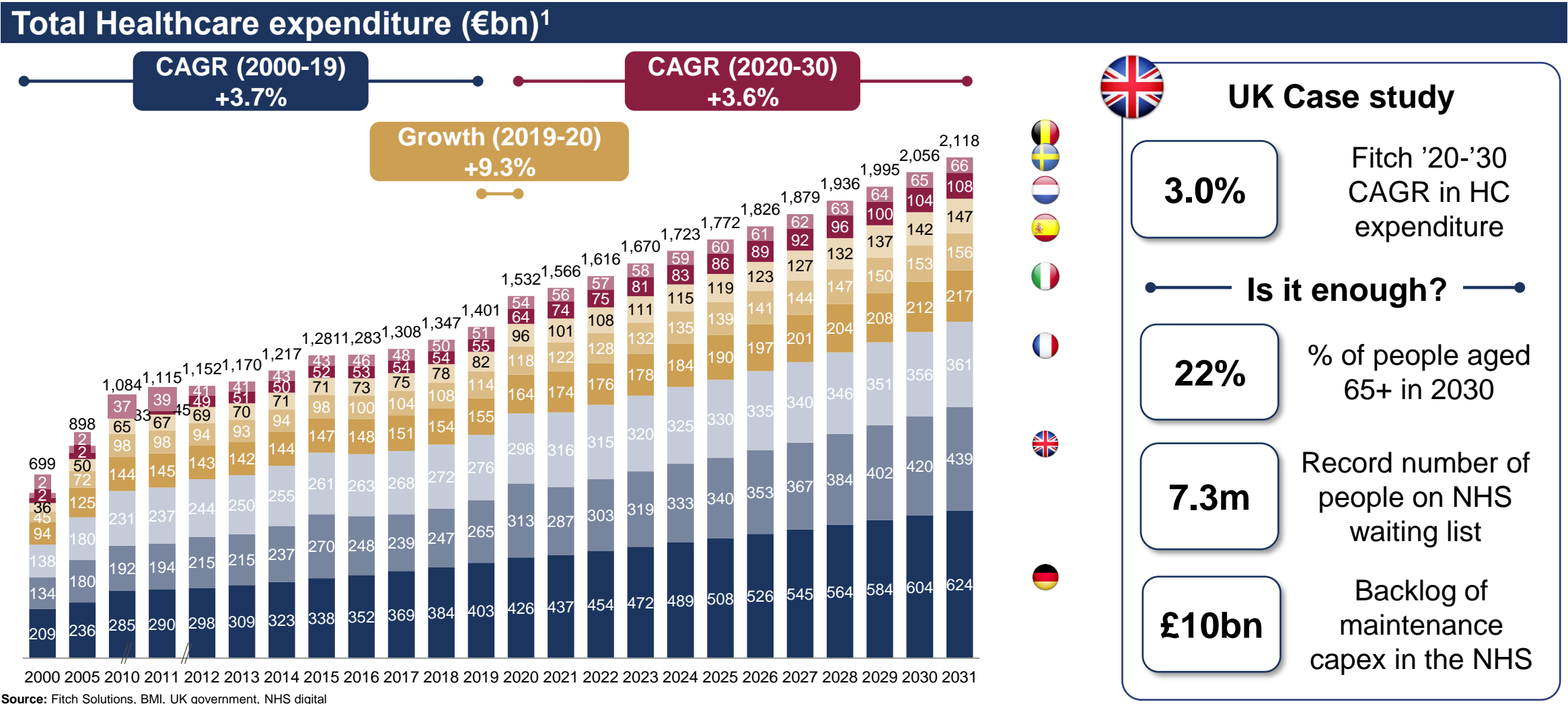
Healthcare spending per capita and by age group: UK example



Source: Office for Budget Responsibility



# Healthcare expenditure will continue to grow

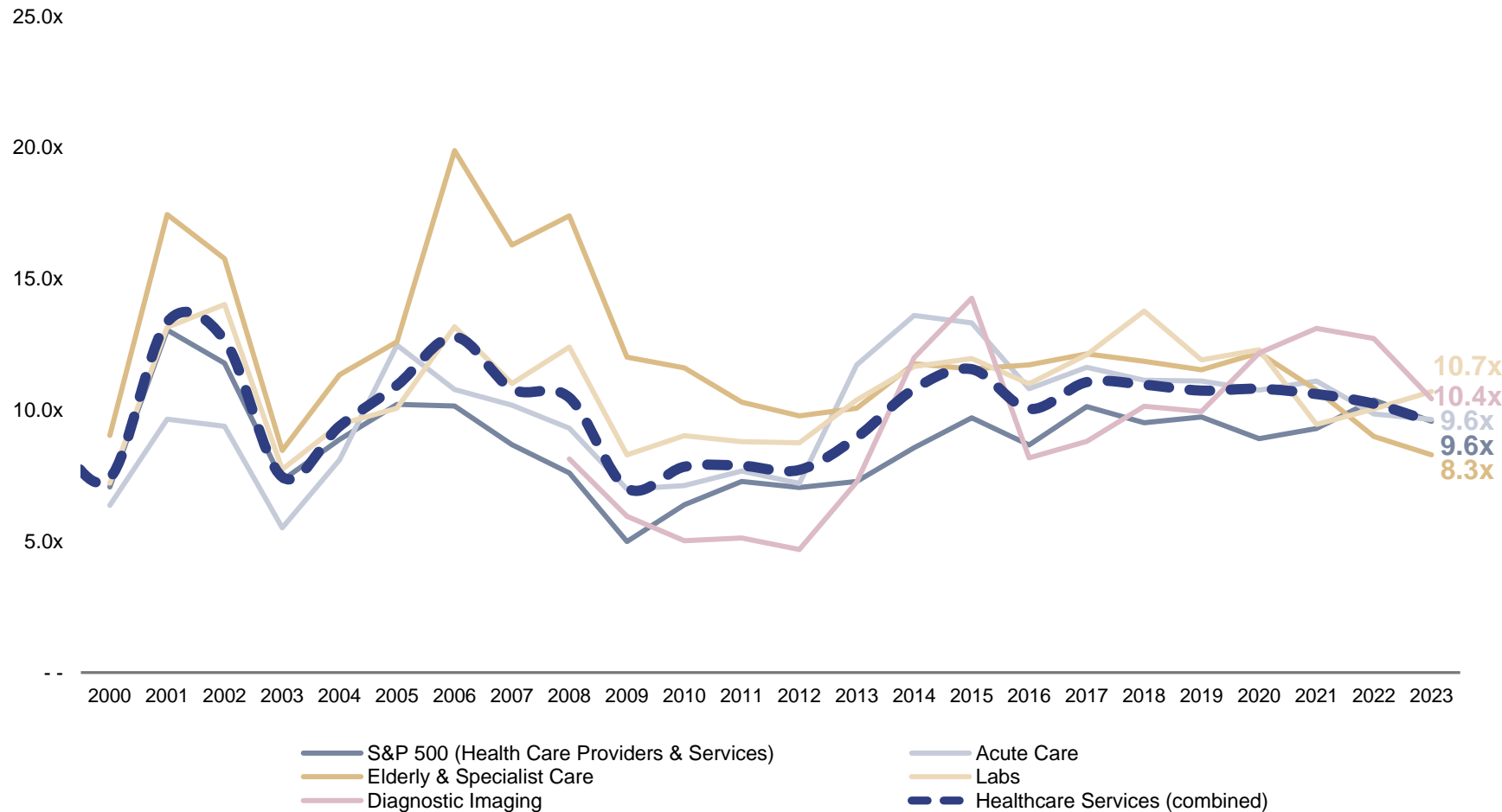


Source: Fitch Solutions, BMI, UK government, NHS digital  
Notes:  
1. Total Healthcare spending for selected European countries



# Healthcare Services valuations are cyclical...

## Healthcare Services EV / NTM EBITDA (since 2000)



Source: Factset

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## Healthcare Services

### Healthcare Providers & Services



### Acute care



### Elderly & Specialist Care



### Labs



### Diagnostic imaging





# ...and investors who take a contrarian view have often been successful

## Selected entries in 2002 / 2003



## Selected entries in 2010 / 2011 / 2012 / 2013 / 2014



Sources: Company information





Notes:

1. Multiple on invested capital metrics obtained from the relevant press releases and news announcements

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# What needs to happen...

Today		Q4 2023 / Q1 2024	
1	Belief that prices are unlikely to go up	1	Refinancing driven disposals 
2	Nervousness over growth rates and exit multiples	2	Inflation and borrowing costs down, as macro conditions improve 
3	No FOMO!	3	Prices of add-ons fall 
4	No competitors investing	4	Activity begets activity... 

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