

Selected transactions

Date	Company	Country	Target description	Acquirer	Country	Deal value (£m)
Jan-16	Priory Group	UK	Behavioural healthcare services	Acadia Healthcare	US	1,300.0
Dec-15	LGC Science Group	UK	Specialist analytical and diagnostic laboratory services	KKR	UK	n/d
Dec-15	Allied Healthcare	UK	Provides home care services	Aurelius	UK	19.0
Dec-15	Quotient Clinical	UK	Provides clinical drug development services	GHO Capital	UK	n/d
Oct-15	Blue Belt Holdings	US	Develops next generation "smart" surgical instruments	Smith & Nephew	UK	180.0
Oct-15	Highcroft Pet Care	UK	Provides veterinary services	CVS Group	UK	12.5
Sep-15	Learning Clinic	UK	Provider of real-time mobile clinical systems for doctors and nurses	System C Healthcare	UK	n/d
Sep-15	Allardyce Healthcare	UK	Supplies healthcare products to nursing homes, hospitals and occupational therapists	Respond Healthcare	UK	n/d
Sep-15	Amdipharm Mercury Company	UK	Manufactures and supplies pharmaceuticals products	Concordia Healthcare	Canada	2,293.9
Sep-15	LNT Group [24 Care Homes]	UK	Portfolio of 24 residential care homes	Anchor Trust	UK	100.0
Aug-15	Healthcare and Services Technology	UK	Provides remote workforce management software solutions	Octopus Investments	UK	n/d
Aug-15	Smirthwaite	UK	Manufactures specialist equipment for children with special needs	Prism Medical Healthcare	UK	n/d
Aug-15	Alpha Hospitals	UK	Operates specialist psychiatric hospitals	Cygnat Health Care	UK	95.0
Jul-15	BBI Diagnostics	UK	Provides diagnostics services	Exponent Private Equity	UK	105.0
Jul-15	Nu Pharm Group	UK	Manufactures small batch-made specials and niche licensed pharmaceutical products	Quantum Pharma	UK	13.3
Jul-15	Brookdale Healthcare	UK	Provides care for adults with special needs	Tracscare Group	UK	n/d
Jul-15	Select Pharma Laboratories	UK	Provides contract analytical testing laboratory services	Source Bioscience	UK	n/d
Jun-15	4Ways Healthcare	UK	Provides teleradiology services to the NHS and the private sector	Synova	UK	n/d
Jun-15	Alexandra Court Care Home	UK	Comprises 84 bedrooms	Target Healthcare REIT	UK	6.2
Jun-15	Spire Healthcare Group	UK	Provides private healthcare services	Mediclinic	UK	431.7
Jun-15	Care UK Homecare	UK	Provides specialist health and social care services	Mears Group	UK	11.3

Source: Experian MarketIQ

Selected Catalyst Healthcare sector deals

 <p>Sale to</p> 	 <p>MBO</p> 	 <p>SMBO</p>  	 <p>Sale to</p> 
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Contact us

If you would like to discuss this report in more detail or the opportunities for your business, please email our Head of Healthcare Justin Crowther at justincrowther@catalystcf.co.uk or call +44 (0) 115 957 8230.

CATALYST
CORPORATE FINANCE

www.catalystcf.co.uk

London
2nd Floor
77 Queen Victoria Street
London EC4V 4AY
T +44 (0) 20 7246 0500

Birmingham
16th Floor, Bank House
8 Cherry Street
Birmingham B2 5AL
T +44 (0) 121 654 5000

Nottingham
21 The Triangle
ng2 Business Park
Nottingham NG2 1AE
T +44 (0) 115 957 8230

M&A update

Healthcare

Winter 2015/16



“Last year saw an overall increase in deal volumes across healthcare markets driven by an uptick in pharmaceutical sector M&A. Activity was strongest in H2 driven by high levels of liquidity, significant cross-border activity and private equity continuing to deploy capital. Although the National Living Wage announcement may have resulted in a temporary slowdown of deal activity in healthcare services, we remain confident that volumes will be strong in 2016, especially in pharmaceuticals, niche areas of healthcare services and digital healthcare.”

Justin Crowther
Head of Healthcare,
Catalyst Corporate Finance

Pharmaceuticals leading the rise in deal volumes

The past twelve months have seen a continuation of strong overall healthcare activity. Deal volumes across each sector have risen with pharmaceuticals recording a significant increase. Here, global M&A has gathered pace, business models are being streamlined and UK private equity (PE) has been investing across the supply chain. Whilst there are nuances in each key healthcare market, strong fundamentals will continue to drive activity across the sector in 2016.

Key observations

High level of pharmaceutical deals

Global pharmaceutical M&A activity increased significantly in 2015, driven by ongoing specialisation in the supply chain, continued outsourcing and the need for big pharma to strengthen drug pipelines. Specialisation and continued outsourcing of non-core capabilities by global pharma has led to significant growth opportunities for, and PE interest in, companies supplying added value products and services such as regulatory compliance, drug discovery and patient monitoring. Global pharma, under pressure as blockbuster drugs come off patent, are increasingly looking to acquire companies with promising drug pipelines.

Healthcare services - a mixed picture

Whilst the National Living Wage (NLW) announcement slowed deal activity in certain parts of the market, private pay elderly care and high acuity mental health continued to see strong activity levels. The polarisation of elderly care continues with capital flowing into the private pay market, particularly in the South of England where demand for a premium product

shows no signs of waning. High acuity mental health, a growing market (with increasing diagnosis), is supported by the heightened M&A appetite of two key players – Partnerships in Care and Cygnet – since they were acquired by US trade buyers. In 2015, they have completed over ten deals.

Private equity appetite

PE is awash with capital. This, together with a healthy debt market and low interest rates, means that PE has often been competing with strategic trade buyers for strong businesses. Notable deals include LDC's acquisition of Synexus and Synova's acquisition of 4Ways Healthcare.

Impact of technologies

With demand for healthcare continuing to grow and no signs of funding pressures abating, there is an increasing requirement for new and innovative technologies to be adopted across the healthcare ecosystem by the NHS, clinical commissioning groups (CCGs), local authorities or the private paying consumer.

In focus: Outsourced services

Smartphone-enabled point of care diagnostics

Adoption levels are rising for technology which uses smartphone (and tablet) features such as cameras, biosensors and plug-in measurement devices which transmit data to the phone to enable lab-type diagnostics.

- BBI Group has developed one of the first mobile readers available for the in vitro diagnostic market which uses smartphone-based software to read and share the results from lateral flow tests. BBI was acquired by Exponent Private Equity in July 2015 from Alere for £105 million.
- AliveCor's mobile ECG, which attaches to both smartphones and tablets, has been approved by the US FDA and has received CE mark conformity, allowing it to be sold in the EU. It is being trialled by clinicians in the UK.

Demand for services such as medical imaging, diagnostics, and remote diagnosis and reporting services is growing fast. This is being driven by an ageing population with complex conditions, patient expectations and improvements in scan technology.

Radiology: high demand, low supply

The number of annual radiodiagnostic examinations is forecast to rise to around 50 million in 2016/17 (see Figure 1).

Higher cost MRI and CT scans, which are more complex but a more effective diagnostic tool, are expected to grow at 10 to 12 percent CAGR.

Capacity constraints in the NHS mean there is an increase in outsourced remote radiology services ('teleradiology'). Around 70% of NHS Trusts are expected to outsource an average of five percent of scans by 2016/17 with the teleradiology sector forecast to be worth around £50 million by 2016/17 in the UK and over £2 billion globally.

Teleradiology and telemedicine are attracting private equity investment. Investors are drawn to the market dynamics, the benefits provided to the NHS and patients, high barriers to entry and strong growth opportunities.

Recent deals include the Synova-backed management buy-out of 4Ways Healthcare in June 2015. The investment will be used to expand 4Ways' customer

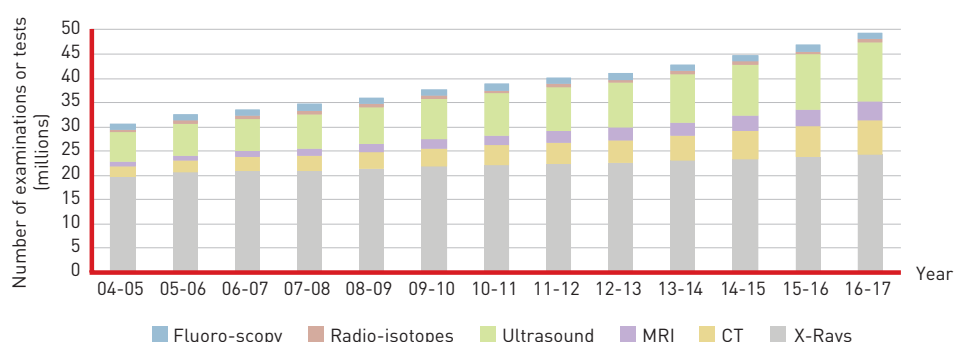
base, increase reporting volumes, explore international opportunities and target complementary bolt-on acquisitions.

International acquirers targeting the UK

A further driver of M&A will be appetite from international diagnostic specialists strategically entering the UK market. GenesisCare, Australia's largest provider of radiotherapy services, made its first investment in the UK with the strategic acquisition of Cancer Partners UK, which runs the largest network of specialist outpatient cancer centres. The acquisition will support three new treatment centres and new treatment technologies to all facilities. The deal was an exit for Apposite Capital.

GenesisCare is also using its joint venture with Ramsay Health Care, Australia's biggest private hospital operator, to develop two new cancer treatment centres at Ramsay hospitals in the UK.

Figure 1: Number of imaging and radiodiagnostic examinations or tests to 2016-17



Source: NHS

M&A analysis: expect high levels of activity in 2016

Liquidity levels are high and institutional investors and corporate acquirers are seeking to deploy capital.

PE targeting pharmaceutical assets

Deal activity continues to pick up across the pharmaceutical supply chain. Greater outsourcing, together with the search for new product pipelines, is driving activity. PE sees a significant opportunity to accelerate the global growth of strong niche businesses with unique capabilities; for example, GH0 Capital acquired Quotient Clinical, an early stage specialist drug development company. PE funds, awash with liquidity, are looking for high growth pharmaceutical assets and are often moving very swiftly to complete transactions, as was the case with the GH0 and Quotient deal.

Specialist mental health providers in demand

Last year saw a wave of consolidation fuelled in the main by US cash supporting ambitious management teams at Partnerships in Care and Cygnet. The acquisition of Priory Group by Acadia Healthcare/Partnerships in Care is a notable deal for Q1. Further consolidation is likely; mental health received a funding injection in the recent Spending Review and this, together with strong corporate activity, will underpin investor appetite this year. Other parts of the social care market, notably local authority-funded elderly

and domiciliary care, will face a difficult operating environment. However, the recent acquisition of the domiciliary care business Allied Healthcare by Aurelius may drive increased activity in that space in 2016.

Increasing activity in primary care

CCGs are increasingly contracting out a range of services and contract sizes are increasing. Whilst the market is still evolving, a range of organisations such as Virgin Care are securing these contracts. GP surgeries are also joining together in federations, delivering a larger range of services and benefiting from economies of scale. It is likely that some of these groups will seek PE investment to facilitate growth. PE will also continue to identify buy and build strategies across markets such as dentistry and physiotherapy.

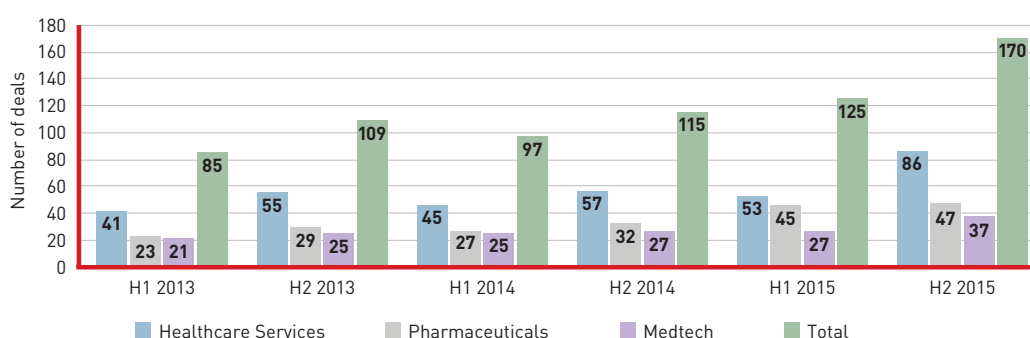
Ongoing volatility in the IPO market

Stockmarkets in general ended 2015 subdued and prospects remain uncertain. Advent International, the owner of The Priory Group, had been preparing the business for a flotation. There are a number of other PE-owned healthcare assets that will be closely watching sentiment in public markets over the next 12 months.

2016, the year digital healthcare moves mainstream?

Digital health is a fast growing industry and a key enabler for executing the NHS's Five Year Forward View. Telehealth, mHealth and data analytics are increasingly being adopted across healthcare markets. In primary care, technology is beginning to change delivery and operating models and improve efficiency. GP Access, Push Doctor (which has just raised £5.6m in venture capital funding), Doctor Care Anywhere and Babylon Health (which has also recently raised \$25m in funding) are growing their customer bases. In the pharmaceutical market, businesses such as Exco InTouch are creating new software platforms including mHealth to improve patient engagement and data capture solutions for pharma customers.

Figure 2: UK M&A activity by healthcare sector



Source: Experian MarketIQ