HPE EUROPE 2022

TOP TAKEAWAYS

Key Trends & Opportunities in Life Sciences and Healthcare Investing

1. The current macroeconomic environment is creating challenges for healthcare and life sciences businesses, which have been impacted hard by wage inflation in healthcare services, product supply chain issues, inflationary trends, and volatility in public markets impacting access to capital.

2. Against this backdrop, private markets investors continue to sit on significant dry powder for healthcare assets and the sector remains more attractive than most thanks to underlying growth trends and resilient predictable revenue streams.

3. Some subsectors of healthcare that are particularly attractive in the current climate include those focused on driving efficiencies through digitalisation or outsourcing, putting a focus on digital health, medtech and pharma services.

4. Technology can provide patients with better access to healthcare, it can introduce efficiencies into administration to lower costs, and it can enable and empower new and enhanced treatment options.

5. Private credit markets remain open to the right healthcare borrowers, but there is less competition among lenders and they will need to accept lower leverage multiples, higher pricing and more realistic valuations.

6. Private equity investors in healthcare are becoming increasingly specialist and are more likely to back innovation in drugs, treatments, technologies and business models to generate returns.

Drive for Digital Health & MedTech

1. Digital health is now the fastest growing segment of the healthcare market, with patients, clinicians and regulators increasingly aligned behind the opportunities that digitization presents.

2. Health systems globally are investing more than ever in digital technology, eyeing opportunities for data analytics to power efficiencies and improvements across medtech, life sciences and healthcare services, and the potential for telehealth to improve access and enhance home and point-of-care diagnostics.

3. Three core operational problems in healthcare that digital solutions are starting to address include: workforce challenges, around getting the right people to the right place at the right time; core digitization, to create the cloud network and software required in areas like radiology; and the need to deliver more care in the home given shortages of hospital beds.

4. One challenge for investors is creating models for adoption that translate across borders – health tech is hard to scale thanks to different regulatory and reimbursement approaches.

5. Another challenge is overcoming patient attitudes to digital interactions with clinicians, but the pandemic has helped start to overcome many previous barriers to adoption.

6. Current macroeconomic conditions have led to big drops in tech company valuations, forcing some digital health businesses to retrench while others are in desperate need of cash or are still focused on growth but are cautious about the availability of capital.

7. Dealflow may be more muted in 2023, but we can expect investors to continue to get behind transformative solutions that can enhance the patient experience, reduce cost, drive efficiencies and tackle workforce challenges.

Pharma Services – The Spending Spree Continues

1. The pharma services sector has grown significantly over the past decade as investors have piled into platforms delivering outsourced services to the pharma industry.

2. The pharma services industry is subject to headwinds including a backlog in regulatory approvals, a shortage of labour, rising costs and supply chain disruptions. Still, CROs are experiencing escalating demand for their services and delivering highly attractive ebitda growth, driving competition among investors and pushing valuations for commercial platforms upwards.

3. Large pharma continues to invest heavily in R&D and needs support in delivering ever more complex clinical trials as the market shifts towards small molecules and regulators increase their scrutiny – that is a fast-growing market largely immune from current macro challenges.

4. The opportunity that exists for both European companies and US platforms to move across the Atlantic is playing into the hands of private equity firms capable of backing management on that journey. Pharma services is one of the few healthcare subsectors ripe for globalization, with funds competing for deals across geographies.

5. Looking forward, the commercialization of data and enhanced use of technology to improve the clinical trial process will continue to drive the potential for investor returns.

Spotlight on Women's Health & Fertility

1. There is growing interest from investors in women's health and fertility as a subset of healthcare. The global fertility market alone has grown from $16bn in 2015 to a predicted $31bn in 2023.

2. There is also a growing body of work taking place around areas like cancer care and radiotherapy, where underlying data on women versus men tends to be weak. Women have not historically been well-represented in R&D.

3. Opportunities in women's health span the ecosystem and include everything from medical devices – where companies are developing surgical equipment for female surgeons who have smaller frames and different requirements to male surgeons – to digital health, where a growing number of tools are being developed to support women with body literacy and healthcare access.

4. Fertility services are seeing escalating demand as the global incidence of infertility rises alongside drivers like the trend of delaying pregnancy, technological advances in fertility procedures, increases in disposable income and more same-sex couples turning to treatment.

5. One challenge is to encourage innovation in this part of the market. There has in the past been an issue around female founders and CEOs being able to get investment, though there are now signs of that changing.

6. Another barrier has been a lack of data on women's health, with most pharmaceutical trials just conducted on men. Only now is research taking place to track and measure female hormone levels across their lifetimes.

7. Attitudes to fertility treatment and menstrual health awareness also vary across cultures, creating a disjointed investment climate that is compounded by fragmented regulatory regimes and disparate reimbursement models.

8. With women already recognised as the biggest spenders on the high street, and set to become the biggest spenders on healthcare, it will be an opportunity lost if investment does not flow into women's healthcare innovators and founders.

9. The level of involvement by private equity in women's health has increased significantly over the past five years and the segment continues to offer exciting opportunities going forward.

Financing Trends and Maximizing Stakeholder Value

1. The debt markets in the second half of 2022 remain turbulent and unpredictable, with significant shifts taking place in public markets on a daily basis.

2. Private funds remain in the market with credit solutions but ticket sizes have changed and managers have scaled back risk appetite, meaning even the most compelling credits need clubs of three or four lenders to finance larger deals.

3. Healthcare assets look particularly attractive to lenders in this market, because of their counter-cyclical nature, underlying growth trends and predictable revenue streams.

4. For the right healthcare borrower, debt markets remain open but private credit is likely the only option, particularly in the mid to upper mid-market. They will typically need to accept more realistic valuations, lower leverage multiples and/or higher pricing, and there is less competition among lenders.

5. Hedging arrangements should be front of mind for both new and existing debt, given interest rate and currency volatility.

6. Underwriting has become much more credit specific, focusing on resilience in supply chains and ability to withstand inflation, for example.

7. It is hard to see how long current volatility will last into 2024, but healthcare borrowers remain better positioned than most to tap credit markets.

US Markets – Optimizing Stateside Opportunities

1. In the last five years, the scale of the opportunity on offer to healthcare investors capable of operating on both sides of the Atlantic has become apparent.

2. As US mid-market healthcare funds have dipped their toes into European deals, so too have European funds sought to support management teams with transatlantic expansion, capitalizing on commonalities between markets and overcoming differences.

3. Often shareholders in mid-market healthcare companies hold back management teams with transatlantic ambitions because of lack of capital and concerns about differences in the reimbursement environment and complex regulation.

4. Private equity firms operating in the US and Europe are increasingly stepping up to support businesses capitalizing on the market opportunity on the other side of the Atlantic.

5. It is harder to see transatlantic parallels in the provider space, but in pharma services there is a lot more global competition as midmarket funds in the US and Europe explore add-on acquisitions and platform deals regardless of their location.

6. European investors targeting US healthcare in 2023 will need to think carefully about the Federal Trade Commission and antitrust, as the regulator steps up scrutiny of deals of all sizes.

7. Business models that enable better, faster and more accessible healthcare present opportunities regardless of location, and a growing proportion of those opportunities are transatlantic.