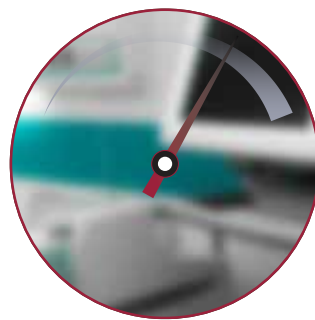


The UK's
healthcare
leaders' views
on the sector

The Healthcare Industry Barometer 2015



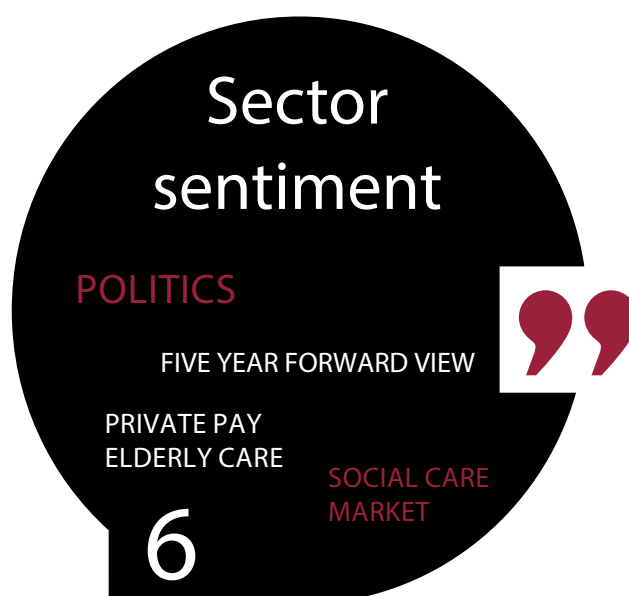
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HealthInvestor



N A B A R R O
CLARITY MATTERS

The UK's healthcare leaders' views on the sector



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Our healthcare and life sciences sector expertise spans all areas of the health and social care market, including primary, secondary and specialist care, mental health, hospitals, retirement living and other social care provision. Well established as the firm of choice for many private sector businesses, we also provide advice directly to the NHS. Working for both types of clients gives us a balanced outlook and the ability to offer well-rounded advice to the public and private sectors.

Foreword

W

e are in exciting, unpredictable times for politics, banking, and the business of healthcare. As this year's Healthcare Barometer reflects, opportunities in the UK healthcare, medtech and life science sectors continue. We have seen a very active corporate merger and acquisition market over the last 12 months, with sales and purchases of established healthcare businesses to and by private equity and well-funded trade buyers. The institutions and banks are again able to provide limited debt financing for the right deals. International investment continues, from the US and Asia in particular. Healthcare UK has assisted public and private sector organisations to secure more than £1.6 billion of investment in infrastructure and clinical services in China, the Middle East, and India.

The NHS budget continues to be tightly controlled, creating pressure at all levels, with low workforce morale, ever increasing workloads and patient expectations, the retirement of many GPs and 13 NHS Trusts currently in special measures. The cumulative deficit of hospital trusts and other NHS providers is expected to be £2 billion within the next 12 months. CQC's latest report (published on 14 October 2015) recognised that most services provide good quality care. It acknowledges that key requirements for the delivery of good care are good leadership, appropriate staffing and adequate investment.

In our experience, Public Private Partnerships are essential, but continue with mixed results. A third of NHS clinical services contracts awarded since the Health & Social Care Act 2012 have been to the private sector. This is still a small part of the overall NHS budget, but this growth seems likely to continue following the 2015 General Election result, the continuation of current government policies, and the need to meet election

Methodology

For the Healthcare Industry Barometer 2015, HealthInvestor conducted interviews with 104 private sector professionals specialising in healthcare between 28 September and 14 October.

For comparison purposes, the results have been converted into percentages.

promises of guaranteed shorter access times and 24-7 services.

The investment focus on secondary and primary care continues as investors become comfortable with the UK market. Hospitals and care homes continue to attract domestic and international capital and investment, seeking higher yields, long term secure income, and solid real estate backed returns. Good quality specialist care is also attractive for investors as margins are better and occupancy is longer term. The national living wage has caused some concern (with payroll 50-60% of many operators' incomes) and the Chancellor's November Comprehensive Spending Review is awaited. Most well run larger operators have already concentrated on minimising agency staffing costs and as a result already pay and invest in their staff at these levels. However it may lead to some further consolidation in the sector. The GP surgery market continues to produce excellent returns, hedged across all regions. However, NHS Property Services continues to review its lease portfolio and structure, requesting shorter terms, limited NHS rent reimbursement, no funding for improvements of older premises, and increasing pressure for the integration of hospital and community services.

Better integration continues to be the aim – between health and social care, private and public markets, cost and care outcomes. These are all challenging in the context of funding constraints so the innovation and transformation of services and facilities will be vital going forward.

With our sincere thanks to HealthInvestor for the survey, and to all the respondents for your comments, we hope you find the 2015 Barometer a useful measure of current opinion in the market.



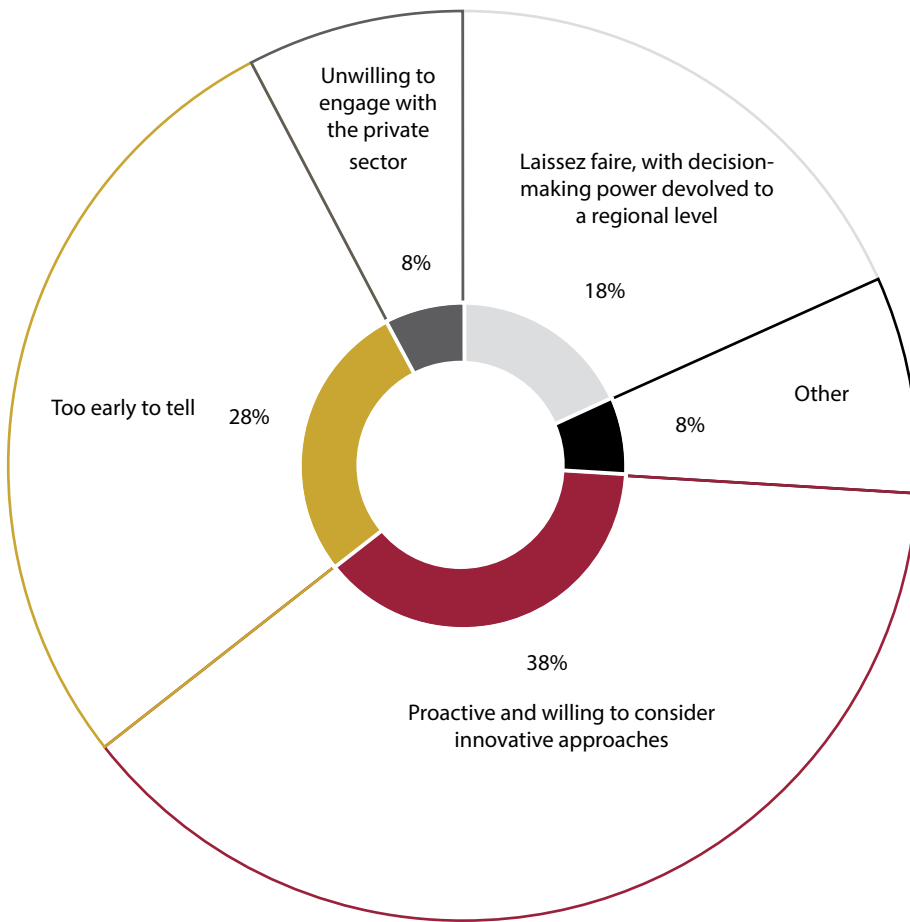
Warren Taylor
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Candice Blackwood
Partner, Nabarro LLP
c.blackwood@nabarro.com

Sector sentiment

Q This is the first Conservative government in 18 years. What do you feel is its approach to engaging with the independent health sector?



Other comments...

"I don't think attitudes have changed at all over the past eight years"

"Greater engagement with the private sector is a necessity if we are to create a sustainable health service in the future"

"There is still a perception that the private sector can't be trusted with the NHS"

The NHS continues to make demands on more and more cash and government assistance. It is increasingly difficult to turn around and a culture of suspicion and distrust of the private care market is suppressing integration

Derek Breingan, head of healthcare, Clydesdale Bank

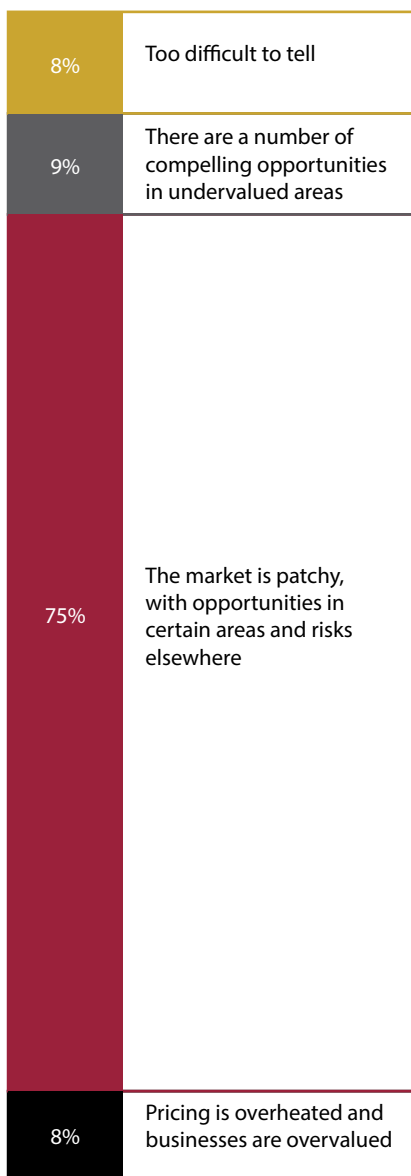


Q The UK health and social care market has proven relatively turbulent over the past decade. What phase of the investment cycle do you think we are in now?

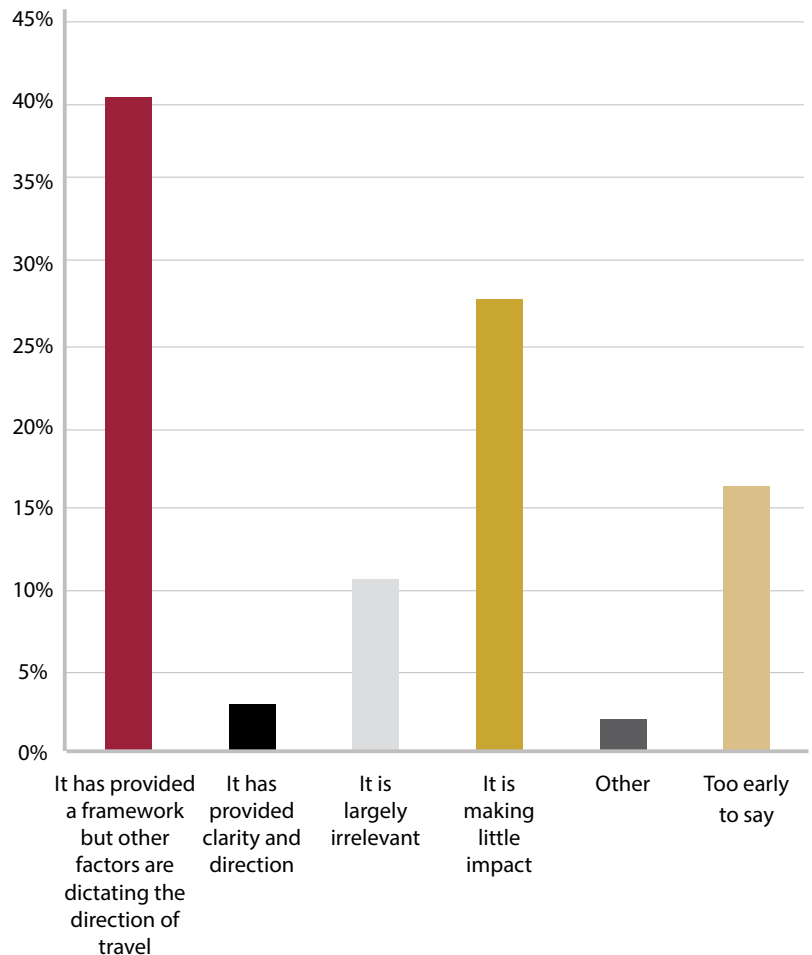
There is much uncertainty in the market, as the government have not made clear their objectives for funding health and social care outside of their austerity message. The Autumn Review followed by the national living wage and funding pressures in the first year of parliament will determine if government will ease pressure on the system



Eddie Coombes, chief executive, Optima Care



Q To what extent has the Five Year Forward View resulted in a more plural and competitive health market?



Other comments...

"It's not clear enough and it's difficult to see how it will be implemented"

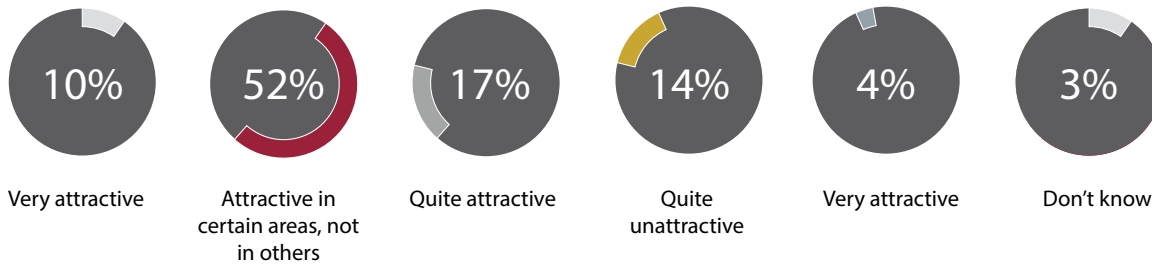
"We're witnessing the first phase of the bankruptcy of the NHS"



Sector sentiment

Q

How attractive or unattractive is the UK social care sector to investors?



Q

The private pay elderly care market has driven many investments in the sector recently. How robust is this part of the market?

10% Very robust

2% Other

61%

Highly dependant on geography and asset quality

15% Don't know

Overheated market with overpriced stock

12%

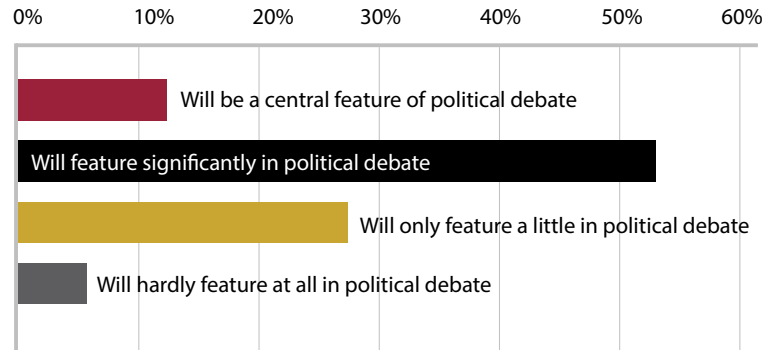


It is an interesting time for the sector, and despite the market polarisation, there is a lot more confidence. Factoring in the ageing demographic, it's an exciting time

Samantha Rowland,
director – healthcare,
Savills

Market drivers

Q Following the election of Jeremy Corbyn as leader of the Labour Party, to what extent do you think the role of the private sector in UK health will feature in political debate?

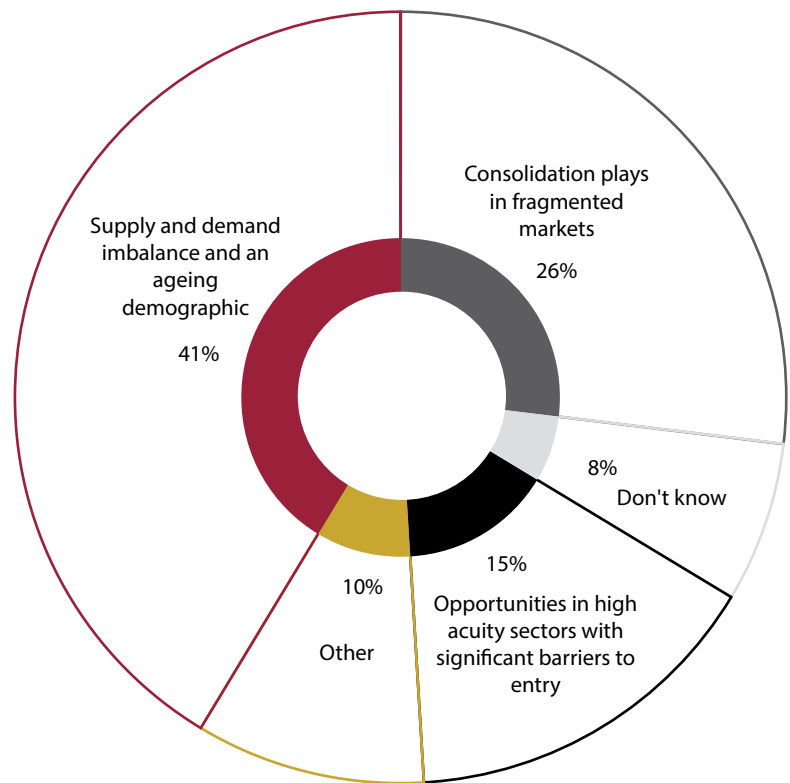


Q What do you feel are the main drivers for investment into today's market?



I still think there are significant opportunities at the moment and the sector needs innovation and change in order to meet needs and demands

**Justin Crowther, partner,
Catalyst Corporate Finance**

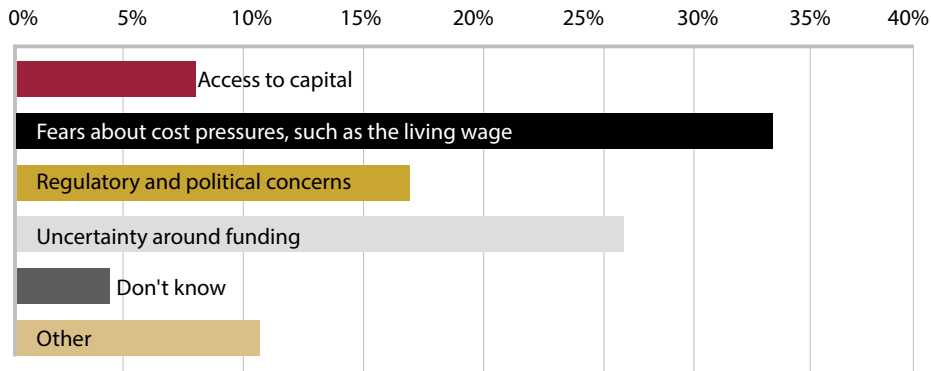


Other comments...

- "Diagnostic technology will be a major growth area"
- "All of these factors are important and explain why the UK appeals to global capital"
- "I think it's about combinations and micro aspects of deals"
- "The market needs innovation for growth"
- "Public sector funding the private sector is an attractive dynamic"
- "There is uncertainty and limited access to finance"

Market drivers

Q What do you feel are the main barriers to investment?



Other comments...

“There is a lack of stock in the market”

“Immigration controls and a lack of skilled nurses is creating a perfect storm for staffing”

“High land values is a problem”

The buoyant elderly care market of the last 24 months is being hit by pressure on local authority fees coupled with the introduction of the living wage and the scarcity of trained nurses combined with immigration control for non EU potential staff. This is all impacting negatively on ebitdarm and the ability to pay rents



Jeremy Tasker, managing director – special projects, Colliers International

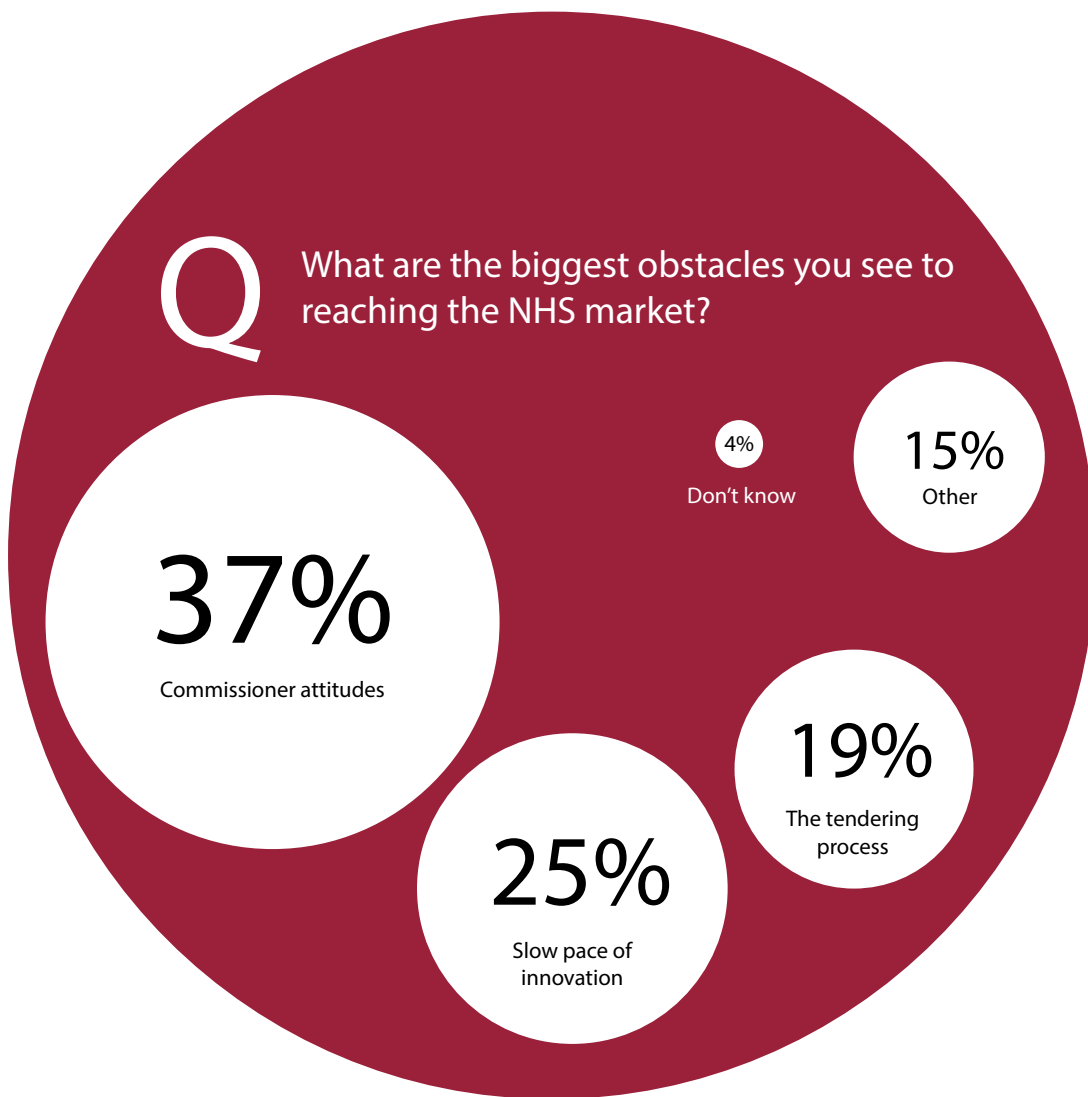
Q What are the main opportunities you see for engagement with the NHS?



Other comments...

“Transformation and efficiency will be key” “The outsourcing of care will continue”

“Integration of NHS and social care” “Providing step down beds”



Other comments...

"All of the above"

"Inconsistent management"

"NHS Budget protectionism with a few creative exceptions hopefully"

"NHS pricing"

"Slow pace of adopting innovations"

"The private sector having very little to offer"

"Turkeys voting for Christmas"



Change will be driven by relationships and trust. No amount of regulation or other pressure will create sustainable public/private partnerships

Nancy Hollendoner, senior adviser, Smith Square Partners

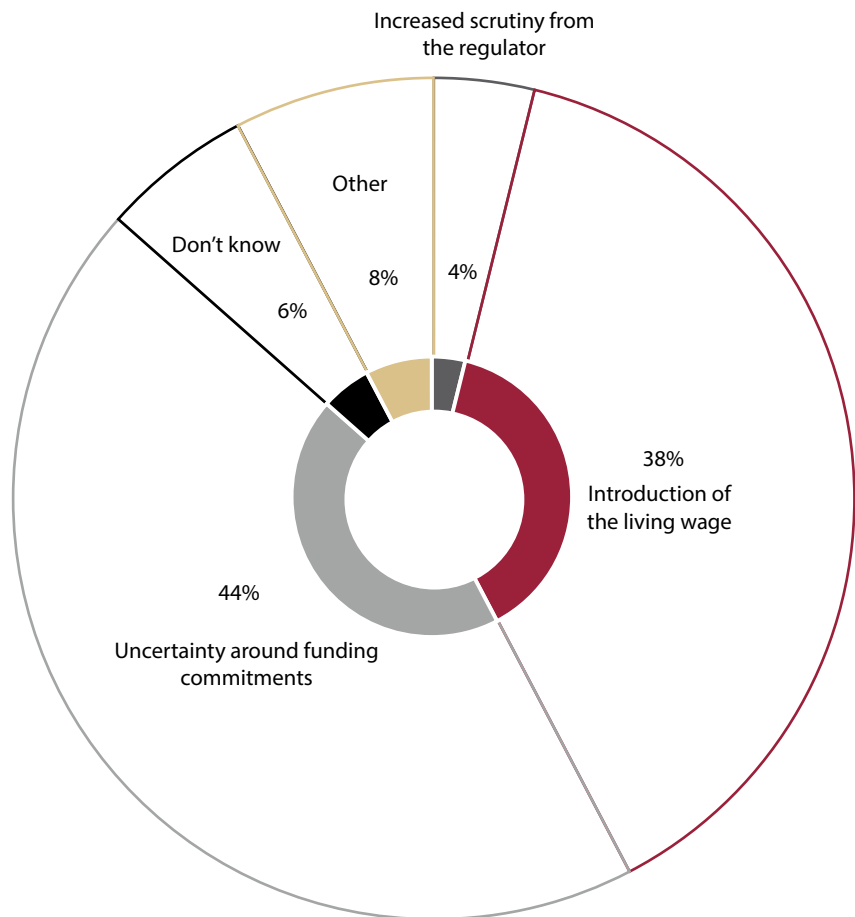
Market drivers

Q What do you think is the greatest sector concern for social care providers?



The most significant concern currently is the introduction of the living wage and how this is proposed to step up until 2020. Looking beyond these increases at other market drivers is difficult until the spending review is complete

Richard Cooke, business development director, Options Group

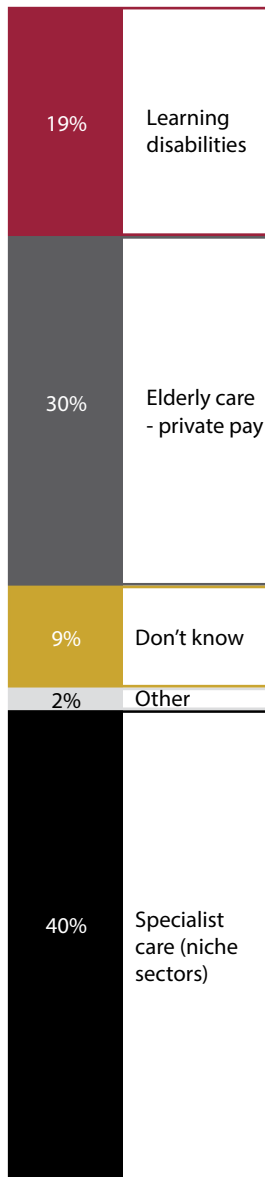


Greater integration of NHS and social care will be key to containing the healthcare costs of an ageing population. It could also be the shot in the arm that the social care sector needs, whilst offering the NHS significant efficiency savings

Bruce Walker, head of healthcare, Quintain



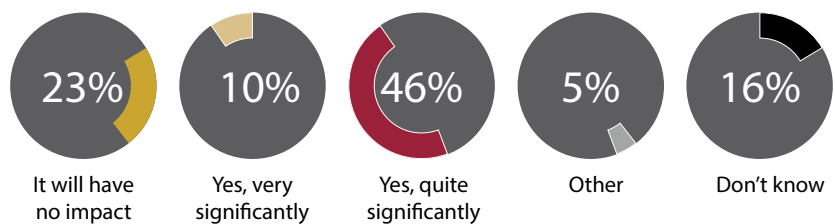
Q Which areas of the social care sector do you think are performing strongest?



Learning disability has proved the most stable sector, but mental health is unfairly treated compared to other sub-sectors. Local authorities feel they can cut funding very quickly without any backlash, as most of these people have no family ties, so there is no one to speak out for them

Nishaan Vithlani, chief executive, Valiant Care

Q In your view, will the spike in NHS waiting times boost the PMI market?



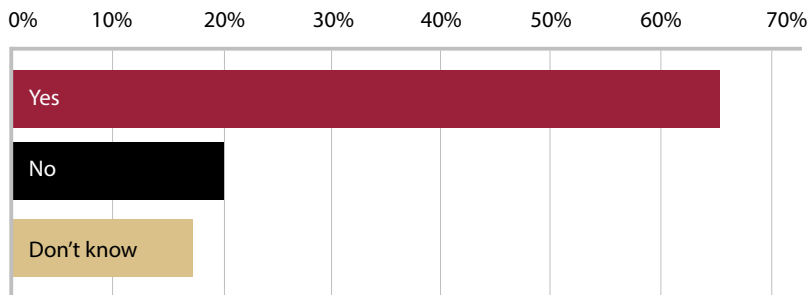
Other comment:

"Favourable economics will boost the PMI markets as more individuals and employers take up cover as the economy improves. Waiting lists have less impact, it is about individuals' ability to afford cover and increased chronic conditions in old age that will drive PMI purchasing"



Looking forward

Q Do you believe the political environment over the course of the next Parliament will prove favourable to independent health and social care providers?



It's interesting that some regulators and politicians claim that private providers are taking work away from the NHS. I beg to differ – private companies such as mine complement the excellent work done by the NHS by working with them

Bryan Leaker MBE, commercial/finance director, About Health

Q Over the next five years, which sub-sector do you expect to perform the strongest?

30%

Specialist care (niche sectors)

28%

Private pay elderly care

20%

NHS outsourcing

10%
Private hospitals

3%
Other

9%
Don't know

Other comments...

"Health IT will do well"

"NHS outsourcing but probably not front-line outsourcing"

"Private community care – GPs, physio etc."

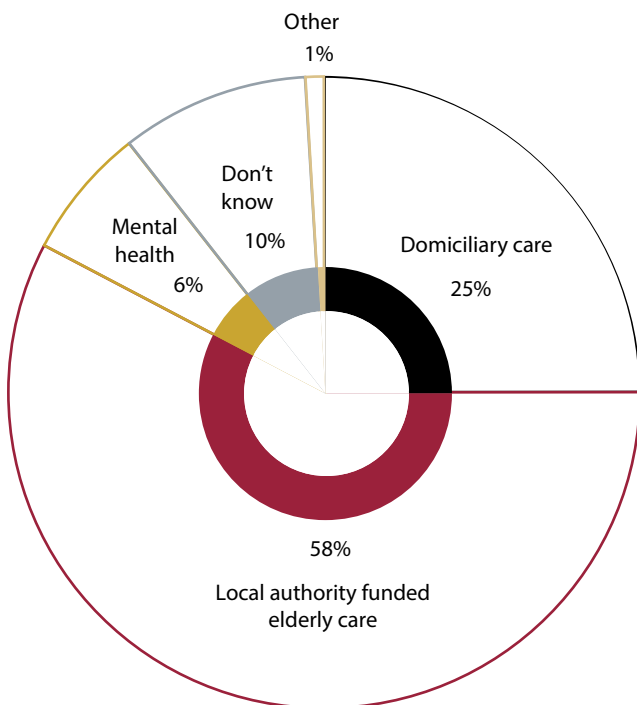




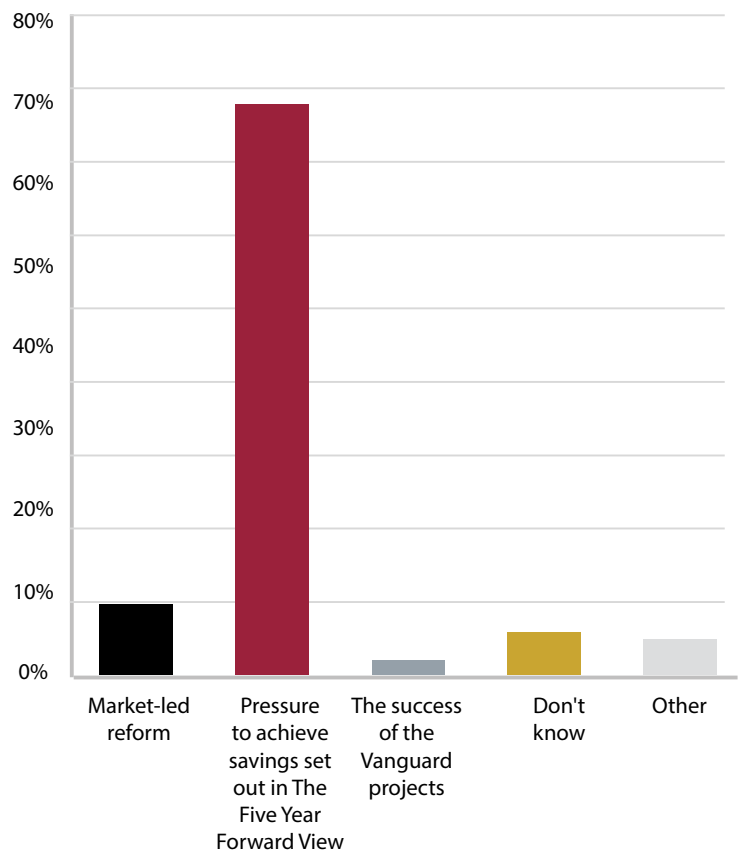
We are at a seminal point in the evolution of healthcare services in the UK and the next five years will dictate much of the direction of travel for the 20 years after that. It is crucial we make the right decisions now and that government enables the private sector to take on existing services where appropriate and encourage new forms of health provision to create a future fit service across the public and private markets

Tim Edghill, lead director – mergers & acquisitions and restructuring, JLL Corporate Finance

Q Over the next five years, which sub-sector do you expect to perform the weakest?

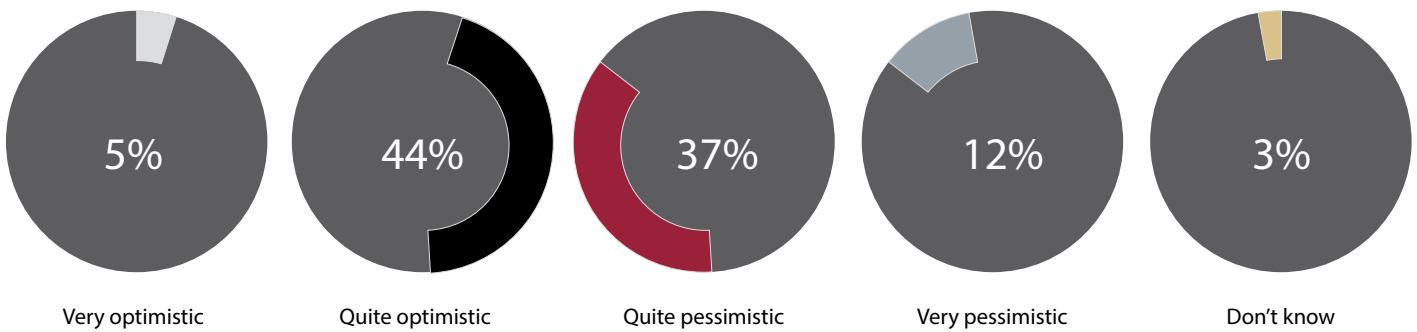


Q What do you think will be the principal driver of commissioner behaviour between now and 2020?



Looking forward

Q How optimistic or pessimistic are you that this government will make a serious attempt to integrate health and social care over the course of this Parliament?



The only way that the UK health and social care systems have a chance of adapting to the dynamics in population growth and health & social care demands, is by moving to an insurance based system, where the distribution of funds is independent of the government's merit. Unfortunately this is dependent on the voters' merit

Max Weidl, director – healthcare consultancy, Christie + Co



Independent healthcare and a system of care free at the point of need can co-exist well; in fact, it's a relationship that's fundamental to the future of Britain's healthcare

Fiona Booth, chief executive, Association of Independent Healthcare Organisations

Q

Over the next 15 years, to what extent do you think an individual's ability to pay will determine their access to quality care?

62%

Self-pay and co-pay will become more prevalent, but quality NHS care will remain free at the point of access

18%

It'll remain broadly the same as it is today

20%

It will become a major facet of the UK health and social care sector

Conclusion

The Healthcare Industry Barometer is now in its eighth year, but as UK health and social care is adjusting to the first wholly Conservative government in 18 years, grappling with unprecedented funding challenges, and witnessing wave after wave of overseas investors enter the market, we felt it was time to overhaul our sector survey.

As you will have seen, the structure of the Barometer has been updated from the format maintained throughout the coalition government. We hope these evolutions have provided a more informative and representative survey of today's market, but if there is any aspect of the sector that you feel we should cover, and currently do not, please do get in touch.

While there have been some superficial changes to the market, much also remains the same. UK health and social care continues to attract interest and investment, however it is a decidedly complex picture at the moment, and this is reflected in respondents' answers. May's surprising outright election victory for the Conservatives has, in theory at least, provided a stable political landscape – and 65% of respondents believe the next five years will prove conducive to further private sector activity in healthcare. Although only 38% of those surveyed believed there had been any immediate improvements in fortunes following the election.

Indeed, perhaps the greatest theme to come through in these responses, is the uncertainty around funding streams and a real concern about cost pressures. While



there are no shortage of people who agree with the vision set out in Simon Stevens' Five Year Forward View, 70% of those asked believed the major driver of behaviour would be the shortage of money in the system. Likewise, in social care, the twin threats of inadequate fee rates from local authorities and dealing with the cost of implementing the national living wage were cited as not only the biggest concern for the sector, but also the main barrier to investment.

Nevertheless, since the last Barometer, there has been a series of major transactions in the market – with the majority undertaken by international investors. Those surveyed said that niche sectors with high barriers to entry had performed well, as had residential care businesses with a high element of private pay. Financial pressure is clearly building on all parts of the system and it is intriguing that some 62% of respondents felt that self-pay, or co-pay, would become more of a feature of life in UK healthcare over the next five years – with 20% believing it would become a major element of our system. However that plays out, what is clear is that this is an exciting and unpredictable time to be involved in the UK's health and social care sector.



Vernon Baxter
Managing editor
HealthInvestor



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