

# SECTOR SNAPSHOT



## UK HEALTHCARE M&A ACTIVITY AND VALUATIONS FOR 2016



**Shah Zaki**  
Partner



**Oliver Wadlow**  
Executive

### Deal values remain high in healthcare sector

M&A activity within the UK healthcare sector remained strong in 2016 with **121** completed deals, a minor decrease on the **123** transactions closed in 2015. The year saw significant transactions completed such as Acadia Healthcare's acquisition of The Priory Group for a total deal value of £2.5bn as well as Pfizer Inc's acquisition of AstraZeneca's small molecule antibiotics business for £1.3bn. The interest in UK healthcare companies from overseas remains strong with **29** deals being completed by an international acquirer, an increase on 2015. The implementation of the national living wage in April and the consequent difficult trading conditions in certain sub-sectors resulted in investors exploring alternative investment choices. Healthcare services which are not fully provided and dependent upon the NHS, such as dentistry and pharmacy, are proving to be appealing to acquirers which is highlighted

by the £835m sale of Oasis Healthcare to Bupa. The vendor, Bridgepoint Capital, acquired Oasis in 2013 and reportedly made a four times multiple on its investment.

### Specialist Care Services Remain Desirable

Specialist care services relating to mental health, complex needs and behavioural, emotional and social difficulties saw six completed transactions in 2016.

#### Acadia Healthcare Participate In the Largest Deal Of 2016

US giant Acadia Healthcare acquired the Priory Group for a total deal value of £2.5bn. The Priory Group is a leading provider of behavioural healthcare services operating more than 300 facilities with approximately 7,200 beds. The transaction validates Acadia's strategic decision to enter the United Kingdom and expands their portfolio to 54 inpatient facilities with approximately 2,200 beds.

#### Private Equity Firm Acquire 22 Mental Health Hospitals

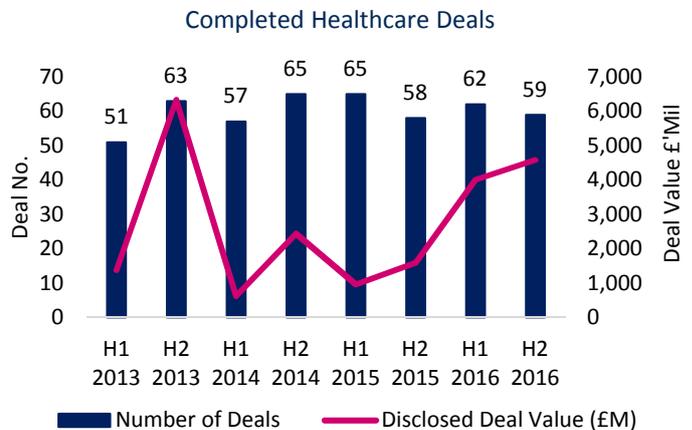
After acquiring the Priory Group earlier in the year, Acadia Healthcare went on to sell 22 of the Priory's mental health hospitals to BC Partners for £320m. BC Partners are a leading European private equity firm who are currently advising funds totalling over €12bn. The new company will have more than 2,000 employees and offer approximately 1,000 beds across the 22 hospitals.

#### Cambian Sells Adult Services Division Following Profit Warning

At the end of the year the specialist behavioural health provider Cambian sold its adult services business to Cygnet Health Care for £377m. The division looks after 1,000 people with learning difficulties and mental health problems. The sale comes as part of a restructuring plan after Cambian issued three profit warnings in the six months at the turn of 2016 and suspended its dividend. Around £40m of the sales proceeds will be given back to shareholders and the rest will be used to pay off the company's outstanding debt.

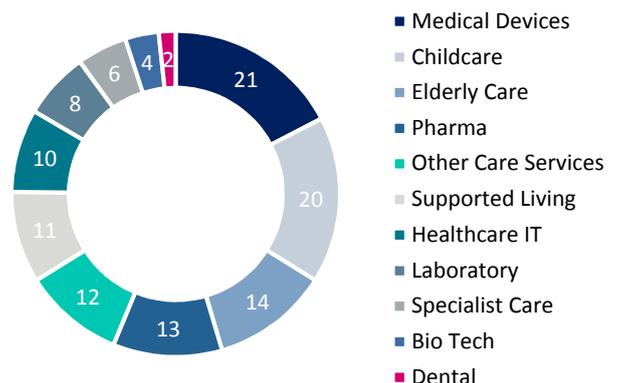
### Healthcare M&A Activity

H1 2016 saw 62 deals completed, bettering the second half of the year where 59 deals were closed. Despite this the trend of growing disclosed deal values continue with the values topping £4.5bn in H2 2016.



Note: Disclosed deal values in H1 2015 do not include the £28.6bn acquisition of Covidien Plc by Medtronic Holdings and the £10.4bn acquisition of GSK's oncology products unit by Novartis AG.

#### No. of Healthcare Deals by Sub-Sector – 2016



## Childcare Services Remain Attractive

Despite a fall in deals completed, childcare companies continue to be a focus of M&A activity in the healthcare sector. Although they do not account for the highest deal values, nursery care once again contributed to the majority of deals completed in 2016. With an estimated 23,500 day nurseries in the United Kingdom, the sub-sector is expected to continue to flourish in 2017, especially with encouraging legislation regarding the hourly funding rate for three and four-year-olds being put in place.

### Two of Britain's Leading Foster Care Companies Merge

The largest deal in the childcare sub-sector saw The National Fostering Agency merge with Acorn in a £400m plan. The National Fostering Agency is a leading provider of independent fostering services. Similarly, Acorn offers specialist education and residential services for children with complex needs and has built a reputation as a high-quality children's services provider. It is hoped that the merger will help to combat the national shortfall of 9,070 foster carers in the United Kingdom. Since completion, it has been announced that an in-depth investigation into the merger will be conducted by the Competition and Markets Authority unless their concerns are addressed.

### Care Management Group Acquire Specialist Care Provider

At the beginning of the year, Care Management Group (CMG) acquired the Northamptonshire based Alderwood LLA. The target provides residential support for those who have complex autism. The acquisition of Alderwood brings a new capability into CMG at the very complex end of autism and it is thought that CMG will continue to focus on more complex care whilst developing Alderwood's services in some of its existing facilities.



### Large Nursery Groups Remain Acquisitive

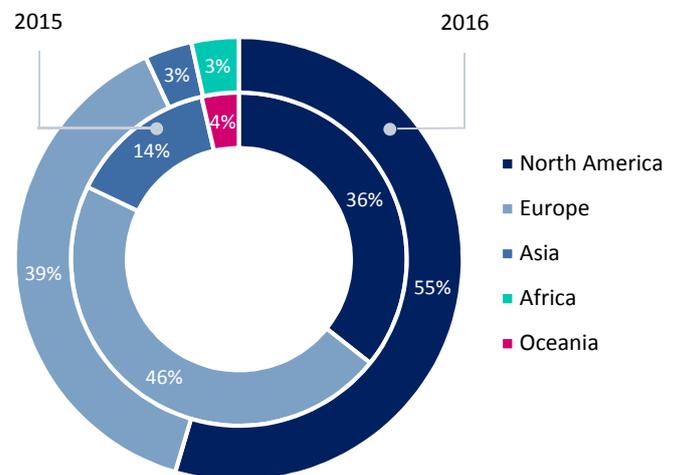
One of the nation's largest nursery groups, Busy Bees Childcare, continued to show an appetite for growth in 2016 with three acquisitions completed. Two of the concluded deals were relatively small (Bush Babies Childrens Nursery Group and the Teddy Bear Nursery Group). However, in August they completed the acquisition of Positive Steps who are a provider of more than 600 childcare places in the South of England. The acquisition means that Busy Bees now operate 266 nurseries across the United Kingdom which

strengthens their market position. In November, the United States-based child care provider Bright Horizons acquired Asquith Day Nurseries & Pre-Schools, one of the UK's leading providers of high-quality childcare and early years education. The addition of Asquith brings Bright Horizons' total number of nurseries in the UK to 304, providing over 24,000 childcare places. It also expands their global portfolio which covers the North America, India, Canada and the Netherlands, to more than 1,000.



## Interest From Overseas Acquirers Remains Strong

No. of Deals Completed By International Acquirers



The number of deals completed by an overseas acquirer totalled **29** in 2016, a marginal increase on the previous year's figure of **28**, showing a sustained interest in UK healthcare companies from around the world. Looking ahead it is difficult to tell the effect that Brexit will have on the number of international acquirers as many of the deals completed during the past year will have been in the pipeline prior to the United Kingdom's decision to leave the European Union. It is likely dealmaking in the UK Healthcare sector will remain resilient post-Brexit as foreign investors look to take advantage of the weaker pound. Furthermore, there may be greater outsourcing of acute services and a larger focus on innovative care in the community using private sector partners.

## Medical Devices Market Remains Attractive To Large Corporates

Approximately 3,000 companies are operating within the UK medical devices market making it the third largest in Europe, behind Germany and France, and the sixth largest in the world. Therefore this sub-sector saw a high amount of deal making in 2016, with 21 transactions completed, an increase on the 17 recorded in 2015.

### Fortune 500 Medical Technologies Firm Acquire Orthopaedic Device Manufacturer

In April, Stryker Corporation acquired Stanmore Implants for £36m. Stanmore makes custom and off-the-shelf implants in limb salvage surgery for adults and juveniles suffering from cancer. The acquisition of Stanmore will allow Stryker to expand their presence in the global orthopaedic oncology market through a greater offering of differentiated technologies.

### Össur HF Acquire Leading Prosthetics Manufacturer

In April, the Icelandic-owned Össur HF acquired Touch EMAS for £28m. Touch EMAS uses world-leading prosthetic technologies to offer a product range that includes prosthetic hand and finger solutions. The deal presents the opportunity for Össur to expand their presence internationally as well as providing them with entry into the upper limb prosthetic market.

### Leading Medical Technology Company Acquire Gynaecology Division

Medtronic PLC have acquired the gynaecology business of Smith & Nephew plc. A key product in the targets portfolio was a medical device used for the removal of abnormal tissue growths. The acquirer aims to benefit from the acquisition due to the complimentary fit within the company's existing surgical products portfolio.



Have acquired



For £36m



Have acquired



For £28m

## Orbis Advise The Shareholders Of Progress Care



Have acquired



For undisclosed value

Progress Care, a leading specialist education and care provider, has been sold to Priory Group for a multi-million-pound price.

Progress Care is a specialist care services business, supporting children and young adults with high acuity learning disabilities, challenging behaviour and autism. Its services are highly sought after, reflecting its excellent reputation for the standard of care provided. As a result, the business serves Local Authority clients from across the UK. Progress Care has an annual turnover in excess of £7m and employs around 250 staff.

*"The advice and guidance received from Orbis throughout the process has been invaluable and has helped to deliver an excellent result for us."* - Founders & shareholders Margaret & Michael Calvert

## Clairfield & Orbis Transactions



Have acquired



For undisclosed value



Have acquired



For undisclosed value

## About Orbis

Orbis is a mid-market corporate finance boutique advising on a wide range of M&A transactions covering the healthcare sector in addition to industrials, technology, media & telecoms, and food & consumer. Orbis also has an active investment portfolio held through its investment vehicle Intrinsic Equity.

If you are considering your strategic options for enhancing the value of your business or your client's business, please contact either Shah or Oliver.

## Contact

**Shah Zaki**

Partner

T: +44 (0) 121 234 6075

E: szaki@orbisfc.com

**Oliver Wadlow**

Executive

T: +44 (0) 121 234 6086

E: owadlow@orbisfc.com

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