

# McDERMOTT AND EY AT THE 2022 J.P. MORGAN HEALTHCARE CONFERENCE

# TOP TAKEAWAYS



## EUROPEAN HEALTHCARE PRIVATE EQUITY FORUM

With continued growth in global healthcare investing, what role do European markets play in global and US fund portfolios, and to what extent do investments benefit from a transatlantic portfolio? McDermott Partner Sharon Lamb was joined by Marco Bonaiti, vice president at Apax Partners; Tony Drabble, partner at EY-Parthenon; Henry Elphick, deputy chair of the European Healthcare Private Equity Association (EHCP EA); Rohin Jain, managing director of H.I.G. Capital; and McDermott Partner Dr. Stephan Rau to discuss the wide range of opportunities, benefits, similarities and differences in dealmaking in competitive global markets.

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### A FANTASTIC TIME FOR HEALTHCARE

Healthcare proved once again to be a resilient and innovative asset during the pandemic. Multiple new buyers are emerging, and they are making significant investments and large transactions across all sectors. The year ahead promises to be an active one with no signs of slowing down.

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### EUROPE IS INCREASINGLY ATTRACTIVE

Beyond the fact that the healthcare market in Europe is roughly a \$2 trillion market, there are advantages to having a global portfolio. One of the big attractions of the European market is that it's not just one market. Across countries and regions, the systems and stages of development are different; the regulations and reimbursement systems are unique, too. Investing across Europe allows for diversification within the portfolio.

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### BENEFITS OF A TRANSATLANTIC PORTFOLIO

The dynamics of reimbursement and public and commercial investment are often different on either side of the Atlantic. A global perspective in the healthcare sector enables investors to time investment cycles in different areas, opening new possibilities and broadening the playing field. There is more global investment in subsectors that have typically been more localized; there are also tech-driven solutions being developed in one area, then brought to other geographies.

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### MOST ATTRACTIVE SECTORS IN EUROPE

There are great activity levels across the board. Biotech, drug development pharma services and outsourcing continue to be extremely exciting and receive a lot of attention. Diagnostics (beyond just labs) has been a very hot sector. In the United Kingdom—which tends to be a frontrunner when it comes to consolidation and buy and build—there's been a lot of activity in the services sector, particularly on the acute and behavioral services side.

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### TECHNOLOGY TRANSFORMING SUBSECTORS

In 2022, the role of technology and how it is transforming healthcare subsectors is a big trend to watch; this trend may lead to the reshaping of ecosystems in areas where there is now a need to consolidate. Younger generations are more health-conscious, informed and enthusiastic about taking control of their own health. This trend, coupled with the fact that people are, post-pandemic, much more comfortable about self-testing, points to great opportunities in the self-test and point-of-care diagnostic space. Quality of testing and diagnostics is another area where consumers are willing to pay more for higher quality, too.

## REPUTATIONAL RISKS IN HEALTH SERVICES

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As a sector (and especially when it comes to services), healthcare is held to a high standard; providers and their investors run the risk of ending up on the front page of national newspapers if there are actual or perceived shortcomings in care or service. For international investors, that continues to be a concern and means that investors, especially those with deep knowledge and experience of a services sector, may be better positioned to evaluate risk. Deep sector knowledge is ultimately key: it can be challenging to understand the subtleties and intricacies of the European market, as well as individual countries, how systems work and what constitutes a good outcome for that market. Experienced advisers and investment teams are crucial.

## IMPACT OF THE PANDEMIC ON INVESTING

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The past two years have demonstrated high levels of activity and accelerated several trends that were already underway. We've seen much greater consumer acceptance of technology use with healthcare, specifically with home testing and telemedicine. Consumer behavior has definitely shifted, and regulators have also had to move more nimbly. There is also a shift in point-of-care and diagnostics. We're moving from the hospital to the community to the home. We now have a real opportunity to take advantage of those changes in care delivery and technology.

## SHORTAGES OF HEALTHCARE PROFESSIONALS

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Staffing is a critical challenge for the sector, and this shortage is occurring across Europe. AI and technology can alleviate some of the shortage, and it's an exciting time to see these fundamental drivers pushing change. But in areas like more traditional healthcare services, people need to provide essential services to patients. These shortages have become one of the key diligence areas assessed by investors looking at service businesses and their business plans and viability of future growth.

## PREDICTIONS FOR 2022

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There is huge momentum to this market. There is a lot of money looking for opportunities, but there are plenty of opportunities. Over the last few months, we've seen large funds looking at smaller deals, buy and builds, new buyers, strategics outbidding PE, and even take privates. There's something of everything out there, and it's a very exciting time to be in this sector. Nevertheless, the market is too busy for a run at everything. Investors must be focused in their approach.

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