



M & A
WORLDWIDE

Clinic Consolidation: A Prescription for Success

HEALTHCARE SECTOR

INDUSTRY REPORT - Q1 2024

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1. Executive summary

The healthcare services industry is experiencing rapid transformation. There has been a significant shift from care taking place in hospitals, to care taking place in outpatient settings, which has been supported by continued medical technology improvements, which is creating fresh prospects for both primary care and specialty practices. Immutable trends such as an ageing demographic and the rise of chronic diseases continue to compound the value of near-patient treatments versus hospital settings.

As part of this evolution, providers are striving to enhance outcomes, reduce costs, and improve the overall patient experience. This is reshaping the dynamics of private clinics and leading to a surge in M&A. Furthermore, healthcare professionals are also prompted to explore exits due to unyielding administrative burdens, increased consolidation among competitors and rising uncertainty around the traditional fee-for-service model as value-based care comes into focus, especially in the US.

Given the potential disruption from these trends, most healthcare professionals are opting for strategic alternatives. These include partnership with private equity (PE) firms or strategic buyers, such as hospital systems and health insurers, in a bid to remain competitive. Thus, healthcare professionals will most likely have at least a few buyers to consider and choose from.

Beyond the opportunity for shareholders to realise value in their clinics, ambitious and entrepreneurial healthcare professionals are motivated to join forces rather than maintain independence as it enables them to enhance the quality of healthcare through investment in innovation and research, increased cost savings, have greater negotiating leverage with suppliers, broaden their range of services and expand their geographical footprint.

The space continues to benefit from the resilient characteristics associated with the broader healthcare investments landscape, such as a non-cyclical nature, creditworthy debtors and predictable cashflows.



Europe's private clinic market expected to grow **faster** than the US'



Deal value and volume **remain above** their long-term averages



Top 3 specialties targeted by buyers

- Dentistry
- Dermatology
- Mental health



7 out of 10 of the most prolific buyers in Europe are PE-backed



7x-10x EBITDA
Average value of clinics from 2017 to 2023



Top 3 countries with the most deals

- US
- Germany
- UK

2. Introduction

Clinics fall under the category of outpatient care, which refers to medical services mainly comprising of diagnostic tests, treatments, and surgeries. These services do not require patients to stay overnight and are designed to provide them with convenient and cost-effective care.

They have been rapidly consolidating in both Europe and North America since 2017.



~62%

Of all clinic acquisitions made by PEs (2017-2023YTD)



~26%

Share of independent clinics in the US (2021, 31% in 2020)



~44%

Decrease in demand for inpatient care (By 2030)

2.1. What is driving consolidation?

2.1.1. From the seller's point of view

Partnering with larger organizations such as PE firms, PE-backed clinic groups, hospitals or health insurers can help healthcare professionals tackle the myriad of issues they face while running their independent clinics in today's hypercompetitive environment.

	Problems faced by independent clinics	How joining a larger organization can help
	Ageing healthcare professionals with a lack of succession planning and monetization opportunities	A sale can be the perfect way for doctors to transition to a passive role without compromising on patient goodwill and care while also mitigating entrepreneurial risk on their capital
	The increasingly complex administrative and regulatory burden	Larger organizations are better equipped to keep up with the ever-changing administrative and regulatory landscape due to greater experience and resources
	Rising supply and capital costs	Bigger firms are in a better position to tackle these issues due to their size and industry expertise, with the doctor further insulated from them in their new salaried roles
	Keeping up with complicated structural changes like virtualization and value-based care	The lack of administrative burden frees up doctors to pursue research and innovation to improve the efficiency and effectiveness of healthcare
	Little to no negotiating power against suppliers and insurance companies	Larger organizations have a much stronger hand in negotiating prices with suppliers and insurers. There is also a strategic reallocation and more efficient utilization of budget ceilings
	Less control over scheduling and patient flow, with burnout also being a big concern post-pandemic	Joining a network of clinics provides flexibility and enables a healthier work-life balance through models such as a rotating locum
	Increasing competition from larger, integrated insurance and hospital systems for both patients and staff	A larger organization will enjoy better talent, patient attraction and retention due to their size and scope
	Entrepreneurial doctors often lack the resources and knowledge to effectively manage and adapt to changing regulations	They have the requisite business expertise needed to grow the network to what the doctor envisioned and beyond, and make sure that the doctor gets rewarded if things go well

Sources: American Hospital Association, Deloitte, M&A Worldwide analysis

2.1.2. From the buyer's point of view

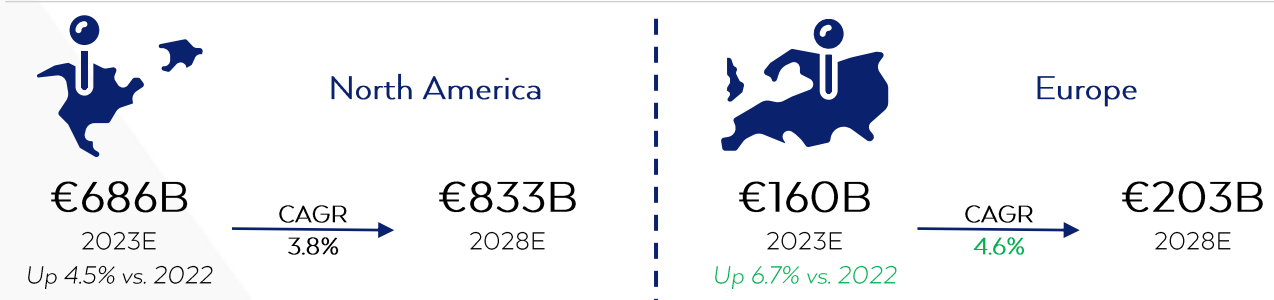
Both financial buyers and strategic buyers also have plenty to gain by consolidating clinics

 <p>Growing demand Due to a growing population, an ageing demographic and an increase in chronic diseases</p>	 <p>Strong financials Owing to good margins with predictable, non-cyclical cashflows and creditworthy debtors</p>	 <p>Economies of scale Through lower overhead expenses and the negotiation of better rates with vendors and insurers</p>
 <p>Patient preferences Clinics are convenient, cost-effective and pose a lower risk of hospital-acquired infections</p>	 <p>Better outcomes A result of a community-based approach, with better coordination between primary and secondary care providers through streamlined referrals</p>	 <p>Data and tech Clinics are a trove of health data, the use of which is constantly improving through advancements like telemedicine and remote monitoring</p>

The most popular specialties among buyers, which include dentistry, dermatology, mental health, optometry, and radiology, also exhibit the following traits:

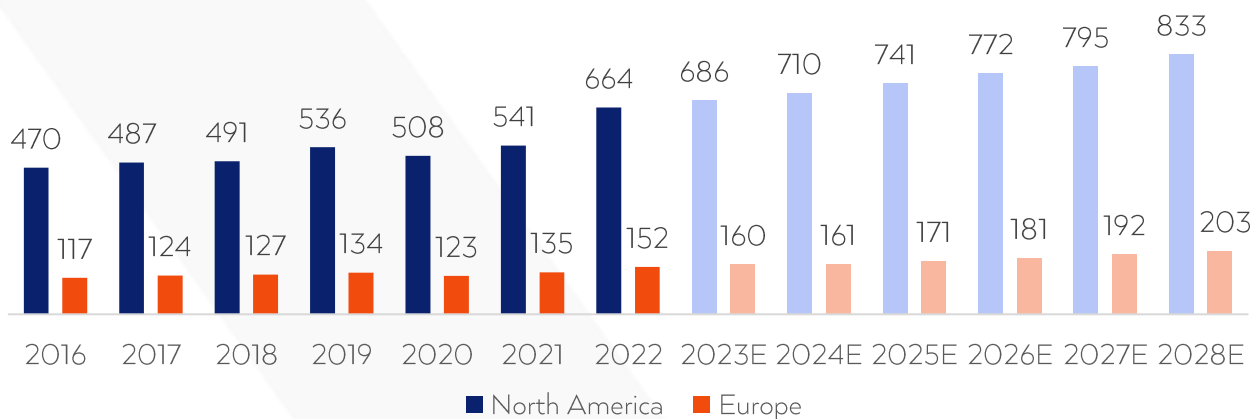
- They have a higher share of non-emergency elective procedures which are usually paid of out-of-pocket by patients, which lowers revenue volatility and promotes better management of patient flow
- They offer a greater scope for ancillary revenue streams, such as laboratories, imaging, pharmacy and telehealth services

2.2. How big is the market?



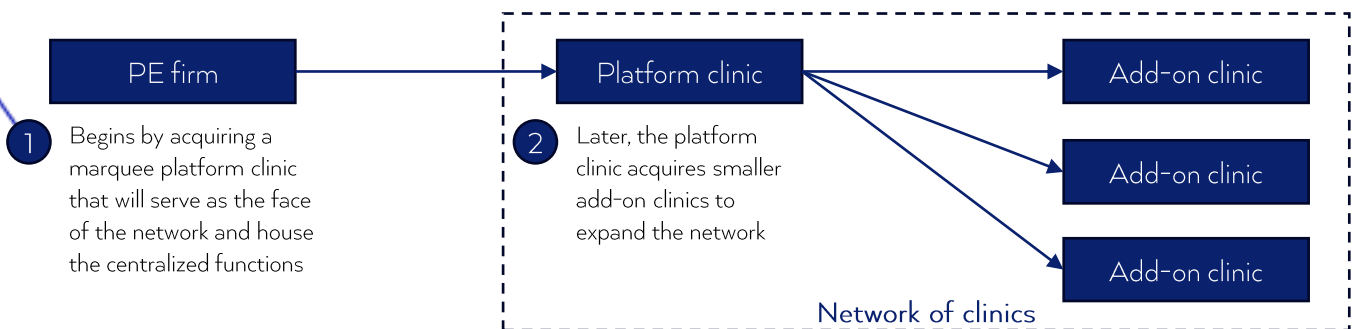
Europe's market is expected to grow faster due to an older demographic, greater focus on preventative care and a lower base effect as the region has depended primarily on its public health infrastructure until now and private clinics have only started gaining prevalence over the past few years

Outpatient care – revenue (billion €)



Sources: M&A Worldwide analysis, Statista

2.3. How does a PE firm set up a network of clinics?



3. Overview of Clinic M&A from 2017-2023

An understanding of what's driving deal activity in the sector and the size of the market has been outlined in the previous section. The following are the ten most notable deals in the sector between 2017-2023.

3.1. What are the most notable deals?

Date	Target	Country	Specialty	Deal type	Buyer (PE)	Deal value (€ millions)
Jul-20	ELSAN Groupe SAS	FR	Multi-specialty	Majority	KKR & Co Inc	3,300
Apr-22	Affidea BV	NL	Oncology	Majority	Groupe Bruxelles Lambert SA	1,764
Jul-18	Capio AB	SE	Multi-specialty	Majority	Ramsay Generale de Sante SA	1,157
Aug-23	American Heart of Poland SA	PL	Cardiology	Majority	Gruppo San Donato SpA	500
Aug-18	Groupe Capio France	FR	Multi-specialty	Majority	Vivalto Sante SA	455
Feb-23	Embark Behavior Health	PT	Mental health	Majority	Consonance Capital Partners	400
Mar-19	Igenomix S.L.	ES	Gynaecology	Majority	EQT Partners AB	400
May-17	DentalPro Spa	IT	Dentistry	Minority	BC Partners LLP	375
Nov-21	GeneraLife Clinics, S.L.	ES	Gynaecology	Majority	KKR & Co Inc	330
Mar-22	GHP Specialty Care AB	SE	Multi-specialty	Majority	Ramsay Generale de Sante SA	273

KKR made 2 large acquisitions in the space – France-based Elsan Groupe and Spain-based GeneraLife Clinics, the former being the largest deal on the above list. Consonance Capital, EQT and BC Partners were some of the other notable PE acquirers. In terms of strategic buyers, France-based Ramsay Generale de Sante also has 2 major acquisitions on the list, both from Sweden – Capio and GHP Specialty Care, with the former being the third largest deal on the above list.

Sources: Mergermarket, M&A Worldwide analysis

3.2 Who are the most prolific buyers?

Most European countries are still in the early stages of consolidation, therefore it provides investors with a potentially **long investment runway and higher growth** over the coming years.

Europe has also seen a **diverse range of specialties being targeted**, broadening the scope for potential partnerships.

PE	Country	Platform	Country	Specialty	Add-on deals ¹	Cross-border deals?	Notes
Portobello Capital	ES	Vivantadental	ES	Dentistry	38	Yes	
-	-	Capio AB	SE	Multi-specialty	13	Yes	Owned by Ramsay Health Care Limited.
TriSpan LLP	UK	Sk:n	UK	Dermatology	8	No	Owned by Graphite Capital until Jan-19.
NPM Capital, Triton Partners	NL, LU	Bergman Clinics BV	NL	Multi-specialty	8	Yes	
Apposite Capital	UK	Riverdale Healthcare Limited	UK	Dentistry	7	No	
-	-	LUX MED	PL	Multi-specialty	7	No	
PAI Partners	FR	Zahneins	DE	Dentistry	6	Yes	Owned by Summit Partners until Dec-2019.
EQT AB Group	SE	Meine Radiologie	DE	Radiology	6	No	Owned by Triton Partners until Jul-21.
-	-	Dentalum Operations AB	SE	Dentistry	6	No	
Ufenau Capital Partners	CH	Corius Gruppe	DE	Dermatology	6	Yes	
Trilantic Europe	LU	Oberberg Group	DE	Mental health	5	No	

Competition between financial and strategic buyers can potentially drive up both valuations and deal volume.

While sellers usually just opt for the highest bidder, it can become more interesting and provide optionality if both types of buyers are offering similar amounts.

In such cases, it is important to keep in mind that while financial buyers bring financial expertise and usually offer greater autonomy, strategic buyers offer a better chance of synergies and collaborative growth.

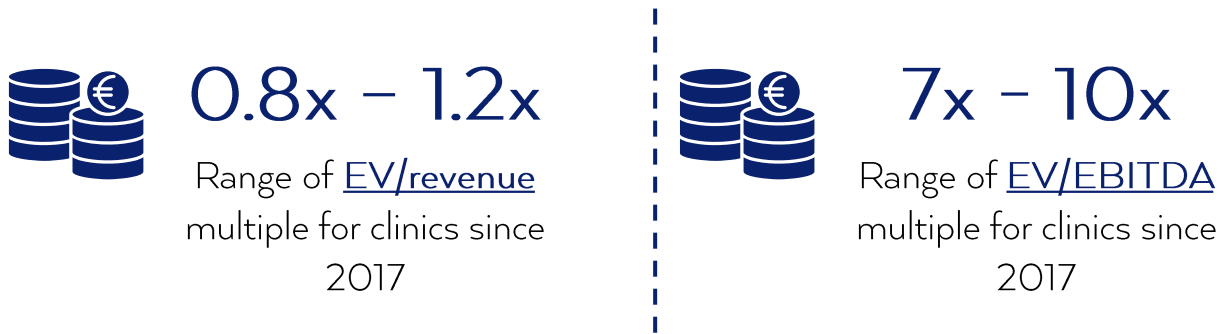
The majority of healthcare professionals will find themselves with several potential buyers and they can choose the one that best aligns with their personal preferences and goals.

Sources: Mergermarket, M&A Worldwide analysis

1. Add-on deals refers to the number of smaller clinics acquired to bolt-on to the platform clinic to expand the network

3.3. What do clinic valuations look like?

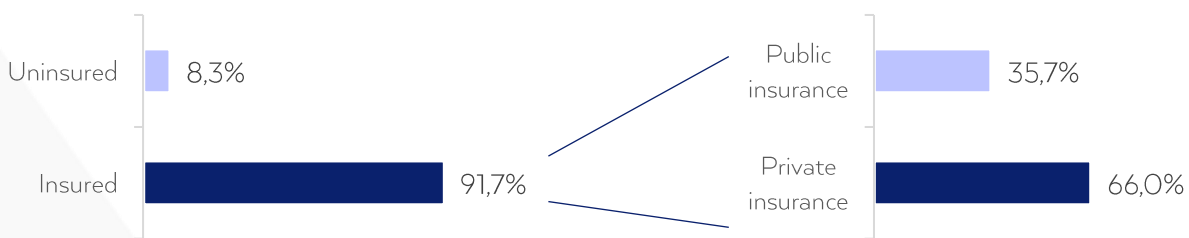
3.3.1. How much are clinics worth in the current landscape?



Given the resilience of their business model, clinics have seen their valuations remain in a relatively tight range over the past few years in both Europe and North America. Market volatility ensured that healthcare assets including clinics were constantly being bid upon by investors. This was because investors have been searching for sources of structurally advantaged, uncorrelated cashflows while their more cyclical investments took a back seat

3.3.2. How are people paying for healthcare?

USA



The US health system is quite different from other OECD countries. This is largely due to the difference in how people pay for healthcare. Private insurance is the dominant form of healthcare financing with a 66.0% share of the market, with the majority of it in the form of employment-linked insurance plans.

The above figure is much greater than the ~10% share of all health spending paid by private health insurance across all OECD countries.

Europe



~98%–100%
Population covered by health insurance in most EU countries



>~75%
Population relies primarily on public health insurance in most EU countries

Most European countries have achieved full (or near-universal) coverage of health care costs for a core set of services, usually including consultations with doctors, tests and examinations, and hospital care.

Three EU countries (Bulgaria, Romania and Cyprus) still had at least 10% of their population not covered for health care costs in recent years.

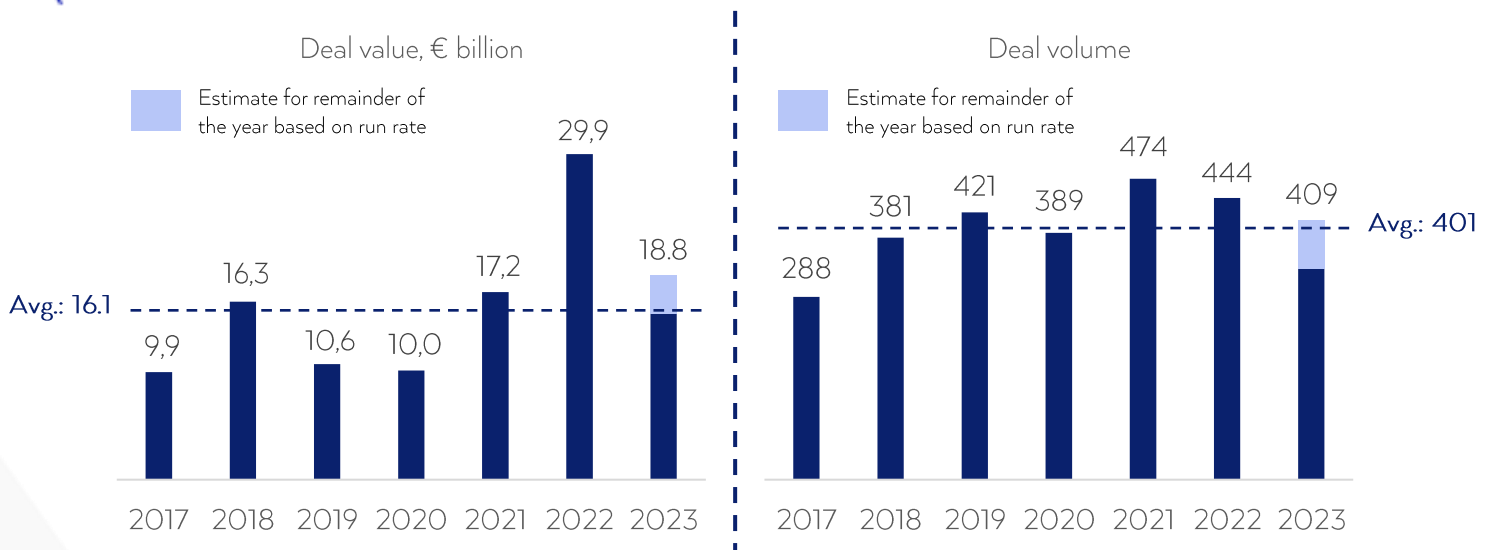
In most EU countries, only a small proportion of the population has additional private health insurance. The exceptions are France, Slovenia, Belgium, the Netherlands, Luxembourg and Croatia, where half or more of the population has private coverage.

Sources: M&A Worldwide analysis, OECD iLibrary, US Census Bureau

3.4. Notable trends in Clinic M&A

3.4.1. Deal value and volume remain above their long-term averages

The following graphs show how the combined deal value and volume for North America and Europe varied from 2017 to 2023.

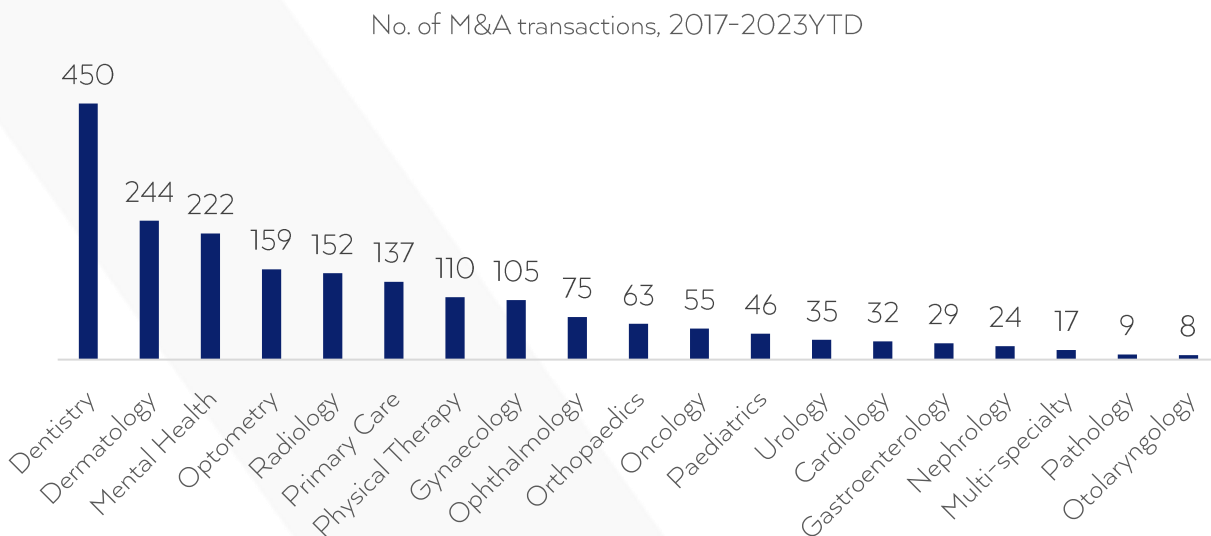


Bucking the wider slowdown in dealmaking, both deal value and volume for the current year in the clinic space are expected to remain above their long-term averages based on their YTD run rate. This is a sign of this segment’s resilience and promise.

3.4.2. Which specialties are the most popular among buyers?

There are several factors which affect the popularity of different medical fields amongst investors. These factors include growth, margins, defensibility, fragmentation and scope for ancillary revenues. The most popular specialties will exhibit all of these qualities and more.

For instance, dentistry is the most popular specialty by a wide margin, largely due to the extent to which it benefits from an ageing demographic and how fragmented the field remains, especially in the EMEA region where the largest five players only account for approximately 5% of the market share.



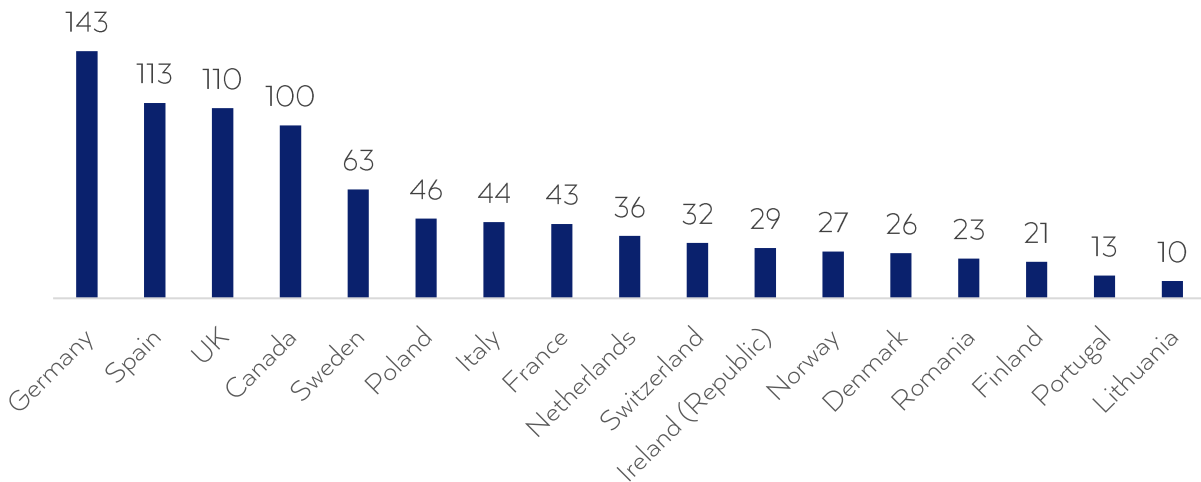
Sources: Mergermarket, M&A Worldwide analysis

3.4.3. Which country has seen the most deal activity? (excluding USA)

Of the ~2,700 deals in our database, ~1,800 were from the USA. For the purpose of analysing the remaining countries, the USA has been excluded from the graph below.

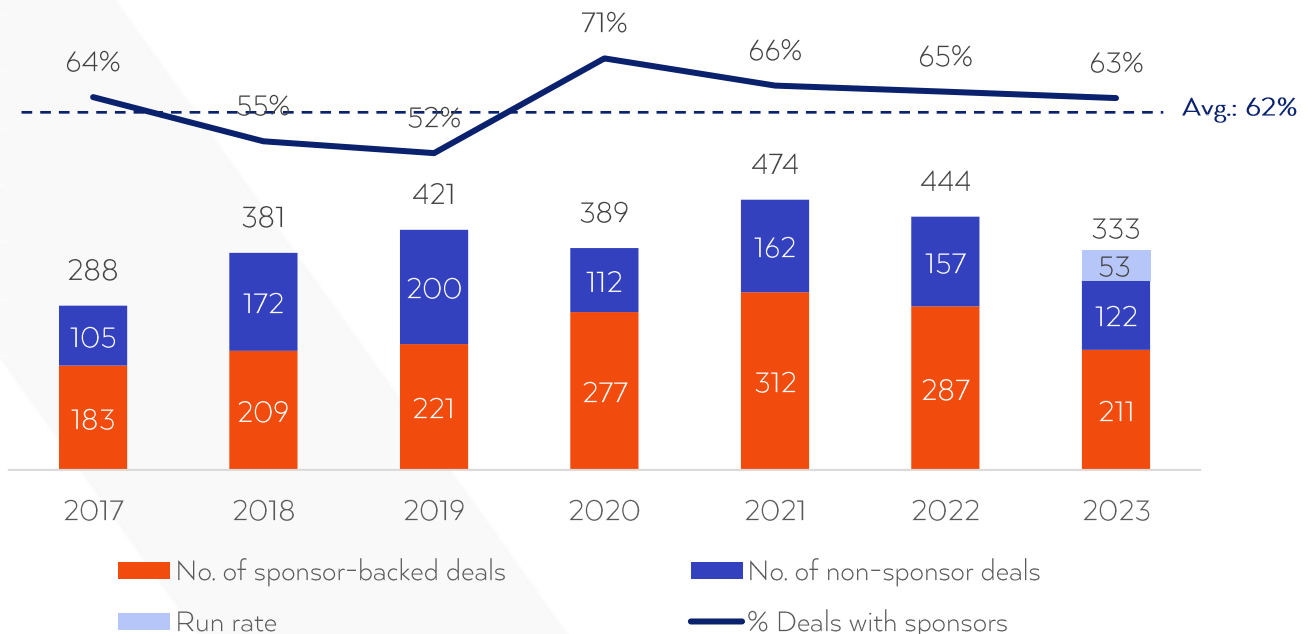
On examination of the remaining countries, there is still scope for a further pick-up in deal activity. For instance, in Germany, ~60% of outpatient practices are still run by individuals. Similarly, the UK has also seen its outpatient and day-care appointments almost double over the past decade, driven by cost containment and technological advancements in less invasive surgical techniques.

No. of M&A transactions, 2017-2023YTD



3.4.4. Sponsor involvement continues to hold up above its long-term average

Sponsors were involved in ~62% of all deals in the sector from 2017 to 2023YTD, a testament to the value which this model can provide to both healthcare professionals and patients in the long-run.



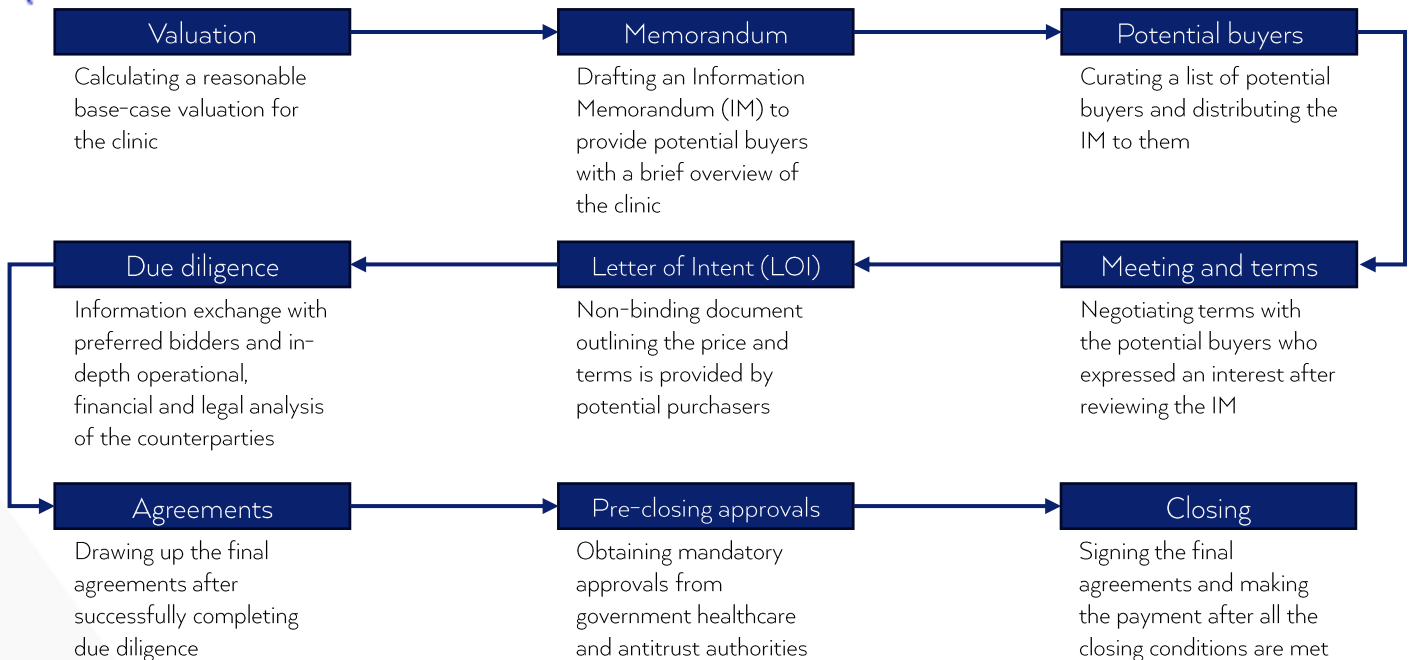
The increase in the share of sponsor-backed deals in 2020 can partly be explained by the pandemic, as clinics increasingly aligned with well-capitalized partners.

Sources: Mergermarket, M&A Worldwide analysis

3.5. What does the M&A process look like and what are the key legal considerations?

3.5.1. The process

The Auction Model is a popular way of doing clinic M&A and involves the following steps:



3.5.2. Key legal considerations

- **Asset vs. share purchase**



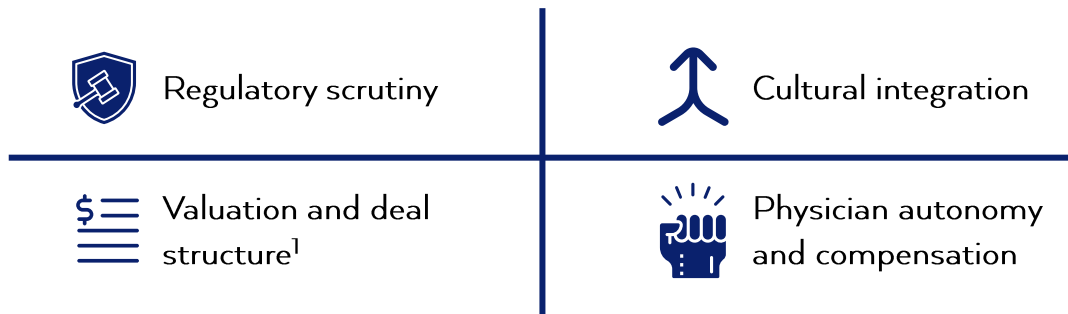
- **Asset:** An asset purchase is when a buyer acquires the specific assets and liabilities of a seller, such as equipment, inventory, licenses, etc. There is no transfer of ownership of the business entity. An asset purchase has **some advantages for the buyer**, such as tax benefits, limited exposure to unknown liabilities, and selective choice of assets.
- **Share:** A share purchase is when a buyer acquires the shares of a seller, and thus gains ownership of the entire business entity, including all its assets and liabilities. A stock purchase has **some advantages for the seller**, such as simplicity, lower transaction costs, and favorable tax treatment.

- **Antitrust laws:** Given the consolidation observed over the past years, regulators in both North America and Europe have increased scrutiny on such transactions, and buyers and sellers need to be acutely aware of this ever-changing landscape. Some recent proposals in the US include:



- **Pre-Closing Notice Requirements:** New York Senate Bill A3007 adds a new Article 45-A to the Public Health Law, which requires parties to notify the Department of Health at least 30 days prior to the closing of a “material transaction”, which is defined broadly to include mergers, stock acquisitions, asset acquisitions, and changes of control involving one or more healthcare entities (including MSOs) where the transaction results in an increase of gross in-state revenue by more than \$25 million.
- **HSR Compliance:** For the first time in 45 years, the Federal Trade Commission (FTC) and Department of Justice (DOJ) have proposed a number of critical changes to the Hart-Scott-Rodino (HSR) Act notification form and filing process. For deals exceeding the HSR threshold (for 2023, \$111.4 million), the proposal would require parties to submit dramatically more information and documentation than the current form—which the FTC predicts will increase the average time spent filing the form from 37 hours to 144 hours.

3.6. Any potential challenges for dealmakers?



4. Closing thoughts

4.1. How are technological advancements reshaping the clinic space?

The healthcare industry has historically underspent on technology relative to its size. For instance, the sector makes up nearly 20% of US GDP and yet only accounted for ~6% of its technological spending. However, the industry is presently undergoing changes:

- The pandemic accelerated the adoption of technologies such as **telehealth and remote patient monitoring**. That unlocks value by streamlining operations and improving patient outcomes through the combination of digital delivery and patient engagement capabilities
- The physician reimbursement model transitions from a fee-for-service model to a **value-based care** one, which also requires a **greater investment in technologies** that help to closely track patient care such as data and analytics, care management and contract development
- Back-office optimization continues to pick up pace through technologies such as **revenue cycle management (RCM)** and **electronic health records (EHR)**
- Inflation and labour shortages require providers to **seek methods to alleviate margin pressure**, and technologies such as **telehealth, AI and data analytics** can help providers optimize resources and improve margins

Some of the **most promising technologies** and their applicability to patient care are described below.

Telehealth: A number of advantages are offered to both patients and healthcare professionals, including convenience, flexibility, and reduced costs.



- For patients, telehealth saves precious time and reduces travel expenses, particularly for those living in remote areas or facing mobility challenges who need to access care from specialists or providers who are in other geographic areas.
- For providers, telehealth can help to reduce overhead costs and improve efficiency while also improving patient outreach, engagement and satisfaction. Therefore, it provides a safer, more convenient new revenue stream than an in-person clinic.

Artificial intelligence: A wide range of applications can be developed through the use of AI, including:



- Virtual assistants and chatbots that can answer patient questions, schedule appointments, and provide support.
- Decision support systems and image analysis tools that can help physicians diagnose and treat diseases more accurately.
- Drug discovery and development tools that can help to accelerate the development of new and more effective treatments.

Big data analytics: Allows for the improvement of healthcare in numerous ways, including:



- Identifying trends and patterns in patient data to improve population health management using preventive medicine and personalized treatment plans.
- Improving operational efficiency by identifying and eliminating waste in the healthcare system.

¹ There is always a valuation gap between buyers and sellers, and the recent bouts of market volatility will only add to this tension during negotiations. The deal structure could also be a sticking point, as both asset and stock purchases have different implications for each party, as described in the preceding section.

4.2. Points of consideration for healthcare providers considering selling their clinic

4.2.1. Considerations



4.2.2. How M&A Worldwide can help you

Selling your clinic can be a daunting task, especially when balancing the demands of patient care and running a business, with the rigorous and intricate process typically lasting 6-9 months. However, having a **dedicated team of professionals** by your side, such as **M&A Worldwide**, can transform this complex process into a **seamless and rewarding experience**.

We are specialists and stand ready to streamline your path through such transactions from the beginning to completion with a process tailored to medical clinics:

- **Preparation:** Conducting a holistic analysis of your practice to identify its key value drivers
- **Marketing:** Creating a compelling story for your practice and sharing it with our vast network of potential buyers
- **Initial offer and due diligence:** Helping you to assess incoming offers and filtering the best ones for the second round
- **Final offer and closing:** Filtering all second-round offers to select the best one, negotiating the final deal terms and closing

To initiate a conversation about potential financial or strategic partnership options and gain insights into optimizing value throughout the process, kindly reach out to a member of our team.

5.1. The team



NETHERLANDS

Maurice
Koopmans

mkoopmans@m-a-
worldwide.com



IRELAND

Alan Kelly

kelly@m-a-
worldwide.com



TURKEY

Çiğdem Bicik

bicik@m-a-
worldwide.com



FRANCE

Didier Busquet

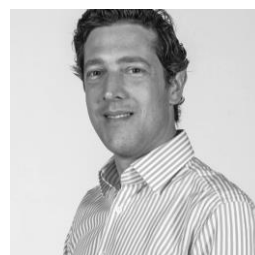
busquet@m-a-
worldwide.com



ISRAEL

Dr. Laurent
Choppe

telaviv-lifescience@m-a-
worldwide.com



FRANCE

Bertrand Dufay

dufay@m-a-
worldwide.com



NEW ZEALAND

Martin Gray

mgray@m-a-
worldwide.com



BRAZIL

Gabriel
Penteado

gpenteado@m-a-
worldwide.com



UNITED KINGDOM

Joe Powell

jpowell@m-a-
worldwide.com



PERU

Eduardo Gómez
de la Torre

etorre@m-a-
worldwide.com



GERMANY

Dr. Holger
Wiemann

hwiemann@m-a-
worldwide.com



USA

Eric Yetter

eyetter@m-a-
worldwide.com

5.2. Transactions in the sector

<p>NL Jan. 2024</p> <p>Bergman Clinics</p> <p>Independent treatment center</p> <p>Mohsa Skin Center</p> <p>Sell-side</p>	<p>USA Nov. 2023</p> <p>Parallel ENT & Alergy</p> <p>Medical practice, ENT</p> <p>Michigan Ear, Nose, Throat, & Allergy Specialists P.C, Hearing Experts, PLC</p> <p>Sell-side</p>	<p>Ireland Sep. 2023</p> <p>BGF</p> <p>Cosmetic surgery clinic with three locations across Ireland</p> <p>The Avoca Clinic</p> <p>Sell-side</p>
<p>Germany July 2023</p> <p>QNTM Medical/ Partners Group</p> <p>Radiological Clinic</p> <p>Radiologiezentrum Ulm</p> <p>Buy-side</p>	<p>NL May 2023</p> <p>Cosmetique Totale</p> <p>Botox and filler treatments</p> <p>City Clinics</p> <p>Sell-side</p>	<p>Germany March 2023</p> <p>Evidia/ EQT</p> <p>Radiology Clinic</p> <p>Euradia Nuklearmedizin Braunschweig</p> <p>Buy-side</p>
<p>NL Feb. 2023</p> <p>Ceulen Klinieken</p> <p>Private skin clinic</p> <p>DCU huidkliniek</p> <p>Buy-side</p>	<p>Germany Jan 2023</p> <p>Partners Group Infrastructure Fund</p> <p>sale of state accredited hospital</p> <p>Winghofer Medical</p> <p>Buy-side</p>	<p>Germany Jan. 2023</p> <p>Evidia/ EQT</p> <p>Radiological clinic</p> <p>Radiologie in Giessen</p> <p>Buy-side</p>

5.2. Transactions in the sector

<p>Germany Dec. 2023</p> <p>Evidia/ EQT</p> <p>Radiological Clinic</p> <p>Nuklearmedizin Köln Prof. Hünermann</p> <p>Buy-side</p>	<p>Germany Jan.. 2023</p> <p>Evidia/ EQT</p> <p>Radiology clinic</p> <p>MVZ Nuklearmedizin Braunschweig</p> <p>Buy-side</p>	<p>Germany Jan 2023</p> <p>Kinios/ Triton</p> <p>Orthopedic Clinic</p> <p>MVZ Orthopädie Waiblingen</p> <p>Buy-side</p>
<p>Germany Nov 2022</p> <p>Triton Mittelstandsfonds II</p> <p>state accredited hospital</p> <p>Praxisklinik Kronshagen</p> <p>Buy-side</p>	<p>UK Oct. 2022</p> <p>CBCE</p> <p>Varicose vein treatment private clinic provider based in the UK</p> <p>Veincentre</p> <p>Sell-side</p>	<p>Germany Oct. 2022</p> <p>Acura/ Investcorp</p> <p>Dental clinic</p> <p>MVZ Oberhausen Praxis Sena-Schulze</p> <p>Buy-side</p>
<p>NL Oct.. 2022</p> <p>Triton</p> <p>Dental trading</p> <p>American Dental Trading</p> <p>Sell-side</p>	<p>Germany Jul .2022</p> <p>Acura/ Investcorp</p> <p>Dental Clinic</p> <p>MVZ MKG Nürnberg Zikarsky & Kollegen</p> <p>Buy-side</p>	<p>Germany Dec. 2020</p> <p>Triton Mittelstandsfonds</p> <p>state accredited hospital</p> <p>Klinik Schöneberg Berlin</p> <p>Buy-side</p>



HEALTHCARE SECTOR
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