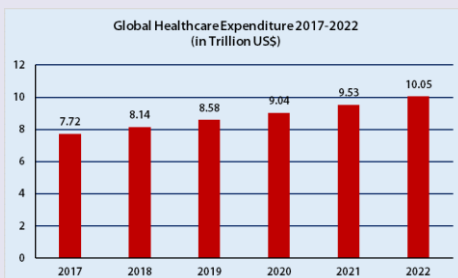


Healthcare Industry



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Global healthcare expenditures are expected to continue to rise as spending is projected to increase at an annual rate of 5.4% between 2017-2022, from \$7.7 trillion to \$10.1 trillion.
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Global Healthcare Expenditure 2017-2022



Global Outlook

According to a report by Deloitte, global healthcare expenditures are expected to continue to rise as spending is projected to increase at an annual rate of 5.4% between 2017-2022, from \$7.7 trillion to \$10.1 trillion. The emergence of personalised medicine, increased use of exponential technologies, entry of disruptive and non-traditional competitors, the demand for expanded care delivery sites and revamped payment and public funding models are all impacting the financial performance of the healthcare ecosystem.

Moreover, the healthcare industry is looking to health technology for help, along with mergers, acquisitions and partnerships, with stakeholders also exploring alternative revenue sources such as vertical integration.

The report goes on to add that it is imperative for stakeholders across the healthcare ecosystem to collaborate around a whole-life approach to funding and delivering sustainable healthcare. To put it succinctly, collaboration between stakeholders is increasingly becoming a necessity. Moreover, investments in technology such as virtual health and telehealth could expand services while also helping hospitals bend the cost curve.

For example, artificial intelligence powered nurses interacting with patients and intelligent virtual assistants providing personalised healthcare coaching are innovations which are already gaining traction in the global healthcare industry.



Market Drivers

According to Deloitte, in developed markets it is expected that ageing populations will continue to be a major factor—especially in Japan, where the share of people over age 65 will reach almost 30% by 2021, and in Western Europe, with its share nearing 21%. Changing patterns of care, including increased visits and higher-quality services, could also be major cost-drivers in the healthcare industry. Moreover, therapeutic advances and the desires of doctors and patients are prompting more (and more costly) tests and interventions for chronic and communicable diseases. Meanwhile in developing markets, population growth, an increase in higher-income households and rising consumer expectations are pushing up health costs, leading to an overall increase in healthcare spending.

Another important point to keep in mind is that as healthcare costs increase, affordability and insurance coverage remain problematic. This is true for developed markets such as the United States and even more in the developing nations. However, governments in many developing nations are extensively focusing on providing health coverage to citizens, which will also lead to growth in healthcare spending in the coming years.



Key Industry Challenges

The global healthcare industry is facing multiple challenges owing to demographic, social and cultural changes in many major nations across the globe. These challenges have meant increased pressure on

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...investment by private equity firms in healthcare is increasing as they step up their presence in a highly fragmented market.
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healthcare providers to be accessible, affordable and also responsive. Some key challenges that the stakeholders in the healthcare industry will have to come to terms with are:

- Ensuring better care for patients
- Improving patient outcomes, more so in the developing world
- Better communication at all levels of an organisation
- Increasing productivity and the organisation's workflow efficiency to stay ahead of the competition
- Privacy and the protection of data related to patient information.



Effect of US – China Trade War

While many focus on the merits of China as a demand source for pharma and medtech, developments in the US-China trade war in 2019 could have both domestic and global ramifications for the healthcare industry. The levying of tariffs by the United States on medtech components imported from China and on active pharmaceutical ingredients (25% of which are imported, with 80% of that originating from India and China) is already having a significant impact on cost and availability of certain medical devices and generic drugs in the US market.

Retaliatory tariffs from the Chinese government on medical devices from the US have also hurt sales in the other direction. These developments might have a cyclical effect on the global healthcare industry, leading to adverse outcomes for stakeholders in this industry.



Private Equity as Growth Accelerator

According to PWC, investment by private equity firms in healthcare is increasing as they step up their presence in a highly fragmented market, thus seizing on consolidation opportunities to build a better business model. Private equity's acquisitions and investments in the health sector are increasingly becoming diversified and frequent, which include investments in new entrants in technology and convenient care delivery, clinical research organisations, and ophthalmology and dermatology practices.

This increase in investment by private equity firms is only expected to increase in the coming years. As a result, traditional healthcare companies will be given new opportunities to sell all or portions of noncore assets and double down on their core competencies or partner with private equity in acquisitions.

Moreover, partnerships between private equity and healthcare buyers are also evolving beyond acquisitions, with some healthcare companies spinning off noncore assets and co-investing with private equity in the new company.

Going forward, we can expect the increasing participation of private equity to lead to further changes, some of which might be transformative for the healthcare industry



Value-Based Delivery Models

The global healthcare sector is rapidly moving from volume to value-based delivery models. This will require building an outcomes-based financial model and data infrastructure that will facilitate and maximise value-based care reimbursement pathways. Factors such as patient preferences, clinical

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innovations and changes in government program payment policies are pressurising healthcare organisations to shift to alternative points of care. To keep up, stakeholders across the healthcare ecosystem today must collaborate around new approaches to funding and delivering sustainable healthcare. For example, investments in advanced technological capabilities such as telehealth could expand services while also helping organisations bend the cost curve to their advantage.



Asia is the New Innovation Hub

Historically, a majority of medical innovation has flowed from West to East. Now with emerging markets contributing 20-30% of the pharmaceutical industry's value with double-digit growth (10-15%), a string of global drug and device OEMs are attempting to upend that trend with new products tailored to Asian bodies, lifestyles and purchasing parity (affordability).

Some estimates suggest that up to 10% of global healthcare R&D is already being invested to localise innovation for emerging markets in Asia. Asia-Pacific is the strongest market in terms of growth, with more than 30% of the global late-stage trials for cell therapy alone. Moreover, Asia-Pacific is expected to witness the genomics revolution in the next few years and China is projected take a leading role in Asia's genomics space.

In line with this changing paradigm, there will probably be a rise in "unicorn start-ups" (valued over \$1 billion) in the coming years, and foreign direct investment riding on increasing demand for healthcare services, an ageing population and rising income levels.



European Valuations' View - Trends

Growing Influence of Digital Health Tech: According to an article in Forbes, it is estimated that the application of digital health will continue to go far beyond the traditional system and empower individuals to be able to manage their own health. It is expected that digital health tech catering to out of hospital settings will grow by 30% to cross \$25 billion globally by end of 2019. The increasing cost burden from chronic health conditions and an ageing population will be the chief driver for digital health solutions such as RPM devices, telehealth platforms, PERS and mHealth applications. Furthermore, favorable reimbursement policies toward clinically relevant digital health applications will continue to expand care delivery models beyond physical medicine to include behavioral health, digital wellness therapies, dentistry, nutrition and prescription management.

Wearables: A significant increase has been observed in the use of wearable devices over the past couple of years. Whether you wish to measure blood pressure or weight, wearable apps are today providing significant assistance to people of all age groups. Additionally, smart phones with mobile healthcare applications can now perform DIY blood tests and ECGs as well as record temperatures and heartbeats.

The automation in this particular sector has made several impossible things possible such as sending automatic prompts to patients at the correct time to check their weight, sugar, oxygen level or pulse. After the proper checkup is done, patients can enter the results in the specially designed patient portals. Even real-time result transmission has become a reality. Now proactive



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patients can effortlessly minimise the risk of bigger diseases like a stroke or lung failure.

Precision Medicine: Treatment of complex and rare diseases is witnessing a shift in trend from “patient engagement” to “patient-centricity”. Precision medicine is designed to rationalise various medical attributes of patients such as genetic make-up, prior treatment history, behavioural preference and environmental conditions, thus developing a customer-centric treatment for complex diseases. This patient-centric approach deals with creating a fundamentally new value proposition for individual patients, thus increasing therapeutic success rates, treatment adherence and patient compliance. An increase in the adoption of strategic changes for the treatment of complex and rare diseases has been witnessed in the global healthcare industry, with the trend expected to gain further prominence in the coming years

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