AUSTRALASIAN HEALTHCARE

2020 M&A REVIEW

IDEAS | PEOPLE | TRUST

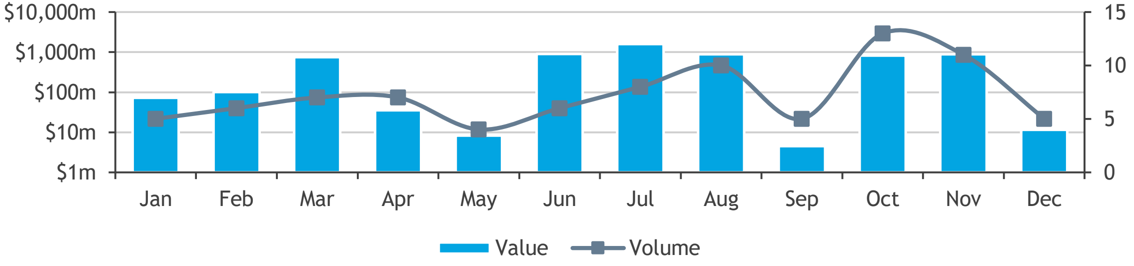
OVERVIEW

It's been nearly a year since the outbreak of COVID-19 and whilst markets have rebounded from early panic, many industries continue to face significant hardship. Fortunately, the Healthcare industry managed to fare better than most playing a pivotal role in our journey through the pandemic.

The impact of the virus was multi-layered. M&A markets quickly tightened, and activity remained subdued for much of the first half of the year as businesses awaited clarity around future recovery. From June onwards a clear rebound in activity was noted, unlocking a backlog of built-up deals, even surpassing 2019 volume and value.

As a result of the tighter markets, creative deal structures become more common to allows deals to complete. These included all equity transactions, eliminating the need for third-party financing and deferred payment structures to allow business productivity to return to pre-COVID-19 levels.

Deal volume and value



Source: S&P Capital IQ, BDO analysis

Disclosed deal value

$6.1bn
across Australasia

47%
Value vs. 2019

Deal volume

7%
Volume vs. 2019

87 DEALS
announced in 2020

Median EV/EBITDA multiple for ASX/NZSE listed Healthcare companies

13.9x
Q4 2020 multiple *

INCREASED
from 13.6x in Q4 2019

BDO

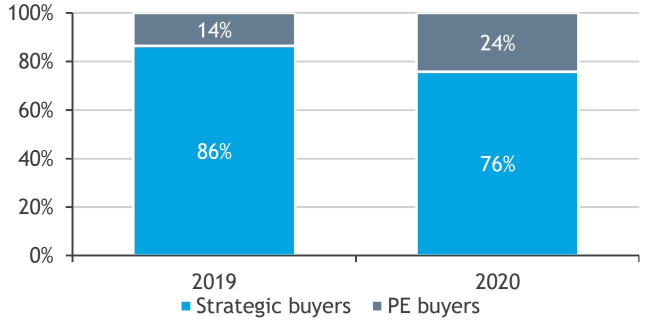
BUYERS

New sources of capital continue to flow into the Australasian healthcare market from eager investors worldwide who embrace the industry's fundamental strengths. Private equity remained one of the most active participants in healthcare M&A. In 2020 private equity made up 24% of disclosed deals, which is up from 14% in 2019.

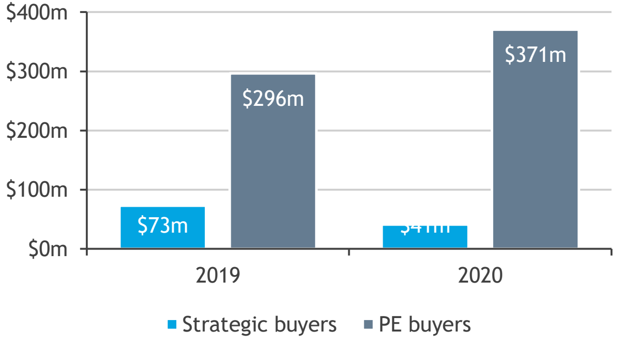
Whilst private equity players remained active, strategic buyers continue to make up the bulk of the volume, which was particularly true during the worst of the pandemic between March and August. Strategic buyers can potentially realise immediate synergies while the private equity model leans heavily on investing in growth initiatives, management and infrastructure to achieve scale, which was possibly more difficult initially in the COVID-19 environment.

The average deal size for private equity buyers significantly eclipsed that of strategic buyers and increased from 2019 on the back of more 'mega-deals'. This is due to the differing objectives of strategic buyers who are looking to create synergies for long term growth in comparison to private equity who are aiming to scale and exit within 5 years – typically attracting a higher deal value.

Deal composition



Average deal value



Source: S&P Capital IQ, BDO analysis

TOP 5 DEALS FOR 2020

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

$725m (Mar)

Sector: Healthcare services
Madison Dearbon Partners agreed to acquire Advanced Personnel Management, a leading injury management/vocational rehabilitation company. This acquisition compliments their current portfolio and will enable them to grown both in Australia and offshore.

$485m (Jun)

Sector: Healthcare facilities
BGH Capital agreed to acquire Healius Primary Care business from Healius Limited, which incorporates over 100 medical centres and dental clinics. The sale proceeds will be used to strengthen the balance sheet of Healius Limited and explore growth initiatives in the Pathology and Imaging side of the business.

$1488m (Jul)

Sector: Healthcare facilities
Metlifecare, one of New Zealand's leading owners and operators of retirement villages in NZ have agreed to an acquisition by EQT, a highly respected European investment company. The deal will allow EQT to enter NZ's attractive aged care market and increase the development pipeline.

$509m (Aug)

Sector: Healthcare facilities
New Zealand Superannuation Fund and Ontario Teachers' Pension Plan Board have acquired Asia Pacific Healthcare Group. The group is the largest chain of pathology clinics in New Zealand and has been heavily involved in providing testing in relation to COVID-19.

$735m (Oct)

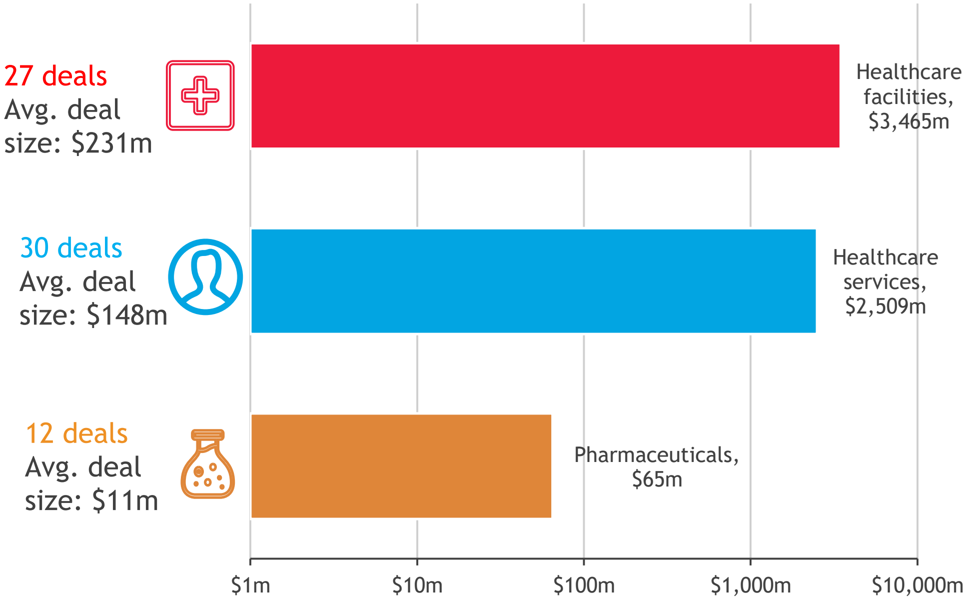
Sector: Healthcare services
Infratil has agreed to acquire Qscan Group, a leading diagnostic imaging provider from Quadrant Private Equity. The acquisition provides Infratil entry point into the sector and potential to scale into a leading healthcare infrastructure platform.

KEY SUBSECTORS BASED ON DISCLOSED DEAL VALUE

Healthcare facilities boasted the highest deal volume for 2020 with 27 deals completed for the year. This increased level of activity follows suit from previous years with participants looking to achieve economies of scale, which is becoming increasingly difficult organically. A combination of significant regulatory changes, technological innovations and market dynamics look to be setting the stage for a period of rapid consolidation among healthcare facilities, especially within aged care following the Royal Commission.

Also remaining a key sector for activity was Healthcare services, with notable activity in diagnostics. This sector has seen increased demand in 2020 as the COVID-19 pandemic gathered force to the point where testing demand was a struggle to meet. Even in a post-COVID-19 world, M&A in the sector will remain active, supported by favourable characteristics such as a growing geriatric population, growing prevalence of chronic diseases and a highly fragmented market.

Top subsectors



Source: S&P Capital IQ, BDO analysis

2021 OUTLOOK

After navigating the early stages of the COVID-19 outbreak and with the continued rollout of the vaccine, we will likely continue to see an uptick in deal flow as companies focus less on capital preservation and start seeking new opportunities. Looking at the BDO Australasian heat chart, which shows rumoured mid-market deals within the region, we can see over 40 rumoured deals within the healthcare space which is up from 37 deals in the previous quarter.

A key potential growth area that the COVID-19 pandemic has accelerated is digital healthcare or telehealth. With lockdowns and business closures, the need for technological innovation within healthcare has become abundantly clear, from remote diagnosis and treatments to patients at home with devices able to accurately monitor their health data, we are likely to see the value of telehealth companies soar in coming years.

We are also likely to see a more diverse range of buyers enter the healthcare space through inorganic acquisitions, from traditional technology companies who can provide solutions in telehealth / health-tech, to large conglomerates diversifying their business and portfolios.

BDO Australasian rumoured M&A deals heat chart

TMT	91	21%
Consumer	68	16%
Industrials & Chemicals	57	13%
Business Services	55	13%
Financial Services	51	12%
Energy, Mining & Utilities	44	10%
Healthcare	40	9%
Leisure	17	4%
Real Estate	7	2%
Grand Total	**430**	

The BDO M&A Heat Map is in partnership with MergerMarket, a global M&A deal intelligence platform. Information is based on "companies for sale" tracked by Mergermarket in the respective regions between 1 April 2020 and 30 September 2020. https://www.bdo.global/en-gb/microsites/bdo-horizons/horizons

NEW SOUTH WALES

NORTHERN TERRITORY

QUEENSLAND

SOUTH AUSTRALIA

TASMANIA

VICTORIA

WESTERN AUSTRALIA

1300 138 991

www.bdo.com.au