Healthcare continues to attract investors as NHS struggles to increase activity

NHS use of the independent sector is likely to be elevated in the medium term despite efficiency drives as workforce and capacity constraints limit its ability to increase activity internally.

According to a new report published by Houlihan Lokey, initiatives such as the NHS *Workforce Plan* alongside programmes to build new hospitals, surgical hubs and community diagnostics centres will take time to deliver better outcomes and could be cut in the face of budget constraints, increasing the NHS's reliance on the independent sector to address productivity challenges.

At the same time, it said, NHS outsourcing is difficult to reverse due to the shortage of healthcare staff needed to bring services back in-house.

Report author Andrew Murray-Lyon, director European Healthcare Investment Banking in Houlihan Lokey's London office, said that combined with a tougher regulatory environment and the drive to move more care outside of hospitals settings, the newly emerging NHS landscape will favour providers who can offer specialism and/or scale, technological solutions and care in the community.

'Technology and community are probably going to play the biggest part in this in the next decade and we're most excited by that. We are seeing a lot of interest because good technology and good service relies on best practice that can be passported from any jurisdiction,' he said.

According to Murray-Lyon, some sub-sectors are likely to do better than others, with ophthalmology, teleradiology, private pay GP and tech-enabled solutions set for continued growth due to ongoing capacity issues in the NHS combined with the independent sector's ability to tap into a pool of trained staff.

'If you think about the wait list, ophthalmology is one of the highest on the list which is now actually exceptionally well-managed. It also aligns very well with treating people outside of hospital because it is better served by private community clinics,' he said.

NHS insourcing is also well positioned and is set to grow by c.11-16% CAGR from 2022 to 2027, albeit from a small base.

'Insourcing is one of the bigger tools that the NHS has from a trust perspective,' said Murray-Lyon. 'Historically, procurement departments have proactively recommended that hospitals use insourcing to deliver care provided that outcomes are equivalent or superior to existing clinics.'

Insourcing might be a small market, but it has been attracting big investment in recent years as it has diversified from its mainstay of endoscopy into other specialisms. Private equity firm Fremman Capital acquired Medinet and Remedy Healthcare Solutions in the summer while US firm Summit Partners bought 18-week support in 2022. Grant Thornton is also reported to be running a sale process on behalf of HBSUK.

'At the moment, there is a bit of a rising tide in insourcing where most players are doing well, but good clinical governance really matters for the bigger players so there are barriers to scale,' said Murray-Lyon.

Andrew Murray-Lyon, director of European healthcare investment banking, Houlihan Lokey

It is expected that a formal framework of regulation will be adopted as the sector continues to grow and that it will continue to consolidate.

'We also expect the incumbent providers to continue to diversify across specialties as they build up their trust with NHS trust customers and their track record of clinical outcomes, reliability and efficiency. There are certainly benefits of scale from a clinical governance standpoint so we expect the bigger players to provide more comprehensive solutions,' said Murray-Lyon.

Looking ahead, he said private providers with capabilities in diagnostics, screening and technology that can help triage patients and drive efficiency are also likely to continue attracting investor interest.

Although M&A volumes remain down on last year, he said there was continued appetite from overseas investors from the US, Middle and Far East for UK healthcare companies. However, he added quality remains key and 'those businesses that will attract the most interest and highest valuations will have differentiated models that can provide confidence on long-term growth, value creation and governance'.

'We expect interest to remain the same but valuations to probably diverge, with a flight to quality at the upper end and awareness of risks for investment requirement at the lower end,' he said.