M&A OUTLOOK AUSTRALIAN

2018

MinterEllison

Contents

Welcome to the first edition of the MinterEllison M&A Outlook series.

The Australian Healthcare report represents the findings of our analysis of global and Australian M&A activity in the healthcare sector. It identifies key commercial drivers, risks and challenges, high-level observations and lessons learnt, and how they all impacted on the local market and deals up until 30 June 2018.

We provide predictions of M&A activity and present a focus list of Australian companies which we think are likely to be involved in deal activity over the coming year.

Team Leader – Health

+61 7 3119 6450

Deals Chair

+61 2 9921 4567

PART A

Our insights and predictions

Top takeaways

1 Global healthcare M&A is off to the strongest start of the year ever,

with **$US306 billion of deals** having been announced through the first half of calendar 2018 and **81% average premiums paid** (compared to one month prior closing price).

We are likely to see **peak cycle corporate activity** in the global healthcare sector over the next 18 months, as companies flush with cash return to the deal making table after years of reluctance.

2 Megadeals are gaining pace,

with a new wave of big pharma deals occurring highlighted by Takeda's proposed acquisition of Shire for £GB46 billion ($A82 billion) a 59.6% premium at the time of the offer.

3 The technology giants are starting to move-in,

and are having impacts on existing business models, supply chains and the valuations of incumbent players, as was highlighted with Amazon's acquisition of US online pharmacy group PillPack.

4 Spin-offs by conglomerate companies are on the rise,

as they aim to get 'back to basics'.

5 Australia is increasingly attractive,

with nearly **$A48 billion** worth of M&A transactions in Australia over the last decade and representing 27% of all Asia-Pacific healthcare M&A from 1 January 2017.

This is a result of further privatisation of services, consumer choice and competition, and increasing foreign interest especially from China.

Our predictions

We expect to see robust M&A activity in global healthcare over the coming 18 months, as cashed up buyers chase an increasingly limited pool of assets that combine quality businesses with growth potential. In this environment, we should expect to see 'peak-cycle' bid premiums offered by acquiring parties, as attempts are made to lock in access to key industry sub-sectors.

Within the Australian healthcare space, we expect deal making to be particularly active over the medium term in the aged care and radiology / imaging fields. The buying parties are likely to be either industry leaders looking to access additional growth, Chinese companies after skills, technology and 'know-how', or private equity (PE) groups that are drawn to healthcare's predictable cashflows.

On the sale side, investors' general dislike of sprawling conglomerate structures could see global majors offload units, while rich valuations and perceptions that the bull market could be ending, may entice PE firms to exit some of their holdings, including quickly 'passing the parcel' on even the most recently acquired of its portfolio (such as iNova Pharmaceuticals, Icon Cancer Care, I-MED and Qscan). Furthermore, Blackmores Limited and other smaller companies in the vitamins and nutriceutical sub-sector, including Probiotec, Star Combo Pharma and Vita Life Sciences, as well as infant formula providers such as ViPlus, are expected to continue to be attractive targets for foreign investors, following in the steps of Vitaco, Suisse and Nature's Care.

The below tables highlights where potential transactions may occur.

Figure 1 – Summary list of potential M&A opportunities

Company	Industry Group	HQ	Market Cap ($A)	Valuation (EV/EBITDA)
M&A TARGETS				
Healthscope*	Hospitals	Melbourne	3.8bn	13.8x
Primary Health Care	Medical Centres, Pathology & Imaging	Sydney	1.8bn	8.7x
Japara Healthcare	Aged Care	Melbourne	0.5bn	10.4x
Estia Health	Aged Care	Melbourne	0.9bn	10.1x
Regis Healthcare	Aged Care	Melbourne	1.0bn	11.0x
ACQUIRERS				
Ramsay Health Care	Hospitals	Sydney	10.9bn	10.4x
Moelis Australia (Aged Care Fund)	Investment Bank / Asset Manager	Sydney	0.9bn	na
Capitol Health	Radiology & Imaging	Melbourne	0.3bn	9.2x
PRIVATE EQUITY RELATED	**Industry Group**	**HQ**	(owners)	(Year of investment)
National Dental Care	Dental Care	Sydney	Crescent Capital Partners	2013
Sun Doctors	Skin Cancer Clinics	Sydney	Crescent Capital Partners	2014
Evolution Healthcare	Hospitals	Sydney	Roc Partners; Goldman Sachs' Special Situations Unit	2014
PAFtec	Healthcare Equipment	Sydney	CVC	2015
Home Care Holdings	Aged Care	Sydney	Quadrant & QIC	2016
Laserclinics Australia	Cosmetic Healthcare Services	Sydney	KKR	2017
Estia Health	Aged Care	Melbourne	Quadrant still has 17% stake in the business post 2014 ASX listing.	

Data as at 30 June 2018

** The company has been assessing various takeover and property acquisition offers since 26 April 2018.*

PART B

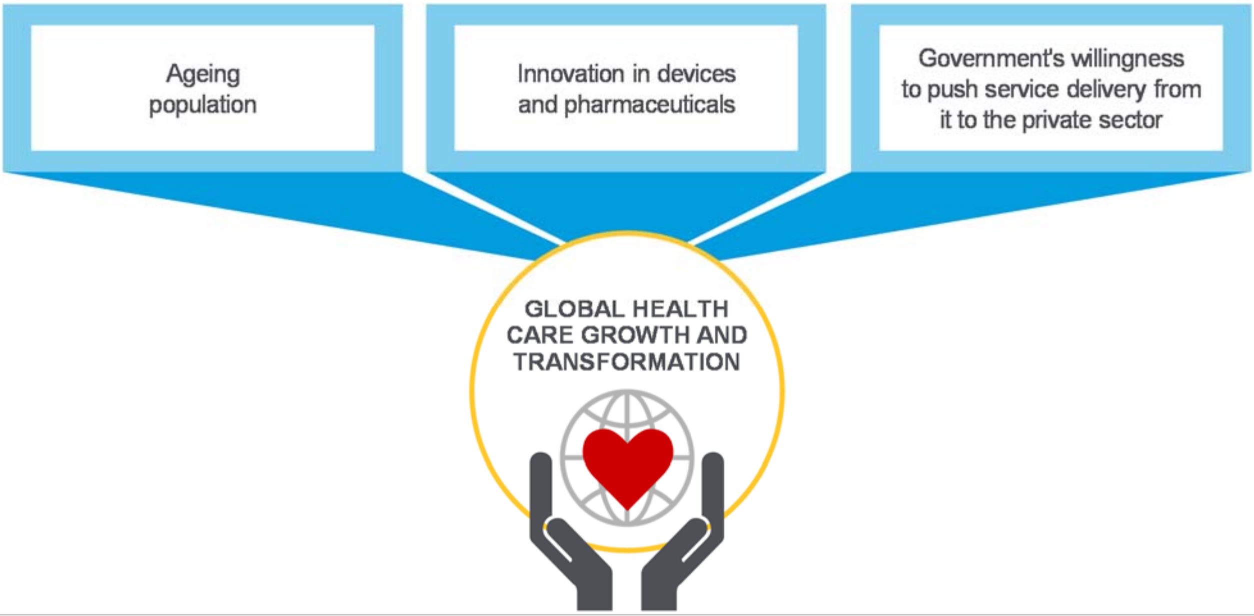
Global healthcare M&A activity

Setting the scene

A consistent takeaway from studying the healthcare sector is its impressive size, scale and complexity. Irrespective of which country we focus on, the healthcare sector is a major source of employment, holder of real estate, and user of technology. Health related expenditures also eat up a significant portion of both government and personal budgets, and hence take a prominent place in the allocation of resources. With the sector seeming to be guaranteed to grow forever, providers of capital see healthcare fields as solid and profitable places to make long-term investments.

Right now, the global healthcare sector is undergoing strong growth and transformation due to several factors (as highlighted in Figure 2).

Figure 2 – Key factors driving global healthcare growth and transformation

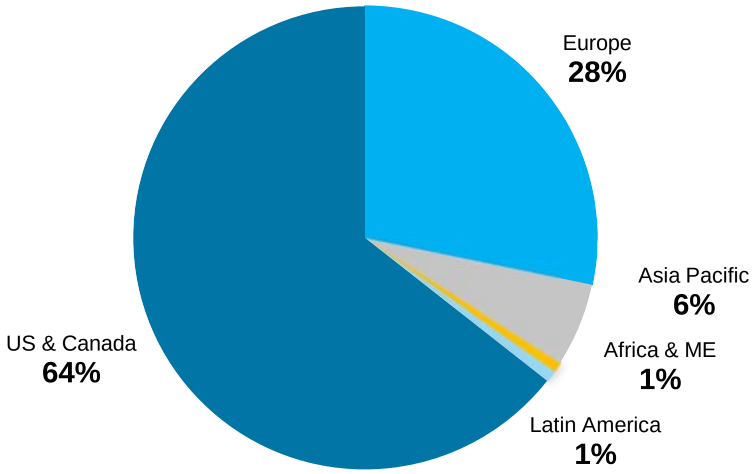


These three factors underpin industry confidence in the private sector, and mean that firms are constantly on the outlook for growth opportunities. Furthermore, with healthcare costs making up about a tenth of any country's GDP (on average), it follows that improving efficiencies can have a huge impact on the overall costs within systems.

US megadeals dominate – Australia increasingly attractive!

Globally, the largest opportunities for growth continue to overwhelmingly be in the US market. This should not be surprising given the US market generally dominates M&A activity. More specifically in healthcare sector deal making, the US's dominance is even further exaggerated, due in large part to the significant role its private sector plays in delivering services.

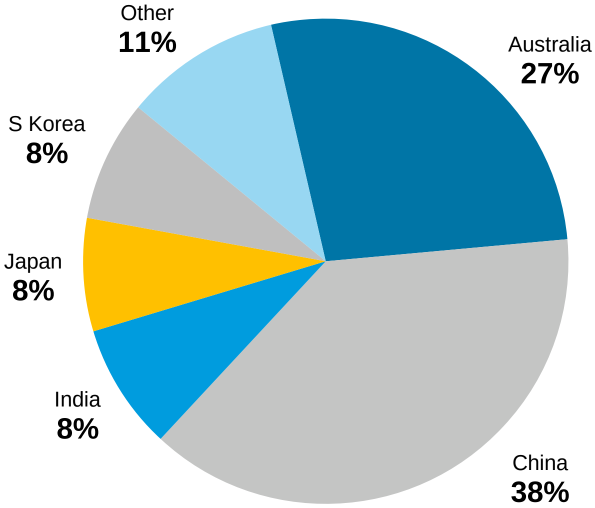
Figure 3
Global healthcare M&A by target region (January 2017 to June 2018) (By deal value)



Source: S&P Capital IQ

Although a relatively small market on a global scale, we see Australia as likely to grab outsized attention in health M&A. This comes heavily from the continued shift towards privatisation, choice and competition, but also as a product of the sector's attraction to Chinese buyers who value Australian healthcare assets, and often see strong synergies with China's growing healthcare needs.

Figure 4
Asia-Pacific healthcare M&A by target region (January 2017 to June 2018) (By deal value)

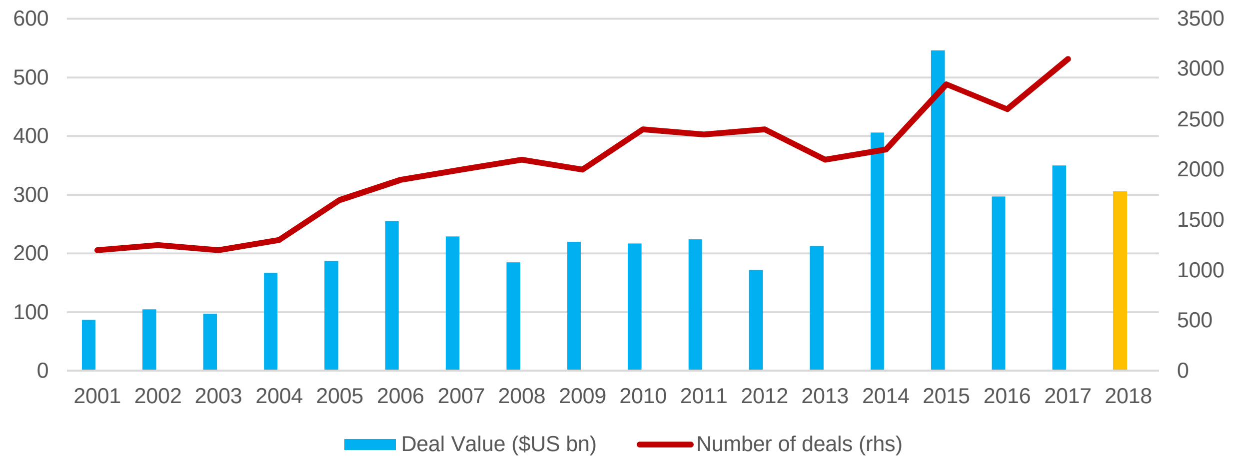


Source: S&P Capital IQ

Strongest start of the year

Data from Dealogic shows that healthcare M&A is off to the strongest start of the year ever, with $US306 billion of deals having been announced through the first half of 2018. When compared to previous years (as highlighted in Figure 5), 2018 has already surpassed the total annual deal value of every year bar 2014, 2015 and 2017.

Figure 5 - Global healthcare M&A activity



Source: S&P Capital IQ

Targets continue to be heavily US based, with recent high profile deals often involving health insurers, whom are keen to play a part in industry consolidation. European companies continue to show up as appealing targets, as evidenced by Japan's Takeda Pharmaceutical, in offering £GB46 billion ($A81.7 billion at the time) to buy Irish drug maker Shire, a deal which will rank as the 13th largest acquisition ever, as well as the largest ever foreign acquisition by a Japanese company.

The Asia Pacific region is undeniably dwarfed versus these other markets in terms of healthcare deals, however we do note (as evidenced in Figure 4) that Australian assets have attracted 27% of regional activity since the start of 2017, running second only to China at 38%.

Figure 6 highlights the size of some of the largest global deals in the healthcare sector over the last 18 months, which includes three deals over the $A50 billion threshold.

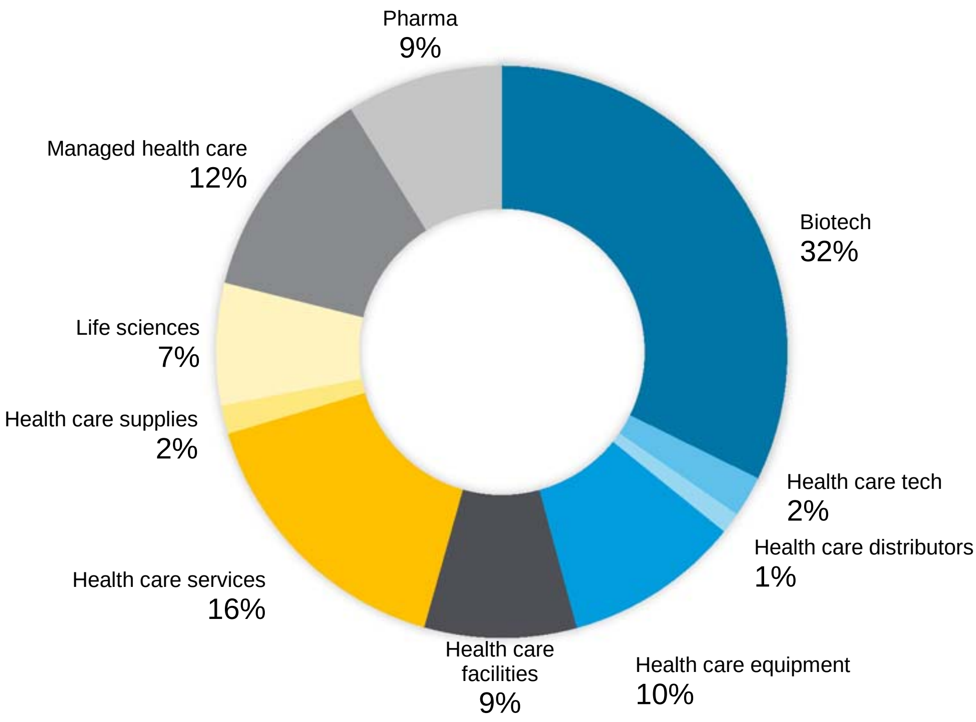
Figure 6 - Largest announced healthcare M&A transactions since January 2017

Announced Date	Target company	Industry of target company	Country	Transaction value ($A, bn)	Acquiring group	Country
Jan 17	Actelion	Biotechnology	Switzerland	29.8	Johnson & Johnson	US
Jan 17	ARIAD Pharma	Biotechnology	US	5.4	Takeda	Japan
Jan 17	SCAI Holdings	Healthcare facilities	US	4.3	United Health Group	US
Jan 17	VCA	Healthcare facilities	US	9.1	Mars, Inc.	US
Feb 17	STADA Arzneimittel	Pharmaceuticals	Germany	5.5	Bain Capital / Cinven	US / UK
Apr 17	Akorn	Pharmaceuticals	US	5.1	Fresenius	Germany
Apr 17	C. R. Bard	Healthcare equipment	US	25.8	Becton Dickinson	US
May 17	Patheon N.V.	Life sciences tools & services	Netherlands	7.3	Thermo Fisher Scientific	US
May 17	VWR Corporation	Life sciences tools & services	US	6.6	New Mountain Capital	US
Jun 17	PAREXEL Int Corp	Life sciences tools & services	US	5.3	Pamplona Capital Management	UK
Aug 17	Kite Pharma	Biotechnology	US	11.2	Gilead	US
Dec 17	Aetna	Managed healthcare	US	90.3	CVS	US
Dec 17	Kindred Healthcare	Healthcare facilities	US	4.4	Humana & PE consortium	US
Jan 18	Ablynx NV	Biotechnology	Belgium	4.8	Sanofi	France
Jan 18	Bioerativ Inc.	Biotechnology	US	11.5	Sanofi	France
Jan 18	Juno Therapeutics	Biotechnology	US	9.3	Celegene	US
Mar 18	Express Scripts	Healthcare services	US	70.8	Cigna	US
Mar 18	HCR ManorCare	Healthcare facilities	US	6.3	Quality Care Properties	US
Apr 18	AveXis	Biotechnology	US	8.7	Novartis	Switzerland
Apr 18	Healthscope	Healthcare facilities	Australia	4.1	PE consortium	n/a
Apr 18	Shire plc	Biotechnology	Ireland	81.7	Takeda	Japan
May 18	Widex A/S	Medical devices	Denmark	2.3	Sivantos	Singapore
Jun 18	Sirtex Medical	Medical devices	Australia	1.9	CDH Investments consortium	China
Jun 18	Envision Healthcare	Healthcare services	US	11.2	KKR	US

Source: S&P Capital IQ

Within the sub-industry groups of healthcare, pharma and biotech companies continue to be the most common targets, with healthcare services and equipment also proving popular. Traditionally, it has been pharma and biotech which have been the epicentre of healthcare sector deal making, however we have noted over recent years an uptick in activity in segments of the industry which are skewed towards aged care and health services. With these sectors generally being less capital intensive, less risky and with more predictable earnings streams, their appeal should continue, driven by the forces of low interest rates and an ageing population.

Figure 7 – Global healthcare M&A by target industry (1 January 2017 to 30 June 2018) (By value)



Source: S&P Capital IQ

'Peak-cycle' activity

We are quite likely to see 'peak cycle' corporate activity in the global healthcare sector over the next 18 months, as companies flush with cash return to the deal making table after years of reluctance. This pent-up demand for deals, comes as a product of the global economy's slow recovery, but is also in part a behavioural response as corporate leaders still carry scars from their financial crisis experiences. To cap it off, animal spirits have received a further boost post US President Trump's recent tax reforms.

Recent regulatory moves could also see more healthcare deal activity in our region, with the Hong Kong Stock Exchange now opening the door for listings of biotech companies in their pre-revenue stages. It is hoped that the new rules will attract "new economy" companies, where legitimate capital demands generally exist ahead of any likely revenue due to the intensive R&D required in the sector.

PART C

Drivers of global healthcare deals

The global healthcare sector may be large, but it is also a very mature industry in many of its segments, and constantly faces a high degree of government regulation and public scrutiny. Under these challenging set of conditions, it is probably not surprising to see why many players are now pursuing growth by acquisition strategies.

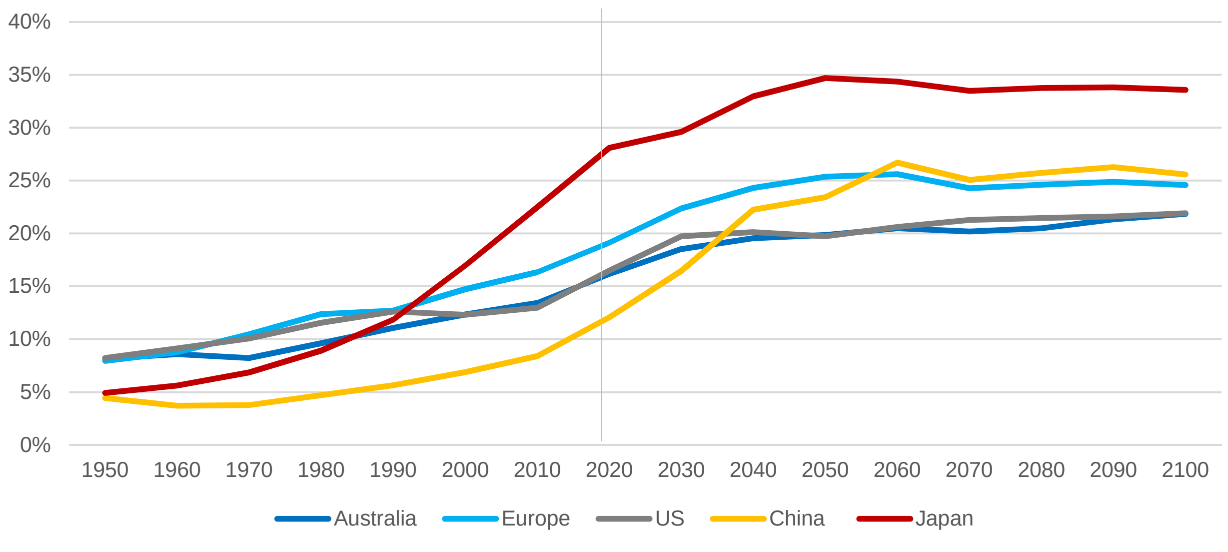
In our opinion, there are currently seven defining top-down themes, which are driving healthcare companies to engage in M&A activities.

1. Ageing population

It is well documented how ageing population is one of the key driving forces behind the demand for health services. We won't spend too much time analysing this phenomenon, however, it is worth pointing out that globally we will see the number of people in the world aged 60 years or over grow by 56% over the next 15 years, from 900 million to nearly 1.5 billion. By 2050, roughly two billion people are expected to be older than 60.

As can be seen in Figure 8, Australia's population will age noticeably over the coming few decades. Over the next 35 years, the percentage of the population in Australia aged greater than 65 years is expected to increase from 15% to 20%. China's proportion of the population aged over 65 is expected to jump from 10% to over 25% over the next three decades.

Figure 8 – Population ageing – Percentage of population aged greater than 65 years



Source: United Nations World Population Prospects 2017

With a larger proportion of most nations' populations moving into age brackets that more intensely use medical resources, coupled with an overall increase in chronic diseases, effective planning and execution will be required to ensure the demand can be met. Supply also needs to be considered, with many countries facing a serious shortage of healthcare professionals. In their most recent, comprehensive global study, the World Health Organization estimates a global shortfall of 12.9 million healthcare workers by 2035.

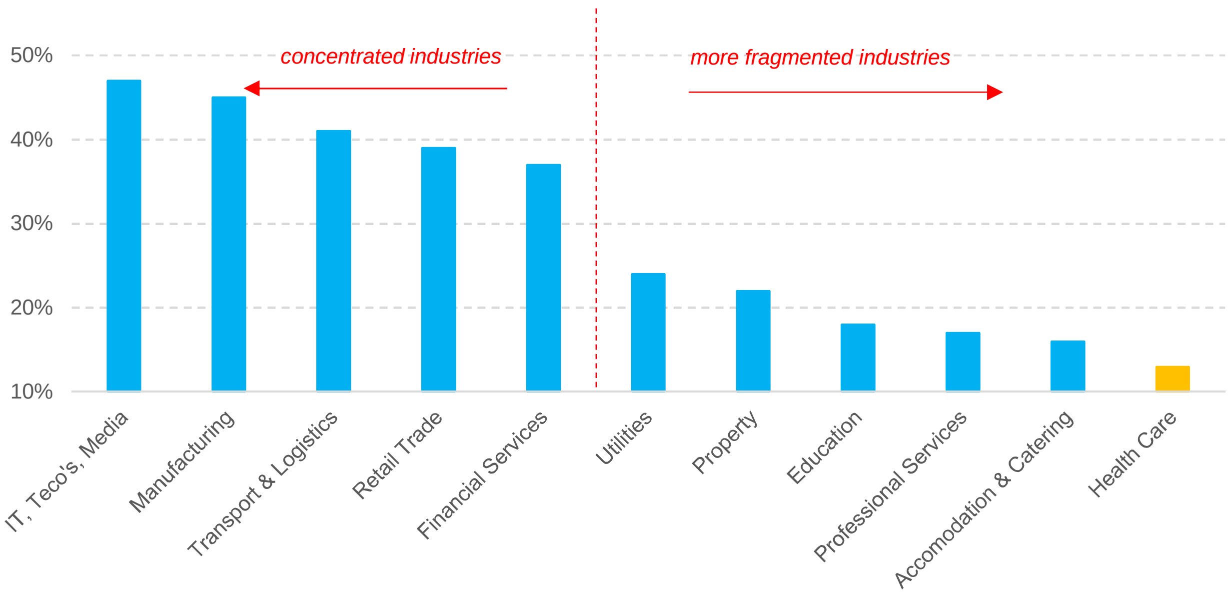
These structural demographic forces dictate that the customer base in the healthcare sector will continue to show impressive growth. It therefore follows that deal making activity will remain robust for the foreseeable future as corporates look to profit from these shifts.

2. The race to build scale

The healthcare industry is consolidating as businesses search for ways to reduce costs, drive efficiencies, and gain a competitive edge.

In its current form, healthcare shows up as an extremely fragmented industry (as highlighted in Figure 9), and hence motivations for concentration come from perceptions that size and scale will provide needed strength going forward.

Figure 9 – Industry concentration in the US (top 40 firm share of total revenue %)



*Source: US Census Bureau, The Economist, *weighted average across 893 industries grouped by sector.*

Mergers and acquisitions are also viewed as an avenue which ensures health businesses maintain adequate negotiating leverage, add breadth to their service offerings and gain access to new markets. Deals also open the opportunity for incumbent businesses to transcend traditional silos, and move towards more integrated businesses. The fact that the healthcare industry is coming from such an immature starting point in terms of industry concentration, means that industry consolidation will remain a defining theme behind the industry for decades to come.

As models of healthcare continue to evolve, corporate deals should pave the way for capital-constrained organisations to strengthen up, and access the technologies now needed to compete. For example, hospitals which are under financial distress, and/or unable to make capital investments, deal making provides a path towards infrastructure improvements, and hence helps fortify their positions.

Defensive considerations are also playing a role in the quest for scale. Just recently in the US, we saw CVS Health and Express Scripts combine forces with two of the largest insurers, Aetna and Cigna Corp. The catalyst of these moves comes from growing fears that the online technology giants are moving into the health business. The consolidating companies express the view that megadeals such as these, which place more healthcare under the control of fewer companies, will eventually result in lower costs for both consumers and governments.

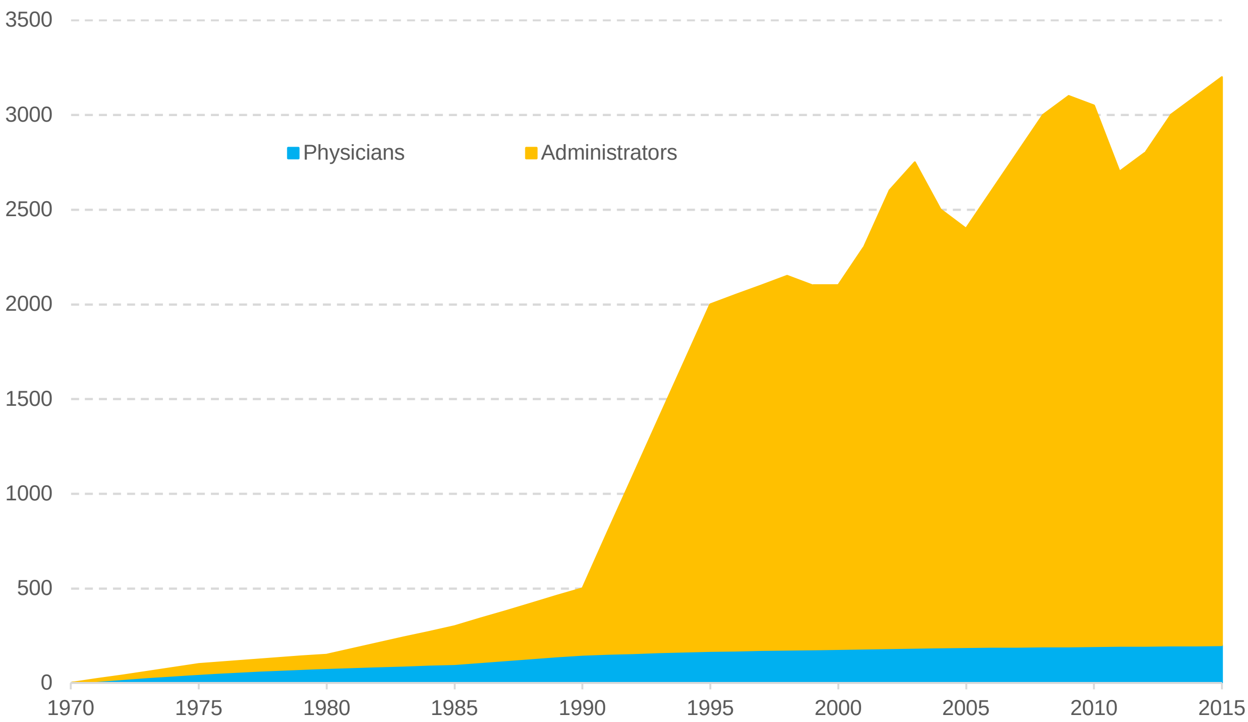
3. Regulation

Regulatory pressures are increasingly playing a part in healthcare M&A. With the costs of maintaining quality control, and adhering to safety and security regulations continuing to rise, many groups are now finding they lack the money, time and resources needed. For smaller players, these compliance costs can sometimes become a significant obstacle to remaining profitable, and hence scale is seen as a means of survival.

Regulation is also prompting deals through the opportunities to access fresh business lines, as governments continue to push healthcare away from their hands, and into the private sectors. In the US we saw the introduction of Obamacare bring new life into the insurance market; as huge volumes of fresh applicants required insurance coverage. In Australia this can be seen in the pressure for general practice centres to join 'rolled-up' corporatised group structures, as standalone GPs struggle against a compliance burden which in some areas has grown more than sixfold over the last decade.

Finally, we would point out that the widely held perception that the private sector is more efficient than government in allocating healthcare resources, is in many cases more myth than reality. For example, the US may in many regards have the most 'free-market' healthcare system, however this has not stopped explosive growth in related bureaucracy and administration (as highlighted in Figure 10). Nor has supposed choice helped cost, where the US system stands out for its lack of control.

Figure 10 - Growth of physicians v administrators in US health sector



Source: PNHP.

4. Break-ups & spin-offs

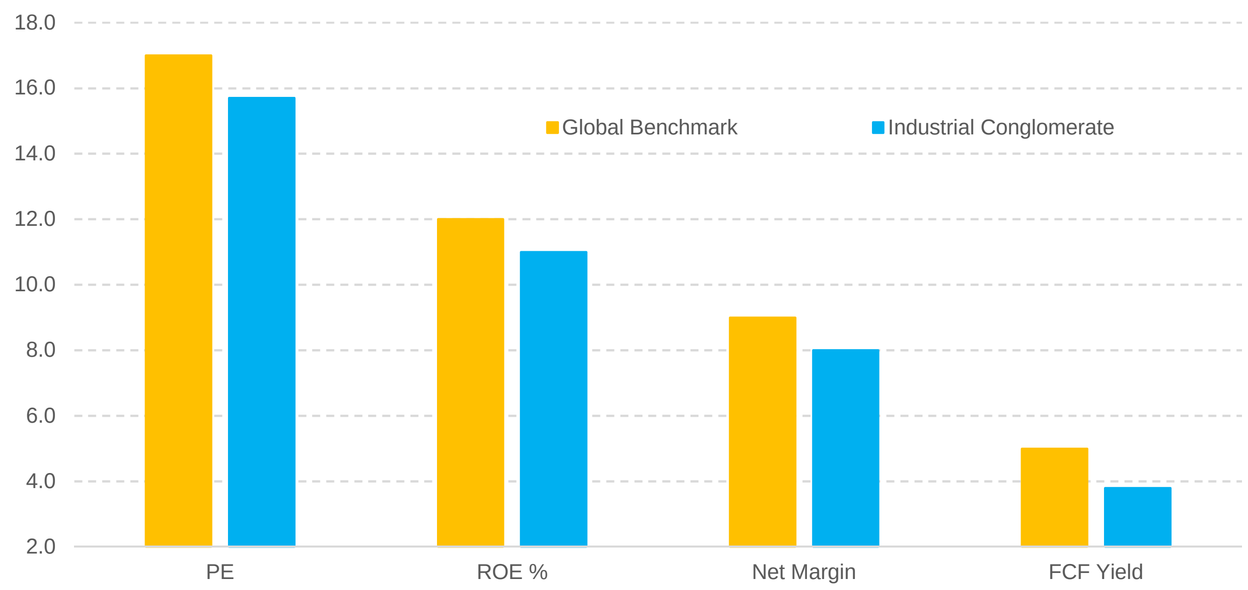
For a long time bankers have promoted break-ups and spin-offs as proactive moves that companies can take to shake investors into more favourably valuing businesses that are either unloved, or misunderstood. Various global surveys are now showing that nine out of ten companies plan to divest assets in the next two years (up from just four out of ten a year ago). We should expect an acceleration in break-up activity across sectors, healthcare included.

Large health assets which have recently been separated from parent groups include German engineering company Siemens, which listed 15% of its healthcare unit, Siemens Healthineers, back in early March for $US5.2 billion. In a similar mould, Pfizer is continuing to assess the possibility of spinning-off or selling its $US10 billion consumer health business. General Electric, the once industrial conglomerate has seen its profits slump over recent years, to the extent that late last year it announced plans for $US20 billion worth of asset sales. In late June, GE's CEO marked the conclusion of his efforts to simplify the company's sprawling structure, by announcing that it would spin off two of its largest divisions, one being its healthcare business.

The break-up of conglomerate type businesses into more defined entities has been shown to receive broad support from investors, whom would much prefer to diversify at the portfolio level. As a group, conglomerates generate weaker margins, are less profitable and trade at lower valuations compared to the global benchmark of listed companies (as highlighted in Figure 11). Furthermore, post a split-out, both the parent and spun-off entity show a valuation increase (as highlighted in Figure 12).

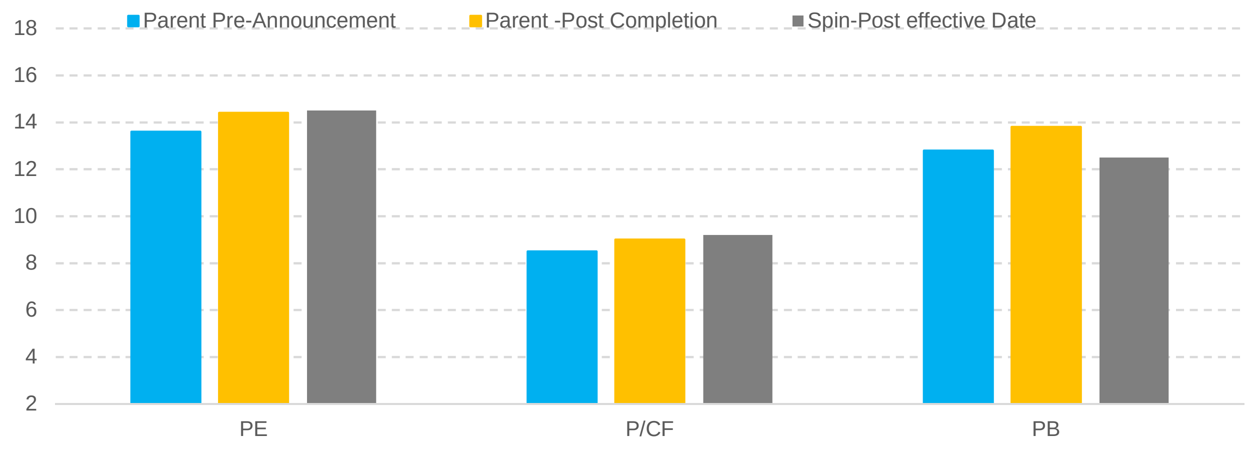
An undeniable risk exists that the current hot deal market could see buyers chasing fewer and fewer high-quality assets, and hence potentially destroying shareholder value by overpaying. But by spinning-off assets from their own portfolio, businesses can tap this strong demand to their own shareholders' benefit.

*Figure 11 - Conglomerate discount vs Peers**



*Source: Citi Research, Factset, S&P, IBES, *MSCI World Universe.*

Figure 12 - Valuation ratios – pre & post spin-off



Source: Citi Research, Factset, S&P, IBES.

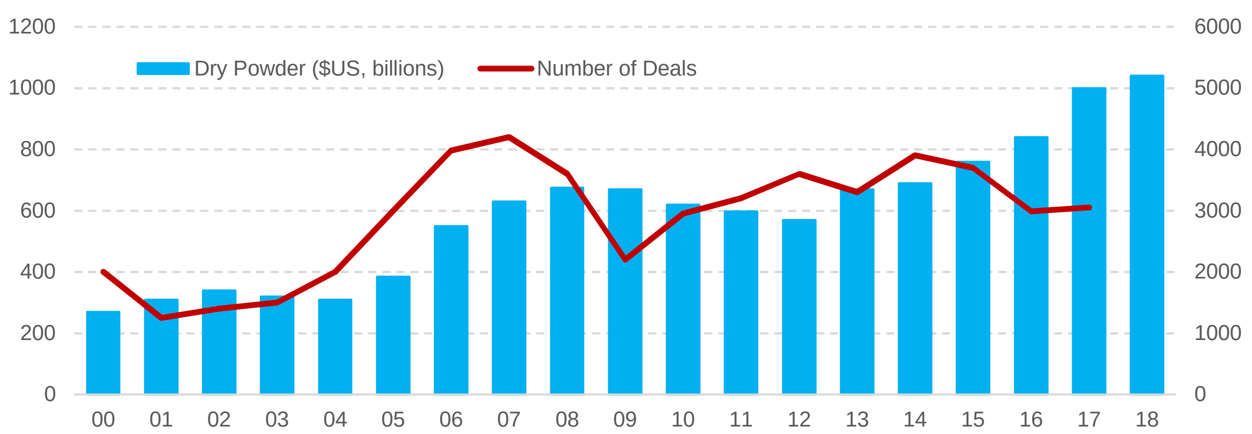
5. 'Cashed-up' private equity funds

The low interest rates which have prevailed through the post global financial crisis years have created quite a headache for investors in their quest to reach expected returns. With the traditional asset classes no longer appearing to pay an adequate yield, institutional investors have been enticed by the premium on offer from many of the alternative asset classes.

Under these conditions, PE funds have been able to attract record amounts of capital, as yield-hungry investors allocate ever higher proportions of their portfolios to the asset class. In 2017 we saw PE funds fundraise $US484 billion globally. This compares to the $US414 billion which was raised back when markets previously peaked in 2007. Funds have also broken new records in terms of the speed at which they have been able to gather assets, now just taking 11 months on average to raise a fund, against the 19 months it took them in 2010, and 13 months in 2007.

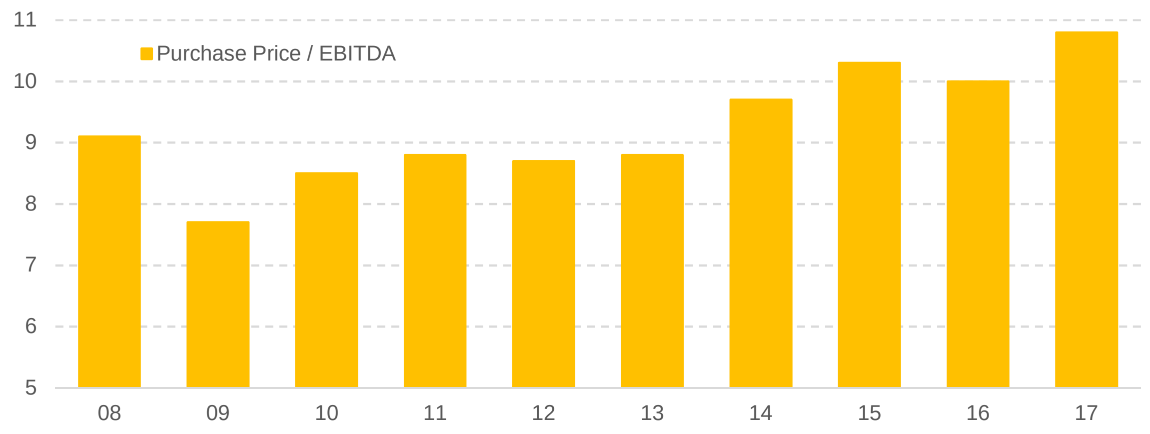
The booming inflows to PE funds has, to an extent, already created a slight problem, with the money essentially coming in faster than the funds have been able to deploy it, such that the amount of unspent cash has now hit record levels. With the funds obviously reluctant to hand money back to investors, and hence give up any management fee, there remains a huge incentive to put this so called 'dry powder' to work, and hence buy assets! These are highlighted in Figure 13 and Figure 14.

Figure 13 – Global PE 'Dry-Powder' vs deal activity



Source: Preqin.

Figure 14 - Buyout purchase price multiples



*Source: Consultancy UK, *average purchase price multiple for US PE transaction.*

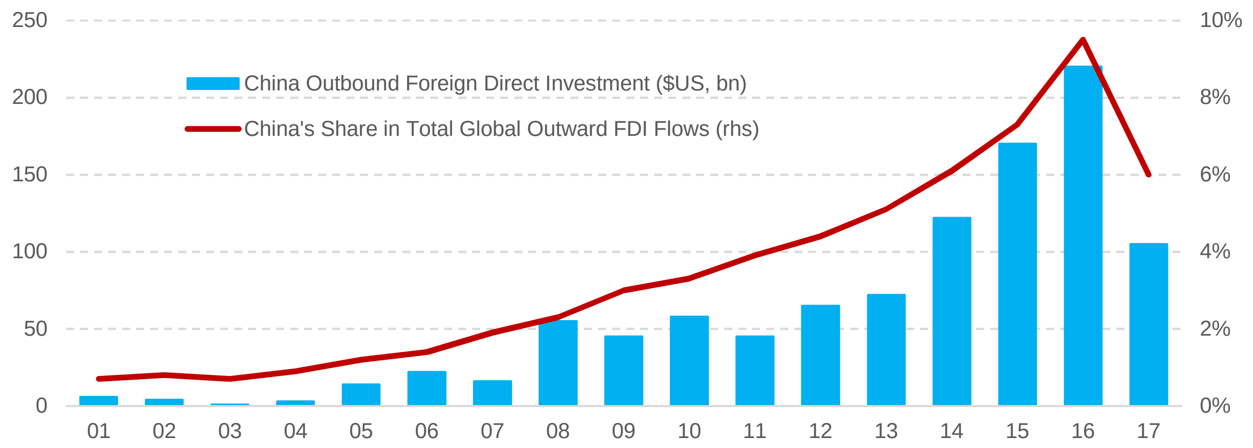
These forces are now prompting private equity firms to search for bigger and bigger deals. In this hunt, we would expect healthcare assets to be particularly attractive, given they are businesses that generally boast strong balance sheets, and generate long-dated and predictable cash flows.

We also highlight the increased interest from property trusts to add health and aged care facilities to their portfolios. Although not PE, this group of investors share similarities through the often leveraged structures they employ, their longer-term investment horizons, preference for predictable cashflows, and the ultimate bundling of real assets into portfolios which can be sold on to investors. Recent actions around Healthscope illustrate this theme, where the company is considering offloading its lucrative real estate holdings in order to ease its stretched balance sheet, and generate returns for shareholders.

6. Chinese outbound M&A

Outbound investment by Chinese corporates is set to keep rising (following the general trend highlighted in Figure 15, with expectations that even against the backdrop of rising global protectionism, we could see up to $US2.5 trillion allocated offshore from China over the next decade.

Figure 15 – Chinese outbound foreign direct investment



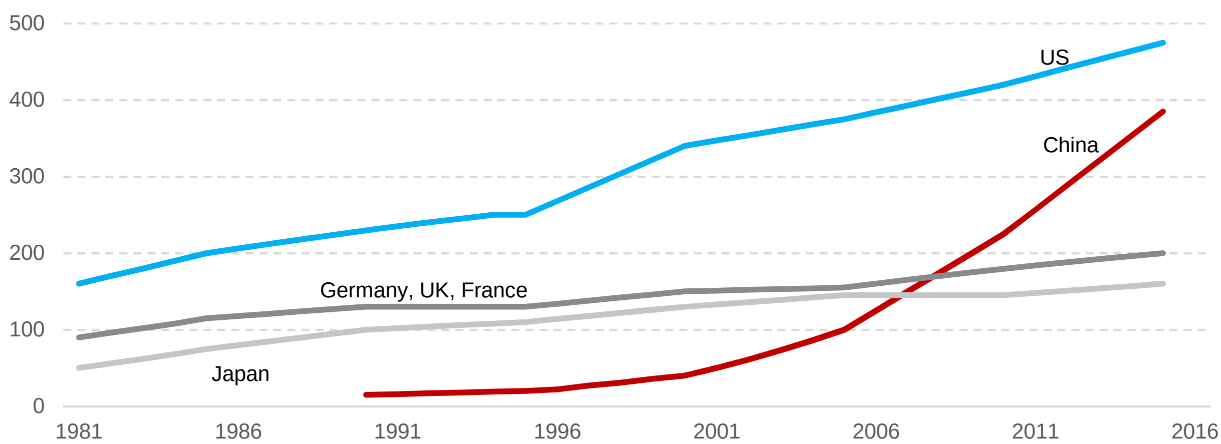
Source: State Administration of Foreign Exchange, CEIC, PRC Ministry of Commerce, UNCTAD.

This suggests that going forward, it is likely for annual totals to consistently beat the record pace which the Chinese set in 2016, before Beijing cracked down on what it deemed 'irrational' deal making.

At the end of 2017, China's State Council issued its clearest guidelines yet outlining the types of deals they would support. The new outbound direct investment framework encourages deals that allow Chinese companies to acquire advanced technologies and strategic assets. By contrast, forays into luxury real estate, entertainment and sports clubs are now discouraged.

More specifically to healthcare, offshore M&A, coupled with coordinated R&D spending, which is on a significant growth trajectory (as highlighted in Figure 16), facilitates China's ambitions to build a western style healthcare system. Through deals, it is hoped that Chinese companies are able to access established R&D facilities, and innovative technologies that would have otherwise been either not possible, or exceedingly costly and time consuming.

Figure 16 – Domestic spending on R&D by country ($US, bn)*

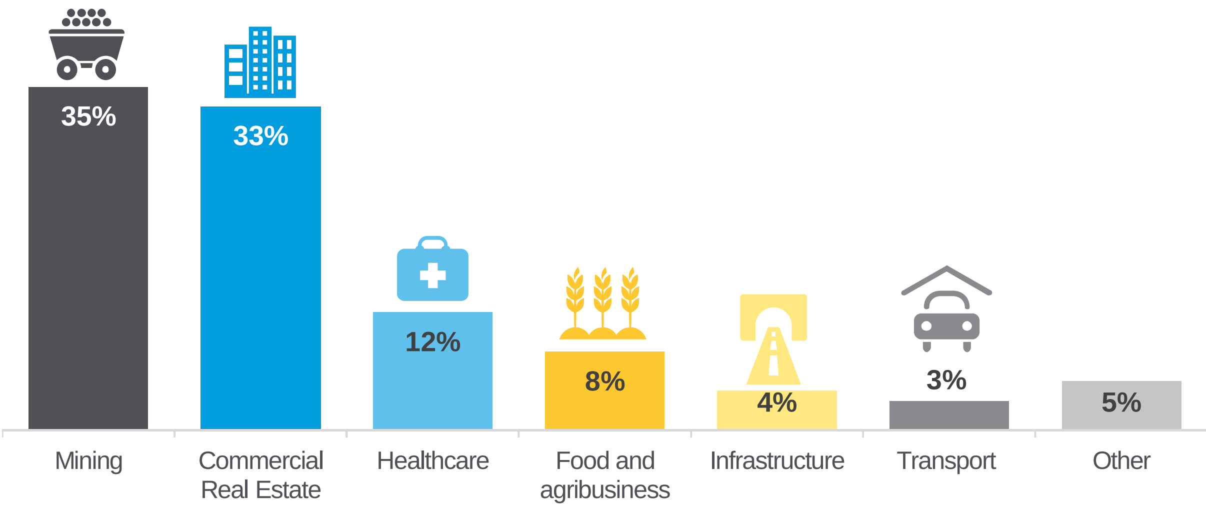


*Source: IMF, * constant price at purchasing power parity.*

As highlighted in Figure 17, Chinese investment into Australian healthcare represents 12% of all of its investment across sectors. Between 2015 and 2017, we saw Chinese groups spend $A5.5 billion on healthcare deals, as they acquired companies spread across:

- The vitamins and nutraceutical sector;
- The healthcare services sector; and
- Specialist medical services such as radiology & imaging, oncology, IVF and ophthalmology.

Figure 17 – Chinese investment into Australia by sector



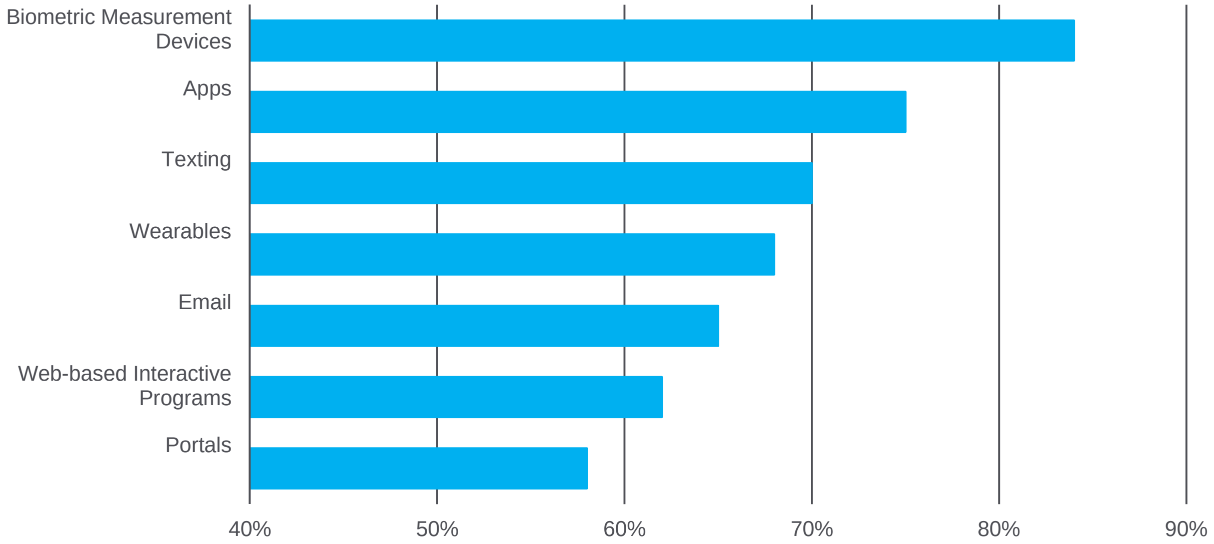
Source: University of Sydney / KPMG 2018

Despite the perception of being a state driven acquisition program, 80% of the Chinese investment into Australia's health sector actually comes from privately owned entities. Australian healthcare businesses are seen as 'high quality', and private sector Chinese buyers. They are also particularly attracted to the companies that are, or can in the future, export their products or services to the Chinese market. Buyers are also keen to access Australia's 'know-how' and experience in managing and running aged care facilities and services; skills which are seen as of particular value in light of China's rapidly ageing population.

7. Global technology majors

With consumer choice and focus becoming more of a driving force in healthcare, organisations are seeking vendor partners with deep experience in consumer behaviour and engagement. As highlighted in Figure 18, technology is starting to have a profound impact on patients' direct care and decentralising the sector more broadly. Particularly relevant in this debate, are solutions which enable patients better means to manage their own health, their health information, and healthcare choices.

Figure 18 – Most effective technologies in engaging with patients in their own care



Source: Massachusetts Medical Society.

Some of the world's largest technology companies have expressed their interest in the healthcare sector, viewing it as a fertile ground where they can deliver actual medical services that measurably help individual patients. The disruptive influence which 'tech majors' can have through the entire healthcare industry is amplified, due to the fact these increasingly dominant companies combine technological superiority with a huge appetite for innovation. At the same time their strong balance sheets give them tolerance for thin margins, and an ability to stick to a long investment horizon.

We know that Alphabet (Google's parent), Apple, Facebook, Amazon and Microsoft (amongst others) are all running internal groups, where medical professionals are employed to look at opportunities in the healthcare space.

In June 2018, Amazon paid $US1 billion to buy US online pharmacy group PillPack. Through this transaction, Amazon instantly gained the ability to ship prescriptions, and compete in the $US400billion US pharmacy business. The impact of the e-commerce group's disruption was clearly illustrated in the share price reactions of industry incumbents, with CVS, Walgreens Boots Alliance and Rite Aid losing over $US11 billion in market value the day after the deal announcement.

What's also being seen is the willingness from tech majors to either buy or form alliances. Amazon also recently illustrated these ambitions in announcing the formation of a not-for-profit healthcare company in conjunction with JPMorgan Chase and Berkshire Hathaway. This joint venture is intent on lowering costs for the trio's almost 1 million employees, and then 'potentially all Americans'.

The avenues in which the tech behemoths can penetrate the health industry are many, however Alphabet and Apple seem best placed currently, given their ability at capturing crucial data from their hundreds of millions of users. Generally speaking however, the paths at which they will follow into healthcare are split between:

- offering services into the incumbent healthcare providers and hospitals; and
- using their existing platforms to connect medical services with patients.

With technology having already irreversibly altered the landscape in once staid and established sectors, such as retail and media, it would be naïve to believe that healthcare is immune from disruption. If anything, the sector should prove a fertile ground for innovation and disruption given the businesses' fragmented and multi-layered structures, and in many instances underwhelming uptake of existing technologies.

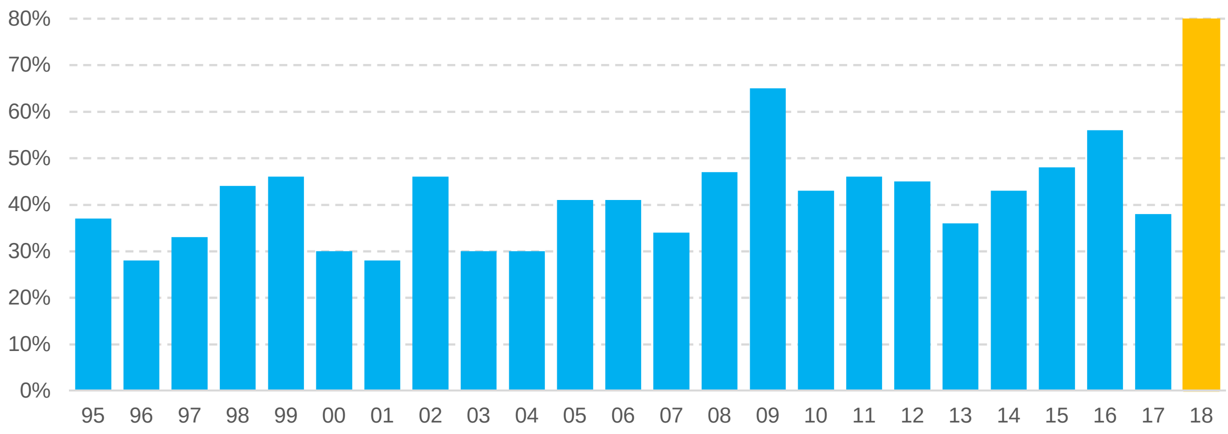
PART D
Challenges and risks

There is no doubt that 'peak cycle' sentiments are currently running through the healthcare M&A space, as evidenced by the increasingly elevated valuations which buyers of healthcare companies are willing to pay.

Data from Dealogic (as highlighted in Figure 19) shows an average premium of 81% on deals so far this year (28% median premium). This represents a sharp step up from previous years, especially 2017, when a 42% premium was typically paid.

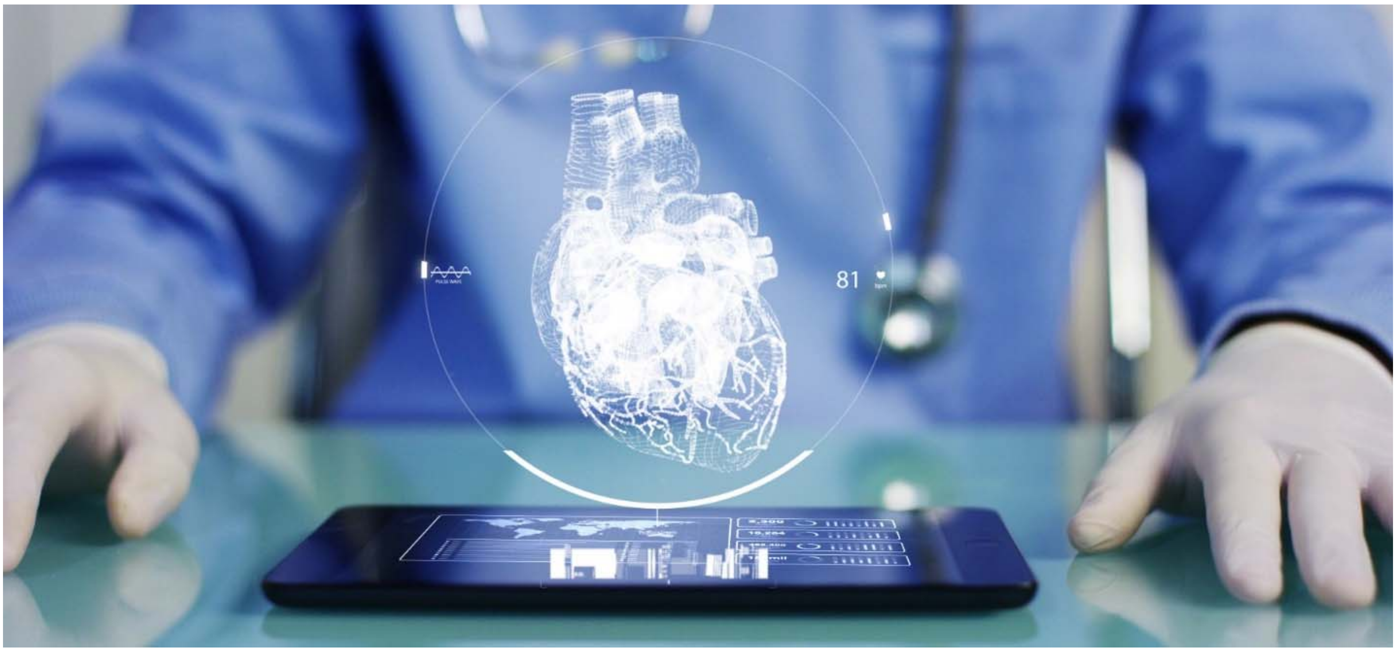
Overpaying for assets through the latter stages of a bull market only becomes obvious once the cycle rolls over, and given we don't know when exactly that will be, we cannot simply conclude that this alone is the signal of a top. History has shown that hot markets can get hotter, and expensive valuations more expensive!

Figure 19 – Global healthcare deal valuation premiums



Source: Dealogic, deals over $100m and acquired stake over 10%.

Beyond valuations, there are numerous other issues which should remind us that the drivers behind healthcare deals are not without risks.

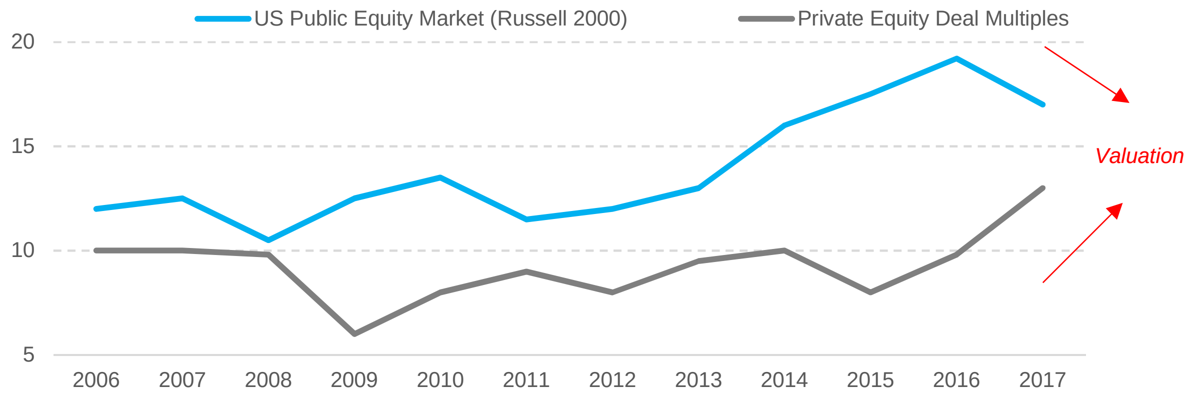


1. Future returns on investment

Interest rates are still very low by all historical standards, and hence debt capital remains extremely cheap. However, the rising pool of unspent private equity fund capital is also worth considering in the context of this mature bull market period we appear to have entered. Through 2017, PE firms raised a record $US453 billion, pushing the amount of unspent PE money, or 'dry powder' to over $US1 trillion for the first time ever. This record war chest has raised concerns that bidding wars could become increasingly common, as fewer attractive assets are left available to motivated buyers.

As PE firms are enticed into buying more expensive assets, future returns for these funds will be pressured downwards. Over recent quarters we have seen the valuation gap between public and private assets converge notably (as highlighted in Figure 20) which pushed down future returns.

Figure 20 – Valuations of public vs private companies (EV / EBITDA)



Source: Boston Consulting Group

2. Increased anti-trust regulatory oversight

Regulatory approval and integration concerns remain the primary obstacles to larger sized deals at the global level. For example, in the US, regulators fear that insurer consolidations and mergers will diminish competition. Worldwide, regulators and analysts fear that large scale multinational mergers (as well as smaller specialism-specific medtech mergers), could reduce the competitive drive to push for quality at a reasonable price, and make it harder for smaller businesses to penetrate the market.

3. Increased oversight of deals with Chinese buyers

The increased number of foreign acquisitions from Chinese buyers has not gone by without friction, bringing a heightened level of scrutiny from governments and regulators. This pressure is coming from both the authorities in China, as well as those in the countries where target companies sit, where regulators have been unwilling to give the green-light on particular deals. Through 2017 we saw increased pressure also coming from Beijing as to what kind of deals they would be willing to approve, with the State Council issuing specific 'guidelines' discouraging the acquisitions of 'trophy' assets, such as hotels and sporting clubs. Approval from their own regulators potentially places Chinese bidders at a disadvantage versus their competitors in a contested bidding process.

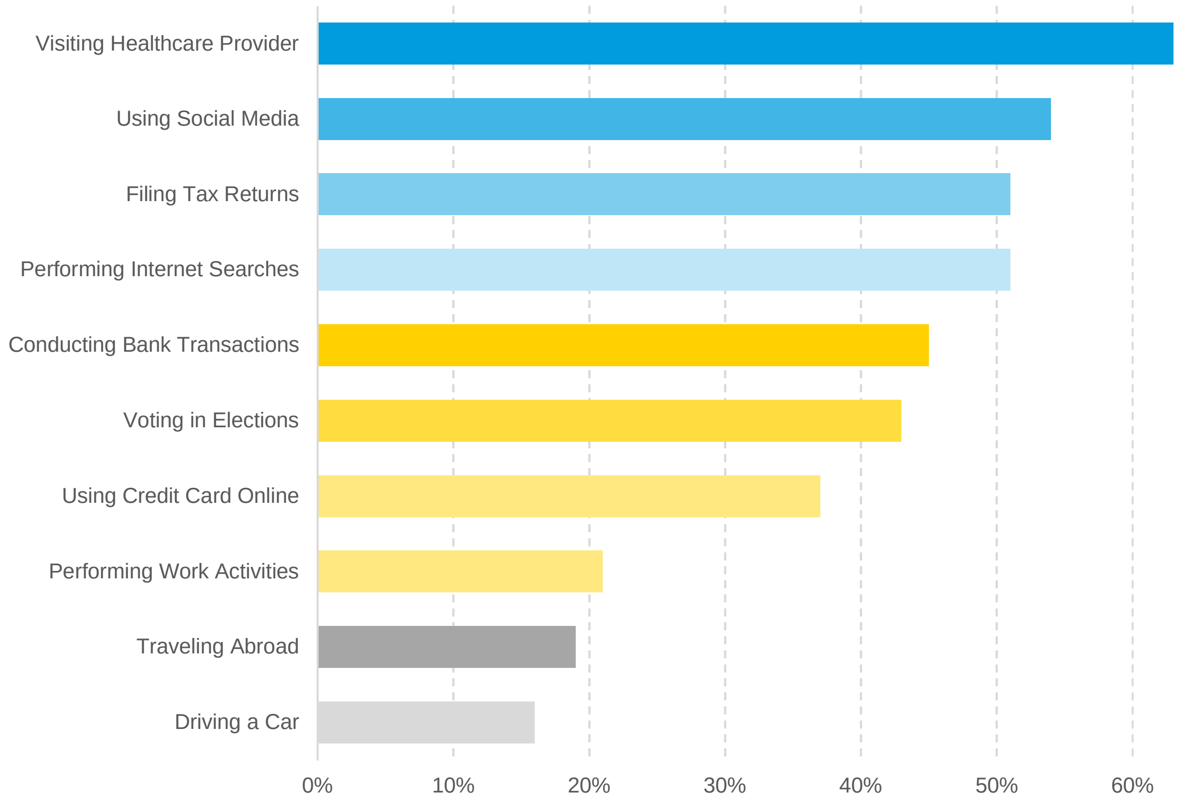
However, the 2017 'guidelines' also outlined that Beijing welcomes deals which meet China's industrial policy objectives, such as the acquisition of advanced technology. Although this sets the scene for a return of Chinese buyers through 2018, we expect the level of Chinese outbound M&A to be occasionally impacted by brief periods of reassessment.

4. Privacy and consumer data concerns

Critics have correctly pointed out that technology firms have previously made moves into the healthcare industry only to fail. The key difference now however is the defining presence which smartphones have become in all our daily lives. Put simply, smartphones have made the capture of all important patient data possible, in a way that would have been inconceivable just a decade ago.

As highlighted in Figure 21, numerous studies have shown that consumer concerns on privacy and security are highest on healthcare related matters. With Facebook recently coming under heavy criticism due to its mishandling of user data, moves by the tech majors into health will face unprecedented ethical challenges and scrutiny.

Figure 21 – When is your privacy and security most important to you?



Source: Ponemon Institute.

PART E

Observations and lessons learnt from recent global deals

Shifting attention to specific international transactions in healthcare, we are able to gain perspectives on how these previously mentioned 'top-down' drivers and challenges are guiding transactions.

More specifically, in this Part we gain insights into: (a) trends originating in the US around the shifts from how to where patients get medical care, and ways providers are looking to reduce costs; and (b) how we should interpret the increased level of interest from Chinese buyers.

1. Megadeals are gaining pace!

Speculation that a new wave of big pharma deals could be building was confirmed in late April, when Japan's **Takeda Pharmaceutical** offered £GB46 billion ($A81 billion) to buy Irish drug maker **Shire**. The offer from Takeda represented a 59.6% premium to Shire's closing price before the Japanese group revealed its stake in the company. The takeover of Shire, will be the 13th largest acquisition of all time, and the largest ever foreign acquisition by a Japanese company. Takeda believes that this transaction will be necessary in the company's efforts to become a truly global pharma company, and able to compete with the global majors.

2. US healthcare is shifting from how patients get medical care to where

Pressures are building to divert patients away from hospitals, and toward clinics, doctors' offices, surgery centres and even pharmacies. The shift in power from healthcare companies looking to drive down costs and change how and where patients get care, was evidenced in **CVS Health Corp's** $US69 billion ($A90 billion at the time) acquisition of **Aetna**, where it wants patients to stay out of emergency rooms, and instead seek assistance at revamped drugstores. Similarly, **UnitedHealth's** purchase of DaVita's doctor group follows a strategy of moving into owning physician practices, clinics and outpatient surgery centres.

3. Mergers in the US are also being driven by a 'value-based care' model and a need to attain technology and analytic capabilities

In last year's tie up between **Reliant Medical Group** and **Optum Health**, Reliant officials said in a release that aligning with Optum would allow the group to better access advanced data analytics.
The driving force behind this theme is the move to 'value-based care', that is, instead of being paid by the number of visits and tests they order (fee-for-service), providers' payments are now being based on the value of care they deliver (value-based care). This trend for better care at a lower cost will continue, yet financial penalties and lower reimbursements create a significant financial burden to those healthcare providers whom are unable to adequately capture and report correctly.

4. Insurers are also buying US health providers as a means of cutting costs

Humana's shift into caregiving by way of acquiring a 40% stake in **Kindred at Home** (a business which contains 40,000 caregivers that serve 130,000 patients daily) shows a desire to use Kindred's health providers to improve health outcomes and save costs.

5. US aged care assets are attracting the attention of a wide group of potential buyers

For example, it was reported that in last year's potential sale of NYSE listed aged care operator **Brookdale Senior Living Inc** to China's **Zhonghong Zhuoye Group**, the **Blackstone Group**, and real estate investment trust **Ventas**, were also interested in buying some, or all, of Brookdale at one point.

6. Chinese authorities are watching spending abroad

For example, the **Brookdale Senior Living Inc** sale to **Zhonghong Zhuoye Group** fell through during a phase when Chinese regulators increased their opposition to offshore acquisitions, and Chinese banks were forced to reconsider risks to foreign investments. Since June 2017, Chinese regulators have increased the level of scrutiny on outbound acquisitions, leading to a slowdown in deal making.

7. How 'comfortable' will US authorities be to Chinese ownership of US healthcare assets?

Given the apparent escalation of a 'trade war' between China and the US, and the increased political intervention in sensitive sectors such as technology and telecommunications, there are ongoing questions as to exactly how US regulators would react to a Chinese company controlling any large stake of a business which is a key part of the US healthcare system.

8. Chinese buyers generally maintain existing leadership

However, if the business purchased is consider to have an 'underperforming' management team, changes would be more likely.

9. Chinese investment focus is changing

Traditionally, prospective Chinese buyers have focused on healthcare services companies. This is evidenced in Australia by Hengkang Medical's acquisition of PRP Diagnostic Imaging and the sales processes of GenesisCare and Icon Cancer Care. However, **CDH Investment's** acquisition of **Sirtex Medical** is framed on the actual ownership of Sirtex's intellectual property which could be sold as a drug.

PART F

Australian healthcare M&A activity

Since 2007, there have been $A48 billion of healthcare M&A transactions where an Australian firm has been the transaction target.

As further highlighted by Figure 22, target firms have been mainly in the pharmaceuticals and healthcare facilities and services sub-sectors, which account for $A41 billion of these deals. The average deal size is higher in these sub-sectors than others, with the average size of facilities transactions ($A57.1 million) and pharmaceuticals ($A44.2 million) around double the average value in most of the other sub-sectors.

Figure 22 – M&A deals since 2007 by target sector

Sector	Deal Size ($Am)	Deals (No.)	Average Deal Size ($Am)
Advanced Medical Equipment	164	13	12.6
Biotechnology & Medical Research	4,511	94	48.0
Drug Retailers	25	1	25.0
Generic and Specialty Pharmaceuticals	12,688	287	44.2
Healthcare Facilities & Services	29,615	519	57.1
Managed Healthcare	25	5	5.0
Medical Equipment, Supplies & Distribution	972	146	6.7
Total:	**48,000**	**1,065**	**45.1**

Source: Thomson Reuters. Excludes non-profit organisations.

Figure 23 highlights that Australian acquirers have participated in healthcare M&A transactions, with around $A38 billion of assets bought. Unsurprisingly, healthcare firms are the dominant acquirers, with $A21 billion in assets bought in 786 transactions. However, the average size of assets acquired by Australian firms ($A27 million is significantly less than the average size of Australian assets bought).

It's also worth noting that Australian financial organisations have acquired around 1/3 of all healthcare industry assets where there has been an Australian acquirer over this period. Most of these transactions have been completed by private equity funds.

*Figure 23 – M&A deals since 2007 by Australian acquirers (by sector) **

Sector	Deal Size ($Am)	Deals (No.)	Average Deal Size ($Am)
Basic Materials	1,277	27	47.3
Cyclical Consumer Goods & Services	669	19	35.2
Energy	13	3	4.3
Financials	10,976	252	43.6
Healthcare	21,462	786	27.3
Industrials	881	39	22.6
Non-cyclical Consumer Goods & Services	476	20	23.8
Technology	80	13	6.2
Telco services	16	5	3.2
Total:	**37,659**	**1,012**	**37.2**

Source: Thomson Reuters. Excludes non-profit organisations (as at 2017)

Looking at capital structure, we find that the gearing multiples of target firms has varied widely over the past 10 years. However, leverage seems to be far higher in facilities and services (6.50) than pharmaceuticals (0.95), with both of these sectors accounting for around 70% of all transactions. These are highlighted in Figure 24.

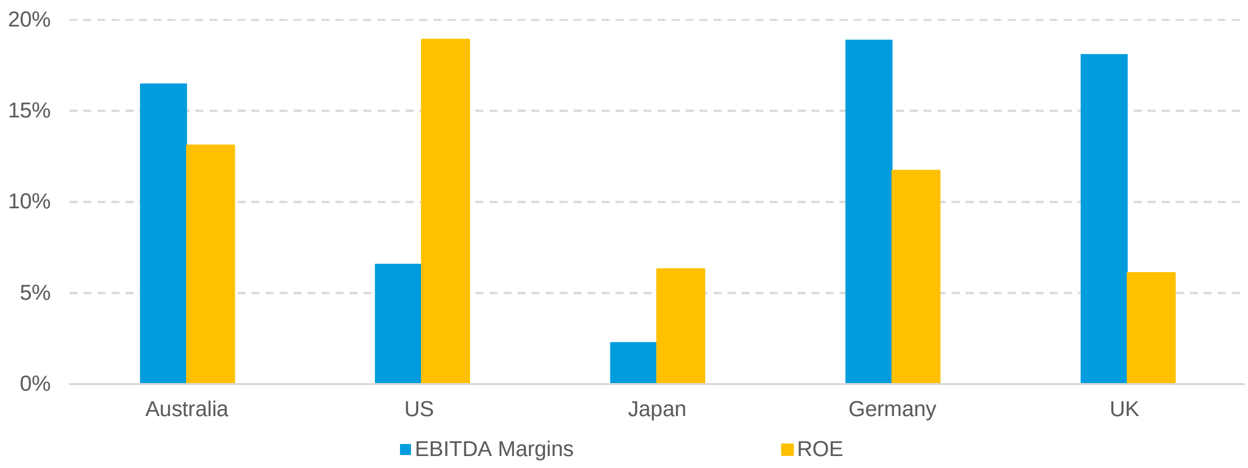
*Figure 24 – M&A deals since 2007 by target sector**

Sector	Total Net Debt ($Am)	Total EBITDA ($Am)	Net Debt: EBITDA
Advanced Medical Equipment	-3	-6	0.45
Biotechnology & Medical Research	-343	-183	1.88
Generic and Specialty Pharmaceuticals	3,300	3,465	0.95
Healthcare Facilities & Services	12,864	1,978	6.50
Managed Healthcare	32	10	3.39
Medical Equipment, Supplies & Distribution	47	102	0.46
Total:	**15,897**	**5,366**	**2.96**

Source: Thomson Reuters. Excludes non-profit organisations (as at 2017)

Finally, we would point out that various barriers to entry and insufficient competition have allowed the Australian healthcare sector to maintain abnormally high margins and levels of profitability. It follows that the excess rents which this industry is able to charge should continue to attract large allocations of capital investment, and with it deal making activity. This is highlighted in Figure 25.

*Figure 25 – Healthcare sector margins & ROE**



*Source: IBES, MSCI, *EBITDA margins & ROE relate to listed sector only*

PART G

Australian deal opportunities

We expect the positive sentiments behind global healthcare M&A to keep feeding through to the Australian market. Domestically, the most intense areas of deal activity are likely to remain focused on the aged care and radiology / imaging fields. Other areas where interest has been building include home care, day hospitals, retail pharmacy, dental, fertility and cosmetics.

Buying parties are likely to be either industry leaders looking to access additional growth, Chinese companies after skills technology and 'know-how', or private equity groups which are drawn to healthcare's predictable cashflows. On the sale side, investors' general dislike of conglomerate structures could see break-ups and spin-offs, while rich valuations and perceptions that the bull market could be ending, may entice PE firms to exit some holdings. Below we highlight potential transactions (noting that the data provided is from 30 June 2018).

POTENTIAL DEAL TARGETS IN AUSTRALIA

Healthscope (ASX:HSO)

- **Business Model:**

  Healthscope has the second largest private hospital portfolio in Australia (behind Ramsay), with the hospitals business generating slightly over 80% of group earnings. Pathology operations in New Zealand, Malaysia and Singapore make up the rest of Healthscope's business. It operates 45 private hospitals, which include 32 acute hospitals, 7 mental health hospitals, and 6 rehabilitation hospitals with approximately 5,000 inpatient beds. The growth profile of all of these operations is supported by an ageing and growing population. The company was formerly known as Healthscope Hospitals Holdings Pty. Ltd. and changed its name to Healthscope Limited in July 2014. Healthscope Limited was founded in 1985 and is based in Melbourne, Australia.

- **Deal Drivers:**

  For acquirers, Healthscope's key assets are the lucrative hospital sites it owns, previously estimated to be worth $A1.2 billion. Before Healthscope's IPO in 2014, private equity owners TPG Capital and The Carlyle Group were contemplating a sale of the real estate assets separately, and ran a process through UBS. But they opted to take the company to market as a whole. A general view from the market is that Healthscope remains a target on the basis of its share price remaining around or under $A2. As a comparison, the company debuted on the ASX in July 2014 at $A2.10 per share. Reflecting this takeover appeal, shares in Healthscope jumped above $A2.30 on April 26, after the company said it was assessing a $A3.1 billion takeover offer from a consortium led by private equity firm BGH Capital Fund. The Healthscope board, denied due diligence access given the highly conditional bids of $A2.36 per share from BGH Capital-AustralianSuper consortium and a $A2.50 per share offer from Brookfield Asset Management. The board stated that the bids undervalued the business (after flagging expectations of an improved performance next year), and the value of its major Northern Beaches Hospital, as well as returns from its brownfield investment program. The board announced that it is exploring a sale and leaseback of its property portfolio, which some commentators believe will force potential suitors to increase their bids.

Primary Health Care (ASX:PRY)

- **Business Model:**

  Primary Health Care Limited provides various services and facilities to general practitioners, radiologists, and other healthcare providers in Australia. It operates through three segments: Medical Centres (where it is Australia's largest operator) Pathology (number 2 in Australia) and Imaging (number 3 in Australia). The company operates 71 medical centres, 107 pathology labs, 2,207 collection centres, and 141 diagnostic imaging sites. The company continues to expand its geographic footprint in the medical centre space. Primary Health Care Limited was incorporated in 1994 and is headquartered in St Leonards, Australia.

- **Deal Drivers:**

  Primary has been subject to takeover rumours for the last 2 years. The company has struggled to turn around performance in its medical centre divisions, where growth has disappointed over recent years as it has faced challenges in contracting doctors. As a reflection of the disappointment and pressures the group is subject to, the stock price currently sits 25% below where it traded 5 years ago, and more than 60% below its early 2007 high. Through 2016 there was heavy speculation running through the market that China's Jangho Group (whom was already building up its holding on Primary's share registry) was contemplating a takeover, in attempts to gain a foothold in Australia, as well as provide a model for growth in its domestic market. With Jangho now effectively owning a blocking stake, Primary may instead be enticed to sell its highly valued radiology business, particularly in light of the attractive multiples which have been realised in the sector recently.

Integral Diagnostics (ASX:IDX)

- **Business Model:**

  Integral Diagnostics Limited, a healthcare services company, provides diagnostic imaging services to general practitioners, medical specialists, and allied health professionals and their patients in Australia. The company provides its services through a network of 45 sites, including 12 hospital sites under the Lake Imaging, South Coast Radiology, and Global Diagnostics brands in Victoria, Queensland, and Western Australia. Integral Diagnostics Limited is headquartered in North Melbourne, Australia.

- **Deal Drivers:**

  Despite the share price having more than doubled over the last 12 months, Integral's market cap of $A440 million makes it a prime target for others looking to build, or consolidate, a position in the radiology business. In late November, Capitol Health Ltd (ASX:CAJ), made an off-market takeover offer, which represented a 30% premium to Integrals' share price at the time. Integral has since advised its shareholders to reject the offer, citing it as 'opportunistic', and questioning the underlying value of Capitol's scrip, and the group's ability to run their business. Although this deal is now effectively dead, any future suitors would need to be highly motivated given the proven difficulties in gaining the support of doctors.

Japara Healthcare (ASX:JHC)

- **Business Model:**

  Japara Healthcare Limited, together with its subsidiaries, owns, develops, and operates residential aged care facilities in Australia. It operates approximately 4,900 resident places across 43 facilities located in Victoria, New South Wales, Queensland, South Australia, and Tasmania; and 180 independent living units across five retirement villages. The company was founded in 2005 and is based in Southbank, Australia.

- **Deal Drivers:**

  Given Japara's modest size (market cap roughly $A500 million) and weak share price, the group sits as a prime target to other groups looking to build exposure in the aged care space. As recently as October last year, investment bank Moelis made a raid on Japara, such that it now owns roughly 6% of the company. Speculation is that Moelis could be embarking on a merger deal between its own healthcare interests and Japara Healthcare. Japara's shares price remains under pressure, trading under $A2 for most of the last six months. This sits at a slight discount to its 2014 initial public offering price of $A2 a share.

Estia Health (ASX:EHE)

- **Business Model:**

  Estia Health Limited engages in the development and operation of owned and leased residential aged care homes in Australia. It has 68 facilities in 5,910 operating places in Victoria, South Australia, New South Wales, and Queensland. The company was founded in 2005 and is based in Camberwell, Australia.

- **Deal Drivers:**

  As is the case with many businesses in the aged care sector, Estia's real estate assets are of most interest to potential buyers. In April 2017, Estia Health acknowledged a planned takeover proposal from a subsidiary of property investment group Sentinel Portfolio Management. Australian-based Sentinel, is a private company that primarily invests in regional shopping centres. Among the terms it laid out, was an assertion it would claim a controlling position in Estia before offloading the operating business of 60 of the target's 68 sites for $A300 million. Sentinel would seemingly retain ownership of the property of those 60 sites, earning money through a leaseback agreement with the unnamed aged care operator. Estia Health has a market cap of around $A870 million, and although its share price is up 10% over the last 12 months, it still sits roughly 40% below its December 2014 IPO price.

Regis Healthcare (ASX:REG)

- **Business Model:**

  Regis Healthcare Limited provides residential aged care services in Australia. The company operates through Queensland, New South Wales, Victoria, South Australia/Northern Territory, and Western Australia segments. It offers home care services; aged care services, such as ageing in place care, dementia care, palliative care, respite care, and transitional care. As of June 30, 2017, it owned and operated 54 aged care facilities comprising retirement and independent living villages. The company was formerly known as Fairway Investment Holdings Pty Ltd. and changed its name to Regis Healthcare Limited in September 2014. Regis Healthcare Limited is based in Armadale, Australia.

- **Deal Drivers:**

  As is the case with both Estia and Japara, Regis is another business operating in the supposedly robust aged care market, but where share price returns suggest a tougher story. With a market capitalisation of $A1.0 billion, it possibly not as easily digestible as either Estia or Japara, however it is suffering similar share price woes, currently more than 25% down from where it was trading just 2 years ago. The share price is still very slightly up on its October 2014 IPO price.

THE POTENTIAL ACQUIRERS

Ramsay Healthcare (ASX:RHC)

- **Business Model:**

  Ramsay Health Care Limited provides healthcare services to public and private patients. The company's healthcare services comprise day surgery procedures and complex surgeries, as well as psychiatric care and rehabilitation services. It operates approximately 235 hospitals and day surgery facilities with approximately 25,000 beds in Australia, the United Kingdom, France, Indonesia, Malaysia, and Italy. The company was founded in 1964 and is based in Sydney, Australia.

- **Deal Drivers:**

  Ramsay has long followed a 'growth by acquisition' model, with this now overwhelmingly being offshore focused. The existing management team has nominated the German and Scandinavian markets as looking most attractive in terms of new acquisitions, and has not ruled out deals in the US market once they feel more comfortable with the domestic political / healthcare situations. A view amongst equity analysts whom cover Ramsay, is that given the company's recent debt refinance and declining leverage, it could easily stomach a $A1 billion deal. With a market capitalisation of over $A11 billion, Ramsay has a dominant position in its market, and has rewarded shareholders handsomely over the years, with the stock price up six-fold over the last 10 years.

Moelis Australia (ASX:MOE)

- **Business Model:**

  Moelis Australia Limited, together with its subsidiaries, provides various financial services in Australia. It operates in two segments, Corporate Advisory & Equities and Asset Management. The company offers strategic and financial advisory services related to mergers and acquisitions; equity capital markets, including initial public offerings and capital rising; debt capital markets; restructuring and recapitalizations; and other corporate matters, as well as underwriting and institutional stockbroking services. Moelis Australia Limited was founded in 2010 and is based in Sydney, Australia.

- **Deal Drivers:**

  In recently creating The Moelis Aged Care Fund, Moelis will seek co-investors, whilst still retaining a stake of no less than 10 per cent in the acquired businesses itself. The fund is targeting a 20 per cent per annual total return to third party investors over four years. Moelis could be embarking on a merger deal between its own healthcare interests and Japara Healthcare after a raid on the stock in late October 2017. This action followed Moelis Australia's September 2017 acquisition of a 70% interest in aged care operator and developer Infinite Care.

Capitol Health (ASX:CAJ)

- **Business Model:**

  Capitol Health Limited provides diagnostic imaging services to the healthcare market in Australia. The company owns and operates clinics in Victoria and New South Wales. It offers a range of diagnostic imaging services, including general x-ray, magnetic resonance imaging, ultrasound, mammography, Doppler, orthopantogram, echocardiography, computed tomography, CT angiography, cone beam CT, nuclear medicine, bone densitometry, and fluoroscopy services. Capitol Health Limited was founded in 2006 and is headquartered in Melbourne, Australia.

- **Deal Drivers:**

  A view in the market is that with Capitol Health having now restructured and recapitalised, significant progress has been made in stabilising its business. With this, attention of management will now most likely turn to searching for deals. The company's strong balance sheet, and comfortable gearing, provides it with roughly $A80 million of capital able to be used for M&A transactions.

PRIVATE EQUITY SALES

National Dental Care

- **Business Model:**

  National Dental Care Pty Ltd provides dental care services. The company was incorporated in 2012 and is based Brisbane, Australia.

- **Deal Drivers:**

  The business has been owned by PE firm Crescent Capital Partners since 2013. Of the 7000 dental practices around Australia, less than 1,000 of these are owned by corporate entities, with the rest remaining independent. Clearly much more corporatisation of this space remains. Crescent Capital Partners have now owned National Dental Care for over 4 years, and hence must be aware that an 'exit date' is approaching, given PE deals are typically modelled on an exit after 3-5 years. Actions abroad also suggest the appetite for rolled-up dental operations remains robust, with Los Angeles based West Coast Dental Services, entering into an exclusivity agreement to be acquired by a third party back in early 2017. Sources in the media suggest that West Coast Dental received strong indications of interest during the first round of its sale process.

  However, with the share prices of listed competitors 1300 Smiles, and Pacific Smiles having both struggled the last two years, the PE owners of National Dental Care may be tempted to delay a listing, until more favourable sentiments return to the sector.

Sun Doctors

- **Business Model:**

  Sun Doctors came about in 2015 after the amalgamation of Southern Sun, SolarDerm and SolarHealth skin cancer clinics. It has since added Molescan and Skin Scan skin cancer clinics to its network across New South Wales, Queensland, Victoria and South Australia. Sun Doctors skin cancer clinics are staffed by highly trained medical professionals with a focus on customer service and supported by specialist diagnostic pathology services. They use the latest technology, with the capability to perform computerised analysis of moles and other sunspots. The computer analysis assists with the diagnosis and management decision-making process.

- **Deal Drivers:**

  The business has been owned by PE firm Crescent Capital Partners since 2014.

PAFtec

- **Business Model:**

  PAFtec Pty Limited manufactures and distributes active protection masks for protection against air pollution and airborne diseases. The company was incorporated in 2011 and is based in Chatswood, Australia.

- **Deal Drivers:**

  The business has been owned by PE firm CVC since 2015.

Home Care Holdings

- **Business Model:**

  Home Care Holdings is a diversified, multidisciplinary community care provider to offer unique value through innovative models of support and care for clients in the deregulated sectors of Home Care, Injury Rehabilitation & Wellness, community based Clinical Care (Nursing & Allied Health) and Disability. In its initial stage Home Care Holdings incorporated a Home Care business (St Ives Home Care) and an Allied Health business (Injury Treatment Pty Ltd). St Ives Home Care provides services to a growing number of clients who chose to stay in their own homes as they age providing piece of mind, not only for the clients but also their families. Over 500 dedicated staff around Australia provide a range of services from personal support through to assistance with healthcare and medications.

- **Deal Drivers:**

  The business has been under PE ownership by Quadrant and QIC since just 2016, and with the Home Care Holdings portfolio still making acquisitions (as evidenced in October 2017 with the purchase of a stake in NSW Central Coast home care provider Sue Mann) an IPO would still seem to be a while off. Expect Quadrant to take further advantage of industry consolidation, as charities and church backed groups continue to split their aged care / retirement villages, from their home care operations.

Estia Health

- **Business Model:**

  Estia Health Limited engages in the development and operation of owned and leased residential aged care homes in Australia. It has 68 facilities in 5,910 operating places in Victoria, South Australia, New South Wales, and Queensland. The company was founded in 2005 and is based in Camberwell, Australia.

- **Deal Drivers:**

  Even though the business was re-listed on the ASX in 2014, PE firm Permira, continues to hold a 17% in the listed entity.

Others

We also note that PE has recently acquired a number of other assets such as Icon Cancer Care, iNova Pharmaceuticals, Qscan, Laser Clinics Australia and I-MED. It may be too early for any exits of these assets, but it is worth noting their potential divestments in years to come.

Similarly, there has been significant activity in the last five years in the vitamins and nutraceuticals sub-sector, with Vitaco, Suisse and Nature's Care all being acquired by Chinese buyers. Blackmores Limited and other smaller companies in the sub-sector, such as Probiotec, Star Combo Pharma and Vita Life Sciences, as well as infant formula providers such as ViPlus, are expected to continue to be attractive targets for foreign investors.

PART H

About MinterEllison

MinterEllison is an international law firm, headquartered in Australia and regarded as one of the Asia-Pacific's premier law firms.

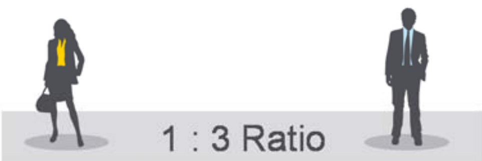
MinterEllison

established **1827**

GLOBALLY

250+ Partners

950+ Legal Talent



TOP RANKED ASIA PACIFIC CHAMBERS AND PARTNERS 2018

Acritas ASIA PACIFIC LAW FIRM BRAND INDEX 2018

15
Offices worldwide including 8 Australian offices providing full national coverage

1,786
Total staff including 1,034 legal talent and 201 partners

1st
Most ranked practice areas in Australia in Chambers Asia-Pacific 2017 ranking

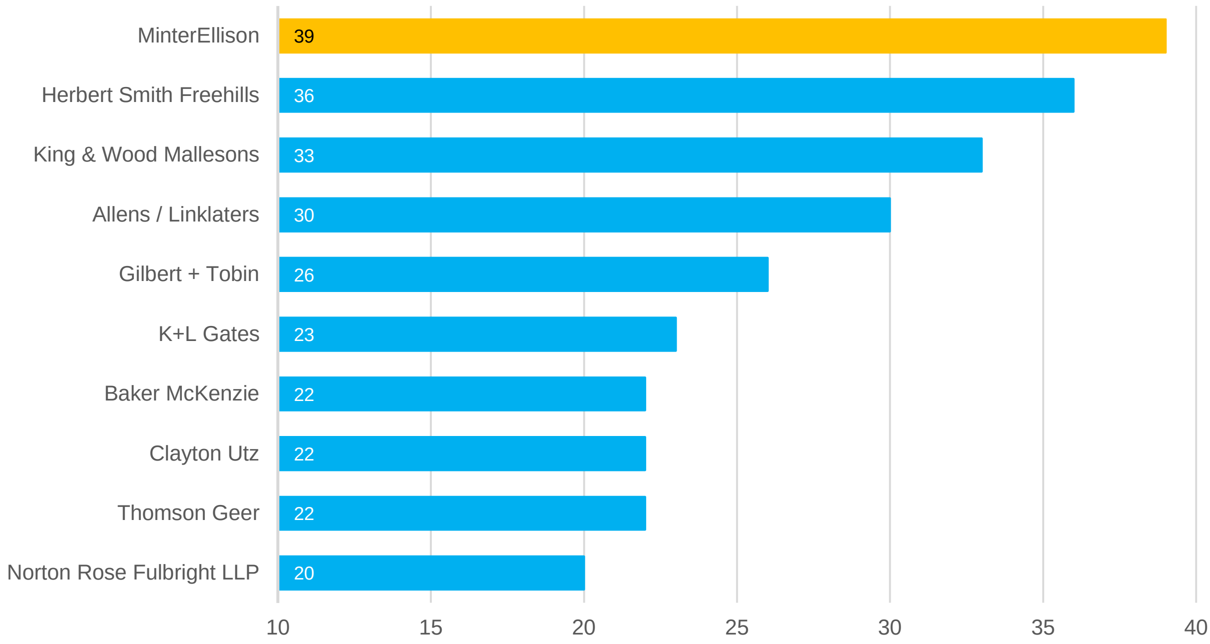
6.5%
Year on year growth

$A 43b+
Market value of **M&A transactions** we advised on in FY17

$A 482b+
Market value of **infrastructure projects** we advised on in FY17

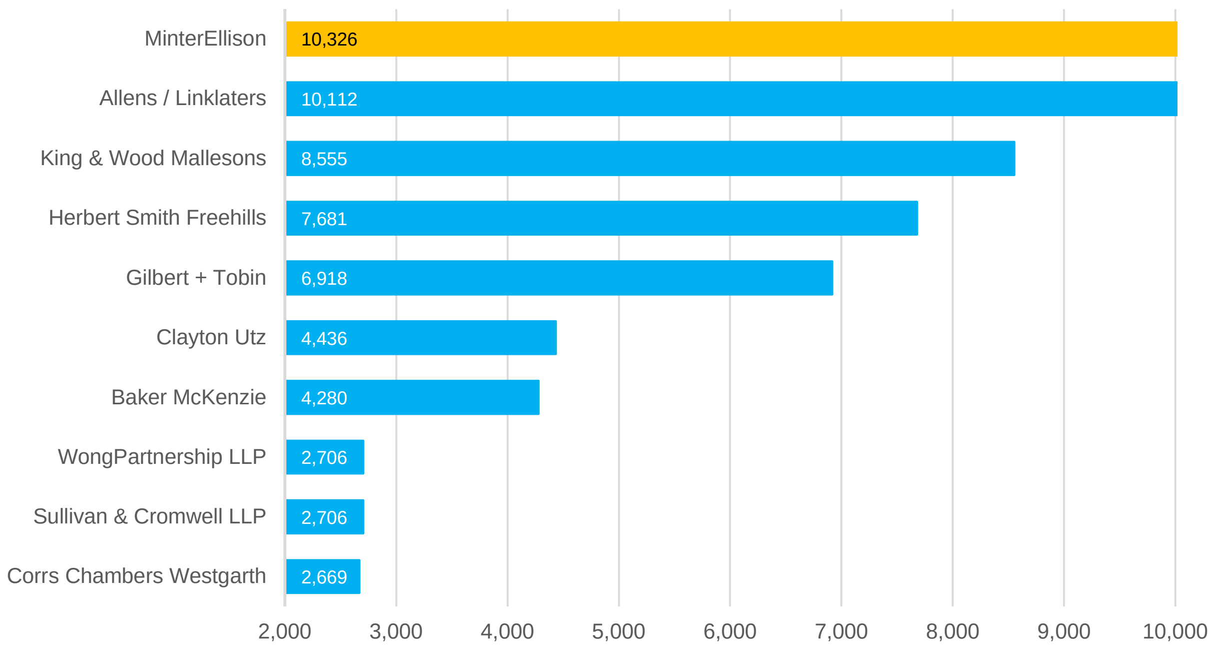
The firm is a leading adviser in the Australian healthcare sector. Over the last 10 years, we have advised on 39 healthcare M&A transactions valued $A10.326 billion split across sell-side / target roles and buy-side roles. This is more than any other legal adviser in Australia.

Figure 26 – League table of legal advisers in Australian healthcare M&A over the last 10 years (since 1 July 2008) – By volume



Source: MergerMarket.

Figure 27 – League table of legal advisers in Australian healthcare M&A over the last 10 years (1 July 2008) – By value ($A bn)



Source: MergerMarket.

Contact us

Shane Evans
Team Leader – Health

+61 7 3119 6450

Email | Bio

Victoria Allen
Deals Chair

+61 2 9921 4567

Email | Bio

Notes

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