

CONFIDENTIAL

Private Equity outlook in Healthcare

Dr. Leonid Shapiro, MD PhD
Managing Partner and Founder
lshapiro@candesic.com
M: (07768)773991

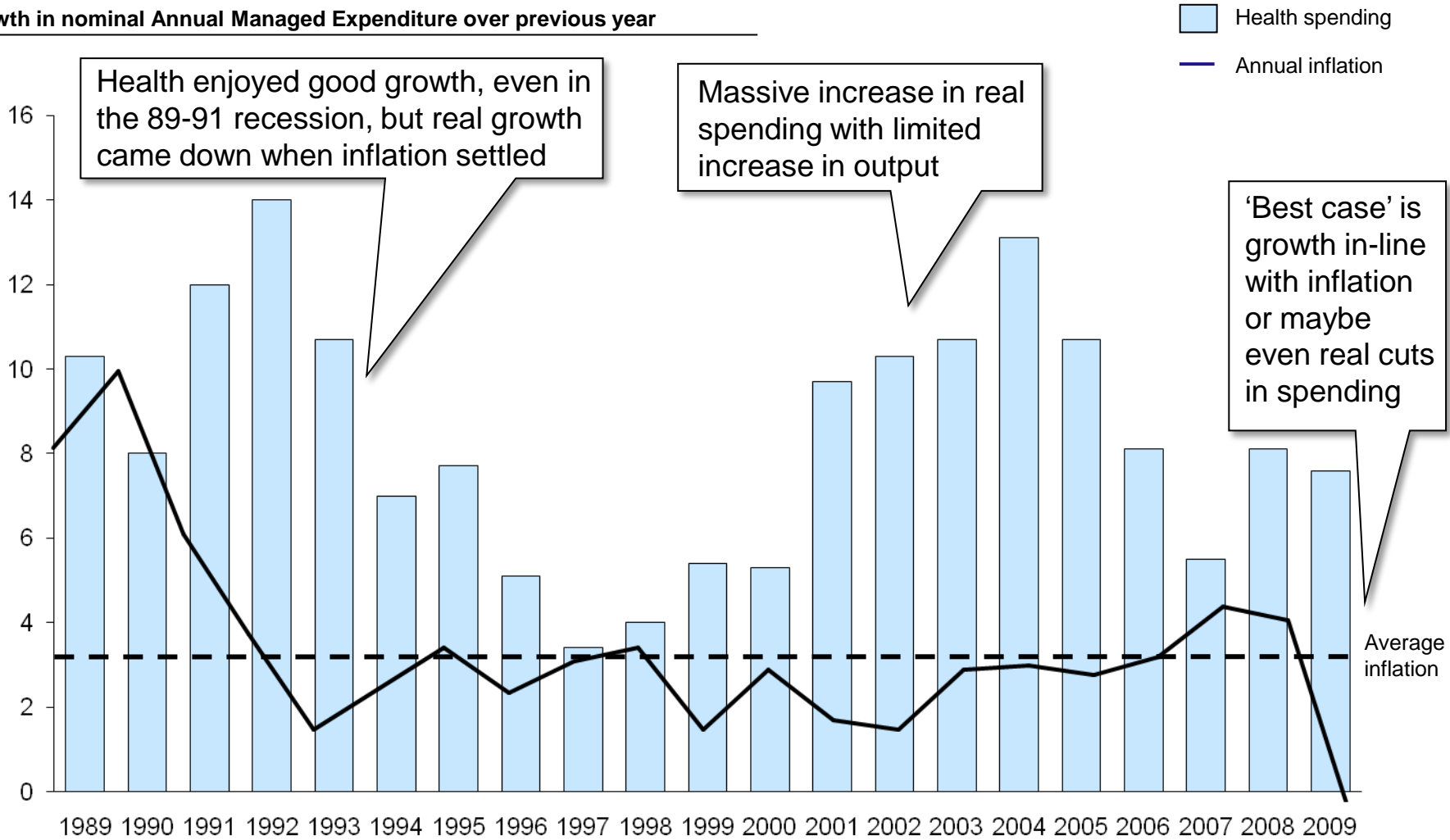
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LONG TERM TRENDS IN PUBLIC SPENDING ON HEALTH

Growth in nominal Annual Managed Expenditure over previous year

%



Conservative

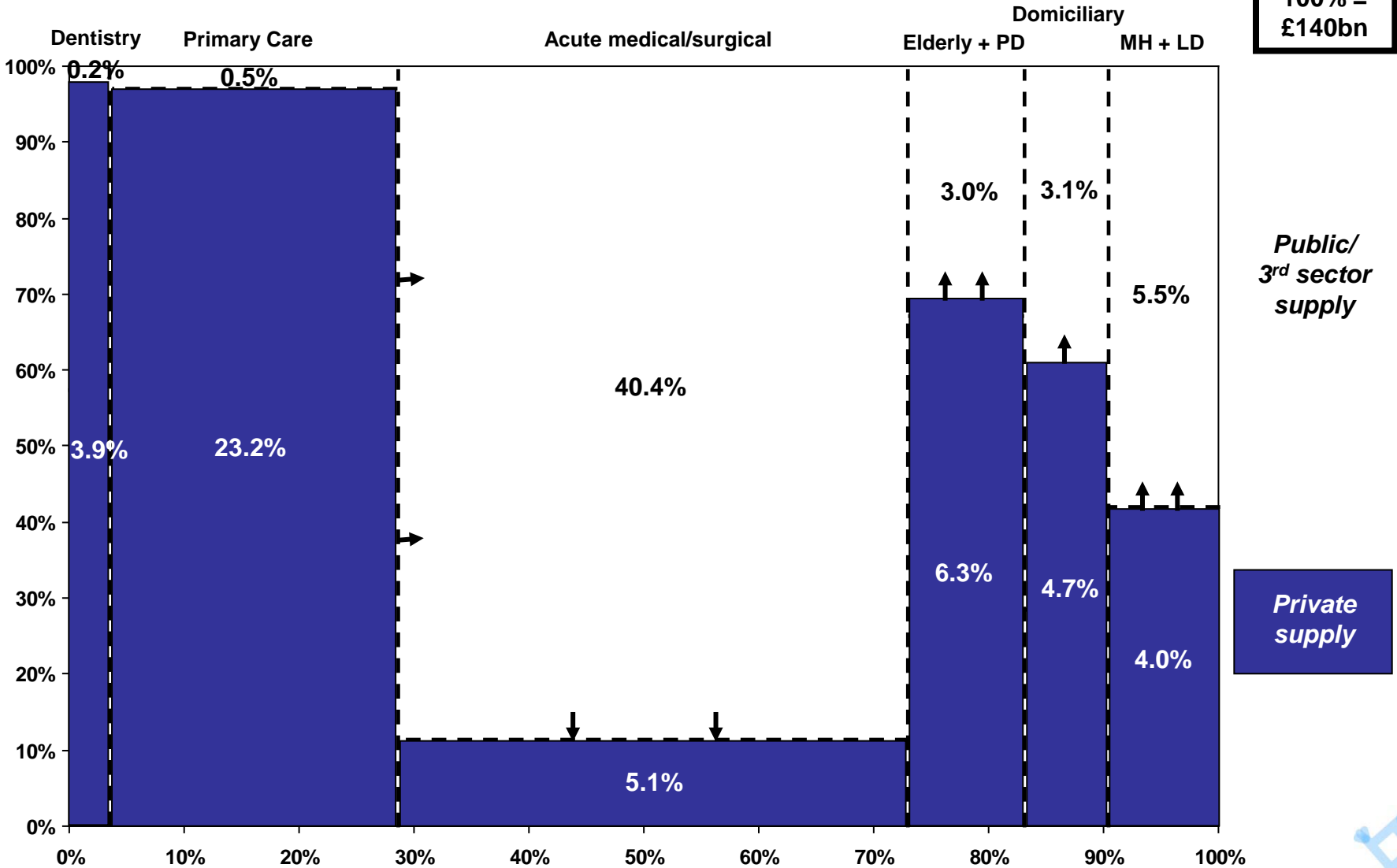
Labour



UK HEALTHCARE MARKET BY PROVIDER TYPE

Revenue breakdown, 2008/9E

100% =
£140bn



Source: Candesic analysis, Candesic estimates



CONFUSING MESSAGE FROM GOVERNMENT

“NHS must make £15-20bn of saving by 2013/14”
–David Nicholson

“We were elected on a platform of real-terms increases in the NHS budget for every year of this five-year Parliament”
–David Cameron

?

“Of course we may need to [save £15-20bn]. And we may need to do more because we have increases in demand in the NHS....”
–Andrew Lansley



WAYS GOVERNMENT IS CONSIDERING TO REDUCE SPENDING (1/2)

Cheaper staff and fewer administrators

- Break Agenda for Change (“NHS can expect pay rises below 1%” –David Nicholson)
- Renegotiate GP contract (take back after hours care)
- Close SHAs and merge PCTs (Essex 5 PCTs → 1 achieving 15% cost savings by April 2011)

Increase frontline productivity

- Drop least efficient GPs (3500 fewer needed)
- Drop least efficient community nurses (15% fewer needed)
- Improve clinical productivity of hospital nurses and doctors (best staff are 5x more efficient)
- Approx. 40% of nursing time is taken up by psychological care instead of physical

Do less procedures

- Stop paying for ‘unnecessary’ procedures (i.e. tonsillectomies, tattoo removal, some joint replacements, varicose veins, hernia repairs)
- Replace staged procedures with end stage ones (i.e. hysterectomy instead of ablation)
- Raise eligibility criteria for certain procedures

Keep patients out of hospital

- Replace inpatient with day cases
- Reduce referrals to outpatient appointments
- GPs to do more procedures and manage care pathway
- Treat more patients at home

Reduce /mothball hospital space

- Close/merge hospitals, close A&E departments
- Mothball unused hospital space (stop heating, cleaning, maintenance)
- Sell or rent unneeded space

Better procurement

- National or regional procurement rather than local
- Harder negotiation with external contractors
- Goes against devolution of commissioning and purchasing

WAYS GOVERNMENT IS CONSIDERING TO REDUCE SPENDING (2/2)

Better governance and control

- NHS Board
- Monitor to become economic regulator of NHS (to do what NICE does but economically)

Outsource to private sector

- Community services,
 - Community nursing and midwives,
 - Physiotherapy
 - Psychology
 - Wheelchairs and prosthesis
- Other possible services,
 - Radiology
 - Pathology
 - Porters
 - Building maintenance

Empower patients

- Enable patients to better care for their chronic conditions themselves and at home
- Access care through teleservices, Internet, and email

Reduce prescriptions

- Huge variance exists in doctors tendency to prescribe

Relax targets

- Relaxing some less debatable targets can bring large savings

PRIVATE EQUITY STRATEGIES

PAST

- **Financial engineering (opco/propco)**
- **Margin growth (fees rising faster than costs)**
- **NHS outsourcing (ISTCs)**
- **Cost cutting**
- **Consolidation**

PRESENT

- **Multiple arbitrage**
- **Distressed purchases**
- **Game changing business models (e.g. Circle, Avery)**
- **Consolidation**

FUTURE?

- **Growth (demand driven, but beware fee pressure)**
- **NHS outsourcing (again, but functional rather than procedures)**
- **Private focused services**
- **Consolidation (scale benefits) but fewer opportunities**



FINAL THOUGHT

