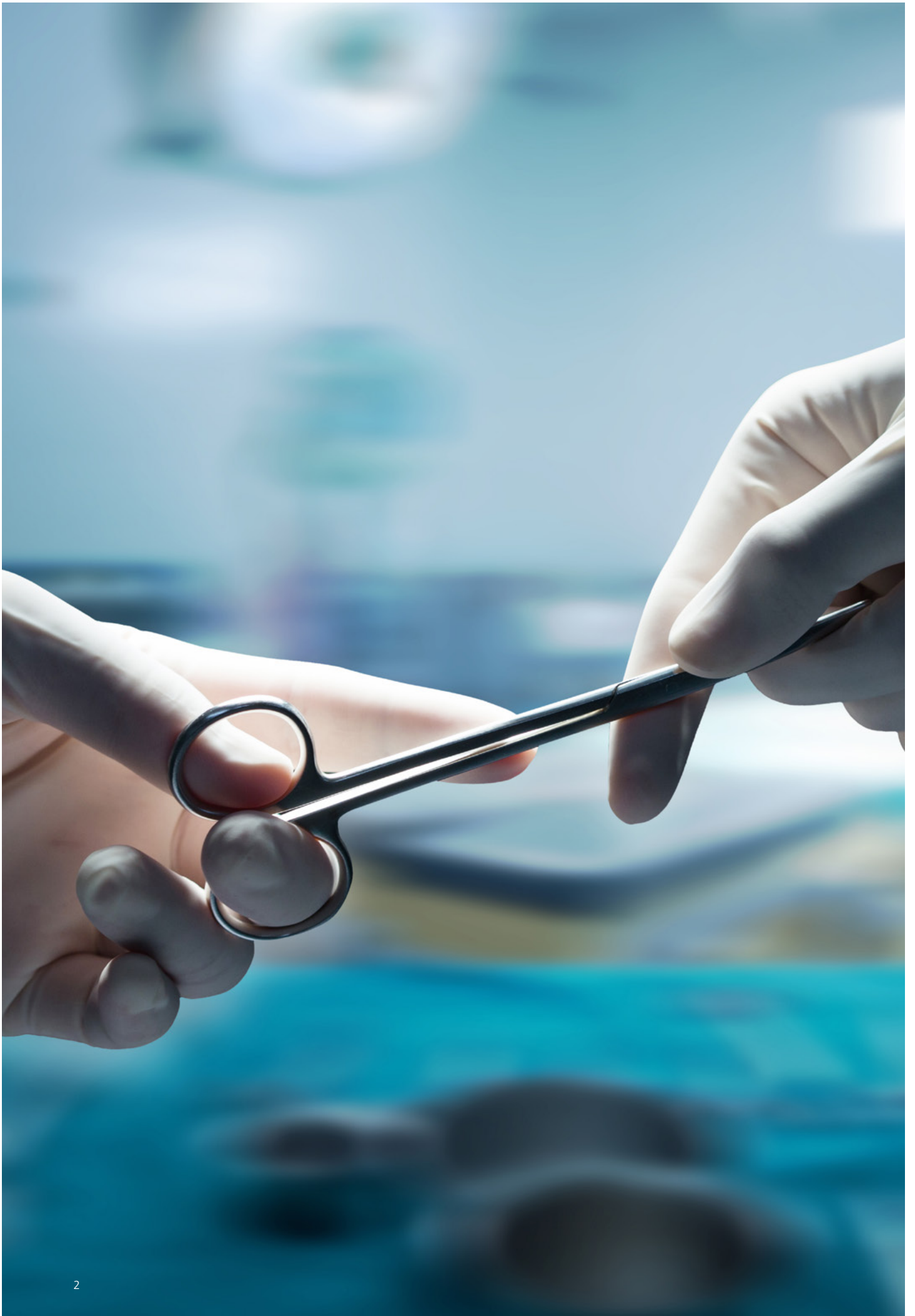
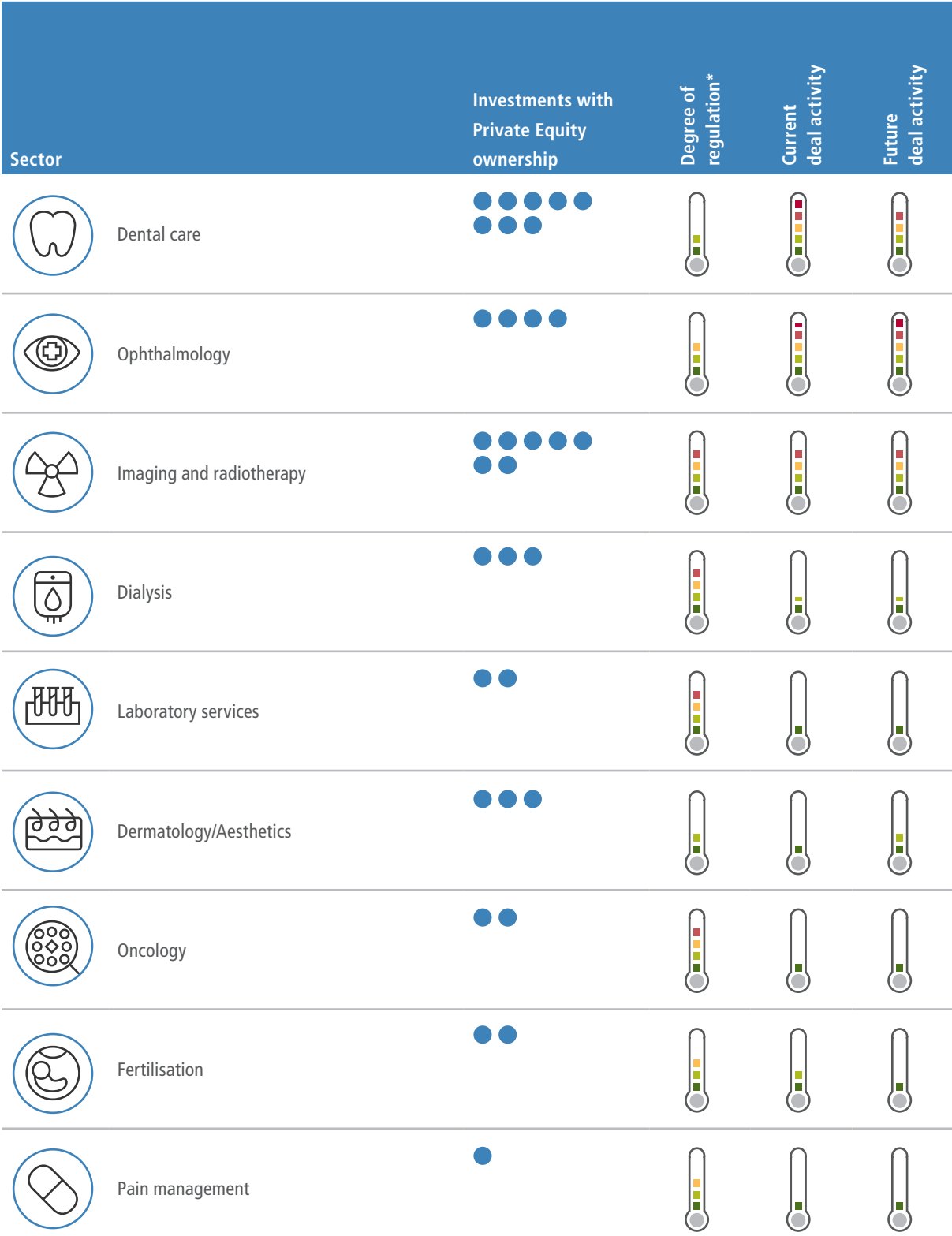




**PRIVATE EQUITY INVESTORS
IN THE GERMAN HEALTHCARE MARKET**



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* Evaluated on the basis of admission restrictions, additionally required SHI-Mandates, special quality requirements and cross-sectoral healthcare concepts.

PREFACE

Over the last few years, the German healthcare market has sparked high interest amongst Private Equity investors. These players appreciate Germany's stable economic situation as well as its promising prospects due to demographic changes and rising health care expenditure. A key focus for these investors has been the outpatient medical market. The major reason for this recent development is that, from a regulatory perspective, market access has only been possible for a few years.

As this market segment tends to be very fragmented, it allows investors to pursue their buy-and-build-strategy, thus consolidating the market and exploiting potential for synergy. They seek to reduce the administrative burden for medical staff by bundling activities in larger corporate structures, and last but not least, they contribute to succession planning.

As a result, Private Equity investors have strongly expanded their deal activity in the medical outpatient market over the last few years. They have established medical platforms that have been extended by numerous add-on investments covering various medical sectors. As the presence of these investors

is constantly growing, we would like to give an overview of the recent regulatory and market dynamics mainly considering the following sectors that have recently shown the highest interest of investors:

- › Dental care
- › Ophthalmology
- › Diagnostic imaging and radiotherapy

Although the current Covid-19 pandemic has strongly hit many outpatient medical providers in the short-term, the deal volume is likely to remain high in the long run. Therefore, we also dare to take a glimpse into the future by deriving key hypotheses regarding potential market development.

Ebner Stolz has already accompanied numerous transactions in the outpatient medical market. We are looking forward to bringing in our vast interdisciplinary experience from past transactions and to guide our clients through the regulatory jungle.

REGULATORY BACKGROUND

In Germany, the entitlement to provide health care services for Statutory Health Insurance-Patients (SHI-Patients) in the outpatient medical market is linked to certain conditions. The most important requirement is an accreditation with an SHI-Mandate. This SHI-Accreditation can be obtained by physicians and dentists directly, but also by so-called Medical Treatment Centers (“MVZ”), e.g. in the legal form of a Limited Liability Company (“GmbH”). However, these MVZ cannot be established by any groups of shareholders. Currently, shareholders of an MVZ-Holding can only be health care service providers, such as physicians, dentists and hospitals, as well as providers of non-medical dialysis services. Since 2015, Mono-MVZs specialized in one medical speciality (e.g. dental practice or ophthalmology) can be established. This possibility has led to an increase of 47% in the number of MVZs established between 2015 and 2018. Out of 3,173 MVZs registered in 2018, the largest share (42%) was owned by hospitals. Therefore, the establishment of MVZs through acquisitions of accredited hospitals has become increasingly popular for Private Equity investors. To restrain the founding powers of accredited hospitals and hence of Private Equity investors, the legislator responded with the “Terminservice- und Versorgungsgesetz” (“TSVG”) in May 2019. This legalisation has tightened the conditions to establish MVZs, for accredited hospitals with regard to dental MVZs and for providers of non-medical dialysis services with regard to services without medical reference to dialysis.

REGULATORY CHALLENGES AFFECTING THE TRANSACTION STRUCTURING

Prior to these regulatory changes, the transaction structuring in an outpatient acquisition process had already been affected by existing SHI-Accreditation laws. According to these regulations, SHI-Accreditations are granted by the Admissions Committees (“Zulassungsausschuss”) for physicians and dentists of the 17 regional Associations of SHI Physicians (“Kassenärztliche Vereinigung”), whereby the distribution of SHI-seats is population-based: In areas with a high density of medical practices, an SHI-Accreditation can solely be obtained by purchasing a medical practice with an already existing SHI-Accreditation. If the purchaser of a medical practice already possesses an SHI-Accreditation, but wishes to expand their medical practice through further SHI-Mandates, these SHI-Accreditations can be obtained by the following means: The seller of a medical practice waives his SHI-Accreditation in favour of the purchaser and in return the purchaser employs the selling physician in the medical practice. Legally, from this moment on, the transferred SHI-Mandate belongs to the purchaser. However, it is exercised by the seller in the form of authorised employment. After a transitional period, this transferred SHI-Mandate can be exercised by one or several other employed physicians. It might as well be converted back into an autonomous SHI-Accreditation. In areas with a low density of medical practices, an SHI-Accreditation can be obtained through a formal application.

A number of aspects beyond SHI-Mandate and the employment of a physician require approval. The cooperation of physicians, the relocation of the main practice, the establishment of a branch practice, the reimbursement of certain services and other changes are all subject to approval as well. In a transaction process, the objective is to transfer as many of these approvals to the post-deal target structure without re-examining the approval requirements. Therefore, this target structure must be designed by considering SHI Physician Law and Corporate Law as well as tax aspects. If an MVZ is acquired via a share-deal, the company and its accreditation remains unchanged. In the case of a transfer of all shares in a partnership and universal succession by an MVZ-GmbH, the rulings of the Admission Committees differ regarding approved employment and other approvals. In the case of an asset deal, all existing permits require a new application. A further challenge is that the Admissions Committees generally follow their own, individual interpretation of the SHI regulations. Hence, when implementing the target structure, regional particularities need to be considered.

INDIVIDUAL REGULATIONS FOR SPECIFIC SECTORS

Regulations vary depending on the medical speciality. In contrast to physicians, no population-based restrictions apply to dentists with regards to SHI-Accreditation. Nephrologists, on the other hand, need an additional SHI-Mandate for the treatment of dialysis patients. The ophthalmology sector is characterised by special care contracts between service providers and payers and the activity of the physicians as attending physicians in the hospitals. The diagnostic imaging and radiotherapy sector is characterised by considerable requirements on quality assurance as well as outpatient-inpatient cooperation agreements. Such requirements are often challenging from a compliance perspective. Interestingly, transaction activities do not seem affected by the complexity and density of regulations.

TREATMENT OF PHI-PATIENTS

The treatment of Private Health Insurance-patients (PHI-patients) and patients without coverage does not require an SHI-Accreditation. The establishment of a PHI-practice and the PHI-service quantity are not restricted. Given that nearly 90% of Germany's population is enrolled in the SHI-system, the treatment of PHI-patients and patients with no health coverage alone can be commercially unappealing.



MARKET OVERVIEW AND DEAL ACTIVITY IN SELECTED SECTORS

Our market overview focuses on the key medical outpatient platforms in Germany with Private Equity shareholding. For the German medical outpatient market, information on Private Equity investors and their platforms is taken from publicly available sources such as company websites. The criteria included in the table above have been derived as follows: The degree of regulation for each sector depends on admission restrictions, additionally required SHI-Mandates, special quality requirements and cross-sectoral healthcare concepts. The current deal activity refers to the level of transactions in each specific sector in 2019 and the first half of 2020. Similarly, the future deal activity displays expectations with regards to the level of transactions in the near future. This does not specifically take into consideration the effects of the Covid-19 pandemic. Both the current and the future deal activity are based on our market perceptions and experiences and have been discussed with market experts to avoid biases.

From our experience, the major investment criteria regarding the different sectors of the medical outpatient market can be summarised as follows:

- › Strong impact of socio-demographic changes on the future demand of medical services
- › High degree of non-budgeted medical services for SHI-patients, as well as reimbursement options outside the regular SHI-remuneration catalogue such as direct contracts with payers to realise future growth potential

- › Potential of direct payments from patients for individual health services outside the regular SHI-remuneration
- › High prospective capital intensity due to the medical-technological progress
- › Opportunities to standardise medical processes and patient treatment workflows, for example using Information Technology (IT)

DENTAL CARE

Date	Investment/Platform	Investor
2020	zahneins	PAI Partners
2019	AllDent Zahnzentrum Gruppe	Castik Capital
2018	Acura Zahnärzte	Investcorp
2018	European Dental Group	Nordic Capital
2018	KonfiDents	Altor Equity Partners
2017	Curaeos	EQT
2016	Colosseum Dental Group	Jacobs Holding
2015	Zahnärztliche Tageskliniken Dr. Eichenseer	Quadrige Capital

Based on the number of platforms that have emerged recently, the dental sector has been of primary interest to investors. Consequently, this sector has experienced a very high deal activity over the last few years. Even the new political regulations through the TSVG have not slowed down investors' activities.

Apart from the platform acquisition of zahneins by PAI Partners at the beginning of 2020, new participants have also entered the market. For example, AllDent Group (Castik Capital) and Acura Zahnärzte (Investcorp) have established dental platforms, which have further been expanded by the acquisitions of several add-on-investments. Compared to other sectors of the outpatient medical market, the dental care sector also shows high activity of pan-European chain-building in the Benelux and Nordic countries as well as the United Kingdom, with the exception of the DACH region. There have also been several acquisitions in the German dental laboratory market recently, for instance the formation of the new DELABO Group by Avedon Capital Partners. Similarly, the European Dental Group has also strengthened its dental provider services with laboratory services.

Eventually, this vertical integration may serve as a blueprint for other providers. Overall, we expect that deal activity by current market players will continue to be high in the future, even though this sector has been hit hard by the Covid-19 pandemic.

However, we assume that it is rather unlikely that new players will come up with new platform investments in this sector as the number of market consolidators is already high and the consolidation process is already at an advanced stage.

OPHTHALMOLOGY

Date	Investment/Platform	Investor
2019	ZG Zentrum Gesundheit	NORD Holding
2018	Sanoptis	Telemos Capital
2018	Ober Scharrer Gruppe	Nordic Capital
2015	ARTEMIS Augenkliniken und MVZ	Montagu Private Equity

While Artemis (Montagu Private Equity) and Ober Scharrer Gruppe (Nordic Capital) have left a footprint in the ophthalmological market for several years, Sanoptis (Telemos Capital) emerged as a new player in 2018 followed by several add-on acquisitions, namely nordBlick Group Kiel and AugenAllianz-Zentren Dillingen Group. Compared to its major competitors, Sanoptis follows a pan-European approach characterised by acquisitions in the Swiss market as well.

Overall, we expect that the deal activity in the ophthalmological sector will remain high as there is still great potential for market consolidation. However, the activity may be restricted to a rather small number of players.

DIAGNOSTIC IMAGING AND RADIOTHERAPY

Date	Investment/Platform	Investor
2019	blick-Gruppe	Deutsche Beteiligungs AG
2019	Meine Radiologie Holding	Triton
2019	Radiologie Holding	Five Arrows Principal Investments
2019	RadioOnkologieNetzwerk	Summit Partners
2018	MedEuropa	Telemos Capital
2016	RAD-x	Gilde Healthcare Partners
2015	Medneo	Marcol

Deal activity in the diagnostic imaging and radiotherapy market has recently been largely characterised by platform investments. Furthermore, there have also been numerous add-on investments that have impacted deal activity. Following its acquisition by Triton in 2019, Meine Radiologie Holding for example is strongly driving consolidation by having completed several add-on transactions. Further recent platform transactions relate to the acquisition of Radioonkologie Netzwerk by Summit Partners, the acquisition of Radiologie Holding by Five Arrows and the establishment of the blick-Group by Deutsche Beteiligungs AG.

In contrast to the regular provider-based acquisitions, Medneo (Marcol) follows a different strategy offering “radiology as a service” to physicians, hospitals and research institutes on a pay-per-use basis.

While the focus of many players in this sector used to be on radiology and nuclear medicine historically, radiotherapy as a rather new market segment has also gained importance. For example, Radioonkologie Netzwerk (Summit Partners) and MedEuropa (Telemos Capital) have focused their primary activities on this field, mainly concerning the treatment of oncological patients.

In the diagnostic imaging and radiotherapy sector, we expect increasing deal activity as constant expenditures in medical equipment will continue to be necessary to ensure that the high standard of medical devices is maintained. Digitally-driven approaches such as teleradiological services may also attract further interest. For example, RAD-x (Gilde Healthcare) entered this market in 2018 with the acquisition of Teleradiologisches Zentrum Koblenz. Finally, there may be increased market access, especially amongst internationally established imaging chains that seek expansion into the German market.

OTHER SECTORS

Date	Investment/Platform	Investor
2020 (planned)	Algesiologikum	Quadriga Capital
2019	Omnicare	Equistone
2019	Operasan (blikk-Gruppe)	Deutsche Beteiligungs AG
2019	The Fertility Partnership / VivaNeo	Impilo
2018	NL Holding	Oaktree Capital Management
2017	Corius Gruppe	Ufenau Capital Partners
2017	Dermedis	Rigeto Unternehmerkapital
2016	alanta health group	IK Investment Partner
2016	Dermatologikum Hamburg	ECM Equity Capital Management
2015	Amedes	Antin Infrastructure Partners
2015	Synlab	Cinven
2007	Diaverum	Bridgepoint
n/a	Delta Dialysepartner	Legian Investment Partner

Both the dialysis and the laboratory sector have experienced strong market consolidation over the last years with high deal activity driven by Private Equity investors as well as larger corporate chains. More recently, the deal activity has slowed down in these sectors as the potential for consolidation has decreased. In the future, we expect few but large platform deals, in particular as holding periods for certain platforms have already exceeded or will soon exceed a common five-year investment cycle.

Besides the above-mentioned sectors, Private Equity investors constantly seek new market opportunities and profitable consolidation potential. For example, market information states that Quadriga Capital plans to enter the pain management and neurology sector with the acquisition of Algesiologikum.

KEY HYPOTHESES REGARDING FUTURE MARKET DEVELOPMENT

Numerous medical outpatient care investments recently suffered from the Covid-19 pandemic due to the shut-downs of medical practices and postponed treatments. However, with temporary relaxation of lockdowns, many providers have returned to normal by building-up capacity to the pre-crisis level. This will also impact the future deal activity of Private Equity investors.

In the future, specific aspects will drive further developments in the German medical outpatient market. These can be summarised in the following key hypotheses:

1. Although many sectors have been considerably affected by the Covid-19 pandemic, in the mid-term deal activity is picking up speed again. Indeed, the number of transactions are reaching pre-crisis levels, as investors have to further scale up their platforms with new add-on investments prior to planning their exit.

2. In the short term, however, the Covid-19 pandemic may lead to lower valuations of medical practices, which could have a delaying effect on the holding period.

3. For new market entrants, the acquisition of an authorised hospital as a precondition to enter the German outpatient medical market will continue to be the bottleneck as prices for assets with solid profitability are likely to increase further.

4. The fact that an investor is entitled to the economic management and profit of an MVZ through the purchase of a hospital, is unassailable under the current legal situation. However, it is to be expected that the legislator will further restrict existing possibilities.

5. The legislator may limit the influence of an investor on an MVZ through the acquisition of a hospital via the requirements of company law regulations, the (at least partial) professional identity between the hospital and MVZ, or the geographical proximity between hospital and MVZ.

6. Keeping these prospects in mind, the outpatient medical market will likely experience a higher number of large platform transactions in the long-term.

7. Internationalisation will also shape the market development with investors seeking new growth opportunities to diversify their exposure to country-specific reimbursement risks, yet the heterogeneous regulatory landscapes increase the complexity of management and require specific knowledge.

8. Vertically and horizontally integrated providers that offer a broad range of medical services, for example in cross-sectoral medical chains, will further evolve in the future to support the medical buy-and-build-strategy and increase the economic power of the platforms.

9. Digitalisation will drive deal activity in the market through providers building partnerships with specialised health care technology solutions, for example regarding IT-supported workflows and medical decision making.

10. Integrated providers could strengthen the acceptance of investors in the German health care market through special care contracts and innovative digital care concepts with health insurance authorities.

CONTACTS



FINANCIAL ADVISORY

Dr. Nils Mengen

Certified Public Accountant, Tax Advisor
Partner

Tel. +49 221 20643-151

nils.mengen@ebnerstolz.de



Jannis Pulm

Certified Public Accountant

Tel. +49 221 20643-594

jannis.pulm@ebnerstolz.de



TAX

Dr. Alexander Bohn

Certified Public Accountant, Tax Advisor
Partner

Tel. +49 221 20643-487

alexander.bohn@ebnerstolz.de

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LEGAL ADVISORY



Dr. Sarah Gersch-Souvignet

Lawyer, Specialist lawyer for medical law

Tel. +49 221 20643-642

sarah.gersch-souvignet@ebnerstolz.de



Dr. Eric Marx

Lawyer

Partner

Tel. +49 221 20643-189

eric.marx@ebnerstolz.de



Dr. Jörg R. Nickel

Lawyer, Tax Advisor

Partner

Tel. +49 221 20643-54

joerg.nickel@ebnerstolz.de

