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Eyeing the opportunity

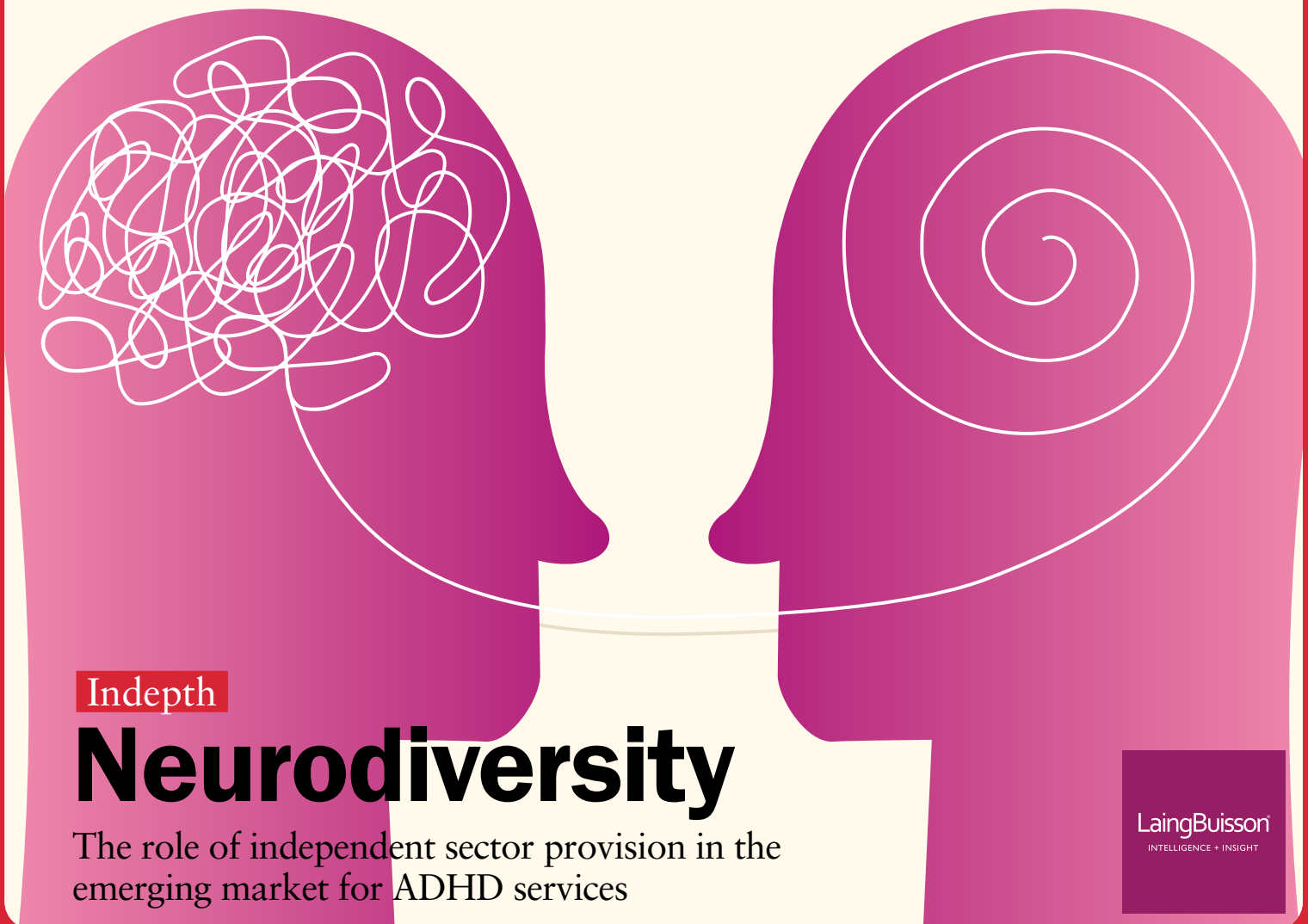
Candesic looks at investor interest in ophthalmology markets

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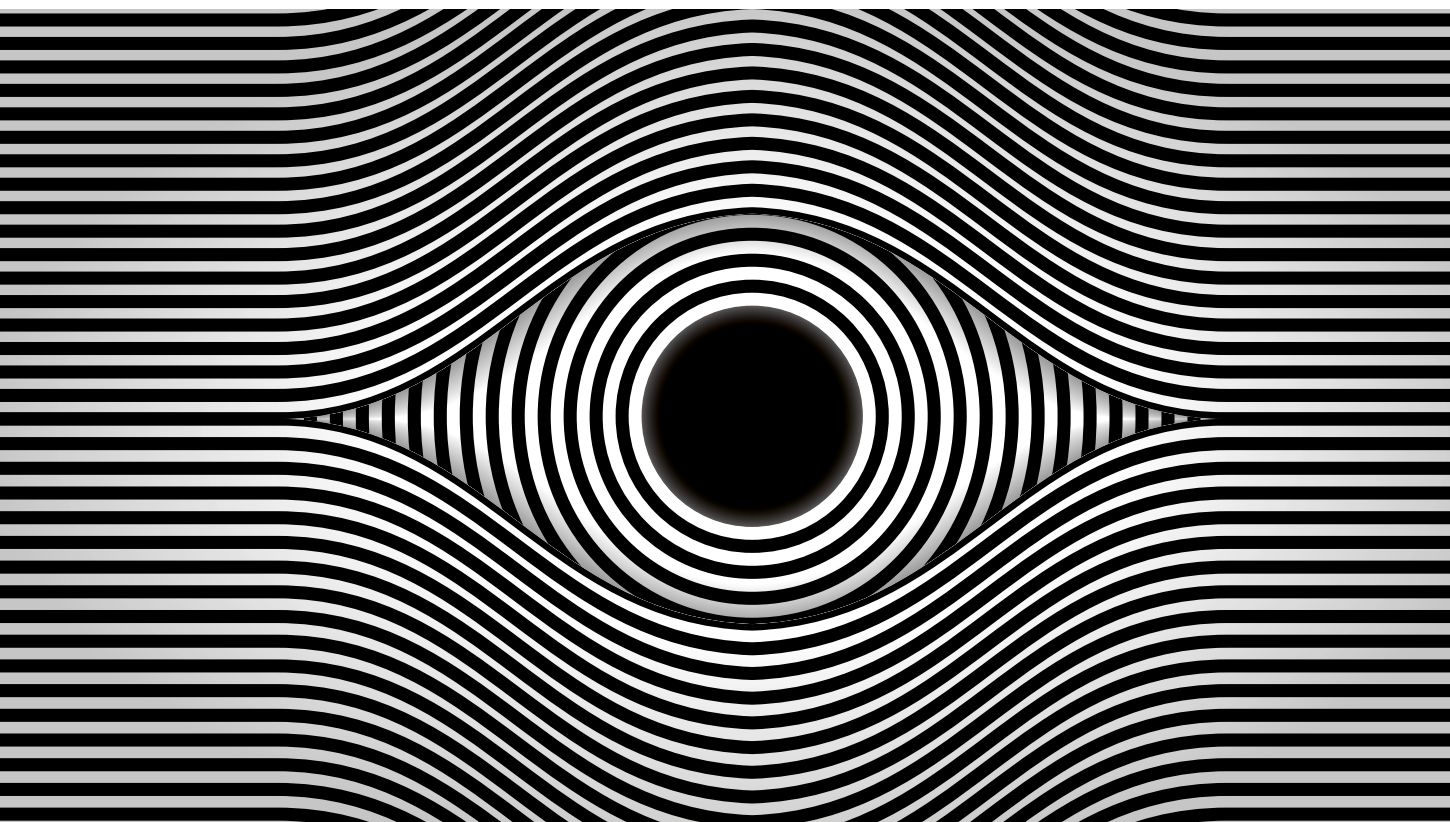
Indepth

Neurodiversity

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Ophthalmology continues to attract huge investor interest. Candesic senior partner **Marc Kitten** and head of content **David Farbrother** have been speaking to investors and operators to find out why



Ophthalmology still a market to watch

The ophthalmology market is broadly divisible into five areas, and not every player is active in every part of it.

The **cataract market**, replacing clouded natural lenses with an artificial intraocular lens (IOL), saw a post-Covid bounce-back across Europe, as high volumes of patients who had deferred treatment subsequently found themselves in huge waiting lists when treatment resumed. This 'bread and butter' work - where the ability to churn through high volumes of publicly funded activity (it is mostly reimbursed, as a medical condition) are the key to success both financially and in patient outcomes - is flattening out now as demand returns to normal. Sources suggest this could lead

to problems if not closures for some smaller cataract-focused clinics. Generally, the European market (by revenue) is growing slowly, by a low single-to middle digit percentage year-on-year.

The almost exclusively private **Lasik market** (changing the shape of the cornea using a laser to improve vision) continues to be significant in some geographies, more so in Southern than Northern Europe where there is a regional reluctance to wear glasses among a certain demographic.

The **premium lens market** (a more advanced - and expensive - IOL that allows both far and near sight) continues to grow, and new technology could see a boom soon.

The **AMD injection market** (treat-

ment for leaking blood vessels in the eye) continues to grow significantly, and a combination of new treatments and an ever-expanding patient cohort make this one to watch. Treatment in this area is also far from readily available across Eastern Europe, creating opportunities. There is substantial growth potential here.

Glaucoma treatment. The largest players generally do not consider this a particularly attractive business sector, though the growth in glaucoma implants from companies like Glaukos, implanted at the time of cataract surgery, is a positive trend.

According to Candesic research and analysis, the EU-5 market is growing at between 3-5%.

Operators – the big players

Despite having some comparatively heavy hitters on the operator front in Europe – the top five by revenue being Veonet, Sanoptis, Artemis Augenklinik, Clinica Bavaria and Optegra – there is as yet no truly pan-European operator. By revenue, Veonet holds the top spot but GBL-owned Sanoptis, with a revenue of around €500m and ambitious owners, is rapidly catching up.

Veonet’s approach is interesting, sitting at the head of a number of high-profile and historically successful groups like cataract-focused SpaMedica in the UK, Miranza in Spain, and Ober Scharrer Group in Germany. To the outsider, these present as independent groups.

Number two player Sanoptis has a framework where its doctors are incentivised as shareholders in the business.

M&A has been quiet, but that is changing

Much like many healthcare sectors, when it comes to M&A, the ophthalmology market has been going through a comparatively quiet patch post-Covid (see Figure One) as interest rate hikes,

supply chain costs and problems raising debt subdued activity, but that could be set to change.

An operator source at a pan-European group informed us: ‘Vendor and seller price expectations were misaligned for months but are now converging. It’s definitely getting better. The spread is coming down and we see multiples going slightly down now. I see this in other sectors too like cardiology, dermatology – people are coming back to the table discussing ways – like earnouts – to get a deal done.’

‘I know a host of deals were postponed because interest rates are still quite high. It looks like a lot of groups are waiting until perhaps August-September, but I expect we may see a lot more activity then.’

‘Looking at the big EU5, you can find clinics with say €3m to €7m of EBITDA – perhaps not so much in Spain or Italy – and multiples have come down one or two turns. You might pay 7 or 8x, rather than 10x.’

And what about raising money? ‘It’s not hard these days to do a capital increase and find an additional investor on the equity side. On the debt side, it depends on the volume, pricing and flexibility you need.’

‘We work with both funds and traditional banks, and both have advantages. Yes,

with the debt funds you might pay 8.5% to 11.5% interest but everyone is looking for this to improve at the end of the year. This of course is currently making M&A more expensive.’

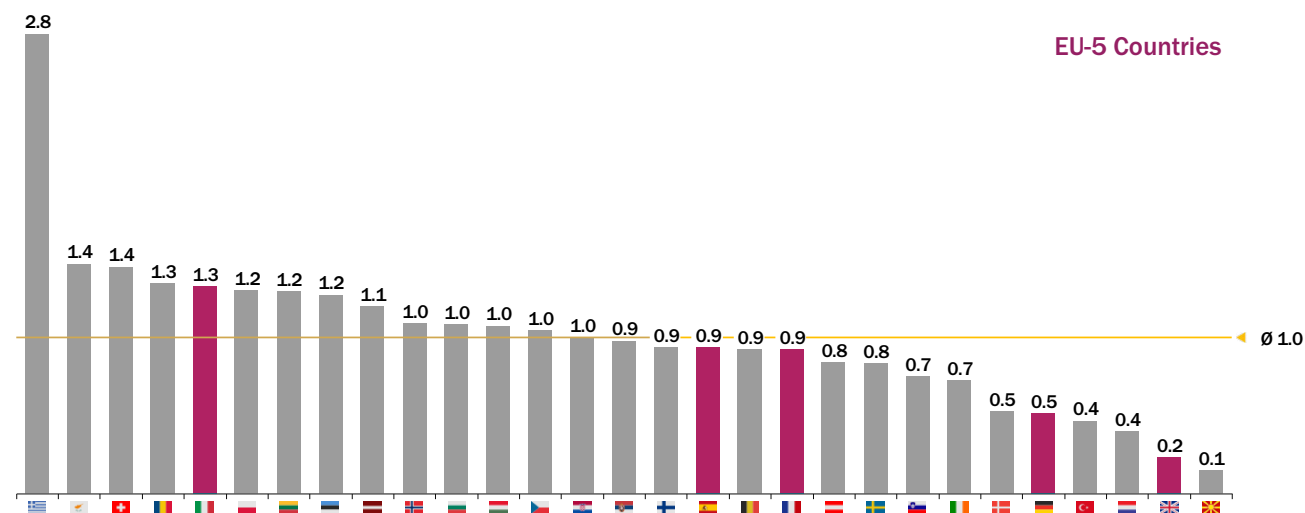
Historically, Germany and the UK have widely been considered the markets to watch – in the UK, this is largely due to outsourcing opportunities, while in Germany consolidation and rollup opportunities have made it attractive, though prospective regulation on PE ownership could reverse that.

There is still a lot of interest from investors on the equity side. The German market has wavered, put off by ongoing regulatory discussions following controversial German chancellor Karl Lauterbach announcing his intention to crackdown on ‘locust’ investors in 2022, but neither operators nor the majority of German lawyers now believe a major change in the regulatory system will happen. One European operator predicts: ‘I expect just some new rules on transparency requiring a sign on the door saying ‘this practice is part of this network’. I don’t think patients will really take note of it.’

The greatest opportunity going forward – certainly for those looking to break into the sector – could be in purely private play.

FIGURE ONE
NUMBER OF OPHTHALMOLOGISTS PER CAPITA IS LOW IN THE UK

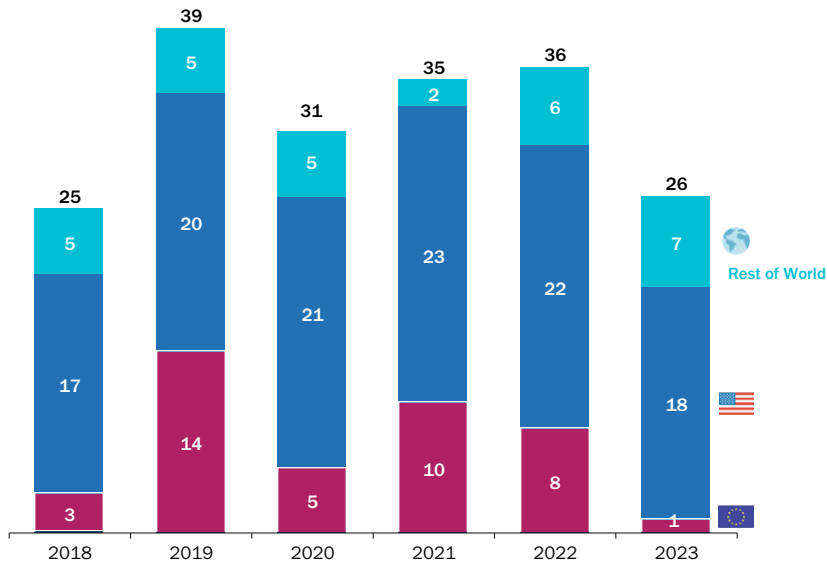
OPHTHALMOLOGISTS PER 10,000 POPULATION IN EUROPE 2020



NOTE THE DEFINITION OF OPHTHALMOLOGIST/THEIR RESPONSIBILITIES VARIES BY COUNTRY, TECHNICIANS/OPTOMETRISTS SOMETIMES TAKE PART OF THE ROLE, WHICH COULD EXPLAIN SOME OF THE DIFFERENCES
SOURCE EUROPEAN COUNCIL OF OPTOMETRY AND OPTICS; CANDESIC RESEARCH AND ANALYSIS

FIGURE TWO
GLOBAL OPHTHALMOLOGY M&A ACTIVITY

NUMBER OF DEALS, 2018–2023 (DIRECTIONAL)



NOTE THE DEALS PRESENTED ENCOMPASS ALL TRANSACTIONS IDENTIFIED THROUGH KEYWORD SEARCH WITHIN THE FIELD OF OPHTHALMOLOGY SERVICES. MOST BOLT-ON TRANSACTIONS ARE NOT INCLUDED.
SOURCE MERGERMARKET; CANDESCIC RESEARCH AND ANALYSIS

Investor interest

One operator source told us: ‘The current sentiment in Europe favours a focus on private treatments, private payors. If you are in an NHS world already, it’s hard to pivot away from that. I think if you look to some of the NHS focused businesses and subsidiaries, we may see some M&A there in the coming months.’

The average investor profile is shifting a little, he adds: ‘I see more interest from family offices, and from mid-cap PE investors helping groups to run the show. And I see more and more interest from the Middle East. Interest from China seems to be on the wane but – again if you take Germany – that may be for reputational reasons. Being a Chinese investor in Germany is not so easy.’

A lot of interesting work is being done in the field of premium lenses at the moment, particularly in Southern Europe. Developments such as trifocal lenses are coming into play and where co-pay is an option. Many patients are willing to pay more for quality and a drop in regulatory hurdles is growing the market.

With cataracts it is simply a numbers game. The more you do, the more you get paid – and the better your surgeons become. But almost every cataract patient is also potentially a refractive patient.

The AMD market is also exciting, as new ‘dry AMD’ treatment is being developed. An operator source explained: ‘Wet AMD has been approved for 15 years or so. But FDA approval for ‘dry AMD’ will

really boost the market and open new areas. And it’s quick! Each injection takes only two to three minutes. It’s a growing market – mid to high single digit percentage but I expect that figure to rise with new treatments.’

SENTIMENT IN EUROPE FAVOURS A FOCUS ON PRIVATE TREATMENT

Geography matters

Country wise, there are many favourable opportunities.

Markets like Germany, Italy and Spain attract interest. Some Eastern European markets – like Poland and Czechia – are interesting because of demographics, disposable income and population density compared to say Sweden or Norway, big countries with small populations where many could have a two hour drive to see a specialist.

Availability of ophthalmologists can also be more of an issue in some countries (see Figure Two).

Both Belgium and France have a reputation for tricky regulation, while there is

a further legal hurdle in France, as doctors must be majority owners – though groups have found workarounds.

As for the UK, an operator source explained: ‘It’s a big market but if you are not in the UK already, then you might want to find a niche as competing with, say, the likes of Spa Medica when it comes to cataracts might be difficult. That said, any group looking to be truly European will have to be in the EU’s big five.’

Tony Veverka is CEO at Y1 Capital, an investment and holding company specialising in health and social care. Its portfolio companies include Transform, a cosmetic slanted business pivoting into new areas – including ophthalmology.

He agrees the key to making a mark in the UK market is finding the right niche, something he believes he has done recently with Transform.

‘We saw a gap in the premium end of the private market. Not laser eye surgery which is pretty well catered for by ‘retail’ firms. Optical Express, Optimax, London Vision Clinic cater well for this market and volumes haven’t grown hugely for ten years or so,’ he said.

‘And not basic Cataracts which are done more by independent providers than by the NHS. There are cataract factories, putting real volumes through very efficiently. There is a credit crunch, but the premium end of the market which we are targeting is less likely to be affected by this.’

The lens premium market is certainly interesting at the moment. ‘Next generation’ lenses, incorporating IOLs which give a full range of vision with no dysphotopsia (glare/light streaks) are being developed by the likes of Rayner.

Rayner CEO Tim Clover told Candesic: ‘We’ve tested this in patients in Brazil, it works in a real-life clinical setting. We’re taking it through [regulation] and, fingers crossed, hoping to launch at the end of this year. It will be unlike anything on the market today’.

Beyond this, pioneering work is being done in the field of brain-computer interfaces by the likes of Pixum Vision to treat geographic atrophy, a degeneration of the macula at the back of the eye. It has developed a procedure whereby a retinal photovoltaic neurostimulation chip implanted in the back of the eye artificially replaces lost photoreceptor cells – restoring vision.