SECTOR ANALYSIS

Private equity investment in UK healthcare grows as sponsors focus on quality

ACTUM GROUP

Actum data shows a steady increase in private equity investment into UK healthcare in 2024, in line with the overall increase in activity. Jonathan Klonowski dives into the numbers and speaks to market participants to explore why, and the outlook for the sector in 2025.

The UK healthcare industry enjoyed a jump in private equity investment last year, spurred by improving macroeconomic conditions.

Sylvester Oppong, Partner at EY, states that conditions are improving to a point at which sponsors feel more comfortable pursuing and closing deals. This, combined with the fact that private equity firms are under pressure to deploy capital helped drive the increase in activity in 2024, he says.

Marc Kitten, Senior Partner at Candesic, similarly notes two factors driving the recent increase in activity. Firstly, sponsors are more used to the global uncertainty and dealing with the 'new normal' and secondly, in a agreement with Oppong, "money cannot wait forever to be invested", he says.

Actum recorded 25 buyouts of UK-based firms in the health and social care space in 2024, a 13.6% rise from the 22 deals a year prior, as seen in figure 1. As a result, it represents the fifth most targeted sector by private equity firms in the UK in 2024 behind business services, technology, finance, and manufacturing.

Rick Lawrence, Partner at Montagu notes how an increased generalist appetite in the sector has been driven by a flight to quality across private equity investment. The flight to quality trend was highlighted in [Actum's FY 2024 buyout report](). Market experts described increased amounts of due diligence and sponsors' heightened focus on recurring revenues in order to have more reassurance around projected figures.

"Investors are focusing on businesses with non-cyclical demand from a stable customer base, strong margins and cash conversion with underlying market growth driven by long-term trends", Lawrence says.

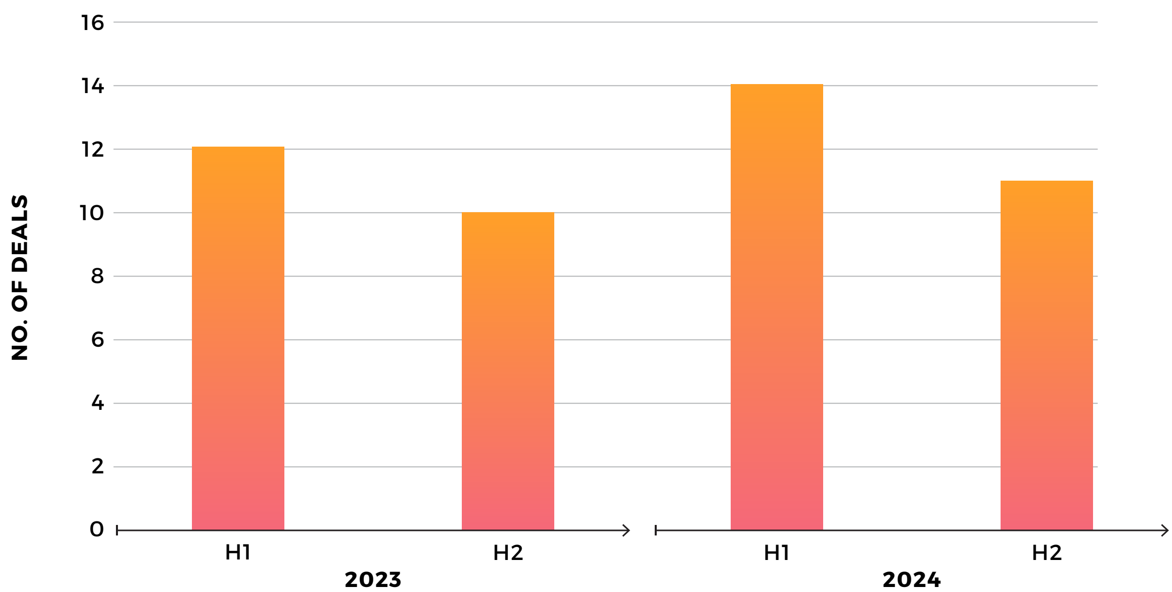

Figure 1: UK Healthcare LBOs (Source: Actum data)

This therefore seeps into the types of assets sponsors are focusing on. Lawrence says that there has been most interest in firms with structural underlying growth, low reimbursement risk and high value-add to the underlying customer. He adds that Montagu has focused on proven IP-driven products and devices, given the long-term growth prospects.

Playing politics

The structure of the UK market presents specific challenges for sponsors. Private equity investment into UK healthcare primarily revolves around the health and social care services market, Kitten explains. This is due to their historical overrepresentation in the UK economy, combined with a relative lack of sizable profitable life sciences companies.

"The questions are whether the government will find new funds to invest in the NHS, and how will the private sector find ways to enter," Kitten says, adding that changes to reimbursement are always a risk for investors.

Oppong notes that political due diligence has become increasingly important for sponsors investing in healthcare services, particularly where there is interaction with the public sector. Oppong adds that, as ever, there is a need for targets to demonstrate high quality levels of care and governance to ensure the continued success of investment in the space.

Consequently, sponsors must think strategically over portfolio companies' positioning. "The lack of ability to predict the future means that diversification is key," Kitten says, stating that sponsors will look to both the public and private sector.

Shaping what's next

"Tech has become a mainstay feature of most private equity investments," Oppong says, adding that many areas of the healthcare industry have been slower to adopt technology than other sectors. This therefore provides a multitude of opportunities for sponsors to drive efficiency in their businesses.

Many areas of healthtech, such as those more focused on consumers, are yet to be profitable, Kitten says, and due to sponsors' need for stability of cash flow, they remain in the wheelhouse of venture capital.

Of the 100-plus healthtech deals (excluding bolt-ons) targeting the UK since the start of 2022, over 90% have been conducted by venture capital firms, rather than private equity, as seen in figure 2.

One such area is artificial intelligence.

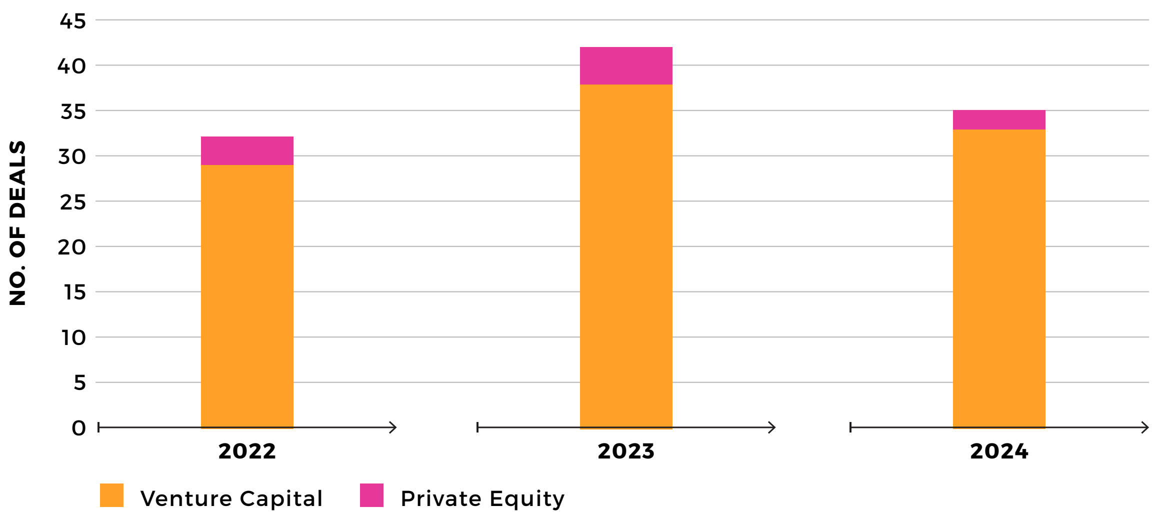

Figure 2: VC vs PE Healthtech (Source: Actum data)

AI, Oppong explains, is providing the industry with exciting opportunities, such as improving screening techniques in radiology and dentistry; this technology remains nascent in main areas of healthcare however for the time being.

AI that "will transform healthcare businesses in every dimension" is becoming prevalent in the sector in areas such as diagnostics and monitoring tools due to the data-driven nature of the products and services, Lawrence explains.

He expects activity in the coming year "to remain high as investors continue to prioritise stable, growing sectors over cyclical risk". Oppong is equally optimistic for a further growth in activity in the coming 12 months as conditions continue to improve, particularly in areas such as healthtech and healthcare product and devices.

"2025 is again likely to be more positive than negative," Kitten says. Areas such as healthtech, radiology, occupational health and ophthalmology are all likely to see continued interest from sponsors.

Buy & build strategies are also likely to remain prevalent. For example, Lawrence notes "strong potential for consolidation in the sector, particularly among developers of healthcare products, devices and components, where the benefits of scale in IP development and manufacturing are clear, and where customers are increasingly looking for one-stop solutions".

Our first data-driven report of 2025 and the aforementioned end of year report noted optimism for a further increase in private equity dealmaking in the coming 12 months. After a bright 2024, the healthcare sector looks set to take advantage and enjoy another healthy year of sponsor-led investment as the market continues to improve.

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