

BUPA is reaching out into the world of home healthcare provision, with its takeover of Clinovia. **Brian Bollen** reports on how suppliers are using M&A to adapt to this changing market

Visiting ours



For a country whose economy was once dubbed the sick man of Europe, the UK has been in remarkable financial form over the past decade. It is somewhat ironic, then, to find that after ten years of Labour government, so much corporate finance activity should be taking place in a sector devoted to the needs of the sick.

For healthcare – a sector that even those with ultra-Thatcherite tendencies shied away from trying to privatise – has become a hotbed of private provision, as the National Health Service continues its slow progress towards becoming a buyer of services as well as an end-supplier in its own right.

The commercial opportunities that this trend has created – and will continue creating at least in the short- to medium-term – are underlined by the changes taking place at BUPA, the country's best-known private health insurance group. BUPA, which some readers might be surprised to learn boasts a turnover of more than £4bn and employs some 42,000 people, has been actively developing its healthcare strategy to take it beyond its traditional core business of hospitals and care homes.

Doctor in the house

BUPA's purchase of Clinovia late last year took the company into the world of in-home care provision for the first time. Described as the UK's leading comprehensive home healthcare services provider,

Clinovia provides healthcare treatments to people in their own homes, catering for a wide range of illnesses, as well as providing care packages, such as home drug delivery, neurological rehabilitation and infection management.

In-home healthcare, BUPA believes, is ripe for expansion as the UK Government shifts further away from hospital-based medical services towards what one might be tempted to dub "care in the community", were it not for the unfortunate connotations. "My colleagues and I have been looking at the concept of out-of-hospital care for some time and were aware that Clinovia was likely to be up for sale," says Julian Davies, corporate finance director at BUPA. "When private equity houses go into a company we know what they're doing and when the company in question is likely to be sold. Clinovia had been in our sights for some time, although we first spoke to them formally in September. Rothschild ran a fairly typical Rothschild auction process. They've obviously done healthcare deals before, and have a good idea of which private equity houses are likely to be interested."

There were two rounds of auction bidding, the first round leaning heavily on a detailed presentation by management, while the second saw the release of the results of the vendor due diligence exercise carried out by PricewaterhouseCoopers. "We had very good access to the business, although

we never had formal exclusivity," says Davies. "The deal closed very quickly because we could sign contracts and pay an acceptable price speedily."

Coming out on top

The prize went to the highest bidder and Davies concedes that BUPA paid a "fair but full price, because of lower interest rates". The Ebitda current run rate multiple (the most recent three months annualised) was 10.8 (£87.7m divided by £8.1m), while the multiple based on the latest full year's figures was 13.7. "But there is tremendous potential for what we can do with the company and we didn't pay a huge strategic premium considering what we think we can do," he insists. "We are quite happy and we think that multiple will drop significantly over the next three to five years as we grow the underlying business."

By contrast with other deals that have been struck in healthcare, the purchase of Clinovia is not a property asset-backed transaction, in which property could be stripped out by sale and leaseback to generate instant returns to its backers. BUPA has bought the business on its own merits, and will not be looking for immediate growth in profits by cutting costs. "Our aim is to grow the business significantly," says Davies. "The Government policy of minimising stays in NHS hospitals is what creates the opportunity, and

► Home truths: BUPA's purchase of Clinovia

Lyceum Capital announced the sale of Clinovia to BUPA for a total of £87.7m on December 1, 2006. Lyceum had owned Clinovia for just over three years, having acquired it from France's LVL Holdings in a £32m transaction in August 2003. Under Lyceum's ownership, Clinovia invested in additional resources and facilities to expand and improve the range and quality of its services and to make five strategic acquisitions. This enabled the company to increase the number of patients served per month to 8,500, up by 70 per cent, and drove turnover up 69 per cent to £102m in 2006. Over that period, the number of employees doubled to 450.

"The acquisition by BUPA is an endorsement of the company's success and we wish Robbie Burns [CEO] and all the Clinovia staff well in the next stage of the company's growth," said Lyceum CEO, Philip Buscombe.

Dominic Hollamby and Daniel Foggo of Rothschild advised Lyceum while BUPA's corporate finance director Julian Davies relied on in-house expertise and experience.

Travers Smith Braithwaite partner Philip Sanderson provided legal advice to Lyceum, while Kevin James of Wragge & Co in Birmingham was his counterpart on the buying side. Iain Durrant and Chris Glazier of PricewaterhouseCoopers carried out vendor due diligence.

the at-home treatment of patients with chronic conditions is often preferable for the patient." Might BUPA make more acquisitions as that opportunity unfolds? "We're very much up for it, yes," he replies. "We are generating significant free cash which we are ploughing back into the business."

Although the buyer paid a "fair but full price", there was nothing opportunistic about the sale, said a contact at Rothschild, corporate finance adviser to the seller. "We began talking about a possible disposal with Lyceum a year before the process began. We have advised them in the past and know them well. We know their management strategy is to make sure the companies in which they invest are in the best possible position at exit. We also know BUPA well, having sold care-for-the-elderly provider ANS to the company in 2005 for £328m."

Selling the story

And while Davies describes the process as a fairly standard Rothschild auction, there is more to it than that. "There was a real story to tell in selling Clinovia," said one person involved in the process. "The market is complex and needs a lot of explaining. This relatively new sub-sector of healthcare only has two significant players: Clinovia and Healthcare at Home. Healthcare at Home has larger sales, and a more focused service offering, based very much on delivering drugs to the homes of patients. We needed to begin educating potential buyers well in advance.

"Normally you would prepare an information memorandum to educate people about a company, but as Clinovia expected to grow rapidly in a market estimated to grow from around £1bn to £3.5bn over the next three years, we decided it would be better to have management talk directly to interested parties; bidder education was key to the process.

"Following a pre-qualification process, a select group of potential purchasers received management presentations and vendor diligence reports prior to submitting their indicative offers. There was a wide range of valuations at the indicative stage, with most potential purchasers increasing their valuation as they learned more about the company and its markets. As a trade buyer that could see greater strategic possibilities, BUPA went on to offer the highest price."

When Lyceum Capital bought Clinovia in 2003, it had spent just six months talking to its French owners, explains Philip Buscombe, chief executive of Lyceum. Its first priorities on purchase were to upgrade both top-tier and second-tier management, installing Robbie Burns – who had previously held main board appointments at Nestor Healthcare Group and Healthcall and been a senior director at BUPA – as chief executive. Sir Don Cruickshank, former chairman of the London Stock Exchange, was appointed as non-executive chairman.

Lyceum then worked closely with management to transform the company through investment in key

aspects of the business and selected acquisitions. "This included upfront investment of several million pounds in new IT systems and drugs mixing facilities," says Buscombe. "We knew more and more NHS work would be outsourced and over our three years of ownership we more than doubled Ebitda, which had previously been in decline."

This was achieved by making significant improvements to the company's operations and moving it into higher value-added services. "We paid around £32m, or eight times Ebitda, and sold the company with profitability and sales growing at the rate of 25 per cent per annum, on a multiple of 10.8, giving us an IRR of over 40 per cent. We also made five add-on acquisitions.

"When we own a company we are constantly talking to potential buyers and in Clinovia's case it was time to explore the possibilities for a new owner to continue that progress. The price is an excellent one for investors and BUPA is an excellent buyer. For its part, BUPA has made a very good acquisition, as the level of NHS outsourcing will increase exponentially. This sector is in its infancy in the UK, but there are lessons to be learnt from other countries where the level of private sector provision is much higher." ■

Brian Bollen is contributing editor on Corporate Financier.