

EUROPEAN HEALTHCARE

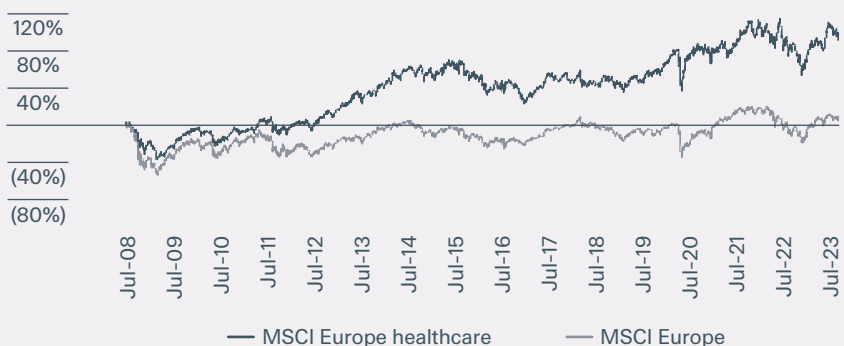
Private equity's outperformance and strategic pathways

DECEMBER 2023

The European healthcare sector has undergone significant structural transformations and sustained tailwinds in the past decade and a half, fostering advantageous investment returns within the industry.

Notably, European healthcare stocks, as represented by the MSCI Europe Health Care index, have demonstrated superior performance compared with broader European stocks encompassed in the MSCI Europe index over a 15-year period (**Figure 1**).

FIGURE 1: MSCI EUROPE HEALTHCARE INDEX RELATIVE PERFORMANCE
JULY 2008 – JULY 2023



Source: S&P Capital IQ as of closing July 1, 2023.

Furthermore, analysis presented in **Figure 2** reveals that European healthcare private equity has exhibited outperformance relative to the MSCI Europe Health Care index, boasting an overall PME and alpha of 1.5/10%. This underscores the capacity of private structures to enable managers to drive enhanced value within a healthcare investment environment that has generally shown robust performance.

FIGURE 2: EUROPEAN HEALTHCARE PRIVATE EQUITY OUTPERFORMANCE BY PERIOD

Performance vs. public market indices				
Period	vs. MSCI Europe		vs. MSCI Europe HC	
	PME	Direct alpha	PME	Direct alpha
2008–2013	1.7	13%	1.4	8%
2013–2018	1.9	23%	1.8	23%
2018–2023	1.5	17%	1.4	15%
Total	1.7	15%	1.5	10%

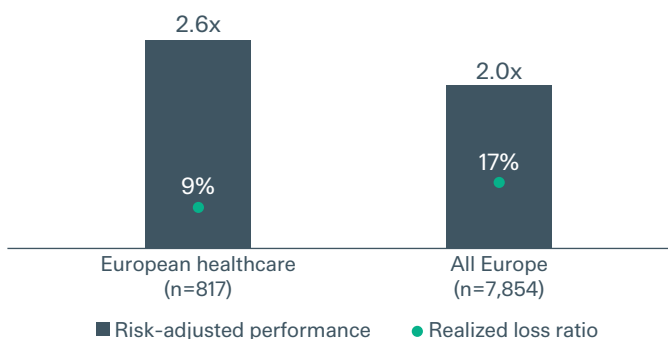
Source: Kaplan & Schoar PME Analysis as of March 31, 2023.

Insights gleaned from SPI Research (our proprietary private markets research database) corroborate this trend, indicating that European healthcare deals have not only outperformed

We believe private equity is well-positioned to arbitrage the complexities inherent to Europe’s diverse and fragmented healthcare market.

the broader European private equity market but have also exhibited lower volatility as depicted in **Figure 3**.

FIGURE 3: RISK-ADJUSTED REALIZED RETURNS AND LOSS RATIOS: EUROPEAN HEALTHCARE VS ALL EUROPEAN DEALS



Source: SPI Research, July 2023.

Note: Risk-adjusted returns are calculated as follows: $[Gross\ TVM] / [1 + Loss\ Ratio]$

Trends within European private equity

Contextualizing the European healthcare market within the realm of private equity, it is evident that, despite benefiting from overarching tailwinds, this sector maintains idiosyncratic complexities. Some of this complexity is driven by Europe’s language diversity and structural market differences, frequently serving as barriers for investors. We posit that private equity is well-positioned to navigate and leverage the opportunities inherent in these complexities.

We believe that the EU’s efforts to harmonize the regulatory environment for the healthcare sector across the continent continue to offer opportunities and tailwinds for investors as the fabric of the sector remains very fragmented. Two predominant trends shaping the trajectory of European healthcare private equity outperformance revolve around digitalization and the interplay between biotech funding and AI.

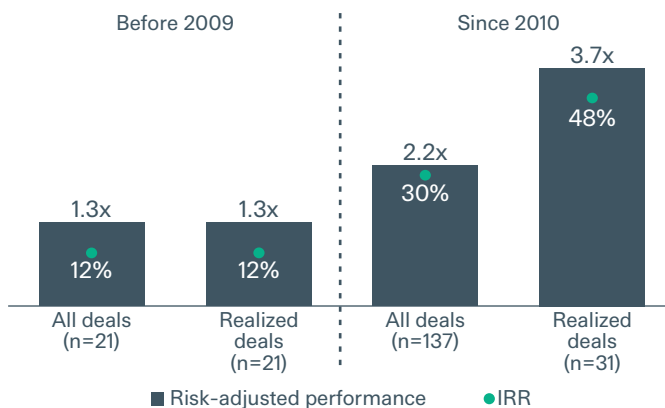
1. Digitalization

The burgeoning availability of healthcare data is anticipated to drive innovation across healthcare business models, encompassing both B2B and B2C models. While digital health investments may currently lag biotech investments in terms of volume and value, there is substantial growth potential. This is underpinned by the trend of healthcare consumerization and the transformative potential of modern computing, automation, and AI applications in healthcare. Notably, the increased volume and improved performance of healthtech¹ deals in Europe over time underscore the value creation potential within this segment. SPI Research shows that European private equity healthtech deals have generated a gross/realized TVM of 1.3x/1.3x before 2009 vs. 2.2x/3.7x since 2010, demonstrating a material improvement in performance, while the overall number of deals has increased by over six times (from 21 to 137 deals) over the same time horizons (Figure 4).

2. Biotech funding and the role of AI

Pharma and biotech constitute a pivotal sub-sector within European healthcare private equity due to their attractive fundamentals, including sustained innovation, outsourcing potential, and robust technological growth. We expect these elements will continue to present an enticing proposition for private equity investors. Within healthcare sub-sectors, pharma and biotech have demonstrated superior risk-adjusted performance, further cementing their significance as depicted in Figure 5.

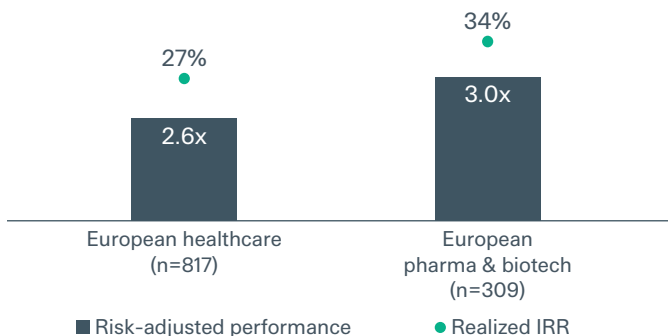
FIGURE 4: RISK-ADJUSTED RETURNS: HEALTHTECH DEALS PRIOR TO 2009 VS SINCE 2010



Source: SPI Research, July 2023.

Note: Risk-adjusted returns are calculated as follows: $[Gross\ TVM] / [1 + Loss\ Ratio]$

FIGURE 5: RISK-ADJUSTED REALIZED RETURNS: EUROPEAN HEALTHCARE VS PHARMA & BIOTECH DEALS



Source: SPI Research, July 2023.

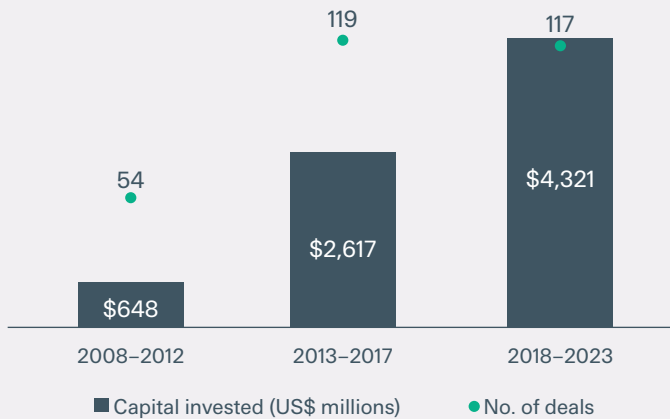
Note: Risk-adjusted returns are calculated as follows: $[Gross\ TVM] / [1 + Loss\ Ratio]$

¹ Refers to the Health Care Technology GICS classification.

Partnering with European healthcare specialists

Over the past decade and a half, GPs have increasingly directed investments towards healthcare, showcasing the sector's rising importance within private equity activity (**Figure 6**).

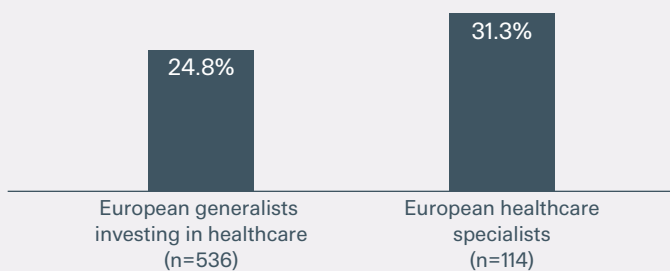
FIGURE 6: CAPITAL INVESTED AND DEALS COMPLETED BY EUROPEAN HEALTHCARE SPECIALISTS BY PERIOD



Source: SPI Research, July 2023.

Comparative analysis between healthcare specialists and generalists in the European private equity market accentuates the former's superior ability to generate premium returns. Since 2005, European GPs specializing in healthcare have generated a realized IRR of 31% versus 25% by generalists' healthcare investments (**Figure 7**). This underscores the added

FIGURE 7: REALIZED IRR: EUROPEAN GENERALISTS INVESTING IN HEALTHCARE VS EUROPEAN HEALTHCARE SPECIALISTS



Source: SPI Research, July 2023.

value of partnering with specialized healthcare GPs for LPs seeking exposure to European healthcare investments.

While European healthcare specialists have delivered superior performance compared with their generalist counterparts, Europe lags the US significantly in the number of GPs that specialize in healthcare investing. SPI Research reveals a notable discrepancy, with Europe housing only five healthcare buyout specialists in contrast to the extensive presence of over 60 such specialists within the US healthcare market.

Conclusion

European private equity within the healthcare domain has historically delivered superior returns relative to broader private equity and public market indices, emphasizing the promising dynamics available to investors in this sector. Healthtech and the pharma and biotech segment are identified as key areas exhibiting historical and anticipated outperformance, driven by digitalization trends and advancements in biological sciences, automation and AI.

Specialist investors in healthcare have consistently outperformed generalists, suggesting a continued trend in favor of specialized expertise. We expect this trend to persist and accelerate and recommend LPs to engage with specialist European healthcare GPs to access this market.

The cohort of specialist European GPs focusing on healthcare remains limited but discernible. Our firm is strategically positioned to track their growth, investment styles, and areas of differentiation, while leveraging our network to identify promising new entrants in the market. Additionally, our team can collaborate with clients to strategically explore healthcare sector exposure through co-investment and secondaries opportunities.

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All data is as of October 2023 unless otherwise noted.

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