

HEALTHCARE IS A SECTOR THAT CONTINUES TO ATTRACT INVESTORS

BY GILLES BIGOT

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The healthcare sector is a diverse area of investment with opportunities in pharmaceutical, biotechnology, medical devices, and service industries. These traditional industries call on the services of various subcontractors involved in the shaping, packaging, or manufacturing of pharmaceutical products and marketing and distributing plant, animal, biotechnological, and chemical raw materials for laboratories. Small (TPE) to medium-sized businesses (PME) and middle-market companies (ETI) participate in the diversity and growth of the industry.

As soon as 2016, China should constitute the second global healthcare market behind the United States, with France not far behind. France is praised by foreign investors, management companies, and pension funds. In the healthcare sector, the share of the capital of CAC 40 companies held by nonresident's amounts to 57% (compared to 46.7% for all companies). This arrival of foreign investment in the French healthcare market contributes to its growing global market share. French biotechnology companies, which are very competitive, are particularly coveted by investors. Indeed, it is estimated that by 2030, 80% of healthcare products will come from biotechnologies (nanotechnologies, pharmacogenetics, genetic tests, and diagnostic tests). This increases global interest in French biotechnology startup investments. The sector comprises 446 companies, including 58 pharmaceutical laboratories and 338 biotechnology companies benefiting from a favorable tax environment, thanks in particular to the research tax credit or the Young Innovative Company system. Capital increases and initial public offerings are booming in this sector, with approximately 15 initial public offerings recorded in 2014. The increase in the Next Biotech index, which comprises 25 values specializing in medical research and technology, is fair. The support of the Innobio fund managed by BPIFRANCE and the increasing interest of American investors also contribute to the attractiveness of these startups.

Another performance lever: innovation. On average, healthcare companies allocate 20% of their turnover to R&D activities. The healthcare sector is undergoing tremendous technological changes with the development of digital technology and the boom of smart devices. The development of new areas of investment such as the eHealth market is currently estimated at €2.4 billion and it should increase

again from 4% to 7% by 2017.

The dynamism of the healthcare industry also benefits from stable engines of structural growth, such as population aging and the increase of chronic diseases in developed countries. The development of access to healthcare in developing countries should also be mentioned, since said countries boost the increase in the demand for healthcare.

Societal changes moreover contribute to the boom of the healthcare market. Patients have changed and they behave more and more like natural and demanding care consumers. More mobile, informed, and sensitive to technological tools, patients establish themselves as new players in the change of the health system. They ask for a global approach focusing not only on recovery, but also on prevention and follow-up of their state of health. This medicine consumerization trend is a significant engine of growth.

The very active market of food supplements is a strong example of this trend. In France, this sector represents a turnover of €1.48 billion in 2014 and a growth in value of +6.4% compared to 2013. Pharmacy remains the first sales channel, with 51% of the purchases of consumers in value. Industrial companies continue to adapt by adopting an approach that is more focused on consumers' needs than on prescriptions, such as awareness campaigns and marketing strategies with a direct approach to consumers.

Another source of interest is in the healthcare property sector, which is boosted by investments from American property companies that recorded a transaction volume of €750 million in 2014. The decline of the euro should increase their thirst to invest further.

Finally, the healthcare sector presents good visibility in the long term for investors. Health companies have strong financial basics and a good generation of cash flow with a strong potential for return to shareholders and investors. Proof of this is the high number of mergers and acquisitions continuing in the sector. This industry recorded the highest number of transactions during the first quarter of 2015, with three major transactions: the purchase of Catamaran, specializing in care services management, by the insurer UnitedHealth, for approximately 13 billion dollars; the

purchase of Auspex for an amount of 3.2 billion dollars by the Israeli company TEVA, a leading manufacturer of generic drugs, and the purchase of the American company Hypérion, specializing in rare diseases, by Horizon Pharma for an amount of 1.1 billion dollars.

Another attractive point for investors, in particular in crisis time, is a trend specific to the French healthcare market to be countercyclical. In addition to its very good medical and scientific reputation, public funds and the public sector are predominant, and this contributes to reassured investors. Investments in the healthcare sector are thus massively used to diversify and, above all, secure portfolios. Furthermore, these investments seem especially balanced, since it is possible to switch within the same sector between large long-standing

players ensuring good visibility and regular productivity and young innovative companies offering an attractive growth potential. The results of the sector, which are excellent in 2015 after a very good year in 2014, should be very attractive to investors. Offering a wealth of initial public offerings, its performance, or over-performance, is remarkable compared to other sectors.

We are thus facing a truly French paradox: whereas the social welfare system suffers from chronic inflammation, the healthcare economic sector manages very well. One man's loss is another man's gain.

Gilles Bigot is a Managing Partner in Winston & Strawn LLP's Paris office.

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