



Consolidation and Optimization: Still a Strategic Play in French Healthcare Services?

French private healthcare services markets have experienced a profound transformation in the past few years, driven by volume growth, regulatory pressure and increased investment needs. This has led to a fundamental reshaping of the competitive environment.

Consolidation by major private players has played a significant part, as they have expanded their geographical footprints and optimized costs. M&A activity has been particularly strong across four key segments: private hospitals, nursing homes, medical testing laboratories and home care providers.

Investors have shown keen interest in these markets and consolidation is well-advanced, but value-creation opportunities still exist in the next stage of dealmaking and in optimizing consolidators' enlarged businesses. In this *Executive Insights*, L.E.K. Consulting reviews the trend toward consolidation across these four markets, the drivers of change and the outlook across each sector.

Major consolidation over the past few years

Private hospitals covering medicine, surgery and obstetrics (MSO) services have a long track record of consolidation in pursuit of economies of scale and to build leading positions locally to optimize patient recruitment and relationships with liberal physicians. In 2018, the top four MSO groups owned c. 60% of

private hospital beds and seats in France, compared with c. 48% in 2014 (see Figure 1). Recent takeovers include Ramsay/Générale de Santé's acquisition of Capio and Almaviva's acquisition of Medifuture, both of which took place toward the end of 2018.

In the elderly care market, consolidation has primarily been led by nursing home groups, or "*Etablissements d'Hébergement pour Personnes Agées Dépendantes*" (EHPAD), acquiring smaller independents to build scale. As a result, the top three players now account for c. 40% of private beds in the sector, and the top 15 players for c. 60% (see Figure 2).

M&A in the medical testing laboratory sector accelerated following regulatory change in the early 2010s, which allowed the hub-and-spoke model separating sample collection sites and analytical platforms, and also made the accreditation of French labs compulsory. The strong economies of scale resulting from consolidation and the significant financial and administrative costs of accreditation compliance for small laboratories triggered the takeover of smaller players. The trend has continued, and the share of the top five players reached c. 55% of the market value in 2018 (see Figure 3).

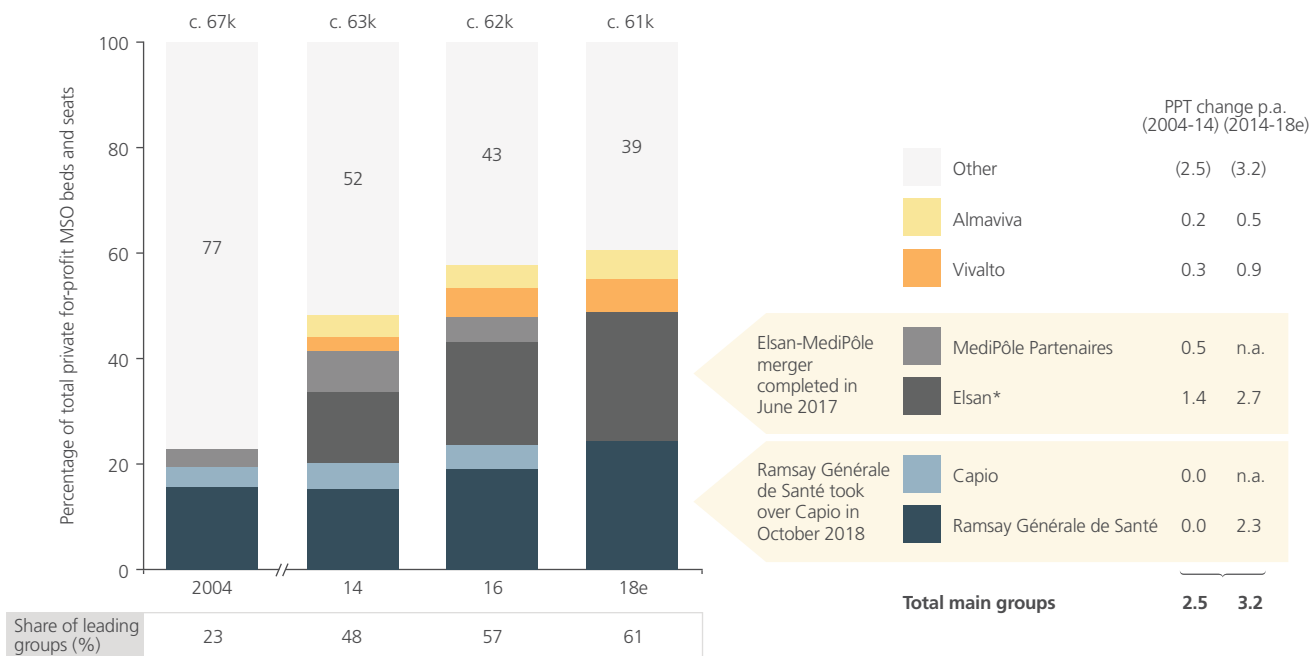
The private home care services market, or "*Prestataires de Santé à Domicile*" (PSAD) has also significantly consolidated over the past decade driven by economies of scale and logistics costs optimization at a local/regional level; the market share of the four largest companies increased from 37% in 2002 to 62% in 2016 (see Figure 4).

Consolidation and Optimization: Still a Strategic Play in French Healthcare Services? was written by **Arnaud Sergent**, **Serge Hovsepian**, Partners and **Jean-Guillaume Bayada**, Principal at L.E.K. Consulting. Arnaud, Serge and Jean-Guillaume are based in Paris.

For more information, please contact healthcare@lek.com.



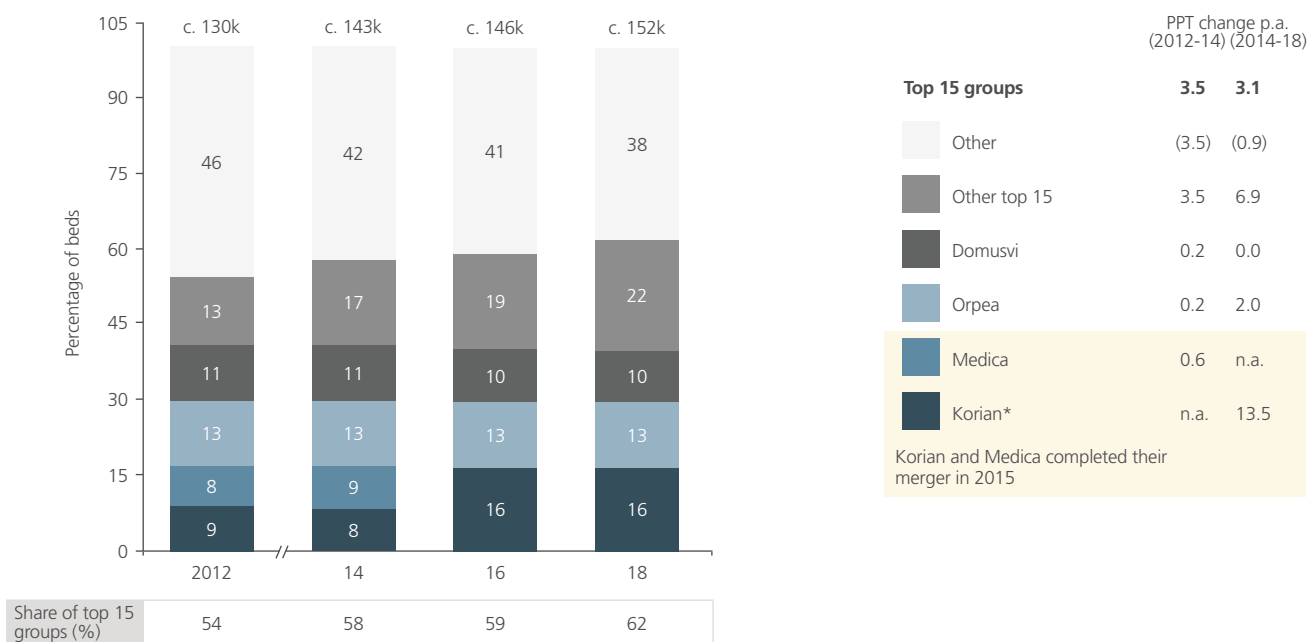
Figure 1
Market shares of main for-profit private MSO players in France (2004-18e)



Note: *Vitalia-Vedici merger in 2015 to form Elsan

Source: DREES, Xerfi, Press, SAE, annual reports, L.E.K. research and analysis

Figure 2
Market shares of main for-profit private EHPAD players in France (2012-18)

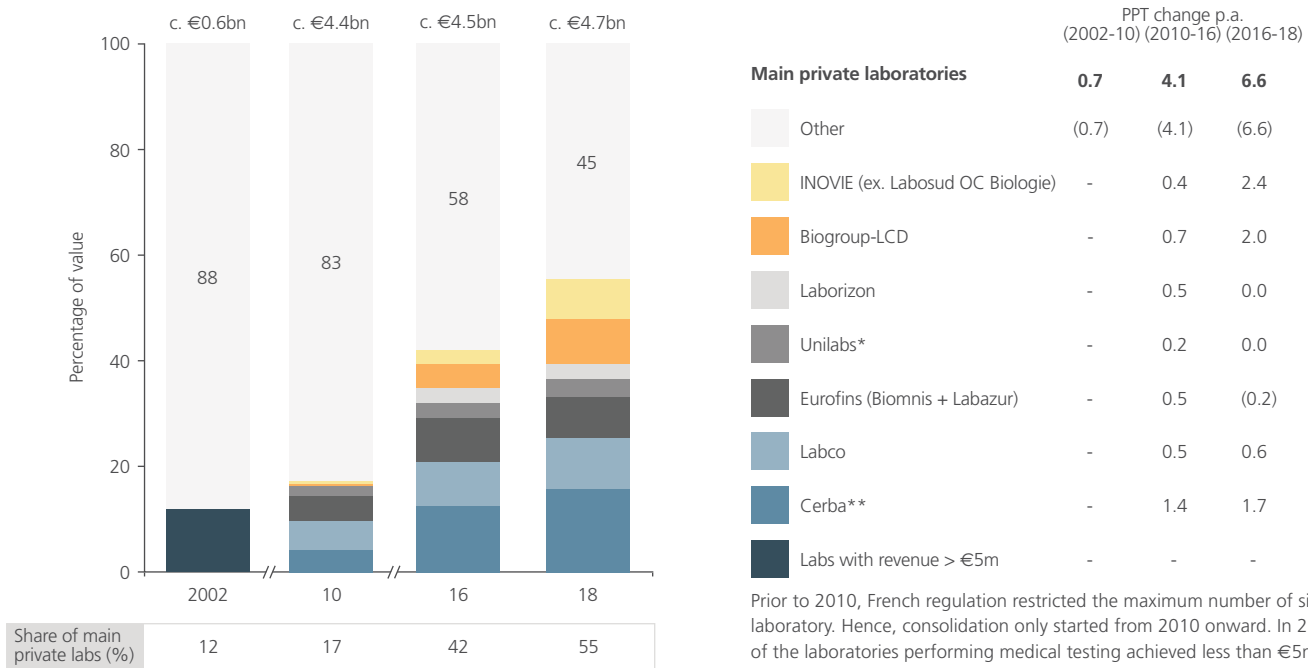


Note: *Suren-Medidep merger in 2006 to form Korian

Source: FINESS, Mensuel des Maisons de Retraites, L.E.K. research and analysis

Figure 3

Market share of main for-profit private laboratories in France (2002-18)

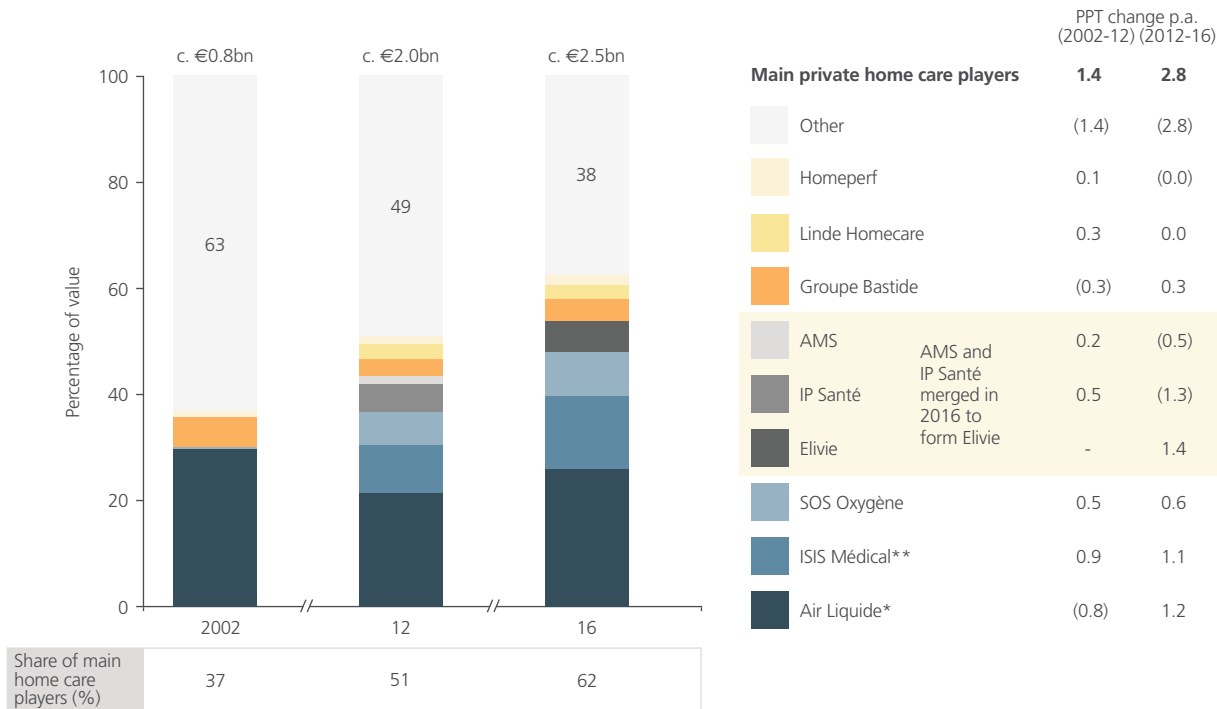


Prior to 2010, French regulation restricted the maximum number of sites to five per laboratory. Hence, consolidation only started from 2010 onward. In 2002, c. 90% of the laboratories performing medical testing achieved less than €5m of revenue.

Note: *Assuming stable revenue in 2016; **Cerba sales including international 2002-16, only France in 2018
Source: Orbis, Press, annual reports, L.E.K. research and analysis

Figure 4

Market share of main for-profit private home care players in France (2002-16)



Note: *Consolidation of Orkyn, VitalAire, LVL Medical, ARAIR, Dinno Santé, ADEP Assistance; **ISIS Médical revenue growth in 2015-16 estimated to be equivalent to market growth rate
Source: Orbis, Xerfi, Press, annual reports, L.E.K. research and analysis

Future deal flow

The trend toward consolidation is expected to continue, driven by economies of scale, further price pressures and the capital investment needed for geographic or service expansion. Optimization resulting from the M&A activity — as well as constant productivity improvement in most of those sectors — has historically enabled larger players to offset the negative impact of constant price pressure imposed by the regulator.

All four segments have had relatively parallel consolidation cycles to date, but rates are now likely to differ. Both laboratories and the home care services sector can expect to see the same level of M&A activity, but the pace of consolidation in private hospital and nursing home markets is likely to slow.

In laboratories, small and midsize independent groups still account for almost half of the market's value. And despite current regulatory limitations to the market share of a single player in a given local market (Territoire de Santé), there is still considerable room for rationalization; laboratories are equipment-intensive businesses and can generate significant cost savings by centralizing equipment on one technical platform.

The home care services market is still fragmented, with many small private for-profit and non-profit players holding less than 1%-2% of market share. This is particularly true of the perfusion and nutrition segments. Key gains can be made by optimizing agencies' size and logistics, and by generating economies of scale in procurement and shared services, such as IT.

The rate of takeovers is set to gradually slow in the private hospital sector, with the bulk of small and midsize acquisitions in the regions targeted by leading groups now complete — more than 60% of French private hospital capacity is owned by the four leading groups and c. 50% by the two national groups. Apart from the Île-de-France region, where the bulk of consolidation is still to come, core opportunities now lie in integrating the larger and more complex businesses, some of which are regional groups, to generate savings through purchasing volume scale, patient referral optimization and shared services.

Consolidation in nursing homes has also led to the emergence of a handful of large groups, which are now focused on operational integration. Consolidation of independents is expected to be led by midsize players (running 30-100 EHPADs) and is likely to happen between them as the largest groups focus on internationalization and consolidating foreign markets.

Post-consolidation prizes

Post-consolidation, opportunity is plentiful for businesses to make further gains in each of the four sectors.

In nursing homes, recent tariff convergence between public and private players and the implementation of multiyear objectives and resources contracts, or "*Contrat Pluriannuel d'Objectifs et de Moyens*" (CPOM), present favorable opportunities among for-profit EHPAD groups. As new dependence and care allowance schemes enable optimization and raise national quality, requirements should be more easily met by larger and more professionalized players.

Nursing homes also have the opportunity to further develop their elderly care service offerings by opening rehabilitation centers, assisted living facilities, shared apartments and home nursing services, or "*Services d'Aide et d'Accompagnement à Domicile*" (SAAD), and offering a continuum of care.

Home care service providers must find a way to evolve in an increasingly constrained environment (e.g., implementation of tele-monitoring, constraints on medical representative initiatives) with significant pressure on Social Security reimbursements. One avenue for growth is to extend the scope of medical equipment delivered, such as home dialysis equipment. Another strategy is to explore the integration of comprehensive home services for patients, including medical equipment, home nursing and tele-monitoring.

Opportunities for private hospitals include optimizing collaboration with public operators locally and extending care before and after the acute episode they are currently addressing. Early movers are likely to benefit from the ongoing reform of Ma Santé 2022.

Beyond further consolidation, medical testing laboratories have the opportunity to develop their businesses internationally, generate additional procurement savings and benefit from further regulatory liberalization that could unlock additional value from existing assets (e.g., through softening the obligation to maintain the presence of one biologist per collection site).

Next steps for investors

Investors already involved in French private healthcare markets, or those considering taking a position, should carefully review the dynamics that are driving the next phase of consolidation and the post-deal growth environment. They will need a detailed understanding of the pricing challenges and regulation surrounding each segment and the options available to dealmakers. For those that get it right, there are significant long-term investment opportunities ahead.

About the Authors



Arnaud Sergent is a Partner in L.E.K.'s Paris office. He has more than 25 years' management consulting experience and has extensive experience in corporate and business

strategy development, with deep expertise in the healthcare sector. Arnaud is a graduate from HEC and received a Master of Business Administration from INSEAD.



Serge Hovsepien is a Partner in L.E.K.'s Paris office. He has more than 20 years' experience in management and strategy consulting. His areas of expertise include market entry, growth

strategies, benchmarking, business planning, and M&A. Serge holds a Masters in Electrical Engineering from Supélec and an MBA from INSEAD.



Jean-Guillaume Bayada is a Principal in L.E.K.'s Paris office and a member of the European Healthcare Practice. He has more than 12 years' experience in management and

strategy consulting for the healthcare industry across the public and private sectors. Jean-Guillaume graduated from ESSEC.

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