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# Examining Differences Between US & UK/ European Healthcare Market Opportunities

## An Interview with Jonathan Kron

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### Key Takeaways

1. Large and effective partnerships between private market healthcare companies and large, government funded healthcare agencies have been a cornerstone of UK and European healthcare markets for decades.
2. +80% single payor market in the UK has still enabled plenty of private capital investment to act as a "high-quality" partner to the NHS and to work with the remaining ~20% of the payor market that offers alternative private payor models.
3. The analogy to heavy NHS payor reliance in the UK is investing in US states where single payors dominate their respective local markets, which is in fact frequently the case.
4. Large For-Profit US based, plus South African, and Australian health care systems such as HCA, BMI and Ramsay Healthcare have for many years invested in hospital ownership.
5. The principal reasons for private sector expansion in the UK include:
   a. Significant care access and patient experience challenges experienced in the public sector.
   b. Growing partnerships between public and private sectors, with the private sector being able to provide investment where the public sector lacks funding.
   c. Private payors supporting the expansion of private outpatient settings given their lower cost, higher quality offering.
   d. Critical industries such as Defense and Transportation recognizing that public sector healthcare alone does not adequately address the health & wellness needs of their workforce.
   e. The UK corporate employer sector is also coming to the same realization on behalf of its workforce.
6. Noticeable rapid growth private sector markets across Europe would include:
   a. Radiology
   b. Retail Healthcare: Urgent Care, Optometry, Dental
   c. Primary Care
   d. Single Specialty Groups (e.g., orthopedics)
7. The similarities between Europe's cross-border healthcare market capitalizing on better forms of healthcare and the U.S. market are plentiful. However, Europe lags way behind the U.S. in value based care risk based reimbursement models.

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## Background in UK & European Healthcare

I've been working in healthcare since 2002, first as a lawyer in London at Allen & Overy LLP where I worked on several joint ventures between the NHS (the public sector) and the private sector. At the time, there was a £5 billion program under Tony Blair to **develop private care** in order to reduce waiting lists, as well as to introduce new infrastructure and IT systems into the antiquated NHS system.

The program was controversial and had some successes, but 20 years later and two cycles of public sector expansion and contraction, we're in the same place as we were back in 2002. We have failing infrastructure, problematic legacy IT systems and 7-8 million patients on waiting lists for some form of elective care across the UK. As an example, there is a 27 week wait to get an orthopedic MRI scan in Lancashire, a county in the northwest of England.

I worked on those projects as a lawyer advising the private sector. The first big client was a Swedish healthcare business that won a 5-year services contract worth probably ~£750 million and included building multiple elective care sites across the UK. I then left and set up a healthcare consulting business. We built teams of experts to analyze these partnerships, to see if they made both patient service and commercial sense.

We wrote white papers about the challenges in the UK market. This included analyzing the impact that the public sector was having on the limiting private growth, as well as where the private sector opportunities were highly viable. At the same time, we worked with a US health system called Dignity Health, renamed as the Catholic Health Initiative, on a potential international expansion program looking at the UK, Europe and the Middle East. And, over the last several years, we developed our own private operating business here in London, primarily in the primary care space plus some outpatient specialty clinics. Our timing was unfortunate, we opened right in the middle of COVID.

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## How Public is The UK Healthcare Market – Examining the Payor Landscape

The NHS public sector was created in 1948, but there's always been a private element to healthcare in the UK. Even on the primary care side of the NHS, the providers are all private practitioners, they all have their own private businesses. They have patient referral contracts with the NHS and that is where the majority of their volume comes from. So, it's always been incorrect to define the UK market as entirely or even mostly public. Yes, it's mostly a single payor system - the NHS represents 80-82% of total spend in any given year. But, is that so different to a state like New Jersey or Connecticut or Nevada in the US where most of the dollar spend is captured by one to three payor groups - Medicare, Medicaid and, for example, one dominant commercial managed care group such as Horizon Blue Cross or United Health or Aetna. That still feels like a highly concentrated payor market.

Just like in these states, that leaves plenty of opportunity to create value dealing with the largest payors and quite a rich 20% of the market that offers a variety of fragmented alternative private payment options.

## How Public is The UK Healthcare Market – Examining the Provider Landscape

The NHS remains by far the largest employer in the UK. It's the fourth or fifth largest in the world. The NHS employs 1.7 million people, of which about 700 thousand are nurses. However, the increase in private healthcare is attracting increasing numbers to leave the NHS looking for better pay, less bureaucracy and a better working environment. Institutional money (i.e., private equity funds) are increasingly backing certain private groups and they're buying smaller clinics, but there is still plenty more to go in capturing NHS market share.

All clinicians, including all nurses, receive their training in the NHS. They then either decide to stay in the public sector or branch out into the private sector. There are significant pension benefits attached to staying in the public sector, and there's a certain minimum number of clinical hours required. The majority of people who enter the private sector still keep one foot in both camps by maintaining some NHS hours for publicly funded patients. The depth and the breadth of working in the NHS, as well as the expertise and groundbreaking work & research that is done is exemplary. However, as a provider, the NHS does raise some challenges and conflicts of interest - doctors who can see you in three months' time in their NHS practice, can see you next week in their private practice.

There are a lot of private general hospitals that cover a full range of services, but there is no "Private" ER option in the UK. The most we have is private urgent care. There are a number of high dependency units (HDU) that sit with some of the private hospitals. But if it is an emergency, all patients go to an A&E / ED in an NHS hospital that is open 24 hours. And every private hospital has to have an arrangement with an NHS hospital A&E, to provide support in any life-threatening situation. And therefore, you have this issue, especially out of hours, where the private hospitals can be quite dependent on their NHS partners.

# How Public is The UK Healthcare Market – How is the Market Trending?

## Corporate & Health System Incumbents & Newer Market Entrants

There's a general increase of private sector providers in the UK. If we look back in history, HCA entered the UK market in 1995 and has owned five hospitals in London for the last 10 years. They have 30 sites across the UK including hospitals, clinics, outpatient and diagnostics centers. We have a lot of international hospital groups like BMI and Ramsey Healthcare (Australian). The Cleveland Clinic is the latest addition and the Cleveland Clinic made a commitment about four years ago to move their international headquarters to London. There's quite a lot of elements that the Cleveland Clinic is trying to introduce, maybe mirror what they do in the US and see if that can work here in the UK. The Mayo Clinic is another market entrant example - they have a small outpost here though it seems to be facing more challenges in gaining traction. Their strategy, which has been focused on very high-end executive screening program, has effectively priced themselves out of the market. As a result, they have struggled to try and find their positioning in the marketplace. All of these U.S. groups are now engaged in a UK land grab focused on smaller private hospitals that are struggling.

Despite the relatively small private insurance segment, the self-pay market continues to grow. There are many patients who are increasingly frustrated with the waiting times and delays in the public sector. And we see growing self-pay demand for primary care and simple elective care, hips, knees, orthopedic procedures. This is creating tremendous opportunity both in London, the outskirts of greater London, plus the country's other major cities like Manchester, Bristol, and Liverpool. A good example of a rapidly growing private entity partnering with the NHS is Virgin Care, which until the end of 2021 was owned by Richard Brandon under the Virgin Group conglomerate. They recently sold to a PE fund and rebranded as HCRG Care Group. They are focused purely on public sector services contracts for community care, care coordination, sexual health, prison healthcare.

## Diagnostics

In terms of specific sub-segments of the market, I think private sector momentum in diagnostics was there pre-COVID. On the back of the pandemic, this market segment is growing exponentially. All the new pandemic related start-ups will be going through rapid consolidation and repurposing and many of course will not survive. They're trying to upgrade to a full blown lab and putting in place multiple contracts with different hospitals to try and beat the incumbent larger private labs that are based in the UK.

## Radiology

Another example is in radiology. Historically, UK patients were reluctant to receive diagnostic imaging, but demand for both MRI and CT scanning is now accelerating. We're involved with a business that is looking to bring MRI at a retail level to the UK retail High Street. It's more musculoskeletal extremities-focused MRI, which is a lot more cost efficient.

## Musculoskeletal

Musculoskeletal issues in the UK are huge and growing, especially with our working and aging population. There's a lot of opportunity in that space, as well as an element of consolidation. Especially because the occupational health providers that have tended to service these patients are struggling. Those businesses don't have enough staff coming through them - enough people being trained to be able to grow. And, therefore, people are looking at new service models that offer screening and come with the necessary investment in both staff and equipment. If a patient presents with a musculoskeletal issue, the practice can offer an integrated care plan that includes timely MRI scanning and a program of rehabilitation.

There's been a shift to focus on corporate responsibility for employee healthcare to not be fully reliant on public sector.

## Employers

There's also been a shift over the last couple of years to focus increasingly on corporate responsibility for their employee healthcare so as not to be fully reliant on a highly strained public sector. The cost and inefficiencies of getting appointments to see a GP, a doctor, or a consultant in the NHS can require multiple appointments and long wait times. As a result, many patients just give up unless the symptoms are severe. So, there's a big push for improvement. There's quite a lot of press coverage as well recently about corporate responsibility for the health and wellbeing of workers, which I guess is a European and a global shift that's coming. Some countries are obviously ahead of others. But, we are seeing a lot of activity there.

The trend notwithstanding, private medical insurance has not yet adequately adapted to the needs of the employer marketplace and what they are increasingly looking for. We've worked with a number of large financial institutions on this subject. Employers have come to us asking "what else can I do for my employees?" A lot of employers are very frustrated with the type of limited offerings that the insurance companies are giving them - unless their employee numbers are quite large, private payors are only offering a very off-the-shelf standardized level of coverage.

Employers are looking for something a lot more bespoke that they can deploy based on data, the knowledge, the information

they have on their workforce. As an example, the Confederation of British Industry (the CBI) represents hundreds of thousands of companies and millions of members and is currently exploring an augmented health service offering focused on employees.

Another very interesting development is that the country's Defense sector is very conscious of the problems in relying on public health to support its members, given the critical nature of keeping their sensitive workforce fit and well. Similar concerns exist in other sensitive industries such as nuclear and shipping markets. These industries are looking at offering their employees directly contracted and alternatively funded healthcare services that take pressure of the local NHS providers but also integrate the care withing the community. There's a huge movement to introduce employee screening and programming, and then also to extend it to their wider families.

## Other Key Healthcare Industry Trends Across the UK and Europe at Large

### Shift to Outpatient

There's a noticeable shift into outpatient settings to reduce the cost basis of where care needs to happen. Some of the most successful businesses right now are very focused on outpatient and they're seeing incredible demand. It's a much better experience, much more cost efficient. And also the small private medical insurance market that is here is driving its patients towards outpatient settings.

### Specialty Care Market Consolidation

There's been a lot of consolidation across single specialty groups as well. We have orthopedic specialty groups with institutional capital behind them. Quite a few have changed hands now on multiple occasions. There's been consolidation across the dental sector in the UK. And the consolidation is also spreading into Europe. I was in discussions only a few weeks ago with a large Irish Primary Care group. They have 60 clinics in Ireland. And remember, it is a tiny population of three and a half, four million people, but they have UK based funding behind them, and they have acquired 12 clinics in the Netherlands. They are acquiring five in Germany, and they are looking to enter the UK, starting off with London. And they're not just straight primary care - they're primary care with an element of diagnostic scanning. It's a longer pathway where they can control a lot more of the spend and offer a much more efficient service because the returns on straight primary care are not nearly as meaningful as those provided through primary care plus diagnostics.

### Cross Border Expansion

There are a lot of businesses that have grown out of France and Spain, even Greece that have rapidly expanded over the last five to 10 years. These businesses are finding where there are regional similarities across countries, because every country obviously has a different set of regulations. They are investing where there are similarities that they can more rapidly expand into new markets. There are some markets with higher barriers to entry based on the payor market. For example, in some of the Nordic countries, everybody has to have private insurance but the private insurance offered only provides access to effectively state-sponsored care that is in partnership with private providers, effectively crowding out any pure private provider market alternative. But every jurisdiction is different. And, therefore, that expansion across Europe takes a lot more detailed strategic planning. This probably is not dissimilar to some of the different state versus federal structures in the US.

### Increasingly Active Specialty Market Segments

Market segments that are of key interest and where there's a lot of activity are mental health and homecare. Aging populations that both the UK and all of Europe is facing, is a very active space. We have a Belgium-based healthcare real estate fund that has just been buying UK homes, including in the Isle of Man in Jersey. That was a €52 million deal. It also included a number of properties in Finland and in Sweden. Summit Partners is very active in the UK and Europe. I think they just recently bought a large homecare business. I've seen 30 cross border transactions in the month of April, just here in the UK alone, in the veterinary space, dental space, and digital workspace. Insurance companies buying dental insurance companies. Private urgent care providers that have multiple NHS contracts getting large extensions and additional contracts. A large real estate fund recently completed a £100 million transaction with a specialist care provider here in the UK.

### Increasingly Active Geographic Market Across Europe

The Nordic countries are incredibly active at the moment, there's a rapid pace of privatization. There are large investment groups that are expanding from the Nordic region and buying assets and operators across both Central Europe and the Mediterranean. But at the same time, we're seeing activity from Spain, acquiring French hospital groups and diagnostic providers. I think that there is a general push across all of Europe, Northeast, South and West for a more dynamic marketplace. There's a lot of innovation developing in every market. There are businesses that are trying to lead the trend of established private practice in certain countries. Germany as a country has been very doctor led, doctor controlled as an industry with something like several hundred different insurance providers that are there and there is rapid consolidation coming that will change the dynamics of a clinician-controlled marketplace. You will find some similarities in Southern Europe. So, Spain, France, maybe into Italy where you might find synergistic partnerships working together. And you'll see the same, obviously in the Nordic countries, but there are plenty of mergers that are non-contiguous.

### Adoption of Care Coordination & Value-Based Care in the UK

I think the one area where we are probably far behind the US, is coordination of care. One challenge in the UK is because it is such a public sector dominated market, many patients will look to and maybe choose the public option first. Even if they have private

medical insurance, and note insurance never covers emergency care in the UK, they may still look to the NHS for certain things because why shouldn't they? There's a culture of accepting that it's free because we pay our taxes and it's available. I know plenty of very wealthy individuals and families who will still take public sector care because it's there, it's on the doorstep. And if they have a half decent experience, they believe there's an element of entitlement to it. However, when it is not an emergency and access is challenging – a few weeks to see a GP, months to see a specialist consultant or 27 weeks to get an MRI in Lancashire – that is where the private sector can woo a patient by offering easy and fast access at a price that the public feels is not extortionate and worth paying if self-pay to skip the queue and get the service they want; or the bill is covered by their private medical insurance.

But the problem then becomes the coordination of care between the public sector and the private sector. And it does break down quite considerably in this area. There are some facilitators that are developing case management software across both the public and private sector. And we are talking to a business that is running a pilot for a large 40,000 employer business. And they are in partnership with the local community healthcare system. The employer is taking responsibility for the healthcare of its staff, but they're using case managers to work out the most efficient way to manage all the care. Whether it moves across public or private sector. But that is a pilot that is not seen everywhere across the country. And I think it'll be very interesting to see how it works. In truth coordination of care is extremely expensive, including when it is care coordination within the NHS, and we have seen that the NHS often partners with private providers and needs private sector investment – HRCG Care Group (formerly Virgin Care) is a good example. Markets that are mostly publicly funded therefore struggle.

In the Primary Care setting initially there are incentives for physicians, and they are a little bit distorted. Some of the incentives are per capita based. In other words, how many patients can you actually get on your practice list as opposed to pure outcomes/results based. There's focus on smoking cessation in obesity and losing weight before treatment is provided. Physicians are incentivized under their contracts with the NHS to be able to address these correlated behaviors. Over the last several years there's also been an organization set up to gather data on private sector providers, because prior to that, there was no obligation on private sector providers to actually publish or provide any outcomes based data. So a lot of the physicians are now graded by both colleagues in the industry, but also the general public. And the owner operators are therefore incentivizing their clinicians on the basis of what the reviews are like, how they're delivering and so on. So they can try and build a reputation around their business. But again, this is very far from coordinated outcome-based medicine.

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