UAE Health Sector Pulse

November 2021

M&A Edition

Contents

Foreword

Alvarez & Marsal Middle East Limited (A&M) is delighted to publish the M&A edition of the UAE Health Sector Pulse (The Pulse). In this quarterly series, we share results from our research examining healthcare M&A activity in the UAE. The Pulse aims to provide investors, healthcare executives and board members with a thorough overview of current M&A trends.

In the M&A edition of The Pulse, we identify the types of assets being acquired as well as the types of investors active in the market. Moreover, we review clinical, operational and financial trends. The Pulse also highlights relevant global case studies to serve as a reference point for local investment opportunities. Current healthcare M&A trends indicate a pivot from provider consolidation to the acquisition of strategic assets to bolster an investor’s value proposition.

All data used in this report has been obtained from publicly available sources as well as private M&A-focused databases. The methodology for the calculations is explained in footnotes, where applicable.

We hope you will find The Pulse useful and informative.

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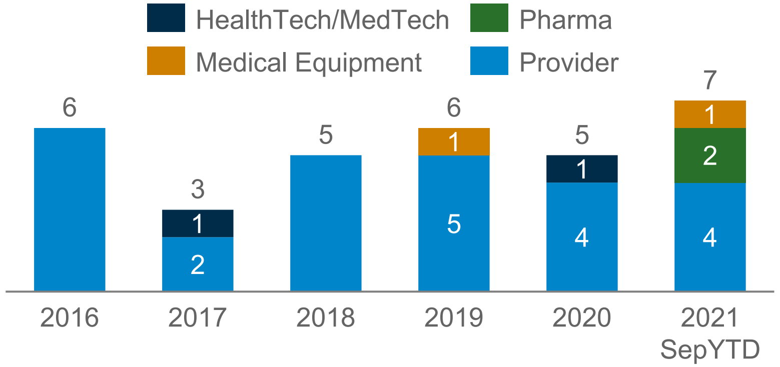
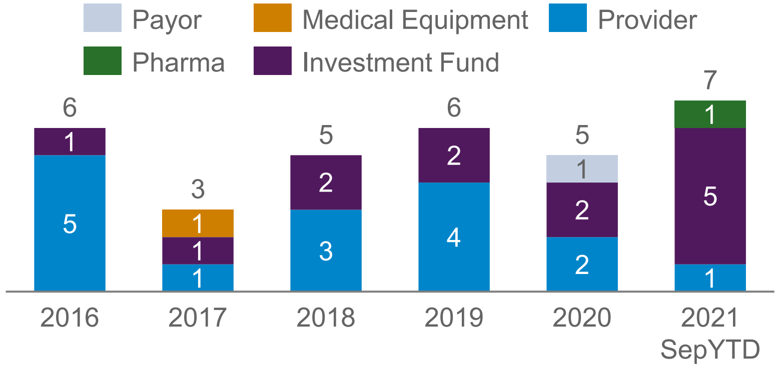
Healthcare M&A Activity – Local and Global Trends

Healthcare M&A activity in the UAE has traditionally been driven by providers seeking to grow market share; investment funds are increasingly active in this space

Major[1] UAE Healthcare Deals by Asset Type[2] (# deals, 2016–21)

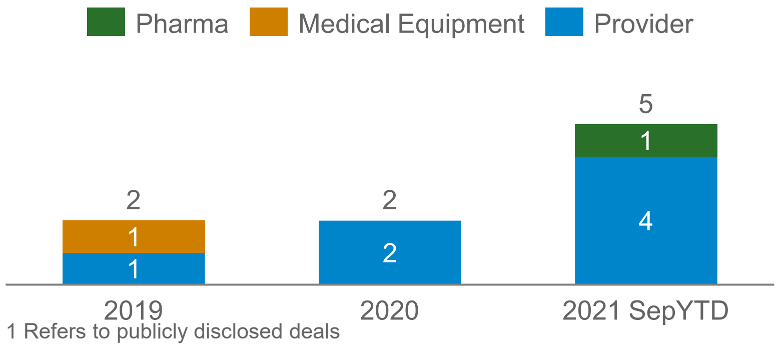


Major[1] UAE Healthcare Deals by Investor Category[3] (# deals, 2016–21)

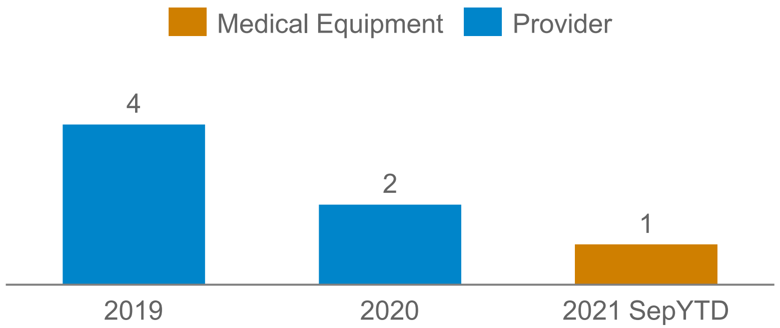


Major[1] UAE Healthcare Deals by Investor Category[3] (# deals, 2019–21)

Types of assets acquired by **Investment Funds**



Types of assets acquired by **Providers**



1 Refers to publicly disclosed deals
2 Asset type refers to the acquired entity (for an acquisition) or the largest entity (for a merger)
3 Investor category refers to the acquiring entity (for an acquisition) or the largest entity (for a merger)
4 Refers to SepYTD
Source: MAGNiTT, Press releases, A&M analysis

Insights

- **81 percent of deals** between 2016 and 2021 were **provider acquisitions or mergers**; increase in HealthTech and Pharma deals from 2020 onward.
- **Providers** have **typically focused** on **consolidation** with the objective of **capturing additional market share** across **multiple clinical specialties** and **catchment areas.**
- While **most deals** between 2016 and 2021 have been **investments by providers (50 percent)**, **investment funds have been increasingly active** and account for **58 percent of deals** in 2021[4] **(up from 17 percent in 2016).**

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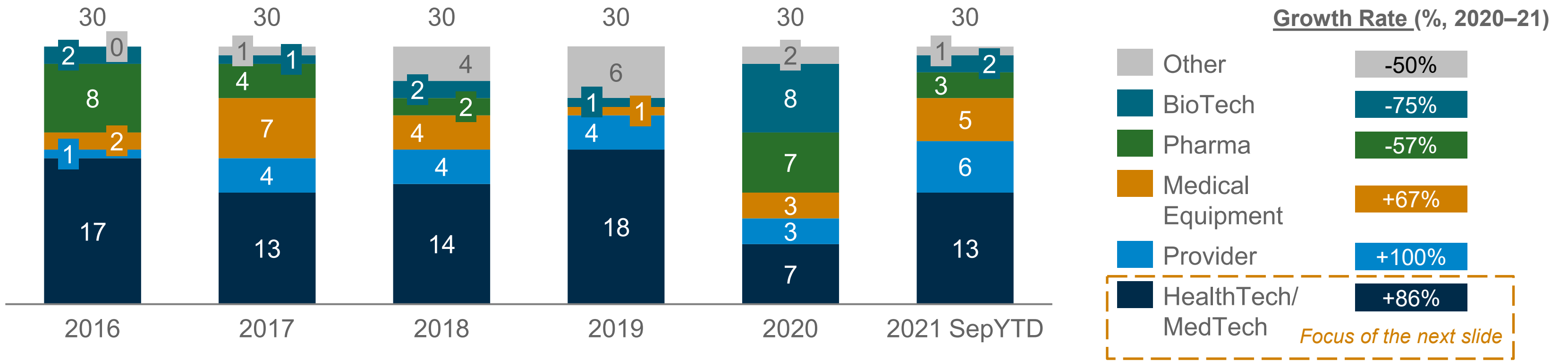
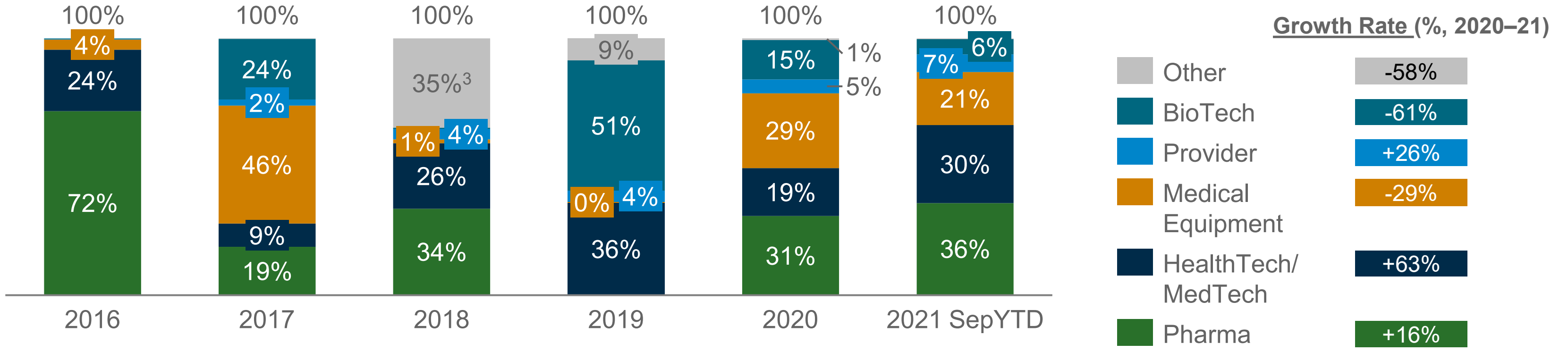
By contrast, most deals in the U.S. consist of HealthTech/MedTech assets; Pharma assets account for majority of deal value

Largest[1] 30 U.S. Healthcare Deals by Asset Type[2] (# deals, 2016–21)



Largest[1] 30 U.S. Healthcare Deals by Asset Type[2] (# deals, 2016–21)



1 Refers to deal value; largest 30 considered representative of overall market trends
2 Asset type refers to the acquired entity (for an acquisition) or the largest entity (for a merger)
3 Includes high value payor merger
Source: Tracxn, A&M analysis

Insights

- Despite a **lower number of deals** compared to HealthTech/MedTech, **Pharma** and **BioTech** assets have the **highest average value per deal** from 2016–21.
- Unlike deal volume, **deal value** is **not highly concentrated** within **one asset type** but rather **spread across** Pharma, Medical Equipment, BioTech and HealthTech/MedTech.
- Despite a **decline** in the **number** of **HealthTech/MedTech deals** from 2019–20, **deal flow has recovered** in 2021 with 13 transactions.

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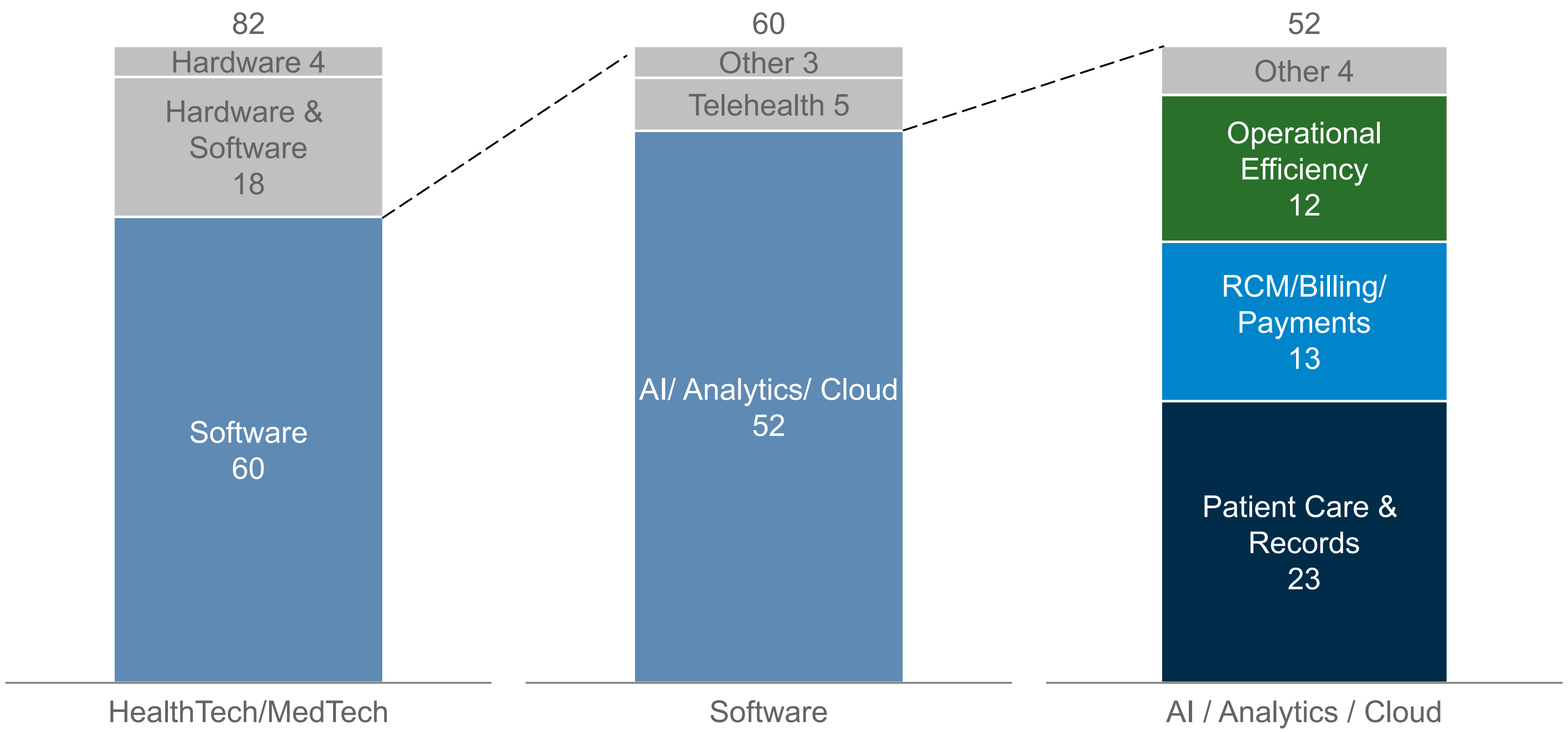
HealthTech/MedTech deals typically consist of software assets providing AI/Analytics/Cloud-based services across clinical and nonclinical functions

Largest[1] 30 U.S. Healthcare Deals by Asset Type[2] (# deals, 2016–21[3])



Insights

- **73 percent of HealthTech/MedTech** deals were **software providers.** Of this subset**, 87 percent provide AI/Analytics/Cloud-based solutions.**
- **All three subcategories** of AI/Analytics/Cloud were **primarily purchased by existing HealthTech providers.**
- Examples of **Patient Care and Records** solutions include **multi-provider EHR standardization, predictive analytics** to **optimize patient experience**, etc.
- Examples of **RCM/Billing/Payments** solutions include **algorithm-driven coding audits, real-time CDI support,** etc.

1 Refers to deal value; largest 30 considered representative of overall market trends
2 Asset type refers to the acquired entity (for an acquisition) or the largest entity (for a merger)
3 Refers to SepYTD
Source: Tracxn, A&M analysis

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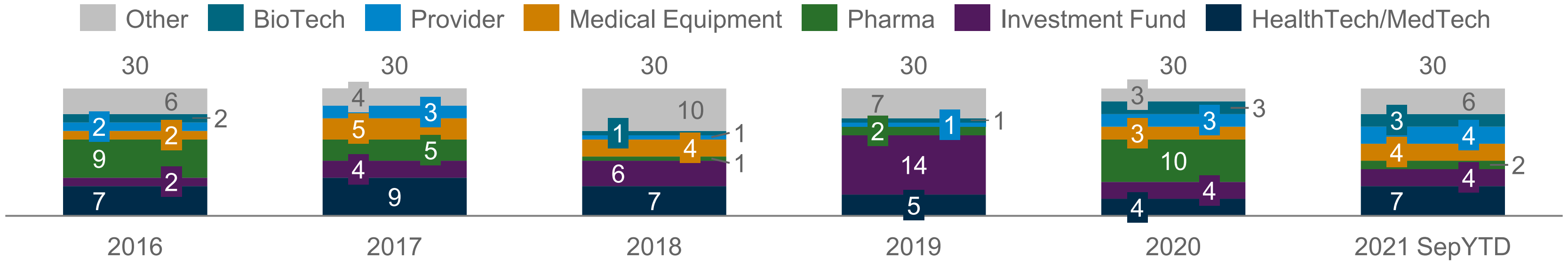
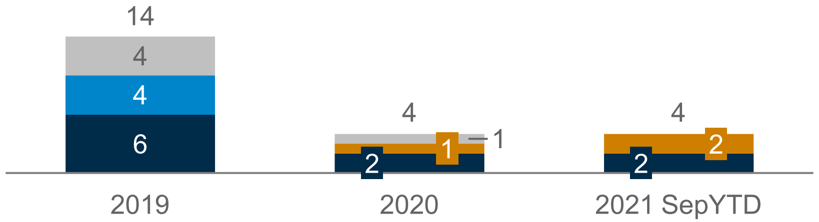
Compared to the UAE, the U.S. has a relatively lower portion of provider-to-provider deals; investment funds and HealthTech/MedTech are the most active investors

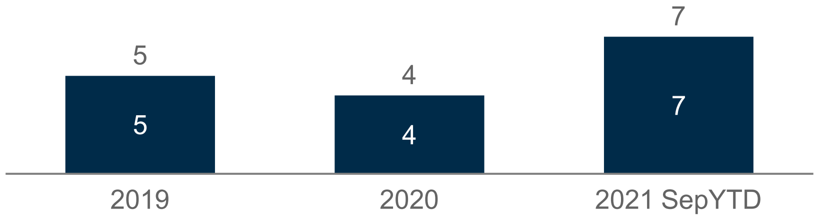
Largest[1] 30 U.S. Healthcare Deals by Investor Category[2] (# deals, 2016–21)



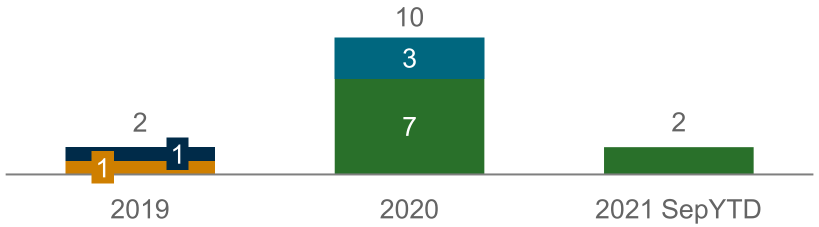
Types of assets acquired by **Investment Funds**



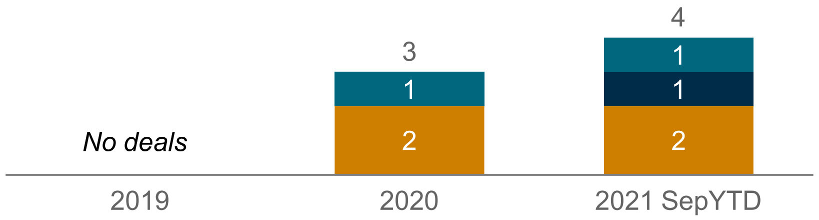
Types of assets acquired by **HealthTech/MedTech**



Types of assets acquired by **Pharma**



Types of assets acquired by **Medical Equipment**



1 Refers to deal value; largest 30 considered representative of overall market trends
2 Investor category refers to the acquiring entity (for an acquisition) or the largest entity (for a merger)
Source: Tracxn, A&M analysis

Insights

- **In contrast to the UAE,** the U.S. witnessed a **relatively lower proportion of provider- to-provider deals** from 2016–21.
- **Investment funds** have **increasingly acquired HealthTech/MedTech** assets, which **comprise 50 percent of all assets** purchased by investment funds in 2020 and 2021.
- The U.S. market has also witnessed **consistent consolidation in HealthTech/MedTech** as **rapidly growing players** seek to **consolidate market share.**
- Much like HealthTech/MedTech, **Pharma** companies have **sought to consolidate** in order to **maximize coverage** over **specialties** and **types of patient care.**

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Key Emerging Trends and Relevant Case Studies

In our view, four trends will shape the UAE healthcare M&A landscape in the short to medium term

1 Adoption of HealthTech software to improve efficiency

- Providers will increasingly find value in adopting AI/Analytics/Cloud solutions to address critical issues such as medical record standardization, predictive analytics and algorithm-driven RCM support (e.g., coding and CDI audits) as well as workforce efficiency and process optimization.

2 Integration of MedTech into complex clinical procedures

- As complex MedTech (e.g., robot-assisted surgery) transitions from experimental to mainstream, providers will seek to integrate these products to optimize patient care and differentiate. Leading facilities will likely build their value proposition around a combination of high-quality physicians and robust MedTech support to improve outcomes.

3 Selective use of telehealth for elective, noncritical care

- Despite increased adoption during the COVID-19 pandemic, telehealth remains a minor part of most healthcare offerings. Providers will seek to selectively identify areas to deploy telehealth (e.g., elective, noncritical care) to bolster existing capabilities.

4 Gradual standardization and adoption of value-based care

- Although value-based care has been top-of-mind for healthcare stakeholders for many years, adoption remains limited due to challenges in standardization, performance management and reimbursement. Key stakeholders (e.g., regulators, payors, providers) will likely continue standardization efforts with the objective of reimbursing value-based care.

Source: A&M analysis

1 Case Study: Private equity firm with diverse healthcare portfolio acquires cloud-based EHR SaaS provider to leverage operational expertise and drive growth

Investor	Warburg Pincus	Target	Qualifacts

Background and Context	• Warburg Pincus is a global private equity firm focused on growth investing. It manages USD 64 billion in assets and maintains a presence in North America, Europe, Asia and South America. It has a significant healthcare portfolio. • Qualifacts is a major Software-as-a-Service (SaaS) electronic health record (EHR) provider for behavioral health and human service organizations. • In 2019, Warburg Pincus invested in Qualifacts as a strategic asset.
Investment Rationale and Synergies	• Qualifacts's platform provides a diverse suite of cloud-based services to streamline data management and drive informed decisions across patient care and supplemental functions (e.g., billing, RCM). It is used by 60,000 behavioral health professionals across the U.S. Warburg Pincus maintains a diverse portfolio of healthcare assets including providers, HealthTech, pharmaceuticals, etc. The firm can leverage its experience of growing healthcare assets to boost growth at Qualifacts.
Outcome and Implications	• With funding and oversight from Warburg Pincus, Qualifacts can accelerate product development and growth initiatives. • Warburg Pincus's other healthcare assets can leverage Qualifacts's value proposition to build strategic partnerships to maximize the collective value proposition.

Source: Press releases, A&M analysis

2 Case Study: Leading medical device manufacturer acquires specialized robotic surgery developer to boost innovation and reduce risk of disruption

Investor	Johnson & Johnson	Target	Auris Health

Background and Context	• Johnson & Johnson is a global leader in medical devices/equipment, pharmaceuticals and healthcare-oriented consumer goods. • Auris Health is a developer of robotic diagnostics and surgical devices that specialize in detecting and treating lung cancer. • In 2019, Johnson & Johnson's robotic surgery and medical device division, Ethicon, acquired Auris Health.
Investment Rationale and Synergies	• Auris Health is widely known for its Monarch platform, which enables minimally invasive, robotics-driven procedures to detect lung cancer. This has a significantly higher success rate compared to traditional CT scan-driven procedures. By acquiring Auris, Johnson & Johnson can leverage its operating model and distribution network to bring Monarch and other products to a wider market. Additionally, innovation through inorganic growth saves time and R&D cost.
Outcome and Implications	• As a legacy player, Johnson & Johnson reduces potential disruption by integrating an innovative company such as Auris Health. • The acquisition enables Johnson & Johnson to continuously diversify its product portfolio and expand beyond its traditional offerings in medical devices, pharmaceuticals and consumer health.

Source: Press releases, A&M analysis

3

Case Study: Telehealth platform acquires specialized virtual care provider to bolster value proposition in high acuity cases

Investor	Teladoc Health	**Target**	InTouch Health

Background and Context	• Teladoc Health is a major player in telehealth and virtual care. It seeks to transform quality, access and cost of healthcare delivery across 175 countries. • InTouch Health is a virtual care provider focused on complex medical environments. It has partnerships with 450+ hospitals and health systems. • In 2020, Teladoc acquired InTouch.
Investment Rationale and Synergies	• Teladoc has an established platform that enables physicians to provide virtual care. However, the company tends to focus on less complex cases. InTouch specializes in high acuity situations such as telestroke, telesurgery, telepsych and NICU but lacks a large-scale platform to maximize reach. This presents a clear synergy since the combined entity can offer complex care on a larger platform, therefore increasing the size of the addressable market.
Outcome and Implications	• The combined entity provides an integrated suite of software and hardware capabilities as well as a broad and secure global network. • The deal serves as a benchmark for other potential acquisitions that Teladoc can make to increase its value proposition by adding complex and in-demand services to its platform.

Source: Press releases, A&M analysis

4 Case Study: Omnichannel primary care provider acquires value-based care platform to enhance capabilities

Investor	One Medical	Target	Iora Health

Background and Context

- One Medical is a hybrid digital and in-person primary care provider. It provides care through a direct-to-consumer model as well as various corporate partnerships.
- Iora Health is a technology-oriented primary care provider focusing on value-based care for elderly patients.
- In 2021, One Medical acquired Iora Health.

Investment Rationale and Synergies

- In addition to expected synergies in reach and coverage, One Medical benefits from the value-based care operating model that Iora Health uses. Each Iora patient is assigned a dedicated provider, nurse and health coach. This cross-functional team leverages value-driven metrics on a digital platform to provide care and educate patients and their families. One Medical can leverage this model for its network and work toward building an integrated value proposition.

Outcome and Implications

- An integrated value proposition and operating model will enable the combined entity to provide value-based, technology-oriented care to patients of all age groups.
- The transaction also enables One Medical to provide care at scale with the combined entity covering a total network of 120 million people (40 percent of the U.S. population).

Source: Press releases, A&M analysis

Future Opportunities

‘Strategic caution’ as a theme for opportunities in the current environment

Target subspecialty niche providers that complement existing healthcare offering

The UAE market has witnessed significant provider consolidation between 2016 and 2021. While general oversupply concerns remain, investors should aim to target subspecialty niche providers that will complement existing care continuums to maximize value.

Selectively invest in HealthTech assets with proven value

Move beyond the hype and identify HealthTech assets with demonstrated, tangible value (e.g., cloud solutions, robot-assisted surgery, etc.) as opposed to early stage, nonproven, experimental offerings.

Explore opportunities in Pharma and BioTech

Local Pharma and BioTech assets represent an opportunity to create value by localizing production and reducing reliance on imports. They also represent a growth opportunity to contribute to the local economy and build export capabilities.

Source: A&M analysis

Investors looking to identify potential opportunities in the UAE Health sector should consider a holistic array of factors to identify value

Non-Exhaustive

Financial Performance	• *The **financial health** of a company, i.e., its **standing** in categories such as assets, liabilities, equity, revenue and overall profitability is **highly indicative** of the **quality of the business** and hence what **investment opportunity** it represents.* • ***Signs** of a **financially sound** company include healthy **cash flows** backed-up by a growing **revenue base** with high **profitability** and a strong **net asset value.***
Competitive Position	• *Defined as the **strengths and weaknesses** of the target **relative** to its **competitors,** the **value proposition**, **competitive advantage, pricing, service differentiation** and **overall standing** in the market i.e., largest player, second-largest, etc.* • *Companies with a **strong competitive position** are generally those that have strong and stable **market shares**, products/services of **superior quality** compared to their competitors and a loyal **customer base** across the care continuum.*
Product and Service Portfolio	• *The portfolio represents the **suite of products/services** that the business **offers to the market**, which are in essence the **result** of the **strategy, direction** and **executive decisions** taken at the firm over its timeline.* • *A **competitive** portfolio is one that has **demonstrable advantages** over its peers and is not **disproportionally reliant** on a **small group** of products/services to **drive top- and bottom-line growth.***
Technology Adaption	• *Much like **other** industries, healthcare has been **subjugated** to the **fierce advent of technology**, which is **revolutionizing** the way **healthcare services** are **delivered,** e.g., telehealth, artificial intelligence, precision medicine.* • *Maintaining a **strong technological focus** is an **essential requirement** for healthcare players as a **response** to the **post-COVID** environment in which consumers hold **strong preferences** toward **sustainable technological solutions.***
Regulatory Profile	• ***Extensive** regulatory measures exist for firms operating in the **healthcare industry** in relation to all **aspects of operation**, primarily due to the **impact** of the industry on **societal well-being.*** • *Hence, **ensuring** that the target is **compliant** with **current** regulations and **prepared for upcoming changes** is of **paramount** importance to **avoid legislative roadblocks** which can also **manifest** themselves as **bad press.***
Management	• *A **strong** management team is **critical** to the success of the **target** company as this group of individuals **undertakes** the **executive actions** that guide the **strategic direction** of the business.* • *It is hence **crucial** to ensure that the target is **guided by competent and credible individuals** who are **open to working** with new investors and can **steer the business** toward achieving sustainable **long-term growth.***
Exit Opportunities	• *Looking toward the **end at the outset** and understanding what **exit opportunities** are available at the **conclusion** of the **investment horizon** can shed light on the **attractiveness** of the **investment opportunity today.*** • *Strong exit opportunities **likely exist** in businesses that have an **established core** but face **surrounding inefficiencies** which, although may be **hindering performance**, can be **addressed** in order to **create a profitable sale** down the line.*

Source: A&M analysis

Glossary

Glossary

Term	Definition
BioTech	• Companies that use cellular and molecular processes as well as their derivatives to develop technology with healthcare applications
HealthTech/MedTech	• Companies that develop technology-enabled products and services to support and enable any aspect of healthcare (e.g., cloud-based solutions, robot-assisted surgery, telehealth, etc.)
Medical Equipment	• Manufacturers and/or distributors of medical supplies for hospitals and clinics
Payor	• Government agencies and/or private bodies that provide insurance policies and funding for healthcare services
Pharma	• Manufacturers and/or distributors of pharmaceuticals
Provider	• Clinical institutions (e.g., hospitals, clinics) that provide diagnosis and treatment of disease alongside teaching, research and training

Source: A&M analysis