



CORPORATE FINANCE

NOVEMBER INSIGHTS PAPER: OCCUPATIONAL HEALTH

The Key to Unlocking Higher Productivity
and Profitability

Market overview



The Occupational Health market continues to grow due to positive sociodemographic trends and greater general and subsector specific regulatory requirement, leading to strong interest from both financial investors and strategic acquirers alike



The UK is playing catch-up with the rest of Europe, which have historically placed much more value on employee health and wellbeing. The SME market in particular has historically been underserved in the UK, and providers are proactively seeking to meet the increasing needs of this customer base



Employers had to adapt quickly during the pandemic as workforces became remote, whilst in tandem experiencing declining morale and mental health. They are now increasingly prioritising proactive occupational health services



Digital innovation including telemedicine has enabled providers to increase accessibility at a lower price point and deliver a hybrid service, which better suits both employers and employees

The value of Occupational Health services



Occupational health is of increasing critical focus for organisations and governments alike. Both absenteeism and presenteeism – whereby employees are either absent from work or continuing to work whilst sick or unwell, resulting in lower productivity – are on the rise, driven in particular by mental health and musculoskeletal conditions, at significant financial cost.

Across Europe, lost working days are at an all-time high; in Germany, the rate of sick leave is the highest in 25 years (at 5.5% currently¹), and in the UK an estimated 185.6 million working

days were lost in 2022, the equivalent of 5.7 days per worker². These issues are compounded further in countries where the healthcare infrastructure is creaking, such as in the UK, which is experiencing record (and increasing) NHS patient waiting lists (currently 7.64 million, with 3.19 million patients having waited for over 18 weeks for treatment³).

Occupational health providers assist organisations and governments to improve workforce productivity, enhance employee engagement, boost staff retention and increase profits.

Figure 1: The case for Occupational Health services

	Employees	Workforces	Employers	Economy
Occupational Health Services	<ul style="list-style-type: none">Improve healthMaintain workabilityMaintain earningsPreventative healthcare	<ul style="list-style-type: none">Reduce absenteeismReduce presenteeismImprove productivity and creativity	<ul style="list-style-type: none">Legal complianceImprove performanceLower costsIncrease profitsIncreased diversity	<ul style="list-style-type: none">Reduce costs of healthcare and benefitsIncrease tax / NI revenuesImprove GDP per capita

Source: A&M analysis, IPPR, DAK – Gesundheit, BMA ¹DAK-Gesundheit [Germany records highest annual sick leave rate in 25 yrs-Xinhua](#), ²IPPR [Revealed: Hidden annual cost of employee sickness is up £30 billion since 2018](#) | IPPR, ³British Medical Association [NHS backlog data analysis](#)



The Occupational Health market has experienced considerable change since the Covid-19 pandemic. Historically, occupational health has been seen as a reactive and compliance driven service dealing with employee health-related issues as they arise, with a significant proportion of services delivered on-site. In recent years, in conjunction with the increased focus on preventative healthcare by individuals, corporations and governments alike, the sector is increasingly also delivering more proactive, added-value services to support employee wellbeing and performance. Such services are also now being delivered both face-to-face (in clinics or at client sites) and online.

Legal and Regulatory requirements

Employers are required by law to adhere to certain health and safety standards, such as the European Framework Directive (1989/391/EEC) in Europe and the Health and Safety at Work Act 1974 in the UK. In addition, subsector specific regulations exist for certain hazardous work activities. Hybrid and flexible working has led to changing health and safety policies which employers must adapt to, a consideration that is high on the boardroom agenda given company directors can be personally liable when health and safety laws and regulations are broken. Occupational health providers support employers in navigating this evolving regulatory environment.

Reduced productivity

Absenteeism: A record and growing number of working days lost to sickness or injury (in the UK in 2023 this stood at 6.7 days per worker, an increase from 5.7 days in 2022). Absenteeism is estimated to have cost the UK economy £5 billion in 2023⁴.

Presenteeism: Employees that work when suffering from mental health conditions and burnout are said to be up to 80% less productive than their healthy co-workers. According to the Institute of Public Policy Research, presenteeism cost the UK economy £25bn in 2023⁴.

Occupational health services are critical in reducing both absenteeism and presenteeism. Employers are investing heavily in preventative measures to increase the time employees are in work.

Health system pressure

Public health systems across Europe are experiencing significant pressure, in part linked to ageing populations and chronic staff shortages. Pressure on public health systems means employers are increasingly using proactive occupational health services to fill the void and keep people in work. More businesses are looking at preventative health and wellbeing support as opposed to being reactionary and only providing support at the crisis point. Virtual GP services, Employee Assistance Programme (EAP) Services and various health and wellbeing apps increasingly form part of an employers' occupational health support package.

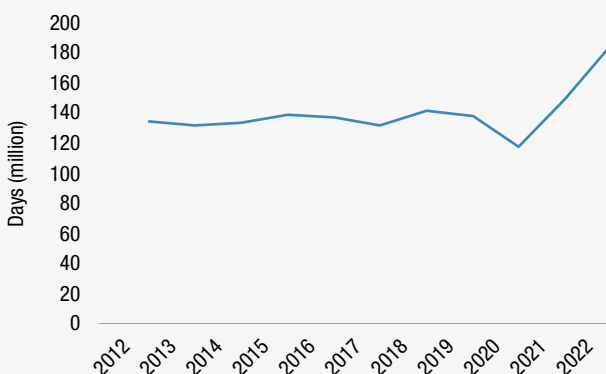
Mental health awareness has increased

Significant campaigns to boost awareness and reduce stigma around mental health conditions has increased the uptake of mental health services. A survey conducted in 2021 by the British Association for Counselling and Psychotherapy (BACP) found that 90% of respondents believed mental health had a higher public profile than five years ago⁶.

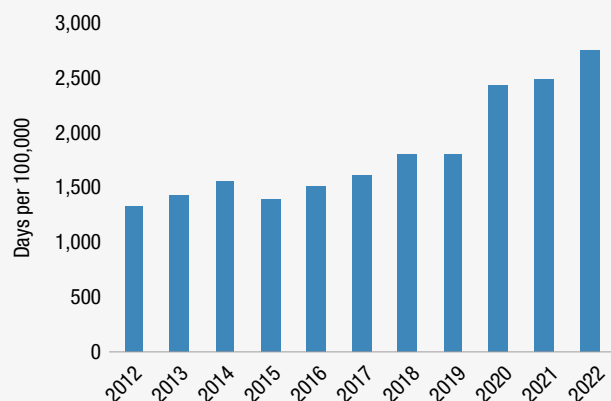
Telemedicine

Advances in telemedicine have increased the accessibility of services, reducing the cost of delivery for occupational health providers and increasing employee engagement with services, thereby driving improved outcomes. A variety of sectors benefit differently from digital delivery and thus a hybrid model is widely adopted.

Total days lost to sickness absence in the UK, 2012 to 2022⁵



Working days lost to mental health related illness in UK, 2012 to 2022⁷





Drivers of M&A activity and investor interest



Long-term, embedded contracts

Delivering impressive quality of earnings



Government support across Europe

Plays a pivotal part in public health policy and drives increased regulation



Growing market

Driven by wider sociodemographic trends



Labour shortages

M&A has been seen as a solution to staffing challenges



Technology

Innovation is providing new delivery methods and routes to market



Horizontal expansion

Providers can cross sell additional services to existing customers, thereby increasing their share of wallet



Consolidating market

Significant opportunity for buy-and-build strategy; strategic rationale for acquisitions typically include:

- Multiple arbitrage
- Increased scale
- Service diversification
- Geographical expansion
- Resolve resourcing challenges
- Customer acquisition

Embedded contracts

Occupational health contracts (in particular those that are of scale) tend to be long-running and deeply entrenched within the people operations of a business. Removing an incumbent provider can take a long time and present onboarding challenges. Acquisition of a strong contracts book can be used to deliver rapid inorganic growth. Most large contracts include Service Level Agreements (SLAs), which can be challenging when the labour market is stressed (see Labour shortages below).

A growing market

Employee wellbeing and motivation remains high on the boardroom agenda, driven by increasing regulation and by sociodemographic factors. The UK lags behind other European countries, with only ~50% of the workforce benefitting from outsourced occupational health services. The majority of this gap lies within the SME market.

Technology

A strong technology platform to enable improved delivery of services is critical; such systems serve to reduce the administrative burden and help to increase average consultations per day. Larger players have typically invested heavily in proprietary platforms. This is driving M&A activity as innovators with technology-enabled offerings are acquired by trade players or backed by private equity to scale quickly and disrupt the market.

Consolidation and horizontal expansion

The market is highly fragmented with a number of smaller businesses operating within a specific service geography or end-sector niche. Significant value can be generated by larger platform assets acquiring increased capability, typically generating multiple arbitrage along the way.

A cross-selling strategy is highly attractive, as occupational health provides a first touch point for a number of additional services that can be up-sold to an existing customer base.

Government support across Europe

The sector is seen as critical to deliver increased workforce productivity and therefore future economic growth across Europe. In the UK, the government has created tax incentives for occupational health services provided by employers and launched an occupational health innovation fund to improve awareness of the benefits of occupational health services. In Europe, the European Health Union has allocated €1.2bn towards twenty initiatives to improve mental health in the workplace⁸.

Labour shortages

There have been labour challenges in the sector across Europe with a significant shortage of doctors and physicians available to deliver the services. Smaller bolt-on acquisitions have been used as a route to quickly recruit staff to the business.

Source: European Commission: a new comprehensive approach to mental health,

⁸European Health Union [European Health Union: a new comprehensive approach to mental health - Employment, Social Affairs & Inclusion - European Commission](#)



M&A trends



The M&A market in Occupational Health has been active in recent years across trade consolidators and financial investors. Capital markets have also seen activity, with Optima demerged from its parent, Marlowe Plc; Optima has now been listed on AIM as a standalone entity, achieving a market capitalisation of ~£133m (~11.5x LTM EBITDA). Marlowe cited that a demerger would allow both entities to fully focus on their respective end-markets and future strategic objectives⁹.

There are still several large European consolidators proactively seeking bolt-ons, with recent consolidator activity driven by PAM Group and Medigold in the UK, Feelgood in the Nordics and Avanta Salud in Spain. The most recent platform deals are Northedge's investment in UK-based Latus Health, and Castik Capital's investment in ParaDIGMA.

Illustrative precedent transactions¹⁰



Date	Target	Acquirer	Deal type	Deal rationale
Jul-24			Platform	The investment in Latus Health by Northedge represents a platform investment to support management in their delivery of a buy and build strategy
Mar-24	 PARADIGMA GROEP		Platform	The investment creates a platform asset in the Netherlands, delivering early-stage preventative occupational health services
Aug-23	 Corporate Health Ireland		Bolt-on	The acquisition of Corporate Health Ireland adds scale to PAM Group's Irish operations
Jul-23			Bolt-on	The acquisition of Ibersys adds scale to Avanta Salud, securing its position as one of the largest occupational health services providers
Mar-23	 healthmanagement		Acquisition	The acquisition of Health Management added significant scale to Medigold, increasing its workforce to 1,100 people
Jan-23			Investment	Peppy gives users unlimited access to gender-based expert healthcare advice. This investment led by Albion VC aims to increase access to employer support services through the Peppy platform
Apr-22	 Nämndemansgården FRIMET FRÅN BERÖENDE		Bolt-on	The acquisition of Nämndemansgården by Feelgood creates new services within the Group relating to substance abuse and addiction
Jun-21			Bolt-on	The acquisition of Feelgood gave Terveystalo geographic presence outside of Finland, expanding the Group into Sweden

Source: Mergermarket, CapitalIQ ⁹MergerMarket Optima Health Group Ltd was acquired by Existing Shareholders | Mergermarket, ¹⁰MergerMarket
Contact A&M for a broader discussion and more detailed analysis on valuation.



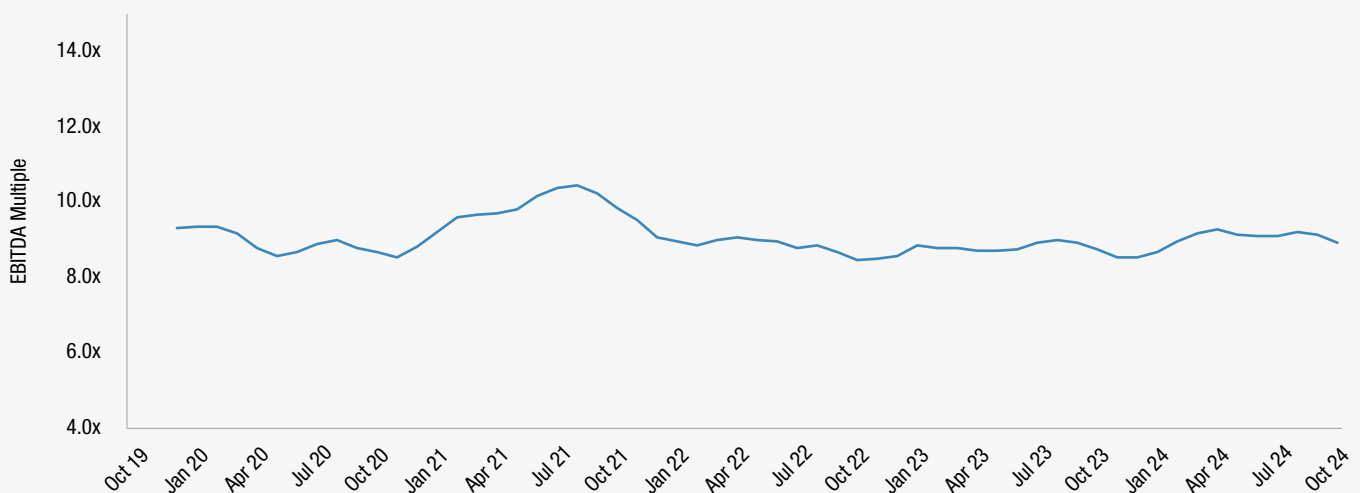
Valuation: listed comparable multiples



Valuations in the sector have remained strong in recent years. There was a notable spike in valuations following the Covid-19 pandemic as access to healthcare became increasingly critical, although this has now normalised. We continue to see multiples

in the high single/low double digits for scaled, diversified providers that have a tech-enabled delivery model. This has been evidenced by Marlowe's acquisition of Optima in 2022 at 9.6x and subsequent recent standalone listing at 11.5x¹¹.

Historical EV/EBITDA multiples in Healthcare Services¹¹



Sector outlook



Selected forward-looking trends that may influence the direction of travel or be evidenced in the sector going forwards:

- **Employee demands** – we expect employees to increasingly value and consider the health packages of employers when reviewing new roles. The increasing focus on personal wellbeing will continue to place ever more pressure on employers to differentiate themselves in the market with first class occupational health provision
- **Diagnostic** – advances in diagnostic testing processes is leading to an increase in at-home testing. We are already seeing employers provide employees with at-home testing kits as part of wider health benefits packages. This will likely increase employee access to care and therefore increase employee take up of services
- **Data** – occupational health companies hold significant data, which can be utilised to, inter alia, improve patient

outcomes, streamline processes, deliver operational efficiencies, and provide the opportunity to increase preventive intervention by detecting challenges and issues early. There is significant untapped value in datasets held by occupational health providers, and plenty of opportunity to use this data more effectively

- **SME market** – the UK SME market is currently underserved by occupational health providers, while demand for services is growing; we expect to see strong growth in this segment of the market, albeit contract sizes are typically smaller and so it is slower and sometimes more costly to scale rapidly in this vertical. There is opportunity to accelerate growth in this vertical through acquisition
- **International M&A** – given the different laws and regulations across Europe, we expect to see companies enter new markets through M&A (rather than organically) as consolidators seek to acquire local expertise, knowhow and customers

Source: CapitalIQ ¹¹CapitalIQ
Contact A&M for a broader discussion and more detailed analysis on valuation.

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