

Health Sector

2018 Review



2018 saw increased activity in the Health Sector with the future proofed quality homes achieving price multiples of 8-10 times adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) and well located pharmacies achieving price multiples of 4-5 times adjusted EBITDA.

Health Sector

- In terms of population ageing, Ireland is now catching up with other European countries. The number of those aged 65 years and over has increased by 35% since 2009 and has been increasing at a faster rate than that of our EU neighbours
- Ireland's health public expenditure continues to rise year-on-year with €16.2bn allocated in the health budget in 2018, up from €15.6 in 2017.

Nursing Homes

- Currently long-term residential care services are provided by the private sector, the not for profit (NFP) sector and the public sector. In 2018 there were 578 public, private and NFP nursing homes with c. 30,757 beds, registered by HIQA in Ireland.

2018 Registered Nursing Home / Bed Census			
2018	Public	Private	Voluntary
Nursing Homes	122	384	72
Beds	6,015	21,350	3,392

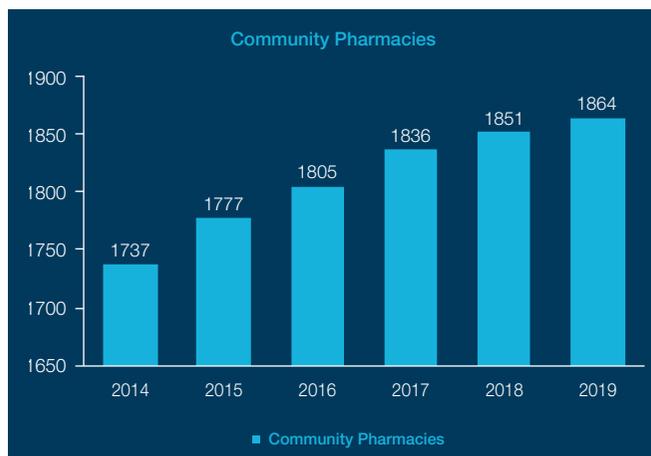
- In 2018, 98 beds were closed and 696 new beds were added, a net increase of 598 beds.
- There were 9 new nursing homes with 684 beds registered by HIQA (See Table below).

County	Nursing Home Names	Bed Nos.
Clare	Ennis Road Care Facility	41
Donegal	Larissa Lodge Nursing Home	40
Donegal	Hillcrest House Nursing Home The Lodge	27
Dublin North	Beneavin Manor	115
Dublin North	TLC Carton	163
Dublin North	Nepin Nursing Home	58
Galway	Brampton Care Home	46
Wexford	Castlebridge Manor Nursing Home	95
Wicklow	Knockrobin Hill Care Home	99

- Consolidation continued in the sector with nursing homes trading at 8 - 10 times EBITDA.
- Care Choice increased their portfolio in Dublin with the purchase of nursing homes with 330 beds in Trim, Finglas and Marlay.
- Brindley Healthcare increased their portfolio to eight nursing homes with c. 400 beds following an investment from Business Growth Fund (BGF).

Retail Community Pharmacy

- The pharmacy sector remains a fragmented market. Despite industry predictions that the numbers of retail pharmacies would reduce, the net number of retail pharmacies has increased by 20% since 2017.



- Pharmacists are the most accessed healthcare profession in Ireland with c. 78m visits to community pharmacies and c.20m prescriptions filled in pharmacies annually.
- Costs rose in 2018. The retail pharmacy sector reported a shortage of pharmacists and retail staff and this has resulted in higher wages costs with the industry average wages costs now c.20 - 22% of turnover.
- 2018 was a busy year in the pharmacy transactions market with 53 pharmacy acquisitions' with pharmacies trading at an average of 5.13 x EBITDA. Pharmacies in large urban centres or those with significant turnover scale are achieving higher multiple. There were 36 greenfield pharmacies opened in 2018 with an average investment per unit of €227k.

Primary Care

- The expansion of Community and Primary Care is core to the Sláintecare vision of shifting care to the community and the government's long-term strategy Project Ireland 2040.
- The development of Primary Care Centres (PCCs) will enable the delivery of new models of care and provide a single access point for services.
- Since 2012, the PCC construction programme has delivered an additional 56 PCCs (an increase of c.80%).
- 2018 saw 126 PCCs operational, 31 locations under construction or development and 44 PCCs at an early planning stage.



Hilary Coates Head of Health Sector

Email: hilary.coates@boi.com
Mobile: 087 255 3314



Hilary joined Bank of Ireland as Head of Health in 2014 and has supported healthcare providers to grow and scale their businesses. She held previous roles as Head of Healthcare Regulation in HIQA, Principal Consultant at PA Consulting, Patient Safety Advisor at World Health Organization and Head of Healthcare Business in Allianz Ireland. Her extensive senior clinical and business experience gives her a unique understanding of clinical, regulatory and financial aspects of healthcare. Hilary originally qualified as a nurse and holds an MBA from UCD, post graduate qualifications in Risk Management, Corporate Governance, Regulatory Crime and Business and Executive Coaching.

Health Sector

2019 Outlook

Continued growth in the healthcare sector is projected given the growing and ageing population, the increasing prevalence of chronic disease and the advances in technology. However, headwinds in relation to rising costs associated with staff shortages building costs and rent increases.

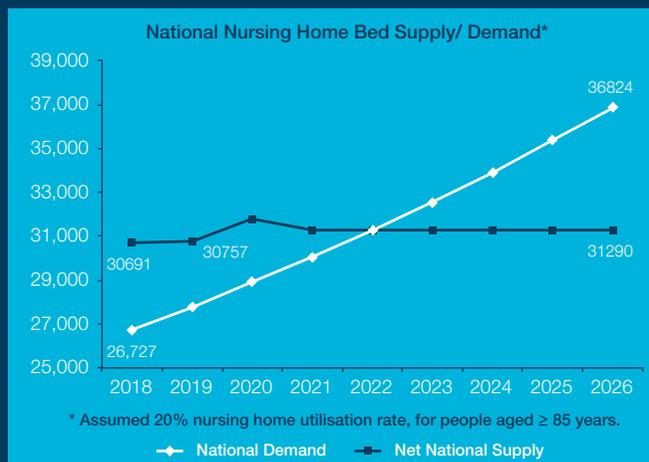
Market Outlook

- ▶ €16,050m in funding was provided by the State to the HSE for the provision of health and social care services in 2019; an increase of €848m or (5.6%) from 2018.
- ▶ The number of people aged 65 years and over is projected to increase by a further 21,969 (3.3%) in 2019. Adults aged 85 years and over are projected to increase by 3,116 (4.3%) in 2019.
- ▶ The projected growth in people aged >80 will have a profound impact on the demand for healthcare services with the Department of Health projecting demographic changes will increase health costs by between 1.4% and 1.6% annually.

Outlook: Long-Term Care

- ▶ The Nursing Home Support Scheme (Fair Deal) is budgeted to remain in line with the 2018 budget of €962 million and will continue to support c.23,000 people at any one time with 80% of people receiving care in private and voluntary nursing homes.
- ▶ Costs for the nursing home sector will continue to rise; these are associated with staffing, insurance, rates and construction. Private nursing homes have seen increases in commercial rates as a result of the ongoing revaluation process. Commercial rates do not apply to public or NFP charitable nursing homes.
- ▶ Competition for staff will continue as operators find it increasingly difficult to attract and retain skilled workers as they compete with the public sector and other service industries.
- ▶ In order to understand the future demand and supply of nursing home beds we have analysed and projected the needs on a county by county basis up to 2026 - drawing from each county's unique demographic profile, the beds in planning, under construction and those that will be decommissioned.

- ▶ Our review projects a shortfall up to 7,500 nursing home beds by 2026.
- ▶ While nationally there are currently enough beds to meet demand, there are some counties with bed shortages and no beds in construction. In addition, we estimate that up to c.2,313 beds may be decommissioned over the next 5 years.



- ▶ Construction costs have continued to rise with the average costs of building new beds now projected at c. €165k per bed.
- ▶ Despite the known future demand for beds, new nursing homes may not be built in counties where the capital value of a greenfield nursing home, once operational, may be lower than the development costs as a result of increasing costs and Fair Deal rates.

Outlook: Primary Care Centres

- ▶ The Health Service Capacity Review projects a 46% increase in demand for primary care over the coming 10 years.
- ▶ The provision of PCCs follows a needs analysis and priority for development is based on the level of urban and rural deprivation.
- ▶ A further 12 PCCs are projected to open in 2019. These include two in Dublin, two in Cork and one in Kerry.
- ▶ Investor interest in the sector will continue with Primary Health Properties (PHP) recently announcing its acquisition of a tenth PCC.

Outlook: Retail Community Pharmacy

- ▶ Ireland's population is living longer and increasingly there are more treatment options available. With this ageing population there will be an increased use of multiple medications by patients. As a result the medicines bill will increase each year and the State will seek to increase controls and drive value and reduce the per capita cost of health.
- ▶ Innovative operators will review their business models and see can they increase efficiencies while driving down costs with initiatives like group buying and shared services models in areas such as HR, recruitment and online sales.
- ▶ The pharmacy transaction market is expected to be lively with an increase in the numbers of pharmacies coming to the market. Determining what are the sustainable dispensary values in the pharmacy will continue to be the most significant factor assessed by purchasers.

Funding Activity: What we expect to see

- ▶ Nursing Homes: Strong pipeline of re-finance, extension and upgrade proposals will continue to develop in 2019. Quality 'fit-for-purpose' nursing homes will continue to achieve price multiples of 8-10 times adjusted EBITDA as international and domestic investor entrants increase their portfolio.
- ▶ Primary Care Centres: Continued investor interest in the sector.
- ▶ Retail Community Pharmacy: A busy transaction market with continued consolidation accompanied by extensive due diligence to establish the sustainability of EBITDA.

Bank of Ireland

- ▶ Bank of Ireland has the proven financial capabilities and appetite, combined with comprehensive sectoral expertise to meet the funding requirements of the healthcare sector.
- ▶ Our people have an in depth understanding of the complexities and realities of the sector and the insight required to help customers and communities anticipate, adapt and thrive.

Reference: HSE, HIQA, Dept. of Health, BGF and PSI