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Spotlight On Private Equity in the Fertility Sector

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In the burgeoning global fertility services sector, sophisticated investors may see opportunities to consolidate and deliver greater success by providing financial discipline as well as professional managerial support.

IN DEPTH

Investors in search of a healthy return are increasingly analysing the fertility sector, drawn by trends such as advancements in technologies, improved results, multiple funding sources, declining fertility rates and other lifestyle factors.

The global fertility services market, which was valued at $16.761 billion in 2016, is expected to reach $30.964 billion by 2023, a CAGR of 9.3%. This entrenched secular trend appears to be global rather than local, with evidence of expansion not only in mature health care economies such as Australia, the United Kingdom and the United States, but in key emerging markets such as India, Latin America and the MENA region.

Despite this increase in demand, the global fertility market currently remains relatively fragmented, in part because of a historic tendency for providers to operate independently in small, stand-alone clinics rather than within larger, more collaborative hospital-based environments. Early signs are appearing, however, of a move toward consolidation within various international markets, alongside growing interest in the sector by investors. Recent examples of private investments include:

- Bowmark Capital, a London-based private-equity firm, sold its majority stake in CARE Fertility, a UK fertility clinic group, to sponsor Silverfleet Capital in April 2019.
- Swedish investment firm Impilo acquired a majority stake in UK-based The Fertility Partnership in March 2019. This follows The Fertility Partnership's acquisition of a majority interest in Ultrasound Direct in April 2017, which brought together UK providers of fertility conception and pregnancy monitoring services.
- Lee Equity Partners, a New York-based private equity firm, invested into a large Atlanta

fertility clinic and a frozen egg bank to launch a $200 million network, Prelude Fertility, in 2016.

- TA Associates, a global private equity firm, invested in Colorado Center for Reproductive Medicine in 2015, to support its expansion.

- A Hong Kong consortium (including Asian investment firm Aldworth Management, Hong Kong-listed financial services group Mason Group, and China-based WeDoctor) acquired Sydney-based Genea in August 2018, understood to be Australia's third-largest reproductive services business.

- Danish private equity firm Axcel recently acquired a 65% shareholding in European Sperm Bank (ESB), a Denmark-based sperm bank, in April 2019.

While these examples are all investments made in relatively developed health care markets, other international regions may also offer opportunities for consideration. A significant number of patients appear to be willing to travel for treatment in other jurisdictions with possibly more liberalised regulatory systems or better pricing structures.

The rapid expansion of middle-class economies across Asia and the MENA region, leading to a rise in global per capita disposable income, is helping to expand global access and demand for services. While cultural acceptance of and access to technology are increasing, some investors believe that there is a shortage of health care providers to meet the expected demand. Private enterprises with the ability to fill this gap may be able to attract potential partnerships with public bodies, as well as with private investors.

Services consolidated under one national or international brand could lead to a number of patient benefits, including shared best practices, introduction of new technologies faster and on a larger scale, and possibly provision of more affordable treatments through flexible payment plans.

Notwithstanding the opportunities, significant issues remain for an investor to consider. Key challenges include:

- Identifying sizable businesses with talented, clinician-led management teams

- Maintaining a strong brand with a reputation for high success rates and clinical leadership

- Understanding the relevant regulatory and employment legislation, particularly in navigating different jurisdictions and regulatory compliance standards (although strong barriers to entry may also be viewed favourably by a sophisticated investor)

- Ensuring that adequate business insurance coverage remains in place

- Deepening effective and professional cross-functional governance structures

- Managing third-party performance, especially if relying on external suppliers for key equipment, clinical services and IT software

- Managing data and privacy issues, particularly personal information of patients (both existing and historical patients)

- Locating appropriate infrastructures/clinics, alongside co-operative landlords
- Developing a robust exit strategy

For these reasons, some investors may prefer to invest through a debt instrument to gain exposure to this growing sector while minimising management risks arising from a clinic’s performance. Alternatively, we may see further developments in the typical investor profile, such as a Sovereign Wealth Fund with a potential to facilitate deeper partnerships with public bodies, or private family offices with a desire to hold an investment for a longer time horizon than typically permitted within a private equity fund structure.

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