

Update

11/07

## Cinven acquires two European hospital groups

Private healthcare in Europe: a growth opportunity.

Over the summer, Cinven acquired two hospital groups, BUPA hospitals in the UK (now rebranded as Spire Healthcare) and USP Hospitales of Spain. These are stand-alone investments and Cinven has no plans to combine the two groups. Healthcare has been an active sector for Cinven in recent years: the firm has identified companies with good underlying growth coupled with strong defensive qualities. Cinven has a successful track record in the hospitals sector, having previously owned Amicus Healthcare and General Healthcare Group in the UK and Générale de Santé in France.

Europe's private healthcare sector is set to grow rapidly, says Simon Rowlands, a Partner at Cinven, a member of the firm's healthcare team and involved in both acquisitions. "There are three main drivers of growth," he believes. "People's expectations are rising; populations are ageing, and as we get older we require more support to keep us in good health; meanwhile, advances in medical technology lead to new cures and delivery systems, increasing costs ahead of inflation." As a result, Europe's tax-based healthcare systems are struggling to keep up with demand, and there is growing recognition in political circles of the contribution that the private sector can make.

Although the UK's private healthcare market is mature, more people are choosing to be treated privately. The National Health Service (NHS) is increasingly sub-contracting to the private sector, for example through privately-run Independent

Service Treatment Centres. Consultants Laing & Buisson estimate that UK private healthcare expenditure will increase from £6.5 billion in 2007 to £9.4 billion in 2010.

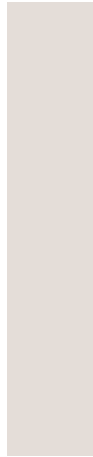
In Spain, immigration-led population growth has placed the state healthcare system under strain. As in the UK, rising incomes and lengthening waiting lists have led better-off nationals to opt increasingly for private healthcare. Foreign and second-home owners in Spain and Portugal – many of whom are retired – are also a growing

source of demand for private healthcare. The Iberian private healthcare market is the highest growth market in Europe. In Spain, spending on private hospital treatment is forecast by McKinsey to grow from €4.6 billion in 2006 to €6.2 billion in 2011.

In both Spain and the UK, overall healthcare spending per capita as a proportion of GDP is still relatively low, following decades of under-funding. At 8.1% of GDP in both countries, this figure compares with 10.5% in France, 10.6% in Germany and 15.3% in the USA.

### Investment-led organic growth





## Investing in health: Spire Healthcare and USP Hospitales

### Spire Healthcare

Cinven acquired BUPA's UK hospitals and related assets – now Spire Healthcare – for £1.44 billion (€2.13 billion) in August. As an experienced healthcare investor, Cinven believes there are significant opportunities to improve operational efficiency as well as for investment-led organic growth at Spire Healthcare, building on the work of the current management team. It is Cinven's intention that Spire will increase capital expenditure above the levels seen in previous years, enabling it to grow and continue to provide the highest quality medical care.

Spire Healthcare is the third largest provider of private medical services in the UK. It has 5,800 employees, including 3,300 clinical staff, and operates from 25 hospitals spread throughout the UK and a treatment centre in Redhill, Surrey. These are all high-quality, purpose-built facilities, many of which are either the only operator or the market leader in their local areas. Spire has 1,544 acute beds and the highest ratio of beds per hospital of the four national independent providers. Spire owns the freehold of all its hospitals.

Private medical insurers provide over two thirds of Spire's revenues, with self-pay customers and the NHS making up the balance. The Group is forecasting an 8.6% increase in its revenues from £420.4 million in 2006 to £456.7 million in 2007.

"Cinven will be seeking to invest significantly in the operations and skill-sets within the business over the coming years in order to drive organic growth and broaden Spire Healthcare's service offering," said Pascal Heberling, a Partner at Cinven. "Spire will also be seeking new sources of revenue through both its traditional private medical insurance customers as well as working in partnership with the NHS, as evidenced by the outsourcing contracts won recently."

### USP Hospitales

Cinven acquired USP Hospitales ('USP') from Mercapital for €675 million (£462 million) in October. USP is a leading, independent private hospital operator with 33 facilities that include 16 hospitals, outpatient centres and other healthcare-related facilities. The company operates throughout Spain and has a strong presence in Barcelona, Madrid and important tourist regions. Insurers and self-pay customers account for more than 80% of USP's revenues.

USP also has a presence in Portugal, with a 25% stake in Hospitais Privados do Portugal ('HPP'), a joint venture with the leading Portuguese savings bank Caixa Geral. HPP is one of the leading hospital operators in the country: it runs four hospitals and a further two are under construction.

The management team at USP has an excellent track record and has been responsible for the company's market-leading, profitable growth. Cinven will back the management's strategy of investing in the business to promote organic growth and growth by acquisition in Spain and neighbouring countries, a strategy that suits the fragmented Iberian healthcare market particularly well.

"USP is a company with very high quality operations and assets, and a first class and highly committed management team that has a demonstrable track record of driving strong growth," commented Stefan Franssen, a Cinven Principal. "We will be investing heavily in the management's growth strategy, creating value for all stakeholders in the business."

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