



# Healthcare trend watch 2019

A review of the key trends in the healthcare sector throughout 2019 provides a clear picture of what to expect in the year ahead.

On the investment front, opportunities abound across multiple and diverse asset classes, ranging from MedTech, clinical trials facilities and AI, through to more established assets such as real estate investment trusts and hospital operators. With growing focus on personalised, patient-centric healthcare, an ageing population and the rising interest in disruptive technologies, sector leaders are increasingly seeking to partner with sponsors and innovators to provide premium healthcare and help solve the problems of the future.

At the same time, though, heightened regulatory activity, restrictions on advertising and the ever-increasing scrutiny of data governance procedures offer timely reminders to investors, owners and legal and compliance teams for the rigorous and ongoing assessments of their existing practices and policies.

The healthcare team at Allens reports on some key trends and sectors to look out for in 2020.

DECEMBER 2019



## INCREASED REGULATORY ACTIVITY



Post the Royal Commission into Aged Care Quality and Safety, we expect an increase in class actions and patient litigation, as well as Australian regulators taking more of an enforcement role in the healthcare sector. Significant increases in compliance costs should be expected. Separately, other regulators such as the ATO will remain active in the sector.

**WHERE WE HAVE SEEN THIS HAPPEN** – the ATO has conducted numerous tax audits and investigations covering pharma and medical devices.

**CONSIDER** – your board, along with legal and compliance leaders, should conduct rigorous, crossfunctional and ongoing risk and culture assessments against an articulated culture.

## HEALTHCARE REITS – SUPPLY TO EXCEED DEMAND BY 2021



There is increased interest in healthcare real estate investment trusts (**REITs**) as an alternative asset class, in part due to the slowdown in residential and retail activity, with healthcare assets considered safe and offering dependable, long-term leases. Australia's growing and ageing population is also fuelling demand for new healthcare assets.

**WHERE WE HAVE SEEN THIS HAPPEN** – traditionally investment in healthcare assets has been viewed as a niche area, however the recent trend is for the larger Australian REITs together with overseas investors becoming more active in this sector. Examples include Dexus' investment into the Heathley Group; and Brookfield's acquisition of the Healthscope hospital portfolio.

**CONSIDER** – on the investment side, opportunities to invest into existing owner vehicles or the establishment of a healthcare fund to acquire existing or development seed assets. If an existing owner, consider defence strategies to protect against new entrants looking at your assets as a mechanism to enter the market.

## INCREASED SCRUTINY OF THE PROMOTION OF THERAPEUTIC GOODS



Since early 2018, following the implementation of recommendations from the independent Review of Medicines and Medical Devices Regulation, the regulatory scheme governing the promotion of therapeutic goods has changed significantly. Further changes are expected through to the end of 2020. Together with the criticism the TGA is receiving from activists and consumer groups, the TGA is taking a more proactive approach to enforcement.

### WHERE WE HAVE SEEN THIS HAPPEN –

- With the TGA's new powers to deal with complaints directly, the already vocal critics of the way therapeutic goods are promoted will now have a clearer target for their concerns. The TGA was recently criticised for closing a large number of complaints, with allegations of insufficient investigation. We expect this criticism and the media attention will influence the TGA's future approach.
- The TGA has also been active in the highly regulated area of prescription medicines and restricted medical services. Its recently released guidance on what is acceptable in the promotion of cannabis, stem cell therapies and vaccines reinforces the established position that promotion of such products and services to consumers is not permitted in Australia. However, the approach to what constitutes 'promotion' – particularly as to what may suggest the availability of stem cell or cannabis-based therapies – indicates a conservative approach which could include limiting choices of trading names and trade marks.
- Various regulators have also expressed concern about the use of social media influencers to promote therapeutic goods. Recent targets of regulatory interest include Invisalign – a supplier of a teeth alignment medical devices – and SmilesDirectClub, which provides similar services. Regulators have been looking beyond the powers of the TGA and its advertising code to restrictions imposed on healthcare professionals that prohibit encouraging indiscriminate or unnecessary use of medical devices and health services.

**CONSIDER** – greater scrutiny on promotional activities in the healthcare sector necessitates rigorous processes to review and assess risk. This is not limited to the direct restrictions imposed by the Therapeutic Goods Advertising Code, but includes other regulatory risks, too.

## DATA GOVERNANCE IS A CRITICAL ENABLER OF DECISION MAKING



Healthcare is transforming from ‘one size fits all’ to personalised healthcare – data and technology are key enablers of this. The use of data to predict health outcomes can occur at a population health level and at a more granular level (eg on a personalised basis). Privacy and health information laws, ethical principles and societal expectations all shape how health data is used.

**WHERE WE HAVE SEEN THIS HAPPEN** – organisations looking to unlock the value of health data are navigating both regulatory compliance and concepts of consumer control of health data, with keen regulatory attention on both aspects.

**CONSIDER** – data governance as a critical enabler of data decision making. A data governance framework can help establish pre-defined data use cases and allow you to think strategically about leveraging health data whilst protecting your business and reputation.



## MEDTECH MARKETPLACES

Consumers are increasingly focused on quality of healthcare interactions and speed and efficacy of support, leading to an increase in tech-based marketplace solutions.

**WHERE WE HAVE SEEN THIS HAPPEN** – Australian startup, HealthMatch, has developed technology bringing efficiency into clinical trials, connecting researchers running clinical trials and patients who would like to access them.

**CONSIDER** – bottlenecks in your development or utilisation of solutions. Is there a MedTech or technology platform approach that would improve your connectivity, or allow you to reach new areas of the market?

## INCREASING PRIVATE EQUITY INVESTMENT IN HEALTHCARE



PE sponsors have been, and are continuing to, invest more heavily in the healthcare sector. This interest stems from the belief that aspects of the existing healthcare delivery system are not adequately addressing changing consumer preferences and demand for quality, as well as increasing costs. There is also the belief that attractive returns can be maintained throughout the economic cycles.

**WHERE WE HAVE SEEN THIS HAPPEN** – in the public markets, BGH Capital, together with AustralianSuper and other funds, proposing to take private Healthscope, Australia’s second largest private hospital operator; and Pacific Equity Partners taking private LifeHealthcare Group, a medical devices distributor. In the private markets, Pacific Equity Partners agreed to acquire Evolution Healthcare, a smaller private hospital operator; and Navis pipped a strong field of strategic and PE bidders to acquire Device Technologies Australia for more than \$700 million.

**CONSIDER** – opportunities to partner with PE sponsors or for healthcare companies to sell non-core business units to PE sponsors. PE sponsors are more comfortably managing the challenges presented by doctor shareholders, to drive better alignment and operational performance. We expect further opportunities for PE sponsors in healthcare technology and the digitisation of healthcare services, including as connected to traditional business models. We will continue to see sponsors step toward less traditional opportunities, such as clinical trials facilities. The Royal Commission into Aged Care Quality and Safety has placed an effective moratorium on deals in that area; however, once it concludes, we expect a range of consolidation and divestment opportunities.

## RAPID GROWTH OF AI RESEARCH, DEVELOPMENT AND IMPLEMENTATION



AI applications are revolutionising how the healthcare sector gains efficiencies and improves patient outcomes, with potential for Australia to have the fastest AI growth in the Asia region due to increased investment. The increasing availability of data is facilitating adoption of AI.

**WHERE WE HAVE SEEN THIS HAPPEN** – there is a more immediate focus on the use of AI to assist (rather than replace) clinical decision making in healthcare (eg pattern recognition).

**CONSIDER** – how you will ensure ethical, safe and lawful use of AI. How will AI use fit into your wider business values and approaches to corporate social responsibility? Be open and transparent about use of AI, such as adopting smart laboratory technology, connecting lab devices to an electronic lab notebook, utilising a laboratory information management system, a lab execution system or a robot, or adding a computer controlled sensing capability that can significantly offload manual work.

## AUGMENTED WORKFORCE



Globally, the number of healthcare workers is dropping; with the potential for an integrated system of workers straddling (with technological support) health, social care and human services.

**WHERE WE HAVE SEEN THIS HAPPEN** – while employment projections prepared by the Department of Jobs and Small Business out to 2022 suggest that 50% of all new jobs will occur in the healthcare, professional services and construction sectors, it is likely the new jobs will require different skills, with a significant focus on technology. Sydney-based startup, Inventia, has built a new 3D bio-printer that it says removes the need for time-consuming manual labour by medical lab workers.

**CONSIDER** – the skillset required for the future work in the healthcare sector and anticipate that there will be a war for talent for those healthcare workers possessing that skillset. Do you have the strategies in place to restructure, retrain and recruit the necessary workforce to meet your business needs?

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