



THE LEADING PRIVATE HEALTHCARE OPERATORS IN ITALY: PROFITABILITY DECLINING, BUT REVENUES BACK ABOVE PRE-COVID LEVELS

An increase of 4% in aggregate revenues is expected for 2022

The leading private operators' turnover grew in 2021, up 15.2% on 2020 and up 6.3% on 2019

Recovery not universal: total sales up 44.1% in medical diagnostics and up 6.7% in hospital care, but rehabilitation and residential services for elderly patients both posted reductions in revenues (down 0.3% and 0.2% respectively).

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The Mediobanca Research Area has published a new report on the **leading private healthcare operators in Italy**. The survey analyses the financial data of the 24 largest groups with individual turnover of above €100m. The report also contains a focus on the most recent and future trends in the Italian healthcare sector, and a comparison with international operators. The full survey is available for download from www.areastudimediobanca.com.

Spending on healthcare: the international panorama and Italy's ranking

For the OECD countries, **average per capita spending on healthcare** totalled approx. \$4,350 in 2020 (equivalent to 9.6% of the aggregate GDP). In the international comparison, the United States stood out with average spending of \$11,900 per inhabitant (18.8% of GDP), while Italy was below average in per capita terms with healthcare spending of \$3,700, but in line with the average in relative terms (healthcare spending equal to 9.6% of GDP).

With reference to **public healthcare spending** in Europe, Italy – with 7.3% of GDP in 2020 – ranked behind Spain (7.8%), UK (9.9%), France (10.3%), and Germany (10.9%). In absolute terms, **Italian public healthcare spending has increased from €78.5bn at end-2002 in current prices to €127.8bn at end-2021**. Strong annual growth in the 2002-06 period (of 6.4%) slowed to 0.9% in the years from 2012 to 2019, before accelerating again with the medical crisis of the last two years (up 5.1%). **In 2021 78.6% of the aggregate value (€100.5bn) was generated by public healthcare facilities, and 21.4% (€27.3bn) by accredited healthcare facilities**. Spending by the latter category reflects higher growth (of 3.2%) than that posted by the public facilities (up 2.4%) over the 2002-21 time horizon, with the exception of the Covid-19 emergency period, during which numerous measures were adopted to strengthen the public healthcare provision, such as recruiting staff, performance optimization measures and adaptation of infrastructure. During the pandemic spending rose by 6% for the public facilities, compared to 2.1% for the private accredited healthcare structures.

Including services paid for by customers (which rose from €31.5bn in 2012 to €36.5bn in 2021, an annual average growth rate of 1.7%) and the brokered component (which grew at an annual average rate of 4.9% to €4.5bn in 2021), **total healthcare spending amounted to €168.8bn in 2021, up 4.9% on the €160.9bn posted in 2020**.

In 2020 the contribution to overall healthcare spending paid for by national citizens (whether directly or through brokers) amounted to 25% in Italy, compared to 14% in Germany, 15% in France, and 19% in the United Kingdom. The figure for Italy is almost entirely dependent on services paid for by customers themselves (23%), as the share accounted for by insurance companies was flat at 2%, well below the average of 5% for the OECD countries.

Demographic trends

Demographic trends are the main variables that determine the demand for healthcare services. International statistics highlight the fact that **the world's population continues to age:**

in the OECD area, the percentage of the total population accounted for by **over 65s** has increased from 8.9% in 1960 to 17.8% in 2021, and is expected to reach **26.7% by 2050**. **Italy, with 23.5%, has a far higher percentage than the OECD average**, behind only Japan (28.9%), which is expected to reach **33.7% by 2050**. Again in the OECD area, life expectancy from birth has gained more than ten years between 1970 and 2021, and is now more than 83 years in as many as eight countries. Japan again leads the way with a life expectancy of 84.7 years, followed by Switzerland with 84, and South Korea with 83.5. Italy is in ninth place with 82.9 years, behind Spain (83.3) and another four countries all with 83.2 years (Australia, Iceland, Norway and Sweden).

Healthcare provision in Italy

In 2021 there were a total of 28,980 healthcare facilities operating in Italy, 57% private and 43% public. This represents an increase of 2,898 compared to 2010, representing a combination of the increase in both private and public facilities (of 2,519 and 379 respectively). Regarding the type of assistance provided, both hospital and specialist outpatient facilities reported reductions, the former by 170, the latter by 857 (a reduction that has become entrenched over the past ten years). Conversely, there has been an increase in local residential healthcare facilities (ranging from nursing homes to centres specializing in Alzheimer's and/or other illnesses), which have increased by 1,831, while other regional healthcare assistance structures have grown by 1,550 in number.

In 2021 the **number of beds** available for ordinary hospitalization available to the national health service in Italy was down 8.6% on 2020, at 216,300 beds (plus 12,027 places available as day hospital and 8,132 as day surgery), coming on the back of a 12.6% reduction between 2010 and 2019 (from 217,000 to 190,000 beds).

In 2020, changes to the provision of healthcare services required as a result of the pandemic to be able to urgent, non-deferrable hospitalizations drove a reduction of 22.1% in the number of discharges from hospital, which reduced to 6.5 million as compared with an average for the 2017-19 three-year period of 8.4 million. The reduction was largest in the day hospital segment (down 29.4%), in Southern Italy in particular (down 39.8%) (Istat data).

Long-term care and regional assistance in Italy

In Italy, **spending on long-term care**, which includes home, residential, semi-residential and palliative care services, **totalled €16.3bn in 2020 (rising to €16.9bn in 2021)**, €12.3bn of which was funded by the public sector and €3.9bn by the families themselves, while the share covered by voluntary financing schemes amounted to just €0.1bn.

In 2021 there was a total of approx. 323,000 **beds available in residential and semi-residential facilities** (547 beds for every 100,000 inhabitants). Although accommodation capacity is increasing, this figures place Italy far behind Germany (approx. 900,000 beds for elderly patients), France (700,000) and Spain (375,000). Considering the demographic projections, the shortage of bedspace in Italy may be estimated at between 80,000 and 200,000 by 2030. Huge investment will be required in order to rectify this situation, both in order to refurbish existing facilities and build new ones. Numerous non-Italian operators have already invested in Italy, and the French groups in particular have built a substantial presence: Korian, Orpea, Groupe Maisons de Famille, and Colisée.

The **nursing home sector in Italy is highly fragmented**, consisting mostly of small operators, with many facilities managed by charities, co-operatives and church-run organizations. The operator with the highest number of beds in Italy is **Segesta** (Korian group) with 7,000 beds (estimated figure), followed by **KOS** (Cir group) with 6,200 beds, and **S.O. Holding** with around 5,600.

The leading private healthcare operators in Italy: an overview

Excluding consortia, a total of 28 private operators have been identified providing hospital and district care, with individual turnover of more than €100m in 2021. Nineteen of these are

specialized in hospital care, three in running nursing homes (KOS, Segesta and S.O. Holding), three in medical diagnosis (Cerba Healthcare Italia, Synlab and C.D.I.), and three in functional rehabilitation (Don Gnocchi, Istituti Clinici Scientifici Maugeri, and San Raffaele in Rome). **Papiniano**, the holding company of the San Donato Hospital Group and San Raffaele Milan hospital, **ranked first by revenues** with €1,633m, ahead of **Humanitas** (€1,084m), **GVM – Gruppo Villa Maria** (€798m), **Policlinico Universitario A. Gemelli** (€787m), and **KOS** (€660m).

KOS, S.O. Holding and **Don Gnocchi** reflect the **highest level of geographical diversification**, with a footprint in at least nine regions of Italy, despite their main presence being in the north of the country. Of the hospital care specialists, **GVM** and **Gruppo Garofalo** stand out for having operations in ten and eight regions respectively. **Papiniano** and **Humanitas** are concentrated in Lombardy: the former also has operations in Emilia-Romagna, where it generates 5.1% of its revenues, while the latter also operates in Piedmont and Sicily, where some 21% of its turnover is originated.

Only eight of the operators selected manage facilities outside of Italy, in countries where their footprint is fairly marginal. The exceptions to this rule are **GVM**, which manages 14 international facilities (one of which in Ukraine) that generated 14% of the group's turnover in 2021, and **KOS** which has 47 nursing homes in Germany, accounting for 27% of the total revenues.

The breakdown of operations between accreditation and direct payment regimes reflects a diversified situation. In 2021 **C.D.I.** reported the lowest percentage of accreditation, as the majority of its diagnostic services are brokered by supplementary funds and insurance companies (41.8% of its total revenues), or paid for by private individuals (22.3%) and companies (11.4%). Among the other players, the highest percentage of expenses paid for directly by clients were reported by **KOS** (36%) and **IEO** (35.4%), while **San Raffaele in Rome** generates 94% of its revenues from accreditation.

Revenues back to pre-Covid levels, profitability still lower

In 2021, the **aggregate revenues of the 24 operators for which individual financial statements are available totalled €8.8bn**, up 15.2% on 2020 and up 6.3% on 2019. These changes follow the year-on-year reduction of 7.8% recorded in 2020, which was due to the partial suspension of healthcare activities and the deferral of scheduled non-urgent hospitalizations. However, not all segments have managed to recover their pre-Covid levels: while revenues were up 6.7% for hospital operators and up 44.1% for diagnostics, the rehabilitation operators' top lines were still 0.3% below their 2019 levels, and those of the nursing home managers 0.2% lower.

The aggregate value of the combined **work force** rose by 4.5% in the 2019-2021 three-year period to reach nearly **72,000 employees** in 2021. The numerous recruitment tenders put out by the local healthcare authorities during the pandemic led to medical and paramedical staff shortages among the private operators. The aggregate labour costs of the largest private sector operators therefore increased by some 13.6% in the three years, due to the widespread use of temporary staff and the payment of additional compensation to retain medical staff in view of the attractive offers being made in the public sector.

Profitability is recovering, but is still below pre-Covid levels. The measures put in place to address the pandemic drove a material increase in production costs, only part of which were recovered through the assistance offered by the emergency regulations. The **aggregate Ebit margin** was therefore negative in 2020 (minus 0.6%), but the large-scale vaccination drive plus the weakening of the Covid-19 virus enabled clinical activity to recover, with the Ebit margin improving to **3.7% nel 2021**, albeit still below the 6.0% reported in 2019.

By individual company, five groups posted losses in 2021, as against ten in 2020. The **aggregate ROE** decreased from 7.2% in 2019 **to 4.1% in 2021**. The highest figures were reported by **Humanitas** (17.2%), **Pro.Med** in Molise (16.6%), and **San Raffaele in Rome** (12.6%).

The **capital structure** remained solid overall in 2021, with net debt representing 107.7% of net equity (111.4% in 2019). Cash and liquid assets remain very high, above €1.8bn at year-end 2021, equal to 39% of net debt. **IEO, Auxologico Italiano, C.D.I., Salus** and **Humanitas** were the



groups with the strongest financial positions: the former has virtually no debt, while for the others net debt was less than 30% of net equity.

Expectations for the sector

The end of the medical emergency situation in March 2022 and the loosening of restrictions that characterized the 2020-21 two-year period, drove a gradual recovery in healthcare sector activities, and enabled the waiting lists that had accumulated during the years of the pandemic to be recovered. The **first results for 2022** have enabled the **growth in aggregate turnover of the leading private healthcare operators to be estimated at around 4% versus 2021**. However, this result is not consistent across the board: for example, nursing homes are not expected to return to full capacity in terms of bed space near to pre-Covid levels before 2025.

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