Interview—Peter Karli head of Heal Partners, Budapest, Hungary

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Peter Karli, the urbane owner and MD of Central and Eastern European-focussed M&A advisory firm Heal Partners KFT, expects “explosive growth in Hungary’s dynamic for-profit healthcare market”. HBI chats to him to find out more.

Heal has been a prominent player in CEE mergers and acquisitions since 2009, involved in close to a hundred healthcare and other transactions, business valuations and financial advisory projects. Among his higher profile clients is Doktor24, the major for-profit Hungarian multi-clinic and hospital group.

There have been major changes in Hungary occasioned by the Covid pandemic which have led to major healthcare legislation. According to Karli, this will precipitate a shift to more private healthcare in a nation with a population of 9.78 million, a fifth of whom are over the age of 65.

By way of context, it is worth noting he Organisation for Economic Cooperation and Development (OECD) estimates that total healthcare spending in Hungary is 6.6 per cent or €12.3 billion of its €187 billion GDP – well under EU averages. The approximate breakdown is two thirds state and one third private care, equivalent to around €4.1 billion.

Until recently, a very small part of that private spending was directed to for-profit healthcare, Karli says. A significant portion was spent on pharmaceuticals and patients also paid doctors "gratuities" to receive priority in public healthcare.

New Legislation drives doctors and patients to for-profit healthcare

The key change in Hungary's health system was new 2021 legislation which banned the system of gratuities that saw patients paying public health medics to get a better service, Karli says. In return the government swiftly raised doctors' salaries in stages. Such are the salary increases that they will have risen by about 120% by 2023.

Despite the huge salary improvements to an average of between €2,000 and €4,000 a month, with the higher end around €5,000, the law demotivated the doctors, Karli says. Salary scales now depend on years of experience rather than the quantity or quality of work. GPs, and consultants began to shift from the national health service to the for-profit sector.

Meanwhile patients, used to paying doctors a gratuity for receiving better public sector treatment, are also frustrated. Heal estimates that by June this year, Covid and bureaucratic inefficiency and staff shortages caused national health waiting lists for surgery and other treatments to surge to some 56,000 people. Patients, who no longer need money to pay for gratuities to get "semi-private care" from the state, can now use the spare cash to pay for services in the for-profit sector, Karli explains.

The inevitable consequence will be an increase in medium and long-term demand for private medical treatment and services, he believes.

Current Challenges

In the short term, however, there has been a very gradual and slow shift towards for-profit care because of persistent Covid, the Ukraine war, inflation and fears of recession. Hungary's inflation is already 13.7%, and predicted to soar over 15%. According to economists, a double whammy is hitting Hungarian clinics, hospitals, care homes and other providers. Energy and food prices hurt the bottom line and the higher cost of living may well dent the ability of patients to pay for healthcare out of their own pockets

Nevertheless after this challenging period and fewer M&A transactions, local private equity and other players are likely to raise investment in Hungarian healthcare and pharmaceuticals, predicts Karli. Valuations of Hungarian healthcare companies are much

more stable than other businesses as growth is steady and demand is much more resistant to crises.

The companies that will do well are those that make major investments that in turn will attract private equity and other investors, Karli advises. Size and economies of scale help.

Heal's estimates of top Hungarian healthcare companies

In a Heal report on the performance of private healthcare players in Hungary, the minimum 2021 turnover of the main 25 companies is 900 million Hungarian Forints (HUF) or €2.25 million. The top six are Medicover, which covers health and dental clinics, optics, labs, drugs and insurance with a turnover of HUF15.9 billion (€39.8m); followed by Budai Egeszsegkoz Pont, which offers private hospital, imaging and other services and has a turnover of HUF 13.5 billion (€33.8 m); TritonLife Csoport, private hospitals and specialists in obstetrics, with turnover of HUF 11.5 billion (€28.8m); Doktor24 Csoport, a multi-clinic and hospital group with turnover of HUF 10.6 billion (€26.5m) ; Affidea, an imaging firm with turnover of HUF 9 billion (€22.5m) and Swiss Medical Services, clinics, offering a variety of services in Budapest, reports turnover of HUF 6.3 billion (€15.8m).

The median revenue growth of the top health companies in 2021 was as high as 35%, following a 10% increase in 2020, Heal estimates. Earnings before interest tax depreciation and amortisation (EBITDA) also improved with margins averaging between 13% and 19%.

Since Hungarian private healthcare providers are still relatively small, there is scope to grow swiftly to catch up with some of the leaders in central and eastern Europe, Karli says.

Private insurance possibilities

The Hungarian health care system has a single public health insurance fund but Karli contends that private healthcare insurance is increasing and that growth may accelerate rapidly, especially for employees. Illustrating their long-term commitment to healthcare, insurers are beginning to finance takeovers and become owners in the for-profit sector.

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