

# NHS BACKLOG AND ITS IMPACT ON AUSTRALIA'S TOP HEALTHCARE NAMES.

DECEMBER 2024

I recently spent a week in London and Dublin attending the Jefferies Healthcare conference. The conference was attended by many of the largest healthcare names, providing insights on various facets of the European healthcare system which are relevant to many ASX-listed companies. We met with numerous local experts, including UK National Healthcare Service (NHS) clinicians, pathologists and employees.



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## The NHS: Addressing the growing backlog and systematic challenges

The NHS, responsible for 90% of healthcare delivery in the UK, faces a significant backlog which surpassed 7.7 million patients in 2024 – a record high. The system is fundamentally inefficient and disjointed. Capacity constraints and staff shortages have exacerbated wait times, with some patients waiting over 12 months for non-urgent surgeries. The backlog has led the government to increase outsourcing of NHS patients to private hospitals. Further, more patients are self-paying or taking out Private Medical Insurance (PMI) as it becomes clear the waitlists are here to stay. Margins in the UK are not expanding due to cost pressures resulting from rising surgical wages and increased use of agency nurses.

### Plasma Procurement in the NHS

The NHS, one of the largest healthcare systems in the world, doesn't have a central procurement system – purchasing is done by individual NHS trusts or integrated care systems. The buying power could be extraordinary but instead individual contracts are being entered by far smaller groups.

Intravenous immunoglobulin (IVIg) usage (most typically for autoimmune diseases) has grown 20-25% year-on-year for the past five years, driven by expanding indications and increased familiarity. This trend is expected to continue for the next five years, but then plateau in 10 years due to an increase in decentralised specialists and lack of infusion centres in the UK. Tenders for IVIg are typically for 2+1 years, with potential extensions, although the NHS often buys more product than needed in order to manage challenges such as shortages and pricing pressures.

There is an increasing trend of companies with larger product portfolios winning a tender, not because of bundling, but because it simplifies the procurement process. The price for IVIg in the UK is currently ~20% lower than in the US; however, the pricing gap is closing as US prices stagnate and European prices rise.

The expert we met with doesn't anticipate a slowdown in plasma demand from FcRn inhibitors, due to the challenges of switching established patients and the NHS's preference for more established therapies.

### **Opportunities and Challenges in the UK's Mental Health Services Market**

Mental health services in the UK have been underserved and underfunded for years, with over 1.4 million individuals currently on waiting lists for treatment. The NHS's inability to expand services has created growth opportunities for independent providers, especially in specialist mental health services such as forensic care, personality disorders, and mother and baby units.

There is very high demand in independent hospitals, with the majority of cases being funded by the NHS. Recruiting and retaining support staff is a significant challenge, due to the demanding nature of the work, particularly when pay is comparable to alternative employment options (e.g. hospitality). Independent operators have more flexibility in staffing as they can offer higher wages compared to NHS trusts (which are not-for-profits).

## **Healthcare in Flux across the UK and Europe**

### **UK pathology system**

The UK's pathology system is a critical component of the healthcare system, processing over one billion tests annually. NHS pathology services are plagued by delays and backlogs, with some regions experiencing test result delays of up to two weeks. It is difficult to see a GP; as a result, there is more private work being done in labs, and GPs are also doing more private pathology work. It is expected that there will be more outsourcing of labs under Labour.

### **German pathology system**

By contrast, Germany's pathology sector, valued at approximately €3.5 billion, is characterised by its decentralised structure, with over 300 independent laboratories serving hospitals and outpatient clinics. The German pathology market has an organic growth rate of ~3-4%, driven by demographic changes. There are structural issues in the German pathology market such as a shortage of skilled pathologists, regulatory complexities, and reimbursement pressures under Germany's statutory health insurance system, which covers over 85% of the population. Germany has proposed reforms to its pathology reimbursement system (EBM) to reduce expenditure by introducing more stringent price controls on diagnostic and pathology services, due to come into effect January 1st.

### **French hospital system**

The French healthcare system also faces significant challenges amid political and economic shifts, with traditional centrist parties losing ground to extremist factions. This has forced the government to adopt cautious, incremental healthcare reforms, including bringing back retired doctors, expanding nurse roles into "super nurses", and mandating physician placements in underserved rural areas. Meanwhile, there is an increasing trend of private hospitals expanding into home healthcare for acute care services. Financially, the sector is under pressure, with 40% of private clinics operating at a loss. In 2024, public hospitals received a 4.3% tariff increase, while private facilities were limited to 0.3%, supplemented by a targeted relief fund.

## **Vaccines market**

Looking at the global market more broadly, we met with numerous vaccines manufacturers, including MSD, GSK, Sanofi and Arcturus Therapeutics. One of the key trends shaping the market is the shift towards combination vaccines, which aim to protect against multiple diseases with a single shot. These vaccines, such as flu + COVID-19 or flu + RSV combinations, aim to streamline vaccination schedules

and increase uptake. Additionally, the race to develop the next generation of vaccines in the rapidly expanding mRNA and RNA-based vaccine segments remains fierce. Arcturus's joint venture with CSL aims to deliver the first self-amplifying mRNA (sa-mRNA) product in the world, designed to provide elevated antibodies and with a broader spectrum than conventional mRNA. The potential impact of the US election on vaccination volumes was a key topic of discussion. However, manufacturers remain cautious on publicly addressing Robert F. Kennedy Jr.'s nomination as *Secretary of Health and Human Services*, waiting to see how his policies might evolve under President-elect Donald Trump.

## GLP-1s

'Ozempic' was the word on everyone's lips in New York last year at Morgan Stanley's Healthcare conference. The conversation around GLP-1s has shifted from a perceived threat to healthcare companies to opportunities for partnership. GLP-1s are rapidly transforming the metabolic health landscape, with market estimates reaching \$150-160 billion by 2030 and projections that 550 million patients could be using GLP-1 therapies by 2040, making it the largest drug class globally. The rise of small molecule GLP-1 therapies offers a promising alternative to injectable forms, with oral administration potentially improving accessibility and adherence. Companies including Structure Therapeutics and Viking Therapeutics are leading this shift, with Structure's GSB-1290 targeting broad accessibility and chronic maintenance, and Viking's VK2735 showing up to 15% weight reduction in early trials.

## Implications for ASX-listed Healthcare names

### Ramsay Health Care (RHC)

The NHS backlog will mean plenty of work for Ramsay's UK hospitals, which are ~70% NHS and 30% private. While plenty of volume will be funneled to RHC hospitals, margins will remain under pressure as employment costs grow faster than tariffs.

RHC's UK-based mental health offering, Elysium, is well-placed to benefit from the NHS's inability to manage the growing mental health crisis. NHS hospitals are expensive to run – and hence receive high fees from the NHS – but Elysium receives the same fee and does not have the same higher cost base. It is achieving 2-3% price increases, and this will continue. Elysium is dealing with long length-of-stay-patients (e.g. forensic services transitioning into a community setting), which can deliver long-term revenue streams. The mental health market in the UK is extremely profitable for private operators, but there is a fundamental difference between standard hospitals and forensic care. It is unlikely that RHC has achieved large synergies from the Elysium acquisition, but our expectations of upgraded volumes in the region should deliver a modest earnings uplift.

The real pressure will come for RHC in France – there is no sign of increase to government funding or of costs subsiding. Although Ramsay Sante successfully negotiated additional adjustments, resulting in an overall 3.2% increase, inflationary pressures on wages and procurement costs continue to outpace benefits of recent tariff increases. Given the state of the market, we retain our existing assumptions of margin decline in the region.

### CSL (CSL)

CSL is well-positioned to capitalise on the increasing usage of IVIg in the UK. While specific sales figures for IVIg in the UK are not disclosed, the broader EU/UK market accounts for ~27% of CSL's total revenue from plasma-derived therapies. CSL will benefit from rising European plasma prices as well as the inefficiency of the UK's procurement methods. This price outlook is reflected in our forecasts.

There is a lot of activity in the ribonucleic acid (RNA) space, but CSL and Arcturus will be the only sa-mRNA which could be a blockbuster. Sa-mRNA sounds like a big opportunity, but we remain cautious that it is a 2026 narrative.

At this point, it is difficult to quantify what, if any, impact Robert F. Kennedy Jr might have on vaccine volumes – we remain cautious, assuming modest volume growth in the medium term. We have increased the upside assumptions for CSL Seqirus from FY27 onwards, attributable to contributions from sa-mRNA.

### Sonic Healthcare (SHL)

Sonic Healthcare in the UK has evolved from a small lab servicing some private clinics (low volume, high service level, high margin) to winning huge NHS contracts (high volume, low margin). It is difficult to combine running private work with NHS work, with some industry participants noting that service levels are falling and samples are either getting lost or delayed.

With smaller labs popping up and targeting that private work, SHL's focus on NHS work could leave them vulnerable to losing those clients. That said, SHL dominates in London, and it would take some time for others to catch up. Our expectations for volume growth are fair; however, we are including a slight decline in margin due to the increase in NHS work over private.

With the German government cutting healthcare budgets, SHL may experience margin compression and slower growth in this region. These pressures could also drive consolidation, offering opportunities for Sonic to acquire smaller independent laboratories and increase operational efficiencies. That being said, the regulatory and reimbursement landscape will remain challenging. Given the poor outlook for funding in the German market, we are expecting margins to hold at current levels, as opposed to the expansion we were previously anticipating.

**This trip provided valuable intel into the global and European healthcare markets. The NHS backlog and its inefficiencies are presenting opportunities for private providers like Ramsay, while CSL stands to benefit from increasing IVIg demand and sa-mRNA innovation. Sonic faces margin pressures in Europe, but consolidation opportunities remain. These insights refine our outlook for ASX-listed healthcare names, balancing growth opportunities with systemic challenges.**



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The NHS faces backlog surpassing 7.7 million patients in 2024

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