Public-private partnerships
A better way for health care and life sciences to join forces
Winter 2016
Attendees at this year’s EY Strategic Growth Forum™ in Rome rated health care as the most promising future source of growth. They told us that in EMEIA¹, Public-private-partnerships should be used more widely, bringing together health care and life sciences companies.
Concerns about the high costs of health care, especially drugs, have reached a tipping point in markets around the globe: these concerns will not be without action to constrain costs. At the same time, there is recognition that as a society, we must somehow find a way to sustain a climate of innovation that inspires investors to provide the capital necessary for future health care improvements. These are improvements our global society requires if it is to address current trends in chronic disease and aging. Balancing these competing priorities is as difficult as it is important, and stands as one of the central challenges facing governments in both developed and developing countries.

One potential solution worth serious consideration is public-private partnerships (PPPs): collaboration between government and the private sector via partnerships built on the transfer and sharing of risk. Such partnerships have been used extensively – for example, in the development of infrastructure – to fulfill shared, or even vastly different, objectives of public and private sectors. It is time for health and life sciences companies to broadly embrace PPPs to advance shared goals of improving health and patient access at a time of resource scarcity.

In this paper, we outline EY’s latest thinking on this topic, informed by extensive, real-world experience advising health care-related PPPs on topics ranging from financial management and procurement to commercial negotiation and clinical operations. Our perspective is also informed by conversations held in mid-2015 at the EY Strategic Growth Forum™ in Rome. At that event, we discussed, debated and learned from our clients and the wider industry.

A key take-home lesson for us: public and private entities need to work more closely and become bolder in developing new PPP models for health care and life sciences.

In that spirit, this white paper discusses PPPs and how they can be used to accomplish different, often opposing, public- and private-sector goals. Using health care and life sciences as the two focal points for this discussion, we consider whether it is plausible that PPPs can be used to treat, cure and improve health outcomes for patients while enabling a fair price to be paid to manufacturers for their innovative health technologies and services. Finally, we set out a number of recommendations for how to seize the PPP opportunity, all drawn from our past and current experiences in the market.
The health care and life sciences sectors’ shared mission of improving the quality and longevity of patients’ lives has kept them consistently at the forefront of innovation. Despite this common purpose and drive, it has been difficult for public health care organizations to partner with private life sciences companies in sustained and meaningful ways.

Historically, public–private partnerships (PPPs) have focused on the creation of health care infrastructure, including the establishment of hospital buildings and care delivery models. To date, there are few convincing examples demonstrating how the approach could be used to finance the delivery of innovative treatments for high cost diseases such as cancer, diabetes and hepatitis C.

More progress has been made in the R&D arena, where PPPs have been used in several cases as platforms to accelerate innovation, for instance in the areas of pharma-led vaccine delivery and diagnostics programs in emerging markets. In Europe, we have seen some examples of small-scale PPPs and PPP-hybrid models focused purely on service provision, altering the way in which the participating public organizations receive and pay for health care services.

Introduction

These early experiments are signposts of a broader trend. Globally, health care systems are motivated to improve the quality of the care process in a variety of ways, including:

- Enabling access to care providers
- Streamlining and targeting treatments
- Ensuring the affordability of innovative, curative treatments
- Innovative clinical governance pathways

Pharmaceutical and medtech companies, meantime, have responded to the increasing reimbursement challenges by shifting their business models. Pharmaceutical companies, for instance, have largely moved away from traditional, primary care–focused business models supported by billion-dollar blockbuster products to developing specialty products for niche diseases where the gravity of condition has historically meant greater pricing flexibility. While this shift is entirely rational in an economic sense, it may fall short of satisfying individual pharma companies’ growth objectives. It also fails to satisfy the overall needs of society, as changes that improve the health of the overall population will have a bigger impact than costly advances targeted to a smaller segment of individuals.

In this environment, where the fulcrum of cost and innovation assessments is value, there is an absolute need for new, collaborative models that spread not just the costs but the development risks in a way that allows all parties to share in the benefits that come with better health outcomes and improved wellness. These models may require innovative funding mechanisms and/or value-based contracting tied to patient-centric real-world data.
“As we see movements away from hospital-centered health care and greater involvement from the life sciences sector, we expect PPPs to change and evolve, with less emphasis on building infrastructure and more on health care products, services and end-to-end solutions.”

Antonio Irione
Life Sciences and Healthcare Leader, Italy
What exactly is a PPP?

Definition
The PPP came about through the desire of governments to share risk and control public spending, while allowing public- and private-sector entities to focus on common objectives. The World Bank defines the PPP as “a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance.”

Different objectives, yet a shared purpose
Across all industries, public and private entities often have very different objectives, as well as timelines for meeting those goals. One of the biggest divisions: the need to demonstrate profit. On the private side, companies and their management teams have the fiduciary responsibility to maximize total shareholder return. On the public side, financial performance remains important but the motivating principle is not profit. Instead, the key metric is the ability to generate a return on investment (ROI).

Thus, for health care and life sciences entities to work together in PPPs, they must find a shared purpose that bridges the gap between ROI and profit. This bridge exists in each and every patient treated by a health system or life sciences company. The shared purpose underpinning the encounter: improving patient outcomes. This desire to improve and sustain the health of patient populations provides the common ground necessary to forge successful health care–life sciences PPPs.

PPP key stakeholders
Public sector stakeholders include both government bodies and health care providers. At present, publicly funded health systems are under stress to improve care quality without straining their budgets. All too often, providers in these systems must justify decisions made to improve population health that to individual patients may seem like underperformance. Given resource constraints, these groups must frequently make difficult trade-offs between cost-containment and access to new, potentially life-improving innovations.

Private sector stakeholders supporting the public sector can range from pharmaceutical companies to maintenance contractors. The services provided will vary in nature and breadth. These organizations have a fiduciary responsibility to satisfy shareholder requirements, including profit and revenue maximization. Financiers can be banks, pension funds or other private companies and are primarily interested in investing and securing a preferential rate of return for their clients and/or company. Thus far, a small number of financiers have invested in health infrastructure-focused PPPs. Most financiers have remained on the sidelines, because they perceive health care and life sciences as unattractive areas, due to the risk profiles of projects, the perceived low returns and potential regulatory hurdles. Equally, there has been limited effort to engage with financiers on a product-by-product or service-led basis.

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Examining different perspectives

Health care: what’s in it for payers and providers?

Need for financing
Many governments face budgetary constraints when trying to finance public services. PPPs can transfer many finance-related risks to the private sector. In addition, in certain circumstances, PPPs enable organizations to access funding from a wider variety of investors, whether domestic or overseas.

Risk transfer
Risk-sharing is one of the primary reasons to consider a PPP. In addition to drawing on the specific expertise of private-sector organizations in areas as diverse as design, finance or construction, PPPs allow governments to transfer or share risks with the parties most able to bear them.

Optimized long-term cost and social benefit
Since PPPs are structured as relationships that give private organizations clearly defined responsibilities, their very configuration facilitates a long-term perspective that can’t be attained in a more traditional transactional relationship. As a result, these organizations have a vested interest in making decisions that optimize long-term costs rather than short-term savings.

Price certainty
PPP outline the project life cycle cost up front, and therefore provide better price certainty for the public sector. Amid shrinking health care budgets and pressures on services, this is positive for governments, providers and commissioners of health care services.

Innovation
PPP can be a force for innovation, enabling governments, providers and health systems to test new approaches in important areas such as data collection and measurement of patient outcomes.

Life sciences: what’s in it for pharma and medtech?

Access to patient populations
As payers become increasingly cost conscious, life sciences companies find it more difficult to gain market access to patient populations. This is especially true when bringing newly developed high-cost drugs to the market. It is also true when trying to build or maintain market share in competitive therapeutic areas with multiple treatment options.

Access to patient data
Payers and health care providers generate large amounts of real-world data related to a product’s safety and efficacy and a patient’s journey managing his or her disease. These data provide life sciences companies with critical information that informs future drug development and commercial strategies, especially price negotiations with payers. By sharing risks with payers, life sciences companies can gain access to real-world data that they can use to demonstrate the value of their products.

A mechanism for building trust
Cash, the lifeblood of all businesses, has historically not been an issue for successful pharma and medtech companies. Because of market exclusivities, companies that can bring a product to market tend to have significant free cash flow. These companies can allocate their capital in a number of ways. One that should be considered: investing cash reserves directly into payer organizations via partnerships that focus on patient- and payer-centricity. That is because these partnerships could help life sciences companies bolster their reputations with other health care stakeholders at a time when distrust of the industry is at an all-time high.

Leading an integrated role in a changing health care environment
Traditional health delivery models historically put the hospital at the center of a care experience that is episodic. However, in a resource-constrained environment, governments and health systems are examining innovations that put patients first and allow them to receive high-quality, continuous care in lower-cost locations, such as the home or skilled nursing facilities.
Use of PPPs: past and present

In health care, PPPs historically have been used to finance and build infrastructure. For instance, a rapidly expanding health care facility might use the mechanism to upgrade aging facilities or add capacity. These partnerships enable public health care organizations to transfer some of the risks, and costs, associated with designing, constructing, maintaining and/or operating large-scale infrastructure.

Hospitals and research centers in North America, the UK, Portugal and Australia have been created thanks to PPPs. For example, in Portugal, PPPs have been a critical source of new health infrastructure, leading to four new hospitals, three being a substitution of existing ones in Lisbon. When asked about the rationale behind this particular PPP, Vasco Luis de Mello, Executive Director of PPPs at Jose de Mello Saúde Group, responded by saying that “the opening of the four hospitals happened on time without any cost for the public sector.”

We are also starting to see evidence of successful life sciences-focused PPPs. In developed markets, the structure has been used to bolster R&D initiatives. In emerging markets, the deal structure has been used to enable access to new health technologies. Given resource constraints in many developed markets, it is not a stretch to believe the model could also be applied in these regions to improve market access to high-cost, but highly effective, products.

Resources, constraints and market complexity have led hospitals to look for innovative solutions to improve their economic performance. One of the key success factors for medtech companies is the ability to prove that their portfolio will bring value to the health care providers moving from a product-centric approach to a customer-centric approach. Getinge has developed an offering, managed equipment services, which consists of the delivery of equipment and a full range of services related to that equipment. The company’s intention to make the most of the potential of non-ownership services is influenced by both financial and non-financial factors. Enabling access to the latest technologies and tools is one of the most important drivers.

Sébastien Blanche, CFO Getinge Surgical Workflows and Global Head of Export & Project Finance (Getinge Group), says that moving from selling goods to offering an integrated portfolio with value-added services can really be a win-win partnership between the hospital and the original equipment manufacturer. It is a big business transition because now the company has to learn how to become a preferred partner and how to provide advisory services outside the comfort zone of its own product portfolio.

A key success factor is to be able to offer a turnkey solution to customers that includes legal, financial, tax and accounting guidance. It is an innovative procurement approach rather than a pure financial solution. The United Kingdom is by far the most advanced market; the approach is progressively emerging in countries such as Spain, Italy, France and Belgium.

In addition, Getinge Group has developed a well-structured Export & Project Finance team to better meet customers’ needs.

Building hospitals in Alexandria, Egypt, 2012 – ongoing

A recent large-scale development in Alexandria, Egypt, exemplifies how health systems might use a traditional infrastructure-based PPP. The Egyptian government, seeking to upgrade outdated hospital facilities in Alexandria, brokered a PPP worth US$410 million with an international consortium of private companies, including G4S, Detac, Bareeq Capital, HSBC, Commercial International Bank and other companies.

The PPP will enable the financing, design, construction, furnishing, maintenance and provision of non-clinical facilities management services for two new hospitals and a blood bank. At the conclusion of the 20-year partnership, ownership of the facilities will revert back to the Egyptian government.

Providing patient access to oral contraceptives in Africa, 2009 – ongoing

Those of us who live in developed parts of the world take for granted basic public services such as access to contraception or antibiotics. However, huge disparities remain in emerging economies such as Sub-Saharan Africa. In an effort to reduce the risks associated with high-risk or unintended pregnancies, the United States Agency for International Development (USAID) and Bayer Healthcare combined forces to create a PPP that would make the oral contraceptive Microgynon available at affordable prices in 11 Sub-Saharan nations.

Supply chain optimization, Baxter, Italy and beyond

In Italy, Baxter has created its own model for PPPs, building over 28 laboratories for the centralized preparation of oncolytic drugs. In these labs, multi-dose bags of 18 chemotherapy products are used to prepare a single patient’s treatment, ensuring a safer and smoother process, along with a significant reduction of drug waste. The hospitals provide the financing to build the laboratories and in return, Baxter builds the labs and provides its products and services for the duration of the contract, which is usually 3-5 years. At the end of the contract, the labs revert back to the provider. Dr Stefano Collatina (Hospital Products Business Unit Director) says that more than 80% of the accounts maintain their respective collaboration after the contract expiry, because of the value generated by the service to the hospital in terms of costs reductions, patients, and operators’ safety improvements.
Is a PPP suitable for your company?

Because these partnerships involve diverse stakeholders with often disparate objectives, they can be complex undertakings requiring significant planning and expertise. PPPs are perhaps most widely used in the UK. They have underpinned major infrastructure investments, including the building of prisons and affordable housing and the expansion of transportation-related infrastructure. However, the model has been less successful in advancing health initiatives. In part, the negative reputation in health care resulted because a limited number of high-profile hospitals developed under the UK’s private-finance-initiative scheme were not set up properly, resulting in financial difficulties later on. These problems gave PPPs a bad reputation in health care.

Given the time associated with most PPPs and the level of investment, health care and life sciences companies and organizations should consider the following five parameters before committing to the model.

**Time to market**
Since PPPs are typically long-term contracts, they provide significant stability if appropriately structured. However, they may not provide the flexibility certain parties want regarding timelines.

**Flexibility and control**
PPPs are designed to share risk and management responsibilities across a number of different stakeholders. This requires the participating organizations to work together and necessitates compromise. No one stakeholder will have full control over the design, implementation and operations of the project. If such flexibility is critical to a specific party, then a PPP may not be the best solution.

**Ability to manage and/or perform the service**
While certain services might be more efficiently managed and better performed by the private sector, the reverse can also be true. This should periodically be evaluated based on the current situation and real evidence, as the answer could change over time.

**Clearly defined outcomes**
To be successful, the goals of the PPP must be clearly defined and agreed upon by all participants. Each stakeholder must also participate fully. Goals have been relatively easy to define in traditional health infrastructure projects: the stakeholders agree, for instance, to build a specific facility in a specific time frame for a specific cost. Goals that are objectively measured are harder to define when PPPs are used to improve health outcomes, however.

**Cost of administration and collection of outcomes data**
PPPs designed to measure outcomes data can be expensive and time consuming, requiring certain technical capabilities related to the collection, storage and analysis of data. These costs, and stakeholders’ level of readiness, must be considered when weighing the benefits and costs of a PPP.
In the next 5-10 years, we expect the move away from hospital-centered care delivery will accelerate. This shift means fewer big infrastructure-based deals focused purely on hospital building. Instead, there will be a move toward broader solutions that provide community-based care, especially in rural areas and areas with older populations. Implementing this shift successfully will require the adoption of technologies such as digital health and telemedicine. It will also require additional IT infrastructure and the adoption of new capabilities. All of these advancements will require investment at a time when budgets are constrained.

PPPs will continue to be an important driver of change in health care, but their focus will shift. Past experiences in countries such as the UK were not uniformly positive. However, these negative perceptions will be superseded by the pragmatic need for capital to sustain health care institutions. Indeed, even if more government funds are diverted to health care, the private sector will still have a greater role to play in funding future innovations and services.

Patient outcomes will become a key focus of future PPP contracts. Private companies that want to align with providers and governments must understand how to improve them (and demonstrate how they have done so) in order to gain a competitive advantage over rival competition.

More broadly, in support of the PPP, the measurement of outcomes and how they are defined will improve. This is perhaps one of the biggest areas of need, as many health systems in EMEIA either do not recognize what must be done to be more patient-centric or, worse, rely on non-outcomes-focused metrics that are inadequate.

From a market access standpoint, the way in which value is demonstrated will also evolve, but at a slower rate than some of the other changes. While progress will vary, most health systems (including the more advanced) are not ready for change, and there is also an associated time lag to consider in bringing about such change. In the interim, life sciences companies wishing to provide innovative health technologies will have to continue to abide by traditional approaches of value demonstration.

As these changes take effect and the health care environment becomes more challenging, PPPs will provide a critical mechanism for bridging health care and life sciences. To be successful, all parties need to take a long-term view, breaking out of the trap of one-year budget cycles. This will require organizations striving to be market leaders in 2020 to take some degree of risk.

**“With the PPP, the state introduced new benchmarks in terms of hospital outcomes and that could drive change to the old system.”**

Vasco Luis de Mello
Executive Director of PPPs at Jose de Mello Saude Group
Improve your understanding of the market and the players within it. Many organizations lack understanding of the market, as they do not have the right tools and processes in place. At EY, in-depth analytics — embodied through bespoke analytics suites — form the underlying basis of all of our work in health care and life sciences. We are fully aware that when talking about sophisticated risk-sharing and innovation, all of our clients need to have a high degree of confidence that the approaches will work.

Embrace innovative financing and contracting. Many of our health care clients face significant resource constraints. In the future, as pressures on health care increase, we believe there will be opportunities for private companies such as life sciences companies to earn returns for their investors by financing important programs aimed at improving population health. PPPs are a sensible mechanism health care players can use to broker relationships with groups that have not traditionally been their partners.

Start your journey properly. Communicate internally and outline the risks and benefits of longer-term sustainable structures such as the PPP (or less complex structures to start with) as a means of fulfilling your needs. To be successful, partnerships between payers and pharmaceutical clients must meet the needs of both parties. At EY, we survey the full spectrum of solutions to identify the most suitable vehicle to meet our clients’ goals.

Partner with research companies. The demand for value in health care treatment and care delivery is only going to increase as quality standards improve across EMEIA — especially in Africa and emerging states in the EU. This will mean more coordinated efforts are required to increase the speed, quantity and quality of different health services. Some of our recent work in the area of chronic disease management showed that patient outcomes improved when there was greater pharmaceutical involvement.

Explore real-world data solutions. Payers’ views on how the value of a health technology should be substantiated are still evolving. Payers generate a huge amount of real-world data, but accessing it, understanding it and using it to change patient behavior remains a challenge. Future models oriented toward real-world data will have to include formalized structures that take into account the complex needs of different stakeholders, as well as privacy and security of data. Our teams have been working on new commercial models that emphasize these requirements. In many instances, the PPP is an approach to consider.

Make health digital. The phrase “digital health” has become so prevalent in the health and life sciences arenas that it is almost a trope. However, as we experience shifts both in where care is delivered and in what constitutes patient-centricity, the reality is that new digitally enabled tools represent a powerful mechanism for bending the cost curve while simultaneously demonstrating patient value. Most, if not all, of our projects in health care and life sciences involve some facet of digital health. Going forward, we anticipate PPPs will be one mechanism that technology businesses and life sciences and health care companies could use to assemble the diverse know-how required to accelerate the implementation of digital health solutions.
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Life sciences companies – from emerging start-ups to multinational enterprises – face new challenges in a rapidly changing health care ecosystem. Payers and regulators are increasing scrutiny and accelerating the transition to value and outcomes. Big data and patient-empowering technologies are driving new approaches and enabling transparency and consumerism. Players from other sectors are entering health care, making collaborations increasingly complex. These trends challenge every aspect of the life sciences business model, from R&D to marketing. Our Global Life Sciences Sector brings together a worldwide network – more than 7,000 sector-focused assurance, tax, transaction and advisory professionals – to anticipate trends, identify their implications and develop points of view on responding to critical issues. We can help you navigate your way forward and achieve success in the new ecosystem.

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EYG no. FN0252  
BMC Agency  
GA 0000_04359  
ED None.

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