

# KEYNOTE INTERVIEW

## The future of social infrastructure



*The Italian pharmacy sector is a prime example of a new generation of value-add social infrastructure, say Antin's **Angelika Schöchlin** and Antin portfolio company Hippocrates' co-CEOs **Rodolfo Guarino** and **Davide Tavaniello***

The nature of infrastructure investing has changed markedly in recent years. Angelika Schöchlin, managing partner at Antin Infrastructure Partners, and Rodolfo Guarino and Davide Tavaniello, who are co-founders and co-CEOs of Antin portfolio company Hippocrates, consider a new frontier in the market: Italian pharmacies.

### **Q** What are the key macro trends impacting the healthcare sector today?

**Rodolfo Guarino:** The European healthcare sector is characterised by rising costs and a high level of public

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deficit, which is putting pressure on public funding for healthcare. At the same time, Europe has an ageing population.

In fact, Italy is second in the world, after Japan, in terms of having the oldest population: around a quarter of Italy's population is aged 65 or over.

Of course, an ageing population inevitably translates into higher healthcare costs and higher consumption of

drugs. Skyrocketing healthcare costs, against a backdrop of public funding constraints, are creating opportunities for private funding in the healthcare space.

### **Q** What opportunities are emerging in the Italian pharmacy sector, in particular?

**Davide Tavaniello:** There are fewer and fewer GPs in Italy, as doctors retire without being replaced. In parallel, there is also real pressure on hospitals as patients seek alternative means of accessing the healthcare system. Pharmacies have therefore become the first

point of care for an ageing population of patients that are also becoming increasingly health aware.

There are over 20,000 pharmacies in Italy, and these have become health-care hubs, providing far more than just medicine. Pharmacies provide health-care advice; they disseminate public healthcare information and provide preventative services such as screening and the promotion of selfcare.

In addition, in the wake of covid, new health services are now permitted in pharmacies, including a full range of vaccines and various diagnostic procedures, meaning pharmacies are no longer just a distribution channel for medicine. The whole sector is undergoing a transformation and becoming really key to the national health system.

### Q What makes pharmacies infrastructure?

**Angelika Schöchlin:** During covid, pharmacies were one of the few businesses that were allowed to remain open. In fact, they were and continue to be required to be open. Pharmacies provide an essential service and must always be accessible to patients.

There are also very strong regulatory barriers to entry. In Italy, for example, it is very difficult to open a new pharmacy – virtually all activity is via acquisition of existing pharmacies – and pharmacies are the only entities permitted to sell prescription drugs in Italy.

Catchment areas are clearly defined, with no two pharmacies allowed within 200 metres of one another. There are also regulations around the minimum population serviced by each pharmacy.

Overall, when you look at the historical evolution of the Italian pharmacies regulatory framework, it has been very stable and underpinned by the overarching objective of ensuring stability and visibility in the sector to support investments to reinforce the sector as a key pillar of society.

Furthermore, if you consider the



Bright future: Antin sees pharmacies as a key pillar of society, with plenty of value creation potential

### Q How do you see the pharmacies space developing?

**RG:** There is still a huge amount of white space remaining in the Italian pharmacies sector. While there are around 20,000 pharmacies in the country, pharmaceutical chains still only represent 5-6 percent of that total.

There is a lot of scope for further organic value creation as well, not least because there is still so much more to do to expand role of the pharmacy in the community, including through the provision of more in-store health services, customer fidelity programmes, private label strategies and the building of brand strength.

We also plan to continue to invest in the digitalisation of the patient journey. Technological advances in medicine will be instrumental in allowing this to happen, enabling pharmacies to become an essential part of people's lives on a day-to-day basis as we shift away from the perception of pharmacies as drug dispensers and towards a more comprehensive view of holistic health.

demographic trends, it is clear that pharmacies represent a very stable and predictable business that will continue to grow based on an ageing population. Italian pharmacies offer inflation protection, as well. The government negotiates prices for prescription drugs and the margins are fixed.

Meanwhile, in terms of downside protection, pharmacies are probably one of the few areas that are completely uncorrelated to economic cycles.

### Q Why did you decide to back Hippocrates, in particular?

**AS:** This was not just about executing a buy and build play. Just about

anyone can buy a pharmacy by paying the highest price. Instead, we bought into the co-founders' vision of creating a true industrial platform that would transform pharmacies into the first and best point of access to healthcare advice for patients. First and foremost, therefore, our investment in Hippocrates was very much about the management team and their vision.

In terms of the sector fundamentals, meanwhile, this is clearly an industry that is underpinned by a stable regulatory framework and there is a real potential for consolidation to build on Hippocrates' first-mover advantage and scale up the platform. The Italian pharmacy market is quite unique

in Europe and very different from the drugstore model in the UK or in the US.

Pharmacies in Italy are a key pillar of the health service. It is closer to the French or Spanish model of a nationwide network of “officines” with the key difference being that in Italy pharmacies can be owned by companies/investors and not only by pharmacists. As a result, Hippocrates is not just a group purchasing organisation or a portfolio of franchises but a true operating business and the largest owner of pharmacies in Italy.

That investment thesis around market and regulation has been affirmed by key developments that have taken place since our acquisition, including rules limiting new pharmacy openings, a new remuneration system supporting pharmacies’ margins and the expanded scope of drugs permitted within the pharmacy-distribution channel.

Furthermore, we are seeing an increasing trend towards the de-centralisation of healthcare to alleviate pressures on core healthcare institutions – in other words hospitals – particularly as the number of GPs continues to decline in Italy and as the national health system comes under growing funding pressure.

For example, the past few years have seen an expanded scope of healthcare services provided in pharmacies, typically relating to routine monitoring and simple diagnostics, such as ECG and blood tests. Not only does this allow hospitals to allocate more resources to more complex ailments, but it has also contributed to increased health awareness in the general population.

### **Q** What has Hippocrates’ growth story been so far?

**AS:** Hippocrates was founded in 2018 and we acquired it in 2021. Back then, it owned around 112 pharmacies, and we have since added around 375 more. It is double the size of its nearest competitor and today has over 2,000 employees generating €750 million in

*“Pharmacies represent a very stable and predictable business that will continue to grow”*

**ANGELIKA SCHÖCHLIN**

revenues. In addition to growing the pharmacies network, our approach to value creation has been very much focused around establishing a true industrial platform aimed at improving the quality of care for patients.

**DT:** On the organisational front, we have significantly strengthened the management team around us with the recruitment of high-calibre managers from inside and outside of the healthcare industry. We have also significantly scaled-up and professionalised central functions enabling us to provide enhanced support to our pharmacists on a daily basis. We currently have 150 people working in our headquarters compared to 55 at the point of acquisition.

Meanwhile, when it comes to acquisitive growth, we have significantly

strengthened our integration capabilities to accelerate and increase M&A value creation. This includes significant investment in our digital platform and IT and finance systems, including the roll-out of an ERP system across the entire company.

We have expanded the range of services we are offering to patients including ECGs and blood tests, for example, which is further establishing pharmacies as a local healthcare hub. We have also significantly expanded profitability by taking advantage of economies of scale and direct order management.

**AS:** A further important milestone for Hippocrates was the infra-style financing package that we have been able to put in place. We raised more than €900 million, which was a market-first for large-cap social infrastructure in Italy and one of the largest debt raises by a private issuer in what was a very difficult macro environment in 2022. That financing package has primarily been designed to help fund continued M&A growth given that we are running at around 100 add-on acquisitions per year.

### **Q** What other areas of social infrastructure are creating interesting opportunities?

**AS:** We are constantly looking at new areas of social infrastructure. Earlier this year, for example, we announced an investment in Portakabin, a provider of modular building infrastructure that leases its buildings to a range of essential end markets including the education, healthcare, public infrastructure, commercial and industrial sectors.

The company owns a fleet of over 100,000 modular units, which it leases to over 4,000 customers across the UK and key regions in Europe. Modular facilities allow for cost efficient, flexible, rapid and sustainable building solutions and this is very much in line with our definition of social infrastructure, meeting all the requirements of our infrastructure test. ■