



CASE STUDY

Achieving Pharma and Medical Synergies through Mergers and Acquisitions

Ascendis Health: Bringing High-Quality Pharmaceuticals and Medical Devices to over 100 countries

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ABOUT THE CASE STUDY

Expanding access to quality and affordable health care is a central element to eliminating extreme poverty and promoting shared prosperity. The World Bank Group has a goal to end preventable deaths and disability through Universal Health Coverage (UHC). In many developing countries, governments do not have the capacity to service the entire population and private health care providers often play a critical role in meeting societal needs.

IFC's health practice is developing case studies that demonstrate the ability of the private sector towards achieving global and national health care goals. Through a focus on efficiency and innovation, certain business models can provide better outcomes at a lower overall cost to society.

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SAVING THE NEXT GENERATION WITH MODERN MEDICAL DEVICES IN SOUTH AFRICA

Gwen Burger, a young South African woman, was heartbroken at the prospect of not being able to have children. She suffered a painful medical condition that affects as many as 40 percent of women in South Africa. For five years, she had dealt with the symptoms of two large uterine fibroids. The larger fibroid was the size of a baseball and caused excessive bleeding during her menstrual cycle. Her sales job was more difficult because of her condition. She constantly had to change her clothes during the work day, which was difficult when she was on the road. The blood loss was so significant that her hemoglobin, a measure of iron in the body, dropped to a level of three, far below the normal level of twelve, requiring her to be admitted to the hospital three times for treatment to improve her hemoglobin level.

Gwen sought a medical opinion from five different gynecologists, all of whom informed her that the only solution was to have a hysterectomy. The surgery was highly invasive and had a long recovery period. She would be out of work for four to six weeks and would lose income from her sales job. Most of all, she was distraught at the thought of never bearing children. This was a terrible option.

Dr. Nhlanhla Sithole offered Gwen a new possibility. He performed a Uterine Fibroid Embolization (UFE), a minimally invasive treatment that selectively targets fibroids and spares the uterus and ovaries. It is internationally recognized as a highly effective treatment for uterine fibroids. In collaboration with Ascendis Medical, Dr. Sithole performed the surgery using radiological equipment to guide a catheter which introduced microspheres that suffocated the blood supply to the fibroid. She was in the hospital for one day and she was back at work within three days.

Reflecting on the surgery, Gwen remarked, “It has been a month since my UFE. I have had my second menstrual cycle and it was at least 60 percent lighter than normal. This has finally improved my quality of life. Without this, I would have lost my womb and been off from work, which I cannot afford to do.”



Photo © Ascendis

“South Africa, like most of the countries on the African continent, does not have a medical devices manufacturing industry. Ascendis facilitates the importation of a large percent of these medical devices, which would not otherwise be available to help patients like Gwen avoid invasive surgery.”

Dr. Karsten Wellner
CEO of Ascendis

Dr. Karsten Wellner, CEO of Ascendis Health explains, “South Africa, like most of the countries on the African continent, does not have a medical devices manufacturing industry. Ascendis Health facilitates the importation of a large percent of these medical devices, which would not otherwise be available to help patients like Gwen avoid invasive surgery.”

Established in 2008, Ascendis Health is a publically traded, South African company focused on a holistic view toward “health and care.” What started as a consumer care products company, has now evolved into a multinational company with a holistic view on health, combining prevention and intervention. It is organized into three major divisions: Pharma-Med, Consumer Brands, and Phyto-Vet, which have performed well. In Fiscal Year 2016, Ascendis Health had revenues of R3.9 billion (\$290 million).¹ More than half of its revenues were generated by the Pharma-Med division. Further, in 2015, the Medical subdivision had annual turnover in excess of R1 billion (\$74 million), making it the second-largest medical device business in South Africa, behind the subsidiary of one of the major global healthcare companies.

In 2016, IFC played a catalytic role in the growth of Ascendis by providing a \$30 million equity investment for the acquisition of Remedica, an important European generic pharmaceutical manufacturing company. The acquisition was a game changer that gave Ascendis immediate access to a broad basket of important medications - including for the treatment of cancer. The deal transformed Ascendis into a multinational company overnight and gave access to emerging markets for pharmaceuticals in Asia, the Middle East and Africa.

The Pharma-Med division, which is the focus of this case study, is divided into two subdivisions. The Pharma subdivision imports, manufactures, and distributes over 850 generic prescription medications and over-the-counter (OTC) medicines. The Medical subdivision, imports and distributes over 7,000 products, consisting of hospital equipment, surgical devices, and diagnostic laboratory equipment. The Consumer Brands division manufactures and distributes nutritional products and supplements, vitamins, complementary medicines, sports nutrition, and high end skin care products. The Phyto-Vet line consists of plant and animal health and care.

The Pharma subdivision reaches the most vulnerable patients with its drugs in four ways: (1) selling generic drugs, which are priced lower than originator drugs thus promoting affordability, (2) selling through dispensing doctors, which helps reach low income patients in remote areas in South Africa, (3) selling generic drugs in large volumes to public hospitals through government tenders, and (4) selling to international relief organizations working with refugees and victims of conflict. By providing low-cost generic drug alternatives to the market, Ascendis increases access and improves availability of high-quality medicines to people in over 100 countries. IFC estimates that the company has already benefited 2.2 million people with its generic drugs and it is targeted to reach 3.2 million people by 2020.

The Medical Device subdivision provides a “one-stop shop” solution for private and public hospitals, laboratories, and specialist surgeons. Its products are used in general surgery, gynecology, urology, ear, nose and throat, cardiology, as well as diagnostics used in radiology. It has strategically positioned itself in segments that need education and servicing but do not require large capital investments, such as MRI’s. In the growing area of preventative care, it offers diagnostic laboratory equipment and support to help doctors diagnose and treat illnesses earlier. By expanding the scope of the product line with high-quality medical products, it has helped many South African hospitals to extend reach and improve access to quality. By offering service agreements to maintain and repair equipment regionally, it reduces equipment downtime and cost. It has a footprint that covers all of South Africa and several countries in the Southern Africa region.

¹ Ascendis’ fiscal year ended on June 30, 2016. The exchange rate on November 10, 2016 was 1 USD: 13.4 ZAR. www.oanda.com

KEY SUCCESS FACTORS

Ascendis' business strategy is to create a synergistic group of health product brands that cover the value chain ranging from the importation of raw materials, to manufacturing, to distribution via direct selling and retail channels. The key factors that have contributed to the company's success are (1) economies of scope (efficiencies formed by variety), (2) shortening time to market delivery, and (3) its ability to raise capital for strategic or complementary acquisitions.

EFFICIENCIES THROUGH MERGERS AND ACQUISITIONS (M&A) PARTNERSHIPS

Since 2013, the Pharma-Med division has established M&A partnerships with eight companies. This has allowed Ascendis to find efficiencies through expansion of its range of product offerings and reduce costs. The acquisitions create value throughout the value chain. In the Pharma subdivision, the partnerships allow it to address more therapeutic areas with additional generic formulations and serve more markets. In the Medical Device subdivision, Ascendis has partnered with over 100 respected international companies to carry its products. By bundling the sale of products, providing training on the equipment—even training in the operating theater—and providing equipment maintenance through service contracts, the company solves problems in the industry. The strategy allows the company to scale the distribution of a broader number of products. Further, by importing and distributing specialized knowledge, it is cultivating trust and loyalty to the brand.

SHORTENING TIME TO MARKET DELIVERY

The acquisitions reduce the time requirements to introduce its highly regulated products to new markets because the company leapfrogs over the typical early stage research and development activities. Given that the gestation period for developing pharmaceuticals and medical products, getting regulatory approval, and commercialization takes several years, the path of

inorganic growth allows it to get some products to market in under two years, thereby improving health outcomes and the quality of life sooner.

ABILITY TO RAISE CAPITAL

Ascendis gained credibility when it listed on the Johannesburg Stock Exchange in November 2013. The IPO allowed the company to raise R450 million (\$45 million at that time) through the private placement of its shares. The placement was oversubscribed. It sold shares at R11 (\$1), which provided Ascendis with more than double the equity it needed. The capital allowed it to refinance its debt and to fund the next two transactions. As of November 10, 2016, its share price had increased to R26.50 (\$1.96) and it has a market capitalization of approximately R10.2 billion (\$760 million), with annualized sales of approximately R6.8 billion (\$506 million). The listing also helped the company to get additional local and international investor support from the debt and equity side, thus allowing it to pursue its growth strategy.

It was able to achieve positive results because of its dedicated Mergers and Acquisitions teams that went the extra mile to support the acquisition and the integration of the acquired subsidiary, as well as its strict adherence to financial models that prescribe how to financially structure its deals.



Photo © Ascendis

FROM INCORPORATION TO MULTINATIONAL IN EIGHT YEARS

Ascendis was founded in 2008 by Coast2Coast, a privately held investment holding company which aligns its vision, in part, to Berkshire Hathaway. Coast2Coast focuses on the healthcare sector and the consumer health products sector with a passion for value creation. It takes a semi-active ownership role in its portfolio companies, and currently owns about one-third of Ascendis. It seeks to create value by partnering management teams to improve strategic, operational, and financial performance.

In 2010, Dr. Karsten Wellner, was recruited to become the CEO. He had previously managed the South African subsidiary of a global pharmaceutical company from Germany. Karsten changed the name of the company from “Nutrivest” to “Ascendis Health,” with the intention of rebranding the company with a name symbolizing the key role of pharmaceuticals in its growth strategy.

Pharma-Med Vision: Ascendis wants to cover three distinct aspects of health care: prevention, intervention, and chronic care. The company’s Consumer Brands division is focused on preventative care and health maintenance. The medical device division attends to the intervention of a patient in critical stages of care, while the pharma division provides pre- and post-intervention medications. In South Africa, there are no other companies combining preventative and intervention care as part of their overall strategy. This holistic vision on health is increasingly important as the focus on prevention and health maintenance helps societies and health insurance providers to reduce the occurrence of diseases. By promoting preventative care and reducing “interventive” care, it contains or reduces costs in the overall healthcare system.

Early Growth: Ascendis entered the pharmaceutical sector in March 2013 when it acquired its first pharma company with the purchase of the South African Pharmachem and its two subsidiaries, Dezzo Trading and Pharmadyne. At the time, Pharmachem was a 13-year-old South African pharmaceutical company engaged in the manufacture and importation of generic drugs that addressed illnesses with a line of antibiotics, anti-diarrhea medication, and anti-psychosis medication. In addition, it produces OTC medications that alleviate pain, cough, and flu symptoms. The deal gave Ascendis a foundation with a platform company in South Africa that provided access to government hospitals and dispensing doctors who were serviced by wholesalers or its own sales force.

By January 2014, it had acquired a second company in the Pharma-Med division, with the purchase of Surgical Innovations (SI), a six-year-old South African company that imports and distributes various surgical devices used in general surgery, urology, obstetrics and gynecology, cardiology, ear, nose and throat, spinal surgery, and neurology. It sells surgical equipment such as 3D endoscopes for minimally invasive surgery, surgical side implants such as screws for the head, and hip joints to hospitals in South Africa.

These two acquisitions, and the ones that followed them, positioned the young company to enter the Pharma-Med market on a fast-track basis by leapfrogging over the typical research and development and greenfield investments necessary to bring a product to market.

Acquisition Strategy: Ascendis' fundamental approach is to acquire platform companies in all three divisions it wants to be active in and then add profitability to the division through "bolt-on" acquisitions. A "bolt-on" is a company or part of a company that can be affixed to the platform company in a way that leverages the existing strength of both. Bolt-ons can be a pharma dossier, a term for a collection of documents containing detailed data pertaining to the administrative, chemistry, pre-clinical, clinical, and permissions granted by the regulatory agencies of a country. Bolt-ons can be other brands, or partial businesses, which can share production facilities, sales and marketing teams, accounting, and other administrative functions. Ascendis looks to acquire brands with a strong export component and with a proven ability to integrate and extract efficiencies, as well as opportunities where it can cross-license pharma dossiers.



Photo © Ascendis

"In two years, Ascendis acquired five pharma companies which gave it newer, more effective drugs, as well as entry into treatments for cancer and chronic lifestyle diseases"

When evaluating a target company, Ascendis looks for companies that have a strong profit growth history and have good brands with market-leading products that are ranked in the top three. The brands themselves must have a good business proposition. Ascendis does not buy turn-around companies. Instead, it buys established, healthy companies that are cash positive, and have weathered storms, so as to minimize the possibility of any turn-around work.

Pharma Growth Trajectory: The 2015 calendar year was a seminal year for the company's growth. The Pharma-Med division completed a total of four acquisitions, including one international acquisition in the Pharma subdivision.

In Pharma, the Bio Swiss bolt-on gave Ascendis entry into the diabetes market with insulins, diabetes care devices, diabetic OTC products, and oral hypoglycemic medications. Akacia (finalized in April 2016), also a bolt-on, provided high volume, low-cost essential drugs and OTC formulations, including a Good Manufacturing Practices (GMP) accredited manufacturing plant formerly owned by a multinational. The acquisition

strengthened market shares in the retail pharma, dispensing doctor, and public hospital channels, as well as in several export markets. Ascendis then bolted on registered dossiers by purchasing them from Sandoz, the generic pharma division of Novartis, a worldwide leader in generic medicines. The deal added 130 dossiers and market authorizations in the areas of oncology, women's health and urology and shortened market delivery to less than two years.

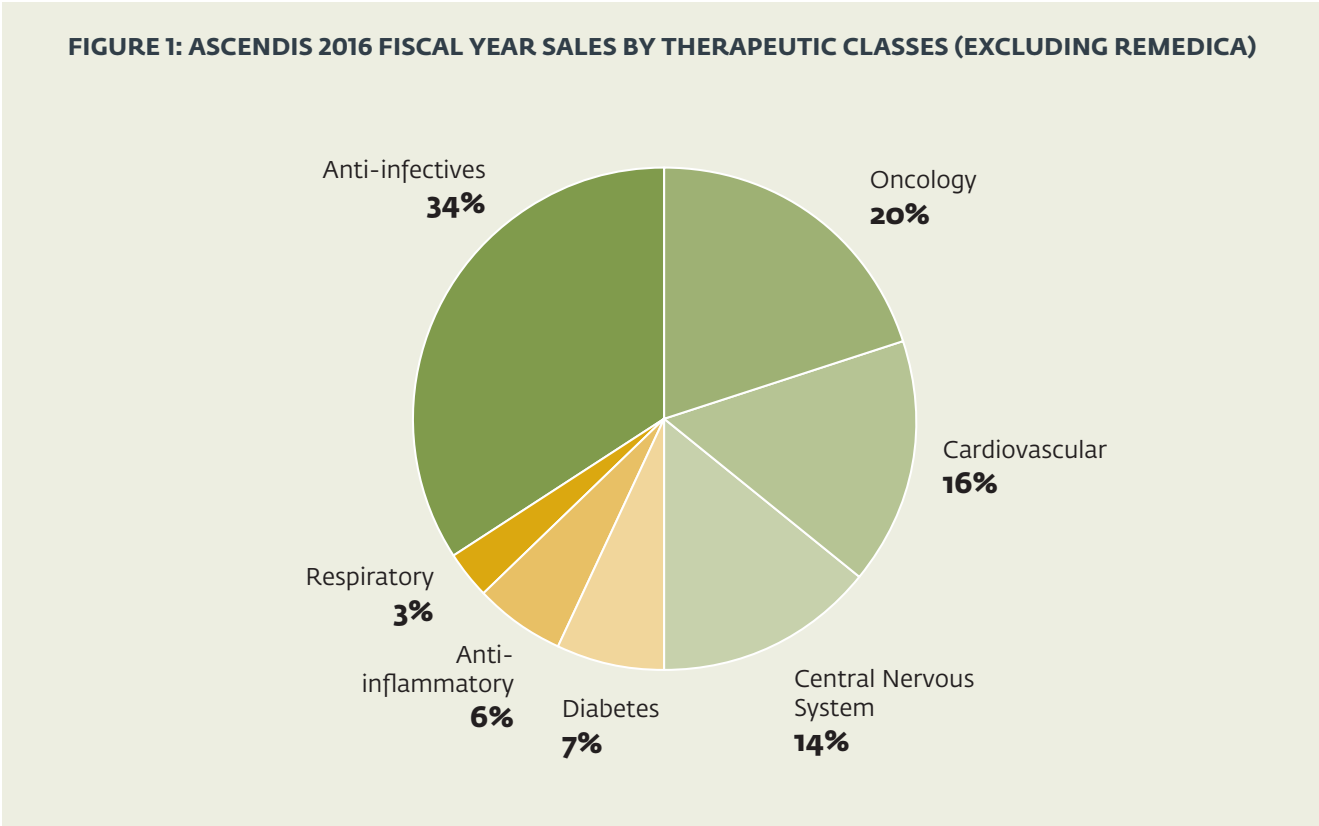
Ascendis' first international acquisition of a pharma platform company was Farmalider, a business-to-business pharma company based in Spain, which included a portfolio of over 200 generic and OTC dossiers, its GMP accredited production facility in Madrid, as well as a pipeline of products that were complementary to Ascendis' existing product basket. Most importantly, Farmalider brought a strong Research and Development (R&D) component. It has consulting agreements with several universities who help advance R&D. The acquisition is also important because it is expected to position Ascendis to accelerate cross-border licensing of dossiers for use on the African continent, thus opening new markets and reaching more patients with new drugs.

In 2016, Ascendis topped its pharma portfolio with the acquisition of Remedica, a 50-year-old generic company based in Cyprus that manufactures over 300 products and holds over 1,700 marketing authorizations registered

in five continents. Remedica manufactures a wide range of generic pharmaceutical products that are sold in a variety of dosage forms. These medications address a number of therapeutic categories such as cancer, antibiotics, analgesics, cardiovascular drugs, Central Nervous System (CNS) agents, drugs for the Gastrointestinal (GI) tract, diuretics, antihistamines, antidiabetics, antiparkinsonian agents, hormones and synthetic substitutes, vitamins, cough medicines, and expectorants.

The Farmalider and Remedica deals together provided Ascendis with a portfolio of 20 approved and manufactured oncology products (most of the drugs have more than one indication) as well as additional molecules that are under development. The acquisitions gave entry into chemotherapy treatments.

Pharma Therapeutic Portfolio: As of September 2016, Ascendis had almost 900 generic dossiers, about 2,800 market authorizations, and about 1,000 market authorizations under registration processes globally. The business now has the typical basket of drugs in the following therapeutic classes: anti-infectives, cardiovascular, central nervous system, anti-inflammatory, oncology, diabetes, and respiratory illnesses.

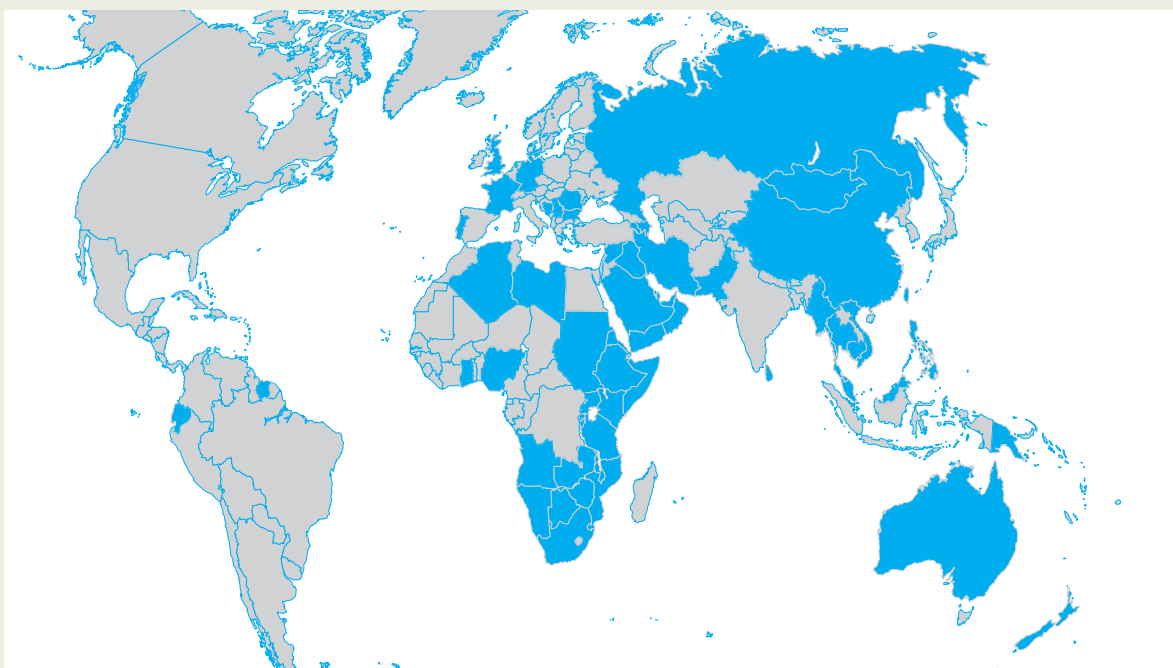


The Remedica acquisition complements the drug portfolio with newer generation medicines. Many of the drugs the company had owned were older generation drugs primarily from the essential drugs list of the WHO addressing the most common diseases like infections, malaria, and waterborne diseases. In the case of antibiotics, it relied on first generation medicines such as penicillin, but with Remedica, Ascendis can now introduce more effective, second and third generation antibiotics to patients in many countries. The newer generation drugs are either more effective or address chronic lifestyle diseases such as hypertension, diabetes, and respiratory related illnesses.

Regulatory Approval: Given the recent timing of the Remedica and Farmalider acquisitions, drugs from these deals have not yet been introduced to South Africa and other new African markets because they have to undergo the regulatory approval process. In South Africa, it takes three to five years for generics to be approved by the Medical Control Council (MCC). In the rest of Africa, the typical approval timetable takes about one to two years. Internationally, the benchmark is about one year, since these generics are already approved in the European Union and will be entering the market at a lower price point as compared to the originator.

Global Footprint: In addition to complementing the therapeutic basket, the Remedica deal doubled Ascendis' global footprint overnight, providing market access to a total of 107 countries.

FIGURE 2: ASCENDIS GLOBAL FOOTPRINT, 2016 (INCLUDING REMEDICA)



Expansion - Product and Market Alignment: Now that Ascendis has a broader basket of pharmaceuticals in its portfolio, the next step is to enter new pharma-emerging markets. Given the size of the global demand, Ascendis determines which drugs it will seek approval for in a given market by analyzing future trends and specific market needs, both locally and globally. For instance, heart disease, diabetes, and cancer are all on the rise globally. Then, they work closely with market experts and with key opinion leaders within each disease and therapeutic area to get a greater understanding of the potential incidence and prevalence in local markets. Following that analysis, a commercial decision is taken, drugs dossiers are developed in-house, and the registration for market authorization is brought in or submitted.

R&D: Until recently, Ascendis Health in South Africa was importing generic drugs that were manufactured in other countries under the Ascendis brand name. Now, Ascendis has started developing generics through its own R&D in South Africa, as well as through Farmalider and Remedica's work. Ascendis is positioning itself,

especially via Remedica, to be the “first to market” with some of its generic drugs. They monitor patents that are expiring, reproduce the dossier, get market authorizations, and launch the generic drugs. Dr. Wellner explains, “It is a constant cycle of finding new dossiers and launching fast and early because as there are more entrants into the market the price typically decreases.”

In 2016, the work of the South African regulatory team positioned the company to be first to market with the launch of two new epilepsy generic drugs, Clonam and Phlexy, both of which were developed in South Africa and were developed organically. New product development and innovation is key to maintaining its competitive advantage and will help in bringing the latest generics to market more cost effectively.

Medical Device Growth Trajectory: Given the conspicuous absence of current, high-tech medical devices in the African continent, the significant demand for modern equipment in private and many state hospitals, and the very high R&D costs, Ascendis decided that it would import and distribute medical devices rather than innovate. As such, it has exclusive agent distribution agreements with some of the biggest medical device companies in the world. These are companies that invest heavily in R&D. Its partners include Olympus, Medrad, Applied Medical, Merit, Hill-Rom, Mindray, CareFusion, Fisher & Paykel, Horiba ABX, Becton Dickinson, and Ortho Capital Diagnostics. Further, it relies on its key opinion leaders and marketing team to lookout for new, emerging trends that can be introduced to its markets.

Continuing on its growth trajectory, in 2015, the Medical device subdivision acquired two companies, Respiratory Care Africa (RCA) and The Scientific Group, both strong bolt-ons. RCA provides medical equipment for ICU and trauma in public and private hospitals and offers end-to-end solutions on a complete turnkey basis for hospitals. Together with Surgical Innovations and The Scientific Group, it can supply large parts of hospital equipment ranging from simple, hospital beds, to complex products and solutions. Its respiratory equipment includes ventilators, laryngoscopes, phototherapy, and oxygen analyzers. It provides entire operating theaters, including specialized lighting and pendants, ICU’s, trauma units, maternity wards, neonatal and pediatric ICU, general wards, and some diagnostic equipment for radiology.

In a strategic move to complement the medical device portfolio, Ascendis entered a new market segment when it acquired the clinical diagnostics portion of The Scientific Group, which designs laboratory layout, workflow, and automation. Its laboratory systems include clinical chemistry, immunology, serology, hematology, histology, rapid assays, and microbiology. It provides laboratory equipment and consumables, as well as continuous training and after sales support and efficiency monitoring. Through its well-established network of distributors and agents, The Scientific Group has expanded exports to 16 countries in Africa and 36 percent of its revenues in FY 2016 were from exports to Africa.

This acquisition was strategic given the global trend toward preventative care where populations are more educated, are caring more for their health, and public and private health insurers are paying for earlier diagnosis to reduce treatment costs. Ascendis expects that diagnostic markets will continue to grow — more than classic healthcare markets.



Photo © world Bank

Now that Ascendis has a broader basket of pharmaceuticals in its portfolio, the next step is to enter new, “pharma-emerging” markets



Photo © World Bank

Product Maintenance / Technology Service Centers: A key differentiator that sets Ascendis apart from other distributors is its service agreements. Previously, if equipment broke down, it would have to be sent to Europe or other industrialized markets for repair. This would take a long time before the equipment was returned and would be very expensive as prices were in hard currency. Now, Ascendis can service the equipment from South Africa, or one of its own service centers in Zambia, Botswana, and Namibia.

“As technology has become more important, there was a need to upscale our technical know-how. The service agreements only work if you have a service center working well with good technicians,” Dr. Wellner explained. Staff are trained overseas to service new and older products. Typically, a technician can only service their own brands but Ascendis leverages its technicians and salesforce to represent a large number of brands in its portfolio. Charges are in local currency so it is much more affordable and equipment down-time is minimized, resulting in a win-win for doctors and patients.

Med-Tech Portfolio: With the consolidation of these three South African companies, Ascendis has become the second-largest medical device distributor in SA, providing a range of medical device solutions, covering over 7,000 products and 110 supplier agreements. Surgical Innovations (SI) holds 56 active agency relationships encompassing 4,150 products. In addition, SI just received MCC approval for two drug eluting stents, which should hit the market in early 2017. RCA has 1,600 products and Scientific Group has 2,100 products. Ascendis sees the synergies from the three subsidiaries as a possible game changer that will open new opportunities to provide turn-key solutions to hospitals, improve efficiencies, and introduce new synergies for clients.



Photo © Ascendis

The technicians at Ascendis' service centers represent a large number of brands. Its Southern Africa presence means that equipment can be repaired regionally and more affordably.



Photo © Ascendis

THE BUSINESS MODEL FROM THE CORPORATE PERSPECTIVE

Ascendis' corporate growth strategy is viewed through four angles. For 2016, it set a target of 50 percent of revenues to be generated from international activities—both organically and acquisitively. It aims to generate 20 percent of revenue growth from acquisitions where it seeks to purchase complementary brands and dossiers or platform companies. It has set targets of 10 percent of growth to originate from organic growth of established, strong resilient brands. Lastly, it is working to create 5 percent of synergistic growth-on-profit levels by managing the value chain (vertically) and via bolt-on acquisitions (horizontally).

Synergies: Ascendis seeks to extract synergies vertically along the value chain, and horizontally between brands and divisions. For instance, Remedica's production shifts are not running at full capacity, yet Farmalider outsources 80 percent of its production. It plans to shift some of Farmalider's outsourced production to Remedica's facilities. Similarly, it hopes to shift some production currently done in India to Akacia in South Africa, to take advantage of special government incentives for domestic manufacturers. The focus on efficiencies and cost control is expected to improve margins and could reduce end-user costs.

Further, it can seek sales synergies by cross-selling other Ascendis products and by consolidating the pharma and medical device sales forces. For instance, Ascendis is now introducing some of Akacia's products to the dispensing doctors market. As a larger company, it hopes to achieve better procurement terms as well as distribution terms with retailers. Thus far, it is too early to achieve significant distribution synergies on the pharma businesses, but it has already started to leverage the services of a specialized distributor who is combining pharma and consumer products. By pooling the work-flows and getting better rates from the transport company it is reducing costs. Lastly, it extracts synergies by using shared back-end services in the areas of finance, treasury, IT, HR, marketing, legal, regulatory, and the supply chain for most of companies.

The company targets five percent of profits to come from synergistic savings per year. Interestingly, when calculating its acquisition models, it is conservative and does not forecast potential synergies but rather views these as the cream on top - a value that it passes on to its shareholders.

Management of Acquired Companies: With eight different Pharma-Med companies in its portfolio, it could be tempting to consolidate management of these companies but Ascendis recognizes that the strengths of its entrepreneurs are its most critical asset. As such, the owners of the acquired companies become part of the larger group and run the respective acquired business more like an equity fund, who have a fair bit of independence as entrepreneurs. For instance, Remedica's CEO, Mr. Charalambos Pattihis, will remain at the helm of the company along with the existing executives, with full operational control for at least three years. To ensure that the company is actually performing well, Ascendis tries to pay one-third of the total purchase price of the acquisition as a deferred payment, plus an earn-out on top, which is made three years after the acquisition. This ensures continuity of the acquired business, and focuses on growth and with minimal intervention from the Ascendis management.

Product Co-Branding: When it comes to branding, Ascendis keeps the original branding of the acquired company but adds its brand, “Part of the Ascendis Group,” on a very small side of the primary or secondary packaging. In South Africa, government controls prohibit the advertising of Schedule 3 drugs and all of Ascendis’ generic products are above Schedule 3. The parent company’s branding is not a focus and patients preparing for surgery would not request Ascendis products.

Photo © world Bank



Ascendis successfully compensates for increased product costs resulting from imported inflation and FX volatility by increasing prices in its consumer brands and medical device division.

Distribution Channels: Ascendis’ pharmaceutical products are typically sold through dispensing doctors, wholesalers, pharmaceutical retailers, public and private hospitals, aid organizations, and to other pharmaceutical companies. Similarly, medical devices are sold to private and public hospitals, medical practices, pathology laboratories, research institutions, and scientific companies.

Pharma Pricing: The pricing of generic drugs varies globally. In some countries, even though the price of a generic drug is required to be below that of the originator, the range can vary between 5 and 25 percent below the originator. This depends on a variety of factors such as whether the product is a branded generic or a “generic/generic.” Other factors are whether the drug is first to market, or how much competition exists. As there are more new entrants in a given segment, over time margins are eroded, thus speed is essential.

A key factor in the South African system, as in many countries, is that the government regulates pharmaceutical market prices through the “Single Exit Pricing” system. The government sets a single exit price (at the ex-factory level) for all prescription medicines, regardless of the size of the customer.

Further, most of the hospital tenders are for essential drugs, as defined by the WHO, where the prices of drugs in the tender business are extremely competitive. Suppliers work on thin margins and rely on volumes. This fixed price introduces other issues that pharmaceuticals must contend with, such as imported inflation of raw materials and foreign exchange volatility.

Inflation and Foreign Exchange (FX) Risk: Pharmaceutical products require the importation of Active Pharmaceutical Ingredients (API) that are mostly denominated in US dollars. Further, South African government tenders are subject to a lag factor when adjusting to FX variations, which has the propensity to put pressure on margins if the foreign exchange requirements are not hedged. With a strong US dollar and a South African Rand that has been depreciating, fixed prices could have an adverse impact on margins.

To hedge this risk, Ascendis has a target to generate 50 percent of revenue outside of South Africa in hard currencies (Euro and Dollar) in 2017. It is aiming to increase this to 60 percent by 2018, up from 22 percent in 2016. Karsten explains, “This provides a natural hedge against imported inflation through Rand weakness. Further, by acquiring companies whose revenues are denominated in US dollars or Euro’s, they can mitigate the impact of the FX movements.” To further reduce its FX risk, it will move some production from India to South Africa to have more of the value chain under its control.

Protecting Margins: Since generic customers are more price sensitive and there is little-to-no capacity to absorb price increases due to product cost increases, the company relies on speed to market (via Remedica), diversification, and economies of scale to protect its margins. Ascendis successfully compensates via price increases in its consumer brands and medical device division, as well as through strict hedging policies and economies of scale in sourcing, manufacturing and its routes to market.

Competition: For a multinational company, the competition in generics will depend on the market. In some markets, it may have 10 to 12 competitors. What sets Ascendis apart is that it is the only company that has a very diversified health business, does not deal in branded generics, and has picked relevant niches such as generic oncology drugs or the dispensing doctor channel, where they are very strong. This enables it to be either dominant or quick in a particular segment.

Other competitors are structured as classical pharmaceutical companies, which are not diversified into other sectors like wellness products. Key competitors have branded generics that are priced just below the originator, so that any generic that Ascendis owns would be cheaper than theirs even if they are not competing head-to-head. Competitors also participate in big South African government tenders for antiretroviral for HIV, but those margins have historically been too small to sustain Ascendis. Notwithstanding, Remedica has a range of selected HIV generics and others under development. These could be used in the South African market with better margins but they have not been registered yet.

Revenues: In FY 2016, Ascendis had revenues of R3.9 billion (\$290 million). The Pharma-Med division was responsible for the largest share of revenues at 58 percent, with each subdivision contributing about half. Consumer brands represented 24 percent and Phyto-Vet brought in 18 percent of revenues. The important acquisition of Remedica will contribute, on an annual basis, more than \$80 million in sales at an EBITDA margin of approximately 30 percent. This deal was concluded in August 2016 after Ascendis' 2016 fiscal year closed. Annual sales are now approximately R6.8 billion (\$506 million).

In the Pharma-Med division, about 12 percent of overall Pharma-Med sales came from international sales. Slightly more than one-third of international sales was from the export of medical devices to other African countries. About 40 percent of South African generic sales went to dispensing doctors in rural areas outside big urban areas. Government tenders accounted for about 40 percent of total revenues for pharma and about 20 percent for medical devices.

Globally, Ascendis is well diversified across currencies, markets, sales channels and customer groups. Further, it is not dependent on a single client for revenues or growth, as a result in FY 2016, no single customer accounted for more than 6 percent of sales.



Photo © World Bank

What sets Ascendis apart is a diversified business model, a focus on generics, and relevant niches, such as the dispensing doctors channel, where they are very strong.



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THE ROLE OF IFC

IFC had been absent from the South African market for six years and was looking for opportunities to return. In January 2016, IFC called on Ascendis and discovered the timing could not be better. Ascendis was in the middle of conducting its due diligence for two major acquisitions that would need to be financed by a capital raise. It was pushing to increase its international shareholder base, which would provide insulation from the contagion of weak currencies affecting other emerging markets.

In May 2016, IFC took a \$30 million equity investment in the company. Dr. Wellner reflected, “The timing was excellent. It was the right partner at the right time. IFC, with its AAA credit rating gave Ascendis access to its foreign capital and helped to attract additional international investors, which enabled the company to finance the two acquisitions that were completed in August 2016.”

Ascendis was also able to leverage IFC’s expertise in other ways. As part of the due diligence process, Pushpinder Bindra, IFC’s pharmaceutical expert, did a walk-through of the pharma plant in Johannesburg and shared his insights. Kieron Futter, the CFO explains the value IFC added to the transaction, “This was great because Pushpinder has seen the best and the worst across the globe. Other investors would not typically give us that kind of advice. He shared his knowledge and his expertise to help us improve operations and processes, and ultimately that helps us to decrease costs and offer cheaper products to more people who need it.”

IFC also supported Ascendis with regard to environmental and social (E&S) impact issues. It is helping the company to develop and implement an environmental and social due diligence process that will be applied prior to acquisitions or establishment of any new business, to identify the E&S risks while taking local legislation and the performance standards into account.

The deal was attractive to IFC because a company like Ascendis fits well with IFC’s strategy for improving supply of high-quality medical products in developing countries by helping efficient manufacturers and distributors grow and enter new markets.

Ascendis has plans to enter into new markets in Asia and Latin America and IFC will help the company expand by continuing to provide market expertise and assist in identifying new partners for acquisition. Dr. Wellner added, “We were impressed with IFC’s global network of relationships across a diverse range of stakeholders and we look forward to working together with them and capitalizing on their global pharmaceutical expertise as they help us grow and expand our global footprint.”

CONCLUSION

Ascendis’ buying spree of the last three years catapulted the company from a local South African venture with a growing health product portfolio to that of a multinational with thousands of products, more than 3,300 employees, and a presence in over 100 countries, in five continents. Through a relentless focus on good execution of its M&A strategy, it has acquired good performing subsidiaries with leading products that provide the parent with entry into strategic healthcare segments that are growing in importance globally, such as cardiovascular disease, cancer, and diabetes.

A key feature of its successful integration approach is that it keeps the former owner on board as an entrepreneur, on a delayed earn-out model, to ensure continued performance and realization of synergies. It has the right mix of people, with the benefit of corporate scale, and the financial and intellectual backing of the group.

The sum of its parts yields a variety of products that it bundles together to achieve economies of scope. This leads to more pharma-med products to be introduced in emerging markets on a faster basis - which leads to better health outcomes and better quality of life for patients like Gwen.

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