Challenges and Lessons Learned from Private Health Care in Emerging Markets

IFC Private Health Conference
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Context for IFC’s Experience in Health Care Investments

- We are the world’s largest multilateral investor in the private health sector in emerging markets...
  - Almost $1 billion in financing to 77 health projects in 31 countries historically
  - Total project value of $2.6 billion
- ...offering our clients the whole range of financing solutions
  - Senior and syndicated loans, mezzanine financing, common equity, structured finance

**Health Portfolio:**
- 42 active projects
- $485 mm committed

**Health CHE Portfolio by Product**
- Loans 66%
- Equity 30%
- Syndications 4%
- Guarantees 0.29%

**Health CHE Portfolio by Country**
- India 17%
- China 14%
- Egypt 11%
- Russia 12%
- Mexico 6%
- Yemen 8%
- The rest 32%

*Data as of September 2008*
Lesson #1: Private Health Care was Impacted by the Global Financial/Economic Crisis

Equity valuations are down and the cost of debt is higher

Note: Share prices indexed to 100 for comparison
Lesson #2: Fundamental Drivers of Growth in the Private Health Care Sector Remain Unchanged

- **Demand factors:**
  - Demography – populations continue to grow and to age rapidly, particularly in developing countries
  - Epidemiology – lifestyle-related diseases (e.g., cancer, cardiovascular disease, and diabetes) continue to increase
  - Expectations and awareness of health services continue to increase

- **Supply side factors:**
  - Growth through consolidation continues, with much further scope
  - Growth through expansion across international borders continues
  - Technological development continues to provide new treatments

- **Regulatory factors:**
  - Governments continue to engage with private health sector – e.g., through PPPs, private sector collaboration and support for health as an “economic good”
## Lesson #3: “Don’t Fix What isn’t Broke” - IFC’s Approach Towards Assessing Viable Investments in Private Health Care

### Market Assessment
- Health sector investment climate indicators
  - Business/regulatory environment
  - Ability to Pay
  - Private healthcare expenditure
  - Economic growth
  - Maturity of private health insurance
  - Profitability/sustainability
  - Health Sector standards and availability of staff
  - Level of private health care development/consolidation

### Company/Project Assessment
- Drivers of revenue growth and profitability
  - Business maturity (our top 6 investments are > 10 yrs old)
  - Phased expansion
  - Corporate management/governance
  - Sound understanding of key revenue and profit centers
  - Strong links with local medical community
  - Ability to reach target population groups
Challenge #1: Dealing with the Aftermath of the Global Financial/Economic Crisis in the Short Term

- Reduction in private health insurance spending (resulting from contraction of employment)
- Reduction in discretionary health spending – eg much primary care, cosmetic treatment, complementary treatments
- Reduction in demand for elective (ie non-emergency) care
- Reduction in demand for expensive/high end services
Challenge #2: Managing Increasingly Complex Organizations in a Fast Changing Environment

Key challenges for private hospitals that aim to grow and excel (or four questions to talk to our health specialists later!)

- Why are so few hospitals able to replicate their systems (eg why is there only one Mayo Clinic?)
- How can hospital managers reduce variations (clinical and non-clinical) across their organizations?
- How can hospitals develop a brand that is independent of their “star” doctors – and what is the best approach for attracting, training and motivating the “right” doctors?
- What procedures do you think will be “inpatient” in five years – and how is your organization preparing for these changes?
Conclusions

- The world is not coming to an end for private health care providers
  - Favorable industry trends (demography, regulatory, technology, etc.)
- But the end may come for some providers
  - Failure to anticipate risks and adapt to a fast changing environment
- In the short term, long term financing will remain a precious commodity
  - Get it if you can!