Oaklins

HEALTHCARE

Adapt and evolve in times of crisis

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Dino Theodorou, Director, Johannesburg

TIME FOR MEDICAL CONSUMABLES PROVIDERS TO INVEST IN THE FUTURE

ANGELA CHEN, MANAGING PARTNER, SHANGHAI

Since the outbreak of COVID-19, medical consumables have received great attention worldwide, and in the short-term they will continue to be in high demand. In the long-term, although the demand will drop significantly after the pandemic, we expect a long-lasting effect due to increased public awareness of health protection and government emphasis on maintaining solid medical infrastructures and strategic medical supply reserves.

Within this sub-sector, low-value consumables like masks and gloves are clearly the winner, as domestically-listed Chinese manufacturers of low-value consumables scored a year-on-year sales growth of 31% on average in the first quarter of 2020. By contrast, domestically-listed Chinese manufacturers of high-value consumables experienced a year-on-year sales decline of 12% on average during the same period, due to postponed and canceled non-essential medical visits and treatments during the pandemic.

Despite the good fortune that Chinese manufacturers of low-value consumables are having right now, the future looks challenging for them. Before COVID-19, they were losing competitive advantage against players in South Asian countries as the labor costs in China are rising continuously. Moreover, as the pandemic worsens the relationship between China and the Western world – their most important export market – the risk of losing market share is high.

With the cash accumulated during the pandemic, it is a good time for them to invest for their future. We have identified several cross-border M&A synergies that Chinese manufacturers of low-value consumables are looking for:

1. Acquiring overseas production capacity to alleviate the pressure from rising labor costs and avoid trade conflicts.

2. Entering into other market segments, including high-value consumables and household healthcare products.
3. Acquiring high-end, low-value consumable products for better profitability.
4. Acquiring well-known brands to obtain premium pricing, as most of the large Chinese players in this segment are export-oriented OEM players.

We also expect continuous M&A interests among manufacturers of high-value medical consumables despite temporary difficulties during this pandemic, and the cross-border M&A synergies they are looking for include:

1. Expanding their product portfolio and entering into other relevant market segments.
2. Obtaining new technologies/ products. As for medical devices, new technologies tend to be disruptive in nature, and usually take over most market shares from old products. Therefore, companies in this segment need to continuously acquire new technologies/products to maintain competitiveness.

NEW MILESTONES FOR HEALTH-TECH

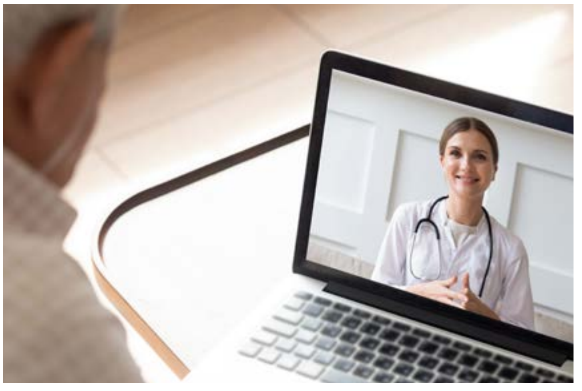
VIKAS DAWRA, MANAGING DIRECTOR, MUMBAI

The healthcare industry has always been one of the fastest-growing sectors in India. The industry is expected to reach U$380 billion by 2022, growing more than 30% YoY. As per available statistics, the Indian doctor-to-patient ratio is 1:1596 and ranked 145th out of 196 countries on the Healthcare Index. All this shows a huge potential for health-tech startups and conventional players to transform in the 1.3 billion-plus people economy. With the amalgamation of technology and healthcare, the sector is poised to create new milestones. Top health-tech segments are telemedicine, information management and e-commerce platforms. As per the data, the health-tech industry received US$571 million investment in 2018 and there are more than 4,500 health-tech-focused start-ups in the country right now. Having said this, there is a security risk, so privacy and digital transmission of health information needs careful management. But, the exponential growth shows that we are in dire need of better healthcare.

VIKAS DAWRA

BRINGING THE CLINIC TO YOUR HOME

STUART GOODMAN, DIRECTOR, LONDON



People continue to want more choice and control over their own healthcare. Where practicable, they want this delivered to them from the comfort of their own homes.

With the emergence of COVID-19, the willingness, if not ability, of people to visit traditional healthcare and medical settings to address non-urgent issues has collapsed. Across the screening industry, we have seen an accelerated roll-out of remote diagnosis capabilities to address the immediate needs of service users during the current pandemic.

While telemedicine – the distribution of health-related services and information via electronic information and telecommunication technologies – has been growing for several years, the reassurance and familiarity of receiving an in-person diagnosis has tempered growth and favoured hybrid health delivery models. However, with the current rapid adoption and its demonstrably lower cost of delivery, it appears likely that we may see new, longer-term patient preference patterns emerge and with it, shifts in M&A strategy in the sector.

This transition in the market has been lauded for many years, with the delivery of more healthcare services at home recognised by public and private healthcare providers alike – The NHS, the UK's publicly-funded healthcare provider, has set this as a clear aim in its most recent long-term strategy (NHS Long-Term Plan 2019).

For many healthcare providers, M&A has taken a "back seat" while focus remains on addressing more pressing concerns. However, with substantial existing patients, the opportunity for larger traditional healthcare providers to acquire and roll-out new technological capabilities may prove to be a very attractive future growth driver, even with the possibility of a longer-term economic downturn.

STUART GOODMAN

DON'T COUNT OUT GOOD PPM (PHYSICIAN PRACTICE MANAGEMENT) COMPANIES

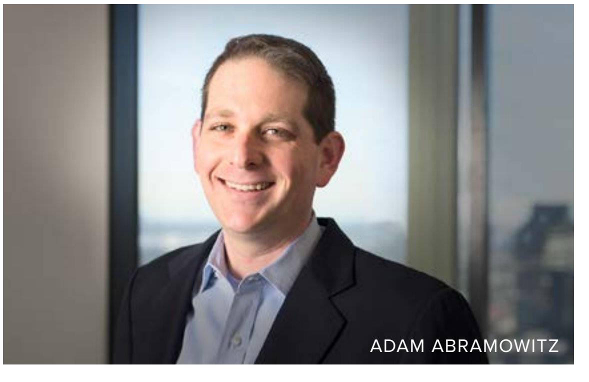
ADAM ABRAMOWITZ & JONATHAN BLUTH
CO-HEADS HEALTHCARE, LOS ANGELES

COVID-19 has abruptly halted the success of many in the PPM sector. Contrary to popular opinion, we believe good PPM companies can still transact and prosper in a longer-term recession.

The unique nature and uncertain duration of the lockdown presents buyers with unprecedented questions that may create valuation stalemates between buyers and sellers. While no one has answers for these questions today, the most sophisticated PPM groups will leverage real-time analytics when clinics reopen to help formulate answers and direct diligence towards positive leading indicators. A few of these questions are: will non-essential or elective procedures recover rapidly to relieve pent-up demand? With the rapid roll-out of telemedicine, will providers get commercial reimbursement for non-COVID-19 encounters?

We recommend a "wait and see" approach to many of our PPM clients, suggesting to wait to enter the market until they can confidently project how their businesses will perform for the next six months. We advise each of these PPMs to carefully monitor not just volume in the first weeks post-reopening, but also changes to the nature of their inbound calls and referrals, schedule volume and composition, payor denials and unexpected reimbursement changes, and the development of new patient preference patterns.

A company can successfully navigate an M&A process, even in today's climate, if they can present visibility, stability and growth potential. Ultimately, COVID-19 may result in extensive earnings declines for many platform-caliber PPM groups and significantly alter the healthcare landscape, but it could lead to it being reinvigorated. The benefits of alternative payment models and rapid adoption of innovative solutions to connect with patients could have a lasting positive effect on the delivery of medicine.



ADAM ABRAMOWITZ

JONATHAN BLUTH

MOVING AHEAD DESPITE MARKET TURBULENCE

MICHAEL S. GOLDMAN, MANAGING DIRECTOR, NEW YORK

The healthcare sector in the United States has historically been well-insulated from economic cycles given the steady growth in patients requiring care and advancing medical technology. However, COVID-19 has rewritten these assumptions, as the focus on addressing this pandemic and the need for social distancing have significantly diminished demand for in-person medical services and elective procedures.

On the other hand, this public health emergency is substantially increasing the need for protective equipment, diagnostics and telemedicine capabilities, as well as treatments for COVID-19 and, ultimately, effective therapies and vaccines. We're seeing increased interest in acquisitions and investments in these sectors, as many of these trends are expected to continue on a long-term basis.

Healthcare M&A transactions in the sectors most negatively impacted by these developments, such as physician practice management, have been deferred because of reduced revenues during this period, uncertain future prospects, and turbulent debt financing market conditions. However, strong buyers continue to eagerly seek acquisitions in the more resilient healthcare verticals given the dramatically better performance of these healthcare companies as compared to companies in other industry sectors at this difficult time.

We continue to see strong progress in our pending healthcare transactions, which are principally in essential medical supply categories that are largely unaffected by the current economic and market turbulence.

MICHAEL S. GOLDMAN

THE HIGH PRESSURE OF A HARD LOCKDOWN

DINO THEODOROU, DIRECTOR, JOHANNESBURG

South Africa has been in hard lockdown since 27 March, with a recent easing of the rules on 1 June. The healthcare industry, like most industries, has been adversely affected, with admission rates declining by over 50% since the lockdown.

Elective procedures have been canceled, possibly denying patients access to care as surgical admissions can to some extent be deferred, whereas medical admissions cannot. The lockdown has also caused a decline in accident and emergency admissions, and medical admissions have fallen, possibly due to the restriction of the spread of other infectious diseases (such as pneumonia).

The healthcare future in South Africa remains uncertain due to the:

- duration and intensity of the lockdown and impact on revenue
- availability and efficacy of a treatment and a vaccine
- proportion of infected who are asymptomatic and the extent to which the infected are immune
- timing of the peak where the healthcare system will be overstretched
- the impact on medical aid membership

It is expected that the public healthcare sector (government hospitals) will be overstretched during the third quarter of this year, thereby also placing enormous pressure on the private healthcare system. Admission rates (excluding COVID-19-related) are not expected to return to normal in the short term due to concern expressed by patients and doctors about contracting the disease.

The pandemic has exposed the weaker healthcare providers, but opportunities exist for the well-capitalized and innovative healthcare groups to:

- design, construct new centres of excellence and/or adapt their existing facilities
- source and manage critical care equipment and personal protective equipment
- diversify service offering (home healthcare, primary healthcare facilities, screening, telehealth consultations)
- acquire other clinical facilities and/or providers of medical equipment
- fast-track digitalization within their organisations and acceleration of virtual care (supplemented with artificial intelligence)
- train healthcare workers and support government facilities and initiatives
- continue enhancing operational excellence and clinical outcomes

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ADAM ABRAMOWITZ
Managing Director
Los Angeles, United States
aabramowitz@intrepidib.com

JONATHAN BLUTH
Managing Director
Los Angeles, United States
jbluth@intrepidib.com

ANGELA CHEN
Managing Partner
Shanghai, China
a.chen@hfg.oaklins.com

VIKAS DAWRA
Managing Director
Mumbai, India
vikas.dawra@ysil.in

MICHAEL S. GOLDMAN
Managing Director
New York, United States
mgoldman@tmcapital.com

STUART GOODMAN
Director
London, UK
s.goodman@sw.oaklins.com

DINO THEODOROU
Director
Johannesburg, South Africa
dinot@grindrodbank.co.za

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