Global Healthcare Deals Quarterly January 2012

Fast forward: Healthcare deals on the global horizon

Highlights

In this newsletter, we feature three emerging healthcare delivery models that present compelling new growth opportunities for strategic and financial investors.

- Australia: Reform presents opportunities in aged care delivery
- India: Demand spurs new primary care models
- The Middle East: Mobile clinic model trumps new permanent capacity

Executive Summary

Welcome to the first edition of PwC's Global Healthcare Deals Quarterly newsletter. In this newsletter, we explore recent investment trends in global healthcare markets and highlight regions likely to draw future deal flow.

Global healthcare midmarket merger and acquisition (M&A) activity grew 15% during 2011, outpacing the global trend by 500 basis points, according to our analysis of Dealogic M&A data. Robust growth in segments such as healthcare information technology (HCIT) helped drive healthcare to the third-strongest M&A sector globally.

However, market sentiment has eroded since the start of September 2011, evidenced by widening short-term funding indicators, a decline in new debt market issuances, and a sharp drop-off in deal flow, especially among private equity (PE) funds. The recent slowdown in healthcare has been more pronounced than the overall trend, reflecting greater historical PE participation in the sector.

Looking ahead, we expect a softer global economic outlook and distressed global credit and sovereign markets will slow deal activity heading into 2012. We expect companies prepared to deploy cash will find attractive opportunities in a less competitive marketplace. Once market conditions improve, strong corporate balance sheets and significant un-invested private capital support an improving M&A outlook.

During 2012, we expect a flow of funds into healthcare M&A. The sector's economic resilience, attractive demographic growth, and infrastructure build-out present a relatively safe haven for investors in a challenging macroeconomic environment.

In this newsletter, we highlight three **compelling investment opportunities** across the global healthcare provider marketplace. Each incorporates broadly applicable global best practices. By their nature, these innovative business models require a longer investment time frame. However, we see potential for attractive returns to compensate the patient investor.

Welcome

Welcome to the first edition of the Global Healthcare Deals Quarterly

PwC's Global Healthcare Deals Quarterly newsletter will provide perspectives on recent trends and expected developments in the global healthcare M&A market, including insights into emerging investment opportunities for strategic and financial investors.

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"Healthcare represents a huge global market potential. New market participants are staking their claim for a share of it, introducing new business models that are changing the competitive landscape of the industry. Investors' quest for growth will be rewarded by identifying the new market leaders early in the game".

Dr. David Levy

PwC Global Leader, Healthcare

Universal themes drive healthcare markets globally. Although individual health systems have unique challenges and characteristics, each is searching for the best way to finance and deliver healthcare with the right balance of quality, cost, and access. These shared priorities lead to faster, better, and cheaper solutions that transcend borders and cultures. In a word, healthcare is becoming more globalised.

In the M&A marketplace, we see these same trends driving attractive growth opportunities in the coming years.

PwC is a network of firms in 158 countries. By leveraging the expertise of our more than 10,000 Health Policy, Pharmaceutical and Life Sciences, Payer, and Provider health professionals, PwC is a leading healthcare professional services firm.

In addition, our deals network of 9,500 experienced professionals includes the leading global Transaction Services business and the largest international middle market Corporate Finance business. We advise corporate management teams, private equity funds, and the public sector, with a proven track record in healthcare midmarket transactions. We help clients minimise their risks, progress with the right deals, and capture value both at the deal table and after the deal closes.

Global M&A update
Expect more healthcare deals in a weaker 1H2012

Healthcare outpaces global M&A in 2011

Global M&A activity increased during 2011. A look at an underlying middle market trend (disclosed deals with a value between US$50 million and $750 million) shows global M&A deal value and volume grew 10% from 1 January through 15 December 2011, as compared with the same period in 2010.

However, trends vary significantly across industry sectors. Global healthcare middle market M&A grew 15%, a brisk 500 bp stronger than the global average, exceeded only by real estate/property and electronics sectors. In fact, stronger growth during 2011 resulted in healthcare displacing finance in the top-three global middle market deal value rankings. At the other end of the spectrum, finance and telecomm saw double-digit declines.

Global Mid-Market M&A by Sector

	01 Jan - 15 Dec 2011		01 Jan - 15 Dec 2010			
Target Industry Group	**Deal Value (USD m)**	**No.**	**Deal Value (USD m)**	**No.**	**Deal value % change**	**Deal No. % change**
Real Estate/Property	111,807	665	93,378	569	20%	17%
Computers & Electronics	61,613	302	47,043	245	31%	23%
Healthcare	53,168	230	46,223	197	15%	17%
Oil & Gas	48,484	224	44,024	194	10%	15%
Finance	44,028	223	56,470	258	-22%	-14%
Mining	37,253	177	35,276	164	6%	8%
Utility & Energy	35,647	165	35,109	150	2%	10%
Professional Services	27,511	145	27,355	140	1%	4%
Construction/Building	24,487	122	21,923	119	12%	3%
Telecommunications	22,666	101	27,835	126	-19%	-20%
Top 10 Subtotal	**466,663**	**2,354**	**434,636**	**2,162**	**7%**	**9%**
Total	**672,924**	**3,379**	**607,638**	**3,061**	**11%**	**10%**
Total Excl. Healthcare	**619,756**	**3,149**	**561,415**	**2,864**	**10%**	**10%**

Source: Dealogic

The United States remains the most frequent target nation for midmarket healthcare M&A activity by a wide margin. However, some interesting trends have emerged: during 2011, China's ranking moved from the sixth to the second-most frequent target nation as disclosed healthcare deal value more than doubled that of 2010. Australia, France, and Canada have similarly moved up in the rankings, albeit at a slower pace. Showing resilience in a challenging macro environment, three European countries ranking in the world's top-10 healthcare target nations (the United Kingdom, Germany, and France) saw disclosed deal value growth of 30% or better. On the other hand, a slowdown in India and Sweden lowered the countries' healthcare M&A rankings.

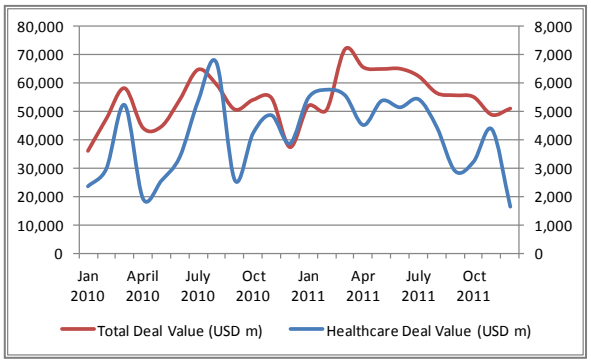
Mid-Market Healthcare M&A by Target Nation

	01 Jan - 15 Dec 2011				01 Jan - 15 Dec 2010				
Target Nation	**Rank**	**Deal Value (USD m)**	**No.**	**%share**	**Rank**	**Deal Value (USD m)**	**No.**	**%share**	**Deal value % change**
United States	1	28,977	111	54.5	1	25,699	107	55.6	13%
China	2	3,154	19	5.9	6	1,334	5	2.9	136%
United Kingdom	3	2,463	7	4.6	3	1,741	8	3.8	41%
Germany	4	2,096	11	3.9	4	1,612	9	3.5	30%
Australia	5	1,738	6	3.3	8	1,163	5	2.5	49%
France	6	1,536	9	2.9	13	798	6	1.7	93%
Sweden	7	1,293	8	2.4	2	1,975	5	4.3	-35%
Canada	8	1,157	6	2.2	14	748	5	1.6	55%
Japan	9	1,111	6	2.1	9	1,022	4	2.2	9%
India	10	1,013	7	1.9	5	1,349	5	2.9	-25%
Subtotal		**44,538**	**190**	**83.8**		**37,442**	**159**	**81.0**	**19%**
Total		**53,168**	**230**	**100.0**		**46,223**	**197**	**100.0**	**15%**

Source: Dealogic

More recent data reflect a slowdown

M&A activity has slowed sharply in recent months, especially among private equity funds. Since the start of September, according to Dealogic, global middle market M&A deal value declined 6% as compared with the same period in 2010. Healthcare contracted more sharply, at 27%, due in part to greater historical private equity participation in the sector. Month-to-month variation has been choppy, but we continue to see activity in the marketplace. In the chart below, the first 15 days of December 2011 deal volume was normalised for the full month.



Source: Dealogic

Global M&A update
Expect more healthcare deals in a weaker 1H2012

Outlook for 2012

We expect a slower M&A trend heading into 2012, primarily caused by an increasingly cautious global economic outlook and the unresolved Eurozone debt crisis. Short-term funding indicators (LIBOR, TED spread) have widened, and access to debt financing has become more restrictive. Compounding the issue for private equity, volatile public and private markets have hampered investment exits. However, strong corporate balance sheets and significant un-invested private capital targeted for buyouts support our expectations that M&A activity will rebound once market conditions improve.

During 2012, we expect the following developments:

1. A re-pricing of European sovereign risk spreads has driven local borrowing costs higher, further hampering a global economic recovery. Smaller, regional corporations relying on local credit markets face challenges raising deal financing. As a result, we expect an increasing mix-shift towards **larger and cross-border transactions will continue** in 2012.

2. Meanwhile, although deal flow may slow during the near term, we expect to ultimately see an **increasing flow of funds into the healthcare sector**. Economic resilience, organic growth, and increasing infrastructure investment make healthcare among the most attractive sectors in a sluggish global economy. Growth drivers include the growing demands of ageing populations, increasing incidence of chronic disease, advances in medical technology, and austerity measures driving innovative solutions to offer healthcare better, faster, and cheaper as countries worldwide struggle under escalating healthcare costs.

3. Once market conditions improve, we expect **private equity buyout activity will rebound quickly**. Private equity contributes roughly 20% of total M&A deal activity in developed markets; this share could expand in 2012. Vintage 2007 and 2008 private equity buyout funds are nearing the end of their five-year investment periods. According to Preqin, these funds have approximately US$475 billion in capital invested; and buyout funds closed in 2008 alone have more than $90 billion in dry powder available for investment. While some limited partners (LPs) remain skittish in the current environment, mega funds worth $4.5 billion or more account for $42 billion of 2008 dry powder reserves, supporting our expectation that much of the committed capital will be invested.

4. We expect an **increase in cross-border deal activity** due to higher growth expectations in emerging markets and an increase in geographic-focused PE funds.

"Corporate investors have large cash balances, which will likely be deployed to M&A to fuel growth in a sluggish economy. However, Eurozone issues, continued liquidity issues in the banking market, and volatility in the public markets will create a difficult environment for deal completions, at least over the near term".

Chris Hemmings

PwC Global Leader, Corporate Finance

Healthcare deals on the global horizon
Highlighting 3 innovative delivery model investment ideas

Expect broad deal flow across healthcare

The healthcare sector's economic resilience, attractive demographic growth, and infrastructure build-out present a relatively safe haven for investors in a challenging macroeconomic environment. We expect a flow of funds into the healthcare sector in the coming months.

Within the healthcare sector, we expect the declining marginal value of incremental innovation will drive a shift from investing in healthcare products such as drugs and medical devices towards technology and services.

Established and emerging trends are likely to drive deal flow across a variety of healthcare subsectors:

- Convergence among payers, providers, and the healthcare supply chain is likely to increase as new integrated models are tested in the United States.
- Strategic buyers seeking market share expansion, product line extensions, product adjacencies and innovation will continue to drive cross-border M&A activity in the pharmaceutical and medtech sectors.
- Governments worldwide struggling to afford escalating healthcare costs will increasingly embrace public-private partnerships (PPPs) to finance infrastructure and care delivery.
- Innovative healthcare delivery models providing care faster, better and cheaper are likely to attract new capital.

Emerging markets present opportunities and challenges

During 2012, we expect investors in developed markets will increase their portfolios' exposure to emerging growth markets. Strong underlying demographic and GDP growth combined with increased government investment in healthcare infrastructure are primary attractants. However, deal dynamics can be more complex. Our clients are finding a host of challenges in conducting due diligence, including evolving political and regulatory landscapes, financial statement integrity and complex tax codes. We have found local relationships present a competitive advantage in identifying quality deals and in determining risk.

New delivery models on the horizon

Our recent conversations with healthcare investors have uncovered a growing appetite for new delivery models that incorporate proven global best practices to solve the universal challenge of unsustainable growth in healthcare costs.

However, many struggle to find quality deals; challenges include a lack of local relationships and difficulty navigating complex local regulatory and political environments.

With this inaugural Global Healthcare Deals Quarterly newsletter, we highlight three compelling new delivery model ideas across the global healthcare provider marketplace. Each incorporates broadly applicable global best practices. By their nature, these innovative investment opportunities require a longer investment time frame. However, we see the potential for attractive returns to compensate the patient investor.

If interested in exploring these or other healthcare deal opportunities further, please contact any member of our global or regional healthcare deals teams listed in the Contact Us section.

Dr. Ronald Ling, PwC's Asia Healthcare Leader, sees deal origination taking on a more personal dynamic. "Our local relationships provide a real competitive advantage in identifying proprietary deal opportunities, especially in emerging markets".

Australia
Reform presents opportunities in aged care delivery

Defining the market need: Australia is seeking to redesign its aged care system to meet challenges presented by the increasing demands of an ageing population, shifting consumer preferences and workforce shortages. In August, the government's Productivity Commission issued specific recommendations for reform. If implemented as proposed, a recent PwC report describes expected outcomes in detail.[1] In summary, we expect increased consumer cost-sharing, pricing deregulation, expanded scope of services, and increased transparency of providers' performance and costs would create a competitive market for services differentiated on quality, cost, and service offerings. Meanwhile, changes in funding would favour well-capitalised operators while challenging cash-strapped facilities, as customers may shift to periodic payments from lump-sum bonds. In addition, relaxation on bed license limits would present opportunities for new market entrants.

Key market metrics
The Australian government spends close to AU$10 billion (US$10 billion) on aged care annually, an amount that is expected to grow at 5% CAGR through 2016 (excluding the impact of proposed reform initiatives). We estimate consumers contribute at least an additional US$3 billion in annual out-of-pocket costs. The market is broadly divided into two main categories: community care packages, which offer care at home to more than a million elderly Australians; and residential care, a segment comprised of roughly 1,200 service providers and 200,000 beds. We expect community care will grow as a proportion of the market; reflecting a global trend, Australians seek to stay in their homes as long as possible, entering care facilities only when all other options have been exhausted.

Community care packages		
Programme	**Number of beneficiaries or packages (1)**	**Government expenditure (USD m)**
Home and Community Care	966,700	1,900
Community Aged Care	45,700	500
Extended Aged Care at Home	5,800	200
Extended Aged Care at Home – Dementia	2,900	100
Total	**1,021,100**	**2,700**

Residential Aged Care Facilities		
Type of facility	**Number of providers**	**Government expenditure (USD m)**
Small	1,100	2,900
Medium	800	1,700
Large	30	2,400
	1,210	**7,000**

Notes
(1)Figures as of 2010. Number of packages can distort true count of beneficiaries due to wait time delays and programme switching.

[1] PwC, "Preparing for success in a time of uncertainty and change: A PwC response to the Productivity Commission Inquiry Report 'Caring for Older Australians' ", October 2011.

Australia
Reform presents opportunities in aged care delivery

The opportunity: Premium niche offering spanning the continuum of care

Proposed market reforms appear to encourage polarisation, either consolidation into value-priced Superhomes, or differentiation into high-end niche operators offering specialised services. Of the two, we find niche offerings the more compelling for investors. Unlike the Superhome model, scale is not a main profit driver. Rather, we see the opportunity for market entry through acquisition of an established residential care provider with a strong brand. Initially, we see opportunities to reduce operating costs, especially through workforce optimisation. As restrictions around operating licenses are relaxed, facility-based care providers could expand service offerings to include high-quality home-based care and specialised services. By establishing a long-term relationship with older Australians, the provider secures a referral stream for facility-based care as residents' needs change. The provider could offer assistance in helping elderly Australians fund higher-quality care through leveraging the value of their home; we expect reverse mortgage-style financing solutions will emerge, similar to the "Aged Care Home Credit" scheme proposed by the Productivity Commission, which would allow aged Australians to draw against the value of their home to pay their co-contributions for Aged Care.

Value drivers

- Establish strong operational leadership.
- Increase revenue through premium pricing strategy.
- Help residents fund higher-quality care through tapping the value of their homes.
- Expand market share in fragmented market through broader, high-quality service offerings.
- Improve operating margin through workforce optimisation.
- Increase capital spending in markets where competition is strained by new funding mechanism.

Investor considerations

Merits of the investment opportunity are contingent on the degree to which proposed reforms will be implemented. We expect greater clarity in the 2012 budget, which we expect will be handed down in May. Barring reform, we find a challenging operating environment. The Productivity Commission report describes weaknesses in Australia's current aged care system including pricing constraints; variable care quality; limitations on scope of practice; inequitable and inconsistent cost sharing; and complex, overlapping and costly regulations. Economics in this environment are challenging; we estimate that more than 45% of facilities are unable to make profits today, with some struggling just to recover operational costs. That being said, we would note that consumers likely will drive evolution of the care delivery model, regardless of whether the government chooses to implement the Productivity Commission's recommendations, as the current market offering is not acceptable to most Australian baby boomers.

Australia's aged care providers currently fund capital investment through lump-sum resident bonds. However, these bonds are viewed as distorted and are not tied to cost of service; the balance of the bond is refunded to the resident or the resident's estate on leaving the facility. Proposed funding reforms would shift to a system of periodic payments reflecting the true costs of a resident's stay. This shift may weaken the current capital position of providers and would result in lost interest income on bonds. Alternative sources of capital funding, including bank debt, will come at a price, and access remains untested. However, we would note a well-capitalised operator with experience accessing the capital markets would likely have a meaningful advantage in this environment.

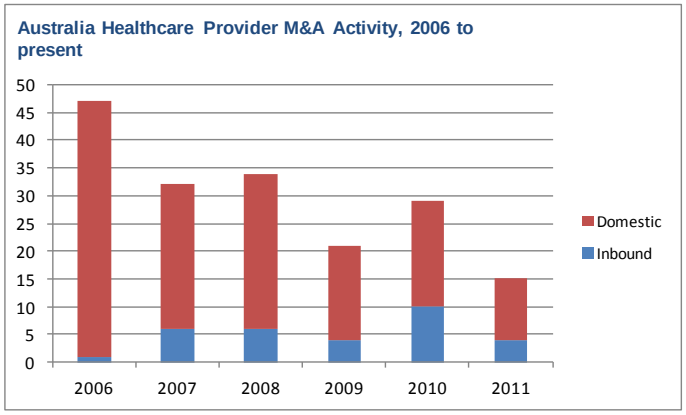
Australia
Reform presents opportunities in aged care delivery

According to members of PwC's Corporate Finance and Transaction Services teams, debt markets are currently open in Australia for high-quality credits seeking to finance up to US$1 billion with debt leverage of up to 4X EBITDA, remaining in line with historical trends. The Reserve Bank of Australia (RBA) lowered its benchmark interest rate by 25 bp in December to 4.25%. Prior to an initial 25 bp reduction in November, rates had been unchanged since November 2010. With overall moderate growth, inflation likely to be close to target, and confidence subdued outside of the resources sector, the RBA concluded that a more neutral stance of monetary policy would be consistent with achieving sustainable growth and 2%-3% inflation over time.

Australia is open to foreign investment: the Foreign Investment Review Board's monetary investment threshold was recently raised to US$240 million for non-US investors and US$1,042 million for US investors.

Deal trends

According to our data set, roughly 180 healthcare provider deals have been announced or closed in Australia since 2006. Activity has slowed in recent years. The majority of acquirers have been domestic, with cross-border investment activity not yet showing the uptick experienced in many other regions. Hospital operators and outpatient clinics have been consistent targets during the past five years. More recently, in June the Blackstone Group made a US$400 million bid for Japara Group, one of Australia's largest private sector providers of aged care services. Looking ahead, we expect increased deal flow in the aged care sector following greater clarity on the implementation of proposed reforms.



Source: Thomson Reuters and Preqin

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India
Demand spurs new primary care models

Defining the market need: The robust growth of India's healthcare economy has drawn private sector investment to the development of large metropolitan hospitals offering high-margin specialty services. However, investment in primary care has lagged, and access remains limited. Primary care is available in a hospital setting in the larger cities; however, wait times are long, and costs are high. Most Indians continue to access primary care services at one of an estimated 200,000 unaffiliated physician offices, where quality of care varies widely. The market is so fragmented that health insurance companies do not cover primary care services provided in either a hospital or physician office setting because of the costs and complexities of contracting in the absence of physician networks. India's rising middle class with growing discretionary income is demanding better access to high-quality, standardised primary and preventive care services. We see the opportunity for new delivery models to capture the growing demand.

Key market metrics

India's health economy is expected to maintain its recent 15% CAGR through 2020, driven by rising disposable incomes, expanded access to hospital-based care, a growing chronic disease burden, demographic growth, and insurance coverage expansion. India's US$40 billion primary care sector is highly fragmented. We estimate less than 1% of India's approximately 200,000 outpatient clinics are branded by larger chains or organised into a network. The majority are run by a single physician, often out of private homes or small outpatient clinics. Similarly, fewer than 10% of pharmacy and diagnostic service providers are affiliated with a chain. India's per capita healthcare spend is low, at roughly US$ 50 averaged across its 1.2 billion residents, though the range is wide. Also, we note the cost of primary care services falls well below Western levels, as shown in the following exhibit.

India per capita healthcare spend (USD)			**$50**
Sample costs[1]: GP consultation	***USD***	***Diagnostics***	***USD***
Tier I city	6 –8	CBP (complete blood picture)	2.50
Tier II city	4 – 5	CUE (complete urine examination)	2
Tier III city	2 – 3	X-ray	5.50
		Ultrasound (abdomen	25 – 30
		RBS (random blood sugar)	2
		HIV/(ELISA)	9

(1)Average patient out-of-pocket costs in an outpatient clinic setting

India
Demand spurs new primary care models

The opportunity: Develop a primary care clinic model & franchise

Branded outpatient clinics offering consultations, preventive care packages, basic diagnostic procedures, and pharmacy services could successfully address a massive unmet market need for efficient, accessible, and affordable primary care services demanded by India's rising middle class. However, proven business models and mature assets are in short supply.

Start-up ventures operating five to 10 clinics are beginning to emerge. We expect this trend to accelerate given the consolidation opportunity at hand, though limitations in physician relationships and in financing growth have kept these chains regionally bound. Meanwhile, India's large hospital chains are not pursuing significant primary care initiatives. As a result, we see the opportunity for a new entrant to emerge as the market leader in primary care services. Once a sustainable, scalable primary care clinic model has been developed for replication, the group could seek to partner with investors to finance nationwide growth.

We believe a franchise model is well suited for growth in this sector. To ensure success, both the clinic chain and franchisee would contribute development costs and share revenue. Support services provided to franchisees could include clinic management guidelines; electronic health record and billing software; clinical best practices including standardised treatment protocols; marketing assistance and specialist referral arrangements; and medical equipment and supply purchasing. The clinic chain could also provide ongoing quality monitoring to protect against brand dilution.

Value drivers

- Differentiate service offering by implementing an electronic health record system and standardised treatment protocols.
- Grow revenue through franchise fees.
- Leverage economies of scale to improve operating margin.
- Expand revenue base by deploying a scalable delivery model in regions across India and Asia.
- Position for growth through partnering with health insurance providers.

Investor considerations

A dedicated physician staff is key to the clinic model's success. Franchised primary care clinic models have failed in India because they did not gain critical mass because general practitioners (GPs) reimbursed via a revenue share model had no incentive to shift their outpatient caseload to a clinic without an established client base. We believe emerging trends in the scope and scale of insurance coverage make the clinic environment more attractive to physicians. Recently, both private and government payers have shifted from covering just 24-hour hospitalisations to pre-approved day procedures such as cataract surgery. Our conversations with industry participants indicate insurers are willing to expand coverage further to include GP consultations and other office-based primary care services if a physician network is in place to facilitate contracting. A primary care clinic chain with a defined physician network is ideally suited to contract with insurance providers. Given the rapid pace of insurance coverage expansion expected in the coming years, we see a compelling new referral source, which could meaningfully improve the economics of the clinic model through both stronger pricing and better volume dynamics.

For now, **the private sector dominates the Indian health economy**: out-of-pocket expenses make up more than 70% of annual healthcare spend. Insurance coverage trends in the public and private sector have been on an upwards trajectory for the past five years, a trend we expect will continue.

India
Demand spurs new primary care models

In India, **100% foreign direct investment (FDI) is permitted in most sectors** without government approval. Prohibitions and restrictions related to healthcare investment follow.

a) Hospitals: 100% FDI is permitted without government approval.

b) Pharmacies: FDI is currently prohibited in multibrand retail trading activities, which applies to pharmacies. The government has recently proposed FDI in multibrand retail as follows:

- Maximum 51% FDI with specific approval
- 50% of investment to be used for development of backend infrastructure
- Minimum 30% procurement of manufactured goods from small sector
- Stores to be set up only in 53 cities, where the population exceeds 1 million

The above proposal is facing opposition within the government, and debate is under way to reach consensus.

c) Diagnostic centres: 100% FDI is allowed without government approval for any services rendered in the diagnostic centre. However, due to policy prohibition on FDI in multibrand retail trading in business to consumer (B2C), trading of goods can be a challenge.

d) Health insurance: Maximum 26% FDI is permitted in insurance sector. Currently there is no separate category of health insurance licensees, and the services are provided by existing non-life insurance companies. Maximum 26% FDI is permitted in the third-party administrator subsector. An amendment in the Insurance Act is proposed to permit health insurance as a separate category of insurance licensee.

e) Medical equipment: 100% FDI with prior government approval is permitted for manufacturing and business to business (B2B) trading of medical equipment.

The government has recently allowed foreign investors to invest in limited liability partnerships (LLP) in sectors where 100% FDI is permitted. Benefits of LLPs include exemption from distribution tax and fewer hurdles to cash repatriation. Note that hospitals set up under a corporate form of entity can also be funded through foreign debts subject to the External Commercial Borrowing policy of the government of India.

Local debt financing is expensive. The Reserve Bank of India (RBI)'s 8.25% repurchase rate reflects 13 rate increases since March 2010 as the central bank seeks to contain inflation. India's wholesale price index (WPI)-based inflation rate remains higher than 9%, though early indications of slowing food price inflation imply a tipping point may be near. With GDP growth slowing and inflation trending lower, lending rates are expected to fall in 2012 but will likely remain elevated relative to other emerging markets.

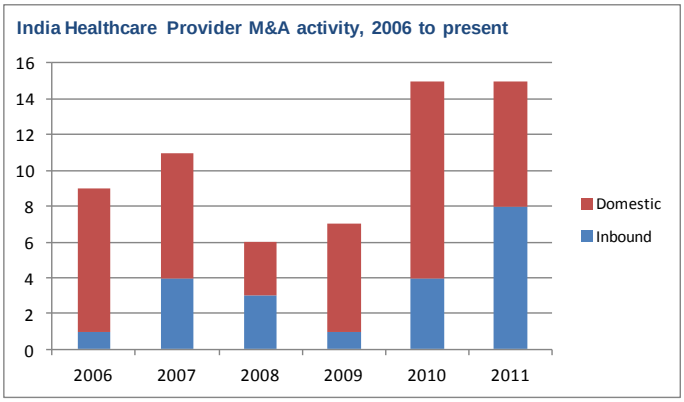
Deal trends

Since the start of 2010, 30 healthcare provider deals have been completed or announced in India. Many have involved infusion of growth capital and acquisition of a minority stake; as a result, disclosed deal value has been modest, ranging from US$20 million to $100 million. Deal activity within the provider sector has been dominated by Indian hospital chains and PE firms acquiring hospital assets. Reflecting the increasingly global mandates of financial buyers, the number of cross-border transactions has risen dramatically in recent years, with inbound deals exceeding domestic deals in 2011 YTD (see chart below). Private equity funds with recent bids include several based in India, the United States, and the UK. In addition, South Africa's Life Healthcare Group, a 63-hospital chain, recently bid for a minority stake in India's Max Healthcare Institute.

India
Demand spurs new primary care models

PE funds have not yet participated in meaningful deal activity in India's primary care sector. However, we have seen increasing interest in scalable, low CAPEX retail business models similar to the primary care clinic model we've proposed. For example, in 2010, a private equity consortium including New Silk Road, KKR, and Standard Chartered made a US$200 million investment in Coffee Day Holdings, a similarly replicable coffee cafe business model.

Looking ahead, we expect increasing deal flow in primary care and diagnostics. Pending easing of multibrand FDI restrictions, we also expect an uptick in pharmacy services consolidation.



Sources: Thomson Reuters, Preqin

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The Middle East
Mobile clinic model trumps new permanent capacity

Defining the market need: Healthcare systems across the Middle East share a number of market needs. These include large underserved populations requiring better access to care, long waiting lists for one-time elective procedures, and a lack of public and primary healthcare capacity. New hospital construction cannot entirely serve this growing need: for instance, underserved rural populations are too widely dispersed to support a traditional hospital model. Rather, we view mobile healthcare delivery models as ideally suited to improving access, relieving pressure on current hospital waiting lists, and encouraging preventative and primary care interventions.

Key market metrics
Healthcare spending in many Gulf Cooperation Council (GCC) countries sharply lags the United States, Western Europe, and other developed countries; and access to healthcare professionals is more limited. However, we expect the gap to close: healthcare spending across the GCC is expected to grow rapidly at 6% CAGR from US$24 billion to $60 billion through 2025. As investment in the sector ramps up, we expect GCC countries will leverage international best practices to introduce new delivery models in order to expand access to care.

GCC healthcare spending has lagged	Qatar	Saudi Arabia	UAE	OECD average
Physicians per 1,000 population	2.8	0.9	1.9	3.2
Nurses per 1,000 population	7.4	2.1	4.1	8.2
Healthcare spending as % GDP	2.5%	3.6%	2.8%	9.7%
Healthcare spending per capita (USD at PPP)	$1,715	$676	$1,520	$3,361

Source
World Health Organisation, most recent data available spans 2006-09

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The opportunity: Partnering to offer a mobile solution

Financial sponsors and clinical operators can partner to introduce a new mobile health clinic model that we believe would both expand access to care and shorten wait times based on historical precedent in other regions[1]. The partnership would shift start-up costs and capital risk to the financial sponsor, while experienced clinical operators would lend credibility to the delivery model. Physicians and nurses would staff well-equipped medical vans that travel to underserved regions on a routine basis to provide primary care services including screening, testing, and education in areas such as nutrition and weight management, diabetes, and cardiovascular disease. The model could be expanded to include outpatient surgeries performed in mobile operating rooms.

We view the opportunity as most attractive in countries where there is a sizeable unmet need, the government is the dominant payer, and we find relative political stability. Countries fitting this description include Qatar, UAE, and Saudi Arabia.

Value drivers

- Partner with clinical provider with cross-border operating experience.
- Contract with government payer(s) to ensure a minimum volume guarantee.
- Fill clinical positions with resources from neighbouring countries such as Oman.
- Grow revenue by expanding service offering to include surgical procedures.
- Grow revenue by expanding mobile fleet to serve additional underserved regions.

Investor considerations

The novel structure of the proposed mobile delivery model means financial sponsors would have to invest more time and effort to get this investment off the ground. However, we believe a low-capital-intensive mobile healthcare delivery platform with the potential to deliver meaningful results within the first year of operation will garner support among governments looking to highlight near-term successes, leading to mutually beneficial contracting terms and, ultimately, attractive returns. In addition, we expect investors will encounter limited competition.

A recent report authored by PwC and INSEAD Abu Dhabi[2] describes the MENA Private Equity environment in detail. In summary, regional political uncertainty has suppressed fundraising and new investment activity, while delaying investment exits during 2011. Regional challenges including continued political unrest and a perceived scarcity of quality deals could hamper investor interest in the region in the near term. However, we would note that GCC countries have been largely sheltered from political and social protests, and prospects for their economic growth remain strong.

According to Steve Drake, PwC's Middle East Capital Markets Leader, global capital market jitters are, inevitably, impacting Middle East regional markets. Starting in September, amid increasing Eurozone concerns, credit investors exiting riskier holdings drove an exodus of bond-related capital. Meanwhile, turmoil in Europe and the United States has weakened investor demand for Middle East debt issues as investor appetite

[1] Mobile health clinics have proved successful in both developing and mature markets: clinicians associated with India's Smile on Wheels' 11 mobile vans have provided primary care, diagnostic imaging, and minor surgical care to 250,000 under-served Indian residents since the social programme's inception in 2006. Mobile delivery vans are also used across the United States to provide diagnostic services, particularly in rural areas. In the UK, a recent study conducted by the Royal College of Surgeons found dedicated independent treatment centres (ISTCs) not only reduced wait times but also improved the quality of outcomes for a variety of elective procedures including hip and knee replacements and inguinal hernia repair, in part due to separation of elective care from emergency services provided in a hospital setting.

[2] PwC, "The Next Five Years: MENA PE", September 2011.

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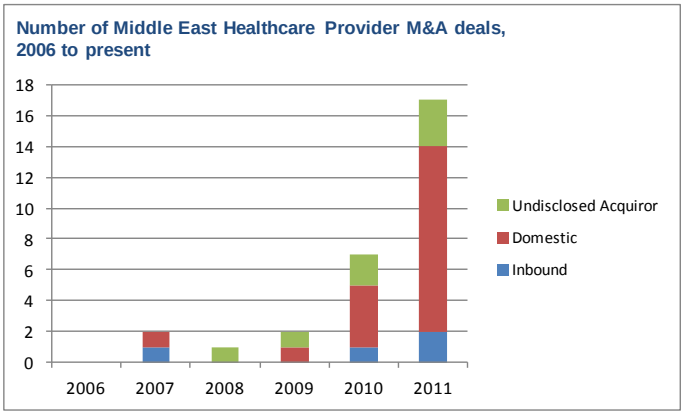
has historically been strong in these two economic zones. While some new issuers may shift to a heavier Asian market bias, we expect overall lower debt issuance volumes across the Middle East until the US and European markets stabilise.

Deal trends: Middle East healthcare provider transactions on the rise

According to our data set, roughly 30 healthcare provider M&A deals have been announced or closed in the Middle East since 2006, with deal flow reflecting a sharp uptick in 2011. The most frequent target assets have been hospital operators. The most frequent target nations have been the United Arab Emirates, followed by Kuwait and Israel. Inbound investment remains the exception in the Middle East, with acquiring nations generally domiciled in the GCC. However, recent notable transactions in the region include an Asian Private Equity consortium's US$120 million growth capital bid for DM healthcare, a Dubai-based healthcare provider that aspires to triple its roughly 100 healthcare facilities across the GCC and India by 2015.



Source: Thomson Reuters, Preqin

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