IN SICKNESS AND IN WEALTH

As the region's economy grows at a juggernaut pace, will the Gulf's billion dollar medical industry be able to meet the dual challenges of lifestyle diseases and a vast, ageing population by 2025? ALICIA BULLER investigates.

In the next two decades, the ultimate success – or failure – of the Gulf's economic diversification plan will be part of history. At the heart of this challenge lies the region's physical health as an ageing, growing population and numerous lifestyle diseases fuel the Gulf's colossal medical industry, which is set to reach $60 billion by 2025.

Over the next 20 years, treatment demand in the GCC will rise by 240 per cent and the total number of hospital beds will need to more than double to 162,000 to meet the needs of an ailing populace, according to consulting firm McKinsey and Company.

"The GCC suffers from a structural deficit in healthcare infrastructure and delivery. Statistics show there are two hospital beds and 1.6 doctors per 1,000 population in the region, whereas Germany, for example, has nine hospital beds and 3.4 doctors per 1,000 people," says Arjen Radder, EMEA vice president, Philips Healthcare.

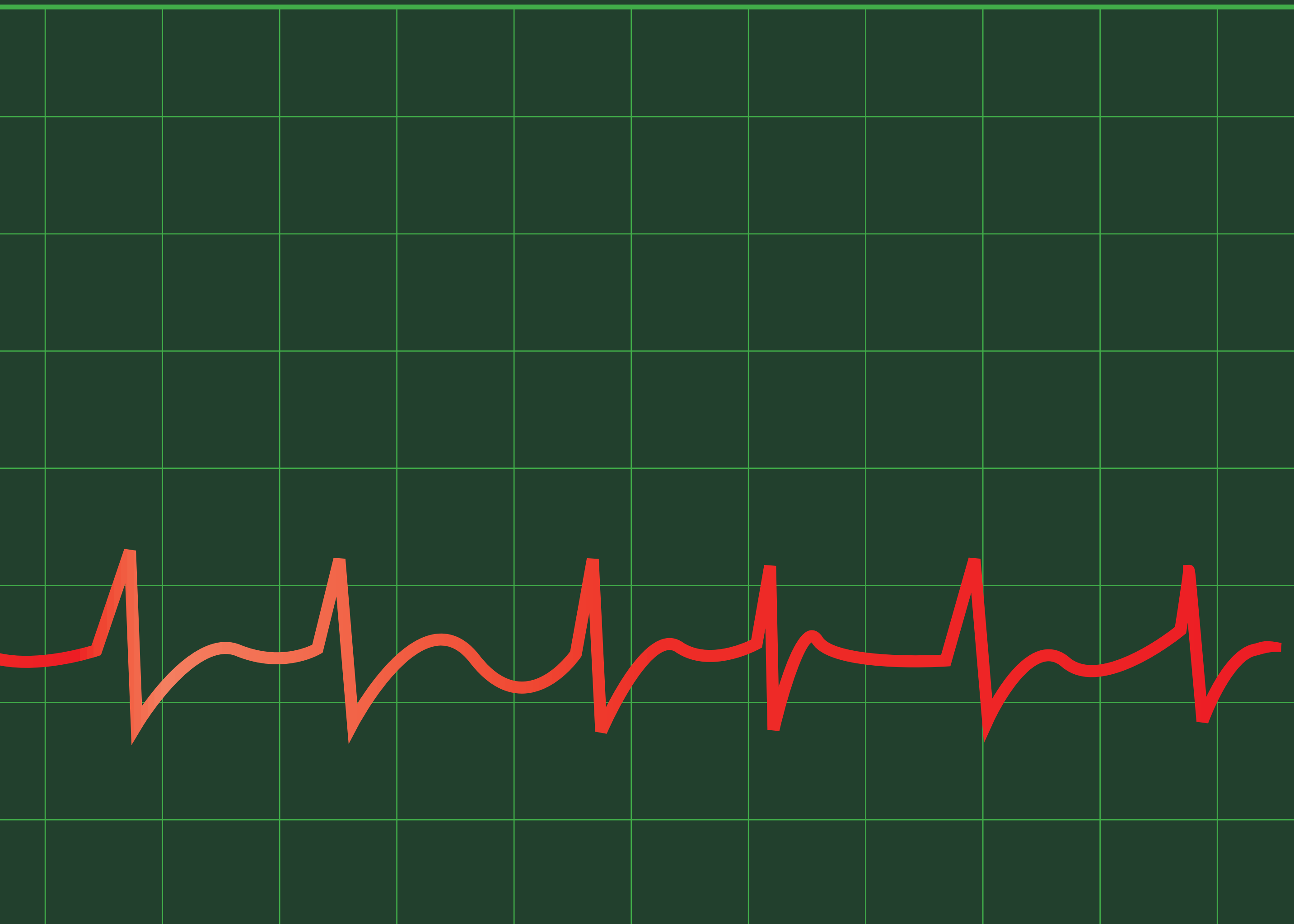
Grossly underfunded to date, the Gulf states are only now starting to allocate large sums of their sovereign wealth to the issue of health. But to meet the grave challenge of doubling resources in the coming two decades, governments will need to budget far more.

RACE AGAINST TIME

The number of people aged 65 years and over in the region is set to increase seven-fold. The longer you live, quite simply, the more services you need. To meet this demand, the region must close the gap in physical infrastructure, funding, human capital and strategy within this finite and unforgiving timeframe.

"If you look at health spend trends regionally compared to other developed countries the

Illustration: Tarak Parekh



Western average is about 10 per cent, while in the GCC it's about 2.5 per cent to five per cent," says Simon Leary, Middle East healthcare industries leader at PWC. "They're not spending nearly enough and I think everybody recognises that."

The pent up demand for healthcare represents challenges and opportunities in equal measure. Unlike the West and the US – with their problematic and large healthcare conundrums – the Gulf, at least, is starting with a fairly clean sheet. So is it possible to learn from the mistakes of others?

"The idea of a health utopia doesn't exist anywhere in the world, but we are trying to take the best from other models. There are general labour market and infrastructure issues, combined with local nuances that are different and community and country specific," adds Leary.

"The challenge is huge, in everything from mobile-enabled primary care through to a whole range of care delivery models that are more focused on outputs rather than inputs. This is a global challenge, but here we have the benefit of no baggage."

To date, health spending across the GCC has been arbitrary. In the region, communities tend to be disparate owing to the large percentage of foreign workers with varying cultural, ethnic and lifestyle profiles, and the bulk of the local community is rural and difficult to reach.

SENDENTARY LIFESTYLES

In many ways, the Gulf's battle is the world's battle. Lifestyle diseases are blighting global health and the Middle East is no exception. Sedentary and ageing populations affected by obesity, diabetes and cardiovascular diseases have stoked the need for an urgent revision of global health thinking.

"I can't think of a single country that has it fully worked out. If

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you think about the challenges healthcare is going to face in most countries in the future, it will be centred on dealing with chronic disease. How do we help people who have some level of background illness over an extended period of time?" says Simon Stevens, executive VP of UnitedHealthcare, one of the largest health companies in the US and the world.

"It used to be thought that those conditions were centred on the rich part of the world, but actually recent data shows that in poor countries and rural villages it's chronic diseases caused by diet, lack of exercise and smoking rather than infectious diseases like TB or malaria that are the issue."

The Gulf, however, is battling with the highest incidence per capita of lifestyle diseases in the world. One in four people in the UAE have diabetes and one in three hospital admissions in Riyadh, Saudi Arabia, are directly related to the disease.

One consequence of the shift from infectious killers to lifestyle diseases is a need for different forms of care. Lifestyle diseases require long-term strategic care as opposed to rapid-fire hospital treatment. Non-communicable diseases also require preventative education through community initiatives and an increased level of self-care and management over a longer period of time.

"This is a challenge for the UAE and the world. It's about the rule of prevention and awareness," says Mohmood Fikri, CEO of health policies for the Ministry of Health UAE. "We must involve the private sector, communities, NGOs. Everyone must be involved in getting the message across."

FUNDING

In recognition of the health gap size, governments across the Gulf have not only upped their medical spend but are now increasingly dropping the role of health provider for health regulator and introducing mandatory health insurance across the region – opening up a lucrative industry to private equity players.

Saudi Arabia, as the most populated Gulf country at 28 million, is a premium target for investors. The country plans to spend over $800 billion on its social and health development over the next five years, according to the Economist Intelligence Unit.

Egypt, with a population of about 80 million, is the region's second largest market. The country increased its healthcare budget by 22 per cent in 2009.

There were around $933 million dealings in private equity across the Middle East region in 2010, according to Al Masah Capital. Around one third of these were related to health. The gap between demand and supply is so great that the sector offers both high gains and stability.

Abraaj Capital, the largest private equity house in the Middle East, has acquired stakes in Acibadem Healthcare – a premium hospital group in Turkey; Saudi Tadawi Health Care, a pharmaceuticals company; Al Borg Laboratory in Egypt and E3 medical software in the UAE.

"Healthcare is one of the most stable investments in any region, because

STATE OF THE NATION

The Philips Health and Well-being Index 2010 survey highlighted widespread misconceptions of good health: UAE and KSA residents are unaware of the obesity and diabetes epidemic in their countries.

* 37 per cent of men aged 20-79 are overweight, while the vast majority of respondents rated their own physical health either good (some minor problems) or excellent (no significant problems).
* Only one per cent of those surveyed believe that heart disease or cancer is a threat to their health. Heart disease remains the biggest killer in the UAE, and chances of dying from cancer before the age of 75 are more than six per cent.
* On average, only 10 per cent of respondents believe exercise would help them lose weight.

Fundamentally, it appears that there is a misconception among the people of the UAE about correct body weight, healthy and unhealthy food, how much food should be consumed and how much physical activity is required to lead a healthy lifestyle.

PRIVATE EQUITY MONITOR

DATE	BUY/SELL	TARGET COMPANY	FUND NAME	COUNTRY	INDUSTRY	SIZE ($)
02/11	Buy	Bicakcilar Tibbi Chazlar	Global Buyout Fund L.P.	Turkey	Medical Equipment	–
11/10	Buy	Bourn Hall International	Shefa MENA Health Fund	UK	Clinics	11m
06/10	Buy	Pro Vita	Shefa MENA Health Fund	UAE	Clinics	12m
06/10	Buy	Al Noor Medical Company	Ithmar Fund II	UAE	General Medical and Surgical Hospitals	_
06/10	Buy	Dunya Goz Group	NBK Capital Equity Partners	Turkey	Hospitals	–
12/09	Buy	Medical Park	The Cartyle Group MENA Fund	Turkey	Health Care Services	–
04/09	Buy	Diagnostic Centre	The Libya Fund	Libya	Medical and Diagnostic Laboratories	–
03/09	Buy	Sigma Pharmaceutical Industries	Eastgate MENA Direct Equity L.P.	Egypt	Pharmaceuticals	40m
2009	Buy	TechnoScan	Gulf Capital Equity Partners II	Egypt	Medical and Diagnostic Laboratories	_
2008	Sell	Al Borg Laboratories	Egyptian Direct Investment Fund Limited	Egypt	Medical and Diagnostic Laboratories	_
05/08	Buy	Al Borg Laboratories	Infrastructure and Growth Capital Fund	Egypt	Medical and Diagnostic Laboratories	–
01/08	Buy	Gulf Healthcare International	Global Opportunistic Fund II	UAE	Health Care Services	30m
01/08	Buy	Acibadem Healthcare Services	Abraaj Buyouy Fund II	Turkey	Health Care Services	–
2007	Buy	Acibadem Healthcare Services	Infrastructure and Growth Capital Fund	Turkey	Health Care Services	_

SOURCE: ZAWYA PRIVATE EQUITY MONITOR

it's supported by the government and population growth – and most countries are growing in population," says Ahmed Badreldin, executive director, Abraaj Capital. "It's easier to negotiate health deals compared to other sectors as the need is great and the supply demand gap is so large."

The Carlyle Group's $500 million Middle East and North African fund bought 40 per cent of Turkish hospital group Medical Park in late 2009, while 2010 saw the high-profile $270 million investment in Al Noor Medical by Ithmar Capital, and $12 million in Provita health clinics by the TVM Capital Mena.

Abu Dhabi-based Centurion Investment recently bought 40 per cent of New Medical Centre (NMC) in a deal reported to be worth more than $1 billion. The firm's CEO, Dr B R Shetty, said it would allow for health spending across the UAE.

"Demand side factors spell confidence but the industry faces several supply-side constraints, from infrastructure to human capital. Private equity (PE) is an attractive route of capital-raising for a healthcare entrepreneur, especially if it comes from a health-care focused fund which understands the dynamics of the healthcare landscape," Shetty says. "NMC will come out with an IPO of its shares within the next three years when the market is right."

The UAE group plans to use its recent cash injection to establish NMC hospitals in Qatar, Oman and other parts of the Middle East, as well as moving into India.

In the UAE itself, the firm is expanding its hospital bed strength in Abu Dhabi from 150 beds to 350 beds. In Dubai and Al Ain, the specialty hospitals will soon be upgraded to 250 beds each. NMC is also opening a new hospital in Fujeirah.

"We have over $700 million devoted to healthcare, which is nearly 10 per cent of Abraaj's total investment," says Badreldin. "Our new $250 million RED fund is about backing and investing in entrepreneurs, which includes pharmaceuticals, hospitals and medical labs."

The investment manager says Saudi Arabia, Egypt and Turkey continue to be the largest markets for finance because of their relatively high populations.

"In Egypt, particularly, there is a lack of quality hospitals. Only 20 per cent of the population are getting access to drugs and 80 per cent are underserved and not getting the right drugs. Eighty per cent of a population of 80 million represents a huge opportunity."

Abraaj plans to expand the Turkish Acibadem Healthcare group across the region and build more hospitals through 'green fielding'

New Medical Centre sold a 40 per cent stake to Abu Dhabi-based Centurion Investment.

MOBILISING HEALTH SERVICES

Qatari telco, Qtel Group, has launched a strategic partnership with The Mobile Health Company to offer 'mHealth' (mobile health) services across the Middle East, North Africa and Asia.

mHealth solutions use mobile phone technology to deliver lifestyle guidance and continuous updates through customers' handsets. The Qtel Group will be among the first companies in the region to deploy these solutions and is prioritising illnesses that have an endemic impact across the region.

"The patients of the future are empowered, technologically-savvy consumers, who will play an active role in the management of their healthcare," says Arjen Radder, regional VP, Philips Healthcare.

Customers will be able to subscribe directly to the services, and personalise the package of applications. Utilising a mass population approach, the mHealth service will also be targeting customers in rural and remote communities with limited access to conventional health services.

(scouting out fresh plots of land for build-from-scratch projects).

Badreldin adds that the ideal solution for expanding healthcare is a mix of private equity and bank money, with the government licensing the model.

"One challenge with the health sector is that it is heavily regulated so things change a lot. For example, Turkey dramatically reduced the price of generic drugs in a day. But now there's no incentive for governments to change regulations too much, as it slows development and solutions when the need for quality healthcare is so great," he says.

"Based on the huge demand for healthcare, the investment amount is likely to stabilise or grow. We have general funds at the moment, but we never say never to a specific health fund."

PPPs

Public private partnerships (PPPs) are being mobilised increasingly in the Middle East to deliver better health sector infrastructure and services, according to a report from PWC's Health Research Institute.

PWC's Leary says: "The motivation to use PPPs varies widely across the region. Some countries are drawn to PPPs by financial and risk transfer considerations. But the main reason we are seeing more use of PPPs in the Middle East is the access they bring to the acquisition and transfer of skills, global intellectual property in terms in content and process terms, and clinical and management leadership."

Build and Beyond: The (r)evolution of healthcare PPPs tracks the evolution of PPPs from a mechanism used largely for infrastructure finance to a modern solution for the problems in healthcare service delivery and wellness. Health PPPs have already proven to save governments as much as 25 per cent of healthcare costs.

Turkey is currently the only country in the region utilising PPP projects, following the launch of the €250 million Kayseri Health Campus Project, the country's first health PPP, in 2009.

Leary adds: "Healthcare is getting increasingly expensive. There's a build from scratch need, plus the fact that healthcare spending needs to be increased to match Western countries. The government will play a role in some form in all countries, whether it's regulator, funder or provider. But increasingly public sector hospitals are not a solution in their entirety.

"Private equity is clearly going to be part of the solution, including PPPs. Some of the most profitable private equity investments have been into funds that have been in PPPs. There is an exponential need for it everywhere. The challenge is making sure your health investment is agile and in the right place."

OUTPUT-BASED

One key health lesson the Gulf can learn from the West is moderation and pre-planning. Without the legacy of maintenance, it's easier to ensure budgets are spent wisely. Another lesson is the importance of prevention in stemming costly prescription bills.

"Output-based is one of the world's new approaches and it could be done here much more. You buy healthcare on the basis of your output. In Abu Dhabi and KSA you can get mobile units, and you can provide access and, therefore, you don't waste money building a hospital that will be redundant for 95 per cent of its lifetime," says Leary.

"The lack of investment in primary

care is a concern; what tends to happen here is that people get a cold and go and see an ear and throat specialist, that's ridiculous, it's not good for the patient and it's not good for the tax payer. Question one is what are the health needs of your country? It's difficult to get information here, partly because of the very high turnover of residents and partly because of cultural restrictions. There are some fantastic health professionals in the Gulf who understand this problem, but it's in the very early stages of being institutionalised into the culture."

Leary adds that there has been an under recognition of the importance of engaging the general society in health issues. In Kuwait, for example, where 80 per cent of the population is obese, weight is most definitely a community issue.

Leary says that caveats must be placed in health insurance schemes to incentivise patients to seek healthier lifestyles and those who smoke or don't exercise should be penalised. The UAE and KSA have already rolled out mandatory health insurance schemes and the other Gulf countries are set to follow suit.

"A big issue is who pays for the service when the user walks through the door? There's no model that has worked 100 per cent anywhere. One challenge is that there has been what levels of co-pay to use," Leary says.

"The idea is to make people think twice about the consumption beforehand. It's a fine balance, you don't want to stop genuinely ill people seeking care but you do want to deter the 'worried well'."

For investors, the Middle East medical market is an unusually healthy one. The region's $60 billion medical goldmine offers unequivocal evidence that there's a degree of recession proofing around death and taxes.

As for the patients themselves, the staggering figures say it all. The next two decades will decide the health – and wealth – of our Middle East nations. ■

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Around one in four UAE residents suffer from diabetes.

HUMAN CAPITAL

Dr Nairouz Bader
CEO, Vision Executive Search

HEALTH STAFF ISSUES

Infrastructure and integration

There's a real issue with healthcare infrastructure and attracting health talent. The region needs proper buildings for training professionals, as well as hospitals that are in accessible locations with organised traffic flow.

There's a lot of investment on the ground for sectors such as oil and gas, but for the health sector it's thin on the ground. Retention and engagement of health recruits is the resulting issue. From both the employer and employee-side, there are continual 'quality' challenges.

Integration is one of the key issues we come across when recruiting health professionals and doctors. Cultural clashes and differences in approaching patients can be an issue.

The right fit

A key thing we look for in attracting health talent includes 'the right cultural fit', which usually stems from having some connection with the region, or considerable exposure to travel and new environments. We look for candidates that have long-term vision and not a transactional mindset. The ideal candidates for senior health roles will work for a minimum of five to 10 years in the job.

Lack of training

While we offer on the job training and comprehensive induction periods, the region needs a healthcare education centre for excellence. Lebanon and KSA are the best for offering university-affiliate training and this model is being copied slowly across the region. Currently we are filling the capital gap by hiring expats to train locals, but this is only a short-term solution.