

MARKET OVERVIEW

The global healthcare market is facing both challenges and opportunities. Spend is forecast to grow by 5.2% per annum to US\$9.3 trillion by 2018¹, with growing populations and rising incomes increasing demand for healthcare services, whilst increasing longevity and chronic diseases are creating pressure on funding.

Cost is the biggest healthcare issue facing most countries as they try to align supply to demand. Targeted therapies, personalised medicine, genetic-based medicine, medical devices and other technology advances are delivering significant advances in patient care but driving up costs at the same time.

Healthcare providers are scaling up to address these opportunities and challenges, with consolidation becoming a key feature of the market to ensure access to technology and attract resources in an increasingly competitive market for highly qualified staff – especially doctors and nurses.

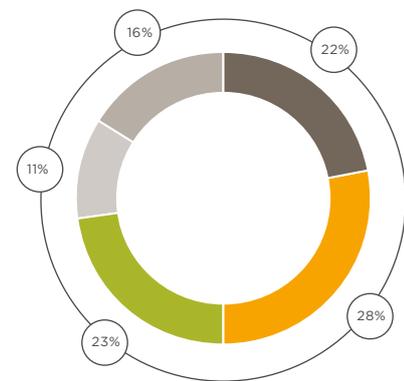
The global healthcare regulatory landscape is complex and evolving. The primary driver is patient health and safety, with government scrutiny varying widely from country to country. Patients are becoming more cost conscious and involved in healthcare decisions, with concerns about data security rising.

SOUTHERN AFRICA

MARKET SIZE

There are around 215 private hospitals in South Africa, with three major hospital groups accounting for 63% of private sector beds. The total number of private sector beds has increased steadily from 32 130 in 2010 to approximately 35 217 in 2014, constituting approximately 30% of the total number of beds in the country.

PRIVATE HOSPITAL BED MARKET SHARE (SOUTH AFRICA)



- Mediclinic Southern Africa
- Netcare
- Life Healthcare
- National Hospital Network
- Independent

Source: Econex estimate number of beds in 2014

Private health expenditure covers approximately 16.3% of the national population, representing around 4.2% of GDP. Around 8 785 048 people were insured by medical schemes in 2015².

MARKET STRUCTURE AND KEY DRIVERS OF GROWTH

Despite strong growth in the middle class, high levels of inequality remain a feature of South African society. Access and affordability of healthcare is the key challenge in a country characterised by slow economic growth, a low tax base, low levels of employment, high levels of poverty, a high burden of disease and an increased prevalence of chronic diseases.

Private healthcare funding in South Africa is principally provided through medical schemes and a consolidation in the medical schemes market over time has led to an increase in their bargaining power. Growth in the medical scheme market has slowed down in recent years with the number of new lives joining medical schemes decreasing from approximately 250 000 in 2010 (growth rate of 3.1%) to approximately 31 000 in 2014 (growth rate of 0.4 %³), and based on the latest quarterly report of the South African Council for Medical Schemes the total beneficiaries decreased by 0.3% from 31 December 2014 to 29 000 at 30 September 2015.

Care is fragmented with private hospitals providing patients with facilities such as wards, theatres and nursing care while doctors and allied healthcare professionals provide services to patients within the hospitals but are financially independent, making co-ordination of care sub-optimal.

There is a shortage of skilled resources in South Africa, where there are only 77.6 doctors per 100 000 lives, around half the world average of 152 per 100 000 lives⁴ and approximately 403 nurses per 100 000 lives, which is lower than other developing countries. This is exacerbated by the high regard for South African medical professionals internationally; so, in addition to addressing the local skills shortage, South Africa has to compete with global demand for its medical staff.

REGULATORY ENVIRONMENT

The South African Government is seeking to address the shortcomings of the public health system through the phased introduction of a National Health Insurance system over the next 14 years. A White Paper outlining the financing and design of the envisaged system has been released for consultation and Mediclinic will be submitting comprehensive comments.

The South African Competition Commission is currently undertaking a market inquiry into the private healthcare sector in South Africa to both understand whether there are features of the sector

¹ Source: Deloitte 2015 Global healthcare outlook report

² Source: Council for Medical Schemes Quarterly Report for the period ending 30 September 2015

³ Source: Council for Medical Schemes Annual Reports

⁴ Source: Econex calculations 2014

that prevent, distort or restrict competition, and how competition in the sector can be promoted. The enquiry is due to publish its recommendations in December 2016.

SWITZERLAND

MARKET SIZE

In 2014 the Swiss healthcare market comprised 289 registered hospitals with about 1.4 million hospital visits and an average length of stay of nine days. About 40% of hospitals are in the private sector, providing about one-fifth of hospital services and employing approximately 20 000 people.

Switzerland spends around 11% of its GDP on healthcare costs, lying at second place in the ranking of OECD countries, with costs of healthcare rising to CHF71 billion in 2014. Approximately 32% of this is funded by the private sector.

MARKET STRUCTURE AND REGULATORY ENVIRONMENT

Switzerland is characterised by its federal structure with the federal government, the cantons and municipalities having different responsibilities. The healthcare sector is mainly regulated by the 26 cantons. They manage and supervise hospitals and ensure their funding in collaboration with the mandatory health insurance. Several experts criticise the multiple roles of the cantons stating that this makes it impossible for private and public hospitals to have equal opportunities and that private hospitals are at a competitive disadvantage. Hirslanden maintains a good dialogue with all relevant public authorities and is keen on having fair competition in the Swiss healthcare market.

KEY DRIVERS OF GROWTH

Switzerland has a very high life expectancy of around 83 years. The number of people over 65 years has been increasing in the last decades and will reach approximately 26% of the population by 2045. Parallel to that, the number of births has also shown a constant increase. In 2014 child births increased by 3% compared to 2013.

Diseases of the circulatory system and cancer are the most common causes of death in Switzerland at 33% and 25% respectively. In general, non-transferable chronic diseases, such as high blood pressure, diabetes and arthritis, are becoming more common.

UAE

MARKET SIZE

The market for private healthcare in the UAE reached US\$10.7bn in 2015, with predicted growth rates of 12.7% CAGR to 2020 and the number of beds forecast to rise from 12 007 to 13 881 over the same period.

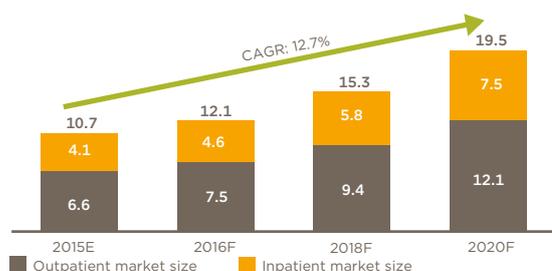
MARKET DRIVERS

The key drivers of growth are favourable demographic trends such as a continually growing population, with those aged over 65 years projected to increase by a CAGR of 19.6% from 2014–20 (Euromonitor International); a significant incidence of lifestyle diseases such as diabetes and heart disease; heightened levels of government spending on healthcare services; and broad penetration of private healthcare coverage. Although the UAE currently accounts for 26% of government spending on healthcare in the Gulf Cooperation Council (Alpen Capital), investment in healthcare could decline as a result of the lower oil price. However, this could benefit the private healthcare industry in the future as the government increasingly looks to the private sector for assistance to build a world-class healthcare system.

OPPORTUNITIES FOR MEDICLINIC

Mediclinic is well-positioned to respond to the market opportunities, with a strong presence in Africa and the Middle East – the regions that are expected to experience the highest growth levels of 8.7% over 2014 to 2018. Its reputation for clinical excellence, combined with its size and scale allows the Group to attract and retain the talent that it needs to fuel its growth, to invest in the latest technology and to share best practice across its three platforms. High standards of compliance, ethics and transparency have been cornerstones of the way the Group operates over the last 30 years, underpinning its relationships with regulators, insurers and governments.

HEALTHCARE MARKET SIZE FORECAST (UAE)



E - Estimated F - Forecasted

Source: Alpen Capital GCC Healthcare Industry Report 2016

FORECAST OF DEMAND FOR HOSPITAL BEDS (UAE)

