Merger and Acquisition in Healthcare

Mergers and acquisitions (M&A) is a broad term used to refer to the partnership of companies or assets through various types of financial transactions, including mergers, acquisitions, associations, tender offers, purchase of assets and management acquisitions.

The term mergers and acquisitions (M&A) refers to the process of one company combining with another. A merger is the combination of two firms, which subsequently form a new legal entity under the banner of one corporate name. In an acquisition, one company purchases the other outright. The acquired firm does not change its legal name or structure but is now owned by the parent company.

Merger and Acquisition in the Healthcare Industry

Healthcare mergers and acquisitions have been the cause of extensive debate across the medical industry, calling into question the tools and scale necessary to thrive in current care models in healthcare. But as industry professionals consider the business case for mergers and acquisitions, it is essential to also understand how these events impact the patient experience.

There are two types of consolidation occurring in the healthcare industry. Vertical integration occurs when consolidation occurs between two companies producing different goods or services for one specific finished product, and horizontal consolidation occurs between firms who operate in the same space, often as competitors offering the same goods or services. Declining reimbursements and the need for capital, especially to invest in technology, also play a role in the increase in consolidation. The use of technology is almost essential for healthcare organisations that want to compete with other providers that utilise value-based payment.[1]

Advantages

Publicised benefits of consolidation in the healthcare industry include:

- Improved care management
- Decreased repetition of clinical services
- Enhanced clinical integration and management
- Reduced operating costs in acquired hospitals
- Increased local access to acute care services
- Reduced organisational costs

Disadvantages

Challengers of consolidation cite the following disadvantages:

- Increased average price of hospital services by 6–18 per cent
- Reduced competition
- No measured impact on quality
- Limited patient benefits
- Higher health insurance premiums, even with insurers paying less to providers

Healthcare deal-making involves more players with different goals and new business models than ever before. It is a disservice to refer to healthcare M&A with the same vocabulary as in decades past. Tried and true language still serves a purpose but does not express the aims and diversity of mergers and acquisitions in healthcare today.

Merger and Acquisition in the Healthcare Industry in the GCC Region

Business confidence in the healthcare sector in the GCC and the broader Middle East and North Africa (MENA) region is understandably buoyant.

Since the beginning of 2015, the GCC region has witnessed a cycle of clear growth in the healthcare sector, a testament to growing consumer demand. This period of evolution in the sector coupled with a push by healthcare providers to broaden services, diversify and seek higher margin business has resulted in a surge in mergers and acquisitions (M&A) activity. As these providers enter a phase of consolidation, this M&A movement will continue. The surge in M&As has been especially notable in the UAE and Saudi Arabia, with the former alone seeing more than a dozen major healthcare acquisitions.

Firstly, the region has witnessed substantial demographic shifts in recent years with the GCC population expected to reach 59.2 million people by 2020, up from 52.6 million last year. The second driver can be assigned to lifestyle. The GCC, unfortunately, is one of the global leaders in lifestyle-related, non-communicable diseases: more than half of the region's population can be considered overweight. The final key factor has been the introduction of compulsory health insurance in the region. This provides residents with easier access to healthcare services and this therefore will increase demand. These market drivers have created a chance for growth that the healthcare sector is eager to pursue.

An increased curiosity is noted in longer-term healthcare strategic assets, with PE investors focusing on value-building deals that possibly offer exit strategies after five years. In addition, a growing number of investors are seeking to create regional value-for-money healthcare firms aimed at a wider population. Lastly, deal-making opportunities are moving from the competitive UAE to KSA, where the healthcare market remains largely untapped and there are upcoming opportunities as the government seeks to privatise a number of healthcare holdings.

The region's high projected growth rate is partly because of relatively low levels of investment currently. At just 4.9 per cent of gross domestic product (GDP), Bahrain's spending on healthcare is the highest in the GCC, with Saudi Arabia and the UAE spending only 3.2 per cent. Globally, the average is 10 per cent of GDP.[4]

According to reports, the Middle East healthcare sector is expected to attract $200 billion in the next five years. Currently, opportunities for investors are abundant in the Middle East healthcare sector.

As a result of this positive outlook for growth, investors are active in the sector and there has been an increase in investment activity. Recent deals include Aster DM Healthcare's purchase of

a 57 per cent stake in Sanad Hospital in Riyadh for $245.1m; South Africa-based Mediclinic International's acquisition of Al Noor Hospitals Group for $2.2bn in 2016; NMC Health's acquisition of four healthcare companies in the UAE since 2015, including the fertility clinic Fakih IVF, which it picked up for $189.5m.[4]

Merger and Acquisition in the Healthcare Industry in UAE
The UAE healthcare market is experiencing an astonishing and dramatic growth with the rising government initiatives.

That is due to the sedentary lifestyle of the Emirates population and the region's rising medical tourism. The UAE government is also expanding and upgrading its healthcare system extensively to develop strong, world-class healthcare infrastructure. The government also promotes and supports the involvement of the private sector to upgrade existing infrastructure and suit the service level quality provided in developed countries. In addition, the government of UAE is also liberalising policies to attract foreign investment to improvise the standard of healthcare and boost the healthcare sector.[5]

UAE has witnessed many merger and acquisition deals and strategic alliances between healthcare companies, both public and private. The government is also encouraging greater private participation in the UAE's healthcare sector.

The healthcare sector across the UAE has seemingly adopted a similar path to that witnessed at a regional level. There has been a substantial increase in the number of hospitals in the Emirates, especially between 2013 and 2017, where the total number of hospitals grew from 107 to 137. In 2018 the UAE government contributed a mammoth 66% towards the total expenditure of the country on healthcare, which amounted to a whopping USD 15 billion.[6]

A rapidly growing market through market transformation combined with a drive by different providers from the healthcare sector in order to diversify and gain higher margins has automatically seen a surge in mergers and acquisitions activity across the United Arab Emirates.

NMC Health's Royal Hospital at Khalifa City in Abu Dhabi was developed on land provided by the government and still cost a projected $200m. The year before NMC Health purchased Al Zahra Hospital in 2016, the facility is reported to have made $38.8m in revenue. With a reported acquisition price of $560m, the price-earnings ratio (the share price relative to its per-share earnings) is projected at a high 14.5. So far, the performance of the region's healthcare companies seems to justify these lofty estimates. UAE-headquartered Aster DM Healthcare, which operates 18 hospitals, as well as medical clinics and pharmacies, has plans to open five more hospitals in the GCC and India. Aster has confirmed plans to sell a stake through an initial public offering in India, with the chance of raising $234m.

UAE's expenditure when it comes to healthcare is expected to reach $2.4 billion in 2025 and $3.6 billion by 2030. And, according to the market reports, UAE's healthcare expenditure has grown at a compound annual growth rate of 8.8 per cent between 2011 and 2019.[6]

Because of multiple factors like medical tourism, mandatory insurance, etc., there is increased spending in the country, and this contributes to a more integrated health system.

Increases in healthcare spending from private and public sources are the most significant drivers, closely followed by the rapid market and infrastructural growth.

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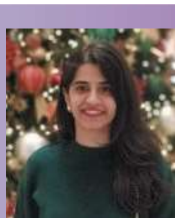

Adhiti has over eight years of widespread experience in clinical research and market research. In clinical research, she has had experience handling different studies for multiple therapeutic areas. Adhiti also has experience in market research within industries such as Healthcare, FMCG and the Government sector across the MENA region.

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