



# Healthcare

## Investor Sentiment Spotlight 2019

Indian Healthcare 2019 investor outlook by Praxis Global Alliance, where we share an in-depth analysis of investment trends and sentiment in the industry currently.

Over 100 leaders from top funds shaping Indian Healthcare share inputs in this report, to establish interest and opportunities in the sector.



## About this report

In a country of 1.3B, Healthcare is a key necessity.

Praxis Global Alliance recently conducted a study on the investor activity in the healthcare sector, with large existing and past investors in this space. The findings of this study are presented in this report.

This spotlight looks at the Indian healthcare sector from the perspective of investors, with detailed inquiry on sentiment around sector outlook, value creation and deal activity.

Indian healthcare is growing to support the ever-increasing need for quality healthcare that meets the supply-demand mismatch. To paint a vivid picture of the transition phase healthcare currently is in, we decided to study the investment sentiment in the healthcare space amidst the recent regulatory changes, ranging from price controls to universal coverage that promises to have a wide-ranging impact on the industry landscape.

# KEY INSIGHTS

## ● **Investors' current play and outlook of investor activity in healthcare**

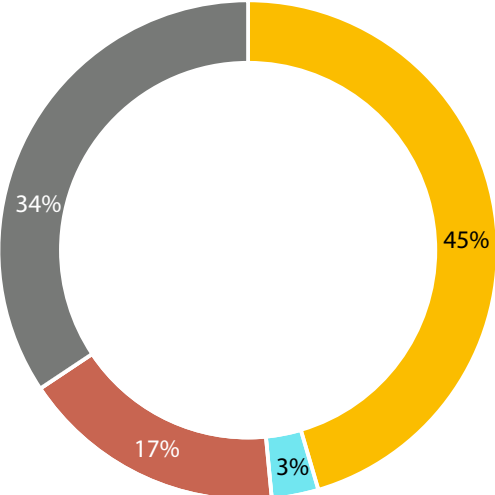
- ✓ Healthcare deal value, by stage: **Investments grow at slow pace, average deal size balloons**
- ✓ Deals by stage, verticals, sub-verticals and value: **Late stage dominates healthcare, pharma and hospitals court most dollars**
- ✓ Top Deals by vertical: **MedTech, diagnostics, CRO and wellness concentrate investment in few companies**
- ✓ Funds' investment mandate and verticals of interest: **Diagnostics and Labs is top vertical by activity, followed by specialty care**
- ✓ Outlook on deal activity and competition for deals in sector, by stage: **Deal activity expected to pick up, competition growing, especially in late stage**
- ✓ Emerging models of interest: **Specialty themes rule including specialty clinics and hospitals top models for future investment**
- ✓ Outlook of healthcare sector: **Most investors optimistic, despite hit on confidence since regulations**

## ● **Investors' sentiment on opportunities and unleashing full healthcare potential**

- ✓ Valuations of deals, by vertical: **Pharma stays attractive while diagnostics and hospitals court high valuations**
- ✓ Drivers of value creation in healthcare over time: **Paradigm shift from growth to cost efficiency and consolidation indicates industry maturity**
- ✓ Net IRR in healthcare over time: **IRRs reducing but investors optimistic of growth**
- ✓ Top challenges to the growth of investor capital: **Regulations changes and mismatch in valuation expectations holding investor activity back**
- ✓ Unlocking healthcare's potential: **Profitable servicing of demand top lever, improved access to talent also highly important**

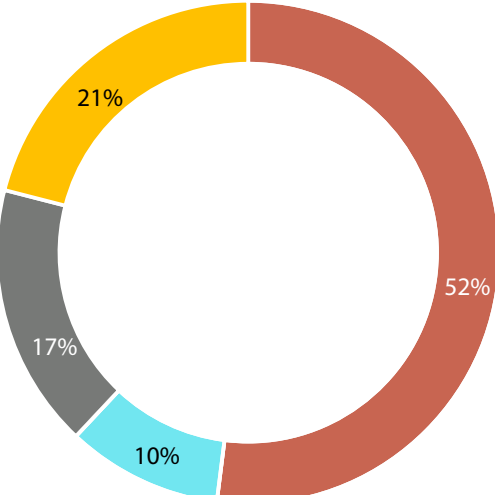
# WHO DID WE SPEAK TO?

RESPONDENT PROFILE (N=29)



Investment mandate

- Only healthcare
- Across industries including healthcare
- Not investing in healthcare
- Specific verticals in healthcare



Stage of the funds

- Late stage
- Early stage
- Undisclosed
- Growth stage

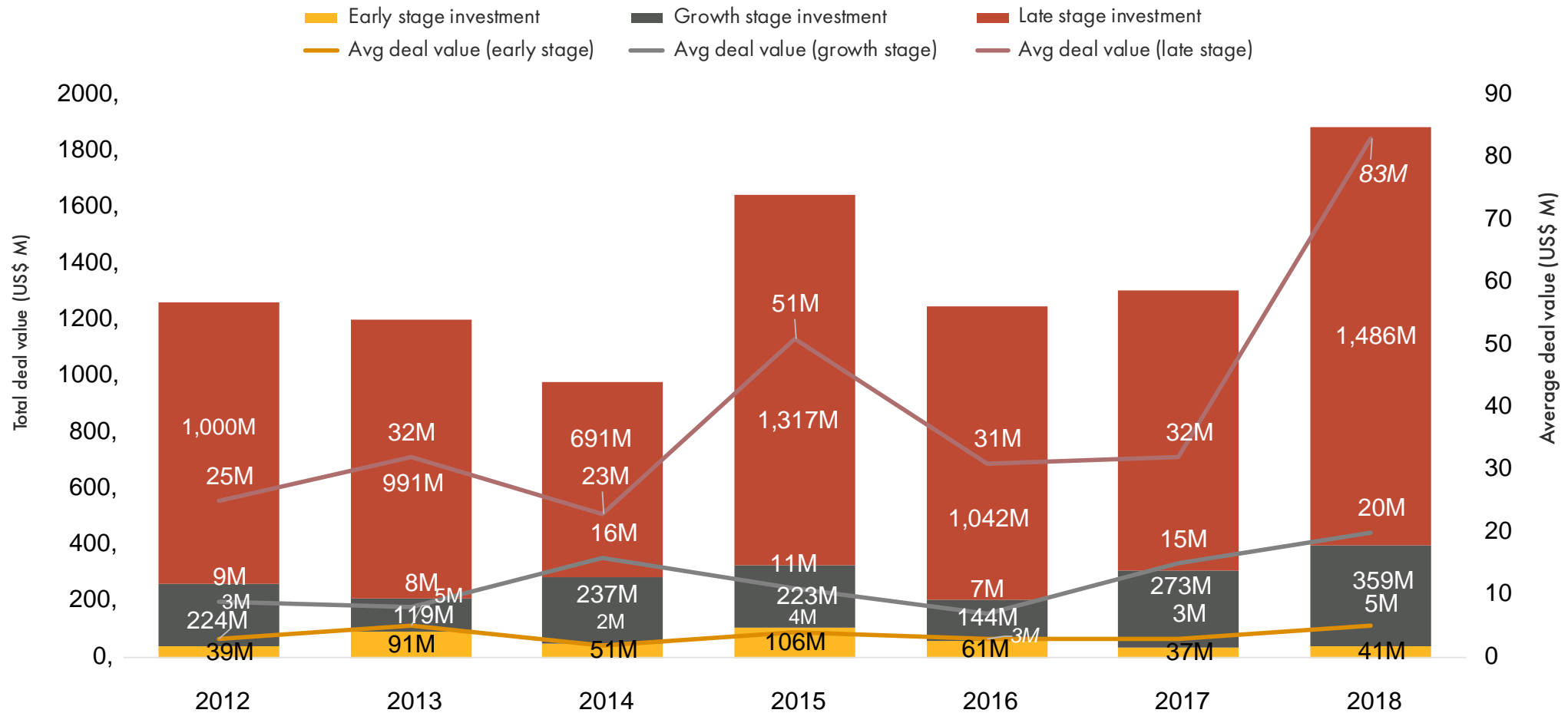
SOURCES OF INPUT

| Primary conversations and interviews with PE funds (N=7) |          |   |
|--|----------|---|
| Stage of funds   | (N)      | Investment mandate                      |
| <b>Early</b>   | 1        | Across industries, including healthcare |
| <b>Growth</b>  | 2        | Across industries, including healthcare |
| <b>Late</b>  | 2        | Across industries, including healthcare |
|  | 2        | Only healthcare                         |
| <b>Total</b>   | <b>7</b> |   |

Sources of input: Inputs collected from N=36 responses, which includes N=29 survey responses and N=7 interviews

# INVESTMENTS FLOWING INTO HEALTHCARE HAVE BEEN SLOW TO GROW, BUT LATE STAGE DEALS INCREASING BOTH IN TOTAL DEAL VALUE AND AVERAGE DEAL SIZE OVER THE YEARS

TOTAL AND AVERAGE BASED ON DISCLOSED DEAL VALUE (US\$ M)

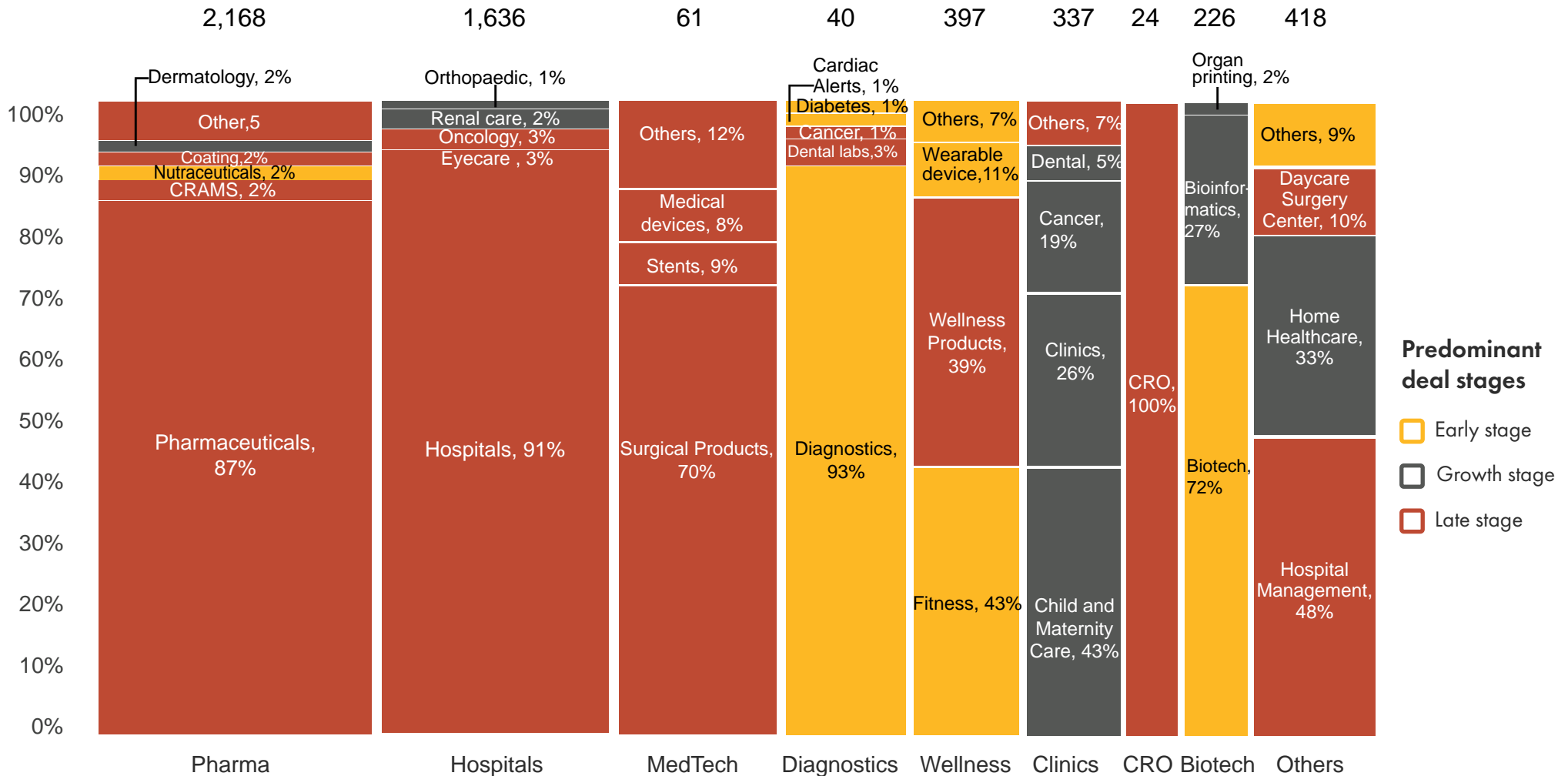


Note: Total deal value excludes debt financing and restructuring value  
 Source: Secondary research, Praxis Analysis

# PHARMA AND HOSPITALS ACCOUNT FOR CLOSE TO 6 OF EVERY 10 DOLLARS INVESTED IN HEALTHCARE IN 2015-18; LATE STAGE INVESTMENTS DOMINATE THE SECTOR

TOTAL DISCLOSED DEAL VALUE ACROSS SUB SECTORS, 2015-18 (US\$ M)

TOTAL ~US\$ 6,441M

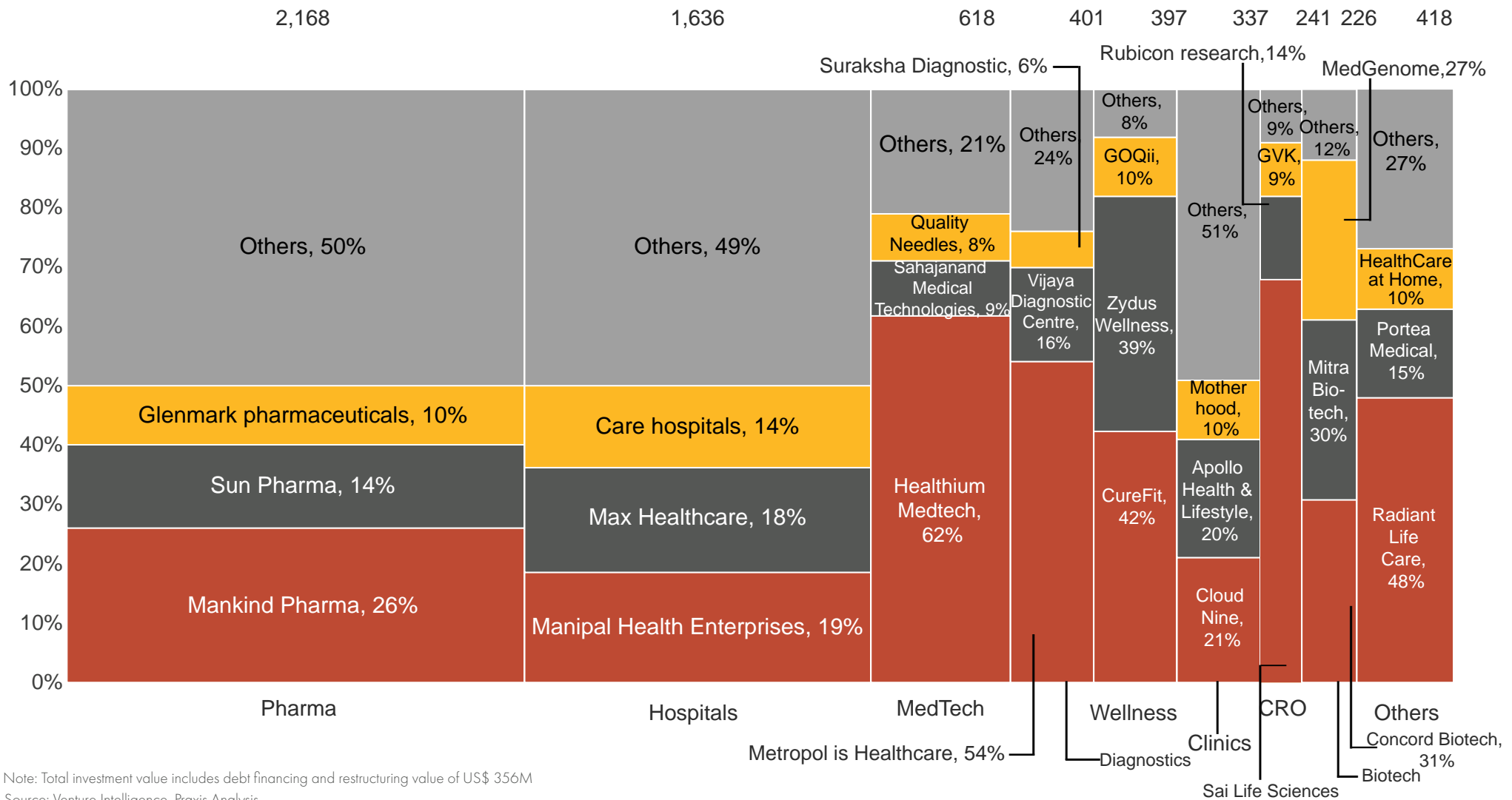


Note: The predominant deal stage is defined as the deal stage accounting for the majority of deals happening in the sector, based on deal count  
 Source: Venture Intelligence, Praxis Analysis

# PHARMA, HOSPITALS AND CLINICS HAVE A LEVEL PLAYING FIELD WHILE MEDTECH, DIAGNOSTICS, CRO AND WELLNESS HAVE >60% OF THE INVESTMENT ROUTED TO TOP 3 COMPANIES

TOP 3 DEALS ACROSS SUB SECTORS AS A SHARE OF OVERALL DEAL VALUE, 2015-18 (US\$ M)

TOTAL ~US\$ 6,441 M



Note: Total investment value includes debt financing and restructuring value of US\$ 356M

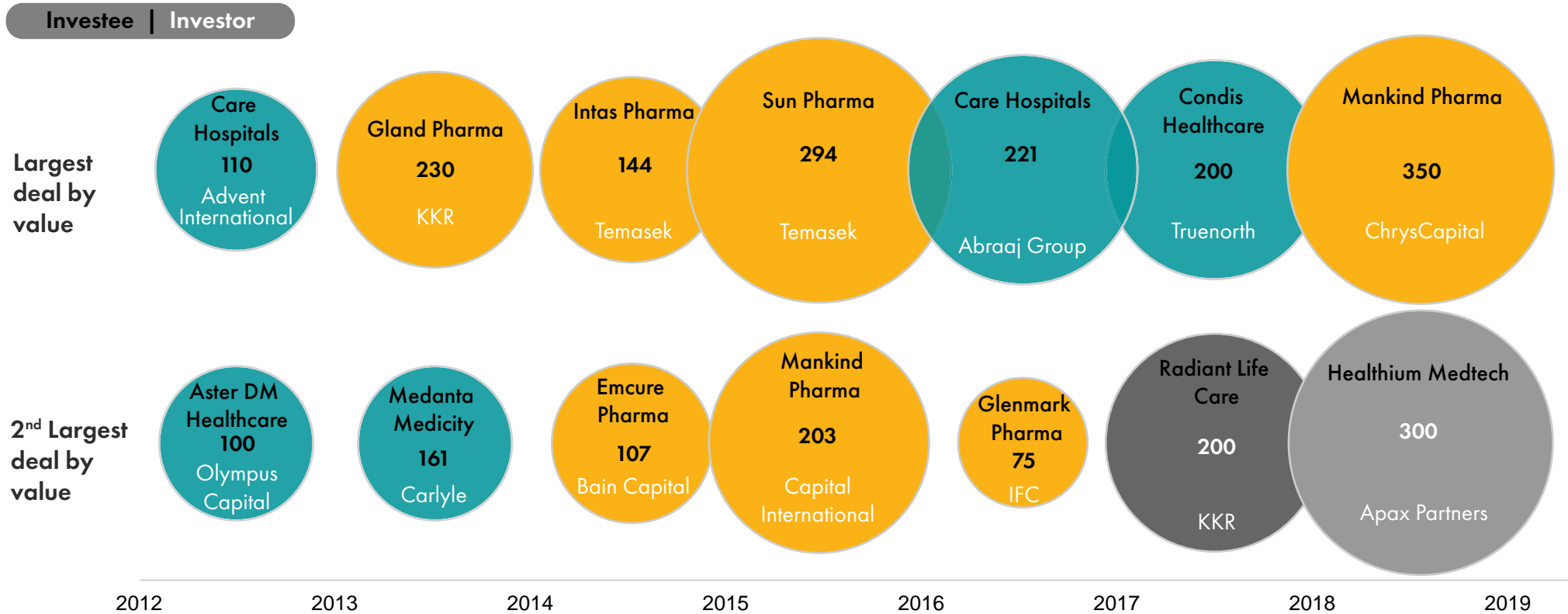
Source: Venture Intelligence, Praxis Analysis

# TOP DEAL VALUES HAVE GROWN ~3X

PHARMA DOMINATES TOP DEALS CHART WITH HOSPITALS COMING SECOND

## TOP 2 DISCLOSED DEALS IN HEALTHCARE SECTOR BY YEAR (US\$ M)





















■ Hospital  
 ■ Pharma  
 ■ Hospital management  
 ■ Medtech



Source: Venture intelligence



# TOP 10 DEALS IN THE LAST 2 YEARS REPRESENT 65% OF THE TOTAL DISCLOSED DEAL VALUES

| Top deal                   | Deal value (US\$ M)   | Investor  | Sector  | Year | Region | Stage  |
|----------------------------|---|---|---|------|--------|--------|
| Mankind Pharma             |  350   | ChrysCapital  | Pharmaceuticals  | 2018 | North  | Late   |
| Healthium Medtech          |  300   | Apax Partners   | Medtech          | 2018 | South  | Buyout |
| Max Healthcare Institute   |  294   | KKR   | Hospitals        | 2018 | North  | Late   |
| Radiant Life Care          |  200   | KKR   | Hospital Mgt.    | 2017 | North  | Late   |
| Condis Healthcare          |  200   | TrueNorth   | Hospitals        | 2017 | South  | Buyout |
| Manipal Health Enterprises |  168   | Temasek   | Hospitals        | 2017 | South  | Late   |
| Zydus Wellness             |  156 | Pioneer Investment, TrueNorth   | Wellness        | 2018 | West   | Pipe   |
| KIMS Hospital              |  137 | General Atlantic  | Hospitals      | 2018 | South  | Late   |
| Sai Life Sciences          |  135 | TPG Growth  | CRO            | 2018 | South  | Late   |
| CureFit                    |  120 | Accel USA, Oaktree Capital, Accel India, Chiratae Ventures, Kalaari Capital, Others | Wellness       | 2018 | South  | Growth |

# KEY FINDINGS



## Regulations a mere hiccup in optimism

While most respondents find government interventions to have affected their confidence in the sector, ~70% investors continue to be optimistic about healthcare



## Industry moving towards consolidation

Main driver of value creation has moved from organic revenue growth 5 years ago to cost and capital efficiency today, and expected to move to efficiency coupled with consolidation in the future



## Right talent and right model top levers

The ability to tap existing demand profitably and access to the right talent are top levers to make the industry more attractive

# INVESTORS ARE MOST ACTIVE IN DIAGNOSTICS AND LABS AT ~93% PARTICIPATION, FOLLOWED BY SPECIALTY CARE AND CLINICS

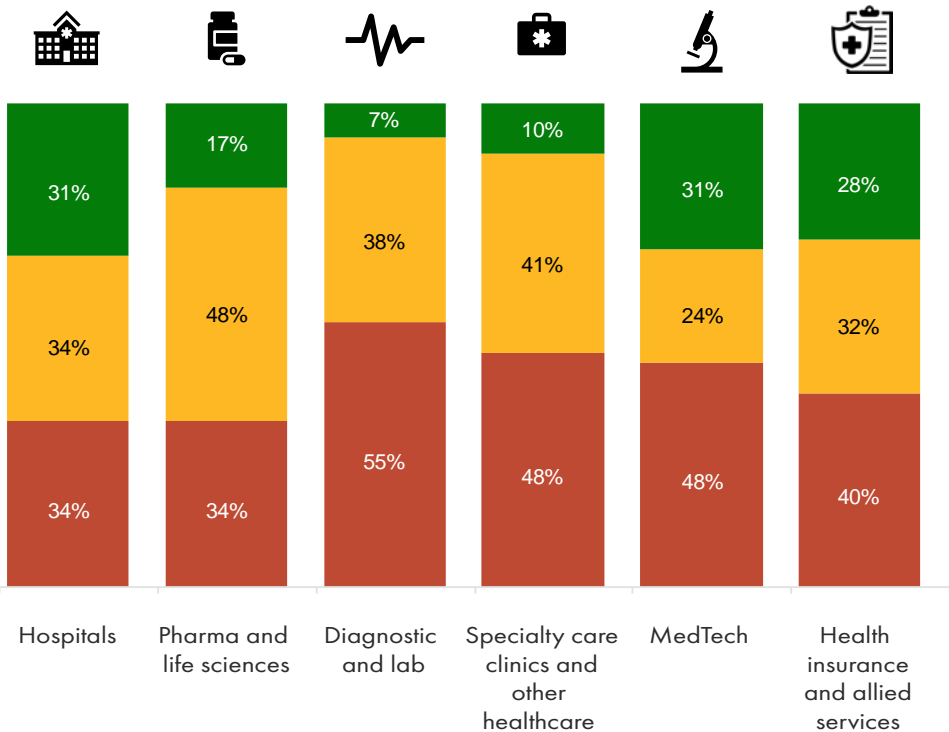
Q: How active is your firm within the following verticals within healthcare? (N=29)

**Hospitals and MedTech attract selective investors, with ~30% funds inactive in these sectors**

**Increased interest in specialty care and diagnostics**

## INVESTMENT STATUS OF THE FIRMS WITHIN HEALTHCARE VERTICALS

■ Highly active 
 ■ Moderately active 
 ■ Not active



“We are very excited about specialty models and diagnostics. While diagnostics is becoming mature, with regional models gaining scale, specialty models are unlocking demand and scaling rapidly.”

**Investor, Growth stage fund**

**Hospitals attractive for late stage investors**

“Hospitals are still continuing to expand, with large hospitals still expanding via greenfield modes. These hospitals make reasonably good cashflows and unlock value via scale.”

**Investor, Late stage fund**

Source: Praxis analysis

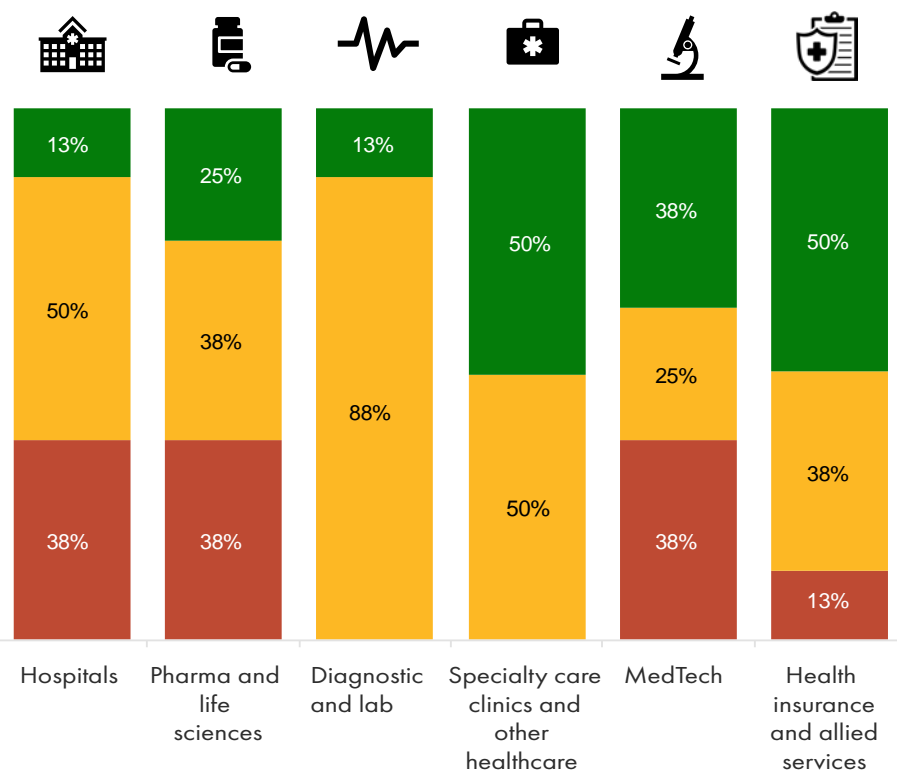
# DIAGNOSTICS AND SPECIALTY CARE ARE COURTING FUNDS AT ALL STAGES; LATE STAGE FUNDS SHOW HIGHER ACTIVITY IN HOSPITALS AND PHARMA & LIFE SCIENCES

Q: How active is your firm within the following verticals within healthcare?

Highest activity of early to growth stage funds is in specialty care and clinics and health insurance

INVESTMENT ACTIVITY OF EARLY AND GROWTH STAGE FUNDS (N=8)

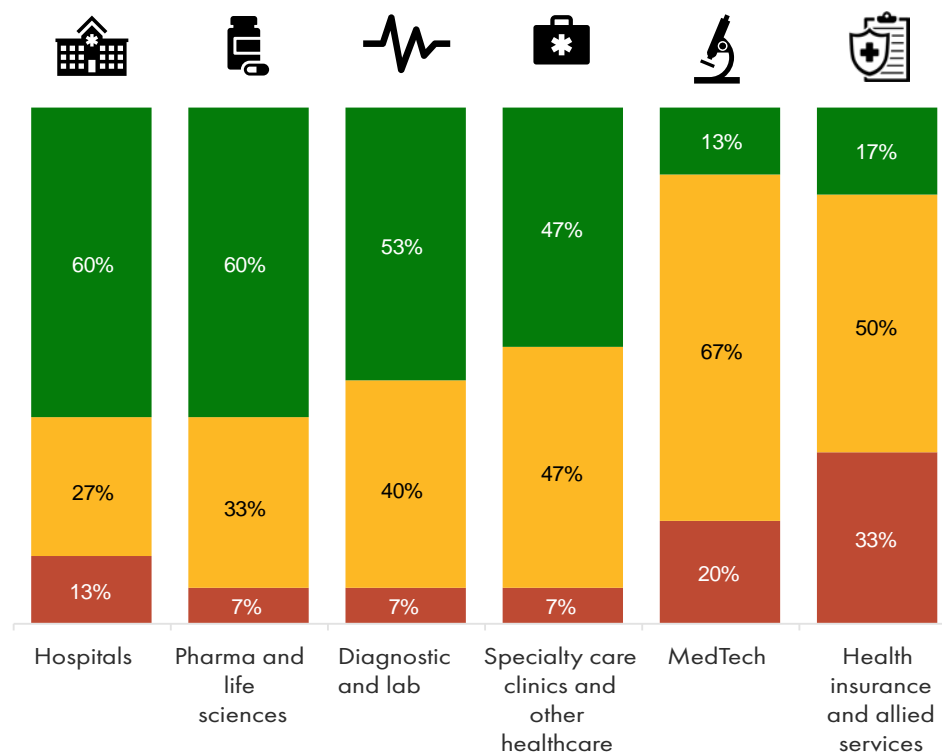
Not active Moderate active Highly active



Late Stage funds are highly active in hospitals and pharma

INVESTMENT ACTIVITY OF LATE STAGE FUNDS (N=15)

Not active Moderate active Highly active

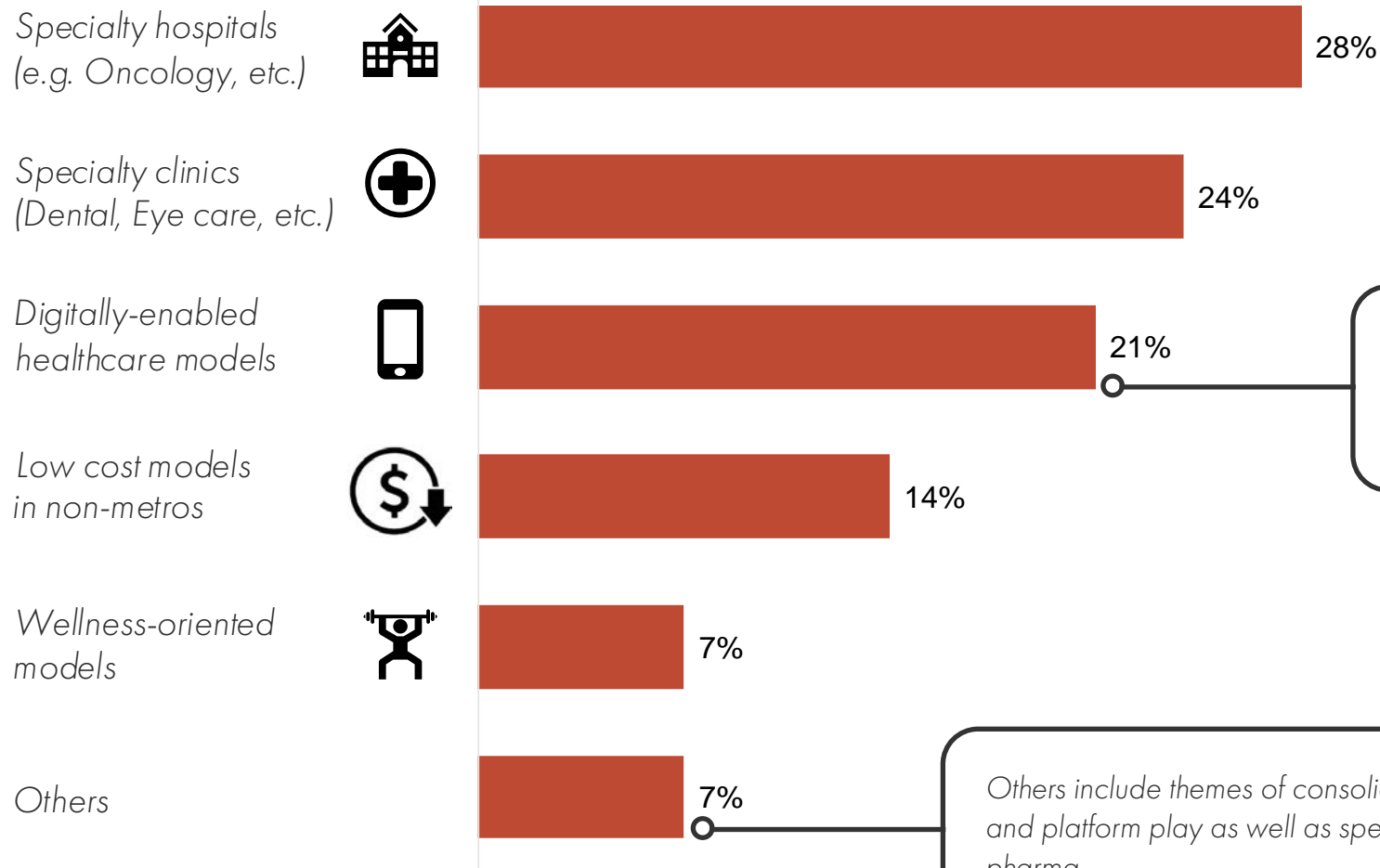


Source: Praxis analysis

# SPECIALTY HOSPITALS FOLLOWED BY SPECIALTY CLINICS ARE CONSIDERED THE MOST INTERESTING MODELS OF INTEREST

Q : What is an emerging business model that has caught your attention for future investment or portfolio addition? (N=29)

## EMERGING MODELS OF INTEREST



Early stage funds bet heavily on digitally enabled healthcare models, while growth stage and late stage funds bet on Specialty Hospitals

Others include themes of consolidation and platform play as well as specialty pharma

Source: Praxis analysis

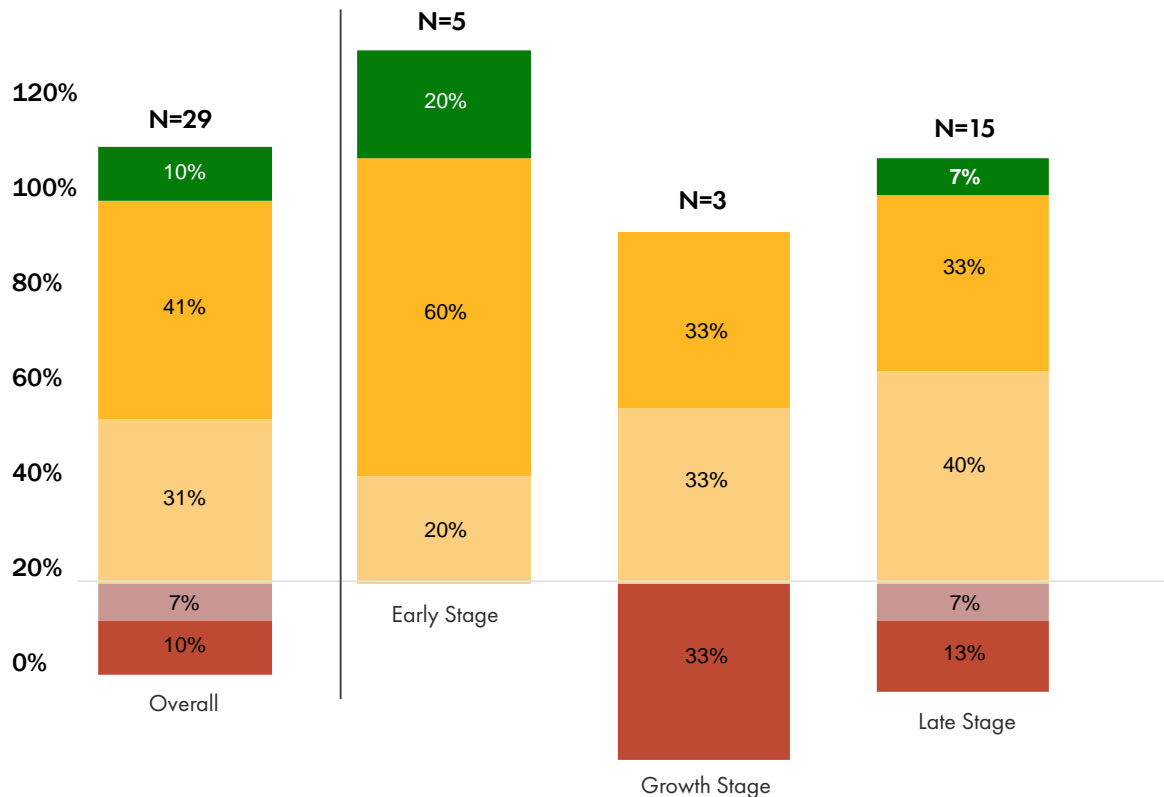
# 8 OF 10 INVESTORS EXPECT DEAL ACTIVITY TO INCREASE IN 2020

Q: In healthcare, do you expect a significant pick-up in deal activity in the next 12 months, compared to the last 12 months?

Early stage investors are the most buoyant about deal activity, followed by late stage investors

## DEAL ACTIVITY EXPECTATION OF INVESTORS

- Significant increase
- Moderate increase
- Slight increase
- Slight Decline
- Moderate to significant decline



Healthcare is an underserved sector

“Healthcare is an underpenetrated sector in India, that can mobilise great demand. Disease profiles are changing and becoming more chronic, and interesting models are emerging to service this demand. In addition, the thrust on insurance is also opening up a wider market.”

Founder & Partner, Growth stage fund

Demand for healthcare accelerating

“Across sectors, there’s a lot of money flooding into India. In addition to other factors that help the growth of healthcare, there is a lot of demand being mobilized in India with the expanding insurance coverage.”

Partner, US-based Growth stage fund

# 2 OF 3 FUNDS NOTE INCREASE IN COMPETITION FOR DEALS IN HEALTHCARE IN THE LAST 2-3 YEARS

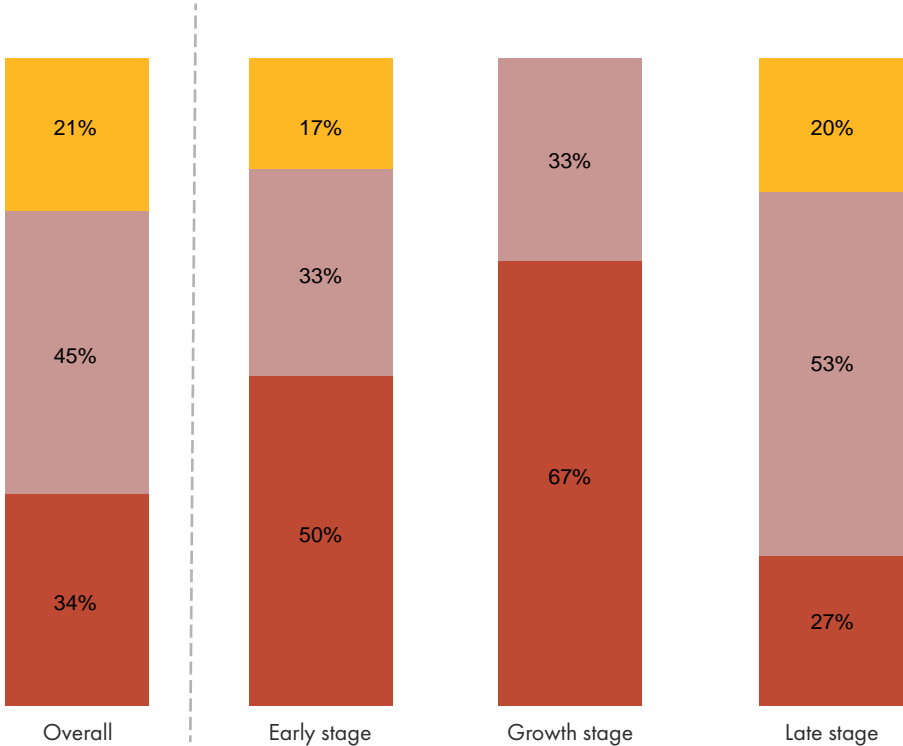
Q: Within your healthcare focus area, how has the over all competition level changed over the last 2-3 years for the deals where your fund was involved? (N=29)

**Late stage funds face much higher competition than they used to**

**Limited opportunities but higher interest**

## CHANGE IN COMPETITION LEVEL FOR DEALS OVER THE LAST 2-3 YEARS

■ Significant increase 
 ■ Moderate increase 
 ■ Stayed broadly the same



“We are competing with more funds for only a dozen deals in the healthcare delivery space – opportunities are limited but the interest has increased, also buoying up valuation expectations.”

**Principal, Late stage fund focused on Hospitals**

**Recession-proof nature, diversification of risk attracting investors**

“Healthcare is not a discretionary sector - even in recession times, healthcare does not slow down due to cyclicity, unlike other industries. Healthcare helps diversify risk by giving you a defensive element in your portfolio, attracting many investors.”

**Partner, Healthcare-focused growth stage fund**

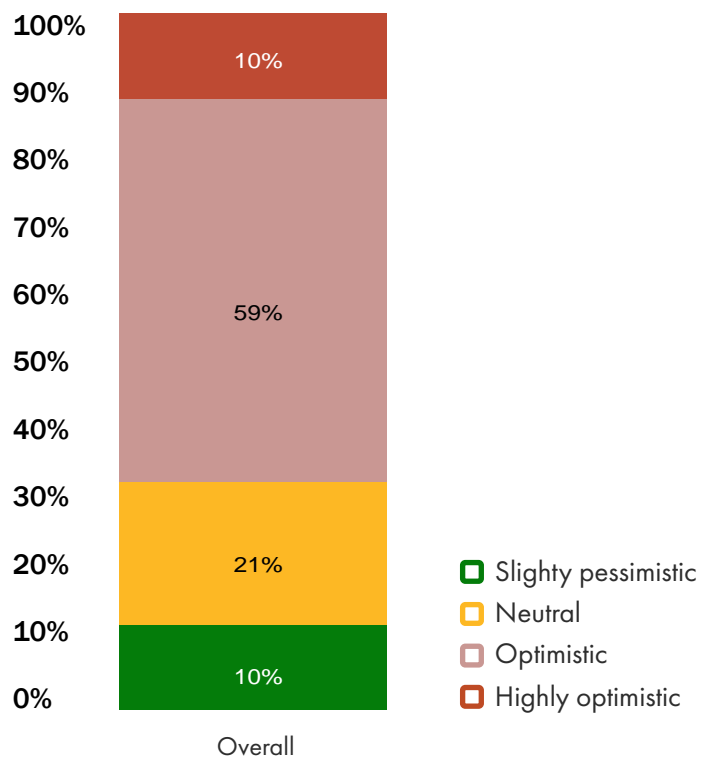
Source: Praxis analysis

# 7 OF 10 FUNDS ARE OPTIMISTIC ABOUT SECTOR'S OUTLOOK, DESPITE A SIGNIFICANT 55% EXPRESSING A DECLINE IN CONFIDENCE DUE TO THE REGULATORY INTERVENTIONS

Q: Have the recent government interventions (e.g. Price controls, NPPA, AYUSH, PMJAY,) been a step in the positive direction? How have they influenced your confidence in the potential and/or maturity of the healthcare sector in India? (N=29)

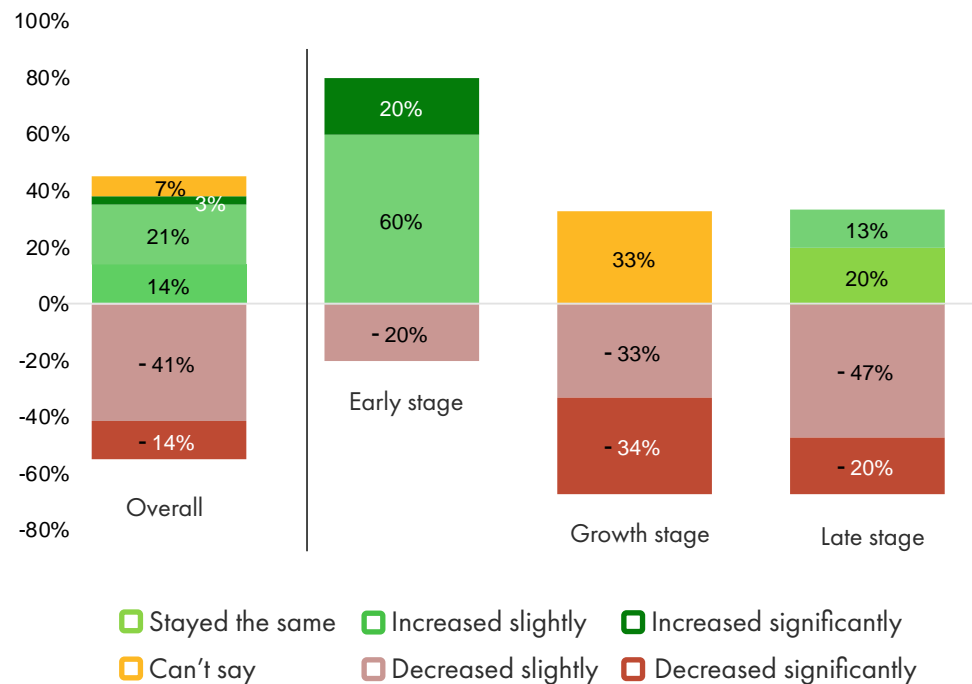
Only 10% of surveyed leaders have a pessimistic sector outlook

CURRENT OUTLOOK ON HEALTHCARE



Early stage investors were 3x more welcoming to the recent changes than late stage investors

EFFECT OF GOVERNMENT INTERVENTION ON CONFIDENCE OF THE INVESTORS

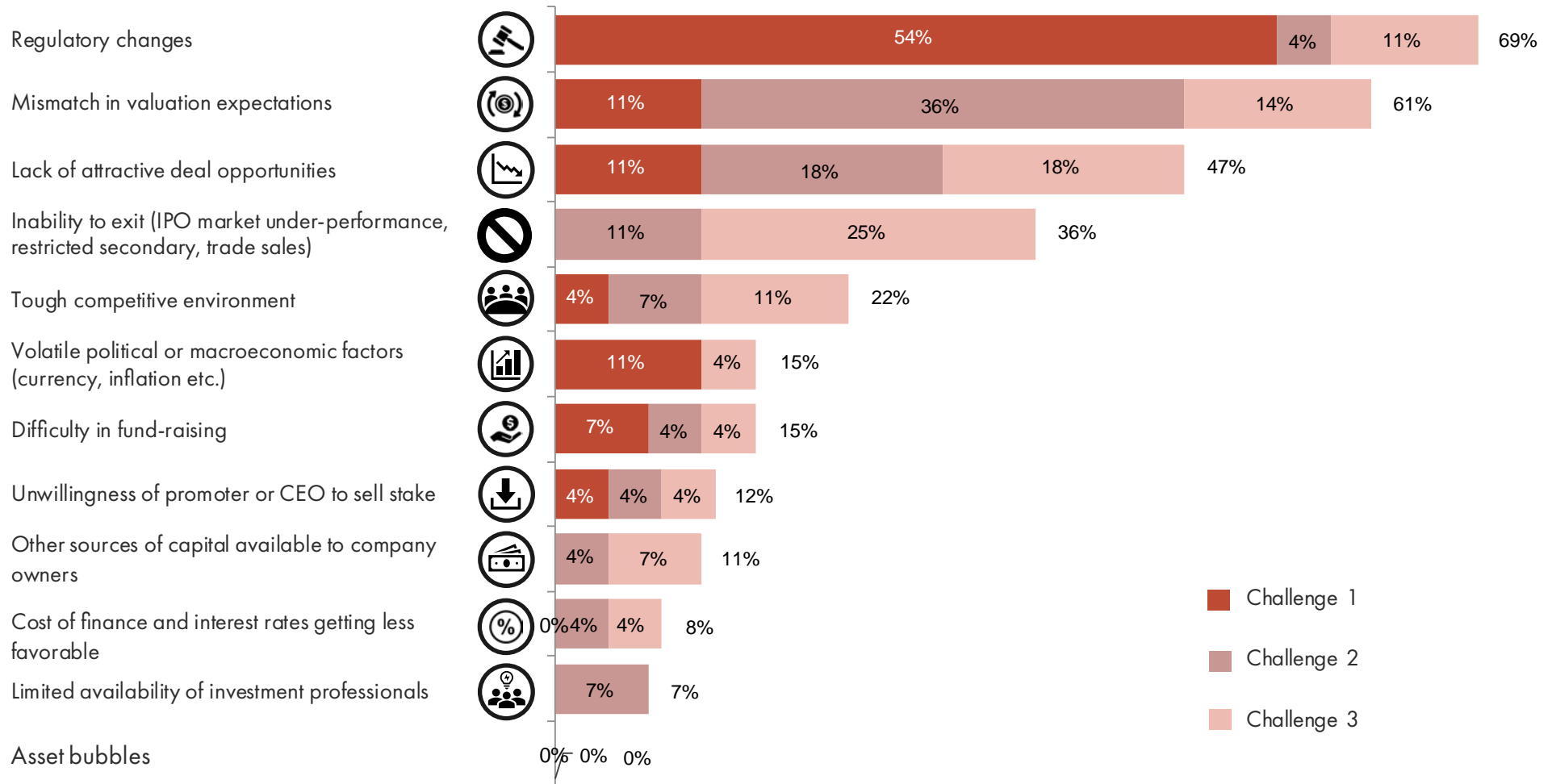


Source: Praxis analysis



# REGULATORY CHANGES VIEWED AS BIGGEST BARRIER TO GROWTH OF PE IN HEALTHCARE, WITH MISMATCH IN VALUATION EXPECTATIONS FOLLOWING BEHIND CLOSELY

Q: In your view, what will be the biggest challenges and barriers to growth of the PE industry in healthcare in your geographic area over the next two years? (select top 3) (N=29)



Source: Praxis analysis

# VALUATIONS WITHIN THE SECTOR ARE CONSIDERED FAIR TO UNATTRACTIVE, AND EXPECTED TO STAY STABLE OR UNDERGO CORRECTIONS

Q: What is your appraisal of current valuations of potential targets in India? (N=29)

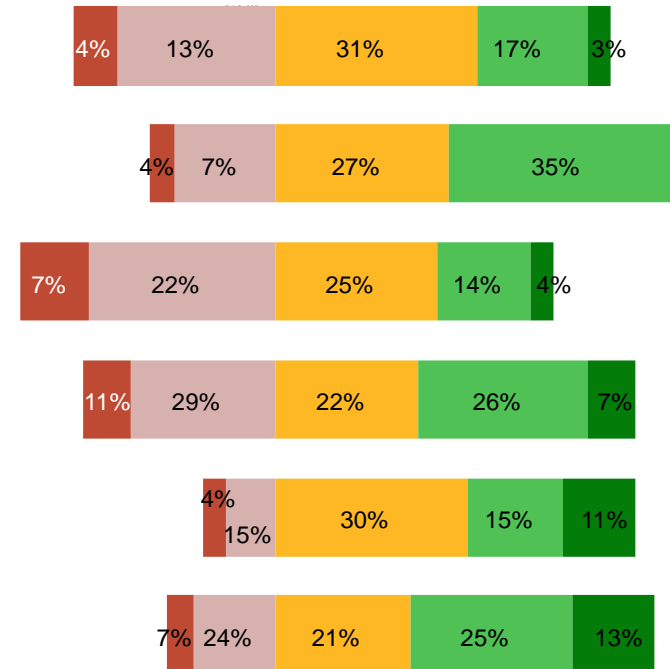
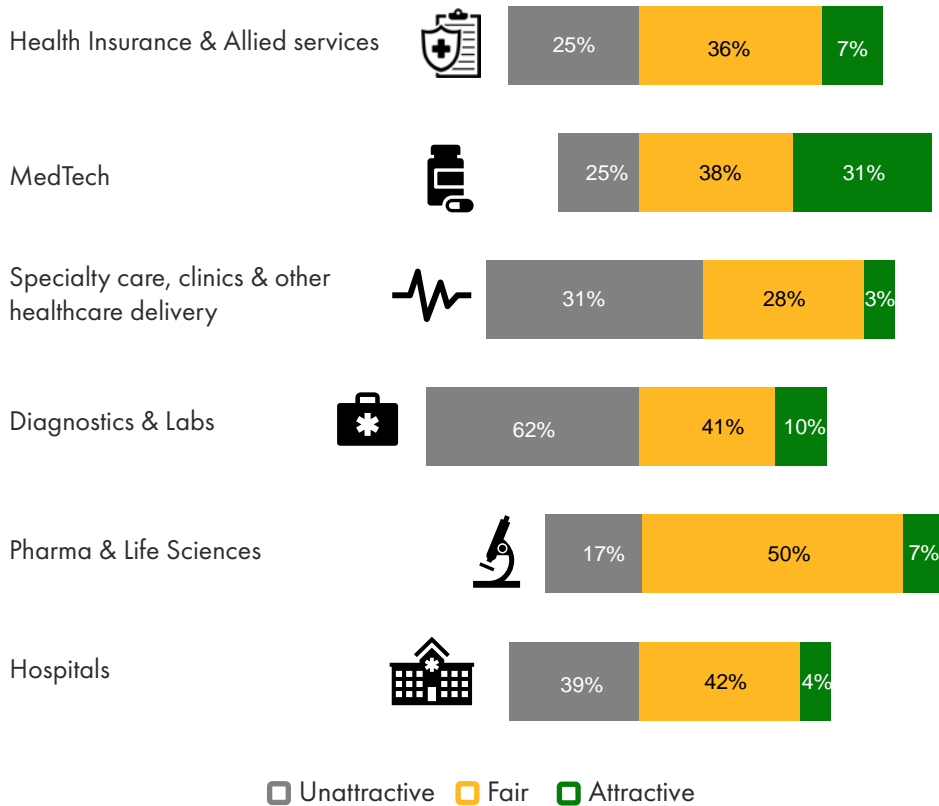
Q: How do you expect valuations to change going forward? (N=29)

Valuations of Pharma and Medtech are attractive while Hospitals and Diagnostics are largely unattractive

Valuation of Diagnostics is expecting a decline while there's no major consensus on a direction on the other verticals

## APPRAISAL OF CURRENT VALUATIONS OF POTENTIAL TARGET

## INVESTOR EXPECTATIONS ABOUT THE FUTURE VALUATIONS ACROSS VERTICALS



Source: Praxis analysis

Healthcare Investor Sentiment Spotlight 2019

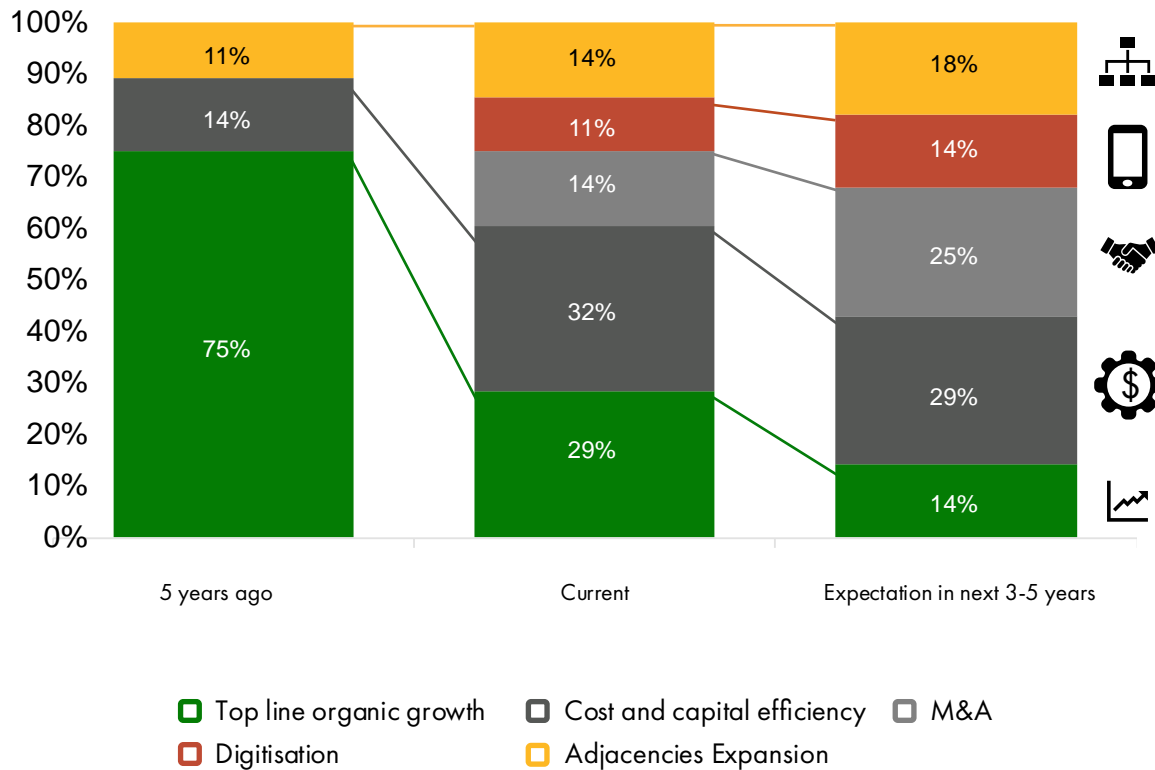
# VALUE CREATION SHIFTING FROM DEPENDENCE ON 'TOP LINE GROWTH' TO 'COST & CAPITAL EFFICIENCY'; CONSOLIDATION PICKING UP AS A VALUE CREATION DRIVER

Q: What is the main driver of value creation for your healthcare portfolio companies today, and how do you see it changing overtime?  
(N=29)

Investors focusing on 'top line growth' for value creation has shrunk from 3 of 4 investors 5 years ago, to almost 1 of 4 investors

Consolidation to create value

MAIN DRIVERS OF VALUE CREATION FOR HEALTHCARE PORTFOLIO



“Large portfolios have flagship assets which have peaked on profitability. While these players will continue to expand, they are now looking at consolidation to create value. Most of these decisions are strategic.”

Director, Late stage fund

Cost and capital efficiency in growth

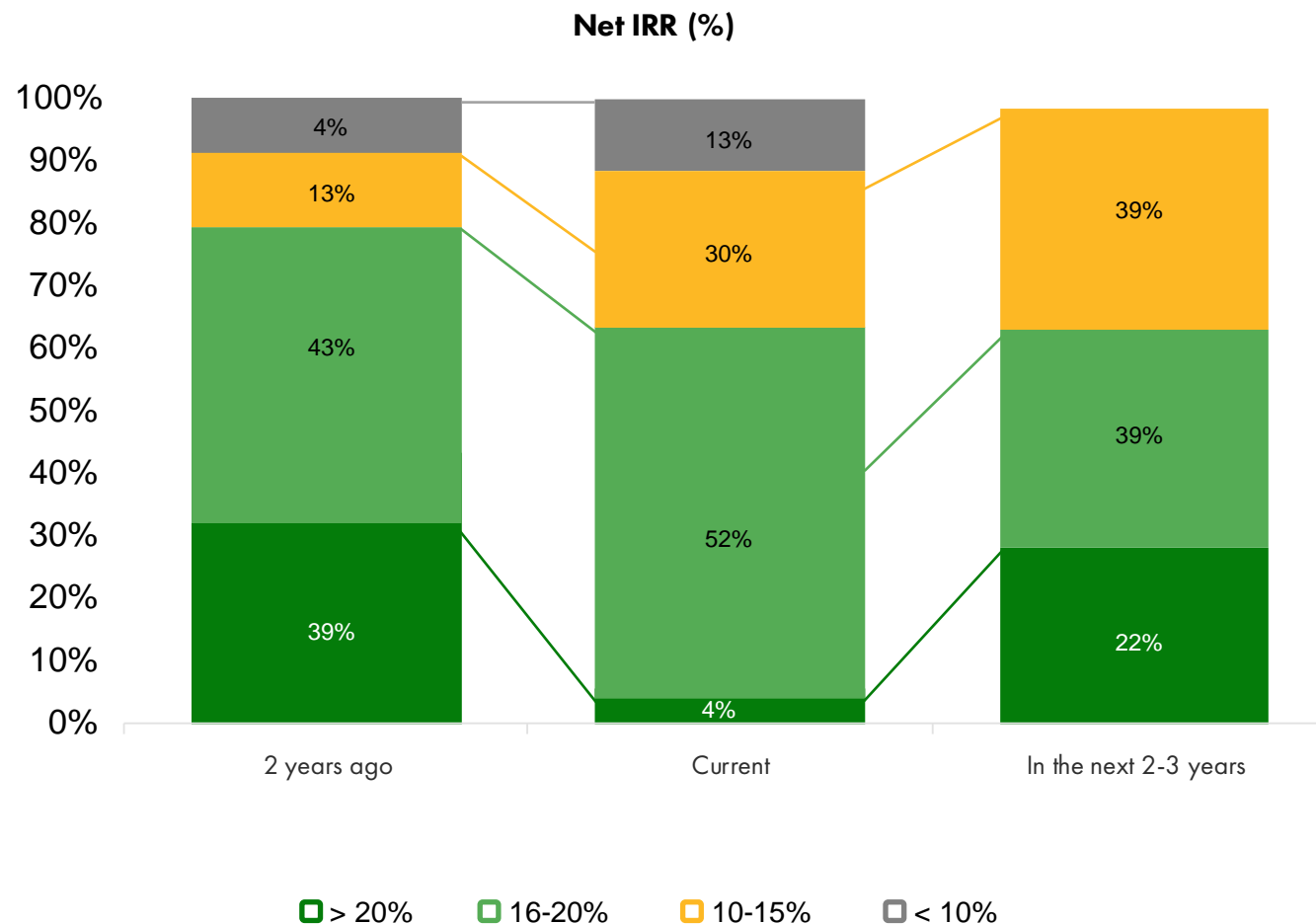
“For our stage of investment, we see a lot of value unlocked by creating a backbone in the organization from the creation of proper processes to creating admin departments, etc. This gives us an immediate value creation opportunity.”

Partner, Growth stage fund

Source: Praxis analysis

# NET IRR ON INVESTMENTS HAS DECLINED COMPARED TO THE PAST 2-3 YEARS BUT INVESTORS ARE OPTIMISTIC ABOUT IT INCREASING IN THE NEXT 2-3 YEARS

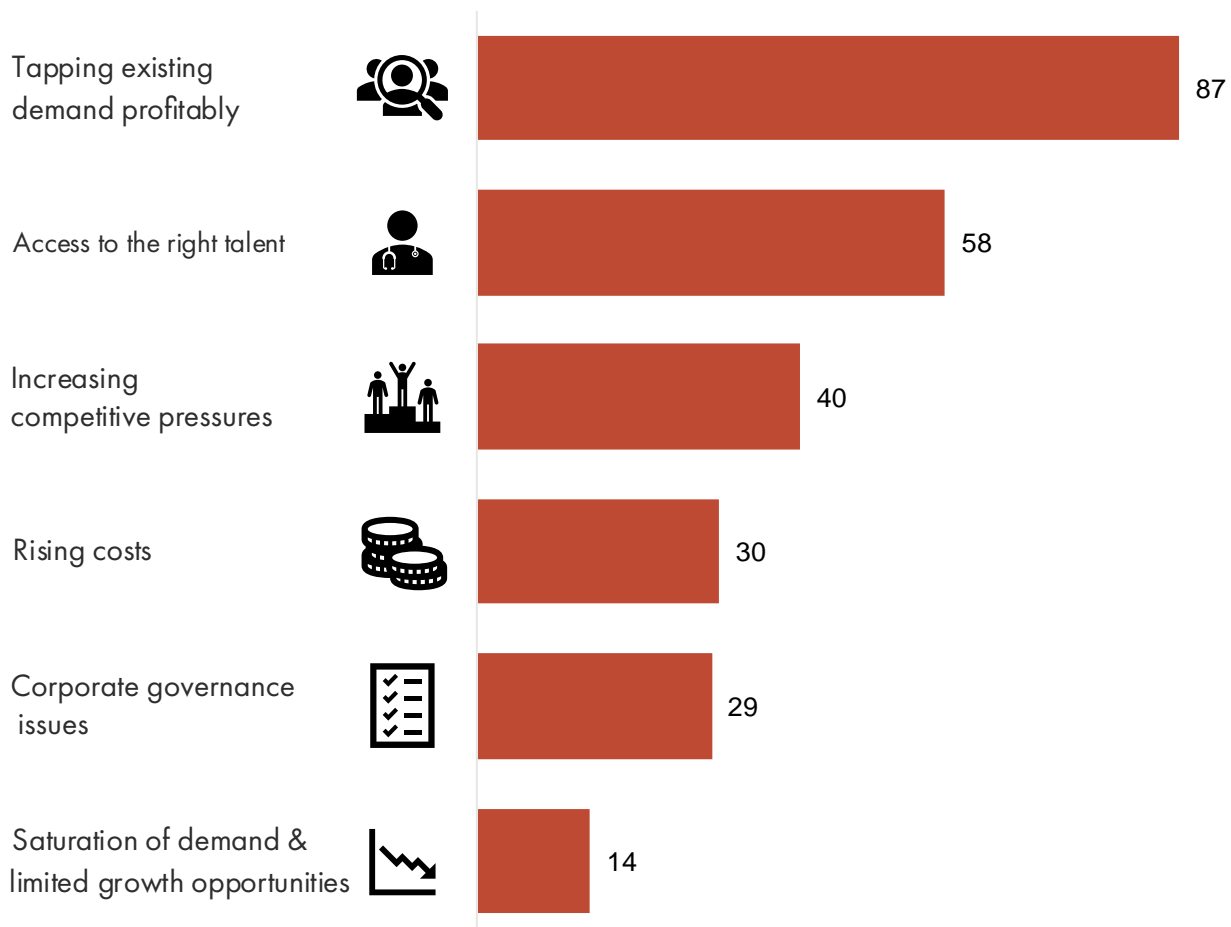
Q : Based on your play in healthcare in India, what median IRR have you seen on the market and what changes do you expect (please select net IRR on an annual basis)? (N=29)



# INDUSTRY NEEDS TO SOLVE THE CHALLENGES OF SERVING DEMAND PROFITABLY AND ACCESS TO TALENT TO MAKE THE SECTOR MORE ATTRACTIVE

Q: What are some challenges that the industry needs to overcome to improve attractiveness for investment? Rate in order of preference? (N=29)

VARIOUS CHALLENGES RANKED BY PRIORITY, SCORE OUT OF 100



Note: We allocated scores to the highlighted challenges to gauge the top concerns by investors, with 100 being the highest score. A score of 100 means that 100% of respondents found the concern to be the top concern to be addressed to improve industry's attractiveness for investment

Source: Praxis analysis

## Tapping existing demand profitably

“ We find models on eye care, dental care chains, mother & child to be very doctor dependent, in addition to limitations from a scale point of view. Some models such as one in maternity and child care have attracted lots of funding but have still not become profitable.”

**Director, Healthcare-focus Late stage fund**

“ There is a need for innovations such as double occupancy rooms, tier 2 generics, doctor compensation models, etc. in order to unleash margin.”

**Director, Late stage fund**

## Access to talent

“ Sourcing good doctors at a good price is challenging, and is possible at a large hospital chain. Finding the right doctors is also hard and models are often highly doctor dependent.”

**Principal, Late stage fund**

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**Praxis Global Alliance** is the next-gen management consulting and business research services firm revolutionizing the way consulting projects are delivered. We deliver practical solutions to the toughest business problems by uniquely combining domain practitioner expertise, AI-led research approaches, and digital technologies.



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Organization and Talent effectiveness



Praxis is 'Practical'



We work with agility, flexibility and embed with your teams to enable SUPERIOR OUTCOMES

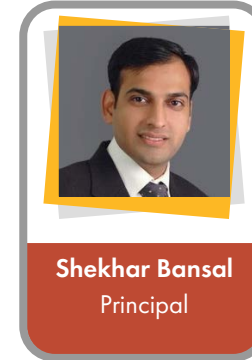
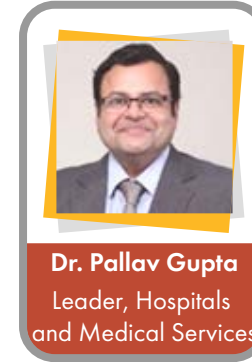


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We leverage technology deeply to enable higher ROI on your consulting and analytics spend

## Our team and acknowledgements



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