BRIDGING
PROFIT &
PURPOSE

SPARK CAPITAL

INVESTMENT BANKING NEWSLETTER
HEALTHCARE AND LIFESCIENCES

DECEMBER 2018

FROM THE DIRECTOR'S DESK

Dear Reader,

It gives me great pleasure to welcome you to the fourth edition of the Healthcare and Lifesciences newsletter by Spark Capital. I would like to whole heartedly thank you for a great response to the earlier editions. We indeed appreciate all the encouragement and feedback.

Healthcare and Lifesciences sector has seen some interesting times in past few quarters. Readers are well aware as to what have been some of the vexing issues on hand. Having touched upon most of them in our earlier editions, I would not dwell on them again. However, as the sector continues to evolve through the issues and finds its feet in the 'new normal', we thought it would be a good idea to see how the investment landscape is also adjusting in response.

One theme that is becoming increasingly apparent for us at Spark, having seen the sector for a long time now, is whether the sector is lending itself to a) more long-term approach and patient capital; or b) a more holistic framework for evaluation of value-add and returns. It is in this context we thought it would be an opportune time to do a little deep dive into the increasing role being played by impact funds, which invest with a philosophy of 'profit with purpose' or 'doing good while doing well'. Globally, we have seen a significant activity by impact funds especially in sectors such as education, healthcare and financial services and in India too, we are seeing increasing activity by the usual suspects in the 'impact' category as well as some of the traditional PE funds which have an 'impact' bucket.

As part of this newsletter, in the 'Expert Speak' section, we engaged in a very topical discussion with some of the leading impact funds in the country who are very active in the healthcare/lifesciences sector. Through a separate Q&A with leadership teams at these funds, we have touched upon their overall investment framework, how do they evaluate and measure impact, how important are financial metrics/returns and does one take precedence over the other. In addition, we asked for their take on some of the hot topics and trends in the sector such as consolidation, role of government, early stage/new-age healthcare ecosystem and indigenisation of medical devices and equipment. In summary, we find it reassuring to note that all these marquee investors continue to be enthusiastic about the sector given compelling macro and are convinced that quality players would emerge stronger once the dust settles.

I would like to take this opportunity to whole heartedly thank and express our gratitude to Mr. Alexandre Oliveira, Chief Investment Officer, IFC Asia, Health & Education; Ms. Maina Sahi, Director Strategy, Health & Education, Africa & South Asia at CDC Group; Mr. Ashish Ahluwalia, Director, Consumer, at CDC Group, India; Dr. Felix Olale, Partner and Global Co-Leader, Health Investments, LeapFrog Investments and Mahesh Joshi, Associate Director, LeapFrog Investments, for being of great help and for providing their thoughts on several of our questions captured later in this newsletter.

Also covered in this newsletter are some of the latest developments in deal making in the sector coupled with snippets from our "Ears on the Ground" exercise. Additionally, we hope you find the section on "From our Equities Desk" an interesting read on listed companies and our outlook on various sub-segments of the sector.

I hope you find this newsletter insightful and assure you of taking all feedback (including critique!) for subsequent editions. We hope you enjoy reading it as much as we did putting it together.

With best wishes,

Virendra Pandey
Director and Head – Healthcare & Lifesciences
Investment Banking

WHAT'S INSIDE?

PERSPECTIVES FROM LEADING GLOBAL IMPACT FUNDS ON BRIDGING THE PROFIT AND PURPOSE SPECTRUM OF INVESTMENTS IN INDIA

Recent activities and developments across the Indian healthcare and lifesciences landscape

Key news and happenings making the headlines in healthcare and lifesciences

Insights from Spark's Institutional Equities Desk

Making An Impact

DEVELOPMENT CAPITAL FOR THE DEVELOPING

IFC is the largest global development institution focused exclusively on the private sector in developing countries. Since April 2015, IFC has made ~40 investments in India. As of June 2018, IFC's committed portfolio in India is over USD 6 Bn.

Alexandre Oliveira
Chief Investment Officer
IFC Asia, Health & Education

1. IFC has perhaps been one of the earliest impact funds in India and with investments in pharma, home health, multi-specialty hospitals and a multitude of other operating models and with investment vehicles ranging from VC to growth investments. Given that your investment focus is truly global, how do you see the healthcare investing ecosystem in India vis-à-vis say other developing countries and specifically as regards to velocity of good quality deals available?

Personally, I have now been with IFC in the healthcare sector for over ten years. First, in Washington, D.C., and for the past two years in Hong Kong from where we oversee investments in East and South Asia. There are three broad macro trends that are shaping the growth of healthcare markets in countries like India and which we believe are the key contributors behind the growing healthcare ecosystem that you mentioned above.

First, compared to other emerging as well as developed markets, the growth prospects for countries in this part of the world are much stronger and India is no exception. We are very optimistic that 6-8% growth rates p.a. in the foreseeable future will be sustained. Second, with this kind of growth, comes higher income levels, more people escaping poverty and also a burgeoning middle class. What we see when that happens is that people start to spend more money on sectors like healthcare and education and we see that dynamic happening in India. This is something that we have seen for some time now in India and we believe this will continue for years to come.

Also, the other theme that is playing out in India is the change from communicable to non-communicable diseases like hypertension, cardiac disorders, diabetes, cancers, etc. which actually require a different quality of healthcare infrastructure for treatment. And what we are also seeing is that while this trend has started to surface, it has by no means peaked. Meaning that this transition will continue to happen (although unfortunately so) and we will see an increasing number of business

Spark fact file

Investment Banking

~USD 6.4 Bn
Total transaction value till date

USD 4.5 Bn
Capital raised till date

USD 1.9 Bn
M&A transaction value till date

300+
Number of fund relationships globally

USD 530 Mn
Average annual deal closure value for the last 3 years

11
No. of transactions > USD 100 Mn

~USD 1.2 Bn
Current value of transactions being executed

Healthcare & Lifesciences

~USD 500 Mn
Total transaction value till date

~USD 120 Mn
Current value of transactions being executed

Full Service, Mid-Market I-Bank

- Investment Banking (VC, PE, M&A, IPO, QIP, PIPE)
- Institutional Equities
- Fixed Income solutions
- Investment Advisory

Knowledge Banking

- Dedicated sector teams with deep domain expertise
- Ability to bring new ideas to the market
  - Medall (2009)
  - Vaatsalya (2011)
  - Cloudnine (2013)
  - Apollo Health & Lifestyle (2015)

Relationship Banking

- Several clients for whom we have closed multiple transactions
- Consummated ~USD 300 Mn of transaction value in repeat business

Deep Distribution

- Extensive reach to over 300 funds across
  - Private Equity & Hedge Funds
  - Family Offices
  - Sovereign Funds
  - Corporates

models that come to market riding on this shifting disease landscape. Last but not least, people are getting older and as people live longer, they tend to need more healthcare services.

Combined, these trends make healthcare a very thriving sector from an investment perspective in India – the stability, growth, rising income levels and therefore willingness of people to seek higher quality healthcare, changing disease patterns and higher life expectancy! Additionally, India is a geographically very diverse country and it is a country with different levels of healthcare infrastructure density meaning that even though there may be some pockets that are more developed, there is still a requirement to spend heavily in infrastructure to get the country's healthcare indices like beds and doctors per population, among others, to levels comparable to other developed and developing economies. So, from an investors' perspective, all of that bodes well for us as we see the many different and interesting businesses catering to the very strong demand for healthcare in India.

In general, the investment environment in India is at least at par with other countries in the region. Our comfort level with the regulatory environment, corporate governance, security structures, etc., is high and the overall environment in our view is very favourable. The challenge is always there, and we find this in Asia in general and not just in India, that the valuations are a stretch. Because the fundamentals are very strong, it results in higher growth rate assumptions leading to higher valuation expectations. In fact, to answer your question specifically, we see a very good flow of quality deals that come our way but we decline many of them because it becomes very difficult to justify the valuation expectations that are tagged to those deals.

• • •

2. What we are also seeing in the market Alex, given that growth assumptions and margin profiles are under pressure due to the evolving macro conditions, is that a lot of deals are now chasing non-traditional PE money. We have also seen platform like Sheares from Temasek or Rise from TPG commit large pools of capital towards impact investments in India. Even smaller funds are now having access to pools of capital from international markets (as part of their overall fund) which is dedicated to impact funding.

Do you think this trend will continue with (i) impact funding increasing in ticket size, and (ii) more opportunities (than in the past) falling with investors with such a capital pool with longer fund lives and lower than threshold traditional PE IRR?

I do think that the impact funding phenomenon is on the rise but it is very difficult to compare between the various fund providers given that the definition of impact itself is very different for each principal. From an IFC perspective, when we make an investment – debt or equity – we make a financial case and a development impact case – meaning, we try to assess how much "good" the company is doing for the market, society and the country. What that good means depends on various things – improving access to healthcare, creating jobs, improving quality or many other different angles but the basic point is that for us from an investment perspective, the developmental impact angle is as important as the financial metrics. Another question that we like to answer is our role in the investment and how can we add value to the investee company after the investment.

The way I see it, you have different players in the market that all in a sense do "impact" investing but each has their own investment philosophy and approach. So hypothetically, while we may not be able to justify a particular investment in a given sector because we think it doesn't meet our impact criteria, it is quite possible that some other fund may be able to justify the same investment,

EXPERT SPEAK

Select Sector Transactions

June 2018
Advisor
To
OrbiMed
Healthcare Fund Management
Exit
From
SURYA Hospitals
USD 30 Mn

May 2018
Exclusive Advisor
To
NEULAND
Qualified Institutions Placement
USD 18 Mn

March 2018
Exclusive Advisor
To
MEITRA HOSPITAL
Project & Structured Finance
By
Undisclosed
INR 3,450 Mn

March 2018
Exclusive Advisor
To
Sabka dentist
Structured Debt
By
IFMR Capital
INR 150 Mn

and that's ok. My sense is that impact funding will continue to grow as a percentage of total PE deals, but each investment needs to be looked at in isolation given the different definitions that funds may have on what impact means to them.

• • •

3. Coming to specific sub-segments of healthcare, IFC backed single specialty companies like Nephroplus quite early in their life cycle (from the VC bucket) when these were perhaps not even dominant regional players (let alone having a national footprint) but had a solid demand-supply mismatch to drive growth. Today some of these assets are close to 20+ MM USD in top-line with solid EBITDA margins. The reason why we bring this up is that a lot of impact funds we speak with (or for that matter PE funds) are still cagey about looking at negative EBITDA companies.

Do you think in a country like India (or Africa for that matter), companies that address a strong demand should be looked at differently and that funds need to have a tailored investment philosophy (or a bucket thereof) to allow them to play such high growth companies that are still nascent and hence in the red?

Fundamentally it comes back again to the investment philosophy and the filters that a fund house wants to employ while looking at deals. A few years ago we created a separate team that looks at very early stage companies, which handled the Nephroplus investment. When we came in, the company was still very young and we made the investment because of two key reasons. The first is that we want to back companies with an innovative business model that are addressing an existing unmet market need to scale up and cater to a much larger audience. And the second is that we realized that when such companies achieve scale, their valuation benchmarks change significantly. I think it requires a different approach from what has been the traditional PE business to make these investments work. For one, the balance sheet of these companies look very different from those of established companies that we are used to looking at, they require different processes and a different culture to succeed. My sense is that we will see more and more investors trying to find opportunities at an earlier stage. If nothing else, it will be because of this realization that with the market potential in India, by the time the companies scale up, the valuation expectations are very different. So, one way to play this game is to come in early and then also ride on the differential in valuation that comes with scale. Of course, this only works if you back the right companies, the right promoters and the right business models but I believe we will see more and more funds wanting to evaluate smaller and more early stage deals than what we have been used to seeing in the Indian healthcare ecosystem.

Having said that, the shift will be gradual because the support system that exists in more developed countries to support smaller companies is still work in progress in India. For example, finding an experienced CEO and other top level managers to complement a team can be a challenge. But I have no doubt that catching great companies young is a good way to get into these companies early and play an active role in building them out.

• • •

4. A lot of the consolidation that we are seeing today at least in the multi-specialty segment is essentially established companies moving out of their home markets and heading to smaller towns and cities in India – be it in Bihar or in UP or in Chhattisgarh and Orissa. Our thesis on this consolidation is that while some of these assets are not of top quality build, these assets work well given the economics that such towns have to offer and that some of these assets could be significantly EBITDA accretive for the buyers.

As early investors in assets in Kanpur and Nagpur for example, do you believe that the time has come for the next wave of investment in India's tier

EXPERT SPEAK

Select Sector Transactions

February 2018

Exclusive Advisor

To

Virinchi

Structured Debt

By

Edelweiss

INR 350 Mn

August 2017

Exclusive Advisor

To

OMNI Hospitals

Structured Debt

By

IFMR Capital

Undisclosed

June 2017

Exclusive Advisor

To

A South India pharma company

Banking Facilities

By

A private sector bank

~USD 12 Mn

Multiple tranches - 2017

Advisor

To

Select Institutional Buyers

Block Deals

In

NH & HCG

Undisclosed

1 / tier 2 healthcare facilities and does that mean that for funds such as yourself, it is time to dive even deeper and perhaps look more at models like telemedicine, AI in diagnostics (especially radiology) and/or tech enabled hub and spoke models like AIER in China?

If one were to look at how healthcare infrastructure in India is structured today, a large part of the private infrastructure continues to reside in cities and tier 1 towns despite the fact that more than half of India's population resides in rural areas. Like you said, we have invested in Regency in Kanpur and have also evaluated many other opportunities that came our way which, for a variety of reasons, haven't materialized. So, there is room definitely for going deeper into India's tier 2 and tier 3 cities on the healthcare delivery side. But that will come with its own set of unique challenges that need to be addressed to make it more attractive to investors.

The economics of trying to make healthcare models work in rural India is very challenging and one of the reasons why not a lot of PE money has gone into this segment. Also, competing opportunities in bigger cities, crowd out funding for healthcare in smaller, less developed parts of the country. And for a lot of PE backed companies themselves, foray into semi-rural and rural areas isn't part of the business plan as yet and hence you don't see funds invested in these companies putting more money to work for expansion into these areas. In my opinion, if there was a business that was able to create a strong regional network with say 2,000 beds or more than 100 diagnostic centres in a regional rural area, then such an asset would certainly find a market. One of the larger national players could easily absorb something like that and by extension, with exit being more certain through a strategic trade, such assets would also find more backing from PE funds.

To answer your question on technology, it is true that tech will likely play the role of an enabler in providing higher access to healthcare to the masses but the more important question that we need to answer is if the technology is backed by the necessary physical infrastructure to deliver quality healthcare together with improving access. I am very optimistic about the prospects of investment in healthcare technology business models but in the near term I believe that until physical infrastructure investment steps up to support the technological advancement in access, some of these business models may remain interesting but not investible.

● ● ●

5. There is also a lot of focus Alex amongst delivery players to reduce input costs. And considering that 30% of set-up costs are equipment, that naturally is an area of focus for providers to have a thrust on indigenization. However Indian companies hitherto have remained at relatively lower levels of technological development on the equipment side and most of these are subscale. Even the bigger firms with USD 50 MM of revenue are in the red. Additionally, unlike China, there is no preferred procurement policy and before the recent changes in rules, the industry also had to deal with an inverted duty structure.

What is your view on the segment given that this is again one of those classical cases where the macro looks great but on ground things are more complex than they seem?

Whether it will be India or China I cannot say, but it will happen. It has happened in many other industries where India and/or China have emerged as world leaders with technological advancements at very competitive costs. On the face of it, India definitely has the potential – it has the knowledge advantage, the engineering capability and the manufacturing mindset to be able to pull it off. If you look at the pharma / life sciences side of the spectrum, India has made a lot of progress over the past 3 decades and has already become a leading supplier for generics

SPARK CAPITAL

EXPERT SPEAK

Select Sector Transactions

November 2016
Exclusive Advisor
To
Apollo
Private Equity Fund Raise
By
IFC
USD 68 Mn

July 2016
Exclusive Advisor
To
Corona Remedies Pvt. Ltd.
Private Equity Fund Raise
By
Creador
USD 18 Mn

May 2016
Exclusive Advisor
To
Ramesh Hospitals
Majority Stake Acquisition
By
Aster
USD 28 Mn

March 2015
Exclusive Advisor
To
HealthHiway
Private Equity Fund Raise
From
Piramal
Undisclosed

in Western markets. So, I don't see any reason why that success cannot be replicated in healthcare equipment.

• • •

6. Finally Alex, wanted to check your thesis on home health and online pharmacies. Both of these models have been extremely successful in developed markets with as large as billion dollar deals being struck in this segment and poster boys of the e-commerce model like Amazon and Flipkart (also Walmart) fighting for a share of the pie. Do you believe that a similar fate awaits companies in the Indian market and that perhaps these companies have the potential to turn into unicorns more than any other segment of healthcare?

I think so. Emerging markets, in a way, have a great advantage to leapfrog the development of these models and localize them faster and more efficiently than more developed markets. So many examples of business models like Amazon, Uber and others that were replicated in India and other emerging markets successfully and relatively quickly. What is more, because the local innovators in these companies understand the on-the-ground situation better, they are able to improve upon these models much faster and efficiently. That, in turn, causes the western companies to align their models for the burgeoning Indian market and in the long run, everyone benefits. Online pharmacies, homecare companies, AI in healthcare diagnostics are all examples of business models that we believe will grow fast and will generate strong local champions, especially given the challenges in infrastructure development.

• • •

EXPERT SPEAK

Developing The Under-Developed

HELPING DEVELOPING COUNTRIES GROW

CDC
Investment works

UK-based DFI supporting the impact sector in Africa & South Asia. India accounts for the highest share of CDC's investment (~32%) with a portfolio valuation of ~USD 1.7 Bn. Since April 2015, CDC has made ~15 investments in India.

Maina Sahi
Director Strategy, Health & Education
Africa & South Asia, CDC Group

Ashish Ahluwalia
Director, Consumer
CDC Group, India

1. If one were to look at league tables and fund screenings over the past 36 months, one would see a lot of active participation from impact funds, a phenomenon which perhaps was not evident in the period prior. Add to that the fact that many large funds are setting up their own large impact-oriented investment vehicles eager to deploy cheques bigger than what we have traditionally seen in India from an impact funding perspective.

With that background, we had two questions for you to set the ball rolling in this conversation. First was more to do with how the CDC Group (hereinafter referred to as "CDC") looks at impact investing, what are your filter criteria and how do you balance the impact vs commercial return metric. And the second question is more to do with your views on India as a destination and what are the kind of opportunities you are seeing emerge?

CDC straddles two worlds: commercial investment and development impact. This unique position means it must incorporate the principles of development into investment and evaluate each investment within a framework that seeks to score each opportunity on a select few criteria. We are also mandated to invest as per a development grid meaning thereby that we only invest in Africa and South Asia – regions that are home to one third of the world's poor – and within these two geographies as well, we have focus areas and priority lists.

Together with the Institute for Global Health Innovation at the Imperial College London, we have developed a Healthcare Impact Framework to evaluate the development impact of our investments. The impact created by private healthcare providers is assessed not only by how well they care for their patients, but also by their effect on the broader health ecosystem, which is often fragile in low and middle-income countries (LMICs). Positive outcomes for the whole health system are built into any investment thesis. Our framework therefore includes both the patient and the ecosystem.

Select Sector Transactions

July 2013

Exclusive Advisor

To

OMNI Hospitals

Private Equity Fund Raise

From

ASK PRAVI

Undisclosed

March 2013

Exclusive Advisor

To

SUTHERLAND GLOBAL SERVICES

Minority Stake Acquisition

In

Apollo Health Street

USD 182 Mn

March 2012

Exclusive Advisor

To

vasan healthcare

Private Equity Fund Raise

From

GIC

USD 100 Mn

March 2012

Exclusive Advisor

To

MEDALL

Private Equity Fund Raise

From

PEEPUL

USD 32 Mn

EXPERT SPEAK

Patients are best served by providers offering high quality care in an accessible way. High quality care is essentially creating a safe, effective and a positive experience for the patient. If there are minimal financial, physical and cultural barriers to treatment, then care is also accessible.

Ecosystems are best served by private providers that give more than they take from the local workforce, training a new generation of doctors, nurses and other professionals. Private providers must be responsible actors and leaders within the wider health ecosystem, working to improve the health of the whole population and allowing and even encouraging government oversight, regulation and transparency. Ideally, they should operate as part of the public health system, as well as facilitating the diffusion of new and innovative approaches.

We evaluate each investment, to begin with and, on an ongoing basis on the ***four criteria of quality, access, workforce and stewardship***. And within each of these criteria, there are further categories; against which we benchmark the potential investment opportunities. It is not necessary that each investment meets each of the criteria. However, what is important is clarity on which criteria are we trying to address most through the investment.

For example, if you consider access as the criteria then one can either back a local entrepreneur who may be unlikely to have the scale and/or established clinical protocols or one could back a scaled up high quality player in a different part of the country and then create a business plan with that company to build healthcare networks in CDC focus geographies. Our investee company, Narayana Hrudalaya, for example, has done pioneering work in delivering high quality cardiac care for the poor. If one were to consider workforce as the criteria, the objective is to build an institution that has a constant endeavour to skill new talent, upskill its existing workforce and contribute to the ecosystem by churning high quality paramedical / medical workforce continuously. To that end some of our portfolio companies run training programs and courses and the endeavour at CDC is to help institutionalization of this learning process and help some of these companies set up nursing colleges etc., which is a work in progress as we speak. Stewardship is the ability of our portfolio companies to go beyond what is required of them as healthcare service providers. Rainbow Hospitals, one of our portfolio companies, demonstrates that through their pioneering work in paediatric and neo-natal care. Our portfolio companies have many achievements in India and Africa to their name, and that is the kind of check box we want to have on the lenses for quality, access, workforce and stewardship.

To summarize, what we are saying is that there are different ways investors and DFIs look at impact investments. For us it is as much about the ecosystem development aspect of investing as much as it is about the quality and access that a particular company creates.

On the second question that you asked us in relation to the increased trend on impact investments, perhaps that is a trend that is playing out especially in sectors like education and healthcare. As you are aware, these sectors are fundamentally different in terms of their growth trajectory and return timings as

EXPERT SPEAK

Select Sector Transactions

March 2012
Exclusive Advisor
To
vasan healthcare
from a tradition of care
Majority Stake Acquisition
In
SHEKAR NETHRALAYA
Superspeciality Eye Hospital
Undisclosed

June 2011
Exclusive Advisor
To
Vaatsalya
Private Equity Fund Raise
From
AQUARIUS
INVESTMENT ADVISORS PTE LTD
Undisclosed

October 2010
Exclusive Advisor
To
vasan healthcare
from a tradition of care
Private Equity Fund Raise
In
SEQUOIA WESTBRIDGE CAPITAL
USD 26 Mn

January 2010
Exclusive Advisor
To
MEDALL
Majority Stake Acquisition
In
CLUMAX DIAGNOSTICS
USD 11 Mn

compared to sectors that lend themselves easily to pure play private equity kind of investments. To that extent, realization amongst the players in these sectors that long term patient capital is the right partner is also creating more opportunities for players such as ourselves to make meaningful investments.

2. We have covered this sector for a long time now and perhaps an established fact is that the last 18 months have been the most testing for the sector in India over the last decade. What is the international investor outlook on the sector and how do you see the on-ground challenging environment translating to sectoral allocations?

From a DFI perspective, these are interesting times and let us give you some pointers as to why we are saying that. First is that as the sector matures, quality healthcare providers and quality franchises are finding merit in working with DFIs. This could largely be attributed to a function of finding a common value set with the DFI – and we would take you back to the framework we discussed in the earlier question. A lot of quality franchises want to see themselves as market leaders with best practices and making quality healthcare accessible; and this is where their objectives find resonance with our investment philosophy.

Second is the fact that a lot of these franchises want to see a long-term, patient and value additive capital provider. Our sense is that a lot of promoters of quality assets understand that it takes patient capital to build capacities in this sector. Any change or delay in operating dynamics throws off the business case and timelines for conventional private equity players in terms of their exit horizon, as we have seen in many cases. Given that we as DFIs can be patient, tide through the tough times with the promoters and invest in capacity building, we emerge as preferred partners for high quality companies in the sector.

Third is in terms of flexibility of capital provided. As a DFI we can do equity, debt or structured finance depending on where the company is in terms of its capacity build out plan and its funding cycle – so to that extent, there is a level of flexibility that we can bring on to the table that is very atypical for a conventional private equity fund. And the last aspect that we believe is of great importance is our ability to add tangible value to the operations of the asset. We are focused on creating the best governance standards at each company we invest in, we have members that are nominated to the Boards, and our environmental, social and development teams spend a lot of time with each company. We have led energy conservation initiatives, water efficiency programs, measures to improve systems quality and even helped with obtaining necessary quality certifications and accreditations.

Our sense is that from a macro perspective, the story of Indian healthcare has always remained very attractive – low percentage of GDP spend, potential for increasing beds and doctors per population unit, etc. About deal activity in the sector, we are seeing two major trends – first is that of emerging strong regional players that are seeking financing to improve their scale of operations and the second is of established multi-regional / national players wanting to consolidate smaller players and expand their footprint and/or their offering bouquet. There are different players in the market trying different models of consolidation but there is a definite trend in deal flow that we are seeing in healthcare now.

3. Taking a leaf from where we left the last question – if one were to look at funding greenfield projects, we still see that these projects are funded by promoters' equity and/or debt and not so much by equity infusion from PE /

SPARK CAPITAL

Source: News Publications

EXPERT SPEAK

Select USD 100 Mn + Transactions

August 2018

Exclusive Advisor

To

FIVE STAR Business Finance Limited

Private Equity Fund Raise

By

TPG SEQUOIA NORWEST Morgan Stanley

USD 100 Mn

March 2017

Exclusive Advisor

To

hffc

Private Equity Fund Raise

From

truenorth

USD 100 Mn

January 2017

Co-Book Running Lead Manger

To

BSE

IPO

~USD 183 Mn

November 2015

Joint Financial Advisor

To

POLARIS

Majority Stake Acquisition

By

virtusa

USD 270 Mn

DFIs. Is there a structural disconnect in the model for greenfield expansion that doesn't lend itself to external funding?

As a follow up, when you look at regional consolidation and especially in smaller towns, perhaps the quality of build of some of these assets may not be to the standard of ones that exist for the consolidating company in its home market. And that perhaps is also a reflection of difference in the economics in different geographies. As an investor in these quality healthcare companies that are now looking to consolidate regionally, do you think funds such as yourself which have had a very high watermark traditionally in terms of quality have been able to tailor their expectations to suit the domicile of the asset that is under review?

There are two parts of our response to that question. The first part is whether we can fund standalone greenfield asset development in India's hinterland. And the second part of that question is to do with acquiring assets in smaller geographies, which may already be up and running, but where the design and development of the asset may not exactly be to the desired specifications.

On the first part of the question the answer is that as a DFI, it is our aim to help in creation of healthcare infrastructure and we are constantly on the lookout for good opportunities to partner with the right entrepreneurs and fund creation of good infrastructure – whether through equity or long-term debt. But it is equally important also to guard against mortality of investments. If one were to look at the evolution of the sector over the last decade, it is inevitable that the players who get funded repeatedly are the ones who demonstrate execution track record.

As a provider of capital and a minority shareholder, the first check we would want to do is if the team responsible for executing the project understands the complexities of operating a healthcare franchise, whether it has its ears to the ground, and if it can carry along all the key stakeholders vital to success of the business. It is useful if the operator understands the specialty mix suited to their addressable geography, has seen evolution of doctor engagement models and understands cost management – greenfield or otherwise, such operators are more likely to succeed.

Our thesis in India has also been around backing high quality service providers and help them in their expansion into regions that are also an area of focus for us – our investments in Narayana Hrudulaya or in Asian Institute of Medical Sciences are prime examples. It's apt to mention here our investment with Healthcare Global (HCG), where the focus has been to back a high-quality oncology specialist in India and work together in creating cancer care hospitals in Africa. In addition, as CDC, we are also investors in several funds that operate in India who in turn are also invested in several healthcare businesses.

The second part of your question is around quality of assets that we would consider favourably. The simple answer to that question is that: one, while there may be some asset quality differences tailored to suit individual micro-markets, requirement for NABH accreditation is a reality now and is critical for success, and hospitals will have to meet those quality criteria. Second, we evaluate how these potential assets lend themselves to improvements on energy / water efficiencies that we highlighted earlier.

One other thing about consolidating regional or Tier 2/3 geography assets is regarding operational costs and how well one can optimize that. For example, our experience has been that while procedure pricing may be very different in a metro and in a tier 2 town, doctor costs may usually not vary by the same amount. Similarly, we have found that hospital

EXPERT SPEAK

Select USD 100 Mn + Transactions

Sep 2015 Onwards
Exclusive Advisor
To
Select Institutional Buyers
Secondary Stake Acquisition
In
NSE
USD 403 Mn

November 2014
Exclusive Advisor
To
SUTHERLAND GLOBAL SERVICES
Private Equity Fund Raise
From
TPG
USD 346 Mn

June 2013
Exclusive Advisor
To
CSS CORP
Leveraged Buyout
By
Partners Group
USD 270 Mn

March 2013
Exclusive Advisor
To
SUTHERLAND GLOBAL SERVICES
Majority Stake Acquisition
In
Apollo Health Street
USD 182 Mn

configurations sometimes have had to be altered in these geographies, to create greater ER /ICU capacity as trauma instances are higher than planned procedures. Therefore, having the right understanding of the suitability of a facility to the micro-market and designing the specialty mix appropriately is vital to the 'going in' thesis.

• • •

4. From a sentiment perspective, last 12-18 months have been dominated by decibels on pricing control in all the segments of healthcare. How does someone get comfortable while making an investment in the sector?

Yes – you are right. The extent of regulatory interventions across segments of healthcare over the last 18 months has been quite high. And its impact on the sentiment of investors and on the operating and financial metrics of the operators is also significant which is evident from the decline in some healthcare stocks and the sectoral index. Having said that our view of the sector and our commitment to the sector have not changed significantly. There will continue to remain some uncertainty around the impact of new regulations in the sector over the next 12-18 months, but we think most of the high-quality healthcare service providers will adjust their business models to the new normal and will emerge stronger from this flux.

As details and implementation plan of the government's insurance coverage scheme becomes clearer, we'd also be very keen to see if new low-cost models emerge to cater to the expanding demand.

• • •

5. As healthcare investing developed in India, several new business models have come up and grown quite significantly in a short span of time albeit at an operational loss (as of now) – home health, advanced diagnostics, AI in diagnostics enabling low cost diagnostics in remote areas and online pharmacies to name a few. A lot of these models clearly address an unmet market need, improve access issues and create impact from a long-term perspective.

What are your views on how these models given that while the impact perspective is quite strong, these continue to be loss making (given their scale) and are perhaps 18-36 months away from realizing their potential. Do you think impact and DFI funding in these segments is till some time away or do you think time has come to fund these businesses and look at these proposals more seriously?

Yes, there are several new models that have come up and some of these models could be highly impactful from a reach, technology or access perspective. Some of these businesses are very small now for us to directly invest in. Yet, we understand they form a very important part of the ecosystem and some of these models could have very far reaching impact as they scale. What we have done to address this is to set up a joint venture with the Manipal Group (referred to as "CDC MEMG") to leverage on their operating expertise and reach in the healthcare and education domains and it is through this platform that we plan to invest in some of these businesses, such as out-of-hospital healthcare and diagnostics. There is already an investment in a high-end diagnostics company and a leading home health company and we are already looking at a couple of other interesting models to fund through that platform.

• • •

SPARK CAPITAL

ENABLING LEAPS OF GROWTH

BRINGING LARGE-SCALE CAPITAL TO DRIVE RAPID IMPACT

LeapFrog invests capital, people and knowledge in purpose-driven businesses, helping them to grow, to be profitable and to have real social impact. Since April 2015, LeapFrog has made ~7 investments in India.

Dr. Felix Olale
Partner & Global Co-Leader
Health Investments

Mahesh Joshi
Associate Director

1. While impact funds have been around in India since a long time, realistically their focus and keenness to do healthcare deals in India (a proxy for which is the number of impact funds we see at the term sheet stage on deals) is a comparatively recent phenomenon. Do you think fundamentally there is something that has changed at the fund level – be it time to evaluate a deal or ability to pay value – or is it just coincidental that we are seeing a lot of impact money chasing good assets in India?

It is important to understand that the way funds will look at impact, differs from firm to firm. Some "impact funds" have long life cycles and will accept lower threshold returns with the idea that they are in the business of doing good and that takes precedence over commercial returns. From a Leapfrog perspective, the most important aspect of our approach to an investment, healthcare or otherwise, is the way we define our investment objective, something we call ***"profit with purpose"***. This means that on a commercial basis we are no different from any other private equity fund, and we look for similar returns. A key part of our investment thesis, is therefore focused on the emerging consumer – who are present in the mass market of the countries we invest in, across Africa and Asia. We believe that we will not only be able to achieve a positive social impact, but that commercially we are advantaged, in that emergent market where the big market opportunities lie over the next few decades. Healthcare and financial services are two sectors that will capitalize on this opportunity and we expect incredible growth driven by these emerging consumer trends.

Now to answer your first question more generally, the reason why you are seeing a lot more activity from impact funds in India is that globally the space has expanded exponentially. Part of the reason for this is the increased focus on the Sustainable Development Goals (SDGs), coupled with businesses looking globally to find ways to

Select Other Sector Transactions

December 2018
Exclusive Advisor
To
Fusion Microfinance
Private Equity Fund Raise
By
Warburg Pincus, Creation Investments
~USD 74 Mn

October 2018
Advisor
To
SK Finance
Private Equity Fund Raise
By
TPG, Norwest Venture Partners, evolvence India
~USD 40 Mn

October 2018
BRLM
For
Aavas
IPO
~USD 230 Mn

August 2018
Exclusive Advisor
To
GrameenKoota financial services
IPO
~USD 170 Mn

EXPERT SPEAK

deliver not only investor returns but also social good. For example, a look around the globe will show you that most of the big buyout firms now have an impact fund. So, you do have a lot of money in the impact space. India historically has been a place where people have made good returns on investment, with a large emerging consumer base that can provide opportunities for social impact. This is true across – agriculture, education, clean energy, financial services, and healthcare. Some of the numbers we see for funds being raised are astronomical; so, I think you will continue to see more money flooding into the impact space.

2. We have followed this sector now for more than a decade and in that period we have seen the investor mood changing from cautious to extremely exuberant and now with markets coming off and a few exits not going as per plan, again there seems to be almost a sort of microscopic lens on healthcare and pharma opportunities where investors clearly want to look at unit level economics and assumptions on path to profitability, growth and exit scenarios are being challenged. This coupled with the fact that as healthcare assets start to mature, there is perhaps not a 25% growth that one can underwrite and hence investment horizons need to be longer and return thresholds need to be set lower. All of this makes one believe that the traditional sources of funding for the sector will predominantly change to long term sovereign funds, impact funds and family offices. What are your thoughts on the thesis outlined herein?

I don't think private equity will be crowded out by longer term investors. The investment opportunity is large enough to accommodate different types of capital. In healthcare, especially in emerging markets like India, the focus is now shifting to tier 2 cities and below. In these cities the supply of healthcare infrastructure is quite limited. What you will end up seeing is that business models will shift to a network type of structure where you shift from building single large multi-specialty facilities that aim to cater to all the requirements of their consumers, to greater specialisation, and decentralized models. You will end up having a lot more polyclinics, single specialty formats and diagnostic centres that bring healthcare products and services closer to the consumer. With all these opportunities, I believe the right capital will end up chasing the right deals. Longer term capital will be invested to build infrastructure, while private equity will perhaps move to opportunities where we can see much more growth, and profitability within the 5-6 year time frame.

3. If you look at say a 300 bed hospital, it could end up employing anywhere between 500-700 people depending on the quality of service, the clinical complexity of procedures being carried out and so on in addition to serving the medical needs of a large catchment population. And if built well, a chain of 3-4 such assets could yield a 1,000 cr topline with a 180-200 cr EBITDA over a ten year horizon (includes construction, gestation and stabilization phase for the four assets). Yet we find that there are few takers even amongst impact funds to back the greenfield expansion model and most money is chasing built assets with an operational EBITDA. Is this situation likely to correct or will greenfield construction continue to be funded through promoter equity and debt?

A greenfield multi-specialty model is very a long tail investment with three phases – build, stabilize and then reap returns. Such models don't necessarily lend themselves to short term private capital. Perhaps the best financiers for such assets are those that have a long investment cycle of 10 years or even more. In places like Africa what you have seen is that such projects are taken up with development finance capital to

Select Other Sector Transactions

August 2018
Exclusive Advisor
To
inthree
Private Equity Fund Raise
Undisclosed

August 2018
Exclusive Advisor
To
Wildcraft
Private Equity Fund Raise
From
FidelisWorld
Undisclosed

August 2018
Exclusive Advisor
To
shadowfax
Private Equity Fund Raise
By
ngp capital, Qualcomm Ventures, Mirae Asset, Eight Roads
USD 22 Mn

May 2018
Exclusive Advisor
To
naturell
Private Equity Fund Raise
From
Rabo
Undisclosed

EXPERT SPEAK

Select Other Sector Transactions

May 2018
Exclusive Advisor
To
HCL INFOSYSTEMS
Acquisition
By
Quess
Undisclosed

March 2018
Exclusive Advisor
To
WILDCRAFT
Private Equity Fund Raise
From
Flipkart
Undisclosed

January 2018
Exclusive Advisor
To
GO COLORS!
Private Equity Fund Raise
By
ICICI Venture
~USD 15 Mn

December 2017
Exclusive Advisor
To
Nextwave Multimedia
Majority Stake Acquisition
By
Nazara
Undisclosed

accelerate healthcare infrastructure development in that geography. In any case, I expect that promoter equity and debt will continue to be a large source of capital for greenfield hospital investments. At the same time, the model of healthcare delivery will also shift with a lot of care being delivered outside of the hospital, so there will be less need for large standalone generalized hospitals.

• • •

4. Another aspect Dr. Felix of trying to invest in hitherto underserved markets like UP, Bihar, West Bengal and North East is that perhaps the quality of build of some of these assets may not be to the standard of ones in major towns and cities. And that, perhaps is also a reflection of the economics in such places. Do you think funds such as yourself which have had a very high watermark traditionally in terms of quality have been able to tailor their expectations to suit the domicile of the asset that is under review?

The right way to look at this is to consider how one defines quality. The way we think about this at LeapFrog is the value of the service delivered vs customer perception of that value. In some cases, you can then compare this to some established standards or even ultimately look at the positive outcomes from the value delivered. You cannot look at "quality" in isolation. For a lot of these regions, you have hardly any healthcare infrastructure in place. So, the presence of a reasonable set-up is quite helpful. It may not look perfect from a build perspective, it may be a couple of notches below similar facilities in major towns. As long as it serves its purpose of providing basic healthcare facilities, saving and stabilizing lives and then passing off the referral to the next best available set-up, I would like to believe that it has done its job. All of this is under the assumption that basic quality checks and infrastructural regulatory requirements have been taken care of.

Once these basics are in place, the way to look at quality is to couple it with the value that it brings to the user of that service. What will also happen over a period of time is that if the asset is delivering value, then over time the customer paying for it will also start demanding better quality. This, in turn, will spur spending by other players in the market and in that sense the market starts taking care of itself and correcting itself to a model where the quality vs value equation starts to come into balance. There is a great recent report now in the Lancet Global Health journal that says that poor quality care is a bigger killer than insufficient access to care – so quality is important and will have to be a strong area of focus for investors.

• • •

5. We have spoken often Dr. Felix and often find ourselves on the same side of the debate around models like home health, day care centres and single specialty healthcare which is not life critical. The continuing thesis has been that for a country like India, such business models that free up capacity constrained hospitals are necessary and will continue to do well. And that these models could be local or hyper local and that there will not be a winner takes all scenario even if there is a meaningful consolidation in this space. Do you see a lot of deal activity in this space and are you seeing emergence of new players that could meaningfully challenge the incumbents?

It is still early days for a lot of these models, but you are also seeing a few businesses in these spaces starting to get things right. For instance, in certain segments such as online pharmacies and homecare, there are companies with proof of concept who are scaling up from the metros to Tier 2 and Tier 3 towns. I remain excited about these new models of healthcare delivery. I believe this is where the future lies – healthcare must get closer to the consumer and that is what these business models are working on. This is not a purely Indian phenomenon, but it will be the same trend globally.

• • •

6. A lot of activity in the market seems to be with large funds who want to take shareholding control of the company and build some sort of a base to bolt-on assets on the base company. The idea is to make a large enough franchise which can then be monetised at a later date through a capital market exit or a strategic trade. Do you think this merits a relook at strategies by investors like yourself and what is your take on platformization which is currently the buzzword of the investing fraternity?

I think standalone investments and platformization will co-exist. For owners of strong assets, bolt-ons will become increasingly attractive. Once you have a good anchor asset with the fundamentals in place - particularly good management – the smart thing to do is to use it as a platform for growth. This has a multiplier effect on your initial investment as you know. Platformization has several advantages. First of all, it is a way to de-risk your investment, it can also add returns by allowing you to invest in smaller assets. So my sense is that platformization is a nice approach to building larger and de-risked assets in emerging markets.

• • •

7. There is a lot of noise around regulating healthcare pricing including trade margins for devices and consumables. On the pharma side also, there are pressures on price control that threaten to intensify depending how political agenda and ability to drive a populist agenda shapes up. Having seen multiple geographies Dr. Felix and evaluated opportunities across geographies, how do you see the regulatory environment affecting deal making and how are you trying to safeguard your investment policy against potential regulatory shocks in India?

Regulation is a reality. We have seen this in India with high media spotlight on the recent regulations affecting cardiac and orthopaedic procedures. Our hope is that the regulation is thought through carefully in terms of market impact. Price regulations can work as a blunt tool with some unintended consequences. Essentially what happens then is that businesses try to move away towards services that have higher margins, or they simply try to recover those margins elsewhere by charging more for surgical consumables for example.

Interestingly, when I compare India to Africa, the healthcare market is still so heavily under-invested. So governments are increasing spending on healthcare and also looking to encourage more investment - so price regulation is still not an issue.

The ultimate goal is to increase access to quality care. Regulators should enable that. Once you facilitate access, it is a win-win situation for everyone – the customers benefit from availability of services, the private healthcare providers have newer markets and newer customer sets that help drive growth and profitability. Government in turn benefits from higher consumption taxes, and ensuring that its population is healthier.

In the near term however, investors may shy away from sectors that have the potential for price controls, until there is a lot more certainty on the directional impact that such regulations will have.

For LeapFrog, we try and stay engaged with governments and regulators so that we can understand where they are coming from and what they are looking to achieve. Secondly, we diversify by investing across several healthcare sub-segments. We have also built a portfolio that is geographically spread out across Asia and Africa. This mitigates some of the regulatory and macro-economic risks.

• • •

EXPERT SPEAK

Select Other Sector Transactions

October 2017

Book Running Lead Manger

To

Yellow Diamond

IPO

~USD 74 Mn

September 2017

Advisor

To

intellect Design for Digital

Rights Issue

USD 31 Mn

July 2017

Exclusive Advisor

To

FIVE STAR

Private Equity Fund Raise

From

SEQUOIA, Morgan Stanley, NORWEST VENTURE PARTNERS, matrix PARTNERS INDIA

~USD 52 Mn

March 2017

Exclusive Advisor

To

CreditAccess Asia

Private Equity Fund Raise

From

ADB Asian Development Bank

USD 32 Mn

8. A last question Dr. Felix from our stable is on models like equipment, devices, consumables and high end diagnostics (especially onco and female health) for which there is a large demand supply mismatch but most of these companies are small and have some time before they move from being in the red to becoming profitable. What is your thesis on such segments and companies in India and what is your take on the growth potential of these companies especially given that they are stacked up against multinational competition with deep pockets and a much larger operational history?

I like the medical device segment, especially companies that focus on more niche or specialised products. Our recent investment into Ascent Meditech is a compelling case in point. Here is an Indian company, that has developed a strong brand, product and presence in the domestic market and now exports Flamingo products to over 40 countries. In Africa, we are on the verge of completing an investment in one of the largest distributors of specialized medical equipment and consumables selling in 8 countries across the continent.

As chronic diseases continue to grow – specialized diagnostic equipment and consumables will follow that trend. For a long while the Indian players have been focused on the local market with some limited export in South East Asia or Middle East / Africa. But I think they will increasingly move to products that can compete globally through specialization, product customization for developing markets and delivering value at an affordable cost. Cost along with local maintenance and technical training are the core issues. If these can be solved for developing markets, I think Indian players will begin to capture larger chunks of the global market.

In conclusion, I believe that Indian companies are leading the world in terms of innovations in service delivery. These innovations are very much needed in emerging markets. It's an investment opportunity that we remain quite excited about.

RECENT HEALTHCARE & LIFESCIENCES INDIA TRANSACTIONS

Select Other Sector Transactions

June 2016
Exclusive Advisor
To
Suryoday
Enabling Dreams. Empowering Lives.
Private Equity Fund Raise
From
IDFC, ASK Pravi, HDFC Life, LNB Group, Americorp Group, Gaja Capital
USD 32 Mn

January 2016
Exclusive Advisor
To
CreditAccess Asia
Structured Capital Raise
From
Olympus Capital Asia
USD 30 Mn

May 2015
Exclusive Advisor
To
ISFC India Shelter Finance Corporation
Private Equity Fund Raise
From
Sequoia, Nexus Venture Partners, WestBridge Capital
USD 43 Mn

April 2015
Exclusive Advisor
To
enzen
Structured Capital Raise
From
KKR
USD 60 Mn

A Private Equity Transactions

Company	Buyers / Investors	Transaction Date	Deal size (USD Mn)
Entero Healthcare	Orbimed	*Nov 2018*	21.4
Apollo Medicals	Jhelum Investment, ENAM	*Nov 2018*	-

...

B Equity Capital Market Transactions

Company	Transaction type	Launch date	Deal size (USD Mn)
-	-	-	-

...

C Mergers & Acquisitions

Company	Buyers / Investors	Transaction Date	Deal size (USD Mn)
DaVita	nephroplus	*Nov 2018*	-
Columbia Asia (Ahmedabad Hospital)	Zydus Hospitals	*Oct 2018*	10.7
MAX Healthcare	Radiant Life Care Private Limited	*Sep 2018*	294.6
Nova IVI Fertility	Asia Healthcare Holdings	*Sep 2018*	~100.0

...

SPARK CAPITAL

Source: Deal Databases
Deals for the period Sep-18 – Nov-18

LATEST NEWS AND ANNOUNCEMENTS

Biosimilars

CHANGES TO MEDICARE PLANS IN THE USA – A LEG UP FOR BIOSIMS

United Healthcare making changes to its Medicare plans that could hit J&J's Remicade and jumpstart biosimilars from competing brands

United Healthcare, the insurance behemoth in the USA plans to roll out step therapy to control costs on pricey biologics including Remicade. Anemia drugs Procit from J&J and Aranesp from Amgen will also face the new barriers.

Step therapy requires the patient to try the preferred drug first (in this case the biosimilar) and prescriptions by medical practitioners in favour of the biosimilar have long been seen as one of the major triggers for biosimilar uptake in the USA.

The move comes about 2 months after Express Scripts released its formulatory for 2019 – the list includes 11 specialty drugs facing cheaper branded rivals or biosimilars

E-Pharmacies

HEALTH MINISTRY COMES WITH DRAFT RULES ON SALE OF DRUGS BY E-PHARMACIES

Aim to regulate operations of the fast growing e-pharmacies

Draft regulations were introduced by the Union Health Ministry for sale of drugs by e-pharmacies with an aim to regulate online sales of medicines.

Apart from the run-of-the-mill guidelines on registrations, the draft includes obligations on the e-pharmacy to ensure compliance with agreed turn around times, has data protection guidelines for customer medical records, etc.

Interestingly, the draft guidelines require the e-pharmacy to also ensure prescription compliance – some models in eastern India for example left prescription compliance (and thereby any liability) to their channel partners. It will be interesting to see how these models adapt to the final regulations when they are released and what impact it has on (the already long) EBITDA runway for these companies

Pharma Investment Cycle

INR 6-9K CR INVESTMENT IN GUJARAT ALONE

Nearly 180 new units under various stages of development

Despite the erosion in market cap of most companies in the pharma pack over the last 18 months (there has been some appreciation in the last quarter though!), capex investments seem to be the flavour of the season in the small and mid segment. Reports suggest there are 180 or more new capacity additions totalling to anywhere between INR 6k-9k alone.

After GST implementation, production cost difference between tax exempted states and Gujarat seems to have narrowed substantially and that is one of the reasons behind the spate of investments in the sector in the state.

A large part of these capacities will commence production in FY19.

Essential Diagnostics

GENERAL CONSENSUS REACHED ON CATALOGUE OF TESTS AND INITIATIVES TO STRENGTHEN DIAGNOSTIC INFRASTRUCTURE

scientists and industry stakeholders reach consensus on test catalogue

The government is currently drafting an India-specific EDL, a set of tests for detecting common morbid conditions and priority diseases, along the lines of the National List of Essential Medicines. It will be based on a global EDL unveiled by the WHO in April.

The EDL unveiled by the United Nations health agency concentrates on in vitro tests. It contains 113 items - 58 tests are listed for detection of a wide range of common conditions, providing an essential package that can form the basis for screening of patients. The remaining 55 tests are designed for the detection, diagnosis and monitoring of 'priority' diseases such as HIV, tuberculosis, malaria, hepatitis B and C, human papillomavirus and syphilis.

The Indian list is expected to be an add-on to the global list and account for India-specific infection pattern and diseases.

Source: News Publications

FROM OUR EQUITIES DESK

Institutional Equities Highlights

240
Stocks under coverage

USD 1.3 Tn
Total market cap of stocks under coverage

INR 320 Bn
Total cash market volume in H1FY19

350+
Number of fund relationships globally

"Go-to" broker for stocks in the mid-market space

THOMSON REUTERS
2017 INDIA ANALYST AWARDS

THOMSON REUTERS
ANALYST AWARDS
2017 WINNER

Institutional Investor

5th position in 2017
All India research team
Amongst 2 Indian Houses in Top 5

Healthcare & Lifesciences

20
Stocks under coverage

~USD 75 Bn
Total market cap of Stocks under coverage

Key snippets from some interesting notes by Spark's Equities Team

1 *CIPLA - Decoding the Opportunity in Respiratory Generics*

- Respiratory generics accounted for ~20% of CIPLA's consolidated revenues in FY18, with India sales of ~Rs. 15bn and ex India sales of ~$210mn. In the domestic market, CIPLA is the market leader in inhalers segment, with a share of ~65%. While CIPLA has already launched inhaler products in EU (and more recently in Australia), significant ramp up for CIPLA's inhaler franchise in regulated markets will be driven by launches in US starting with gProventil launch in FY20
- Management has guided for 'one sizeable inhaler launch in the US, every year from FY20'. Inhalers are the most complex (and least genericized) drug segment in the US. CIPLA's capabilities in the space will drive sustainable value in the medium-to-long term. CIPLA is also targeting opportunities in nasal sprays and respules and respiratory segment will account for ~30% of CIPLA's R&D spending in FY19 (vs. 12% in FY18). Estimate CIPLA's respiratory franchise to grow from ~$450mn in FY18 to $1-1.2bn by FY22/FY23.
- **Steady progress in gAdvair program:** CIPLA has initiated phase III trials for gAdvair in the US with targeted enrolment of 1,050 patients. Expect an early FY20 filing (given completion of study in Dec 2018) and potential approval and launch in FY21. The commencement of phase III trials follows successful completion of pivotal PK study, which has been a challenge for several competitors
- **gProventil launch in FY20; guidance of 'one sizeable inhaler launch in the US, every year from FY20':** : CIPLA has responded to the 4QFY18 CRL for gProventil and management remains confident of approval & launch in 2HFY20. gProventil will be CIPLA's first inhaler launch in the US. Early approval/launch could position CIPLA for gaining Rx from other albuterol brands
- **Nasal sprays and respules – multiple filings/approvals expected in the medium-term:** CIPLA's existing respiratory portfolio in the US includes several nasal sprays and respules and potential medium-term filings/approvals in the US. CIPLA has already established its credentials in these segments with several regulated market launches.
- At ~$400mn in FY18, CIPLA's US business is significantly smaller compared to those of large cap peers and the opportunity to scale the business aided by strong respiratory capabilities, is a key differentiator for the company

2 *Aster DM – Initiating Coverage – 'Best of Both Worlds'*

- Several unique strengths/drivers for the company's GCC business:
  - ✓ **Roll-out of mandatory insurance in GCC states:** Significant government initiatives are underway across GCC states for implementing mandatory insurance. ASTERDM has positioned itself to take advantage of the rising insurance penetration, with ~35% of hospital bed capacity and ~30% of clinic network in GCC added in FY16-18
  - ✓ **Superior capital efficiency:** Asset-light model with established hospitals and clinics(>3 years maturity) operating at RoCEs of >25%
  - ✓ **Track record of quality:** 6 ASTERDM hospitals in GCC states are accredited by Joint Commission International (JCI)
- **Volatility behind, poised for strong medium-term growth in GCC:** Turnaround at Sanad, improving profitability at hospitals commissioned in FY18 (Aster Doha and Medcare Sharjah, EBITDA loss ~Rs. 950mn in FY18, breakeven by 1QFY19) and ramp up at newly added clinics (1/3 rd of network added in FY16-18) should drive strong improvement for ASTERDM's GCC business in FY19/FY20
- **India Hospitals – fine-tuned model, positioned for scale-up:** Going forward, ASTERDM's expansions in India will focus on large >300-bed tertiary/quaternary care hospitals in metros/tier I locations under an asset-light model. Margin improvement at flagship facilities along with greater focus on asset light expansions in metros/tier-1 locations (Chennai facility to be commissioned in FY21) should drive significant improvement in return ratios for ASTERDM's India Hospitals business

SPARK CAPITAL

Source: SPARK Research

DISCLAIMER

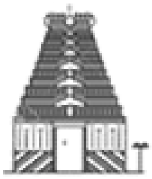
- Information provided in this document with respect to the industry have been compiled from publicly available sources, including official publications and research reports, and is given as general information and has not been independently verified by Spark Capital Advisors (India) Pvt. Ltd. ("Spark Capital"). Spark Capital has not carried out any independent verification of any information contained herein (including statements of opinion and expectation). Accordingly, Recipients should not place undue reliance on such information. The delivery of this document does not constitute a representation that the information given in this document is correct whether at the date hereof or any time subsequent to the date hereof. Spark Capital makes no representation or warranty with respect to the accuracy or completeness of any information or idea contained in this document, nor does Spark Capital undertake any obligation to update this document.
- This document does not purport to contain all the information that the Recipient may require. This document is being provided to give a general overview on the industry. Please note that all forward looking statements contained in this document have been sourced from multiple databases. No representations are being made about the correctness or achievability of these statements or their underlying assumptions.
- This document has been prepared solely for the purpose of providing information related to the Healthcare & Lifesciences sector and is not to be reproduced or used for any other purpose.
- Neither Spark Capital nor the Promoters nor any of their respective affiliates, directors, officers, employees, shareholders, agents, representatives and advisors of Spark Capital shall have any liability for any loss or damage (direct or indirect) suffered by Recipients on account of their reliance on any representations (express or implied) contained in, or any omissions from this document or any information transmitted orally, in writing, electronically or in any other form to the Recipients.
- All enquiries relating to this document should be directed to Spark Capital personnel mentioned in this document.

HEALTHCARE AND LIFESCIENCES TEAM

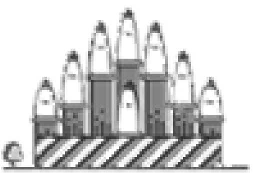
Virendra Parasnath Pandey
Director
virendra@sparkcapital.in

Shreyas Subedar
Assistant Vice President
shreyas@sparkcapital.in

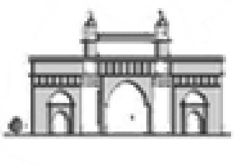
Raghunandan Boughram
Associate
raghu@sparkcapital.in



CHENNAI
No.2 ‘Reflections’, Leith Castle Centre Street,
Santhome High Road,
Chennai – 600 028



BENGALURU
Unit Nos. 503 & 504, 5th Floor, Prestige Towers,
No. 99/100, Residency Road,
Bengaluru – 560 025



MUMBAI
Unit No. 1116-C, 11th Floor, ONE BKC,
Bandra Kurla Complex,
Mumbai – 400 051

SPARK CAPITAL