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Merger and Acquisition activity in the Healthcare sector

South Africa is one of the most developed markets in the African region from a business environment and regulatory standpoint. However, vast income disparity within the population has created a two-tier healthcare system that is leading to tension between stakeholders and putting pressure on private healthcare providers. South Africa will continue to be the best place for drug makers to base their Sub-Saharan operations, but the domestic market still requires reforming to realise its potential.

It has been observed that primarily due to financial uncertainty and pressure faced by today's physician practices, surgery centres and hospitals, these organisations are turning to mergers and acquisitions (M&A) as one way to survive, grow, and flourish in today's healthcare marketplace. However, overall global transaction activity got off to a slow start in 2012, with softer volumes and smaller deal sizes reflecting continued economic uncertainty in global markets.

According to Dealogic, the global healthcare deal trend in the first half of 2012 was consistent with other sectors'. However, the recent global trend towards smaller deal size may be moderating in the healthcare sector, with disclosed deal value increasing 4% from the second half of 2011 despite an 11% drop in the number of deals.

Transactions in the African region over the last twelve months:

- *October 2011:* Promopharm SA signed a definitive agreement to be acquired by Hikma Pharmaceuticals Plc. Promopharm SA, a Moroccan company engaged in the production, manufacturing and sale of pharmaceuticals. Hikma Pharmaceuticals Plc, a UK based company, is a generic pharmaceutical company engaged in the development, manufacturing and marketing of a range of generic and in-licensed pharmaceutical products.
- *February 2012:* Litha Healthcare Group Limited agreed to acquire Pharmaplan Pty Limited from Paladin Labs Inc., a Canadian based specialty pharmaceutical company for a consideration of ZAR 590m. Litha Healthcare Group Limited is a medical equipment company and Pharmaplan Pty Limited is a distributor of pharmaceuticals.
- *June 2012*: Respiratory Care Africa (RCA), the privately-owned South African medical equipment specialist, agreed on a black economic empowerment (BEE) deal with RMB Corvest and Shalamuka Capital. RCA was founded in 1998 and has since developed into a leading importer and distributor of specialist medical equipment to public and private healthcare institutions.
- *August 2012*: Mérieux NutriSciences, a global food safety, quality and nutrition company, has bought a majority stake in Swift Micro Laboratories, with a view to expanding its African operations. Swift Micro Laboratories - which will become Swift Silliker - is the largest privately owned commercial food and product safety company in South Africa, with an annual turnover of R65m.
- *August 2012:* Ascendis Health (Pty) Limited have announced the acquisition of Chempure (Pty) Limited for an undisclosed sum. The transaction will further consolidate Ascendis' position in South Africa's healthcare products market. This deal is in line with the Groups vertical integration strategy to acquire key players in the central parts of the health products value chain.

International acquisitions by South African Healthcare companies:

- *January 2012*: Life Healthcare Group Holdings Limited, acquired a 26% stake in Max Healthcare Institute Limited, the India based company that operates healthcare facilities with indoor and outdoor patient care, from Max India Limited, the listed India based company that operates in the life and health insurance, clinical research, and healthcare businesses.
- *August 2012*: Medi-Clinic Corporation Ltd, agreed to acquire a 44.39% stake in Emirates Healthcare Holdings Limited (EHL), the UAE based company engaged in providing healthcare services, from

Varkey Group Limited, the UAE based holding company having interest in education and healthcare services sector.

Acquisitive intentions of South African Healthcare companies:

- *Brimstone,* the listed South African diversified investment house, is interested in acquiring in the healthcare, food and financial services sectors, the Business Day reported.

- *Adcock Ingram* seeks emerging market acquisitions and has an M&A team to assess targets, according to executives.
- *Litha Healthcare*, the listed South African group, will continue to grow via acquisitions, Business Day reported. Selwyn Kahanowitz, the chief executive of Litha Healthcare, said the group is following its initial plan to "build pharmaceuticals". However, Kahanowitz added that the easiest way to reach a certain business scale is via acquisitions.
- *Mediclinic*, remains on the lookout for potential acquisitions, Business Day reported. Edwin Hertzog, the Mediclinic chairman, said that the group is satisfied with its latest acquisitions, but added that Mediclinic is nevertheless still interested in finding new opportunities.

- *Aspen Pharmacare Holdings Limited* is planning to invest more than R1bn to advance technology in its South African manufacturing plants and is also looking for new partnerships in Africa.

Africa remains a key focus area in the M&A arena, in particular sub-saharan Africa. This region accounts for 11 percent of the world's population, yet bears 24% of the global disease burden (WHO 2008). The improving economic performance in this region means a continual growing market demand for better healthcare.

In addition, the following factors contribute towards favourable investment opportunities in the region:

- Active Government support in recent years means a continued focus on healthcare expansion;
- Increased need for the supply of hospital equipment, instrumentation, machinery and other products and Services;
- Imports are a major part of the region's trading activity;
- The price-sensitive market means buyers are always looking out for competitively priced goods.

The healthcare sector appears to be well placed to take advantage of both the expected growth on the African continent and the relatively high proportion of global disease in Africa.

Deloitte Corporate Finance has both the knowledge and expertise to assist with mergers and acquisitions in the healthcare sector and the team has the ability to provide services relating to advisory, debt and capital raising, due diligence, valuations and JSE sponsor services.

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