MACRO-MARKET ANALYSIS OF FAST-MOVING HEALTHCARE SUB-SECTORS

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INTRODUCTION

A **market analysis** is a quantitative and qualitative assessment of a **market**. It investigates the size of the market both in volume and in value, the different client sections and purchasing behaviors, the opposition, and the monetary condition regarding hindrances to passage and guideline.

Market analysis is done for the following sub-sectors:

1. **Home Health Care**
2. **In Vitro Fertilization (IVF)**
3. **Primary Health Care**

RESEARCH PROBLEM

- Nowadays, It’s a trend investing in a business either in green field or in a brown field. It becomes very important to assess the financial aspect of the market before investing in a Particular sector. It needs an in-depth financial assessment of the sub-sectors (Home health care, IVF and primary health care) in terms of profitability and sustainability to warrant a monetary investment.

AIM

- The aim is to study the financial environment of a healthcare sub-sector for better investment opportunities.

RESEARCH QUESTION

1. What is the financial condition of healthcare sub-sectors (Home health care, IVF and Primary health care)?

2. What are financial parameters for comparison of healthcare sub-sectors (Home health care, IVF and Primary health care)?

3. What is financial condition of the organization in these sub-sectors (Home health care, IVF and Primary health care)?

RESEARCH OBJECTIVES

1. To determine the financial condition of the healthcare sub-sectors (Home health care, IVF and Primary health care) to assist in strategic investment.

2. To compare the financial parameters of healthcare sub-sector (Home health care, IVF and Primary health care).

3. To determine the financial conditions of the organization in these healthcare sub-sectors (Home health care, IVF and Primary health care).

RESEARCH METHODOLOGY (1/2)

- **Location Of Study Area :**

PricewaterhouseCoopers Services LLP, India located in Mumbai, Maharashtra.

- **Study Design :**

This is a retrospective, descriptive type of study.

- **Type Of Research :**

Hybrid research (Qualitative and Quantitative).

- **Data Considered :**

Financial parameters like Revenue, EBIDTA are taken for top four-seven key market players in each healthcare sub-sectors (Homecare, IVF, Primary care)

RESEARCH METHODOLOGY (2/2)

- **Inclusion Criteria :**

Key market players whose revenue is available for a financial year 2018 and above and also the organization should be established before 2015 to compare the CAGR for last 4 years.

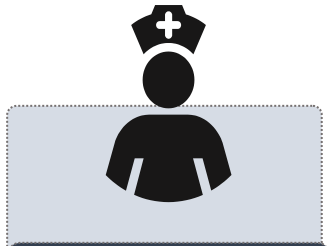
- **Exclusion Criteria :**

Organization established after 2015 and whose financial parameters are not available.

MARKET ANALYSIS OVERVIEW

HOME HEALTH CARE

What does home healthcare comprise of?

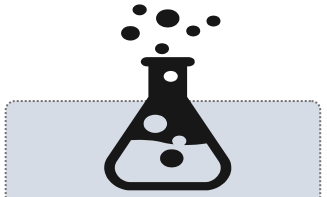


Nursing at home

Doctor at home

Rehab at home

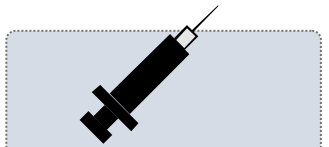
Bed side assistance



Diagnostics

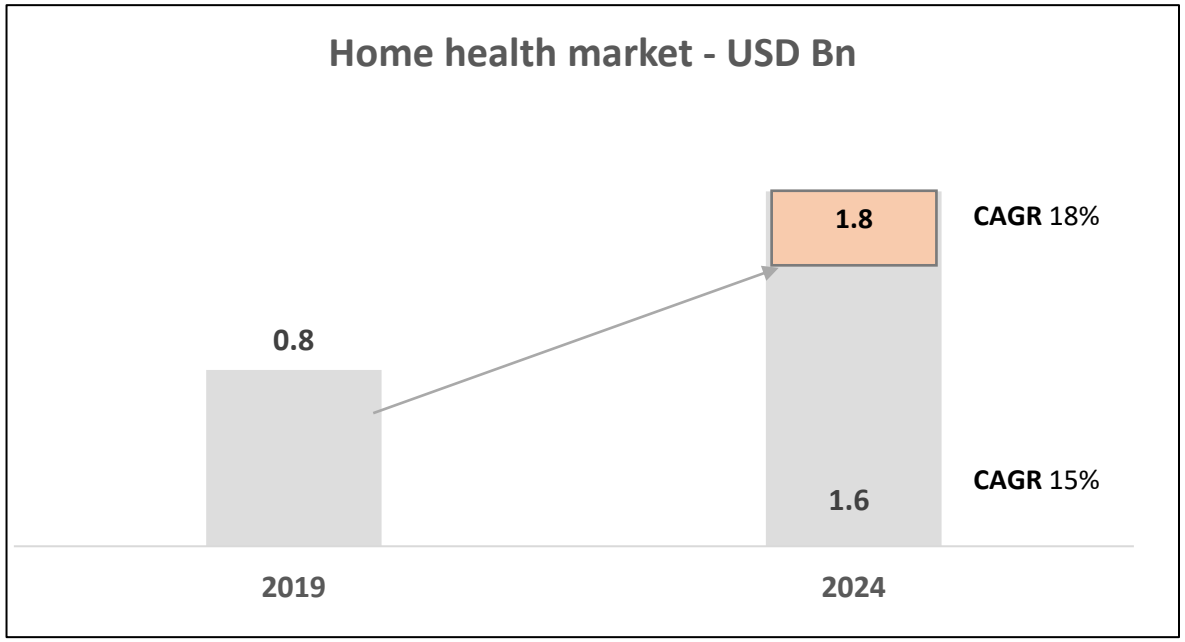
Medical Equipment- purchase/ rentals

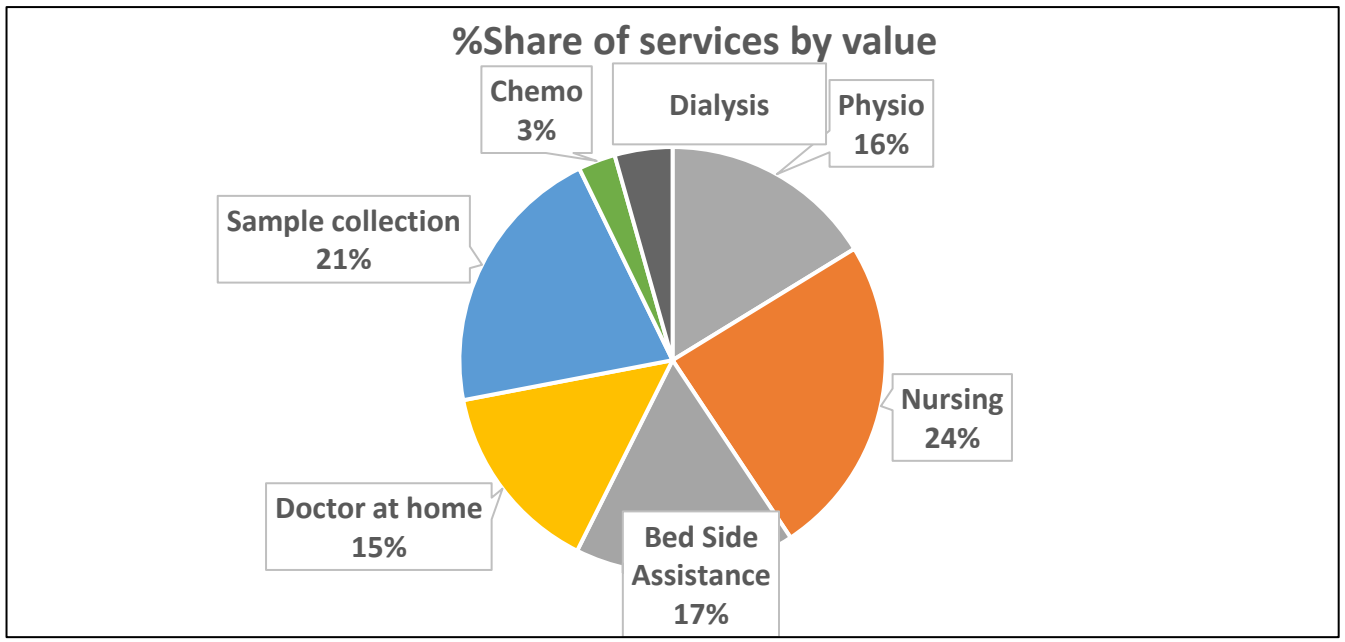
Dialysis at home



Chemotherapy at home

Indian home healthcare market is valued at ~0.8 Bn and is expected to grow at a 15%-18% CAGR over the next 5 years; The sector is still in its early stages with most organised players entering post 2012





There are over 5,000 agencies which provide low end services making the market unorganised and fragmented.

% share of organised sector is 7-9%. But with more spends on marketing this is expected to grow

Source: PwC analysis

Key Trends

Hospitals entering homecare

With a ready access to patients and manpower hospitals are entering the homecare business

Increase in "At Home' Services

Traditional services like blood collections have started happening at home with people wanting to do more at home

Homecare demand drivers (1/2)
Homecare is being driven by growth in nuclear families and lack of time

1

Growth of nuclear families

During the last 2-3 decades, there has been a gradual disintegration of the joint family system to nuclear families.
With this the demand for caregivers at home is increasing

2

Growth in income and awareness

India's GDP is growing in the range of 5-9% over the last decade with population growing at ~1% thus increasing income per capita. There is also an increase in awareness

3

Demand for personalised care

Various customer surveys in India have pointed out that customers in India value personalization.
Indians value personalization, followed by integrity as key essentials for a good customer experience
Home healthcare companies fill this requirement.

4

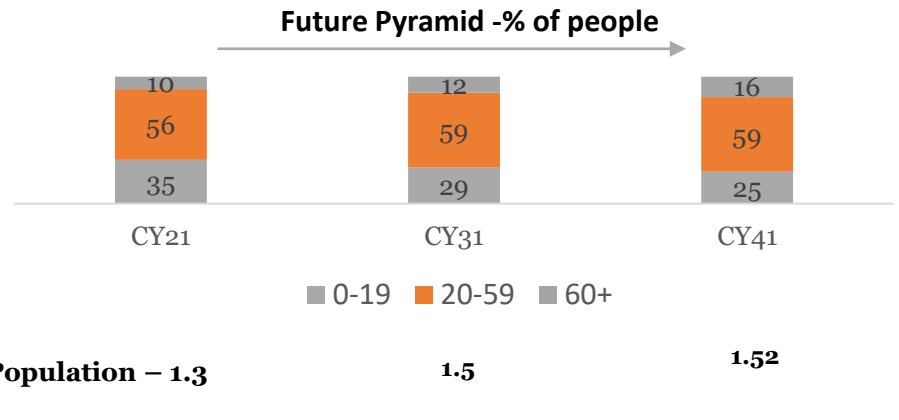
Time compression

With smaller families and busier lifestyles, there is a need to do more in less time.
Home healthcare services take services home which save time for patients/attenders

Homecare demand drivers (2/2)
Demand is driven by growth in geriatric population and increased in hospitalization rate.

5

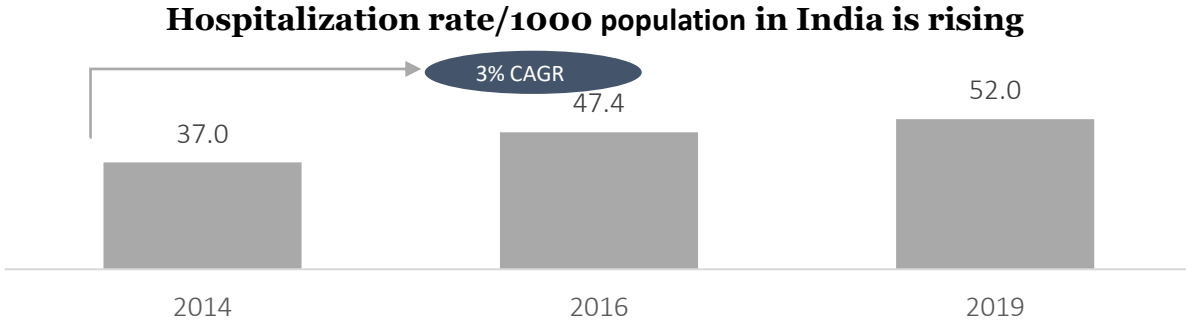
Growth in geriatric population



% of people above the age of 60 will grow at a CAGR of 3% between now and 2041 thus increasing the need of geriatric specific care

6

Increase in hospitalization rate



Post Hospitalization HH market contributes to 7.5% of over all demand, primarily driven by growth in key procedure volumes

India is the world's 2nd largest populated country but has a rate of 37 per 1000 as of 2014. This is 104 per 1000 in USA. The figure for India is expected to grow at 3%.

Source: Economic Survey 2018-29, NSSO, PwC Analysis

Hospitals are entering home care market to make use of economies of scale and ready patient base; The challenges leading to attrition of key manpower from homecare companies are:

Employee retention

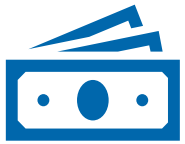
Attrition of service professionals(nurses, physiotherapist , doctors) :

- **Leaving for better opportunities with hospitals, etc.**
- **Servicing customers directly for services to a lower rate**

Forward integration by hospitals

Lot of hospitals are expanding their umbrella of services and are entering home healthcare via their own employee base to leverage existing economies of scale

- **Aim is to be able to reach the customer more for repeat services**
- **They have an advantage of available patient base**



Insurance coverage

Most home healthcare services are not covered by insurance and becomes a high OOPE for patients. This is specially relevant in post hospitalisation cases where staying in the hospital may cover costs

- **Some of the corporate insurance policies do cover expenses 2 week pre admission and 2 weeks post discharge.**

Homecare is evolving its business model to do '*More at Home*'

Evolving business models - doing more at home

Core Offerings

Attendant / Nursing services

Physio services

Physician @ home

Added revenue streams

ICU @ home → Helping hospitals keep Level 1 ICU cases at home

Diagnostics sample collections → Helping labs collect samples

Equipment on rent/purchase → Helping better utilization of medical equipment

Customized services towards mother & child care /diabetes care → Helping better utilization of medical equipment

Other services like medicine supply → Helping supply chains of e-pharmacy/ distributors

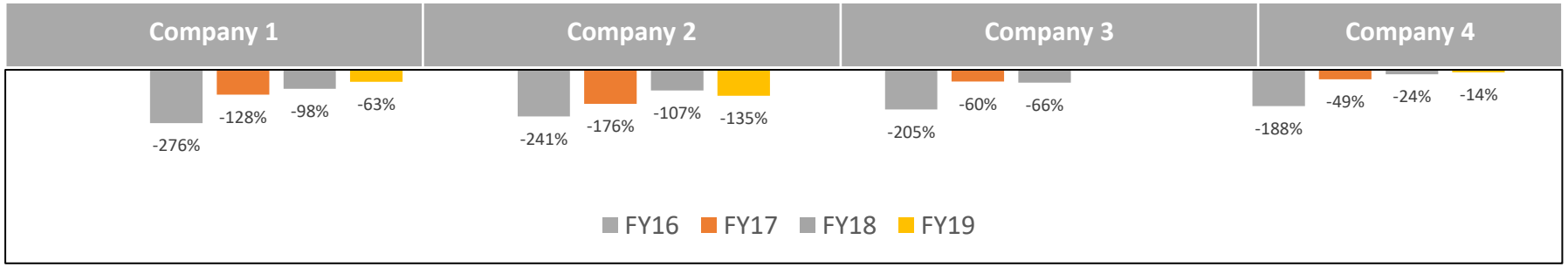
The home health care players are having negative EBITDA margins, though they are improving year on year

Key indicators	Company 1	Company 2	Company 3	Company 4	Company 5
Year of establishment	2012	2014	2012	2014	2014
Revenue (FY19) (USD Mn)	12.4	4.4	3.9	5.1	0.8
Revenue CAGR (4 years)	27%	45%	92%	82%	106%
EBITDA Margin (FY19)	-63%	-135%	-124%	-14%	-71%
Total funds raised (USD Mn)	80	31	40	-	4.25

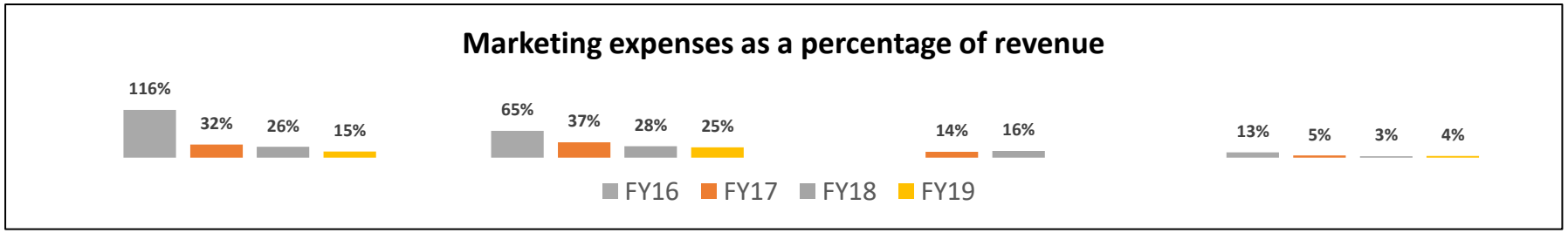
Source: VC Edge Database, PwC Analysis

Currently operating margins are negative of all players but are improving as efficiencies are being developed; Most companies are profitable at a city/unit level

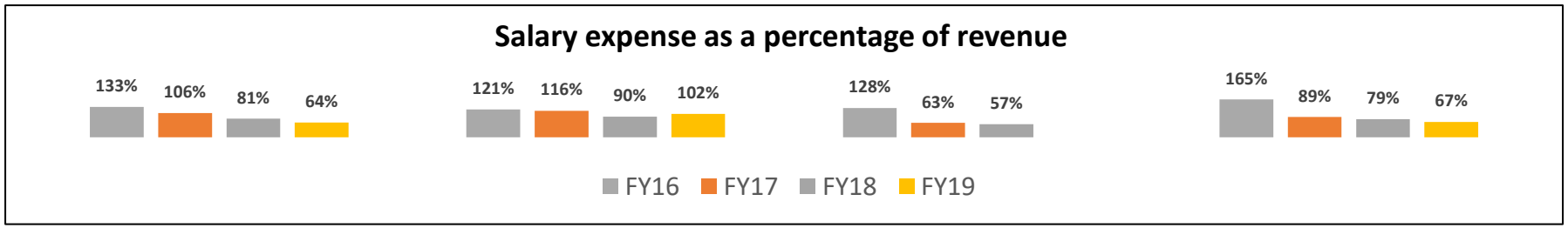
EBITDA trend



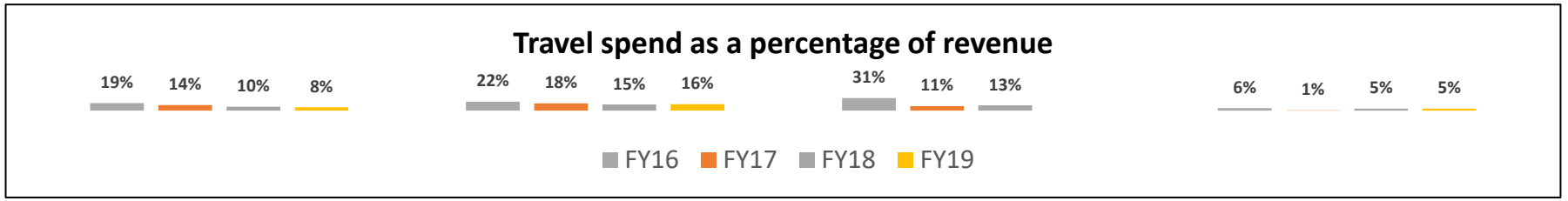
Marketing costs are going down year on year



Decreasing salaries spend



Decreasing travel spends



Key risks & challenges in the investment space

Evolving Business Model

- Most companies are less than 10 years old and are 'yet' to establish a profitable business model.

Limited number of organised players

- There are not many players in the organised space as the market is fragmented and unorganised.
  - Not too many options to invest.

Risk of and from medico-legal cases

- Home health companies are now offering services where there is a risk of infection and other complications such as dialysis at home. Home health companies are offering many of these services in tie up 3rd parties/ doctors. There is lack of clarity on who would be help responsible for such complications. Any claims arising from such claims will further dent cash availability for these companies along with damaging reputation.

Criteria or hypothesis to test screening potential investments in sub-sector

Category	Key Indicators	Attractiveness Criteria	Criticality
Financials	Revenue CAGR	Steady Growth>=40%	High
	EBITDA Margin (For City/ Cluster)	Near to and improving profitability	High
	Average revenue per episode	Upwards of Rs 650 (dependent on type of service)	High
Customer	New Registrations	No. of new registrations- 20% of total consultations	High
	No. of repeat visits	Churn of chronic patients < 2%	High

Attractiveness: Low-Moderate | Moderate High | High

IN VITRO FERTILIZATION

Causes of infertility in males and females

- Excessive exercise
- Environmental Factors
- Marijuana or other drugs abuse

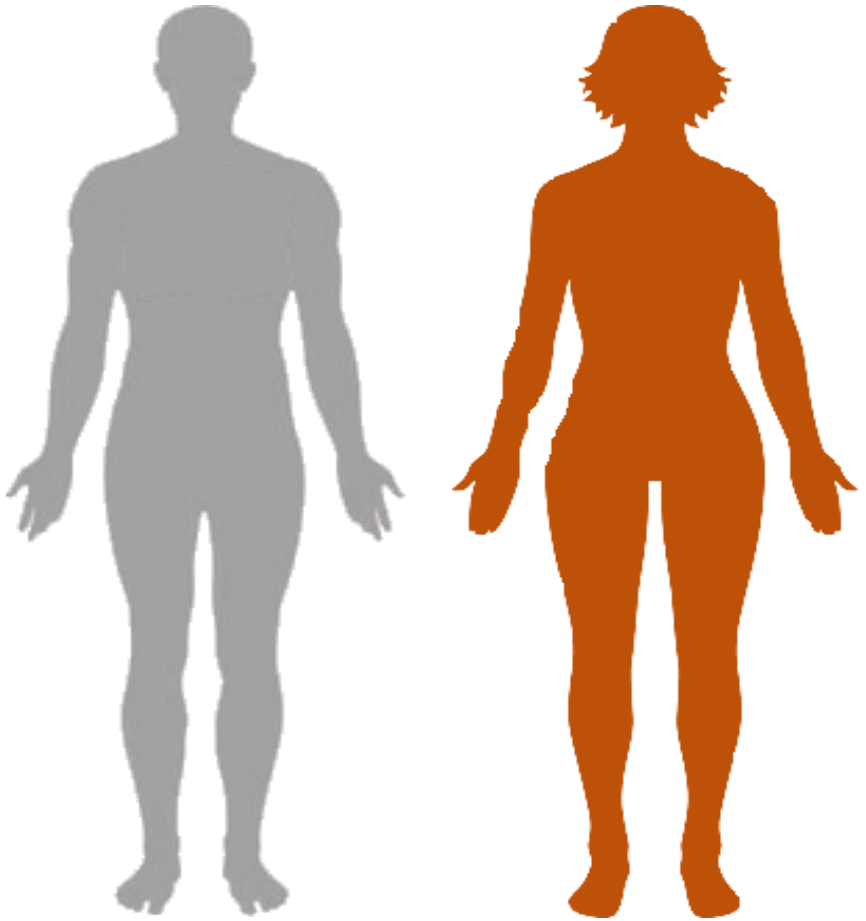
Poor sperm quality

Low sperm count

Abnormal sperm morphology

Congenital birth defect

No sperm formation



Uterine Causes
- Abnormal anatomy of the uterus
- Presence of polyps and fibroids

- Emotional stress
- Inadequate diet, extreme weight loss & gain
- Hormone misbalance

Polycystic ovary syndrome

Functional hypothalamic amenorrhea

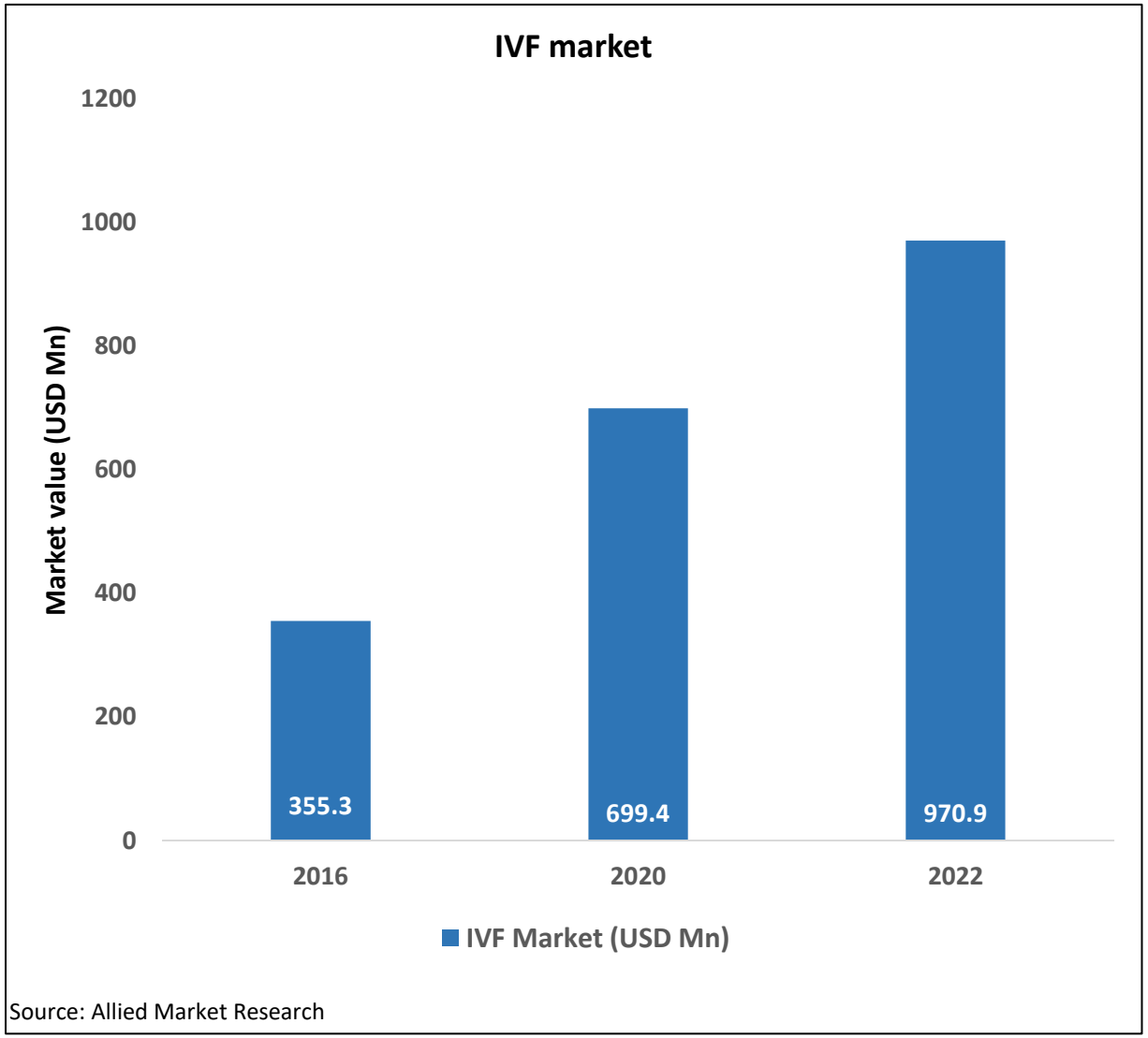
Diminished ovarian reserve

Inadequate mucous production

- Pelvic inflammatory disease
- Endometriosis
- Sexually transmitted infections

Damage to Fallopian Tube

According to Allied Market Research – Fertility Services, the infertility treatment market is sized around ~ USD 700 Mn; The market is expected to grow at 18% and reach ~USD 1 Bn by 2022



Source: Allied Market Research

Trends in IVF

Private players expanding to tier 2/3 cities
With a huge demand of patients travelling to tier 1 cities for treatment a lot of players like Indira IVF are expanding in smaller towns

Players being less dependent on surrogacy
With new regulations the players dependent on surrogacy are finding it tough to survive.

Move towards lower pricing
With growing competition and volume increase, prices to patients have decreased

Hospitals entering IVF space
Due to high margins associated with IVF hospitals are looking to open clinics within their setups.

Doctor practices being bought out by chains
Practice of some top doctors are being bought out by chains with the aim of expansion.

Growth has been driven by lifestyle changes and growth of treatment centres

Improved Access

- Increase in the number of couples visiting an IVF center owing to increase in the number of IVF centers opening up in tier 2 and 3 cities.

Increasing incidence of Infertility

- According to the Indian Society of Assisted Reproduction, infertility currently affects about 10 to 14 percent of the Indian population, There are higher rates in urban areas where one out of six couples is impacted.

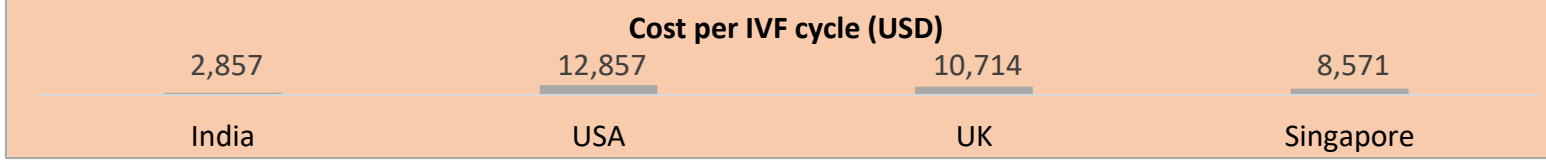
Decreasing treatment costs and new payment options

- Increasing number of players has brought down prices of treatment making it more affordable to patients.
- A lot of IVF chains tie up with financial institutions to give treatment options to patients via EMIs.

Lifestyle changes

- Growth in number of couples delaying parenthood due to professional commitments.
- Trend of late marriages.
- Increased stress levels and lifestyle diseases like diabetes and hypertension.

Flow of international patients due to low treatment cost



- Cost of an IVF cycle is among the lowest in India thus driving foreign patients to India.

Regulations around IVF market

Surrogacy Regulation Act 2016

Salient features:

- Banned all foreign applicants to use India for surrogacy.
- Aimed at avoiding exploitation of Indian women.

India's surrogacy market was removed from the medical tourism horizon

Surrogacy Regulation Bill 2020

Salient features:

- Proposes to regulate surrogacy in India by establishing National Board at the central level and State Boards and Appropriate Authorities in the States and Union Territories.
- Commercial surrogacy will be prohibited including sale and purchase of human embryos and gametes, ethical surrogacy to the Indian Married couple, Indian Origin Married Couple and Indian Single Woman (only widow or Divorcee) will be allowed on fulfillment of certain conditions.

Surrogacy business may suffer as only "close relatives" may act as surrogates reducing the pool and making some unorganised players redundant

Assisted Reproductive Technology Bill(2020)

Salient features:

- Aims to regulate IVF clinics in the country.
- Sets a upper age limit of 50 for women to undergo these procedures.
- Law will look at standardizing protocols among clinics .
- Reporting would be mandatory .
- It would be mandatory for clinics to register under the national and state boards.

Multi location clinics will need to do multiple registrations and reporting

Key challenges faced include shortage of embryologist and social acceptance

Social acceptance

- People perception of infertility diseases is negative
- 'Infertility' is still viewed in India as a inability rather than a disability
    - Lot of couples do not want to admit they need help

Entry of Mother and child as well as multi speciality hospitals into IVF

- Due to higher margins, hospitals are entering this sector and taking away share of standalone centers due to higher patient reach

Lack of skilled manpower

- There is a shortage of embryologists and well as trained IVF specialists

Low success rate

- Currently India records around 30-40% success rate in IVF cycles
    - This brings a high probability of repeat procedure

Snapshot of Companies Profiled

Key Indicators	Company 6	Company 7	Company 8	Company 9	Company 10	Company 11	Company 12
Year of Establishment	1988	2010	2008	1990	2010	2009	2000
Revenue (FY 19) (USD Mn)	96.2	26.7	10.8	9.6	5	5.5	3.4
Revenue CAGR (4 year)	73%	16%	63%	17%	36%	6%	-7%
EBITDA Margin (FY 19)	32.8%	-10.5%	31.6%	17%	2.3%	3%	6.1%
No. of Centers	80+	25+	18	9	13	28	-8

Source: VC Edge Database, PwC Analysis

Key risks & challenges in the investment space

Regulations may hurt surrogacy flow

- **Surrogacy was already banned for international patients 2016 which has stopped international business .**
- **With the new Surrogacy law coming up Indian patients may find it difficult to get surrogate mothers in India.**
- **Reduction will impact top line as well as margins.**

Increasing competition

- **The format has seen entry of mother and child players as well as multi speciality hospitals. Increasing competition can impact growth and profitability**

Decreasing prices

- **Pan India players are pushing prices of IVF cycles down which will impact the margins.**

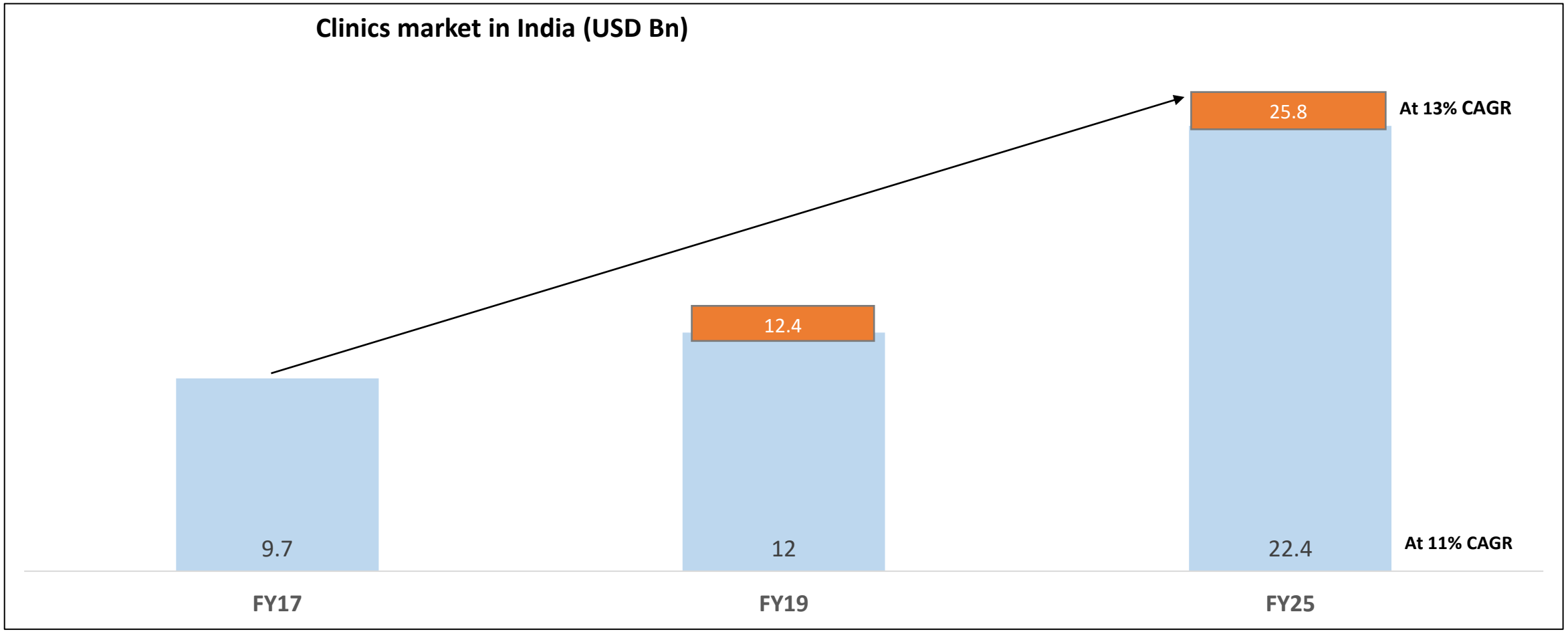
Criteria or hypothesis to test screening potential investments in sub-sector

Category	Key Indicators	Attractiveness Criteria	Criticality
Financials	Revenue CAGR	Steady Growth>=30%	High
	EBITDA Margin (For mature centers)	Margins >=25% (Benchmark with EBITDA of peers)	High
	ARPC	Average Revenue per IVF cycle (INR 1,20,000-1,50,000)	High
	IUI to IVF conversions	>25-30%	
Customer	Success Rate	% of IVFs leading to pregnancy >35%	High
	Expansion of canters	Opening up in new geographies	High

Attractiveness: Low-Moderate | Moderate High | High

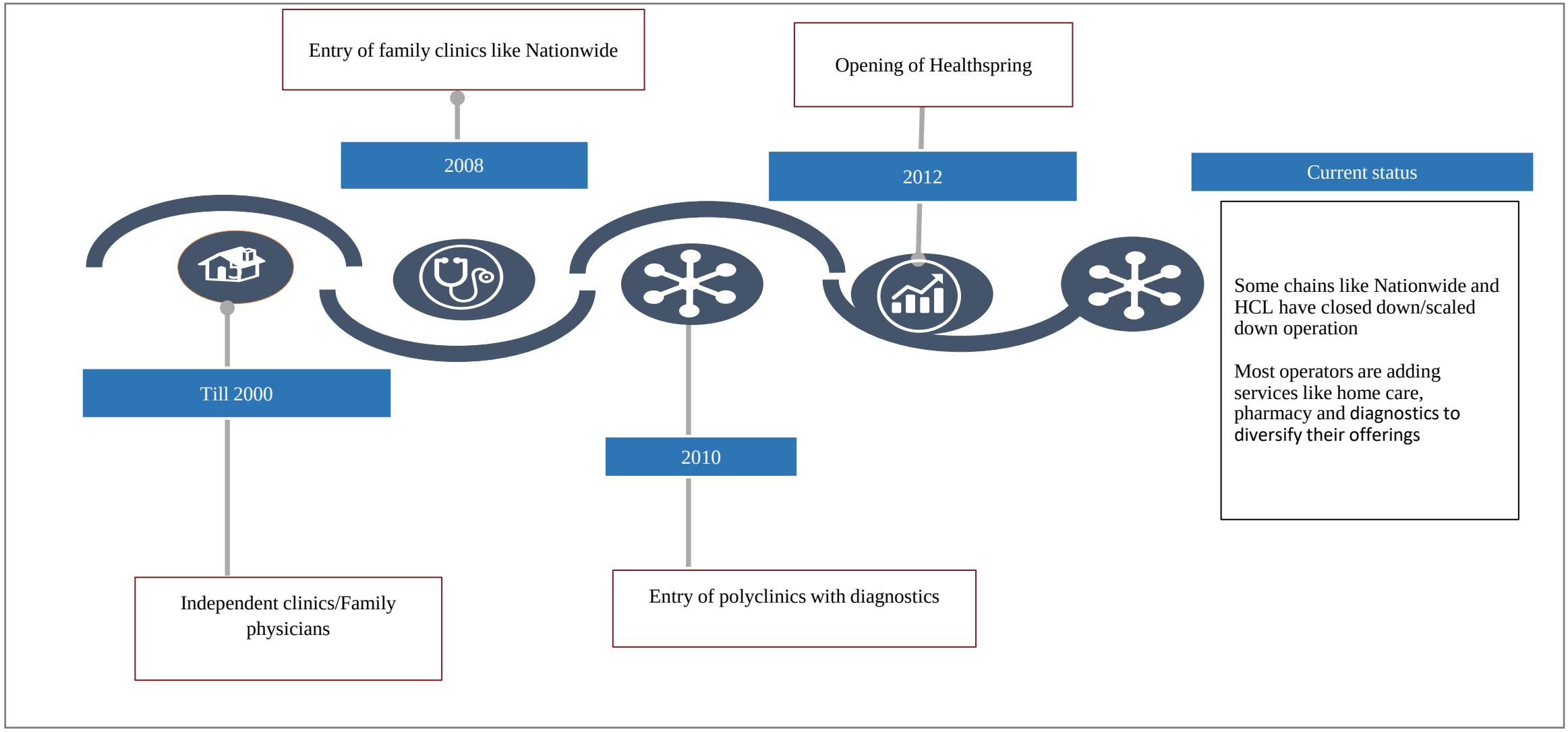
PRIMARY CARE

According to National Health Accounts, Primary care clinic's market in India is valued at ~USD 12 Bn; Corporate primary care clinics constitute less than 1% of the market



Source: National Health Accounts, National Health Profile, PwC Analysis

Till the 2000's, single doctor setups dominated the sector; Corporate groups started entering this space from 2008



Challenges (1/2)
Primary Care Clinics are hit by high rental and doctor costs

High rental costs with low ticket size

- Clinics have to open up in high end commercial/residential areas which lead to a higher rental per sq ft. Clinics also need to compete with other high end commercial establishments like salons/restaurants and bars for the same location
- The average bill size of clinics is small as compared to other healthcare delivery models leading to a lower realisation as compared to single speciality hospitals needed similar size areas for operations

High doctor/manpower costs

- The physician takes away a major share of the fees
  - Since OPD consultation is the major source of revenue for clinics, this outflow leads to high manpower costs overall

Challenges (2/2)

High attrition amongst doctors and preference towards hospitals are further impacting the organized clinics

High attrition

- Once a doctor gains patient base, he/ she opens up own clinic in the vicinity thus significantly affecting footfall of the primary care chain where he/ she was earlier attached to .

Ease of entry

- Due to low set up costs, it is easy for individual doctors who set up their own clinics for OPD consultations and become competition to primary care chains.
- Some of the doctors are not exclusive and available in multispecialty hospitals also

Hospitals directly reaching out to patient even for primary care

- Many multispeciality hospitals are focusing on primary care/preventive health. Thus even for regular consults, patients are now directly connect to the hospital.

Due to these challenges, organized clinics have been trying to look at other revenue options

Core Offerings

- Doctor Consult
- Health check

Added offerings

Formation of hybrid models of clinics

- Gynecology Clinics
- Diagnostics
- Homecare
- Pharmacy
- E-consultations

Though diversifying services is helping the companies, it poses its own set of challenge:

- ***With addition of services, the corresponding regulation needs to be compiled with leading to complexity in operations***
- ***Primary care clinics start competing with core players of that sector who have much better expertise and efficiency of operations in their respective field***

The challenges faced by the are reflecting in their negative EBIDTA margins

Key Indicators	Company 13	Company 14	Company 15
Revenue (FY19) (USD Mn)	7.5	3.3	1
Revenue CAGR	58%	28%	1%
EBITDA Margin (FY 19)	-108%	-41%	-41%
No. of Centers	24	25	25

Source: VC Edge Database, PwC Analysis

Key risks & challenges in the investment space

Unproven Business Model

- None of the companies have been able to scale up in a cost efficient profitable manner. Most companies have had to scale down initial plans/ even operations.

Limited number of organised players

- There are not many players in the organised space as the market is fragmented with a lot of doctors setting up their own clinic.
- Not too many options to invest.

Competition from other verticals of the healthcare ecosystem

- With a lot of companies/aggregators offering e-consultations at an attractive rate with rated doctors patients are getting consults on their mobile phone.
- Less effort for patients as compared to visiting clinic.
- Multispeciality hospitals are reaching to patients via health check packages and even otherwise for normal consults.
- Home health companies are providing doctors at home.

Criteria or hypothesis to test screening potential investments in sub-sector

Category	Key Indicators	Attractiveness Criteria	Criticality
Financials	Revenue CAGR	Steady Growth>=15% As dialysis market is growing at 12-14%	High
	EBITDA Margin (For City/ Cluster)	Near to profitability	High
	Rental Costs	<20% of topline	High
Customer	Growth in reach via new centers	No. of new canters opening per month	High
	New registrations	No. of new registrations – 20% of total consultations	Low-Moderate

Attractiveness: Low-Moderate | Moderate High | High

SUMMARY VIEW

Sub-sectors	Market size (FY19) USD Bn	Sector Growth (Next 5 years)	Investment Rationale	Key Challenges
Home Healthcare	~0.8	15-18%	• Demand to do more in less time • Growing dependent population • Increasing nuclear families	• Evolving business model • Majority market consist of low value services
IVF	~0.7	18%	• Rising incidence of fertility – lifestyle and delayed pregnancy • Growing organised sector • Increasing reach in tier 2/3 cities	• Competition from mother and child hospitals for standalone players • Lack of qualified manpower
Primary Health Care	~12	11-13%	• Large Market	• High costs -rentals, doctors • Competition from all formats – hospitals/home healthcare • High doctor attrition coupled low entry barrier

Attractiveness – Healthcare delivery

Segment	Market growth rate	Profitability/ Returns	Saleability	Challenges/ Risks	Attractiveness Index
Home Health Care	Moderate-High	Low	Low-Moderate	Moderate-High	Low-Moderate
IVF	High	High	Moderate-High	Low-Moderate	Moderate-High
Primary Health Care	Low-Moderate	Low	Low	High	Low

CONCLUSION

Home Health Care

S.No	Parameter	Description
1	Continuum of Care	• Home health market estimated at ~0.8 bn USD was largely an unorganized market till 7-8 years ago; The market is growing in high teens
2	Strong growth drivers	• Aging population, preference for personalisation along with rising affordability is leading to growing demand for homecare
3	Challenges around manpower attrition and competition from hospitals remain	• Companies in this sector continue to face the challenge of high attrition. Entry of hospitals has further accentuated this problem • This is visible in the P&L of the large players which are still in the red
4	Private players expanding services but challenges remain	• Private organized players are growing revenues in high double digits though profitability is still a concern. The sector has seen multiple PE investments with Portea accounting for ~50% of it. Given the focus on market expansion, companies are raising cash every 2-3 years

Home health is a nascent sector which is in a growing stage. Almost all organized players are growing at >40% p.a, but are still making losses. While the path to profitability is not truly visible, investors should keep an eye on the sector given the strong macro tailwinds and the significant revenue growth that companies are delivering

In Vitro Fertilization (IVF)

S.No	Parameter	Description
1	**Growing market**	• The IVF market is **growing at ~18%** and is expected to be **USD 1.2 Bn by 2022**.

2	**Increasing access and lifestyle changes**	• The market is driven by
		  • Chains expanding to a pan India level and even reaching tier 2 and 3 cities
		  • Lifestyle changes like delayed pregnancies

3	**Move to chains from standalone doctor clinics**	• Patients are preferring chains for treatment due to increased quality and reducing costs
4	**New regulations**	• The **Surrogacy Regulation Bill** is going to make surrogacy business tough in India and **Assisted Reproductive Technology Bill** is going to make the business more organised.
5	**Players**	• Indira IVF is the market leader • Almost all players are growing at >20% with opening up of new centres

With lifestyle changes increasing, the infertility problems in India are bound to increase. The market is seeing a higher preference towards corporate chains and all of them are showing a healthy increase in revenue year on year. The sector will continue to grow and is a good place for investment of funds

Primary Health Care

S.No	Parameter	Description
1	Unorganized market	• Clinics market is majorly unorganised with individual doctors having the higher share in the private sectors.
2	Entry of corporate chains	• Corporate chains started entering the space in the late 2000's.
3	Challenges to values proposition	• Clinics were supposed to give customers an ease of access and standard of service, they were faced with challenges from other formats.
4	High costs and attrition	• Clinics are hit by high rental and manpower costs along with high attrition, specially amongst doctors.

5	Private players expanding services but challenges remain	• Almost all players are diversifying their service line with diagnostics, pharmacy and home health
		  • Revenue growth of most players are >20%.
		  • All are hit by significant –ve EBITDAs.
		• There have been PE investments in companies like Healthspring but no exits.

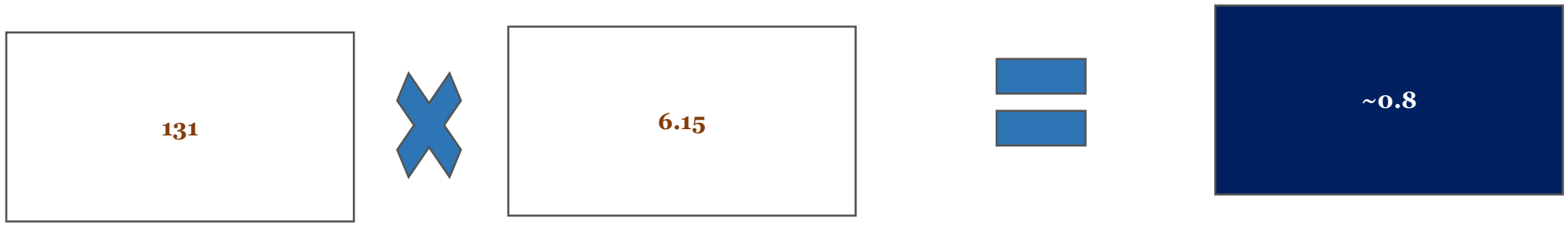
Though revenue of private players is growing, appropriate business model is yet to be established in the space making it tough for companies to expand/scale up operations in a profitable manner. Business cases for investments into this space is yet to be established.

ANNEXURES

Annual orders - Mn

Avg Revenue Per Episode (USD)

Total market size (USD bn)



Orders have grown 15% year on year
Price is constant due to largely fragmented and unorganized market

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THANK YOU