

# Day-hospitals company to list shares

*Advanced Health (AVL) will list its shares on the Johannesburg Securities Exchange Alt-X counter to raise capital to develop opportunities in its market niche. The company provides short-procedure surgical facilities and services in day hospitals in South Africa and Australia.*

“In South Africa, vested interests and preconceived misconceptions have been hampering the development of day hospitals to their full potential in terms of the cost savings and patient convenience they offer for short-procedure surgery,” says AVL founder and CEO Carl Grillenberger.

## Window of opportunity

In many countries the healthcare reimbursement systems stimulate the use and development of day hospitals. This has not been the case in South Africa – until a few months ago, when trend-setting medical

scheme Discovery Health announced its intention to pay surgeons an incentive if they treat patients in a day hospital. Specialists network SpesNet supports this approach.

“We expect that other medical schemes will follow Discovery’s example in order to reduce the disproportionate increase in private hospital costs to the average increase in the basket of services they fund,” says Carl.

The steep escalation in notably private hospital expenditure over the past decade has raised concern in both private and public sectors.



## Advanced Health Limited

### South Africa

Medgate Day Clinic  
eMalahleni Day Hospital  
(Soweto Day Hospital  
license obtained)  
(Potential BEE partner)

### Australia

Ophthalmic Surgery Centre  
Epping Surgery Centre  
Central Coast Surgery Centre  
(Flagship facility in Sydney)

## Vision

We strive to be the industry leader, inspiring confidence by focusing on the delivery of cost-effective healthcare and enriching the lives of our patients, staff and associated medical practitioners and stakeholders.

## Mission

We are proud of our achievements and we shall build on them to grow as a healthcare group which utilises relevant and cost-effective technology to add value to the needs of our patients, medical practitioners, personnel and stakeholders.

## What is a day hospital?

A day hospital provides facilities for short-procedure surgery. More than 60% of surgical interventions can be safely performed in a day hospital.

**Advantages** of day-hospital utilisation extend beyond cost reduction to funder and patient.

**Stakeholders** benefit from:

- a reduced capital outlay because day hospitals focus on surgical and investigative procedures only;
- reduced overhead costs through a single-shift business cycle; and
- quick patient turnaround.

Medical practitioners stand to increase their income as other medical schemes follow Discovery’s incentive to curb

scheme expenditure on hospitalisation costs. They also benefit from:

- working with specialised staff who focus on the procedures and administrative functions of the fields of specialisation offered in the day hospital; and
- a reduced risk of infection to patients in comparison with acute hospitals.

**Surgical procedures** suited for single-day admission include:

- plastic surgery,
- ear, nose and throat surgery,
- general and gynaecological surgery such as laparoscopic surgery,
- orthopaedic arthroscopy surgery,
- ophthalmic surgery,
- maxillofacial surgery, and
- sterilisation, circumcision and related

**The use of day hospitals presents a strategic lever in managing healthcare costs as medical scheme payouts for hospitalisation continue to spiral.**

**Advanced will achieve growth through:**

- **Greenfields developments, acquisitions and partnerships, and**
- **A focused drive to market the advantages of day hospitals to healthcare practitioners, funders and patients.**

# Hospital costs disproportionate to medical spend

The magnitude of hospital cost increases in South Africa is well documented. Figures in annual reports of the Council for Medical Schemes show that, in the twenty years from 1990 to 2010, hospital expenditure rose from R5 billion to R76 billion.

More disconcerting is that hospitalisation cost now constitutes some 37% of scheme expenditure as opposed to 24% in 1990.

## Steep increase

A steep and disproportionate increase in hospital cost is not unique to South Africa, but other markets have explored an alternative to general hospitalisation, namely day hospitals – facilities which are also called day clinics, surgery centres or ambulatory surgical centres. In Australia, where Advanced Health operates three day hospitals, the general/day hospital split is 279/302. In the United States the split is 6 700/6 000.

In South Africa the split is 235/45, indicating that the private hospitalisation market is controlled by hospitals groups.

“It is clear that no day-hospital grouping is in a position to sway this equation in the short term – but, at some stage, the cost advantages that day hospitals offer funders must stimulate an improved balance between general and day hospital utilisation,” says AVL CEO Carl Grillenberger. It is estimated that only 7% of operations are performed in day hospitals.

## Stimulus

“We see the announcement by Discovery Health that it will pay surgeons a 30% surcharge on approved surgery fees for procedures performed in a day hospital as the first stimulus in day hospital growth. The support of SpesNet will add further impetus to the change in perception.”

However, there are inhibiting factors. Specialists work from a comfort zone, because private hospitals tend to offer them subsidised rental rooms. Most specialists in South Africa practise in rooms located close to or in hospitals. Obviously, they would favour procedures in the hospital, obviating the need to travel, resulting in patients not receiving the benefit of a more cost-effective solution.

## Advantages

The arguments in favour of day-hospital utilisation are vast:

- More than 60% of all surgical interventions can be attended to safely in a day hospital.
- The international growth in day-hospital

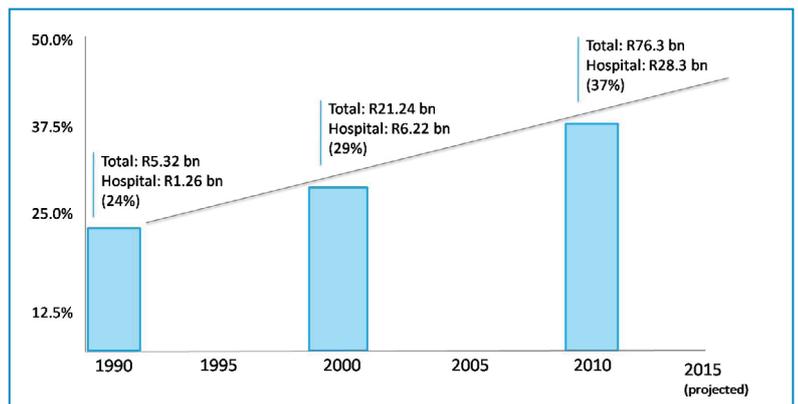
utilisation is the result of the ever-increasing sophistication of surgical training, techniques and equipment, notably less intrusive laparoscopic procedures which substantially reduce patient recovery time.

- A reduced risk of infection, as day hospitals treat healthy patients only, eliminating exposure to chronic diseases and associated germs and bugs.
- Reduced cost, as a result of, amongst others, single-shifts working from Monday to Friday instead of round-the-clock hospital shifts and kitchens having to provide three meals a day.
- In day hospitals, the specialisation in short-

procedure surgery focuses all role-players on the outcome of the procedure, whereas, in a general hospital, the focus dilutes because of services such as ICU, high-care and medical wards where the majority of the staff is working.

- Quick patient turnaround, with spin-off advantages associated with higher productivity for surgeons, anaesthetists and staff.
- Low sepsis risk, because day hospitals admit healthy patients only.
- A focused, relatively small capital outlay in relation to the vast outlay required for hospitals and associated infrastructure.

Hospital costs – from 24% to 37% of total medical schemes spend.

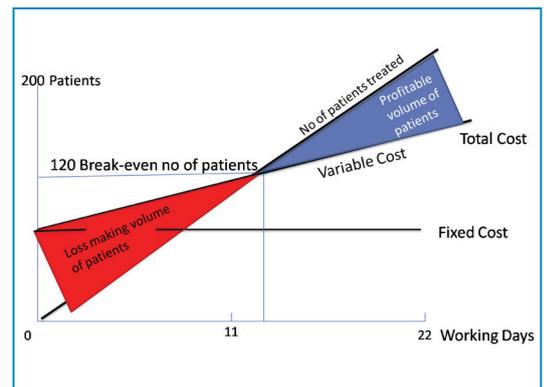


	Population (in millions)	Number of private hospitals (inc. psychiatric)	Number of day-surgery facilities	Total of all facilities
United States	317.241	6 700	6 000	12 700
Australia	23.438	279	302	581
South Africa	52.982	235	45	280

Day-hospital statistics (left) and day-hospital break-even indicator (below).

## What is SpesNet?

SpesNet is a healthcare-services company providing a vast range of tailor-made products and support systems to their member base of more than 3 700 medical specialists and other healthcare professionals. The services focus on the optimisation of practice and business management, as well as doctor-funder opportunities and proactive healthcare solutions.



# Advanced Health: A solid basis for growth

Although in its infancy, Advanced Health is already a solid business, under-pinned by non-ZAR income. The established facilities base generated combined profits of R1,75 million in the year ended 30 June 2011, R5,1 million in 2012 and R7,7 million in 2013.

## Capital raising

AVL's current issued share capital comprises 110 831 514 ordinary shares. The share offer of 100 million ordinary shares at R1 each (of which 20 million have been subscribed to by stakeholders) will increase share capital to R210 831 514.

A portion of capital will be obtained from medical practitioners to strengthen AVL's relationship with the medical fraternity. The support of more surgeons will be sought through shareholding and incentives.

By leveraging the new capital with a conservative 80:20 equity:borrowing ratio, AVL will be able to invest an additional R42 million in growth prospects.

## South Africa

In South Africa, prospects targeted include the Soweto Day Hospital, which is already being developed, ten greenfields projects, partnerships or share-exchange transactions with existing day hospitals and the management of rented day-hospital properties.

Greenfields projects, partnerships and acquisitions can be implemented fairly quickly, because day hospitals are not subject to Competition-Commission red tape as is the case with the general-hospital market, which is dominated by three players.

## Australia

Approximately R30 million will be spent in Australia, subject to SA Reserve Bank approval. Growth prospects include a flagship day hospital in Sydney with five theatres.

## Contact information

The public offer for 80 million Advanced Health ordinary shares at R1 per share will open end of March and close mid-April. The listing in the Alt-X division of the JSE is expected before end-April.

Find out more about the offer from:

Lourens Erasmus ([advanced@arcay.com](mailto:advanced@arcay.com)), 083 561 6445, 011 480 8500  
A copy of the prospectus can be requested via Lourens (expected end of March).

More information about Advanced Health, its businesses and growth targets is available from:

Carl Grillenberger, CEO ([carl.g@advancedhealth.co.za](mailto:carl.g@advancedhealth.co.za)), 071 204 4760

## Primary target market

- Dentists (dental procedures and referral).
- Optometrists (referral only).
- Specialists (some referral but mainly procedures).
- General practitioners (mainly for referral purposes).

## Secondary target market

- Patients.
- Medical schemes.
- Managed-care organisations.
- Insurers.
- Government contracts.
- National Health Insurance (NHI).

## The team

Core members of the AVL management team helped to establish President Medical Investments in 1983, one of the first companies to develop day hospitals in South Africa. They listed the company and grew it to hold 12 day hospitals and 19 hospitals. In 1999 the businesses became part of what would eventually become Life Healthcare.

The team is led by CEO Carl Grillenberger, who has since the early 1980s been a firm believer in the benefits of day hospitals. During the late 1990s Carl established a company which holds the three AVL day hospitals in Australia, where he was assisted by Marc Resnik, a former managing director of the then South African Lifecare Clinics and, subsequently, a PresMed shareholder. Marc is managing director of the Australian arm of the business, having first stabilised and then expanded the asset base there.

In 2005, Carl acquired the Medgate Day Clinic in Roodepoort and in 2009 he opened the eMalahleni Day Hospital (eDH) in eMalahleni (Witbank).

## The approach

The AVL team follows a holistic approach, working in partnership with medical practitioners, funders, umbrella bodies, patients and government to promote the advantages of day-hospital surgery.

This approach seeks to benefit all stakeholders, be it:

- medical practitioners (through AVL's management and marketing expertise),
- funders (through competitive pricing and geographic spread); or
- strategic alliances, such as with MedCeptional, a day-hospital management company developing day-hospital projects with already approved licenses.

MedCeptional's doctor-focused initiatives and well-established resources and relationships in the healthcare market complement those of AVL.

## Directors:

- Frans van Hoogstraten BA Law (independent non-executive chairman)
- Carl Grillenberger CA(SA) MBA (Chief Executive Officer)
- Cor van Zyl CA(SA) (Chief Financial Officer)
- Phil Jaffe CA(SA) (independent non-executive director, based in Australia)
- Cobus Visser BLC LLB (alternative to Phil Jaffe)
- Marc Resnik DIP Pharm (Chief Executive Officer, PresMed Australia)
- Dr Wilfred Tommy Mthembu MB BCh(Rand) FC Ophth(SA) (independent non-executive director)



## Additional information

### Income earned/projected years ending June 2012 – 2015

Rand (000)	Actual		Projected	
	2012	2013	2014	2015
<b>Revenue</b>	<b>92 508</b>	<b>126 153</b>	<b>154 928</b>	<b>203 045</b>
Less: Cost of sales	(30 445)	(44 640)	(72 724)	(91 076)
<b>Gross Profit</b>	<b>62 063</b>	<b>81 513</b>	<b>82 204</b>	<b>111 969</b>
Less: Operating costs	(50 221)	(61 646)	(56 198)	(78 588)
<b>Operating profit</b>	<b>11 842</b>	<b>19 867</b>	<b>26 006</b>	<b>33 381</b>
Other income & expenses	2 521	564	(5 496)	(1 266)
Taxation	(2 929)	(4 427)	(5 497)	(9 642)
<b>Net profit after tax</b>	<b>11 434</b>	<b>16 004</b>	<b>15 013</b>	<b>22 473</b>
Total comprehensive income attributable to:				
Members of parent	<b>5 079</b>	<b>7 732</b>	<b>7 536</b>	<b>14 111</b>



### Consolidated statement of financial position

	Actual Jun-13 R	Pro forma Jun-14 R	Pro forma Jun-15 R
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	28 956 085	145 131 349	161 876 737
Trade receivables inventory and other assets	11 287 784	18 195 354	22 147 698
<b>TOTAL CURRENT ASSETS</b>	<b>40 243 869</b>	<b>163 326 703</b>	<b>184 024 435</b>
<b>NON-CURRENT ASSETS</b>			
Goodwill, Intellectual Property & Intangible Assets	-	19 470 696	19 470 696
Property, plant and equipment	49 606 860	53 153 422	57 227 882
Deferred tax and financial assets	2 035 793	2 035 793	2 035 793
<b>TOTAL NON-CURRENT ASSETS</b>	<b>51 642 653</b>	<b>74 659 911</b>	<b>78 734 371</b>
<b>TOTAL ASSETS</b>	<b>91 886 522</b>	<b>237 986 614</b>	<b>262 758 806</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade, tax and other payables	22 951 288	24 944 821	27 304 629
<b>TOTAL CURRENT LIABILITIES</b>	<b>22 951 288</b>	<b>24 944 821</b>	<b>27 304 629</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade, deferred tax & other	25 572 645	32 069 950	35 212 677
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>25 572 645</b>	<b>32 069 950</b>	<b>35 212 677</b>
<b>TOTAL LIABILITIES</b>	<b>48 523 933</b>	<b>57 014 771</b>	<b>62 517 306</b>
<b>NET ASSETS</b>	<b>43 362 589</b>	<b>180 971 843</b>	<b>200 241 500</b>
<b>EQUITY</b>			
Issued capital	467 035	119 094 454	119 094 454
Reserves and retained earnings	37 405 733	46 588 074	57 496 395
Equity attributable to Advanced	37 872 768	165 682 528	176 590 849
Non-controlling interest	5 489 821	15 289 315	23 650 651
<b>TOTAL EQUITY</b>	<b>43 362 589</b>	<b>180 971 843</b>	<b>200 241 500</b>

[www.advancedhealth.co.za](http://www.advancedhealth.co.za)

