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.

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.
The industry

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 hospital 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 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.

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.

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

Day-hospital statistics (left) and day hospital break-even indicator (below)
Advanced Health: A solid basis for growth

Although in its infancy, Advanced Health is already a solid business, underpinned 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.

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.

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), 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), 071 204 4760

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

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

Total comprehensive income attributable to:

- Members of parent: 5 079, 7 732, 7 536, 14 111

### Consolidated statement of financial position

<table>
<thead>
<tr>
<th></th>
<th>Actual Jun-13 R</th>
<th>Pro forma Jun-14 R</th>
<th>Pro forma Jun-15 R</th>
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</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>28 956 085</td>
<td>145 131 349</td>
<td>161 876 737</td>
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<tr>
<td>Trade receivables inventory and other assets</td>
<td>11 287 784</td>
<td>18 195 354</td>
<td>22 147 698</td>
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<tr>
<td><strong>TOTAL CURRENT ASSETS</strong></td>
<td>40 243 869</td>
<td>163 326 703</td>
<td>184 024 435</td>
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<tr>
<td><strong>NON-CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill, Intellectual Property &amp; Intangible Assets</td>
<td>-</td>
<td>19 470 696</td>
<td>19 470 696</td>
</tr>
<tr>
<td><strong>PROPERTY, plant and equipment</strong></td>
<td>49 606 860</td>
<td>53 153 422</td>
<td>57 227 882</td>
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<tr>
<td>Deferred tax and financial assets</td>
<td>2 035 793</td>
<td>2 035 793</td>
<td>2 035 793</td>
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<tr>
<td><strong>TOTAL NON-CURRENT ASSETS</strong></td>
<td>51 642 653</td>
<td>74 659 911</td>
<td>78 734 371</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>91 886 522</td>
<td>237 986 614</td>
<td>262 758 806</td>
</tr>
</tbody>
</table>

|                      |                 |                    |
| **LIABILITIES**      |                 |                    |
| **CURRENT LIABILITIES** |               |                    |
| Trade, tax and other payables | 22 951 288     | 24 944 821        | 27 304 629        |
| **TOTAL CURRENT LIABILITIES** | 22 951 288    | 24 944 821        | 27 304 629        |
| **NON-CURRENT LIABILITIES** |            |                    |
| Trade, deferred tax & other | 25 572 645     | 32 069 950        | 35 212 677        |
| **TOTAL NON-CURRENT LIABILITIES** | 25 572 645    | 32 069 950        | 35 212 677        |
| **TOTAL LIABILITIES**  | 48 523 933     | 57 014 771        | 62 517 306        |
| **NET ASSETS**        | 43 362 589     | 180 971 843       | 200 241 500       |

|                      |                 |
| **EQUITY**           |                 |
| 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       |
| **TOTAL EQUITY**     | 43 362 589     | 180 971 843      | 200 241 500      |