

INSIGHTS

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STARS ALIGN AS FOREIGN INVESTORS POISED TO ENTER SAUDI ARABIA HEALTHCARE

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Foreign investment in Saudi Arabia's healthcare sector is set to rise rapidly, as burgeoning demand for specialised services stretches state-owned facilities and low global oil prices puts pressure on government budgets. Saudi Arabia's government has prioritised investment in healthcare and education in recent years in an effort to improve social infrastructure and create jobs for a youthful and fast growing population.

This policy has led to a building boom that aims to cut the country's notoriously long hospital queues, with over 100 facilities currently under construction, which will supply an extra 26,000 beds. In parallel, private healthcare provision has increased and accounts for around 40 percent of spending in the sector, compared to 25 percent in 2006.

But until now, foreign investors have, on the whole, taken a "wait and see" attitude to the market, in the hope that regulations will evolve quickly to allow more legal certainty. Activity has been limited mostly to management contracts, rather than investment in businesses, and to a handful of high-profile partnerships, such as between energy giant Saudi Aramco and Johns Hopkins Medicine to improve the quality of healthcare provision for the Saudi energy giant's employees.

This is set to change following the Ministry of Health's decision in late 2014 to allow foreign investors to own and operate private healthcare centres in the country. It also helps that healthcare is a priority sector for the Saudi General Investment Authority (SAGIA), the body that manages the investment environment and that grants investment licenses.

At the same time, with oil accounting for about 90 percent of government revenues in the Arab world's largest economy, a drop of more than 40 percent in crude prices in the past 12 months has increased pressure on state finances. Recent media reports suggest that the Ministry of Finance is ordering cost cutting across government.

For foreign investors, Saudi Arabia healthcare carries huge potential.

It is by far the biggest healthcare market in the region, accounting for 50 percent of total spending in the Arabian Gulf. But annual healthcare spending per capita in Saudi Arabia currently lags neighbouring countries by some margin, standing at just over US\$900, compared to around US\$ 1,700 in Qatar and nearly US\$1,600 in the UAE. The country is likely to start catching up, with spending expected to grow by at least 12 percent annually to over US\$ 69 billion by 2018.

Driving this growth in healthcare consumption is increasing wealth – following several years of government budget and current account surpluses, and fiscal stimulus – and an exceptionally high incidence of major disease categories, including diabetes, heart disease, and congenital disorders.

Several initiatives driven by the government are also improving the investment landscape. It is making a concerted effort to enforce laws making health insurance mandatory in the private sector, establishing industrial free zones for pharmaceutical companies, and granting interest-free loans for healthcare investment by local companies.

For foreign investors, the most attractive domain is likely to be in high quality specialised care – a need that existing hospital groups operating in Saudi Arabia are failing to meet.

For example, at TVM Capital Healthcare Partners, we are working on introducing to Saudi Arabia companies that we have successfully nurtured in the United Arab Emirates. They include Cambridge International Medical & Rehabilitation Center and home care provider Manzil Health Care Services – both providers of world-class care that work in partnership with global leaders in rehabilitation and diabetes care.

But despite the much improved investment environment, entering Saudi Arabia is not straight forward. Obtaining an operating licence can take several months, as applications need to pass through 14 different regulatory bodies.

However, this is a time for pioneer foreign investors to engage with Saudi authorities, rather than to be discouraged by red tape.

TVM Capital Healthcare Partner's experience of entering other Arabian Gulf markets is that regulators welcome input – sometimes to the extent of helping to draft licensing agreements that become the industry norm. It is therefore important for responsible foreign investors to take this role seriously, for the good of the whole industry.

All the signs point to Saudi Arabian authorities welcoming such a constructive dialogue, not only to create a robust and predictable investment landscape, but

also to communicate views on the healthcare gaps that need to be addressed. It is apparent that the government would not only welcome investment in healthcare provision, but also in technology, information systems, and training.

The stars seem aligned for foreign investors to step up, and the opportunity is clear.

About the Author

Dr. Helmut M. Schuehler

**Chairman, TVM Capital Group
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Dr. Schuehler has dedicated his career to exploring new horizons as an investor, pursuing innovation and building teams and businesses, sometimes from scratch, sometimes in new regions, and always in healthcare and with an eye on products or services that address unmet medical needs and promote societal progress. In the process he has gained extensive operating and investment experience in numerous geographies, such as Germany, the UK, France and several other European countries, the United States, the UAE and India.

He started his investment management career at Horizonte Venture Management in Vienna, Austria, and joined TVM Capital in Munich in 1990. Since then his investment track record includes close to 30 direct investments, as well as positions as chairman, vice chairman or director at around 30 innovative life science and healthcare companies. In the Middle East, he currently serves as chairman of UAE-based Manzil Health Care Services, and previously held the position of chairman at ProVita International Medical Center, Cambridge Medical & Rehabilitation Center and Bourn Hall International. On the life science side, he is a board member of Concert Pharmaceuticals, Inc, (Lexington, MA, USA) and f-Star GmbH (Vienna, Austria).

As a long-time director of Max Planck Innovation, he contributed to the translation of leading German science into commercial projects. For several years between 2003 and 2009, he represented the European private equity and venture capital industry at the European government level in Brussels in various roles such as chairman of the Professional Standards Committee and finally in 2007/08 as chairman of the European Private Equity and Venture Capital Association (EVCA, now called "Invest Europe").

During his tenure with TVM Capital, Dr. Schuehler has raised more than \$1 billion in committed capital for life science and healthcare investments from global investors. Over the years, the firm expanded from Germany to a pan-European footprint, on to the United States, the Middle East, India, Canada and finally Hong Kong. In the process, he has overseen investments as a managing partner or CEO in 100 healthcare and life science companies, with over 40 going public in the United States and Europe.

About TVM Capital Healthcare Partners

TVM Capital Healthcare Partners Ltd., established in 2009, is the first private equity firm in the MENA region dedicated exclusively to healthcare, investing in healthcare services, pharmaceuticals, devices and other hospital-related businesses. The company is committed to the highest standards of quality, transparency and innovation. It brings its international network of relationships to bear in the value creation process, forming partnerships between companies in the MENA region and global leaders such as Spaulding Rehabilitation Network (a Harvard Medical School teaching hospital) and Joslin Diabetes Center (an independent, non-profit institution affiliated with Harvard Medical School). TVM Capital Healthcare Partners, with its eco-system of companies such as the TVM Operations Group, an accelerator company as well as Health Talent Consulting, a specialized recruitment firm, has a team of over 40 in the region. The investment team is complemented by experienced healthcare managers (Executives- in-Residence) and medical experts from the U.S., Europe and the region, who together with the team at TVM Operations Group are able to conceptualize, develop, operate and grow world-class healthcare businesses.

TVM Capital Healthcare Partners is part of TVM Capital Group, an affiliation of globally acting venture capital and private equity firms with an operating track record of 30 years. TVM Capital Group has financed more than 120 healthcare and life science companies and has documented its success as a growth capital investor through 43 initial public offerings from its portfolio.

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