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LeapFrog targets hospitals, Kenya and Nigeria in healthcare push
By Matthew Goodburn on 4 MARCH 2016 in News
(https://www.privatehealthcareinvestor.com/leapfrog-to-target-hospitals-and-nigeria-as-part-of-healthcare-push/)

Impact investor LeapFrog's new healthcare team will target Kenya, Nigeria, Ghana, South Africa, India and Indonesia, among others, according to its co-head and Africa investment team leader Felix Olale.

The group announced the formation of a six-strong healthcare team last month, having previously only invested in financial services companies.

Olale said the group was likely to make its first healthcare acquisitions before the end of 2016 with the current market volatility creating a "buyer's market". In Africa, Olale said the focus would be "primarily Kenya, South Africa, Nigeria, Tanzania and Ghana, although we will look outside of these countries opportunistically". He added: "In India we are looking across the whole country, while in South-East Asia our main focus is Indonesia, but we are also looking at Vietnam, Thailand and the Philippines."

"Broadly the emerging market dynamics are similar; the key driver is the emerging consumer earning between $2 and $10 a day across all of these geographies, where the demand for quality affordable healthcare by far outstrips supply." In terms of favoured sectors, he added: "We like hospitals; outpatient speciality care; diagnostics, including pathology and radiology; retail pharmaceutical distribution and technology plays that may straddle financial services and healthcare." "In India, given the maturity of the pharmaceutical manufacturing market, we may look at this area, although such deals may be harder to find in South-East Asia and Africa."

LeapFrog aims to bring its "profits with purpose" investment philosophy to all three regions. The group's approach is to use local industry experts, who have worked and operated with companies in the respective regions, Olale said. He will head the African healthcare investment team, and co-head the combined healthcare team alongside LeapFrog partner Michael Fernandes, who will oversee Asian health investments.

Among its other recruits is Africa-focused Matthew Myers, who Olale said brought key knowledge of how to build healthcare delivery businesses in the continent, where health insurance business models are still in their relative infancy. "A key indicator in Africa has been low medical insurance penetration. So on one hand you need to solve the payor side, while on the other, one needs provider networks that have the right quality, data and standards to be able to drive scale, returns and impact." Among LeapFrog's existing financial services portfolio companies are several that have strong healthcare elements; South Africa's BIMA is the global leader in providing insurance through mobile technology and offers health insurance for low income consumers.

Olale said the company had recently introduced telemedicine as a new service to its consumers. South African insurer All-Life has built its business by offering affordable life cover to people living with HIV and more recently, to those with diabetes, while East Africa-based Resolution began life as a health insurer and is now diversifying into general insurance.

Olale believes there are three critical drivers for healthcare growth in common across Africa, India and South-East Asia: relatively strong GDP growth with a rise in the number of healthcare consumers; rapid population growth and urbanisation; and lifestyle changes leading to increases in chronic disease. “According to World Bank statistics, by 2030, 50 percent of Africans will be living in cities and towns, which will lead to a whole bunch of healthcare needs.” “India today has double digit growth in diseases like diabetes and cardiovascular disease. Even in Africa, as the story of HIV, malaria and tuberculosis somewhat stabilises, the big challenges over the next 15 years will end up being diabetes, heart disease and cancer.”

The increase of so-called Western lifestyle diseases is apparent in all three regions, he said. “The leading criteria for admission at East Africa’s largest public sector hospital [Nairobi’s Kenyatta National Hospital], which sees a million patients a year, are now diabetes and cardiovascular-related diseases. Five years ago it was HIV or Malaria.”

In Africa, Olale said the current volatility around commodities and some commodity-backed currencies was an issue to monitor, but overall, was leading to some attractive valuations. “The good thing with market dislocations is that they create opportunities.” “It looks tricky in countries like Nigeria because of the drop in oil prices and huge depreciation of the currency, but this remains a dynamic economy with massive non-oil opportunities. In East Africa, the economy’s lower dependence on commodities, combined with increased foreign investment and tourism dollars means that countries like Kenya have been relatively well protected. “This has fed into the rest of East Africa,” he added. “South Africa faces some economic headwinds and a currency depreciation, but one can also see that as a buyer’s market, albeit with diligent attention paid to valuations,” Olale said.

“As LeapFrog’s Fund I and Fund II focused on financial services, we were able to go higher, but as the healthcare sector is less mature than financial services, finding equity opportunities that are higher than $20million in a place like Africa are few and far between.” He expects the group to be able to grow its LP investor base as it continues to move into healthcare investing.

“Overall, in the healthcare sector in Africa, we are seeing a broadening of the investor base from traditional DFIs, to include, for example, healthcare operators from India who are interested in opportunities in Africa. Obviously LeapFrog having a footprint in both areas is helpful.”