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Exclusive: Emerging markets healthcare heats up for private equity

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A new report from Siguler Guff shows that emerging market economies could offer compelling investment opportunities in healthcare

Multi-strategy private equity firm Siguler Guff, has released a new report that looks at the opportunity for private equity investors in emerging markets healthcare. While emerging markets have weakened in recent months causing some investors to leave, healthcare stands out as a sector within these economies that remains largely uncorrelated to macroeconomic slowdown. According to the report, within BRIC countries, the aggregate revenues from these healthcare markets are greater than $850 billion and compound at a rate of 9.1 percent – significantly greater than the aggregate GDP growth rate of those countries. When the BRICs are combined with emerging and frontier markets, the healthcare industry represents more than $1.3 trillion and is growing at a rate of 6.8 percent.

Even at that size, access to healthcare and the healthcare industry itself in these areas remains significantly fragmented, creating opportunity for investment. Additionally, a number of these countries are also seeing rapid growth in the middle class, which will increase the demand for healthcare services over time. On a comparison basis, healthcare in the US, which has a developed middle class, represents a $2.9 trillion (and growing) industry.

A variety of factors are influencing the growth in emerging markets healthcare, explains Praneet Singh, managing director at Siguler Guff and one of the authors of the report in an interview with *Private Equity International.* “We are seeing more and more people in these countries develop lifestyle based illnesses like we see in the US. Diabetes is on the rise, heart disease is on the rise, and a lot of this is driven by dietary and lifestyle changes in the middle class that create a new demand for providers trained to treat these types of illnesses. We are also likely to see consolidation opportunities. Private capital is beginning to fill the gap in this need for infrastructure and expertise in several ways.”

India, for example, is producing 20 percent of all global generic drugs, and accounts for some 40 percent of generic drugs sold in the US. Medical devices are also an area of interest – the Chinese medical devices market was ranked the fourth largest in the world last year, and is on pace to be the second largest by 2020. As the number of households with more disposable income creeps up, these numbers are also likely to increase, trickling down through the smaller emerging economies in the satellite states of Southeast Asia, or elsewhere like Latin America.

Still, for investors that may be interested in increasing their exposure to these investments, there are some significant barriers to entry. Report data shows that while there are 300 healthcare focused funds in the US, there are only 10-15 across the emerging markets, mostly relatively new teams without track records. More of these investments are coming through sector-agnostic funds, although issues around the experience level of those teams as well as the potentially narrow focus of the specialist teams present challenges for investors.

Singh and his co-authors offer recommendations for how to work around this – “We think the data shows that healthcare should definitely be in the emerging markets portfolio, but it requires active management,” Singh says. “Investors will have to find partners with the expertise and experience in the space – partners who are savvy at both fund and direct investments.”