South China Morning Post
南華早報

BIZ
Asian health care private equity buyouts boosted to new highs by Chinese investors in 2017

Georgina Lee
722 words
20 April 2018
scmp.com
SCMCOM
English

Health care buyouts in Asia hit a new high in 2017, with deal values from 61 transactions reaching US$7.2 billion, a record since at least 2001, according to consulting company Bain and Co.

Chinese private equity funds have in recent years become active in large, outbound merger and acquisition deals spanning Australia, the United States and Europe. And according to the Global Healthcare Private Equity and Corporate M&A Report 2017, released by Bain recently, the buyout value of China-domiciled private equity investors in 2017 reached US$4.8 billion, of which about half went into financing four cross-border deals last year. But the bulk of the 30 deals carried out by Chinese private equity funds last year were domestic deals.

Excluding the portion of the US$4.8 billion investment funded by foreign partners, Chinese private equity investors provided US$2.5 billion, or about 35 per cent, of disclosed deal values in Asia-Pacific last year.

Private equity-backed buyouts in Asia reach record high in 2017

Vikram Kapur, a Bain partner based in Hong Kong, said a key theme that stood out from these cross-border buyout deals was the rising trend among Chinese investors to team up with foreign private equity or corporate players to fund these transactions.

One such example is Hillhouse Capital's investment in US-based Carestream Health's digital dental business, a US$800 million buyout that was carried out in partnership with American fund Clayton, Dubilier and Rice in April 2017. Hillhouse invested 25 per cent of the deal, while its US partner invested the remaining 75 per cent.

More private equity-backed cross-border deals in China and Asia this year, says Grant Thornton

“Chinese private equity investors value the industry relationship, market access and technical expertise that foreign partners can bring, which would enable them to take the business to the next level of growth,” said Kapur, who added that such an approach was also driven by higher valuations of the underlying businesses, which made investing alone a challenge.

Although small compared with deals in the US and Europe, the average buyout deal size has grown across Asia, from US$80 million in 2014 to about US$120 million last year.

In China, domestic buyout deals grew from just seven in 2016 to 30 in 2017, driven by a government push to increasingly open up the health care sector to private investment.

Specifically, regulatory changes brought on by the two-invoice system - introduced last year to improve transparency in drug prices and simplify the system by eliminating multiple layers of intermediaries and replacing them with just two invoices issued and used among manufacturers, distributors and end customers - are likely to lead to more consolidation in China's pharmaceutical distribution sector, according to Bain.Chinese private equity investors value the industry relationship, market access and technical expertise that foreign partners can bringVikram Kapur, partner, Bain and Co

Elsewhere in Asia, Australia remained an active market, where three of the top six Asia-Pacific deals involved either an Australian acquirer or target. In one instance, Carlyle Asia and Pacific Equity Partners acquired iNova Pharmaceuticals in September 2017, an Australian company that makes both prescription and over-the-counter products, for US$930 million.

Fuelled by an ageing population, regulatory trends and innovation, private equity funds are increasingly focusing on health care, said Kapur. Where in 2016 there was only one transaction that was completed by a health-care-focused fund sized at between US$500 million and US$5 billion, this grew to a total of five deals in 2017 - a sign that health care private equity is coming of age.

More China buyouts for foreign private equity as entrepreneurs struggle with succession

“We are seeing that health care funds are getting bigger. At the same time, the assets are big enough whereby private equity investors can deploy meaningful amounts of capital, and potentially, put leverage on the business (as part of the deal structure),” said Kapur.

“Hence, we see businesses that are coming on to a path to growing in scale, and investors are funding their next chapter of growth.”

Document SCMCOM0020180503ee4k0002v

