

Healthcare in Brazil

Opportunities ahead



Global Health Intelligence provides insights to help guide your decisions.

Global Health Intelligence provides ground breaking and accurate information about healthcare systems in Latin America and Asia in order to facilitate growth and understand the competitive landscape.

The data provided by Global Health Intelligence focuses on **Hospital demographics**, **Import data** and **Custom research** in order to help businesses succeed in emerging healthcare markets.

Hospital Demographics

GHI has the world's largest hospital database focused on emerging markets, covering data such as beds, medical practices, capital equipment, amongst others.

Import Data

GHI has the most expansive medical import statistics in Mexico, including data such as importer, exporter, quantity and value.

Custom Research

GHI consultants have over 20 years of Market Intelligence experience in emerging markets, helping companies find answers to their complex questions.

Customers include medical device manufacturers, medical technology providers, pharmaceutical businesses, equipment providers, private equity and solutions integrators, amongst others.



Brazil's economy: Boom, Boom ... what next?

Roberto de Carvalho maintains a truck fleet in Recife, Brazil. Roberto provides for his wife, Enilda, and two daughters, Sandra and Susana. In 2013 the family made just enough to belong to Brazil's emerging middle class.

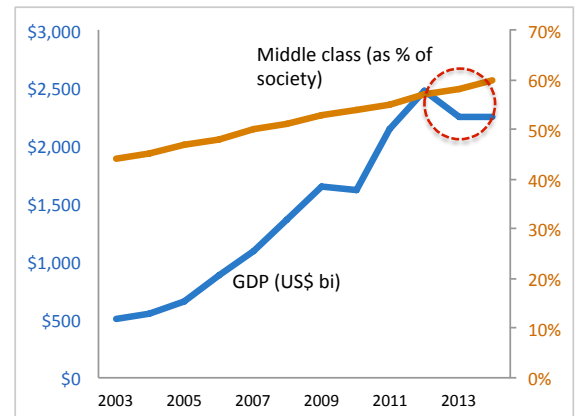
The story of Roberto and his family reflects that of millions of Brazilians. Between 2003 and 2014 Brazil's GDP grew by 15% per year (in USD), helping 42 million people out of poverty and into the middle class.

The growth was sustained by rising wages, strong credit, lower interest rates and the high price of commodities. Government cash-transfer programs, such as Bolsa Familia, further helped get the poor into the consumer class. A consumption boom enabled the new middle-class to acquire household items such as televisions, mobile phones, mortgages, health insurance and better health services. By the end of 2014, Brazil had over 140 million consumers in the middle and upper classes.

By 2013, signs of an economic slowdown began to appear. Being a mineral rich region, Latin America's currencies have a ~90% correlation to the price of commodities. The slowdown in the Chinese economy translated to downward pressure on the price of commodities and thus a devaluation of currencies across the region. Brazil was no exception – a 66% drop in the price of commodities between July 2011 and March 2015 translated to a 51% devaluation over the same period.

Massive protests in 2013 vented public frustration with corruption, inequality, poor healthcare and the overall lack of social progress after a decade of economic growth. The protests continued throughout the 2014 presidential elections and persisted in the first quarter of 2015 as the Petrobras corruption scandal expanded. While austerity and reduced growth are the norm for most of Brazil, select industries continue to grow – healthcare is one of them.

GROWTH OF THE BRAZILIAN ECONOMY AND ITS IMPACT ON THE MIDDLE CLASS



F/X RATE: US\$ 1 = R\$ X



Healthcare in the new economic reality

Healthcare is an economic and social priority in Brazil; and will remain one for the years to come. Since 2014 healthcare has become the number one priority in public opinion, ahead of issues such as violence, security, corruption, education or unemployment.

Over 80% of new healthcare consumers come from the emerging middle class. In light of this, private insurance companies and care providers have adapted their offering to meet the demands of their “first time consumers”.

While foreign companies have operated in Brazil for many years, the government has only recently opened up the hospital market to foreign entities (see section: “Recent developments”). Such a move will increase interest in the sector and attract investors eager to capitalize on Brazil’s underfunded hospital space.

Further favoring investment in Brazil is the long term (20-30 more years) trend of favorable demographics. The demographic dividend created by fewer mouths to feed in a household, frees up disposable income to i) consume more health insurance and ii) utilize the private healthcare system which provides superior service to the public one. Brazil is only now commencing its phase of optimal demographics, which, if enabled to flourish in a prosperous political climate, could result in the fastest growing healthcare opportunity in Latin America.

It is estimated that by 2017 Brazil will need an additional 13,000 hospital beds.

In light of this, one must keep in mind that Brazil is a complex market in which to do business. The World Bank’s Ease of Doing Business ranking positions Brazil 120th out of 189 countries. Brazil also has the region’s most complicated tax code, with up to 70 different taxes to comply with. Part of this complexity can be seen in how the healthcare system is managed, in part private and in part public.

KEY FACTS AND FIGURES ABOUT BRAZIL

| POPULATION |
|--|
| Population: 200 mi Upper + Middle class: 140 mi (70%) Urbanization: 89% |
| ECONOMY |
| GDP: US\$ 2,245 bi Healthcare expenditure: 9% of GDP (Priv.: 4.9%, Pub.: 4.1%) Medical device market: US\$ 5 bi Clinical trials: 2,000+ |
| HOSPITAL STRUCTURE |
| Number of hospitals: 6,950 Number of hospital beds: 452,000 Hospital admissions (SUS): 11.5 mi |
| INSURANCE |
| Private health insurance: 54 mi (27%) Geographic concentration: 65% of contracts in South-East |
| RANKINGS |
| Ease of doing business: 120 (out of 189) Global competitive index: 57 (out of 144) |

An intertwined relationship

By law, every Brazilian citizen has the right and access to public healthcare, provided by the Unified Healthcare System (SUS – Sistema Único de Saúde). However, there are vast discrepancies between public care facilities. Depending on location, a patient may have access to world-class care or a rudimentary countryside clinic.

The biggest problem facing the SUS is the lack of funding. The system was initially conceived to rely on additional taxes, which were never implemented. The private sector was invited to provide supplemental coverage to the public infrastructure through Public-Private-Partnerships (PPPs). Today, the largest hospitals in the country are philanthropic and have a public ward (SUS) as well as a private ward.

The public sector now focuses on offering primary care, such as clinics and emergency units. Through outsourced service contracts, the public sector relies on private institutions to provide care in hospitals, outpatient clinics, diagnostics and therapeutic services. Given the discrepancy in the quality of care, the private sector has grown to

supplement and even replace public care – at least for those who can afford it. In 2000, government spending accounted for 75% of total healthcare expenditure; in 2014, this number dropped to under 50%.

The public and private healthcare sectors are so intertwined that they have become interdependent. On the one hand, the SUS could not give coverage to the population without relying on the private sector. At the same time, the private sector could not exist without the volumes contracted by the government.

Private insurance has become commonplace, covering 27% of the population. While insurance plans remain expensive for individual contributors, private insurance is most often contracted in group plans; becoming a valuable perk in corporate employment packages. However, private insurance is also a source of contention. Many of the private insurance plans do not cover some of the more expensive procedures, shifting the burden back to the underfunded SUS.

SELECTED HEALTH ISSUES AND HOW THEY ARE TRENDING

| INFECTIOUS DISEASES | |
|--|--------------------------------------|
| Dengue fever | Repeated epidemics, out of control |
| Visceral leishmaniasis | Increasing |
| NON COMMUNICABLE DISEASES | |
| Overweight/obesity | Rapid increase |
| Diabetes | Increasing |
| Hypertension | High prevalence, still increasing |
| Psychiatric diseases | High prevalence |
| Asthma | High prevalence |
| Cancers of the breast, lung, prostate, colon | Increasing |
| EXTERNAL CAUSES | |
| Homicides | Decline but still at epidemic levels |
| Traffic-related injuries and deaths | Decline but still at epidemic levels |
| Domestic violence | High prevalence |

Fragmented private care & the opportunities ahead

The private hospital market is regionalized, with no group owning more than 1% of the market based on the number of beds, or having national coverage. Such fragmentation becomes problematic when dealing with issues such as electronic medical records (EMR), information exchange, patient files, system compatibilities and other IT elements. The southern part of Brazil is generally wealthier and has access to a wider range of hospitals and doctors – over 70% of Brazil's doctors are in the South and Southwest regions of the country.

The private insurance market is also fragmented, with the 7 largest private health insurance companies (each with over 1 million lives insured) holding less than 30% of all beneficiaries.

The combination of these factors results in the need for greater access and coverage to healthcare, fueled by lower operating costs. It is estimated that by 2017 Brazil will need an additional 13,000 hospital beds. Achieving broader coverage can only be attained through a more efficient system.

Until recently foreign businesses were not allowed to have ownership in Brazilian hospitals. This impaired the sector's ability to fully develop. However, this changed in January 2015 by announcement of President Dilma Rousseff. Weeks later, private equity funds such as Carlyle Group and GIC Holdings began investing hundreds of millions of dollars in acquiring minority shares of private hospitals in Brazil. Further M&A activity is imminent and will likely strive at increasing industry consolidation.

Greater industry consolidation will bring with it the need for the integration of management systems, increased standardized metrics and reporting, greater emphasis on international benchmarks and more transparency. Health IT, Medical imaging, EMR and interconnectivity will also benefit from these trends. Pressure to keep costs down will continue to exist and will also be a determining factor in the ability to win voluminous SUS contracts. In light of this and the ageing population, home care is expected to become more common moving forward.

OPPORTUNITIES IN THE DYNAMIC MARKET

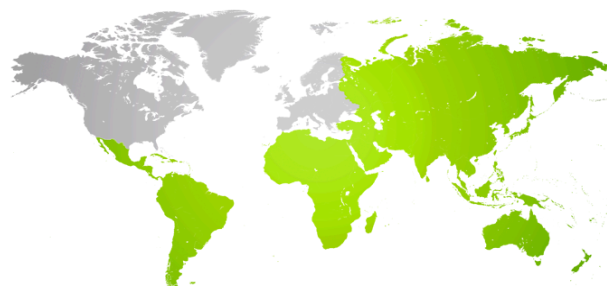
| MARKET DYNAMICS | HOSPITALS | HOSPITAL SYSTEMS | DAY-TO-DAY |
|---|--|--|---|
| <ul style="list-style-type: none"> Government regulation to attract investment PE money to flow into Brazil – Strong M&A activity Expansion / Consolidation of private groups Modernization of public infrastructure Growth of home care Growing elderly population | <ul style="list-style-type: none"> Cost reduction Regulatory compliance Technology Innovation International accreditations Increased accountability and transparency Management information systems | <ul style="list-style-type: none"> International benchmark Engagement to improve data collection and sharing Standardized metrics on cost / quality / outcome Increasing information exchange between stakeholders Cost of procedures | <ul style="list-style-type: none"> Healthcare IT Medical imaging Interconnectivity / Smartphone boom Medical records Equipment updates Training |

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