

Medical sector needs shot in the arm



GUEST COLUMNIST
David Clarke

A lucrative niche is waiting for investors looking at the range across the health sector

Investors looking for bright prospects in the current economic environment should consider the health sector. Health is a reasonably defensive asset class and offers big potential for growth.

The sector is structurally attractive. New Zealand, like many other western countries, has an ageing population and overall population growth of around 2% a year. It is forecast by 2011 there will be 543,000 people aged 65 and over. Statistics New Zealand also projects the number of people aged over 85 is expected to grow six-fold by 2050.

The greatest need for health services occurs in the last three to four years of life. While people over the age of 65 make up 12% of the population, they already use 37% of total public health expenditure.

There are, however, many other factors that mean the health sector will demand investment that is likely to outstrip the funding ability of the public purse.

For one, the rise in obesity-related diseases threatens to swamp the health system if prevention programmes are unsuccessful. There is also an "undiagnosed" factor. In some areas, for example, it's been estimated that over half the incidence of Type 2 diabetes has yet to be diagnosed.

Over time, medicine recognises these undiagnosed (and unreported) diseases and designs new health systems and programmes in response. These can be investment opportunities. Although the aim is to reduce long term costs, such programmes drive demand for new services – such as the proposed colonoscopy and existing breast screening programmes.

Rapid advances in medical technology, new drugs and new tests also lead to greater health interventions, procedures and in some cases, but not all, some efficiencies. It has been estimated that this so-called "technology creep" adds around 1% to overall demand.

A recent review of the top 25 international medical technology companies showed an average

INVESTMENT OPPORTUNITIES

- Overall population growth of 2% a year
- Ageing population – the number of people aged over 85 is expected to grow six-fold by 2050.
- 'Technology creep' adds around 1% to overall demand
- The top 25 international medical technology companies showed an average 10% growth in 2006/2007
- Government funding for health research is equivalent to \$10.2 a head in New Zealand compared with \$34.6 in Australia

10% growth in 2006/07. These growth rates in volume, and with a price growth of around twice the consumers price index, are not unusual in the private health sector.

Combine these factors with a low risk profile, low volatility, often weak industry competitive intensity and smart cost control, and you have compelling metrics.

In the past, private sector surgery was confined mostly to discretionary procedures. However, people are turning increasingly to the private sector for other surgery and procedures. For example, MercyAscot and Southern Cross Hospitals have announced that they will soon open New Zealand's first private radiation oncology centre in Auckland.

While much of the total provision is from the public purse, public

capacity will remain an issue, especially for sudden increases in demand. Private provision of services is increasing. This is not confined to traditional public services, but extends to new programme demand.

Both the UK and Australia, with similar public health systems to New Zealand's, make extensive use of the PPP (public private partnerships) model.

But we need to be smart about the use of the "market." It doesn't always hold all the answers, especially with regard to health. What we don't need is a US system, with poor coverage issues, poor allocation, high costs and poor outcomes when market "failure" can have such dire consequences.

Investment alternatives lie in innovation such as IT, biomedical devices and technology – areas in

which New Zealand and Australia are quite competitive.

IT is a good example. There is high penetration across the health sector. Almost every GP uses computerised patient management systems and New Zealand has a unique identifier for patients. Technology developed here has often developed into an international business.

Orion Health and Fisher & Paykel Healthcare are good examples of healthcare innovation that originated in New Zealand and went global.

New Zealand's skilled researchers and good medical schools create an attractive environment for investment. Research is relatively low cost and the country has long been seen as a great place to run clinical trials.

But New Zealand runs the risk of missing opportunities for innovation. A recent report by the universities of Auckland and Otago shows government funding for health research at the equivalent of \$10.2 per head is well below Australia (\$34.60), the UK (\$54.30) and the US (\$126).

Failure to address this gap will lead to long-term effects on medical science innovation: loss of high class academic staff, lower quality medical graduates and less skilled workforce.

Limited capital markets may also hinder development. A greater level of "compulsion" and greater assets allocation to more risky or alternative assets in New Zealand, as is often the case in Australia, would assist.

New Zealand could carve a lucrative niche for itself internationally if it increased investment opportunities in its health sector. Not only would the country and local investors have healthier financial returns but patients would be healthier, too.

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FOREIGN AFFAIRS

A unified government is no guarantee Pakistan's troubles are over. The army considers it has a role to keep the country unified against a threat from India. If it thinks the politicians do not appreciate that threat enough it might intervene.

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THE STOCKMAN

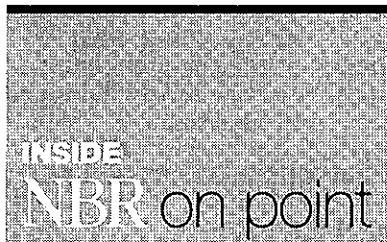
Thanks to the Aussie consumer slowdown, retailers have been among the more efficient destroyers of shareholder wealth. Even if Coles was firing on all cylinders, management would need to have both feet on the accelerator to stop going backward.

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MARGIN CALL

Monday is the start of spring, the season of renewal, rebirth and increasing warmth. But the lousy weather is unlikely to be over. A similar comment could be made about financial markets unless they get a dose of economic global warming.

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