

The Advanced Advantage, the Story Behind Their Share Price Hike and the Discovery Contribution

In December last year, Advanced Healthcare received a seemingly unexpected festive gift. Despite rumbles about the lack of traction of day hospitals in South Africa and the group consequently ailing on the profit side, their stock leaped with 85% from 43c per share in mid-November to 90c just before Christmas. To outsiders and some happy investors this seemed to come like a bolt from the blue. But, says Advanced Health CEO, Carl Grillenberger, there is a back story and a broader context.

“On 3 July last year, our investment in an Australian subsidiary increased by 87%,” he explains. “Although this has not had a direct impact on our share price, we believe that investors have gradually realised that our investment in Australia has substantially increased in value, and they are now prepared to pay a higher price for our shares.”

In its announcement of the surprise hike last year, Business Day also made mention of Grillenberger’s efforts to mop up low-priced shares, and rumours of a new strategic partner. Grillenberger responded that the opportunity to buy at these prices are too good to be missed.

While the market is waiting with bated breath for developments on this front, Discovery Health has opened up not so much Pandora’s Box with their proposed policy changes, as a door and some significant windows of opportunity for day hospital hospitals in general, and Advanced Health in particular. The gist of the proposed change, and the eye of the storm, is the mandatory transfer of certain procedures and affected patients to day hospital facilities and a co-payment from R5 000 for patients who insist on going to the hospital of their choice.

Despite the assurance of Discovery Health deputy chief executive, Ryan Noach, that the model is sustainable and that the co-payment won’t be enforced in January, doctors and patients are up in arms. Again Grillenberger points to a bigger picture, and a story behind the story.

“The healthcare market in our country is now paying more attention to healthy competition and the affordability of services than in the past, a trend that is amply reflected in the Health Market Inquiry’s recommendations that was tabled in July 2018,” he explains. Proof of this, he says, is, amongst other things, the fact that cash-paying patients are more price-conscious than many medical scheme administrators, making them the first to opt for day hospitals – which is, of course, advantageous to the day hospital hospital business.

It is against this background, Grillenberger points out, that Discovery Health has come forward and strongly motivated the utilisation of cost-effective healthcare service providers, such as day hospitals. “This, we believe, will have a positive impact on organisations such as Advanced Health who are committed to providing exactly the calibre of affordability and patient safety that is increasingly becoming the norm,” he says.

Grillenberger goes on to raise a few questions behind some doctors' and hospital groups' negative response to Discovery's initiative. "Some medical schemes have concluded contracts with some of the larger hospital groups for periods of two, three and five years, effective from 2019," he explains. "These contracts, we believe, have been concluded to circumvent the changes proposed by the HMI and maintain the *status quo* of the anti-competitive system which the HMI is aiming to address. We believe that the Competition Commission has a responsibility to investigate these contracts, as the distinctive nature of the contracts is not to the advantage of a cost-effective private healthcare system. Fortunately, these are contracts which have mostly been negotiated with some of the smaller medical schemes.

"It is a pity that the HMI is delaying its final report due to budget constraints, seeing that the HMI is initiating changes which support quality cost effective healthcare"

Grillenberger says that we are all aware that the year ahead will be a very challenging year. All of us will have to tighten our belts. For provider of healthcare services, it is essential to focus on affordable quality care with the emphasis on affordability. Specialists in particular are urged to seek and promote cost effective alternatives when treating patients to ensure that the medical scheme benefits will last for the full year. Acute hospitals need to understand the urgent need of patients and promote a day hospital to their specialists in order to morally support sustainable healthcare in South Africa.