LAURENTIU OBAE

Cash injection: Sergiu Negut, executive manager of CMU, says the healthcare business is one that requires continuous investment

Private medical services checkup shows local dominance and plenty of room for growth

Still dominated by local players, Romanian private healthcare services have room for growth through continuous investments, say existing players. Due to solid customer demand, the current economic situation has only slowed, not halted, growth. It has also brought new consumer trends and, to the joy of some, lower rents and better locations for new clinics.

By Corina Saceanu

The Romanian public medical services system, often criticized for its inefficiency, has played its role in the development of the private sector, offering enough gaps for private healthcare operators to fill. But the industry is still in transition, fighting to spread private medical services coverage around the country. Most of the funding and ownership in this business segment is homegrown, although a few foreign players have got involved, and this paves the way for more foreign money to pour in.

"The market is dominated by local players. There are a few foreign investments and little from strategic investors. This is due to the fragmented market and its small size. As we see market consolidation and growth, I am sure we will see significant foreign investments in the medical sector," Sergiu Negut, executive manager of private medical services provider CMU, tells Business Review. Around ten big players are reaping the benefits from this market while making investments in expanding their chains. The rest of the market is made up of small private clinics, and while the number of big players may reduce as the market consolidates itself, these small players will remain. "Private medical care in Romania is very fragmented. There are lots of small clinics and it is fair to say they will never disappear, because doctors will always set up individual practices," says Negut.

This fragmentation allows bigger players to grow through acquisitions, as well as through greenfield projects. CMU expects to add a new greenfield unit in Bucharest by year-end and two or three across the country, in a mix of acquisitions and greenfield projects. Expansion will be funded by bank loans, CMU having received a EUR 5 million loan recently, or with equity from shareholders for bigger projects.

Due to the high market demand, private medical services have managed to increase year on year despite the economic slowdown. Now the local market is worth around EUR 400 million, Negut estimates. At national level, private healthcare services today cover around five percent of the market.

"I foresee growth from the regional development of polyclinics, from regional players or national chains and development in niche services," says the CMU director. His company is now assessing projects that would add some more specialized services to its mix.

For CMU, the economic slowdown has been mirrored in several new trends in its customer base. Some companies which had not offered private healthcare packages before have started to include them in their employees' packages to compensate for stagnant salaries. Meanwhile, other firms have streamlined their staff, which has been reflected in lower revenues on this segment for the operator.

"To our surprise, corporate has still grown, and although many companies are not doing very well, we haven't seen big companies pulling out or reducing their packages significantly," says the businessman. Another change brought about by the financial meltdown is lower rents and better locations for new units.

The Romanian private healthcare system is not really comparable to Western European states such as France or Germany, where the state system is strong and well funded, but shares more similarities with Greece, Turkey and Poland, based on the social structure and level of medical services, according to Negut.

In the last couple of years, investors in such services have been pouring money in. Bank loans and the financial helping hand of foreign investors have been the main sources of cash, and most of what is gained gets reinvested. For example, CMU does not distribute dividends. British investment fund 3i Plc holds a minority share package in the local operator and in theory the package could increase, but nothing has been discussed yet, according to Negut.

Looking at the main players on this market, five of them still have locals as major shareholders. Some have announced plans to change their ownership structure. For example, MedLife, 80 percent owned by the Marcu family, has announced its plans to welcome an investment fund onboard.

But involvement in such a business comes at a cost and the benefits don't come easy. Profit margins in the industry are swallowed by the need to keep investing. "We can talk about an operational margin, before amortization, between 15 and 30 percent. Usually net profit in this area is small, because the business requires investments, and this puts pressure on the cash flow and comes with a high amortization rate," Negut concludes. ■

Main private healthcare service providers in Romania by ownership

- CMU – set up in 1995 by Dr Wargha Enayati, now majority shareholder. British investment fund 3i Plc is minority shareholder
- Euroclinic – opened in 2005 in partnership with Floreasca state hospital. Owned by Dutch insurer Eureko
- Euromedic – entered the Romanian market in 2000 through PPP. Euromedic is a Dutch holding
- Gral Medical – set up in 2000 by local doctors Robert and Georgeta Serban
- Hiperdia – set up in 1997 in Brasov, by Romanian and Israeli individual investors. Investment fund Southeast Europe Equity Fund II, administered by Bedminster Capital Management, currently owns 65 percent of the shares.
- Medicover – opened in 1997 in Romania by taking over existing local units. Subsidiary of Swedish private healthcare operator Medicover
- MedLife – set up in 1996 by the Marcu family, the majority shareholder. The International Finance Corporation (IFC) holds 20 percent of the shares
- Medsana – set up in 1997, subsidiary of Greek Athens Medical Center
- Polisano – set up in 1993 in Sibiu by local businessman Ilie Vonica
- Sanador – founded in 2001 by Florin and Doris Andronescu

SOURCE: COMPANIES