Investment opportunity: NearHealth Investment Fund

Current healthcare situation in Morocco

Access to healthcare:
Physicians per thousand inhabitants

- National average: 0.6‰
- World average: 1.4‰

The opportunity

- **Legislation:** New law enabling non-doctors private investors to invest in healthcare clinics
- **Sourcing:**
  - New Universities launched to increase the number of graduates per year by 20%
  - 25-30% of graduates every year are not fully utilized (doctors-hour)
- **Financial:** Historically Moroccan physicians have struggled from a lack of capital to open their own practices
- **Unique management team:** The team’s set of skills put together to solve this issue

NearHealth’s ambition is to maximize the utilization of physicians, and bring them where patients need them the most
NearHealth: an innovative financing solution

NearHealth: An investment vehicle that partners with physicians in Morocco to generate significant returns while expanding the accessibility of healthcare in the country

- Challenge addressed via an investment fund that partners with doctors to provide capital for basic clinical infrastructure
- Average clinic expected to generate an ROI of 9% over 5 years allowing doctor to earn out clinic by 5th year
- Fund structure designed to align incentives between investors and doctors and to attract doctors to the most underpenetrated areas
  - Leverages change in private healthcare investment law to increase healthcare accessibility in Morocco
  - Alternative to the government spending on medical treatment in rural areas
  - Provides employment to doctors in Morocco
- Mobile Clinic platform in order to expand the reach of NearHealth clinics to surrounding rural areas

NearHealth is the private alternative to government investment in healthcare
**Financial Mechanism – Shareholder Loan**

<table>
<thead>
<tr>
<th>Fund Description</th>
<th>Fund Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>NearHealth seeks to raise US$10 million and partner with ~150 doctors during its first 2 years</td>
<td><strong>Initial Fund Size</strong></td>
</tr>
<tr>
<td>Investments will be structured as shareholder loans, with a nominal 12.0% interest rate</td>
<td>US$10 million</td>
</tr>
<tr>
<td>Doctor will have the opportunity to qualify for a “buy down” based on the number of pro-bono cases they manage to accept throughout the year</td>
<td>Sample Portfolio</td>
</tr>
<tr>
<td>Average estimated “buy down” will be ~(2.0%) leading to a net return hurdle for the clinic of 10.0%</td>
<td>150 Shareholder Loans</td>
</tr>
<tr>
<td>Over a five-year period, once the investors are repaid principle plus interest, the doctor earns out their clinic and becomes the sole proprietor</td>
<td>Maturity</td>
</tr>
<tr>
<td>An underwriting fee of 1% of assets upon closing will allow NearHealth time to source and execute doctor partnerships</td>
<td>5 years</td>
</tr>
</tbody>
</table>

- **Fees**: 1% of Assets Under Management
- **Nominal Interest Rate**: 12.0%
- **Less: Average Buydown**: (2.0%)
- **Return Hurdle for Doctor**: 10.0%
- **Less: Management Fees**: (1.0%)
- **Net Return to Investors**: 9.0%
- **Underwriting Fee**: 1% of Assets on Closing
# Due diligence: physicians

## Target universities and locations

<table>
<thead>
<tr>
<th>University</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rabat university</td>
<td>✖</td>
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<tr>
<td>Casablanca university</td>
<td>✖</td>
</tr>
<tr>
<td>Marrakech university</td>
<td>✔</td>
</tr>
<tr>
<td>Fes university</td>
<td>✔</td>
</tr>
<tr>
<td>Oujda university</td>
<td>✔</td>
</tr>
</tbody>
</table>

- **Marrakech university**: Targeted universities with 600 graduates per year.

## Selection criteria

- **Since clinic IRR is highly correlated with the quality of the physician and proper incentive alignment**, NearHealth will source doctor partnerships using the following criteria:
  - **Doctor Entrepreneurs**: The ideal physician is top 10% of their class and would be interviewed to assure they are a self-starter with entrepreneurial drive.
  - **Financial situation**: NearHealth will prioritize doctors with no ability to self finance.
  - **Area of origin**: Focus on local physicians who have family in the targeted area (200km radius) to ensure that they are committed to the area.
  - **Personal Situation**: Giving preference to doctor couples willing to relocate together.

**High density of physicians in these areas**
Financial Characteristics

Doctor Earn-out Schedule

<table>
<thead>
<tr>
<th>Year</th>
<th>Fund</th>
<th>Doctor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 0</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Year 1</td>
<td>100%</td>
<td>90%</td>
</tr>
<tr>
<td>Year 2</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>Year 3</td>
<td>61%</td>
<td>39%</td>
</tr>
<tr>
<td>Year 4</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Year 5</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Buy-Down Mechanism

The Shareholder Loan interest rate scales down according to the number of pro bono cases each doctor takes per month, similar to a social impact bond.

<table>
<thead>
<tr>
<th># Pro-Bono Case Per Month</th>
<th>Buy-Down %</th>
<th>Effective Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>-2.50%</td>
<td>9.50%</td>
</tr>
<tr>
<td>150</td>
<td>-2.25%</td>
<td>9.75%</td>
</tr>
<tr>
<td>100</td>
<td>-2.00%</td>
<td>10.00%</td>
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<tr>
<td>50</td>
<td>-1.00%</td>
<td>11.00%</td>
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<tr>
<td>0</td>
<td>0.00%</td>
<td>12.00%</td>
</tr>
</tbody>
</table>

Average Repayment Schedule (US$)

Average investment size per practice is ~US$60,000

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Year 0</td>
<td>-61,250</td>
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<tr>
<td>Year 1</td>
<td>9,440</td>
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<tr>
<td>Year 2</td>
<td>9,440</td>
</tr>
<tr>
<td>Year 3</td>
<td>19,840</td>
</tr>
<tr>
<td>Year 4</td>
<td>30,240</td>
</tr>
<tr>
<td>Year 5</td>
<td>29,684</td>
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</table>

Key Assumptions

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Units</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Capex</td>
<td>US$</td>
<td>($61,250)</td>
</tr>
<tr>
<td>Doctor Salary</td>
<td>US$/month</td>
<td>($2,000)</td>
</tr>
<tr>
<td>Operating Hours / Day</td>
<td>Hrs / day</td>
<td>8.0</td>
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<tr>
<td>Patients / Hour</td>
<td>Patients / Hr</td>
<td>2.50 to 3.50</td>
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</table>
NearHealth Return Benchmarking

Investor Targeting / Marketing Focus

- **Sustainable Investment funds**
  - NearHealth offers existing investment vehicles an entry point into Morocco
  - Would leverage relationships with doctor community and universities

- **Pharmaceutical Companies**
  - Increased emphasis on sustainable investment at pharmaceuticals
  - Appetite both for direct investment and impact health sphere in frontier markets

- **Medical Equipment Companies**
  - Increased emphasis on sustainable investment in healthcare
  - NearHealth offers an entry point into Morocco for manufacturers

- **Foreign Aid / Government Stakeholders**
  - High net worth Moroccans, government agencies and local community leaders have significant stake in access to healthcare

NearHealth Expected Return Benchmarking

- **Attijariwafa Bank (largest FI in Morocco) 2014 ROE**
  - 14.6%

- **Dow Jones World Sustainability Index (3 Year Performance)**
  - 9.6%

- **MSCI Frontier Africa Fund (10 Year Performance)**
  - 6.3%

- **MSCI Index Morocco (10 Year Performance)**
  - 3.6%

- **NearHealth Benchmark Return**
  - 9.0%
What is the impact?

- NearHealth aspires to improve access to health and increase the number of physicians per 10,000 inhabitants to the above target levels.

### Healthcare accessibility increase

<table>
<thead>
<tr>
<th>Location</th>
<th>2015</th>
<th>2020</th>
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<tbody>
<tr>
<td>Oujda</td>
<td>3.6</td>
<td>3.2</td>
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<tr>
<td>Tangier</td>
<td>4.4</td>
<td>3.6</td>
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<tr>
<td>Marrakech</td>
<td>3.9</td>
<td>5.0</td>
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<tr>
<td>Tetouan</td>
<td>4.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Meknes</td>
<td>5.1</td>
<td>3.6</td>
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Number of Physicians in Morocco vs. East Mediterranean region, 2013

- NearHealth aims to maximize utilization of medical professionals providing job opportunities to the doctors.
- Creating 150 NearHealth clinics in Morocco will save ~ $9.2m of public funds to 2020.

### Unemployed doctors become employed

- Number of doctors employed because of the initiative, 2016-2020

<table>
<thead>
<tr>
<th>Location</th>
<th>Oujda</th>
<th>Tangier</th>
<th>Marrakech</th>
<th>Tetouan</th>
<th>Meknes</th>
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<tbody>
<tr>
<td></td>
<td>40</td>
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<td>30</td>
<td>20</td>
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Government savings, $m, 2016-2020

- NearHealth reduces the dependence of healthcare on the public sector.
- Government spending decrease 2020

- 20
- 30
- 40
- 40
- 3.2 3.6

- Meknes
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- 3.2

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Potential risks and actions to address them

**Financial Risks**
- Risk of **capital impairment** due to underperformance at the clinic level leading to an inability of the doctor to “earn-out” the practice
  - 2 – 4% impairment rate built into the 9% return targeted by the fund

**Economic Risks**
- Regional **economic decline** in Morocco could affect the ability of patients to afford the services provided by the clinics
  - Investment model does not require any material improvements in economic conditions; predictions indicate economic growth

**Political Risks**
- **Corruption** could be prevalent eg. during sourcing infrastructure, interacting with government agencies to obtain legal permits
  - Focus on clean business; best-practice sharing with multinationals based in Morocco

**Governance Risks**
- **Alignment with the doctors** to generate returns necessary for them to “earn-out” the clinic is critical for the fund’s success
  - Shareholder loan structure included in fund to allow termination under certain conditions and to continue with another doctor
NearHealth’s expansion plans

- Developing countries lack medical infrastructure
  - 2.6/5.9 is the average number of physicians per 10,000 population in Africa/SE Asia compared to 33.1 in Europe and to 14.1 in the world
  - 12.0/15.3 nurses per 10,000 population in Africa/SE Asia compared to 80.5 in Europe and to 29.2 in the world
  - Only 0.8 hospitals per 10,000 population in Africa

- Developing countries are expected to outperform global average growth rates over the medium term
- China, India, Nigeria, South Africa, Indonesia, and Algeria are potential candidates for NearHealth’s international expansion

Sources: World Health Organization, World Bank, IMF
Expansion plan: phases

**Phase 1**
- 2016
  - Budget: $2.4m
  - Number of clinics: 40
- Proof of concept in the city of Oujda in the North-East Morocco (40 GPs) to benefit from the newly created university where the first batch will graduate next year

**Phase 2**
- 2017
  - Budget: $6.6m
  - Number of clinics: 110
- Extend the network to the rest of Morocco:
  - Marrakech
  - Tangier
  - Tetouan
  - Meknes

**Phase 3**
- > 2018
- Replicate the NearHealth approach on an international level in countries facing similar challenges, with a near term target of expansion in neighboring Algeria:
  - Algeria
  - India
  - China
  - Pakistan
- Indonesia
- Bangladesh
- South Africa
- Nigeria
### Team

**Fund management team**

<table>
<thead>
<tr>
<th>Name</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yassine Bhija</td>
<td>6 years in marketing &amp; business development</td>
</tr>
<tr>
<td>Devina Pasta</td>
<td>8 years in corporate strategy, business development &amp; product management</td>
</tr>
<tr>
<td>Dmitry Savelyev</td>
<td>7 years in management consulting</td>
</tr>
</tbody>
</table>

- **PHILIPS**
- **SIEMENS**

**Advisors**

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ralf Halbach</td>
<td>CEO, Roche Morocco</td>
</tr>
<tr>
<td>Najib Garti</td>
<td>Owner of private clinic in Casablanca</td>
</tr>
<tr>
<td>Alex Yanitsky</td>
<td>Healthcare private equity at Teachers’ Private Capital, investment banking</td>
</tr>
</tbody>
</table>

- Sponsor logos: Roche, TEACHERS' PRIVATE CAPITAL, RBC Capital Markets