CLINIX HEALTH GROUP

HEALTH INQUIRY

MAY 2016

Our Vision & Mission

OUR VISION

"To become the leading healthcare products and services group in the emerging markets of South Africa"

OUR MISSION

"Clinix Health Group believes in ensuring quality patient care, friendly service and community upliftment by establishing good relationships with healthcare professionals and Government to satisfy patient needs. It believes in attracting the best professionals and providing a high standard of health care products and services. It encourages a high performance culture among its staff and is committed to being regularly involved with the communities in which it operates."

Our Values

Clinix HEALTH GROUP

PROFESSIONALISM

To at all times behave in a highly ethical manner, both to one another and to the patients whom we serve on a daily basis.

CONFIDENTIALITY

To respect and honor the confidentiality of any information received.

RESPECT

To treat everyone with utmost respect at all times and to respect the information which is shared between patients and colleagues.

TRUTHFULNESS

To operate at all times with integrity and respect.

CARING

To maintain the very essence of our oath to care and heal the patients we serve

Our Brand stands for

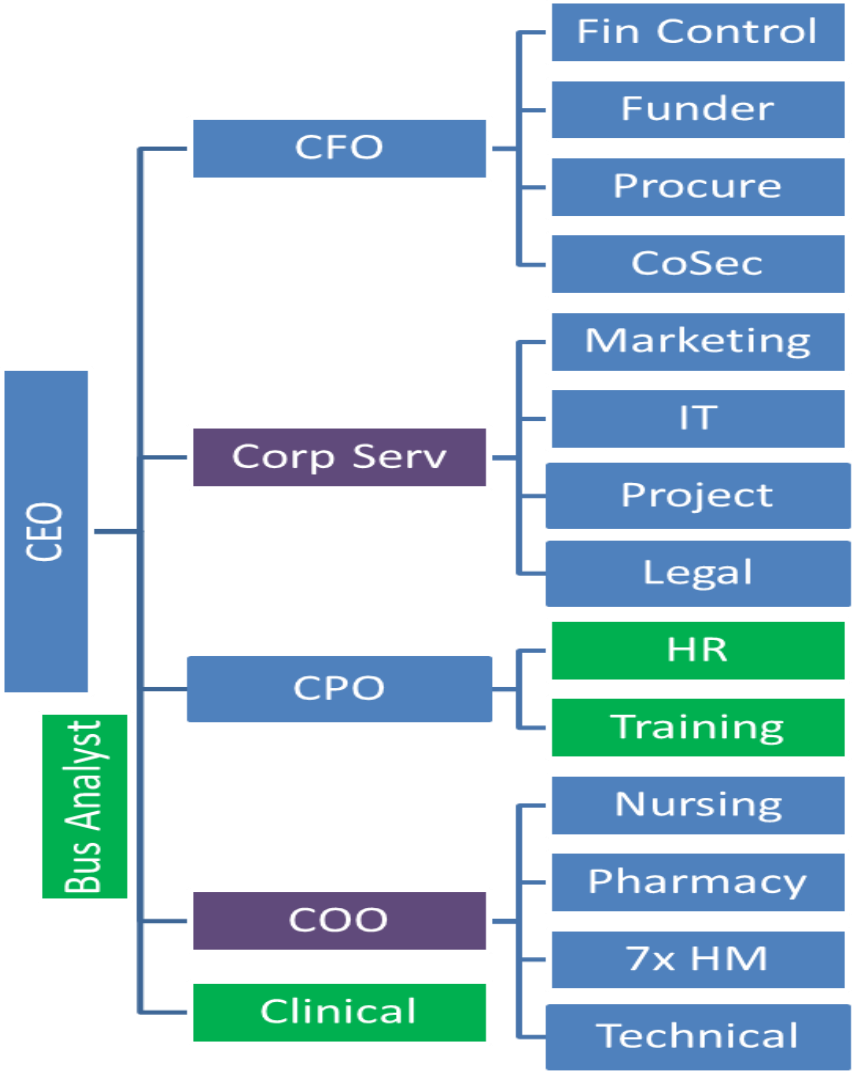
COMMUNITY
We pride ourselves on delivering quality healthcare to our communities and strive to uplift them beyond healthcare through job creation and special projects.

UNITY
We believe in working in partnership with our communities and stakeholders towards common goals so that we are interwoven and indispensable to each other.

CARE
We understand the communities we serve so are better able to understand their needs and in turn provide exceptional care.

HARMONY
We strive to find a balance between providing clinical expertise and empathy so that our patients receive professional yet caring health services.

Group Structure



Company Leadership

Clinix HEALTH GROUP

Before the political climate change in 1994, a black entrepreneur and young general practitioner took on the industry leaders and brought private healthcare to the previous disadvantaged community's resident within the townships.

This was regarded as a major risk within the medical industry at the time.

This man is Dr. Peter (KOP) Matseke, founder and main shareholder of the Clinix Health Group.

Dr Peter "KOP" Matseke

DR KHAMANE OBED PETER "KOP" MATSEKE

Founder and Group CEO of Clinix Health Group (Pty) Ltd.

He also founded KOPM Group (Pty) Ltd, which has companies such as SBuys (Chairman of the Board), Clinix Renal Care and KOPM Investments under its umbrella.

He qualified as a Medical Doctor from the University of Natal and completed a Management Advancement Programme (MAP) at Wits Business School.

Prior to founding and growing Clinix Health Group, he worked as a Medical Officer in the Surgical Department of Chris Hani Baragwanath Hospital and also ran a successful medical practice.

Dr.Matseke is well-known as a visionary entrepreneur and is also the former Chairman of the Board of the Gauteng Enterprise Propeller, an organisation which is dedicated to the empowerment and encouragement of budding South African entrepreneurs.

Our Board of Directors

- **DR. AYANDA NTSALUBA** - Chairman of the Board
- **MR. KARL HEINZ KOLZ** - Deputy Chairman of the Board and Chairman of the Audit and Risk Committee
- **MR. MICHAEL JOHN OLIVIER** - Non-Executive Director, Chairman of the Remuneration Committee and Member of the Audit and Risk Committee
- **MS. BEATE BAETHKE** - Non-Executive Director and Member of the Audit and Risk Committee
- **DR. MASHADI MOTLANA** - Non-Executive Director, Chairman of the Social and Ethics Committee and Member of the Remuneration Committee
- **DR. KHAMANE "KOP" MATSEKE** - Group Chief Executive Officer, Member / invitee of the Social and Remuneration Committees
- **MR FENG-JU (RAY) SHIH** - Group Chief Financial Officer. invitee of the Social and Remuneration Committees

Business Background

- **After 22 years** the company now owns and manages eight (8) hospital facilities with 1450 beds, within Gauteng, North West and Limpopo Provinces.
- The establishment of private hospitals in the very communities they serve, Clinix Health Group has been able **to provide specialist doctors the ideal base** from which to operate.
- In addition, 95% of all nursing, cleaning and administration staff are community based members, with over 90% being female. It's all about **job creation.**
- The **vision of the Clinix Health Group** is to be the market leader in the establishment and management of affordable high quality healthcare services in local communities.
- Clinix believes in ensuring **quality patient care, friendly service and community upliftment**, through establishing good relationships with healthcare stakeholders and satisfying patients' needs.

Business Background

HOSPITAL	LOCATION	BEDS
1. Clinix Botshelong-Empilweni Hospital (1994)	Vosloorus	104
2. Clinix Tshepo-Themba Hospital (1995)	Soweto	146
3. Clinix Naledi-Nkanyezi Hospital (1997)	Sebokeng	160
4. Clinix Selby Park Hospital (2003)	Selby	642
5. Victoria Private Hospital Mafikeng (2003)	Mafikeng	93
6. Lesedi Private Hospital (2005) Now called Dr SK Matseke Memorial Hospital	Soweto	175
7. Cullinan Private Hospital (2010)	Cullinan	35
8. Clinix Phalaborwa Private Hospital (2012)	Phalaborwa	62

Business Background

- **CLINIX IS A LEVEL 2 CONTRIBUTOR TO B-BBEE.**

  It accomplished 156.25% BEE Procurement Recognition Level; 86.49% Black Ownership; 20.69% Black Women Ownership and has a workforce profile truly representative of the demographics of the country (Scoring 100% of Employment Equity element per B-BBEE).

- **THE CLINIX HEALTH GROUP (CHG) IS INVESTING AGGRESSIVELY TO ENSURE THAT ITS FACILITIES REMAIN WORLD CLASS:**

  The Group's flagship facility in Soweto - Clinix Lesedi Private Hospital has undergone a name-change and is now known as Dr SK Matseke Memorial in honour of one of Soweto's most respected educators and community leaders. The change is not only a cosmetic one as the Group is investing in upgrades through various of its facilities as it strives to remain one of the leading healthcare providers in the country.

  Over the years Clinix Health Group has assisted and taken up the running of a variety of hospitals, ranging from PPPs (Public Private Partnerships) to privately own.

  The Group has successfully managed to turn these facilities around and create success stories whilst additionally creating employment and upliftment within those areas that they reside.

Business Background
Facilities

Clinix HEALTH GROUP

THE COMMUNITIES THAT CLINIX SERVES:

- Admitted and treated more than 76 000 patients
- Delivered 3669 new-borns from the communities
- Manage just over 1450 licenced beds
- State of the art equipment
- Medicine supplies
- Continual learning programs
- Support Services
- Policies and Procedures

The Business Model

- **SERVICES PROVIDED**

  The Group provides infrastructure, clinical services and supportive services and bill for the services rendered.

- **DOCTORS**

  The doctors manage the clinical processes, admit patients and bill separately for the services they deliver and make use of other specialist's services such a radiologists who act on the instructions of referring doctors.

- **COMPOSITION OF ACCOUNTS INCLUDE**
  - Fee income- accommodation charges, theatre billing and equipment charging.
  - Pharmaceutical items - medicines and surgical items. Medicines are regulated by the Single Exit Price (SEP) with no dispensing fees being charged. Surgical bills are charged at cost using the acquisition price model therefore no profit from pharmaceutical items.

Regulatory Framework

THE PRIVATE HEALTHCARE INDUSTRY IS HIGHLY REGULATED WITH A RANGE OF LEGISLATION, INCLUDING:

- National Health Act; Medical Schemes Act; Competition Act;
- Constitution of South Africa - section 27 of the Constitution apply to private health establishments
- National Core Standards Compliance, which ensure compliance with the standards of quality health care.

Regulation, although important especially in the health sector can become burdensome, constrain innovation, limit competition and lead to increased costs, especially in South Africa's healthcare environment.

Overregulation restricts the use of doctors and nurses from abroad. The process is too cumbersome, although verification has to happen before getting them into practice.

Nursing Care

STAFFING MODEL (NURSING)

- Huge shortage of sufficiently skilled nurses;
- Transparency at Nursing agencies;
- Effective utilization of nursing staff using standard nursing Ratio's, Acuity and keeping Safe nursing in mind;
- Correct Skill Mix per unit (PN/EN/ENA/CW) by using industry standards;
- Focus on training needs and encourage continuous learning.

The National Qualifications Framework (NQF) Act, 2008 and the Higher Education Amendment Act of 2008 pose a potential challenge in nursing production as all nursing programs are now pegged at levels in the Higher Education Band of the NQF.

Quality of Care
Clinical Outcomes

PATIENT SAFETY AND QUALITY CONTROLS AND CREDENTIALS

- The Clinix Health Group strives to improve the safety of our patients by a fair, open and participation culture, where barriers are broken down so that we can share good and best practice and learn from incidents and near misses, knowing that there is an effective reporting system in place (Incident Management System).

- The following are some of the guidelines which the Group operates under to ensure patient safety and quality of care:

  - Daily surveillance done by our SHERQ officer (Safety, Health, Environment, Risk and Quality officer);

  - Clinix Health Group have implemented patient safety and quality definitions with strict remedial processes on adverse events listed as follows:

    Medication errors ***Falls***
    Pressure sores ***Equipment failure***
    Operating room related incidents

Quality of Care
Clinical Outcomes

Clinix HEALTH GROUP

BEST CARE ALWAYS

- The bundles are a structured way of improving the processes of care and patient outcomes: a small, straightforward set of evidence-based practices — generally three to five — that, when performed collectively and reliably, have been proven to improve patient outcomes

    - VAP (Ventilator Associated Pneumonia)
    - CAUTI (Catheter Associated Urinary Tract Infection)
    - CLABSI (Central Line Associated Bloodstream Infection)
    - SSI (Surgical Site Infections)

Quality of Care
Clinical Outcomes

Clinix HEALTH GROUP

PHYSICIAN ADVISORY BOARD (PAB)

- The PAB is an autonomous committee with the explicit role to focus on clinical matters;
- Existing committees and specialist groups have mandated representation on the PAB through sub-grouping, as well as representation from Boards of Directors;
- Main focus on the quality of clinical care.

Information Technology

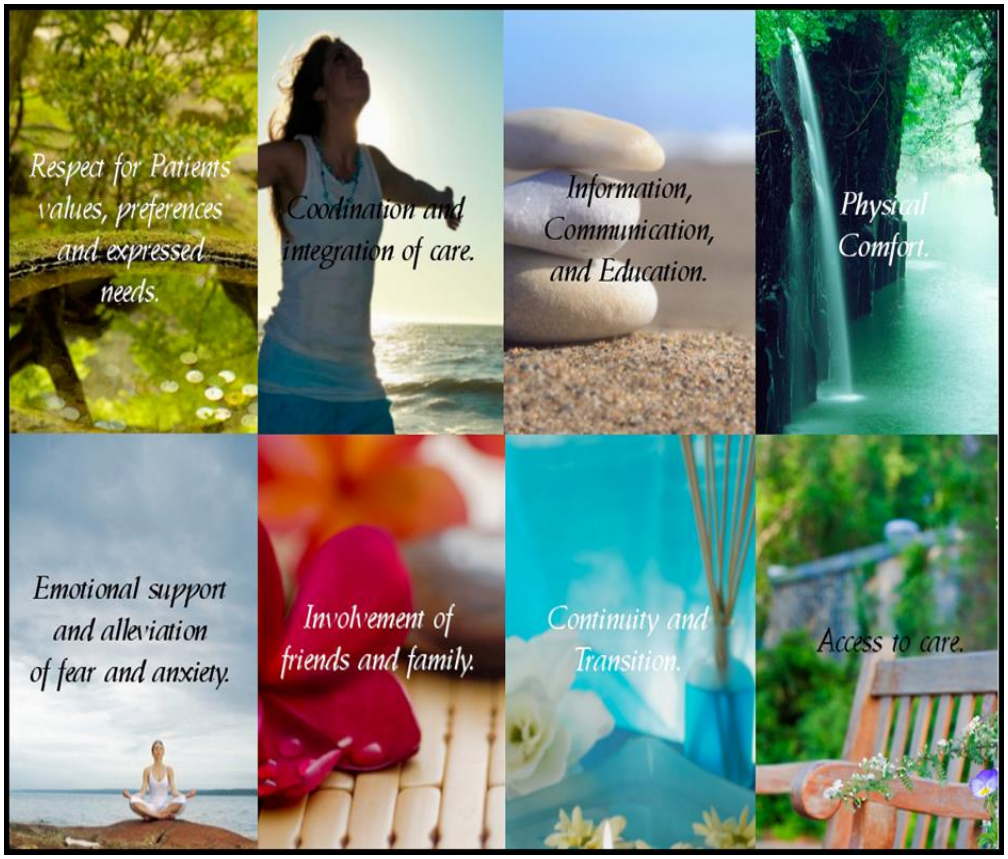
- More elaborated **data and patient care information** is required for accurate reporting and future planning.
- The larger groups have the **financial ability to invest** in more sophisticated IT solutions. For the smaller groups to be competitive these solutions come at a huge cost and in certain cases are unattainable.
- For the past 17 years, the Clinix Health Group has been utilising **ProClin** as the Hospital Information System (HIS).
- Based on the strides already achieved by the other hospital groups within the hospital information space, Clinix Health Group was **unable to fully achieve competitive advantage** without new technical and functional innovation. This was mainly due to the high investment cost.
- More elaborated data and patient care information is required for **accurate reporting and future planning**. The larger groups have the financial ability to invest in more sophisticated IT solutions. For the smaller groups to be competitive these solutions come at a huge cost and in certain cases are unattainable.
- Various ERP solutions were reviewed however **SAP** provided an all-encompassing offering suited to the business needs and requirements to effectively compete with its competitors.

Patient Experience

Conexus, an external independent company has been on boarded to facilitate in our patient satisfaction.

Name	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Naledi - Nkanyezi Private Hospital	90.8	87.5	88.5	89.2	89.4	88.7
Phalaborwa Private Hospital	85.2	88.6	86.6	90.2	90.1	87.6
Botshelong - Empilweni Private Hospital	83.9	84.5	83.5	85.8	88.2	85.7
Victoria Private Hospital	83.7	83.6	82.2	82.1	81.6	80.4
Tshepo -Themba Private Hospital	80.6	83.9	83.5	84.0	82.0	83.7
Lesedi Private Hospital	73.0	80.8	79.1	80.8	82.9	78.3
National	80.4	83.8	83.1	84.3	84.9	83.0

Patient Experience



PATIENT INITIATIVES

Monthly discussions on staff meeting on the principles of patient centered care:

- **Respect for patients' values, preferences and expressed needs.**
- **Coordination and integration of care.**
- **Information, communication and education.**
- **Physical comfort.**
- **Emotional support and alleviation of fear and anxiety**
- **Involvement of family and friends**
- **Transition and continuity.**
- **Access to care**

Funder Relations

- **Funders' market power** has been Strengthened by the growing prominence of Designated Service Provider networks, which provides large administrators in particular the ability to channel significant volumes of patients to specific providers.

- By virtue of where **Clinix facilities are situated** is would make sense that our hospitals are DSP's with all medical aids as there is no competition in close proximity. This is unfortunately not the case with most Schemes.

- A prime example is **Discovery KeyCare**, if a member does not use a network hospital or a network specialist, The Scheme does not reimburse any of the fees – leaving the patient to pay the full amount and the hospital and specialist with the risk of non-payment.

- The **imbalance in negotiation power with bigger schemes** has lead to the group remaining far too low as compared with other listed hospital group. It would make sense that by virtue of the low pricing model CHG would be a preferred provider for all schemes, which currently is not the case. A primary example would be **Medihelp and Spectramed** who offer very low rates leaving Clinix with no options but to hold members liable for the difference between the hospital and the scheme rates.

Funder Relations

- Funders in their alleged **strive to curb escalating costs** embarked on measurements of quality outcomes by comparing Clinix hospitals with other listed hospital groups.
- The impact of the **social ills, disease pattern** prevalent in these areas we serve, are not comparable to affluent areas.
- Measurements of **length of stay (LOS)** spend by patients in our facilities cannot be expected to be the same when the background is completely different.
- Medical aid members and hospitals are exposed to the **risk of non-payment of Prescribed Minimum Benefits (PMB)** related accounts by schemes.
- **Ill-informed members** take responsibility of accounts which should not have been their liability. Medical Aid Schemes also utilize any opportunity to decline payment of accounts to the hospitals.

The Early Years

- **Dr Nthato Motlana**, the Mandela family doctor, was a leading member of the Soweto community, born in Marapyane near Pretoria in 1925, played a prominent role in all the defining moments within South Africa's history since the 1950s.
- A great business acumen, establishing **New Africa Marketing** in the 1970's, a company aimed at providing employment to the young previous disadvantaged.
- Pre-1994, there was **no transformation within healthcare**, and sadly to date it has still not been truly transformed for black people in South Africa.
- Drs' - Phaki, Mokhesi, Nthato Motlana, Sam Tshabangu and Beau Loots, together with a number of other doctors, business men and community leaders – amongst them – Attorney GM Pitjie, Dr. Abner Tlakula and Victor Makenna, came up with the concept of establishing **Kwacha Group**; comprised of Lesedi Private Hospital; (now Dr. SK Matseke Memorial Hospital), and Sizwe Medical Services.

The Early Years

- The main goal being to **provide black doctors a place to practise** medicine and furthermore to provide the community with accessibility to a private hospital and to affordable healthcare. Both black doctors and patients alike were not allowed to practice and be treated within “whites only” private institutions.
- Kwacha later became **Sechaba**, the company who introduced the **Sizwe Medical Aid Scheme**, being the first such black owned and operated administrator and scheme.
- Sizwe Medical Aid was developed to provide **healthcare accessibility** to the black population.
- **Dr Motlana had the vision** to also provide medical aid to black practitioners within the healthcare and education sectors. Unfortunately apartheid had a role to play in Bonitas Medical Aid not forming part of Sizwe but rather Medscheme.

The Early Years

- In 1992 the **Clinix Health Group was formed** on the same founding principles as that of the Kwacha Group . In other words, making private, high quality healthcare available to patients nearer to home. Conceptually the idea is the same, the group offers a well-equipped clinical environment for Black specialists to practice from, and for patients to receive care without having to travel long distances. It also affords the families of those patients a better opportunity to visit their loved ones while they are recovering.

- **Lesedi Hospital** also now known as Dr SK Matseke Memorial Hospital, was later acquired by Dr Matseke, who within a period of 24 years, went on to build other private hospitals in various townships.

- In partnership with the **Bonitas medical aid fund** and with the backing of the **Industrial Development Corporation (IDC)**, the company opened its first hospital in April 1994 in Vosloorus.

The Early Years

- When the Clinix Health Group was founded during the 1990's the larger hospital groups showed very little to no interest in investing within the black community areas.
- As a result of the lack of interest shown, there was and still is, a large disconnect between the large hospital groups and other small independent hospitals.
- This is even prevalent today in that the 3 largest groups investment strategies is to rather invest within Europe or the Middle East than within Africa.
- The lack of investment by the larger groups was due to the community areas being perceived as high risk areas, and also that there were insufficient black specialists and black medical aid members at the time.
- The dynamics is however changing in the sense that there are more black specialists and medical aid members with a better understanding of private healthcare.

Business Challenges

- Even today, we have a **private healthcare system** that caters for an affluent community. Both from the point of view of Medical schemes and private healthcare institutions. Sadly the majority of ordinary black, coloured, white, or Indian – blue collar workers still fall through the gaps in this system.

- The **majority of the patients** that are served by Clinix are on **lower medical aid options** thereby having the implication that the Clinix Group is paid lower tariffs. These schemes are prescriptive in every single case. They have strictly limited benefits, which includes but is not limited to prescribing where a patient may receive care and from who, how they might receive treatment, and they are subject to low annual limits.

Business Challenges

- **Doctors also receive a lower tariff** on these lower options in comparison to doctors at the other groups. They are in essence forced to accept the lower tariff from the medical aids as charging co-payments or costs upfront and recouping back from the medical aids is futile.

- Due to **low option medical aids and co-payments**, doctors operating from the Clinix facilities are forced to transfer patients to the hospitals of the other groups in the cities. This makes them reluctant to stay and practice at Clinix facilities.

- The tariffs they receive from medical aids are also higher at DSP's

Business Challenges

- The Clinix Health Group **pricing strategy** is to consistently bring affordable quality healthcare to the communities we serve, however the imbalance in negotiation power with bigger schemes aided in the group remaining far too low as compared with other listed hospital groups.
- The larger groups however have the **luxury of having more patients on the higher medical aid options** than lower medical aid options which helps them in spreading their risk.
- In the larger hospital groups, they have **more bargaining power** with the medical schemes and can negotiate for better tariffs. The three large hospital groups, and the three most powerful medical funds are able to negotiate tariffs as equals.
- Clinix Group is **not in this league**, and therefor is impelled to accept whatever rate increases are offered to them.

Business Challenges

- Medical aids do not understand that the Clinix Health Group operates in a **different market** to that of the larger groups.
- The market Clinix operates in differs to the market the other groups operate in.
- If one looks at **medical aid usage**, you will find that Black patient usage in township areas is less. By nature this group of the population do not seek medical care until they feel seriously ill. This fact can easily be verified. As a result when patients present at Clinix facilities, they are as a rule quite ill, and would therefore have a better outcome with a longer stay.

Business Challenges

- Medical Aids are **pressurizing Private Healthcare** to shorten the **Length of stay (LOS)** of patients although they are not yet ready to be discharged. A large contingent of patients come from very poor living conditions and home care which often results into re-admissions into healthcare facilities.

- Small service providers like the Clinix Health Group, are normally not included in **DSP agreements** by Medical aids as they do not have a national footprint which make it difficult to compete within the open market. Patients are also forced to make use of public transport to access healthcare at the larger groups.

- **DSP's should be open** to the smaller groups like Clinix Health Group.

Business Challenges

- The Clinix Health Group started off as a result of **Government and Industrial Development Corporation (IDC)** supporting small businesses.
- They had a very important role to play but as the IDC are no longer supporting the Private hospital Industry, the **market has a very slow growth** and this by itself is a big mistake. **Medical Aid Funds / Administrators** should be allowed to invest within the health sector and hospitals.
- Without the necessary **funding mechanisms** in place new entrants find it impossible to compete.
- In order to make healthcare more **easily accessible** to the communities we serve, we need licensing in a highly regulated environment.
- We also need to build **more hospital facilities** in order to reach more patients. Barrier to entry is extremely high, and requires a great deal of capital.

Business Challenges

- As a result of this, we find that **licenses** have been issued to emerging entrepreneurs who wish to make healthcare more accessible to patients where they stay, and no funding is available.
- This creates a **untenable situation**. As an example - the top three hospital groups do not require financial assistance.
- They have **access to banks and the market**. In a number of scenarios, emerging entrepreneurs in possession of hospital licenses have been given a small percentage shareholding for a new hospital, in return for control over the license. E.G. Waterfall, and Polokwane.
- Even Clinix was at one stage in **danger of being taken** over by Netcare.
- We believe that it is vital that **FDI's review their position** on funding private healthcare facilities. This is the only way to be competitive against the monopoly of the big groups in the healthcare industry.

Business Challenges

- In line with **Government's focus** on bringing affordable quality healthcare to the previous disadvantage communities, the Clinix Health Group hospitals are situated inside these communities but cannot serve them.

- It lies with both the public and private sector to **make good healthcare accessible** to every South African.

- The view is that **the way both private and government institutions are structured is flawed**. Neither one is able to cater for the entire population of this country without compromise, and without the same end-goal in mind.

- **PP partnerships** also play an important role in healthcare accessibility, and we believe that these partnerships should be taken seriously, and encouraged by Government. Knowledge and skills sharing has been proven to be effective for service delivery, and we are after all, all delivering a service.

Business Challenges

- **Lower option medical aid patient** are seen by specialists but due to high co-payments they get admitted into the big city hospitals.
- **Specialists then build relationships** with these hospitals and they recruit them into their hospitals. This is a major concern and deprive the patients of being cared for in their own communities.
- **Historic annual tariff increases** are industry related but over and above the standard negotiation for tariff increases, the Clinix's Group fee structure is derived from a very low base and therefore the tariffs for most medical aids are lower than the other groups.

Business Challenges

- **Increases** are not clear cut as the increases always come with attached terms and conditions.
- Clinix chose to **negotiate directly** with the various medical aids and administrators rather than being part of the NHN Group. The reason being that larger hospitals in a sense subsidise the smaller sized hospitals in terms of the negotiated increase tariff rate.
- **New technology** provide better outcomes but at a very high investment cost. Due to the high cost of the hi-tech equipment and that the Clinix Health Group is not able to secure sufficient funding for this equipment, due to lower than average tariffs, it is **difficult to be competitive** in the market.

Conclusion

- The **healthcare market is ostensibly controlled** by the three largest medical schemes administrators, and the three largest hospital groups.
- This **monopoly and non-competitive behaviour** needs to change, but can only change through deliberate licensing by departments to the smaller groups, and first-preference access to funding from FDI's, and or preferred partnerships with Government.
- If this **transformation** does not take place, the healthcare system in South Africa will be in the same if not a worse position that it is now.
- There is a distinct **lack of healthy competitive initiative** in the current system.

THANK YOU

Questions?