



CASE STUDY

Passionate About Relieving Suffering in Challenging Markets

Saudi German Hospitals: Commitment to Quality Healthcare in War and Peace in the Middle East and North Africa (MENA)

SEPTEMBER 2018

ABOUT IFC

IFC—a sister organization of the World Bank and member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work with more than 2,000 businesses worldwide, using our capital, expertise, and influence to create markets and opportunities in the toughest areas of the world. In FY18, we delivered more than \$23 billion in long-term financing for developing countries, leveraging the power of the private sector to help end poverty and boost shared prosperity.

ABOUT THE CASE STUDY

Expanding access to quality and affordable healthcare is a central element to eliminating extreme poverty and promoting shared prosperity. The World Bank Group has a goal to end preventable deaths and disability through Universal Health Coverage (UHC). In many developing countries, governments do not have the capacity to serve the entire population and private healthcare providers often play a critical role in meeting societal needs.

IFC is developing case studies that demonstrate the ability of the private sector toward achieving global and national healthcare goals. Through a focus on efficiency and innovation, certain business models can provide better outcomes at a lower overall cost to society.

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PHOTOS

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Amid war, Khairy Aly Mohamed El Ramady endured an arduous 200 km journey from Hodeida to Saudi German Hospital Sana'a to receive regular dialysis treatments he needs to survive.

PERSEVERING AGAINST THE ODDS

The outlook was bleak for Khairy Aly Mohamed El Ramady. He suffered from permanent kidney failure and needed dialysis twice a week to stay alive. The 38-year old could only use one eye due to diabetic complications. He was from Hodeida, Yemen, and had been receiving treatment in the Ministry of Health's Kidney Center, which was the only public facility in the entire city. The center was severely overstretched and suffered from a shortage of hemodialysis solution, a situation exacerbated by the intensification of a four-year long regional war.

By mid-June 2018, the conflict had escalated with a battle to capture Hodeida, the most important port city in the country. The city is the main lifeline for millions of Yemenis who are struggling to survive a conflict the United Nations calls the worst manmade humanitarian catastrophe since 1945. The sea and air ports are the principle lifelines for food and medical supplies into the country, which has been living under a blockade since 2015. The healthcare system is on the verge of collapse.

Under these circumstances, Khairy was told he would have to wait at least a week for treatment. But that would be too late. He was referred to Saudi German Hospital (SGH) in Sana'a, which responds to requests for medical support from the United Nations and others. To survive, Khairy would have to make the arduous journey, more than 200 kilometers away.

Upon his arrival at SGH Sana'a, a team of medical professionals put him on dialysis sessions and began to treat his other medical conditions. Khairy had another problem; he could not pay for the treatment. He had lost his job because of the war and was responsible for his family of eleven. Fortunately for him, SGH Sana'a had anticipated such situations resulting from the conflict and had put together resources to assist those who needed it.

Engineer Sobhi Batterjee, SGH Group (Group) Co-Founder and Chairman, explains, "The SGH Sana'a hospital gives us a glimpse into the collective humanism of people and organizations. Khairy's treatment, and the treatment of many others in financial difficulties, was funded by a charity account that is supported by donor organizations, such as Red Crescent, the International Red Cross, the Danish Refugee Council, Doctors Without Borders, Gulf Charities, Sheikhs, Princes' offices and others who have all come together to assist in this great humanitarian effort. It allows SGH to treat thousands of patients who cannot afford treatment."

Dr. Abdullah Hussein Al-Dairi, CEO of SGH in Yemen adds, "Although SGH Sana'a is already in a critical situation with regard to diesel, medicine, medical and surgical supplies, and food, management decided to extend our support to the people of Hodeida at this dire time. We are ready to support them with all we have."



"We are passionate about relieving suffering even if it is treating patients at cost."

Engineer Sobhi Batterjee
Chairman of SGH Group

This culture of going “above and beyond the call of duty” to provide good care is deeply ingrained within SGH staff, extending from the junior-most employee to the chairman himself. Further reflecting on its work in Yemen, Eng. Sobhi said, “We decided to enter the Yemeni market to serve the community. People refuse to go to underdeveloped countries because it costs more to bring talent, technology, and to operate, but we are passionate about relieving suffering even if it is treating patients at cost.”



“Although, SGH Sana'a is already in a critical situation, we are supporting the people of Hodeida with all we have.”

**Dr. Abdullah
Hussein Al-Dairi
CEO of SGH Sana'a**

Yet, SGH Group, the largest private sector healthcare provider in the Middle East and North Africa (MENA), is profitable with revenues of US\$589 million (2017). In highly fragmented and underdeveloped markets, the SGH network brings the benefits of scale to the region. It owns 10 hospitals with about 2,500 beds in 4 countries. It employs more than 7,400 employees, of which 3,000 are women, including the hospital CEO overseeing its flagship UAE operations.

The hospital Group was founded in 1988 by two brothers, Eng. Sobhi Batterjee and Dr. Khalid Batterjee, under the guiding philosophy from the Quran: “And if anyone saved a life, it would be as if he saved the life of all mankind.” It began operations with a 300-bed general hospital in Jeddah. Since then, it has established tertiary level hospitals across the region, including five in the Kingdom of Saudi Arabia (KSA), three in the United Arab Emirates (UAE), one in Egypt, and one in Yemen. It is currently expanding into Morocco and Pakistan.

In 2017, SGH Group treated nearly 1.8 million patients, of which 70,000 were inpatient. Since 2006, the hospital in Yemen has treated over one million patients, while since 2016 the hospital in Cairo has treated nearly half a million patients. Its vision is to be the most trusted healthcare provider in the MENA region through the delivery of high-quality care. All five of its legacy hospitals are accredited by the prestigious Joint Commission International (JCI) and the newest hospital in Cairo achieved JCI accreditation within just two years of commencing operations, a laudable achievement.

Through a relentless focus on developing a synergistic value chain, Bait al Batterjee Medical Company (BAB), the parent company of the Saudi German Hospital brand, has established various subsidiaries, including the publicly traded Middle East Healthcare Company (MEAHCO). The Group currently provides primary, secondary, and tertiary care in over 50 treatment areas. It owns and operates medical centers, clinics, laboratories, radiology centers, pharmacies, as well as rehabilitation and physiotherapy centers. The Group has also established a medical college, a hospital construction company, and fitness centers. Having invested in healthcare operations and developed healthcare facilities for over 30 years, SGH has positioned itself to provide services at all stages of life, from prenatal to end-of-life care.

Notwithstanding SGH's large footprint, the region remains severely underserved. The average bed per 1,000 people in the MENA region is 1.0 as compared to 4.3 in High-Income Countries. Significant investment and efforts, with some estimates placing it at \$1.2 trillion, will be required to alleviate this. To address the gap on a larger scale, in 2018, SGH Group launched “Humania Capital,” a healthcare investment company that will extend capital, expertise, operational excellence, and synergistic benefits to third party healthcare providers in emerging markets in MENA and beyond. It will also fuel SGH's organic growth.

IFC played a catalytic role in SGH's regional expansion with two investments consisting of a blend of loans and equity totaling \$75 million. It was the first investment for IFC that was Sharia Law compliant with a sale-lease-back structure. Since 2007, IFC has supported the construction and equipping of two multi-specialty hospitals, each with 300 beds in Sana'a, Yemen and Cairo, Egypt. These hospitals have brought significant value to healthcare in these regions, providing increased access to high-quality care.

TOP 3 SUCCESS FACTORS

As SGH has expanded geographically, the key factors contributing to its success have been an emphasis on the transfer of knowledge from developed to developing markets, a strong reputation for quality, and a patient-centered approach that is anchored in a full-time doctor employment model.

KNOWLEDGE TRANSFER FROM DEVELOPED TO DEVELOPING MARKETS	<p>Over the course of 30 years, SGH has established itself as a beacon of quality by regularly developing, honing, and enhancing its operational and medical expertise through continuous training with experts from developed healthcare markets.</p> <p>SGH introduced to KSA, and later to all its hospitals, a visiting doctor program that brings highly specialized physicians from across the globe to facilitate knowledge exchange of advanced medical techniques. The visiting doctors and the SGH doctors jointly treat patients. The program enhances the continuing medical education offerings available to SGH clinicians. It has enabled SGH to introduce medical innovations to its markets, such as less invasive techniques that have lower complication rates and faster recovery times. As SGH developed a reputation for quality, public confidence in its brand has increased with patients realizing that they no longer needed to travel abroad to receive quality medical treatment.</p>
STRONG REPUTATION FOR QUALITY	<p>Backed by JCI accreditation, SGH’s approach to quality permeates every aspect of care. It has created standards and systematized procedures to ensure greater consistency in positive health outcomes. It effectively provides multi-disciplinary care through sophisticated patient tracking and electronic medical record (EMR) systems that promote more effective communications among clinicians. It has developed rigorous internal controls and regularly conducts internal and external audits of its facilities to ensure adherence to policies and procedures, assessing each hospital for compliance with standards, clinical applications, and outcomes. It provides additional training when gaps are detected.</p> <p>The Group is developing a Center of Excellence adjacent to its Dubai hospital to provide best-in-class care in certain specialized treatment areas including neurology, OB/GYN, neurosurgery, and orthopedics. The depth and breadth of treatment it offers in these specialties is available to patients throughout the SGH network.</p>
PATIENT-CENTERED APPROACH ANCHORED IN A DOCTOR EMPLOYMENT MODEL	<p>Breaking away from the independent consultant doctor model, SGH doctors are contractually engaged as full-time employees and are evaluated against key performance indicators that measure mortality, morbidity, infection rates, health outcomes and financial targets. SGH found that a model where doctors dedicate a limited portion of their schedule to the hospital lacked stability. By offering patients a wide spectrum of full-time specialists, SGH could ensure holistic treatment, continuity of care, and consequently, better patient outcomes. The strategy fosters a positive relationship between the patient, doctor, and hospital.</p> <p>Doctors are offered fixed compensation at market rates and are not incentivised to conduct unnecessary tests or to prolong treatment. This results in increased patient trust and corresponding patient volumes, as well as very low claim rejection rates from insurance providers. This model positions the hospital to maximize doctors’ time and offers better coordination of care, particularly for patients with multiple conditions. The model helps SGH offer better quality, have more control over risks, and generates cost savings.</p> <p>The Group regards patient satisfaction as a central measure of success—outpatient clients are offered a money back guarantee. Further, to ensure accountability of its employees, the mobile number of key personnel, including Eng. Sobhi himself, is posted in conspicuous locations throughout its facilities.</p>



Saudi German Hospital became the first hospital in Kingdom of Saudi Arabia to introduce minimally invasive techniques that were less painful. Its visiting professor program has helped elevate the quality of care.

A PASSION TO SERVE OTHERS: THE BIRTH OF THE LARGEST HOSPITAL NETWORK IN MENA

In 1985, Sobhi Batterjee, a young Saudi engineer, was trying to decide his career trajectory. As an ambitious young man, he wanted to achieve financial success; however, he also cared deeply for the region and its people and aspired to improve their quality of life. He decided to find a way to blend his goals. At that time, his brother, Dr. Khalid, had just graduated from medical school in Germany and returned to practice in Jeddah. While KSA had experienced economic development, health indicators still lagged the rest of the world. Dr. Khalid found that Saudi hospitals were not as well equipped as German hospitals, and there was a significant gap in quality of care leading many Saudis to seek treatment abroad.

There was a great need at the time—the country of 11 million only had about 250 hospitals and life expectancy was 66 years. The government had identified healthcare as a focus area. It was investing in healthcare to improve standards and was offering attractive financial incentives for others to invest. Moreover, the Batterjees' mother had always hoped that the family, who had been in the pharmaceutical industry since the 1940s, would enter the hospital space. This seemed to be the opportunity the brothers had been searching for, and they decided to pursue their mother's dream.

In 1988, the Batterjees established the first hospital with 300 beds in Jeddah. They named it “Saudi German Hospital,” referring to their strategy to bring German doctors to KSA to treat patients with complex cases, while teaching SGH doctors advanced medical techniques. It pioneered several medical advancements in the region—including the introduction of minimally invasive techniques. It very quickly developed a strong brand name in the area, and attracted a high volume of patients. To their relief, the hospital was cash flow positive within the first three months.

Sobhi studied the hospital and operations through the lens of an engineer and quickly identified several inefficiencies. He began to focus on remedying these. He believed that the key to having consistent quality was standardization and that uniformity would help them to improve quality, get approvals quickly from regulators, and scale up. The brothers sought to systemize and industrialize procedures, mapping all the steps for a procedure from admittance to discharge. They introduced several policies to improve efficiency, succeeding with 80 percent of procedures.

Over time, SGH developed a deeper understanding of the market. Realizing that about 40 percent of the patient flow came from the southern part of KSA, there was evidence of unmet demand for quality care. Having successfully proved the concept, Eng. Sobhi, wanted to expand across the country. They reinvested their profits from the first hospital and began expansion, opening hospitals in Aseer, Riyadh, and Medina.

As they expanded, they saw the extent of the pent-up demand. One day, at a management meeting, where new ideas were frequently discussed, Yemeni and Egyptian employees raised the prospect of expanding to their countries. Yemen became the first venture beyond the Saudi borders.



Feasibility studies in Yemen indicated a significant gap in the healthcare market, relative political stability, brand recognition, a base population with paying capacity and a strategic regional location.

YEMEN: THE CHALLENGES OF OPERATING A HOSPITAL IN A CONFLICT ZONE

Dr. Khalid and the medical team noticed that they were seeing many Yemeni patients with straightforward conditions that became significant complications due to lack of treatment. Yemen is one of the poorest countries in the world. In 1989, life expectancy was 57 years. There was a high burden of maternal and child mortality, and more than 50 percent of children were stunted from malnutrition. At the insistence of Hussain Nasir, an SGH employee and a Yemeni national, the SGH medical outreach team traveled to Yemen in 1989 to visit the biggest hospital in Yemen's capital of Sana'a.

Dr. Khalid reflected, "I was really, really shocked at the conditions. There were tens of patients crammed into one hospital room with fractures, bed sores, and very miserable hygienic conditions. Patients had become crippled from lying in bed for months. Nobody was taking care of them. It hurt me personally to see so much suffering and I turned to Hussain and said, 'we have to do something.' We went to the hospital director and said, 'We are willing to visit regularly and operate without charge.'" The visiting doctors treated around 600 patients in the first week-long visit and returned several times to provide additional medical care.

The medical visits caught the attention of the president of Yemen who invited them to open a hospital. The Batterjees knew that it would not be easy to construct and maintain a hospital in Yemen given the challenges, including tribal divisions, nascent infrastructure, and a wide gap in qualified health staff.

Although it was not expected to be very profitable, the feasibility studies indicated the fundamentals were strong in 2001. At the time, there were significant unmet needs for healthcare in the market, relative political stability, little exposure to currency risk, excellent brand recognition, a base population with paying capacity, and a strategic geographic location to attract patients from African Horn countries. They agreed to proceed.

SGH brought in local government partners as shareholders in SGH Sana'a. Yemenia Airlines, the Ministry of the Interior, and the Yemen Pension Fund (Ministry of Finance) were keen to assist in the development of the hospital. At that time, government employees traveled abroad for medical treatment, and they hoped to reduce this high expense.

SGH faced challenges beginning with construction, and it ultimately took about five years and \$100 million to open the 300-bed hospital. Most materials had to be imported. Eng. Sobhi explained, "I spent \$2 million in shipping costs to bring 2,000 containers from Saudi Arabia with construction materials to build a world-class hospital."

Recruiting talent was not easy. Yemen only had 2 physicians per 10,000 persons and there was a perception of low standards. Since SGH had already addressed a shortage of doctors in Saudi Arabia through international recruitment, it adopted the same model in Yemen.



We knew it was not going to be easy to construct and maintain a hospital in Yemen, but we were compelled to improve the conditions and bring world class healthcare to Yemen.

Dr. Khalid Batterjee
Co-Founder of SGH
Group, Board Member
and Vice President



SGH Sana'a had a strong start, responding to pent-up demand. About 50 percent of patients paid with insurance and corporate sponsors, while the balance was paid in cash.

When the hospital opened in June 2006, it was equipped with the latest technology, including oncology machines, CT Scans, closed MRI, Gama cameras, ultrasound, as well as multiple ICU's and operating theaters. It offered a wide range of medical services with rare specialties, sub-specialties, and critical care. The vision was to be the first reference hospital in Yemen and become an African hub for healthcare.

To secure its client base, SGH Sana'a negotiated contracts and opened lines of credit with several payors. It contracted with the government and taught the authorities how to budget for healthcare. It established corporate contracts with large employers, such as oil and telecommunications companies, and organizations with international insurance, such as embassies, international organizations, and NGO's.

SGH Sana'a had a strong start, responding to pent-up demand. Even SGH management was surprised at the initial success. During the first three-and-a-half months of operations, the hospital admitted 850 inpatients and saw more than 13,000 outpatients—although many services had not yet commenced, little publicity had begun, and the period included Ramadan. About 50 percent of patients paid with insurance and corporate sponsors, while the balance was paid in cash.

Despite the initial success, SGH encountered certain operational challenges. There were working capital issues, as the Yemeni credit market was underdeveloped. Additionally, there were initial teething difficulties related to key employees taking time to adapt to SGH's culture and life in Yemen.

Instability gradually intensified with political pressure against the Yemeni president leading to a political, economic and security deterioration. By 2011, the Arab Spring revolution arrived in Yemen, and the president was ousted. In December 2013, SGH management realized that the parliament and government eliminated the budget for healthcare insurance for government employees. Management decided to close the credit accounts for all government clients to manage financial losses.

Conditions continued to deteriorate with the conflict extending to the capital, and by December 2014, the Yemeni government was unable to pay for its employees' medical services. Additionally, with the evacuation of the international community, there was pressure on insurance payors who were traditionally the most dependable. With the collapse of its most robust revenue sources, SGH Sana'a was forced to reduce capacity by 100 beds.

In 2015, the conflict intensified. The Sana'a airport was bombed, severely curtailing access to crucial medical supplies and forcing the suspension of the visiting medical professors program, which was a major source of revenue.

SGH Group management considered closing the hospital. Dr. Khalid reflects, "It was a difficult choice because people were very appreciative the hospital was there. Dr. Abdullah, the new SGH Sana'a CEO, who is of Yemeni nationality, convinced us that they had established the hospital as a safe zone. The doctors and their families were living inside the hospital, and the compound residents would protect it."

The Group initially supported the hospital by injecting \$20 million, but the continuation of hostilities, the collapse of the banking sector, and the airport closure prevented any additional financial support from the Group. Since 2016, it has been managing the operating cash flow from current operations.

Even as 95 percent of SGH Sana'a's foreign employees were evacuated to their countries, the remaining staff on the ground was determined to continue to provide care as best as they could, taking complete control of running the hospital. The Group continues to provide management supervision, and SGH Sana'a continues to participate in SGH Group committees. Against the odds, SGH Sana'a is the only private hospital, and the only one built with foreign investment in Yemen that is still open.



SGH Sana'a offered a wide range of medical services with rare specialties, sub-specialties and critical care. The vision was to be the first reference hospital in Yemen and to become an African hub.



An incoming missile strike lands meters away from the hospital.

The hospital is physically located in the middle of an active conflict zone. Dr. Abdullah explains, “With a brave heart and strong talk, our mission was now to save the hospital. We made it clear that if the hospital was destroyed that nobody would be served. We told all sides that they needed to protect the hospital and SGH Sana’a would serve everyone.” It set up different floors inside the hospital to provide treatment for the varying factions.

Since there were missile strikes around the hospital, one landing 50 meters from the compound and SGH Sana’a did not want to be misunderstood for a target, it placed a red crescent flag on the roof and put markings on Google and Wikipedia to make clear to aircraft that the building was a hospital.

The conflict rapidly escalated operating costs. In 2012, SGH Sana’a began to implement a long-term, 27-point plan to reduce costs. Elements of the plan are phased in over two-year cycles and strive to avoid compromising quality. Each reform takes about two years to implement, since staff and the surroundings must prepare and adapt to the changes. The cuts were necessary for survival. It succeeded in reducing General and Administrative (G&A) expenses by 32 percent in 2012 and by 2019, it would have slashed costs by 50 percent.

Compensation for services is currently 45 percent cash and 65 percent credit, even though there are long delays in receiving payments. Numerous international organizations and private donors have stepped in to pay for medical services for persons who have been affected by the armed conflict. The international community also provides support to SGH Sana’a through disaster and emergency medical service coordination and preparedness. This assistance also provides important moral support to staff. Further, the affiliation of SGH Sana’a with IFC/World Bank has been invoked to prevent harm to its operations.

“If the hospital was destroyed nobody would be served. We told all sides that they needed to protect the hospital and SGH Sana’a would serve everyone.”



SGH shared success stories to help protect the hospital.



To reduce labor costs for its staff of 450 employees, it restructured the employment contracts to pay salaries in local currency. It did not terminate any staff but reduced working hours.

Given the depreciation of the Yemeni currency, the hospital had to reduce labor expenses for its staff of 450 employees by restructuring employment contracts so that compensation would no longer be in Saudi Riyals. Further, while it did not terminate any staff, it reduced working hours to five hours per day and sent employees on leave in batches of one to two months.

In the next phase of reforms, the hospital will further reduce payroll and tax-related expenses by consolidating doctor and nurse functions. Historically, it has maintained separate male and female wards that were attended to by same-gender nurses, but by mixing nursing staff together, it can further reduce expenses.

Even before the war, SGH Sana'a's dedication to the maintenance of medical standards resulted in relatively high operational costs. The building is a closed facility that is fully air conditioned and complies with stringent standards in order to control the spread of infections. Since there is no electricity in the city, powering the hospital with diesel became one of its greatest expenses at more than 20 percent of G&A. In response, SGH Sana'a reduced the electric load from 1,300 Kw to 500 Kw by consolidating patients on one floor (out of four), using small generators, switching to LED lights, introducing intelligent load distribution over 24 hours, and running machines only when needed. It would like to switch to solar, but it is not possible due to the large upfront investment and lack of technicians.

Medical supplies were not entering the country because of the blockade. The staff, through their own initiatives, organized the delivery of medical supplies from international suppliers. As a result, its operating costs soared 20 times the cost of other hospitals in Yemen and 5 times more than KSA. It reduced costs for medical supplies by switching brands. For instance, lab test kits were now obtained from a South Korean supplier at \$2 a kit instead of from premium German suppliers that charged \$20.

Notwithstanding all the operational challenges, almost all the facilities are working, including the Cath lab, the MRIs and the CT Scans. Its equipment maintenance contracts are valid and machines are being well maintained. It had to cut back on oncology because the oncology machine cannot be calibrated by Siemens remotely and the Gama camera needs radioactive isotopes that cannot be acquired due to the airport closure. Twelve months after the blockade, the United Nations negotiated the opening of the border and the sea port and SGH stockpiled treatments. It now has enough supply to treat dialysis patients for one year.

Remarkably, SGH Sana'a relies on high-quality communications through a satellite connection provided by the Group. Doctors have been able to remotely participate in cardiac, ophthalmology, orthopedic medical symposiums, and international conferences.

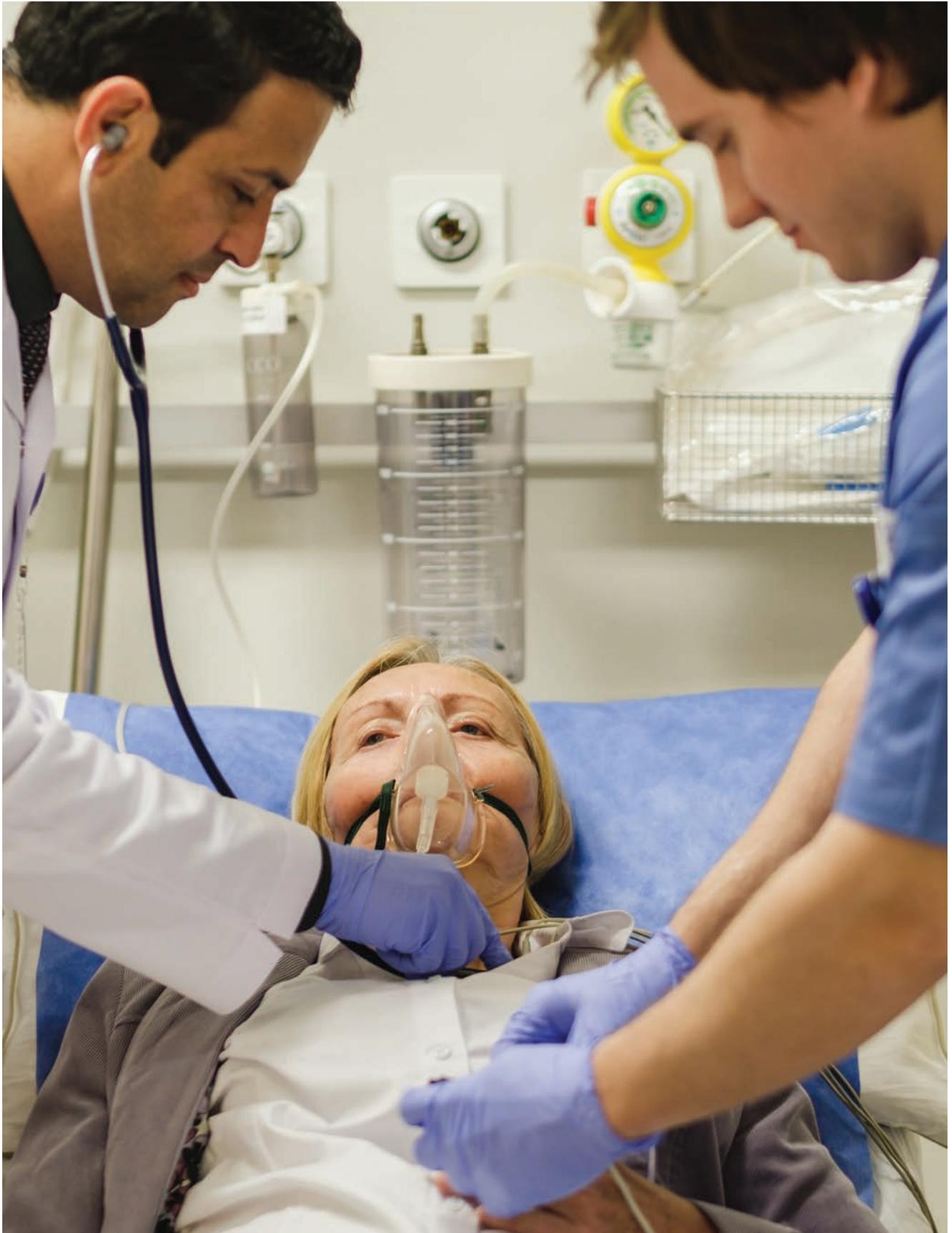
In 2014, the hospital reached an agreement with Smile Train, an American charitable organization with a regional office in Egypt, to provide free reconstructive surgery for children born with cleft lip and cleft palate (mouth) deformities. The program serves multiple purposes by helping low-income patients get much-needed treatment, brings in revenues, and builds goodwill within the community.

SGH Sana'a management and staff are very clear that they are working for the sake of the patients, the community, and the organization. The determination of the hospital staff to continue to serve patients against the odds has led it to treat over one million patients since it opened. The hospital broke even financially eight years after it opened, after having served 300,000 patients.

Dr. Khalid reflects, "Even though healthcare needs peace, we learned to survive in war. One key piece of advice in markets with potential conflict is to start a training program for local medical staff. When the foreign doctors left, we had to rely on the locals. In the early days, we had brought some local doctors to our facilities in Saudi and Dubai to train them. If the hospital closes, they are jobless, so they have a vested interest in keeping the hospital open."



The partnership with Smile Train helps low-income patients get much-needed treatment, brings in revenues, and builds goodwill within the community.



SGH introduced a new model in Egypt whereby the doctors would be full time employees of the hospital and the institution would guarantee the quality of the doctors working under the SGH brand.

INTRODUCING INSTITUTIONALIZED HEALTHCARE IN EGYPT

In 2000, when the Batterjee brothers were considering entering the Yemeni market, they also debated whether to enter the Egyptian market. Dr Khalid reflects, “My brother and I struggled over whether we should enter the market or not—the potential was enormous with 90 million people. The market was very fragmented with about 2,500 hospitals, of which only 20 percent operated under acceptable conditions.”

As the construction of the SGH Cairo hospital was nearing completion, management began to consider how it would approach contracting doctors. It was a difficult decision, but SGH Cairo decided that it would continue to use the doctor-employee model in Egypt just as it had in other hospitals. In Egypt, doctors generally maintained affiliations with multiple hospitals and eminent doctors drove patient traffic to hospitals. SGH introduced a new model in Egypt whereby the doctors would be full-time employees of the hospital, and the institution would guarantee the quality of the doctors working under the SGH brand.

Recruitment at the beginning was difficult because doctors were not used to working exclusively for one hospital on a full-time basis. SGH Cairo offered an enticing package with a predictable salary, a fixed schedule of eight hours a day, six days a week, paid vacation leave, sick leave, scientific leave, and health insurance for their families. Achieving better work-life balance was a compelling argument for many doctors who were making rounds at several hospitals from morning until night. The model has been successfully introduced, and the hospital currently has 230 full-time doctors on staff.

The doctor-employee model has given SGH Cairo several competitive advantages. It has improved quality and has resulted in a systematic work structure. As full-time employees, doctors can be held accountable through Key Performance Indicators (KPIs). It can serve patients with multiple diseases more effectively by better coordinating doctors work in multi-disciplinary teams. This is very difficult to do in other hospitals because doctors are dispersed, working only a few hours at each institution.

By facilitating greater cooperation between medical staff, it increases efficiency and utilization of the different sections inside the hospital. Dr. Hablas highlights the benefits of the model, “We can get better quality, control risks, and save money more effectively with this model. We can reinvest the profits in growth and expansion. We can offer more and better services. Our customers are satisfied, and several have commented that they no longer need to travel abroad because they are pleased with the caliber of quality that can now be found here.”

Notwithstanding, not all are happy. In the beginning, the medical societies and universities perceived a threat to their private clinics from this new employment paradigm. SGH has invited them to come to the hospital, talk to the doctors, and see for themselves whether the model works or not.



“We can get better quality, control risks and save money more effectively with the doctor-employee model. We can reinvest the profits in growth and expansion. Patients are pleased with the caliber of quality that can now be found here.”

Dr. Mohamed Ahmed Hablas
CEO SGH Cairo



SGH provides guidance to all the hospitals in its portfolio through policies, procedures, medical standards, internal controls and sharing of knowledge across the Group.

THE SGH GROUP BUSINESS MODEL

GROWTH

When entering new markets, SGH looks at the underlying healthcare dynamics in each country, such as large population, an untapped healthcare market, cultural synergies, availability of human capital, and Purchasing Power Parity (PPP). SGH Group currently owns 10 hospitals across 4 countries with an additional 6 in the pipeline in key territories including the UAE, Egypt, Morocco, and Pakistan. To date, all its hospitals have been greenfield investments, ensuring consistent standards and workflow efficiencies.

FUTURE EXPANSION

Building on 35 years of healthcare expertise, SGH is positioning itself for a new phase of accelerated growth through the establishment of Humania Capital, its investment holding company. Humania Capital will invest in existing healthcare businesses as well as engage in greenfield projects with an aim to accelerate SGH's presence in its target markets. It will create value by improving management, fostering innovation and providing value-added capital.

Through this rapid expansion, SGH expects to generate synergies that will enhance the quality of patient care and build a more efficient ecosystem with partner companies. Key areas of focus will include better relationships with insurance companies, enhancing supplier efficiency, increasing patient engagement, reducing construction costs, and creating seamless transfer of knowledge and expertise. It is building symbiotic relationships with other hospitals, medical chains



“Through Humania Capital, SGH Group is poised to accelerate growth through acquisitions and greenfield expansion in existing markets and beyond.”

Makarem Sobhi Batterjee
President, Humania Capital
and Vice Chairman SGH Group

SAUDI GERMAN HOSPITALS ACROSS THE REGION



* The 10th hospital in Ajman is fully built and expected to be operational in a few months.



The Batterjee Medical College produces medical professionals for SGH and the broader sector.

and lab networks in KSA, UAE, and Gulf Cooperation Council territories. In North Africa and other frontier markets, the focus is on building greenfield healthcare infrastructure, including entire medical cities. Over the next few years, SGH seeks to become the benchmark of care for hospitals and other healthcare facilities.

MANAGEMENT OF A PORTFOLIO OF HOSPITALS

For all the existing hospitals located outside KSA, SGH uses “management supervision” contracts, or a type of franchise agreement, to restrict liabilities for the listed company. The subsidiary is legally established as a separate entity in accordance with the laws of that country. SGH allows the subsidiary to operate under the SGH brand name, provides guidance through policies, procedures, medical standards, internal controls and sharing of knowledge across the Group. The legal responsibility for the day-to-day operations rests with the local management of the hospitals. SGH Group charges a royalty and a percentage of profits.

MEDICAL SCHOOL

As a result of a severe shortage of medical staff in the MENA region, 98 percent of all SGH’s employees in KSA and UAE are expatriates. In response to the skills gap, in 2005, SGH founded “The Batterjee Medical College of Science and Technology.” It is one of the first private specialized medical colleges offering a variety of majors in Saudi Arabia and is one of the newest and largest private medical colleges in the Middle East. It offers bachelor’s degrees in medicine, dentistry, nursing, respiratory therapy, radiologic sciences, physical therapy, pharmacy, and healthcare administration. It is a well recognized and accredited institution, and its curriculum is based on international standards.

Today, it has 3,000 students from which it recruits to fulfill its own needs, as well as that of the broader sector. About 200 graduates work at SGH hospitals. In the future, it intends to expand the medical school outside KSA. Its vision is to extrapolate greater synergies between the medical school and the hospital and become a reference institution in the Middle East.

GOVERNMENT REFERRALS

In 2005, the Ministry of Health (MOH) initiated a referral program for Saudi nationals to receive critical care in private hospitals. The MOH program helps patients in first-tier cities receive treatment at SGH hospitals in cases where the public hospitals are at maximum capacity or lack the level of care required. In second- and third-tier cities, there is a limited presence of government hospitals, and in some cases, SGH is the only hospital in the region. As a result, MOH refers patients, particularly those needing critical care, to SGH.

The program became an important source of patients and revenues for SGH. When the MOH program was introduced, SGH experienced a 16 percent Compounded Annual Growth Rate (CAGR). Today, about 30 percent of SGH's KSA business comes from MOH referrals. MOH is a strategic client for SGH and is one of the most dependable.

As part of Vision 2030, KSA is developing a plan to shift care to the private sector. As in many countries, the Saudi government is recognizing that with the population growth, increased life expectancy and growing lifestyle diseases, the demands on the overall healthcare system are expanding and it needs the private sector to address the demand. SGH is poised to support the transition.

PRIVATE INSURANCE

Insurance companies and corporate clients are keen to include SGH in its network, and the Group maintains contracts with major insurers throughout the region. In each market, insurance plays a different role, and revenue contributions range from 45 to 80 percent.



The KSA Ministry of Health (MOH) initiated a referral program to private hospitals, which became an important source of patients for SGH.

In 2017, KSA had a population of nearly 33 million and about 50 percent of the population had health insurance. For the local Saudi population, health insurance is currently optional, although there is some discussion that would make it compulsory. For expatriates, health insurance coverage is required and about 10 million expatriates had coverage. About 45 percent of KSA revenues is from health insurance.

In Egypt, while insurance is not mandatory, about 60 percent of revenues are from insured patients. In 2017, the Egyptian parliament passed a universal healthcare law, which has not yet come into effect, although SGH expects this will drive further growth. In UAE, where about 90 percent of the population are expatriates, insurance is mandatory in Dubai and Abu Dhabi. As such, about 80 percent of UAE revenues are derived from insurance.



As SGH grew, it went public to 1) institutionalize the SGH message, (2) manage the family's financial interests, (3) give the company greater transparency and governance, (4) secure wider access to capital, and (5) provide an exit for equity partners such as IFC.

A.V. Thomas
Chief Financial Officer

TOP BUSINESS CHALLENGES

The most significant challenges SGH Group has faced are currency risk and political and social unrest, both of which have affected Yemen and Egypt. A.V. Thomas, the Chief Financial Officer reflects, “On the currency risk, we should have either done local currency borrowing or hedged the currency risk. In countries where we faced social unrest, many international players pulled out; however, IFC remained and offered us equity funding at the parent level to build SGH Cairo.”

CORPORATIZATION

SGH had been a family-run business for decades, but as it grew, it needed to transition to a public company. The primary drivers for going public were to (1) institutionalize the SGH message, (2) manage the family's financial interests, (3) give the company greater transparency and governance, (4) secure wider access to capital, and (5) provide an exit for equity partners such as IFC.

The parent company that IFC had invested in, BAB, was not positioned to go public because it held other assets such as the medical college, the business school, and the hospitals in Egypt, Yemen, and UAE. Since several of these ventures had just started, were not yet profitable, and would not attract investors, it was not advisable to pursue an IPO of the parent company. Thus, a restructuring was necessary.

The intention was to list on the Saudi stock exchange. It decided to transfer all the KSA based hospital assets to “Middle East Healthcare Company (MEAHCO),” a closed joint-stock company that BAB already owned. Then, it transferred IFC's interests to MEAHCO.

The restructuring took place in 2013. IFC became a shareholder in MEAHCO that year and helped chart the path to IPO. Since the KSA securities regulations required that the restructured company have one year of fully audited financial statements, this was completed in 2014. On June 8, 2015, MEAHCO filed the IPO application and Capital Markets

Authority (CMA) granted the final approval on December 30, 2015. All the steps were completed very quickly.

Meanwhile, for most of 2014, the Tadawul All Share Index (TASI) had been booming, peaking at over 11,000, but this was short lived and was followed by a volatile period. On January 18, 2016, weeks after MEAHCO had received final approval, the market fell to 5,456. Internally, management debated whether or not to proceed with the IPO. Eventually, SGH took a bold risk and forged ahead. In February, it held the public subscription and was seven times oversubscribed at a value of \$3.2 billion. On March 29, 2016, MEAHCO listed at a share price of SAR 64 (\$17.07) and it peaked at SAR 82 (\$21.87).

REVENUES

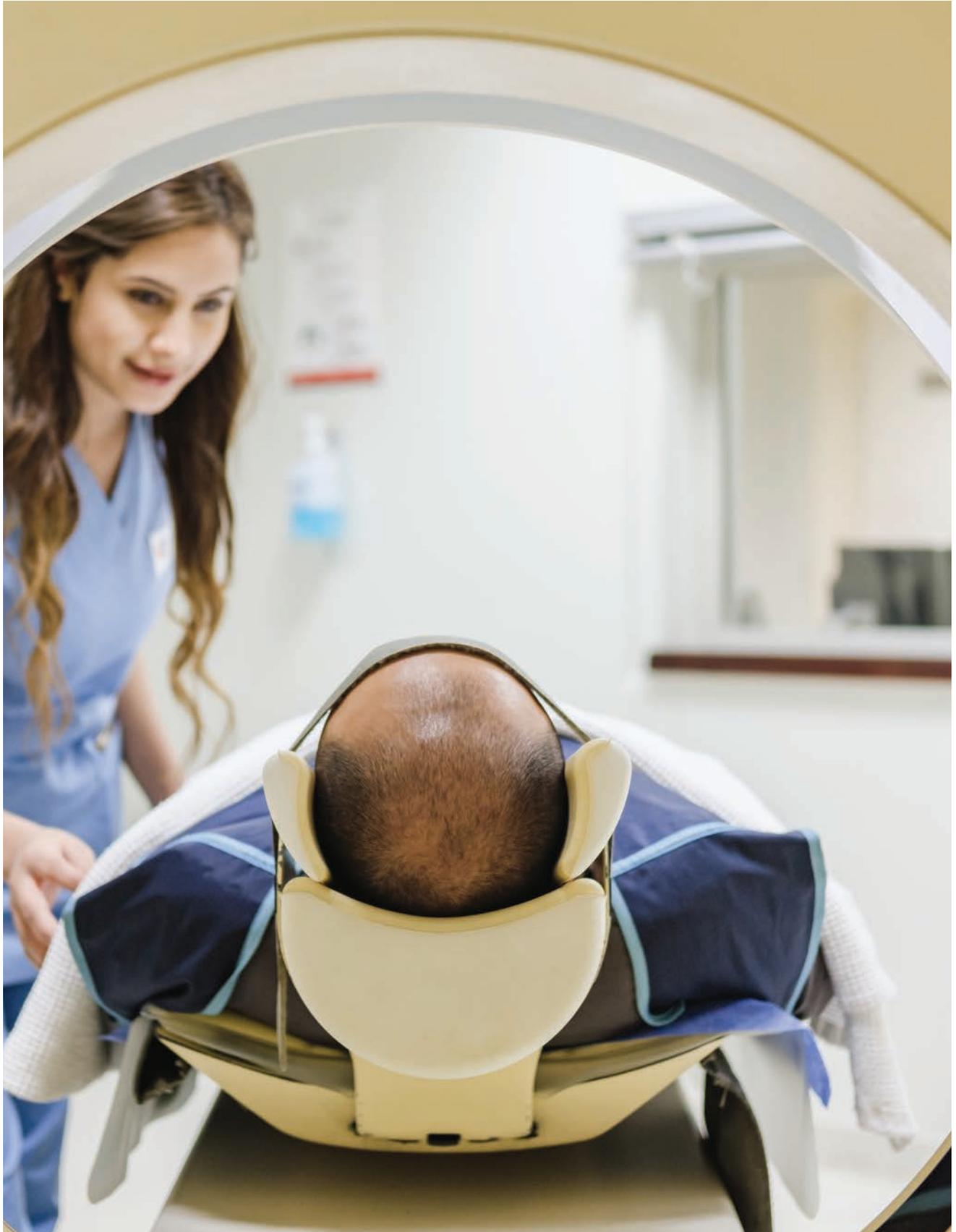
In 2017, SGH Group had revenues of \$589 million with a CAGR of 16 percent growth since 2012. By 2017, KSA's operating revenues had doubled from 2012, totaling \$283 million. Private health insurance accounted for 46 percent of revenues, followed by MOH with 28 percent. Cash was 14 percent and direct billing clients accounted for 12 percent. The EBITDA margin was 31 percent and SGH has been one of the best performers in IFC's health portfolio.

SGH Cairo successfully positioned the brand and ramped up quickly to open 150 beds, of which utilization is at about 85 percent. In 2016, its first year, it had \$8.9 million in revenues and in 2017, it had \$23 million, growing by 160 percent. Although it is EBITDA negative, it expects to become positive in 2018. Sixty percent of revenues were derived from private health insurance, 15 percent from direct corporate agreements and 25 percent from cash.

In Yemen, in its first year, SGH Sana'a generated \$7 million in revenues and it maintained a growth trajectory until 2011. The Arab Spring brought a temporary reduction that was followed by recovery between 2012 and 2014 when revenues peaked at \$23 million, but the war curtailed growth and in 2016 revenues were at \$15 million.



The quality of care at SGH Cairo allowed it to ramp up quickly. It is expected to be EBITDA positive in 2018, about two years after opening.



*“As we continue to expand, we need IFC’s support with opening doors and facilitating matchmaking in new markets.”
Eng. Sobhi Batterjee.*

THE ROLE OF IFC

In 2006, a new IFC Senior Investment Officer, Salah-Eddine Kandri, approached SGH to explore business opportunities. SGH had already built a strong network in KSA that was anchored in a strong brand name with a reputation for quality. It had deep operational experience and was expanding into less developed markets in MENA, like Yemen and Egypt. In 2006 and 2008, IFC made two investments in SGH with a combination of loans and equity totaling \$75 million. It was the first Sharia-compliant investment for IFC.

Salah-Eddine explains why SGH was of interest to IFC, “For SGH, expansion was not only about making money. Helping others is core to their mission in life. Whether you go to their hospital in Riyadh or you walk into the hospital in Sana’a, SGH was offering the same state-of-the-art facilities and quality of care. You would not feel the difference, which was quite telling in terms of SGH’s level of commitment. IFC was interested in a provider of this caliber trying to replicate something similar in challenging environments. It was a good South-South investment and an inspiration for others.”

SGH was interested in working with IFC because of the institutional partnerships it could forge. Eng. Sobhi reflects, “We were interested in working with IFC because it was the premier investment institution globally. Some people are concerned about IFC’s requirements, but that was not an issue for us. IFC helped us to grow. IFC has so much knowledge. We always attend IFC’s Health and Education conferences and have benefited from IFC’s network of contacts. Looking to the future, as we continue to expand, we need IFC’s support to open doors and facilitate matchmaking in new markets.”

Makarem Batterjee, Vice Chairman of the SGH Group Board and President of Humania, echoes the sentiment, “We need IFC now more than ever for Humania to address the gap in access to affordable and quality healthcare in MENA and as we expand to new frontiers.”

Dr. Khalid elaborates further, “I appreciated that IFC has a genuine interest in helping the underprivileged. Moreover, you must have partners that have a depth of corporate expertise and have money to help. IFC helped us to enlarge our vision beyond Saudi Arabia and to make that vision sustainable. IFC catalyzed our growth and pushed us to another level. This is why we appreciate IFC and its teams.”

Mr. Thomas adds, “Given the lack of local funding options, Yemen would not have been possible if we had not received IFC’s support. If there was no political unrest, I still believe that Yemen would be profitable. We have a very good and healthy relationship with IFC, and are good partners working together for the benefit of the Yemeni people.”



“IFC was interested in a provider of SGH’s caliber replicating something similar in challenging environments. It was a good South-South investment and an inspiration for others.”

Salah-Eddine Kandri
IFC Global Lead,
Education



SGH is creating multi-dimensional solutions across the entire ecosystem of the healthcare value chain. Their work is revolutionizing healthcare in MENA.

CONCLUSION: RELIEVING SUFFERING TO CELEBRATE LIFE

Thirty years ago, Eng. Sobhi and Dr. Khalid realized the extent of the tremendous need for access to good quality healthcare in MENA. Driven by a passion to save the lives of all members of society, they have dedicated their lives to creating multi-dimensional solutions across the entire ecosystem of the healthcare value chain. Their work is revolutionizing healthcare in MENA.

By introducing state-of-the-art technology, systematically transferring specialized expertise to the region, and hiring doctors as employees, SGH has effectively raised the standard of healthcare across its network in four countries. It is poised to catapult growth and promote access to quality healthcare for millions more as it expands hospitals, medical chains, lab networks, and medical colleges in existing and frontier markets. As it expands, SGH Group will continue to partner with international institutions like IFC.

SGH's work has contributed to the recognition that governments need partnerships with the private sector to address an ever-growing demand for quality healthcare. Business groups from the Gulf have given emerging markets world-class airlines and ports; SGH Group is adding hospitals and a range of medical facilities to that list.

Patients like Khairy are receiving quality healthcare that allows them to survive, even in war-torn countries like Yemen, because SGH has persevered against the odds in the direst of circumstances. SGH is proving that while the challenges of operating in low and middle-income countries are many and while overcoming the barriers is not easy, with patience and tenacity, it can be done. SGH's mission of relieving suffering and saving lives without forgetting the poorest in the world is an inspiration for us all and IFC is proud to have partnered with SGH.

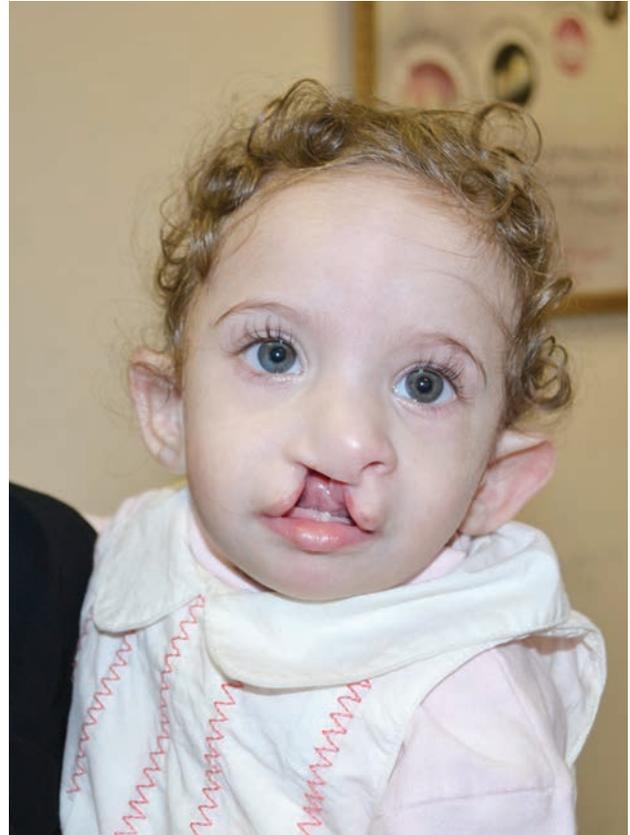


SGH's mission of relieving suffering and saving lives without forgetting the poorest in the world is an inspiration for us all.



The medical team was pleased with the successful outcome of a cleft lip reconstruction surgery performed at SGH Sana'a.

Cleft lip
reconstruction
surgery before
and after.



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Creating Markets, Creating Opportunities

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