China Aged Care: Opportunities and Challenges

International Conference on ‘Aged Care and Ageing: Global Challenges and Responses’
Overview

Australia’s Senior Living and Aged Care services sets a global benchmark for best practice

- Australia has a mature seniors living and aged care industry
  - Well regulated with a robust accreditation framework
  - Strong Government support and funding
  - Long history of co-operation between service providers, government and community

Asia’s emerging seniors care market – grappling with the depth and breadth of the problem

- In contrast, Asia (in particular China’s) seniors living and aged care market is at infancy stage
  - Historically low levels of regulation, Government support and funding
  - Negative connotations associated with placing elderly into aged care homes
  - Sector is desperately underserved in terms of integrated health and aged care services, shortage of qualified workforce to care for the elderly, short supply of quality facilities to house the elderly

China presents a significant market for aged care and seniors care companies if they can develop a scalable and profitable business model
Overview

My experience involves over 35 years in health and aged care in Australia, Great Britain, Singapore and China

- CEO for Moran Health Group for over 15 years (largest privately run healthcare and aged care operator in Australia during this time with operations in UK and Singapore)
- Established Provectus Care in 2001
  - Provectus owns and operates a number of high end residential aged care facilities on east coast of Australia
  - Vertically manage all facilities from purchase of land, design, development, operations and management

In recent years we have “exported” our expertise in the field of residential aged care services and management to China

- First project was Tiantong Hall in Beijing (a 150 bed high end facility), now in almost full occupancy
- Currently working with JV Partner to develop and manage aged care facilities in the Shanghai area (specialising in dementia care) and across a number of other Chinese provinces (tier 1 and tier 2 cities)

This presentation draws on our views and experience in China in recent years
Overview

Provectus Care Portfolio of Premium Residential Aged Care Facilities in Australia

Beresford Hall
Victoria By The Park
Harbour Quays Aged Care
Tian Tong Hall Aged Care (Beijing)
Deakin Manor
Darling House
Drayton House
Opportunities in the Chinese Aged Care Market

Opportunities for Aged and Senior Care result from a unique combination of demographic trends and economic development

- Changing demographics in China & a rapidly greying society
  - Improved economic conditions in China have led to longer life expectancies (now 75 years old vs 45 years old in 1960)
  - One Child Policy (4:2:1 phenomenon where one child is left to look after 2 parents and 4 grandparents)
  - Growing middle class with more affluent middle class driving demand for improved health and aged care services

- The Silver Tsunami – Demographic Time Bomb
  - Adjacent graph shows that by 2050 there will be a shrinking working aged population (aged 15-64 years – dark brown) to support the growing elderly population (aged over 65 years - yellow)

By 2030 China’s aged care population:

- Aged 60+ years is expected to reach 360 million (25% of total population)
- Aged 65+ years is expected to be over 240 million (17% of total population)
- And 75+ years around 93 million (6% of the total population)
The Chinese Government has embarked on an ambitious plan to transform the country’s health and aged care sectors.

Opportunities in the Chinese Aged Care Market

1. 13th Five Year Plan (2016-2020) – Promoting a Healthy China

   For the 60+ population, in aged care, the framework revolves around:
   - Approximately 90% to be cared for at home
   - Six to seven percent cared for by the community
   - Three to four percent requiring residential aged care
     - 35 to 40 beds per 1000 elderly citizens
     - Workforce of 10 million in aged care sector


   For Australian health and senior care companies it creates a level playing field and greater market access:
   - ChAFTA permits Australian companies to establish wholly owned profit making institutions (hospitals/ aged facilities with no geographical restrictions
   - Australian health companies have international reputational excellence for providing high standards of quality service and care
The Chinese Government has identified Australia’s Health and Aged Care industries as top class and welcomes our capabilities into China.
Opportunities in Chinese Aged Care Market

**Demand**
- Target of 35/40 beds per 1,000 persons aged 65+
- Government aims to have 3-4% of seniors in residential aged care in medium term
- By 2030 this equates to around 8,400,000 beds
- Rising affluence and social stigma increasing demand for high end aged care
- Majority of institutions still government run
- Government aiming to have more than half facilities privately run

**Supply**
- Currently only 30 beds per 1,000 persons aged 65+
- In 2017, only 28,000 registered nursing homes in China
- Only 12,500 are privately run
- Government introducing stricter standards for in operating senior care facilities, resulting in the closure of 2,122 nursing homes in 2017 which did not meet required standards

<table>
<thead>
<tr>
<th>Year</th>
<th>Beds</th>
<th>Population</th>
<th>Expected Beds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>30</td>
<td>1000</td>
<td>6.7m</td>
</tr>
<tr>
<td>2030</td>
<td>Expected</td>
<td>245 million</td>
<td>9.8 million</td>
</tr>
<tr>
<td>2050</td>
<td>Expected</td>
<td>360 million</td>
<td>14.36 million</td>
</tr>
</tbody>
</table>

**The Opportunity:** Currently there are only 12,500 privately run aged care facilities in China. With **3 million new beds** required by 2030, we expect the need for **15,000 new facilities** to be required. The Government expects at least **7,500 or 50% of these facilities to be privately operated**.
Challenges: Operating in the Chinese Aged Care Market

Facilities are generally more institutional based rather than “residential or homely”

- Traditionally government run institutions comprise the largest operators

Cultural differences

- Ingrained traditions of Confusion tenant of xiào (filial piety)
- Stigma associated with being placed into residential aged care

Role of Government is not clear

- No overriding regulatory body solely responsible for monitoring the aged care sector
- No unified standard or norms for standards
- On national level there remains inconsistent development and implementation of policies on taxes and subsidies

As an immature market with rapidly changing dynamics the Chinese aged care sector presents a number of challenges:
Challenges in the Chinese Aged Care Sector

Need to provide integrated services:
- Senior housing projects require different requirements to simple development projects
- Need to build in integrated medical, health care (including rehabilitation) and elderly nourishment, lifestyle and leisure services
- Requires proper planning and resourcing

Profit Model is not clear:
- Asset Heavy (big capital investment eg real estate developers) vs Asset Light models (consulting, management and IP)
- Many participants have entered the market and tested various business models with limited or without success

Lack of Talent:
- Geriatric care not a well respected or well paid profession
- Scarcity of high quality and skilled elderly care geriatricians, registered nurses and other professionals

Challenges of doing business in China:
- Language barrier (nationally and regionally)
- Different working culture and work practices
- Myriad of regulatory hurdles (local, regional and central)
Addressing the Challenges:

✓ Manage your expectations and expect things to go wrong. Just be prepared to face the challenges

✓ Think carefully about your business model and be prepared to adapt as the environment or operating conditions change

✓ Find the right local JV Partner(s) ensuring your interests are aligned and capabilities are complementary

✓ Leverage your expertise and protect your IP

✓ Hire locals and train them up so you can transfer your working culture and operating standards. Staff exchange programs work well

✓ Build a network of local professionals and advisors (including lawyers and accountants) who can help navigate the regulatory and other practical issues
Possible investment structure:

- **Provectus Care Group (Australia)**
  - 100%*
  - * Diluted if financial investor invests

- **Provectus Care (Hong Kong) Limited (Hong Kong)**
  - 100%

- **WOFE (Mainland China)**

- **Chinese Local Partner**
  - Operating Rights
  - Equity Returns
  - 100%**
  - (** Diluted if Provectus WOFE takes equity stake)

- **Aged Care Projects in China**
  - Management & Consultancy Fees
  - Design, procurement, IP, Staff Training, Management services
  - Equity Investment (select projects)
  - Equity Returns (select projects)
  - Equity Investment to fund project

* Diluted if financial investor invests

** Diluted if Provectus WOFE takes equity stake
Provectus in China:
Shanghai International Medical Centre
Provectus in China:
Shanghai International Medical Centre
Provectus in China:
Shanghai International Medical Centre

SIMC Dementia Bathroom/Bedroom
Provectus in China: Yangtze River Delta Aged Care Project
Provectus in China: Yangtze River Delta Aged Care Project

Communal Lounge Area
Provectus in China: Yangtze River Delta Aged Care Project

Bedroom Living Area
Provectus in China: Yangtze River Delta Aged Care Project

Dining Area