

Healthy start to ambitious concept

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The Medica Centre's Grant Smith, left, and Mike McGrath say there is room for 20 more such facilities. **Photo: Dean Sewell**

Emma Connors

The owners of Medica Centre at Hurstville in Sydney's south don't have to go far to check out the competition.

In the neighbouring suburb of Kogarah is the 236-bed St George Private, one of the 66 hospitals and day surgeries owned and operated by Ramsay Health Care around Australia. Ramsay is starting the year in a strong position, with its share price close to the record high reached in November as investors rushed into defensive stocks. With a market value hovering around \$3.9 billion, it's tough for anyone aiming to woo doctors into a rival facility.

Medica owners Grant Smith and Mike McGrath, who have sunk \$120 million of their own and borrowed funds into the Hurstville centre, are nonetheless sure they have chosen the right place to build a facility that includes a 24-bed surgical hospital, radiology and nuclear imaging, a cancer treatment centre, on-site pathology and medical specialist suites. They also believe there is room for 20 more such centres along the eastern seaboard.

However, expansion requires more capital and so far Smith and McGrath, together with equity partner and former merchant banker Paul McLaren, have struggled to overcome concerns over whether the Medica model will fly.

"You have to really believe in what you are doing," says Smith, who believes the Hurstville Medica centre will be a fixture for years to come, with or without new capital.

Plenty have admired the gleaming new building and its state-of-the-art facilities, including operating theatres and the latest medical diagnostic equipment. However, each element of Medica is a hard sell on its own and no one is quite sure if the combination will generate a return greater than the sum of its parts.

One Sydney-based industry source is sceptical. "I expect to get a call from Medica's bankers in the next two years. It's an interesting model but it's not built in the right place and it's over-capitalised."

Even the big guys, Ramsay and Healthscope, steer clear of greenfield hospital developments due to the high cost – up to \$1 million a bed. Radiotherapy services generally need patients prepared to make a co-payment and Hurstville is not one of the most affluent areas of Sydney.

So far Medica's discussions with the prestigious Joslin Diabetes Centre in Boston remain just that – discussions with no guarantee the first private diabetes clinic will be operational, as planned, midyear.

Smith agrees the venture, 10 years in the planning, is an ambitious one and it is still to pay its own way. The surgical hospital, opened a year ago, is operating at 30 per cent capacity and – waiting on lagging payments from health insurers – is still months away from meeting operating costs.

A \$15.7 million health program grant will, Smith says, ensure even Medicare radiotherapy patients who do not make a co-payment will be profitable for the business. By midyear, Smith expects the facility to be generating a return on capital of about 10 per cent. By then, patient traffic at the centre, thin on the ground late last year, should have picked up with diagnostic imaging services beginning this week, cancer treatment in March and, hopefully, diabetes midyear.

Medica doesn't plan to have patients lingering long in any of its expensive beds after contracting Regal Health Services to offer post-procedural care at home.

Smith says home care reduces patient costs by 50 per cent to 60 per cent. "If patients have had their procedure and they are clinically OK, they don't need to be in an \$800 to \$1000 a day bed.

"They can go home and receive visits by a nurse up to three times a day and it will cost \$300 to \$400."

Smith and McGrath have form in this sector, albeit some time ago. In the 1980s they floated Hospitals of Australia which, before being swallowed by Mayne Nickless, was briefly the largest private hospital group in the country.

Various of those assets are now owned by the likes of Healthscope and Ramsay. Healthscope chief executive Rob Cooke agrees day surgery units are a growth area but only where there are back-up facilities available.

"Healthscope is investing in dedicated day surgery units," Cooke says. "However, major surgery will continue to be performed where there are back-up facilities available, meaning that day surgeries will continue to have much lower revenues rate and therefore rate of returns."

It all comes down to how well Medica can compete for doctors' business. Every hospital has happy-looking patients in their brochures but it's the doctors who are the main customers. "Doctors 'own' their patients because a doctor decides which hospital a patient goes to for a procedure," says Nomura Australia healthcare analyst David Stanton. "Doctors are the major stakeholders in the continued running of a particular private hospital. To ensure that doctors use one hospital in preference to another, we believe hospital providers differentiate on the basis of service to doctors."

High-quality ward services, access to up-to-date equipment and low turnover of staff can all help to attract doctors. These are particularly important for centres such as Medica, which are not enticing doctors through equity.

The company has not ruled out offering a slice of the action to doctors in the future. But for now it's relying on cutting-edge technology and quality staff. That has worked for Sydney-based biotech Regeneus, which has found the Medica facility a good match for orthopaedic surgeons who licensed the Regeneus therapy that uses stem cells from fat to regenerate and heal arthritic joints.

Regeneus has its own laboratory in the Medica centre that backs onto an operating theatre. It pays a fee per procedure and helps generate business. "These centres compete to get surgeons into their operating theatre," says Dr Richard Lilischkis, director of human health at Regeneus. "That's what pays the rent. We come with our surgeons so it's a win-win."

Medica Centre is low on beds and big on machines. Biometrics in the form of fingerprint scanners control access to all drugs and also the large dispensing units that ensure every item used for a patient's care can be tracked and billed. The cost control is relentless; every surgical instrument is electronically tracked and electronic records mean every scrap of data can be searched.

Smith says he and his business partner have stretched their personal capacity to build the facility. He's hoping superannuation investors will be among those funding the Medica expansion. He says health investments are a good source of stable returns, given governments are the chief driver of revenue. "There's uncertainty in many areas of investment but there has never been an outbreak of good health."

Where the beds are

Public and private hospitals, states and territories, 2009–10

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
PUBLIC HOSPITAL									
Public acute hospitals	218	149	166	94	78	23	23	3	736
Public psychiatric hospitals	8	1	4	1	2	1	1	0	14
Total	226	150	170	95	80	24	24	3	753
PRIVATE HOSPITAL									
Private free-standing day hospital facilities	89	82	53	32	25	2	2	9	293
Other private hospitals	84	79	53	23	31	6	6	3	280
Total	173	161	106	55	56	8	8	12	573
Total	399	311	276	150	136	32	32	15	1326

SOURCE: AUSTRALIAN INSTITUTE OF HEALTH AND WELFARE

The Australian Financial Review

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