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Corporate Takeover of Parkway Holdings Limited

between

Fortis Healthcare Limited

and

Integrated Healthcare Holdings Limited

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Corporate Takeover of Parkway Holdings Limited between Fortis Healthcare Limited and Integrated Healthcare Holdings Limited

- A case of a difficult pill to swallow where the bride was stolen by the groom's best man

The biggest Singapore corporate takeover battle over Parkway Holdings Limited, a Singapore-based healthcare operator, between Fortis Healthcare Limited, an India-based healthcare provider, and Integrated Healthcare Holdings Limited, a subsidiary of Malaysian investment arm Khazanah Nasional Berhad, intrigued and ignited feverish speculation in the business communities in Singapore, Malaysia and India in 2010. A diagnosis of the case where Parkway Holdings Limited was eventually won over by Integrated Healthcare Holdings Limited is a useful case in the many interesting corporate takeover strategies prescribed. This was also Khazanah Nasional Berhad's biggest foreign acquisition which opened the door to subsequent acquisitions abroad.

Parkway Holdings Limited

Parkway Holdings Limited ("Parkway") is one of Asia's premium healthcare services provider, which at the end of 2011 had a network of 16 hospitals with 3,400 beds spread over six countries, including Singapore, Malaysia, Brunei, India and China. In Singapore, the company owns Parkway Group Healthcare Pte Ltd and Parkway Hospitals Singapore Pte Ltd, which operates three of Singapore's premier healthcare providers: East Shore, Gleneagles and Mount Elizabeth Hospitals. The company also owns Parkway Shenton Pte Ltd, a major provider of primary healthcare services; Medi-Rad Associates Ltd, a leading radiology services provider; and Parkway Laboratory Services Ltd, a major provider of laboratory services. Gleneagles Clinical Research Centre Pte Ltd also provides contract research services for the Group. In addition, Parkway Trust Management Limited provides management services to Parkway Life REIT, a property trust that owns hospitals and nursing homes across Asia, while Parkway Education Pte Ltd offers healthcare education through Parkway College of Nursing and Allied Health. The Group also operates 42 ParkwayHealth Patient Assistance Centres (PPAC) across the globe. The company was incorporated on 27 February 1974 and is based in Singapore. From 16 August 2010, Parkway operated as a subsidiary of Parkway Pantai Limited.

Fortis Healthcare Limited

Fortis Healthcare Limited ("Fortis") is a leading, pan Asia-Pacific, integrated healthcare delivery provider which owns, operates, and manages multi-specialty hospitals. Its healthcare facilities offer a range of specialty medical services, such as cardiac care, orthopaedics, neurosciences, metabolic diseases, renal care, oncology, and mother and child care, as well as other services, such as cosmetic surgery, ophthalmology, pulmonology, ear nose throat care, and dermatology. It was incorporated on 28 February 1996, and listed on the Mumbai Stock Exchange and the National Stock Exchange of India on 16 April 2007. Fortis is a subsidiary of Fortis Healthcare Holdings Private Limited. Headquartered in New Delhi, Fortis was formerly known as Fortis Healthcare (India) Limited but changed its name to Fortis Healthcare Limited in March 2012.

After setting up its first hospital in 2001, Fortis had been adopting a strategy of both organic growth and growth through opportunistic acquisitions. In 2005, it acquired the Escorts Heart and Research Institute from the Delhi-based Escorts Group. In 2007, it acquired Malar Hospitals, in Chennai, which gave it a foothold in South India.

As of 25 April 2013, it operated a network of 76 hospitals with approximately 12,000 beds, 600 primary care centres, 191 day care specialty centres, and 230 diagnostic centres in the Asia Pacific region, including India, Hong Kong, Singapore, Australia, New Zealand, Canada, Dubai, Sri Lanka, Mauritius, Nepal, and Vietnam.

Integrated Healthcare Holdings Limited

Integrated Healthcare Holdings Limited ("IHH") is a subsidiary of Integrated Healthcare Holdings Sdn Bhd[1] which is in turn owned by Khazanah Nasional Berhad ("Khazanah"). By 2012, IHH, formerly known as Mount Kinabalu Investments Ltd., is the world's second largest listed private healthcare provider based on market capitalisation. It has operations and investments in Singapore, Malaysia, Turkey, China, Hong Kong, India, Brunei, Vietnam, Macedonia and the United Arab Emirates.

[1] Now known as IHH Healthcare Berhad

Parkway Pantai Limited

Parkway Pantai Limited ("PPL"), currently part of the IHH Healthcare Berhad Group, is one of Asia's largest private healthcare providers with operations and investments in Singapore, Malaysia, China and Hong Kong, India, Vietnam and Brunei. It has a network of 17 hospitals, six of which are Joint Commission International ("JCI")[2] accredited, and more than 3,000 licensed beds in aggregate. PPL also owns 60 medical centres and clinics and ancillary healthcare businesses.

In Singapore, PPL is the largest private healthcare provider and operates Mount Elizabeth Hospital, Gleneagles Hospital and Parkway East Hospital –all accredited by JCI, and Mount Elizabeth Novena Hospital which opened in July 2012. In Malaysia, PPL is the second largest private healthcare provider in terms of the number of licensed beds. It owns and operates nine Pantai Hospitals and two Gleneagles Hospitals across Peninsular Malaysia. PPL also operates Pantai Premier Pathology, Pantai Integrated Rehab and one ambulatory care centre in Malaysia. PPL also has presence in China, India, Hong Kong, Vietnam and Brunei, with operations across the major healthcare sectors: hospitals, medical centres, clinics and ancillary healthcare businesses. Internationally, PPL owns and operates hospitals via joint venture agreements, or enters into consultancy agreements or healthcare management administration to manage hospitals.

In the primary care segment, through joint ventures, PPL owns, manages and operates nine medical centres and clinics in China and Hong Kong and one diagnostics centre in India.

Exhibit 1 shows the corporate structure and relationship between the companies mentioned above, except for Fortis.

[2] Created in 1994 by The Joint Commission, JCI has a presence in more than 90 countries today and stands as a consistent beacon for patient safety and quality improvement in the global community. The mission of JCI is to continuously improve the safety and quality of care in the international community through the provision of education and advisory services and international accreditation and certification. Healthcare organisations seek out *The Gold Standard of Approval* to achieve a higher standard of patient care and the universal respect of providers, patients, businesses, and insurance companies. JCI standards are developed and updated by an international standards committee, with renowned expertise in patient safety and quality improvement for worldwide use. To-date, JCI has accredited or certified more than 400 health care organisations in 50 countries.

The marriage of Fortis, the groom, and Parkway, the bride

In March 2010, Fortis bought a 23.9% stake in Parkway from private equity firm, TPG Capital ("TPG", formerly known as "Texas Pacific Group"), for S$959 million (US$685.3 million) and assumed management control of the hospital chain in an expansion drive into Asia and the Middle East. The other major shareholders of Parkway were Khazanah (23.32%), The Bank of New York Mellon Corporation (5.99%), Newton Investment Management Ltd (5.99%) and Franklin Resources (5.98%). With this acquisition and in one-stroke of the pen so to say, Fortis became the largest shareholder in Parkway. The deal was the largest cross-border investment by an Indian firm in a healthcare company and the largest M&A deal in Singapore's healthcare sector.

The US$685 million deal enabled Fortis to achieve its ambition to establish a Pan-Asian presence and increase its hospital network to 62, which not only gave it a foothold in Singapore and Malaysia but also made it the biggest hospital network in Asia[3]. Analysts covering the healthcare sector agreed that it was a very good deal strategically for Fortis as it took the company to a different level and further raised the brand equity of the company in India. They agreed it made more sense for Fortis to acquire a strategic stake in Parkway than to go for a full-fledged acquisition as it would mean lower risk as well as lower cost. Additionally, Fortis already had free cash reserves and a fund-raising plan in place, and so it should not face any difficulty in financing the deal.

"This acquisition will significantly expand our footprint across the region and place us strategically for geographical and clinical leadership in Asia, a big step closer to our vision of establishing a global healthcare delivery network," said Fortis's Chairman Malvinder Mohan Singh. Fortis has every intention to move into other parts of Asia and the Middle East. "Indonesia, the Philippines and Thailand are markets we would like to evaluate," Singh told a news service provider in Singapore.

"The acquisition of a strategic stake in Parkway will give the combined entity the benefit of an unparalleled medical talent pool in Asia and also access to best in class practices, thus creating synergies that will help offer a global quality healthcare experience across the region," said Fortis's Managing Director Shivinder Mohan Singh. Added Malvinder Singh, "Fortis has no immediate plans to raise its stake in Parkway and plans to work with the Singapore firm in expanding across the region."

[3] The move was a continuation of an overseas acquisition push by Indian companies looking for new markets and know-how. Other Indian corporates venturing abroad included top Indian mobile carrier BhartiAirtel which was then in talks to buy the African operations of Kuwait's Zain for $9 billion.

Question:

What are your thoughts on corporate expansion via organic growth versus using the acquisition mode?

The acquisition of Parkway came on the heels of Fortis's US$187 million acquisition last year of 10 hospitals in Mumbai, Bangalore and Kolkata from unlisted Wockhardt Hospitals. The company has a record in acquiring hospitals beginning from 2005 when it acquired the Escort chain of super specialty cardiac care hospitals in India and again, in 2007 when it acquired the Malar hospitals in Chennai. In February 2010, a month before the acquisition of Fortis, Shivinder Singh said the company was targeting revenue of US$1 billion by 2015, from about US$350 million currently, and said deals would help achieve this goal faster.

The deal valued the Parkway shares at S$3.56 each, a 14% premium to the last closing price of S$3.12. Shares of Fortis rose as much as 6.5% after the news but closed at INR178.35, up 4.85% from the previous day's close.

Post-acquisition, Fortis sought four seats on the Board of Directors of Parkway and nominated Malvinder Singh as Chairman of the Board of Parkway. Malvinder Singh had stepped down as Chairman of Indian financial services group, Religare Enterprises Ltd, in April 2010 to focus on healthcare. Upon his appointment as Chairman of Parkway, he shifted his base from New Delhi to Singapore

To fund its acquisition, Fortis announced its intention to use a short-term loan facility and funds raised through a recent rights issue. Shivinder Singh told reporters that the company planned to fund the deal through the INR2 billion cash remaining out of a rights issue made in 2009 and fresh issue of equities and currency bonds. "In the interim course, we will do a bridge financing through debt," added Malvinder Singh. In February 2010, Fortis's Board approved a proposal to raise INR12.5 billion (US$275 million) through preference shares, overseas shares or foreign currency bonds. Fortis also had warrants outstanding of 90 million shares, which at current market price were valued at about INR17 billion. These warrants were issued in 2009 with the rights issue and could be converted into shares until April 2011, but the firm could call them back after April 2010.

With TPG laughing all the way to the bank

TPG, which invested just under S$500 million (US$358 million) in Parkway between 2005 and 2008, happily pocketed a generous return on its original investment after taking into account dividends and borrowings[4]. TPG was represented by Royal Bank of Scotland and Goldman Sachs; while Religare Capital Markets, which is controlled by Malvinder Singh's family, represented Fortis.

TPG first invested in Parkway in July 2005 when its Asian affiliate, Newbridge Capital, and TPG-Axon Capital, a hedge fund subsidiary of TPG, acquired a 26% stake in the company for US$188 million[5]. The US private equity firm then made two other subsequent investments in Parkway between 2005 and 2008, investing just under US$358 million in all. [Source: Reuters]

In a research report issued after the deal was announced, Nomura estimated an IRR (internal rate of return) of 33% for TPG over its five-year holding period, which the Japanese bank termed "remarkable". But TPG can take credit for creating value in its investment while it owned Parkway. Nomura also commented that, "under TPG's watch, Parkway evolved from a Singapore-focused hospital operator to an established regional healthcare franchise." Nomura estimated that profits for Parkway grew to S$117 million in 2009 from S$48 million in 2004, an annual growth rate of roughly 19%.

Question:

Do you think the abnormal profits arising from this sale by TPG is justifiable and why?

The offer from Fortis was unsolicited and the asset was not actively in play. "Given the strategic nature of the asset, it was important that the buyer of TPG's stake be acceptable both in Singapore and Malaysia," said a source close to the deal. "Fortis met the requirements and put an attractive offer on the table, hence the decision to do the deal on a negotiated basis rather than run an auction."

[4] This deal marked TPG's second large exit in Asia in recent months. It was estimated that the firm received AUD$1.3 billion when it sold its stake in Myer Group, the Australian retail business, which raised AUD$2.2 billion through an initial public offering of shares in October 2009 - another high-return deal for the private equity fund. TPG was then also in an advanced stage of discussions to sell its stake in Shenzhen Development Bank to China's Ping An Insurance, which would give TPG a return of more than tenfold on its original investment, analysts estimated.

[5] The original 2005 investment by TPG in Parkway was structured by Goldman Sachs colleagues Richard Seow and Tim Dattels. Seow was Chairman of the Board of Parkway between 2005 and 2010 until Singh was appointed in his stead after the deal. Dattels was a partner at TPG Capital.

The best man, Khazanah, after the bride …

However, this was not the end of the corporate story. Two months after the acquisition of the Parkway stake by Fortis, the next stage of the saga came into play. On 27 May 2010, IHH, a subsidiary of Malaysian sovereign investment arm Khazanah, launched a S$1.18 billion (US$840 million) partial takeover[6] for Parkway. IHH made an offer of S$3.78 per share in cash for 313 million shares in the company. The offer price represented a 25.2% premium over Parkway's last traded price of S$3.02 per share on 26 May 2010, and a 60.9% premium over Parkway's 12-month volume weighted average price[7] ("VWAP") of S$2.35 per share. Khazanah's offer of S$3.78 a share was more than what Fortis had paid in March 2010, when its deal valued Parkway at S$3.56 a share. According to Thomson Reuters data, the deal would be Khazanah's biggest acquisition outside Malaysia.

If the offer was successful, Khazanah would end up with a 51.5% stake in Parkway. Khazanah was said to have identified healthcare as one of the core areas that it wanted to venture into. In 2006, Khazanah bought into hospital operator Pantai Holdings, which had a network of nine hospitals in Malaysia. The offer for Parkway reflected its intention to move in that same direction. Khazanah also held a 12.2% stake in India's largest private hospital group, Apollo Hospitals Enterprises Ltd ("Apollo"). Apollo, operating in direct competition with Fortis in India, welcomed Khazanah's efforts to boost its presence in the region. "We are hopeful that together, Apollo and Khazanah can play a greater collaborative role in both healthcare and medical education within India and Asia," Apollo said in a statement. The surprise offer could either trigger a takeover fight or force Fortis to cash out of Parkway. Deutsche Bank and CIMB were the advisors to IHH on the deal.

The offer for Parkway underlined the growing attraction of high quality healthcare business in Asia. Pointing to the synergies between Parkway's businesses and its own, IHH Director Ahmad Shahizam Mohd Shariff raised the possibility of creating a medical education

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[6] The Securities Commission of Malaysia allows partial offers on a case-by-case basis. The last time a partial offer was undertaken was in June 2001, when Telenor Asia made a voluntary partial takeover offer for DiGi shares at RM6.60 per share to enable the Norwegian telco giant to increase its stake to 61% from 32.9%. Please refer to **Exhibit 2** for the relevant provisions in the Malaysian Code on Take-overs and Mergers 2010.

[7] Volume Weighted Average Price or VWAP is a trading benchmark used especially in pension plans. VWAP is calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day.

$$\text{VWAP} = \frac{\sum \text{Number of Shares Bought} \times \text{Share Price}}{\text{Total Shares Bought}}$$

The theory is that if the price of a buy trade is lower than the VWAP, it is a good trade. The opposite is true if the price is higher than the VWAP.

franchise as a core business, which could be used as a means of developing talent, as well as tapping opportunities in the wellness market. He further added that the offer gave Parkway shareholders an opportunity to realise the value of their holdings at a significant premium to the market price.

Khazanah itself later issued a public statement to clarify its rationale behind the offer. As to why Khazanah did not pursue its investment in Parkway earlier, it said, "Khazanah first invested in Parkway in April 2008[8]. Khazanah has been very familiar with the Parkway team since 2006, when Khazanah jointly invested in Pantai Holdings. At the time, the Hospitals Division of Pantai Holdings, which was managed by Parkway, had generated an EBITDA of RM60.3 million for 2005. By the end of 2009, the EBITDA had grown by 147% to RM149 million. Shortly after Khazanah's investment in Parkway, we encountered the global financial crisis. Khazanah got to better understand Parkway's business including its business resilience (including the commitment of its management team and staff, some of whom underwent substantial pay cuts during this period). The very successful launch of the Novena Medical Suites which was announced to the public at the end of March 2010 and the strong business performance in 2010 has given Khazanah the confidence to increase its investment in Parkway with lower risk."

"Khazanah and IHH, on a standalone basis, have secured funding on very competitive terms, which has enabled us to make a larger investment than we would have otherwise been able to under different market conditions. The competitive rates secured add to our confidence that the investment in Parkway will result in strong returns over the medium and long term."

On the reason for Khazanah to pursue a controlling interest in Parkway now after having been a substantial minority shareholder for some time, Khazanah commented that it was, "to strengthen its long-term commitment to Parkway and, in line with its core commercial objectives, to further enhance its presence in the healthcare industry in the region. Khazanah is a disciplined and reputable financial investor who is committed to build an excellent regional healthcare platform in Asia. Aside from Parkway, Khazanah already owns a diverse portfolio of healthcare assets in Asia. These include a 60% holding in Pantai[9], Malaysia's premier private hospital network (Pantai is a JV between Khazanah and Parkway, which holds the remaining 40% of Pantai shares); a 12.2% stake in Apollo, one of India's largest and most reputable integrated healthcare providers (Apollo is listed on the Indian Stock Exchange and owns a successful JV hospital with Parkway in Kolkata); and an indirect 67.5% shareholding in IMU Education Sdn Bhd, which owns and manages Malaysia's premier private medical university, International Medical University in Kuala

[8] Please see **Exhibit 3** on Khazanah's Media Statement on its Acquisition of Parkway in 2008.
[9] This refers to Pantai Holdings.

Lumpur. Khazanah will be able to create greater synergies across its healthcare investments as a controlling shareholder of Parkway and it will become a key platform for Khazanah's regional healthcare business. Whilst controlling Parkway, Khazanah will also ensure that Parkway continues to be governed by a professional Board and professionally managed with a strong preference for continuity in the existing team, including senior management and some independent directors."

"Combined with Khazanah's controlling stakes in Pantai and IMU[10], as well as its significant interest in Apollo, Parkway will form the core of Khazanah's regional Healthcare Services platform under IHH. As Khazanah embarked on its active investment strategy in 2005, the Healthcare sector was identified as a core investment sector that Khazanah sought to invest directly in alongside the Financial Institutions and Telecommunications sectors, amongst several others. Khazanah is now creating a synergistic regional network of healthcare assets. IHH is Khazanah's investment holding company for its healthcare investments and currently holds its investments in Parkway, Pantai, IMU and will soon hold its investment in Apollo. IHH will be Asia's largest private healthcare player by number of beds in its network."

From a wider perspective, Khazanah's bid for Parkway, the first overseas foray for Khazanah, could signal the start of more focused, major acquisitions abroad to help Malaysia Inc[11] venture beyond its cosy home market. However, unlike the deep pocketed GIC[12] (which is wholly-owned by the Government of Singapore) with its $300 billion in assets or the multi-billion dollar Chinese and Middle Eastern funds, Khazanah was not exactly bulging with cash. As it does not receive a constant supply of surplus cash from the Malaysian Government, it had to rely on dividend income and gains from stake sales, mirroring Singapore's Temasek Holding[13]. But with the Malaysian Government looking to

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[10] This refers to IMU Education Sdn Bhd.

[11] Malaysia Incorporated, or commonly abbreviated to Malaysia Inc, is loosely used to refer to business ventures where both the public and private sectors adopt the idea that Malaysia is a corporate or business entity, jointly owned by both sectors and working together in pursuit of a common mission of the nation. It encapsulates the concept of corporatisation of Malaysia.

[12] GIC was incorporated in 1981 under the Singapore Companies Act and is wholly-owned by the Government of Singapore. Its aim is to achieve good long-term returns for the Government, measured by a reasonable risk-adjusted rate above global inflation. By achieving these returns, it will preserve and enhance Singapore's foreign reserves which will provide a stream of income that can be spent or invested for the benefit of present and future generations.

[13] Temasek Holdings ("Temasek") was incorporated in 1974 under the Singapore Companies Act to hold the assets and manage the investments previously held by the Singapore Government. These were investments made in the first decade of nation building since its independence in 1965. The transfer of assets to Temasek meant that it would own and manage these investments on a commercial basis, allowing the Ministry of Finance and the Ministry of Trade and Industry to focus on their core roles of policy making. Temasek's main mission is to contribute to Singapore's economic development, industrialisation, and financial diversification by nurturing effective and commercially driven strategic investments in and around Singapore. Temasek is neither a statutory board nor a government agency.

cut Khazanah's stakes in state-owned firms as part of broad economic reforms, the fund could have a bigger war chest to do more deals.

Khazanah was expected to announce the date of its open offer for Parkway within the month of June 2010. IHH had already appointed DBS Bank, Overseas Chinese Banking Corporation and United Overseas Bank as joint lead arrangers for financing the Parkway offer.

After Khazanah made the offer, Fortis's stock rose 7.34% on the Bombay Stock Exchange ("BSE") to close at INR149.85, while Apollo shares ended 9.4% higher on the BSE. Trading in Parkway shares was suspended in Singapore. Parkway shares had risen 3.4% during this year, outperforming a 7% drop in the broader Singapore Straits Times Index. Following Khazanah's offer, Parkway shares surged 27%, the highest in 12 years, to even cross the offer price of S$ 3.78 a share when trading resumed. It even reached an intra-day high of S$3.85 a share. While analysts attributed this to expectation of a possible counter-offer at a higher price from Fortis, this had taken the sheen off the offer price. Parkway had to issue an advice to its shareholders to exercise caution while dealing with its shares before receiving expert advice.

Fortis's Chairman Malvinder Singh, however, declined to comment on whether his company would sell any part of its holding to IHH. There was also no immediate comment from Fortis on the possibility of a counter-bid that would allow it to retain management control of Parkway, which the Indian group had made plain was a key objective of its deal with TPG. Fortis was then in the process of raising INR3.8 billion (US$80m) from GIC, and the fresh funds would be helpful to finance a counter-bid.

Khazanah was understood to have given the go-ahead for the partial offer after failing to prevent Fortis from taking control of Parkway's Board following its acquisition of TPG's stake. In addition to Parkway Chairman Malvinder Singh, Fortis had three more nominees on the 12-member Parkway Board. It was said that IHH's strategy was to acquire sufficient shares to assume control of the Board, to which it would then appoint a significant proportion of independent directors. According to market sources, Malvinder Singh's perceived dismissal of Khazanah's request for equal representation on the Parkway Board, where Fortis had four compared to Khazanah's two, had apparently miffed Khazanah. Even so, questions were raised as to why during the couple of years that Khazanah had built up its stake in Parkway to 23.8%, it had not bothered to do so when it had every opportunity to increase seats on the Board. IHH was understood not to have reached prior agreement on its partial takeover offer for Parkway with the latter's other minority shareholders, which included Bank of New York Mellon, Newton Investment Management and Franklin Resources.

But what was fast shaping up into Singapore's biggest corporate takeover battle of the year had triggered speculation in the market over the reason behind the face-off between the Indian and Malaysian corporate groups. It was speculated that control of Parkway appeared to be central to Khazanah's move. The offer was seen as Khazanah's move to be an active player in the company where its holdings were almost equal to Fortis. By making a partial offer, Khazanah was simply forcing Fortis to raise its holdings to a much higher level if it wanted to remain in the driver's seat.

While Khazanah had said it wanted to consolidate its stakes in hospitals in Asia to become the region's top healthcare provider, its offer for Parkway could also be part of a strategy to maximise returns from a relatively expensive investment. Out of the 24% that Khazanah owns, it had paid S$4.2 per share for a 16% stake as a passive investor in 2008. Fortis, on the other hand, paid S$3.56 per share to TPG with management control.

Question:

Do you agree that Khazanah's offer for Parkway was to consolidate and grow its healthcare services holdings, to have equal control over the Board of Parkway, to force Fortis to increase its shareholdings in Parkway to a higher level, or/and to maximise returns from its investment in Parkway?

The rise in the share price of Fortis was interpreted as a sign by some that some investors expected Fortis to sell out. Others suggested that Malvinder Singh, who with his brother Shivinder with a fortune estimated by Forbes at US$3 billion[14], could make its own counter-offer.

The market viewed this potentially as the start of a bidding war. Khazanah had the option of turning its partial offer to a full GO (general offer) should it choose to do so. Both parties professed to be able to drive more value out of Parkway.

In June 2010, just a week after Khazanah's offer, Parkway's Board appointed Morgan Stanley Asia (Singapore) as its independent financial advisor. A circular containing the advice of Morgan Stanley on the share purchase offer, as well as the recommendations of Parkway's independent directors, would be sent to all Parkway shareholders within 14 days of the date of dispatch of the offer document, the company said. In May 2010, Parkway had announced

[14] Malvinder Singh and his younger brother were ranked 17th on Forbes magazine's 2009 list of the richest Indians. Their family controlled Indian drugmaker, Ranbaxy Laboratories, before selling to Japan's Daiichi Sankyo in 2008.

the induction of Sandeep Laumas, a former Goldman Sachs executive, on its Board as an independent director.

Khazanah plans SGD bond issue

In response to a question on how it would fund the offer, Ahmad Shahizam Mohd Shariff said that Khazanah had the financial means, although he declined to elaborate. Khazanah was said to be planning its first Singapore dollar bond issue to raise between S$300-500 million. CIMB was mentioned as the co-ordinator of the deal and two Singapore banks, DBS and OCBC, were expected to be the arrangers. The bond was expected to be a sukuk with a tenor of three to five years as Middle Eastern investors were capped at investing in 5-year papers. The deal was expected to be launched within the next few weeks, possibly within the month of June 2010 itself.

Could the best man indeed run off with the bride…?

Analysts, in assessing the offer were of the view that Khazanah's partial offer for Parkway via IHH at S$3.78 per share was seen as likely to succeed given the steep premium to the share price, even if the major shareholder, Fortis, objected. The offer valued Parkway at a hefty 2.8X price book ratio, and would cost Khazanah S$1.18 billion. Fortis may continue to work "hand in hand" post-deal, but it would be interesting to see how things would be resolved when it came to major decisions in the event that both sides could not agree.

What surprised industry players was the timing of Khazanah's move. The fund had the option to increase its stake in Parkway before Fortis entered the scene two months ago in March 2010. And for two months after its stake in Parkway was overtaken by Fortis, Khazanah maintained poker-faced silence. Market was intrigued that Khazanah should do it now, when it always had the option to raise its stake earlier.

Question:

Do you think that Khazanah had timed its offer perfectly?

Strategically, Khazanah picked the opportune window to slip in its offer. Fortis was unable to counter with a rival partial offer since it could only do so if it had not purchased shares in

the last six months[15]. Since it picked up a 23.9% stake two months before that and which had since grown to 25.3%, it would have to resort to a full GO to fend off Khazanah. It would also have to trump Khazanah's offer of $3.78, which was seen as quite attractive.

An additional favourable factor for Khazanah was an improvement in relations between Malaysia and Singapore since late 2009. The two countries had agreed to resolve long-standing land and water disputes. They had also agreed to develop the Malaysian railway land in a joint venture between Khazanah and the Singapore Government-owned private equity investor Temasek. Khazanah's Managing Director Azman Mokhtar had even talked about the co-operation between agencies from the two countries on building a rapid transit link and joint land development, where Temasek was a partner.

The tussle for majority control could potentially escalate into a bidding war between the two parties. However, it was still possible that Fortis may make a counter-offer for Parkway at a higher price, sweetened with a full takeover offer. However, this would depend on Fortis's ability to secure funds to finance such a deal. Assuming Fortis made a counter-offer, Khazanah was expected to respond.

A section of the market was of the view that the Indian healthcare group was unlikely to cash out. Based on what Fortis had announced previously, it would appear that Fortis would be in it for the long haul rather than trying to cash out. This was reinforced by the fact that Parkway was seen as a good platform for Fortis, which was looking to expand out of India.

Why the Parkway bride is so much in demand

In weddings, there is said to be a custom for the groom's friends to 'steal' the bride. When he starts to look for her, he usually has to pay a ransom to get her back.

Parkway would be just like the much coveted bride, highly valued by both Khazanah and Fortis. Just what was at stake? Apparently, a very big medical tourism market. According to a 2008 report by Deloitte Center for Health Solutions, there were 750,000 Americans who travelled abroad for medical care in 2007. By 2010, the number would grow to 6 million, driven by rising healthcare costs at home and greater awareness about options in medical tourism hubs like Singapore, Thailand and India. The report was completed before the

[15] Singapore law dictates that any party that has bought shares in a company over the last six months has to make a mandatory general offer for its remaining shares if the acquiring party breaches the 29.9% mark.

global financial crisis, which had since led to more Americans tightening their belts. And with huge budget cuts planned for the Medicare scheme under the US healthcare reforms, payments for services under the system would be more restricted. Medical tourism was expected to fill the gaps and that was just the situation in the US. Many individuals from Asia and the Middle East travel abroad in search of quality treatment. Singapore's private hospitals received 30-60% of its patient pool from abroad. Including the volume seen at public hospitals, it was estimated that the country welcomed about 400,000 medical tourists annually during the period 2005 to 2010. Over in Malaysia, the number of health tourists had grown to 375,000 in 2010 and revenues in the sector had multiplied five times over the last five years, i.e. since 2005. With Singaporeans and permanent residents now allowed to use their Medisave at selected hospitals in Malaysia, including those of Parkway's, the number is expected to only climb. In India, the medical tourism market was estimated to be worth US$350 million in 2006, according to a joint study by the Confederation of Indian Industry and McKinsey. And this could potentially grow to US$2 billion by 2012.

Yet in the highly fragmented healthcare market, Parkway was the only Pan-Asian medical care provider with a network of 16 hospitals in Singapore, Malaysia, China, India, Brunei and the Middle East. Over two decades, it had developed a brand that is associated with quality healthcare, marked by exceptional clinical outcomes. If there was anyone interested in a healthcare group with a presence in multiple sites in Asia, Parkway was probably the only candidate. A network like this could exploit synergies on a larger scale. In one swoop, the buyer can have his regional footprint all laid out. The majority shareholder would get to call the shots in galvanising the synergies across related businesses.

So far, Parkway's substantial shareholders had largely existed in an amiable balance of power. But Khazanah's offer had changed the equation. The question is, who would eventually get the bride? That's a billion dollar question.

Question:

At this point, who do you think will get control of Parkway? And would this become an all-out war?

A conspiracy theory - a proxy war … between two Indian healthcare operators, Fortis and Apollo, … or between Malaysia's Khazanah and Singapore's GIC …?

Khazanah's bid for Parkway also brought the Fortis-Apollo rivalry into the open. Khazanah's bid for control of Parkway was seen by a segment of the market as a proxy bid by rival Indian healthcare giant, Apollo. Interestingly, Khazanah's offer received the support

of the Reddy-family promoted Apollo, therefore opening the possibility of a prolonged bidding war. "Apollo has indicated its support for Khazanah's integrated healthcare strategy for a large prominent role in Asia's larger healthcare player and has indicated its willingness to participate with Khazanah in achieving a greater penetration in the Asian Region," said an Apollo statement. While Khazanah planned to consolidate its existing stakes in Parkway, Pantai, Apollo and IMU to become Asia's premium regional healthcare platform, the Fortis-Parkway deal had dislodged Apollo from its premier number one perch as Asia's largest hospital chain then. Sources said Khazanah and Apollo could strengthen their ties if the former ended up acquiring the controlling stake in Parkway, which would draw clear lines of battle. Sunita Reddy, Director of Finance for Apollo said; "We would try to explore the synergy between the Khazanah and Apollo group without diluting our identity. However, there will not be any equity dilution on our part in any of our ventures, though they have been holding a stake in our group for past several years."

If Khazanah managed to wrest control of Parkway, it would give Fortis's bigger rival, Apollo, a major advantage. Khazanah could ask the Indian company to run Parkway's network of 16 hospitals and 3,400 beds on its behalf. Apollo could expand the relationship it had with Parkway beyond the two hospitals in Kolkata and Hyderabad, which the two were jointly developing. While the Apollo management had made it clear that it was not seeking equity investments, managing a network as large as Parkway could give it a substantial presence in the Asian region, as well as additional income.

Or was this a proxy war between two Government funds? On one side was the Malaysian Government's investment arm, Khazanah. On the other side was Singapore's sovereign wealth fund, GIC, the second largest shareholder in Fortis, with a 6.5% stake[16].

Others had viewed GIC as a financial investor, Fortis as a strategic investor, Khazanah as a financial investor and Apollo, to a certain extent, as a strategic investor.

What could Fortis do?

This development, however, was not the end of the road and Fortis had multiple options to choose from. It could opt to tender its shares to Khazanah. At 6% premium over the price at which Fortis acquired the Parkway shares, this would mean a gain of around INR200 crore[17]

[16] GIC was the second-largest shareholder in Fortis. It bought a 6.5% stake in Fortis for US$85 million and invested a further US$95 million through convertible foreign currency bonds. At the current price, a conversion would increase GIC's holding in Fortis to over 13%.

[17] A *crore* is a unit in the South Asian numbering system equal to ten million which is written as 1,00,00,000, equal to a hundred *lakh* (*lakh* is written as 1,00,000). Large amounts of money in India are often written in the form ₹*23cr*, that is 23,00,00,000 or 230,000,000 rupees.

for Fortis. However, a gain of this sum would not appear lucrative enough for the Singhs who made a fortune of INR100 billion by selling the family's stake in Ranbaxy Labs in 2008. That money still remained largely unspent. Analysts ruled out the pure monetary gain option. If at all Fortis were to take the extreme decision of exiting Parkway, it would not be for monetary gains. Also, in a way Khazanah's offer was seen as validating Fortis's decision to acquire its stake in Parkway.

The second option for Fortis would be to make a counter-offer at a higher price to shareholders to keep alive its plans of branching out globally through Parkway. Just before leaving for Singapore to take charge at Parkway in April 2010, Malvinder Singh had said that he could consider raising Fortis's stake in Parkway. He was responding to a specific query on whether it was logical to have a higher stake in a company through which he intended to fulfil his global aspirations. This second option was more on the cards as it had the tacit support of GIC. However, since it already held a 25.3% stake in Parkway, a negotiated deal would not be possible and Fortis would have to take the open offer route should it decide to buy out Khazanah.

The third option would be for Fortis to get ready to be a happy minority shareholder, without enjoying any benefits.

Would Fortis counter-bid or not?

The question before Fortis was how crucial Parkway was to the Group's plans of building a global health-care delivery network. Through Fortis and another family-controlled financial services group, Religare Enterprises Ltd., the Singh brothers had been flexing their muscles by acquiring hospitals in India and the United States over the past six years.

While the Fortis management was tight-lipped about its next move, some quarters of the market were skeptical whether Fortis would be open to paying that kind of money just three months after it acquired a stake in Parkway. However, others believed the company's improving debt-to-equity ratio gave it the flexibility to do so, but with further equity dilution. While Khazanah had the flexibility to launch a partial offer, Fortis would have to make a full offer, which would significantly increase its costs.

Should Fortis choose the counter-offer route, it would have to pay INR35 billion-INR36 billion more and this meant further pressure on the company’s balance sheet as its debt/equity had risen to 2.5:1 following its purchase of the Parkway stake in March. This led to the view that Fortis may decide to sell its current stake to Khazanah. Khazanah’s offer was set to rake up price wars, taking Fortis steep into debt. If Fortis were to make a counter-offer, it could not be less than S$4 per share for acquiring an additional 26% stake as market

expectation was for Fortis to offer a premium of five to six per cent over Khazanah's offer price to make it attractive for shareholders. This would increase the company's debt by about INR35 billion, taking its debt-equity ratio to abnormal levels.

The management of Fortis though would have to finalise its counter-bid plans if Parkway's share price remained close to what had been offered by Khazanah. The share price of Parkway had surged in the expectation of a counter-offer from Fortis. If investors felt this was not likely to happen, the share price of Parkway, at S$3.69 a share on 1 June 2010, would fall which would make the conditional offer of Khazanah to acquire a 51.5% stake in Parkway for S$3.78 a share attractive to many and lead to a sudden offload of stocks[18].
On the other hand, some expected Fortis to counter Khazanah's offer. Lending credence to this, Fortis announced that it would raise INR 1,750 crore through warrants or preferential shares by June 2010. As a result, the company's debt-equity ratio would fall to 0.65:1 from 2.2:1, Fortis Chief Financial Officer Yogesh Sarin told reporters. A low debt level would be positive for Fortis to raise more resources. Proceeds from the warrant conversion, part of the original Parkway acquisition plan, would be used to reduce debt, estimated at INR4,200 crore at the end of March. By June, the debt was likely to come down to around INR2,300 crore, Fortis's Yogesh Sarin said. Fortis had recently raised US$100 million through a foreign currency convertible bond issue. "As of now, we are not planning to raise any further funds in the near future," said Fortis CEO Bhavdeep Singh.

But, what is intriguing is, did Fortis and Khazanah discuss the future before Fortis bought its stake? Or, did things turn sour suddenly?

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[18] It is noted that while speculations were raging in the market over the various possible scenarios, the shares of Parkway continued to be hotly bought and sold. A week before Khazanah made the offer, Fortis had accumulated more shares in Parkway. It bought an additional 350,000 Parkway shares at an average price of S$3.1477 on the open market which raised its stake to 25.37% from 25.34% previously.

In the wake of Khazanah's bid, Parkway said that several directors of its Board and associate companies had bought and sold its shares. In its filing with the Singapore Stock Exchange, Parkway said in pursuant to the Rules governing Singapore's Code on Takeovers and Mergers, two of its directors had disposed of a certain percentage of shares while another picked a part of the stake. Directors of Parkway Healthcare (Mauritius) and Medical Resources International, Foo Moh Lee, sold 20,000 shares in the open market at a price of S$3.78 per share. Director at Parkway's wholly-owned subsidiary Radiology Consultants, Robert Kwok, disposed of 50,000 shares at S$3.71 per share. Parkway director Ho Kian Guan bought 30,000 shares at S$3.70 each. "It appears Fortis might be behind these deals. It is a better option for Fortis at this point of time to buy out other minority shareholders so that they remain in contention and not shell out too much cash," said a healthcare analyst at Mumbai-based brokerage.

During the period, British-based FrontPoint Management LLP, an associate of Morgan Stanley Asia, was seen acquiring Parkway shares in the market. It had acquired 75,000 shares of Parkway Holdings for about S$3.83 a share, higher than Khazanah's offer of S$3.78 a share, and a week later, it bought another 110,000 more shares of Parkway at S$3.85 a share. These purchases were on behalf of a discretionary investment client, disclosed Morgan Stanley in a filing to the Singapore Stock Exchange.

No, Fortis is not selling …

Fortis finally announced in June that it wasn't looking to sell its stake in Parkway. "In all the possibilities that we seem to have, Fortis will not walk out, tempted by this proposition," Managing Director Shivinder Singh said in a conference call with analysts. He further added, "Fortis is looking at the best potential situation and outcome for itself." India's The Economic Times newspaper reported that Fortis may, instead, launch a counter-offer for Parkway. The Economic Times said that Fortis was in discussion with GIC over financing options as the former was considering the possibility of launching a counter-offer for Parkway. The publication said that Fortis would also look to buy Khazanah's current shareholding in Parkway. Fortis declined to comment on the report.

No, Khazanah is not selling too….

Khazanah would not sell its stake in Parkway even if Fortis launched a counter offer, a source close to the company told Business Times. Parkway was the jewel in Khazanah's healthcare business. Parkway's operations in Malaysia overlapped Khazanah's through Pantai Hospitals, the largest hospital chain in Malaysia. The company was owned 60% by Khazanah and 40% by Parkway, and almost 30% of Parkway's earnings was derived from its interest in Pantai. The relationship between Parkway and their joint venture Pantai could be a critical issue for consideration. There was currently a shareholder's agreement between Parkway and Khazanah which gave Parkway management rights over Pantai's 11 hospitals in Malaysia. That lucrative concession income from Pantai would be at risk should Khazanah's partial offer stumble, a situation that would adversely impact Parkway's future earnings. It was argued that should Khazanah walk away from its investment in Parkway if its offer fails, this would put at risk Parkway's regional platform, which now makes it an attractive investment.

A slightly more tangential reason and one that looked further ahead stemmed from the changes to the rules in Singapore. In 2009, the Singapore Government allowed its citizens to use their savings in their Central Provident Fund accounts for private medical treatment in Malaysia. Where Singaporeans are concerned, this usually meant Johor which is just a bus ride across the Straits. The Regis Group of hospitals has a hospital in Johor and it had become the hospital of choice for Singaporeans who go there daily by the busloads. Medical treatment was at least 30-40% cheaper in Malaysia compared to the city state. Parkway did not have a hospital in Johor but that was about to change as Khazanah had explicitly stated that it would expand there in the near future. The investment agency was also the premier developer of the Iskandar region in Johor, so it all tied in.

A source close to Khazanah said that the investment arm was not interested in a corporate brawl, but instead continued to see healthcare as a strategic business. "Looking down the road, there are also synergies with Khazanah's other ventures. It will jointly develop a wellness city in Johor's Iskandar Malaysia with Singapore's Temasek," said the source. Parkway also has a healthcare-related real estate investment trust (REIT), which would be a new area for Khazanah to tap into especially with the development of Iskandar Malaysia. It was understood that Khazanah's healthcare ventures would help elevate its income stream to new business areas outside of toll, utilities and other services.

Release of offer document for Parkway

On 10 June 2010, IHH announced that it had released an offer document for its voluntary conditional partial offer of Parkway. The document said the partial offer for shares in the health group would close on 8 July 2010. If the offer was successful, the settlement date would be within 10 days of the closing date. The offer was subject to the approval of more than 50% of shareholders and valid acceptances for no less than 313 million shares. The Securities Industry Council ("SIC"), the watchdog for takeovers and mergers in Singapore, said Khazanah had the option to extend the closing date for its partial offer from 8 July to 10 days after 30 July 2010 in order to give shareholders a chance to assess their options.

Fortis given deadline to make decision on Parkway …

The SIC had given Fortis until 30 July 2010 to decide if it would announce a GO for Parkway. That date marked the 50th day from the date IHH despatched its offer document. The statement said the regulator required Fortis to announce "whether or not it will be making a general offer for Parkway, unless circumstances arise as to make an earlier or later date for such announcement more appropriate."

The SIC also said Parkway shareholders should be given sufficient information, advice and time to enable them to reach an informed decision on the partial offer.

So, the question really was what would Fortis's response be to the deadline it had been given. Analysts who made the trip to Delhi to meet up with Fortis's top management came away with the impression that India's second-largest healthcare group would probably wait to gauge public response to Khazanah's offer before making its own move. "It (the Khazanah offer) is a vindication of our position that we made a great purchase," said Shivinder Singh. Having paid S$3.56 a share for its stake in Parkway, Fortis was already in the money to the tune of around S$70 million.

Speculation among investors was intense over whether Khazanah or Fortis would be the first to blink. For now, Fortis seemed happy to just run down the clock. "We have time on our hands," said Shivinder Singh. But in a way, Fortis was caught in a quandary as the Khazanah offer, being a partial one, would allow Fortis to only sell a portion of its shares should it decide to fold and exit from Parkway.

Fortis raising war chest …

With Fortis in expansion mode and cash flows under strain, investors were worried about the company's ability to fund projects and pay its gross debt of INR4.2 billion with debt-to-equity ratio at 2.8. The management, however, believed the INR4.5 billion raised through foreign currency convertible bonds, conversion of detachable warrants to the tune of INR13.9 billion and INR3.8 billion preferential issue, along with cash flows, should bring the debt-to-equity ratio to a manageable 0.65 by end-June 2010. This would improve Fortis's flexibility to raise additional resources to make a counter-offer for Parkway. A day ahead of the Khazanah's open offer to shareholders of Parkway, Fortis's Board had approved plans to raise additional funds of INR87.5 billion. This move was seen as a preparation to launch a counter-bid for a 100% stake in Parkway. With Fortis getting ready to raise a war chest to counter Khazanah's bid, bankers were gearing up to participate in this endeavour. Bankers said the Fortis management was in talks with banks to tie up the funds. Banks like RBS and ICICI Bank were expected to play a lead role in the loan syndication. RBS's Chief Executive and Asia Head were already in Mumbai and were expected to meet the Fortis management. Bank of India, which has a presence in Singapore, had participated in the first round of funding.

June 2010 was a busy month for Fortis. It had appointed three investment banks, Religare Capital, RBS and Macquarie, to raise funds, which could be used for a possible counter bid. Several Indian banks had also assured Fortis that they would line up the funding the firm may need if it decided to make a counter-bid. Axis Bank, Punjab National Bank, SBI, Bank of Baroda and Yes Bank were among the local banks that had given an in-principle commitment, said a person close to the matter. It could not be independently confirmed if all the banks were indeed backing Fortis but a senior Yes Bank executive said it had committed INR5 billion to Fortis should it decide to proceed with a counter-bid.

From the minority interests' viewpoint …

While the battle for Singapore's top hospital operator and healthcare firm had only just begun, its minority investors needed to figure out quickly what they wanted to do with their shares or risk missing the boat and finding themselves stuck in a stock that goes nowhere

fast when the dust settles. The share price of Parkway had shot up over 20% since Khazanah launched a surprise partial offer to wrest control of the firm in late May 2010. Yet, the restricted offer left small investors with little choice but to sell in the market to lock in the gains - excluding them from further upside if the battle continued with Fortis making a counter-offer. Khazanah's offer of $3.78 a share meant that just a third of the remaining 76% of Parkway shareholders would receive cash from Khazanah. Some viewed the offer as not as attractive, compared with a GO since it only allowed partial exit. This meant that for every 1,000 shares, shareholders were offered $3.78 for 364 shares. Khazanah needed at least 50% of the remaining Parkway shareholders to vote in favour of the partial offer that would give it equity control and that approval may not come easily. Khazanah, which cannot vote, would need the support of nearly 38% of total shareholders for the partial offer. Once it had that, it would need acceptances from 27% of shareholders.

The Singh brothers naturally were expected to vote against the proposal. They only needed the help of shareholders holding 12.5% of Parkway to block the deal. If they cannot block the deal, they would then have the option of making a formal counter-offer through Fortis to buy out the remaining 74.7% of Parkway they did not own. Having emerged as Parkway's substantial shareholder just two months before that, Fortis did not have the option of making a partial offer. In this particular case, unfortunately, the rules put in to protect minority shareholders' interest may actually be denying them a better deal - even if it was only a higher price for a partial exit.

It would otherwise have cost Khazanah S$3.3 billion to make an offer to buy out all other Parkway shareholders. Instead, having not bought any Parkway shares over the past six months, Khazanah could do what Fortis could not - make a partial offer for up to a 51.5% stake, bringing down its cost for control to only S$1.18 billion at its existing offer of S$3.78. Khazanah's offer exceeded the price target of all but three of the 13 analysts who covered the firm. The healthcare firm's shares were at their highest since May 2007, when they were fetching as high as S$3.95.

So, what should minority shareholders do? They could back Khazanah's partial offer, which gave them the chance to stay on with Parkway while getting back some cash. Or, the shareholders could chose to back Fortis and vote down Khazanah's partial offer, and then hope the two protagonists would battle it all out, driving the stock higher.

Yet, since a bird in the hand is almost always worth two in the bush, they might be better off cashing in before the vote. Clearly, after the vote or after a Khazanah victory, Parkway shares were likely to languish closer to S$3 a share, where they were before Khazanah stepped in.

More for shareholders to ponder over - conflicting Independent Advice…

Riskmetrics, an independent advisory firm, had recommended that Parkway investors approve Khazanah's proposal. The firm said Khazanah's offer price of S$3.78 a share exceeded Parkway's share price prior to the offer, and shareholders would still be free to decide whether or not to accept Khazanah's offer after the vote. "This resolution, if approved, does not mean that Khazanah's partial takeover offer will be successful. This resolution, if passed, will allow the bid to be made," RiskMetrics said in a report. While Khazanah only needed acceptance from 27% of Parkway shareholders to gain control of the Singapore firm, it needed the go-ahead to make its partial offer from 50% of shareholders other than the Malaysian state investor.

Morgan Stanley, which was acting as an independent adviser to Parkway Holdings, however, said in its report that Khazanah's offer was "not compelling" even though the price is "reasonable". "Although the value implied by the offer price is reasonable, the offer price is not compelling in the context of a partial offer involving a change of control." It also said while Khazanah's offer price was much higher than Parkway's average share price in the 12 months preceding the offer, it was just 6.5% above the average price target of S$3.55 set by stock market analysts who covered the company. "As at the latest practicable date, neither Fortis nor any other party has announced an intention to make a competing offer for the company, nor has the Board been approached by any party intimating any such offer," Morgan Stanley said in the report. Reacting to Morgan Stanley's advice that Khazanah's offer was "not compelling", Parkway shares sank seven cents to S$3.68, the lowest close since 7 June.

Another advisory firm, US-based independent advisory firm, Glass Lewis[19], had also asked investors to vote against Khazanah's offer and instead wait for a general offer of total buyout. "In our opinion, the Parkway shareholders should not support the Khazanah partial offer. Without commenting on the fairness of the partial offer value, we believe that allowing Khazanah to acquire a controlling interest in Parkway could be unfavourable for continuing shareholders in the long term. If the partial offer was successful, the remaining minority shareholders of Parkway would be left in an untenable position to Khazanah's strategic decisions for the company, fair or unfair," Glass Lewis, had said in a report. The report also asked investors to reject any partial offer by any acquirer because it does not give shareholders a fair value. "Investors should oppose the partial offer as a means to force Khazanah and Fortis to present a general offer for the right to control the company."

[19] Glass Lewis advises institutional shareholders and casts votes on their behalf. Around 20 institutional shareholders owned close to 25% in Parkway. It was not known, however, if Glass Lewis represented any of Parkway's institutional investors.

Question:

Do you agree with the above opinion for shareholders to reject any partial offers?

Serious lapses in corporate governance at Parkway …

A report by Morgan Stanley had revealed serious corporate governance concerns and could radically shape the outcome of the takeover battle for the company. A Parkway circular to shareholders on the takeover offer revealed that Fortis dominated Parkway's Board of Directors with its roughly 25% stake in the company. Apart from this, Fortis's control over Parkway was further fortified by the disclosure that three of its directors – Parkway's Vice-Chairman Richard Seow Yung Liang, Executive Vice-Chairman Lin Cheok Peng and CEO Tan See Leng - had entered into agreements which gave Fortis the right to direct them on how they should vote at shareholder meetings and director meetings[20]. Morgan Stanley had also disclosed that the agreement Fortis had with the three directors included voting agreements and some economic benefits, if Fortis sold more than 10% of the shares it held in Parkway during the agreement period. The directors had agreed not to dispose of or transfer any part of their shareholding during the term of agreement. The report mentioned that of the 17 directors of Parkway, 12, including the three, were not considered independent directors due to their stated voting positions. From a minority shareholder standpoint, these were serious concerns because of Fortis's dominance over the operations of the company. This disclosure in the report underscored the misgivings of Khazanah over its investment in Parkway.

[20] The three affected directors of Parkway later issued a statement to SGX to clarify their positions. In their statement, the three said that their arrangement was for Fortis to discuss with them in relation to their votes as shareholders of Parkway. They said this would not in any way impact their obligations as directors of the company. As such, they said they had agreed to vote with Fortis as shareholders of the company. The arrangement also provided that in exercising their voting rights as directors of the company, they would exercise those rights in the best interests of the company, regardless of the interests of Fortis. The three said they had always exercised these rights in the best interests of the company and adhered to the governance standards required of them.

The three directors elaborated that when Fortis acquired a 24% stake in Parkway, it wanted the senior management to continue to ensure that the strategies would continue. As a result, it offered Seow, who was then the Chairman, the position of Vice-Chairman, while the other two executives continued in their existing roles. "In addition, so as to ensure alignment with the interests of the shareholders, with the objective of achieving significant total shareholder returns, Fortis invited the three of us to enter into a co-investment arrangement with a financial arrangement structured to secure the retention of the three of us in our respective roles in the company," the three directors said in the Exchange filing.

Fortis battles Khazanah with S$3.2 billion deal for Parkway

Finally on 1 July 2010, Fortis and its founding family launched a bid valuing operator Parkway at S$3.2 billion, topping Khazanah's offer. RHC Healthcare and the Singh brothers offered to buy the 75% stake that they didn't already own in Parkway for S$3.80 a share, or 2 Singapore cents more than the S$3.78 offered by Khazanah. The offer price was at a slim premium to Parkway's last traded price of S$3.57. The counter-offer by Fortis would close on 12 August 2010, its advisors, RBS and Macquarie Capital, said in its offer document. The offer was conditional on Fortis getting at least 50% of Parkway. Fortis shares rose as much as 3% on 1 July 2010 and ended up 1.2%. Parkway shares were suspended from trading on the same day.

Question:

What do you think of the counter-offer price by Fortis? Do you consider this a serious bid at this level?

Market consensus over this development was that Fortis was just testing the water with this offer. Had it been serious it could have made an offer Khazanah would not have been able to match. By pitching a higher offer, RHC Healthcare, which was 49% owned by Fortis and the remainder by the Singh brothers, Fortis aimed to prevent Khazanah from taking over Asia's biggest hospital group. It was widely seen as just a play on the part of Fortis to get a better exit price and the beginning of a bidding war.

Fortis and the Singh brothers had already secured funds for the acquisition, said the CEO of Religare. "At an appropriate point of time post the offer we will be looking at folding up the Fortis Healthcare entity as the subsidiary of Parkway," Fortis managing director Shivinder Singh told reporters in a conference call, adding Parkway would become the main vehicle for the Group's expansion in healthcare. Fortis had lined up a one-year bridge loan of US$1.5 billion to back its open offer, according to a banking source. The loan, to be backed by shares of Parkway, was spearheaded by Axis Bank. Royal Bank of Scotland and ING Bank were also working on separate financing for Fortis. Macquarie and Royal Bank of Scotland were the financial advisers to the offer.

Shares of Parkway rose as much as 8.4% to S$3.87 after the bid from Fortis, slightly above the price offered by two rival bids, as investors expected a bidding war to ensue. The stock was suspended from trading when the offer was announced the day before. By mid-day break, Parkway shares were at S$3.85, with nearly 4.4 million shares changing hands, 60%

higher than the 90-day average volume. This surge in the share price of Parkway was attributed to investors' expectations that Khazanah would make another counter-offer.

Following this development, Khazanah extended its partial offer by 18 days to 26 July 2010, as it needed time to digest and to consider countering Fortis's superior bid. The offer had been due to expire on 8 July 2010. Khazanah, which needed 313 million shares for the offer to succeed, said it had received acceptance from shareholders who held 14.19 million shares.

Is Khazanah going to counter-offer?

As Khazanah had not succeeded in getting shareholder approval, it would be better for it to go for a GO with a higher offer price. Any price above S$4.00 a share would seal the deal for Khazanah. If Khazanah's offer was at a substantial premium, Fortis may back out. The bidding war had pushed Parkway shares above the median target price of S$3.49 by analysts, according to Thomson Reuters data. Reflecting investors' sentiment, investors preferred to just sit and watch and do nothing while waiting for Khazanah to make its bid. Although valuations were rich but why sell when there's a bidding war.

The question on everyone's mind was would Khazanah raise its price to or above S$4 a share, a level that may force Fortis to back off. It certainly had the war chest. One analyst had a target price of S$4 for Parkway, valuing it at 31X 2010 earnings, on the belief that a controlling stake in Parkway should command a premium. However, for every S$0.10 per share increase in the offer price, the bidder would require an additional S$85 million for the acquisition.

On 24 July 2010, just two days ahead of its deadline to make a counter-offer to acquire control of Parkway, the market was abuzz with speculation that Khazanah would indeed trump Fortis's offer. Khazanah had two options to better Fortis's bid. It could either sweeten its partial offer to buy a 27% stake or make a GO to buy all the remaining 76% stake of Parkway it did not own. If Khazanah made a partial offer, it would need to offer a substantial premium to the existing offer price of S$3.78 per share as in such a case shareholders would be able to sell only a part of their holdings compared to Fortis's general offer of S$3.80 per share. One view was that if Khazanah were to make a revised partial offer, it may have to pay over S$4.50 a share to better Fortis's offer, assuming that Parkway's shares could fall to the pre-offer level of S$3.02. Fortis may exit Parkway as it would not have the resources to make another counter offer at over S$4. If Khazanah made a revised partial offer at a high price, Fortis could be in a fix as it cannot sell its entire 25% stake nor fully exit. Khazanah would accept only one-third of the shares of all shareholders who tendered their shares.

As Khazanah is running tax payers' money, a partial offer was seen as involving less outlay of capital. It was noted that the Malaysian Government's plans to cut its fiscal deficit to 5.3% of its GDP from 7% then, could be another reason for opting for a revised partial offer.

Khazanah makes offer and wins Parkway

On 26 July 2010, Khazanah offered to acquire full control of Parkway at S$3.95 per share with rival Fortis agreeing to sell its entire stake in the hospital chain. This was Khazanah's biggest overseas acquisition and valued Asia's biggest listed hospital operator at S$4.5 billion. The Malaysian fund's move, ended over two months of tussle over a company that both had aimed to spearhead their regional expansion in Asia's booming healthcare market.
In a notification to the Singapore Stock Exchange, IHH said it was converting its earlier partial offer to a full GO. "IHH is offering to acquire all shares in Parkway that it does not already own at a price of S$3.95 per share in cash. The voluntary offer represents a 4.5% increase to the partial offer," it said. "Fortis Global Healthcare (Mauritius) Ltd[21], a wholly-owned subsidiary of Fortis, has provided an irrevocable undertaking to IHH to accept the voluntary general offer for all its shares," the filing added. Fortis stood to make a gross profit of S$116.7 million from the disposal of its Parkway stake.

On 17 August 2010, Khazanah and Integrated Healthcare Holdings Sdn Bhd ("IHHSB"), via its wholly-owned subsidiary IHH, announced the successful close of its Voluntary General Offer for Parkway Holdings Limited. Please see **Exhibit 4** on Khazanah's Media Statement on the successful close of its Voluntary General Offer for Parkway. The Notice of Compulsory Acquisition is shown in **Exhibit 5**. For the timeline of key events of the takeover of Parkway, please see **Exhibit 6**.

Could Khazanah have saved a substantial amount had it bought the stake earlier? However, that action would have triggered a full GO for the remaining shares of Parkway. The prospect of having to undertake the GO and the fact that the consent of some key shareholders were in doubt were the reasons Khazanah's Managing Director Tan Sri Azman Mokhtar gave to explain Khazanah's action in the Parkway saga. He said that even if there had been consent, fundamental valuations then were highly volatile in line with the prevailing fast-changing crisis environment. "What is more relevant is that the business fundamentals have continued to improve significantly since our acquisition last year," he said, adding that over a fairly short period of slightly more than a year, whatever control premium paid was quickly covered by strong underlying growth in the economy and in the

[21] This was the vehicle used by Fortis to acquire and hold its stake in Parkway Holdings.

business itself. According to Khazanah, Parkway's valuation of S$3.95 per share was 5.9% above consensus 12-month target prices by analysts. The 20.4% above the one-month VWAP prior to the announcement and 5.9% above the consensus analyst target prices reflected the control premium that was lower than the typical control premium of 25-30% in precedent takeovers in the market. It further elaborated that Parkway was an asset that it knew well since it had the best opportunity for due diligence by being a shareholder and was represented on the Board through a severe financial crisis and recovery. Parkway had traded on a 5-year historic EV/EBITDA[22] average of 16.8X as a result of the growth profile of the private healthcare sector and its leadership position within it. When excluding Novena and the P-Life REIT stake, the S$3.95 acquisition price represented a comparable historic EV/EBITDA multiple of 16.2x which was fair, when reflecting the control premium associated with such an acquisition.

Khazanah said that it intended to fund the acquisition through a combination of internally sourced equity and locally funded non-recourse debt at IHH, with a target debt/equity structure for IHHSB Group of approximately 50:50. A portion of the equity funding by Khazanah was partially funded by the recent S$1.5 billion sukuk issuance in Singapore.

Fortis, in accepting Khazanah's counter-offer, said it would use the S$116.7 million profit on its Parkway stake to look for other opportunities. "At the end of the day, you have to take an economic call. You can't take an emotional call on the assets you want to own," Shivinder Singh told reporters in New Delhi. Malvinder Singh, Chairman of both Fortis and Parkway said in a statement the deal took into account all the stakeholders of Fortis. He called the deal a win-win for all involved. "It was made after careful assessment of the intrinsic value of Parkway and in light of other growth opportunities available to us across the region and globally," he said. Shares of Fortis surged more than 6% in Mumbai just ahead of Khazanah's confirmation.

Parkway shares were suspended pending the announcement by Khazanah and closed at S$3.88 after the announcement. The price of S$3.95 would be the highest for its shares since October 2007. "This is a good price for investors to cash out," said an analyst. "The change in ownership won't make much difference to Parkway's future growth strategy or operations because Khazanah was already a large shareholder." Nomura Securities said the deal valued Parkway at 31X 2010 earnings against peer Raffles Medical's 22X.

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[22] EV/EBITDA (Enterprise Value/ Earnings Before Interest, Taxes, Depreciation and Amortisation) is a popular valuation multiple used in the finance industry to measure the value of a company. It is the most widely used valuation multiple based on enterprise value and is often used in conjunction with, or as an alternative to, the P/E ratio (Price/Earnings ratio) to determine the fair market value of a company. The reciprocate multiple EBITDA/EV is used as a measure of cash return on investment.

Question:

Do you think the price offered in the general offer by Khazanah was fair or over-valued?

Khazanah had said that it was committed to maintain Parkway's status as a premier regional healthcare services provider with the highest clinical standards. The existing management team would continue to have Khazanah's support in fulfilling this vision. Both Parkway and Pantai's existing management teams would continue to manage their respective companies and be responsible to their respective Boards. Khazanah, through IHH, intended to further integrate and consolidate Parkway's role within its regional healthcare group. Khazanah said that each of the individual brands in Parkway, Pantai and IMU would be preserved. Each local region e.g. North Malaysia, Central and South would also have its own local management teams. Parkway and Pantai, whose hospital operations had been managed with some level of synergies since 2006, would continue to look to areas of maximising synergies in the areas of procurement, hospital development, IT and systems, and hospital management expertise and training. IMU would also work with Parkway and Pantai to enhance nursing and allied health training for the needs of its network of hospitals and beyond. Parkway, Pantai and IMU would look to increase the ways in which it is able to collaborate with Apollo. IHHSB would act as an investment holding company of these various investments and look to capitalise on the latest technological advancements and trends in the sector, outline an overall Asian strategy and explore new investment opportunities including new geographies in which IHHSB should have a presence.