

CASE STUDY

Ayala Healthcare Holdings, Inc. (AC Health)



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Introduction

Can the largest and oldest corporation in the Philippines contribute to long-term social benefit? That question is at the heart of the story of Ayala Healthcare Holdings, Inc., also known as AC Health. Founded in 2015, AC Health is dedicated to bringing affordable, high-quality medical services and pharmaceuticals to a country that historically has not had these widely available.

Ayala Corporation, the parent organization that launched AC Health, is a much larger conglomerate, still controlled primarily by the same family that founded it in 1834. During the past decade, parent and startup have both defined their core purpose as making life better for all Filipinos. They've demonstrated the multifaceted effort and design needed to realize that deeper purpose while also meeting sustainable growth targets.

AC Health has grown its care network and patient base throughout the years, largely through its innovative business model. The company has developed an entire healthcare ecosystem aimed at the country's emerging middle-class population. Its several lines of business, primarily broken down into three major pillars (clinics and hospitals, pharma, and digital health), all add to one another's value.

The Healthway Group includes Healthway, one of the major clinic networks in the country. It is complemented by QualiMed, a comprehensive network of four full-service hospitals and one standalone day surgery center. On pharma, AC Health has Generika, its chain of drugstores consisting of over 700 branches nationwide, which promotes and sells affordable high-quality generic medicines. The pharma pillar also includes IE Medica and MedEthix, major pharmaceutical importation and distribution firms. This allows AC Health to vertically integrate its pharma supply chain and further expand its medicine portfolio. Finally, on digital health, AC Health, in partnership with 917Ventures, has the new KonsultaMD superapp—a consolidation of AC Health's HealthNow and AIDE apps, and 917Ventures' KonsultaMD app. The new KonsultaMD will allow teleconsultations, medicine deliveries, and home-based diagnostic services, among others, to be accessed all through one smartphone app.

These services complement each other in ways that make each of them more effective than they would be on their own. They are particularly meaningful in the Philippines because of the country's longstanding struggles with access to quality healthcare. The country faces high rates of infectious diseases, its maternal and neonatal mortality rates still need to come down, and it is also prone to natural disasters that put additional pressure on the health system.

AC Health's parent company, Ayala Corporation, which includes real estate, banking, telecommunications, water, energy, transport infrastructure, electronics, automotive, and education businesses, is also known for its commitment to social and environmental responsibility. One telling indicator is the Glassdoor website of anonymous workplace ratings, where 99 percent of the company's employees say they approve of the CEO. Chairman of the Board Jaime Augusto Zobel de



Ayala is a leading exponent of stakeholder capitalism. “[The Ayala Group] used to focus on the affluent end of the market,” he told McKinsey Quarterly in 2020, “but I wanted to leave a legacy of an institution that addressed the needs of the vast majority of Filipinos.”

In January 2022, IFC invested in Ayala’s \$100 million social bond issuance. These are thematic bonds: capital-raising instruments oriented to specific investment “themes” such as climate change, food, health, or education. They also align with agreed-upon transparency and disclosure guidelines, a feature that attracts investors who want assurance that their financing efforts will genuinely support positive social and environmental outcomes.

The 2022 social bond will finance the first dedicated specialty cancer hospital in the Philippines, which AC Health is building and will operate in partnership with Siemens, Varian, and Cancer Treatment Services International (CTSI). IFC’s investment, combined with its advisory support, will be a landmark transaction, applying Excellence in Design for Greater Efficiencies (EDGE), IFC’s green building certification system. In meeting the EDGE-designated efficiencies for the use of energy, water, and materials, the cancer center will be good for the sector. Meanwhile, the company’s pandemic-driven transition to digital first technology with a very human-centered sensibility continues to gain strength. When it comes to providing healthcare as a service, AC Health is at a turning point, and so is its country.



We Interviewed Eight Business Leaders from AC Health

Paolo Borromeo, President and CEO of Ayala Healthcare Holdings, Inc. (AC Health)

Jimmy Ysmael, President and CEO of Healthway Philippines, Inc. (HPI), AC Health's network of clinics and hospitals

Atty. Yet Abarca, President and CEO of Generika, AC Health's Retail Drugstore Chain

Beia Latay, Chief Operating Officer of KonsultaMD, a collaboration between AC Health and 917Ventures, Globe Telecom's corporate incubator

Marivic Sugapong, Chief Operating Officer, IE Medica and MedEthix, the distribution and importation companies in AC Health

Rizzy Alejandro, MD, Chief Public Health Officer of AC Health

RJ Recio, Head of Corporate Strategy and Development, AC Health

Kaye Recto, MD, Corporate Strategy and Development Manager, AC Health



Lessons from AC Health's Story



1 Creating shared value



2 Developing an integrated ecosystem



3 Innovating on new business models and services



4 Designing digital technology for people



AC Health at a Glance

Business Model	AC Health's strategy is centered on three key verticals. In the pharma vertical, it operates drugstores (700+ branches under the Generika Drugstore brand) and imports and distributes generic pharmaceuticals (IE Medica and MedEthix). In the hospitals and clinics vertical, it operates primary care clinics, multispecialty clinics, and corporate clinics (all branded Healthway), and provides more advanced medical services through hospitals and specialty centers (QualiMed and the Healthway Cancer Care Hospital). In the digital vertical, it conducts and supports research on medical technology and maintains digital healthcare platforms and apps for individuals (the new KonsultaMD—a consolidation of the HealthNow, AIDE, and KonsultaMD health apps with a combined user base of over 2 million). Together, these businesses collaborate as an integrated healthcare ecosystem, reinforcing one another's value.
Revenues	The Ayala Group's total revenues are more than \$5 billion per year, with a compound annual revenue growth rate above 7 percent for the entire conglomerate.
Website	www.achealth.com.ph/
Corporate Governance	AC Health is a wholly owned subsidiary of the Ayala Corporation, the holding company for the Ayala Group of companies. Ayala Corporation is listed on the Philippine Stock Exchange. Its largest shareholders are investment firms owned by members of the Ayala family, and Japan's Mitsubishi Corporation.
Investment History	Since 2003, IFC has provided financing and support to various Ayala Group businesses, including Manila Water Company, Bank of the Philippine Islands, and AC Energy, Inc. IFC has shared ideas and advisory guidance about healthcare with Ayala since 2014. Its first investment in AC Health was the \$100 million social bond in 2021.
Geographic Footprint	AC Health operates entirely in the Philippines, which is also where the Ayala Group conducts 90 percent of its business. About 3 million unique patients have been served nationwide through its Healthway clinics and QualiMed hospital network.
Culture	Entrepreneurial within a larger corporate structure.
Social and Environmental Results	The Ayala Group monitors its ESG performance against a publicly accessible 360° Sustainability Reporting Framework. Chairman of the Board Jaime Augusto Zobel de Ayala was named a UN SDG Pioneer in 2017.



Lesson 1: Creating Shared Value

The development of AC Health started in 2012 with the intent to move beyond the core businesses of the Ayala Group. Management consultant Paolo Borrromeo had just taken a position as head of strategy for the group. Having grown up in the Philippines, he understood the demographic and economic challenges facing the country. It had a youthful population and an enormous wealth gap, with the poorest groups scattered in remote rural areas. The country's rapidly emerging middle class was burdened by its inadequate power, water, and transportation infrastructure, as well as by extremely limited access to education and healthcare.

The Ayala Group had previously worked with IFC to develop much-needed new power and water systems. These "hard infrastructure" efforts, some of which IFC had helped fund, had been successful on their own terms. But many "soft infrastructure" efforts were still needed, like education and healthcare. In healthcare, the Group had set a goal to provide affordable, accessible healthcare for 20 percent of all Filipinos within 10 years.

Three of AC Health's executives explain how this challenge set the stage for the new business. The speakers are **AC Health CEO Paolo Borrromeo**, **Corporate Strategy and Development Manager Dr. Kaye Recto**, and **KonsultaMD COO Beia Latay**.

▶ **Paolo Borrromeo:** *At the Ayala Group, we are big believers in the concept of "shared value;" not simply doing philanthropy, but creating scalable, sustainable businesses with social impact. In 2015, we decided to invest in what we call "soft infrastructure," in education and healthcare. At the time, 70 percent of national healthcare expenditures came out of the pockets of ordinary Filipinos. Only 30 percent came from the government or private insurance. Many people went to a doctor only once every few years or didn't go at all. This problem needed to be solved and we felt we could play a meaningful role in the healthcare sector.*

▶ **Dr. Kaye Recto:** *We saw gaps that AC Health could play a role in filling. Health insurance coverage in the Philippines was so limited that people still largely paid out of pocket. The growing number of middle-class Filipinos had very limited options on where to access healthcare. In general, getting sick in the Philippines was costly and highly burdensome.*

▶ **Beia Latay:** *We didn't look at this from a conventional market entry point of view. We went back to basics. What were the biggest pain points in the industry? We saw that they were accessibility and affordability. To address them, we had to look closely at our opportunities to add value.*



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—Paolo Borrromeo

To truly create “shared value,” innovators must often look past the constraints of conventional wisdom. The leaders of its new healthcare division relied on their own problem-solving culture. Their search for models of effective, affordable care led them to look outside the country. **Healthway Philippines, Inc. CEO Jimmy Ysmael** and **AC Health CEO Paolo Borromeo** explain:

▶ **Jimmy Ysmael:** *Our approach toward delivering quality and affordable healthcare entails a lot of mindset and culture change. The Philippines is accustomed to a fee-for-service system in which people paid separately for every appointment and treatment. We are changing this somehow to a payer-style system, which funds preventive as well as curative care, as they apply to certain patient groups that we serve. For example, in our Corporate Health Solutions business, we don't just manage the clinics of individual corporations on their premises. We provide care to their thousands of employees at*

an affordable monthly cost. We are also introducing multidisciplinary integrated practice units at our hospitals and clinics. Built around major disease groups, they ensure more coordinated and holistic care to our patients, resulting in better clinical outcomes and more affordable cost.

▶ **Paolo Borromeo:** *We had to do a lot of experimentation and innovation on our own. And that takes time. But we also look for inspiration elsewhere. IFC was very helpful from a thought leadership perspective and for sharing global best practices. In 2017, I attended IFC's healthcare conference. It opened my eyes to new ideas and ways in which this industry could thrive by providing sustainable solutions to the broader middle-income market. I met many inspiring people, including Dr. B.S. Ajaikumar, founder of HealthCare Global, who helped me think about oncology services within our integrated ecosystem concept.*

Lesson 2: Developing an Integrated Ecosystem

Many healthcare organizations fulfill a relatively narrow function within the value chain: like clinic care, hospital care, or pharmacies. The leaders of AC Health followed a different model in which a comprehensive system links different care touch points and creates synergies, including shared data, resources, and customer information, leading to lower costs, higher quality, and a better patient experience. **AC Health CEO Paolo Borromeo, Strategy Manager Dr. Kaye Recto, Strategy Head RJ Recio, IE Medica and MedEthix COO Marivic Sugapong, KonsultaMD COO Beia Latay,** and **Healthway Philippines, Inc. CEO Jimmy Ysmael** describe how AC Health was assembled around this concept.

▶ **Paolo Borromeo:** *As a management consultant in the U.S., I had seen the success of Kaiser Permanente and other integrated care models. Our idea was to create something similar but localized and customized for a developing country like the Philippines. The key would be to generate trust, and a differentiated patient experience, providing access to affordable quality care to a broad base of people.*

▶ **Dr. Kaye Recto:** *The integrated ecosystem was a new concept in the Philippines. When AC Health started, you could not find any other healthcare company with a similar model. Every part of the system is a different touchpoint. It's an ecosystem of healthcare services such that*



wherever and whenever care is needed, AC Health is there to serve its customers.

RJ Recio: Let me walk you through our integrated portfolio. Healthway maintains three types of clinics—small community-based clinics for primary care located near where people live, corporate clinics on premises where people work, and the multi-specialty clinics located in retail malls, which also process diagnostic tests and sell pharmaceuticals. We then invested in a chain of general hospitals called QualiMed, with four hospitals and an ambulatory surgical center.

Our pharmacy chain, Generika, primarily sells generic medicines. To maintain the supply of generics, we invested in IE Medica and MedEthix, our importation and distribution companies. The vertical integration is not limited to our drugstores. It involves our clinics and hospitals as well.

We have also launched a digital health group through KonsultaMD. We're very bullish on the role that technological innovation can play in advancing healthcare services to Filipinos and we are very excited with the one-stop-shop health super app we have created.

Beia Latay: Another big takeaway about the ecosystem involves the physician's career perspective. If you're a medical school graduate in the Philippines, you typically start as a general practitioner working for a larger hospital. It takes years to develop a specialization and patient base. But in the AC Health ecosystem, doctors gain experience in our clinics or hospitals, and can build up their own practice through teleconsultation. We're very supportive of this.

Jimmy Ysmael: Right now, we are in the process of implementing a very ambitious IT transformation roadmap across all our hospitals and clinics, where we will interconnect the front and back-end systems using a unified and integrated IT platform. This integrated platform is

intended to not only increase operating efficiency, but more importantly, deliver better clinical outcomes and exceptional patient experience. It offers a holistic and coordinated approach to patient care. The platform seamlessly provides access to critical medical information to the doctors and provider groups within the network, as well as to patients themselves. It integrates our hospital information system, clinic management system, and electronic medical records. Our laboratory and radiology information systems as well as enterprise resource planning system will also interconnect with the platform, which will eventually link up with the digital health platform of KonsultaMD. The integrated system will provide one single source of truth that will enable more efficient patient admission and care process, across the entire ecosystem.

Over time, the AC Health leadership team assembled these businesses through acquisition for the most part. By late 2019, the primary ecosystem was complete and was just in time for the pandemic, where it proved its value to the country. This part of the story is told by **Chief Public Health Officer Dr. Rizzy Alejandro**.

Dr. Rizzy Alejandro: When COVID-19 first broke out, we mobilized our entire ecosystem as our way of contributing to the country's response. At that time, the Philippines only had one government laboratory that could test for the virus. We raised our hands to offer help. We turned all four of our QualiMed hospitals into PCR testing labs and helped set up four other sites. This was huge because it had previously taken two weeks to get test results.

We also turned our hospitals into COVID treatment sites. Government hospitals were running out of beds and we had extra capacity to offer ICU services to critical patients who needed them. This allowed us to develop expertise on handling those complex cases.


Our clinics became natural triage points at the front lines of care. People with symptoms could come in and we helped them decide whether to stay home or go to the hospital. We made sure that Generika pharmacies were equipped with all the medicines people needed, such as paracetamol, and basic cough and cold medications.

The IE Medica and MedEthix businesses also mobilized around COVID. We were the first group in all of Southeast Asia to import Molnupiravir. This was a game changer: an effective medicine for preventing severe cases of COVID-19.

I'm proud to say that we worked hand-in-hand with the government in driving the overall COVID response. We've been able to do our part in the frontlines, provide thought leadership in discussions about testing rates and vaccination strategy, and help augment staffing, including lending doctors and nurses for vaccination sites. It is a good reflection of our underlying corporate DNA as AC Health that we always want to contribute to the larger healthcare system.


Lesson 3: Innovating on New Business Models and Services

Each element of the AC Health ecosystem required its own design, release, and experimentation. Services had to be tailored for the expectations of Filipino patients. The AC Health team didn't wait for perfection. For each format, they put forth a preliminary version, paid attention to peoples' reactions, and evolved the design further. Four AC Health leaders walk us through this approach: **AC Health CEO Paolo Borromeo, Generika CEO Atty. Yet Abarca, Healthway Philippines, Inc. CEO Jimmy Ysmael, and IE Medica and MedEthix COO Marivic Sugapong.**

 **Paolo Borromeo:** *In 2015, we came up with a new primary care clinic concept, which we had called FamilyDOC. We made a modest*

investment in 2 clinics, with what we called a "3-in-1" retail format. Each clinic was about 100 square meters, the size of a convenience store. In that small space, we put a clinic, a testing lab, and a drugstore. They became major convergence points in their communities. We refined them based on customer behavior, and expanded rapidly to 6, then 12, and eventually more than 70 clinics.

Then we acquired a stake in Generika, a drugstore franchise chain with about 500 stores that had been founded explicitly to help people buy lower-cost non-branded generic medicines. We would grow it to over 700 stores after 3 years.

 *"Our clinics became natural triage points at the front lines of care."*

—Dr. Rizzy Alejandro



Atty. Yet Abarca: For context, there are about 30,000 drugstores in the Philippines. Only half are owned by large chains. A survey by Boston Consulting Group confirmed that the most trusted health professionals in the Philippines are pharmacists. Patients consult with them far more often than with doctors. Pharmacies are a \$4.5 billion market here, with 65 percent captured by the dominant drugstore chain. Since bringing the Generika franchise into AC Health, we've continued to refine the format, adding mobile payment options and making it easier for workers overseas to cover the costs of their loved ones' medications through apps.

Jimmy Ysmael: We continually try to come up with new clinical pathways and care models that will deliver more holistic care at more affordable prices, with better patient outcomes and faster recovery periods. In our existing hospitals, we are establishing integrated practice units built around major disease groups, each with a multidisciplinary team of doctors so the patient gets a more holistic and coordinated treatment program. We have launched the following multidisciplinary integrated practice units so far: a neuroscience and acute stroke unit in QualiMed Sta. Rosa (Laguna), a hypertension and diabetes program in QualiMed San Jose Del Monte (Bulacan), and a gastroenterology unit in QualiMed Tanauan (Batangas). We leverage on the expertise that exists within those hospitals in designing these pilot multidisciplinary integrated practice units, which we intend to roll out in all our general hospitals. We are also setting up Centers of Excellence at our upcoming Healthway Cancer Care Hospital. These are organized as multidisciplinary integrated practice units, initially focusing on major cancer groups such as breast cancer, colorectal cancer, head and neck cancer, and lung cancer.

Marivic Sugapong: For IE Medica and MedEthix, we differentiate ourselves as the innovator in the generics pharmaceutical industry. We endeavor to be the first to bring to market the generic version of off-patent medicines, make available unique fixed-dose combination molecules and introduce generic medicines using innovative delivery systems, such as edible thin films. These key differentiators are driven by our ability to secure certificate-of-product registration for these innovative medicines and to source our products from India and other cost-efficient locations in South Korea, Europe, and Australia. These innovations not only fulfill our mission to improve access to quality and affordable medicines but also provide convenience to Filipinos. As a result, we have become one of the top three suppliers of oncology and nutrition products to the Philippines Department of Health.

In addition, we started building our ethical marketing business, starting with Women's Health, with our strong line of affordable but quality reproductive health and fertility medicines. We are continuously looking for other therapeutic areas where we can successfully play in the ethical marketing space.

We acknowledge our role in the AC Health ecosystem and continuously find ways to support the overall group objectives. Currently, we are discussing innovative ways to provide affordable but quality generic version of the top cancer medications, which are often very costly, to our forthcoming oncology hospital. This is in line with the hospital's objective of improving accessibility to quality cancer care services.

Lesson 4: Designing Digital Technology for People

When the pandemic began in 2020, AC Health and 917Ventures, a corporate incubator managed by Globe Telecom, were planning a joint venture to release a smartphone app called HealthNow. Introduced in August 2020, it quickly became a lifeline for many people coping with COVID-19. The app provided basic information, scheduled tests in Healthway and QualiMed locations, and facilitated teleconsultations during the lockdown. When vaccines were first available, the app organized access, and it currently provides access to Molnupiravir and other treatments. **Chief Public Health Officer Dr. Rizzy Alejandro** and former CEO of HealthNow and now **COO of the new KonsultaMD Beia Latay** reflect on the human-centered value of the HealthNow app, especially in difficult times.

Dr. Rizzy Alejandro: *We first offered HealthNow as a way for people to get remote consultation. When the vaccines became available, we offered to tap our Healthway and QualiMed provider network to become the largest private administrator of doses. At the height of vaccinations, we had 30 mega vaccination sites all over the country. We used our HealthNow app for scheduling vaccine appointments and sending notifications, and this helped make the process more convenient for everyone. We've since transitioned to using our clinics as vaccination sites.*

Beia Latay: *HealthNow was never supposed to be an IT function for our business and staff. It was a customer app. We started it as a digital app for the Generika drugstores and the clinics. I had worked in both verticals, and I knew the pain point for consumers: the siloed, complex, and difficult-to-navigate healthcare landscape.*

Then COVID struck. The lock down here in the Philippines was really bad. But with the app, we were able to bring the drugstore and the clinic to people's doorstep.

Our biggest turning point was the COVID vaccination. More than a million doses were trying to be scheduled, albeit manually. I said to the other AC Health leaders, "I think we can do better." So we volunteered our help. We had only 10 software developers on staff, but we scrambled and built the vaccination feature in less than two months. About 500 companies were involved in the vaccination program, and we had to understand their needs. We also had to include nationwide locations, not just in Manila, and scheduling options. It was an incredible feat for our office.

Once it was running, we realized that we could use the app to introduce people to other parts of the ecosystem. It now has almost 1.3 million registered users. That's almost as many as the top three HMO players in the Philippines. We

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—Beia Latay

have over 5,000 healthcare providers available through the app, including 1,200 AC Health doctors and more than 3,800 healthcare providers from outside AC Health. They include independent physicians, nurses, physical therapists, and caregivers. It also includes visiting medical technicians, who go to patients' houses to extract blood for their laboratory tests.

We are still experimenting. We've seen that more and more people accept remote care. The

pandemic has brought forward the practices of telemedicine, home healthcare, and home diagnostics. People don't want to go to hospitals or facilities where they might feel exposed to a variant. They are also willing to pay for convenience. While we prioritize our own ecosystem, we are also democratizing access to individual healthcare players who typically don't have direct access to consumers. These are the little things that we're also trying to experiment with.

Conclusion

AC Health has played a significant role in expanding options for access to quality care in the Philippines, and in this way supporting the government's goal of universal health coverage. The company provides an example for other emerging-economy healthcare startups, particularly those with a commitment to social benefit. This prized benefit to society doesn't happen through a firm's top-down dictate. It happens by giving leaders the concrete structure and support they need to pivot creatively and entrepreneurially, while keeping a steady focus on the shared value they can create for society as a whole.



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