Compete for Finance

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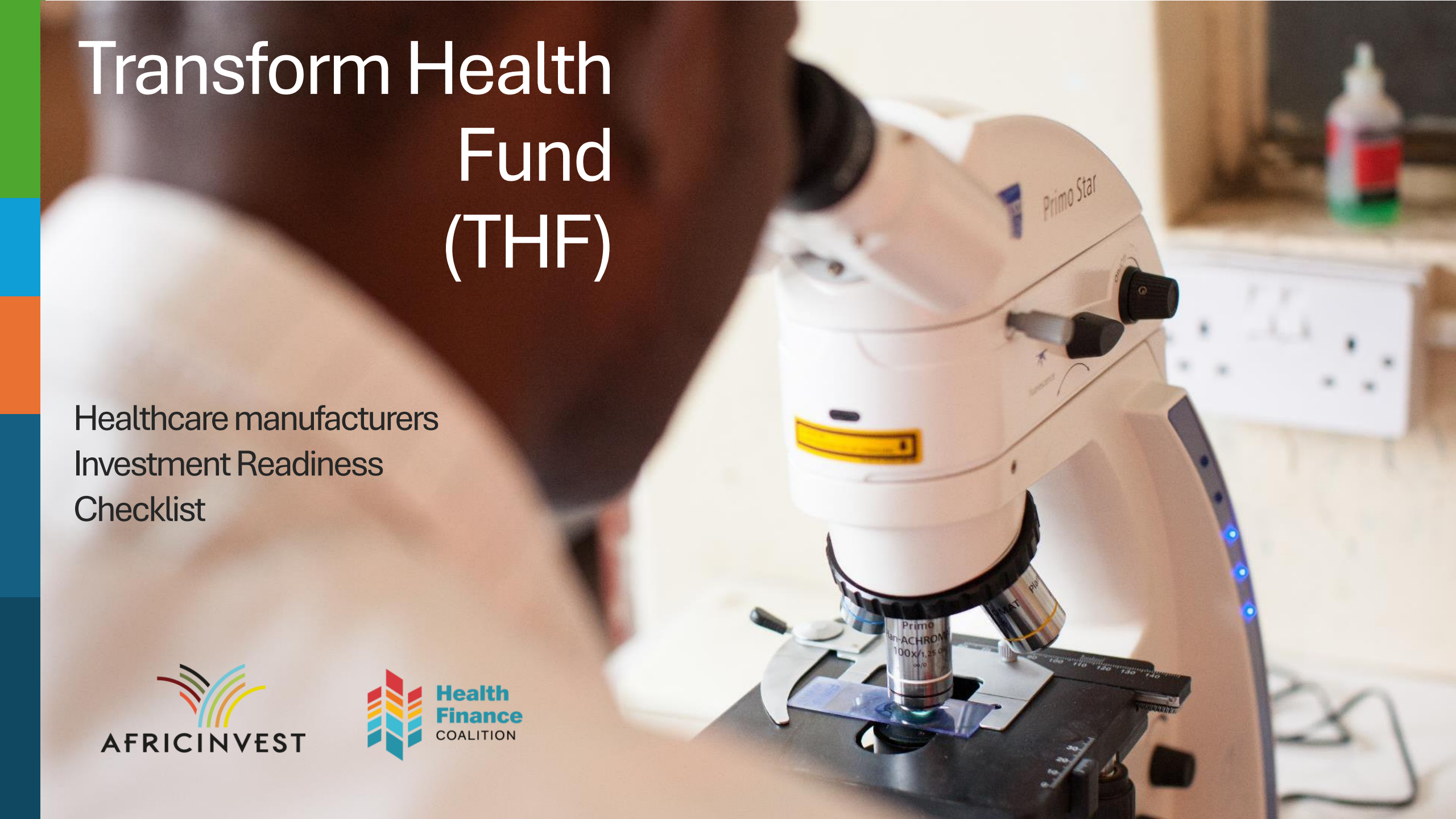
Transform Health Fund (THF)

Healthcare manufacturers Investment Readiness Checklist



AFRICINVEST

Health Finance COALITION

What are we looking to invest in?

THF's investment approach

- Established businesses with at least 3 years of operating track record
  - Greenfields / startups only with a guarantee from a parent company with proven cash flow generation capacity

- Market leader in any given segment
  - Significant market share, established customer and distributor relationships

- Where have we invested before?
  - Nutrition (ready to use therapeutic foods)
  - Oxygen
  - Pharmaceuticals including essential medicines and branded generics
  - IV liquids

What do we look for in an investment-ready healthcare manufacturer?

Financial criteria

- Strong margins
  - Strong gross margins and profitable at the EBITDA
  - Optimized product mix - lower value higher volume products (e.g. essential medicines) balanced with smaller volume higher value products (e.g. branded generics)
  - Optimized supply chain - strong pricing and payment terms negotiated with key suppliers, balance of imported raw materials and local where possible
  - Scale - appropriate level of opex vs scale of the business
    - *better to ramp up incrementally than have a huge opex base to cover to breakeven*
- Cash flows
  - A strong P&L is not enough – need to see cash
  - Strong track record of collections from customers – ideally customers who pay within 90 days
  - Tight management of inventory – raw materials and finished goods
- Indebtedness
  - As a rule of thumb – not more than 3-4x debt/EBITDA including our loan (can vary by geography and company)
  - Not more than 1-2x debt/equity
  - At least 2x EBITDA/financial costs – short term facilities can really drive up financing costs
  - Debt service coverage – at least 1.2x operating cash flows/debt service (depends on the company)
    - *we may also look at a debt service reserve account if cash flows have been thin or volatile historically*
  - If you are already heavily indebted you may need to fund expansion with equity or retire existing debt before taking on new obligations that could strain cash flows
- Currency diversification
  - Exports to multiple countries
  - USD revenues
- Have an ERP / financial management systems in place so we can know what the numbers are

What do we look for in an investment-ready healthcare manufacturer?

Strategic business model & operational

Customer Diversification
Balance between private sector, public sector and NGO clients.
- Heavy reliance on any one can be risky despite attractive volumes, USD revenue, cash payments, etc.;

Technology Transfers
- Accelerates revenue generation when adding a product and builds technical capacity;
- Leverages capex in the short–medium term, while developing own products is a longer-term, higher-margin strategy.

Regulatory Approvals
Lead times are often longer than expected → leave a buffer and ensure the business is sustainable in the meantime from other revenue streams

Facility Utilization & Uptime
- If < 50% utilization we would rather see you leverage existing capacity before investing in new;
- Consider service, maintenance, and spare parts when selecting equipment.

Quality & Certifications
- Preference for GMP-certified facilities;
- WHO-PQ opens new markets but is costly, takes time and may drive up opex making other products uncompetitive;
  - *Make sure the business is sustainable without PQ*
- Technical assistance funding can support certification initiatives.

What makes a strong transaction in the healthcare manufacturing space?

1 Validate offtake demand before investing in additional capacity.

Have strong relationships with buyers. Why will they buy from you vs alternatives?

2 Different structures for different uses

CAPEX – Typically financed through longer-term facilities, with a preference for funding expansions at existing sites vs new sites

Working Capital – Typically financed through shorter-term facilities, covering a portion of raw material needs (e.g., 70-80%) with the remainder to come from internally generated cash flows.

Contract Financing – When a strong off-taker is willing to enter a tripartite agreement, this could be an effective way to support companies with smaller EBITDA relative to their debt needs.

3 Investors can collaborate

- Co-investments with debt and equity investors and/or donors. No need to replicate recent DD.
- Lenders can share collateral. If collateral is pledged, consider a share pledge, directors' guarantee, second charge

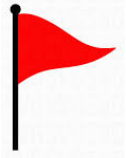
5 Pricing risk

Senior secured debt – Lowest cost: Ideally companies with established cash flows, available collateral, a proven track record of debt servicing, strong margins, and stable offtake demand (particularly in USD). Typically applied to market leaders operating in stable macroeconomic environments.

Mezzanine – Higher costs: Typically for companies with higher existing indebtedness, a second charge on collateral, a shorter track record of profitability or positive cash flows, unproven demand (e.g., new product, market, or customer), and greater exposure to macroeconomic risks.

3 red flags that kill a deal

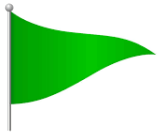
Overly reliant on one type of customer



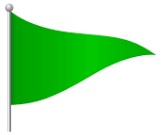
Cash constraints – negative operating cash flow, overindebtedness

Unsustainable model while awaiting regulatory approvals / WHO PQ

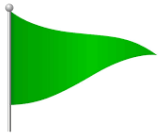
What can unlock funding in the next 90 days?



Significant, profitable contract with a reputable offtaker for a product that the company has a track record of producing (including regulatory approvals and technical capabilities)

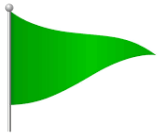


Information is readily available, commitment to quarterly reporting and annual audits, Board observer seat and/or Independent Director seat available



Key factors driving returns in African pharma 2025-27:

- Diversified product base – essential medicines, branded generics, WHO PQ'd products
- Diversified customer base – private sector, public sector, NGO sector
- Diversified markets – local + regional exports, USD contracts



What proof points would the IC need to approve a deal?

- Solid historical financials – profitability, cash flows, debt service capacity
- Clear use of funds and rationale – working capital and capex requirements considered, proven offtake demand and ability to produce intended products (licensing, technical)

Thank you

Visit

www.africinvest.com

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