

Privatisation of Malaysia's Apex Healthcare a strategic fit for Quadria Capital

It is the largest such transaction in the sector in Malaysia's history



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[SINGAPORE] Healthcare-focused private equity (PE) player Quadria Capital has completed the privatisation of Malaysia's Apex Healthcare for about US\$470 million, seeking to unlock improvements.

The transaction is not only the largest in healthcare privatisation in Malaysia's history, but is also the largest in South-east Asia in the past five years.

Taking Apex private is a strategic fit for Quadria Capital Fund III, said Ewan Davis, partner and head of South-east Asia at the PE firm. The fund is looking to invest in leading businesses where private ownership can unlock operational improvements, scale and impact.

Apex, being a pharmaceutical company, is in an industry that is very compelling. The sector is forecast to grow at 8 per cent annually from a US\$30 billion market in South-east Asia. There are also strong policy tailwinds to support the growth, as governments strive to localise technology and manufacturing in the region.

“The other tailwind is that there is a strong shift towards generic medicines – (which are) equally effective, but cheaper – in order to

manage healthcare inflation, which is a concern,” Davis told *The Business Times*.

At the heart of these overlapping factors sits Apex, and the company is well-positioned to capture the regional market. The pharma sector is one that requires significant investment and long gestation periods, which is at odds with the quarterly earnings cycle of a listed company, he noted.

Healthcare is viewed as a Goldilocks sector, having both defensive and growth qualities and being resilient. There is plenty of dry powder in the PE space to make this sector very competitive, and Quadria is relying on its focus and track record in healthcare to differentiate itself from the competition.

It is not alone in this transaction, as it leads a consortium that also includes 65 Equity Partners, Silk Road Fund and Malaysia's Employees Provident Fund.

Francis Woo, partner and chief corporate officer at 65 Equity Partners, said: “This partnership through our Local Enterprise Fund aligns with our mandate to support high-quality, high-growth businesses with regional or global aspirations.”

As finding the right partner is tricky, Quadria proactively encourages business owners and shareholders to take their time to vet their partners. Investment partnerships are an even bigger deal than marriages, joked Davis, as changing one's mind after investing in a company can be a lot harder.

“Frankly we'd be a little bit worried if the partners we were going to be investing with weren't as discerning as us; it'll be a bit of a cause for concern,” he said.

Reflection of growth

Healthcare has been one of the few sectors to see transactions happen, with another recent deal being IHH's acquisition of Island Hospital in Penang, Malaysia, for RM3.9 billion (S\$1.3 billion). The deals in recent years are a reflection of the growth that's been under way over the last decade, said Davis.

Now, healthcare businesses are reaching institutional scale, where investment sizes are ranging from the hundreds of millions to billions of dollars for larger platforms. This signals that the level of activity in larger healthcare fields will be increasing over the next decade, he pointed out.

But South-east Asia remains a fragmented market, in which both domestic players and multinational corporations remain active.

"There is still a lot of underlying growth in the market and also a huge amount of fragmentation which can be consolidated in time."

More capital will thus flow to local businesses to turn them into domestic champions, and to invest in local manufacturing technology. Capital will also be used to help drive consolidation of the market in South-east Asia.

"There are irreversible mega trends feeding the growth, principally the widening supply-and-demand gap for healthcare in the region. There's a US\$60 billion annual underspend in emerging Asia that is compounding," he added.

This provides an opportunity for private capital to come in to increase the capacity for healthcare in South-east Asia. Coupled with a growing middle class that is more educated and aware of lifestyle diseases such as diabetes and hypertension, the sector is primed for growth.

The investment in healthcare can also be seen as a way to support healthier populations, more productive workforces and stronger domestic industries. For Quadria, it is this combination of social impact and economic value that makes the sector attractive.

“Healthcare really sits at the intersection of economic growth and well-being,” said Davis.

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