

## Hospitals of tomorrow

LEK Consulting partners Marc Boehmke, Guillaume Duparc and Ben Fardoh discuss digitalisation in hospitals

## Meaningful purpose

Spine Healthcare CEO Justin Ash tells HM why healthcare companies need purpose

## Growth in mind

New LaingBuisson research on the prospects for mental health hospitals

OCTOBER 2019 | Volume 23 | Issue 8

# Healthcare Markets

*Independent. Intelligent. Insightful.*

**In focus**

## Inside story

Whether it's acute care or mental health, it's a challenging market for hospital providers but green shoots are emerging

**LaingBuisson**  
Healthcare Intelligence



**Dr Michelle Tempest**, partner at Candesic and **Barbara Pusca**, principal at AlphaSkill, discuss how the complex digital world holds the potential of sustained returns for investors

# Investing in digital healthcare

**L**et's be honest, everyone has a home 'junk drawer' – that place where uncategoryed 'stuff' from around the house gets stored.

Filled with items such as pens, spare lightbulbs, old batteries – the list is almost endless. Comedian Michael McIntyre once delivered a hilarious sketch on this very topic. He proudly described how his own 'junk drawer' is crammed full of 'foreign currency not even in circulation' alongside 'keys for houses he no longer lives in' and all the other things he just doesn't want to throw away.

In 2017, academics even published a research paper into what your 'junk drawer' says about you. Participants were scored on their ability to take everything out of their 'junk drawer' and arrange the items before replacing anything back. Researchers found that most people returned items in some sort of order - they did not just jumble things back together and change was sustained over time.

The 'junk drawer' provides a good analogy for the way people collect data.

Information about companies is often found in a scattered search with random items of interest downloaded or tagged.

However, just like the 'junk drawer' the data build up is often not readily organised, collated, analysed nor recalled.

Psychologist Daniel Levitin, author of *The Organized Mind*, describes how the online world can cause the mind to be 'assaulted with facts, pseudo facts, jibber-jabber, and rumour, all posing as information.'

Levitin continues, 'Trying to figure out what you need to know and what needs to be ignored can be exhausting.' As a result, AlphaSkill and Candesic jointly reviewed a broad spectrum of digital companies in the health and social care space (over 500) and set about organising them using a root and branch method. It was a similar categorisation exercise to the one used by Charles Darwin to describe evolution in his *The*

*Origin of Species* in 1859 – and it's interesting to note the high churn rate or 'natural selection' of companies in the nascent digital health space.

## Complex market

Careful due diligence is required because of the complex nature of the care sector. Historically, digital progress has significantly lagged behind other industries - mainly due to the plurality of stakeholders and because change impacts front line life and death situations.

There is also widespread concern about data and hype. In the former, there are privacy issues around the digitisation of records and processes that touch sensitive personal information, while the latter can mean enthusiasm for rapid digital disruption is sometimes placed above medical evidence or deep sector knowledge.

**FIGURE ONE**  
**QUOTES FROM THE 500+ COMPANIES ANALYSED**



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**Data**

Just last month, Charing Cross Gender Identity Clinic sent out an email invite about an art competition. However, due to a human hiccup, around 2,000 identifiable names and email addresses were cc'd in the invite. The clinic tried to recall the message but data was already public. The Tavistock and Portman NHS Foundation Trust, which is responsible for the clinic, reported the breach to the Information Commissioner's Office and logged it as a serious incident.

In 2016, a different NHS Trust was fined £180,000 after a sexual health centre mistakenly leaked the details of nearly 800 patients who had attended HIV clinics. That incident took place before the introduction of the General Data Protection Regulation (GDPR), which regulates organisations – fines can be up to 4% of their annual turnover for data breaches.

**Hype**

The medical world is cautious for a reason. The documentary *The Inventor: Out for Blood in Silicon Valley* chronicles how blood-testing start-up Theranos lost \$900m of investor capital. The film examines how founder Elizabeth Holmes deceived business leaders around the world into thinking she could revolutionise the US healthcare industry. It starkly highlights the dangers for patients

if start-ups follow Silicon Valley's 'fake it till you make it' mentality.

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Another example comes from this month's announcement that gut-health testing start-up uBiome has been raided by the FBI. Founded in 2012, it raised over \$100m and was valued at \$300m by Silicon Valley VC's (8YC and Y Combinator) at its most recent round of financing last September, according to Pitchbook.

But the test lacked specificity, so the data it had been analysing was unreliable, meaningless and worthless. Many health experts are concerned about so-called 'doc-in-a-box' practices, where medical tests are approved by customers filling out a check-list survey. Critics claim that some patients are likely to get misdiagnosed and companies cut corners with regulations.

However, no investment comes without risk and there remains a hunger to acquire digital platform assets with capable management teams that are ambitious to grow.

This article's accompanying figures offer quotes from people within the sector explaining why now is the time to seize the digital opportunity.

**Buy and build**

There have already been rich pickings for venture capitalists and, as digital markets mature, private equity is taking an interest.

Global PE funds are especially interested in buying the right platform asset to grow. The key is to astutely locate 'middle tier' companies which have the potential for rapid growth through M&A and international expansion. Remaining vigilant to the threats from small disruptive start-ups in the hyper-fragmented segment and also from the deep-pocketed larger corporates with global pre-existing

**FIGURE TWO**  
**QUOTES FROM THE 500+ COMPANIES ANALYSED**

*"European HCIT still has a massive opportunity to avoid the US monolith trap and deploy multicomponent data liquidity architectures, enabling smart workflow to drive outcomes across care settings. Bending the HC cost curve into the heart of communities and people."*



**PHILLIPE HOUSSIAU**  
 Operating Partner at HgCapital, Chair at Rhapsody Health. Former President Agfa Healthcare



*"HealthTech is undergoing a major transformation, moving to embrace AI, Big Data, Digital Communications, Predictive Health and Precision Medicine. However, widespread adoption will require robust infrastructure, data quality/sharing and interoperability if we are to deliver benefits to patients. This is going to be key to supporting the deployment of HealthTech at scale."*



**KEVIN MCDONNELL**  
 CEO, Datalla Group, former Managing Director at EMIS Care



*"Cloud technology, deep-learning AI and the long-awaited homogenizing of patient IDs across multiple platforms and healthcare professional groups will empower the recalibration of decades of publication bias and the enriched real-world data will enable tailored care pathways that best suits each patient."*



**GRACE LOMAX**  
 Director & Founder, Patient Connect



*"Digitally-led vertically integrated service providers will become the norm across primary care and chronic disease management (including mental health, type 2 diabetes, COPD and cardiac disease) due to the ability to better stratify the right treatment to the right patient at the right time, and through economies of scale in population health management."*



**MARK JENKINS**  
 Managing Director, Oviva



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relationships. Hence, a careful mapping exercise has to be undertaken to gain visibility across the full spectrum of horizontal and vertical players and to deeply understand where the next blockbuster opportunity lies.

Once the right target asset has been acquired, next comes the growth. However, watch out – more does not always equal better. The acquisition plan must fit into the strategic logic that ensures the whole is worth more than the sum of the parts. This raises two questions: first, will potential add-ons be meaningfully accretive? Second, will add-ons have lower valuations than the platform company and facilitate a true multiple-arbitrage opportunity?

Buy-and-build strategies that perform well typically rely on a well-trodden success path:

- **Pipeline** a well worked up strong pipeline of assets. These are often identified during the initial perceptual mapping market analysis, allowing time for relationships to develop.
- **Product** a clear road map for R&D, product improvements, and technology initiatives.
- **People** staffing expansion must include the capacity for rapid increases in top quality recruitment.

- **Profitable** PE firms' leverage their expertise in the pursuit of higher margins and continuous improvements to help create better outcomes in healthcare.

**THERE HAVE ALREADY BEEN RICH PICKINGS FOR VENTURE CAPITALISTS**

In our experience, the digital buy and build strategies have short deadlines. The secret of expansion success is understanding how to separate 'the wheat from the chaff', 'fact from fiction' and avoid getting sucked into online marketing spin.

Despite digital companies having the opportunity to be open and transparent about their service offerings and technical value-add, the reality is that businesses can be very different to what is published on the web. Understanding

which companies are truly synergistic before any acquisitions and subsequent technical integration is vital.

Examples of successful buy and build strategies in Europe include Dedalus, a global clinical health software conglomerate that made many acquisitions to play in public and private healthcare across primary and secondary care. Initially starting out in Italy it expanded internationally benefiting from the synergies and joint R&D investment provided by PE investors. Another example is RL Datix in the patient safety space. Starting out as a local UK player, it has now grown into a global platform after acquiring add-ons in markets such as Saudi, South Africa and the US, expanding into a workflow, risk and compliance player.

**International expansion**

Investors often employ a strategy to help their investee companies grow internationally. They do this by employing everything from the very act of putting it on the board agenda to opening doors and helping form partnerships, often with other investee companies. Internationalisation can be a challenge due to different healthcare systems or regulations. Some great digital products do well selling in their home country but they lack the insight into which two or three

**FIGURE THREE**  
**QUOTES FROM THE 500+ COMPANIES ANALYSED**

*“Big movers like Apple, Samsung, Google etc. are going to penetrate the B2C2B market via sourcing the leads to providers. They will try to deliver numerous value-added services for the patients via analysing interoperable health data from providers. We are going to see the rise of AI-powered assistants for doctors and all generic health processes. Overall, we are going to see more of well-orchestrated flows of data among market players.”*



**VLADIMIR KOVALSKI**  
 CEO, Medesk



*“Patients and Carers want a choice of specialist solutions that suit individual health needs, conditions and personal circumstances. They demand solutions that interact with wellness and illness monitoring devices at home. This means that innovators and developers are searching for investors, know the market and come equipped with a portfolio of solutions and know how to drive the business and their innovations, components and solutions forward.”*



**PAUL RICHARDS**  
 Former VP & Managing Director, Allscripts Europe  
 Former VP & Managing Director, Health and Social Care, McKesson



*“The digital health space has no shortage of apps and software that really just features or point solution products. The challenge for investors and management alike will be how to bring these together into useable, integrated software AND Service platforms that solve broad and large enough problems that prospects can actually buy and adopt. At the moment, point solution fatigue and technology overload burnout is what is on the minds of those who buy healthcare IT.”*



**STEVE LAFAR**  
 Former President, CEO Sg2 and SVP Corporate Development, Allscripts



*“As this exciting and disruptive sector continues to mature, we are seeing increasing levels of private and public market interest, in Europe, the US and beyond, to invest in, or acquire, digital health assets. Relevant, high quality data is one of a number of critical success factors that can catalyse interest and ultimately drive higher valuations.”*



**BEN MADDISON**  
 Vice President, Stifel



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international markets they should spend their limited funds and time to expand to next. Diligence can play a massive role in helping companies think through how to best grow and where management should best spend its money. Finding the right markets and developing a ‘go to market’ strategy to enter involves focusing the company on:

- **Size** large markets are always the starting point, but care should be taken to understand to what degree they are addressable and ready for the company’s products/ services.
- **Competition** even first to market companies end up with competition. Focus is required to define how the company’s product/service is differentiated or could potentially differentiate itself in the market. Understanding customers and nuances around real like-for-like competition is vital.
- **Ease of entry** regulatory restrictions, penetrating ‘closed shops’, access to distribution or supply chains, and other roadblocks can kill even a well-developed market entry strategy. Finding the right in-country partner can often make or break a strategy. Gauging interest before acquisition can be a

make or break call for investors.

- **Reimbursement** if the business relies on government funding, it’s key to understand if payors are likely to support your product/ service, particularly if it is novel and requires ‘outside the box’ thinking. For example, some gene therapy companies are finding it a challenge to get reimbursed for a single \$250k treatment to cure a chronic disease, even after proving it is cheaper than paying \$500k over the patient’s lifetime for chronic treatment.

**Conclusion**

Working collaboratively with a multi-disciplinary approach is paramount to win in this sector. There is little point in entering the ‘care market’ without a deep-seated passion to improve the health of individuals by leveraging technology.

The time is right to invest in the digital healthcare space and the winners will make financial returns alongside rocket boosting health and social care to become more transparent - data democracy will allow people to own their own care.



**Dr Michelle Tempest,**  
 partner, Candesic



**Barbara Pusca,**  
 principal, AlphaSkill