Robotic surgery
The latest trends in joint replacement

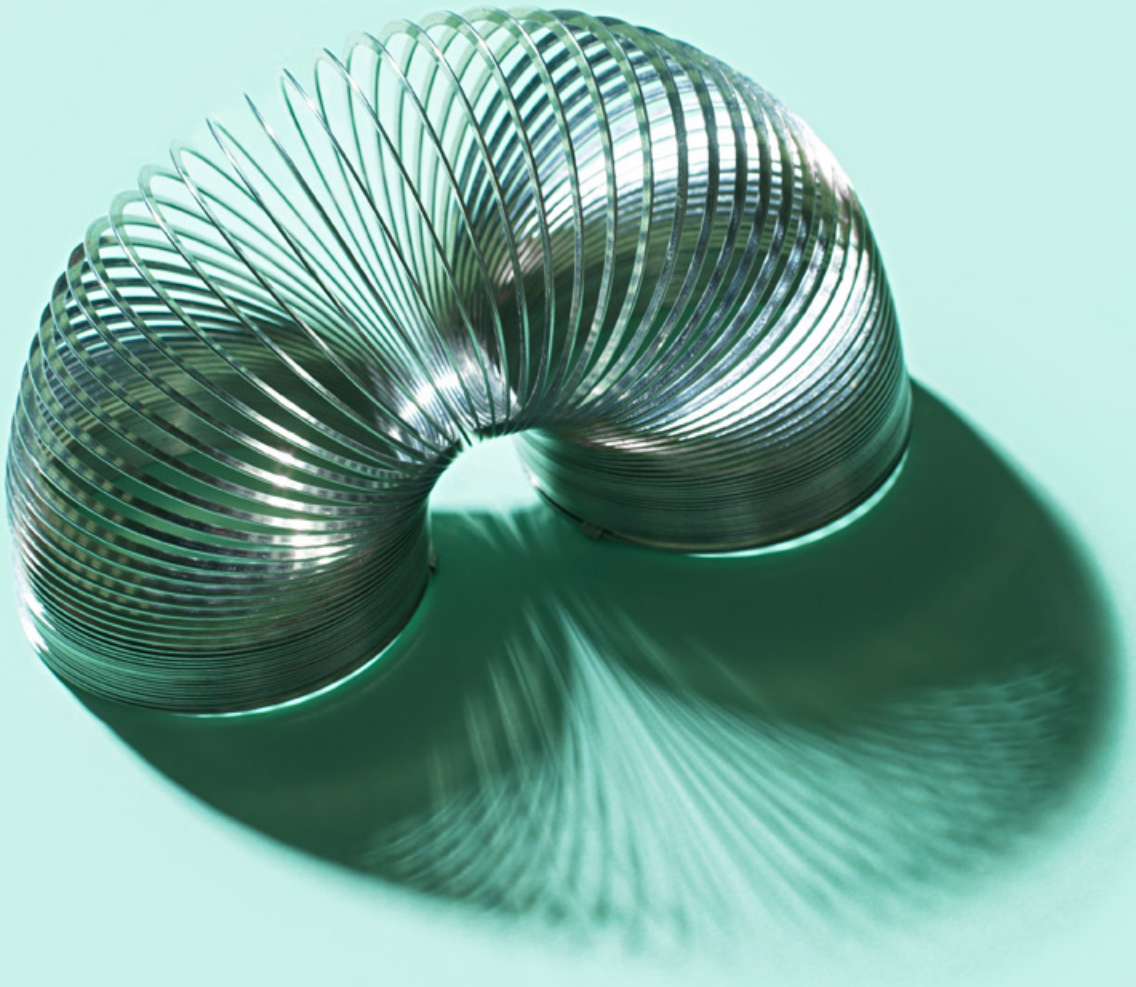
The eyes have it
In conversation with Dr Sheraz Daya

PE in healthcare
An evolving investment model

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A new book on the evolving role of private equity in healthcare has just been released. *Private Equity in Healthcare and Life Sciences: Strategies, Cases, and Industry Insights* is written by Candesic senior partner and visiting lecturer **Marc Kitten** and **Professor Gilles Chemla** from Imperial

Rethinking private equity's **role in** healthcare

HM caught up with Kitten shortly after the book's release last month to ask him about how private equity investors create value in healthcare and life sciences, how the investment model is evolving, and the role of private equity in general.

HM **Private equity is often in the firing line. Many people are critical of allowing any profits to be made in healthcare. Should PE have any role here?**
Marc Kitten (MK) The bottom line is, I'm not sure it is possible to have a good health system where there is no profit.

We need better outcomes. Outcomes need funding. The problem is economic. There will never be enough resources to save all lives, whatever we do. The real question is how we should view private equity when it also plays a social role. If the value created by private equity is as social as it is financial, and if this is distributed within society, I think there are clear benefits.

And that social value goes beyond patient outcomes and access. It can also include things like the wellbeing of medical staff and the resilience of the health system itself.

It is understandable that doctors might resent that money will go to other stakeholders, especially shareholders. But if there are real benefits to patients notwithstanding, many will say that is a price that should be paid.

But you do talk about the dark side of private equity in the book?
MK Yes. We have to accept not every business strikes the right balance. And the system isn't perfect. There is no central regulation to remind a new private equity investor how things should be done from an ethical perspective. But in my experience private equity works – even though it is looking for financial value creation.

How attractive is the healthcare market at the moment?
MK Healthcare is unique. You deal with life and death, with very long-term investments, with ethical questions. You deal with a bigger cohort of stakeholders because you have the financiers, the regulators, the people who provide the services, you have the doctors and medical staff, and not least you have the patients. That's a lot of constituents - but also much more interesting.

All of that comes with a price. It is more complex. It requires specialised expertise. Private investors who go into healthcare without this have met with a lot of failure.

It's far less likely to happen to a specialist investor, and for them the market is more defensible, more predictable to an extent and more sustainable than many. So, it is very attractive to well informed - and well advised - segments of private equity. But that means that it's also more expensive. And I know many an investor who will say: 'I'm not touching healthcare or life sciences because it's just too expensive.' But what they are really saying is that they don't have the level of sophistication that will allow them to assess how expensive it is, really, and weigh that against the benefits.

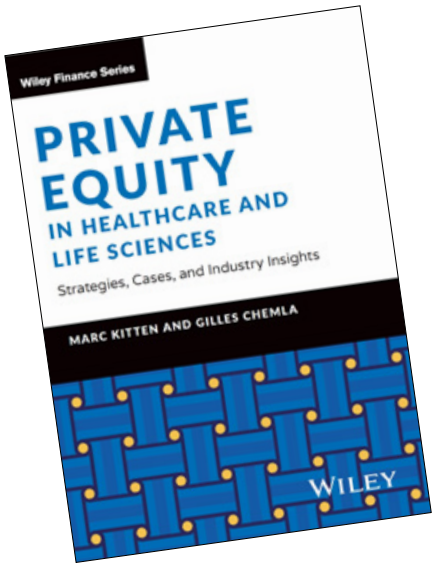
Changing tack, European healthcare assets have historically been undervalued compared to the US. How are things today?
MK Historically, you're right. It's easier and quicker to do business in North America than across the European continent. Europe has differing regulations - it's very regulated and has different cultures. It takes more time and money, and effort, and there is a greater risk of failure on average than in the US. But that is changing, and Europe has caught up a bit in the last couple of years.

And what about opportunities to take private – look at what is happening with the £1bn Spire deal at the moment where I know Candesic did investor due diligence?
MK Spire illustrates the attractive growth opportunities in a highly regulated sector, supported by an ageing population and the continued expansion of the healthcare ecosystem. Europe has more attractive options here compared to the US – not least because, and it happened quickly, a lot of American companies have already been taken private. There are simply more candidates in Europe.

You've advised on a lot of transactions. What distinguishes the best healthcare private equity firms?
MK I'm particularly impressed by specialist healthcare private equity firms of all sizes. They understand the sector deeply, which means discussions can move quickly to the key issues and challenges within an investment. They don't always get everything right, but their depth of understanding makes them very effective partners.

Exploring the private equity playbook further, what is the H.E.A.L. framework you created and refer to in your book, and how does it relate to value creation in healthcare private equity?
MK This new framework looks at value creation across four dimensions. Financial value is one, and an essential part of the private equity model, but it is not the whole picture.

The other dimensions capture the broader social value created in healthcare, including quality of outcomes, access and sustainability. The aim is to provide a more rounded view of value creation, while recognising the important relationship between private investment and wider healthcare system objectives.





Talking about value, let's turn to AI. Where is it actually creating value at the moment?

MK The most tangible value is in drug discovery and development. AI could potentially shorten the development cycle from 11 or 12 years to around seven, which would bring effective treatments to patients sooner and save lives.

It should also improve the economics of drug development by helping companies identify earlier which candidates are less likely to succeed, allowing capital to be redirected towards those with a higher probability of success. Combined with advances in quantum computing, this could significantly improve both the speed and success rate of drug development.

A second major opportunity is freeing medical staff from repetitive, administrative tasks. There are millions of initiatives underway, and while only some will succeed, the potential to give clinicians more time to focus on patients is significant.

You mention pharma there. Is that a particularly attractive market at the moment?

MK Yes, particularly around the outsourcing of pharma services. Private equity has an important role to play across areas such as drug discovery, clinical research, manufacturing, distribution, medical affairs and pharmacovigilance. Pharma companies increasingly see these as non-core activities, creating opportunities for specialist providers to deliver them more efficiently.

The first major wave of outsourcing in the West is largely behind us, but there will be a continuing cycle of new opportunities. As drugs lose patent protection, for example, manufacturing capacity becomes underutilised and can be more efficiently operated by an independent provider serving multiple customers. We will see a similar renewal in research, as university-based discoveries are commercialised and developed with investor backing.

Based on your experience, what is the most important lesson investors should learn from healthcare transactions?

MK The value of people. People are critical to value creation in healthcare. Investors need the right governance from the outset but also need to recognise that it may have to evolve as the business grows and becomes more complex.

Culture is equally important, particularly in roll-ups. Centralising administration can create significant efficiencies, but if clinicians feel the model no longer works for them, they can simply leave and take their patients with them. Retaining key clinical talent therefore needs to be treated as a core investment priority – not an HR issue.

Who is the book aimed at, and what can people expect?

MK There are two audiences. Business students and practitioners who study or work in private equity in general, and especially those who have an interest in healthcare for corporate finance. And middle to top managers in the healthcare ecosystem.

We bring together research, data, case studies and practical frameworks covering the private equity investment cycle, from sourcing and due diligence through valuation, value creation and exit and cover the private equity investment cycle. It's a good read!

***Private Equity in Healthcare and Life Sciences: Strategies, Cases, and Industry Insights* is published by Wiley, and available now.**