KEYNOTE INTERVIEW

Driving value in healthcare


Private equity firms can tap into shifting industry dynamics to generate value across their healthcare portfolios, say Deloitte Consulting's Teresa Leste and Sagar Patel

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Q What growth levers are coming to the fore in life sciences and healthcare, and how are GPs helping portfolio companies to build value?

Sagar Patel: The market is changing rapidly. There are various factors at play, including changing regulations, shifting reimbursement models, new technologies, evolving patient expectations and talent shortages in the clinical workforce. We also see GPs looking at business model shifts to create more value.

From a regulatory standpoint, as the landscape changes, compliance becomes more important and more complex. GPs may pull in people with regulatory expertise to connect with operational and technology experts and help companies navigate these challenges, or they may look at regulatory change as an opportunity for new growth areas.

We also see reimbursement models moving from a fee-for-service model to more value-based arrangements. GPs can help companies transition to those models by developing capabilities to participate in risk-sharing arrangements, for example, or use actuarial, clinical and regulatory expertise to capitalise on new payment models.

Meanwhile, during covid we saw a shift to a more patient-centric approach. That remains an important lever today, including understanding the needs and preferences of patients, finding ways to enhance their experience and increase engagement.

Teresa Leste: The adoption of digital technologies is also driving significant value, from standardisation to automation, through key capabilities such as enterprise resource planning (ERP), electronic health records and practice management. Artificial intelligence and machine learning are digital tools to drive value through reduced errors, increased speed, and increased insight-capturing across the value chain, driving savings and greater productivity. We also see medtech firms leveraging data on smart connected devices to introduce new solutions and deliver valuable customer insights, which creates greater stickiness with customers. GPs can support digital innovation and connect companies with sector-specific technology partners.

GPs should also embrace platform-centric business models across healthtech and medtech to innovate the commercial model. As a platform-centric business, a portfolio company doesn't need to own every part of the value chain, and we see that approach increasingly being adopted across the sector.

Q How can digital tools support value creation?

SP: We see several ways in which digital is enabling and accelerating value. First, digital technologies can enable and enhance operational efficiency, particularly with ERP or practice management systems. That can help standardise practices, provide access to data to improve decision making or increase opportunities for self-service. Second, digital can enhance the customer experience to drive growth, with the personalisation of experiences, AI-powered tools and the use of digital platforms to engage customers and patients.

TL: Other opportunities include tools that increase resilience and enterprise sustainability, a space that is opening given cybersecurity concerns. GPs can use data analytics to identify early and mitigate business risk or to manage regulatory compliance, thereby avoiding costly mistakes that can erode value.

It is important for GPs to have a clear digital value-creation game plan around how tools will enable value in each portfolio company. That should include a clear timeline for digital adoption and a plan for the management and integration of those tools across the organisation.

Q What is driving appetite for contract research, life sciences development and manufacturing businesses, and how can PE firms maximise value?

TL: There is growing demand for outsourcing services in both pharma and medtech due to a focus on cost effectiveness, and increasing complexity of drug development, combined with overall market growth. Contract research organisations and contract development and manufacturing organisations all have highly scalable models that are attractive to PE. They can handle multiple projects and customers at the same time, providing services across the clinical research, development and manufacturing value chains.

In general, that market has been highly fragmented, which is contributing to the rise in demand for targets. GPs can create operational improvements by leveraging technology and talent to improve productivity and efficiency.

Q Multi-site healthcare services also continue to be a focus for PE. How can GPs help optimise portfolio companies in this space?

SP: We have seen multi-site healthcare service business models under a bit of financial stress, whether due to reimbursement pressures, wage inflation, or staff shortages and turnover issues. PE firms continue to look at M&A opportunities, but a growing emphasis is on organic growth, operational efficiency and improving financial management to address those headwinds.

The role of technology is key, and we see companies using digital solutions to improve patient engagement, with a focus on acquiring new patients or increasing scheduling of follow-up visits.

We also see companies looking at clinical transformation initiatives to improve and optimise the use of practice management systems, to reduce the burden on physicians and increase the productivity of patient-facing teams. A lot of companies continue to invest in simplifying, standardising and re-engineering their systems to enable platform growth. A final area of focus is around revenue cycle management, leveraging analytics to minimise billing errors and accelerate cashflow.

Generally, GPs are using a combination of depth of platform expertise, industry insights and strong change management to get value out of complex initiatives they are executing against.

Q Women's health has been flagged as an untapped opportunity for investment. How should PE firms look to tap into this segment?

TL: Women's health has historically been underfunded and under-researched, creating interesting opportunities today. Key drivers are increasing funding, innovation, consumer demand and consumer action.

We think about women's health opportunities coming from the potential for breakthroughs due to historic gaps in research and funding, and the synergies with technological innovation around femtech as an enabler of healthtech. The sector also aligns with the shift towards more patient-focused care models and the rise of digital health solutions.

In the US, women control an estimated \$5 trillion-\$15 trillion of the US mass consumer market. Growing consumer demand, with women as primary healthcare decision-makers, and strong female entrepreneurship in this space are also contributing to growth. The trust and stickiness that can be created with customers who identify with female founders who share the same lived experience is important.

PE firms are pursuing various strategies in women's health, often funding companies that are creating new technologies and services, where investment has been historically concentrated in reproductive health and oncology, and expanding into areas such as immunology, pain management and menopause. There is a lot of white space, and we think the sector represents an attractive investment opportunity. ■

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