

## Q&A

# Healthcare investment landscape

*Sam Leighton-Smith, the director for board, leadership and private equity practices at Compass, discusses today's healthcare investment landscape and reveals how a specialist recruiter can add value.*

### **How has Covid-19 changed the healthcare sector?**

Covid-19 did not fundamentally change the healthcare sector. However, it did accelerate trends and initiatives that had been forming prior to the pandemic.

We saw the private equity community reverse the view that having a one-customer (ie. the state pay) business was less of a threat and leads to dependable revenue, immune to consumer trends and pandemic-related swings. Some investors are capitalising on the inefficiencies of our national healthcare system and backing businesses operating in outsourced NHS areas, including in extremely competitive markets such as optometry, endoscopy, and mobility. Other investors are entering diagnostics, in particular, those that can produce results in for example Australia.

### **How important a trend is the rise of telemedicine?**

Any tool that gives customers quick access to health professionals is important. As long as quality is maintained, expect the trend to

continue. But do not forget older generations who may not be tech-savvy – there is a need for education here that must not be ignored.

### **What do you see as the best current investment opportunities in healthcare at the moment?**

Current hot market spaces include NHS outsourcing, tech-enabled businesses that circumvent people's challenges, and businesses that offer provisions around a virtual ward concept.

### **Who do you think are the most interesting investors in healthcare?**

Inflexion and CapVest work under the radar, picking up high-quality, large-scale acquisitions. CVC is a prolific investor across the globe, with a high proportion of its portfolio in Europe.

### **What do you think have been some of the most successful healthcare investments of recent years?**

One domestic success story is The Binding Site Group, which was sold by Nordic Capital and Five Arrows to Thermo Fisher Scientific in a £2.25bn deal.

BC Partners' sale of Elysium Healthcare to Ramsay Health Care was also a huge success. This carve-out from the Priory business was supported by the Competition and Markets Authority in the interests of creating a competitor in a monopolised market space. The acquisition was shrewd and high-quality, and a regulatory success.

### **Why is board composition important to the success of healthcare investments?**

The board that is assembled post-transaction is critical. Investors ordinarily bring an expectation commercially that requires a level of pace, dynamism and focus on operational quality that typically was not there before. These

commercial priorities plus a laser focus on people, retention and upskilling are the four pillars of success.

### **What recruitment advice do you have for healthcare investors?**

First, you need to reach the end of a search process with two high-quality hireable options. We live in an extreme counter-offer environment, to the extent that capable candidates often only realise their value to their current businesses when they give in their notice. Having two options mitigates this risk.

Second, there are certain pitfalls to be aware of. For example, online interviewing connects candidates and interviewers efficiently, but does not test the candidate's commitment to a position. It is easy to move 10 yards to your computer, but far harder to drive for two hours.

Lastly, IQ, EQ and CQ all need to be rigorously assessed equally at all stages of the process. People are the main commodity and lifeblood of healthcare organisations, so the way in which senior managers lead and communicate with their staff is critical. We use extensive referencing, psychological analysis, and commercial evaluation to ensure that candidates are thoroughly tested on IQ, EQ and CQ, specifically with regard to the job in question.

### **Why should private equity firms use a specialist healthcare recruiter like Compass Executives?**

Our industry knowledge is unparalleled. We are completely immersed in our sector, frequently visiting hundreds of healthcare services, so have a granular understanding of their nuances and intricacies. 70% of our shortlisted candidates are out-of-sector, so matching their capabilities with our industry understanding is probably the

secret sauce that adds real value to our investor partners. We are adept at testing out-of-sector candidates in the right areas and assessing their drivers for potentially moving into healthcare.

Finally, note that we are now 13 years old, so over two full investment cycles our placements have yielded significant returns to our clients' shareholders.

### **What are you doing to promote diversity and inclusion in the recruitment process?**

We have frequent conversations with leaders in the healthcare sector to explore how we can improve diversity and inclusion, and also leverage these to be a competitive asset – healthcare businesses with diverse leadership are 45% more likely to report growth in market share. In today's tight labour market, it is also worth noting that more than one in three early talent or middle management employees have left their current organisation to join a more inclusive one.

Diversity and inclusion efforts must include a focus on personal attributes (including gender, racial/ethnic background, sexual identity, disability, mental health, cognitive characteristics and class) and on bringing in talent from adjacent consumer-facing industries, which also drives diversity of thinking and promotes innovation.

We suggest healthcare investors should encourage their portfolio companies to track progress on diversity and inclusion.

Other important areas to focus on include pay transparency, and career mentoring and sponsorship. Finally, investors should remember that healthcare businesses that are already diverse should be reminded to continue to pay attention to inclusion.

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