

KEYNOTE INTERVIEW

Evolving GP strategies
in a changing world

The pandemic has heightened demand for some healthcare sectors while exposing fragility in others, says 3i director Severin Matten

Q What have been some of the major trends that have shaped healthcare investment opportunities in recent years?

3i has been involved in this industry for a long time and was an early investor in a number of important healthcare trends such as clinical research support services, clinical trial technology and contract manufacturing for medical devices. Today these sectors continue to attract a great deal of attention, underpinned, as they are, by strong secular tailwinds including the increasing spend on health and wellbeing; ageing populations; increased outsourcing across the pharma and medtech supply

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chains; and the growth of minimally invasive procedures and the devices required to perform them. Those trends hold true across North America, Europe and Asia.

Q What impact did the pandemic have on healthcare, as an industry?

We obviously saw some spikes in demand driven by increased awareness of health and safety among consumers and businesses. We believe that

demand for personal protection goods and diagnostics, for example, will remain elevated. It may not stay at 2020 levels, but we do see this as a long-term trend.

The pandemic did test demand for certain medtech products that cater to elective procedures, however. Pre-covid, this demand elasticity was certainly less well understood than it is now. We are currently observing healthcare systems working through the backlog of such elective procedures, which will lead to a normalisation for companies in this space, but an awareness of demand fragility remains.

Finally, I would add that the

pandemic has exposed a dependence on global supply chains for critical health-care products within pharmaceuticals, medtech and diagnostic supplies. In our view, this will lead to growing repatriation or at least significant efforts by companies and regulators to establish dual sourcing strategies.

Q Against this backdrop, where are you focusing your attentions today?

We are convinced that knowing sub-sectors well is key to understanding these trends on a more detailed level, and enables 3i to win deals and add real value to our portfolio companies. As a result, our focus areas include medtech, life sciences tools and diagnostics, and pharmaceutical support services. These areas share some common growth drivers such as increasing quality of care in developed and emerging markets; increased regulatory complexity; growing rates of outsourcing; and digitisation.

Within each of these three areas we focus on specific categories where we have built internal knowledge and a network of industry experts. This approach allows us to identify potentially interesting investment opportunities, evaluate new projects effectively and have eye-to-eye level discussions with founders and managers.

Q How are GPs navigating deal due diligence and investment decision-making in a high-valuation environment?

It isn't only a high valuation environment – it is also a high-speed environment, when you look at the time that it has taken for highly sought-after companies to transact in the past couple of years. This has been fuelled, of course, by increased competition as more GPs have targeted the sector as a reaction to covid.

As a result, 3i aims to hone in early on those deals that we like, which we expect to be sold competitively and which we believe we can win due to our focus areas. Once we have taken



Q How can the private equity industry attract the talent of tomorrow?

This is a question on everyone's mind in the private equity community today, due to the accelerated growth of the asset class and the efforts being made by our traditional recruitment pools – investment banking and consultancy – to retain their talent. Competition is undoubtedly fierce.

We believe there is value in tapping into new talent pools in search of holistic skillsets spanning analytics, commercial judgment and people skills. The personalities we hire also need to be compatible with small- and medium-sized enterprises, meaning they should have a willingness and ability to work shoulder to shoulder with our portfolio companies where required.

We believe these skills can be found in other career paths, such as corporate development, and that they can also come from different educational backgrounds, rather than just business and finance. Very often candidates from these alternative areas have not considered private equity as a career and it is our task to educate them about the benefits that working in our industry can offer.

that decision, we spend considerable time and resources getting to know the company, its market and the competitive environment from the outside in.

In light of high valuations, experiences through covid and current macroeconomic uncertainty, understanding both downside and upside risks to the investment case is also critical. On the one hand, we need to protect ourselves against multiple contractions.

On the other, we want to identify drivers that could lead to a re-rating at the time of 3i's exit through improvements to the business.

Q What role does sustainability play in the healthcare sector?

In a consumer context, we have seen increased demand for natural and organic ingredients over the past few

years, particularly from millennials and Generation Z. Our portfolio company Havea, for example, continuously works on improving the formulations of its biological and organic ranges by following a ‘clean, green and safe’ formulation charter, which has led to tangible results such as improved consumer perception and enhanced brand loyalty.

On the B2B side, meanwhile, our portfolio company ten23 health uses a number of single-use consumable products in its work supporting large pharma companies and smaller biotech players in drug formulation for their products. These consumables are usually made from plastics or silicones for purity reasons. The company has therefore decided to fully offset its plastic usage.

The company has also implemented ‘Fairstainability’ reporting and was recently named the best sustainable pharmaceutical CDMO in Europe, which reflects its considerable efforts to build an organisation focused on patients, people and planet. So, in short, the benefits of sustainability are many, with some driving clear revenue upside, as with Havea, while others are having a more subtle but equally important impact, for example on employee motivation, which is something we have observed at ten23 health.

Q Beyond sustainability, how else is 3i able to support healthcare companies’ development?

We have a collaborative approach where we partner to provide bespoke support across a wide range of areas, including product and market strategy, go-to-market and channel management, strategic acquisitions and operational excellence. The partnership approach can vary in terms of engagement, and typically follows a value-creation plan, which is jointly agreed among the business leaders, board and investors at the beginning of the investment period and which is regularly updated.

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Given the international nature of healthcare, our global network of investment professionals is also important for driving the internationalisation of portfolio companies. A great example is our France-based portfolio company Havea, a provider of natural consumer healthcare products that 3i invested in in 2017.

Within a few months of closing, Havea had completed a strategic acquisition and the company has since gone on to complete one acquisition per year – five in five years – which broadened its portfolio of products and strengthened its geographical reach in Italy, Belgium and multiple other countries. Our investment team supported the identification and execution of those transactions. The result is that Havea has become a leading European player in natural consumer healthcare.

Other 3i healthcare portfolio companies like Cirtec Medical or ten23 health are pursuing a similar strategy of complementing a strongly growing company with strategic acquisitions to enhance their value offering for clients.

In short, we aim to build relationships of mutual trust with our

high-calibre management teams. Together we create businesses that shareholders are proud to own, and employees are happy to work for.

Q There has been a proliferation of dedicated healthcare funds in recent years. What are the pros and cons of a generalist versus specialist approach?

We believe our focus on four core sectors provides the best of both worlds due to the in-depth knowledge of our sector teams and the ability to share methods and lessons learned across portfolio companies from different industries.

For example, consumer healthcare companies have been able to benefit from the online sales and marketing capabilities that we have already developed in other consumer settings. These capabilities are also becoming increasingly important in a B2B context. Supply-chain management is another issue where our consumer, industrial, tech and healthcare companies can share insights and transfer knowledge.

Q How has working in private equity changed as a result of the pandemic?

As employers, we have embraced the new ways of working. Through the pandemic we have learnt that we can work very effectively in virtual teams, and closed transactions in a completely virtual setting. We improved the work-life balance of our employees through the increased flexibility that virtual working provides, and we are committed to maintaining this in a post-covid world.

Clearly a career in private equity can also be demanding at times. Creating a workplace where all team members can contribute their individual strengths, whilst being mutually respected and valued, and where diversity of thought is truly appreciated, lies at the heart of attracting new talent in a highly competitive market. ■