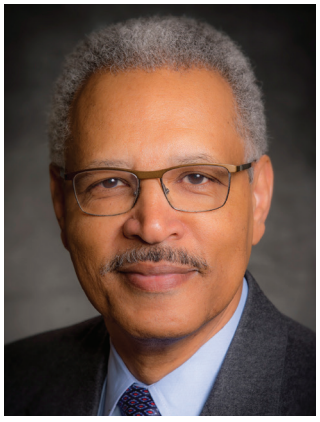
KEYNOTE INTERVIEW

Delivering value in the shift to value-based care


Private equity has an important role to play in the US healthcare system's transition from a fee-for-service model to a system based on outcomes, believe Ravi Sachdev, Ron Williams and Keith Pitts at Clayton, Dubilier & Rice

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Q How would you describe private equity appetite for healthcare in the current environment, and what is driving that?

Ravi Sachdev: The number of firms investing in the healthcare sector has increased significantly in recent years and the breadth of opportunity that private equity firms are targeting has expanded significantly as well.

The drivers behind that are simply the percentage of GDP that continues to go towards healthcare and the pace of innovation that healthcare is experiencing. The only other sector that would match the pace of innovation that we see in healthcare is core technology.

Ron Williams: Healthcare also offers the opportunity to improve management techniques, introduce stronger talent and better technology to help improve outcomes, and meet unmet medical needs in what is a highly fragmented industry.

We see private equity investment in healthcare as a win for patients, physicians and for our LPs.

Keith Pitts: The healthcare system today is fragmented and transactional, which we believe means this is an industry that is ripe for constructive disruption. There are huge opportunities to invest in everything from technology to innovative care models and that is attracting a lot of firms into the sector.

Q Why is the concept of value-based care proving particularly attractive?

RW: With value-based care, the healthcare system is shifting from treating people that are sick, and presenting with symptoms, towards preventive

care and active management. To facilitate that shift we believe we need to move away from a transaction-based reimbursement model where, in order for a physician or hospital to be paid, a patient has to present symptoms and have treatment or a procedure.

With value-based care, physicians can choose how best to serve their patients' needs, improve their quality of care, better manage chronic conditions and potentially keep them at home. In other words, value-based care means moving from a transaction-orientated system to an outcomes-orientated system with the patient at the centre of it all.

Q How is PE contributing to the evolution of the value-based care model?

RS: There is clear demand in the US healthcare system for better outcomes, better experience and lower cost, and we believe value-based care is the best way to meet those needs. Five or 10 years ago, Medicare – which dominates the US healthcare system – just wanted to pay for transactions. Now Medicare wants to pay for outcomes. That has forced change and created an opportunity for private equity firms to help companies with that transition.

Value-based care requires different management capabilities, as well as different technology capabilities, different processes and different capital. We believe there is an operationally driven investment opportunity that exists around these assets that is akin to the transition from analogue models to digital or from bricks and mortar retail to online, and it is creating a huge need for smart capital in the healthcare sector.

Q What are the challenges involved in healthcare investing and how can they be overcome?

KP: Clearly, there is a great deal of regulatory risk in US healthcare. It is important to have all the proper processes, policies and talent in place to ensure you maintain regulatory compliance at all times. Similarly, it is important to be extremely vigilant around reputational or headline risk when owning healthcare businesses. Of course, things happen, but you need to have the resources in place to manage those situations and, having been involved in healthcare for a very long time, that is something we feel comfortable navigating.

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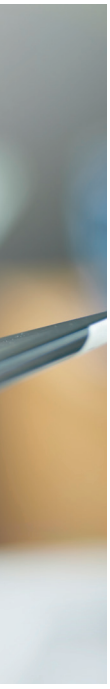
>
> **RON WILLIAMS**

RS: I think the reimbursement environment can also be challenging. With healthcare, the government is the largest payor in the country, given how big the Medicare and Medicaid population is today. That creates a level of volatility in your core business that you need to manage. You have to understand that a government counterparty is different to the counterparties you might experience in other sectors of the economy.

I would add that the power that technology has to disrupt healthcare should not be underestimated. We believe any sector that is as fragmented and paper-based as healthcare has been is ripe for disruption, and it is vital to ensure you are on the right side of that disruption. Overall, there is a broader set of variables that you need to think about in this industry, including patient experience, physician experience and the ability to deliver outcomes beyond financial outcomes.

Because the government is such an important payor, investment in healthcare is essentially a public-private partnership in which you need to help the



Q What are some of the investments that you have made in the sector and what role have you played in supporting those companies?

RS: We have been extremely active in the broad theme that is value-based care over the past eight years. We invested in a business called naviHealth, a leader in a category called bundled payments. Rather than paying for an individual transaction, the government pays for an episode of care once a patient leaves hospital and goes into a post-acute facility. We carved naviHealth out of Cardinal Health and ultimately sold it to United Healthcare.

We also started a company in partnership with management in 2016 called agilon health and continue to be owners of that business today. agilon helps primary care doctors get paid for the total outcome of managing people aged over 65 in their practices.

In addition, we have recently created a business called apree health in partnership with one of the largest insurance companies in the country and Morgan Health, a new subsidiary of JPMorgan. apree health focuses on improving employer health by extending value-based care topics beyond the Medicare market to under 65s and the commercially insured population. Finally, we have partnered with a group of doctors in Florida, with an organisation called Millenium Physician Group, to help them with their transition from a transaction-based system to a value-based care-driven business model.

government accomplish what it wants to accomplish. I would add that while we are here to support physicians, we are not physicians ourselves. Our job is to ensure that physicians are exercising their independent clinical judgement about what is best for the patient. To do that, we can bring them data and analytics. There is an enormous amount of information available about the patient population and we can help them glean the relevant insights.

Recognising the challenges involved in healthcare investment is one thing. Overcoming them is something else. And that is where I feel we are differentiated, in terms of our deep operating experience and talent.

Q How do you see the value-based care model evolving?

RS: Over the next 25 years, I think we will see a consistent move away from a transaction-based healthcare system towards an outcome-based healthcare system. To date, that transition has primarily been focused on the Medicare population. There has been little focus on the Medicaid population or the commercially insured population. Our belief, however, is that by the middle of this century, the majority of the US healthcare system will in some shape or form be tied to payment for outcome – outcome being defined as an improved patient experience and reduced overall cost.

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> **RAVI SACHDEV**

I would add that there are many categories within healthcare that have yet to be touched by value-based care. Most value-based care today is still tied to primary care doctors and how we can change their payment structure.

There has been very little focus, by contrast, on cancer cost or musculoskeletal cost, and those are very big drivers of spend in the US healthcare system. Ultimately, I think these categories will also be influenced by value-based care in some way, which we believe should help create a much more efficient healthcare system in the future.

At the moment, we have lots of people doing lots of things in order to get paid for a transaction, as opposed to having lots of people spending time thinking about improving outcomes. As value-based care continues to penetrate different sectors of the US healthcare economy, we believe that will also impact what is going on downstream, stimulating innovation in technology and processes on the frontline.

RW: I absolutely agree that the move to value-based care will accelerate the migration of innovation into the frontline of medicine. By changing the parameters of how people get paid, putting emphasis on what is best for the patient, we expect to see an increase in care moving outside of the hospital into ambulatory settings or into the home. Hospitals will be hubs for surgical activity, but we believe a lot of other activities that have previously taken place in hospitals will move to lower-cost settings, supported by tech innovation.

KP: Value-based care will definitely change the nature of care delivery and where that care delivery takes place. That, in turn, we believe will undoubtedly improve the patient experience and is one of the key evolutions that lies at the heart of value-based care for all. ■

Ravi Sachdev is a partner at Clayton, Dubilier & Rice, and Ron Williams and Keith Pitts are operating advisers to CD&R funds

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