

## **New Horizons** in Global Healthcare

**Apax Partners' 5th Annual Healthcare Services Conference**  
October 2011

Turning challenge into **opportunity**

# Introduction

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Dr. Muhammad Ali Pate, Minister of State for Health, Nigeria

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Apax Partners Healthcare Group

Navigating to success in healthcare is as challenging as it has ever been. One thing is certain: success today will require a broader perspective and new thinking regarding business models. The Apax Partners Global Healthcare Conference was established five years ago for this purpose. Our intention from the start was to establish an open forum for spirited discussion and knowledge sharing; a truly global networking session for friends of the firm, both old and new.

**New Horizons** The title of this year's event, 'New Horizons', is a reflection of the uncertain environment in which we find ourselves. For some at this year's conference, the horizon has dark clouds, for others the outlook is far sunnier. While the outlook may differ, a dedication to providing the best possible care to patients for the best possible value unites the attendees. Healthcare is an old sector bursting with new ideas and disruptive change, and the pioneering spirit associated with reaching for new horizons was very evident throughout the day.

**New Opportunities, New Challenges** In terms of the agenda of the conference and this brochure, the first part is dedicated to the range of new opportunities that are emerging in healthcare. We were honoured to start the day with a keynote address from Muhammad Ali Pate, the Minister of State for Health in Nigeria, who outlined the huge challenges and opportunities in his country and across Africa. Next up was a panel discussing the opportunities and regulatory challenges for expanding into new and emerging geographies in a sector which is becoming increasingly global in its outlook.

## Our Healthcare Partners



**Buddy Gumina** Partner and Co-Head, Global Healthcare Group



**Khawar Mann** Partner and Co-Head, Global Healthcare Group



**Steven Dyson** Partner, Global Healthcare Group



**Sandeep Naik** Partner, Global Healthcare Group



**Bill Sullivan** Partner, Global Healthcare Group

The second part was dedicated to addressing the challenge of organising viable healthcare systems that can meet the demands of aging and better informed patients. Professor Lawton R. Burns started the ball rolling with a fairly controversial overview of the coordinated care model. Many of our subsequent panellists recognised the disruptive nature of the change that is coming over the next couple of decades but were excited by the prospect of finding new ways of working together to solve old problems. New incentives for both providers and payers are emerging and new technology is on hand to facilitate this change.

We hope you share some of our excitement about the monumental change that is coming, and we look forward to you joining us in the debate.

**About Us** Apax Partners is one of the largest and most established private equity players in the healthcare sector with over 20 years of investing experience. The group has committed more than \$4bn of equity capital in recent years to a diverse range of companies around the world. The Apax investment philosophy is based on identifying companies with strong growth characteristics and supporting this growth by leveraging both our dedication to the sector and our global footprint.

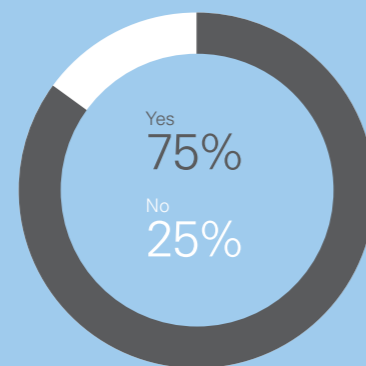
Despite the global economic uncertainty, the firm enjoyed another busy year in 2011, completing the \$6.3bn delisting of Kinetic Concepts in the US, selling the highly successful Spanish business out of European hospitals group Capiro for more than €1bn, and refinancing TriZetto, a software supplier to the US health insurance market.

## Our healthcare survey

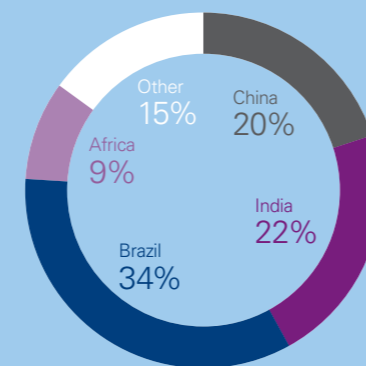
During the conference we surveyed attendees from across the global healthcare spectrum. Insights from the survey have been scattered throughout this report.

For more detailed analysis, please contact the **healthcare team** at Apax.

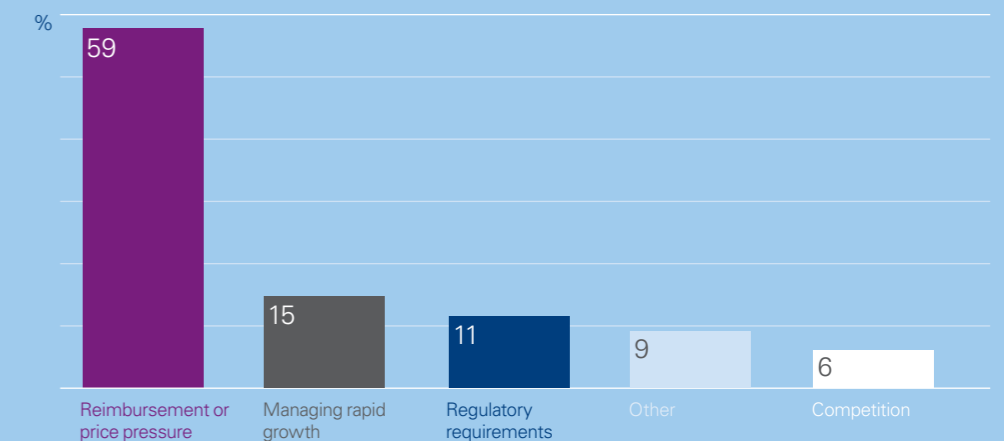
**Do you think the opportunities for your healthcare services business to expand internationally outweigh the challenges?**



**If you considered expanding your healthcare services business into emerging markets which area would you find potentially most attractive?**



**What is the biggest strategic challenge to your business today?**



Unlocking the **private health market potential** in Nigeria

# Dr Muhammad Ali Pate

Nigeria's population growth is projected to make it the 4th most populous country in the world by 2050.

**Nigeria's new Minister of State for Health, Dr Muhammad Ali Pate**, presented to the conference on the current healthcare system in Nigeria and the potential role private investors could play in its improvement and development as the country grows.

## Dr Muhammad Ali Pate

Minister of State for Health, Nigeria

Dr Muhammad Ali Pate is the Minister of State for Health in Nigeria. His appointment in July 2011 follows his success as the Executive Director of the National Primary Health Care Development Agency (NPHCDA), in Abuja, Nigeria. Prior to his role in the NPHCDA, he was at the World Bank Group, where he was the Human Development Coordinator in the East Asia and Pacific Region of the World Bank.

He is currently an Adjunct Professor of Global Health of the Duke University Global Health Institute. He is a member of several International Expert Panels on Global Health and also serves on the agenda committee of the World Economic Forum.

## Nigeria key facts



Population  
Over 150m

GDP in 2009  
\$173bn

Healthcare spend  
5% of GDP

Life expectancy  
48 years

Nigeria is a complex country spanning 36 states with a diverse population of over 150 million people. At current growth rates, Nigeria's population is projected to double in 20 years and increase to 400 million by 2050, which would make it the 4th most populous country in the world. It is imperative that the country's healthcare system is improved if it is to meet the demands of such growth. Nigeria's new Minister of State for Health, Dr Muhammad Ali Pate, presented to the conference audience on the current healthcare system in Nigeria and the potential role private investors could play in its improvement and development.

The state of Nigeria's health service has traditionally been characterised by poor outcomes, poor quality and a lack of protection from financial risk – only 4 per cent of the population has health insurance and most payment remains the responsibility of the individual. This is often exacerbated, according to Dr Pate, by a convoluted structure, which engenders a lack of accountability.

The country is also still burdened with persistent vaccine-preventable diseases, such as Polio, Measles and Meningitis, as well as rising non-communicable diseases and a significant number of injuries and trauma-related deaths.

## Unlocking the private health market potential in Nigeria continued

### A growing market

# \$11-20bn

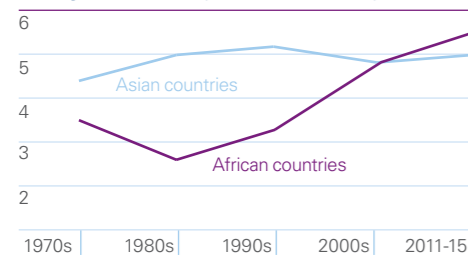
Healthcare in sub-Saharan Africa represents an investment opportunity of \$11 – 20 billion over the next ten years (Source: IMF)



### A growing market

In the next five years Africa is likely to take the lead in GDP growth and outpace its Asian counterparts (Source: IMF)

#### GDP growth unweighted annual average %



Excluding countries with less than 10m population and Iraq and Afghanistan. 2010 is estimated. 2011-15 is forecast.

Source: IMF / The Economist McKinsey Lions on the move report 2010

Preventable disease is largely driven by infectious and parasitic conditions, but chronic conditions represent over a fifth of the cases, and this is likely to increase as the population gets older.

Nigeria currently spends just 5 per cent of its GDP on healthcare and most of this is currently provided by the private sector. The poor quality of healthcare services means that, even for those who can afford to pay for care, high numbers opt to go abroad for their healthcare.

However, growth in health expenditure increased at a compound annual growth rate of 12.9 per cent from 1995 to 2007, outperforming GDP growth over the same period. According to the IMF, over the next five years, Africa is expected to take the lead in GDP growth and outpace its Asian counterparts, with Nigeria among the top ten growth countries globally over this period.

Concerted efforts are already underway to improve the healthcare service in the country and success has been considerable. For example, a polio eradication campaign resulted in a 95 per cent reduction in wild polio virus cases

between 2008 and 2010. Similar results were recorded for a meningitis campaign with only 32 deaths from the disease so far in 2011 compared to 2,330 in 2009.

Following his appointment as Minister of State for Health in 2011, Dr Pate devised a four pronged plan: to expand basic services through strengthening primary healthcare and providing integrated care at the frontlines; encourage healthy living and a good quality of life by emphasising disease prevention; improve the quality of care by improving clinical governance; and lastly, revive the health sector by unlocking its market potential and encourage additional investment from public and private sector organisations.

This last initiative is key and according to forecasts from the IFC, the sub-Saharan African healthcare sector will represent a private investment opportunity of between \$11 billion and \$20 billion over the next ten years, of which life sciences alone represents \$1.6 - \$2.9 billion. For-profit services are expected to account for approximately 60 per cent of this.

### Apax Partners' experience

Apax has significant experience of partnering with and investing in African businesses. For example, in 2006 we partnered with NetCare, the leading operator of private hospitals in South Africa, to invest in the UK private hospital chain General Healthcare Group. In 2008, we invested in Weather Investments, a global telecommunications company offering mobile, fixed-line, internet and international communication services to over 100 million subscribers in Southern Europe, North Africa and Asia.

We continue to monitor the region for exciting opportunities across Apax's specialist sectors and believe that it will only be a matter of time before significant opportunities emerge for private investment and/or partnerships in the healthcare sector. Our global experience has shown that knowing the market well and establishing relationships in advance is key to the successful execution of such investments.

### Africa as a target market

# 9%

Only 9% of conference attendees were considering Africa as a target among emerging markets

There are five sub-sectors in Nigeria that Dr Pate believes are particularly ripe for private investment. These include finance, service provision, health insurance, distribution and retail and life sciences. Dr Pate notes, however, that one of the key ingredients for successful investment in the country is a good understanding of local regulations and building relationships with local partners and leaders.

He also acknowledges that the Nigerian Government needs to implement some significant changes in order to encourage foreign businesses to invest in the country. This includes strengthening governance and political institutions while creating a more business-friendly environment. This is particularly applicable in terms of fighting corruption and improving regulation, for example reducing the time and bureaucracy involved in obtaining a business licence.

Other initiatives being explored include the creation of payment risk guarantees for private investors. This is likely to be supported by the World Bank, which

would give investors some insurance in the event that their investment does not reap the expected returns. The Central Bank is also looking at FX hedging mechanisms for Foreign Direct Investments, which would mitigate the potential risks of a significant devaluation of the Nigerian currency for external investors.

Dr Pate concedes that corruption is understandably a stumbling block for many potential investors, as is the bureaucracy and lack of infrastructure. However, he believes that these are not insurmountable problems and going forward we will see a lot of purposeful movement from the Nigerian Government to attract investment. There are real opportunities for private investment and he believes this is the beginning of a period of nurturing the growth of the private health sector in Nigeria and meeting the, as yet, unmet need.



Healthcare opportunities **at home and away**

# New Geographies

The **developed and developing markets offer great growth opportunities** but with very different challenges. Our panel of leading international players compare notes on how and why they balance their focus between playing at home and away.

“It’s very difficult to get cross-border synergies of scale. But you can benefit in terms of **sharing learned skills and experience.**”

**Chris Rex** CEO, Ramsay Health Care

**In many sectors, the need to combat weak domestic performance in mature markets is driving an urgent push into the world’s rapidly expanding growth markets. But as our panel of leading experts underline, healthcare services companies are taking a more cautious route to expansion outside their home markets.**

Representing major, market-leading healthcare businesses in the US, Australia and Brazil, each of the panellists outlined their strategies for international growth while maximising opportunities in their domestic markets.

On the domestic front each of the panellists felt that exciting opportunities remained within their home markets. In the case of Australia’s Ramsay Health Care, represented by CEO Chris Rex, the local opportunities are driven by comparatively rapid population and private healthcare growth. For Raja Rajamannar, meanwhile, the immediate domestic priority of Fortune 100 healthcare group Humana is to re-invent its business model in order to tap into the huge opportunities that will be presented by the major reforms to the USA’s creaking medical system.

## New Geographies continued



**Marcelo Barboza**  
CEO, Diagnosticos da America S.A. (DASA)

Marcelo Noll Barboza has served as Chief Executive Officer at DASA since September of 2008. DASA is the largest provider of medical diagnostics services in Latin America with over 18,000 employees and annual sales of R\$2.3 billion (US\$1.3B). Before DASA, Marcelo was the VP for GE Healthcare Latin America for five years.

“At some point the Brazilian market will be saturated so it’s **important that we start looking now at companies outside Brazil**, start doing partnerships, benchmarking and learning which markets have similar features.”

**Marcelo Barboza** CEO Diagnosticos da America S.A

“We recognise that we cannot move into a foreign land without **having a solid local partnership.**”

**Raja Rajamannar** Sr. VP, Chief Innovation & Marketing Officer, Humana



**Raja Rajamannar**  
Sr. VP Chief Innovation & Marketing Officer, Humana

Venkata Rajamannar Madabhushi, “Raja” was named Senior Vice President and Chief Innovation and Marketing Officer at Humana Inc. in April 2009. He is a member of the Corporate Executive Committee, which sets strategic direction for the company.

Prior to joining Humana, Raja had 24 years of global business management experience, including 15 years with Citigroup. Most recently, he served as Executive Vice President and Chief Marketing Officer of the Global Cards division of Citigroup. From 2003 to 2005 Raja was Chairman and Chief Executive Officer of Diners Club North America.

Marcelo Barboza, CEO of Diagnosticos da America (DASA), the Brazilian leader in medical diagnostics, is, for now, almost wholly focused on tapping the massive growth potential of the Brazilian healthcare market, building on its 12% market share in a highly fragmented space.

Nevertheless, this is not to say that these best-of-breed companies are not looking at international expansion – quite the opposite. For Ramsay, the expansion into new overseas markets has been guided by the push and pull factors of domestic competition authority concerns and the allure of a rapidly evolving private sector healthcare segment in the UK and France. As far as Humana is concerned, the international strategy is firmly focused on building a presence over the medium term in the key emerging markets of China, where it has opened a representative office, and India.

Given the scope for domestic expansion, DASA is also looking into the longer term (three-to-five years as a minimum) for international expansion.

“At some point the Brazilian market will be saturated so it’s important that we start looking now at companies outside Brazil, start doing partnerships, benchmarking and learning which markets have similar features”, notes Barboza. Like Humana, this will involve focusing on building links into emerging markets, though for DASA this means the cultural and geographical proximities of Latin American markets such as Peru, Colombia, Chile and Mexico.

But despite the obvious attractions of risk and revenue diversification and lower barriers to entry, international expansion into emerging markets is not without risk. To begin with, building a sizeable business internationally will generally take a significant time to pay back on its investment. As Rex points out, “it’s very difficult to get cross-border synergies of scale, although you can benefit in terms of sharing learned skills and experience.” A new entrant is also heavily reliant on the support of the local governments and legislative frameworks.

**Chris Rex** CEO, Ramsay Health Care

Chris Rex is Managing Director and Chief Executive Officer of Ramsay Health Care having assumed this role in July 2008 after 13 years as Chief Operating Officer of the Company.

Prior to joining Ramsay Health Care in 1995, he worked as a manager in the public health service in the United Kingdom and subsequently moved into the private sector where he worked for BUPA, the UK’s largest Health Insurer. In 1988, he moved to Australia, as General Manager of Macquarie Hospital Services.

Rex is the current President of the Australian Private Hospitals Association (APHA). Until recently he was also a Board member of the Schizophrenia Research Institute.



For instance, in many large, attractive markets – China and Brazil included – there are tight restrictions placed on foreign ownership. For this reason, as Rajamannar explains, it is essential for Western businesses to consider entering emerging markets alongside strong, experienced local partners: “We recognise that we cannot move into a foreign land without having a solid local partnership. People who understand the local business”, he says. If the chemistry is right, a local partner can guide new entrants through the minefield of local cultures and business practices.

It is also not just about the ‘softer’ issues of culture and local practices: buying into emerging markets can also pose real challenges in securing the right asset at a sensible price. While the longer-term prospects for many of these businesses are not in doubt, the multiples they have often commanded in recent times can accentuate the length of time required to reach payback.

Nevertheless, the risks are certainly offset by the growth prospects in the emerging markets. In addition, without the sort of baggage of the struggling legacy models in the US, the ability to implement powerful solutions in emerging markets can provide a jump-start to success. Ironically, outside of the emerging markets, it is likely to be the resolution of these embedded legacy issues in the most developed markets that will drive the most compelling opportunities for growth in the coming decade; healthcare reform in some areas of the developed world is effectively morphing them back into ‘emerging markets’.

### Apax Partners’ experience

The Apax Healthcare team has a strong global presence, with investment professionals in multiple countries around the world including China and India. The local market knowledge that we are able to tap into as a result of this international presence plays a key role in our ability to guide the expansion of our portfolio companies into foreign territories. An example of our successes in this area is the pan-European consolidation play in wound care and medical products through the integration of Mölnlycke Healthcare, Medlock Medical and Regent Medical, to create a global leader.

Governments in many developed countries are seeking to optimise provision of healthcare. A co-ordinated approach could improve care, streamline the process and drive efficiencies. **Professor Lawton R. Burns of The Wharton School** explains the challenges facing this model in the USA and examines the likely winners and losers in this changing landscape.

## Co-ordinated care across the continuum

“Coordination has been a major challenge for the US and every other developed healthcare system for over 30 years. **Lots of money and effort have been invested...** with less than impressive results.”

**Professor Lawton R. Burns** Chair, Department of Health Care Management, The Wharton School



## Co-ordinated care across the continuum

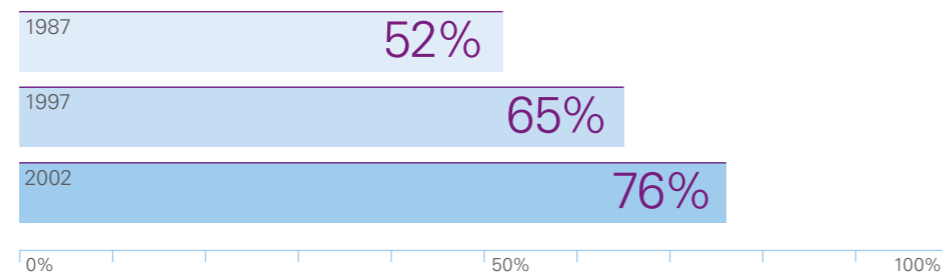
continued



# 70%

of all Medicare costs are incurred treating the sickest 20% of the US Medicare population.

### Spending on beneficiaries with five or more chronic conditions as a proportion of overall Medicare spending



Source: Thorpe and Howard, Health Affairs, August 2006

### Professor Lawton R. Burns

Chair, Department of Health Care Management, The Wharton School

Professor Burns is the Chair of the Health Care Management Department, and also the James Joo-Jin Kim Professor, as well as a Professor of Health Care Management at Wharton School at the University of Pennsylvania. He is also Director of the Wharton Center for Health Management & Economics. Professor Burns teaches courses on healthcare strategy, strategic change, organisation and management, managed care, and integrated delivery systems. From 1998-2002, he was a Visiting Professor in the Department of Preventive Medicine at the University of Wisconsin School of Medicine, where he taught corporate strategy to physicians. Professor Burns taught previously in the Graduate School of Business at the University of Chicago and the College of Business Administration at the University of Arizona.

Professor Burns previously sat on the Governing Board of the Institute of Medicine (Health Services section) and on the editorial board of Health Services Research.

### Overview

The healthcare sector is in a state of flux in many developed countries as governments seek to optimise provision of care while minimising the crippling levels of expenditure that this entails. A coordinated healthcare model has long been seen as the optimal way to improve care while streamlining the process and driving cost efficiencies.

The goals of care coordination are essentially to improve quality and reduce costs. According to Professor Burns, however, this is much harder to do than anyone realises. "For one thing", he says, "primary care physicians often aren't that good at spotting complex patients that need coordinated care. Without that, the whole model falls apart. Second, once they spot those patients, the network of other specialists with whom they refer these chronically-ill patients is so large that it may be hard to keep track of them all."

The difficulties facing the coordinated care model were demonstrated by a study carried out by the Mathematics Policy Research department at Princeton University, which ran a coordinated care test programme in 2009 at 15 different hospital sites across the US to evaluate

the benefits of the model. Contrary to expectations, 12 of the test sites ended up with higher costs than before.

Of the three with neutral costs, two are now out of business. The one that worked is considered an idiosyncratic case as there were some very specific circumstances, including the establishment over a long period of good community relationships and strong management. The quality of care improved, decreased or stayed roughly the same in even amounts across the groups where costs remained neutral or became higher.

**Why doesn't it work?** So why doesn't the concept work as well as we would logically expect? Professor Burns attributes it to efforts not being sufficiently focussed. He also cites research from The Urban Institute revealing that the sickest 20 per cent of the US Medicare population has five or more chronic illnesses and represents around 70 per cent of all Medicare costs. This patient group usually requires multiple physicians – averaging 13 unique doctors and around 37 physician visits per year. The self-referral system makes their care incredibly difficult to coordinate and subsequently for coordinated care to have a downward impact on costs.

"The goals of care coordination are essentially to **improve quality and reduce costs.**"

Professor Lawton R. Burns Chair, Department of Health Care Management, The Wharton School



### Apax Partners' experience

Over the years, Apax Partners has invested in US businesses across the healthcare spectrum, from medical devices (KCI) and pharma (Qualitest) to managed care (MagnaCare) and software (TriZetto). As an owner of businesses that span the sector, Apax has a broad perspective and unique ability to support businesses across the care continuum.

One way to reduce self-referrals is to impose more explicit rationing of healthcare services across the population. However, realistically, Professor Burns believes that culturally the US is not ready for such direct limitations, but would rather attempt to coordinate care first, in conjunction with continued healthcare choice.

Yet, coordination has been a major challenge for the US and every other developed healthcare system for over 30 years. Significant amounts of money and effort have been invested over the years by both the public and private sector with less than impressive results. There are however some concepts that can be implemented, which Professor Burns believes can make a substantial difference to the chances of success with this model. For instance, In Professor Burns' experience, nurse-centred care models are the best examples of successes with coordinated healthcare. Specific examples of this succeeding are AtlantiCare's Special Care Centre, Quality Health Partners and UHC's OPTUM Health Division.

**Winners & Losers** Despite the historical experience, more coordinated care is a key pillar of the US healthcare reform. In this regard, there will be winners and losers in a

new environment of more coordinated healthcare in the US and they may not be those that expect it. Professor Burns anticipates that patients will be the main beneficiaries as there will be a more seamless transition between care providers while maintaining the element of choice.

Hospitals and doctors are the most likely economic losers from the reforms as they represent the largest proportion of costs in the system (30 per cent and 20 per cent respectively). It is easy for the Government to try to force their cost reductions onto this group as individually they do not have the scale that would be needed for them to successfully push back.

Managed care emerges as a possible winner because this sub-sector has a history of risk assessment and negotiation. Payers may also be a winner as insurance companies are likely to reap the upside of selling other services.

In the end Professor Burns concedes that there is no silver bullet to solving the problem of healthcare, but there are some promising avenues to explore and coordinated healthcare has been pursued for long enough that it is unlikely to be dropped now.

US healthcare reform: re-wiring the engine

# New partnership paradigm

There is a long-standing recognition that **the US healthcare model is imperfect and current economic conditions are only accentuating the problems**. But in such a highly fragmented and complex market, it is clear that the task of re-wiring the existing model will present a huge challenge for all those key players in the nation's healthcare machine.

"The question is whether we have accepted that **the old model isn't going to work anymore?** I don't think we're ready for transformation yet but there's a lot of receptivity for experimentation."

**Vicky Gregg** President & CEO, Blue Cross Blue Shield

## Need for reform

Calls for reform in the US healthcare system are by no means a novelty. The country's annual per capita healthcare spend is way ahead of any other major nation and is growing at almost 10 per cent per year. Years ago, when it equated to around 8 per cent of GDP, US healthcare spend was deemed unsustainable; now it is over double that. Add to this the current unemployment rates, an ageing population and deep public sector cuts in healthcare spending, and it is clear that the system needs a radical overhaul.

While there may have been attempts to re-wire the model before, these have mainly been isolated and short-lived: the status quo has to date prevailed. In part this comes down to the enormous regional differences within healthcare markets across the 50 states, but it is also symptomatic of an unwillingness to break with the past, irrespective of the political rhetoric of the present. After all, it is always difficult to shut hospitals down - even if there is a 30-40 per cent oversupply of hospital beds in the US.

But the cost benefits that could be gained by breaking down the existing model and re-aligning the interests of the key participants in the market are huge. For this to happen, though, there would

have to be a fundamental shift away from individual care to more coordinated health management.

Under this sort of system, hospitals would be incentivised not by the number of 'heads in beds' or the volume of procedures carried out, but by driving down unnecessary admissions and re-admissions, and improving end of life compassionate care. And this, in turn, would require a much closer integration between all the core players from the providers of primary care and their support teams (i.e. home health workers, dieticians, mental health experts) to hospital operators and the healthcare insurance companies (payers).

## New partnership paradigm continued

### Vicky Gregg

CEO, Blue Cross BlueShield of Tennessee

Vicky Gregg is the chief executive officer of Chattanooga-based BlueCross BlueShield of Tennessee. Prior to becoming CEO, Gregg occupied several leadership positions in the company, including president and chief operating officer, executive vice president, and chief executive officer of Volunteer State Health Plan, the company's Medicaid HMO.

Before joining BlueCross, Gregg worked for a national, publicly-traded health plan, as market vice president. A nurse by education, Gregg has over 25 years of experience in diverse health care benefits and environments.



### Bob Margolis, MD.

CEO, HealthCare Partners

Robert Margolis, MD, has been the managing partner and CEO of HealthCare Partners since the formation of the company in 1992. Dr. Margolis was a founding partner and the managing partner of HealthCare Partners' predecessor, California Primary Physicians Medical Group.

Dr. Margolis serves on the Board of several prestigious healthcare organisations. Amongst these, he is one of the seven board members appointed to the Board of Directors of the new Martin Luther King, Jr., Hospital. Dr. Margolis also serves as a member of the HealthCare Policy Advisory Council for Harvard Medical School and the Advisory Board of the Schaeffer Center for Health Policy and Economics at the University of Southern California.

As Terry Shaw notes, "Hospitals and payers in particular are going to need each other more than ever in the future. There's going to be consolidation and those that are poorly managed will go out of business. So you need to invest where you think you've got people that can deliver a quality product for a more efficient price because the price in our business is going down."

**Alternative strategies** Given the fact that sticking with the status quo will simply not be an option this time, there is naturally some jockeying for position among the key market practitioners which are looking to take advantage of the opportunities that a re-modelling of the health system would create. At its core, the question is which key constituent is best positioned to be at the centre of a more coordinated care environment – the hospital, the doctor or the payer. This is important as effective care coordination should reduce healthcare costs. However, healthcare costs to the system overall also represent revenues to one or more of the key constituents.

Whichever party is at the centre may therefore be best positioned to benefit from a revised system.

On one side, the race is being led by the health insurance companies – especially the larger organisations – that are looking to leverage their current connection with the patient to direct care and manage overall cost. On another front, large, vertically integrated hospitals believe they should be at the centre of care coordination given that they typically act as the central hub of healthcare provision in most areas and have both the staff and the technology at hand. In fact, some hospitals are actively seeking to go "at-risk" and effectively act as insurance companies because they believe they are capable of managing care and costs more efficiently.

Finally, large, multi-speciality doctor groups, like Healthcare Partners, are positioning themselves as the most appropriate partner for the patient based on the fact that the doctor is usually the most trusted adviser to an individual and can coordinate care

### Terry Shaw

CFO & COO, Adventist Health Systems

Terry Shaw is executive vice president, chief financial officer, and chief operations officer for Adventist Health System. Prior to this appointment, Shaw served as senior vice president/chief financial officer for the Florida Division of Adventist Health System. He also served in the following capacities within Florida Hospital: vice president, assistant vice president, and director of DRG Management.



**"You need to invest where you think you've got people that can deliver a quality product for a more efficient price because the price in our business is going down."**

Terry Shaw CFO & COO, Adventist Health Systems

# 16%

The US's annual per capita healthcare spend is approaching 16% of GDP, significantly higher than any other major developed nation, and rising by nearly 10% per year.

across multiple settings. The panel's opinions on who the race winner will be vary.

Vicky Gregg, however, asserts that it's the organisations that are prepared to take on the challenge of cost that will succeed. "You're going to have to be able to run very, very efficiently in this new world, so being able to think about how you do supply chain management is going to be a critical skill set, regardless of who is at the centre of the system."

Irrespective of which of the three prevail or who ultimately owns the individual elements in the supply chain, the key will be how that chain is managed and how well it is able to deliver the best outcome for the consumer – in this case the patients themselves. To this end, it is certain that the key constituents, of hospitals, doctors and payers, will be working more closely in partnership over the coming years and the lines between their various business models will begin to blur.

### Apax Partners' experience

Apax has been one of the leading investors in the key healthcare service sectors for many years having partnered with hospitals, doctors and managed care organisations. Examples of our investments in these areas include large hospitals, such as General Healthcare Group (UK), Capio Hospitals (Pan-Europe), Apollo Hospitals (India), as well as managed care provider MagnaCare (US). The broad overview of the different sub-sectors within healthcare that this affords the team means we are well placed to support the different partnership models available to today's care providers.

**Bringing it all together:** How can sub-sectors work smarter to bring down costs?

# New connections

A common theme running throughout the day was **the escalating costs across the healthcare sector and the pressure being felt by businesses to deliver more for less.** Convergence of the different parts of the healthcare value chain to deliver products and services was another. In this panel, three healthcare participants from the pharma, pharma services and medical devices sub-sectors discussed how they are working with traditional services companies to do their part.

“The notion that you can run a business on a **25 per cent after tax margin** and get away with it in this economy is quite ludicrous.”

**Clive Meanwell** Chairman & CEO, The Medicines Company

The panel brought together Clive Meanwell, Chairman & CEO of The Medicines Company, representing the pharma sub-sector, Cathy Burzik, CEO of Kinetic Concepts, representing medical devices and Gerald Gleeson, VP of Pharmaceutical development at Walgreens, to represent wider pharma services and distribution.

**Data driven decisions** The panellists agreed that in the effort to drive down costs, buyers needed to look beyond the initial unit cost of a drug or medical device and focus on the effectiveness and price of the treatment as a whole. While buyers are prepared to pay for good products, they need to see the clinical benefits. In order to justify higher prices in a market beset by cost compression, suppliers need to do a better job at explaining the total costs versus the outcomes of their products. For this to happen, hospitals and physicians

need to have quality data on which to base their decisions, a factor that has been historically problematic, as Meanwell explains: “I think there’s a history of scepticism which is appropriate... I can’t blame hospitals for thinking that the drug industry has not been completely straight with them.” From both the Pharma and devices side, there was an acknowledgement that suppliers need to work with more empirical data to justify the cost of their products.

“We know how long certain types of wounds are going to take to heal and **we are prepared to put our money where our mouth is...** both we and hospitals can share the risk.”

**Cathy Burzik** President & CEO, Kinetic Concepts, Inc

#### Cathy Burzik

President & CEO, Kinetic Concepts, Inc

Cathy Burzik is the President and CEO of Kinetic Concepts, Inc. Prior to joining KCI in November 2006, Cathy served as President of Applied Biosystems, a unit of Applera Corporation. She has also held senior positions at Eastman Kodak and Johnson & Johnson (J&J). At Eastman Kodak, her executive positions included CEO and president of Kodak Health Imaging Systems and General Manager/Vice President of corporate marketing. Burzik served on the Board of Directors at Cordis Corporation, prior to its acquisition by J&J. At J&J, she ran the Critikon medical technology business and subsequently was appointed president of J&J's Ortho-Clinical Diagnostics, Inc. unit. Burzik also served on the board of Bausch & Lomb prior to its going private in 2007.



**Clive Meanwell** Chairman & CEO,  
The Medicines Company

Clive Meanwell is the Chairman and Chief Executive Officer of The Medicines Company, a global firm focused on delivering solutions to hospitals for acute and intensive care pathways which do the job of treating heart attacks, strokes and severe infections. He is also a director of BB Biotech AG, a Swiss firm investing in biotechnology. Meanwell was a founding partner of MPM Capital L.P., a venture capital firm and before then held various leadership positions at Roche in Switzerland and the United States. Previously, he held academic positions at The University Department of Medicine, Queen Elizabeth Medical Center, UK.



**Risk Sharing** As this trust gap begins to narrow so risk sharing can begin to play a bigger role and the cost of drugs and other medical products can be more closely pegged to their effectiveness. Take for instance the wound-care space, if the supplier is confident that its product will work in a given timeframe, it can base a pricing structure around this which shares some of the risk with the hospital. KCI's Burzik explains: “We know how long certain types of wounds are going to take to heal and we are prepared to put our money where our mouth is. If it takes more or less time than we expect both we and the hospital can share the upside and downside.”

**Patient Compliance** Another area in which suppliers can work with patients and physicians to bring down costs is in patient compliance. Typically, a high proportion of patients do not stick to the course of medicine that has been prescribed to them, and this can be both costly and dangerous. It is estimated that 10- 20 per cent of unplanned hospital admissions are

due to bad medicine management. One way in which this can be averted is by addressing it at the front line and changing the way in which pharmacists interact with their customers.

Across the US, pharmacists are moving from behind the counter and into a closer, more advisory relationship with their customer. Walgreens has been an early exponent of this trend as Gleeson explains: “Our pharmacists are trained clinically in patient engagements and how to talk to patients about their diseases.” From the perspective of the devices sub-sector, it is more about innovation; making products more intuitive so as to cut down the margin for patient error and then placing a greater emphasis on patient education.

#### The problem with big Pharma

The panel felt strongly that the big pharma companies had to adapt to the new environment with dramatic changes or face very difficult operating challenges. As Meanwell forcefully explains: “The notion that you can run a business on a 25 per cent after tax margin and get away



**Gerald Gleeson.**  
Divisional VP of Pharmaceutical Development,  
Walgreens

Gerald is Divisional Vice President for Pharmaceutical Development at Walgreens. Gerald has over 18 years' experience in the US Managed Markets, Global Market Access, Retail Trade and Pharmaceutical Marketing fields. He formerly served as Executive Director in Global Market Access for Merck and has also held senior roles with Schering-Plough.

with it in this economy is quite ludicrous. And the notion that you have a right to do it is even more ludicrous.”

Big Pharma was perceived to be challenged because it has too many products which are not differentiated enough and because of an outdated R&D model. The panel predicted a long and painful round of down-sizing as the big pharma companies adapt to the new restraints of the current economic environment and as a new generation of CEOs takes the helm. “Until a massive round of cost cutting is done,” explains Meanwell, “we won't have growth back in pharma. We will have the occasional drug that comes along that is just knock out, but it's not a system that's sustainable. So I am very, very pessimistic about Big Pharma.”

**Conclusion** Increasingly expensive drugs and sophisticated treatments that are not priced according to outcomes, coupled with a dislocated system of provision have pushed healthcare costs to unsustainable levels in the most developed markets.

The pressure on costs is universally acknowledged, but finding solutions is more difficult. Vested interests and accepted ways of doing things are being broken down in a search for answers while some sub-sectors, such as Pharmaceutical R&D, are in need of wholesale change.

#### Apax Partners' experience

The Apax Healthcare team has a deep insight into how each part of the complex value chain is adapting to the issues of convergence having invested in pharmaceutical companies such as Zeneus Pharma and medical devices companies like Mölnlycke and KCI as well as multiple hospital groups, most notably Capio, General Healthcare Group and Apollo Hospitals.

Key points & shared learnings

# Conclusions

## A day of two halves

In many ways the day broke down neatly into two halves. In the morning, discussions centred on the huge issue of building healthcare systems in the emerging markets and the challenges for incumbents expanding out of their home markets. The afternoon focused on the equally considerable challenges involved in reforming existing care systems in more developed markets.

**Emerging** The morning's keynote address by Dr. Muhammad Ali Pate, gave a fascinating insight into how you bring healthcare to a fast growing population of over 150 million people with only a meagre spend of 5 per cent of GDP. Despite the budgetary constraints and the issue of

historical corruption, the Minister is making huge strides in eliminating preventable disease and establishing an exciting market for inward private investment.

The next panel addressed the issue of expansion beyond a home market. There is no doubt that the business of healthcare is becoming global but the job of provision is sensitive and highly political. Despite the obvious attractions of risk and revenue diversification, as well as potentially lower barriers to entry, international expansion into emerging markets is not without multiple risks.

The huge growth markets in Asia and South America offer substantial opportunities but companies must focus on very specific geographies and staff these geographies with the appropriate level of talent. As one

participant said, a great developed market manager is not necessarily a great emerging markets manager.

**Emerged** The issue of reforming established markets dominated the rest of the day. Mature economies are united by the issue of trying to provide increasingly expensive healthcare provision to ever aging populations, and most are facing the painful realisation that the established way of doing things is unsustainable.

Professor Burns' presentation over lunch on the merits of a move towards a more coordinated healthcare system provided a stimulating kick off point for the afternoon panel debates. Studies appear to show little case for such a model. However, with no silver bullet existing to solve the

problem he admitted that there are still some very promising avenues to explore down this path.

During the afternoon, panellists agreed that the next 10-15 years would be a time of massive change as the entire supply chain of the healthcare industry grapples with new ways in which to work together. Across the spectrum, from patients and the people that pay the bills to hospitals and physicians, there is a realisation that everyone has to find a new way of working together that is also economically viable. The use of increasingly sophisticated technology and data will underpin the realignment of incentives between those that provide the care and those that finance the care. As this occurs, it will have a ripple effect through other products

and services, whether it's in medical devices or pharmaceuticals. Ultimately, there was a strong recognition that the current trajectory of healthcare spending in the developed world is unsustainable and that healthcare constituents are truly considering new partnerships with more creativity and vigour than ever before.

**Forging debate** Once again, Apax was honoured to assemble such a broad array of luminaries from across the healthcare spectrum. The goal of these conferences is to provide a forum for collaborative debate amongst peers in an industry that has become increasingly fractured and specialised. We believe that this unique event will become even more vital in the years to come as this dramatic evolution continues.

The healthcare conference

# Who's who?

## Conference speakers

**Marcelo Barboza**  
CEO, Diagnosticos da America S.A. (DASA)

**Professor Lawton R. Burns**  
Chair, Department of Health Care Management, The Wharton School

**Cathy Burzik**  
President & CEO, Kinetic Concepts, Inc

**Gerald Gleeson**  
Divisional VP of Pharmaceutical Development, Walgreens

**Vicky Gregg**  
CEO, Blue Cross BlueShield of Tennessee

**Bob Margolis**  
CEO, HealthCare Partners

**Clive Meanwell**  
Chairman & CEO, The Medicines Company

**Dr Muhammad Ali Pate**  
Nigerian Minister of State for Health

**Raja Rajamannar**  
Sr. VP Chief Innovation & Marketing Officer, Humana

**Christopher Rex**  
CEO, Ramsay Health Care

**Terry Shaw**  
CFO & COO, Adventist Health Systems



## Conference attendees



**Swati Abbott** CEO, Blue Health Intelligence

**Andy Alderman** SVP of Strategy & Business Development, CardinalHealth

**Marc Attia** Healthcare Consultant

**Mehmet Aydinlar** Chairman & CEO, Acibadem

**Tracy Bahl** Executive Chairman, Emdeon Inc

**Marcelo Barboza** CEO, Diagnosticos da America S.A. (DASA)

**Tony Bellomo** President, The TriZetto Group, Inc

**Joseph Berardo** CEO & President, Magnacare Holdings, Inc.

**Keith Biddlestone** Group Commercial Director, HCA International

**Mark Blake** Executive Vice President, Strategy and Corporate Development, Cardinal Health

**Mark Britnell** Chairman & Partner, Global Head of Healthcare, KPMG LLP

**Professor Lawton R. Burns** Chair, Department of Health Care Management, The Wharton School

**Kyle Burnett** Vice President, Outpatient Services, Tenet Healthcare

**Dave Burwick** President, Weight Watchers

**Cathy Burzik** President & CEO, Kinetic Concepts Inc

**Anthony Cabrelli** Managing Director, BUPA

**Mohan Chellappa** President, Global Ventures, MD, Johns Hopkins Medicine International

**Adam Clemens** Managing Director, Portfolio Advisors, LLC

**Paul Conlin** Laboratory Corporation of America

**Neil de Crescenzo** SVP & General Manager for Health Sciences, Oracle

**Stephen DeCherney** Clinical Professor of Medicine - Division of Endocrinology, UNC School of Medicine

**Trace Devanny** CEO, The TriZetto Group, Inc

**Scott Doniger** Director of Strategy, DaVita

**Michael Dowling** CEO, North Shore-Long Island Jewish Health System

**Thomas Dugan** President, Smith and Nephew Woundcare

**Mitchell Eisenberg** Chairman & CEO, Sheridan Healthcare

**Peter Ellis** Managing Director, Pharmatrust UK Ltd

**Steven Epstein** Founding Partner, Epstein Becker & Green, P.C.

**Liam Fitzgerald** CEO, United Drug

**Bradley Fluegel** Executive in Residence, Health Evolution Partners

**Patrick Flynn** Principal, Assabet Ventures

**Gerald Gleeson** Divisional VP of Pharmaceutical Development, Walgreens

**Howard Gold** SVP Managed Care Business & Dev. North Shore-Long Island Jewish Health System

**Riccardo Gonzalez** Senior VP, BUPA

**James Greenwood** CEO, Concentra

**Vicky Gregg** CEO, BlueCross BlueShield of Tennessee

**Nathan Gunn** Chief Medical Officer, Verisk Health

**Christopher Hall** Senior Vice President, Rite Aid

**Michael Hansen** CEO, Elsevier Health Sciences

**Mark Haukohl** President, The Vero Group

**Kevin Hickey** Principal, HES Advisors

**Nigel Jones** Partner, Co-Head Healthcare Sector, Linklaters

**Fergus Kee** Executive Chairman, Fitbug

**Lauren Kelley** Senior Advisor, Leavitt Partners

**Karen Koh** Executive Director HealthCura Pte Ltd

**Michele Lahey** CEO, Bupa Cromwell Hospital

**Christian Le Dorze** President, Vitalia

**Jeff Lebenger** Doctor, Summit Medical Center

**Andrew Litt** Chief Medical Officer, Dell Healthcare and Life Sciences

**Bob Margolis** CEO, HealthCare Partners

**Jeffrey Margolis** Executive Chairman, WellTok, Inc.

**Craig McNally** Business Development Manager, Ramsay Health Care

**Clive Meanwell** Chairman & CEO, The Medicines Company

**Brett Moraski** Vice President, Well Point

**Marcelo Moreira Filho** Setter Investimentos

**Emmett Moriarty** Ennismore Advisory Ltd

**Jean-Baptiste Mortier** Director General, Vitalia

**Steve Murphy** President, Global Medical Response

**Harish Mysore** SVP, Corporate Development, The TriZetto Group, Inc

**Michael Neeb** President & CEO, HCA International, HCA International

**Dr Muhammad Ali Pate** Nigerian Minister of State for Health

**Jim Pittman** Vice President, PSP Investments

**Raja Rajamannar** Sr. VP Chief Innovation & Marketing Officer, Humana

**Sathya Rangaswamy** CEO & Founder, ZeOmega

**Luciano Ravera** CEO, Istituto Clinico Humanitas

**Christopher Rex** CEO, Ramsay Health Care

**Simon Samaha** CEO, Summit Medical Center

**Roberto Schahin** Director Comercial, Hospital Santa Paula

**Ahmad Shariff** Non-Executive Director, Parkway Holdings Ltd

**Terry Shaw** CFO & COO, Adventist Health System

**Jeffrey Smith** VP Strategy & Corporate Development, CVS Caremark Corporation

**John Standley** President & CEO, Rite Aid

**Steven Thompson** CEO, Johns Hopkins Medical Institutions

**Robert Thompson** Executive Vice President Pharmacy, Rite Aid

**Niels Vernegaard** Executive Vice President & COO, United Surgical Partners International

**Wesley Wheeler** CEO, Marken Limited

**Elmar Willebrand** Managing Director, Acura Kliniken Holding GmbH

**Joseph Woody** President of AHS Division, Kinetic Concepts Inc

**David Woolford** Managing Director, Capital Dynamics

Apax Partners

# Experts in Healthcare

Apax Partners is one of the largest and most established private equity players in the Healthcare sector. The in-house team of 16 investment professionals, combined with deep network and sub-sector knowledge, helps our funds source unique investment opportunities. This domain knowledge and a global network also helps Apax add value to the companies in which its funds invest.

The healthcare team acts globally and is organised by sub-sector focus around:

- Pharma / Pharma Services
- Medical Products / Devices
- Healthcare Services
- Healthcare IT

**MagnaCare** Provider of health plan management services

Country: US Deal date: 2002



**TriZetto** A leading developer of software and related services to the US healthcare industry

Country: US Deal date: 2008



**Voyager** A leading provider of hospice care

Country: US Deal date: 2004



**KCI** A leading global provider of wound therapy, tissue regeneration and therapeutic support products

Country: US Deal date: 2011



**Qualitest Pharmaceuticals** Manufacture and distribution of generic pharmaceuticals in the US

Country: US Deal date: 2007



**GHG Healthcare** The largest private hospitals operator in the UK

Country: UK Deal date: 2006



**Marken** A leading pharmaceutical logistics and support services provider

Country: UK Deal date: 2010



**Capio AB** European hospitals and diagnostics centres

Country: Sweden Deal date: 2006



**Mölnlycke Healthcare** Surgical care and wound care products

Country: Global Deal date: 2005



**Zeneus Pharma** Specialty pharmaceuticals for oncology and critical care

Country: Europe-wide Deal date: 2004



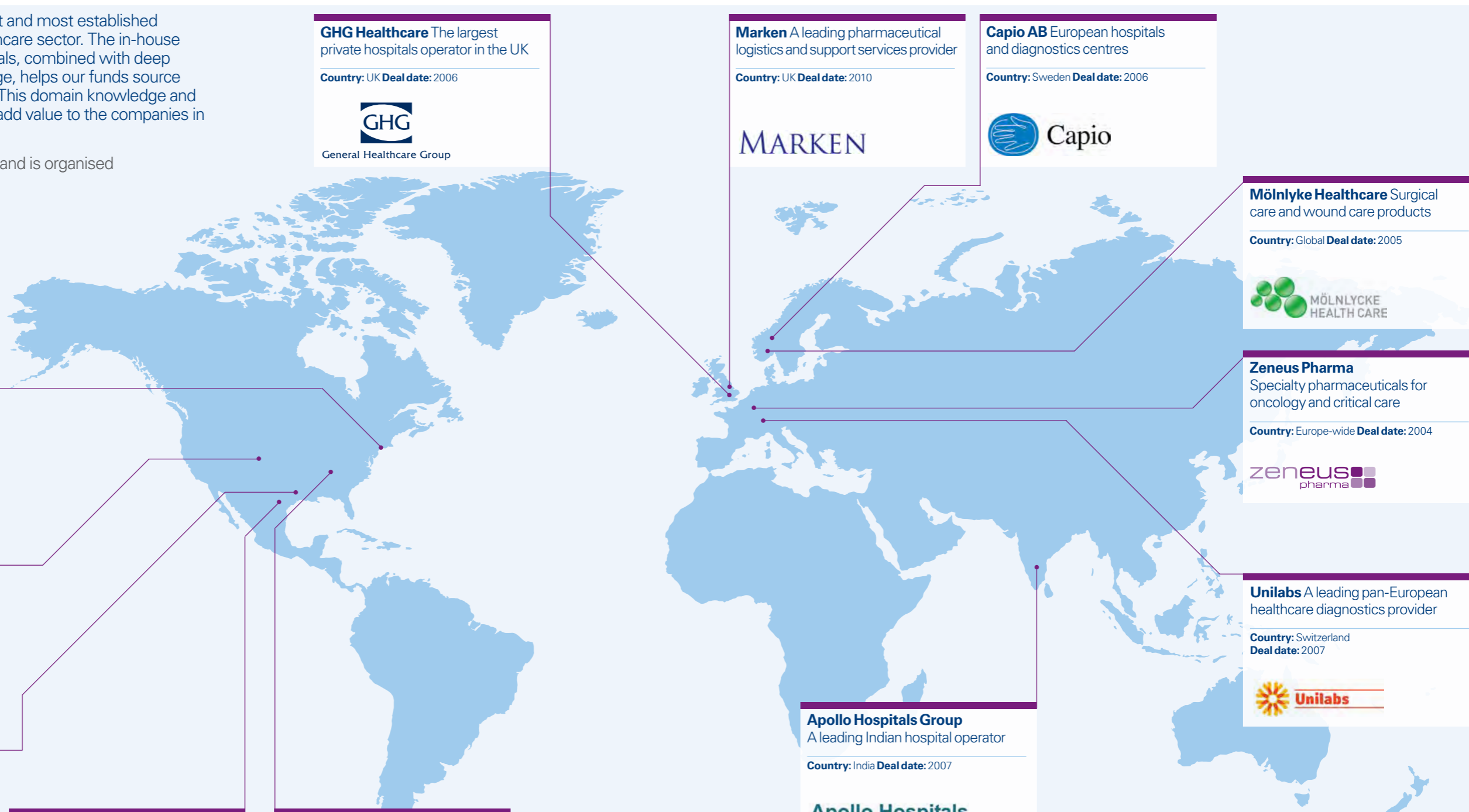
**Unilabs** A leading pan-European healthcare diagnostics provider

Country: Switzerland Deal date: 2007



**Apollo Hospitals Group** A leading Indian hospital operator

Country: India Deal date: 2007



Our Healthcare Partners

# Experts in Healthcare

**Buddy Gumina**

 Partner and Co-Head of the  
Global Healthcare Group


Buddy focuses on investments in healthcare services, products, pharma and healthcare IT. Prior to joining Apax Partners, Buddy was at Saunders Karp & Megrue and DLJ Merchant Banking Partners. Buddy received an MBA from the Harvard Graduate School of Business Administration and a BA in Political Science from Yale University.

Some recent deals have included:

The TriZetto Group, Inc.

Qualitest Pharmaceuticals

Spectrum Laboratory Network

Encompass Home Healthcare

KCI

Voyager HospiceCare, Inc

MagnaCare Holdings, Inc.

**Khawar Mann**

 Partner and Co-Head of the  
Global Healthcare Group


Khawar focuses on investments in healthcare delivery services, R&D and healthcare logistics. Prior to joining Apax Partners, Khawar was at Linklaters and Weston Medical Group PLC. He has a degree in Medical Sciences and Law from Cambridge University and also an LLM Master of Law. He has an MBA from The Wharton School, where he was a Fulbright and Thouron scholar.

His recent deals have included:

General Healthcare Group Ltd

Capio AB

Apollo Hospitals

Unilabs

Marken

**Steven Dyson**

Partner



Steven joined Apax Partners in 2000. His prior experience was gained at McKinsey & Company. He gained a BA in Biochemistry from Magdalen College, Oxford University and a PhD in Developmental Biology from Cambridge University.

His deal experience includes:

Capio AB

General Healthcare Group Ltd

KCI

Unilabs

Zeneus Pharma

**Sandeep Naik**

Partner



Sandeep joined Apax Partners in 2004. Prior to joining Apax, Sandeep held roles at Medtronic, the Mayo Clinic and McKinsey. He holds a BTech in Instrumentation Engineering from University of Mumbai, an MS in Biomedical Engineering from Medical College of Virginia and an MBA in Finance from The Wharton School, University of Pennsylvania.

His deal experience includes:

Apollo Hospitals

Esprit Pharma

Spectrum Laboratory Network

Zanodyne

**Bill Sullivan**

Partner



Bill has been a partner at Apax Partners since February 2007 and has over 22 years' experience in the healthcare industry. Prior to joining Apax Partners, Bill was the CEO of Magnacare Holdings Inc. an Apax Partners portfolio company. He also spent 13 years at Oxford Health Plans. Bill obtained a Bachelor of Science degree with a concentration in finance and banking from Suffolk University in Boston.

His deals include:

The TriZetto Group, Inc.

MagnaCare Holdings, Inc.

About Apax Partners

# Releasing potential

**Apax Partners is an independent global partnership focused solely on long-term investment in growth companies. Funds advised by Apax Partners typically invest in companies with a value between €1bn and €5bn.**

The Funds invest in five sectors: Financial & Business Services, Healthcare, Media, Retail & Consumer, Tech & Telecom. The firm currently has a global network of ten offices in three continents and employs over 300 people.

Apax Funds have a proven strategy of sector-focused investing, looking for opportunities where capital, experience and insight can release the potential of businesses and lead to significant growth.

Our sector focus, combined with an established network of local offices and a global platform, represents the foundation of Apax Partners' strategy outlined below.

 Apax Partners' Healthcare  
Principals and Associates

**Ameya Agge** Principal

**Arthur Brothag** Principal

**Hector Ciria** Principal

**David Issott** Principal

**Hannes Rumer** Principal

**Ariel Goldblatt** Senior Associate

**Francesco Schinina** Senior Associate

**Arnaud Bosquet** Associate

**Alex Crable** Associate

**Luther Gatewood** Associate

**Nikhil Marathe** Associate

