

# Privcap/Report

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## Healthcare Game Change 2015

*A collection of thought leadership, and of the people behind it, presented at Privcap's first full-day healthcare event*

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## Privcap

### **David Snow**

Co-founder and CEO

### **Gill Torren**

Co-founder and President

## Marketing & Sales

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Video Production Manager

### **Jake Hard**

Production Assistant

### **Karolina Tarczynska**

Media & Marketing Coordinator

## Contacts

### **Editorial**

David Snow / dsnow@privcap.com

Matthew Malone / mmalone@privcap.com

Zoe Hughes / zhughes@privcap.com

Andrea Heisinger / aheisinger@privcap.com

Rachel Lapidos / rlapidos@privcap.com

### **Sponsorships & Sales**

Gill Torren / gtorren@privcap.com

Doug Weber / dweber@privcap.com

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## About Privcap

Privcap is a digital media company that produces events and thought-leadership content for the global private capital markets. [www.privcap.com](http://www.privcap.com)



### **David Snow**

CEO & Co-founder,  
Privcap

## Capturing an Ecosystem of Disruption

When advances in healthcare occur, the positive impact is felt by an increasingly large ecosystem of beneficiaries.

The most important are, of course, the patients, who receive quality care at a lower price. A new generation of fleet-footed and data-savvy providers also benefit, in that they win healthcare spend in a market hungry for innovation and consumer-driven business models.

And in many cases, the capital partners to these providers are being rewarded with high returns. Evidence of this was repeatedly presented onstage at Privcap's Healthcare Game Change event, which took place November 18 in New York.

The most talked-about session of the event saw Dr. Jay Parkinson give an overview of his groundbreaking startup, Sherpaa, which connects patients with doctors through text messaging. During a panel discussion of LPs later in the day, Frank McEvoy of New York State Common Retirement Fund said his pension was an investor in a venture capital fund that backed Sherpaa.

An innovative company that improves healthcare while also delivering returns to retirees is exactly what our society needs more of, and is the kind of story that Privcap hopes to tell again and again.

The content in this report tells many of those stories that were highlights of our conference, which drew more than 170 institutional investors, private equity managers, and healthcare innovators for conversations about the ways that capital and fresh ideas are revolutionizing the healthcare space.

In a market too often characterized by plodding, incremental change and shareholder value being extracted through financial engineering, we hope to see more in the way of smart capital meeting smart innovation. And you can be sure Privcap will be there to cover all the players and their best ideas.

Enjoy the report,



David Snow  
@SnowsNotes

# Playing the Healthcare Evolution

*Senior executives from TPG Capital, Bain Capital, APAX Partners, and The Carlyle Group talk about the state of healthcare dealmaking. Are the opportunities too good to be true?*

**Angela Humphreys, Bass Berry:** Why are you bullish on being a healthcare investor?

**Chris Gordon, Bain Capital:** The private equity business model is the best fit for dynamic circumstances. Steady-as-you-go growth companies or moderate-growth companies might be great investments, but they're hard to create differential returns around.

**Buddy Gumina, APAX Partners:** It is always more of an evolution than a revolution in healthcare. Bigger businesses [are realizing] that business as usual is not going to generate the usual profits.



Todd Sisitsky,  
Partner,  
TPG Capital



Chris Gordon,  
Managing Director,  
Bain Capital



Buddy Gumina,  
Partner,  
APAX Partners



Will McMullan,  
Principal, U.S. Buyout,  
The Carlyle Group



Angela Humphreys,  
Chair, Healthcare Practice Group,  
Bass, Berry & Sims PLC

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**Todd Sisitsky, TPG Capital:** More has changed in the last three to five years in healthcare than the previous few decades. And that creates an interesting opportunity for private equity.

**McMullan, The Carlyle Group:** The biggest problems facing this sector, as well as this country, is that healthcare is too big and it's growing too rapidly. And from an investment perspective, that's obviously attractive. But there are warning signs, as it's in the sights of the political system, the regulatory system, and the general population.

**How do you develop your investment theses, and then how do you put them to work?**

**Sisitsky:** Thinking about what we're all trying to accomplish and then proactively identifying the segments that might fit into that well is a big part of what we do. But ultimately, until you get out there and you really spend time in this space and you try to meet every CEO and you try to attend the industry conferences and really understand the flows and how the power dynamics are evolving, you don't really know.

**Gumina:** One of our core themes is efficiency—companies, products, devices, services, technology—that takes cost out of the system. Another theme for us is globalization. People think about healthcare as a very local business—and in some cases, it is. In other cases, there are opportunities to expand a business into new markets.

**With all the disruption that we're seeing from smaller companies, how can big dollars from private equity be effectively deployed in the healthcare space?**

“More has changed in the last three to five years in healthcare than in the previous few decades.”

—Todd Sisitsky, TPG Capital

**Gordon:** The hardest question is figuring out which ones have an ability to transition their business model in a way that either has upside or at least not too much downside...without having too much risk of that current profit pool as the system changes.

**McMullan:** Healthcare is much more of an evolution than a revolution story. Can we start with this and add on and layer in the additional capabilities that they need in order to evolve with the market and maintain their leadership position?

**How far along are we in terms of cost containment, and what does the ability to bend the cost curve mean for you as investors?**

**Sisitsky:** I don't know that it's so much cost containment as it is some form of consumerism—people becoming much more aware of healthcare spend as they have to absorb more of it themselves and act a little bit more like consumers.

**Gumina:** We're still in the early innings, but I also have a view that the ACOs and quality-based reimbursement is going to take a lot longer than people think. You're going to have a lot of roadkill along the way.

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**Gordon:** I would say it's pretty early, but I could actually imagine an acceleration in the pace. We're seeing that when people are given that choice, they tend to gravitate to the lower-cost plan, but they're OK with it because it was a choice that they made.

**Will and Todd, can you talk about reimbursement risk related to your investments? How do you understand it, and how much risk are you willing to take in today's environment?**



“People think about healthcare as a very local business—and in some cases, it is. In other cases, there are opportunities to expand a business into new markets.”

—Buddy Gumina, APAX Partners

**McMullen:** [You can] get a sense of what the near term, and maybe even the medium term, holds as you look at various reimbursement models, but it's really hard to look out beyond that with any level of certainty. It's really hard to say, “In six years, this is what the reimbursement trend for a given industry is going to be.”

**Sisitsky:** Whether it is reimbursement or it is commercial pressure, there is a general effort to accommodate higher volumes at a lower price. ■

#### Questions from the Audience

**What's most important in terms of measuring care quality?**

**McMullen:** Outcomes are clearly something that's important. Are the patients getting better at the fastest rate? Are they getting fully rehabilitated as part of the care plan that you're providing?

**How would you assess your current investments and future investments if there are major changes to the ACA?**

**Gordon:** There's always an economic impact of changes in regulations. But often, within some reasonable set of outcomes, you can make a judgment around the risk return you're taking. There's another kind of risk which is really more an existential risk. That is, if you're looking at a business model that relies narrowly around the way the current regulations are structured, as long as those don't change, you'll be fine—but if they do, the elephant can roll over and kill the fly.



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