

-- [00:00:00] Ross Butler: You're listening to Fund Shack. I'm Ross Butler and this week I'm talking with Sanjay Panchal, a partner at Livingbridge, a leading mid market private equity firm. Sanjay focuses on healthcare, and in this discussion he explains the dynamics and the opportunities in this complex sector from an investor's perspective.

Sanjay. Welcome to Fund Shack. You focus on healthcare at Livingbridge New Invest. Healthcare is kind of it's a big sector to get your arms around. How do you at Livingbridge approach it?

[00:00:31] Sanjay Panchal: Yeah, you're right. Healthcare is a really massive sector and very varied, actually. Lots of different business models, lots of different end markets, lots of different subsectors to get your head around. So it can be quite a difficult market to navigate and try to think through. But the way we think about it at Livingbridge and if I talk a little bit about how we approach private equity generally and then parlay that into how we break that down into healthcare, it hopefully helps provide a bit of a framework, but that'd be great.

We largely play in the mid market in the UK and so we're investing in businesses generally making a few million pounds of profit and above and helping them scale and grow. And if you think about it, if you think about the sort of broader UK economy, it's a low GDP growth economy. And our job as investors is to spot the areas of that economy which are growing faster than GDP and materially faster than GDP, because we want to be finding businesses that are growing at 20, 30% a year. And so the beauty and the challenge in that is actually what you're constantly having to do is re-point where you're spending time, because the markets are constantly changing. And where that growth comes from, as sort of subverticals and sectors go on, their natural maturity curve means you have to constantly look for new, different pockets of growth. And so the way we approach it at Livingbridge is really thematic investing, so really identifying key trends and growth trends in the healthcare space and in a market, and then understanding how we can bring to bear our capability and our experience into helping and supporting companies that are playing into that ecosystem. So we're constantly looking at where is change happening, where is innovation happening? And in healthcare in particular, it's very much also linked to where is funding going and where is capital going?

And that's both NHS funding, but also in the private sector, where are healthcare dollars getting spent, or pounds getting spent, rather? And then we also think about it in the context of where can our experience as an investor in the things we've done in the past really allow us to win and play and make a difference? I guess underlying all that is a philosophy we've built in healthcare, which is really focusing in on businesses that want to drive a change in outcomes. And we really believe in the fact that as a healthcare provider, if your sole purpose or your reason to exist is to drive better healthcare outcomes, the commercial outcomes sort of follow from that. We want to partner and like to partner with businesses that share that same philosophy who come from a real care ethos and also businesses that as part of that, really focus on being the best employer in their market. Because as you'll see, a lot of healthcare businesses are very much people driven. 40% of NHS spend is on staff.

So people are the lifeblood of delivering health care. And the key to growing really sustainable healthcare businesses is actually being able to recruit and retain individuals and empower and inspire them and also give them the tools they need to deliver great care.

[00:03:32] Sanjay Panchal: So it sounds like we're talking about service businesses really rather than because you'd include like biotech and stuff into healthcare.

[00:03:39] Sanjay Panchal: Yeah, in the main, as a house, we are largely focused on service businesses. That includes technology as well. But if you look at the wider healthcare ecosystem, you've got very capital intensive businesses, things like hospitals, but those are in the main and you think about elderly care homes, but those are in the main profile of investment that's more suited to either large corporates that play in that space or real estate investors. So we are typically playing into service business models. Yeah, right.

-- , but you also spoke about change. I thought you were going to say, oh, well, we look at themes like aging population, et cetera, et cetera, et cetera. And that's a theme that doesn't really change that quickly.

[00:04:20] Sanjay Panchal: Yeah, we do look at really large themes like that. So actually that's where we start from. So we say, actually, what are the big ten? We call them tenure truths in a market. So what is the direction of travel in an overall market? And then as a result of that, which are the business models that will play into that change? So a really good example is a business that we invested in in 2018 called Helping Hands. And Helping Hands delivers care in the home. And we recognized as part of our tenure truth, that actually, one, you've got an aging population, but two, a lot of care was moving to be out of hospital and into the community and there's a strong imperative to move care closer to the home. If you look at the number of hospital beds in the UK, they've gone from about 200,000 beds in the early two thousand s to about 140,000 now. So the acute capacity and that's partly driven by the fact that there's more day procedures, so you're able to do procedures more efficiently and therefore you might need less capacity, but also a strong imperative to move care closer to the community. So we spotted that as a trend, as in a ten year truth, and we spent a lot of time building relationships with businesses over a long period of time. So we spent ten years, I think it was, getting to know a Helping Hands before we even did a transaction with them. And some of the other big tenure truths are technology adoption, healthcare, looking at the care in the community, in life sciences, there's a huge change in the way drug pipelines towards more complex molecules and more complex indications. And that's driving a lot of different activity and a lot of pockets of growth in the life science ecosystem. And so, yeah, we do try and identify these very long term trends and then see what business models can play into them.

[00:05:58] Ross Butler: They sound very, very different types of businesses. And while private equity firms are great at service businesses playing into the complex molecule, I mean, this is a specialist endeavor even for the people that are investing in the companies that are doing it.

[00:06:14] Sanjay Panchal: So our job, another way to think about it is our job is pattern recognition. What we're trying to do in a lot of these instances is identify the common themes and the business models that exist and how we can play into them. Let's use Helping Hands as an example. Helping Hands is a business that a core part of what it does is recruiting and retaining clinicians and nurses. And actually that capability and that skill set is very common to a lot of different business models and a lot of different business. So even when you've got very specific end market dynamics, there's common themes in those businesses that we as a private equity house can bring to bear. And that's kind of the value we bring as an organization, which is to actually say we've seen this ten times before in a bunch of different scenarios. And actually our ability to and our focus on multiple sectors really does make a big difference in understanding that pattern recognition because you get to actually see it across a load of different sectors.

[00:07:07] Ross Butler: I guess in that example, your healthcare specialization allowed you to see the opportunity. And when you bought the business, the value creation drivers and levers were actually relatively known to you because exactly.

[00:07:18] vYeah. And we see that that's a very common theme for us. We see our job is to identify those patterns and then understand how we can leverage our experience. Our capability to help the companies we work with often bypass the mistakes we've made and miss them, but also bring capability to help them scale. If you're thinking as a founder of a business, most of the founders we work with, they're really passionate about the markets they work in. They have a really clear vision about what they want to build and they know what great service and product looks like for their customer base. That's very different to understanding the ingredients of how to scale a business.

What does the best CFO look like? How do I think about making an acquisition in the US. Because I've never done that before. And that's where that combination o --

-- f their vision, their understanding of their market, combined with our capability of how to scale and how to execute, all the while having the same empathy in healthcare in particular, that's a really powerful combination. And so our philosophy is all about, is this business in a better place than we left it? Have we genuinely brought value to the table, to that founder, and helped them realize their vision? A really good example is a business I sit on the board of called Nourish Care, which is helping elderly care homes in the wider healthcare ecosystem transition from paper records into digital records. And Nuno, the founder there, incredibly passionate about it, has really aligned on philosophy in terms of driving better care outcomes as the ethos of the business. We think of it as a care business first, before technology business. But actually, Nuno has no idea. He didn't have any idea how to make an acquisition or hadn't done one before.

We've helped build a C suite around that business to make sure it's got the right talent around it, to help it scale and really maximize the opportunity that business has.

[00:09:16] Ross Butler: Yeah, it's so interesting how you come at things, because you could have come at a deal like that as a technology investor and applied a cookie cutting approach to that, and maybe it wouldn't have made much difference, but maybe you wouldn't have won a deal in the first place.

[00:09:28] Sanjay Panchal: Yeah, no, exactly. And it's that combination of we've got a lot of healthcare experience and a lot of software experience, so we're able to bring that empathy and that ethos, that care ethos, and that quality ethos from a healthcare perspective. But then we also understand what are the ingredients to scaling a software business model. That's a really powerful combination and something that we think really differentiates us and.

[00:09:50] Ross Butler: The level you're investing. You're dealing, as you mentioned, with founders and entrepreneurs.

Is there a type? Do they tend to have medical and care backgrounds? Presumably they do, but maybe not.

[00:10:02] Sanjay Panchal: Funny enough, increasingly we're seeing people from non care backgrounds come into care. Partly there's an opportunity, and then also partly there's a need for innovation. And so you see a lot of people looking at parts of the healthcare ecosystem saying, something's broken, I can find a solution and fix it. Particularly in technology, where you get a lot of engineering and a lot of technical understanding and just applying it to a different use case, really.

[00:10:25] Ross Butler: The other thing about the medical profession in general is that it's full of really smart people. They're very specialist.

And I guess it's a shame that there isn't a culture of being able to dip in and out of being a heart surgeon and an entrepreneur. I guess that's just not what the system caters for. But you can imagine that a heart surgeon has lots of fantastic ideas about how to make the system better.

[00:10:48] Sanjay Panchal: Yeah, it's partly what I love about being in the sector, actually. You're generally working with very bright, very thoughtful individuals who you can just have a very rational and really fulfilling conversation with about what they want to build and how they want to go about building it. And particularly in healthcare, and particularly in life sciences as well, you just find really smart individuals and it's a pleasure to work with them.

[00:11:15] Ross Butler: I felt that you were a little bit modest in your description of living bridge at the start because it's a wildly successful growth capital and mid market house. And yes, you're in the UK, but you also have a real international presence. How does that feed into this sector?

[00:11:30] Sanjay Panchal: We've got offices in the US and Boston, an office in Australia, and interestingly, in Australia we've done two healthcare investments, actually three. So we've done invest in a business that does physiotherapy clinics. We've got a GP clinics business, and we've

-- re the funding models and the nuances of navigating those systems to a large extent still the case. But particularly in the acute sector, and by that I mean hospital and secondary care, the specific specialties are becoming much more multi jurisdictional. So for example, gastroenterology or dermatology, these are very specialist disciplines that you can actually scale across different geographies as long as you're able to navigate the funding system and the nuances of that.

[00:12:40] Ross Butler: Can you give me an example of say, gastroenterology? What element of it is scalable?

[00:12:45] Sanjay Panchal: Yeah, so what you could have is, for example, in the US you see this a lot now you have specialist gastroenterology clinics. So whereas before what you'd have was hospitals doing everything. You get a reconfiguration of the footprint where you get specialty businesses really focused on specific disciplines and the care pathway becomes much more specialized.

[00:13:03] Ross Butler: And how they tend to be funded, are they still funded through the state system or does it just so it.

[00:13:09] Sanjay Panchal: Depends on the individual jurisdiction. So what you can have is similar to what we have in the UK, where a lot of it's publicly funded but privately delivered, or you have private pay or a mix of both.

And that's becoming a more common theme that we're seeing as well.

[00:13:22] Ross Butler: Do you see many healthcare opportunities where it's kind of a consumer driven trend and choice?

[00:13:29] Sanjay Panchal: We're seeing the increasing consumerization of healthcare, and I think the way I'd characterize it is consumers wanting greater visibility and control over their health.

To be honest though, that hasn't really necessarily parlayed its way into the private sector from an independent self pay perspective growing is we still think there's lots of opportunity there, but it probably hasn't fulfilled its potential yet. I think it's probably the best way to describe it. The other interesting thing is that the expectations of consumers has really changed in terms of the service they expect from a counterparty more generally. And then that's really driven by how most industries have moved online in some fashion. And therefore the definition of customer experience is really changing. And the healthcare landscape has really lagged in its ability to keep up with the expectation of the consumer on customer experience. So NHS patient satisfaction is, I think, around 14%.

And this is where we see a big role in technology playing, in actually delivering a better customer experience, if you want to call it that, into what can be a state funded environment.

[00:14:41] Ross Butler: Let's talk about deal making for a minute, generally speaking, rather than like, maybe right now. What kind of competition, what level of competition do you have? What types of competitors do you have for assets? And then at the other end, where do you look to typically exit?

[00:14:57] Sanjay Panchal: The UK mid market is quite an established ecosystem, so we will be competing, as you'd expect, with other mid market funds. We've probably got one of the longest running franchises in healthcare specifically, and built a very strong track record in healthcare. Increasingly, you're seeing US competitors come to the UK, particularly in the life sciences arena.

[00:15:20] Ross Butler: And right now, are you seeing decent deal flow? I know generally it's a difficult market

-- t we've been tracking for a long time. So we've always been very strong in social care and really focused on the high acuity end of social care, where you can make a real difference to care outcomes as a provider.

Our last three deals have been in healthcare technology, so we're seeing a lot of change in healthcare technology and a lot of adoption of healthcare technology now, particularly post COVID.

And then we've made our first investment into the life sciences space in 2021 and then we've got a number of business that also play into the NHS as well as some of the consumer healthcare trends that are happening.

[00:16:57] Ross Butler: How did you end up focusing on healthcare? Is it just a personal interest?

[00:17:00] Sanjay Panchal: I've always believed that our sector can be used and drive a lot of good, and healthcare to me seemed the most logical place where you could have a real positive impact on society and at the same time really demonstrate that commercial success and positive healthcare outcomes can coexist. That's something we're really passionate about. By being commercially successful, you can reinvest in delivering better care and continually improving the way you think about care outcomes and delivery.

That really gets everybody on the same page because then you're all in it for the same thing, which is we're all trying to improve care outcomes, we just happen to do it in a commercial context.

[00:17:38] Ross Butler: The ethical element of this really does sound like your lodestar. It's the guiding light that you have that helps you find good commercial opportunities.

[00:17:49] Sanjay Panchal: It also really helps us think about the businesses we want to partner with, because when you have that as your North Star, everything else kind of falls into place. And there's real alignment between us and the founders because you've got a sense of what we're really striving for here, and it really helps bring into focus your decision making.

[00:18:08] Ross Butler: You've recently done a deal in the life sciences sector, as you mentioned. Could you tell us a little bit about that?

[00:18:12] SSanjay Panchal: We probably started in 2017, looking more closely at the life sciences space and really trying to break it down into where does opportunity set? And there's a few big trends coming back to your point, around ten year truths that we recognize, and we're not the only ones to recognize it, but these are the structural changes that were happening in life sciences that are really driving a lot of the opportunity today.

The first trend was that drug pipelines becoming much more complex and much more specific. So the years of having really big blockbuster drugs, they're not behind us, but they're less of an influence. So what you were having is pharmaceutical and biotech companies developing drugs that are much more specific indications targeted towards much smaller patient populations.

[00:19:02] Ross Butler: Right. So not general aspirin and pain relief?

[00:19:04] Sanjay Panchal: No, exactly specific. Really specific. So this type of cancer or this type of so you had much more complexity being introduced into drug pipelines. The second thing was a structural shift in what pharma did and what they outsourced and where the development in that ecosystem happened. So effectively, what you had is much more the development and discovery of drugs moving from pharma into the biotech world and people raising capital on the basis of creating a specific molecular drug that they would then sell into a pharma company or commercialize on their own, which we're increasingly seeing, but in the main hitting milestones. And then effectively being able to trade on that value and sell them into pharma. And what that

-- more, call it asset light. So instead of having all their resource in house, looking to have more variable resource. Because if you think about it, your drug pipeline over a ten year period may vary quite significantly, or a 20 year period. The core role of a pharma company is to identify really novel therapies that you can bring to market and commercialize and successfully do that.

But you don't have to be an organization that does everything from top beginning to end the discovery, the manufacturing, running the clinical trial. So the outsourced provider community into pharma companies started growing massively as well. And that just created a whole bunch of business models that probably didn't exist 2025 years ago. The third big trend was that.

[00:21:16] Ross Butler: Can I just ask you about that?

[00:21:18] Sanjay Panchal: Yeah.

[00:21:18] Ross Butler: So that's been going on for a couple of decades now. Where are we in that? So it's fascinating the way you explain it. Like there's these monolithic companies and a part of them is kind of crumbling away as they outsource it and that's creating a whole entrepreneurial ecosystem.

How far has that run? Is that ecosystem now more or less established or are there constantly new opportunities?

[00:21:40] Sanjay Panchal: So the way to think about the life sciences ecosystem, the way we think about it, is in three big buckets. So you've got discovery, which is trying to identify potential targets to be a drug. You've got the clinical side of it, which is demonstrating that that drug works or it doesn't, and then you've got the commercial side of it, which was selling the drug. So those are the three big buckets of activity and each of those is on its own journey of maturity with respect to how much is done by third party provider communities and how much is done by the pharma companies themselves.

[00:22:12] Ross Butler: Are you interested in all three?

[00:22:13] Sanjay Panchal: So I think our current view is that the first area where there was a lot of maturity about sourcing is largely, in our view, mature now other than specialists. And we could talk about VeriMed is the clinical side and you now have what are a relatively established set of CROs who run clinical trials for pharma companies. Now, the interesting dynamic there is when I talked about this biotech dynamic, some of these biotechs are now starting to try and run clinical trials themselves and go further up the value chain.

And what's happened is you've got this huge CRO community, but they're largely facing into big pharma. So actually it's quite a complex matrix because you've got pharma companies, so big pharma, let's call it mid size pharma and biotech, and then you've got a service provider community that is kind of catering to each of those segments. So the large CROs today are largely focused on the big pharma business. They match up against that. But then there's a whole ecosystem of CROs on the clinical side that are playing into the smaller customer segments as they start to do more of that activity.

[00:23:20] Ross Butler: So in a sense, they're specialists, but they're becoming less and less specialists because obviously they're trying to expand their position as well.

[00:23:26] Sanjay Panchal: Exactly.

But that whole ecosystem relative to the other parts is pretty mature now, right?

[00:23:33] Ross Butler: Yeah.

[00:23:33] Sanjay Panchal: So we think it's harder to play into other than very specialty disciplines where for example biometrics which VeriMed does which is all the data analysis

-- o, we spotted that this was increasingly being done independently of the full service CRO world, and therefore we were lucky enough to invest in VeriMed. And that was us really bringing to bear our thematic investing. We spotted that that was a theme. We met every business in the UK that did that. And what was very different about VeriMed was that it really fit with our culture and our ethos. The business was really focused on being the employer of choice and really delivering high quality work.

[00:25:02] Ross Butler: How did you find the business?

[00:25:04] Sanjay Panchal: So that was that we have a direct origination team that reach out to companies on our own volition. And while a lot of the market today in terms of private equity transactions will be intermediated by an advisor in the middle, that relationship prior to that event happening means that you often have a better chance of completing that transaction proprietary deal.

[00:25:24] Ross Butler: Holy grail. And that was one of those.

[00:25:26] Sanjay Panchal: Well, yeah, so they put an advisor in and other people have to look at it eventually had a relationship, of.

[00:25:30] Ross Butler: Course, eventually they're going to get advised, but you're in early, as it were.

[00:25:35] Sanjay Panchal: Exactly. And there's an understanding there's a relationship there that you can leverage.

[00:25:38] Ross Butler: Yeah. And how's it going?

[00:25:39] Sanjay Panchal: Yeah, great. It's a fantastic business. It's a really exciting end market and what's really reassuring to see is that business has been able to scale its headcount without the impact of quality. Because often when large businesses grow, it's harder to maintain. And particularly in healthcare, it's really important that you have really good clinical governance and quality all the way through the organization.

And part of the reason we thought vermit is really attractive is because their focus on quality. And that's proven out as we've invested and we've just made our first acquisition in the US.

And as I'm sure you're aware, the largest farmer market exists in the US. And a lot of our customers will want us to do US work. So we now have an on the ground presence there, which is a business. We help the company identify, help them transact, and now we can go from there.

[00:26:27] Ross Butler: What about digital? Because particularly we're here in the UK with the NHS, it's a huge institution. Presumably the only way to make that more efficient is digitization. There can't be any real downsides to digitization, can there? And that's just all think, you know.

[00:26:41] Sanjay Panchal: There'S a lot of benefits to technology, but we have to be very cognizant of how we deploy it. And this is where this sort of care ethos and outcome ethos really comes to the fore. Because actually, first of all, when you introduce lots of technology solutions into an organization, that's a lot of change management that needs to happen. And actually we see our job when we invest in healthcare technology businesses is really helping educate providers who in a lot of instances may be adopting a technology solution for the first time. Or more importantly, they've got staff nurses, clinicians, who are stressed enough as it is with their day job and then having to learn how to use a new tool, even though there's massive benefit to it. But that initial learning curve and changing the ways of working and the behavioral patterns, that's a massive change management program, a massive cultural program. So implementing technology, it can't be viewed as, let's just go sign up to a new tool. It's got to be really fundamental to how the organization thinks about changing the way it operates and works.

-- ability for people to access technology. Because you can imagine a scenario where you've got a digital pathway for care. And by that I mean the triage is digital on your phone. You upload a picture, you answer a bunch of questions, and then you're sent into a referral pathway. And ultimately you maybe end up with a face to face appointment or not. Or you're asked to input a lot of data about yourself, or you have to do it completely remotely. And somebody might be living somewhere where there's a bad Internet connection, for example. So there's all these aspects to getting people to actually use technology and engage with it and making sure it doesn't exclude elements of society and groups of society who are either less digitally savvy or have less access.

[00:29:15] Ross Butler: There's a massive generational component to this as well, where it's not just that the older generation didn't grow up with technology, it's also that technology does become harder as your digits become less malleable and your eyesight starts to go, it all becomes harder. I know, exactly.

[00:29:30] Sanjay Panchal: And so therefore exactly so when designing solutions that have technology in them, this kind of needs to come to the fore in terms of be at the core of how people think about it, ensuring access and usability and education of technology so you can take people on that journey and make it easy for them.

It's a really big something know, we talk about a lot at nourish and ensuring that actually our technology becomes usable and accessible for people.

[00:29:54] Ross Butler: And I'd imagine as you come across like a really cool digital company focused at healthcare, you can then take that, because if I'm a software engineer and I know that healthcare is a great application, that might not be the first thing I think of because I'm a tech guy. I love that stuff.

[00:30:09] Sanjay Panchal: Exactly.

[00:30:09] Ross Butler: Whereas you can bring that perspective and say, hang on guys, everybody sits in.

[00:30:13] Sanjay Panchal: Their own echo chamber, right? So it's very easy to not have perspective of how another user might think of it.

[00:30:19] Ross Butler: And is there any symbiosis between your digital investments and your view of services?

[00:30:27] Sanjay Panchal: What we're increasingly seeing in healthcare in particular is that combination of technology and service and particularly on the sort of acute side where, if you imagine what we're trying to do is for somebody who's got a specific problem, have the most efficient pathway through the healthcare system that might involve a digital solution at the beginning that helps you work out whether you actually need to see somebody or not. And it might involve end up with you seeing a clinician. And actually if you want to really have a solution that makes that whole process both from a customer experience, a clinical outcome and a system efficiency perspective, those all need to be joined up in some way.

And so I think you'll start to see more of an integration of technology and service as time goes on because it becomes imperative for the system to deliver the change it needs.

[00:31:21] Ross Butler: So maybe we could try and round up with kind of more because this all sounds like great stuff and it's a very broad sector and you've done a great job of kind of passing it for us. Do you have a view on the role, the importance of private equity and growth capital in healthcare? Because I look at some sectors and manufacturing or whatever and I think if private equity wasn't there, that wouldn't be positive, it might not be the end of the world. What role in the kind of the round in the macro is private equity playing for the positive in the healthcare sector. would you say?



-- gnificant amount of capital under investment into the UK. And so therefore our estate and our system has been started with that development that it's needed. And secondly, if you think about what's going to change the system and what's going to really drive it's innovation, people coming from outside the sector into the sector, coming up with new solutions and novel ways of changing things. And I think private equity is a great way to facilitate and bring that to bear to the sector to really enable innovation in the space.

[00:33:03] Ross Butler: Great. Well, Sanjay, thanks so much for coming on the show and explaining that very interesting sector.

[00:33:07] Sanjay Panchal: Thanks very much.

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