KEYNOTE INTERVIEW

Powering up HealthTech

As industry and consumer approaches to technology shift, there is still significant potential to unlock in the healthcare IT market, say Nordic Capital's Raj Shah and Daniel Berglund

The healthcare sector is traditionally very cautious when it comes to adopting new approaches, including technological innovations, and with good reason. If an innovation fails or has unforeseen consequences, the potential risks to patient safety and the financial cost to a business can be high. However, the covid-19 outbreak has demonstrated the potential for companies that combine a healthcare specialism with IT expertise to propel critical medical advances faster – for instance in drug and vaccine development, as well as clinical trials. We asked Raj Shah, partner and co-head of healthcare at Nordic Capital, and Daniel Berglund, a partner at the firm, to pinpoint where the opportunities lie for private equity.

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Q If you were to name one key long-term trend driving healthcare IT what would it be?

Raj Shah: The increasing digitisation of what is essentially a safety-first, conservative healthcare industry represents a tremendous opportunity for private equity firms to save costs as well as increase the speed and time to market for new products. For instance, Nordic Capital's portfolio company ERT – which specialises in digitising clinical research – has huge potential for improving speed and data integrity as well as being cost-effective. This potential applies to both consumer-focused healthcare IT businesses and those on the enterprise side, such as contract research organisations, group purchasing organisations and pharmaceuticals.

Q Where do you see the most opportunity for future growth?

Daniel Berglund: Healthcare IT is a $33 billion market comprised of niche segments. About a third is made up of life sciences businesses, which encompasses pharmaceuticals, with the remaining two-thirds covering the rest of the healthcare chain: government, regulators, payers, patients and providers. We focus on the life sciences side, which is growing at 13 percent a year – compared with the healthcare services-led market, which is growing at about

What made clinical trial technology company ERT an attractive investment?

RS: When Nordic Capital invested in ERT in 2016, we liked the business because it was in the digital clinical trials space and focused on helping researchers conduct drug testing faster and more accurately. Developing a new drug is expensive. A pharmaceutical company can spend hundreds of millions of dollars upfront, 10 years on development, and then another 10 years monetising its investment before the patents run out. The faster pharma companies can produce the drug, the more economic benefit the business sees, as well as patient benefits.

How has the business changed since you invested?

DB: The company has doubled its revenues by improving its operations and acquiring four add-ons, including a medical imaging business and a digital patient recruitment company. ERT has a great value proposition – it is a leader in its sub-niche markets of electronic clinical outcome assessments, respiratory testing and cardiac safety.

Why did you decide to reinvest in late 2019?

RS: We recognised there was still room for continued growth and an opportunity to put more capital to work over a longer period. As a market leader in multiple niche markets with a long runway, it was a good reinvestment opportunity for us. We also brought on board a fantastic partner in Astorg to help support the company.

5 percent. Companies in the life sciences space tend to be behind the curve in terms of investment and are eager to grow. These are global providers with worldwide mandates where the economies of scale are strong. In contrast, healthcare services tend to be national or even regionally orientated.

Within life sciences, the $6 billion e-clinical market is one niche we like. Portfolio company ERT, which provides specialist data technology services to capture endpoints in clinical trials, is a leading player within this segment. Currently, the company is supporting research and trials to find a covid-19 vaccine. Companies in the life sciences sector that are emerging platforms or data gatherers are extremely interesting to us. Another area of opportunity is big pharma regulation. Here Nordic Capital has invested in ArisGlobal, which provides drug safety and regulatory compliance software to pharma for medicine that is in development and already being marketed.

Q What does the covid-19 outbreak mean for the healthcare IT sector?

RS: The course of the pandemic has demonstrated the difficulty in tracing the spread of a virus. The mitigation strategies currently being pursued, and the anticipated resulting economic cost, would have been hard to imagine a few weeks ago. Looking to the future, it won't be acceptable not to have a strategy in place for future outbreaks of viruses that will involve locating individuals and areas of infection. Technology/diagnostics and contact tracing will be a big part of the solution and an area of opportunity.

This pandemic is also going to prompt every business to reassess its reliance on people, including the healthcare industry. The crisis and global shutdown have revealed the risks inherent on depending on a workforce that may get sick and be unable to work, and the potential for technology, including automation, to reduce that reliance on human delivery. This shifts the interest in technology from a traditional cost mitigation approach to a risk mitigation strategy.

DB: This shift is already happening. For example, ArisGlobal has been working with the largest regulatory bodies to co-develop the latest version of its LifeSphere MultiVigilence software, which incorporates automation technology. The regulatory authorities see automation not as a cost saver, but as a way to improve and maintain the quality of drug safety and compliance. The adoption of artificial intelligence recognises that people are prone to making errors – not only if they become sick, but also in terms of transcribing.

RS: Another continuing impact of this virus outbreak will be on working habits. As people become used to working from home and connecting remotely, it is now a smaller step to shift to adopting remote interactions such as telemedicine. Looking forward, I expect a greater acceptance and penetration of technology into services that people previously viewed as needing to be delivered in person.

Q Is it a fast-moving market in terms of tech innovation?

DB: On the one hand it's extremely important to pharma and healthcare regulators that suppliers and technologies are proven and tested. If things go wrong, the implications are so much worse than for almost any other industry. They are inherently cautious.

On the other hand, pharmaceutical companies and device manufacturers are under pressure to adopt new

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>
> **RAJ SHAH**

technologies even more quickly sometimes than on the consumer healthcare side. They know they lag behind and are trying to leapfrog forward.

RS: Technology has to be remarkably robust because a glitch can cost you an awful lot of money in terms of lost opportunity or could lead to an error that impairs patient safety. The patient and healthcare perspective is difficult sometimes for pure technology companies to fully appreciate and potentially acts as a barrier to entry and investment.

DB: From a private equity perspective, the key reason there has been relatively little investment into this market so far is that you need to combine medical expertise with software proficiency, and there aren't many PE sponsors competent in both. However, the landscape is changing as companies that launched with VC funding have received growth capital and are now becoming attractive to private equity buyers.

Q What new niches are developing?

DB: In the e-clinical market, waning patient engagement is one of the biggest hurdles to developing new treatments. Patients participating in trials often lose interest and drop out. The digital journey needs to be more engaging. One way to do this is to allow participants to witness their progress against a medical protocol, which requires an element of gamification. It is an area where ERT is already investing at the greenfield level. The outbreak of covid-19 clearly demonstrates that we need to accelerate drug development innovation.

Q Are there technology trends you follow?

DB: No, we are drawn to a specific business and the activity within its niche. The technology depends entirely on the problem you are trying to solve. AI makes perfect sense in terms of speed and accuracy when you are seeking to ensure drug safety, when you need to find signals in millions of patient records for adverse effects, and when you are looking for deviation that is hard to catch with the human eye. But it is more difficult to introduce an AI doctor – a chat-bot, for instance – to elderly, chronically ill patients.

Q In the future, what buyers will there be for portfolio companies in this space?

RS: In five years' time, I expect there to be a range of strategic and tech companies interested in and more comfortable exploring healthcare IT as additions to their core products. I also expect the financial sponsor universe and public market interest to continue to remain strong, given that these businesses are high growth. ■

Nordic Capital's investment in ArisGlobal is a more recent deal. How did that come about?

DB: It came to our notice about four years ago. As a drug safety software business, ArisGlobal operates in an adjacent space to ERT. Nordic Capital acquired a majority stake in 2019 after developing a relationship with the founding family. The business offered a fantastic product – it had conducted a lot of research and development – but we recognised that Nordic Capital could support the company and improve the level of professionalisation, quality and delivery, broaden the management team and introduce a more assertive sales force. There was a lot of room for growth.

It is early days but since Nordic Capital's acquisition, ArisGlobal has appointed a new executive chairman and strengthened the management team with a number of new appointments, including a new global head of products, global human resources, head of sales, chief financial officer, and a new head of global customer success to improve customer focus and quality. The business has introduced a new quality system on delivery and finalised the development of its latest software. Operationally, a lot has happened within a short period of time and Nordic Capital is committed to developing the business further so that it can deliver on its growth plans.