TVM Capital
HEALTHCARE PARTNERS

INSIGHTS

TVM Capital
Healthcare Partners Ltd.

Gate Village
Building 4, DIFC
P.O. Box 113355
Dubai
United Arab Emirates

+971 (4) 401 9568
www.tvm-capital.ae

Regulated by the DFSA

EMERGING MARKET PRIVATE EQUITY AGENDA – MOTIVE AND RISK

Dr. Helmut M. Schuehsler

Chairman, TVM Capital Group
CEO, TVM Capital Healthcare Partners

Since the global crisis of 2008-2009, there has been a palpable and growing sense that the world is in the midst of fundamental economic and political change.

But, as is the nature of change, the only certainty we have, is that there is a lot of uncertainty. We have more questions, than answers.

Can we create enough jobs, and the right jobs? Is the financial sector working for society's benefit, or in its own self-interest? Are markets a force for good, or bound to fail us? Can current political systems handle fast-changing and competing interests?

For private equity practitioners operating in a region that has seen its share of economic and political volatility, these are very real issues that have an impact on the way we raise capital and invest.

Investors and other key stakeholders, including governments, are rightly asking whether we are making a positive societal impact, and how we manage risk. Such questions reflect the hopes and fears of a new generation that sees opportunity in an inter-connected, technology-driven world, but also harbours doubts over the current economic order's ability to provide for them.

The World Economic Forum (WEF) predicts a $41 trillion wealth transfer from baby boomers to millennials over the next 40 years, so we cannot take these issues lightly. Institutional investors, from pension funds and insurance companies to sovereign wealth funds, are keenly aware of the need to deliver more in a low-rate, low return environment, at a time when long-term liabilities are only going to increase.

Here, the private equity industry should be stepping up. After all, research by McKinsey for WEF shows that funds created since 1995 appear to have substantially outperformed the S&P 500 index, even on a leverage-adjusted basis, with other recent academic research suggesting that the outperformance is by a margin of 300 basis points.

Demonstrate motive

But just showing returns and track record is no longer enough. Investors are increasingly looking for a positive societal "impact". For example, are we pushing an environmental agenda, and encouraging gender diversity in our portfolio companies? Research conducted by Credit Suisse shows that companies with greater diversity at board level tend to be better governed and deliver better financial returns – so it's something we should take seriously.

In the MENA region, as in many emerging markets, job creation, skills development and economic diversification are key issues, and governments are looking to private investors to play a positive role. This provides opportunity for the private equity industry, but also means taking responsibility.

For example, at TVM Capital Healthcare Partners, we are investing in several emerging markets very much in line with government policies to promote private sector involvement in healthcare to help lift quality standards. The environment for investment is therefore conducive, but things are not that straightforward.

To build long-term standing with key stakeholders, companies such as ours have needed to ensure that our investments are well-researched and truly address unmet needs. We have also been willing to work very closely with healthcare authorities and other key players, such as insurers, to establish a fair and enduring licensing regime for private sector participation.

And finally, we must show that there is real value creation – that all stakeholders, from government agencies to insurers, and vitally patients and their families – are really benefitting from a private model. Without that, trust and goodwill can easily be lost, and the landscape for private equity becomes less favourable.

An investment made by TVM Capital Healthcare Partners in 2010, and which we exited in 2015, is an excellent example of these dynamics at work. ProVita International Medical Center essentially created the long-term care market in the UAE and, with private equity investment, became the foremost provider of acute, ventilated care in the region.

The company was born out of the recognition that nationals of the Arabian Gulf countries were travelling abroad for specialist care, but mostly preferred to be at home, close to their families. To establish a presence, firstly in the UAE, it was necessary to develop a new licensing and payments regime. And to thrive, it was necessary to demonstrate that the care provided was as good, and even better than that provided in countries such as Germany and the United States.

The process of value creation was therefore holistic – and included building strategic partnerships with world-renowned Spaulding Rehabilitation Network and Joslin Diabetes Center to deliver the highest quality of care. The result was the provision of expert clinical care and therapy through a patient-centric approach, with a three-to-one ratio of carers to residents.

Diversification

But in today's private equity landscape, it is not enough to show stakeholders societal impact as well as attractive returns. In an increasingly uncertain global economy, the ability to recognise and mitigate risks tops the institutional investor's agenda.

Private equity firms in emerging markets are often frustrated that the views of investors from other parts of the world are overly clouded by perceptions of risk, and do not fully account for the enormous opportunity.

It is our job therefore to communicate clearly, and address the potential risks in a very practical sense. Realistically, the opportunities in emerging markets will only be truly appreciated by those who are persuaded to deploy their capital here, and see investment potential turn into reality.

Top of mind for many investors is geopolitical risk in the broad MENA region, which has heightened since the "Arab Spring". It is difficult to shake off the perception of regional instability, even though anyone who lives here clearly recognises the breadth in geography, and the diverse nature of political and economic structures in a region of over 300 million people, stretching over four time zones.

This diversity needs to be explained, but also exploited - and there are several ways of integrating geographical breadth into investment strategies, in order to mitigate perceived country risk.

Successful private equity players will be those who can source investments, structure transactions appropriately to minimise risk, and adapt to business cultures across the broader region, and beyond. This means having the depth in expertise and experience to be able to operate effectively across the MENA region, but potentially further afield, using emerging markets expertise and wider networks to enter markets such as India, Turkey, Southeast Asia, and sub-Saharan Africa.

Furthermore, these same networks should be used to encourage growth of portfolio companies outside of national boundaries. Such growth is usually approached as part of the return equation, but should also be positioned as a way to effectively manage risk.

Focus on operations

While risk at the macro level is important, it is usually the ability of a private equity investor to get to grips with the detail – in other words, manage execution risk – that will give most comfort to limited partners.

Private equity in emerging markets is almost all about driving the growth of young and promising companies, so investors must be prepared to roll up their sleeves and get involved in day-to-day operations if they are to be successful.

Because the private sector is still a relatively new force in emerging markets, investment opportunities tend to be in companies that need growth capital, and also expert support, to professionalize. This is in contrast to private equity in many parts of the world, where investors can pick from a range of possibilities, including turning around failing firms, and financial restructuring.

As such, emerging market investors need to focus on how they can add value to a firm's operations. And that means it often pays to be a specialist – to use deep sector expertise to promote efficiency and good governance, as well as to create new business opportunities.

At TVM Capital Healthcare Partners, for example, we are committed to running a strong "operations group" steeped in healthcare expertise – an accelerator company of 30 people that supports our growing businesses. It provides general management support, including the provision of management and strategy development, as well as back office services, such as legal, information technology, marketing, accounting, human resources.

Setting up this ecosystem is a significant investment in itself. But it brings huge value-creating benefits for the companies we invest in, and reduces risk for the company and our investment partners.

It means that in their early years, our portfolio companies are left to concentrate on doing what they do best – providing high quality healthcare services. Economies of scale mean that each company can save time and costs, and still employ high quality specialist skills.

Meanwhile, as investors, we have an excellent view on day-to-day realities and can help to find solutions to any issues the companies may face. This high level of transparency encourages good corporate governance across the company, which is highly valued, especially in an emerging market context.

The focus on motive and risk among institutional investors is only going to grow in the coming years. While it may be frustrating in the short term, private equity investors must embrace the trend if they are going to successfully raise and deploy capital, in the recognition that making a positive societal impact and addressing risks properly, is not just good practice, but will probably ultimately deliver better returns.

About the Author

Dr. Helmut M. Schuehsler

Chairman, TVM Capital Group
CEO, TVM Capital Healthcare Partners

Dr. Schuehsler has dedicated his career to exploring new horizons as an investor, pursuing innovation and building teams and businesses, sometimes from scratch, sometimes in new regions, and always in healthcare and with an eye on products or services that address unmet medical needs and promote societal progress. In the process he has gained extensive operating and investment experience in numerous geographies, such as Germany, the UK, France and several other European countries, the United States, the UAE and India.

He started his investment management career at Horizonte Venture Management in Vienna, Austria, and joined TVM Capital in Munich in 1990. Since then his investment track record includes close to 30 direct investments, as well as positions as chairman, vice chairman or director at around 30 innovative life science and healthcare companies. In the Middle East, he currently serves as chairman of UAE-based Manzil Health Care Services, and previously held the position of chairman at ProVita International Medical Center, Cambridge Medical & Rehabilitation Center and Bourn Hall International. On the life science side, he is a board member of Concert Pharmaceuticals, Inc, (Lexington, MA, USA) and f-Star GmbH (Vienna, Austria).

As a long-time director of Max Planck Innovation, he contributed to the translation of leading German science into commercial projects. For several years between 2003 and 2009, he represented the European private equity and venture capital industry at the European government level in Brussels in various roles such as chairman of the Professional Standards Committee and finally in 2007/08 as chairman of the European Private Equity and Venture Capital Association (EVCA, now called “Invest Europe”).

During his tenure with TVM Capital, Dr. Schuehsler has raised more than $1 billion in committed capital for life science and healthcare investments from global investors. Over the years, the firm expanded from Germany to a pan-European footprint, on to the United States, the Middle East, India, Canada and finally Hong Kong. In the process, he has overseen investments as a managing partner or CEO in 100 healthcare and life science companies, with over 40 going public in the United States and Europe.

About TVM Capital Healthcare Partners

TVM Capital Healthcare Partners is a specialist private equity investor that focuses on meeting gaps in healthcare provision in emerging markets, including the Middle East, North Africa, India and Southeast Asia. The firm started operations in Dubai in 2007 and was incorporated in 2009. The company is part of TVM Capital Group, an affiliation of global venture capital and private equity firms with an operating track-record of over 30 years.

TVM Capital Healthcare Partners' team of investment professionals brings a wealth of experience in investment and successful exits across multiple markets. The company has also assembled a talented group of healthcare specialists, advisors and consultants who act as executives-in-residence in the TVM Operations Group – an accelerator company that supports the development of portfolio companies -- and in TVM Healthcare Advisors, which provides research and advisory services. This team conceptualizes and develops new business opportunities that provide investors exclusively with proprietary transactions.

TVM Capital Healthcare Partners' current investment portfolio includes a long-term care and rehabilitation center and the largest homecare company in the UAE, a medical devices manufacturer in Egypt, and IVF centers operating in the Middle East and India.

Its investment into ProVita International Medical Center was successfully exited in 2015, demonstrating how a specialist private equity investor can create value in emerging market healthcare and contribute to their existing healthcare infrastructure.

TVM Capital Healthcare Partners operates from the Dubai International Financial Center (DIFC) and is licensed and regulated by the Dubai Financial Services Authority (DFSA).

www.tvm-capital.ae
or
www.tvm-capital.com