# Investor Spotlight: Our Q&A With Brian Regan and Ed Sobol of Welsh, Carson, Anderson & Stowe

**Names and Titles**: *Brian Regan,* Head of Healthcare Group and General Partner; *Ed Sobol*, General Partner; both Regan and Sobol are also members of WCAS's Management Committee
**Firm**: Welsh, Carson, Anderson & Stowe (WCAS)
**Bio links**: Brian Regan, Ed Sobol

**Tell us about your backgrounds and the background of your firm.**

Welsh Carson is a U.S. midmarket growth buyout firm with $15 billion AUM. The firm was founded in 1979 and focuses exclusively on healthcare and technology. WCAS was one of the first firms in the PE industry to specialize, and to the credit of our founders, they chose two great sectors. Over the past four decades, WCAS has made nearly 100 healthcare platform investments in addition to hundreds of add-on acquisitions.

WCAS has one of the largest teams in the PE industry dedicated to healthcare, with 23 investment professionals and 20 operating partners. Our healthcare general partners have nearly 150 years of experience investing in the sector. Operating Partners Jim Hinton and Mike Butler were long-time executives at large health systems. On the regulatory front, Tom Scully (general partner) was previously head of the Centers for Medicare and Medicaid Services (CMS), and Adaeze Enekwechi, Ph.D. (operating partner) was the associate director for health programs at the White House Office of Management and Budget (OMB). Our Clinical Partner Dr. Paul Taheri was previously CEO of Yale Medicine and our Talent Partner Mia Jung has prior experience as both a recruiter and operating executive.

Welsh Carson also has a unique partnership with The Health Management Academy, the leading executive peer learning network in U.S. healthcare. The Academy connects WCAS to the top executives and thought leaders in healthcare, leading to differentiated insights on industry trends, access to management talent, and proprietary investment opportunities.

Our firm has always prided itself on promoting from within, and we are two good examples. Brian joined WCAS as an associate in 2002 from Merrill Lynch. He became a general partner in 2011 and head of healthcare in 2021. Over his career he has invested in a wide range of healthcare businesses and has served on numerous boards, including US Anesthesia Partners, US Radiology Specialists, Shields Health Solutions, Springstone, and The Health Management Academy.

Ed joined WCAS in 2010 as a vice president from Bain Capital, and he became a general partner in 2015. Ed's investments and board experience have included EnableComp, Norstella, ImageTrend, Kindred Healthcare, and InnovAge.

**What are some of the key investment themes that you and your teams are focusing on today?**

At $4 trillion of annual spend, healthcare tends to be very stable in the aggregate, but there tends to be a lot of subsector volatility due to regulatory changes, reimbursement dynamics, and macroeconomic cycles. So, we spend a lot of time thinking about where to allocate capital across the major healthcare subsectors, and then our teams work to identify specific, narrowly defined investible themes within those.

One key theme for us has always been backing healthcare delivery assets. We look for specific opportunities where high-quality providers can use our capital to grow and meet unmet needs in their communities, or shift volume to lower cost settings. We have a lot of institutional experience building national platforms from leading regional facilities or physician practices. One of the ways we help our portfolio companies is to put the processes and technology in place to better quantify the value of the care they deliver. We invest in continual improvements to clinical quality and patient/referral source satisfaction.

We also think we're in the "Golden Age of Biopharma." The scientific advances and steady clinical progress across ADCs, cell and gene therapies, and mRNA will have profound implications for healthcare. Although we don't take the binary risk of investing in specific novel therapies, we play the trend through a "picks and shovels" approach. We currently own two CDMOs, Abzena and Kiniciti, which focus on ADCs and cell therapies, respectively. We're also invested in Norstella, a leading pharma tech company that provides data and analytics to drug sponsors across the development and commercialization continuum.

Last, HCIT remains a large area of focus for WCAs and represents a natural synergy between our healthcare and tech practices. There's a long runway to digitize the healthcare system. Technology has tremendous potential to help providers, payers, and biopharma improve results and become more efficient.

**What are the top two or three things you look for when assessing an investment opportunity?**

Market selection is at the top of our list. In addition to all the typical attributes that investment firms like WCAS consider (growing demand, solid unit economics, etc.), we overlay the considerations that are unique to healthcare. Is it stable from a regulatory and reimbursement perspective? What's the perception of the particular sector and asset among key stakeholders?

Another big positive is whether we can bring a corporate partner or health system(s) into the deal with us. Over the past few funds, about a third of our deals have been done with a strategic partner such as Humana, Elevance, Select Medical, and Walgreens. These structures can be complex but they come with meaningful benefits to both parties. Often the strategic brings synergies to the target company and is usually the natural ultimate acquirer; WCAS brings capital but more importantly, the experience growing and professionalizing midmarket companies. Many of our companies also partner with leading health systems through joint ventures and co-investments. Relationships with these partners have been cultivated over decades.

Once we have invested, the most important determinant of success is having a strong management team. So that is a focus of our diligence as well. A big benefit of investing in healthcare for four decades is that we have a decent gauge of management talent and long roster of outstanding healthcare executives that we have worked with, several on a repeat basis. Over 60% of the current WCAS portfolio has a repeat executive involved.

On a related note, we always look at whether WCAS has a "right to win." That includes bringing in a repeat management team, partnering with a strategic, or some other differentiated angle. Healthcare is a highly competitive sector. We want to make sure when we devote time to a new opportunity that we have an angle or something that differentiates WCAS—because if we don't, it's likely that someone else will.

**How many deals does your fund typically do each year; what is the typical size of the investment?**

We run a concentrated portfolio. There are only 15 healthcare companies in the portfolio today, and we only do two to three new deals/year. Generally, we target $250 million to $500 million per investment, but we have done much bigger deals with strategic partners and/or LP co-investment (e.g., Kindred, Concentra, Norstella).

**Tell us a bit more about your most recent investment(s) or fund**.

We just exited our investment in Shields Health Solutions, a specialty pharmacy business. Back in 2019, the founder, Jack Shields, was looking for a partner to help take the company to the next level. We had gotten to know Jack in the preceding years and knew there were several angles we could bring to bear as an owner. We invited Walgreens to invest alongside us—at the time, Shields was too small for them to acquire outright, but we knew they would be a good buyer eventually. We had a really productive partnership with Walgreens, building out an exceptional management team and quintupling revenue in about 3 years. We sold our stake to Walgreens last year.

Like Shields, our two most recent investments were also purchased from founders, Liberty Dental and ImageTrend. Liberty is another deal where we partnered with a strategic (Elevance). Elevance saw the strategic value in having a best-in-class dental benefit manager to serve their plan members, and we think there is a lot of opportunity for growth in that space. ImageTrend is a software company serving the first-responder community. It presents a great opportunity for both our healthcare and tech teams to be involved. ImageTrend was already growing and nicely profitable, but we think we can turbocharge that growth by augmenting the management team, expanding their go-to-market operations and investing in continued product innovation.

**What is your current outlook for the PE market for 2023?**

Despite overall macro uncertainty, the healthcare industry remains resilient—our portfolio is seeing midteens percentage growth and improving margins in 2023. The issues around labor availability and cost inflation remain a concern, but they started to abate in late 2022.

Like other sectors, the healthcare M&A environment is slow overall. With elevated interest rates, deal activity is down and the bid-ask spread remains high. Some deals are getting done, particularly for "marquee" assets. When they are available, A+ companies are still commanding robust multiples. Additionally, we are starting to see some good companies wrestling with bad balance sheets—they may present good deals in the medium term, but the opportunities haven't materialized just yet.

**Anything else we should know?**

We are proud that WCAS portfolio companies are helping to improve patient quality, expand access, and deliver value to the U.S. health system. Our firm has built some of the leading healthcare companies over the past 40 years, and we are excited to continue that legacy in the years ahead.