

WINNER: OPERATIONAL EXCELLENCE IN PROCUREMENT

Medical breakthrough

Doughty Hanson's investment in Hospitales Quirón won PEI's inaugural Operational Excellence in Procurement Award, sponsored by procurement consultancy Efficio, at the Operating Partners Forum Europe in London in April. Isobel Markham discovers the winning formula

When Doughty Hanson acquired Spanish hospitals operator USP Hospitales in 2012 for €355 million, the business operated 12 hospitals, one specialist and 22 auxiliary clinics. Fast forward two years and the portfolio company had gone through a merger with Grupo Hospitalario Quirón – becoming Hospitales Quirón – acquired medical clinic Centro Médico Teknon and become the largest private hospital group in Spain with 8,300 employees and a market share of around 14 percent.

Its sale to CVC portfolio company IDC Salud valued the business at €1.6 billion and the deal generated a return for investors in the €3 billion Doughty Hanson & Co V of 2x and an internal rate of return of 33 percent.

At *Private Equity International's* Operating Partners Forum Europe in London this April, Doughty Hanson operating partner Jon Higginson accepted the inaugural *PEI* Operational Excellence in Procurement award, sponsored by Efficio, on behalf of the firm. The award gave private equity firms the opportunity to showcase a portfolio company which they considered to have best addressed procurement issues and turned them into a value creation lever.

“[Doughty Hanson] doubled its money in just over a two-year period with 65 percent of the value created coming from procurement improvements. As a value lever

in the deal, procurement was the key one,” says Declan Feeny, private equity director at Efficio and one of the award’s judges.

Here’s how they did it:

1 SYNERGY VALUATION
From the get-go Doughty Hanson knew this deal would be a merger. The deal team worked to bring Grupo Hospitalario Quirón’s owners, the Cordon Muro family, on board while it was looking to acquire USP. This gave Higginson, a member of Doughty Hanson’s value enhancement group focusing on purchasing and procurement, and the Doughty Hanson team access to both hospital groups.

“Because we were acquiring both sets of hospitals, we enjoyed an unusual level of access,” Higginson says. “Pre-deal we were able to do detailed pharmaceutical price comparisons, we were able to review costs at a detailed level for sanitary materials, we were able to get access to contracts for things like laboratories. As a result of that access and getting that information, we were able to really put together a detailed synergy case which was the basis for a large part of the value that was driven through the merger and through the deal.”

Through that analysis, the Doughty Hanson team identified €25 million of benefits, which could then be presented to the investment committee.

2 ALIGNING INTERESTS
On entering the deal, the Doughty Hanson team was aware that both the industry sector and the geography made for a low-growth environment. Most of the synergies that were to come from the merger, therefore, would be from driving purchasing synergies, which would be “absolutely critical to creating value in the deal”, Higginson says. A complete alignment of objectives was imperative.

“We had monthly meetings that were attended by the CEO, the CFO, the vice-president of operations and the deal team because everybody understood how important this was, and we would go through on a monthly basis where we were in terms of driving savings on each of these categories,” Higginson says.

3 ASSESSMENT AND QUICK WINS
Having established clear alignment of objectives, Doughty Hanson supported the management team in implementing an organisational structure, and then worked together with the team on building a value creation plan.

Higginson’s task at that point was to ensure that management had a proper understanding of the company’s spend and the expertise needed to put out tenders and negotiate effectively.

“You get a degree of understanding up front when you work with them beforehand, but it’s only post-deal you can really get inside a company and you actually get to see the processes that they have in place.”

Confident in management’s ability to execute the plan, Higginson and the team set themselves short-term targets for quick wins.



Winner: Jon Higginson, right, of Doughty Hanson receives the award from Declan Feeney of Efficio

“ Within the first three months we were able to deliver €10 million of negotiated savings

Jon Higginson

portfolio spend in office supplies across Quirón and fellow portfolio companies Avanza Group and LM Wind Power to achieve a 30 percent saving.

In the space of just two years, Doughty Hanson’s team achieved savings of around €25 million and created value of around €278 million, 65 percent of which came from the procurement savings.

“A huge amount of the value in the deal came through the value that was created by better buying, both from consolidating the leverage Quirón/USP had in the market, largely through concentrating volumes, and really improving its position within its supply base,” Higginson says.

The result was all the more impressive as it was achieved within the context of a tough macroeconomic climate.

“Spain was a difficult market from a private equity perspective during the time of the investment – general consumption and public sector spending were both down,” Feeney says.

“What was extremely impressive was the way they created a significant amount of value in what was a difficult market environment. The Quirón deal stood out from the other entries in highlighting how a well-executed procurement programme can deliver a significant equity boost even if market conditions are weak.” ■

“Within the first three months we were able to deliver €10 million of negotiated savings,” Higginson says. “What that meant was that coming into 2013 we had a very strong base of negotiated savings that we then had to monitor and to make sure that got rolled in and became realised savings.”

Among these quick wins was a renegotiation with the hospital group’s incumbent laboratory supplier. A critical area to the business, this deal was negotiated directly by the CEO and resulted in savings of more than €3 million.

4 ADDRESSING SPENDING
Having addressed the quick wins, the team could then go after more complex areas of spend. One such area was introducing an alternative brand of sutures to the doctors in the USP hospitals.

“For doctors, this is a big change,” Higginson says. “This is the one item that doctors are really particular about.”

The procurement team’s part of the exercise – negotiating and identifying better pricing on a generic brand of suture – was not where the challenge lay.

“The challenging bit is getting the doctors to actually move,” Higginson explains. “But using that new organisation structure that we had put in place, we were able to persuade the vast majority of surgeons to switch to a generic brand of suture for savings of 20 percent.”

5 CROSS-PORTFOLIO LEVERAGE
Doughty Hanson was able to leverage its portfolio level spend to provide better deals for Quirón on certain commodities. Having negotiated 20 percent off Quirón’s insurance at the merger, Doughty was able to negotiate another 10 percent of savings through its portfolio insurance programme. It was also able to bundle together the Doughty Hanson