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Squids in

MedicX and the healthcare division at Octopus Investments have joined forces to create Octopus Healthcare. Sunniva Davies-Rommetveit spoke to Mike Adams and Shay Ramalingam about their grand plans for the future

Dynamic, caring and capital rich. This, Octopus Healthcare chief executive Mike Adams says, is what sets the newly merged healthcare property investment and development company apart from the rest.

The merged entity is the result of a deal that saw Octopus Investments acquire primary care real estate investment firm MedicX Group through its parent company Octopus Capital, earlier this year. Investors who exited through the transaction included private equity firm Cabot Square Capital, who reportedly received an 18x return on the sale of its stake.

Subsequently, MedicX was combined with Octopus Investment's healthcare team and now sits within Octopus Investments as its new healthcare property investments and development division, Octopus Healthcare.

Given MedicX's performance in the past 12 months has been notably successful it's not hard to see why Octopus Investments dug into its pockets to buy it. The firm for instance boasted ebitda increases of 65.3% to £20.8 million for the 2013 financial year, and acquired primary care developer Lunn Healthcare for £24.6 million in March 2014.

Adams says that the main reason for the two firms to join forces was to increase MedicX's scope across the health sector. "When we started MedicX in 2006, we were an investor and developer," he explains. "As Octopus Healthcare we're both these things but also a partner – so we can now take strategic stakes in businesses. Octopus Healthcare will look to expand the company's presence across five key areas of healthcare: GP surgeries, care homes, retirement housing, private hospitals and financial products."

Both companies seem a good fit for each other, too. The fact, for instance, that MedicX had "around £800-£900 million of healthcare assets in management" neatly slots into Octopus ambition to grow operations significantly within the sector. (Octopus only has around £100 million of healthcare assets by comparison.)

Director of Octopus Healthcare Shay Ramalingam admits that MedicX "slightly dwarfs us in terms of healthcare assets" but that Octopus Investment's expansive experience will put it in very good stead in the new arrangement. Octopus, after all, does have £4.7 billion of assets under management.

"Suddenly, from a small healthcare team within 400-odd people at Octopus Investments, we now have a substantial team of 35 people solely focused on the healthcare sector," he explains. "I don't know any other investment companies with a healthcare team that size, and we're planning on expanding it to 40 by the end of January 2015."

Both firms also have very similar ideas about their direction of travel within the healthcare sector, and on how to go about achieving these goals. "There has been very much a meeting of minds – from our driven attitude as companies to where we see the opportunities in the health sector. We're certainly not looking to follow the mould of what the industry has done before," Ramalingam says.

A sign Octopus Healthcare is looking to be different is the diverse assets it intends to pursue. Given that the primary care market was MedicX's first foray, it's unsurprising that this will play a large part in Octopus' portfolio. But the investment firm also has its sights firmly set on moving into less chartered waters – for example retirement living.

The company is currently an investor in the retirement village developer Rangeford. Both Adams and Ramalingam agree that, despite previous criticism, this is likely to become a part of the sector which will grow in future.

"Experts previously said that younger retirees wouldn't want to actively move into retirement communities because there is a stigma around it. Rangeford is all about trying to break that stigma and getting a younger audience – of 55 and over – to consider retirement living as a genuine option," Ramalingam says.



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Together with some high-net-worth partners, a management team from MHA and Rangeford, Octopus is currently supporting the construction of three retirement villages. Located in Bath, Cirencester and Yorkshire, these will be worth around £200 million in total Ramalingam says. Octopus Healthcare aims to scale this up significantly if the first three are successful and already has 20 other such schemes in the pipeline.

While the sites themselves sound quite luxurious – they include for instance a central pavilion, concierge services, shops and a restaurant – apartments and amenities are not aimed at the very wealthy with prices starting from £350,000. “A lot of people are capital rich but income poor, so we’re trying to see how we can keep costs as low as possible,” Ramalingam adds.

Also currently under construction are a group of private hospitals which Octopus has invested in. The first will be built within 14 months. Ramalingam is especially excited about the different type of funding model which they will trial with these hospitals.

“We’re looking at models whereby we contract directly with the insurer on a bulk-billing basis for an entire patient pathway,” he says. “So a patient still has the benefits that come with paying for private healthcare, but not as much choice of which specialist to see.”

Patients will have differing package models where they have to pay more to see their preferred specialist each time. This, Adams says, will reduce cost and make private healthcare more affordable for insurers and accessible for patients in the long-run.

Both Ramalingam and Adams shake their heads when asked just how hectic it’s been since the acquisition of MedicX completed in October of this year: “You have absolutely no idea,” they joke. In the mad rush to get everything organised, though, they have ensured to not forget about the oft forgotten but all-important ingredient in the private health sector: quality.

The firm, for example, is setting up its own clinical assurance board to check the quality of the businesses they buy. How often these inspections happen depend on how well the business has done in previous check-ups, and on how established it is. “If we’ve just acquired a 1,000-bed portfolio it’ll need more TLC, as then you’re inheriting someone else’s business, warts and all,” Adams points out.

Why, then, do neither believe that Care Quality Commission (CQC) inspections are enough to ensure quality? “We want on-going monitoring in our homes and the CQC only really does a snap-shot in time,” Adams explains, “While we of course want to meet these minimum standards, we also want to set our own; some of the firms who pass CQC inspections - we wouldn’t invest in.”

Certainly for some care home residents, satisfaction around the menu is as much a sign of quality assurance as other CQC benchmarks. Adams also points out that checking in on managers on a regular basis can make the difference between a mediocre business and an excellent one.

With so much in the pipeline for 2015, it’s hard to imagine that Octopus Healthcare has much time to look at completely new deals. Yet, the firm is always on the lookout for other promising avenues to pursue.

“We’re always open-minded about opportunities in the future,” Ramalingam says. “Our only prerequisites are that we want to work with people who have proven track records, are ambitious, think they can make a difference and have the patient at the absolute centre of what they do.” An ambitious ask, then, but one that’s brought Octopus Healthcare to the very firm ground it finds itself on today.



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