KEYNOTE INTERVIEW

Accelerating innovation in changing times

Technology is opening up new opportunities for emerging markets investors in sectors such as healthcare, say Gulf Capital's Dr Karim El Solh, Hazem Abu Khalaf and Alvaro Abella

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The Middle East's economy was seriously affected by the twin impact of the covid pandemic and the drop in oil prices in 2020. Revenues from oil and gas were hit by a sudden pandemic-induced slump in global demand – and many are questioning the future viability of the oil and gas industry, which has provided the foundation of the region's prosperity for decades.

Yet investors in the region do not have to look too far to find value in other rapidly growing sectors powered by technological innovation and a booming population. Healthcare provides a prime example of a sector that is increasingly adopting tech-enabled solutions to cope with rising demand and meet the changing needs of patients. Moreover, the Gulf countries – and the United Arab Emirates in particular – are ideally positioned to serve as a launchpad for firms to expand into the emerging markets of Asia and Africa. Dr Karim El Solh, CEO of Gulf Capital, and managing directors Hazem Abu Khalaf and Alvaro Abella, tell us how investors can reap the benefits of a thematic approach when it comes to long-term investing.

Q How does Gulf Capital's strategy align with changes in the regional economy?

Dr Karim El Solh: We are a very disciplined, top-down thematic investor. We always try to look into the future and see where the growth is, and we bring a lot of structure and science to how and where we invest. For example, in our Fund III, which was a $750 million fund launched in 2014, we locked in on 12 investible sectors that were experiencing double-digit growth and from there, we narrowed them down to our current four core investment sectors where we are building deep expertise and a long track record: technology and payments, healthcare, business services and sustainability. Sometimes, picking the right sector accounts for the bulk of returns – 80 percent of your profit can come from choosing the right sectors that are growing at a double-digit rate.

Today, people tell us that we have the ideal post-pandemic portfolio because we are heavily invested in healthcare, technology and payments. Yet we have adopted this sectoral discipline and thematic approach since 2015. For Fund III, even though we are based in the UAE, we did not close a single oil and gas or energy deal over the last five years because we saw the writing on the wall and realised early on that the oil and gas industry was going to face a lot of headwinds. We realised where the growth is, and that is squarely in technology, e-commerce, payments, business services, healthcare and healthtech. That is where we are principally invested today.

Q Gulf countries have been badly hit by covid-19. How have you adapted?

KS: In Q2 last year, when the pandemic broke out, the first thing we looked at was stabilising and protecting our portfolio companies. We assessed all our companies and checked their liquidity needs and the health of their balance sheets. We only needed to support two out of our 25 portfolio companies in terms of additional liquidity – the overwhelming majority of our portfolio companies were in a good place and had robust business models and were generating sufficient free cashflows.

In Q3 and Q4, we started playing offence and growing again, and we encouraged every CEO of our portfolio companies to rethink their business model to adapt to the changing consumer behaviour and to capture new growth opportunities. A lot of our companies innovated and launched new services or went online and transacted differently to reflect the changing times. Consumer behaviour is changing rapidly and permanently, so our portfolio companies need to follow the consumer and anticipate trends that are coming around the corner.

A good example of this is our investment in Vezeeta, the leading online healthcare booking platform in the Middle East and Africa. When patients could not visit doctors in their offices due to the pandemic, Vezeeta launched a telemedicine business and an e-pharmacy business to bring the doctor to the home of the patients virtually. These new business initiatives, born during the pandemic, might be worth more than the original model; so sometimes by innovating and anticipating new trends, you can come across some very valuable new initiatives.

Q Healthcare is a key focus area for Gulf Capital. How are changing market dynamics affecting investment opportunities?

Hazem Abu Khalaf: In the Middle East, due to better access to healthcare,

Q How do you see technology changing healthcare?

Alvaro Abella: Technology will change how we access healthcare, how we experience healthcare and how we pay for it. We cannot upgrade existing healthcare systems to cope with rising demand quickly enough without technology. In Egypt, for example, the population is expected to grow from 103 million to around 120 million within 10 years or so, and the supply-demand imbalance with doctors will only increase. The way to improve that and to make the system more efficient is through leveraging technology. What if you could have a teleconsultation with an American doctor or with doctors in Saudi Arabia, instead of waiting eight hours in a doctor's waiting room in Egypt?

With telemedicine, there are still some kinks being ironed out on the regulatory side. However, I expect that as teleconsultants are equipped with the ability to harness medical data at the time of the consultation, that is going to massively change how we access healthcare. This is one space that we are tracking very closely. As things change within the regulatory environment, those remote healthcare elements will take off.

With Gulf Capital's portfolio company Vezeeta, we launched an e-pharmacy product that was attached to the teleconsultation product, so that when the doctor had finished their diagnosis, they could immediately prescribe and upload a prescription on the platform. It opens up new possibilities, because you have this massive data repository. A lot of people have been focusing on systems of record, but I think moving forward, we will see the focus shift to how data is consumed, and how it is moved around. Healthtech is a big trend that Gulf Capital is actively capitalising on.

life expectancy has increased. The population of those aged over 50 is growing rapidly, so the nature of the healthcare issues we are dealing with is evolving – this includes more lifestyle-related issues, such as diabetes, heart disease and certain cancers. The continuum of care needed to address these challenges is changing. We are also seeing the development of specialist centres of excellence and an increased need for care in non-acute settings.

Another trend is the consumerisation of healthcare. The consumer or patient is taking a more active role in their healthcare management. Patients often want to start their care at home, which is increasing access to services and taking some stress off the main hospitals.

Gulf countries used to send a lot of their patients abroad for medical services they could not access in their own countries. Now we are seeing that because we have centres of excellence, specialist services are often outsourced by public health systems to private providers within their own countries.

For example, beneficiaries of public health insurance in Abu Dhabi can be fully covered at ART Fertility Clinics, one of our portfolio companies and the fastest growing fertility treatment centres in the Gulf. Instead of sending patients abroad on very expensive treatment trips, the Abu Dhabi government is now sending patients requiring rehabilitation, ventilation and long-term care to local healthcare providers such as Amana Healthcare, the leading provider of inpatient rehabilitation and long-term care, another Gulf Capital portfolio company that was sold recently to Mubadala Healthcare.

> *"Portfolio companies need to follow the consumer and anticipate trends that are coming around the corner"*
>
> **DR KARIM EL SOLH**

The Middle East, especially a country like the UAE, is also increasingly seen as a centre of medical tourism. That is another area that will drive demand.

Q To what extent are your portfolio companies in healthcare and other sectors able to expand from the Gulf into other markets?

HAK: Some of the businesses based in our region are in a good position to increase access to healthcare in markets that are parallel to us. With ART Fertility Clinics, for example, we are currently in the process of launching up to 20 fertility treatment clinics across India. We are also looking at taking some of the approaches we have implemented here to Europe and looking at further international fertility acquisitions and expansions. By the time we are done, ART Fertility will have been transformed into a true global fertility platform. Another example is Vezeeta, our online doctor booking platform that is expanding rapidly across the Gulf and Africa. Many of our portfolio companies are on their way to becoming global leaders.

KS: We are strategically positioned in this central location in the Gulf – a lot of our companies start in the UAE, but they expand rapidly into Asia and Africa. We encourage them to become regional, if not global, leaders. We now have more revenue coming from outside the Gulf than from within the Gulf.

When you sit in the UAE, you are at the heart of these emerging markets. We have been growing companies from east Africa all the way to South-East Asia. When you create global leaders that operate across emerging markets, it becomes easier to sell them to strategic buyers at a premium or to seek global listings. We are proud of the number of global leaders that we have built out of the Gulf region, and there are more examples in the pipeline in Fund III in the technology, payments, healthcare and business services sectors.

Q Responsible investment has gained a lot of traction recently. How are you adapting your business models in response?

KS: We are backed by a number of development finance institutions, US and European pension funds and sovereign wealth funds, and they have been encouraging us for the last decade to follow good environmental, social and governance standards. We decided last year to formalise this by becoming a signatory to the United Nation's Principles for Responsible Investment and recently we also became a signatory to the Terra Carta initiative launched by HRH the Prince of Wales. We are incorporating ESG into our term sheets and new investments, and as we pitch to new companies, we tell them that our investment is conditional on them embracing the good ESG standards that we all aspire to achieve.

Often, we actively reposition our existing portfolio companies to do better on ESG. For example, we are an investor in an Egyptian glass manufacturer, Middle East Glass, which had a plastics division. We realised that PET was not optimal for the environment, so we divested the plastics division and used the proceeds to double down on recyclable glass. We believe that effective ESG is not only good for the environment and for society, but also for business. Companies that embrace ESG tend to attract better people, grow faster and ultimately get sold at a higher price. Today, we genuinely believe that there is complete alignment between ESG and investor returns. ■