Hispanics’ Health-Care Needs Create PE Opportunities: Mansa Capital’s King-Shaw

Small and mid-market health care funds are facing competition from bigger funds that have started making smaller deals, according to Ruben King-Shaw Jr., managing partner and chief investment officer at Boston-based Mansa Capital Management LLC. King-Shaw served as a senior government health-care adviser to President George W. Bush. Later he was Secretary of the Florida Agency for Health Care Administration under Governor Jeb Bush and is currently an adviser to Jeb Bush. Mansa is currently raising a $150 million fund, Bloomberg reported in December. He declined to discuss that in an interview with Bloomberg Brief’s Ainslie Chandler. His comments have been edited and condensed.

Q: What’s the biggest threat in the private equity market at the moment?
A: The conversation about taxing carried interest differently affects smaller funds differently than bigger ones. But there are smaller and mid-market firms that invest in smaller companies, where that carried interest, that extra 15 percent or 20 percent, is meaningful to their investment strategy, to their hurdle rates, to their returns. If the carried interest is taxed at a level that is too high, it raises the barrier for investments. Innovative, entrepreneurial firms that would have been funded might not get funded. In the health-care sector, there is always the threat of federal action or inaction. Whenever the solvency window for the Medicare trust fund has reached five years, meaning that projections say that “after five years, Medicare will go bust,” there has been significant action.

Q: What other factors in health care affect the investment landscape?
A: According to Nursing Solutions Inc., it takes 95 days to fill a nursing vacancy today. That was 80 days just last year. According to Hospital Corporation of America, turnover rates at big hospitals are something between 17 percent and 19 percent. You’ve got this increasing shortage of nurses that is about to get worse. So the hospitals have compensated by getting contract nurses, as opposed to salaried nurses, which cost 25 percent more and offer lower productivity because they are not engaged on a daily basis. And you have a supply of physicians that is flat, at best. So you have a limited supply of labor that is costing more. Then you have burgeoning demand for services. Obamacare is projected to increase coverage by almost 32 million people. The result is the same thing that happens whenever there is scarcity — the move to do things through automation and technology. Hence you see connected health, telemedicine and digital health. All these things move the patients from the care of doctors and nurses to a lower level practitioner and to move them to a location that costs less, so that the interactions can be more frequent and be less expensive. So we are investing in those mobile, digital and connected health strategies.

Q: Can you give me an example?
A: One is a company called Healthsense. [It] employs remote sensors in the living space of a senior person. Its wireless technology picks up daily activity, then sends messages, alerts and profiles to care managers, who can be the earliest to understand if there is a change in the patterns of movement or sleep or behavior of an elderly person living alone. That technology we have used primarily in independent living systems. The bigger opportunity in the long-term is in private homes. We have completed a study, independently verified, that found that, by the use of this technology, we reduced total medical and custodial costs for each patient at least 15.8 percent. We reduced ER use by 39.1 percent and long-term care expenses by 68 percent.

Q: Has the Affordable Care Act opened up any investment opportunities?
A: Two-thirds of Hispanics have been uninsured. And Hispanics have a disproportionately high rate of diabetes, heart failure, asthma and hypertension — all conditions that require constant monitoring and coordination of care. With Obamacare, they are now plugged into a continuous care, chronic care system. That has enabled an investment thesis. Nielson Research reports that 45 percent of Americans use a retail clinic at least once a year for something other than a prescription. That number for Hispanic Americans is 57 percent. Investing in distribution, locations, communications, connectivity, health education and literacy that help connect this new population with high health-care utilization needs is a great investment thesis.

Q: How much competition is there for assets in your investment space?
A: There are few parts of the U.S. economy that are as robust as the health-care sector. Nothing really compares to the health-care opportunity. And it’s big enough that you can pick your spot — facilities, prescription drugs, pure technology, labor resources. Some of the larger funds that used to do the mega deals are starting to migrate down into the smaller deals. People who used to write $50 million checks are writing $20 million checks. Those who would write $25 million checks are writing $10 million to $25 million. We’re in that $5 million to $15 million, so we are starting to face competition coming down into the early-stage, growth area that people didn’t like before.

AT A GLANCE

Age: 54 Based in: Boston, Massachusetts
Career history: Mansa Capital Management since 2011; founded Mansa Equity SPV in 2003; COO, Centers for Medicare and Medicaid Services, 2001-03; Secretary of the Florida Agency for Health Care Administration, 1998-2001
Degrees: B.S., Cornell University; masters in health services administration and masters in international business, Florida International University
Hobbies: Comic books; The X-Men; weight training
If you could have another career: Screenwriter