Interview: Jaime Chico Pardo – President & CEO, Grupo ENESA, Mexico



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President and CEO of Grupo ENESA, Jaime Chico Pardo breaks down the private capital fund's core investment pillars—centered on active management and driving long-term value—while elaborating on the flourishing opportunities where technology and healthcare intersect, and how this marriage serves to close Mexico's encroaching healthcare gaps.

Jaime, can you start off by describing the factors that motivated you to create Grupo ENESA?

What we sensed at that time was the opportunity to be involved in two key sectors of the economy, while invoking longstanding expertise and skillsets. The need for more private sector involvement was apparent. Additionally, we're now entering an age where technology and healthcare is becoming increasingly intertwined, and simply cannot be ignored. The advancement of technology was a key determination factor in setting up this shop, especially because of our backgrounds and interest.

Also, as you see, moving forward the need to increase the quality and access of healthcare in countries like Mexico is uncontested. There's a great opportunity to change the sector and affect it in a way that can be attractive.

ENESA has a quite unique investment approach backed up in four major underpinnings: depth operational and results focus, niche targets, balanced growth planning, and appropriate resources selection. What are the key characteristics that differentiate

ENESA from other PE firms?

We are very operationally focused. We're not passive investors, and we don't just look at our portfolio companies as financial investments. The key to it is that we see ourselves as active investors that not only provides capital for businesses, but also play direct role in developing them. It's a different view, and that's what we're doing both in energy and healthcare sectors. We get involved in the day-to-day, provide management capabilities, and develop strategies to help drive growth and value.

The way we approach our portfolio companies is by first optimizing administration bringing in management teams that would have knowledge and experience in the respective sector, while supplying the business adequate levels of CAPEX to finance new business operations and drive growth.

Unlike many other PE shops, we don't label our investments with specific holding periods, but instead, prefer to view them all on a long-term basis and do what's needed to be done to drive tangible value.

And then there's the commitment of the team. It's not about buying and selling, but creating a company that employees feel proud being a part of and able to feel at in terms of supporting their families.

Making sure that those people are a part of project and play a direct role in the evolution of the business is very aligned with ENESA's investment approach.

How is the group's portfolio allocated between its two key segments, energy and healthcare?

At the present, most of the group business is weighted towards energy. That's primarily due to our decision to sell off Laboratorio Medico Polanco to Médica Sur, leaving roughly 90 percent our portfolio attributed to energy investments.

But we're now trying to extensively expand the healthcare front. We're starting to evaluate certain opportunities that have been presented to us. The technology that is starting to be developed in healthcare is truly groundbreaking.

Consequently, people are going to be living for longer periods of times with such advancements in medicine. The primary consideration is to make sure preventative health provides for higher standards of living, while subsequently maintaining or even increasing quality care at manageable costs.

Given the expansive nature of healthcare, what aspects of the industry are you specifically looking to invest in?

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We're primarily looking at the area of preventive healthcare, and more specifically, the areas in

which technology can make a true breakthrough. I’m starting to also look into another segment where we see massive growth potential, which are service companies that can help alleviate the tremendous strain on Mexico’s hospital infrastructure.

We develop a very good knowhow. Previously, we won a bid to operate the labs for a particular hospital in Mexico. We won the bid and ended up outsourcing all of their laboratory services, constituting tremendous cost-savings for the hospital and allowing to free up resources for utilization in other more pressing areas of the facility.

Can you elaborate on an example of how ENESA approaches and manages its portfolio companies?

The first companies that we bought, LMP and Clinica Ruiz, were a family-owned business that were established many years ago. What we learned in the progress of upgrading and institutionalizing its operations was that the potential to provide preventive healthcare services was there. People are more concerned about doing what is needed before, rather than after. And the realm of clinical diagnostics exactly fills that gap.

For this particular company, we set out to first create new technology by building a completely new lab. We partnered with subject matter experts and industry veterans to assist us through this process. In retrospect, we did very well, as all the collaborating partners saw an opportunity to reflect their own knowhow and expertise.

We then chose to centralize business operations because we needed to process all the blood samples in a natural place with the right environment and people. The other critical component was imaging. The way we used to do it was very traditional, with each of our service points had its own device and radiologist, ultimately taking a very extended amount of time to deliver results to customers. We ended up digitalizing the entire process completely, sending all acquired information over the network to one data center where we also consolidated all our radiologists together. This not only streamlined the entire imaging process, saving both us and our customers time and money, but also produced a more collaborative working environment for our staff members where they could share best practices and knowledge.

We were the first diagnostic company in Mexico to digitalize the imaging process at that time. And our clients can now receive their results within 24 hours, whether that’s in print or online.

The other aspect we focused on was stimulating more organic growth and creating labs of different sizes to expand our reach and better service our customers across different territories. By doing so, we grew organically from 20 branches to upwards of 80 branches, with absolutely no acquisitions in the process. This was important because we pride ourselves on dealing directly with the customers.

We also restructured the service centers and created an environment that was comfortable for

them, and standardized and provided training to our nurses so they could provide top-notch service to our clientele.

We're now taking in roughly one million customers a year that all pay for our services out of pocket, coupled with a unique corporate governance structure that isn't contingent on paying out commissions.

Another revenue stream that's been pivotal to our success is on the enterprise side. We've been working with corporations to provide our diagnostic services on their sites, so employees would have to take time out of their days to commute to our service centers.

As you mentioned earlier, in May 2016 ENESA signed a buyout agreement with Médica Sur of USD 91 million to sell 100 percent of its equity in Laboratorio Médico Polanco (LMP). What was the rationale behind this transaction?

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Essentially, we wanted to close that fund and start a new one, which we're currently raising capital from various sources for. The process went very well. We had several offers for the company, and we ended choosing Medica Sur. One of the criteria other than value was the integration of the people that have worked with us.

When we initially bought into LMP, it had poor assets, a not so good reputation, and an unproductive working culture. We were able to elevate all these aspects by investing in better talent, intensive training, certifying all the labs—both in Mexico and the US—and overall providing more higher quality service than before. As such, customer satisfaction and retention rates skyrocketed in the time that we were managing the company.

It was then very important to us that our hard work would not go to waste, and the culture and people would be preserved—Medica Sur was consequently identified as the best suitor, particularly as one of the most renowned hospitals in Latin America that provide substantial training opportunities and upward mobility in terms of career.

Mexico is currently passing through several demographic, economic and epidemiologic changes such as ageing population, growing middle class and arising chronic diseases focus. How have these trends affected your outlook on Mexico's healthcare sector?

There's a need to focus more of critical diseases, as well as the need for more preventative solutions, rather than corrective.

People are now more concerned about their healthcare than they were in the past. So the people that go to LMP now of a younger demographic, as opposed to older when we first acquired the laboratory.

The other important consideration is providing information to doctors and patients alike in a way that is useful for their facilitating their respective treatment pathways.

And we've seen the market respond according, with pharmacy increasingly choosing to co-locate physician offices on premises. It's a simple, yet extremely effective solution; but it has to be well managed and regulated. There are many families that want to have consistent and easy access to primary care 24 hours a day, 7 days a week.

And the applications for technologies in rural Mexico are simply limitless. With technology, you can provide healthcare services to areas that don't have hospitals or doctors.

And I believe the application of new technologies like Artificial Intelligence and the use of new sensors and home care equipment will change drastically the way we provide healthcare as well as provide access to better quality services in rural Mexico.

How can public-private partnerships serve as a key avenue to elevate Mexico's healthcare system and reduce some of the pressures?

For Mexico as a whole, public-private partnerships are the way to go. The government's resources are limited, and the need to execute is growing rapidly. And also, as long as there is interest and financial capabilities to create such platforms, one should always go down that route. Today, the first example has been the hospitals. But the PPP model should be extended to services such as diagnostic Lab services as well. That way the public hospitals can focus on areas that are more critical to improving patient outcomes and wellbeing. Essentially, the more superfluous services can be outsourced to third parties that provide the same quality, but at a lower cost.

Then there's an opportunity for private international healthcare companies to partner with these institutions, especially in the areas of applied research. If you look at genetics, the cost of genomics is coming down very quickly. Bringing that into Mexico and implementing the correct platform to execute on that level is critical. These are areas where private and public sector can link together, and be more successfully collectively, rather than separately.

Do you have any final words to share with our international readers?

The opportunities for Mexico in this time are in an advance stage of development. Simultaneously, the challenges that lay in front of us are more formidable than ever.

We have very talented human resources; we're now producing more technical talent such as engineers than even some countries in Europe.

We have done very well to date, with many international companies now having established fruitful operations in Mexico that have gone a long way in upskilling the local population.

The uniqueness of Mexico today is that we have a big market to work with and a market that is ready to accept change and meet those changes to become more efficient. Healthcare is fundamental because healthy people are critical an economy's wealth. Of course, quality healthcare is pivotal in helping people live longer, but it's also important that they live longer with a better life, and not just age.

The elements are all there to employ some truly transformative technology and drive value in this rapidly expanding economy. But in order to come out on top, you need to move fast and you need to execute.

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