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A close-up, profile view of Kewsong Lee, wearing glasses and a suit, looking thoughtfully to the right.

## CARLYLE AND CONVERGENCE

Co-CEO Kewsong Lee sees potential where tech intersects with traditional industries

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COVER STORY

# Carlyle's Kewsong Lee: 'Every deal is a tech deal'

By Sarah Pringle

"There's so much underpenetration of opportunity in consumer and healthcare and other major areas of the [Chinese] economy."



Kewsong Lee, co-CEO, Carlyle Group. REUTERS/Issei Kato

**T**echnology is permeating every investment decision at **Carlyle Group**, the global buyout firm's co-CEO, **Kewsong Lee**, said Jan. 22 at **Buyouts Insider's PartnerConnect LP-GPOutlook** conference.

Technology disruption has shifted how firms define core industries like consumer, healthcare or industrials from 10 or 15 years ago, Lee said. That's changed Carlyle's thought process when it comes to investing, the executive said.

"We have a saying at Carlyle: 'Every deal is a tech deal,'" Lee told conference attendees at the **Pierre Hotel** in New York.

In other words, to talk about industries under their traditional definitions "makes no sense when technology is doing what it's doing," Lee said.

### Industry convergence

Lee expects some of the best investment opportunities to occur where different traditional industries converge.

That could be the intersection of financial services and technology, consumer and healthcare, or technology and industrials, where robotics and the application of artificial intelligence comes in.

"These are all things that we are very much focused in on," Lee said. "It's not only a threat to our existing investments, but clearly an opportunity for how to make money in the future."

Carlyle has begun to take advantage of that convergence. One good example: the sponsor's investment in **One Medical**, Lee said.

The firm in August said it would inject up to \$350 million into **1Life Healthcare**, the tech and management company behind One Medical.

The company offers concierge-style primary care, a model under which patient-members pay an annual fee for perks such as personalized and preventative care, same-day office visits and 24/7 virtual care access via an app.

"You're not only providing a better experience for [patients] but also helping the providers reduce their cost," Lee said.

Technology, data analytics and artificial intelligence not only create new opportunities and help inform investors to make good decisions, Lee noted. Carlyle is also among public companies that have added artificial intelligence as a risk factor within financial filings.

And while the concept of AI ultimately



**1001 Pennsylvania Avenue NW, Washington, home to the headquarters offices of Carlyle Group.**

Photo by John Cole.

replacing investment talent is sometimes talked about, Lee shared some uplifting remarks as it relates.

"I have a view that investing is about judgment," Lee said. "It's more about the poetry than the math. ... I'm not so sure a robot can ever replace a person who needs to make the most fundamental and important decision in private equity, which is: Can this CEO, this team, execute this business plan, at this company, in this sector, with everything going on around it?"

### Bullish on China

Even as heightened U.S.-China trade tensions create more global uncertainty, Carlyle in the longer term remains bullish on investment opportunities in the world's second largest economy, Lee said.

Not only does China's economy continue to grow at a rate nearly double that of the U.S., but in industries like healthcare, China is outpacing the States at a similar rate, the executive said.

For example, the healthcare industry is growing at about an 8 percent rate in China and represents about 8 percent of GDP. In the U.S., healthcare already represents some 20 percent of GDP.

"There's so much underpenetration of opportunity in consumer and healthcare and other major areas of the economy," Lee said.

A perfect example, Lee said, is **Adicon**, a clinical-lab business in China in which it invested alongside **Meinian Onehealth**

Healthcare, the country's largest private provider of preventive healthcare check-up services.

"Healthcare is growing to the right in China at double the rate its underlying GDP growth," Lee said. "We're long-term bulls on healthcare prospects, but also the prospect of this company."

### Japan deal flow

Elsewhere, Lee hinted the firm is seeing a lot of deal flow at attractive levels in Japan. Not because it's growing so fast — although it is showing growth — but due to a tremendous restructuring effort going on throughout the corporate segment.

More broadly, Lee said he expects trade tensions and tariffs should have little medium-term financial impact on the companies within Carlyle's existing portfolio.

At the same time, executives are beginning to think through the long-term impact on supply chains, Lee noted.

For example, companies are questioning whether they should shift production to Southeast Asia or delay investment into a China-based factory, Lee said.

"I'd be remiss if I didn't say there is an impact in terms of the second- or third-order sentiment, psychology of investing [and] delaying of capital expenditures, which clearly is not terrific as our executives start to think their way through what is happening," Lee said.

"That will end up impacting capital spend and investment plans for sure."