

The New Healthcare (First of a Series)

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Healthcare has been ground zero for COVID-19 since the virus took hold in early March. How the industry has reacted, and how lenders and equity investors are dealing with this new world order, is the subject of this special series.

To get started, we spoke to a friend who runs the healthcare capital markets desk at a leading senior credit provider. He gave us a front-line view of deals amid the worst pandemic of the modern era.

“Physician practice management (PPM) businesses were the first and worst hit,” he reported. “I’m skeptical anyway of projected practice productivity, but procedure volume dropped precipitously with COVID. We and other banks were approached by an anesthesia practice seeking a working capital line of credit. It serves surgery centers and hospitals, and Ebitda went from close to \$100 million to zero.

“Most of these procedures were elective, ranging from orthopedic, cardio, and GI. It’s a great franchise. They haven’t lost a single doc. We offered a competitive ABL RC to fund receivables. There was real interest from other banks to finance this business. Procedures appear to be rebounding well. EBITDA has only begun to lift, but lenders are taking the view that a recovery in this business is inevitable.”

What was the valuation? “Interestingly this business was purchased in the teeth of COVID,” the banker replied. “The sponsor was opportunistic and able to buy it on the cheap. We have another portfolio company, a PPM in the orthopedic space, looking for liquidity and an amendment. There’s lot of support in the bank group for the deal.

“As ugly as things look right now,” he said, “investors are taking the long view of the sector. Despite procedures having gone to zero, expectations are they will come back. So there’s a willingness by lenders to stand behind these businesses.”

What about new auctions? M&A? “Private equity behavior is evolving. We’ve had mostly constructive conversations about new opportunities. Sector-wise, we’ve stayed away from urgent care facilities, for example. Nursing homes are also very challenged. We’re taking very much of a wait-and-see approach. A lot depends on the risks of secondary outbreaks, and the development of new safety protocols. It’s next to impossible to do a nursing home deal today.”

You’re a fan of home health care. “Home health and hospice haven’t seen much of a fall-off,” he told us. “It’s a nurse going to your house, pretty simple. Same with specialty infusion, a combination of pharma and nursing. That’s seen only a slight drop.”

Some media criticize private equity for overleveraging healthcare properties. “I’ve seen that. But those stories don’t include any metrics. Data comparing the clinical outcomes of sponsor-owned vs. non-sponsor-owned companies are absent. Sharing risks and rewards is a good thing, but it’s always subject to appropriate oversight and management.”

? Next week: How will the patient/doctor relationship role change, post-COVID?