This conference season, private equity (PE) investors and providers compared notes on the current state of the markets, trends, opportunities and challenges. Below is a summary of key trends that have been discussed.

A recent Health Care Private Equity Panel during the Young Jewish Professionals CEO Healthcare Symposium, co-sponsored by Foley and moderated by Foley partner Chris Donovan, explored the strategies of different investment funds. Speakers included Bob Schulz of Health Enterprise Partners, Ameya Agge of BlueMountain Capital Management, and Richard Mattera of Optum. Currently, health care represents 18% of the gross domestic product and that already significant percentage is expected to grow. Given the high level of spending, and despite the range of strategies and focal points in the health care market that varies from middle market to distressed investing, each panelist shared the common goal of lowering the total cost of health care while enhancing outcomes. Panelists emphasized the attractiveness of target investments that reduce costs of care without impairing quality. Many of those investments are capital intensive, involve information technology/data spend of a high magnitude, or require significant scaling to achieve a level of profitability to warrant the initial investment.

Given these capital demands, larger PE/hedge funds and strategic investors have become more nimble at structuring investments either as joint ventures or through structural capital “stack” models coupled with certain exit and governance rights to make PE a valuable and indispensable player in the evolving healthcare ecosystem. These novel models, when compared to the traditional growth equity and buyout models, are seen as a trend line that will be embraced by sellers and buyers, especially larger providers and systems, that may seek to access the benefits or private capital but not sacrificing clinical and other strategic control.

All speakers agreed that private equity would be a key player in the ongoing consolidation of many sectors in health care, especially outpatient services that have historically been highly localized, siloed, and disaggregated.

Four Key Takeaways for Private Investors

Another panel of PE Investors discussed four key takeaways that highlight some unique features of the current market at the iiBIG’s Investment and M&A Opportunities in Health Care conference. Chris Donovan moderated the session and panelists included Andrew Farris, Director – Private Equity Investment Team of BlackRock PE Partners, Fred Lee, Head of Business Origination of Leerink Revelation Partners, and Larry Simon, Partner of Clearview Capital.

1. **Partnerships.** Large systems are challenged by slim inpatient margins and are making bolder bets in outpatient and ancillary service areas. To do that, in many cases, requires significant capital for IT, personnel, new infrastructure and dedicated standalone assets and capabilities to service the system and potentially third parties. Health systems are finding that PE is a ready and capable capital partner to share the capital burden without ceding clinical and financial control over key areas.

2. **Financial Structuring.** Recent deals have evidenced a willingness by PE to partner with strategics to create a financial arrangement that both satisfies PE’s return targets as well as a strategic strategy...
objective. For example, the panel referenced the recent Kindred deal involving Humana, TPG Capital, and Welsh, Carson, Anderson & Stowe that features put/call rights amongst the investor parties as a good example of a PE return structure wrapped around a strategic goal of Humana to acquire home health and hospice providers for their MA plans.

3. **The Effect of Social Determinants of Health.** Increasingly, PE will be asking targets how to fill in the blanks on some assumptions on underwriting that may have previously been overlooked. For example, has the target included social determinants of health criteria in its pro forma modeling in terms of upside on revenue through better clinical outcomes at lower cost and downside? Has the target identified any social determinants of health that, as addressed, could improve outcomes? If so, at what cost and is reimbursement available (directly or on a quality basis) therefore?

4. **Platform Creation.** The current highly active auction and valuation market in certain areas (e.g. health care information technology, physician practice management specialties (PPMs), and autism) are requiring PE to do more platform “creation” on their dime and with their capital. For example, a specialty physician practice with adequate EBITDA levels in a given market may not simply exist and need to be formed out of a series of smaller practices with the PE firm identifying synergies, revenue capture opportunities, and cost duplication. Creating the platform, as opposed to buying one, is time consuming and can negatively impact return. However, it can be done at a lower initial valuation with a higher degree of confidence that pro forma returns will be realized.

**Summary**

Given the trends that have recently been covered in various conferences, PE continues to invest aggressively in the health care market. Given the high capital needs in a dynamic market, disaggregated provider niches in need of consolidation and the pressure on all players to reduce cost and add value; PE will be a major player in shaping health care M&A markets for the foreseeable future.

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