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Getting Deals Done During the Pandemic and Beyond: The Influence of COVID and New Players in the Market for Healthcare Transactions

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TOPICS COVERED

- Overview of healthcare M&A market
- How the pandemic has impacted transactions
- How transaction processes and terms have changed since the beginning of the pandemic
- Trends/thoughts regarding what the healthcare M&A market will look like in 2021 and post-COVID

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High Level Trends From 2020 and Heading into 2021

- Uptick in deal activity following early 2020 shutdowns
 - Motivated sellers or owners looking to partner
 - High demand and dry powder from private equity
 - New areas of interest / opportunities from pandemic
 - Sectors providing elective care (e.g., GI, dental, dermatology), have returned to pre-COVID patient volumes
 - Other less exposed sectors (e.g., diagnostics, telehealth, home health) have shown signs of growth and increased demand
- Closing deals continues to present challenges
 - Some uncertainty around valuation / structuring
 - Areas with price discovery present opportunities for buyers and potential challenges to sellers
 - Comprehensive diligence process more important than ever (for both parties)
 - Complications with COVID and government relief programs (e.g., PPP loans)
- Add-on acquisitions / lower middle market deals continue
 - PPM, home health, hospice, behavioral health...
- Disruptors, including large tech and retail companies, are transforming the healthcare industry and driving innovation

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Hospital M&A Trends

- Fewer hospital transactions than 2019, but still within historical range of the past 10 years
 - 79 announced in 2020 versus 92 in 2019
- 7 of the announced deals involved a seller/smaller partner with >\$1 billion in revenues
- Many health systems expanding in existing markets, as many hospitals struggled operationally and financially during the pandemic. For example:
 - Novant Health and New Hanover Regional Medical Center (NC)
 - NorthShore University Health System and Northwest Community Healthcare (IL)
- Pandemic seems to have been a catalyst for innovative strategic partnerships and tactical transactions

| | |
|----------------------------------------------------------------------------------|--------|
| Total Announced Transactions | 79 |
| Breakdown by Smaller Partner Size in Revenue (as % of Total Transactions) | |
| • Revenues < \$100M | 42% |
| • Revenues Between \$100M and \$500M | 44% |
| • Revenues Between \$500M and \$1B | 5% |
| • Revenues > \$1B | 9% |
| Average Smaller Partner Size by Annual Revenue | \$346M |
| Not-for-Profit/For-Profit Deals | |
| • Not-for-Profit Acquiring Not-for-Profit | 59% |
| • Not-for-Profit Acquiring For-Profit | 18% |
| • For-Profit Acquiring Not-for-Profit | 4% |
| • For-Profit Acquiring For-Profit | 19% |
| Transactions Involving: | |
| • Religiously Affiliated Seller | 8% |
| • Governmental Seller | 9% |
| • Rural or Urban/Rural Seller | 24% |
| • Financially-Distressed Seller ¹ | 16% |

Source: Kaufman, Hall & Associates, LLC

¹ KaufmanHall report available at <https://www.kaufmanhall.com/ideas-resources/research-report/2020-mergers-acquisitions-review-covid-19-catalyst-transformation>

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Physician Practice M&A Trends

- 60 publicly announced physician practice transactions in Q4 2020, compared to 52 in Q3
 - 45 physician practice deals announced in January 2021, according to KPMG report
- \$1.9 billion in deal value (2020)
- 75% of physician deals involved PE firms and their portfolio companies
- Buyers willing to recognize return to pre-COVID volumes and revenues, which supports current valuation levels
- According to BDO survey of healthcare CFOs, 31% said they were looking to acquire physician practices in 2021
- HOWEVER, the FTC initiated a study in January 2021 of how physician practice acquisitions by hospitals have affected the market, and may be looking harder at physician practice deals moving forward

²<https://news.bloomberglaw.com/pharma-and-life-sciences/health-deals-see-torrid-pace-with-physician-practices-in-front>
https://www.beckersasc.com/asc-transactions-and-valuation-issues/physician-practices-are-a-hot-target-45-sales-in-january.html?origin=OrthoE&utm_source=OrthoE&utm_medium=email&utm_content=newsletter&oly_enc_id=4668E103423480Y

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COVID's Impact On Today's Healthcare M&A Market, Process, and Terms

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