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THE HEALTHCARE INVESTOR

Insights on Issues & Trends that Impact Investments in Healthcare & Life Science Businesses

Running a Smooth Sale Process: Tips for Sellers – 5 Key Points

By Amber Walsh on March 2, 2018

We were pleased to have record-breaking attendance at our annual Healthcare & Life Sciences Private Equity and Lending Conference. The deep-dive discussions into various sectors, and on the industry and deal-making generally, were extensive and produced interesting discussion.

Over the course of the next few weeks, we will be publishing a series of posts with key takeaways from various conference panels. The first piece is authored by our colleagues Holly Buckley and Kerri Zelensek.

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Running a Smooth Sale Process: Tips for Sellers – 5 Key Points

By Kerri Zelensek and Holly Buckley

Even in a sellers' market, there are certain steps that sellers can take in advance of and during the sale process that will help the sale process run smoothly and help sellers better achieve their desired end result, according to experts who spoke on a panel at the Annual Healthcare and Life Sciences Private Equity & Finance Conference in Chicago on February 21 and 22.

Experts included William D. Spizman, CPA, Partner and Great Lake Market Leader – Transactions Advisory Services at RSM US LLP, Michael Ory, Managing Director – Healthcare Services at Raymond James Investment Banking, Steve Reynolds, Principal at Trivest and Brian Doyle, Managing Director – Healthcare at William Blair.

Here are five key points from the panel discussion.

1. Early 2018 continues to be a sellers' market. Strong equity and debt markets combined with both strategic and financial buyers that successfully raised or had cash on hand resulted in healthy competition among buyers and a great dynamic for sellers in 2017. Although the debt and equity markets are experiencing increased volatility so far in 2018, this year looks like another strong year for sellers. The change in tax policy is also likely to stimulate investment and fuel the economy. Those who have been contemplating a sale should consider the seller favorable market conditions and determine if 2018 is the right time.

2. Preparation prior to the sale process is key to running a successful sale. Sellers and their advisors should take steps to prepare for the sale process prior to issuing marketing materials to potential buyers. These steps might include organizing documents and creating a data room for purposes of buyer diligence, analyzing the businesses' past performance and preparing to address any problems or outliers in performance and, in a highly regulated industry such as healthcare, engaging a third party to confirm regulatory compliance prior to the process. Even before advisors are involved, a company that is contemplating a sale should collect meaningful data in order to measure the success of the business. The company should track certain metrics related to the business in addition to the usual accounting metrics to display the company's past performance and growth.

3. The sale process will differ for each seller and is constantly evolving. Generally the sale process consists of four steps: (i) preparation of business and marketing materials, (ii) issuance of marketing materials and first round bids, (iii) meetings with management and financial diligence by potential buyers, followed by second round bids and (iv) the final phase, including completion of diligence and finalization of purchase documents. Although negotiating with multiple buyers through step (iv) increases the likelihood of closing on a sale and could potentially increase the final price, each seller should consider the needs of the seller's business and the time their team has to spend on the transaction. For some sellers, it makes more sense to commit to exclusivity with one potential buyer in order to avoid having to run multiple separate sale processes, while others have the manpower to maintain the operations of the business while running multiple sale processes, potentially creating competition among buyers and increasing the chance of a successful deal at the end of stage (iv).

4. Sellers and buyers should consider things other than the purchase price when making a decision about a sale. A founder selling his or her business should consider what his or her ideal role in the company will be following the sale. Oftentimes founders plan to retire or move on to another venture following a sale, but generally a buyer expects the founder to stay with the company for a period of time post-closing, as the buyer might view the founder as one of the most valuable assets of the company. Sellers should also consider how the seller's company fits in with potential buyers' overall business and potential buyers' level of expertise in the seller's industry. Sellers should ask these questions of potential buyers early on in the sale process, as they may be just as important as the financial terms of the transaction.

5. Buyers are increasingly focused on data, specifically third-party verified data. Buyers, particularly financial buyers, are increasingly focused on reviewing, analyzing and understanding verified, third party data during the sales process to value the company and make decisions. In addition to audited financials and business metrics monitored by the seller, as mentioned above, sellers should consider obtaining a quality of earnings report and/ or a market promoter score from a third party – which are seen by many financial buyers as extremely valuable diligence materials.

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The Next Wave of Consolidation in PPM Models: Podiatry, Allergy and Fertility? – 5 Key Points

By Geoff Cockrell on March 6, 2018

The next in our series of posts sharing key takeaways from panels at the Healthcare & Life Sciences Private Equity and Lending Conference focuses on consolidation in physician practice management (PPM) models. It is co-authored with Sarah Mick.

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The Next Wave of Consolidation in PPM Models: Podiatry, Allergy and Fertility? – 5 Key Points

By Geoff Cockrell and Sarah Mick

Podiatry, allergy and fertility are specialties that are gaining certain interest and present the opportunity to leverage a first-mover advantage for private equity investment and consolidation, according to experts who spoke on a panel at *McGuireWoods 15th Annual Healthcare and Life Sciences Private Equity and Finance Conference* on February 21.

Experts included Fritz Buerger, Investment Banking, William Blair; Christian Pesci, Director, Cain Brothers & Company, LLC; Taylor Phelps, Sr. VP, Healthcare Services, Raymond James Investment Banking; Mitchell Stern, Managing Director, Dresner Partners; and Geoffrey Cockrell, Partner, McGuireWoods LLP as the panel moderator.

Here are five key points from the panel discussion.

1. Having remained largely untouched by outside investment and general merger activity, the podiatry, allergy and fertility markets are highly fragmented leaving significant room for consolidation.

2. While the ability to grow outside of major (or urban) markets may present certain challenges, the specialty of fertility, in particular, is one that frequently draws from an expansive patient population and geographic area extending beyond the local market.

3. These specialties yield the potential to encompass a number of ancillary service offerings (such as pharmaceuticals in connection with an allergy practice). Additionally, valuable synergies may be created by adding such specialties as an ancillary service offering to other complementary practices (e.g., the addition of fertility to a women's health practice).

4. Many of the specialists in these fields are currently doing relatively well to date so a successful strategy will likely emphasize the added value that alignment with a private equity platform brings in terms of management and strategic support (in addition to capital) in this continually changing healthcare environment.

5. Out of the three specialties, fertility appears to be gaining the most attention and traction.

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ASC and OBL Investment and Development: 5 Key Points

By Amber Walsh on March 9, 2018

The next in our series of posts sharing key takeaways from panels at the Healthcare & Life Sciences Private Equity and Lending Conference focuses on ambulatory surgery center (ASC) and office-based lab (OBL) investment and development. It is authored by our colleagues Chris DeGrande and Jason Greis.

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ASC and OBL Investment and Development: 5 Key Points

By Chris DeGrande and Jason Greis

As there continues to be a move toward performing certain procedures in outpatient settings, ambulatory surgery centers ("ASCs") and office-based laboratories ("OBLs") continue to be areas of interest for private equity investment. This trend was explored by experts who spoke on a panel at the *McGuireWoods 15th Annual Healthcare and Life Sciences Private Equity & Finance Conference* on Wednesday, February 21. Experts included Jan Dees, President of American Vascular Access; Dr. James McGuckin, President of Vascular Access Centers; Terry Litchfield, Patient Advocate of Access Solutions; and Joan G. Dentler, President and CEO of Avanza Healthcare Strategies.

Here are five key points from the panel discussion:

1. ASCs and OBLs have both arisen out of a desire by patients and physicians alike to be able to safely perform procedures in a more welcoming and cost-effective outpatient setting. This outpatient setting gives physicians the ability to increase their efficiency and perform cases that otherwise might be bumped from hospital procedure schedules if an emergency arises.

2. Panelists reported that physicians are able to provide more efficient services in an ASC or OBL compared to a hospital environment. These types of facilities can tailor the procedures and schedules around patient needs, or even provide specific types of procedures on certain days in compliance with state laws, thereby reducing turnover time between such procedures.

3. Since ASC reimbursement is generally higher than OBL reimbursement, an increasing number of OBLs have considered converting their facilities to ASCs. However, panelists warned that OBLs should give careful consideration before implementing such a change. First, there can be significant build out costs and working capital needs associated with development of an ASC. Second, ASC operating costs are generally higher as a result of additional patient safety and heightened regulatory requirements associated with operating an ASC. Finally, in some states converting a facility to an ASC may require a certificate of need, which may be difficult and time consuming to obtain.

4. There are many opportunities for expansion and use of OBLs and ASCs. Panelists reported that they have seen the use of “hybrid” facilities, where a facility operates as an ASC on certain days of the week and an OBL on other days in compliance with applicable State laws. This structure potentially allows a facility to provide a wider range of patient care services.

5. Commercial payor issues are important considerations for OBLs and ASCs alike. Whether developing an ASC or an OBL, it is important to engage with payors early in the development process both to attempt to obtain in-network status, if desired, and to explain the operational structure of the proposed facility. Payors are less likely to contract with providers if they believe that a proposed arrangement is likely to result in higher costs to members.

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Emerging Models in Urgent Care Investments: 5 Key Takeaways

By Amber Walsh on March 13, 2018

The next in our series of posts sharing key takeaways from panels at the Healthcare & Life Sciences Private Equity and Lending Conference focuses on urgent care investments. It is authored by our colleagues Amanda K. Roenius and Holly Buckley

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Emerging Models in Urgent Care Investments: 5 Key Takeaways

By Amanda K. Roenius and Holly Buckley

The urgent care model has become increasingly popular and is continuing to show signs of growth, making it a continued area of interest for investment. Experts at the *15th Annual Healthcare and Life Sciences Private Equity and Finance Conference*, hosted by McGuireWoods on February 21, 2018, explored urgent care's continued growth, sharing insights on emerging models and trends within the industry.

Experts on the panel included Dr. Karen Meador, Managing Director at BDO USA LLP, Gregg Osenkowski, Principal at Sverica Capital Management LLC, and Wyatt Ritchie, Managing Director at Cain Brothers & Company, LLC.

Here are five key takeaways from the panel discussion:

1. Urgent Care and Primary Care are Merging. Urgent care was once thought of as an "after-hours alternative" to traditional, primary care physicians; however, urgent care clinics and other health care providers are now partnering to benefit each other through a "catch and release" model, whereby urgent care centers partner with the patient's primary care physician to ensure continuity of care. Panelists noted that this trend is even more pronounced in established markets, where larger healthcare systems are well-known amongst the patient population. If entering into such an established market, panelists emphasized the need to focus on building a relationship with primary care physicians and integrating into the community to best ensure continued success.

2. Consider Both the Pros and Cons of Partnering with an Established Health System. Hospitals and health systems are often looking to expand their service lines and grow their market share, making urgent care an attractive investment. Partnering with an established health system provides the benefits of integration into the community, established branding, and can often serve as a strategic exit for investors. On the other hand, panelists noted that larger health systems often suffer more significant losses in the urgent care space and are not as nimble when forced to adjust to industry trends.

3. Telemedicine is Growing in Popularity. As value-based care models gain momentum, the growth of telemedicine continues to rise in popularity. Accordingly, urgent care centers are implementing telemedicine models, and panelists expect to see continued efforts throughout the industry. The panelists noted that telemedicine should be embraced for multiple reasons. Telemedicine allows urgent care centers to expand their services by providing a greater number of patients with convenient access to care at all hours of the day. Further, telemedicine offers urgent care centers a way to expand into additional markets, such as counseling or therapy. Payors are also aligning—compensating at rates close to in-office visits. Nonetheless, some panelists caution that although telemedicine offers a plethora of benefits, the urgent care industry should be cognizant so as not to allow telemedicine to supersede or replace in-person patient visits in their entirety.

4. Development of New Service Lines. Patients often choose urgent care because of its ease, convenience, and efficiency. As such, urgent care clinics are focusing on additional ways to drive patient-centric care. For example, expansion in urgent care service lines is on the rise, with many urgent care centers offering more specialization in areas such as behavioral health, dermatology, and weight management. This increased specialization in urgent care is also taking shape in the centers themselves, with pediatric, maternity, and orthopedic-specific urgent care centers growing in popularity.

5. Retail-Based Care Centers are on the Rise. Retail clinics, such as those often found inside grocery or drug stores, offer walk-in health care similar to that offered in freestanding urgent care centers. Notably, however, not all retail clinics are considered urgent care clinics as only some reach the urgent care center standards, and most focus solely on the treatment of less complex illnesses, such as the common cold, allergies, or sore throats. Nevertheless, as retail clinics begin expanding their service lines and aligning with payors, greater competition amongst these similar yet fragmented markets is expected.

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What Investors Should Understand About Data Privacy & Security Risks & Opportunities – 5 Key Takeaways

By Geoff Cockrell on March 15, 2018

The next in our series of posts sharing key takeaways from panels at the Healthcare & Life Sciences Private Equity and Lending Conference focuses on data privacy and security. It is authored by our colleagues Jamie Levin and Sara Shanti.

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What Investors Should Understand About Data Privacy & Security Risks & Opportunities – 5 Key Takeaways

By Jamie E. Levin and Sara H. Shanti

As data privacy and security risks increasingly become more of a business and operational concern, there are certain principals investors should consider when seeking new opportunities, according to experts who spoke on a data privacy and security panel at the *15th Annual Healthcare and Life Sciences Private Equity & Finance Conference* held in Chicago on February 21, 2018.

Experts included Jay Schulman, Principal at RSM US LLP and Steven Grant, President of Objective Arts, Inc.

Here are five key points from the panel discussion.

1. Healthcare security incidents are on the rise. The healthcare industry is particularly vulnerable to data breaches, hacking, and ransomware attacks given the sensitive nature of patient data and the lack of practical mechanisms to identify and rectify attacks, like those in the financial industry. In many instances, breach detection does not occur until well after the incident, creating prolonged exposures that result in damaging losses of confidentiality, data integrity, and reputations. The potential impacts of data security risk need to be fully understood in order to be quantified and integrated into the investment decision-making process.

2. Investors should conduct appropriate due diligence on potential investment targets to mitigate risk. Such diligence should include reviewing the infrastructure, systems and databases of a potential target, understanding the culture of compliance within the target and, most importantly, performing an in-depth analysis that follows the personal health information or other critical data throughout its lifecycle to determine what breaches have already occurred and areas where the target may be susceptible to exposure.

3. It is crucial to identify red flags and the costs for developing sufficient remediation. While some investors may view businesses that lack technology advances as a red flag, there is often great value in investing in these companies, so long as investors can extract the data and transfer it to a new platform and build future compliance. Investors should also give pause to those targets that have no historic breaches to report. Given that breaches are bound to occur, investors should consider whether the target is accurately monitoring data breaches or understands the brevity of doing so. Overall, the key is for investors to understand what they are buying into and have a roadmap to mitigate and manage these risks.

4. Data privacy and security can be a potential competitive advantage. As the holders of sensitive and personal health information, healthcare providers are entrusted with protecting this information from a data breach. A healthcare data breach has a devastating impact on a company's reputation and severely comprises confidence and trust. Individuals are likely to switch applications, providers, or other products following a data breach, thereby impacting a company's bottom line. Those companies that have a good reputation for implementing appropriate safeguards to protect data and mitigation processes can be in a better position to retain patients.

5. Focusing on analytical data can provide tangible benefits. While all data is important, analytical data allows businesses to project particular outcomes and make more informed decisions and improve patient outcomes. Investors are becoming increasingly focused on analytical data and systems that monitor behavior and track data across different networks and providers. Those investors that can leverage technology and data across hospitals, health systems, insurance companies and other medical providers in a secure manner have an opportunity to differentiate themselves.

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5 Key Takeaways on Top Surgical Specialty Investments

By Amber Walsh on March 19, 2018

The next in our series of posts sharing key takeaways from panels at the Healthcare & Life Sciences Private Equity and Lending Conference focuses on investing in surgical specialty practices. It is authored by our colleagues Royce DuBiner and Holly Buckley.

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5 Key Takeaways on Top Surgical Specialty Investments

By Royce DuBiner and Holly Buckley

Investment and consolidation of physician's practices is still on the rise, but approaches differ on strategy. At the 15th Annual Healthcare and Life Sciences Private Equity and Finance Conference hosted by McGuireWoods LLP a panel of investors and strategists spoke to colleagues about their success stories and lessons learned from investing in surgical specialty physician practices. There are a number of principals on the panel highlighted key considerations when investing in this space.

Experts included:

- Jeanne Proia, Director, Cross Keys Capital, LLC
- Roy Bejarano, Chief Strategy Officer, Physicians Endoscopy, LLC
- Jason Ficken, Partner, Quadriga Partners, LLC
- Michael Stroup, Senior Vice President for Acquisitions, United Surgical Partners International
- Andrew Barnet, Operating Partner, CommonView Capital
- Gregory Hagood, Senior Managing Director, SOLIC Capital Advisors, LLC

Here are five main takeaways:

1. The key to a successful platform is driving down costs and/or being a lower cost, better alternative. Further, finding the right mix of physicians and back office staff to enable a good practice is critical.

2. One core aspect of any model is calibrating the right mix of equity and salary for physicians so that incentives are aligned pre-closing and post-closing to keep moral high within the practice. Physicians are used to knowing where their income is coming from on a predictable basis. When a transaction takes physician compensation off the table, sponsors need to decide how to keep physicians aligned on a prospective basis. We are seeing more creating compensation models to this end.

3. Ancillary services are often important to the practice. In evaluating a platform, it is important to assess whether the company has an ambulatory surgical center, pharmacy, or lab and how the revenue for these services factors into the overall business. This is also an area that can create some regulatory risk and a careful diligence review is important.

4. There is a tendency for investors to engage in overbidding, in is important to stay focused on the true value of the practice and not overpay. Multiples have continued to increase in the physician practice management space and processes are increasingly competitive.

5. Physician loyalty is key. It important to articulate the value proposition to physicians, i.e. How does the transaction and compensation structure work? The platform is dependent on physicians post-closing and if they don't understand the value proposition the platform will struggle to succeed.

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5 Key Points on Retail, Specialty, Compounding, and Other Pharmacy Investment Opportunities

By Geoff Cockrell on March 21, 2018

The next in our series of posts sharing key takeaways from panels at the Healthcare & Life Sciences Private Equity and Lending Conference focuses on investing in pharmacy businesses. It is authored by our colleagues Tim Loveland and Holly Buckley.

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5 Key Points on Retail, Specialty, Compounding, and Other Pharmacy Investment Opportunities

By Tim Loveland and Holly Buckley

The pharmacy industry has been experiencing significant vertical and horizontal integration in recent years with retailers acquiring specialty pharmacies, pharmacy benefit managers (PBMs) acquiring long-term care pharmacies, and wholesalers acquiring pharmacy services administrative organizations (PSAOs) to name a few. Despite evolving regulatory challenges, there remain good opportunities for investment in various pharmacy businesses, according to experts who spoke on a panel at the 15th Annual Healthcare and Life Sciences Private Equity and Finance Conference on February 22.

Experts included Helen Figge, Adjuct Professor – Health Analytics, Massachusetts College of Pharmacy and Health Sciences, Paul Heldman, Managing Director, Heldman Simpson Partners, Michael Fieri, President and CEO, Orsini Healthcare, and Royce DuBiner, Associate, McGuireWoods LLP (formerly at Acella Pharmaceuticals).

Here are five key points from the panel discussion:

1. Evolving Regulatory Challenges. D.C. and various states have increased their focus on drug pricing, resulting in overtures by the Food and Drug Administration (FDA) to take a more substantial role in pricing oversight and regulation. The focal point of this discussion has thus far been on rebates and expanded transparency, however, the industry is concerned that regulators may take affirmative steps to “prescribe” permissible profit margins.

2. Dynamic Technologies are Shifting the Industry. The increasing presence and sophistication of technology in the pharmacy industry is resulting in reduced human error. The panelists noted that large conglomerates are taking the lead in innovation relative to technology. However, opportunities abound to innovate in this arena, as variation in state regulation, differentials in negotiating power with manufacturers, and federal government restrictions on direct reimbursement ensure that one system doesn't fit all needs.

3. Delivery Models are Anticipated to Shape the Industry. Amazon's market entry is anticipated to have a significant impact on mail order delivery and may further shape logistics and delivery models in other areas of retail pharmacy. The panelists indicated that the application of new logistics and delivery models to areas such as specialty medicine and drug compounding, however, will take much longer and will thus delay the impact of any industry shift on such investments.

4. Best Practices Should Drive Investment in Compounding Pharmacy Space. In the years following the death of more than 70 people from contaminated drugs compounded in a Massachusetts pharmacy, increased federal and state oversight and new regulations have dampened growth in the compounding sector. However, with baby boomers retiring, the estimated $8-$9 billion compounding pharmacy market continues to grow, particularly around Medicare Part D. When approaching a compounding pharmacy in any potential acquisition, investors should conduct careful diligence surrounding sterile compounding practices and other compliance issues.

5. Transition to Biologics and Genetically-Modified Medications May Present Opportunities for Compounding Pharmacies. The panelists discussed that modifiable medications are typically compounded at the manufacturing plant and subsequently sent to pharmacies. An example of such manufacturer-modified medication, Kymriah (approved by the FDA in August 2017), is a biologic therapy for leukemia occurring in pediatrics and young adults in which a patient's T-cells are collected and re-programmed to identify and destroy mutated cancer cells. Compounding pharmacies are uniquely suited to produce and distribute such biologics, thus disrupting this structural dynamic and driving down costs.

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