Trends in health care M&A

Implementing the right strategic approach to achieve capital growth
For some time now, the health care industry has seen steady increases in the volume of mergers and acquisitions (M&A) against a backdrop of significant change, albeit transformation that has only contributed to the sector’s growth. From the demographic to the technological, transformative shifts within health care show little sign of stopping, although the dealmaking they have aided and abetted has grown increasingly complex. As M&A has resulted in larger and larger entities in key industry segments, resulting transactions have only grown in size, as exemplified by the ongoing megamergers such as the $69 billion purchase of Aetna by CVS Health. The U.S. Department of Justice just announced it would not contest the merger in an encouraging sign for additional vertical integration going forward. In addition, the avid interest on the part of financial sponsors and the increasingly large sums at their disposal have also contributed to significant expansion in aggregate transaction multiples.

"On both the sell side and the buy side, investors are willing to pay high multiples," says Ron Ellis, senior director with transaction advisory services at RSM US LLP. "Certain segments like dermatology, physician practices, dentistry and more are ripe for consolidation." This has been the case for some time, which has led to an increasing number of sellers flocking to market. In turn, then, the primary challenge for those looking to buy is adequate diligence across both the qualitative and quantitative. Especially for private equity (PE) sponsors that are still keenly sourcing retail health care opportunities, prioritizing review of the smaller firms that were previously owned by families or founders is critical.

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“The combination of strategic buyers and financial sponsors with record levels of cash has created a great dynamic for sellers.”

Brian Doyle
Managing Director, William Blair
Running a smooth sale: Tips for sellers in a health care transaction

Consistently growing and providing investors with impressive returns, the health care industry has yet to experience a bust. In this expanding industry, the mentality tends to be one of “use it or lose it,” according to Brian Doyle, managing director at William Blair.

Steve Reynolds, a principal at Trivest, indicated that sellers need to keep track of different metrics that help define what the business does and whether there is growth. “PE firms love data,” he explained. “Great financials and a great founder story are not enough. Benchmarking progress builds confidence in a buyer and shows that the company is built on more than just intuition.”

Specifically, creating a sell-side quality-of-earnings (QOE) report captures the historical snapshot of a company, providing a buyer with a multidimensional view of the pros and cons of a business. Michael Ory of Raymond James noted, “Validating a story with third-party accounting and other reports can help to catalyze interest.”

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- Using sell-side due diligence to maximize deal value
- An in-depth look at transactional data is irreplaceable
“It’s just good practice to know the state of your target’s security and privacy governance. It’s a big risk to acquire a company, and then discover that a breach happened two years ago.”

Jay Schulman
Principal, RSM US LLP
What investors should understand about data privacy and protection

Ensuring your health care transaction isn’t putting your fund at risk

In this increasingly digital world and with the daily onslaught of publicized cyber breaches, the topic of data protection is top of mind for everyone. Certain issues related to personal information and data privacy are unique to the health care space, which faces specific obstacles not seen in other industries.

“The thing about healthcare data is that it’s very valuable,” says Steve Grant, president of Objective Arts, Inc. There is a multitude of ways to commit fraud with someone’s medical information. “My understanding is that the health care record is about 10 times more valuable than the credit card,” Grant adds.

One area to be aware of is old data systems. These can create problems, because older systems might not have patches that deal with current security issues. But according to RSM’s Jay Schulman, there is opportunity in old systems to go in and revitalize their IT infrastructure to make the company more secure and therefore, more valuable.

The key is to understand what you’re walking into. “If you are walking into a security disaster, I don’t think that’s a deal breaker, as long as you have a road map to move forward from that,” says Schulman.

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“Consumers want to manage their health. They want to self-schedule appointments and pay their bills online. It’s this demand from consumerism that is pushing the industry forward.”

Debbie Yantis
Vice President and General Manager, Cerner
The ever-increasing importance of health care IT as an investment
A cost center or salvation: What every investor needs to know

Thanks to Uber, Amazon and other digital presences, consumers are used to managing their day-to-day lives through technology. Technological change is happening at a rapid clip, and the health care industry offers opportunity not only for IT investors but also for patients, who will inevitably benefit from the efficiencies and ease that technology can offer.

Today’s hospital system and the IT supporting it is often antiquated, but this creates opportunity for IT investments to streamline the industry with useful technologies. “Consumers want to manage their health,” says Debbie Yantis, vice president and general manager of Cerner. “They want the health systems to know who they are. They would like to have their wearables and their devices connect automatically. They want to self-schedule appointments and pay their bills online. It’s this demand from consumerism that is pushing the industry forward.”

The growth of the smart consumer is key to why the health care industry believes it needs to evolve. “Data is king,” said Gulshan Mehta, director at RSM US LLP. “From being able to understand what the consumer or patient wants, to understanding who your patient population is in terms of demographics, the data should always guide the ship.”

Want to learn more? Check out these related pieces of content.
- Population health management: enabling technology strategies
- Managing electronic health record conversion risks

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In addition, we have performed due diligence on more than 2,200 deals in the past five years, almost 300 of which were health care and life sciences transactions. This in-depth knowledge provides our private equity and strategic buyer clients with industry-specific due diligence considerations.