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THE IMPACT OF COVID-19 ON HEALTHCARE PRIVATE EQUITY TRANSACTIONS

October 7, 2020

This slide deck contains information on the COVID-19 related Loan Options & Forgiveness Strategies and is the most up-to-date as of October 6, 2020.

Changes are constant and additional guidance is on-going. We will keep you posted on changes through our weekly webinar updates and COVID-19 resource center. You can also reach out to your Sax advisor for the most recent information.

Please visit our Resource Center at www.saxllp.com for on-going updates, or email covid19@saxllp.com with questions.



Today's Agenda

- Pace of Transactions – Now and in the future
- Cooling Off & Heating Up – The physician practice and outpatient sectors
- Transaction Structures – Reimbursement, volume pressures and protections
- Multiples – Downward trends with upside opportunities
- Emerging Trends – What to keep an eye on

Today's Presenters



SCOTT A. YODER, CVGA, CEPA, CM&AA, CPA (*Moderator*)
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Co-Chair of the Health Law Group, *Wilentz, Goldman & Spitzer, P.A.*



PETER A. GREENBAUM
Co-Chair of Corporate Group, *Wilentz, Goldman & Spitzer, P.A.*

How has transitions in Healthcare looked over the last few decades?

- The 1990's
- The 2000's
- The 2010's
- 2020 and beyond

What factors have precipitated the recent surge in PE investment in healthcare?

- Regulatory landscape
- Downward payor pressure
- Increased expenses
- Cash flow issues
- Administrative duties/burden
- COVID-19

What are some reasons your clients have turned to PE?

- Uncertainty about the future
- COVID-19
- Greater technology needs
- Take advantage of lower tax rates

What does an arrangement with private equity look like?

- PE firms are strategic capital partners
- PE firm deal structure elements
- Use of the MSO model
- Two types of transactions:
 - Platform company created
 - Add-on acquisition to an existing platform

What are some of the “hot” and not so “hot” practice verticals?

Multiple sources of revenue:

- Urology
- Orthopedics
- Dental
- Dermatology
- Ophthalmology

Outpatient services focused

- PT
- Pain management

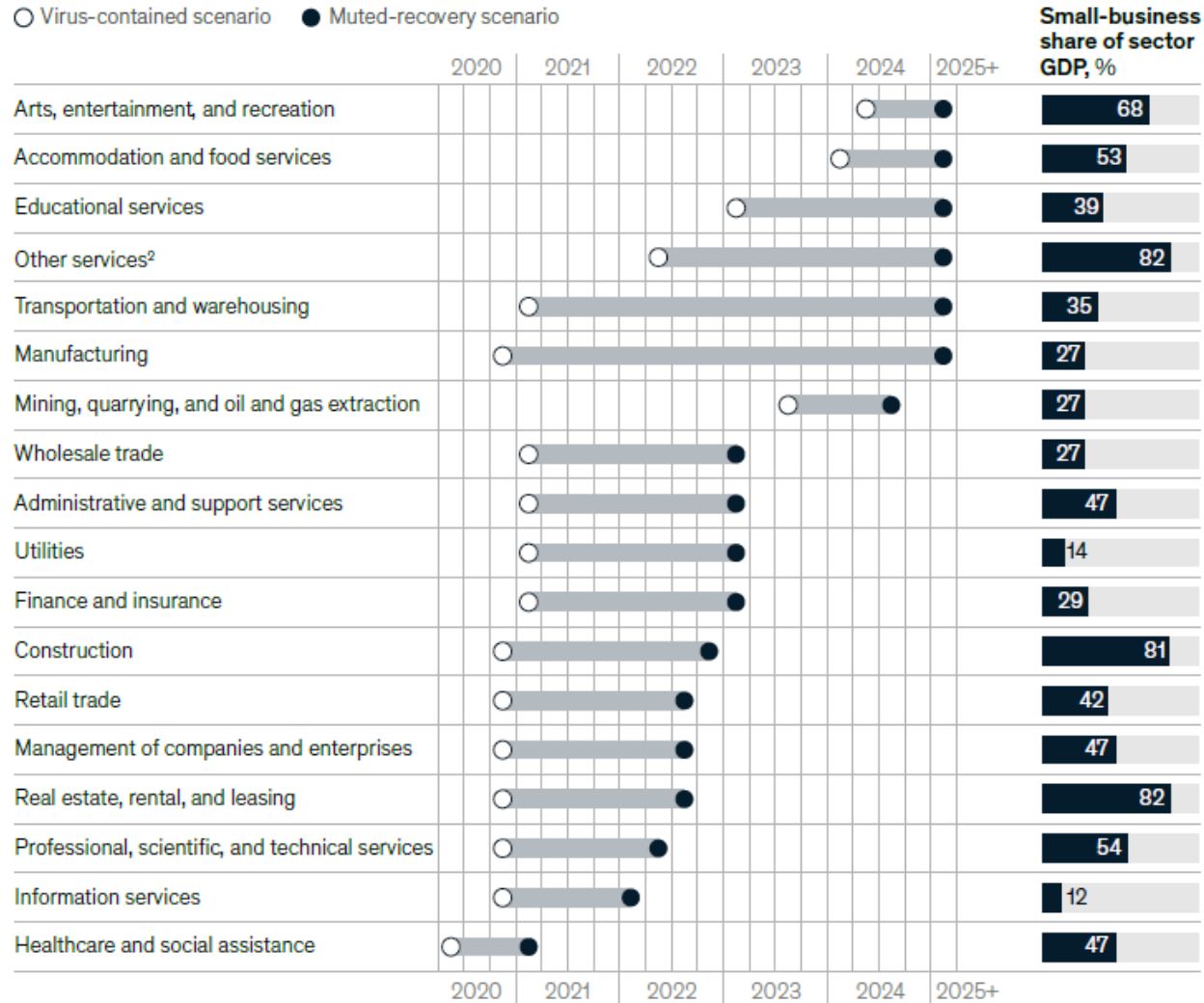
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- Radiology/diagnostic imaging centers
- Gastroenterology (GI)
- Ambulatory Surgery Centers (ASC's)

What have you seen in your client base? How are they preparing?

Estimated time to recover to pre-COVID-19 sector GDP¹

○ Virus-contained scenario ● Muted-recovery scenario



What have you seen in your client base? How are they preparing?

Specialties:

- Ophthalmology and OB-GYN
- Dental

Preparation includes:

- Re-evaluating goals
- Updating acquisition needs

Important initial steps when seeking initial investment and due diligence review?

- Assemble your team
- Goals of selling doctors
- Due Diligence organization
- Review benefit/detriment of rollover equity
- Need of future liquidity

What recommendations do you have to maximize a practices value?

Similar to selling your house

- Get an experienced “real estate agent”
- Assess the market
- Price is key
- Paint
- Fix major plumbing, electrical and other
- Landscape
- What do you do after you sell?

How will COVID affect practice financials and valuations?

Practice Financials:

- COVID-19 has strained practice resources
- Revenue Cycle

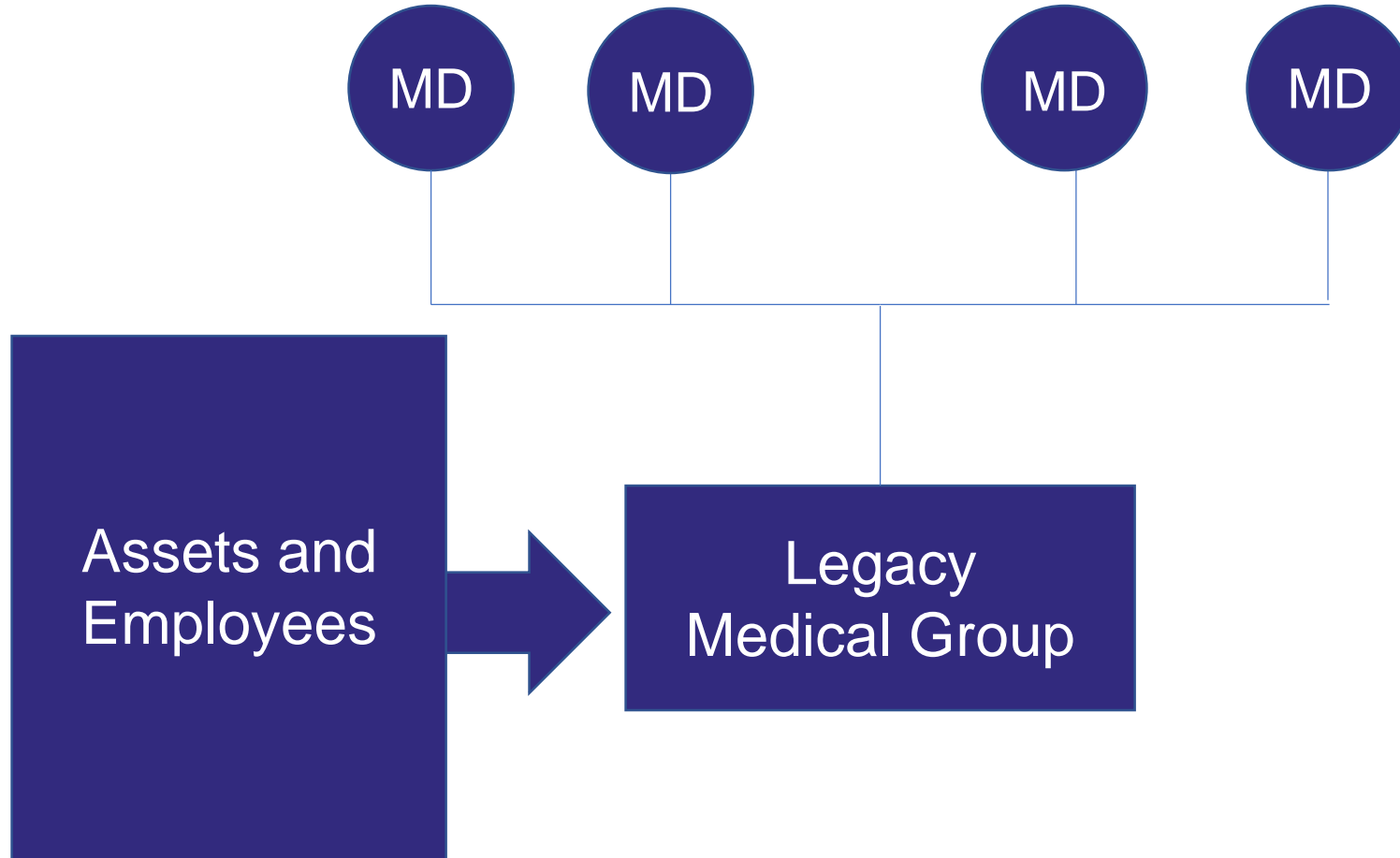
Practice Valuations:

- More sellers than buyers
- Hospitals may have smaller M & A Appetite
- Greater compliance and financial risks

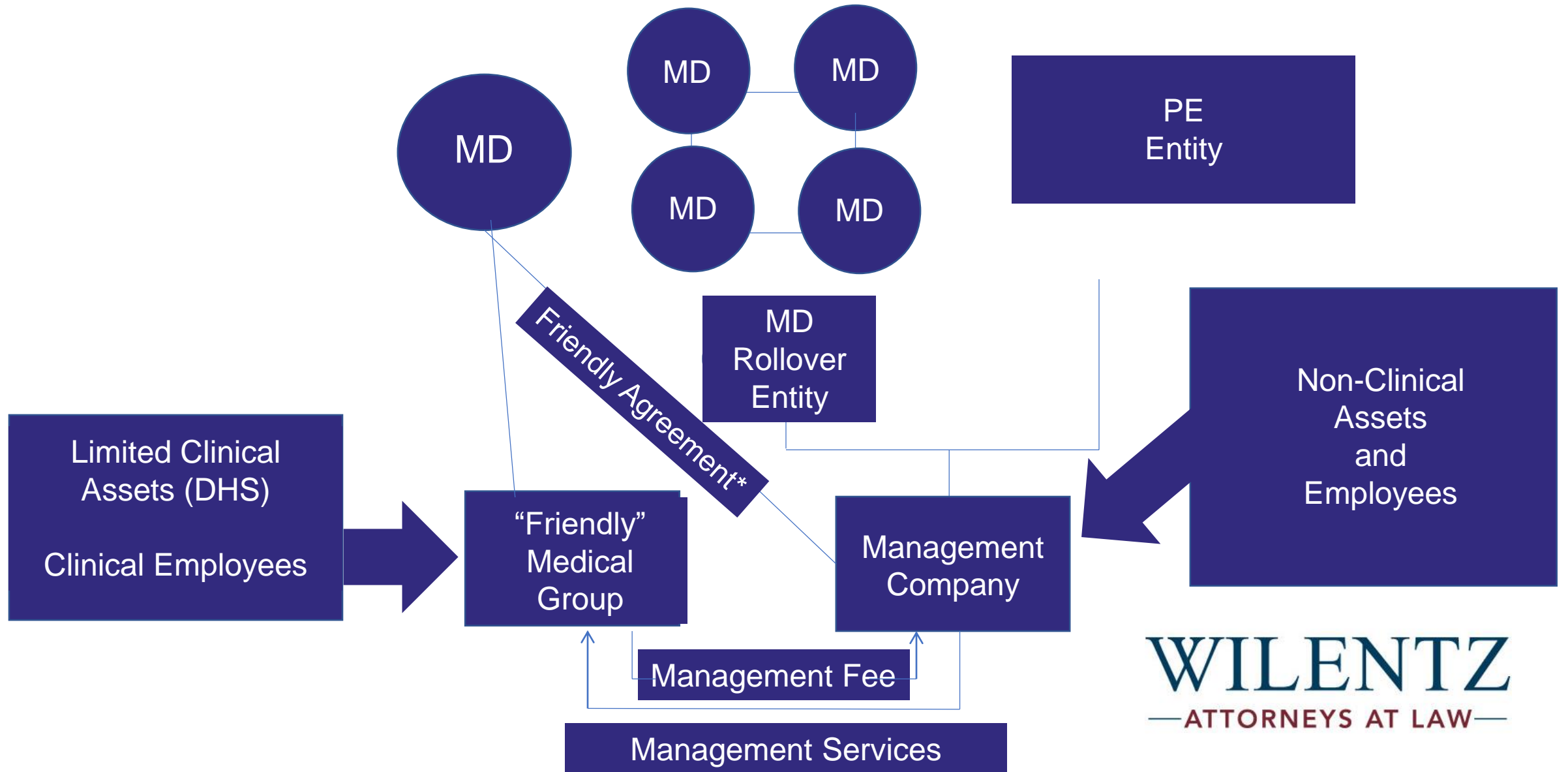
What are some important regulatory concerns?

- State Law and regulations: CPOM
- MSO Structure
- Anti Kickback Laws
- Licensure/CHOW issues
- COVID regulatory changes

Typical Starting Structure



Typical Deal Structure



How do practices prepare for the changes to the due diligence process?

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- Utilization of grants, loans and other funding
- Restrictions on practice volume
- Increased costs due to pandemic
- Changes in payor mix

What are significant deal points in a private equity healthcare deal?

- Purchase price
- Management and control rights
- Restrictive covenant
- Representations and warranties
- Representation and warranty insurance / indemnification
- PPP loan
- Provider relief funds

Final Thoughts & Q&A



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