

# Post-COVID Healthcare Transactions

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# Impact of COVID-19

- Overall Deal Volume fell 50% in spring\summer 2020
- Impact was uneven, with sectors such as Travel, Hospitality, and Financial hit the hardest, with reductions in transaction volume and value near 75%
- Healthcare was a relative bright spot, falling only 15% at its lowest and recovering quickly by fall and winter
  - Hospitals
  - Physician Organizations
  - Telehealth
  - Post-Acute

# Sharp Fall \ Strong Recovery

Figure 1: Number of Announced Transactions, 2010–2020



SOURCE: KAUFMAN, HALL & ASSOCIATES, LLC

# Hospital and Health System Transactions

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

SOURCE: KAUFMAN, HALL & ASSOCIATES, LLC

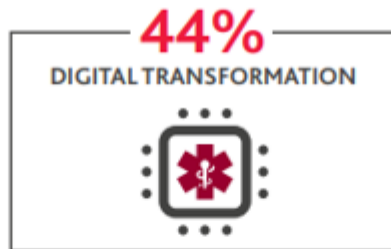
# Healthcare Transactions

- Monetary and Fiscal policy
  - Low Interest Rates
- Forty-four percent of healthcare CFOs say the pandemic will drive an increase in partnerships across the healthcare ecosystem
- Economies of Scale
  - Vertical integration: Acute care providers partnering with post-acute industries
  - Independent organizations seeking stability and growth opportunities with larger systems
- Essential operations transition to elective procedures
  - Personnel and space shortages

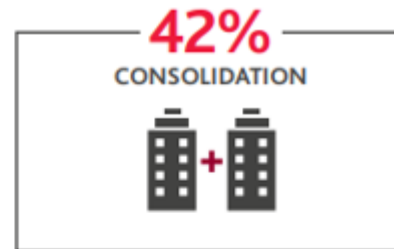
# Positive Outlook



say the pandemic will drive an increase in partnerships across the healthcare ecosystem



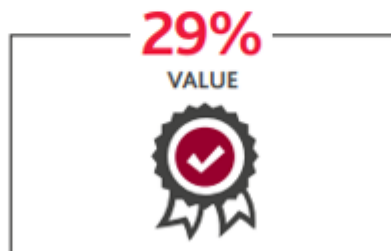
say the pandemic accelerated digital transformation



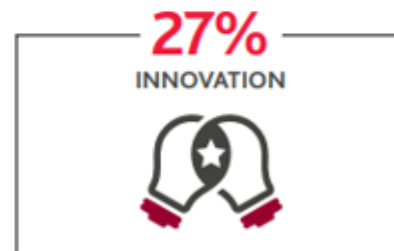
say the pandemic will increase consolidation



say the pandemic increased focus on diversified revenue streams

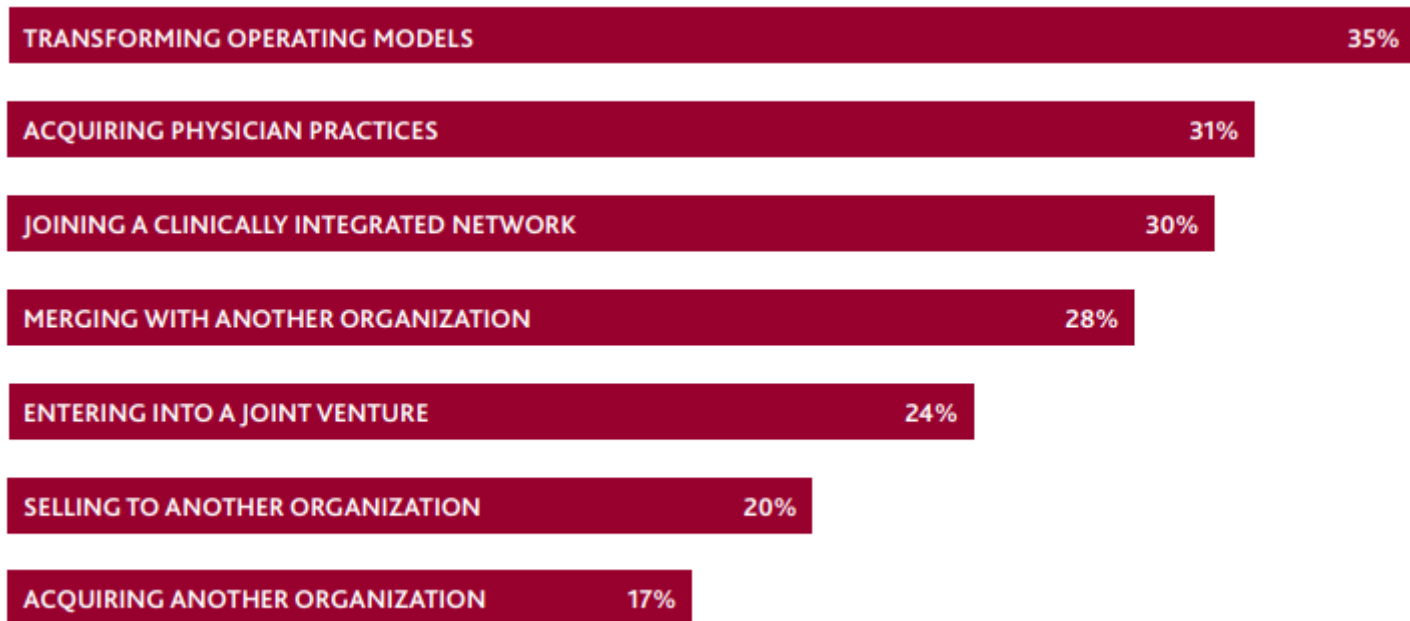


expect the pandemic will accelerate the shift to value-based care



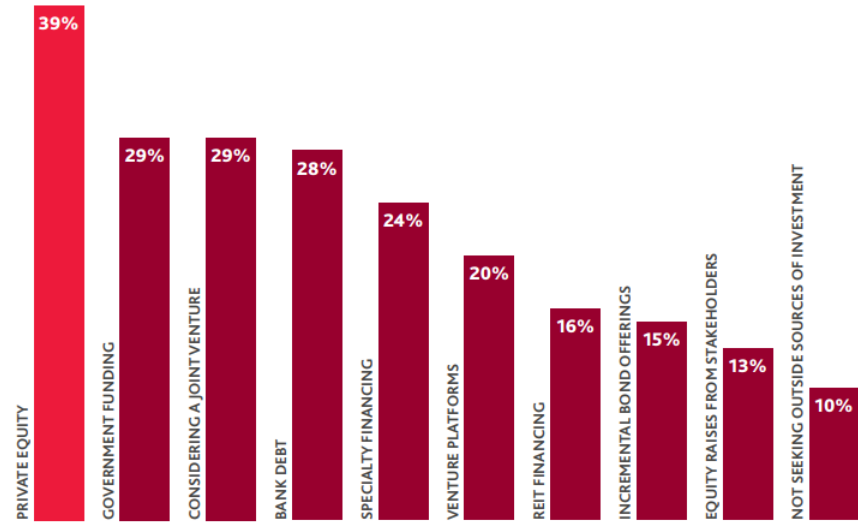
say the pandemic opened new opportunities for product or service innovation

# Plans for 2021



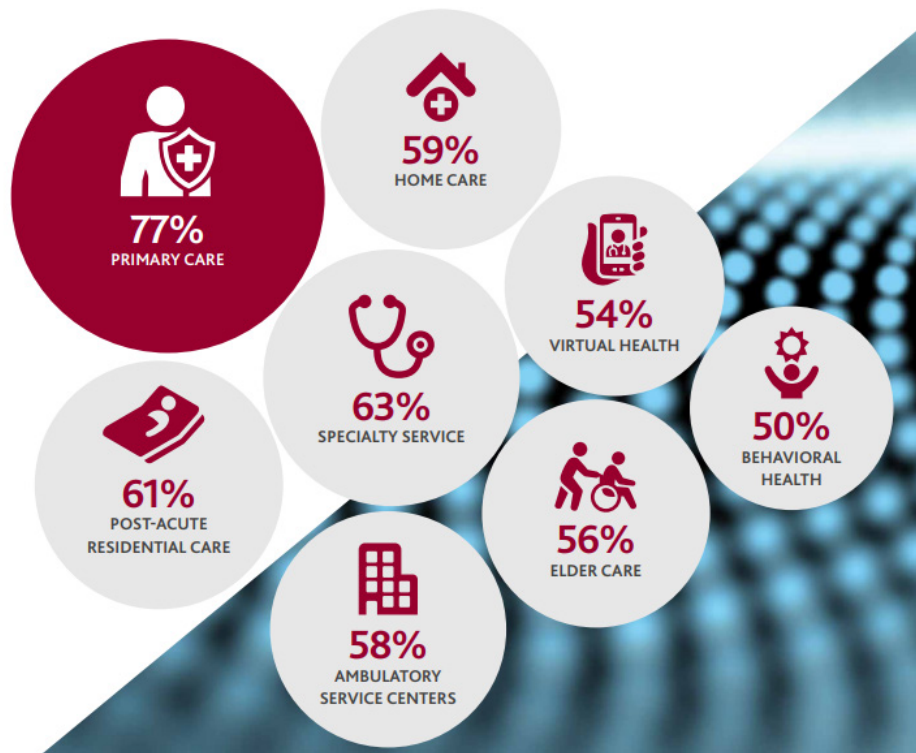
# Emerging Trends

- Private Equity
- Liquidity Protection
- Diversification
- Divestment of non-core business





# Areas of Investment



# Changes to Deal Structures

- Seller vs. Buyer Considerations
- Increased Due Diligence
- Valuation Issues
- Purchase price adjustments
- Employee Issues

# Updated Deal Terms

- Economic Terms
  - Earn Outs
  - EBITDA uncertainty
- “Material Adverse Effect”
  - How Defined?
- Indemnification
- Force Majeure
- Reps and Warranties
- Specific PPP disclosures

# The Path Forward

- Trend towards consolidation will accelerate
- Focus on core strengths & divest underperforming areas
- Protect and strengthen balance sheets
- Allocation of risk given uncertainty
- Ensure valuations and economic terms are reasonable

# Questions?



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