HPE NEW YORK 2021
TOP TAKEAWAYS

BIG BANKERS BREAKFAST DISCUSSION

The second year of the Biden administration and the potential ending of a world-shifting pandemic will surely shape the 2022 healthcare investing market. To gain insight on the year ahead, Curtis Lane, founder of WindRose Health Investors, hosted a panel with some of the leading voices in investment banking. Panelists joining Lane included:

- Fritz Buerger, Managing Director, Healthcare, Healthcare Services, William Blair
- Richard Harding, Managing Director and Head of the US Private Equity Solutions Group, Moelis & Company
- Philip Pucciarelli, Partner, Perella Weinberg Partners
- Geoffrey Smith, Managing Director and Co-Head of the Healthcare & Life Sciences Group, Harris Williams

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A Strong Year Ahead?

Harding expects the momentum from robust deal flow to carry over into 2022. “Our pitch activity and the mandates that we have for 2022 are probably some of the more interesting and highest-quality businesses that we've come across as a portfolio in a long time, so we're pretty optimistic for what the outlook looks like for 2022,” he said.

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COVID Accelerating Deal Flow

Tax changes are on the horizon in 2022, as the Biden administration is likely to raise the level of income tax rates and make amendments to other business-friendly aspects of the tax code. That being said, Harding didn’t believe upcoming changes to tax law were the sole driver of deal flow in the waning months of 2021. “COVID created a dynamic where people saw their businesses either accelerated or disrupted and that combined with the tax changes got a lot of people to really think hard about selling [their] business in 2021 when they may not have otherwise,” Harding said.

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Adjusting to the Pandemic

COVID-related deal hesitancy is less common now than it was over the past year, Pucciarelli opined. The ability to measure the pandemic and forecast its ebbs and flows allowed for more stability in dealmaking. “We were involved in several deals in the last couple months,” he said. “Those were going [on] right through the delta variant; I don't think it had an impact on pausing [deals] or moving differently."

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Slowing Things Down

The fast pace of deal making—considering the volume of deals in the healthcare sector—can be a hazard to deal completion. Slowing things down can behoove both sellers and buyers, Pucciarelli said. That means being more thoughtful about the process and not necessarily following a traditional "four-by-four" trajectory that involves four weeks to first bid and four weeks to second bid. A more thoughtful and deliberate deal timeline that gives buyers more time to engage and potentially find an angle will likely broaden the field and be additive to driving competitive tension.

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A Deeper Pool of Buyers

When considering potential buyers for healthcare assets, firms would be wise to shift to a process that broadens the potential pool of buyers, Harding noted. "The pockets of capital that are looking for high-quality healthcare businesses have probably never been broader or deeper at least in the timeframe that I've been doing this," he said.

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Overrating Fund Size

In following up the example Harding cited, Smith shared insight on the diminished importance of fund size, calling it "the most meaningless statistic when you start thinking about potential buyers." He said he's seen funds use LP co-investing and partnerships with other firms to make deals possible. The new legwork is giving our client on the seller side confidence that these smaller funds will be viable at the end of the day, he added.

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Don't Forget the Generalists

Generalist buyers—those entities that have less of a healthcare focus—present unique challenges in the due diligence and deal educating process that others might not. They also present unique opportunity. "I think we're underestimating some of these folks," Pucciarelli said of generalist buyers. "They are doing a lot of desktop work. They're getting really smart really quickly. … We are in a different era now, and you are seeing a different array of companies raising funds and getting capital."

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The Public Option?

Special purpose acquisition companies (SPAC)—entities formed to raise money through an initial public offering to buy another company—were heavily involved in healthcare acquisitions earlier this year. Buerger sees that slowing down. The key question he asks clients when potentially doing a deal with a SPAC is if they want to be a public company. "I still don't see that as the preferred destination, I think, for a lot of management teams yet," he said.

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Growth Sectors in ‘22

Looking ahead, panelists were asked to weigh in on which segments will be most active in the deal market in 2022. Harding touted behavioral health companies, which have been a major growth area during the pandemic, to continue to be a hot deal space in the coming year. He also named women’s health, specialty dental services and retail healthcare as growth areas. The more traditional healthcare services sector may also be looking at a big year on the deal market after being somewhat quiet through the pandemic, Pucciarelli said.

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