

# Q&A

## CIT Executive Insights Video Series

### A Check-Up of the Healthcare Sector

Edited transcript: View video at [cit.com/douglass](http://cit.com/douglass)

#### How active is private equity in the healthcare space?

**William Douglass:** Private equity has remained very active in the healthcare space.

Private equity views healthcare as an attractive sector to invest in because you've got consistent demand and an aging population. You also have innovation in healthcare, which will continue to drive utilization and demand for services. At the same time, it's a highly fragmented industry which gives PE firms opportunities to go in and buy companies at low valuations, to effect the change to build on those as platform acquisitions and to grow those companies, making them more efficient.

We've seen a lot more activity even in the last six months around private equity firms buying smaller platform acquisitions and using those to roll up certain industries. We've seen this in the dermatology sector and in the anesthesiology sector.

#### What's the state of M&A activity in the healthcare sector?

**Douglass:** I think we've seen, at least anecdotally, a pick-up of activity in healthcare M&A. Generally speaking, when you look at volumes overall, LBO (leveraged buyout) activity is up, according to the number of deals we're seeing lately. We've seen a lot of activity with private equity firms who have felt more comfortable putting their portfolio companies up for sale and bidding to acquire new companies.

#### In which healthcare sectors do you expect to see increased activity?

**Douglass:** We're going to see increased activity in post-acute services much more so than we've seen in the past. When I say post-acute, we're looking at home health and hospice particularly. Home health has been an industry where you've seen major reimbursement pressure really going back four or five years now. This caused a lot of firms to push the pause button, especially private equity firms, on making acquisitions because it was difficult to value companies. I think the Affordable Care Act and certain things that have happened recently with regard to regulations have given more certainty to reimbursement rates over the next few years. In addition, you've got consolidation driven by the secular trend of greater care integration and population management, leading to greater acquisition activity. You're seeing private equity getting more confident and active in the healthcare sector in making acquisitions.

#### What's your view of the Affordable Care Act?

**Douglass:** The Affordable Care Act represents both opportunities and challenges. The opportunities are a little more obvious—we've all read about the increase in the number of people signing up for the exchanges as well as the increase in those covered by Medicaid. The Congressional Budget Office's latest estimates are that by 2022 approximately 27 million people



**William Douglass**  
Group Head,  
Managing Director,  
CIT Corporate Finance,  
Healthcare

*"Private equity views healthcare as an attractive sector to invest in because you've got consistent demand and an aging population."*

will gain coverage, which should increase utilization of services over time. I think the challenges are just complying with it. The Affordable Care Act costs close to a trillion dollars and close to \$500 billion of that is being paid for through provider cuts. That's the biggest challenge for a provider—you've got the opportunity for a greater number of insured folks using services but at the same time you've got reimbursement pressure and evolving payment models.

### What are some of the leading trends in the healthcare sector?

**Douglass:** One of the biggest trends you've seen in healthcare across all the sectors has been the evolution of IT and the need to invest in it. This is has been driven by three things: one is the requirement by the Centers for Medicare & Medicaid (CMS) to upgrade to the International Classification of Diseases' (ICD) coding for patient diagnosis; you've seen CMS requiring companies to upgrade to electronic health records; and lastly with the growing trend for fee-for-value versus fee-for-service companies, the need to utilize IT to manage their clinical operations and the need to gather data to manage those clinical outcomes.

*"One of the biggest trends you've seen in healthcare across all the sectors has been the evolution of IT and the need to invest in it."*

### What are the challenges for middle market healthcare companies?

**Douglass:** The biggest challenge facing most middle market healthcare companies is how to evolve and adapt to the changing regulatory environment. This comes not only from reimbursement pressure, but one of the biggest changing dynamics driven by the Affordable Care Act is the move from fee-for-service to fee-for-value. That's easy to say but I think it's hard to implement. How do you pay someone to manage care across the chain? I think every healthcare provider is trying to figure out how do I coordinate care.

*"The biggest challenge facing most middle market healthcare companies is how to evolve and adapt to the changing regulatory environment."*

### What's your outlook for the healthcare sector for the next 12 months?

**Douglass:** I think over the next 12 months I'm optimistic.

CIT Healthcare has been lending to middle market healthcare companies for over 10 years, and we pride ourselves on having a bench of deeply experienced and highly knowledgeable professionals. We touch every sector of healthcare. I think we have some green shoots. One of the things that was driving a bit of uncertainty was that healthcare was growing at way above GDP for a long time. I think there were a lot of views that the trend was unsustainable. Over the past few years, the growth rate of healthcare spending has moderated, but there continued to be debate as to whether those lower growth rates were cyclical or a longer-term secular trend. However, in 2014 we've seen the growth rate tick up, really starting out in, say, the fourth quarter of 2013. Whether or not that's going to be sustainable, I don't know. It starts to appear maybe we're entering another phase potentially where we expect growth to continue at the higher historical rates.

### Executive Biography:

*William Douglass is Group Head and Managing Director of CIT Corporate Finance, Healthcare. He is responsible for overseeing CIT's financing and advisory activities in the healthcare sector, including syndicated cash flow financings, asset based loans and real estate financings. He received a BA in Managerial Economics from Hampden-Sydney College and an MBA from Samford University Brock School of Business.*

To learn more about CIT Corporate Finance, visit [cit.com/corporatefinance](http://cit.com/corporatefinance). Members of the press who have an interest in speaking with Mr. Douglass can contact Curt Ritter at [Curt.Ritter@cit.com](mailto:Curt.Ritter@cit.com) or Matt Klein at [Matt.Klein@cit.com](mailto:Matt.Klein@cit.com). Additional CIT Executive Insights can be found at [cit.com/ExecutiveInsights](http://cit.com/ExecutiveInsights).