Health Care M&A Activity Remains Immune to COVID-19

BY THE NUMBERS // Deals and consolidation set to continue in 2021

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The coronavirus has had a significant impact on health care businesses, the health care industry and health care M&A throughout the United States and abroad. Notwithstanding the impact, top drivers from 2019 continue to fuel consolidation and look to do so in 2021, including low cost of capital and accessible debt markets, large balance sheets, availability of dry powder and cost pressures. A significant new driver involves an acceleration in liquidity events by baby boomers—who still make up the largest population of business owners and lived through the dot-com bubble, the 2007-09 Great Recession, and now COVID-19.

The health care space remains ripe for consolidation, with many highly fragmented founder-owned businesses presenting a significant opportunity to consolidate and reduce costs and scale. Before the pandemic, financial sponsors sat on a lot of dry powder with significant capital to deploy. COVID-19 did not change this. There has, however, been a shift in subsectors and toward quality assets. Although the market experienced a slowdown in hospital and physician practice management deals toward the end of 2019, COVID-19 accelerated the slowdown given the postponement of elective procedures and wellness visits. COVID-19 also impacted the post-acute market because census dropped in the nursing home industry. Given the shift to in-home care, the market is experiencing greater consolidation among in-home care providers, such as pharmaceuticals, home health and hospice; direct-to-consumer and remote care providers; as well as health care IT and digital health suppliers supporting those care platforms.

Enterprise values and EBITDA multiples appear to remain constant for quality assets despite COVID-19, and there seems to be significant competition among buyers for these assets. Simply put, sellers of quality assets are not prepared to take a discount, and it seems financial sponsors and strategics are comfortable taking these risks since these companies remain structurally sound. Given the acceleration for a liquidity event on the sell-side, high competition for quality assets on the buy-side, and future headwinds including COVID-19 and the potential for tax and drug pricing reform, buyers must now move nimbly and quickly—as currently seen in the market.

Toward the end of 2019, we expected deal activity to remain constant throughout 2020, but many deals were put on hold or abandoned during the peak of COVID-19. Last year clearly did not deliver on our expectations, but the health care M&A market is reflecting significant signs of optimism. The market is clearly bouncing back in certain subsectors, especially for quality assets. COVID-19 has accelerated the shift of care to the home and noninstitutional settings, with M&A activity flourishing in those areas.

Deal-makers also have accepted the fact that COVID-19 is here to stay, and they need to manage and mitigate risk. Rather than discontinuing deal activity altogether, financial sponsors and strategics have determined ways to structure deals and build value with sound investments. We expect this approach to continue to bolster health care M&A activity in 2021. //

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