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Chronic Change in the Healthcare Industry

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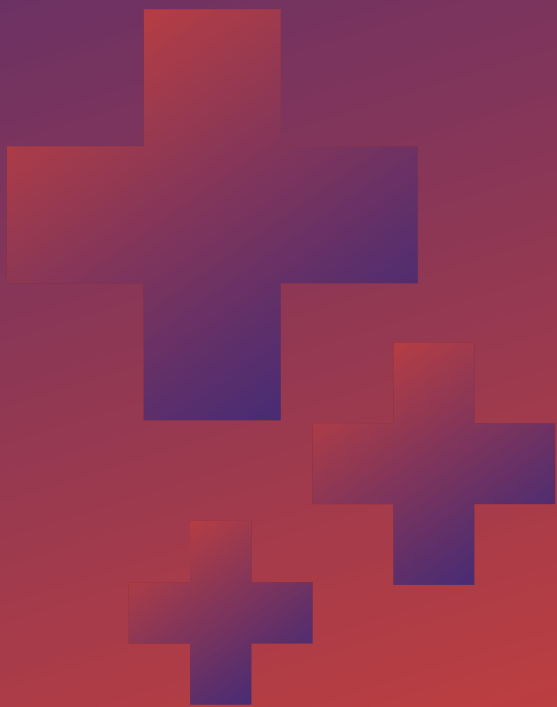
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Chronic Change in the Healthcare Industry

This report is based on an edited transcript of a recent Privcap podcast.

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Privcap: Hello and welcome to a Privcap podcast. My name is David Snow, I'm a partner at Privcap Media. Today, we're joined by Robert Greenglass of Waterline Ventures, Andy Jenkins of RSM, and Matt Wolf of RSM. Gentlemen, welcome to Privcap. Thanks for being here.

Today, we're talking all about the opportunity to invest in the healthcare business in the U.S. Obviously, everyone around the world has healthcare on their minds — largely because of the COVID-19 crisis that we're all living through — and certainly we're going to touch on that in today's conversation. But there were massive trends going on in healthcare leading up to this crisis. And there are massive trends that will continue to shape the investment opportunity in healthcare business long after the crisis ends. The three of you are experts in this area, both as investors and as advisors to transactions in the healthcare business. I'm fascinated to hear what you have to say. Why don't we start with a roundup of what you're hearing from your respective networks?

Robbie Greenglass, Waterline Ventures: Healthcare is front of mind for everybody, personally and professionally, which is a really interesting dynamic on the company side. We've seen some traction in our telemedicine portfolio and number growth that we've never seen in the past, across any of our businesses. Over the course of the first two weeks of this pandemic, we had 100x increases in the number of visits across our telemedicine companies. Basically, over the course of the first weekend of the shutdown, we had hospital systems in the dozens going into contracting, which has been amazing to see. Decision-making processes have been reduced from what has been years in the past to days and weeks. That creates a lot of exciting opportunity. Obviously, all of us wish this was happening for different reasons. But the industry has transformed overnight, which is really exciting. What that also means for our investors is that everyone's looking at healthcare as a place that is going to have some long-term sustained growth and a lot of change over the next five to 10 years.

Andy Jenkins, RSM: The number of healthcare M&A transactions has declined considerably since this time a year ago, obviously due to the pandemic. What we're hearing is that some of the larger PE platform transactions probably won't pick up again until the fourth quarter this year. A lot of investment bankers have a pretty good handle on where things are headed.

Matt Wolf, RSM: Independent healthcare groups that — over the last year and a half — had been fielding calls from investors as a courtesy but not really paying attention are now saying they've been shaken. They're curious about what the future will hold and reevaluating whether or not they need a partner to help them be competitive on the other side of the pandemic.

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Privcap: In what ways do you think the pandemic will accelerate changes that have already been taking place in the health-care business?

Greenglass: The telehealth business I was talking about was a business that connects patients to physicians in an asynchronous way. The patient inputs symptoms, the physician reviews those and then gets back to the patient within a few hours and says either, "You're fine," or, "Maybe we should hop on a video call," or, "You need to come into the hospital." On average, this company was seeing hundreds to thousands of patients per day. That skyrocketed to 50,000 per day over the course of a week.

The most exciting part is that consumers are changing their behavior. That is going to bring lasting change. For the first time, consumers are looking at healthcare and their interaction between themselves and the healthcare system as something that doesn't have to happen within the hospital. It doesn't have to happen when you're sitting in front of your doctor. Hospitals over the past couple of months have been the last place people want to go. That is where the majority of infections are happening.

Hospital systems have shifted close to 100 percent of all their non-essential visits to video. Even if we shift back to having 50 percent or 70 percent in-person visits, this is a massive shift that could not have happened any other way.

Wolf: We are having conversations with executives who say that a lot of this is driven by temporary changes, by relaxations in reimbursements and regulatory constructs around telehealth and virtual health. They say that, once those get rolled back, we're going to go back to the norm. But the fact is that patients have experienced this and they're not going to want to go back to a 100 percent physical experience.

Greenglass: There were two big barriers to progress happening in the past. One of them was payment — the fact that clinicians would get reimbursed at lesser rates if they were doing a virtual visit. That was changed overnight. So, reimbursement was on par, whether care was virtual or in person. The second barrier was that clinicians could not practice across state lines. One of the beauties of telemedicine is that we can have clinicians in one time zone treating patients after hours elsewhere, matching supply and demand.

One of the silver linings of this pandemic for me is that I got to spend two months back home with my family. In the middle of that, my mom was having an earache. And, even with me being in this space, it took a couple of minutes for me to say, "Hey, wait, why don't we just call our doctor?" We had this discussion over the phone, which led to the writing of a prescription. We never actually had to bring her in to see anybody in person.

Jenkins: Are you hearing any resistance from providers about what might become the new norm?

Greenglass: Resistance is probably an understatement for providers from the old world. But younger residents — fellows and attending doctors in their 30s and 40s who are attached to their smartphone 99 percent of the day — want to be able to communicate with other clinicians and patients in a seamless way. Also, hospitals are mandating that you have to spend a certain number of hours sitting in front of your computer so that you can take telemedicine visits from patients. That's unnatural for a large group of clinicians.

Privcap: Before we move on, Robbie, how is your mom?

Greenglass: She's great! Thanks for asking.

Privcap: We've discussed the consumerization of healthcare. What is the next stage of this trend?

Wolf: Organizations are aiming to become part of the Netflix of healthcare. This may sound ridiculous but, if you think about it from a consumer perspective or from a patient perspective, they want their healthcare on demand, customized to them when and where they are. Netflix started out as a DVD mailing company. And while it may take some time, people are waking up to realize that telehealth is more than just FaceTiming with your physician. It's about scalability and virtualization of services that will not only allow for mass customization of care but also efficiencies and economies of scale that come with digital technology in terms of reducing costs.

Greenglass: Matt, I couldn't agree more. What's interesting is how big the companies you can create can be to solve that equation. This industry is so big because there's so much spend per patient,

per consumer. You can really focus on solving one piece of that problem and create a really big business. There are a lot of different areas to focus on to get healthcare to a level of service we expect from everything else in our life, whether it's food or Netflix or shopping. We want things when we want them on our own time.

Privcap: Many in the healthcare industry have talked about a trend whereby providers need to think more like insurance companies. What does that mean?

Wolf: Historically you treated patients, they consumed your care, but it was paid for by insurance companies or third-party payers — government, Medicare, Medicaid, Blue Cross, whatever. However, as the out-of-pocket responsibility of patients has increased, they're now demanding the types of care that we're scrambling to provide. And now, we come to the situation where the consumer and the customer are converging. In order to deliver a fully integrated model in this new environment, where the lines between consumer and customer are blurred, the provider needs to have a very deep partnership with the non-patient financing mechanism.

Greenglass: The line between payer and provider is blurring. If you look at what's happened over the last few months, hospital revenues have fallen off a cliff. That means that healthcare insurance providers are making exponentially more money. All that money that hospitals are not getting is still in the pockets of the healthcare insurers. Historically, there's been this movement to have hospitals take on more risks, to look more like insurance entities. At the same time, insurers are also moving the other way, trying to become more like providers.

Privcap: Andy, what will be some new risks within healthcare as these trends advance?

Jenkins: Two items that come to mind are regulation and a possible change of guard in the White House. Also state regulations — there is proposed legislation in California where the attorney general would have to approve any healthcare, which would obviously be a huge deal.

Then, from a transaction standpoint, with all the government programs that have been put into place — PPP loans, deferred payroll taxes, et cetera — buyers and sellers have never dealt with those types of items in a transaction before. Are they prepared? Do they have the right advisors? The right accounting and legal advice?

Privcap: Matt, what is "single audit" and why do healthcare executives and investors need to understand it?

Wolf: If you receive a government grant — which is how a lot of the provider-relief funds are structured — then you have to be able to provide what is called a single audit. This is a set of financial

statements specific to that grant and program. It kicks in if you received money from the provider-relief fund that was over the \$150,000 per tax ID threshold. That's new for a lot of investors and even operators in healthcare.

Privcap: In the midst of this pandemic, people are not visiting hospitals or any medical facility to get elective surgery. What do you think will be the future of elective surgeries?

Wolf: We will likely see a measured resurgence of those surgeries. What we've seen in the states that have reopened and what we've seen from surveys is that people aren't necessarily breaking down the door of their provider to get those procedures done, unless it is something very serious and important. New virtual tools and virtual screenings will impact the demand for certain diagnostics that have been done in an ambulatory surgery center. Patients and providers will be comfortable with that because we are now, as a civilization, more comfortable with a digital healthcare technology.

Greenglass: As a country, we have some of the highest utilization rates and spend in healthcare, but we're not even close to the top of the best outcomes and life expectancies that we can track across the world. It'll be really interesting to see whether we're better off with this utilization drop.

Privcap: Looking through the lens of a private investor in healthcare, what will be the sub-sectors to watch most closely?

Wolf: The sectors to watch will be emerging technologies, especially those that involve patient care that improve outcomes and patient experiences — things like wearable data, wearable technology.

Jenkins: It's hard to predict what regulation is going to come down that changes reimbursement, which could negatively or positively impact any sector.

Greenglass: We have a business called Connexa Health that tracks patients in clinical trials, while they're not in the clinical setting, using wearables and other motion tracking like spirometry, which measures breathing. We take these readings and track patients 24 hours a day, seven days a week, instead of for 30 minutes when they come into the clinic. It's changing the way that we develop drugs because we have more data points in earlier signs of efficacy.

Another other theme we are getting really excited about is delivering healthcare to patients where they want it to be delivered. Should a doctor be coming to your home and doing tests versus you going into the hospital? Can we look at new models for delivering mental health? It's all changing so fast. The intersection of these services and technology is where we are spending a lot of our time. ■



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David Snow is a partner of Privcap Media, the leading channel for thought leadership in private capital investment.
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- State of the healthcare M&A market amid COVID-19
- Sea change in telehealth
- Consumerization of healthcare
- New Risks for providers

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With Expert Commentary by:

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