

# Health Care: A Resilient Sector in Unprecedented Times

MID-MARKET TRENDS // Demand for add-on and platform deals persists



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Despite ongoing uncertainty and significant global adversity due to COVID-19, health care generally remained an active sector for middle-market leveraged finance, with deal flow quickly bouncing back in the latter half of 2020. Overall, we believe that private equity-backed health care businesses were able to manage through this uniquely challenging environment relatively well given the non-discretionary and inelastic nature of demand for their services—which has contributed to continued transaction activity across a broad spectrum of health care subsectors—as well as their deep lender relationships and access to a wealth of operational expertise via seasoned sponsors.

When health care businesses began feeling the impact of the outbreak of COVID-19 in the U.S. in early 2020, we saw many PE sponsors and their portfolio companies' management teams rapidly turn their focus to preserving liquidity and cutting costs. In many cases, their decisive action and ability to make timely decisions early on helped avoid potential liquidity issues as the months wore on. As a result, upon reopening once pandemic-related lockdown measures were lifted, we saw that these companies were often able to quickly ramp back up, work with their lending partners to resolve covenant issues as needed, and pivot to strategic acquisitions.

Before the pandemic, the private credit market was awash with capital, and—although less common in the lower middle market—there were certainly some PE firms that viewed lenders as a commodity. Following the outbreak of COVID-19, there was a dearth of dry powder to support new opportunities, as many lenders turned their focus to their existing portfolios. In this environment, we believe the value of dependable partnerships became abundantly clear, particularly as health care companies and their sponsors were able to begin shifting their

attention back to growing their businesses.

At Twin Brook, we have long sought to build strong relationships with our sponsors and borrowers—which helps us develop a deep understanding of their equity theses and businesses, respectively—and our team has substantial experience working through multiple market cycles and in the health care space. Additionally, our underwriting approach is designed to be consistent, methodical and comprehensive—regardless of market conditions—so sponsors know what to expect when it comes to working with us and, in our experience, appreciate the reliability we bring to bear. We believe all of these factors, combined with our ample buying power, make us well-prepared to help sponsors both navigate the challenges and act on the opportunities present at any given time.

Despite the resurgence of COVID-19 heading into the end of last year, we continued to see demand for both health care add-on and new platform deals. As noted earlier, there has been limited volatility in demand for most of these services given their essential nature, and the operational and cost structure adjustments many of these companies made early on left them better positioned to navigate the ever-changing pandemic environment. Moving forward, we expect robust private equity activity in the health care space to continue despite persistent market uncertainty, creating opportunities for experienced health care lenders to deploy capital and support their sponsor clients as they execute on their value creation strategies. //

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