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Healthcare: Demand for Deals & Dependable Partners Persists

Despite the ongoing pandemic, transaction activity in the healthcare space was very robust in 2021. Most healthcare businesses swiftly rebounded from the initial COVID-19-related shutdowns of 2020, with companies and their private equity sponsors quickly shifting gears from working through liquidity and covenant issues in the first half of the year to pursuing opportunities for growth starting in the second half.

The healthy volume of add-on activity seen at the end of 2020 continued to build through 2021, with LBO activity also picking up, making it a busy year not only for PE sponsors and the healthcare companies they back, but also for the lenders these groups call on for financing to support transactions. Twin Brook Capital Partners, for example, committed a record $3.5 billion to private equity sponsors in support of healthcare transactions last year, which included 28 new platform financings and 32 facility upsizing transactions across 33 healthcare subsectors.

As we've moved into 2022, healthcare has continued to be an active sector for middle-market leveraged finance, with interest spread across a broad spectrum of subsectors. Considering the positive demographic trends, resiliency of the sector throughout the pandemic and non-discretionary nature of the services most of these businesses provide, healthcare overall is viewed as less cyclical than many other industries. These factors have contributed to the elevated deal volume in the space.

LBO activity in the healthcare space is expected to be strong through 2022, but that does not mean incremental deals are losing their appeal. We expect to see the pace of add-on transactions within the industry accelerate as many small business owners opt to join larger platforms due to continued uncertainty around the ever-changing pandemic environment, concerns about inflation and the increased regulatory complexity of managing their own companies.

In this environment, the value of experience and reliability has come to the forefront.

Given the complex nature of healthcare investing, the importance of private equity firms partnering with lenders that have deep healthcare expertise and a strong track record cannot be understated. In order to provide smooth deal execution and continued support of a sponsor's equity thesis post-close, it is critical that lenders in the healthcare space understand key sector-specific diligence areas, including but not limited to the reimbursement and regulatory outlook, compliance risks, FDA requirements, human capital issues and state-specific structuring requirements.

Furthermore, over the past two-plus years, private equity sponsors and companies have witnessed the benefits of partnering with lenders that take a relationship-focused approach and will work hand-in-hand with them through both challenging times and periods of growth. As a result, we've seen sponsors increasingly look to narrow the field of lenders they turn to, with many of the established, scaled lenders that were able to effectively navigate the initial shock of the pandemic and provide their clients with consistent, reliable support winning market share.

Looking to the balance of 2022 and beyond, we believe these factors will continue to be key differentiators when it comes to lender selection—particularly in the healthcare space—as the rapid pace of activity and resulting demand for financing in that sector is expected to persist. //

TIM WENTINK is a Partner at Twin Brook Capital Partners, focusing on the origination, evaluation, structuring and negotiation of new healthcare lending opportunities with private equity sponsors.