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Lead Left Interview – Andrew Welch

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This week we chat with Andrew Welch, managing director, Revelstoke Capital Partners. Revelstoke is a middle market private equity firm headquartered in Denver that focuses on building industry-leading companies in the healthcare and related business services sectors. The firm has about $1.0 billion of assets under management and, since the firm's inception in mid-2013, has completed 40 acquisitions.

The Lead Left: *Andrew, it's great to catch up with you this afternoon. Tell us a bit about your firm.*

Andrew Welch: Thanks for having me, Randy. Revelstoke is a growth-oriented private equity firm. We focus primarily on healthcare and healthcare-related business services and target companies with $5 million to $40 million of EBITDA for platform investments.

Partnership with entrepreneurs and management teams is central to our strategy. We seek companies with strong existing leadership and believe in operating autonomy for management. We align their interests with ours through significant equity incentive plans.

We have a track record of building bigger and better businesses and have a repeatable playbook to accelerate growth and create value through strategic development, on-going planning, organic growth initiatives and add-on acquisitions.

We believe scale matters, particularly in healthcare. Scale enables companies to invest in quality and compliance capabilities and provide excellent care and services while being the lowest cost provider. It is also important to attract and retain top management and healthcare provider talent.

TLL: *Which industry sectors do you target?*

AW: For healthcare, in general, we target sectors that have demonstrable value proposition to patients, payors and providers with stable utilization and reimbursement trends. Further, we have a lot of experience with outsourced services and multi-site, consumer-facing providers. Some specific healthcare sectors we are currently targeting include practice management (specifically ophthalmology and dermatology), behavioral health (for example, substance abuse and eating disorder related businesses), veterinary clinics, women's health and healthcare IT.

For business services, we look for sectors and companies with scalable business models and capabilities that are relevant for healthcare end-markets – where we can add value in developing strategies to drive growth. Some of these include outsourced services (including revenue cycle, compliance, risk management, analytics, consulting), education and training, specialty healthcare distribution and logistics services, professional employment organizations and third-party administrators.

TLL: *What industries do you typically avoid?*

AW: There are some areas in healthcare we avoid definitionally as more services-focused investors – e.g., pharma, biotech, med-tech. We also stay away from real estate and asset heavy businesses – e.g., hospitals, skilled nursing facilities.

Within services though, we frequently evaluate sectors to determine which are more favorable / unfavorable based on current growth trends and relative to current valuations in the market. In our opinion, a few unfavorable sectors currently include pain management clinics, toxicology labs, freestanding emergency rooms, chiropractor clinics and adult dental services organizations.

TLL: *Just curious, why dental? That's seemed to be a hot area historically.*

AW: It has been and still is. We just think there is better fundamental (same-store) growth and value creation opportunities in other practice management specialties.

TLL: *Does healthcare reform – or lack of reform – play a role in your investing?*

AW: We saw some benefits in certain areas of our portfolio related to ACA – but nothing dramatic as we do not have significant single-payor exposure. From an investing standpoint, we are more focused on the underlying issues spurring reform. Moreover, we tend to care more about what CMS and commercial payors are focused on than politicians.

TLL: *What do you see as the most disruptive technologies?*

AW: That's a very timely question given the Amazon, Berkshire Hathaway, and JP Morgan news. It's unclear what they're planning and I think that is somewhat intentional. Regardless, public markets are pricing in some disruption – particularly for payors, PBMs and pharma. It will be interesting to see how their strategies evolve and take form but we believe the investible themes are clear: the cost of healthcare continues to accelerate and those footing the lion share of the bill are desperately looking for ways to manage and contain costs, without sacrificing quality and access to care.

Technology is part of the answer and healthcare is behind in terms of adoption compared to other industries and considering healthcare's size and importance relative to the US economy. As later-stage investors, we are not targeting investments in early-stage, disruptive technologies. However, we actively implement and expand existing technologies across our portfolio including virtual medicine, telehealth, data and analytics for quality and outcomes as well as practice management and electronic health records systems. As an example, we implemented virtual medicine capabilities in one of our businesses which enabled us to significantly expand our market reach and more efficiently manage labor costs.

TLL: *What's a typical deal look like for you?*

AW: We look for factors such as favorable demographic and reimbursement trends, low-cost care settings, strong value propositions, significant whitespace and / or highly fragmented competitive landscapes, strong existing leadership and infrastructure.

We then seek to rapidly gain scale through multiple avenues including organic growth (e.g., expanding referral sources, new providers) and strategic Initiatives (e.g., new locations, geographies, services, payor contracting). Add-ons can be a real catalyst for our companies. It is also an area where the Revelstoke team can add significant value and expertise as most of our companies don't have a robust M&A or corporate development team at the outset. Across our 10 platform investments we have completed 30 add-on acquisitions. Many of these are tuck-ins that give our companies a foothold in a new geography or service line; others are transformative and can double the size of the business.

Lastly, we look for multiple strategic exit opportunities with a variety of different buyers including direct competitors and players in adjacent services.

To be continued the week of May 7

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