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# Spotlight on Healthcare – A Special Industry Report (Third of a Series)

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News last week that Walmart was hooking up with Humana sent waves through the healthcare and retail world. Disruption has taken its toll on both sectors. Top players are actively looking across industry lines for partners to help them survive and thrive.

Figuring out how to leverage expertise to consolidate inefficient businesses is, of course, what private equity does best. The question is, which businesses?

With the advent of ACA eight years ago, it became clear that high-cost service providers would be under immense pressure relative to lower-cost centers. As such, more attention began to be paid to areas ripe for consolidation and growth.

In an upcoming interview with *The Lead Left*, Revelstoke managing director, Andrew Welch, reports his firm favors "sectors that have a demonstrable value proposition to patients, payers and providers with stable utilization and reimbursement trends."

He continues. "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."

Unfavorable sectors? Andrew Welch named pain management clinics, toxicology labs, freestanding emergency rooms, chiropractor clinics and adult dental services organizations. Though, of course, each sponsor has its own areas of expertise.

Timing is also critical. Radiology, for example, is under pressure by the government to reduce the number of physicians doing imaging. Indeed, according to one senior M&A healthcare banker, the number of images is down. Yet PE can be constructive. By focusing on opportunities to consolidate smaller players, sponsors can take advantage of cost trends and squeeze out less competitive radiology practices.

Specializing is one thing, the banker went on, but healthcare is an ecosystem. Everything is connected. Drug companies have key relationships with CROs (contract research organizations) and other pharma services outsourcers such as packaging companies. Pharma then has companies distribute their products to the end users (physicians and hospitals). Finally, feedback at every stage of delivery can be monitored via information technology, making healthcare IT one of the hottest sub-sectors in the industry.

Yet larger actionable IT opportunities are tough to find. Particularly when public comps trade at over 15x EV/EBITDA. For middle market IT companies, the question PE sponsors often begin with is, are you truly embedded in your client's networks or systems?

Back to Walmart/Humana. What does this news mean for healthcare investors? Clearly winners and losers are still being sorted out. The key is figuring out which games are still being played, and which are largely over.