Lead Left Interview – Andrew Welch (Part 2)

THE LEAD | May 9, 2018

This week we continue our conversation 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. ***Second of two parts – View part one*****.**

The Lead Left: *Who do you find yourself competing against for properties?*

Andrew Welch: 50% of our deals have no investment banker involved; 80% including add-ons. Roughly half of our deals involve buying from founders or entrepreneurs. Experience, relationships and ability to create value matters in these situations. Culture and approach to partnership is also important and a big differentiator. We take a "blue-collar" approach to partnering and view ourselves as service providers to our management teams.

Focus, conviction and urgency are other ways we try to get an edge. We start with key macro trends in healthcare, distill them into investible themes to target sectors we think will outperform and build the chessboard to identify actionable platform and add-on targets. We then leverage our relationships to develop opportunities. This process allows us to act proactively, quickly and decisively.

TLL: *How do you approach financing your buyouts?*

AW: It depends on specific growth modes, however, since most of our companies employ a rapid growth strategy, we avoid high leverage and tend to over-equitize at the outset.

TLL: *What type of debt options do you utilize?*

AW: We use all types: senior, mezzanine, first-lien, second-lien, unitranche, etc. We also use both banks as well as private credit options. However, in choosing our lending partners, relationships are very important to us and we don't chase the last basis point. There's real value in long-term relationships and partnership across the capital structure. It's also important that our lending partners understand healthcare and our strategy.

TLL: *As you keep an eye on the economy, are there causes for concern or optimism?*

AW: We are cautiously optimistic overall. There are signs of strength in a broad cross section of the U.S. economy. Focusing on healthcare, we remain bullish but are wary of valuations. The fundamentals are strong; they keep making old people every day. For a $3.5 trillion market, healthcare is very dynamic which creates ample opportunities. Our plan is to do 2-3 platforms per year and our theme-based approach helps us pick the spots we think will outperform relative to the broader economy and healthcare industry. We also underwrite our deals assuming higher interest rates and lower valuation multiples at exit.

TLL: *How do you sensitize your projections for a recession?*

AW: For healthcare businesses, payor mix is a key determinant. Revenues from federal and commercial sources are less sensitive to downturns compared to self-pay. High deductible plans are shifting more burden on individuals so it is also important that there is a clear value proposition in the services provided to the patient.

***TLL:** What's your perspective on the tax reform bill just passed?*

AW: Overall, the impact on companies and private equity is slightly positive. We have analyzed the impact on all our portfolio companies and think the limitation on deductibility of interest is offset by lower overall tax rate and other benefits.

No real impact on our strategy or how we think about investments. Most of our targeted returns come from growth vs. financial engineering.

***TLL:** What keeps you up at night?*

AW: Compliance is always on our minds. We have over 22,000 employees across our portfolio providing healthcare services to patients. Its key that all of them focus on patient care, quality, outcomes and compliance above all else. We invest significantly in people, processes and technology to mitigate these risks and promote a culture of compliance in each of our companies.

Reimbursement is also a key area of focus. We look at payor diversification at a company and portfolio level and our thematic approach to investing helps us stay on the right side of reimbursement.

***TLL:** Finally, Andrew, what's been your biggest surprise over the last few years?*

AW: Despite the recent pullback, the overall strength of the capital markets – both equity and debt – is surprising. Unemployment is very low and we certainly are seeing labor cost and recruiting pressure across our businesses. While we do not rely on heavy leverage, we closely track the capital markets as they impact the buyers of our businesses.

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