

Alternative Lending in action: Direct Lenders support the acquisition of DDC by GHO Capital

Global Healthcare Opportunities, or GHO Capital, is a mid-market Private Equity firm specialising in the full spectrum of Healthcare. Its 2015 vintage fund has been raised to seize the European market opportunity. GHO Capital offers a combination of deep Private Equity transacting experience with leading Healthcare investment and industry skills. The purchase of US-based DNA Diagnostics Center (DDC), announced at the end of 2015, marked the fund's first investment. Mike Turner, Partner at GHO Capital, shares the story of the transaction.

The opportunity to purchase DDC was initially run via a competitive sell-side process in which GHO Capital secured exclusivity relatively early on. As Mike explains, "there was considerable initial interest in the company from multiple parties. DDC's key strategic aim was European expansion, and our EU presence, network and industrial angle helped us to present a credible pitch to management, allowing us to win exclusivity".

When discussing the significance of GHO Capital's first acquisition, Mike stresses the importance of "illustrating our ability to transact effectively and demonstrating the relevance of our sector expertise". As a result, providing certainty of funding was critical. When the opportunity of the transaction first became available, GHO Capital decided to run an accelerated debt raising process on both sides of the Atlantic to ensure the best possible terms. Once the deal process got going in early September 2015, there was a six week window in which to conclude these discussions, and Mike comments, "it was essential that we were able to engage efficiently with both the US and European capital markets".



The Most Trusted Name in DNA Testing

DDC is one of the largest DNA testing companies in the world. Founded 20 years ago, DDC offers comprehensive DNA testing services for paternity and other family relationships, forensics and cell line authentication. DDC receives more than 800,000 consumer calls each year, and performed over 750,000 DNA tests in 2015. DDC's Dual Process™ ensures all collected DNA samples are independently tested twice producing legal results of unmatched quality and reliability. DDC is recognised through a number of accreditations nationally and internationally including those performed by the American Association of Blood Banks (AABB), The Ministry of Justice, and the College of American Pathologists (CAP). DDC is also accredited by ACLASS to meet the standards of ISO 17025 and the American Society of Crime Laboratory Directors/Laboratory Accreditation Board-International and follows the DNA Advisory Board (DAB) guidelines, which attests to DDC's superior forensic testing service.

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Mike Turner
Partner – GHO Capital

Having been through this process, Mike is now in a good position to contrast his interactions with both European and US lenders. Whilst some legal differences exist, for example, Europe operating with a set of market standard documentation which is different to the US, his key point is around the extent to which lenders are prepared to invest resources before they have exclusivity on the deal. Mike explains, “due to the larger size of the market, and the higher number of alternative debt providers, some North American lenders can hold off committing resource until they have been given exclusivity. This means you’ll need to make a decision much earlier in the process”. Mike also comments on the complex, matrix-style of the market, on both sides of the Atlantic – “the sheer number of providers encompassed debt funds, institutional lenders, and many combinations of structures – we needed to fully understand what was on offer, but importantly who would deliver. The knowledge and relationships that Deloitte and our lawyers (both of whom are experienced in doing these kinds of transatlantic deals) offered at this point were invaluable”.

GHO Capital eventually decided to engage with a US-based lender with European operations, and secured a flexible unitranche structure. Mike comments, “we didn’t take all the leverage that was on offer, as we like to drive returns more through growth and allow businesses the room to breathe and invest for growth”. The structure allowed GHO Capital to achieve its aims of flexibility, and the ability to extract dividend and yield whilst keeping the cost of capital down. The debt arrangement was also confirmed within a timescale which allowed closing and signing of the deal to be simultaneous on a certain funds basis; something that is common practice in the European market but extremely rare in the US; “there was a level of complexity involved with getting everything in place on the day, but that was what we were aiming for and that is what we achieved”, says Mike.

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Reflecting on the transaction as a whole, Mike shares the following pieces of advice – “firstly, if you’re not familiar with the US market, you should be prepared for some differences. If you’re in that situation, make sure you have a clear view of your priorities, as the quicker you can navigate what matters versus what doesn’t, the better”. He adds – “if you are raising debt in the US, from Europe, having strong advice in the market on both the technicalities and knowing who will deliver under pressure is invaluable”.

