

M&A Views



Deloitte M&A Views podcast: Health Care M&A Synergies through IT Transformation

- Greg:** Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions. I'm Greg Jarret. Today, we'll discuss current events and M&A IT activity in healthcare. We're joined today by Paul Nigro and Mike Wilton, M&A IT Health Care Managing Directors with Deloitte Consulting LLP. Gentlemen, thanks for joining us today. It's hard to imagine any industry that would seem more prone to change during the current climate than healthcare. Let me ask you, Mike, how has COVID-19 affected opportunities for M&A operating models and outsourcing?
- Mike:** We've seen a bit of a lull in the M&A activity up until recent weeks. I think, previous to that, we've seen a lot of private equity companies looking at opportunities, particularly in the provider space, where we think that the valuations are probably going to change. There's going to be more cash, we think, coming out of COVID-19, obviously because of the rehab that needs to take place of folks after they have come out of a hospital. We think there'll be more revenues in that area. And, I think, the other challenge we're seeing in opportunities have to do with the staff having to work from home and the company's not really prepared for that. They don't have the technology, the infrastructure, to support that, and they struggled for a while to get there. And now, they're at a place where they're having to really rethink where they're at in terms of the future. What are they going to do going forward? What are they going to do with their real estate, and that kind of thing? Paul, anything to add?
- Paul:** Thanks, Mike. A couple things that I've seen recently with my clients has been the outsourcing model is getting more and more traction, or at least more conversation internally, due to the fact they have what was a very centralized operating model, and now it's a decentralized operating model from the standpoint of where people sit. And, with that, looking for potential possibilities for outsourcing some of the high volume, low cost type transactions, or maybe low value is a better way to put it. But where can they use business process outsourcing and other rural sourcing to take on back office tasks or even some IT development work? So, it's been an interesting last few months to say the least, but especially when it comes to healthcare IT M&A.
- Greg:** Mike, how about supply chain and innovation? Are the outsourcers bringing their own innovation, and is it going to be, does it have to be, a lot faster than it would've been under natural circumstances?
- Mike:** Yeah, that's a great question, Greg. When this first started, many of my clients were struggling, because their outsourcers were struggling, particularly in offshore locations where they were not equipped to work remotely. And what that did was that created a situation where services began to deteriorate. There was talks of, how do we handle this contractually? What do we do with that? It was amazing to see how the outsourcers, in a matter of two or three weeks, were able to equip, basically, hundreds of thousands of workers to work at home in effective ways around the world.

But it did put a strain, to your question, on particularly the infrastructure supply chain to get that set up. All the way from the backend, what do they do with email servers and that kind of thing that needed to work with more remote workers. All the way down to, how do we get a laptop to somebody in their house in a remote place. That part of it was very challenging, and it's still a challenge today, frankly.

Greg: I'm wondering how much this is shifting the way we do business from here on out, people coming together, whether it be through mergers and acquisitions or joint ventures. Paul, let me ask you this, from the view of Deloitte, which is overhead looking down at all of the different parts that come together, are we responding in the future with more alacrity because of the pressure that has been put on various companies everywhere in the world because of the COVID-19 pandemic?

Paul: With no question. We're looking at different business models, different ways of doing things, and looking at cost structures. Simple things that you would take for granted on just regular working hours have been disrupted. People working from their home offices have changed things, where before maybe a 10-hour, 12-hour day, now stretching to 14, 15 hours a day. And the type of work and how you do it has changed with video conferencing, teleconferencing. But there's also a ton of opportunities that come with these types of economic downturns and changes, where, this might get talked about earlier, valuations change, partnership models change.

And we've seen quite a bit of activity in some published articles here recently around JVs and the types of joint ventures that traditional rivals are now entering into in the healthcare world. You're also looking at providers and payers embracing telemedicine in a much different way and deals within telemedicine and some of the other nontraditional technologies that are on the periphery of healthcare. So, as the business models change, as the needs change, you see quite a bit of pickup in M&A activity, and in this case, different types based on those JV relationships, and maybe some nontraditional M&A activity. Mike, what have you been seeing?

Mike: I would agree, Paul. The changes in the marketplace are coming rapidly, as opposed to when we started the conversation, we saw a downturn. The market now has picked up quite a bit, at least with my clients. My private equity clients are in a place where they are now looking at many, many different types of deals, and very new and different financing models and funding models to get very large deals done to bring together both, as you said, payers and providers, as well as groups of hospitals and doctors to expand both their capability and their ability to provide services in new and different ways.

Paul: And, Mike, I know you've worked on quite a few carve outs. I'm starting to see that a lot more now with the strategic deals as well. So, the deal landscape is changing, the velocity has certainly picked up from when we got together and wrote the paper before. And it's been just an incredible inflow of activity here in the last few weeks.

Greg: Thanks, Paul. And, thank you, Mike. We've learned a lot about the effects of the current pandemic environment on M&A IT in healthcare. I'm Greg Jarret. And thanks for listening to Deloitte M&A Views, sponsored by Deloitte's M&A Institute. This podcast contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This podcast is not a substitute for such professional advice or service, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this podcast.

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