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BANKRUPTCY  
INSTITUTE

# Health Care Program

## Do PPM Rollups Work?

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# ABI HEALTHCARE 2024

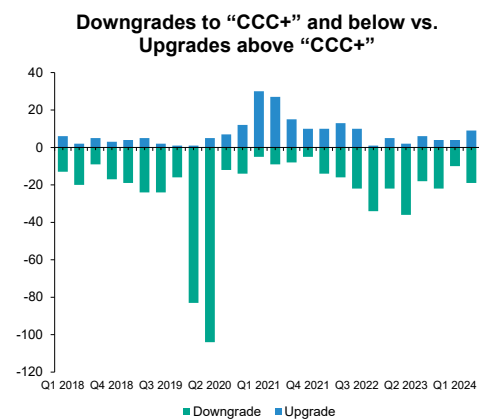
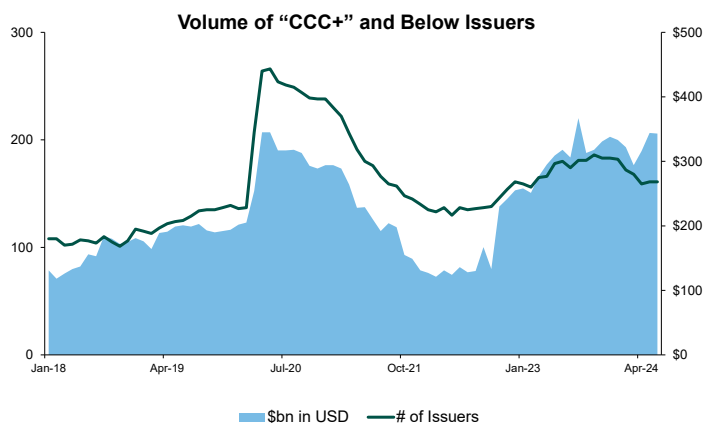
McDermott's Business Restructuring Group

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## DISTRESSED CREDITS REMAIN PREVALENT

- Elevated interest rates and inflationary headwinds resulted in a large increase in the population of "CCC+" and below rated companies across all industries to near pandemic peaks, a trend that is unlikely to slow in the near-term
  - Credit downgrades have continued to outpace upgrades with the overall speculative-grade corporate default rate expected to remain elevated at ~4.5% through March 2025



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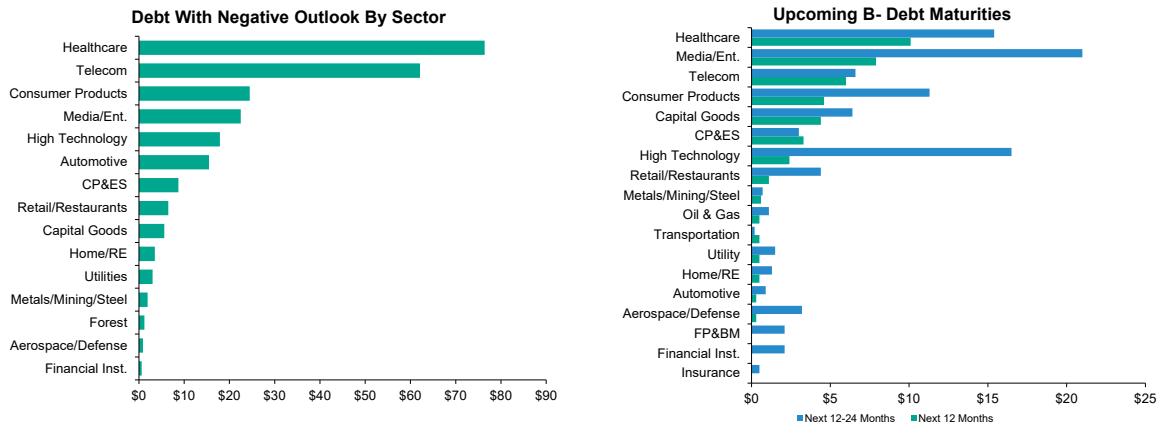
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Source: S&P CapitalIQ.

Note: Dollar values are in billions unless otherwise stated.

## HEALTHCARE SECTOR REMAINS CHALLENGED

- As of Q2'24, the healthcare sector had the highest volume of debt that carried a negative outlook from S&P
  - Additionally, the sector has the largest quantum of debt scheduled to mature in the NTM period, likely setting the stage for additional restructuring scenarios



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Source: Debtwire Credit Research, S&amp;P CapitalIQ.

Note: Dollar values are in billions, unless otherwise noted. Upcoming debt maturity data represents corporate debt in North America as of July 1, 2024.

## PE SPONSORS FACE INVESTMENT HURDLES

- Private equity-backed PPMs and DSOs continue to experience headwinds that have pressured current operations and created a weaker transaction environment

### PPM/DSO Market Headwinds

- Increased regulatory oversight on PE healthcare transactions including AB 3129 in California and legislation in Massachusetts, Rhode Island, and Connecticut**
- Higher borrowing costs across the sectors driven by the previous 3-4 year period of sustained elevated interest rates**
- Protracted labor and operating cost inflation which have constrained EBITDA and cash flow generation**
- Softer IPO markets and a declining pool of interested PE buyers have elongated investment holding periods and challenged the traditional “second bite at the apple” transaction structure**

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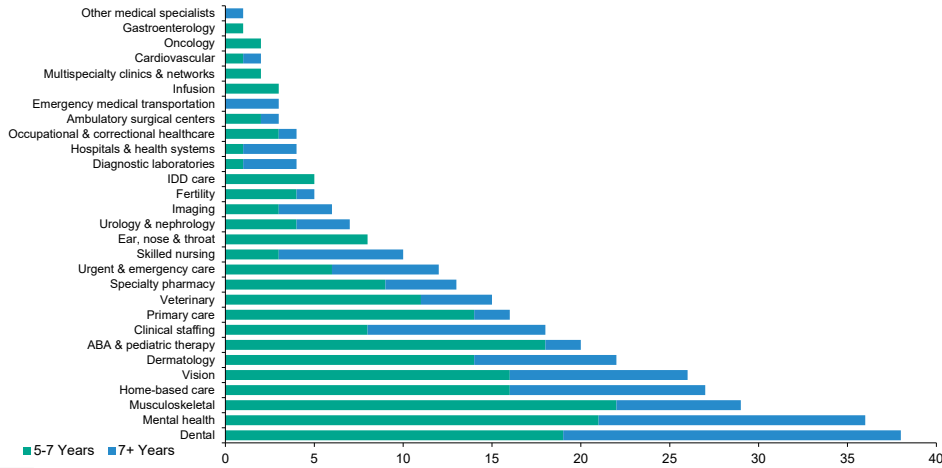
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Source: Modern Healthcare, Pitchbook, McGuireWoods.

## LONGER HOLDING PERIOD FOR INVESTMENTS

- Persistent headwinds have resulted in multiple compression and extended holding periods for numerous PPMs and DSOs as sponsors shore up operations and wait for more attractive exit opportunities

Healthcare Services Companies by Sponsor Hold Time



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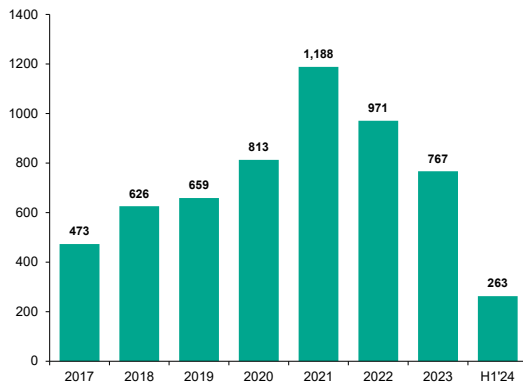
Source: Pitchbook.

Note: Represents case data collected through June 30, 2024.

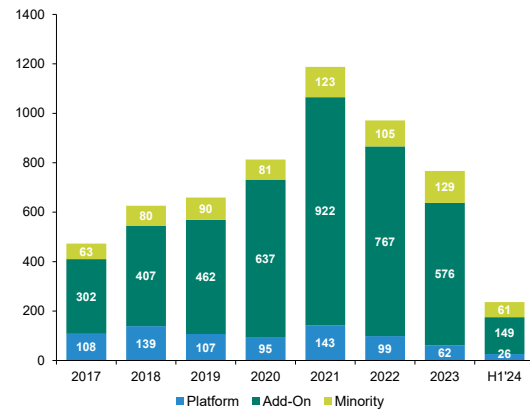
## PRIVATE EQUITY DEAL VOLUME IS DECLINING

- Industry headwinds, longer holding periods for current investments, and sustained bid-ask spreads have dramatically slowed transaction activity across the healthcare services sectors for both new deals and exits

Healthcare Services PE Deals



Healthcare Services PE Exits by Type



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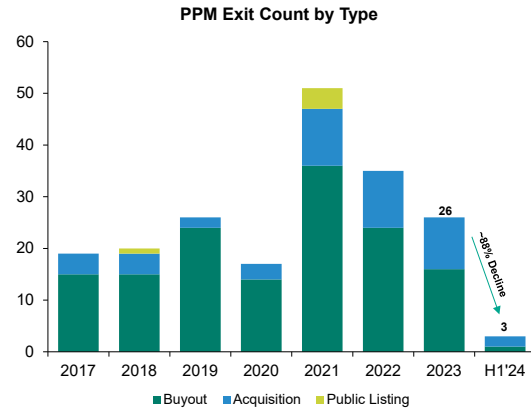
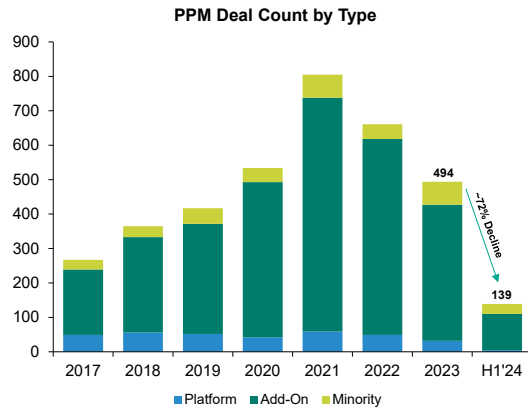
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Source: Pitchbook.

Note: Represents case data collected through June 30, 2024.

## PPM SECTOR FACES SIGNIFICANT CONTRACTION

- Previously the focal point of substantial investments within the PE healthcare services industry, the numerous challenges facing the PPM and DSO sectors have resulted in a significant decline in new transactions through H1'24



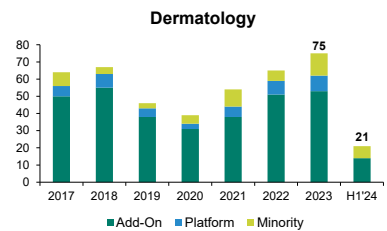
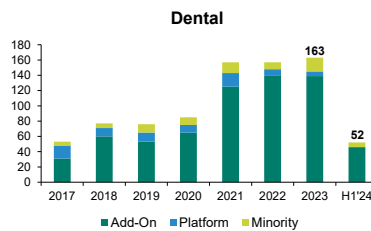
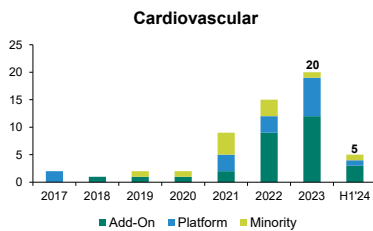
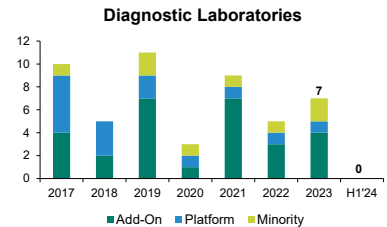
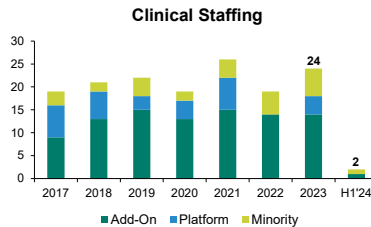
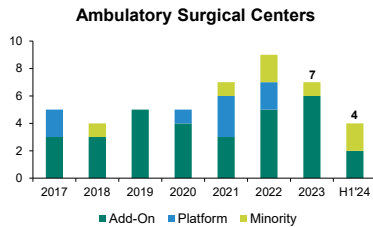
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Source: Pitchbook.

Note: Represents case data collected through June 30, 2024.

## TRANSACTION HISTORY BY SPECIALTY



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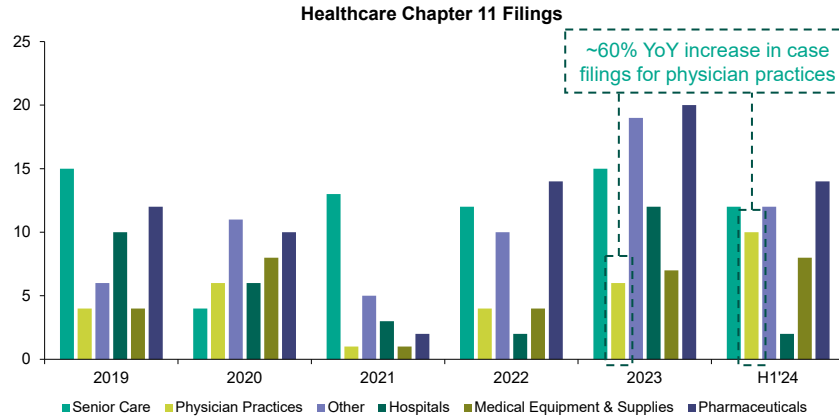
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Source: Pitchbook.

Note: Represents case data collected through June 30, 2024.

## RESTRUCTURING ACTIVITY IS INCREASING

- In conjunction with softer acquisition/sale activity, 2024 has seen an uptick in healthcare companies pursuing in-or-out of court restructurings
  - Specifically, physician practices have seen a rise in case filings driven by increased debt burdens (often acquisition related), margin contraction, and liquidity shortfalls



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## OVERVIEW – PPMS & DSOS

With capital market conditions and liquidity constraints leading to fewer acquisitions and increasing restructuring activity, PE sponsors and market participants may seek to capitalize on future growth in the PPM and DSO sectors or invest in alternative business models

### Opportunities

- + Increased operating efficiencies and negotiating leverage through economies of scale
- + Mechanism to monetize ownership interests
- + Transition to value-based care model continues to yield investment opportunities
- + Shift in recent graduates seeking employment with PPMs or DSOS
- + Additional growth expected across PPM and DSO markets through 2030

### Challenges

- Engagement with health/dental providers and quality of existing management teams
- Increased scrutiny from regulatory agencies over platform creation/expansion
- Cash flow/liquidity constraints driven by acquisition costs, integration expenses, and reimbursement headwinds
- Investment exit reliant upon future recapitalization/sale landscape

### Alternative Models

- Contract research organizations
- Ambulatory surgery centers
- Physician spin-out
- Noncaptive DSOS

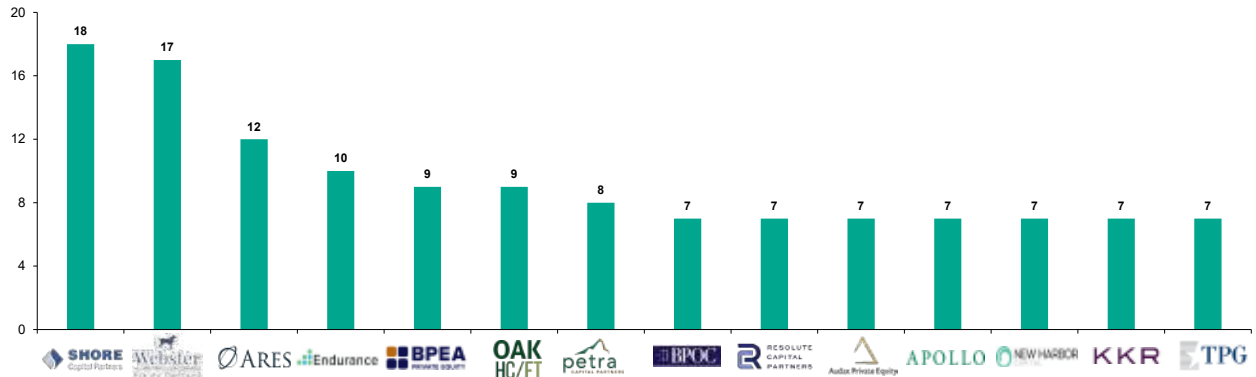
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## CERTAIN GROUPS REMAIN ACTIVE

- While the landscape for PPMs and DSPs continues to shift, certain private equity, asset management, family office, and venture capital groups have been actively investing across their healthcare services platforms

Top Healthcare Services Investors by Platform Investments



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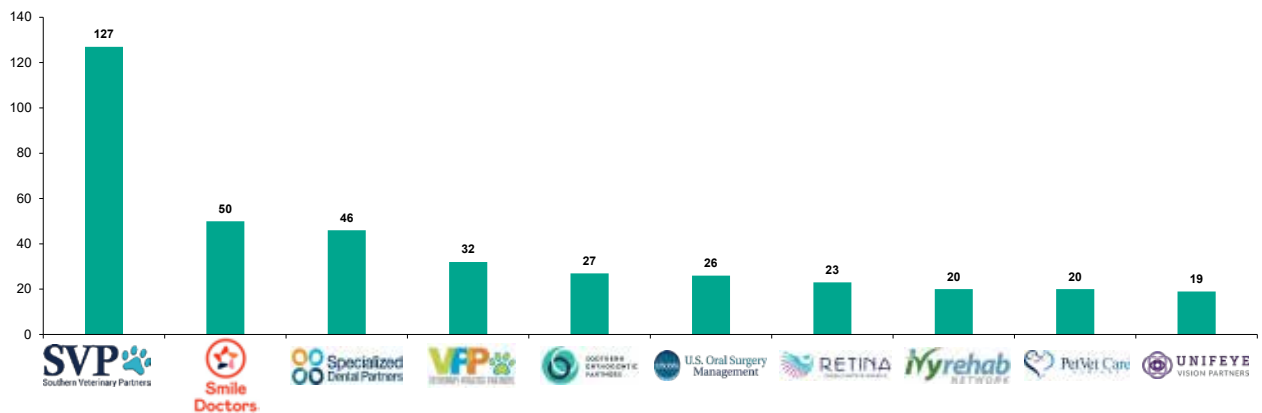
Source: Pitchbook.

Note: Represents data collected from 2021 through March 31, 2024.

## CERTAIN GROUPS REMAIN ACTIVE (CONT'D)

- Additionally, certain private equity backed healthcare services platforms have completed a significant amount of add-on transactions

Most Acquisitive PE-Backed Healthcare Services Platforms



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Source: Pitchbook.

Note: Represents data collected from 2021 through March 31, 2024.

# Faculty

**Timothy J. Dragelin, CPA, CVA** is a senior managing director and co-leader of Healthcare Restructuring with FTI Consulting, Inc. in Charlotte, N.C., and is a member of its Corporate Finance & Restructuring practice. He leads the company's health care interim-management initiatives and has provided advisory services to companies and various stakeholders throughout the business life cycle in several industries for more than 30 years. Mr. Dragelin's experience includes in- and out-of-court restructuring, turnaround consultation, interim management (serving as CEO, CFO, CRO and PMO), creditor advisory, due diligence, sell-side mandates, valuation, process improvement, forensic investigations and litigation advisory in a number of industries, particularly in the health care, real estate and financial services industries. He previously served in the financial advisory services practice at PricewaterhouseCoopers and Capital One Financial, in both financial and sales positions. Mr. Dragelin is a published author and frequent speaker on financial and accounting topics at both regional and national conferences. He also has been a guest lecturer at the McDonough School of Business at Georgetown University. Mr. Dragelin is a member of the American Institute of Certified Public Accountants, the Association of Insolvency & Restructuring Advisors and the National Association of Certified Valuation Analysts. He received his B.B.A. in accounting from The College of William and Mary in Virginia.

**Bradley T. Giordano** is a partner in the Business Restructuring Group of McDermott Will & Emery LLP in Chicago, where he represents debtors, creditors, direct lenders, ad hoc groups, sponsors and strategic investors in all aspects of complex in-court and out-of-court corporate restructurings. Mr. Giordano is frequently consulted by leading private-equity investors, hedge funds and private credit lenders on domestic and international insolvency and restructuring issues, as well as on strategic acquisitions or dispositions of distressed assets. He has played a key role in some of the most significant corporate reorganization cases across a variety of industries, including health care, retail, energy, technology, hospitality, media, airlines, aircraft manufacturing, telecom and heavy machinery. Recognized as a leading restructuring lawyer by *Chambers USA*, among other publications, Mr. Giordano is an ABI "40 Under 40" honoree. He received his B.A. *magna cum laude* from DePauw University in 2006 and his J.D. in 2009 from the University of Virginia School of Law.

**Dr. Shaden Marzouk** is CEO of GenesisCare U.S. in Brooklyn. She has three decades of global experience in health care, focusing on turnarounds of multibillion-dollar businesses. Previously, Dr. Marzouk was president of Care Delivery for Anthem and a managing director across seven countries in Asia for AXA's health insurance and health services. Prior to AXA, she spent almost seven years at Cardinal Health in a series of successive roles in the U.S. and China, including as chief medical officer of the Medical Segment. Dr. Marzouk began her professional career as a neurosurgeon and served in Iraq as a major in the U.S. Army. She transitioned out of surgical practice after receiving her M.B.A. from Duke University's Fuqua School of Business, after which she was an associate in the health care group in the investment bank of Goldman Sachs in New York. Dr. Marzouk also serves on boards of private and public companies. She received her A.B. in psychology from Washington University in St. Louis and her M.D. from the Saint Louis University School of Medicine.



**Paul Reda** is CEO of North American Dental Group (NADG) in New York, which has more than 220 dental practices in 15 states. Prior to becoming CEO in June 2022, he had served as the COO of NADG since January 2022. Mr. Reda joined NADG from Alvarez & Marsal's Healthcare Industry Group, where he spent five years as a senior director. While at A&M, he spent his time in interim-management and operational-improvement roles for private-equity-backed health care roll-ups. Mr. Reda spent more than 15 years in health care consulting before joining NADG, working on over 50 different clients across multiple specialties, including dental, physical therapy, anesthesia, dermatology, emergency medicine, behavioral health, urgent care and others. He received his B.B.A. from Emory University's Goizueta School of Business and his M.B.A. from New York University's Stern School of Business.