

Nobody Does It Better: Cain Brothers Nurtures Health Systems-PE Collaboration

Market Corner Commentary
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By David W. Johnson



Building on the success of last year's inaugural event, Cain Brothers hosted its second invite-only collaboration conference for health systems and private equity (PE) investors at the Grand Hyatt in downtown Nashville. Beginning on the evening of June 12 through mid-afternoon the next day, the health system-PE conference gathered 150 leaders from health systems, private equity firms and operating companies for incisive presentations, panel discussions, ample networking opportunities and one-on-one meetings too numerous to count.

This may be the healthcare industry's most hands-on investment conference. Participants roll up their sleeves and engage in relationship building and exploration of novel business concepts. Energy and enthusiasm were high as industry participants rise to the challenge of reconfiguring care delivery to drive greater access and better outcomes at lower costs.

One attendee captured the conference's essence in this post-conference note:

I don't say it lightly when I share that this short, one-day conference may be the single most effective, relevant conference I can remember attending... Focused, high-quality attendees, user-friendly. The sessions were appropriate and succinct and the networking (and prioritization of it) was just right.



Cain Brothers House Calls Podcast

Rocky Mountain Highlights:
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Cain Brothers Group Head Wyatt Ritchie welcomed attendees with the core observation that "it's going to take a village" to assist health systems in developing the more affordable, transparent and consumer-centric delivery platforms demanded by the marketplace. Ritchie emphasized that PE firms' capital, sector expertise and operating discipline make them logical development partners for health systems striving for sustainability and market expansion.

Evidence of PE's positive contributions to health systems is abundant. Dozens of health systems already operate successful joint ventures with PE firms across a broad spectrum of care modalities. Ohio Health, for example, reported at a recent investor conference that joint-venture relationships with PE firms account for one-third of the health system's net revenues.



While no conference occurs in a vacuum, increasing political opposition to PE involvement in healthcare shaped the tone and gave added weight to this year's deliberations. On June 11, the day before the conference opened, U.S. Senators Elizabeth Warren and Edward Markey from Massachusetts introduced the Corporate Crimes Against Health Care Act of 2024. Their aim is to remove "corporate greed and private equity abuse" within U.S. healthcare.

The Act's reach is expansive. It includes criminal sanctions, clawbacks, civil penalties, limitations on REIT financing, more ongoing disclosure for mergers and acquisitions (M&A) transactions and a mandated OIG on the harms caused by "corporatization" to the healthcare industry. Much of this political heat emanates from the recent Steward and Envision bankruptcies and the cyber-attack on Change Healthcare.

Rather than duck the politics, panelists leaned into the headwinds and provided advice for addressing specific regulatory concerns. Not all PE firms are created equally. The PE sector has a wide range of skillsets, cultures, risk appetites, investment preferences and experience. For health systems, finding the right PE partners may be the most critical success factor when undertaking joint ventures.

Panelists stressed the importance of building relationships, undertaking diligence and developing trust. Too much portfolio leverage is a red flag. Using objective data to make investment decisions is paramount. Understanding "end markets" is critical to building business cases and allocating resources. In this sense, the hard work of collaboration on display inside the conference stood in stark contrast to the simplistic critiques of PE's healthcare investments occurring in the political arena.

Despite PE's mystique and mixed reputation, PE firms are simply in the business of developing businesses. As TowerBrook's Ian Sacks stressed, "All we do is invest in people." TPG Growth's Zach Ferguson added that PE firms have "the gift of focus."

While health system leaders must spread their focus broadly, their PE partners bring clarity and discipline to specific investments. This is particularly important for "horizontal" strategic investments that scale across regional and national markets. With an expanding universe of health system-PE joint ventures comes operating expertise and discipline. Ventures make fewer mistakes and respond with more resilience to market challenges.

For all the new political concerns, PE is already deeply integrated into the nation's healthcare operations. As Roy Bejarano of SCALE Healthcare noted, over 150,000 physicians work for PE-owned medical service organizations (MSOs). There's no turning back. There's only moving forward.

Economic progress throughout human history has resulted through the development and execution of ever-more complex win-win arrangements between individuals and groups. Value creation is at the heart of market evolution. No industry requires incremental value creation more than healthcare.

Market fitness is the ultimate judge of all investments. By that measure, many more health system-PE joint ventures are succeeding than failing. Cain Brothers and the event's sponsoring partners (K&L Gates, SCALE Healthcare, Sheppard Mullin, TowerBrook and TPG Growth) want to ensure that constructive trend continues. Toward that end, we'll see you next year in Nashville at the 2025 Collaboration Conference.

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David Johnson is the CEO of 4sight Health, a thought leadership and advisory company working at the intersection of strategy, economics, innovation and capital formation. Dave wakes up every morning trying to fix America's broken healthcare system. Prior to founding 4sight Health in 2014, Dave had a long and successful career in healthcare investment banking. He is a graduate of Colgate University and earned a Masters in Public Policy from Harvard Kennedy School. Employing his knowledge and experience in health policy, economics, statistics, behavioral finance, disruptive innovation, organizational change and complexity theory, Dave writes and speaks on pro-market healthcare reform. His first book *Market vs. Medicine: America's Epic Fight for Better, Affordable Healthcare*, and his second book, *The Customer Revolution in Healthcare: Delivering Kinder, Smarter, Affordable Care for All* (McGraw-Hill 2019), are available for purchase on www.4sighthealth.com.

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