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Healthcare Services Executives Predict Another Strong Year Ahead Despite Cooling M&A Outlook

Washington, D.C. (Nov. 6, 2019) – A Capital One annual survey revealed that healthcare services executives continue to have an optimistic outlook for business performance heading into 2020. Over the next year, more than two-thirds (69%) of executives predict their businesses will perform better compared to the last 12 months, with just 4% expecting a drop in performance in that time period.

Capital One's survey also revealed that M&A activity is expected to continue, albeit at a slightly slower rate than last year. About one-third (30%) of executives expect an increase in M&A activity over the next 12 months, down from 42% in last year's survey. However, just 14% of respondents expect a contraction in healthcare services M&A activity, which compares similarly to the 10% who said so last year.

Moreover, when asked to name the preferred business growth strategy for the year ahead, 41% of executives pointed to buying or merging with an existing business. Revitalizing and updating existing offerings captured the second-most votes and was noted by 30% of executives, up from 21% last year.

"The healthcare services sector continues to show strength even as external forces create a bit more caution in the industry," said David Varhol, Senior Managing Director, Capital One Healthcare. "The uptick in executives looking to update existing offerings as a means for growth may indicate that the industry is already adjusting to these pressures."

Healthcare services executives point to external factors as the key challenges they face. Concerns surrounding regulation/reimbursement and the political environment were named by 34% and 30%, respectively, as the greatest challenges faced by the healthcare industry in 2020. Recruiting and retaining the right employees was cited by 16% of respondents as the biggest problem area.

Additional findings from the survey included:

- Thirty-nine percent of respondents foresee raising capital in the next 12 months. Of those who plan to raise capital, 56% plan on utilizing senior-secured debt from a bank or financial company and 71% plan on turning to the private or public equity markets.
- Respondents named physician practice management as the segment within the healthcare industry that stands poised for the greatest amount of growth, with 39% of executives naming it as such. Behavioral and home health/hospice were also cited as growth segments with 19% and 16% of the vote, respectively.
- The shift to value-based care continues to be a slow transition, with just 8% of respondents noting they are nearly complete or fully transitioned. More than two-thirds of respondents (69%) are just beginning the process.

“Senior-secured debt continues to be a viable option for companies looking to raise capital,” said Richard Varalla, Managing Director, Capital One Healthcare. “We’re seeing a continued drive to grow and are committed to helping our customers in the services sector realize their short- and long-term goals.”

Capital One Healthcare is a leading provider of financial services to the industry. Customers across all healthcare sectors—including senior housing, healthcare services, pharmaceuticals, medical devices, healthcare IT and medical offices—rely on Capital One Healthcare to finance acquisitions, refinance existing debt, support working capital needs and fund growth initiatives. With in-depth expertise, our team of professionals creates solutions tailored to meet the needs of our customers.

Methodology

The Capital One survey, conducted mid-September 2019, asked professionals to provide their 12-month outlook on a number of issues in the seniors housing and SNF space. Respondents included 123 senior executives from healthcare companies, including pharmaceutical, healthcare IT and medical technology companies, hospitals, healthcare service providers and health systems, as well as other industry participants.

About Capital One

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