FEATURE

Corporate Growth Forum Launches Opportunities for Investment, Mergers and Acquisitions in Self-Insured Market Space

Written By Laura Carabello

'Positive Energy' describes the overall atmosphere during the recent SIIA Corporate Growth Forum (CGF) which brought together key leaders in the investor community with the SIIA member-companies that are focused on growth opportunities.

It was a first-time event for SIIA and proved to be not only well-attended and productive for all, but also an opportunity for attendees to learn and better understand what will be required for taking next steps. Every participant was complimentary of SIIA for hosting this meeting and supportive of making this an annual event.

With 10+ private equity investor groups attending the CGF, including growing interest from other investors unable to attend this meeting, the marketplace reflects a high-level appetite for investment and acquisitions.

Dr Mike Taylor

Dr. Michael Taylor, Council Capital, compliments SIIA for supporting for entrepreneurism, saying, "Of all the different events I attend, this is one of the very best for finding highly engaged, highly interested business owners. This is a great scenario where the business owners have already expressed interest and they come into a situation where we can have a great dialogue, great education for both sides and a lot of meaningful meetings. This meeting is actually pairing up the people who want and need private equity with the firms that can provide it."

Dr. Taylor indicates that while Council Capital is interested in general healthcare, there's no sector in healthcare that's more cost conscious than the self-insured employer.

"A lot of the innovation for healthcare cost containment and payment integrity comes out of the self-insured marketplace. And that's why it's a special area of interest for us."

Riva Dumeny

Riva Dumeny, chief operating officer, Group Benefits Division, Amwins, echoes this sentiment: "Amwins participates in SIIA and events like the CGF because we recognize value in networking with leaders in the self-insurance industry. We continuously evaluate opportunities to grow and improve our firm, including strategic partnerships in the group benefits segment."

She says that with over $27 billion in premium, Amwins has the ability to invest in a wide range of assets, but their approach to growth goes deeper than financial performance. "We primarily evaluate culture and look for talented people who strengthen our position as the largest wholesale distributor in the US. People and relationships are at the core of our success."

Water Street Health Care Partners has been a long-term supporter of SIIA, and Patrick Teyro, VP says, "I've always found a lot of benefit to coming to SIIA meetings and giving back to the companies who turn to our firm for guidance. It's been a great way to network and meet with aspiring leaders. This first-time event is a great way to meet innovative companies that are 'up and comers' of employer benefit healthcare services and businesses and build partnerships with them over time."

He forecasts that should SIIA hold this meeting again next year, "It would be or could be double the size. There are plenty of folks in the growth partner stage that would love to come and do this. The question is, are there enough vendors? There may be companies that are a part of big corporate entities that don't have the same questions or issues that face the folks that are here today.

SIIA is really providing an opportunity to identify a growth partner.

Orlo Spike Dietrich

Orlo 'SPIKE' Deitrich, partner, Ansley Capital, worked behind the scenes with SIIA leadership to set up the meeting.

"Most of the private equity people here received a personal invitation from me because I have worked with them, know them and have done business with them. But the real reason for me to attend this meeting is that I'm now ostensibly an investment banker, following 40 years of building my comp business."

He recalls that back in the early eighties, he became fascinated with what really works in healthcare and built his first company around aligning self-insured employers directly with medical providers.

"I believed then, and believe even more strongly now, that one of the problems in healthcare is we've got too many people in the middle who are making money and not bringing commensurate value," he says, asserting that the more efficiently we can put self-funded employers directly working with medical providers, the better off everybody will be -- the providers, the employers and the patients/employees.

"That's the reason this meeting is so important and we have gotten a lot of great feedback," he continues. "During this meeting, the attendees I have met are all saying the same thing: we have come here to learn and hear what the private equity venture capital people have to say. To me, that's the greatest compliment to this conference. This is reality and what you should think about when you begin the process. We are focusing on the things to think about as you go through the process and this is what you can expect."

SEEKING MARKET LEADERS

Sasank Aleti, Partner, LLR Partners, says his firm is very thesis driven as investors, and will sometimes spend years developing a particular point of view on a market.

"Once we have conviction around that, we look for executives, operators and strategic partners to get the right mix of talent to help us refine our thesis and then ultimately dedicate effort to finding the right investment opportunity," says Aleti.

"Everything that we invest in is really strategic from that perspective, and long multi-decade trends reflect our portfolio of companies that are speaking to different parts of the value proposition. So you can have multiple themes, multiple businesses and different elements that support a broader thesis."

Sasank Aleti

He emphasizes that everything the firm invests in is growth focused, differentiating LLR Partners from a typical leverage buyout or growth investment firm. Aleti explains, "We're more focused on the market opportunity and creating a category leader in the space. If the unit economics make sense, we look to accelerate growth."

Aleti says they back a management team and the firm gets involved on the board by creating a value creation team that supports executives at each functional area of a company: "In some cases, this team rolls up their sleeves and actually does some of the work. But they're really charged with driving growth and helping the company align and scale along that growth curve."

He explains that there are several areas of interest – from providing growth capital to fund expansion of the business going forward or supporting an acquisition. "Or it could be providing liquidity to shareholders. There needs to be a certain amount of scale to justify these decisions but we don't have a hard and fast rule."

Carrick Capital Partners is thematically interested in the self-insurance industry, and Chris Wenner, managing director says, "We believe that enabling more companies to self-insure will provide them the opportunity to better control healthcare expenses and improve outcomes for their employees."

Chris Wenner

The firm is actively investing in and acquiring businesses in this sector and has invested in multiple companies in healthcare and in companies that provide solutions to self-funded employers.

"Carrick is a growth oriented private equity firm that makes minority and majority investments," explains Wenner. "We target equity checks between $35-$120MM in companies that generally have a minimum of $15MM of revenue or $5MM of EBITDA and growing at least 15% per year."

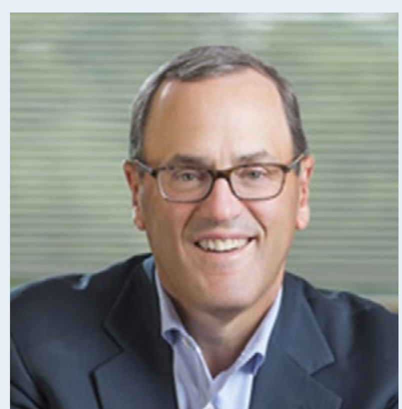
COST CONTAINMENT IS KEY

Despite supply chain disruptions, inflation, and the onset of Covid-19 variants raising uncertainties in the broader economy, there is growing investor interest in healthcare cost containment enterprises.

As the fulcrum for the self-insurance industry and a multitude of businesses in this sector, SIIA is supporting its stakeholders by sponsoring an event of this caliber and fostering meaningful discussions.

Richard J. Fleder, president, ELMC Risk Solutions, shares, "For 10 years, we have been at the forefront of a roll-up strategy for consolidating leading underwriting companies. In the PE world, we've also seen consolidation of stop loss businesses, third party administrators and PBM acquisitions, as well as the merging of other vendors. All of this has been in an effort to control expenditures and lower the cost of claims."

Going forward, Fleder foresees more activity in artificial intelligence, reference-based pricing companies and PBM cost containment service providers as the opportunity for more traditional vendor areas is nearly exhausted.



Richard Fleder

"There may not be enough traditional companies left for acquisition, so investors need to look at other niches," he continues. "But the thirst for cost containment, data, and data aggregators continues to fuel the market."

Innovation is the byword, and many deals are focused on cost-savings. The pressures to reduce the claims cost are mounting amid growing amid regulatory issues that accompany the transition to value-based care. The slow but steady shift away from the fee-for-service model impacts self insured companies in a variety of ways.

Council Capital also has current interest in the cost containment space, as Dr. Taylor adds, "We're looking for companies that represent a unique and differentiated value proposition, a platform that we could use to help build the next generation in cost control and payment integrity."

Aleti also sees tremendous growth opportunity in the self insurance market, adding, "In order to serve employers, we need to help them bring down the cost of their healthcare. We see a number of tools and capabilities for controlling administrative expenditures -- all the things that you need to really deliver on that promise. These are really the companies that are here at this meeting."

CGF PARTICIPANTS VALIDATE OPPORTUNITIES

A common theme in healthcare investing has clearly emerged: buyers are looking for opportunities that can evolve and respond to the rapidly changing landscape where large insurers are joining forces with other distribution channels to create new, vertically integrated structures. Consolidation is uniting fragmented sub-sectors, with digital solutions, AI and technology proving to reduce costs and change how care is delivered.

For example, Council Capital is looking for companies with technological differentiation. "We are seeking businesses that are doing something different or better than in the past by using technology," says Dr. Taylor. "The differentiator can be artificial intelligence (AI) and its value in lowering the human labor involved to increase accuracy and ultimately get doctors and providers paid correctly by health plans and other payers. AI can reduce friction in the whole system while taking cost and waste out of the system. So that at the end of the day, the patients, the members can benefit most by getting the most for their healthcare dollars."

Council Capital is also looking for companies that need growth capital, businesses that could benefit from a recapitalization where the owner might want to take some money off the table but continue on working.

"The owner might want to sell the company or merge into other companies that want to be part of a bigger platform," he continues.

"So we enter here with an open mind and we look for fit. How does our vision align with the management team and owners?"

Teyro likes to think about the self-insured employer benefit landscape as kind of an incubator of new, innovative solutions that can be applied to the broader healthcare system, especially for self-insured employers where the pain points around healthcare are so severe.

"Employers can be more innovative and are somewhat desperate to make

Patrick Teyro

changes to their own health benefits," explains Teyro. "Typically, you see more innovation in this self-insured employer landscape compared to other niches because of that need and desire to do something. We find that there are very interesting and innovative, exciting companies that are doing something that's never been done before. This creates opportunity to find the ones that are doing it the best and, back them and grow them."

What his firm cares about most the long-term opportunity and the thesis around the specific business and what it's trying to accomplish. "Certainly, bigger is sometimes better," he smiles, "but we don't have a hard threshold minimum. For us, it's seeing the vision towards something where we can create a real market leader in a space. We're trying to build market leaders in healthcare. We really do mean that if a business is $5 million in revenue, but is becoming a market leader, this is just as important as a company that has a hundred million in revenue and is a high-profile market leader."

For Preston Brice, partner, Grant Avenue Capital, the intent is to work with dedicated entrepreneurs at the top companies serving the self-funded market.

"Who we partner with matters more than how the company is performing," he says candidly. "We are looking for thoughtful leaders and a scalable business model. This meeting will grow as more opportunities emerge and an annual event will bring together a greater number of investors who want to network and meet one another."

His firm is evaluating businesses with $5-25M EBITDA, but the focus must be on serving the self-insured marketplace. "We are keenly interested in operating businesses that are doing well, improving provider services or bringing innovative medical devices (not drugs or molecules) to the marketplace. Companies must be committed to doing the right thing."

His firm is not necessarily interested in emerging companies since they are not day-to-day operations support. "What we are is a resourceful, strategic partner. We often provide capital to fuel strategic sales and marketing, advance tech-enabled solutions, bring operational efficiencies or fund service line expansion. We also support acquisitions that represent opportunities to buy or build innovative solutions."

IMPORTANCE OF CREATING VALUE

Transactions in the space will encounter market challenges that have caused PE firms to rebalance risk mitigation and value creation. According to one industry thought leader[1], PE investors face escalating—though no longer novel—pains such as ever-higher valuations, competitive bidding dynamics, and sellers who are less willing to entertain prospective buyers' questions.

To address these challenges and justify higher valuations, PE firms have shifted their diligence approach. While risk mitigation will always be critical, leading firms are underwriting their investments based on future value creation, which means diligence is increasingly focused there.

Dr. Taylor explains, "In some cases, a company can be grown and the management team will decide that they want to continue their run and they can be sold to a larger private equity company. In fact, a management team can go through three or four transactions, each time taking a little bit of wealth off the table for their personal bank accounts while incentivizing an ever larger group of the employees. That can be a very beneficial approach."

In other cases, he says a strategic acquirer will come in and be the ultimate destination.

"A strategic acquirer sometimes has such a great desire for what that company offers that they will pay a multiple that is not based on revenue. The valuation is based on the value that that company can provide. And so that can be a great outcome for seller."

The private equity community is united on this point: always staying focused on what value a company is adding to the healthcare system, as long as it is providing a fundamental value.

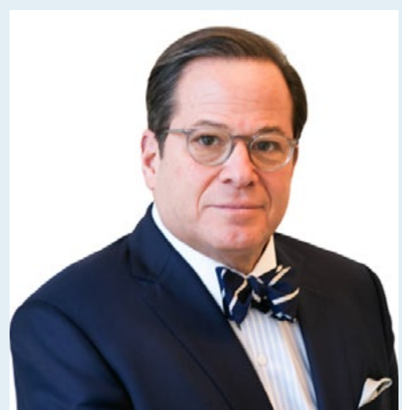
"As long as we have patients and adequately capitalize these companies to get through the rough turns, eventually they're going to get to a successful exit," says Dr. Taylor. "The key is to have a longer-term focus and get on the right side of healthcare -- improve quality and take away cost. Investing should be viewed as a social responsibility."

INVESTMENT BANKING PERSPECTIVE

Steve Nigro, managing director, Tagfin Group, brings yet another perspective to the discussion. "We're an investment bank," he explains. "Although our capital markets per se, are private equity firms or strategic investors, we bring sellers or borrowers to private equity, strategic buyers or strategic lenders. We help them find the investors."

They begin the process by meeting the client, package the offering, analyze the business and prepare a confidential information memorandum. This includes doing their projections and their performers which provide a basis for taking the company to market.

"We identify buyers – the private equity firms that are most aligned with the particular sector," says Nigro. "Here we are in a room with PE firms although we are really on the other side -- even though they're my friends. I make sure that I know exactly what they're looking for and what they're not looking for. I only have to be told once that this is not what they are seeking and I'll never go back again."


Steve Nigro

Nigro has multiple relationship and builds upon them to try and to get the best value. "We might have different views on an opportunity, and this is good because we share an interest in the self insurance marketplace. Why? Because I think it's a little more sophisticated to sell an insurance broker to another insurance broker. There's a lot of competition, but if I'm better than my competition, then I ought to step it up and do something a little more sophisticated, a little more creative."

He notes that the firm always likes opportunities in alternative risk transfer, such as captives. "We always felt that if there was a broker that wanted to take risk, and that showed well, it would be attractive. Brokers make a commission for taking insurance risk and transferring it to a carrier. Now, all of a sudden they become the carrier and take the underwriting risk."

When the broker indicates they want some of that risk too, because it's profitable, Nigro says it's better for the carrier. "We've taken that opportunity to do a lot of work with captives and alternative risk transfer strategies," he affirms. "When we close a deal or form a captive, we are essentially an advisor to a captive manager and negotiate reinsurance. People start to look at us and say, "That's not just a business broker." A lot of times people call investment bankers, brokers."

He emphasizes that their clients need everything -- from merges and acquisitions to capital raising. "They don't know where that process stops. So some have asked us to help pick out the right management or accounting system and we become a quasi CFO to certain brokers. This is just to get the business up and running or ready for sale. We actually have to recreate their back-end and literally provide people, functions, accounting capabilities and more. It's like kids running after the soccer ball and everybody's doing something."

ANOTHER "INVESTMENT" MODEL

Another perspective comes from the chair-elect of SIIA, Liz Midtlien, vice president, Emerging Markets, AmeriHealth Administrators which offers clients a full spectrum of business process outsourcing (BPO) and self-funded health plan administration services. The company is powered by a culture that is nimble, adaptive and relentlessly dedicated to solving problems from the ground up.

She views this meeting as an opportunity to support and help members with the entire investment landscape.

Liz Midtlien

"We are committed to supporting the future growth of SIIA members, from investment strategies to pursuing joint ventures," says Midtlien. "This can translate into opportunities to meet multiple private equity firms that want to invest or supplement growth activities. This is not simply for emerging companies that want to sell, rather to learn what's possible -- from an insured platform to a sophisticated claims repricing model. We seek to

HOW ADVANCED AI ADVANCES THE HEALTH OF A COMPANY

Marpai helps self-insured employer health plans get healthier. Marpai uses proprietary AI models to predict potential near term health events for members. Marpai Care Guides clinically intervene to ensure the best care journey. This is one way that Marpai works to prevent and reduce costly claims, create healthier members and a healthier bottom line.

MARPAI

What will be.


Elliot Meena

interconnect entities that are in the benefits ecosystem."

While her company is "Blue-owned," it operates as a "non-Blue."

"We work as a TPA, which is always needed, but we look and feel different than most of the attendees here," she says.

WHERE DO WE GO FROM HERE?

Attendees have been incredibly pleased with this event and all expressed their continued support. Dietrich shares, "As we modify the meeting, I believe this will become an annual event for SIIA. One private equity group came up to me afterwards and said, "Everybody in this industry should hear these panel presentations." It is evident that the PE investors would much prefer to deal with sophisticated young companies who understand what they're trying to accomplish."

He views the self-funded employer market segment to be as strong as it's ever been and growing.

"When you look at the percentage of the employed population in this country, it goes around 63% that self-insure and creeping upward," notes Dietrich.

"So the idea of self-insurance is strong and growing stronger because the economy's growing and because people are figuring out how to bring the self-funded philosophy down to even smaller employers. SIIA is a Petri dish for ideas about how to do things better for self-funded employers."■

Laura Carabello holds a degree in Journalism from the Newhouse School of Communications at Syracuse University, is a recognized expert in medical travel, and is a widely published writer on healthcare issues. She is a Principal at CPR Strategic Marketing Communications. www.cpronline.com

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