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INVESTMENT BANKERS

An Exclusive Interview with Allen Fisher, Managing Director and Global Head of Healthcare Banking at MUFG

Banker Insights: How Leading Healthcare Companies Are Rethinking the Healthcare Supply Chain and Responding to COVID

As we contemplate re-opening the healthcare industry and the broader economy, we are pleased to be able to share best practice observations and guidance from some of our country's leading healthcare visionaries. Intrepid's Healthcare team recently sat down (virtually) with Allen Fisher, Managing Director and Global Head of Healthcare Banking at MUFG, our parent company and the largest bank by assets outside of China, to discuss the impact of COVID-19 on MUFG's Fortune 500 clients and what he is seeing in his extensive global relationships that can guide us on our path forward.

Intrepid Healthcare Team: One element of the pandemic that we have observed in the middle market is the unevenness of the impact across sectors. Among large-cap healthcare companies, what areas would you say are doing well? Which verticals are seeing challenges?

Allen Fisher: What has always been considered a defensive sector—healthcare—with COVID-19, it's almost like there's no such thing as a defensive sector anymore. Relative to other sectors, healthcare is still a good sector, healthcare fundamentals are still in place, not permanently disrupted, but the concept of healthcare at least for the near term being a defensive sector goes out the window.

Any healthcare activity that requires physical interaction with a patient has been disrupted. That ranges from dental offices to cardiac cath labs, to hospitals, nursing homes, senior housing, med-tech, surgery centers, CROs—all of those have been disrupted.

In contrast, companies that help re-think or re-design the supply chain are well-positioned right now. In one example, companies that can help automate and virtualize the healthcare environment are well positioned. However, this has bigger implications. Industry players have started to realize that the efforts made to concentrate the supply chain, because of economies of scope and scale, to low-cost environments like China, creates a dependency that doesn't feel good in a situation like we have now where we are not only social distancing, but we have border closings. What we have to remember is that the economy and supply chain that we built assumes that people and goods can move freely. In this case, that has been disrupted as well. That has not happened in a global way since WWII.

Intrepid Healthcare Team: What has surprised you by what you've seen in the market so far during COVID-19?

Allen Fisher: I was surprised by how quickly companies became concerned about the liquidity of the banks and the financial markets, and I think that was directly because they remembered how it was in 2008-2009, where there was a loss of credibility in financial institutions. I don't think we are in that situation again because banks are better capitalized, but the corporates fell back into that mode. Everyone was asking for additional liquidity facilities and now loosening of covenants.

Intrepid Healthcare Team: In your view, how did MUFG differentiate itself in the early weeks of the crisis? What makes it well-positioned to be a trusted financing partner to healthcare clients as the crisis evolves?

Allen Fisher: We've been able to accommodate our healthcare clients' financing needs in every case when they've asked for additional liquidity. Based on our analysis of every deal in the space over the past few weeks, there are only five banks active in healthcare who could say that, and we are proud to be one of them. We can be there for our clients through prudent credit culture that we marry with industry expertise.

Intrepid Healthcare Team: How might the financing needs of healthcare companies evolve as we come out of this environment?

Allen Fisher: From a relative perspective, other than a few situations in dental and med-tech, there's been very little going on from an emergency financing perspective in the large-cap healthcare sector. I'm seeing oil and gas, utility, retail, entertainment, transportation, airlines, cruise ships—every day I see these kind of deals coming in both for liquidity facilities and for covenant relief. But the rate and the quantum of these requests from healthcare names are much less as a general rule than some other sectors, which indicates that they haven't been challenged enough to see real fundamental change in how healthcare companies think about their capital structures or how they finance themselves.

People tend to have short-term memory. There were more investment-grade bonds issued in three weeks during COVID-19 than in half a year last year, which was a good year. In the long term, I believe there will be more focus on working capital and supply chain financing and efficiencies. I think we'll see companies keep more inventory on hand. Everybody's been working on just-in-time inventory following the lead of the Japanese car manufacturers. Still, hospitals and others probably will re-think that and will want to stock up on certain things. I wouldn't call these fundamental changes, however, I would call that reactionary at the margins.

Intrepid Healthcare Team: Beyond the immediate impacts, what medium-term impacts from COVID-19 do you see?

Allen Fisher: I don't think the fundamentals have really been truly challenged yet. Patients will still be there, providers will still be needed, but there will be re-thinking of healthcare delivery and supply chains. Telemedicine, AI, automation, virtualization, companies that can link the many islands of data, the mosaic of different businesses doing healthcare—hospitals, managed care, PPMs, retail pharmacies, clinics—people who can cobble more of that together into a more unified system; those companies will be well-positioned. Of course, that's been a dream for a long time and has never really happened yet but there might be more impetus to act now. We see weaknesses in our healthcare system because there are so many islands of information that are not shared, and trying to track trends and to get useful data to make good decisions has been very tough in this country despite all the money we put into healthcare every year.

Intrepid Healthcare Team: Do you envision any permanent changes to the healthcare landscape that might be catalyzed by COVID-19?

Allen Fisher: The fundamental changes will be very slow in healthcare, whether that be capital structures, universal coverage or even universal sharing of information. One of the things that the industry was starting to wake up to, even before COVID-19, was that pricing is very important. But surety of supply and reliability of supply is just as important. That links into re-thinking the supply chain, re-thinking how you add value to your customers holistically, across the whole spectrum of healthcare and the supply chain within that. Talking to CFOs and CEOs even before COVID-19, in the second half of 2019, companies were starting to think about consolidation, efficiency, managing pricing pressures. All of these factors motivated them to start thinking along those lines. The COVID-19 experience will likely accelerate that in the near- to medium-term.

Without a doubt, we have the best doctors and facilities in the world when it comes to high-tech care, neurosurgery, orthopedic surgery, and cardiac surgery. We are also without a doubt one of the weakest industrialized rich countries when it comes to wellness care and primary care. So, we're really good when you really need to go to the hospital or when you're really sick, but we're not so good at keeping people out of the hospitals and away from the doctors in the first place.

I think there could be chipping away at the structure that will force us to recognize more than ever that paramedics, RNs, almost "doctor-type" nurses, and medical staff should be allowed to do more without having a doctor to approve or oversee everything they do. We just can't afford a system like that anymore. It's expensive, very cumbersome—we need to be more flexible, we need to give experienced people who aren't doctors, but have a lot of medical experience more authority in terms of patient care and prescribing medicine. I think that a lot of these changes will happen and it will be interesting to see.

Kyle Berkman is a Vice President in Intrepid's Healthcare Group. He is responsible for day-to-day transaction execution. He has worked on numerous healthcare transactions including the sale of Ambry Genetics to Konica Minolta as well as transactions across a variety of sectors, including distribution, healthcare, consumer, travel and leisure, industrials, and business products and services. kberkman@intrepidib.com | 310.770.7066

Allen Fisher is a Managing Director and Global Head of Healthcare Banking for Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world's leading financial institutions. Allen leads a dedicated team of 25 healthcare professionals, many of whom have more than two decades of experience, including bankers, portfolio managers, credit officers, and analysts. This exclusive focus on healthcare enables MUFG's Healthcare Group to better anticipate client needs and provide smarter, more innovative solutions to address financial challenges and support growth.

MUFG has lending relationships with virtually every major pharmaceutical, biotech, and MedTech company in the U.S. and a global reach that extends to Europe and Asia. MUFG's customers span the healthcare spectrum, including hospitals, healthcare REITs, and managed care companies. MUFG typically works with companies with $35MM or more in EBITDA.

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- Unique global banking platform focused on healthcare
- Growing Middle Market Healthcare practice
- Leading healthcare bank with nearly $5B in healthcare industry deposits in the U.S.
- Payments leader of prepaid card solutions that result in the elimination of checks for patient refunds, clinical trials, sales incentives, employee reward and recognition programs, and consumer loyalty programs
- Growing Private Equity Sponsor practice

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About Intrepid's Healthcare Group

Intrepid's Healthcare Group is dedicated to providing strategic advice in capital raises and mergers and acquisitions across a broad range of healthcare sectors, including physician practice management, diagnostics and labs, revenue cycle management, behavioral health, hospitals, IT, pharmacy, post-acute care, and medical devices. Our team maintains extensive relationships with strategic buyers and institutional investors across these sectors.

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