

# Healthcare Finance

*Securing Financing for Working  
Capital and/or  
Mergers & Acquisitions*

# *Faculty*

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# *Overview*

- *Why Financing is Necessary*
- *Types of Financing Available*
- *How to Secure Financing*

# *Homecare is Special*

- *Cash Crunch Due to Delayed Payment*
- *Crunch Impedes Growth, Therefore Need Financing*
- *Weak Balance Sheets*
- *Specialty Lenders do Understand HomeCare*

# *Types of Financing Available to Home Care Providers*

- *Asset Based Financing*
- *Cash Flow Based Financing*
- *Private Equity Recapitalization*

# *Asset Based Financing*

- *Accounts Receivable*
- *Typically 80% of 180 Days or less*
- *Third Party Accounts Receivable*
- *Revolving*
- *Non Recourse*

# *Cash Flow Based*

- *Revolving or Term Loan*
- *2.5 – 3x EBITDA*
- *Personal Guarantees*

# *Implications*

- *Amount Available Determined by Accounts Receivable or EBITDA or a Combination*
- *Total Max Amount Will Probably Not Be Enough For 100% Financing For Acquisition*
- *Company Must Grow to Ever Pay Off Financing*

# *Recapitalization*

- *Strategy For Growth Using OPM*
- *Financing Secured By PEG*
- *Often = Change of Ownership*

# *ReCap Structure*

- *Seller Sells Majority Control Interest, Retains Minority Ownership*
- *Management Often Stays, But Not Always*
- *Seller Retains Board Seat*

## *ReCap as Financing*

- *Taking on a Partner – A Majority Partner*
- *20% of \$100 MM > 100% of a \$20MM*
- *Ownership and Management Remain Active*
- *PEG Contributes Money and Management*

# *Pros & Cons: Acc'ts Receivable*

- *Accounts Receivable*
  - *Easy to Qualify*
  - *Non Recourse*
  - *Must Grow*
  - *Can Be Expensive*

# *Pros & Cons: Cash Flow*

- *Cash Flow*
  - *Harder to Qualify, But Still Widely Available*
  - *Get More Cash Than Accounts Receivable*
  - *Personal Guarantee*

# *Pros & Cons: Recapitalization*

- *Recapitalization*
  - *Take Cash Out for Owner: Put Cash in for Company*
  - *Prepare For Significant Growth and Future Divestiture*
  - *Lose Control*
  - *Lengthy Due Diligence*

# *Underwriting Criteria*

- *Apply to Everybody*
- *Must be a Solid Going Concern - Financing is Always Provided in Proportion to Size and Performance of Company*
- *Transparent Financials – Audited Financials Even Better*

# *Underwriting Criteria (cont.)*

- *Qualitative*
  - *Business Mix*
  - *Management*
- *Quantitative*
  - *Audited Financials*
  - *Accrual Basis*
  - *Direct Expenses Broken Out*
  - *Balance Sheet Analysis*
    - *Accounts Receivable*
    - *Bad Debt Reserve*
    - *Other Long Term Liabilities*

# *Process*

- *Identifying Qualified Lenders*
  - *Banks, Finance Companies, Brokers*
- *Submit Attractive Application*
- *Due Diligence*

# *Application Process*

- *Preliminary Discussion*
- *Submit Financials*
- *Term Sheet*
- *Due Diligence*
  - *Expansive On Site Review*
  - *Loan Documents*

# *Costs*

- *Application Fee*
- *Due Diligence Fee*
- *Points*
- *Effective Interest Rate*
  - *Interest*
  - *Management/ Monitoring Fees*

# *Rates*

- *Size Matters*
- *Prime Plus, Prime Minus and LIBOR*