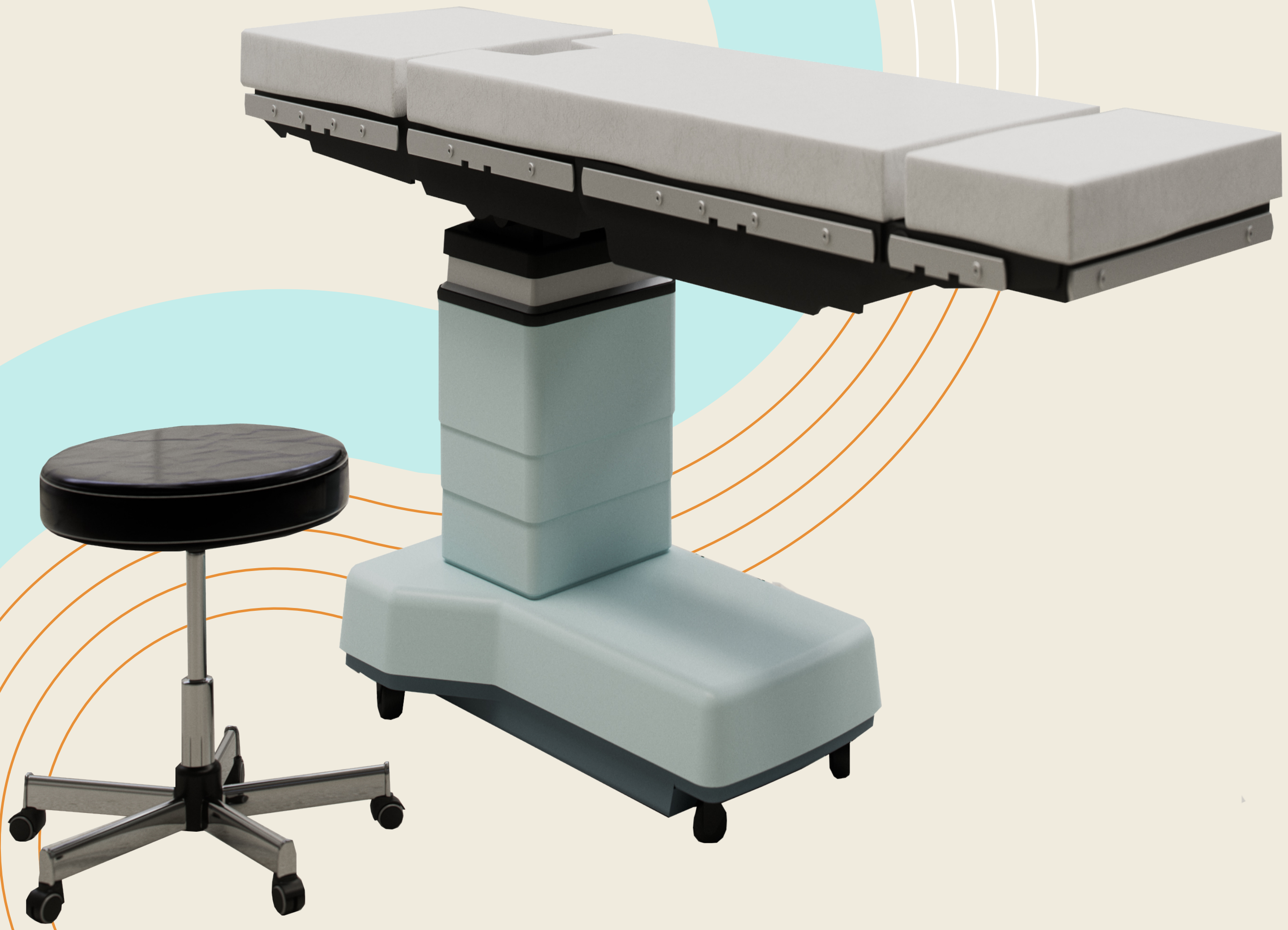
PitchBook

INDUSTRY RESEARCH

Healthcare Services Report

PE trends and investment strategies



Q2 2024

Contents

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For previous updates as well as our complete healthcare services research, please see the designated analyst workspace on the PitchBook Platform.

PE activity

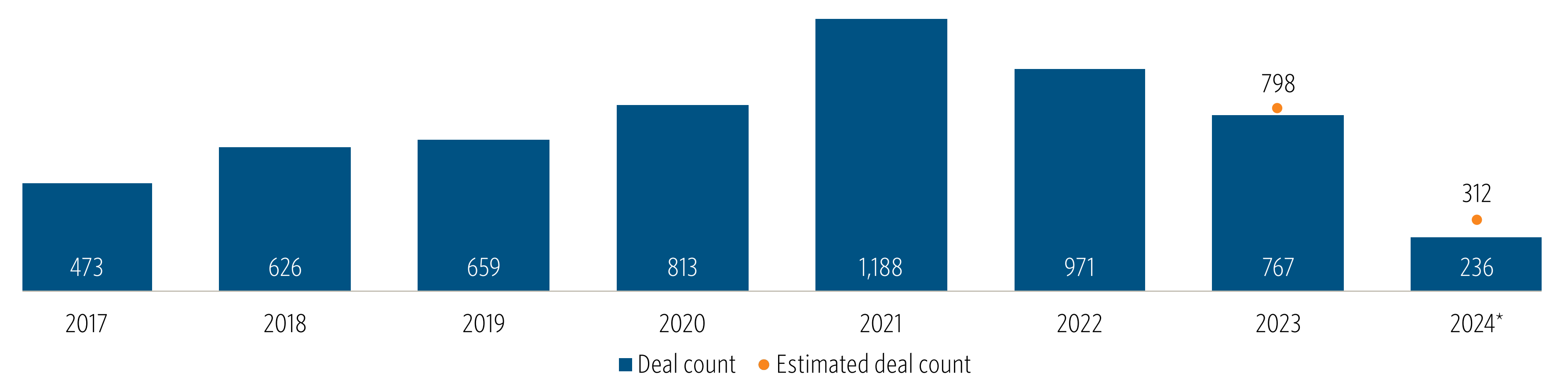
Click [here](#) to download our most recent taxonomy report, which includes definitions, key investment drivers, and risks by segment.

Healthcare services deal activity slipped further in Q2 2024, down 16.5% from the previous quarter with an estimated 142 deals announced or closed. However, as is often the case, top-line numbers mask the real trend. The market turned a corner in mid-Q2, and dealmaking is beginning to accelerate, albeit cautiously. The Q2 decline in deal count is attributable primarily to PPM transactions, where market sentiment has deteriorated sharply and add-on activity has been low for a while. Even for PPMs, however, there are early signs of the market cracking open.

Dealmaking hits a turning point

By our read, it was in mid-to-late May, following the McGuireWoods conference, that the mood began to shift materially in the PE healthcare market. Bankers have been saying throughout 2024 that their pipelines were building up, but that talking point is beginning to materialize into actual deal flow. Finally, seller price expectations are starting to moderate. (The major exception is healthcare IT, where private market valuations have been quite stubborn and are outpacing public comps.) During the past quarter, we heard a few

Healthcare services PE deal count



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Healthcare services PE deal count by quarter

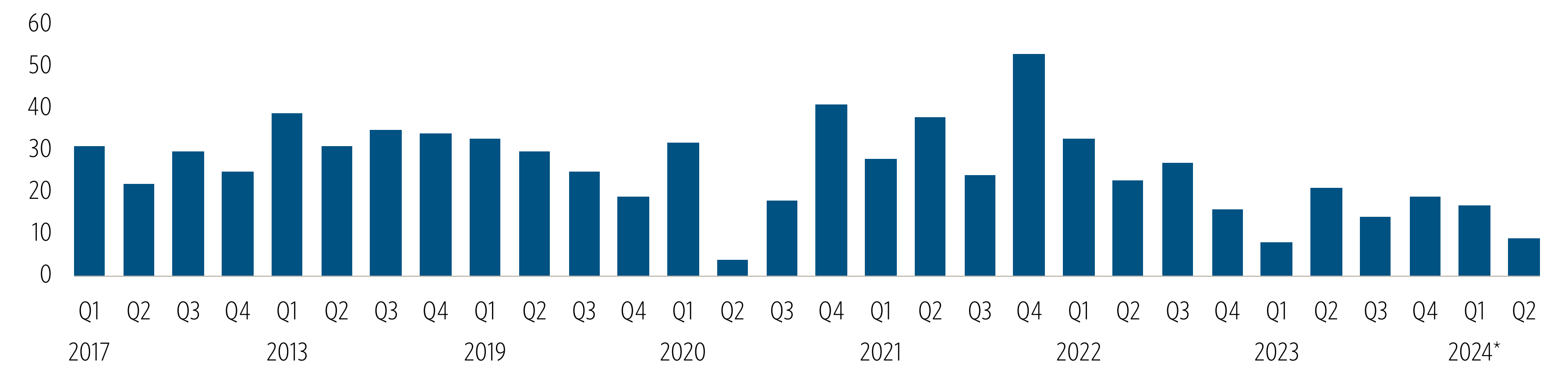
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

PE ACTIVITY

investors suggest that they might be under pressure not only to return capital, but to deploy it—a new development in a market that has been exit-starved for over a year now. It makes sense that LPs in a fund that closed in, say, early 2023 would begin to wonder aloud whether the strategy they allocated to is, in fact, investable in today's environment. We are taking more thesis- and due-diligence-related calls than ever, though most of them are focused on healthcare IT, managed services, and pharma services. That is where firms are spending most of their thesis-development and deal-sourcing energy.

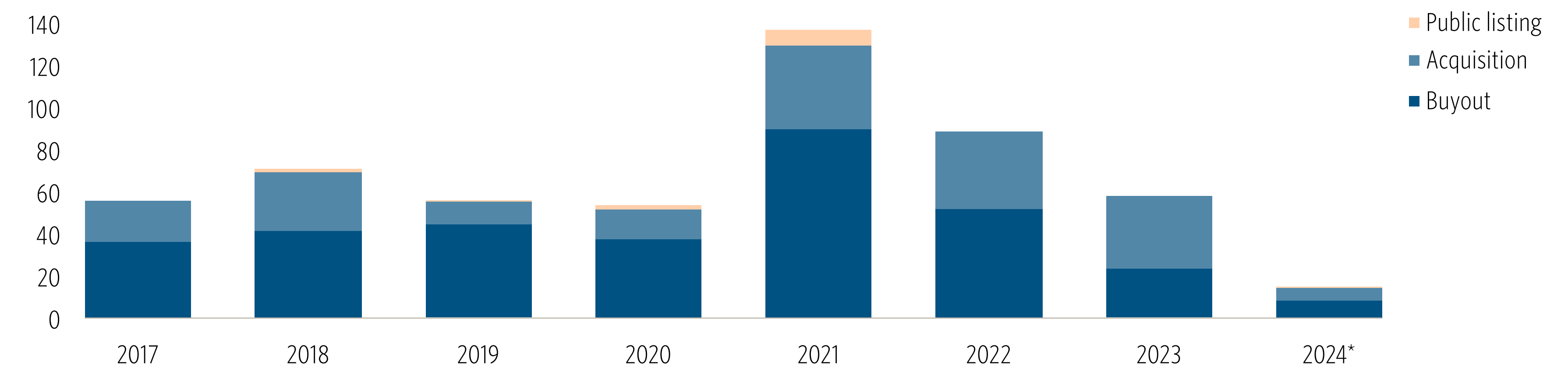
While most of this new activity has yet to materialize in actual deal announcements, Q2 saw a handful of important platform trades. This included two deals in applied behavior analysis (ABA), Behavioral Innovations (sold by Shore Capital Partners to Tenex Capital management) and Caravel Autism Health (sold by Frazier Healthcare Partners to GTCR); one in clinical staffing, Soliant Health (sold by Olympus Partners to Vistria Group and Mubadala Investment Partners); one in infusion, BioMatrix Specialty Pharmacy (sold by Triton Pacific Healthcare Partners to Frazier); and one in urgent care, Xpress Wellness Urgent Care (sold by Latticework Capital Management to Goldman Sachs Alternatives). The ABA deals are discussed in more depth below. Several new platform creations were announced in the quarter, including in infusion (Apex Infusion,

Healthcare services PE platform buyout count by quarter



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Healthcare services PE exit count by type



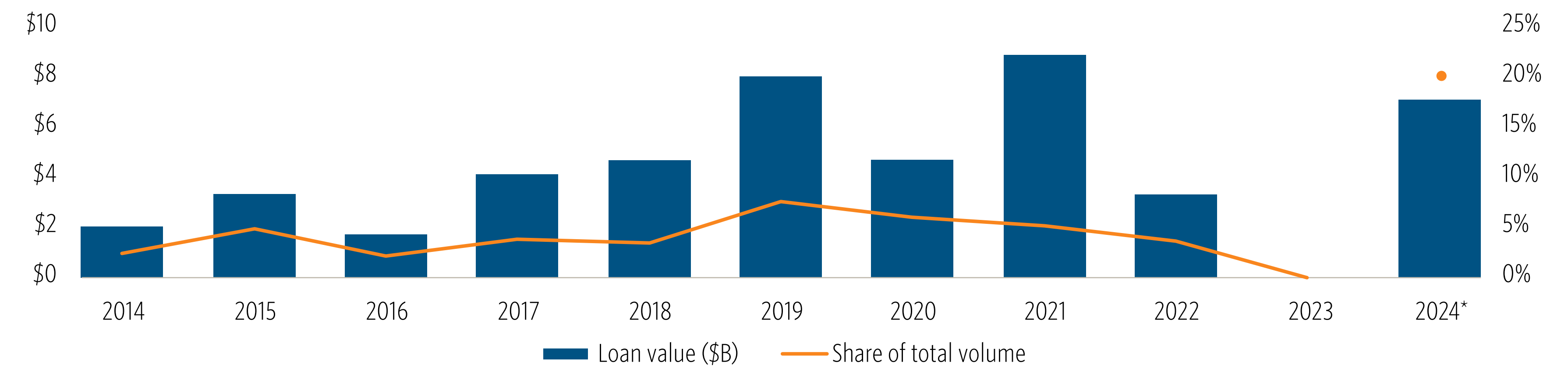
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

FFL Partners) and medspa (The Aesthetic Syndicate, Lorient Captial Management), as well as a large add-on (Ortho Rhode Island, acquired by Kohlberg & Company's platform).

To be sure, the market is still highly risk-averse, and we are still occasionally hearing of processes that fail at the eleventh hour. Deals that cross the finish line continue to be for high-quality assets in almost all cases. We are nowhere near a full recovery or a "rebound" for healthcare services, but we feel confident in calling a turning point.

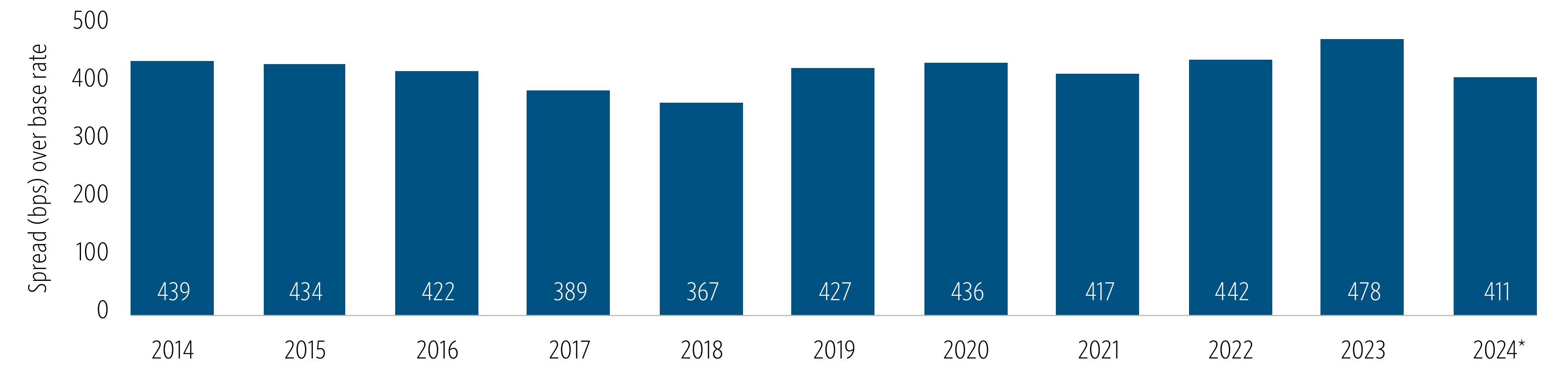
What changed in Q2? At the beginning of the quarter, signals indicated that the Federal Reserve was leaning toward holding interest rates higher for longer, which meant that the market was beginning to contemplate forging ahead even without the long-awaited rate cuts. By July, a positive Q2 inflation print had convinced markets that the start of a rate-cutting cycle was highly likely by the end of the year. At the same time, as PitchBook-LCD and our US PE Breakdown Report have noted, the recovery of the broadly syndicated loan market has created significant competition among lenders and pushed leveraged finance prices downward. As of June, private credit deals in the core middle market were being given up to 5x EBITDA leverage and priced at SOFR+525, down 150-175 basis points from the peak. New-issue spreads for healthcare services broadly

LBO-related healthcare services loan value and share



Source: PitchBook | LCD • Geography: US and Canada • *As of June 30, 2024

New-issue spread (basis points) for healthcare services loans



Source: PitchBook | LCD • Geography: US and Canada • *As of June 30, 2024 syndicated loans dropped to 411 basis points on average for 2024 YTD, the lowest level since 2018. Additionally, heavy restructuring activity over the past year has shored up many platforms with previously troubled capital structures. And although the name of the game has been organic growth as of late, operationally and financially healthy platforms are actively preparing to resume M&A in earnest.

Outlook: We are predicting a gradual acceleration in deal activity throughout the second half of 2024, driven by moderate valuation resets (if not on multiples, then on the definition of EBITDA), a reduced cost of capital, and the positive June Consumer Price Index print. This acceleration will continue to focus on high-quality assets through 2024, and will be felt most strongly in pharma services, healthcare IT, and non-PPM healthcare services, in that order, though it will also reach PPMs. We do not believe that uncertainty around the November election is having a material effect on PE healthcare deal activity, nor would a Republican administration immediately ease the current environment of headline risk that has forced larger PE buyers out of the healthcare delivery market, as strong momentum has already built up at the state and grassroots levels. Rather, the primary forces shaping PE healthcare services over the next 12 months will be interest rate cuts and continued relief on pricing for financing, seller willingness to capitulate (to some extent) on valuation, the overall pent-up demand for movement in the market on both the buy side and sell side, and the industry's general drift away from provider assets.

Regulatory considerations

The rhetorical intensity of statements denouncing PE's role in healthcare from government officials, advocacy groups, academics, and the media has only intensified since Q1. We recounted a comprehensive overview of the current policy environment in our recap of the June Healthcare Capital Markets and Innovation Summit. Additionally, in July we published a short note that estimated PE's share of the US healthcare provider ecosystem at 3.3% by revenue, and pointed out that growth in the total number of PE-backed healthcare provider companies has slowed to around 1%.

What material deal flow effects are we witnessing? Because large-cap investors (managing funds of $5 billion or more, roughly speaking) are more exposed to headline risk, this group has largely sworn off healthcare provider deals for the time being. This has had a knock-on effect within the market, especially for PPMs, where large-cap firms have historically been the primary buyers for scaled assets. (We discuss the PPM market in depth below.) For this reason, although headline risk is likely greater in areas such as behavioral health and post-acute care, we are actually seeing more middle-market activity in these segments than in PPMs, with deal processes picking up in areas such as hospice and mental health. To state it as a counterfactual, if there were no unusual regulatory activity related to PE in healthcare, healthcare services would represent a greater share of the current revival in deal activity relative to healthcare IT and pharma services.

In terms of state-specific dynamics, we have not yet observed a slowdown in deal activity for California and Oregon, the two states with the most aggressive anti-PE legislative agendas currently. Investors are specifically watching California's Assembly Bill 3129, which is currently under review by the state's Senate Appropriations Committee. The bill as currently written would give the state attorney general discretionary authority to approve or disapprove any PE healthcare provider transaction. It would also significantly restrict, but not fully invalidate, the management services organization (MSO) and professional corporation (PC) structure typically used in PE healthcare provider transactions. In Oregon, House Bill 4130, which would also severely limit MSO structures, failed to pass in the state Senate but will likely be reintroduced in 2025.

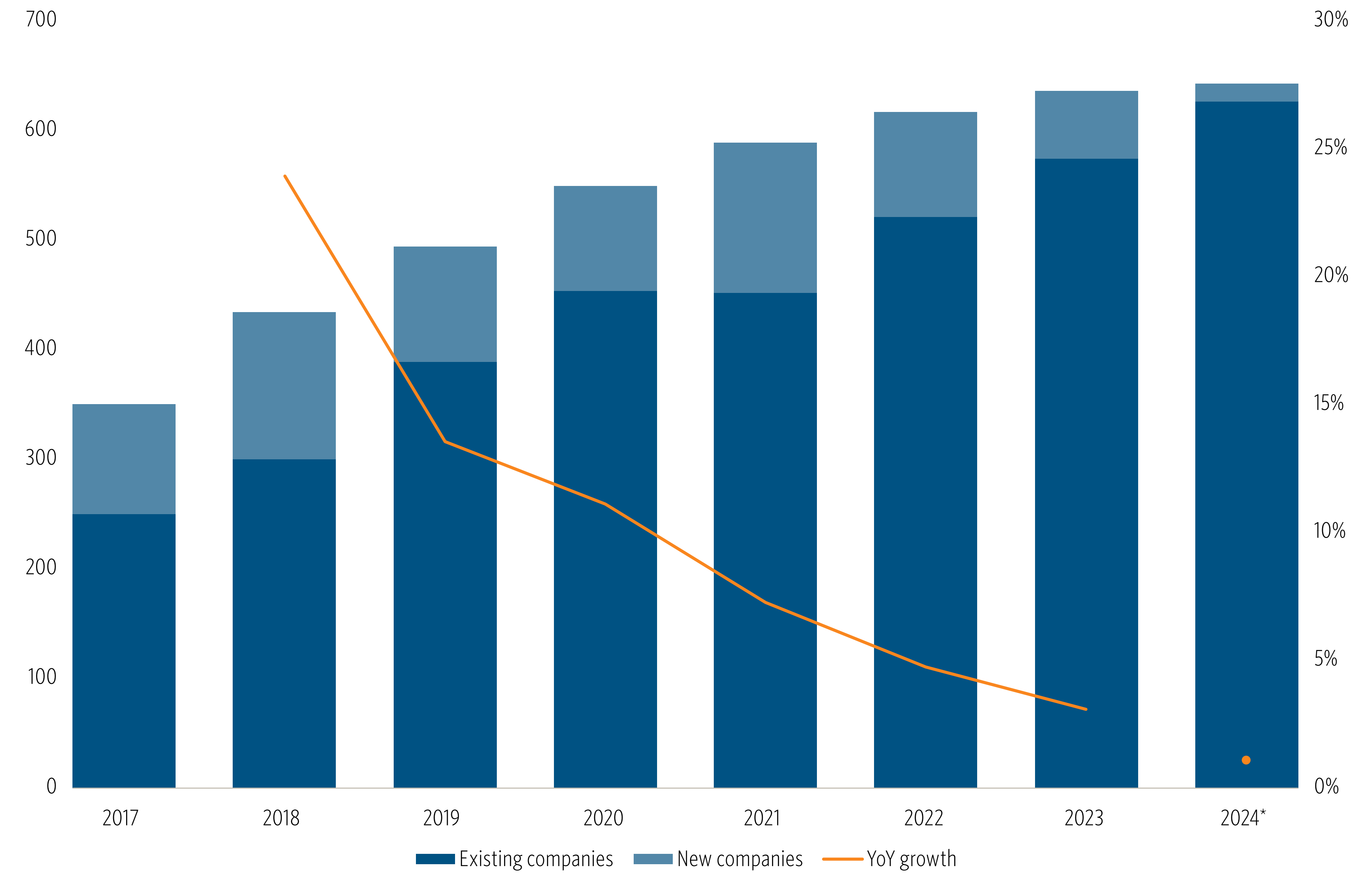
PE ACTIVITY

According to Matthew Brohm, partner and co-chair of Healthcare Private Equity at Arnall Golden Gregory, sponsors with California healthcare provider platforms are also navigating the implications of a court decision handed down in April regarding the case of Art Center Holdings, Inc. et al. v. WCE CA Art, LLC et al. In this case, the court ignored a succession/continuity agreement in a “friendly physician” MSO arrangement as a violation of California’s laws governing the corporate practice of medicine. As a result of this action, some sponsors have begun looking at alternative structures for their California “friendly physician” MSO arrangements.[1]

Companies headquartered in Oregon or California have accounted for 8.3% of PE healthcare services deal flow since 2017. We will be monitoring our data to see if a negative trend emerges in the coming quarters. Anecdotally, although some investors are actively avoiding West Coast assets, many are still open to the right deal. California’s size and its disproportionate role in important areas like behavioral health and Medicaid innovation make the state difficult to abjure altogether.

1: Matthew Brohm, partner and co-chair of Healthcare Private Equity at Arnall Golden Gregory, phone interview by Rebecca Springer, June 27, 2024.

Healthcare services PE company count and YoY growth



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

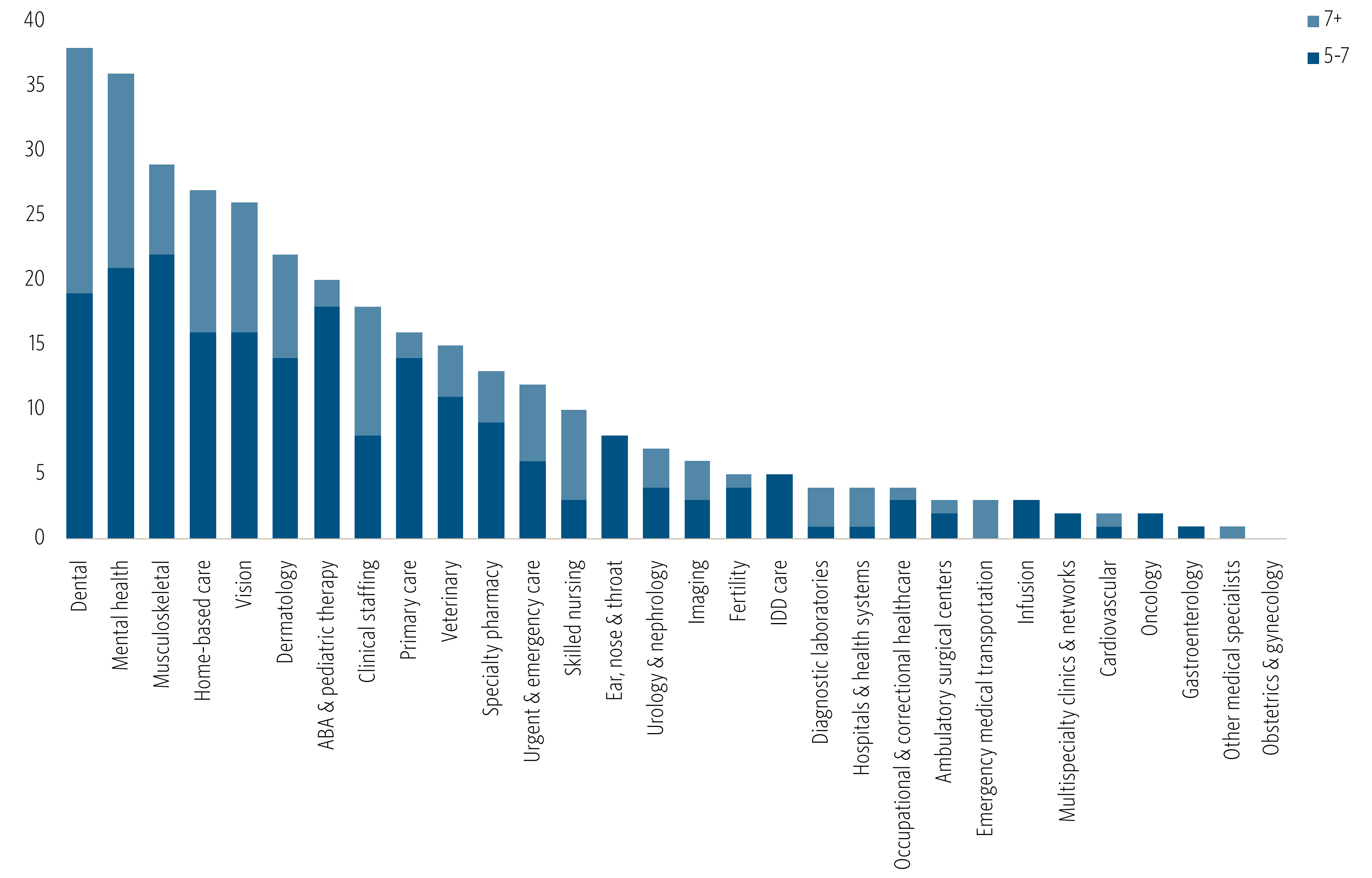
The state of PPMs

Two things are true simultaneously regarding PPMs:

First, the market is cracking open, and there are healthy, well-integrated assets ready to trade. In orthopedics, where a couple of platforms had false starts over the past year or two, Kohlberg-backed Spire Orthopedic Partners' acquisition of Ortho Rhode Island, a 35-physician group with an ambulatory surgery center, represents a significant transaction, and we expect to see more platform activity announced soon. Platform activity is also brewing in categories including ophthalmology; ear, nose & throat (ENT); physician therapy; dental; and veterinary. In physical therapy, Partners Group is reportedly evaluating interest for Confluent Health, a $150 million EBITDA platform.[2] Public comps ATI Physical Therapy and U.S. Physical Therapy are currently trading at 25.5x and 20.2x trailing 12-month EBITDA, respectively. In dental, Charlesbank is said to be planning a process for MB2 Dental, potentially seeking a 12x to 13x multiple on $195 million of marketed EBITDA.[3]

2: "Partners Group Evaluates Buyout Interest for PT Clinic Operator Confluent Health, Sources Say," PE Hub, Michael Schoeck, July 17, 2024.
3: "Charlesbank To Test Buyout Interest in MB2 Dental This Fall, Sources Say," PE Hub, Michael Schoeck, July 25, 2024.

PE-backed healthcare services companies by current sponsor hold time (years)*



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

In veterinary, Goldman and SkyKnight Capital are reportedly seeking buyers for MedVet Associates at a 15x to 20x multiple on the company's $88 million TTM EBITDA.[4]

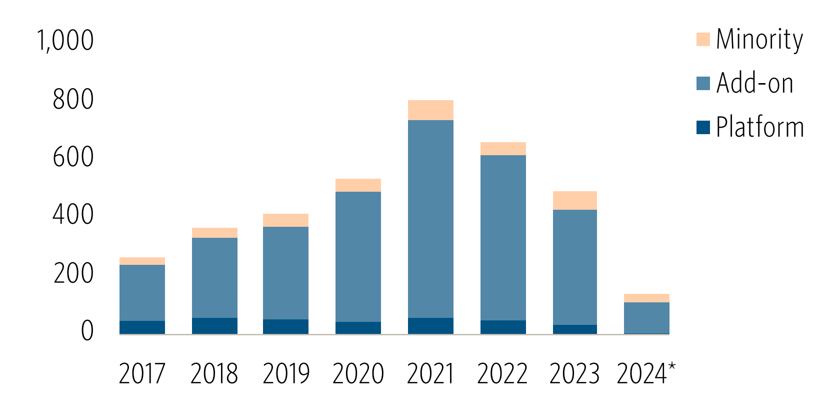
Second, there remains a significant backlog of long-in-the-tooth PPMs that either sit below the quality threshold for a successful exit in this environment or had more recent broken processes. These platforms continue to grow slowly while focusing primarily on shoring up operations to better prepare for a sale. We do not expect companies in this group to trade until next year at the earliest.

Deals announced in H2 will play an important role in setting pricing expectations, and the market will be watching closely. What is clear is that the EBITDA underwritten will be much tighter than it was in 2021. The multiples that will be placed on top of that EBITDA is another question. It is hard to project the pricing dynamics of the ABA and infusion deals announced this quarter onto future PPM deals.

Physician compensation: One of the key challenges currently facing PPMs—and receiving less discussion than it deserves—is physician compensation and retention. With PPM valuation multiples likely to compress (or at the very least, be calculated on a more conservative EBITDA) relative to purchase prices in 2018-2021 and with exit horizons elongating, promises of income repair and a "second bite" have been significantly degraded in many cases. This in turn creates physician retention and performance challenges as the incentives associated with rollover equity and earnouts diminish. Replacing equity-holding partner physicians with new hires typically requires market-rate cash compensation, further degrading EBITDA. We have heard multiple reports of transaction structures being pursued with fully cash-based, employment-style compensation models (base plus performance bonus) as a result of this. These now coexist in the market with 30% to 50% earnouts or rollover structures still being offered to bridge valuation gaps, a trend we have been tracking since the market turned. It is fair to say that the physician compensation model is in flux.

Terminal exit prospects: Long term, the market continues to ask difficult questions about the future of PPMs. Exits over the next few years will not benefit from multiple expansion, and many will notch longer holding periods than originally hoped. We have even heard some speculation that firms with too much PPM exposure may face fundraising difficulties in the future. (It is important to qualify this statement by

PPM PE deal count by type



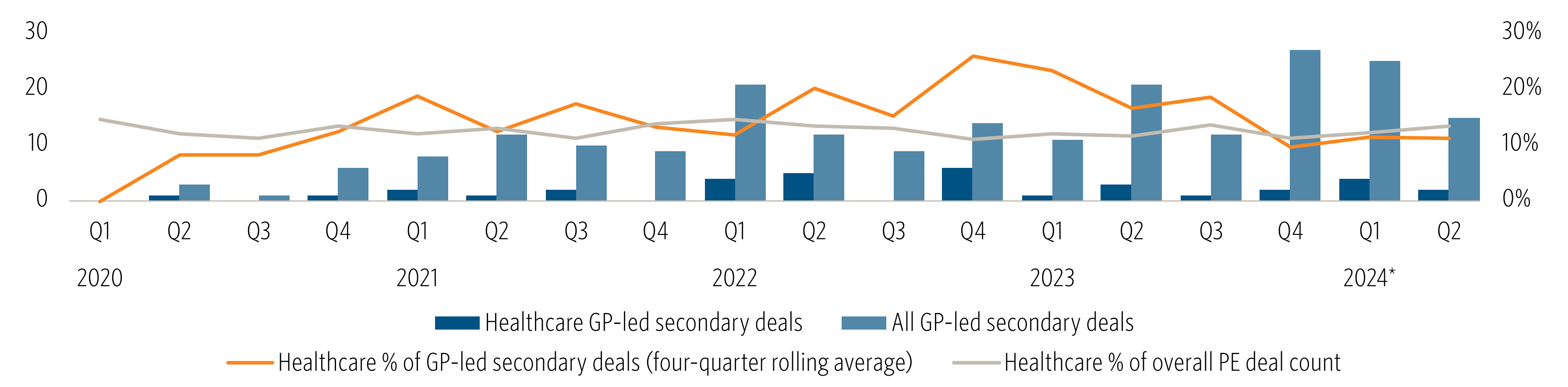
Source: PitchBook • Geography: US and Canada
*As of June 30, 2024

4: "Goldman, SkyKnight Explore Options for Veterinary Hospital Network MedVet, Sources Say," PE Hub, Michael Schoeck, May 15, 2024.

acknowledging that certain healthcare services specialists have reputations for building high-quality platforms, while others do not.) There are currently 156 PPM platforms in PE hands that have been held by the current sponsor for five years or more. For comparison, there are 92 PE firms with funds between $1 billion and $5 billion that have closed a healthcare services buyout in North America since 2021. This is approximately the size range for firms that can write a check big enough to acquire a mature PPM from another sponsor, but not so large that they fall into the group that is avoiding healthcare providers altogether due to headline risk.

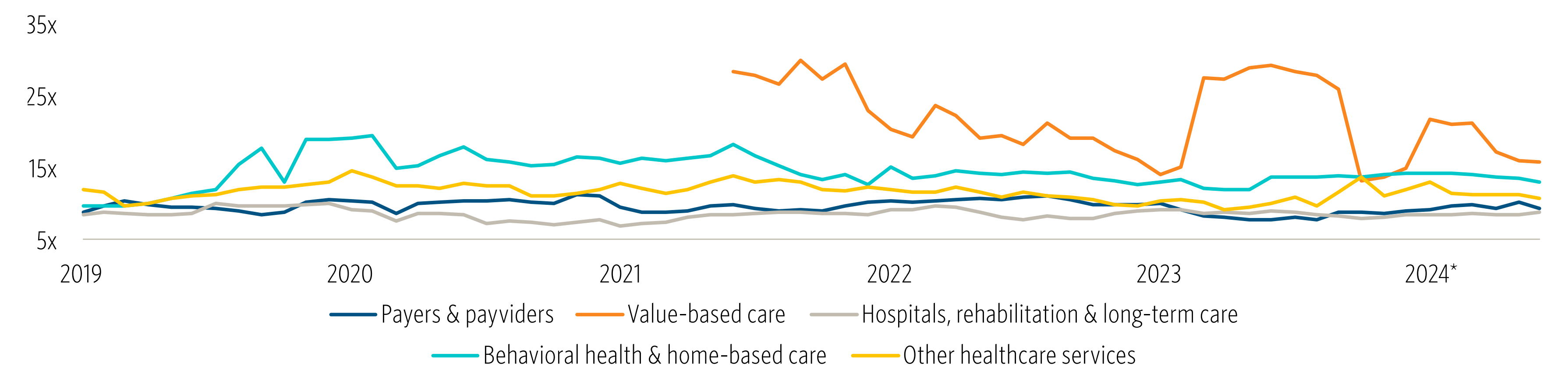
The general talking line is that sponsors need to think creatively about PPM exits, including deeply understanding and building for the needs of strategic buyers. For most specialties, however, the opportunity for strategic exits is also limited. In optometry, VSP and EssilorLuxottica are vertically integrated buyers, but antitrust considerations would likely preclude large platform buys. In dental, the major strategic, Delta Dental, has no intention to enter care delivery. In veterinary, Mars and Nestlé are vertically integrated but not currently active buyers, although there may be an opportunity for additional strategics such as Chewy to vertically integrate. The procedural

Healthcare deal count as a share of all GP-led secondary deals by quarter



Source: PitchBook • Geography: North America • *As of June 30, 2024 • *Note: The healthcare share of overall PE deal count excludes add-ons.*

Enterprise value/LTM EBITDA multiples of publicly traded healthcare services companies



Source: PitchBook • Geography: US • *As of June 30, 2024 specialties have somewhat more opportunity to partner with companies such as United Surgical Partners International/Tenet Healthcare, SCA Health/Optum, and AmSurg, although those buyers already have significant scale and are likely to be selective about acquiring assets in specific geographies of strategic interest.

Although the secondaries market continues to grow, continuation funds remain an option primarily for high-quality assets. In 2022 and 2023, healthcare companies accounted for a disproportionate share of GP-led secondaries deals, but this has not been the case so far in 2024. National-scale platforms may also explore an IPO. We have already seen two healthcare services IPOs this year: privately held PACS Group in April, and The Equity Group-backed Ardent Health Services in July. The universe of public comps for PPMs is limited and paints a muddied picture due to variations in company quality, but Surgery Partners, the closest comp for most PPMs, traded in the high teens on average in 2022 and 2023. The public behavioral health and post-acute care companies also garner solid multiples (low-mid to midhigh teens); as mentioned above, ATI Physical Therapy and U.S. Physical Therapy sit in the low-to-mid 20s.

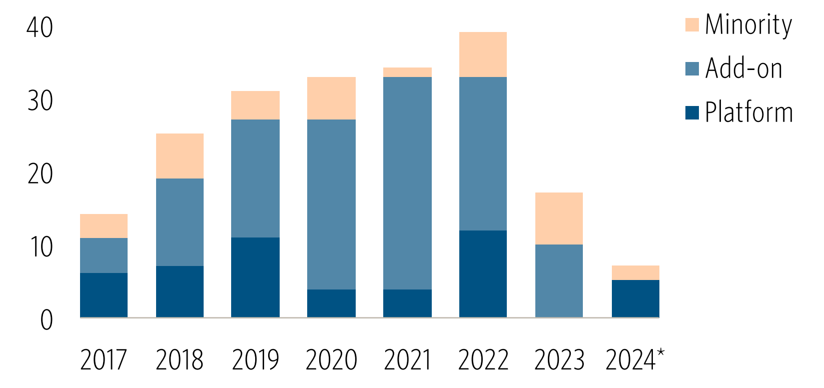
As we have written previously, we believe there will be good opportunities for operationally sophisticated PE investment in physician groups in the future, driven by the industry's generational turnover and broader shift into employment models, the secular trend toward ambulatory site of care, and the need for tech enablement to advance value-based care and improve access. But it will take a few years before the market fully regains its footing.

Segment updates

ABA: In June, Shore Capital Partners sold Behavioral Innovations to Tenex Capital Management and Frazier Healthcare Partners sold Caravel Autism Health to GTCR. In the lower middle market, Optimal Investment Group acquired Spectrum Behavioral Therapies in May, and Renovus Capital Partners acquired Behavioral Framework in January.

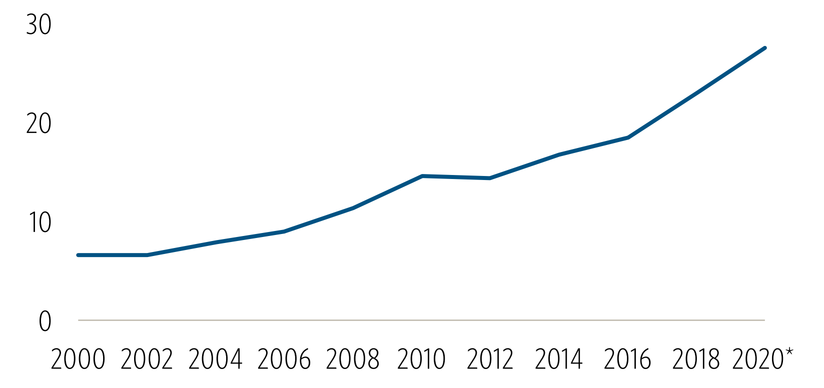
The ABA market is a good example of healthcare services settling into the new normal. In approximately 2018-2020, EBITDA ABA multiples had reached as high as the upper 20s for large platforms and double digits for very small add-ons. Pro forma maturity adjustments were also highly prevalent prior to 2022, meaning that platforms were being valued on an EBITDA far exceeding actual cash flow. In the wake of the pandemic, ABA platforms experienced rapid labor cost inflation and had to retrench from previous aggressive growth, with formerly Blackstone-backed Center for Autism and Related Disorders,

ABA PE deal count by type



Source: PitchBook • Geography: US and Canada
*As of June 30, 2024

Autism prevalence per 1,000 children



Source: CDC • Geography: US
*As of December 31, 2020

which underwent bankruptcy proceedings last summer, being the poster child. Since then, many of these platforms have rightsized and made operational improvements and valuation multiples have come back down to earth. Multiple sources have indicated to us that Behavior Innovations and Caravel traded at healthy 15x to 18x EBITDA multiples, with those multiples being applied on a more conservative version of EBITDA relative to the pre-2022 market. Soliant Health, which The Vistria Group launched a term loan to recapitalize in June, operates in an adjacent category and derives around 75% of its revenue from providing specialized staffing services, including psychologists and therapists, to school districts.[5] Reporting suggests that Soliant will trade at just over 9x on roughly $270 million EBITDA.[6, 7] There are two additional platforms in the market currently.

With pricing corrected and growth expectations tailored closer to reality, investors are revisiting ABA due to the segment's fundamental growth tailwinds. Autism prevalence rates have increased steadily over the past two decades, reaching a level of 1 in 36 children in 2020. ABA clinical models have also continued to evolve to encompass a variety of center-, home-, and school-based programs. According to Nancy Weisling, senior advisor at The Braff Group, school contracts can provide revenue diversification but may also come at risk if school-district budget cuts force schools to bring therapy back in-house. Meanwhile, center-based early intensive behavioral intervention programs are attractive to investors because they provide stable revenue as well as consistency in schedule and working location for therapists.[8] Because the ABA space is populated with numerous mature PE-backed platforms and offers good opportunities for both de novo and inorganic growth, we expect an uptick in deal activity to follow these two larger platform trades.

Mental health: Although investor interest in mental health has been high for years, until recently, deal flow has not risen above a slow trickle, largely due to a scarcity of scaled and professionalized assets in the market. However, activity began to pick up in Q1, and several platforms have recently come to market or are preparing to do so. We provide an update and unpack the key diligence points below.

Index of previous Healthcare Services Report spotlights

Each quarter, we take a deep dive into two or three categories or themes, from hot topics to unexplored niches.

Q1 2024: Continuous glucose monitor distribution

Q4 2023: 2023's top three categories, obstetrics & gynecology, direct primary care

Q3 2023: New subcategory data

Q2 2023: Mental health and medspas

5: "Soliant Lower Intermediate LLC Assigned 'B' Issuer Credit Rating on Proposed Acquisition, Outlook Stable, New Debt Rated," S&P Global, Richa Deval and David A. Kaplan, June 10, 2024.
6: "Olympus's $2bn Soliant Sale Is Rare Profitable Exit From Buyout Stockpile," Financial Times, Maria Heeter and Eric Platt, July 28, 2024.
7: "Adecco Sells Soliant Health for $612 Mln to Olympus Partners," Reuters, November 4, 2019.
8: Nancy Weisling, senior advisor at The Braff Group, phone interview by Rebecca Springer, June 12, 2024.

Select PE healthcare services deals in Q2 2024*

Company	Category/subcategory	Deal type	Announced/close date	Exiting company/investor	Acquirer(s)/investor(s)
Ortho Rhode Island	Orthopedics	Buyout	June 26	N/A	Orthopaedic & Neurosurgery Specialists (Kohlberg & Company)
BioMatrix Specialty Pharmacy	Infusion	Buyout	June 21	Triton Pacific Healthcare Partners	Frazier Healthcare Partners
Caravel Autism Health	ABA & pediatric therapy	Buyout	June 11	Frazier Healthcare Partners	GTCR
Noble Hospice and Palliative Care	Home health & hospice	Buyout	June 11	N/A	Northrim Horizon
Soliant Health	Nurse & allied staffing	Buyout	June 10	Olympus Partners	Vistria Group, Mubadala
Behavioral Innovations	ABA & pediatric therapy	Buyout	June 5	Shore Capital Partners	Tenex Capital Management
Apex Infusion Pharmacy	Infusion	Buyout	June 5	N/A	FFL Partners
The Aesthetic Syndicate	Medspa	Platform creation	June 1	N/A	Lorient Capital Management
James River Home Health	Home health & hospice	Buyout	June 1	N/A	RiverGlade Capital
Xpress Wellness Urgent Care	Urgent care	Buyout	May 23	Latticework Capital Management	The Goldman Sachs Group
LifeCare Home Health Family	Diversified home-based care	Buyout	May 20	N/A	Zenyth Partners
Spectrum Behavioral Therapies	ABA & pediatric therapy	Buyout	May 7	N/A	Optimal Investment Group

Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Healthcare services PE ecosystem market map

This market map is a representative overview of current PE-backed platform. Click to view the full map on the PitchBook Platform.

1 Generalist & multispecialty providers

Hospitals & health systems
Lifepoint Health, ScionHealth

Multispecialty clinics & networks
duly, essen Health Care, shp

Occupational & correctional healthcare
Akeso, Excelsia, Medicine for Business and Industry, wellpath, YesCare

Primary care
AMM, ClareMedica, eventus, InnovaCare Health, Millennium Physician Group

Urgent & emergency care
american family care, convenientMD, Emerus, Exceler, fastpace health

2 Ancillary & outsourced services

Ambulatory surgical centers
aac, BlueCloud, Compass Surgical Partners, Covenant Physician Partners, LYNC Health Partners

Clinical staffing
CHG Healthcare, Emergency Care Partners, Essential, NorthStar Anesthesia, NAPA

Diagnostic laboratories
Life Line Screening

Imaging
LucidHealth, Peak Diagnostic, Solis Mammography

Emergency medical transportation
Angel MedFlight, Falcon, masa+, Priority Ambulance, REVA

Infusion
FlexCare Infusion Centers, KabaFusion, Palmetto, AccuRx, vitalcare, VIVO infusion

Specialty pharmacy
AIS Healthcare, anovo, Apotheco, California Specialty Pharmacy, Orsini Specialty Pharmacy

3 Skilled care & behavioral health

Applied behavior analysis & pediatric therapy
acorn Health, Action Behavior Centers, Behavioral Health Works, behavioral, BlueSprig

Home-based care
Aveanna, Arosa, harmonycares

Intellectual & developmental disabilities care
abound Health, Beacon Specialized Living, broadstep, Caregiver, CBC

Mental health
BayMark Health Services, BHG Behavioral Health Group, Community Medical Services, crossroads, Discovery Behavioral Health

Skilled nursing
20 Advantage, ClearSky Health, Collage, exalt health

4 PPMs

Cardiovascular
CardioOne, Cardiovascular Associates of America, Heart & Vascular Partners, USHP, United Vein

Dental
DCA Dental Care Alliance, Heartland Dental, Lone Peak, Paradigm, Smile Doctors

Dermatology
AMP, Anne Arundel Dermatology, DLCS, Empower Aesthetics, Epiphany Dermatology

Ear, nose & throat
Advent, Elevate ENT Partners, Parallel, Senta, South Florida ENT Associates

Gastroenterology
Allied Digestive Health, Gastro Health, Pinnacle GI Partners, TDDC, United Digestive

Obstetrics & gynecology
Axia Women's Health, Femwell, Hera Women's Health, Together Women's Health, Unified Women's Healthcare

Oncology
OneOncology, Proton Therapy Partners, Verdi Oncology

Musculoskeletal
BayLife, cbi Health, Cora, Capitol Pain Institute, Empower

Urology & nephrology
Innovative Renal Care, 360, Solaris Health, The Urology Group, U.S. Renal Care

Veterinary
Alliance Animal Health, heart+paw, innovetive Petcare, PetVet Care Centers, Pieper Veterinary

Vision
Capital Vision Services, EyeSouth Partners, Eye Health America, EyeCare Partners, keplr Vision

Other medical specialties
California Adult Circumcision, Center for Rheumatology, lindora, Midwest Immunology, Options Medical Weight Loss

Healthcare services PE investor map

Investor map is a representative overview of active investors in US and Canada healthcare services buyouts and growth equity. Investors are classified by the size of the fund out of which they primarily invest in healthcare services. [Click to view the full map on the PitchBook Platform.]

Lower middle market (less than $500 million)

- BPEA Private Equity
- Enhanced Healthcare Partners
- Havencrest
- HealthEdge Investment Partners
- The Heritage Group
- Housatonic
- Latticework Capital Management
- Leavitt Equity Partners
- Lorient Capital
- MBF Healthcare Partners
- New Harbor Capital
- NewSpring
- Petra Capital Partners
- Pine Tree Equity Partners
- RC Capital
- Resolute Capital Partners
- RF Investment Partners
- Shore Capital Partners
- TG Thurston Group

Middle market ($500 million to $1.5 billion)

- AHP
- Amulet Capital Partners LP
- Assured Healthcare Partners
- Balance Point Capital Partners
- BPOC
- Chicago Pacific Founders
- Frazier Healthcare Partners
- InTandem Capital Partners
- Lee Equity
- LightBay Capital
- Martis Capital
- Peterson Partners
- Pharos
- Trinity Hunt Partners
- Varsity Healthcare Partners
- VSS
- Waud Capital
- Windrose Health Investors

Upper middle market ($1.5 billion to $5 billion)

- Centerbridge
- FFL Partners
- Kinderhook Industries
- Linden
- Nautic
- Patient Square Capital
- Revelstoke Capital Partners
- Vistria
- Webster Equity Partners

Large cap ($5 billion or more)

- Apollo
- Ares
- Audax Private Equity
- Clayton Dubilier & Rice
- General Atlantic
- H.I.G. Capital
- KKR
- LGP
- Partners Group
- Summit Partners
- TPG
- WCAS

Q2 2024 timeline

News

April 15

Skilled nursing facility operator PACS Group closes an upsized IPO, raising $450.0 million. The listing represents a positive sign for investors hoping for a public exit for large healthcare services platforms.

News

May 24

Bloomberg reports that CVS is seeking a PE investor to help fund further growth for Oak Street Health.[9] CVS acquired Oak Street, which was previously General Atlantic-backed, for $10.6 billion in 2020.

News

June 28

Optum reneges on its previously announced intention to bid on Steward Health Care's physician group, representing a major setback for the bankrupt health system. Auctions for Steward's assets have proceeded haltingly since the Optum exit.

Apr 1 | May 1 | Jun 1 | Jun 30

News

April 15

Elevance Health and Clayton, Dubilier & Rice (CD&R) announce a partnership between Elevance's Carelon Health and CD&R's apree health and Millennium Physician Group, a Medicare Advantage-focused primary care aggregator. apree itself was formed from the merger of Vera Whole Health, a direct primary care provider, and Castlight Health, a benefits navigation platform, in 2022.

Deal

June 11

Marking the second sponsor-to-sponsor ABA platform trade in a week, Frazier's sale of Caravel Autism Health to GTCR is announced. Shore sold Behavioral Innovations to Tenex on June 6.

News

June 27

Walgreens continues to back away from its previous care delivery bets by announcing it will reduce its stake in VillageMD to a minority position. Walgreens became VillageMD's majority owner in a $5.2 billion deal in 2021.

PE activity

142
total deals in Q2 (estimated)

715
total deals LTM (estimated)

-25.4%
QoQ change in deal count

-13.6%
LTM change in deal count over previous LTM

9: "CVS Seeks Investor To Back New Oak Street Clinics," Bloomberg, Michelle F. Davis and John Tozzi, May 24, 2024.

Segment data

Generalist & multispecialty providers

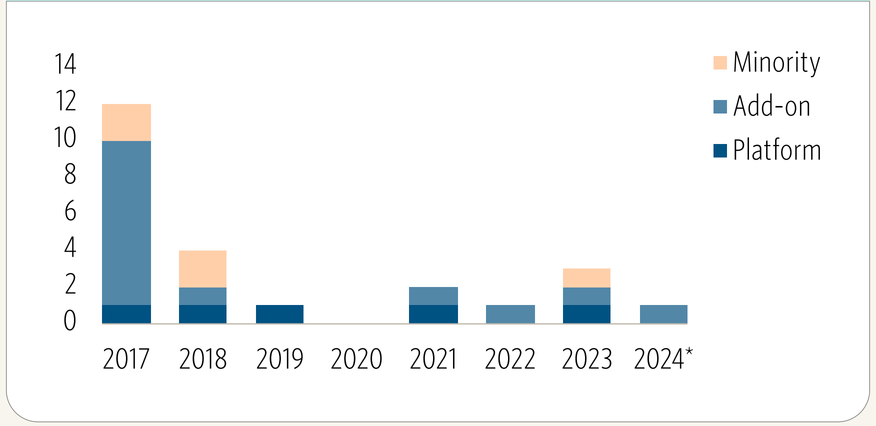
Ancillary & outsourced services

PPMs

Skilled care & behavioral health

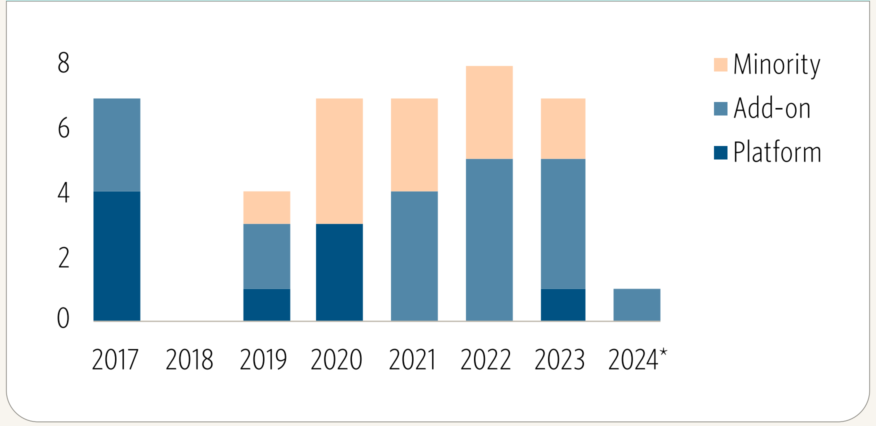
Generalist & multispecialty providers

Hospitals & health systems PE deal count by type



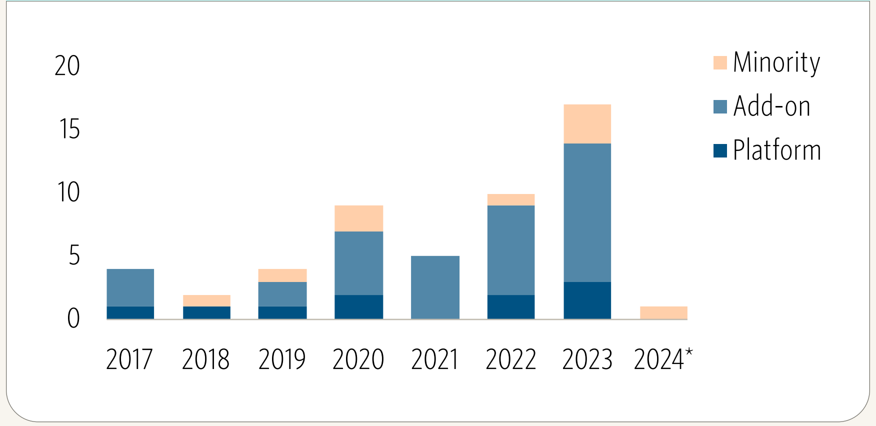
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Multispecialty clinics & networks PE deal count by type



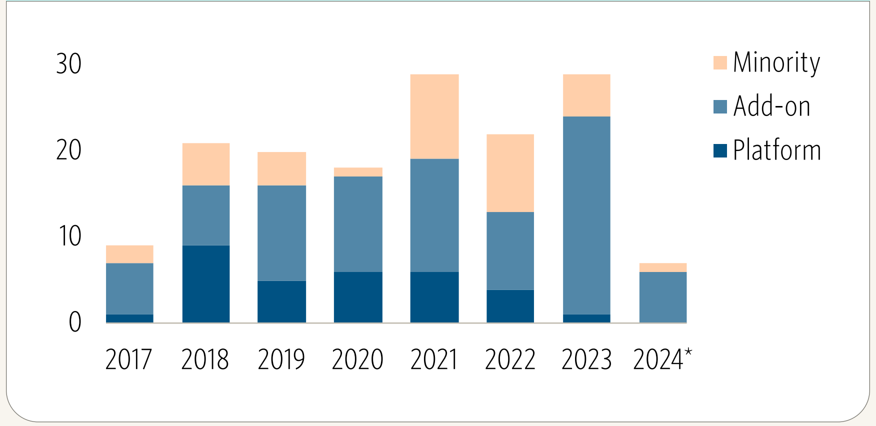
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Occupational & correctional healthcare PE deal count by type



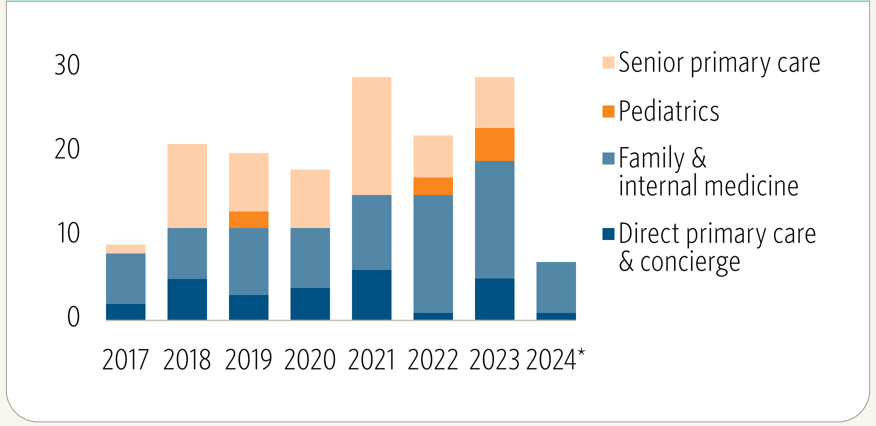
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Primary care PE deal count by type



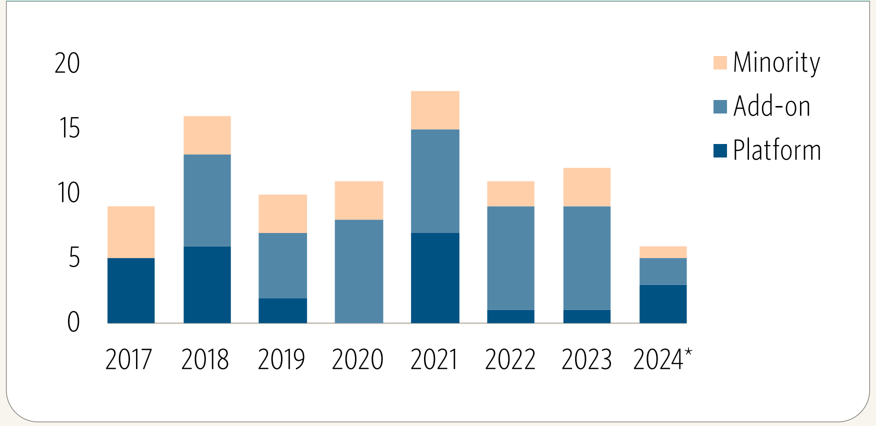
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Primary care PE deal count by subcategory



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

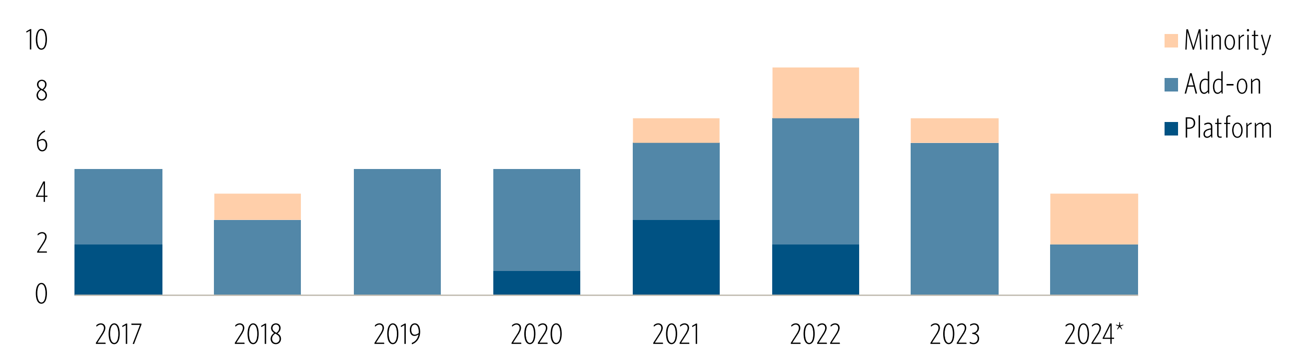
Urgent & emergency care PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

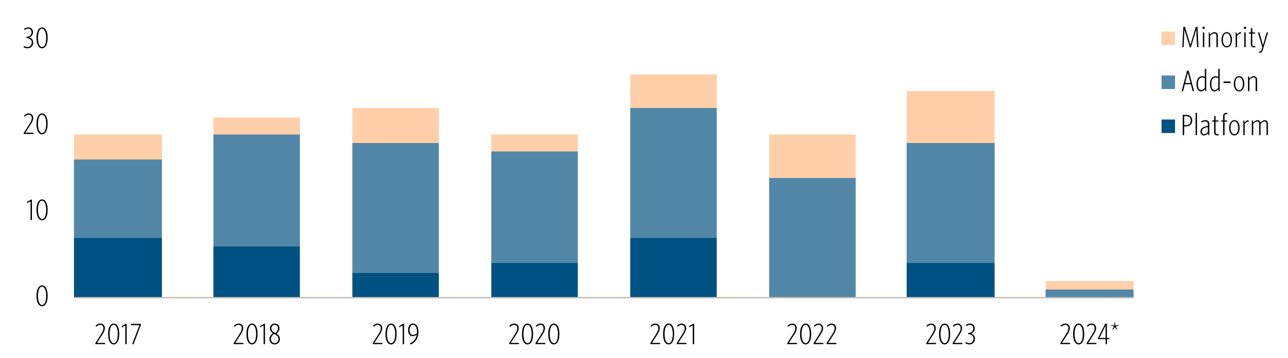
Ancillary & outsourced services

Ambulatory & surgical centers PE deal count by type



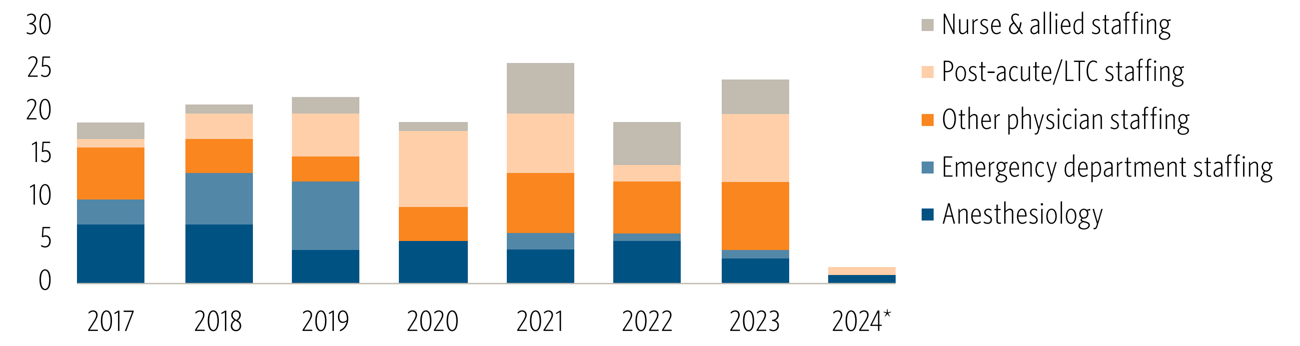
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Clinical staffing PE deal count by type



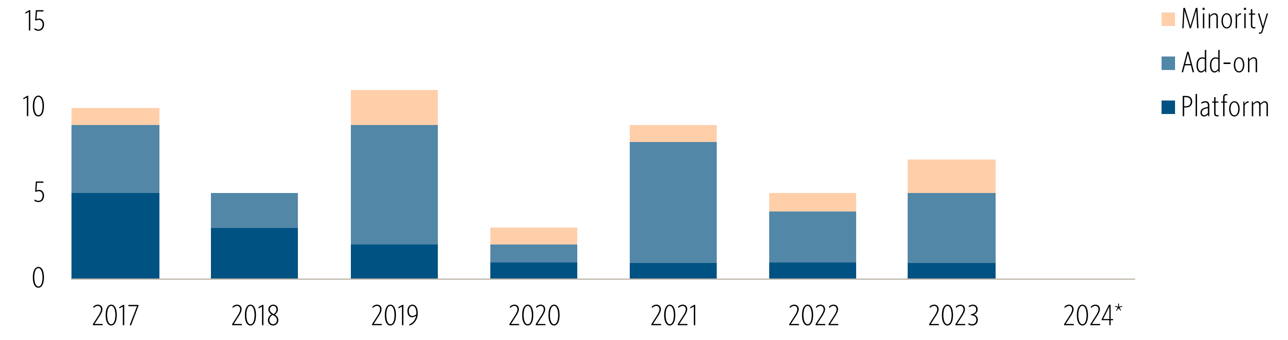
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Clinical staffing PE deal count by subcategory



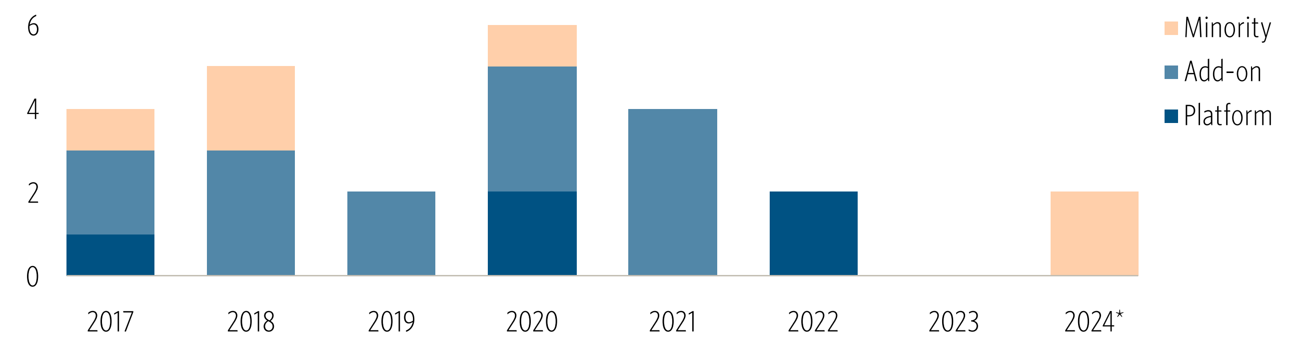
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Diagnostic laboratories PE deal count by type



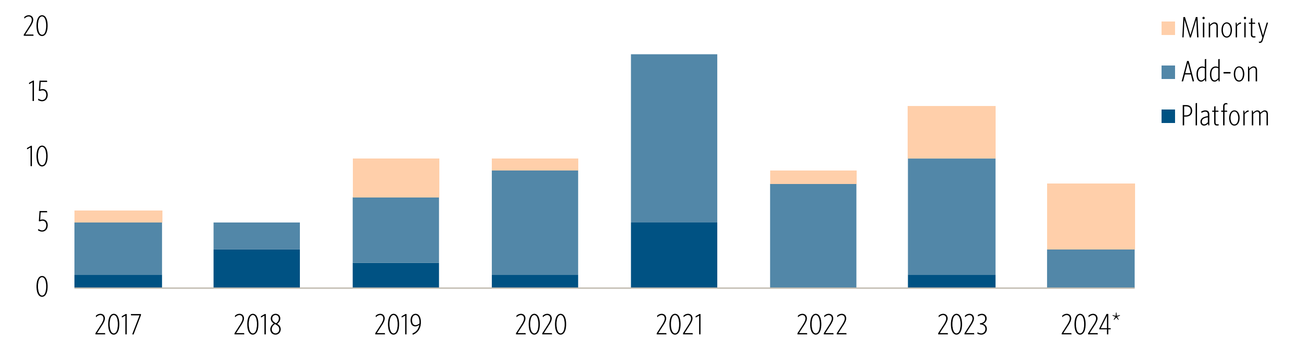
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Emergency medical transportation PE deal count by type



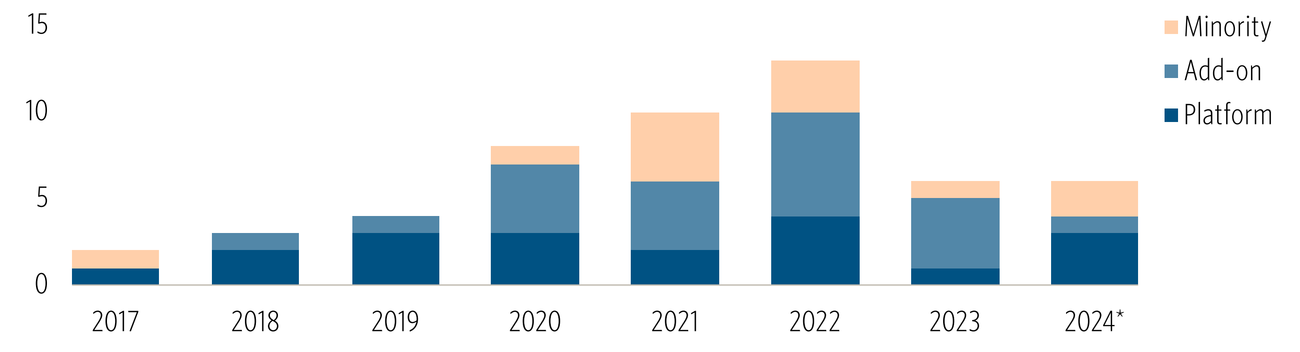
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Imaging PE deal count by type



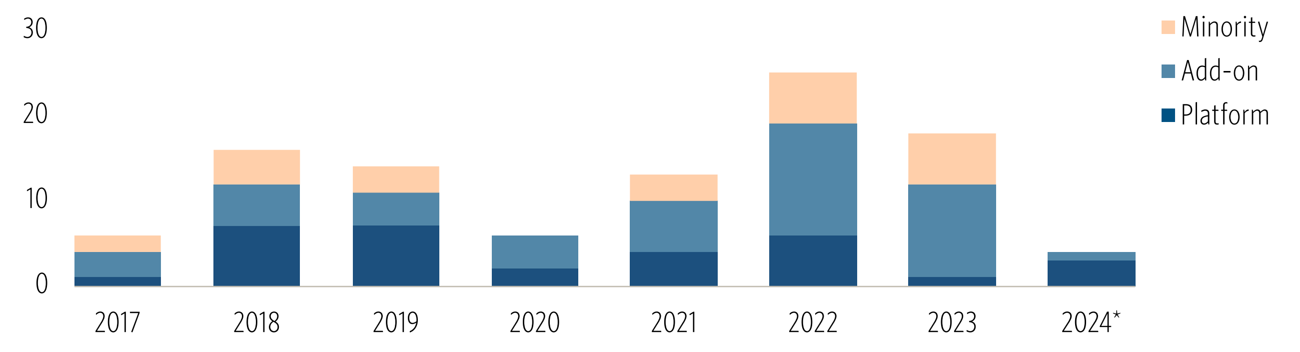
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Infusion PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

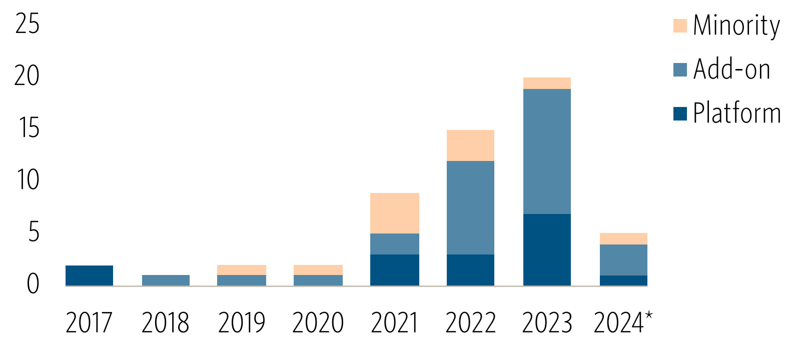
Specialty pharmacy PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

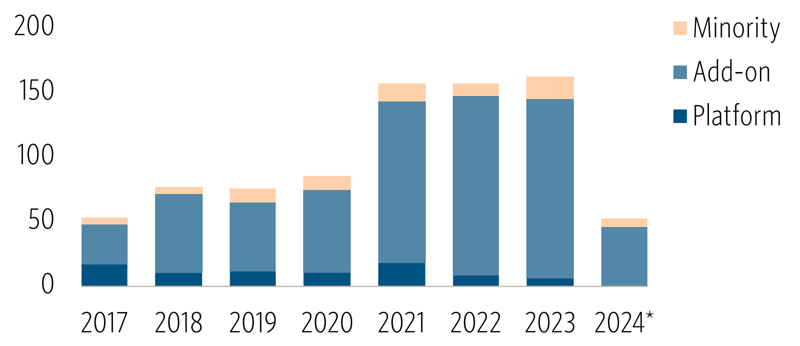
PPMs

Cardiovascular PE deal count by type



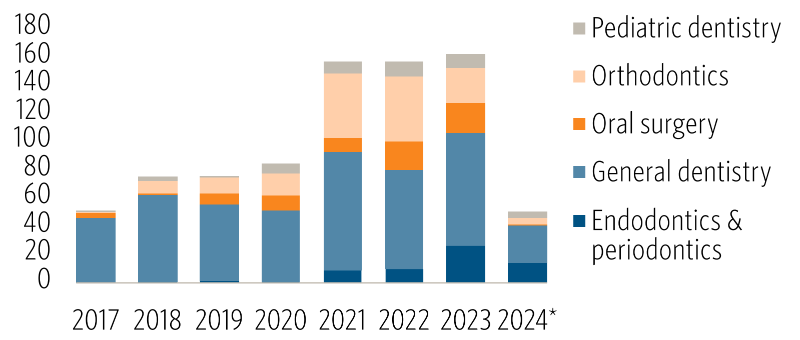
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Dental PE deal count by type



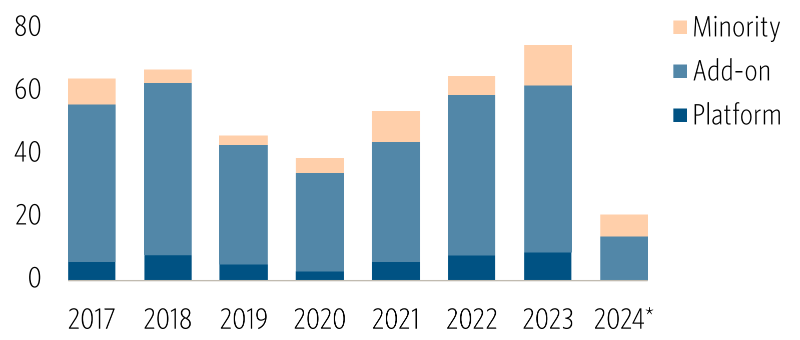
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Dental PE deal count by subcategory



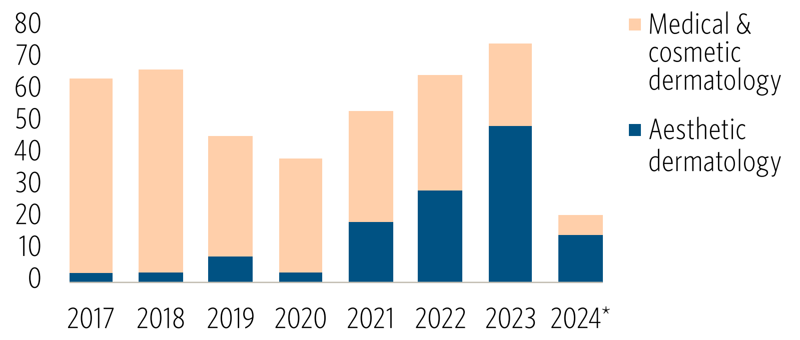
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Dermatology PE deal count by type



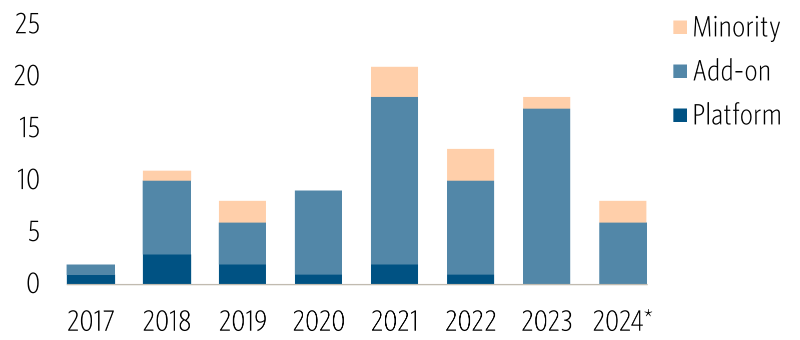
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Dermatology PE deal count by subcategory



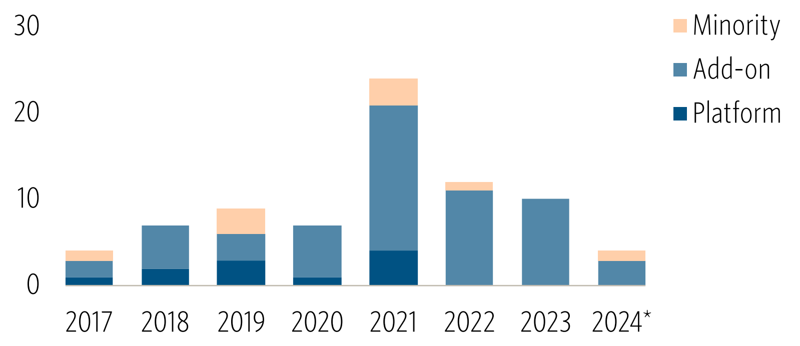
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Ear, nose & throat PE deal count by type



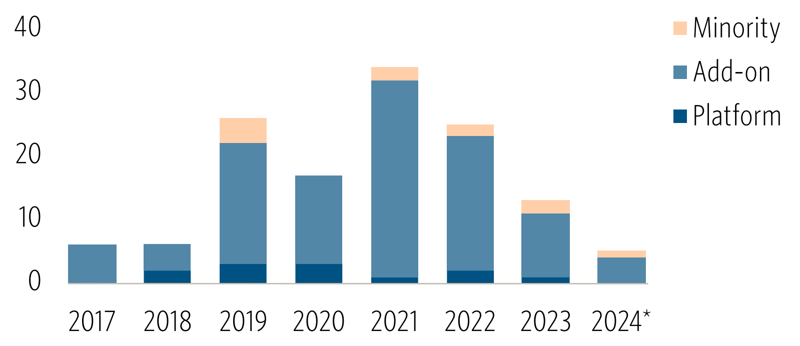
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Fertility PE deal count by type



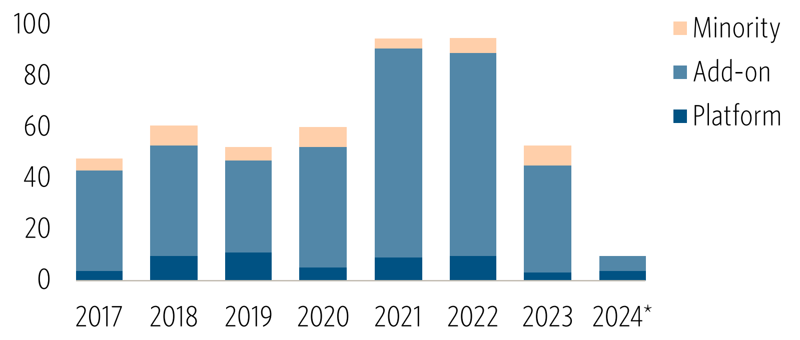
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Gastroenterology PE deal count by type



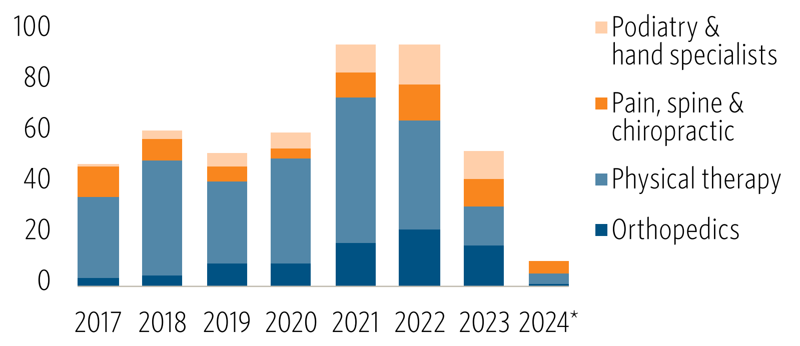
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Musculoskeletal PE deal count by type



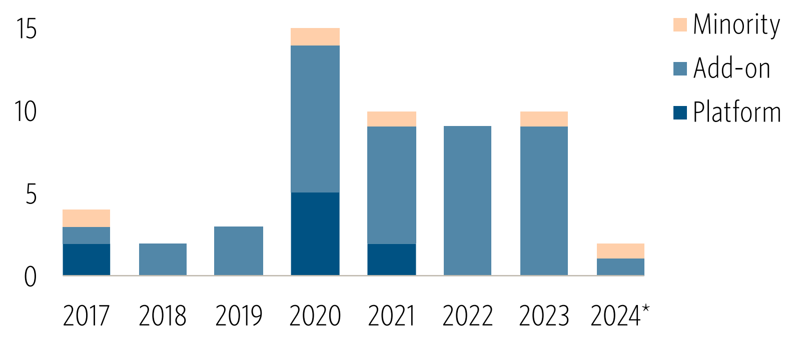
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Musculoskeletal PE deal count by subcategory



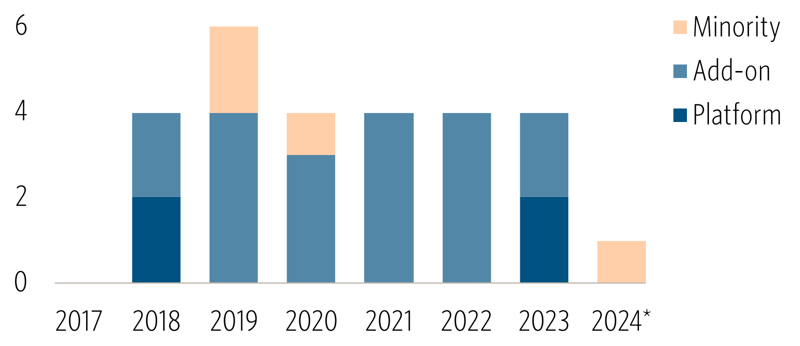
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Obstetrics & gynecology PE deal count by type



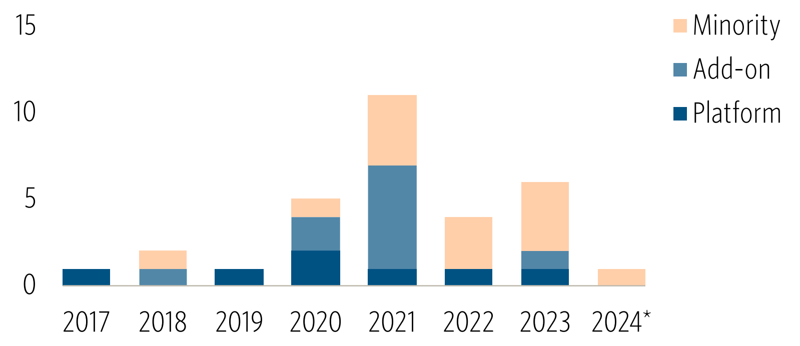
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Oncology PE deal count by type



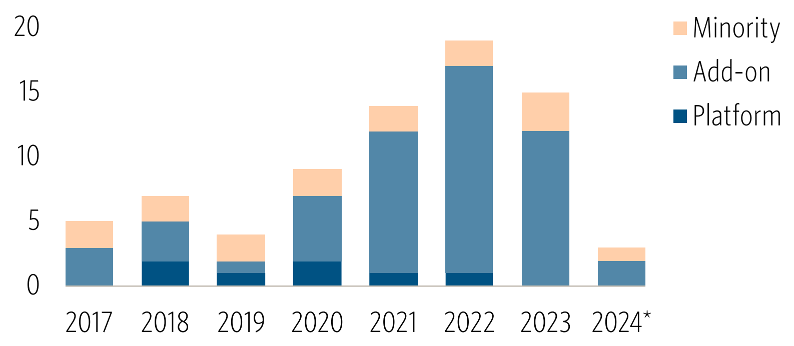
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Other medical specialists PE deal count by type



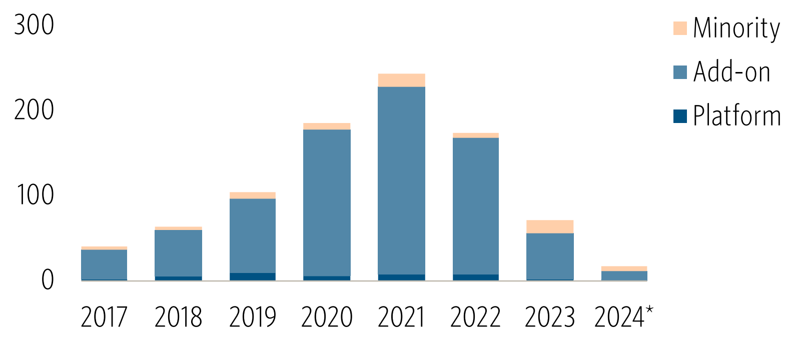
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Urology & nephrology PE deal count by type



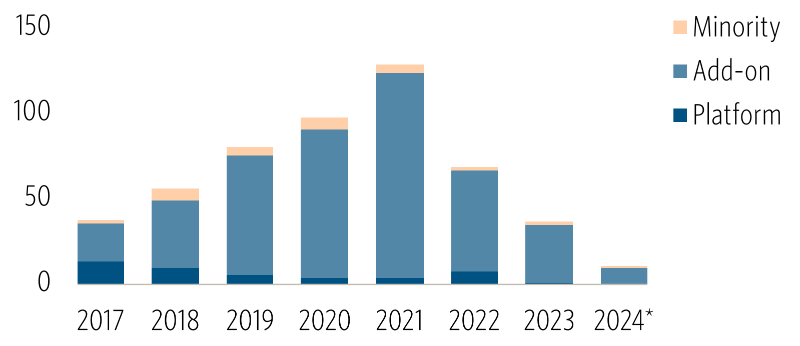
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Veterinary PE deal count by type



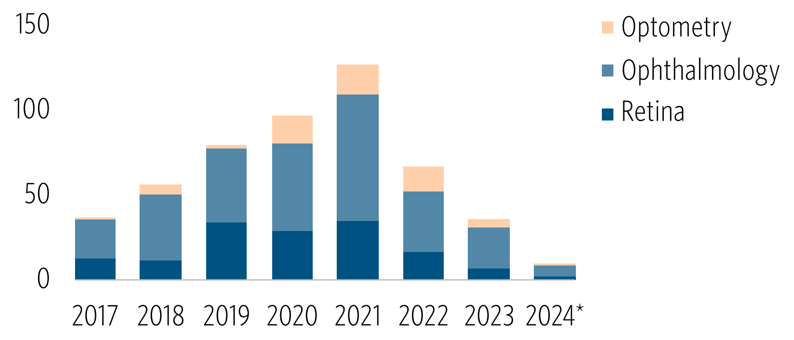
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Vision PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

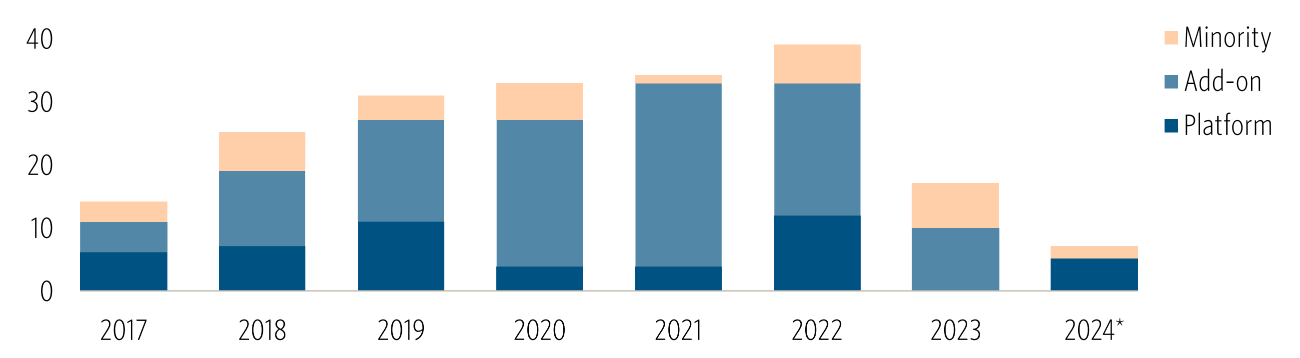
Vision PE deal count by subcategory



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

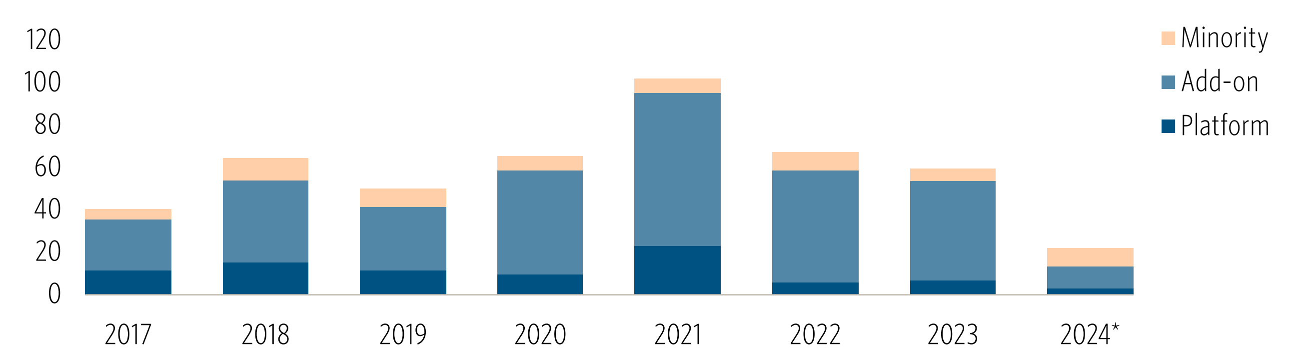
Skilled care & behavioral health

ABA & pediatric therapy PE deal count by type



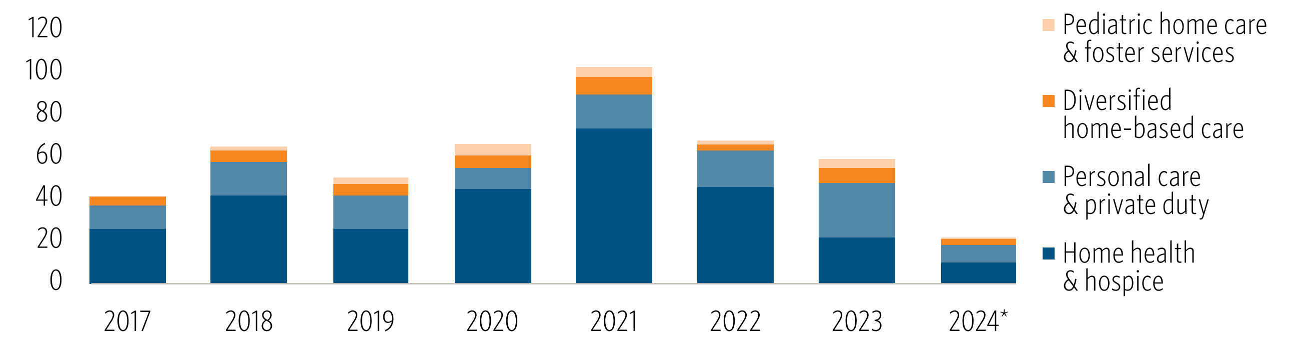
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Home-based care PE deal count by type



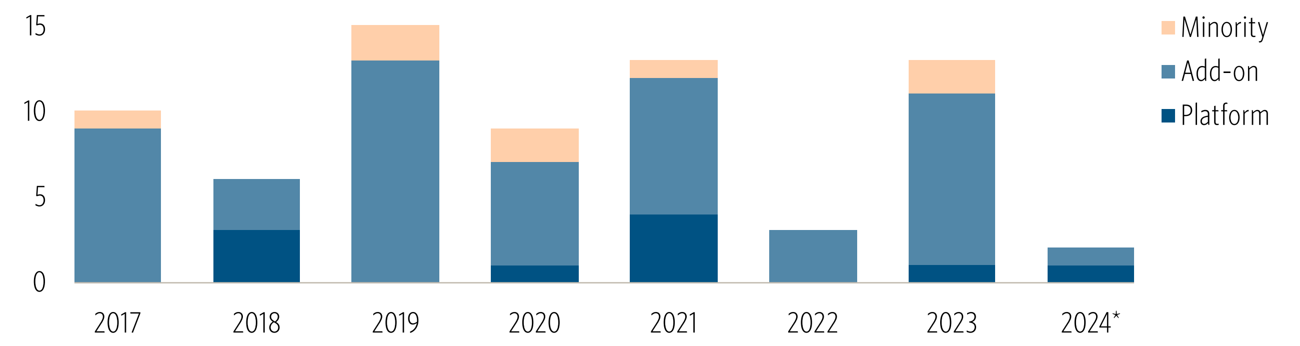
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Home-based care PE deal count by subcategory



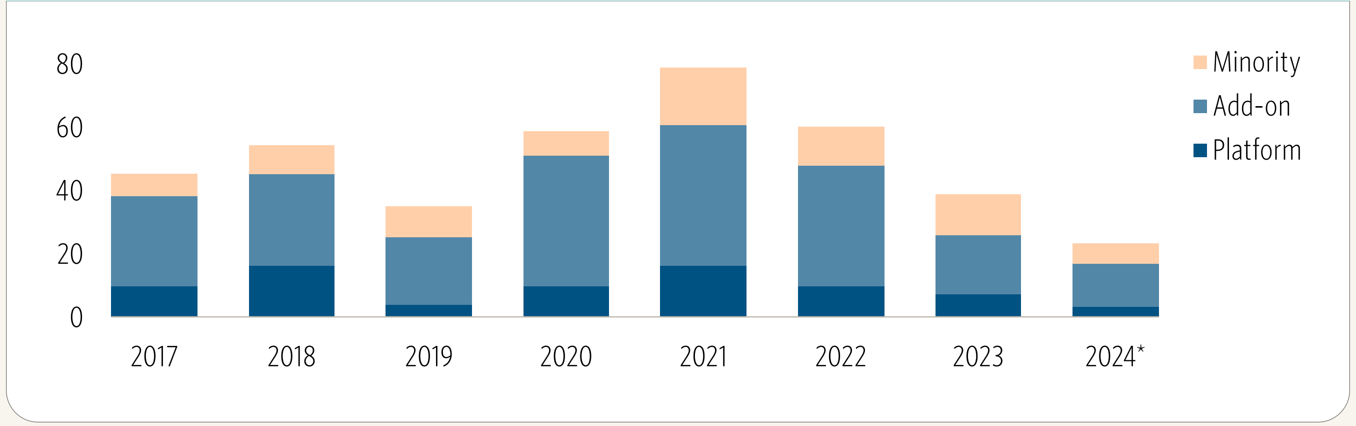
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Intellectual & developmental disabilities care PE deal count by type



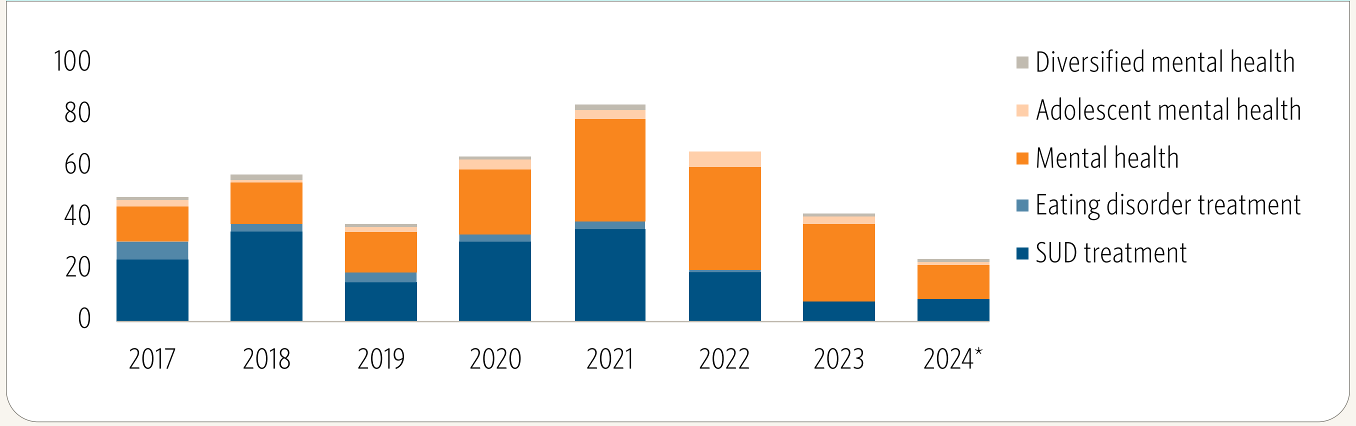
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Mental health PE deal count by type



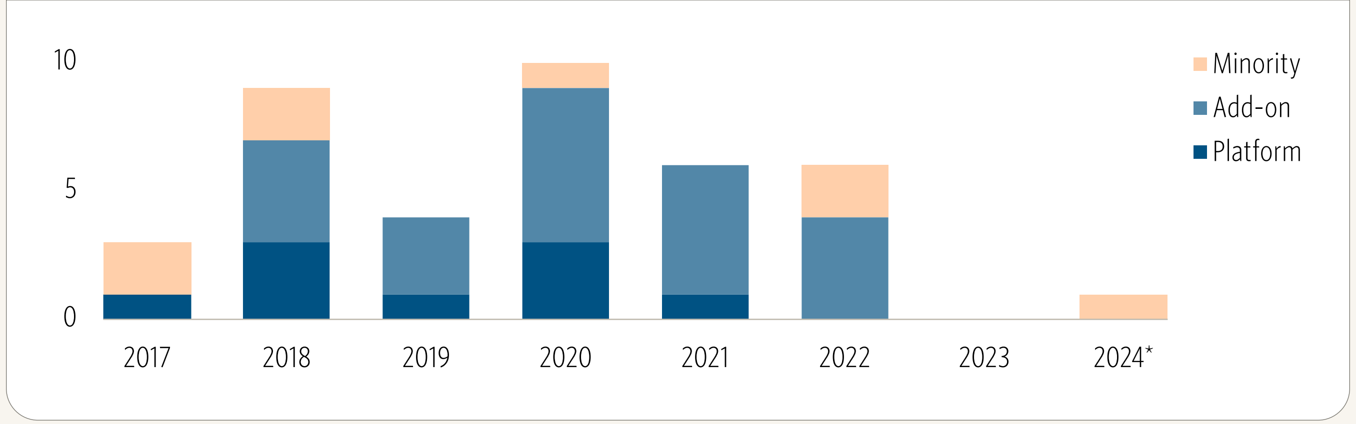
Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Mental health PE deal count by subcategory



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Skilled nursing PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Spotlight

Mental health

With the market reopening and reimbursement and demand tailwinds appearing strong for the foreseeable future, now is a good time for investors to look again at mental health.

Mental health

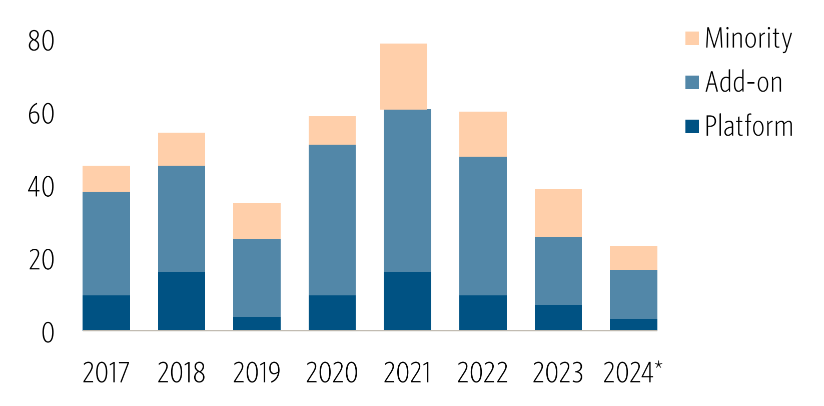
Investor interest in mental health has been high for years, yet until recently deal flow had not risen above a trickle, largely due to a scarcity of scaled and professionalized assets in the market. However, this may be changing. Several mental health and substance use disorder (SUD) treatment platforms have recently come to market or are preparing to do so, including Turnbridge, backed by North Castle Partners and Stonehenge Capital. Turnbridge is a vertically integrated provider focused on adolescents and is reportedly being marketed on $15 million of EBITDA.[10] Q1 also saw two larger deals announced: Avesi Partners' acquisition of First Steps Recovery in March and InTandem Capital Partners' sale of Turning Point Centers to Acadia in February. The latter deal underlines the continued attractiveness of the space from an exit perspective, as there are natural and active strategic buyers. With the market reopening and reimbursement and demand tailwinds appearing strong for the foreseeable future, now is a good time for investors to look again at mental health.

We last wrote about mental health a year ago in our Q2 2023 Healthcare Services Report. Two things have changed since then: First, the market has shifted away from pursuing continuum-of-care builds and toward focusing on outpatient mental health, specifically partial hospitalization programs (PHPs) and intensive outpatient programs (IOPs). This has been reinforced by several positive reimbursement trends discussed below as well as challenges with the continuum-of-care model in practice. Second, the rate of labor cost inflation has slowed and stabilized, falling from a peak of around 8% in late 2022 to less than 5% beginning in Q4 2023, according to Acadia Healthcare's earnings calls.

Thesis and value creation

In our recent conversations about the mental health space with investors, service providers, and intermediaries, the most frequently repeated theme was conviction around the growing and largely unmet demand for care, as well as the clear value proposition—for both patient outcomes and lowering the total cost of care—in terms of better integrating mental health within the broader healthcare system. According to Ben Herman, partner at LightBay Capital, the firm's key criterion when assessing a mental health target is a leadership team that prioritizes clinical quality, as demonstrated by ongoing efforts to measure and improve patient outcomes, such as engagement rate, relapse rate, and time to remission.

Mental health PE deal count by type



Source: PitchBook • Geography: US and Canada
*As of June 30, 2024

10: "Scoop: North Castle and Stonehenge-Backed Turnbridge Exploring a Sale," Axios, Claire Rychlewski, January 29, 2024.

Some more sophisticated groups are pursuing value-based contracting, typically in pay-for-performance arrangements, or have negotiated more favorable rates with payers by leveraging measurement-based treatment protocols leading to improved outcomes.[11]

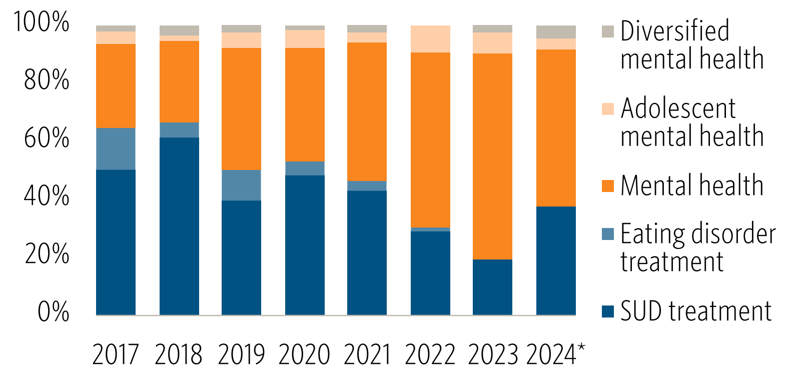
The key value creation levers for a mental health play vary by service type. Margins are thin (10% or less) in outpatient therapy, and growth is primarily organic and driven by hiring and retaining providers. With scale, it is also possible to incrementally increase productivity per full-time equivalent by incorporating tech-enabled administrative processes and introducing telehealth. In Q1 2024, LifeStance's 18.9% YoY revenue growth was driven primarily by 15% YoY growth in the company's physician base and driven secondarily by a 4% YoY increase in total revenue per visit to $157.[12]

According to Herman, PHP/IOP and residential/inpatient models incur significant fixed costs (staffing, plus facilities on the residential/inpatient side). Therefore, value creation involves deeply understanding target markets in order to launch new programs appropriately and develop referral sources. PHP and IOP services are often specialized for specific demographic groups and conditions, and the right programming mix depends on the clinical needs of the specific population.[13] Buy-and-build strategies are common when entering new markets with PHP/IOP and inpatient/residential models.

Market dynamics and valuations

We segment mental health into five subcategories: "traditional" mental health (psychotherapy and psychiatric care), SUD treatment, eating disorder treatment, adolescent mental health, and "diversified" (platforms that combine several of these categories). "Traditional" mental health as a proportion of deal activity in the broader mental health segment has increased steadily in recent years, from 29% in 2017 to 71% in 2023.

Share of mental health PE deal count by subcategory



Source: PitchBook • Geography: US and Canada
*As of June 30, 2024

11: Ben Herman, partner at LightBay Capital, phone interview by Rebecca Springer, July 19, 2024.
12: "LifeStance Reports First Quarter 2024 Results," LifeStance Health, May 9, 2024.
13: Ben Herman, partner at LightBay Capital, phone interview by Rebecca Springer, July 19, 2024.

Mental health providers held by current sponsor for five years or more*

Company	Category	Investor(s)	Entrance year
Bio Behavioral Institute	Mental health	Endurance Search Partners	2019
Discovery Behavioral Health	Diversified mental health	Webster Equity Partners	2011
Dominion Care	Mental health	Century Park Capital Partners	2018
Family Help & Wellness	Mental health	Trinity Hunt Partners	2014
Family Ties	Adolescent mental health	Lead Capital Partners	2019
Haven Behavioral Healthcare	Mental health	Brown Brothers Harriman Capital Partners	2016
Jackson House	Mental health	Zamwell Capital	2018
Nystrom & Associates	Diversified mental health	Nautic Partners	2019
Odyssey Behavioral Healthcare	Diversified mental health	The Carlyle Group	2018
Paradigm Treatment Centers	Adolescent mental health	Pine Tree Equity Partners	2019
Psychiatric Medical Care	Mental health	Consonance Capital	2018
Seaside Healthcare	Mental health	Pharos Capital Group	2013
Turnbridge	Adolescent mental health	North Castle Partners, Stonehenge Capital	2015

Source: PitchBook • Geography: US and Canada • *As of June 30, 2024

Because it is a low-margin, low-capital-intensity specialty, outpatient mental health has not produced many large, independent provider groups. Investors seeking scaled targets must primarily look to existing investor-backed platforms. There are currently 13 PE-backed, US- or Canada-based mental health companies, excluding pure-play eating disorder treatment and SUD treatment, that have been held by their current sponsor by five years or more, including Webster Equity Partners-backed Discovery Behavioral Health, Carlyle-backed Odyssey Behavioral Healthcare, and Nautic Partners-backed Nystrom & Associates.

In addition to the potential for platform trades (and, likely, platform consolidation), lower-middle-market sponsors are piecing together small platforms. This is an attractive, if labor intensive, strategy given moderate pricing for small-scale "onesie-twosies" and the demand for scaled assets from larger firms. Some larger firms have even come downmarket to start platforms, with KKR's formation of Geode Health in 2021 the most extreme example.

On the outpatient side, valuations have cooled since 2021 and early 2022 but should come in strong for any well-run larger platform due to supply scarcity and expectations of future growth. LifeStance Health, which is only becoming cash flow positive this year, currently sits at nearly 25x its $93.4 million in forecast EBITDA for 2024. EBITDA margin for the company was 9.2% in Q1, with 19% YoY revenue growth. As another data point, tele-mental health remains one of the only corners of the VC-backed digital health market still regularly commanding upsized late-stage rounds. For instance, Headway raised a $100.0 million Series D at a $2.3 billion post-money valuation in July, a 2.3x step-up from the company's valuation at its last raise in October 2023.

Valuations for smaller outpatient mental health providers are much more moderate and have cooled in the past two years. Sellers can expect EBITDA multiples of 5x to 7x for "onesie-twosies," upper-single-digit multiples for EBITDA between $3 million and $4 million, and multiples in the high-single to low-double digits for EBITDA of $5 million or more. According to Kevin Taggart, managing partner at Mertz Taggart, multiples vary by payer mix and treatment type, with psychiatry commanding higher multiples than psychotherapy. Mental health generally earns a higher multiple than SUD treatment, which is one reason (in addition to the strong clinical rationale for treating co-occurring conditions) why some SUD platforms have begun expanding into mental health.[14]

Scaled residential and inpatient assets are more readily available than scaled outpatient providers, but are also likely to attract less investor attention for the reasons described below. Here, Acadia is a good public comp, with around $750 million in EBITDA forecast for 2024, a consistent EBITDA margin of 22% to 23%, and an EBITDA multiple of 12x to 13x.

Challenges with continuum-of-care model

A year or two ago, much of the PE discussion around behavioral health strategy focused on building platforms that spanned the full continuum of care, comprising inpatient, residential, PHP/IOP, and outpatient therapy. There is a strong clinical argument for this model. Many mental health patients require treatment at varying points along this scale at different times, and assembling various acuity levels under one organizational umbrella enables better care continuity and more precise and clinically appropriate timing of "step-up" and "step-down" transitions, ultimately resulting in a lower total cost of care. Acadia, the leading behavioral health facility operator, has been pursuing this model for a while and is currently leaning heavily into its PHP/IOP and community treatment center (known as CTC, or outpatient SUD) service lines.

14: Kevin Taggart, managing partner at Mertz Taggart, phone interview by Rebecca Springer, July 24, 2024.

However, several key challenges have emerged with the continuum-of-care model, resulting in PE investor interest shifting to favor pure outpatient and PHP/IOP providers. The first is scale. While inpatient and residential facilities tend to draw patients from a wide geographic area, outpatient and IOP/PHP programs require proximity due to the frequency of visits. This makes it challenging to build adequate geographic coverage to serve a significant patient population with the full continuum of care.

Second, inpatient and residential treatment models are under pressure generally on several fronts, including from payers pushing for more home- and community-based treatment options and shorter inpatient/residential stays (often via prior authorization denials), low government reimbursement, and labor issues. Although the broader labor market has stabilized, recruiting and retaining talent for higher-acuity behavioral health facilities remains a significant challenge. In eating disorder treatment specifically, several large players have made moves to rightsize their residential treatment facility portfolios over the past year, including Odyssey Behavioral Healthcare, Discovery Behavioral Health,[15] Monte Nido,[16] and Optum-owned Refresh Mental Health.[17]

Only a few PE-backed platforms offer inpatient psychiatric care, which is capital intensive due to facility and staffing requirements. Universal Health Services and Acadia, the two largest players in this space, have recently focused on building inpatient facilities via health system joint ventures, which can help to de-risk the initial capital investment and ensure sufficient patient volume. We are not aware of any PE-backed platforms that have entered similar arrangements.

Finally, many investors are increasingly wary of headline risk associated with the higher-acuity conditions treated in residential and inpatient settings, especially with adolescent patients. A paper published in June by the US Senate Committee on Finance outlined reported abuse and neglect of children at several residential treatment facilities.[18] Although no PE-backed companies were named in the report, according to Tommy Barletta, founder at Jones Point, the Senate Committee on Finance Chair, Ron Wyden, may introduce legislation in response to the report before November given bipartisan concerns, and efforts related to the investigation are likely to continue after the election.[19] The report specifically recommends prioritization of community-based treatment as an alternative to residential treatment models.

Reimbursement dynamics

Medicare IOP reimbursement: On January 1, 2024, Medicare began covering mental health and SUD IOP services. According to Jarrod Barraza, senior manager at HORNE, this decision closed a significant gap in the behavioral health continuum of care for Medicare beneficiaries, 20% of whom have reported symptoms of anxiety and/or depression,[20] by increasing the effective Medicare reimbursement by around 35% for hospital-based IOP programs and expanding the settings in which IOP programs are allowed. Acceptable settings now include community mental health centers, federally qualified health centers, rural health clinics, and freestanding opioid treatment facilities. Commercial payers tend to broadly follow the Centers for Medicare & Medicaid Services (CMS) in improving IOP reimbursement. This has prompted more M&A interest in IOP programs but may also cause some providers to delay coming to market in order

15: "Odyssey, Discovery Behavioral Health Scale Back Eating Disorder Treatment Centers," Behavioral Health Business, Chris Larson, December 11, 2023.
16: "Eating Disorder Treatment Company Monte Nido Cuts Over 100 Roles To Focus on Successful Markets," Behavioral Health Business, Chris Larson, May 17, 2024.
17: "Refresh Mental Health Shutters Eating Disorder Treatment Division," Behavioral Health Business, Chris Larson, January 30, 2024.
18: "Wyden Investigation Exposes Systemic Taxpayer-Funded Child Abuse and Neglect in Youth Residential Treatment Facilities," US Senate Committee on Finance, June 12, 2024.
19: Tommy Barletta, founder at Jones Point, phone interview by Rebecca Springer, June 21, 2024.
20: "Mental Health and Substance Use Disorder Coverage in Medicare Advantage Plans," KFF, Meredith Freed, Nolan Sroczynski, and Tricia Neuman, April 28, 2023.

to realize the effect of the improved reimbursement in TTM financials, according to Barraza.[21]

Improved commercial rates: According to Kayla McCann Marty, partner at McGuireWoods, outpatient mental health is seeing improved commercial reimbursement rates in specific geographies as payers recognize the importance of therapy as a preventive service. Payers are also realizing the benefits of tele-mental health services to improve patient access and adherence, particularly with hybrid models in which patients have virtual therapy sessions but also regularly attend in-person sessions.[22]

Payer mix: In our previous research on mental health (in July 2023), we partnered with Definitive Healthcare to analyze aggregate charges and claims for then-PE-backed mental health providers, including eating disorder treatment but excluding pure-play SUD treatment. This analysis found that commercial payers accounted for 92% of charges and 86% of claims, while Medicaid accounted for 4% of charges and 9% of claims. Our read on the market is that most investors or would-be investors in mental health remain focused primarily on commercial models, which enable heavier clinician staffing models and investment in quality improvements. Improvements in Medicare coverage and pressure from CMS to increase behavioral health access within Medicare Advantage may begin to change this going forward, however. For instance, tele-mental health provider Talkspace expanded into Medicare this year and plans to be accept Medicare in all 50 states by the end of 2024.[23] According to Taggart, Medicaid reimbursement varies significantly by state, but can equal or exceed commercial rates for specific service lines in some states. Providers may also be able to take advantage of state supplemental payments intended to increase access to services.[24] Acadia has achieved consistent mid-to-low 20s EBITDA margins despite a 53% Medicaid payer mix, although this is largely a result of operating leverage built through national scale, and can be difficult to replicate for smaller platforms.

Transcranial magnetic stimulation (TMS) and ketamine: TMS and ketamine therapies such as SPRAVATO® have recently emerged as standard ancillaries for outpatient mental health platforms. As we have previously written, commercial reimbursement for TMS is high, running around $5,000 to $10,000 for a full course of 20 to 36 treatment sessions of about 20 minutes each. To our knowledge, sponsors are avoiding the temptation to lean too heavily into TMS revenue—a move likely to trigger prior authorization denials and payer audits—and have instead sought to provide TMS treatment as part of a comprehensive and clinically appropriate suite of outpatient therapies. The availability of ketamine therapy is expected by many mental health patients and has been used by some platforms as a front door to engage patients who may proactively seek out the therapy.

Reimbursable workforce expansion: On January 1, 2024, CMS began allowing licensed marriage and family therapists (LMFTs) and mental health counselors to bill for the diagnosis and treatment of mental illness, paying 75% of the clinical psychologist rate. Although this measure was intended to increase the provision of mental health professionals, according to McCann Marty, it has also had the effect of increasing demand for mental health care. Some commercial payers already reimbursed for mental health services provided by LMFTs prior to 2024, while other payers followed CMS' lead in expanding coverage.[25]

21: Jarrod Barraza, senior manager at HORNE, phone interview by Rebecca Springer, July 24, 2024.
22: Kayla McCann Marty, partner at McGuireWoods, phone interview by Rebecca Springer, July 18, 2024.
23: "Talkspace Targets Teens and Seniors in Payer, Enterprise Push," Behavioral Health Business, Laura Lovett, February 22, 2024.
24: Kevin Taggart, managing partner at Mertz Taggart, phone interview by Rebecca Springer, July 24, 2024.
25: Ibid

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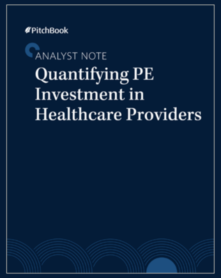
Healthcare and PE



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