PitchBook

INDUSTRY RESEARCH

Healthcare Services Report

PE trends and investment strategies

Q3 2023

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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

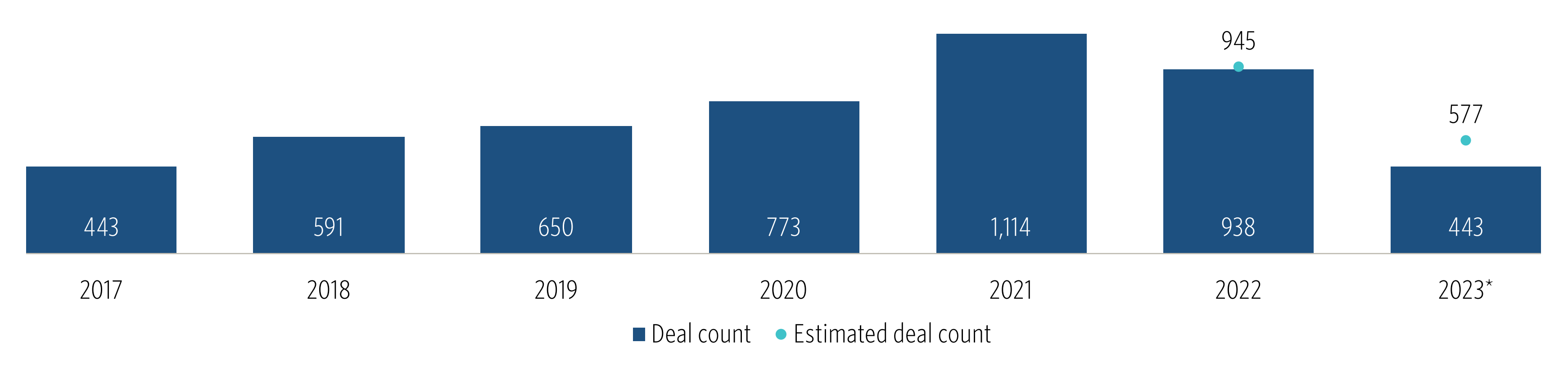
This quarter, we have expanded our vertical taxonomy to include five new categories: clinical trial sites, diagnostic laboratories, imaging, emergency medical transportation, and specialty pharmacy. As a result, historical deal figures are slightly higher than previously reported.

Click here to download our updated taxonomy report, which includes definitions, key investment drivers, and risks by segment.

PE healthcare services deal activity continued to trend downward in Q3 2023. We estimate 151 deals were announced or completed in the quarter, a stark 28.7% drop from Q2. This is roughly half the average quarterly deal count during the bull market period of Q4 2020 through Q2 2022, but it is slightly above the average quarterly deal count for 2017 through Q1 2020.

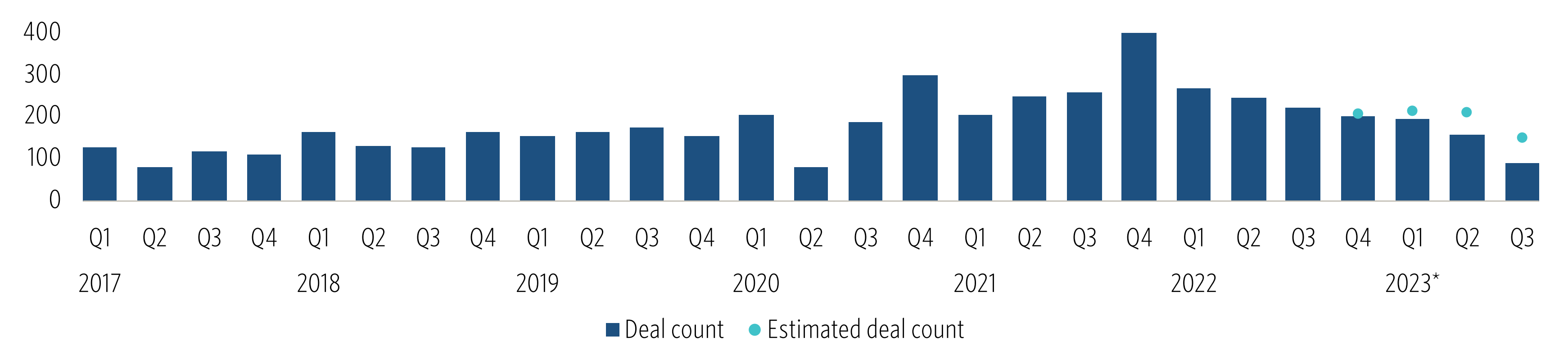
Reconciling the quantitative picture with narratives "on the ground" requires some nuance. Although the broadly syndicated loan market continues to gradually reanimate—in Q3 2023, 24.0% of leveraged loans across sectors were financed via broadly syndicated loans, compared with 1.6% in Q4 2022—we still have not recorded a single syndicated loan issuance for healthcare services in 2023. Large deals simply

Healthcare services PE deal count



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Healthcare services PE deal count by quarter



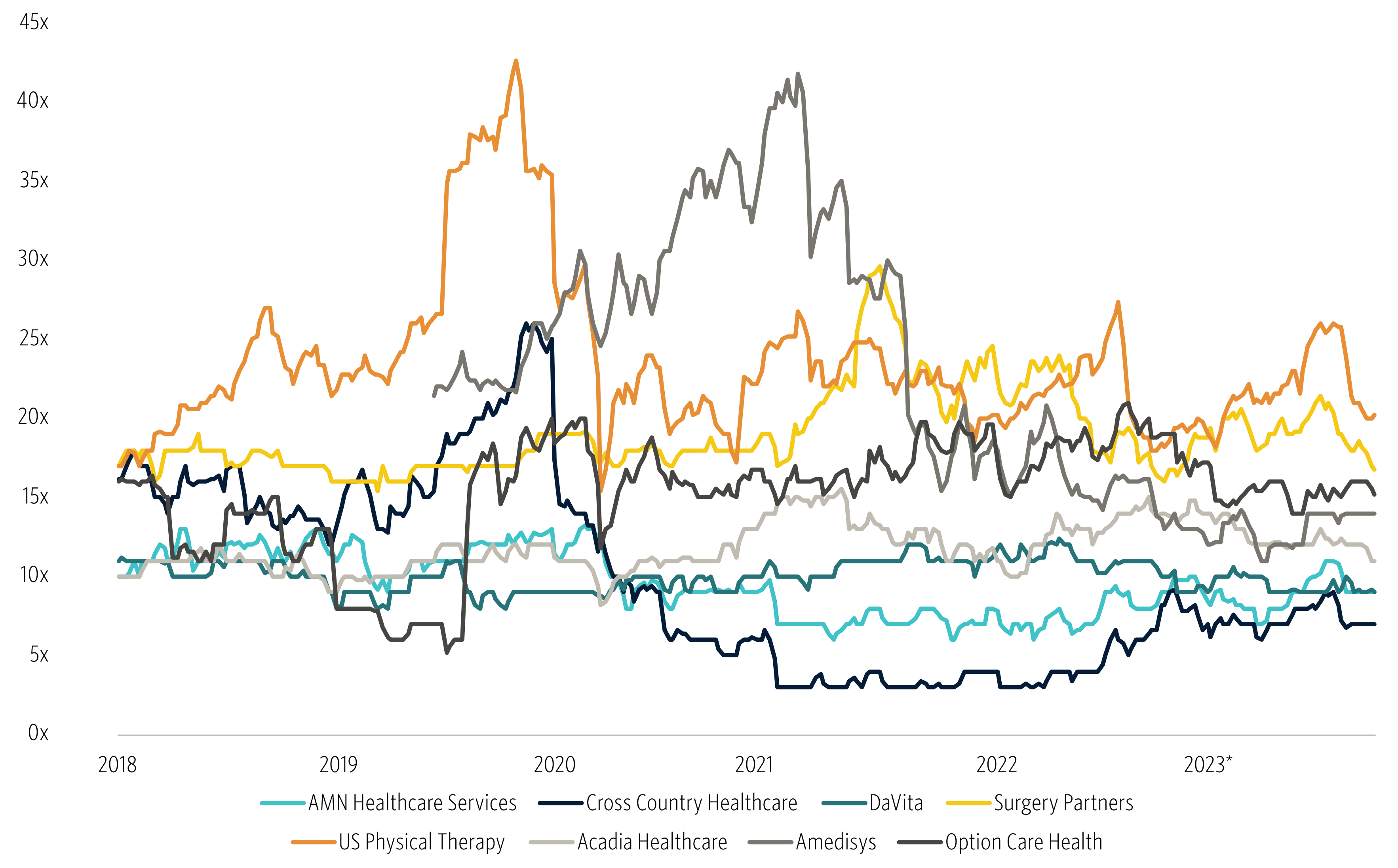
Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

are not getting done—yet—although bankers are sitting on significant deal pipelines.

As we have been writing for several quarters now, current deal flow is dominated by three themes. First, existing platforms are growing via M&A—although, as a whole, they are doing so at much slower rates than previously. Add-on deal count is down significantly in dental, gastroenterology, home-based care, mental health, musculoskeletal (MSK), veterinary, and vision. We have heard some reports that as both risk sensitivity in corporate board rooms and the cost of debt have increased, the platforms that are still growing are often pursuing smaller deals than they would have in 2021. Second, structured capital and mezzanine investors are doing restructuring deals to help companies struggling with debt service costs and impending maturities. These transactions often show up as minority (growth) deals in our data. Third, sponsors are buying or creating small platforms, and we are observing firms doing smaller deals than they typically would. This is largely a function of financing and asset availability, and we expect these managers to move back upmarket quickly once debt markets recover.

One example of the type of lower-middle-market play we are observing is [SurgNet Health Partners](), a new multispecialty ambulatory surgical center (ASC) management company

EV/LTM EBITDA multiples for select publicly traded healthcare services companies



Sources: PitchBook, Morningstar, and FactSet • Geography: US • *As of September 30, 2023 formed by Fulcrum Equity Partners, Leavitt Equity Partners, and Harpeth Capital. SurgNet has initially acquired two ASCs in Michigan and Ohio. It is worth underlining that no fewer than three firms syndicated a $50.0 million equity check to launch the platform—a sign of the times—although presumably additional investments will follow to support further acquisitions. Although much of the larger end of the ASC market has already consolidated, SurgNet is focused on helping centers with $500,000 to $1.5 million EBITDA grow to a scale where they can become more attractive acquisition targets for larger aggregators. The company invests with minority ownership in the vicinity of 20% to 30% and has a mechanism to convert this to control stakes over time. With few assets being auctioned and the pace of dealmaking considerably slowed, firms are taking time to make thoughtful, operationally oriented, and relatively capital-light bets in overlooked areas of the market.

Evolving pricing and deal structures

As the pace of inflation reduction slows and the Federal Reserve signals "higher for longer," the financing environment continues to be tight. Earlier in 2023, we were hearing reports that lenders were willing to lend up to 5x EBITDA, or maybe 5.25x EBITDA for an excellent candidate. More recently, sponsors have been struggling to convince lenders to underwrite 3x to 4x EBITDA. Accordingly, where the rule of thumb in early 2023 was to value companies at two to three turns below the 2021 market rate, we have heard of deals priced at four turns lower or more. Of course, in many categories, the going rate for a midsize or large platform remains unknown due to lack of deal flow. Marketed EBITDA also continues to be subject to careful scrutiny, with lenders demanding high-quality valuation analyses and quality-of-earnings assessments.

With available leverage limited and continued multiple compression a real possibility, buyers are also looking for strategies to keep cash at close to a reasonable level. Earnouts, which fell out of favor in the seller-friendly environment of 2021, are back in force, with seller equity percentages regularly well in excess of 30%. Seller notes are also being used more frequently.

GLP-1s on the horizon

Stepping back from deal flow, we are closely watching the development and commercialization of the new class of weight loss drugs, which could have a considerable impact on procedure volumes and chronic condition management in the coming years. This will extend past the obvious replacement of some portion of bariatric surgeries to cardiovascular surgery, urology, and beyond. In a major clinical trial, Novo Nordisk's Wegovy reduced major cardiovascular events by 20% in patients with a BMI over 25. And in October 2023, the company announced that semaglutide (Wegovy/Ozempic/Rybelsus) had shown efficacy in a chronic kidney disease trial, sending dialysis stocks plummeting. Another key question is how the Centers for Medicare & Medicaid Services (CMS) will navigate a potentially substantial reduction in Medicare Advantage (MA) risk scores as obesity rates fall.

Sustained, widespread utilization is of course dependent on payer coverage, which we believe will come eventually (often with requirements for prior authorization and lifestyle program adherence). It is also worth noting that the development pipeline for weight loss drugs is strong, including products with more efficacious modalities, such as triple GIP/GLP-1/glucagon receptor agonists, and oral administration. Pharmaceutical industry observers are anxiously awaiting additional clinical validation data that is expected to be presented at the American Heart Association meeting in November 2023. In our conversations with dealmakers on this topic, we are left with the impression that many have not adequately considered the real possibility for industry-wide disruption over the next two to five years as a result of this new drug class.

PE ACTIVITY

Looking ahead

During most of 2023, we, along with much of the industry, were predicting a mild H2 rebound. Although we hold out hope for a few platform exits to be announced before the end of the year, it now seems that recovery at the top end of the market will have to wait until 2024. Geopolitical volatility and persistent financing difficulties are contributing to a risk-off attitude among both buyers and sellers.

As we have pointed out, the fundraising environment for healthcare-focused PE firms is remarkably positive, and this means that firms should eventually be pushed to exit substantial portions of their portfolios in order to return capital to LPs, enabling subsequent fundraises. To be sure, these managers will also want to avoid taking an unnecessary performance hit by exiting into a less favorable pricing environment. Part of the problem here is the economic ambiguity: The possibility of a soft landing prolongs the hope of a more stable dealmaking environment, while a clear recession trajectory might prompt sponsors to cut their losses and sell. With this in mind, we expect dealmaking to remain roughly flat—and similar in nature, with small buyouts and minority stakes dominating—in Q4.

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.

Q2 2023: Mental health, medical spas (medspas)

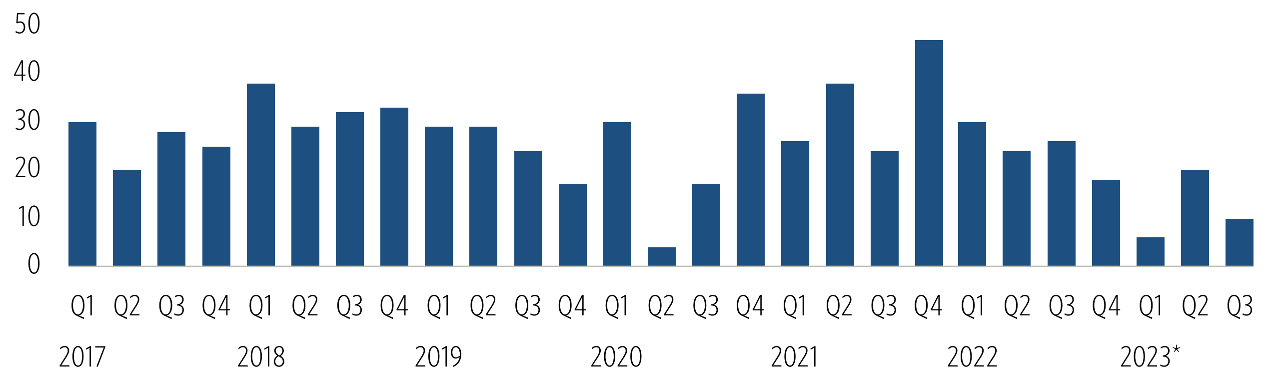
Q1 2023: Cardiology, wound care

Q4 2022: Rheumatology, VBC enablers (update), Medicaid/CHIP pediatric dentistry

Q3 2022 (launch): Primary care; clinical staffing; hospitals and health systems; oncology; home health and hospice; infusion

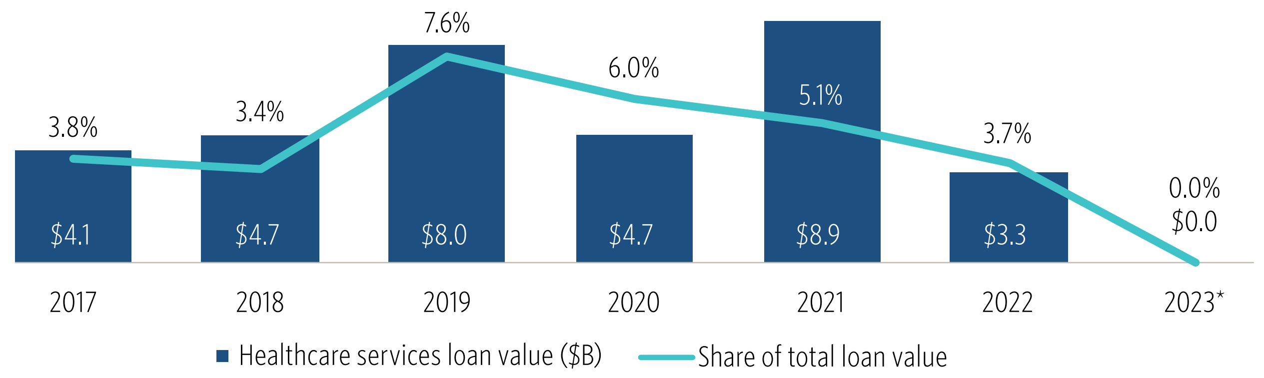
PE ACTIVITY

Healthcare services PE platform buyouts by quarter



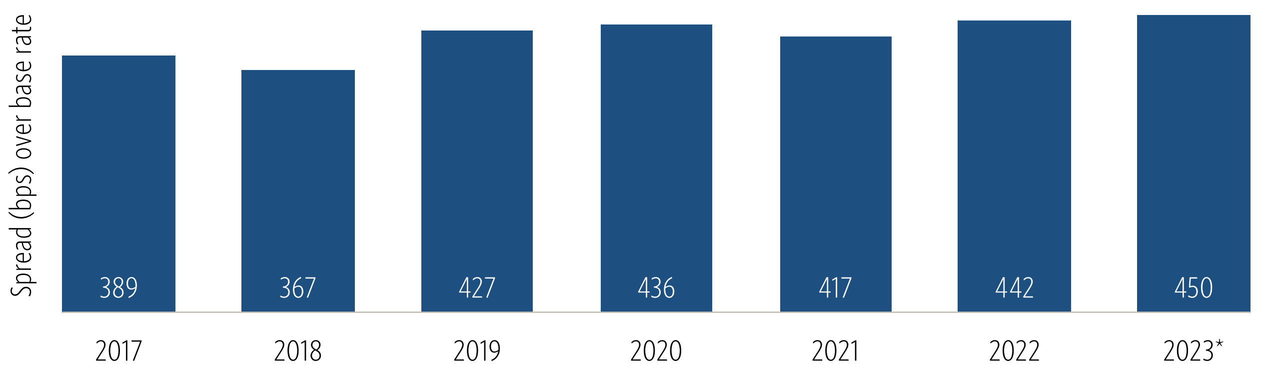
Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Leveraged buyout (LBO)-related healthcare services loan value and share



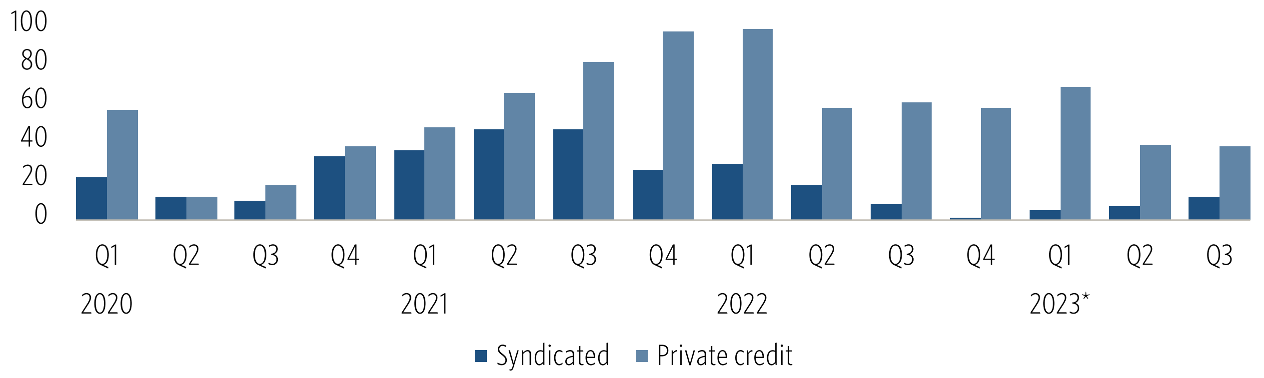
Source: PitchBook | LCD • Geography: US • *As of September 30, 2023

New-issue spread for healthcare services loans



Source: PitchBook | LCD • Geography: US • *As of September 30, 2023

Count of LBOs financed in broadly syndicated loan market versus private credit market by quarter



Source: PitchBook | LCD • Geography: US • *As of September 30, 2023

PE ACTIVITY

Select PE healthcare services deals, Q3 2023 to present*

Company	Category/subcategory	Deal type	Announced/close date	Exiting sponsor(s)	Acquirer/investor	Deal value ($M)
HouseWorks	Personal care & private duty	Growth	October 23	N/A	BPEA Private Equity	N/A
Trumpet Behavioral Health	Applied behavior analysis (ABA) & pediatric therapy	Add-on	October 18	Balance Point Capital, WindRose Health Investors	BlueSprig Pediatrics (KKR)	N/A
Bond Vet	Veterinary	Growth	October 17	N/A	Warburg Pincus	$50.0
VetEvolve	Veterinary	Growth	October 12	N/A	Varsity Healthcare Partners	N/A
SurgNet Health Partners	ASCs	Platform creation	October 10	N/A	Fulcrum Equity Partners, Leavitt Equity Partners, Harpeth Capital	$50.0
Connections Health Solutions	Mental health	Growth	October 5	N/A	Heritage Group	$28.0
Sodexo Home Care Division (including Comfort Keepers)	Personal care & private duty	Buyout	September 29	N/A	The Halifax Group	N/A
Elite Clinical Network	Clinical trial sites	Growth	September 8	N/A	Surge Private Equity	$200.0
HealthDrive	Post-acute/long-term care staffing	Buyout	August 23	Bain Capital Double Impact	Cressey & Company	N/A
Curalta Foot & Ankle	Podiatry & hand specialists	Growth	August 10	N/A	BPEA Private Equity	N/A

Source: PitchBook • Geography: US & Canada • *As of October 23, 2023

PE ACTIVITY

Select PE healthcare services deals, Q3 2023 to present (continued)*

Company	Category/subcategory	Deal type	Announced/close date	Exiting sponsor(s)	Acquirer/investor	Deal value ($M)
OrthoNebraska	Orthopedics	Growth	August 2	N/A	InTandem Capital Partners	N/A
Aspire Allergy & Sinus	Ear, nose & throat	Growth	August 1	N/A	Centerfield Capital Partners	N/A
Turn Key Health	Occupational & correctional healthcare	Buyout	August 1	N/A	Trive Capital	N/A
MAX Surgical Specialty Management	ASCs	Growth	August 1	N/A	RF Investment Partners	$48.5
American Physician Partners	Emergency department (ED) staffing	Bankruptcy	July 19	Brentwood Capital Advisors, et al.	N/A	N/A
Smile Doctors	Orthodontics	Growth	July 19	N/A	N/A	$550.0
Mountain Land Physical Therapy	Physical therapy	Growth	July 6	N/A	Clairvest Group	N/A
Turning Point Centers	Diversified mental health	Acquisition	July 1	InTandem Capital Partners	Acadia Healthcare	N/A

Source: PitchBook • Geography: US & Canada • *As of October 23, 2023

Healthcare services PE ecosystem market map

Click to view the interactive market map on the PitchBook Platform.

Market map is a representative overview of active PE-backed platforms headquartered in the US or Canada. Companies listed have undergone a PE buyout or growth equity investment.

Generalist & multispecialty providers

Hospitals & health systems

- Ardent Health Services
- Steward
- ScionHealth

Multispecialty clinics & networks

- duly Health and Care
- essen Health Care
- shp

Occupational & correctional healthcare

- wellpath
- Medicine for Business and Industry
- Akeso Occupational Health
- CareATC
- Excelsia Injury Care

Primary care

- Atlantic Vision Partners
- Millennium Physician Group
- Southeast Primary Care Partners
- vera Whole Health
- RiseHealth
- Palm Medical Centers
- Marathon Health
- eversidehealth
- Innovacare Health

Urgent & emergency care

- ConvenientMD Urgent Care
- Emerus
- Excel ER
- fastpacehealth
- Midwest Express Clinic
- NextCare Urgent Care
- perlmanclinic
- Smoky Mountain Urgent Care
- Xpress Wellness Urgent Care

Ancillary & outsourced services

Ambulatory surgical centers

- AMS
- BlueCloud
- Covenant Physician Partners
- LYNC Health Partners
- SurgNet Health Partners

Clinical staffing

- TEAMHealth
- Sound Physicians
- CHG Healthcare
- NAPA North American Partners in Anesthesia
- Emergency Care Partners
- Essential Anesthesia Management
- NorthStar Anesthesia
- Hospitalists
- US Anesthesia Partners

Diagnostic laboratories

- Capitol Imaging Services
- Elite Diagnostics
- Life Line Screening

Imaging

- LucidHealth
- Peak Diagnostic
- Solis Mammography

Emergency medical transportation

- Angel MedFlight
- MASA Global
- Priority Ambulance
- Falcon
- REVA

Infusion

- Vivo Infusion
- KabaFusion
- Palmetto | AccuRx
- Paragon Healthcare
- FlexCare Infusion Centers

Specialty pharmacy

- Panther Rx
- AIS Healthcare
- anovo
- California Specialty Pharmacy
- Orsini Specialty Pharmacy
- Tarrytown Expocare Pharmacy
- Terrapin Pharmacy

Skilled care & behavioral health

Applied behavior analysis & pediatric therapy

- Action Behavior Centers
- acorn Health
- Behavioral Health Works
- behavioral innovations
- BlueSprig
- inbloom Autism Services
- Lighthouse Autism Center

Home-based care

- Angels of Care
- Arosa
- harmonycares
- Hospice Care Providers, Inc.
- HouseWorks
- Paradigm Health
- Patriot Home Care
- phs pediatric home service
- Purpose Care
- Sage Hospice
- Senior Home Care Holdings, Inc.
- The CareTEAM Home Health & Hospice
- WellBe Senior Medical

Intellectual & developmental disabilities care

- Sevita
- Beacon Specialized Living
- CBC Community Based Care
- Caregiver
- broadstep

Mental health

- Discovery Behavioral Health
- Eating Recovery Center
- Monte Nido
- BayMark Health Services
- BHG Behavioral Health Group
- Community Medical Services
- crossroads
- Lifepoint Health
- Meridian Behavioral Health
- Newport Academy
- Odyssey Behavioral Healthcare
- Promises Behavioral Health
- Sandstone Care
- Summit BHC
- Transformations Care Network

Skilled nursing

- Advantage
- Collage
- exalt health
- ClearSky Health

Healthcare services PE ecosystem market map

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PPMs

Cardiovascular
USHV, Cardiovascular Associates of America, Cardiovascular Institute, Heart & Vascular Partners, United Vein

Clinical trial sites
Alcanza, biobridges, CenExel, Velocity, Pinnacle

Dental
Paradigm, Smile Doctors, Southern Orthodontic Partners, U.S. Oral Surgery Management, AspenDental

Dermatology
Anne Arundel Dermatology, DLCS, Epiphany, Pinnacle Dermatology, US Dermatology Partners

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

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

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

Oncology
OneOncology, Proton Therapy Partners, Verdi Oncology

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

Reproductive medicine
Pinnacle Fertility, ivy, USFertility, inception, The Fertility Partners

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

Veterinary
Alliance Animal Health, BondVet, GoodVets, PetVet Care Centers, Pieper Veterinary

Vision
EyeSouth Partners, EyeCare Partners, Unifeye Vision Partners, SightMD, keplr

Other medical specialties
Center for Rheumatology, Healogics, California Adult Circumcision, Options

Healthcare services PE investor map

Click to view the interactive investor list on the PitchBook Platform.

Investor map is a representative overview of active investors in US & 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.

Lower middle market (less than $500 million)

- BPEA Private Equity
- Capital Alignment Partners
- Chicago Pacific Founders
- Cimarron Healthcare Capital
- Enhanced Healthcare Partners
- Havencrest
- The Heritage Group
- Housatonic
- InTandem Capital Partners
- Latticework Capital Management
- Leavitt Equity Partners
- Lorient Capital
- New Harbor Capital
- NewSpring
- Petra Capital Partners
- Pine Tree Equity Partners
- RC Capital
- Resolute Capital Partners
- RF Investment Partners
- SBJ Capital
- Shore Capital Partners
- TG Thurston Group

Middle market ($500 million to $1.5 billion)

- Amulet Capital Partners LP
- Ascend
- Assured Healthcare Partners
- Balance Point Capital Partners
- BPOC
- Frazier Healthcare Partners
- LEE Equity
- LightBay Capital
- Martis Capital
- Peterson Partners
- Pharos Capital Group
- 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+)

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

Q3 2023 timeline

PE exit

July 23

Acadia says it will buy Turning Point Centers, a Utah-based substance use disorder (SUD) treatment and mental health group, from InTandem Capital Partners. Acadia is experiencing strong revenue growth due to favorable reimbursement changes for behavioral health and gradually subsiding labor costs.

News

August 14

California's Office of Health Care Affordability publishes draft regulations that would require 90 days' notice for healthcare transactions, which may then be subject to a lengthy cost and market impact review process. If enacted, the regulation could significantly lengthen transaction timelines in the state.

PE deal

August 22

In one of the quarter's only significant sponsor-to-sponsor trades, Bain Capital Double Impact sells HealthDrive, a staffing company serving the post-acute/long-term care market, to Cressey & Company. Bain acquired the company in 2019.

News

September 8

Bloomberg reports that Walmart is exploring an acquisition of ChenMed, the last independent MA primary care group of its scale. Although no official announcement has emerged, the news prompts speculation that Walmart may join CVS and Walgreens in making a major care-delivery bet.

News

September 21

The Federal Trade Commission (FTC) sues Welsh, Carson, Anderson & Stowe-backed US Anesthesia Partners (USAP), alleging that the staffing group violated antitrust law. The move underlines FTC Chair Lina Khan's ambitions to scrutinize investor-driven healthcare consolidation.

Jul 1 · Aug 1 · Sep 1 · Sep 30

PE activity

151
total deals in Q3 (estimated)

577
total deals YTD (estimated)

-28.7%
QoQ change in deal count

-31.7%
YoY change in Q3 deal count

-30.9%
LTM change in deal count

Key regulatory developments

FTC versus US Anesthesia Partners

Acting on its widely publicized desire to scrutinize consolidation in healthcare and PE activity in general, the FTC announced in September that it had sued Welsh, Carson, Anderson & Stowe-backed USAP on anticompetitive grounds. Although the FTC under Lina Khan has challenged numerous healthcare deals, including requiring divestments in conjunction with a veterinary platform merger in 2022, the USAP suit marks the first major instance of the federal agency taking aim at an accretive roll-up strategy rather than a single large merger.

The FTC's allegations against USAP do not represent a material change to antitrust policy, but rather an attempt to extend enforcement beyond previous practice. However, the FTC is unlikely to operationalize this type of scrutiny at scale with anything close to its current funding/staffing levels.

USAP was a well-chosen target from the FTC's point of view given the extreme nature of the group's consolidation of the Texas market and its previous litigation history with UnitedHealthcare, which provides a public narrative on the group's reimbursement rates. Other cases would be less clear-cut. It is also worth noting that Trilliant Health's research using price transparency disclosures suggests that market concentration is generally uncorrelated with both reimbursement rates and outcomes.[1]

We believe the FTC-USAP suit is unlikely to directly affect deal flow, especially since physician staffing deals have already become less attractive to PE sponsors due to the No Surprises Act. However, federal signaling may embolden some state regulators who have begun enacting aggressive disclosure requirements and antitrust reviews for smaller deals, in some cases specifically targeting healthcare. Dealmakers must evaluate the regulatory and disclosure risks of operating in each state relative to the state's strategic importance, and they are beginning to steer clear of some states that fall short on that ratio.

Physician noncompete prohibitions

We are also tracking the development of state-level noncompete prohibitions, some of them specifically targeting physicians, following a federal ban on noncompetes proposed in January 2023. According to Matthew Brohm, Partner and Co-Chair of Healthcare Private Equity at Arnall Golden Gregory, a growing number of states are implementing laws restricting noncompetes generally, and some states specifically with respect to providers. These include Alabama, California, Delaware, Minnesota, New York, North Dakota, Oklahoma, and Texas.[2] While there are legal and operational strategies for avoiding untimely physician attrition, this rapidly evolving—and sometimes ambiguous—set of policies may slightly retard lower-middle-market M&A activity in some geographies. Brohm is monitoring to see if states also begin to crack down on some of the back-door legal alternatives to noncompetes, such as liquidated damages, buyout clauses, and forfeiture of rollover equity.

1: "2023 Trends Shaping the Health Economy," Trilliant Health, 2023.
2: Matthew Brohm, Partner and Co-Chair of Healthcare Private Equity at Arnall Golden Gregory, phone interview by Rebecca Springer, October 13, 2023.
3: Ibid.

Segment data

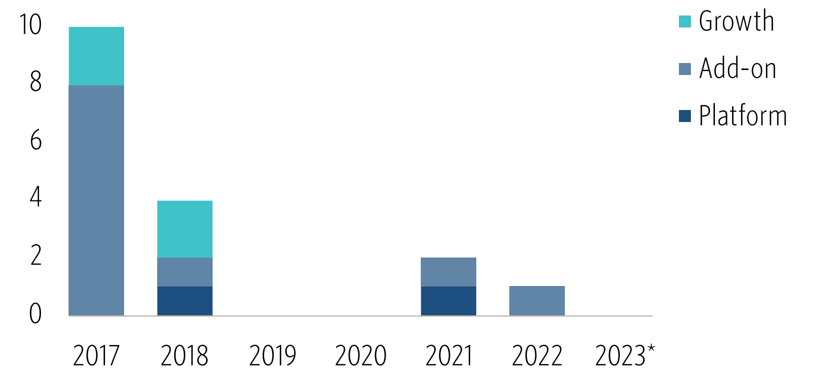
Generalist & multispecialty providers

Ancillary & outsourced services

PPMs

Skilled care & behavioral health

Hospitals & health systems PE deal count by type



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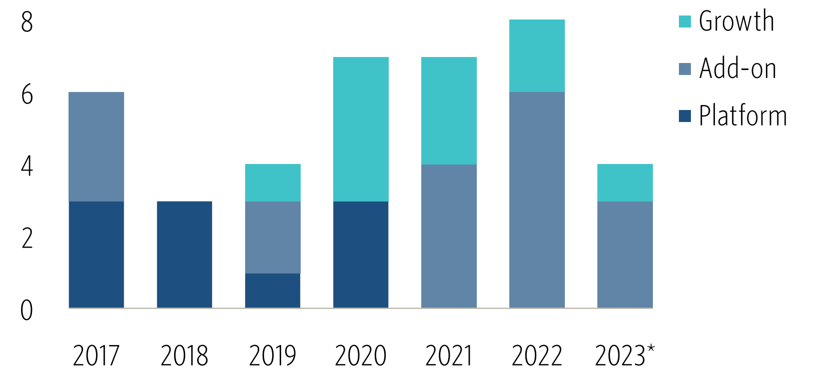
Multispecialty clinics & networks PE deal count by type



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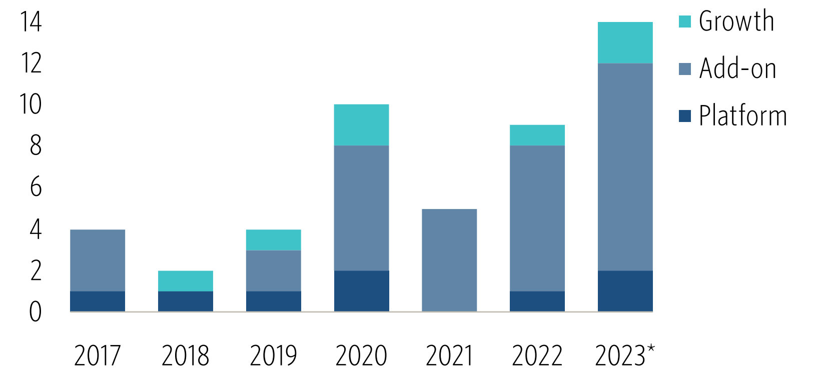
Occupational & correctional healthcare PE deal count by type



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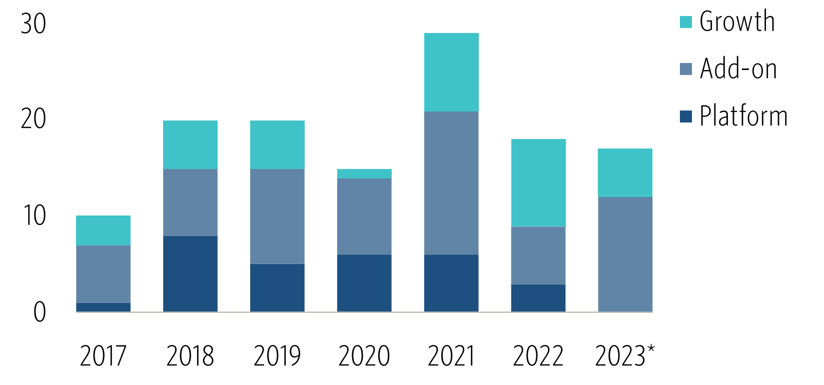
Primary care PE deal count by type



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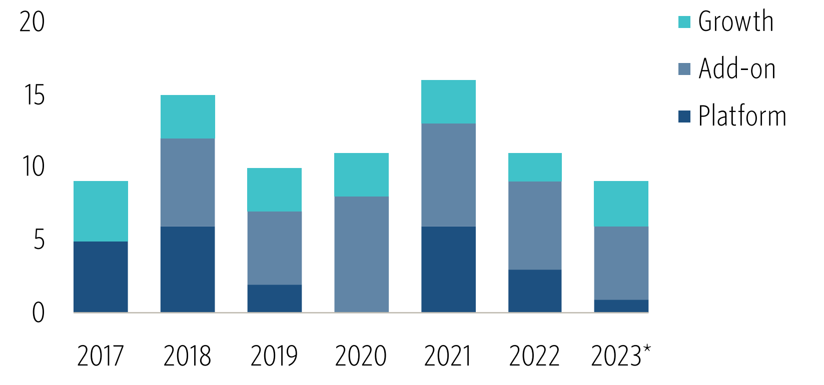
Urgent & emergency care PE deal count by type



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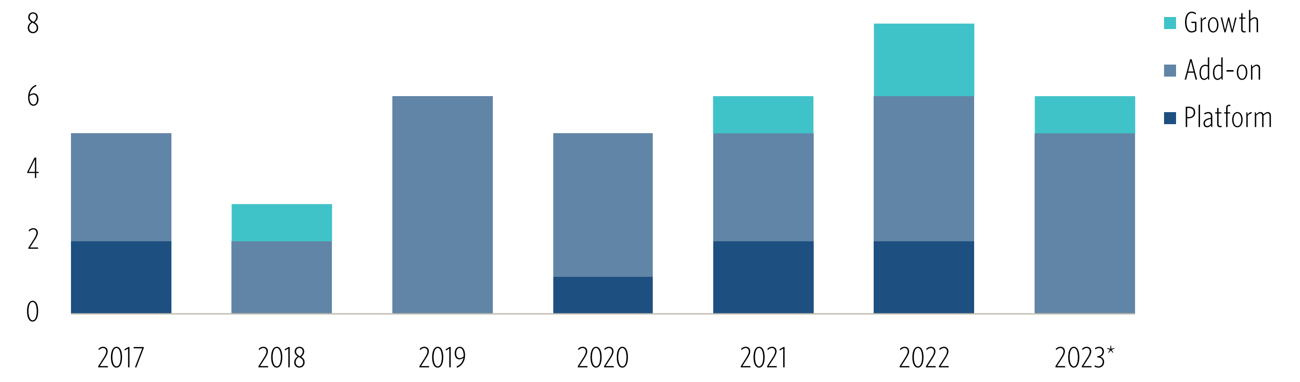
ANCILLARY & OUTSOURCED SERVICES

ASCs PE deal count by type



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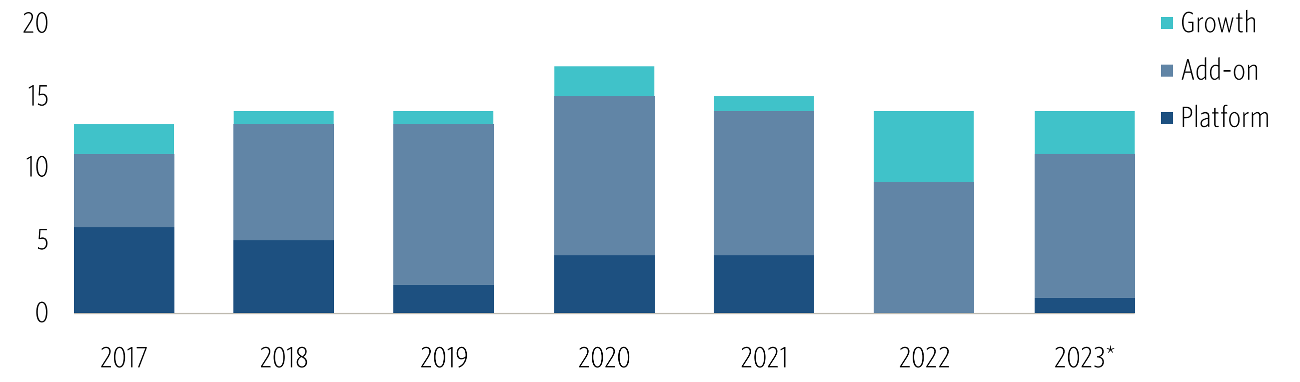
Clinical staffing PE deal count by type



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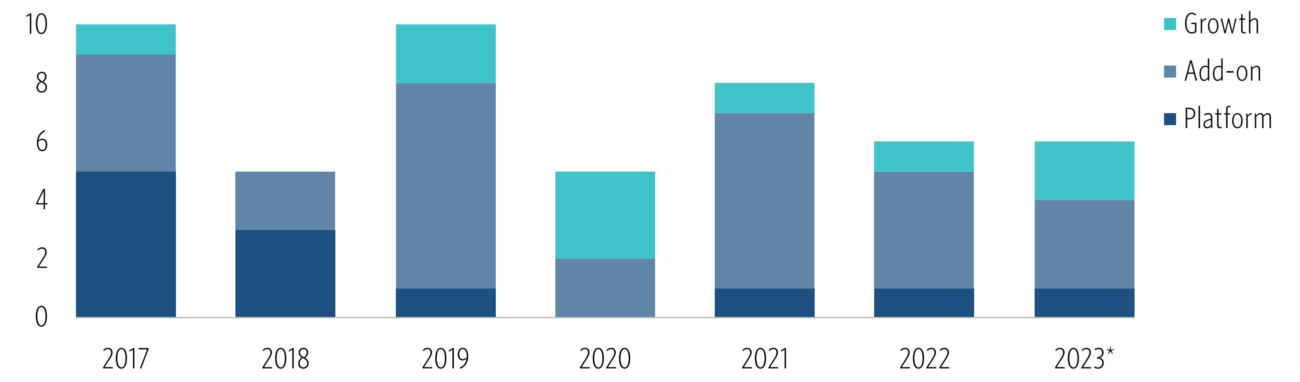
Diagnostic laboratories PE deal count by type



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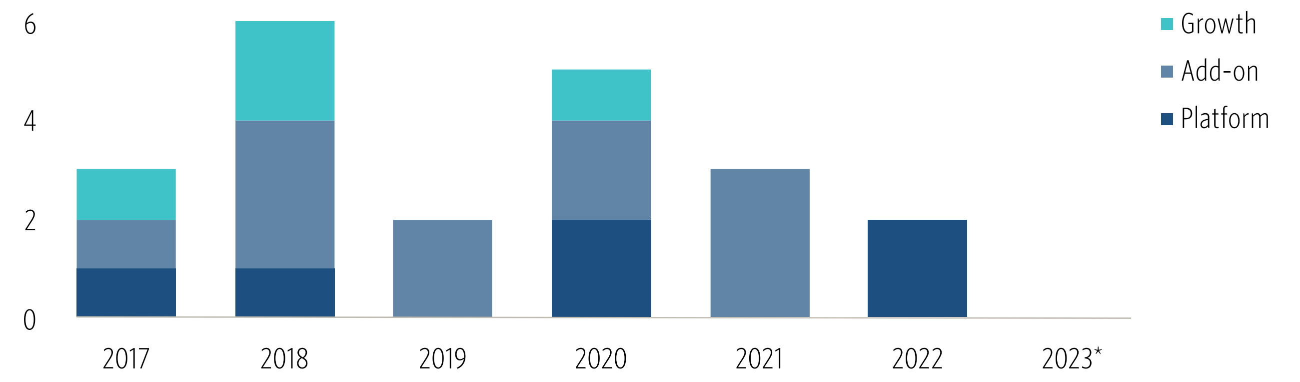
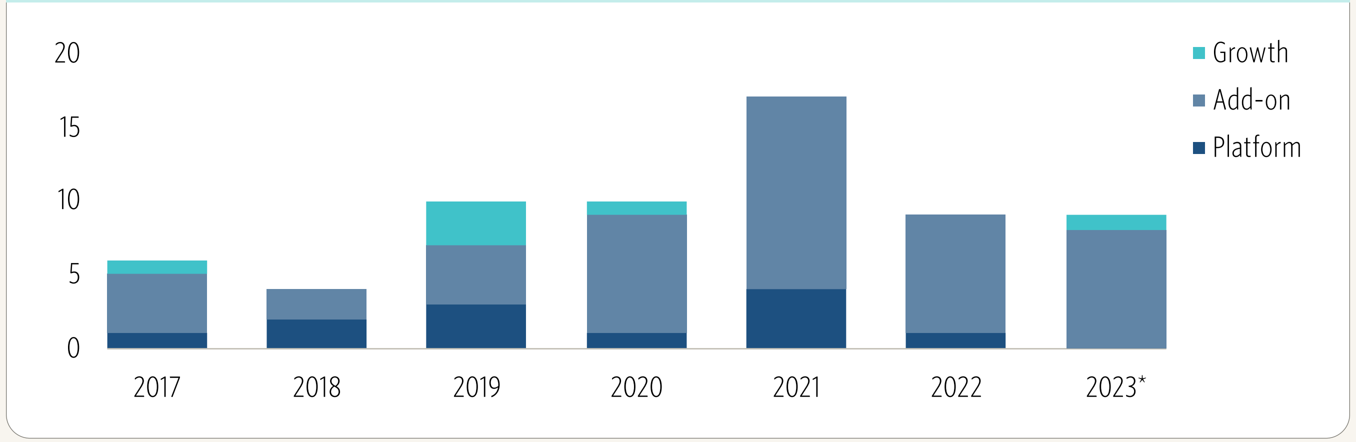
Emergency medical transportation PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

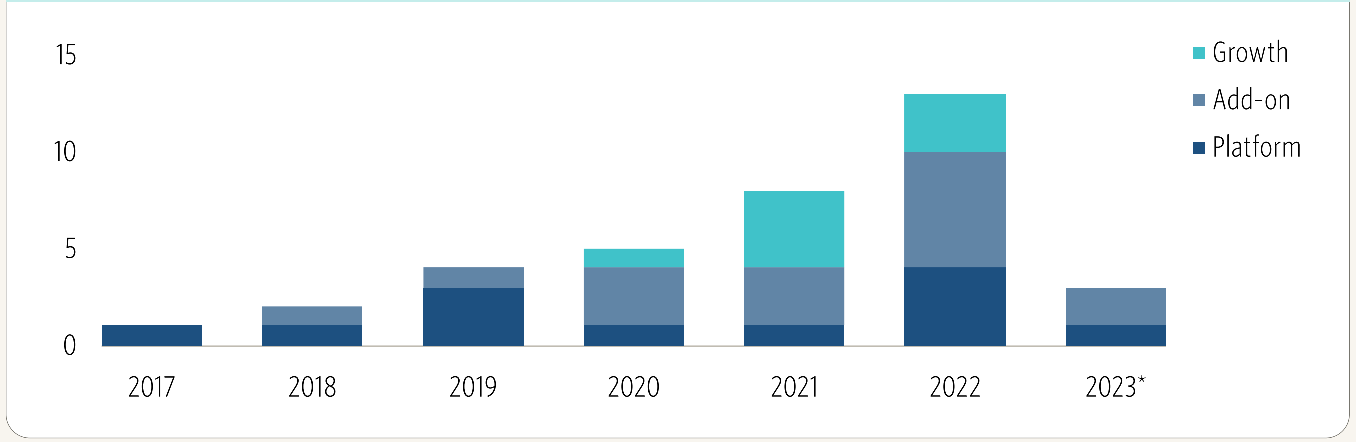
ANCILLARY & OUTSOURCED SERVICES

Imaging PE deal count by type



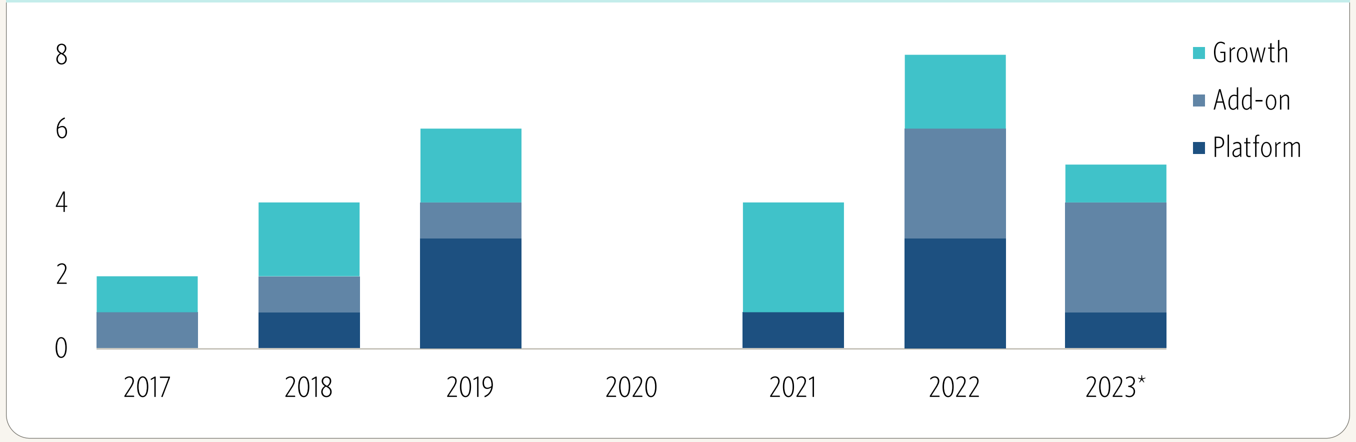
Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Infusion PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Specialty pharmacy PE deal count by type



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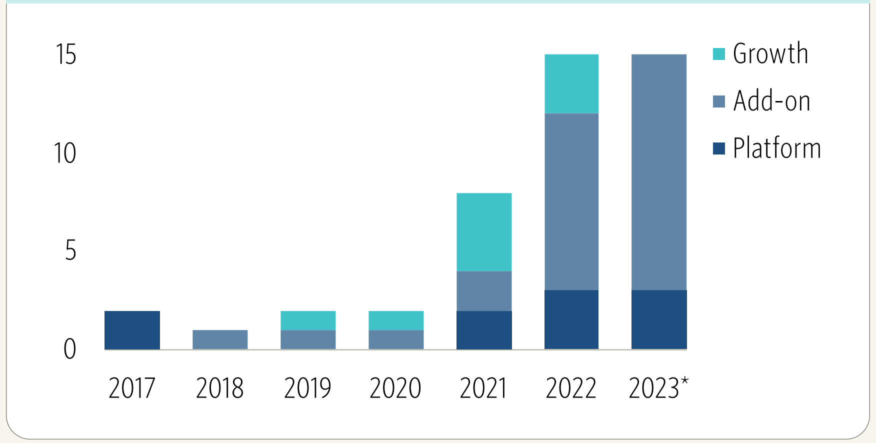
PPMS

Cardiovascular PE deal count by type



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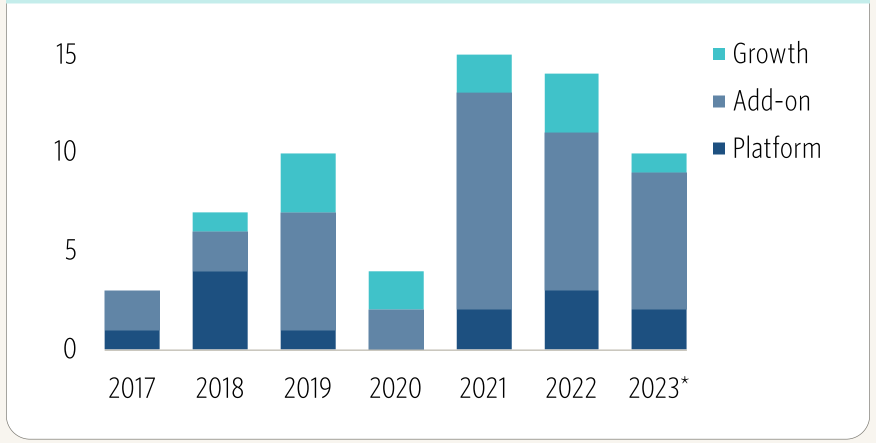
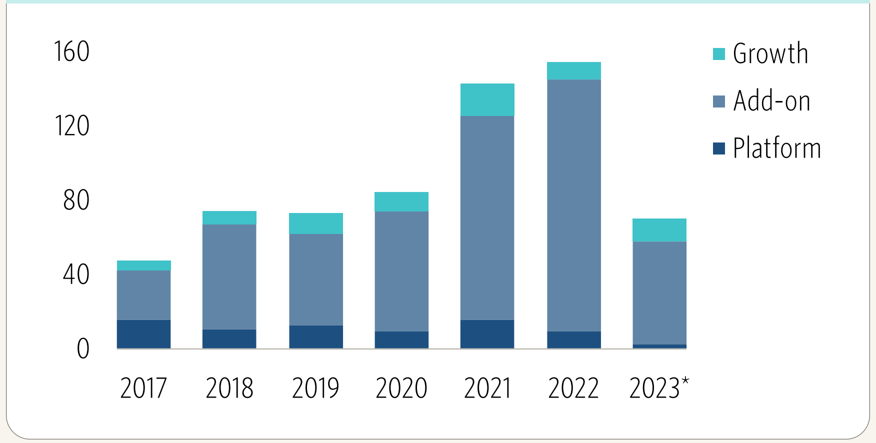
Clinical trial sites PE deal count by type



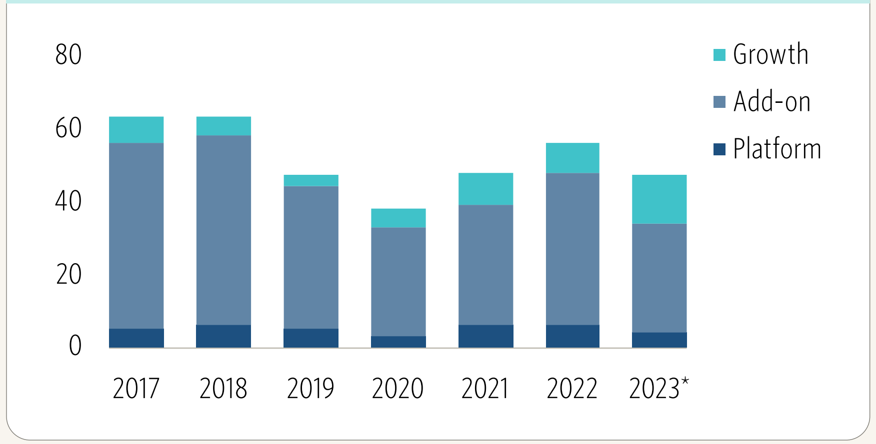
Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Dental PE deal count by type



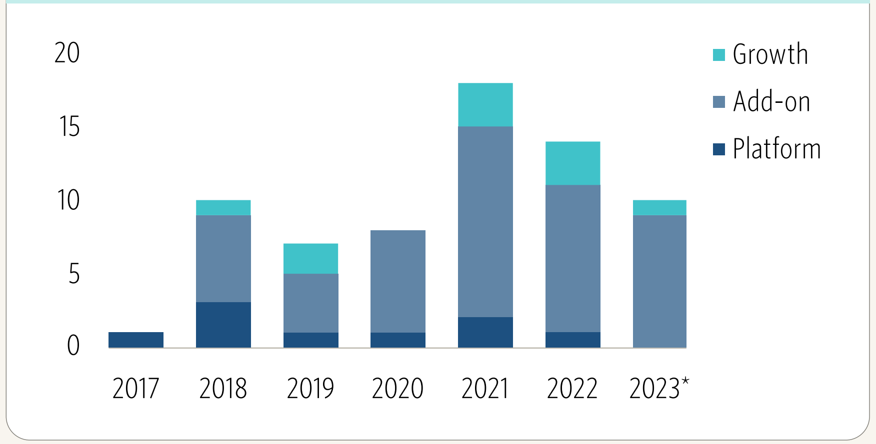
Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Dermatology PE deal count by type



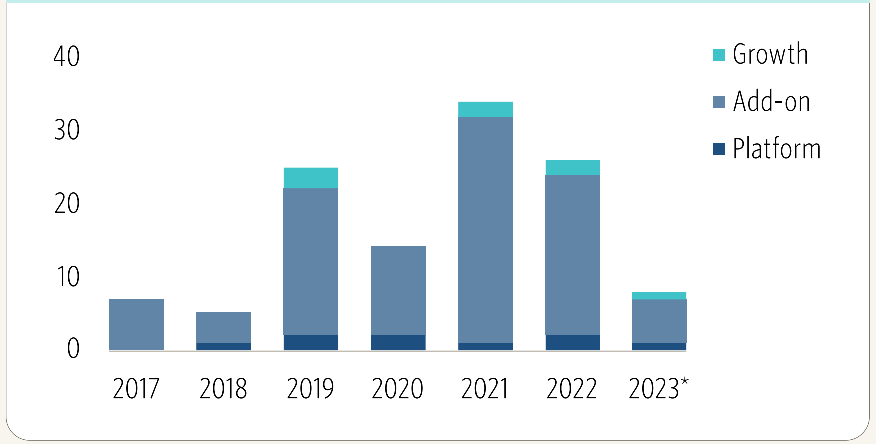
Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Ear, nose & throat PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

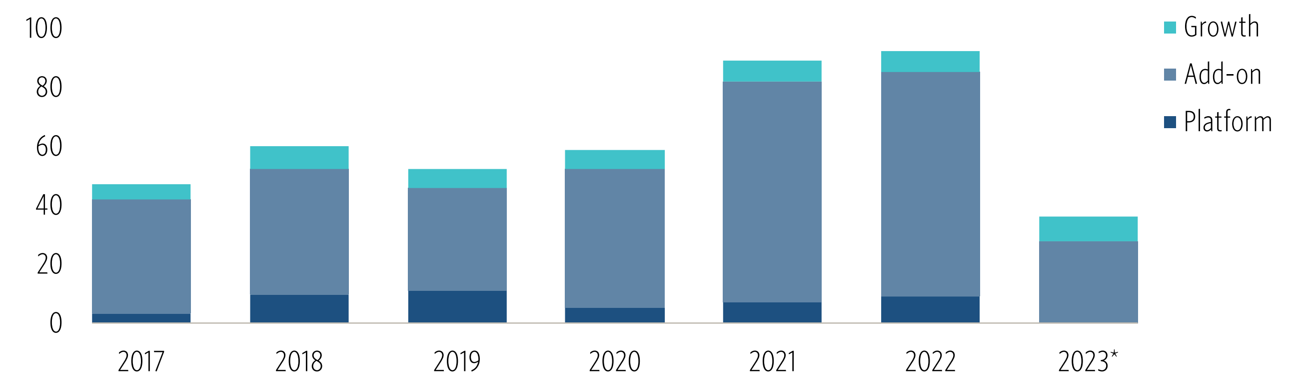
Gastroenterology PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

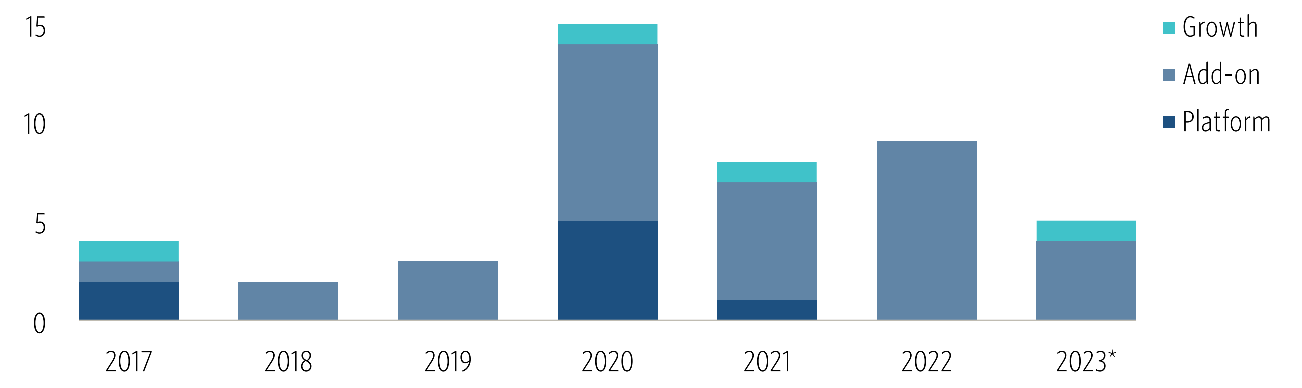
PPMS

Musculoskeletal PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Obstetrics & gynecology PE deal count by type



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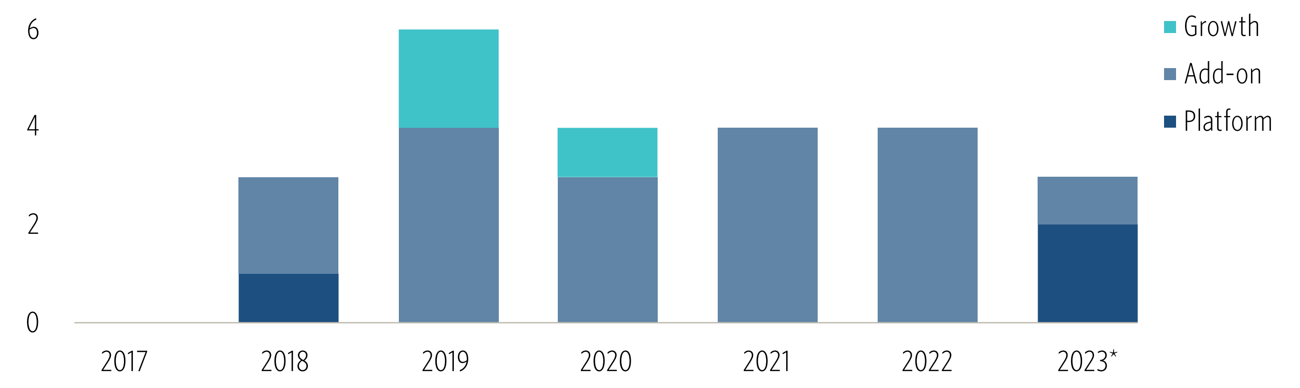
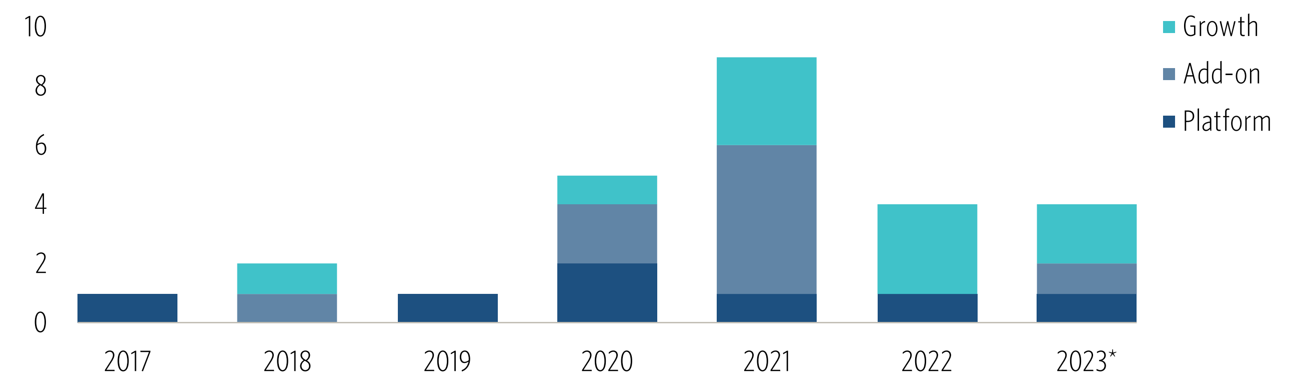
Oncology PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Other medical specialists PE deal count by type



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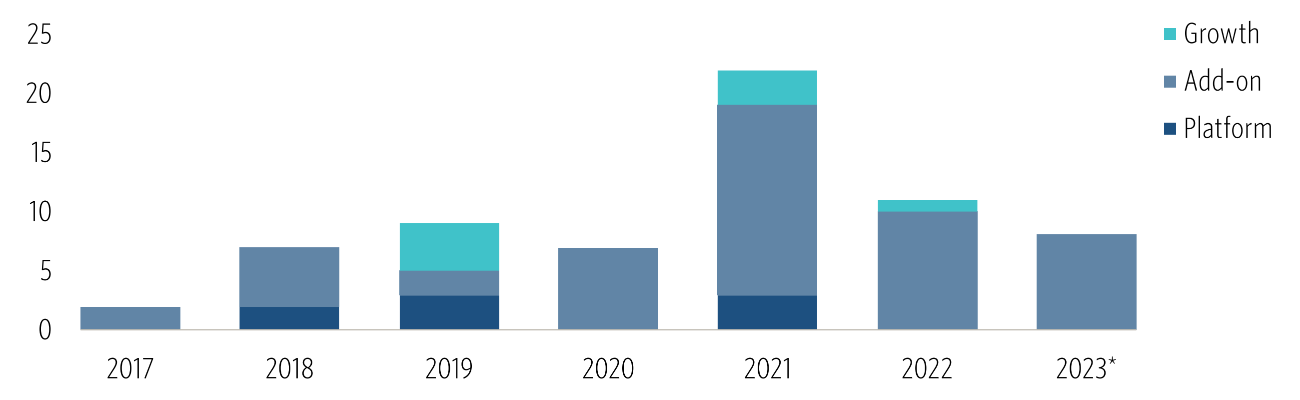
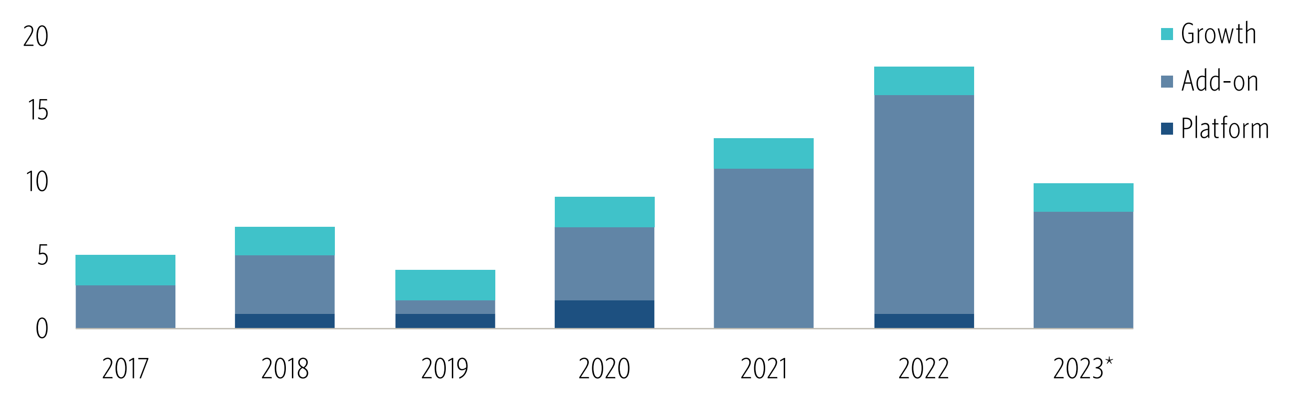
PPMS

Reproductive medicine PE deal count by type



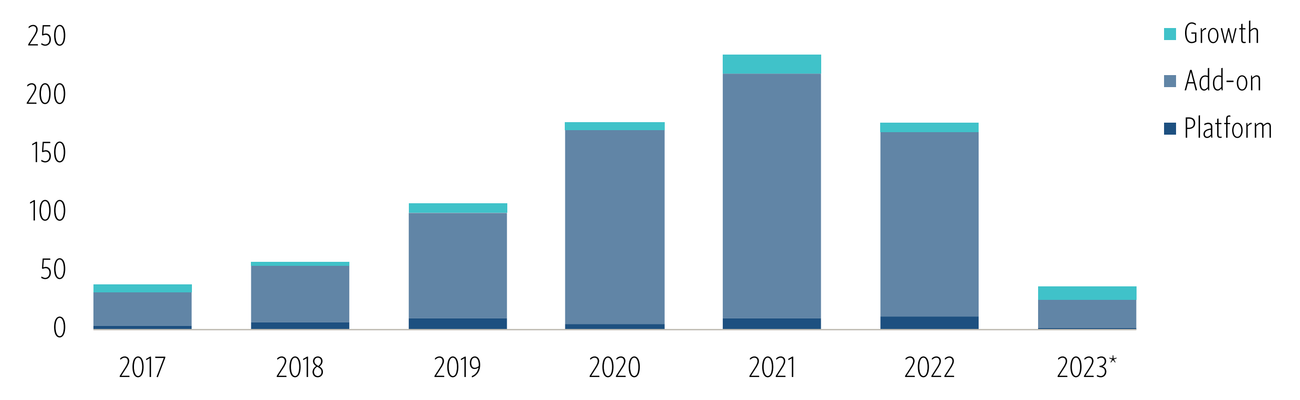
Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Urology & nephrology PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Veterinary PE deal count by type



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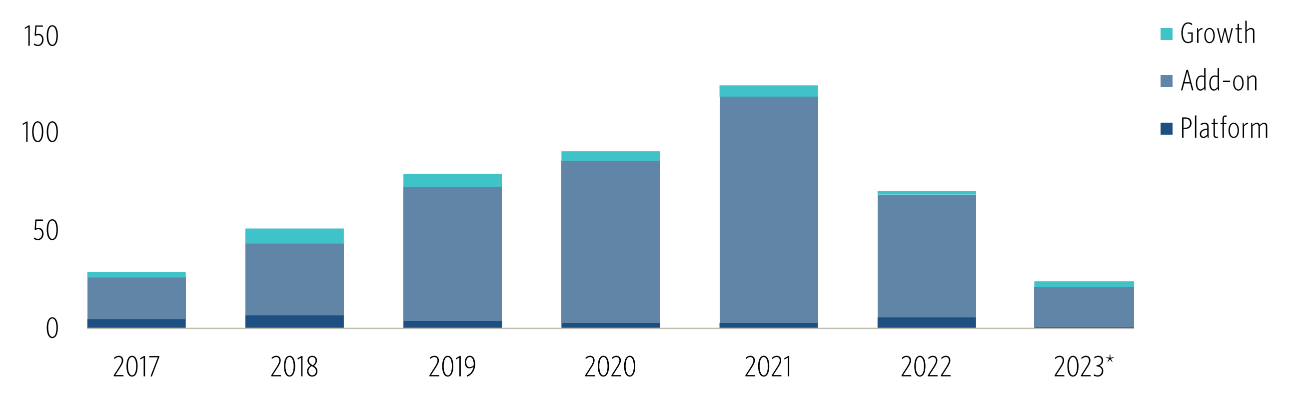
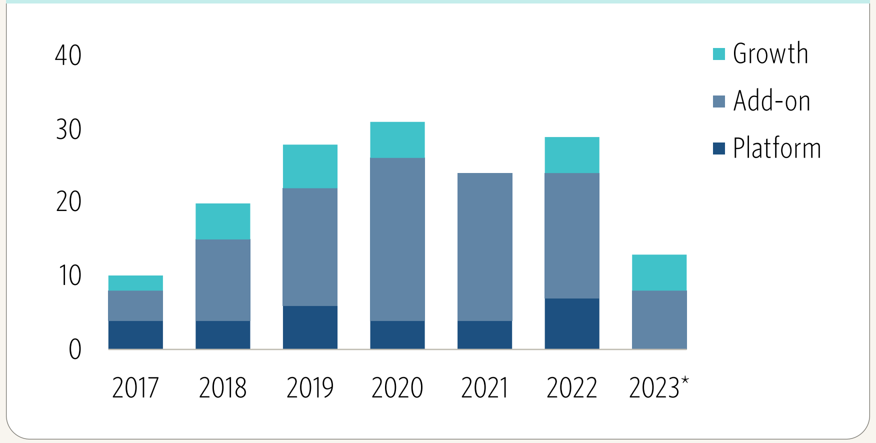
Vision PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

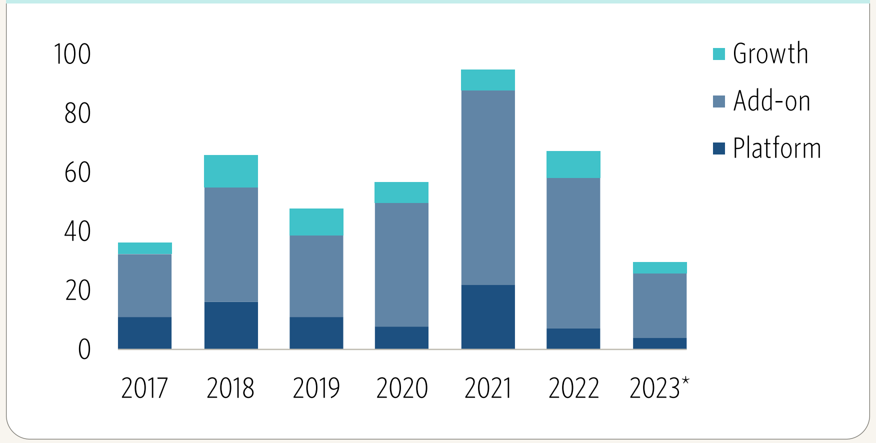
SKILLED CARE & BEHAVIORAL HEALTH

Applied behavior analysis & pediatric therapy PE deal count by type



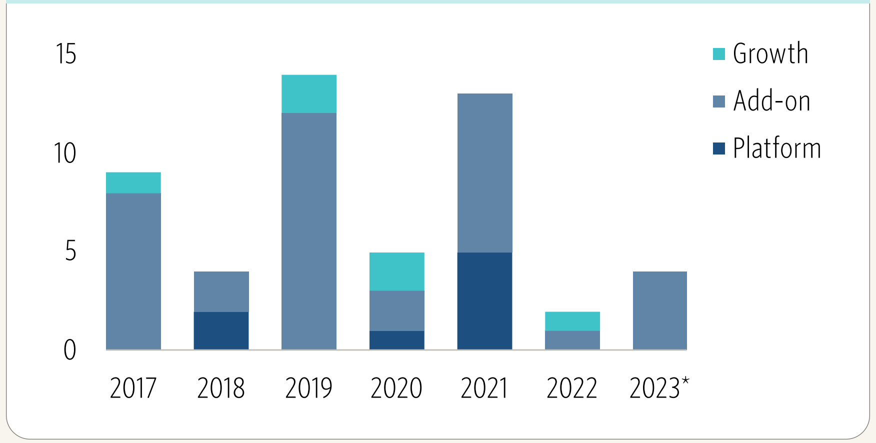
Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Home-based care PE deal count by type



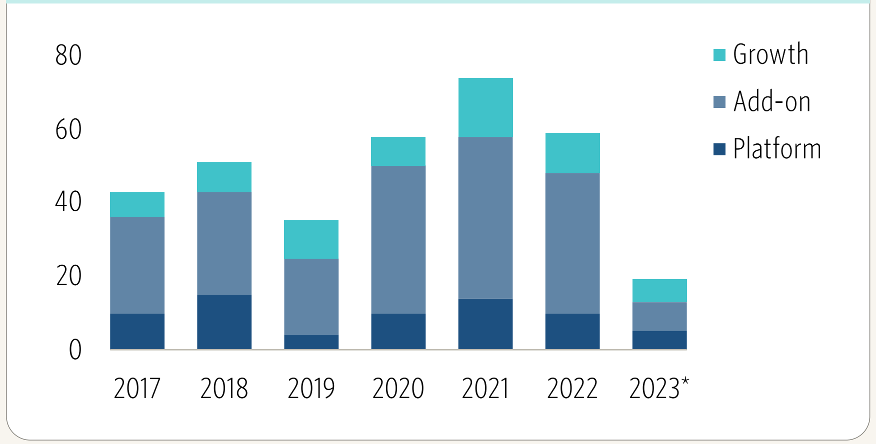
Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Intellectual & developmental disabilities care PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Mental health PE deal count by type



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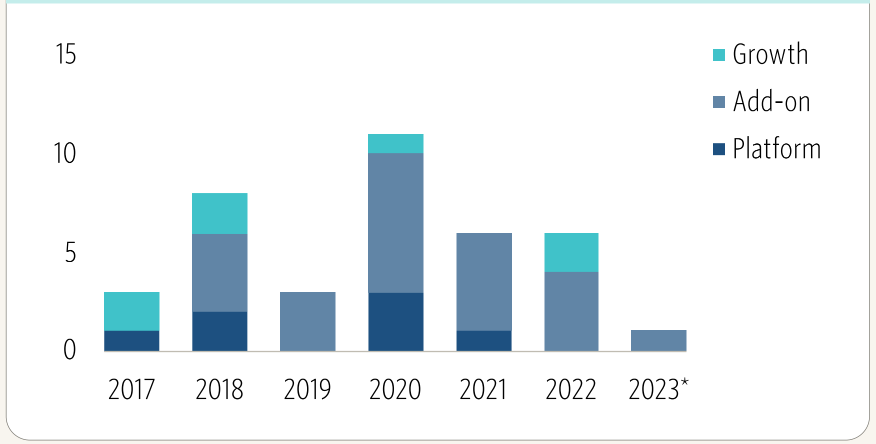
Skilled nursing PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Spotlight

New subcategory data

We provide granular insights into changing investment theses in clinical staffing, dental, dermatology, home-based care, mental health, musculoskeletal, and primary care.

New subcategory data

Starting this quarter, we are offering subcategorization within seven key healthcare services categories. This data enables more granular analysis of how investment focuses have shifted over time within established PE plays. Clients can access complete segmentation lists via the Healthcare Services Analyst Workspace on the PitchBook Platform. Below, we highlight the key trends illuminated by this data.

Clinical staffing

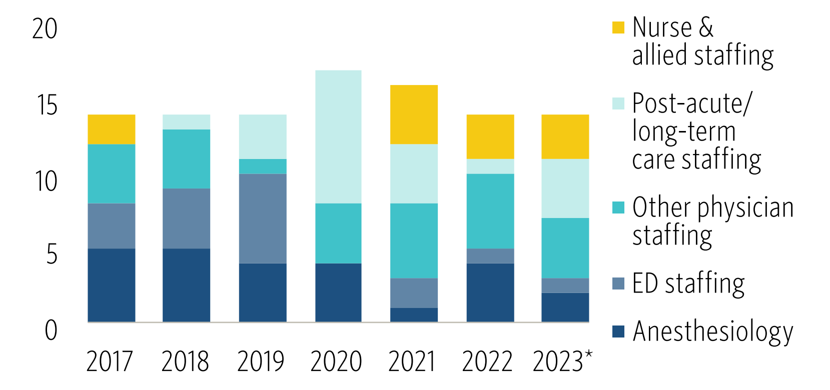
Deal activity in clinical staffing has remained remarkably steady since 2018, with 2023's deal activity on pace to eclipse 2021's. Under the surface, though, the industry has modestly shifted away from anesthesiology—a specialty that is now the focal point of federal regulatory scrutiny—and toward nurse & allied staffing, especially in the wake of the COVID-19 pandemic. Because nurse & allied staffing groups bill facilities directly, they were able to increase prices in response to the pandemic-induced demand spike while physician groups faced stagnant or decreasing reimbursement rates. Nurse & allied staffing groups face some potential disruption from shift-marketplace apps such as IntelyCare, ShiftKey, and ShiftMed but should see continued strong demand due to fundamental workforce shortages and the advantages of long-term staffing solutions over gig arrangements.

Prior to the pandemic, some physician staffing groups were already under strain as a result of payer pushback against out-of-network billing rates, which culminated in the No Surprises Act. KKR-backed Envision Healthcare and American Physician Partners, backed by Brown Brothers Harriman Capital Partners and other firms, have both entered bankruptcy administration, while Blackstone-backed Team Health Holdings was downgraded to a CCC+ credit rating in late 2022 and faces a $2.8 billion term loan maturity in 2024. Sound Physicians, which is backed by Summit Partners, Revelstoke Capital Partners, and Silversmith Capital Partners, was also downgraded from B- to CCC in August. Given this concerning pattern, we expect to see deal activity in the clinical staffing segment shift further away from acute-care physician staffing and toward nurse & allied staffing as well as staffing for post-acute and long-term care settings.

Dental

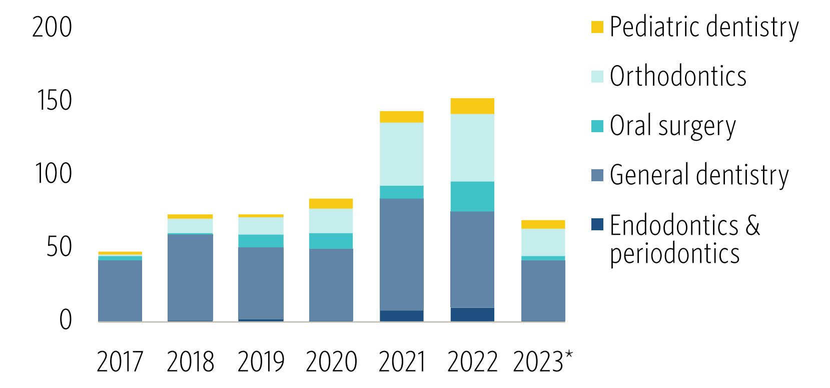
As investment in dentistry has matured—and with general dentistry reimbursement rates continuing to trend downward—investors have increasingly turned to subspecialties. Pure-play specialist platforms, such as in oral surgery and endodontics & periodontics, can offer practitioners the opportunity to join a community of best practice, while orthodontics benefits from a high proportion of cash-pay revenue. Oral surgery in particular

Clinical staffing PE deal count by subcategory



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Dental PE deal count by subcategory



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

witnessed several impressive exits just before the market downturn, including InTandem's sale of Paradigm Oral Health, which the firm backed as a single-state platform in 2019, to BlackRock Long Term Private Capital for approximately $900 million. Meanwhile, pediatric dentistry, which can focus on either cash-pay orthodontics or Medicaid- and CHIP-funded care for children, has drawn the attention of a small but growing subset of investors willing to trade margin for demand. Our Q4 2022 report highlights the opportunity in Medicaid/CHIP pediatric dentistry.

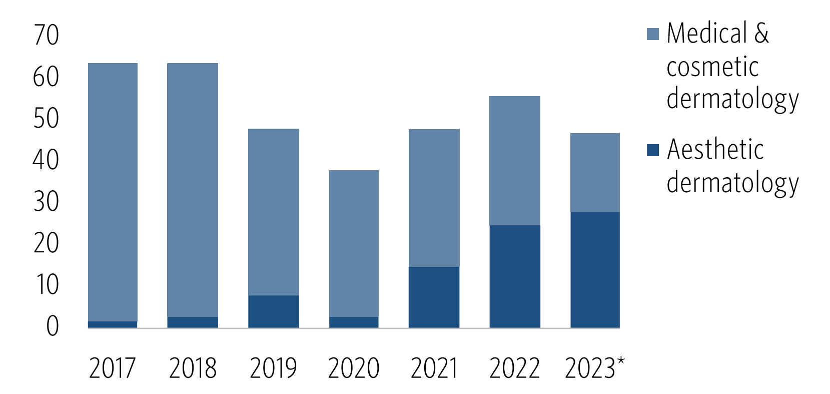
Dermatology

Dermatology's pivot into aesthetics, which we define as including both medspa and pure-play plastic surgery, over the past three years has been remarkable. Although several medical dermatology platforms traded in late 2021 to mid-2022, inorganic growth on the medical side remains sluggish as additional platforms that last traded in roughly 2016 to 2018 await exits. At the same time, many lower-middle-market medspa platforms have been created in the past two years to seek scale advantages amid a burgeoning provider-entrepreneur landscape and rising consumer interest. We unpacked the medspa investment thesis in our Q1 2023 report.

Home-based care

The drop-off in home health & hospice deal activity, which started in late 2022 and has continued into 2023, is unprecedented since the start of our dataset in 2017. We have recorded only nine such deals YTD, compared with 68 in 2021. This is largely the result of a volatile Medicare reimbursement environment beginning with CMS' proposed 2023 home health fee schedule, which included significant cuts that were mitigated in the final rule. CMS' finalized 2024 fee schedules include a 3.1% rate increase for hospice and a 0.8% increase for home health. Longer term, other negative trends have included changes to the home health Patient-Driven Groupings Model (PDGM) implemented in 2021, which limit the revenue enhancements that agencies can achieve via therapy visits. CMS intends to claw back fees it claimed were overpayments under the pre-2021 PDGM by reducing home health rates in the coming years. Growing enrollment in MA is also a headwind because MA plans reimburse on a per-visit rather than a per-episode basis, resulting in lower overall reimbursement than traditional Medicare. Some (but not all) of the lost home health & hospice deal activity has shifted into private duty, which offers providers the opportunity to raise prices in accordance with labor cost increases, depending on local market conditions.

Dermatology PE deal count by subcategory



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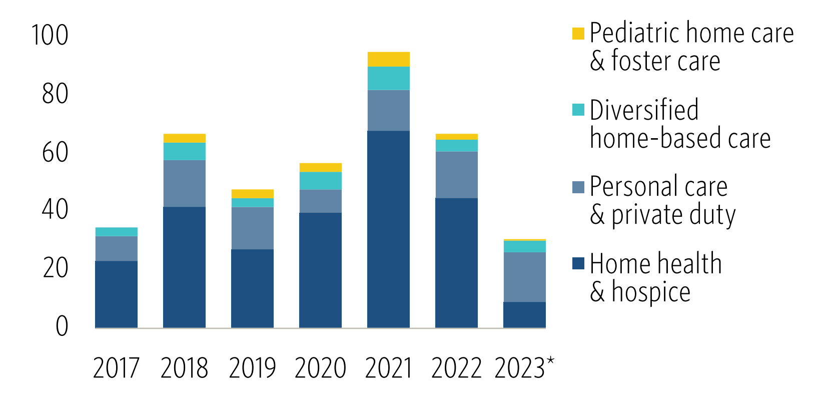
Home-based care PE deal count by subcategory



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NEW SUBCATEGORY DATA

Mental health

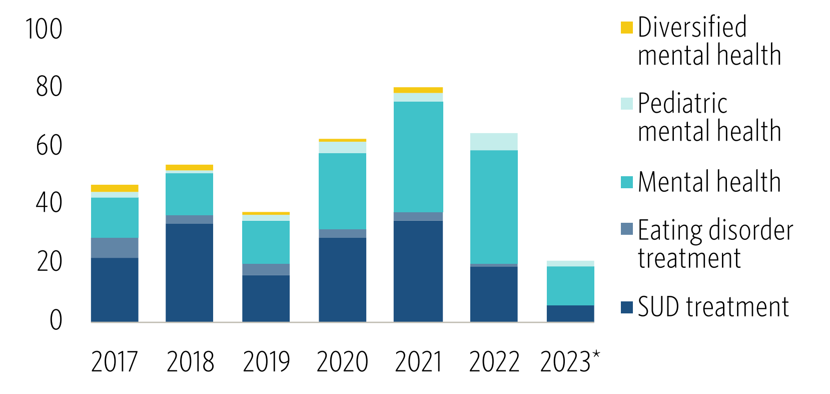
Deal activity figures and industry narratives continue to diverge in mental health. 2023 has seen overall deal activity decline for a number of reasons, including a scarcity of available targets, mismatched price expectations between buyers and sellers, and labor shortages slowing growth and pressuring clinical models. This is despite widespread societal recognition of the need for increased access to mental health care and broad investor interest.

SUD treatment, including out-of-network "destination" treatment centers, dominated deal activity in the late 2010s, but medication-assisted treatment, as well as in-network, clinically rigorous intensive outpatient programs (IOPs) and partial hospitalization programs (PHPs), is now the standard of care and preferred investor choice. Concurrently, PE's investment focus in the industry has shifted toward "pure" mental health, which includes everything from talk therapy to PHP/IOP to inpatient psychiatric facilities. More recently, transcranial magnetic stimulation and ketamine therapy (Spravato) have become desirable add-ons for mental health platforms. Since the pandemic, we have also seen significant investor interest in pediatric (typically adolescent) mental health. Pediatric mental health deal activity peaked in 2022, and we believe the dearth of deals in 2023 YTD has more to do with the scarcity of suitable targets than the subsiding of investor interest. Moving forward, we expect to continue seeing investor focus on continuum of care integration and a move toward de novo strategies (for groups that can get the staffing model right) as well as creative deal structures, such as health system joint ventures mimicking Acadia's approach. We mapped the geographic and care model opportunities for mental health investment and expansion in our Q2 2023 Healthcare Services Report.

Musculoskeletal

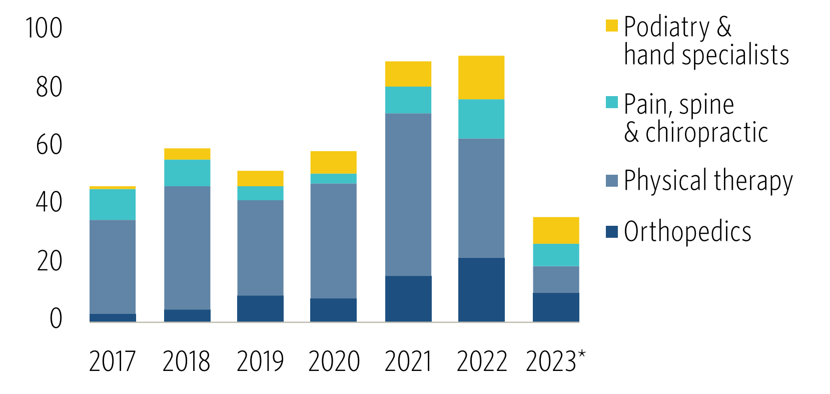
Within MSK, the collapse of physical therapy deal activity in 2023 has come as a surprise given industry trends toward lower-intervention alternatives and the uptick in orthopedic surgery utilization reported by payers in mid-2023—which should also correlate with physical therapy utilization for post-surgery rehabilitation or as an alternative to surgery. However, physical therapy has been hit hard by labor shortages and reimbursement changes. Beginning in 2022, Medicare reimbursed services performed by physical therapy assistants at 85% of the physician fee schedule rate, making what was once an attractive staffing option financially untenable in many cases. It is worth noting that some physical therapy platforms have continued to grow at impressive rates via very small add-ons as well as de novo expansion.

Mental health PE deal count by subcategory



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Musculoskeletal PE deal count by subcategory



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

NEW SUBCATEGORY DATA

Looking ahead, we expect to see growing investor interest for pain, spine & chiropractic care, which has heretofore had a flat dealmaking trajectory. In the wake of the opioid epidemic, and with payers and patients increasingly seeking to avoid unnecessary surgeries, noninvasive treatments for spinal pain should see tailwinds. The subcategory also benefits from the potential for strong revenue diversification if interventional pain management is combined with related services, such as chiropractic services (which can have a significant cash-pay element) and orthopedic spine surgery.

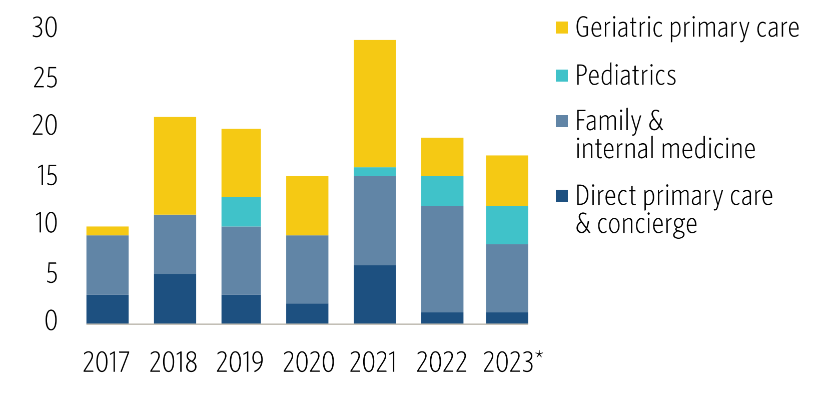
Primary care

2021 represented the heyday of primary care investment, with per-life valuations reaching dizzying heights and numerous sponsor-backed groups listing publicly, including agilon, Cano Health, Privia Health, and P3 Health Partners. This was driven by investors' enthusiasm around transitioning practices onto alternative payment models and capturing total cost of care savings via concierge-style direct primary care. Although these remain central investing themes in healthcare, expectations for the pace and profitability of the value-based care transition have come back down to earth. In geriatric primary care, RADV and star rating changes have considerably tightened MA margins. Additionally, investors have become wise to the operationally intensive nature of transforming care models.

In direct primary care and concierge medicine, many providers have found themselves caught in a scale paradox: not large enough to reliably service national-scale employers but too large to concentrate on more niche bets with geographically concentrated employee bases. It is also difficult to replicate the concierge experience both profitably and at scale, as the growth of One Medical has shown. Walmart's nationwide partnership with Included Health suggests that employers may turn to more flexible virtual models for scale. The final headwind faced by these two subcategories is a saturation of strategic buyers—for the time being. With the exception of Walmart's reported interest in ChenMed, the key strategic buyers of primary care assets are currently occupied with integration and unrelated financial pressures.

We have also observed an early trend of investor interest in pediatrics, most recently with Webster's acquisition of New Jersey-based Pediatric Affiliates. With one prominent, but dated, exception—the backing of Pediatrix Medical Group by Summit Partners and Welsh, Carson, Anderson & Stowe prior to the group's 1995 IPO—we are still in the early days of what may become a more prominent investment theme in the coming years. We also see opportunities to improve patient experience and care coordination by integrating pediatric medical with dental care, or integrating pediatric primary care with pediatric therapy including ABA, especially within Medicaid managed care models.

Primary care PE deal count by subcategory



Source: PitchBook • Geography: US & Canada • *As of September 30, 2023

Appendix

Top PE investors in healthcare services by number of platform investments since 2020*

Investor	Deal count
Shore Capital Partners	27
Webster Equity Partners	16
Endurance Search Partners	12
BPEA Private Equity	11
Petra Capital Partners	11
Ares Management	10
Vistria Group	9
Revelstoke Capital Partners	8
BPOC	8
TPG	8

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Most acquisitive PE-backed healthcare services platforms since 2020*

Platform	Add-on count
Southern Veterinary Partners	140
Smile Doctors	58
Southern Orthodontic Partners	32
AEG Vision	32
Retina Consultants of America	29
Eyecare Partners	26
Veterinary Practice Partners	26
Therapy Partners Group	22
PetVet Care Centers	21

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PitchBook Data, Inc.

John Gabbert Founder, CEO

Nizar Tarhuni Vice President, Institutional Research and Editorial

Paul Condra Head of Emerging Technology Research

Additional research

Healthcare and PE

2023 Healthcare Services Overview

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Q3 2023 Healthcare Services Public Comp Sheet and Valuation Guide

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H1 2023 Healthcare Funds Report

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