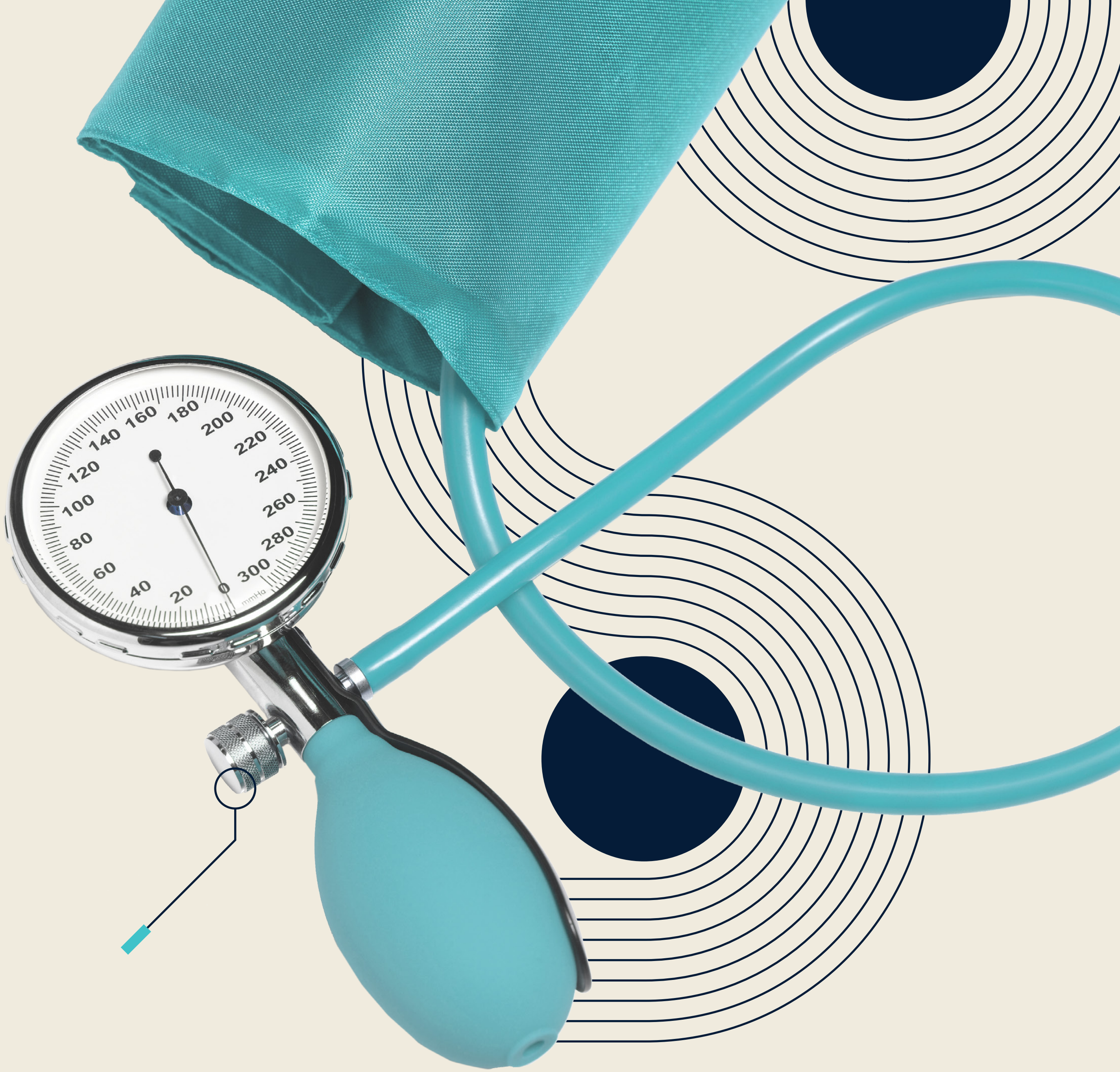
PitchBook

INDUSTRY RESEARCH

Healthcare Services Report

PE trends and investment strategies



Q4 2023

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

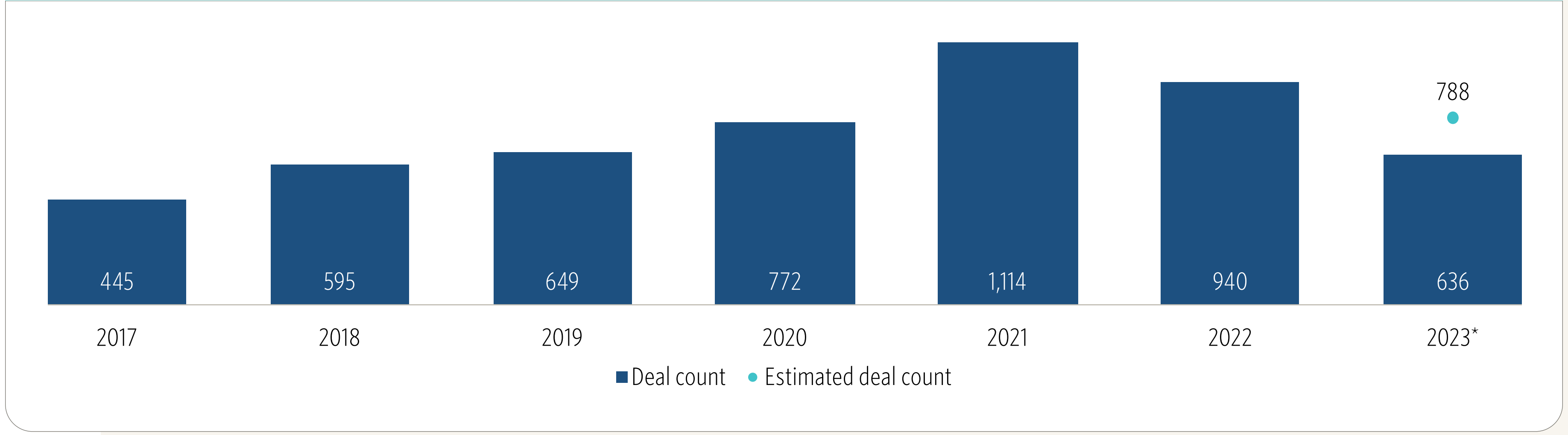
Click here to download our 2023 taxonomy report, which includes definitions, key investment drivers, and risks by segment.

2023 saw momentum shift fundamentally in the PE healthcare services market. PE sponsors announced or closed 788 deals in 2023, with the quarter-over-quarter pace throughout the year trending moderately downward. This makes 2023 the third-strongest year on record for PE healthcare services investing by deal count, well above pre-pandemic levels—but the high-level figure masks significant changes in the size and structure of deals getting across the finish line.

Deal environment

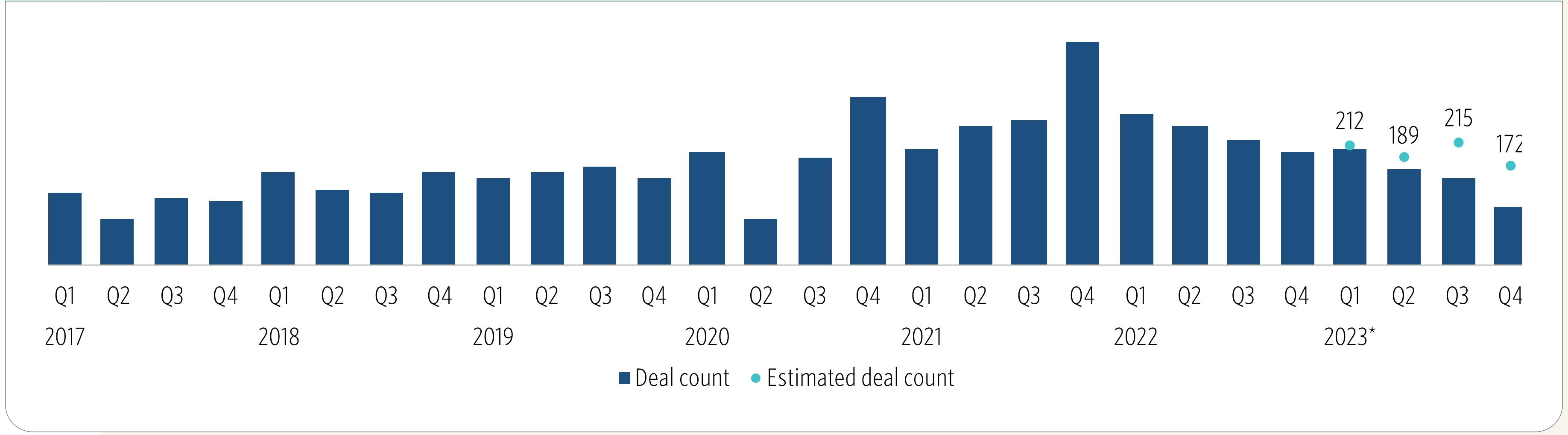
The secular forces that shaped the industry in 2023 were labor cost inflation and the high-interest-rate environment. While labor shortage pressures eased over the course of the year, operating margins for most healthcare provider organizations are unlikely to return to pre-pandemic levels. The COVID-19 pandemic caused a mass workforce exodus from the industry, and this is unlikely to reverse in the short or medium term, barring a significant change to US immigration policy.

Healthcare services PE deal count



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Healthcare services PE deal count by quarter



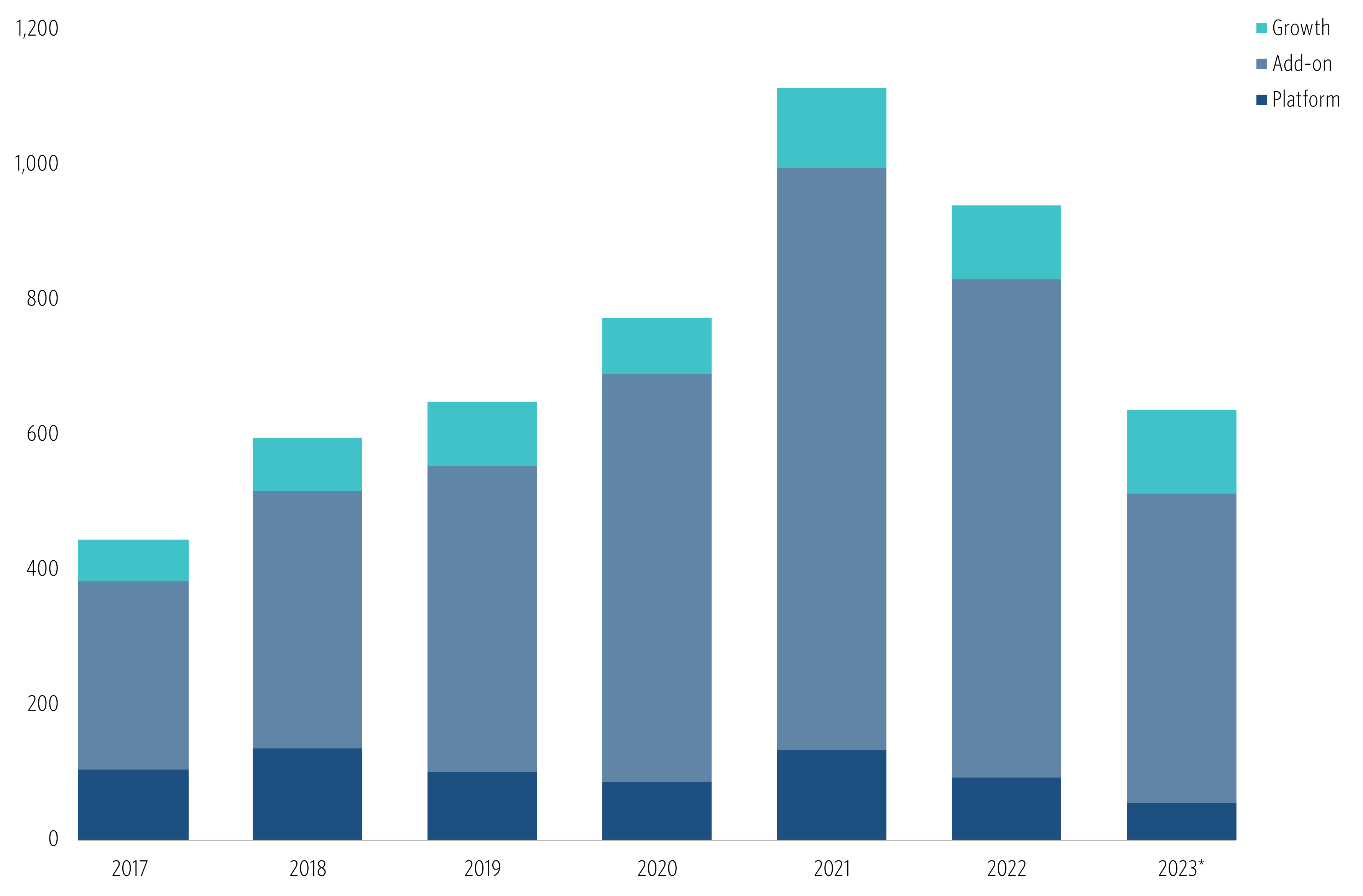
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

As the year progressed and labor pressures eased, the cost of capital became increasingly dominant in the deal environment narrative. Numerous scaled, long-in-the-tooth platforms, including in some of the most acquisitive PPM categories such as orthopedics and vision, are languishing under significant debt burdens, making few acquisitions—and only small ones. Add-on deal activity declined by more than 50% YoY in musculoskeletal (MSK), veterinary, and vision, for instance. Meanwhile, the absolute number of what we term "growth" deals—minority equity transactions—hit an all-time high despite depressed deal activity overall. In reality, many if not most of these deals were related to financial restructuring rather than accelerating growth, per se.

Liquidity challenges

2023 saw healthcare services companies account for a disproportionate share of leveraged loan defaults: over 20% of default value despite the sector representing only 12.5% of issuers. High-profile failures by Envision Healthcare and American Physician Partners were a result of not only extreme debt burdens but also years of pushback on out-of-network rates by payers that culminated in the implementation of the No Surprises Act in January 2022. The Blackstone-backed Center for Autism and Related Disorders, which Blackstone

Healthcare services PE deal count by type



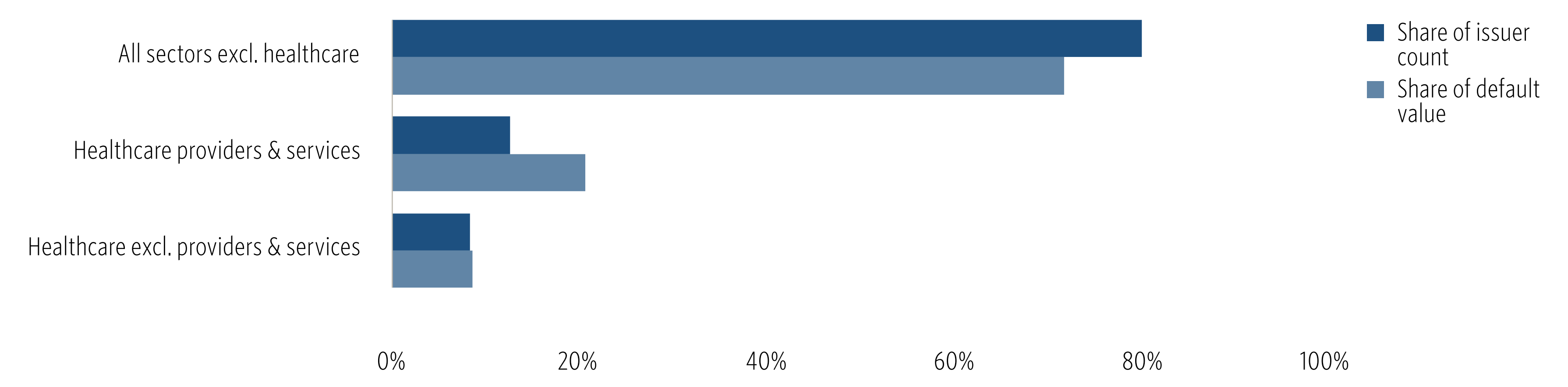
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

acquired for an eye-watering 26x pro forma EBITDA in 2018 (we have heard around 30x actual EBITDA),[1] was similarly overleveraged and fell prey to labor cost inflation. It is worth bearing in mind that these are extreme cases; historical data shows that in times of economic dislocation, including the present, sponsor-backed issuers default at a lower rate than non-sponsor-backed issuers (across all industries).

On the dealmaking side, liquidity constraints brought platform deals to a seven-year low; most of these were new platform creations rather than sponsor-to-sponsor trades. Large deals remain extremely difficult to finance. PitchBook-LCD recorded zero new broadly syndicated loans to support leveraged buyouts in 2023. Private credit lenders have stepped in to fill the gap to some extent but are allowing only very conservative levels of leverage, as low as 3x to 4x EBITDA in many cases. Valuation multiples have also come down a few turns on average since the market peak. Moreover, debt and valuation multiples themselves tell only part of the story. The balance of power swung back in favor of buyers in 2023, and multiples are now granted on a more conservative EBITDA, with pro forma EBITDA regularly being adjusted down by a third or more.

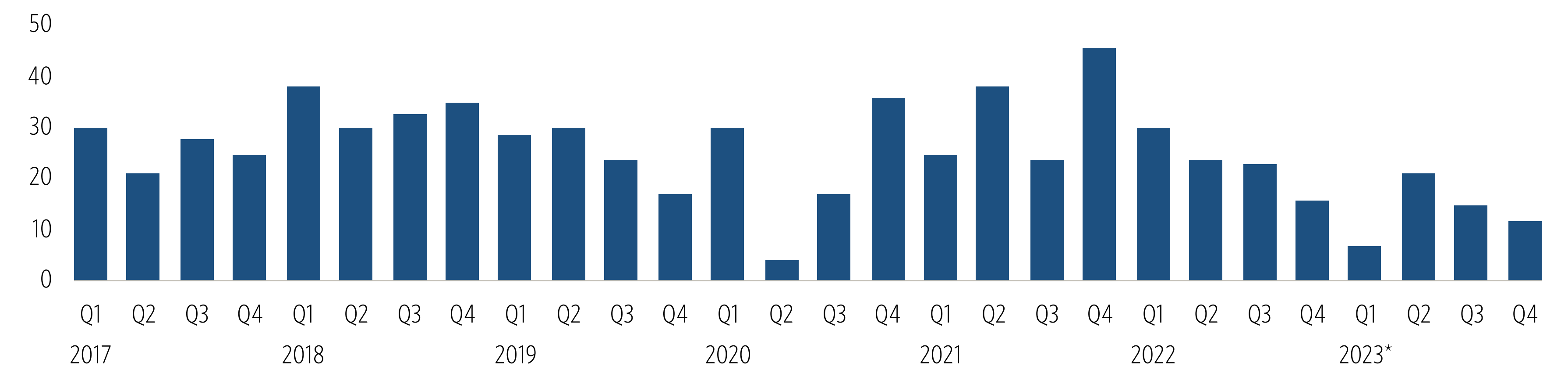
1: "Blackstone Walks Away With the Win for Autism-Treatment Company CARD," PE Hub, Sarah Pringle, April 13, 2018.

LTM share of leveraged loan issuer count and default value by sector*



Sources: PitchBook | LCD; Morningstar • Geography: US • *As of December 31, 2023

Healthcare services PE platform buyout count by quarter



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

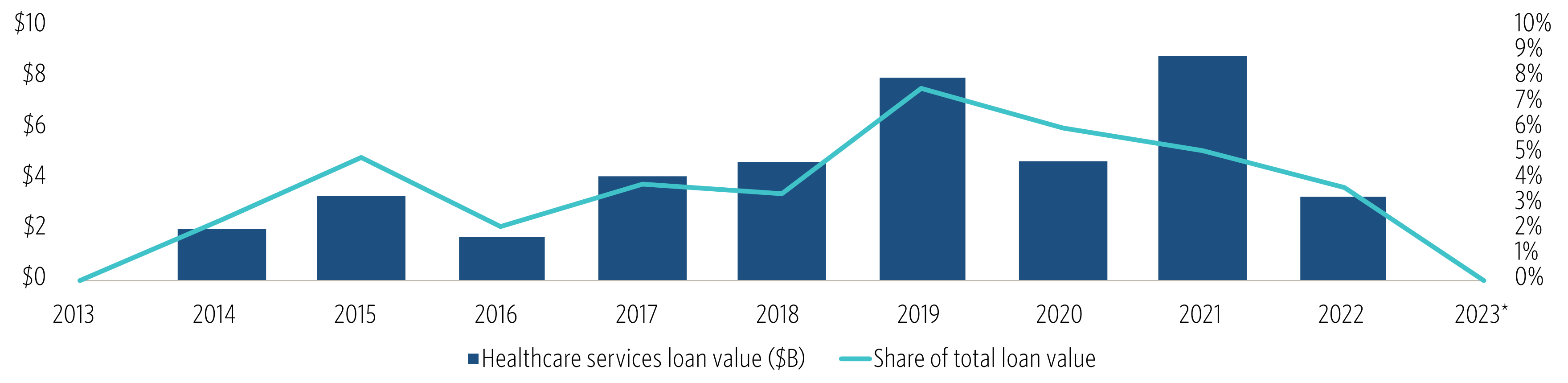
PE ACTIVITY

Long gone are the days of sellers receiving credit for add-ons under LOI. Investors are also making liberal use of seller equity, earnouts (up to 50%), and even seller notes to reduce cash at close. Just two years ago, sellers in some competitive auctions could decline earnouts altogether. Finally, in contrast with the breakneck pace of 2021 and early 2022, some deals that are getting across the finish line now have progressed very slowly, with processes stretching a year or more.

Fundraising and dry powder

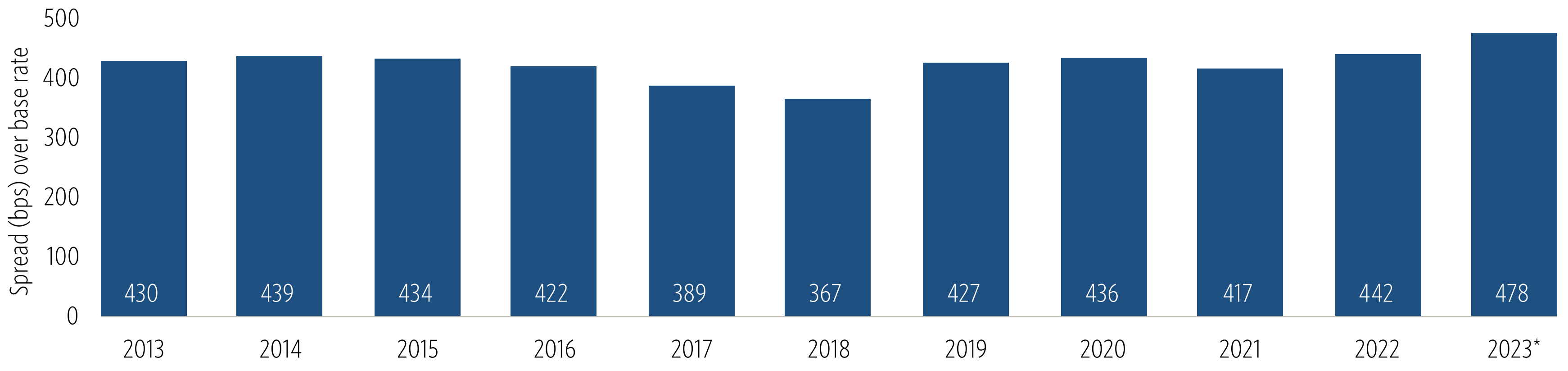
Behind the dealmaking environment sits an estimated $100 billion in dry powder held by US-headquartered PE managers and earmarked for the healthcare services market. 2023 was the strongest fundraising year on record for healthcare specialist managers, which have outperformed the broader asset class historically. However, our historical data tells a clear story that dry powder levels are not a reliable forward indicator of deal activity, as sponsors realistically have flexible timelines for when they can deploy capital and have been keeping themselves busy with small deals and shoring up existing portfolio companies. We know of several healthcare funds set to close in the first half of 2024 but expect fundraising activity will decline in the second half of the year until exits pick back up.

Leveraged buyout-related healthcare services loan value and share



Source: PitchBook | LCD • Geography: US • *As of December 31, 2023

New-issue spread for healthcare services loans



Source: PitchBook | LCD • Geography: US • *As of December 31, 2023

What to watch in 2024

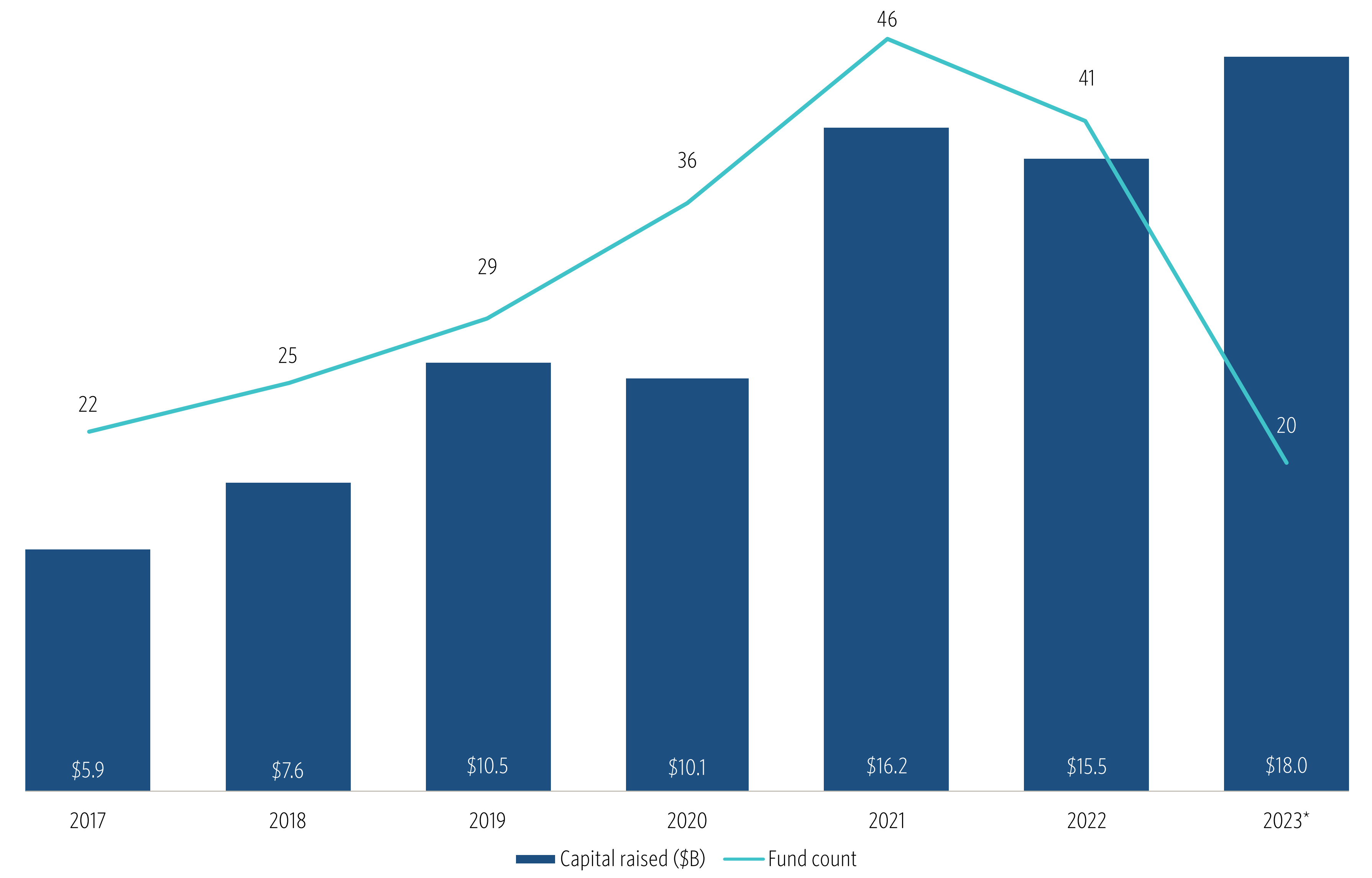
Interest rates

As we wrote in our 2024 Healthcare Outlook, the key trigger for the resumption of larger platform trades will be material interest-rate cutting by the Federal Reserve, which the market currently expects to happen in the second half of 2024. Deal activity will reaccelerate gradually as sponsors attempt to avoid overlapping deal processes and feel out market pricing. If inflation creeps back up and the Federal Reserve signals it will hold rates higher for longer, this could also push some additional deals into the pipeline at discounted prices by removing the near-term promise of a better exit environment.

Headline risk and antitrust

One of the most important developments of late 2023 was growing antitrust scrutiny specifically targeted at PE healthcare services investing. On December 7, 2023, the White House issued a fact sheet that condemned "corporate greed in health care" and "aggressive profiteering by private equity-owned practices," listing physician practices, skilled nursing

PE healthcare specialist fundraising activity



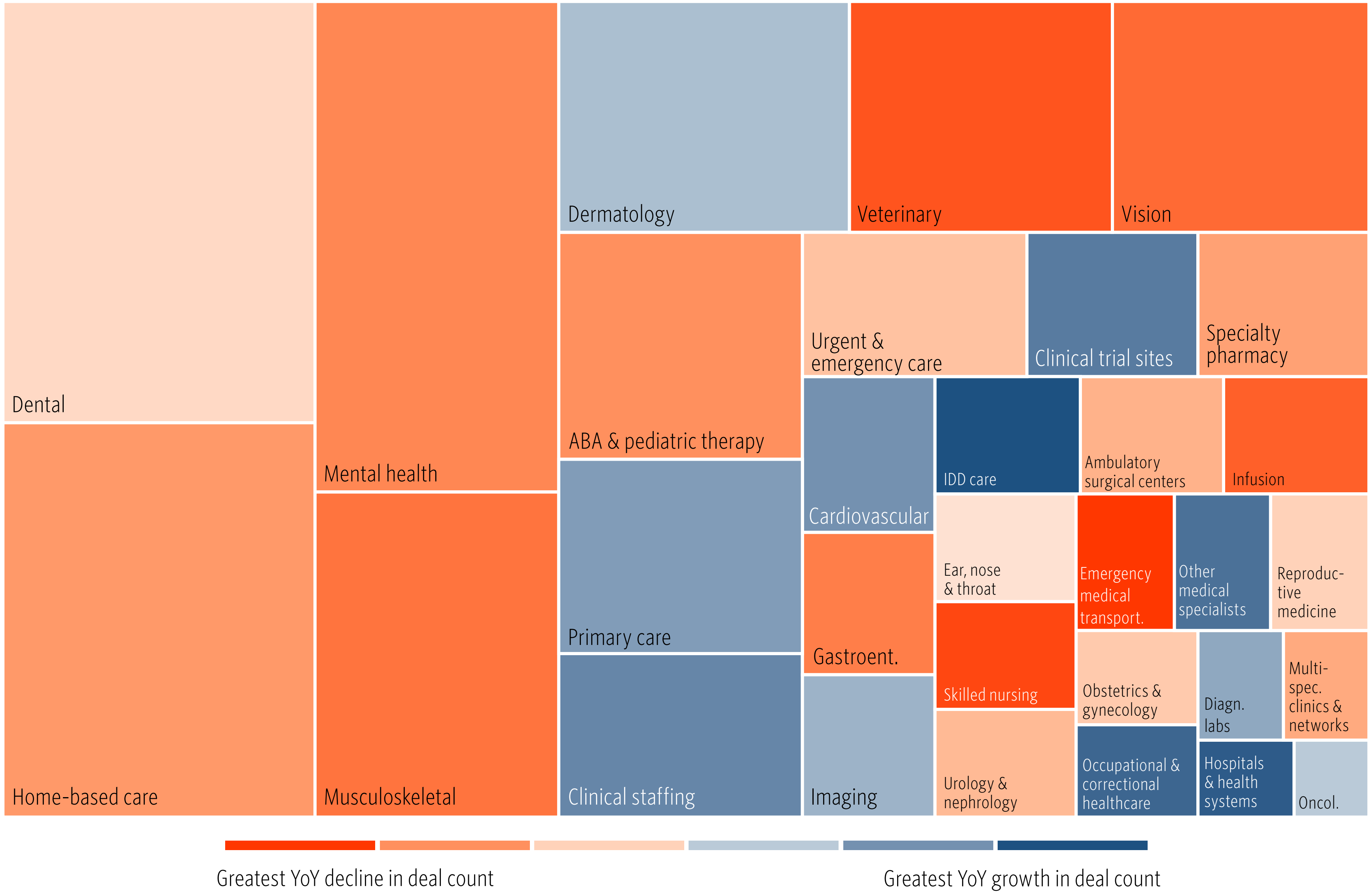
Source: PitchBook • Geography: North America and Europe • *As of December 31, 2023 facilities, hospices, home care, autism, and nurse staffing as examples.[2] The bite of this rhetoric and its direct link to the administration's presidential campaign plank of reducing healthcare costs are arresting.

Also in December, the Federal Trade Commission (FTC) issued revised merger guidelines that, among other changes, specified that the Department of Justice and FTC may examine the cumulative effect of a series of small acquisitions—as opposed to the effect of a single large transaction—to determine risk of harm.[3] The guidelines articulate sentiment that FTC Chair Lina Khan has expressed publicly since she took office and are not legally binding; it remains to be seen how the courts will apply them.

In our view, the current antitrust environment in PE healthcare services investing specifically is both unprecedented and easy to overstate. As we have written previously, the risk of deals being abandoned due to direct federal antitrust enforcement remains low. We consider the FTC's suit against Welsh, Carson,

2: "Fact Sheet: Biden-Harris Administration Announces New Actions to Lower Health Care and Prescription Drug Costs by Promoting Competition," The White House, December 7, 2023.
3: "Federal Trade Commission and Justice Department Release 2023 Merger Guidelines," FTC, December 18, 2023.

Current PE-backed healthcare services platforms by category*



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023
Note: Size equates to number of current PE portfolio companies.

Anderson & Stowe-backed US Anesthesia Partners (USAP), while notable, to be an outlier case. Anesthesia is more concentrated than most physician categories; USAP's extensive litigation history with UnitedHealthcare laid the groundwork for the FTC's suit; and the anticompetitive behavior alleged extended beyond market consolidation into more flagrant price setting and market allocation tactics. The agency itself is also significantly resource constrained. There is greater antitrust risk at the state level. Some states have already become fairly aggressive in their scrutiny of PE activity in healthcare, and they may be further emboldened by the FTC's rhetoric.

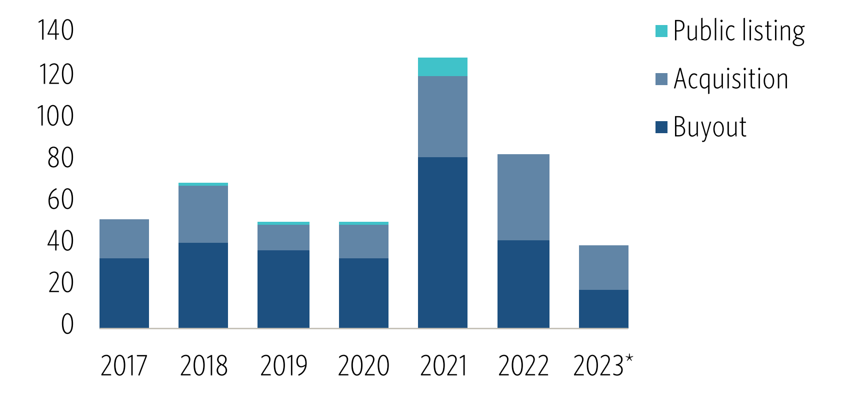
The key effect of the Biden administration's scrutiny of PE in healthcare is not direct antitrust risk, but headline risk. We have been struck by the sudden change in tone among investors on this topic. While the interest-rate environment remains the most important driver of the pace of dealmaking, we also believe sponsors will be somewhat more cautious in 2024 about entering any provider categories that primarily serve vulnerable populations, including home-based care, post-acute care, high-acuity behavioral health, intellectual & developmental disabilities (IDD) care, and autism treatment. When headline risk is added to the liquidity problems that many large platforms faced in 2023, the largest PE firms, which are often the most closely scrutinized, may step back from investing in providers altogether. It is important to note that although federal antitrust risk, to the extent that it exists, would be eliminated by the election of a Republican president in 2024, state antitrust and headline risk factors will persist at least in the short to medium term.

Terminal exits

In line with the broader asset class, 2023 was a historically poor year for PE healthcare services exits. We recorded 39 exits total, 22.0% below the next-lowest year on record, 2019. The decline was primarily driven by the dearth of sponsor-to-sponsor exits; we recorded only 18 of these for the year, almost half the pace set in the next-slowest year on record, 2020.

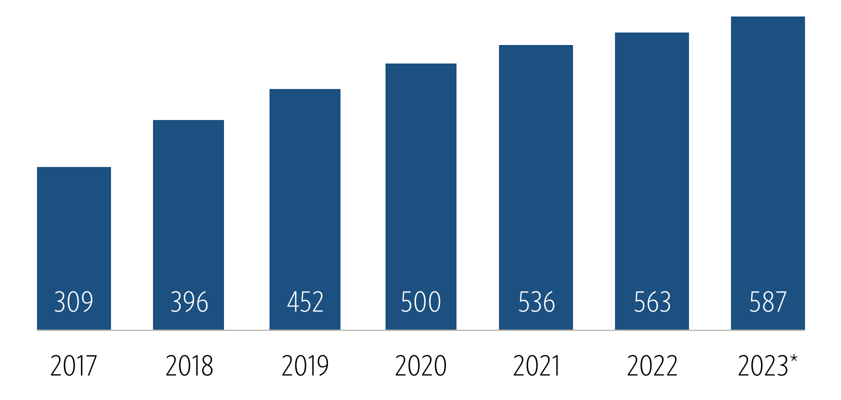
Some of this backlog will be resolved when interest rates fall, as described earlier. But in an industry that traditionally exits platforms by passing them upmarket to larger firms, we are concerned that the number of large platforms in need of an exit in the next couple of years exceeds the number of likely buyers—especially if, as posited earlier, some of the large generalist PE firms move away from healthcare services investing for the next few years. We are tracking 37 platforms

Healthcare services PE exit count by type



Source: PitchBook • Geography: US and Canada
*As of December 31, 2023

PE-backed healthcare services company count



Source: PitchBook • Geography: US and Canada
*As of December 31, 2023

currently in PE hands that have undergone three or more buyouts, and this figure excludes cases where the first investor took a minority stake rather than a majority stake. Some, but not all, of these assets can be moved into continuation vehicles or long-dated funds. Numerous others will have to look for alternative exit routes, including strategic buyers and IPO. The latter option was becoming more popular in 2021 before the market turned, with a number of larger PPM platforms contemplating listing publicly, and may find renewed popularity if public markets remain amenable. The BrightSpring IPO, which priced below range, does not bode well for this option in the near term.

Pharma services pivot

Throughout 2023, we heard from healthcare specialists that they were increasingly spending time in pharma services as well as, to a lesser extent, healthcare IT and payer services. Setting aside some fairly considerable supply chain and inflation shocks in the contract research and manufacturing space over the past few years, the life sciences industry has proven more resilient than healthcare providers in the current environment. And although investing in life sciences requires a certain level of sophistication, there is a strong cohort of middle- and upper-middle-market healthcare specialist firms that raised capital in 2023 or are currently nearing fund closes. We expect growing competition and pricing increases in pharma services as a result and look forward to launching dedicated pharma services coverage later this year.

Index of previous Healthcare Services Report spotlights

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

Q3 2023: New subcategory data

Q2 2023: Mental health, medical spas (medspas)

Q1 2023: Cardiology, wound care

Q4 2022: Rheumatology, value-based care (VBC) enablers (update), Medicaid/CHIP pediatric dentistry

Select PE healthcare services deals in Q4 2023*

Company	Category/subcategory	Deal type	Announced/close date	Exiting company/investor(s)	Acquirer(s)/investor(s)	Deal value ($M)
Lindora	Other medical specialists (weight loss)	Acquisition	December 4	Envoy Ventures, et al.	Xponential Fitness	N/A
Skin and Cancer Associates	Medical & cosmetic dermatology	Buyout	December 1	Susquehanna Private Capital	Platinum Dermatology Partners (Sun Capital)	N/A
Agile Infusion Services	Infusion	Growth	December 1	N/A	Walnut Court Capital	N/A
Mountain State Oral & Facial Surgery	Oral surgery	Growth	November 28	N/A	HealthEdge Investment Partners	N/A
Nextera Healthcare	Direct primary care & concierge	Buyout	November 17	N/A	Shore Capital Partners	N/A
Ascend Plastic Surgery Partners	Aesthetic dermatology	Buyout	October 27	N/A	Sheridan Capital Partners	N/A
Comprehensive Rehab Consultants	Post-acute/LTC staffing	Buyout	October 20	N/A	York Capital Management	N/A
Trumpet Behavioral Health	ABA & pediatric therapy	Buyout	October 18	WindRose Health Investors, Balance Point Capital	BlueSprig Pediatrics (KKR)	N/A
Smart Arches	Endodontics & periodontics	Carveout	October 17	ProSmile Holdings	TriSpan	N/A
Defining Wellness Centers	SUD treatment	Buyout	October 12	N/A	Fulcrum Equity Partners	N/A
Conquest Research	Clinical trial sites	Buyout	October 12	N/A	Reynolda Equity Partners	N/A

Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Healthcare services PE ecosystem market map

This market map is an overview of venture-backed or growth-stage companies that have received venture capital or other notable private investments. Click to view the full map on the PitchBook Platform.

1 Generalist & multispecialty providers

Hospitals & health systems

Multispecialty clinics & networks

Occupational & correctional healthcare

Primary care

Urgent & emergency care

2 Ancillary & outsourced services

Ambulatory surgical centers

Clinical staffing

Diagnostic laboratories

Imaging

Emergency medical transportation

Infusion

Specialty pharmacy

3 Skilled care & behavioral health

Applied behavior analysis & pediatric therapy

Home-based care

Intellectual & developmental disabilities care

Mental health

Skilled nursing

4 PPMs

Cardiovascular

Clinical trial sites

Dental

Dermatology

Ear, nose & throat

Gastroenterology

Obstetrics & gynecology

Oncology

Musculoskeletal

Reproductive medicine

Urology & nephrology

Veterinary

Vision

Other medical specialties

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
- 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
- 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

Q4 2023 timeline

PE deal

October 18

WindRose Health Investors sells Trumpet Behavioral Health, which operates 37 deals in seven states, to KKR-backed BlueSprig Pediatrics. We expect applied behavior analysis (ABA) activity to accelerate in 2024 as once-astronomical valuations reset.

PE deal

November 17

In a bullish sign for the recently sleepy direct primary care (DPC) space, Shore Capital Partners acquires Nextera Healthcare, a national-scale DPC provider. We set out the opportunities and risks for DPC in the "Spotlights" section of this report.

News

December 7

The Biden administration publishes a fact sheet that, among other topics, condemns "aggressive profiteering by private equity-owned practices." Antitrust and headline risk have become a major theme for the sector heading into 2024.

News

December 11

Cigna and Humana call off merger talks, which were first reported in November. Antitrust opposition is believed to have contributed to the deal's demise. Many payers are under pressure due to rising utilization, slowing growth, and changes to the Medicare Advantage (MA) program.

PE deal

December 13

Tailwind Capital sells Lone Peak Dental Group, a 14-state platform, to BlackRock. Lone Peak has a significant number of Medicaid-focused locations and is the largest dental group to trade in 2023.

Oct 1 Nov 1 Dec 1 Dec 31

PE activity

172
total deals in Q4 (estimated)

788
total deals in 2023 (estimated)

-19.9%
QoQ change in deal count

-16.2%
YoY change in deal count

Segment data

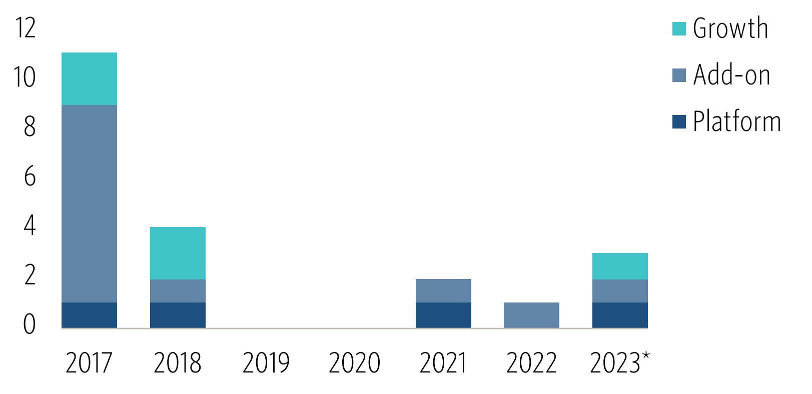
Generalist & multispecialty providers

Ancillary & outsourced services

PPMs

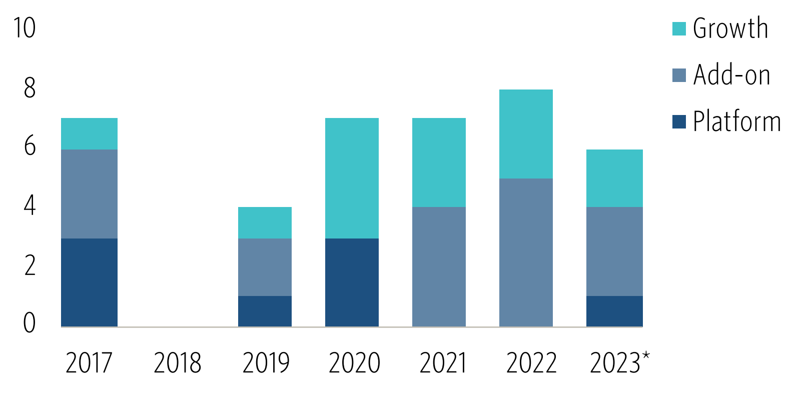
Skilled care & behavioral health

Hospitals & health systems PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Multispecialty clinics & networks PE deal count by type



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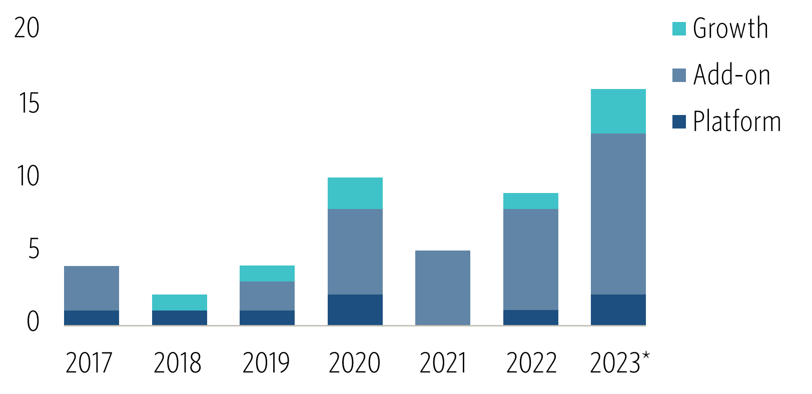
Occupational & correctional healthcare PE deal count by type



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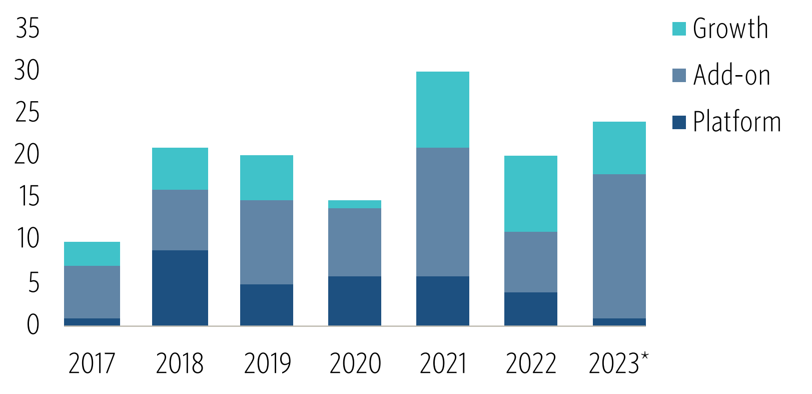
Primary care PE deal count by type



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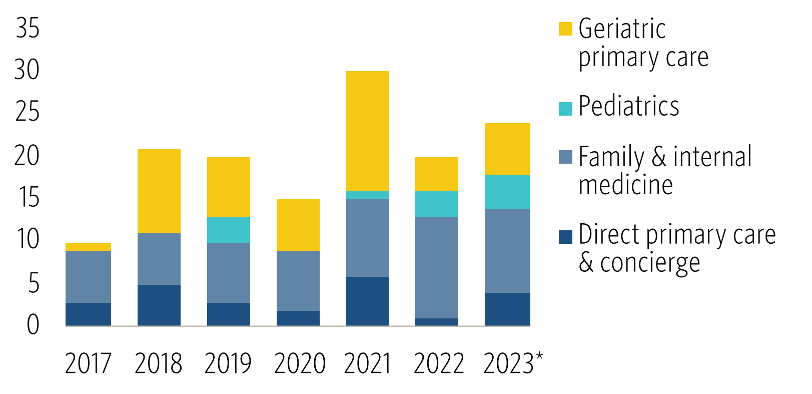
Primary care PE deal count by subcategory



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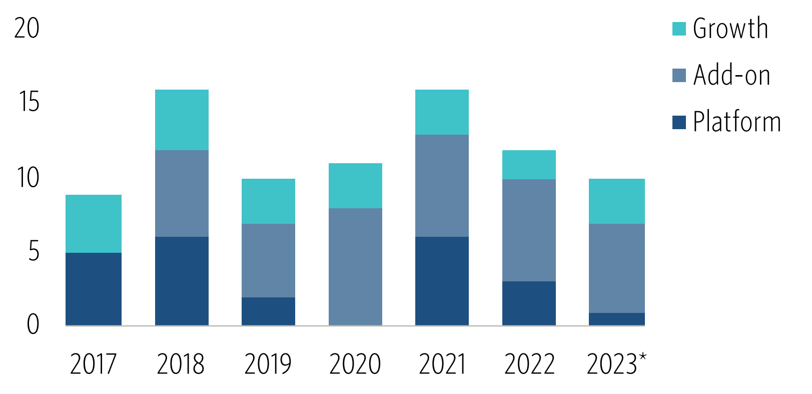
Urgent & emergency care PE deal count by type



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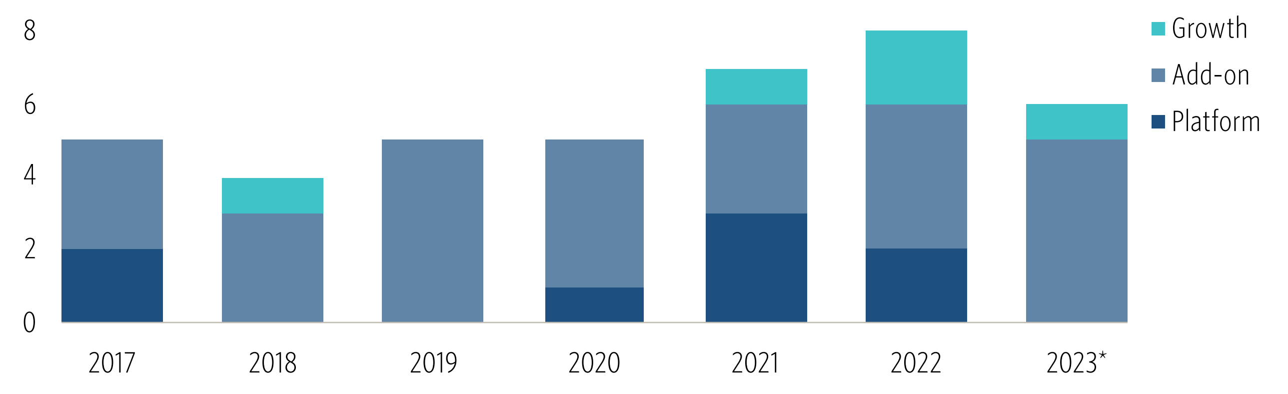
ANCILLARY & OUTSOURCED SERVICES

Ambulatory surgical centers (ASCs) PE deal count by type



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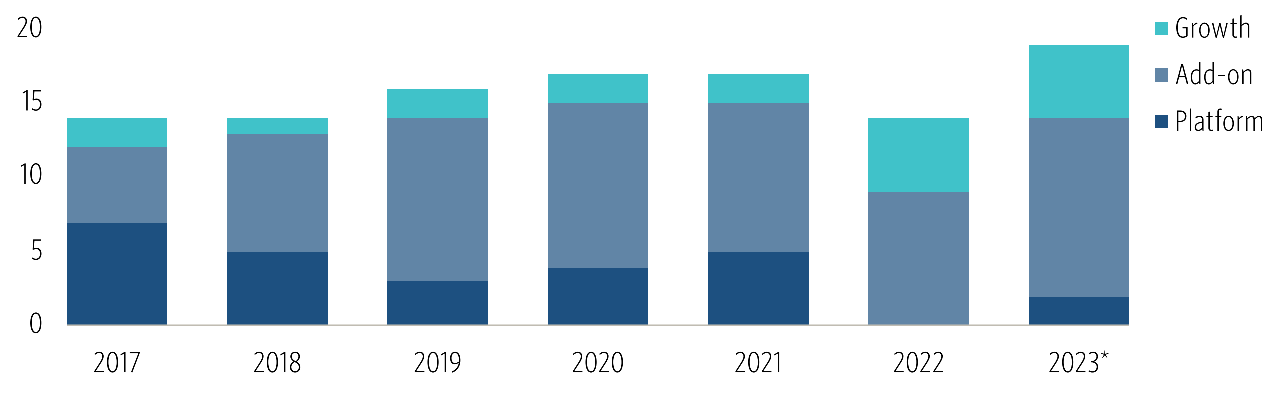
Clinical staffing PE deal count by type



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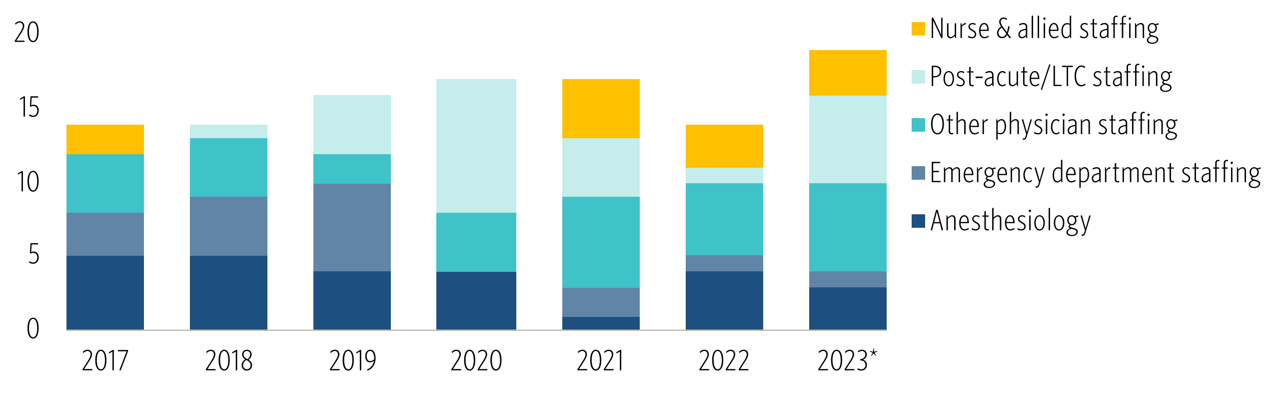
Clinical staffing PE deal count by subcategory



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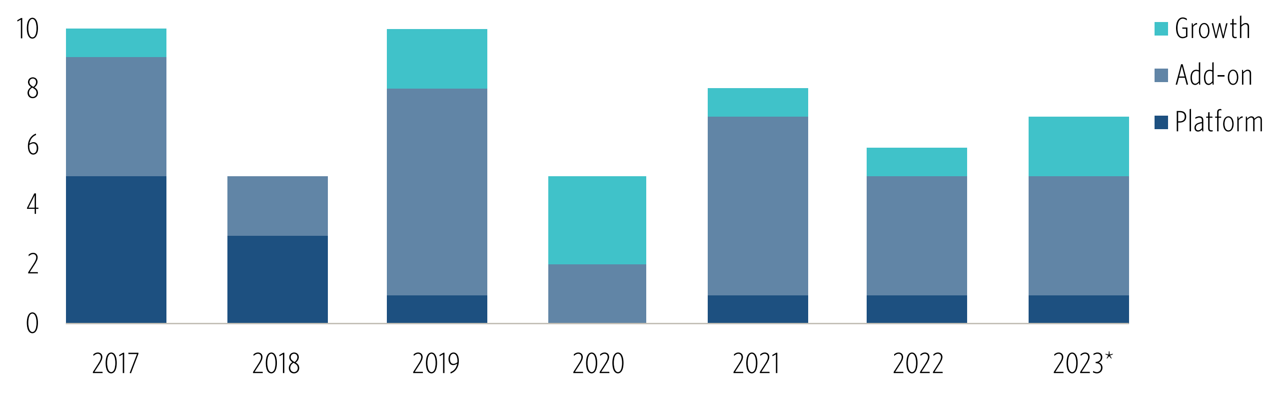
Diagnostic laboratories PE deal count by type



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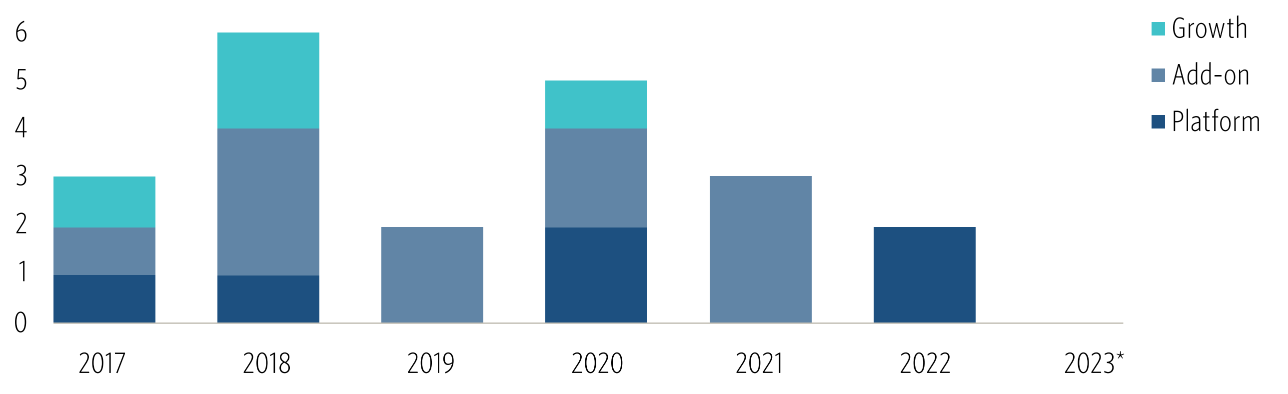
Emergency medical transportation PE deal count by type



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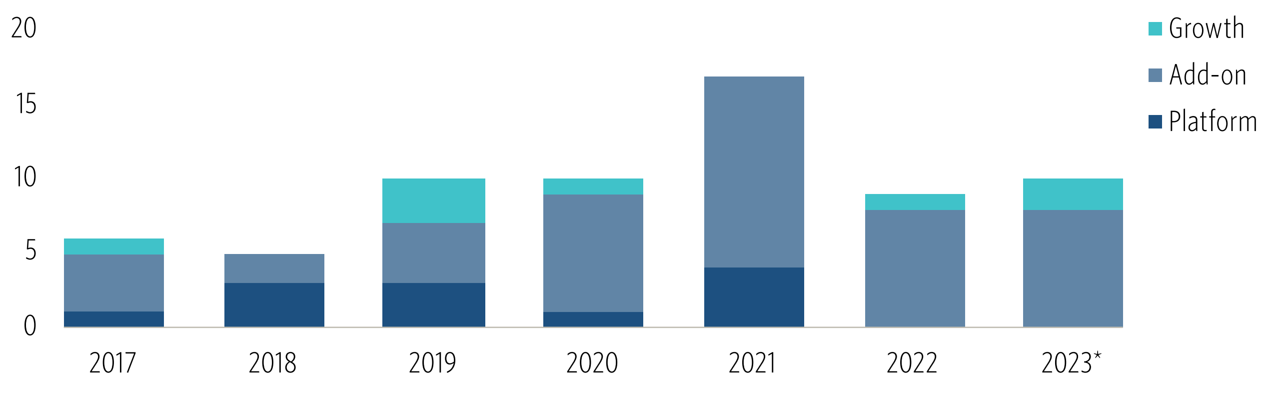
Imaging PE deal count by type



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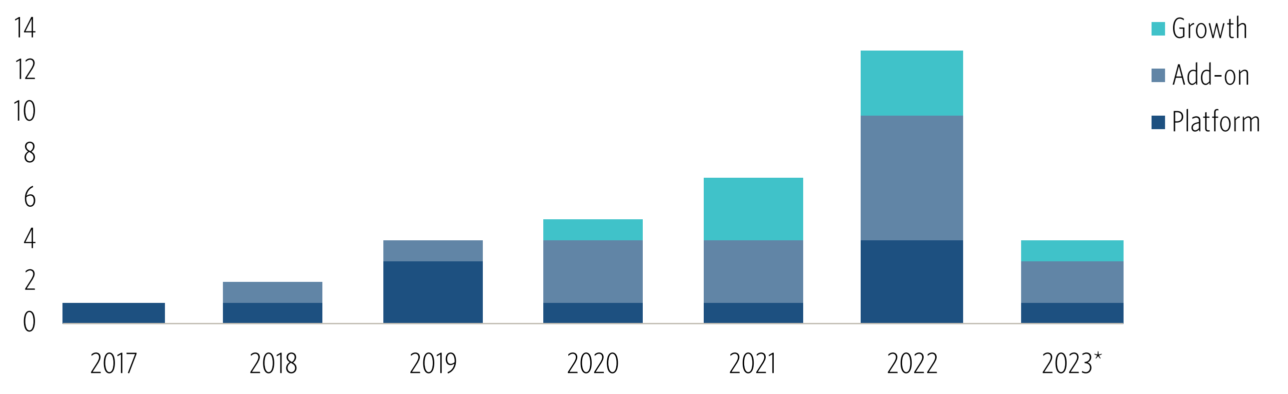
Infusion PE deal count by type



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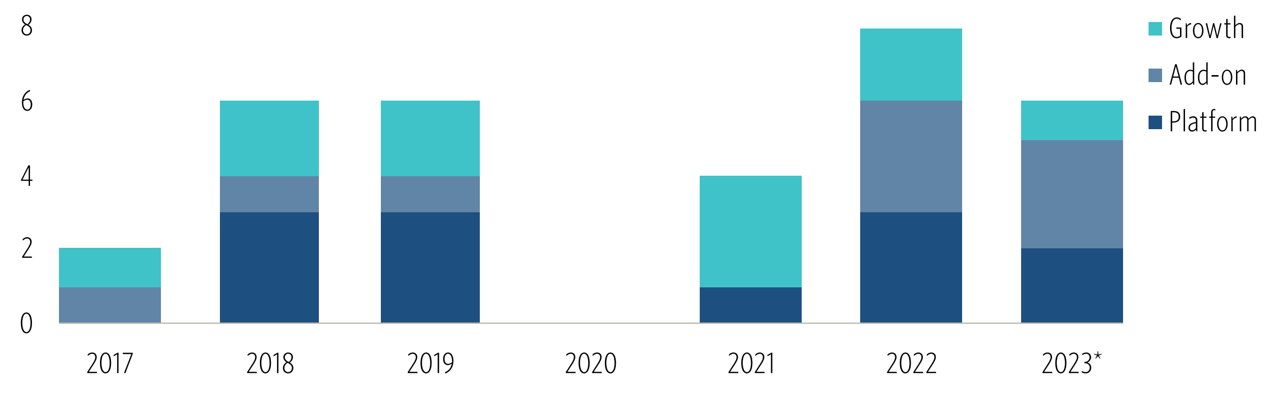
Specialty pharmacy PE deal count by type



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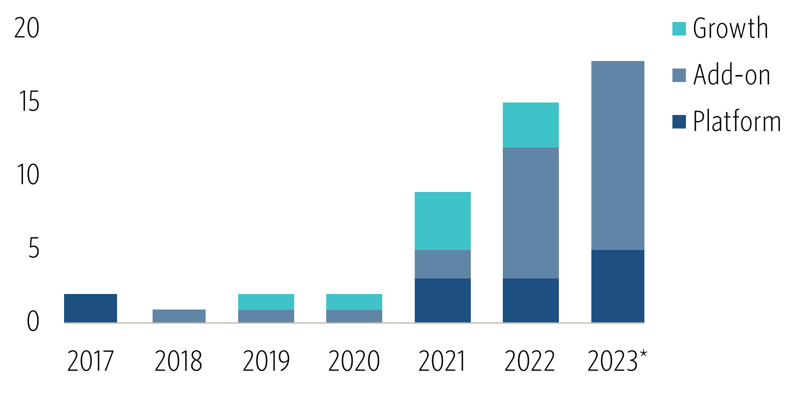
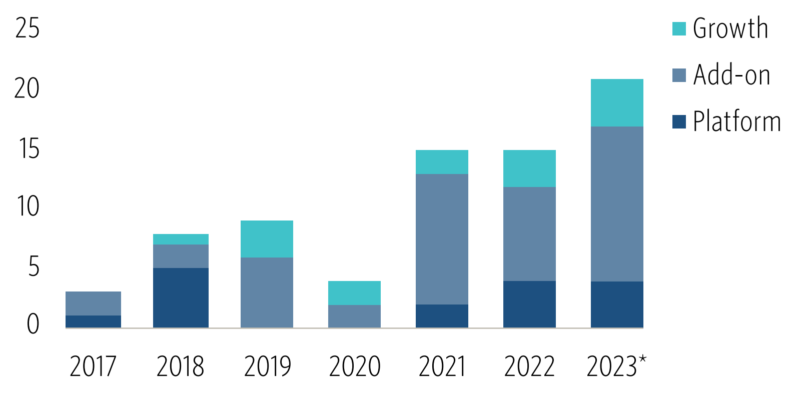
Cardiovascular PE deal count by type



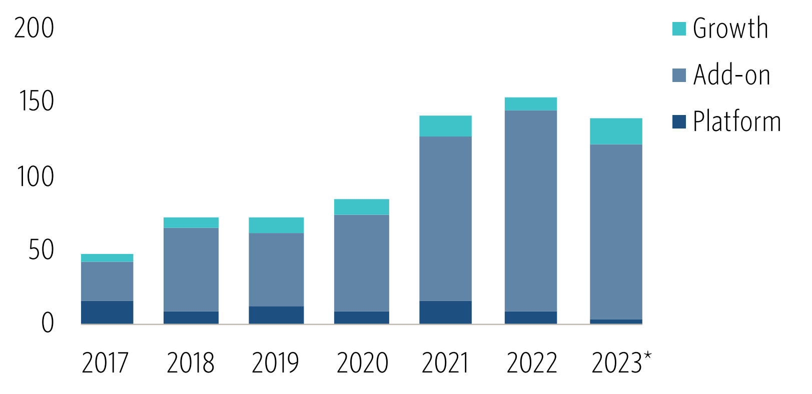
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Clinical trial sites PE deal count by type



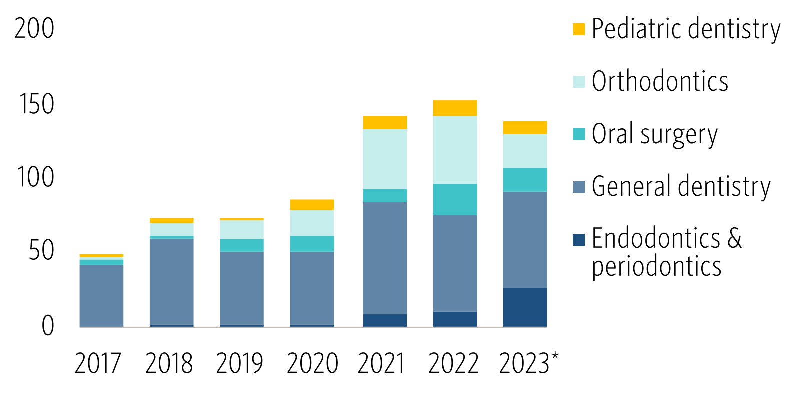
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Dental PE deal count by type



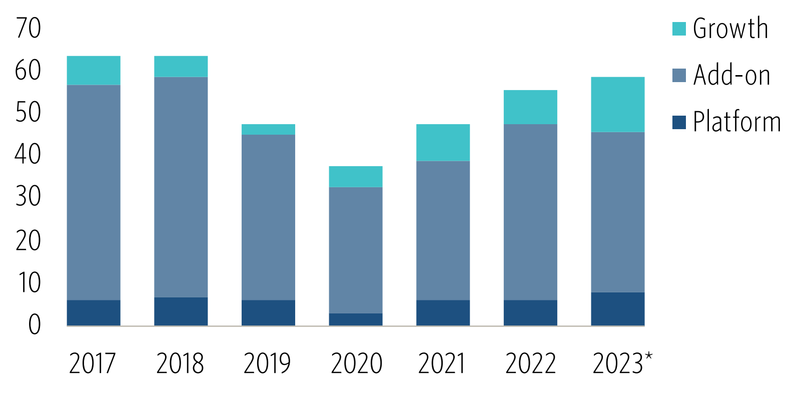
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Dental PE deal count by subcategory



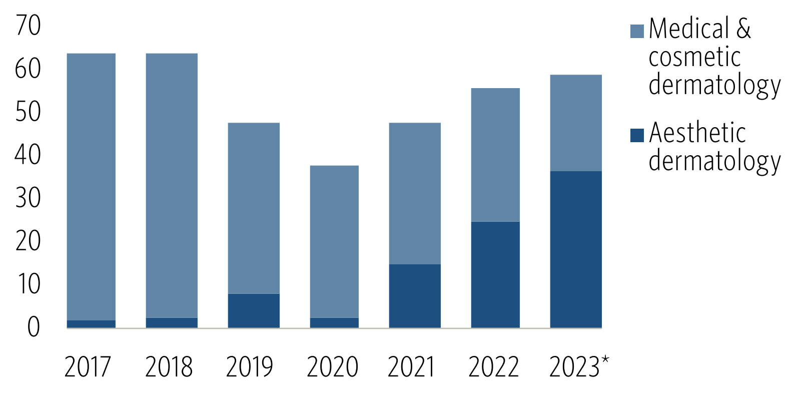
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Dermatology PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

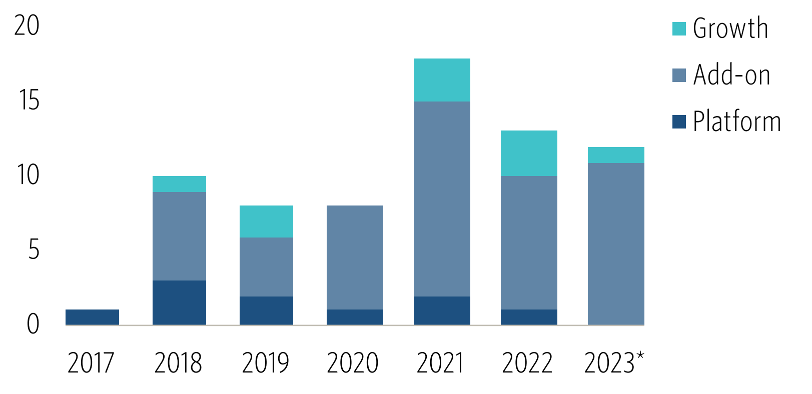
Dermatology PE deal count by subcategory



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

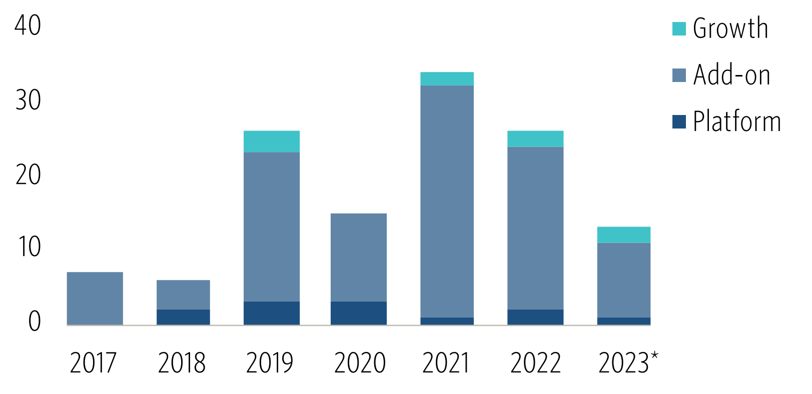
PPMS

Ear, nose & throat PE deal count by type



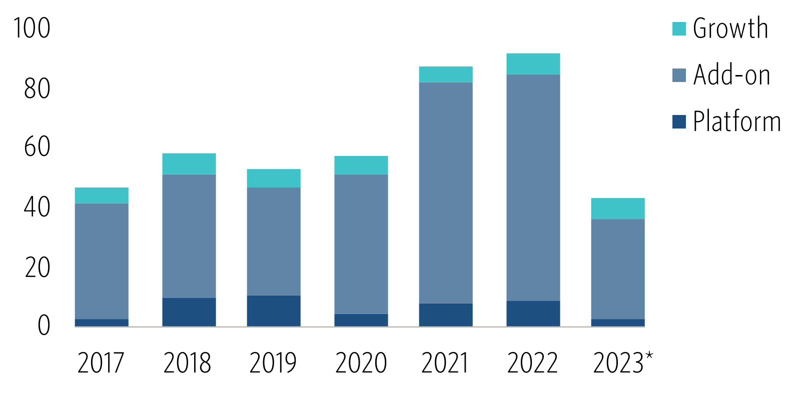
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Gastroenterology PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

MSK PE deal count by type



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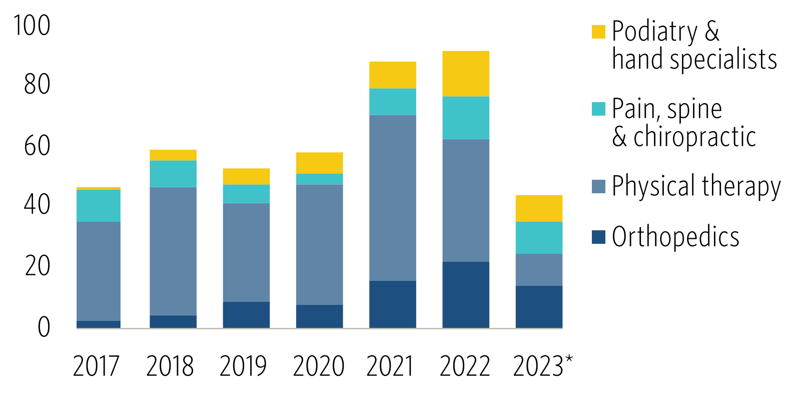
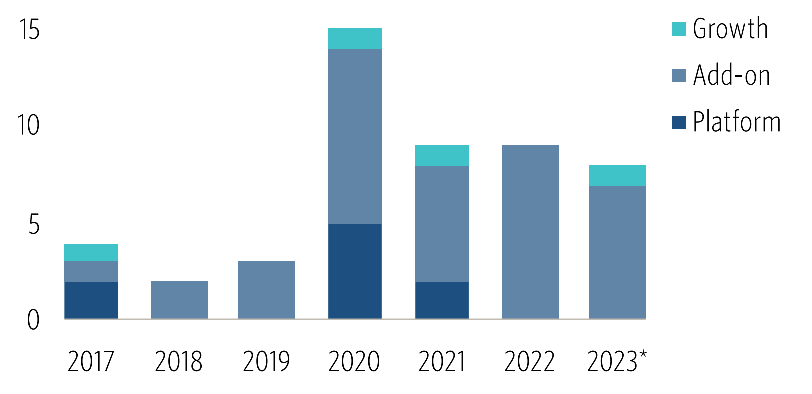
MSK PE deal count by subcategory



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Obstetrics & gynecology (OB-GYN) PE deal count by type



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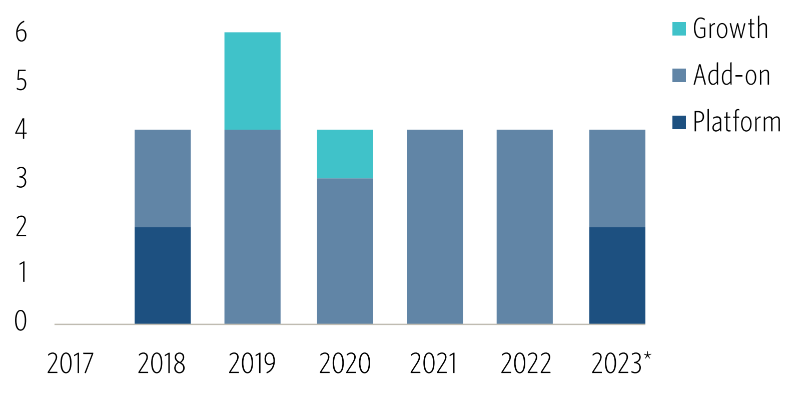
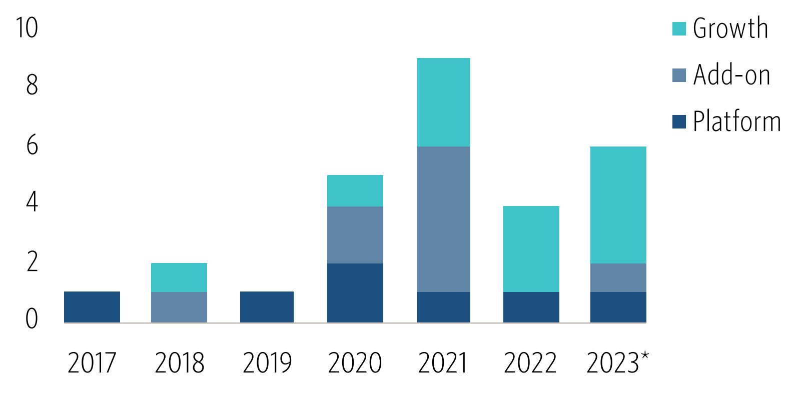
Oncology PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

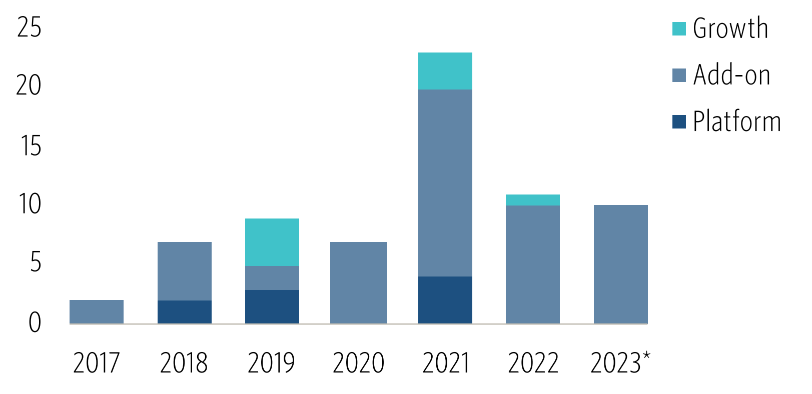
PPMS

Other medical specialists PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Reproductive medicine PE deal count by type



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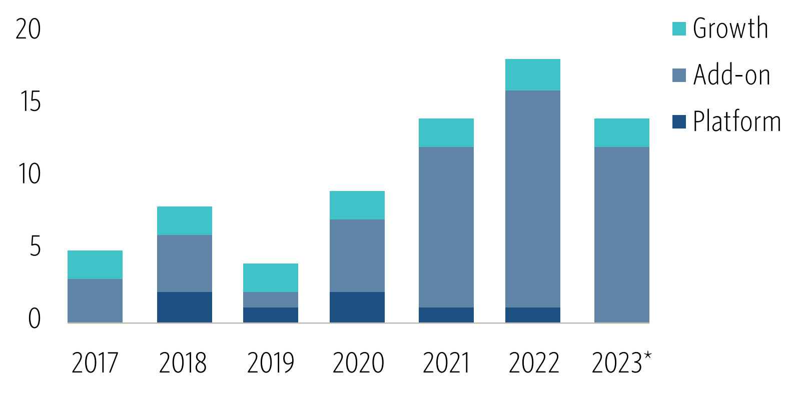
Urology & nephrology PE deal count by type



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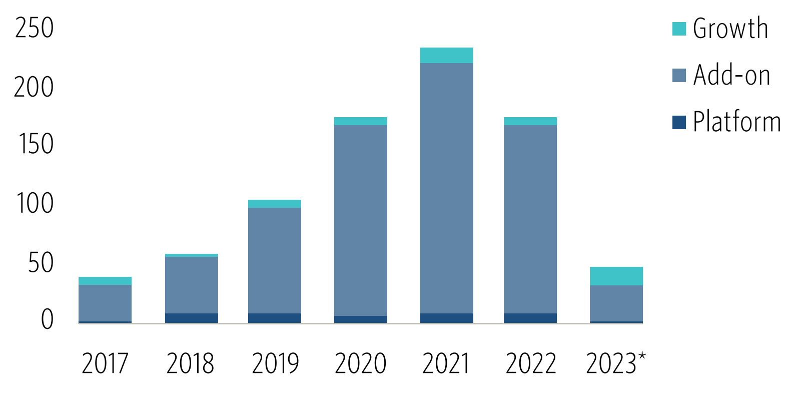
Veterinary PE deal count by type



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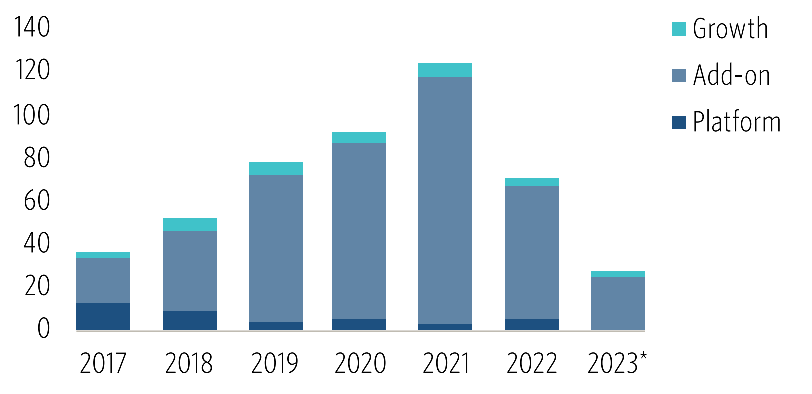
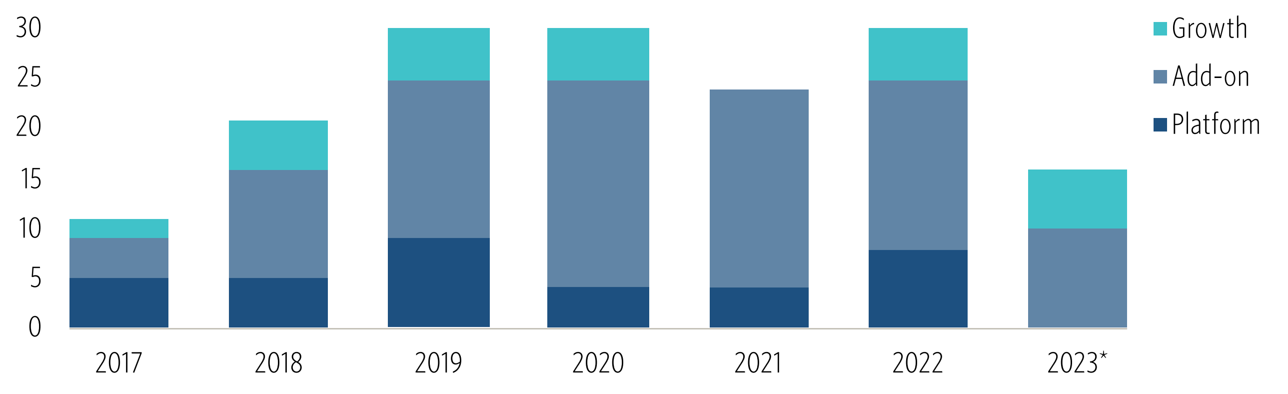
Vision PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

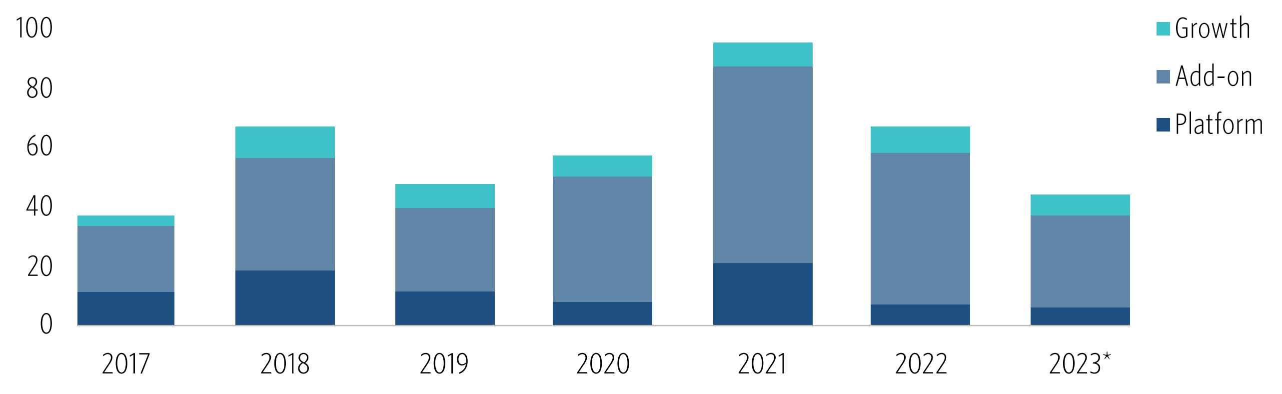
SKILLED CARE & BEHAVIORAL HEALTH

ABA & pediatric therapy PE deal count by type



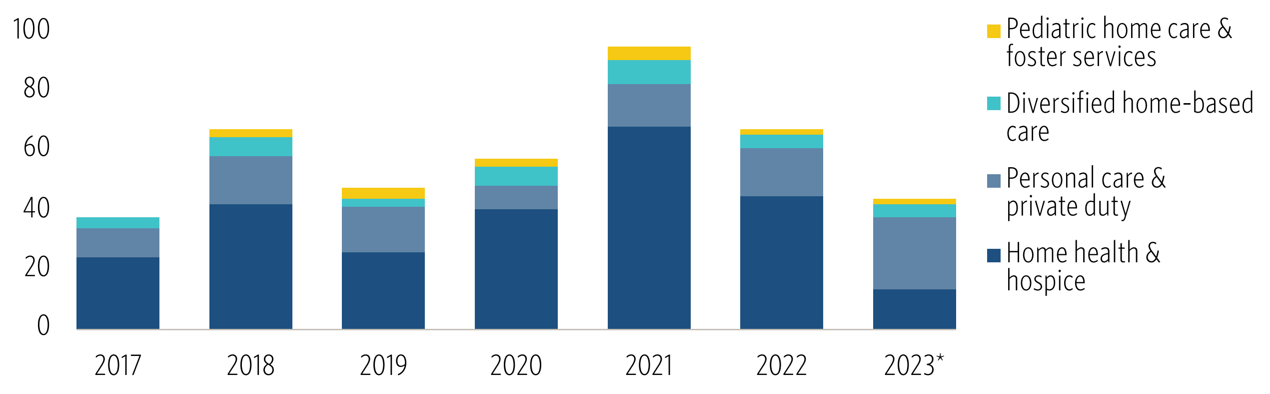
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Home-based care PE deal count by type



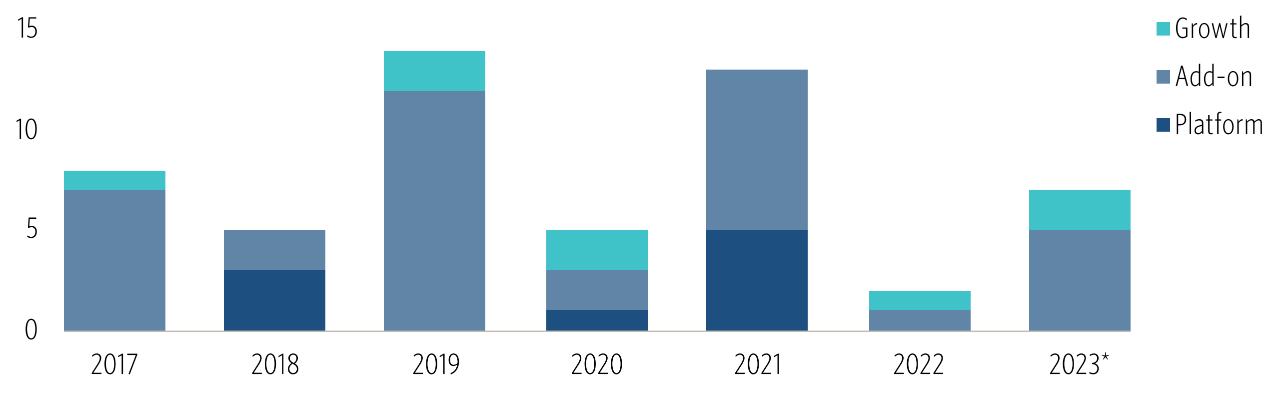
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Home-based care PE deal count by subcategory



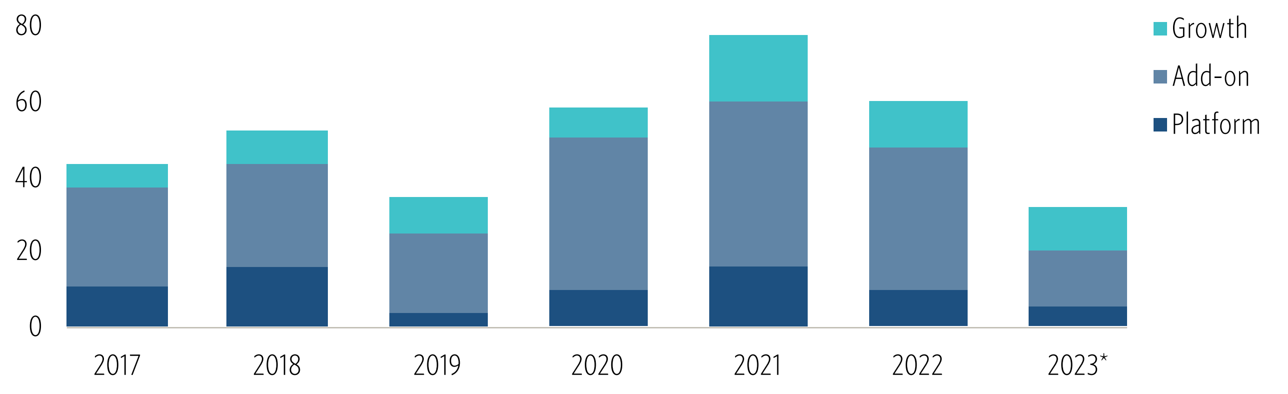
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

IDD care PE deal count by type



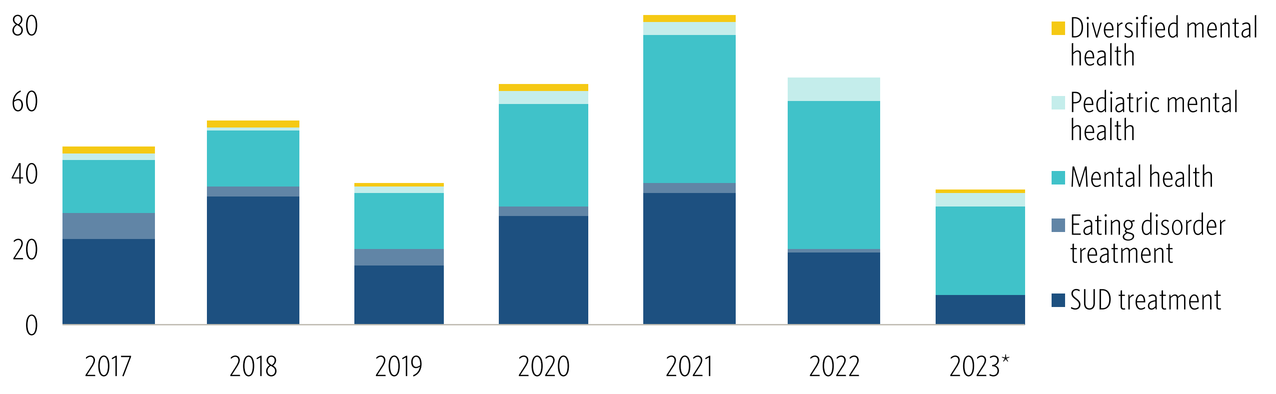
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Mental health PE deal count by type



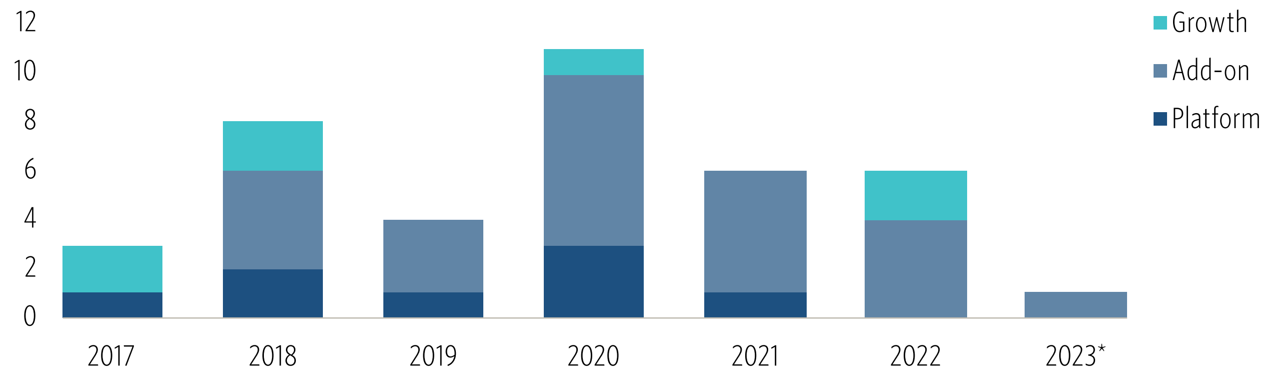
Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Mental health PE deal count by subcategory



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Skilled nursing PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Spotlights

2023's top three categories

Medspa, cardiovascular, and clinical trial sites top the short list of categories that saw positive deal trends in 2023.

Obstetrics & gynecology

Current platforms are well positioned in this sleepy category, while future entrants will need to pursue novel care models.

Direct primary care

As healthcare costs squeeze employers, DPC may become PE's next VBC play.

2023's top three categories

Although most categories saw declines in both deal activity and valuations in 2023, there were limited exceptions. Below, we highlight the three standout categories of the year.

1. Medspa

It is no coincidence that the hottest PE healthcare services category of 2023 is purely cash pay, de-novo friendly, and ultrafragmented—that is, it is a category that circumvents many of the reimbursement and liquidity woes that sponsors are facing elsewhere. The medspa sector is buoyed by growing consumer interest and low barriers to entry for new providers. Scaled platforms are extremely hard to come by, and sponsors still seeking an entry to the space will likely need to start small and build rather than buy. Despite increased activity, an abundance of targets and broader market conditions have helped to hold deal multiples steady in the high single digits for platforms and mid- to low single digits for add-ons. We have also seen an uptick in pure-play plastic surgery deals as a result of sponsor interest in the aesthetics space broadly and the attractiveness of medspa as an ancillary, largely recurring revenue stream.

Select aesthetic dermatology PE deals in 2023*

Company	Deal type	Announced/close date	Exiting company/investor	Acquirer/investor	Deal value ($M)
Ascend Plastic Surgery Partners	Buyout	October 27	N/A	Sheridan Capital Partners	N/A
Well Labs+	Growth	September 1	N/A	BPEA Private Equity	N/A
Edina Plastic Surgery	Buyout	September 1	N/A	Varsity Healthcare Partners	N/A
SEV Laser	Growth	June 2	N/A	Levine Leichtman Capital Partners	N/A
Cosmetic Skin & Laser Center	Buyout	May 25	N/A	Incline Equity Partners	N/A
Esthetics Center	Buyout	April 10	N/A	Thurston Group	N/A
MedSpa Partners	Continuation fund	April 1	Persistence Capital Partners	Persistence Capital Partners	$275.00

Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Valuing medspas has become somewhat more challenging in the current environment due to uncertainties around consumer discretionary spending, although subscription-based models, patient financing plans, and smart site location can help minimize this risk. Other key risks in the industry include growing competition for customers in some markets and rapidly fluctuating consumer brand and product preferences. It is also worth noting that some independent medspa operators have begun to offer GLP-1 therapies for weight loss via compounding pharmacies, but to our knowledge, most PE-backed platforms have so far steered clear of this liability land mine.

2. Cardiovascular

Cardiovascular earns a close second on our list, dropping to number two because we are already seeing storm clouds gather. On the positive side, the migration of procedural codes to outpatient settings—which began when the Centers for Medicare & Medicaid Services added percutaneous coronary interventions to the ASC covered procedures list in 2020—is expected to continue. This represents a key opportunity for PE-backed independent groups to drive procedural volume into ASCs. VC-backed startups Karoo Health and Chamber Cardio have also begun to deploy VBC payment models for independent cardiovascular groups.

Select cardiovascular PE deals in 2023*

Company	Deal type	Announced/close date	Exiting company/investor	Acquirer(s)/ investor(s)	Deal value ($M)
Nathan Cardiology Associates	Buyout	August 1	N/A	Chicago Pacific Founders	N/A
AlignedCardio	Buyout	June 14	N/A	RC Capital	N/A
American Vascular Associates	Buyout	April 7	N/A	Canopy Capital Partners, Petra Capital Partners	N/A
Novocardia	Add-on	April 4	Deerfield Management	Cardiovascular Associates of America (Webster Equity Partners)	N/A
Cardiovascular Institute of the South	Buyout	January 31	N/A	Lee Equity Partners	N/A

Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

On the negative side, independent cardiovascular groups are a rare commodity. Cardiovascular platform multiples reached the mid- to high teens in 2023—a level that is hard to stomach in the current rate environment—and the dearth of targets limits opportunities to blend those multiples down over time. Moreover, PE-backed cardiovascular groups must walk a tightrope as they expand, attracting physicians without alienating local health systems and losing referrals. Sponsor-driven M&A in cardiovascular slowed in the second half of 2023, and we believe 2024 will see firms look further downmarket for their entrances into the space.

3. Clinical trial sites

PE acquisitions of clinical trial sites continued to accelerate in 2023. Although the pandemic-era buzz around decentralized trials—trials conducted primarily remotely via at-home monitoring—has receded, the US Food and Drug Administration continues to ratchet up expectations for better demographic representation in trial populations. This in turn makes freestanding trial sites, which often have access to more diverse patient populations than academic medical centers do, an increasingly important mechanism for accelerating a drug's time to market.

Select clinical trial site PE deals in 2023*

Company	Deal type	Announced/close date	Exiting company/investor	Acquirer/investor	Deal value ($M)
Impact Research Institute	Add-on	October 25	N/A	Velocity Clinical Research (GHO Capital)	N/A
Conquest Research	Buyout	October 12	N/A	Reynolda Equity Partners	N/A
Accel Research Sites	Add-on	July 14	N/A	Alcanza Clinical Research (Martis Capital)	N/A
Alliance Clinical Network	Buyout	May 19	N/A	Amulet Capital Partners	N/A
Clinvest Research	Add-on	May 4	N/A	Headlands Research (KKR)	N/A
Atlas Clinical Research	Buyout	April 12	N/A	BPOC	N/A

Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

2023'S TOP THREE CATEGORIES

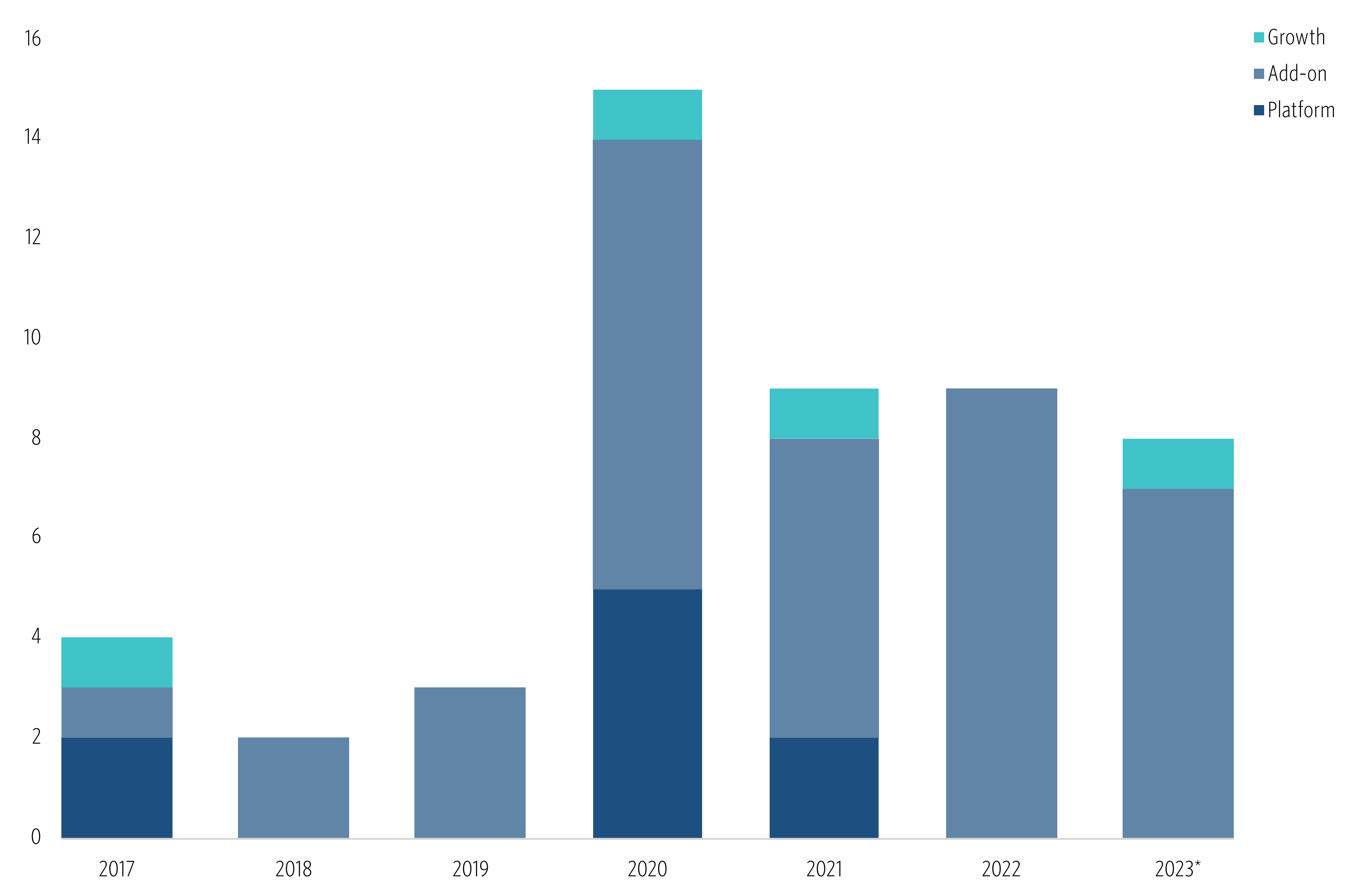
The clinical trial site market exhibits similar fragmentation characteristics to many specialist physician categories and offers considerable opportunity for firms to improve operations through tech-enabling patient recruitment, data collection and reporting, and trial administration. Contract research organizations, which have been consolidating and vertically integrating for a while, represent both potential competitors for sites and potential buyers at exit. Key risks include operational execution (trials are increasingly complex, and recruitment is difficult) and therapeutic area concentration. The biopharma fundraising landscape remains volatile, with investor attention currently swinging away from rare disease and immunology and toward cardiovascular and metabolic conditions. We have heard that more firms are competing on trial site deals and that multiples reached the mid-teens in 2023.

Obstetrics & gynecology

After a flurry of platform activity in 2020 and 2021, the OB-GYN category has fallen off the radar for many investors. We view the space as one with a compelling demand story but significant challenges in unit economics and scale. Given the age of current platforms, we are likely at least one to two years out from seeing additional large OB-GYN platform trades. Unified Women's Healthcare, the largest player, could be a candidate for IPO depending on market favorability. A PE women's health 2.0 play has yet to emerge but will likely involve multispecialty models as well as partnerships with VC-backed disruptors.

PE OB-GYN roll-ups began with Ares Management's investment in Unified Women's Healthcare in 2013. Additional platforms entered the market in the late 2010s, and several, including Unified, traded in 2020 and 2021. The value proposition for historical OB-GYN PPM investments centered on market size and strategic position relative to patients and payers. OB-GYN is often compared with primary care. It is a much larger specialty than most of the procedural PPM categories and has the potential to provide longitudinal care for half the population. Women in their 30s, 40s, and 50s utilize healthcare at higher rates than men, and women are often the

OB-GYN PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Select PE-backed OB-GYN platforms*

Company	Last deal date	Last deal type	Sponsor(s)
Axia Women's Health	May 5, 2021	Buyout	Partners Group
Femwell Group Health	December 1, 2020	Growth	LightBay Capital
Hera Women's Health	April 9, 2021	Buyout	Imperial Capital Group
Together Women's Health	December 31, 2020	Buyout	Shore Capital Partners
Unified Women's Healthcare	December 18, 2020	Buyout	Altas Partners, Ares Management, Oak HC/FT
Women's Care Enterprises	December 1, 2020	Buyout	Leavitt Equity Partners

Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

primary medical decision-makers within a household.[4] OB-GYN is also a primarily referral-generating, rather than referral-dependent, specialty. These factors combined have given scaled OB-GYN platforms the ability to withstand rate pressure from payers better than some referral-dependent specialties.

Accordingly, the lack of deal flow over the past two years has largely been due to a dearth of scaled assets for sale. The largest platforms grew aggressively with first-mover advantage, and the larger nonbacked groups that remained independent have typically done so by developing strong practice ancillaries, such as imaging facilities and on-site labs, to drive additional revenue. This in turn reduces the value proposition for physician-owners for a PE sale. Very small OB-GYN providers are unsuitable as platforms due to low EBITDA, and even if a firm were to capitalize a new platform, inorganic growth would be laborious due to the small size of add-on targets. We also see limited terminal exit opportunities for OB-GYN roll-ups, an important consideration given the exit backlog of scaled PPM platforms discussed earlier.

Value-based care

OB-GYN is broadly considered one of the specialties most likely to undergo a VBC transformation in the future due to the clearly defined perinatal episode of care; the high-touch, primary-care-like relationship OB-GYNs have with their patients; and relatively straightforward cost and quality levers. SCAN Health Plan, a nonprofit California payer, announced in October 2023 that it was launching a women-focused MA plan, primarily differentiated from the standard offering by providing $0 estrogen therapy and tailored fitness and wellness incentive benefits.[5] This limited offering may be a step in the right direction but is a far cry from truly designing networks and payment models around managing older women's care. In perinatal care, several PE-backed OB-GYN groups have entered alternative payment models with payers, typically for their Medicaid contracts, but these are typically pay-for-performance models. According to Kayla McCann Marty, Partner at McGuireWoods, the key intervention in value-based maternity care—especially relevant for Medicaid-insured populations—is engaging patients as early as possible, and as regularly as possible, in the pregnancy.[6] We believe that a successful play in this space would require advanced data capabilities to assist with risk stratification and attribution, as well as a high-touch primary-care-like model, possibly supported by community-based workers—no small feat to assemble within Medicaid margins. For instance, VC-backed Maven derives 8% to 10% of its revenue from Medicaid and has some full-risk models in place, but it has struggled with unit economics. To further complicate matters, value-based contracts in OB-GYN must convene multiple provider entities, including not just the independent OB-GYN practice but also the admitting hospital, anesthesia provider, and laboratory. On the payer side, contracting for hospitals and for outpatient providers within a given plan is often handled by separate administrators, further confounding coordination attempts.

Due to these complexities, we expect VBC efforts within PE-backed OB-GYN groups to continue to advance slowly. As with other specialties, a reasonable goal for developing VBC within a five-year PE holding period is not to drive significant revenue upside, but to prove out readiness for more advanced models in order to make the platform more attractive to the next buyer and improve the exit multiple.

4: "Innovation in Women's Health Report," Silicon Valley Bank, Jackie Spencer, et al., December 2023.
5: "SCAN Health Plan Cuts Name-Brand Drug Costs and Starts Women-Oriented MA Plan," FIERCE Healthcare, Noah Tong, October 2, 2023.
6: Kayla McCann Marty, Partner at McGuireWoods, phone interview by Rebecca Springer, January 25, 2024.

Second-wave opportunities

We see women's health as ripe for a second wave of investment focused on integrated care models. Traditionally, the PE industry has focused on OB-GYN physicians and in vitro fertilization clinics, with a handful of pure-play obstetrics hospitalist, maternal-fetal-medicine, and mammography investments as well. One key opportunity is for existing OB-GYN and other women's health PPM platforms to acquire or partner with VC-backed women's care technology solutions to add differentiated engagement and care management capabilities while providing access to patients and providers at scale.[7] Precedent transactions include Unified's 2020 acquisition of prenatal risk analysis company Lucina and US Fertility's 2023 acquisition of fertility-test-kit maker Oova.

Another opportunity, in McCann Marty's view, is for new PE investment in multispecialty provider groups that combine OB-GYN with adjacent specialties and ancillaries. One example is comprehensive breast centers, which may offer medical, radiation, and surgical oncology; imaging; plastic surgery; infusion services; genetic testing; and care navigation and patient support.[8] In January, we recorded an investment by Webster Equity Partners in Center for Restorative Breast Surgery, a specialized plastic surgery and breast oncology practice. We view this deal as a potential sign of more activity to come and will be watching carefully to see if PE investment can help to scale innovative models in the underinvested women's health segment.

7: PitchBook clients can access the market map of VC-backed women's health startups here.
8: Kayla McCann Marty, Partner at McGuireWoods, phone interview by Rebecca Springer, January 25, 2024.

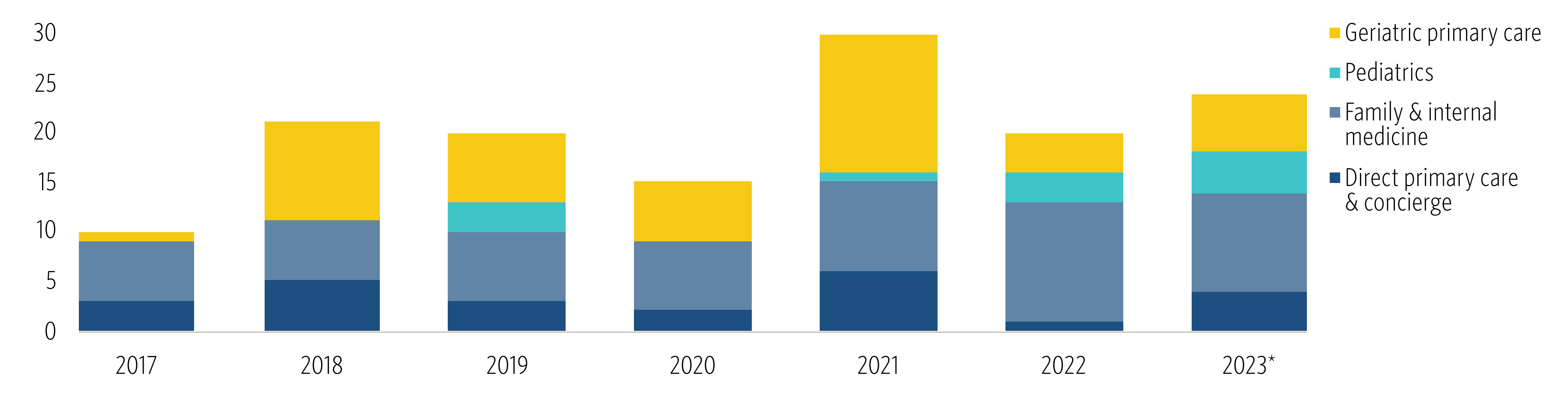
Direct primary care

DPC is an under-the-radar category in PE investing, with a handful of scaled, established platforms, a few high-growth disruptors, and little new platform creation in the past two years. Small platforms in the category often struggle to make unit economics work while scaling. However, we view DPC as a likely growth area for PE investment in 2024 and beyond due to changing attitudes among employers and sponsor focus shifting away from Medicare risk. Q4 2023 saw a sizable platform deal: Shore Capital Partners acquired Nextera Healthcare, which has a national clinic footprint concentrated in Colorado, Nebraska, Michigan, Florida, and Virginia.

DPC basics

DPC is an evolution of traditional occupational healthcare, which focuses on providing on-site screening, worksite-injury-related services, and workers' compensation case management services. DPC builds on this foundation by offering workers and their families concierge-style primary care; low-acuity specialty add-ons such as physical therapy, mental health, labs, and in some cases dental and vision; and care navigation services. The current industry trend is toward building near-site clinics that can serve employees from multiple employers

Primary care PE deal count by subcategory



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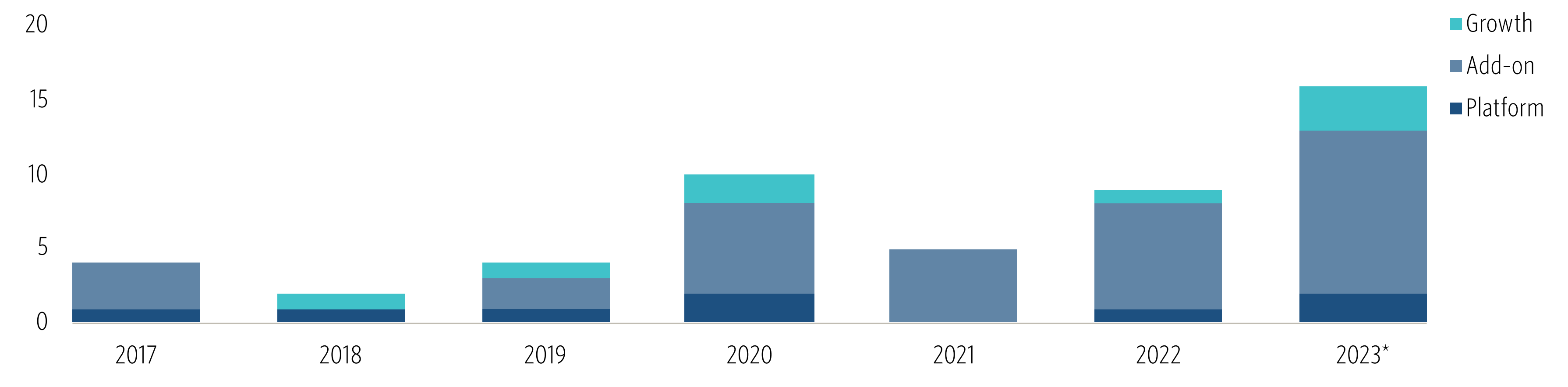
Occupational & correctional healthcare PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

as well as their families. Although the capital outlay is greater than an on-site clinic, near-site clinics allow DPC providers to offer more comprehensive, integrated services.

Traditional DPC clients are medium- to large-size employers, typically self-insured, with geographically concentrated workforces, including employers in the public/nonprofit sector (such as education and government) and the industrials sector. The largest DPC providers also serve blue-chip clients with national workforces large enough to justify clinic buildout in key population centers. Post-pandemic, it has also become important for DPC providers to offer virtual care to support more distributed workforces, meet employers' benefit parity requirements, and meet patient expectations for ease of access.

Employers typically purchase DPC services for a fixed per-employee-per-month (PEPM) rate, with some financial guarantees based on performance benchmarks, such as employee engagement rates, patient satisfaction, and downstream care cost reduction. The cost of building on-site clinics or clinics exclusive to a single employer's workforce is paid upfront by the client or amortized over several years. The PEPM rate varies by market based on both local cost trends and the DPC provider's service density in that market. Additional services, such as specialty care, are sold as bolt-ons to the core primary care model. OMERS-backed Premise Health, the industry's largest player, utilizes a cost-plus pricing model in which the client pays a fixed margin over a reference rate for all services.

The idea of a DPC provider taking significant downside risk on total cost of care for an employee population has been around for a while but has not gained significant traction in part due to hesitance by employers to potentially grant upside in the case of outperformance. However, this is beginning to change as employers and their consultants devote more headspace to creative plan design. We do not believe that full-risk capitation models are required for DPC to be a success—even in PEPM or cost-plus models, employers will select DPC vendors based on their ability to reliably reduce costs, thereby aligning incentives. However, as DPC becomes more ubiquitous over time, employers may look to more advanced risk-based contracts to incentivize ongoing care model improvement. We also believe that as the sector becomes more competitive, DPC providers may seek to push into risk in order to avoid a race to the bottom on PEPM rates.

The new VBC play

2021 was the peak of PE investment in risk-bearing, MA-focused primary care groups, many of them Florida based. As in other sectors, valuations were frothy, and platforms that entered with unrealistic value-per-life expectations have now been doubly hit by the V28 risk adjustment model and low medical loss ratio contracts. We still see strong upside opportunities for groups that have taken a more conservative approach to risk and/or grown in less competitive markets, including Southeast Primary Care Partners, Rise Health, and Rancho Family Medical Group. We also continue to see opportunity in capital-light VBC enablement models for companies that can strike the right balance between scale and consistent medical cost savings.

Nevertheless, we expect sponsors looking to make a primary care VBC play to look beyond Medicare in the coming years. There is a significant unmet opportunity in the self-insured and employer-sponsored market to reduce care costs through preventative care and care navigation—and the forces pushing employers to take a more proactive and creative role in managing healthcare spending are growing stronger.

Select PE- and VC-backed DPC companies*

Company	Last deal date	Last deal type	Last deal value ($M)	Investor(s)/acquirer(s)
apree health	February 17, 2022	Buyout	$400.0	Clayton, Dubilier & Rice
CareATC	March 19, 2019	Buyout	N/A	LLR Partners
Crossover Health	March 29, 2021	Series D	$168.0	Deerfield Management, et al.
Eden Health	August 29, 2022	Series C	$45.0	Company Ventures
Everside Health	August 1, 2022	Growth	$164.0	New Enterprise Associates, et al.
Firefly Health	January 6, 2023	Series B1	$40.0	F-Prime Capital, et al.
Included Health	June 1, 2023	Growth	N/A	Revelation Partners
Marathon Health	October 7, 2019	Buyout	N/A	General Atlantic
Nextera Healthcare	November 17, 2023	Buyout	N/A	Shore Capital Partners
One Medical	February 22, 2023	Acquisition	$3,500.0	Amazon
Premise Health	July 10, 2018	Buyout	N/A	OMERS Private Equity

Source: PitchBook • Geography: US and Canada • *As of December 31, 2023

Employer healthcare trends

Driven by pharmaceutical spending, employer healthcare contributions grew by 5.2% in 2023 and have grown above the rate of inflation for the past two decades, with the exception of 2022.[9] The advent of GLP-1 drugs as an obesity treatment has supercharged this trend. Survey-based estimates of employer GLP-1 coverage vary widely; the International Foundation of Employee Benefit Plans estimates that 76% of employers provided GLP-1 coverage for diabetes in 2023, while 27% covered the drugs for weight loss, and 13% were considering adding coverage for weight loss.[10] Based on our conversations with market participants who are only now starting to put in place GLP-1 strategies, we anticipate that coverage will increase significantly in 2025. Additionally, the promise of current drug pipelines—not to mention the millions of VC dollars now pouring into obesity biotech companies—also points toward a more compelling case for employer coverage in the future.

The vast majority of employers that decide to cover obesity drugs will do so with guardrails, which may include body mass index or comorbidity requirements, alternative first-line treatments, lifestyle program adherence requirements, and time limitations on coverage. DPC providers are well positioned to provide primary-care-based weight loss programs and are racing to put in place enhanced capabilities such as nutrition counseling and medication management.

As a result of these pressures, DPC providers are beginning to see their addressable market grow considerably as more employers take a proactive approach to healthcare spending. This not only means that more employers—including more midsize employers—are considering self-insuring but also means that employers and their consultants are devoting more thought space to creative plan design. We have also heard that employers are becoming increasingly willing to join forces for collective purchasing deals. This can allow smaller employers to aggregate enough lives to make DPC economics work, potentially opening up new markets.

Risks and opportunities

We believe that there are significant tailwinds behind not only the DPC sector but also other employer benefits categories such as occupational health, third-party administrators, care navigation companies, and other employer-facing services. 2023 saw a noticeable uptick in occupational health dealmaking, and some of this activity may lend itself to

9: "National Survey of Employer-Sponsored Health Plans," Mercer, n.d., accessed January 26, 2024.
10: "Employers Grapple With Claims Costs Versus Outcomes of GLP-1 Drugs," International Foundation of Employee Benefit Plans, November 14, 2024.

consolidation with, or even migration into, DPC. For instance, Premise Health began as an occupational health roll-up and still regularly converts occupational health clients to more comprehensive DPC services.

Despite the opportunity, it is difficult for new DPC platforms to reach scale profitably. Although there is significant white space in the employer market, the chicken-and-egg problem of entering new markets coupled with the scale of current incumbents represents a barrier to entry for smaller platforms. A new entrant into a market must either convince a new client to wait for clinics to be built or build clinics in hopes of securing clients. In reality, the process is often a hybrid of these two options. Smart market selection is key and depends on market size, demographic trends, employer types, the competitive landscape, and local fee-for-service healthcare costs (higher costs may drive employers to seek solutions such as DPC). Other challenges include clinical hiring and the risk of losing employee engagement to substitution options, which increasingly include retail clinics and urgent care facilities in addition to traditional primary care providers.

For smaller groups that can overcome these challenges, the good news is that the new-market startup dynamic makes consolidation of local players an attractive way for midsize platforms to grow. General Atlantic-backed Marathon Health's August 2023 acquisition of Cerner Workforce Health Solutions, an on-site healthcare provider operating 35 locations across the Chicago, Kansas City, and St. Louis markets, is an example of the value that an incumbent DPC provider can find in acquiring new contracts and market footprints. Marathon also announced in February 2024 that it will merge with New Enterprise Associates-backed Everside Health, which specializes in supporting rural and blue-collar workforces. Marathon has coupled this strategy with de novo market entrances, most recently in the Richmond, Virginia, area. We believe further M&A activity is likely as midsize challengers seek to rival Premise's scale while carving out unique market niches. This presents an opportunity for smaller PE-backed groups to build density in one or a couple of states or to build specialized capabilities around specific employer types and workforces, and then sell to a larger platform.

Appendix

Appendix

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

Investor	Deal count	Primary investor type
Shore Capital Partners	19	PE/buyout
Webster Equity Partners	16	PE/buyout
BPEA Private Equity	13	PE/buyout
Endurance Search Partners	13	Family office
Ares Management	12	Asset manager
Petra Capital Partners	11	PE/buyout
Vistria Group	9	PE/buyout
BPOC	8	PE/buyout
TPG	8	PE/buyout
Revelstoke Capital Partners	8	PE/buyout
KKR	8	PE/buyout
Peterson Partners	8	PE/buyout

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Most acquisitive PE-backed healthcare services platforms since 2020*

Platform	Add-on count
Southern Veterinary Partners	162
Smile Doctors	59
Specialized Dental Partners	39
Southern Orthodontic Partners	32
AEG Vision	32
Retina Consultants of America	29
Eyecare Partners	26
US Oral Surgery Management	26
Veterinary Practice Partners	26
Therapy Partners Group	22

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PitchBook Data, Inc.

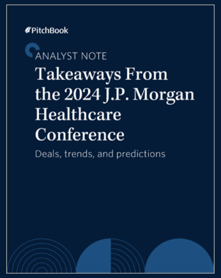
John Gabbert Founder, CEO

Nizar Tarhuni Vice President, Institutional Research and Editorial

Paul Condra Head of Emerging Technology Research

Additional research

Healthcare and PE



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