

US Health Care

How PE is filling the gaps

MARCH 2021



Introduction

The US health care system is a complex, often inefficient, but vital piece of the American economy. Its inefficiency means patients are frequently under-served. Helping patients in these cases means identifying and fixing gaps in coverage, accessibility, and drug research, and private equity investors are coming up with creative ways to do just that.

This report, the second in a series with PitchBook Data, takes a close look at the health care industry and PE's role in it. In 2020, private equity funneled almost \$80 billion into 735 health care companies, while supporting their current portfolio companies with cash infusions during the worst health crisis in almost 100 years. PE has a strong history with the sector, investing in a wide array of companies: diagnostic equipment manufacturers, health care technology systems, surgical device developers—sometimes hospitals themselves. In fact, when the Affordable Care Act was passed in 2010 and mandated that electronic medical records replace paper systems, PE was one of the most active players in getting those software platforms to health care providers around the country. For this report, we want to highlight two PE trends that go largely unnoticed but play important roles in ensuring that Americans receive quality, affordable health care.

The first trend is getting health care access to rural communities, which were home to about 1% of urgent care facilities nationwide in 2020, according to the Urgent Care Association. Home to more than 50 million people, our rural communities have a glaring lack of health care access that urban and suburban communities take for granted. The problem plagues dozens of states, and many patients are forced to travel considerable distances to be seen by a doctor. Low insurance coverage is another problem, stemming from higher unemployment rates. Urgent care clinics are a promising option, and the PE industry has a long history with them. PE has been credited with the rise of urgent care clinics in the suburbs. This report explores how investors are trying to replicate that success in rural communities, where patients are often limited to Medicare and Medicaid or pay a large percent of their bills out-of-pocket.

The second half of this report looks at PE's role in pharmaceutical innovation. It's a relatively new trend for private equity, but investors have found an important gap to fill: supporting promising drug candidates that have lost priority status and lack financial resources for continued development. PE investors have formed partnerships with pharmaceutical companies, and these joint ventures, backed by private equity capital, give drug candidates a second chance to make it through regulatory hurdles and into patients' hands.

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Rural communities are underserved

The problem

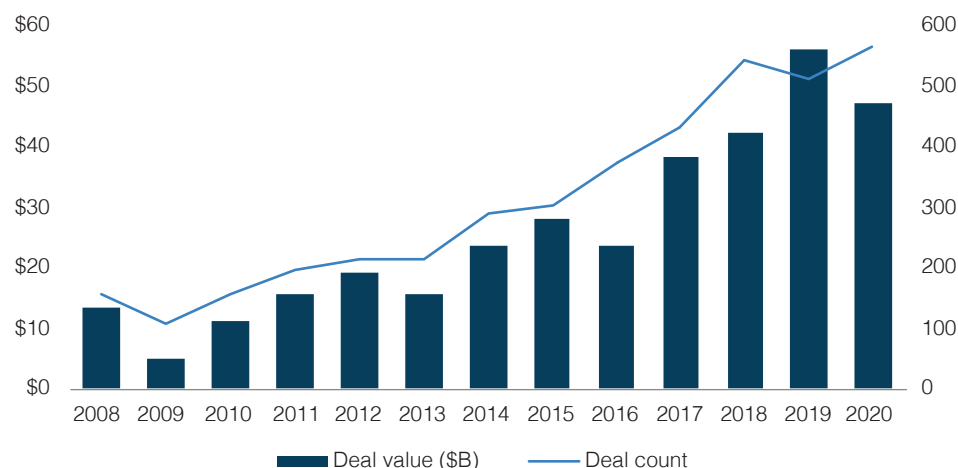
According to the Urgent Care Association, only 1% of urgent care centers operate in rural communities. Metropolitan areas, by contrast, account for 86.2% of all urgent care operations. While urgent care facilities aren't the only health care providers around, they have become ubiquitous in wealthier communities across the country and help lighten the load for local hospitals and emergency rooms.

As a result, rural America has a profound health care deficit, and much of that problem boils down to a lack of resources: relatively few providers, less insurance coverage (often tied to higher unemployment rates), and fewer health care professionals (8%) compared to urban and suburban areas (92%), according to *Annals of Emergency Medicine*. In wealthier areas of the country, it's now common to see urgent care centers in grocery stores. In rural communities, patients often need to drive several hours—meaning a day without wages or classes—just to see a doctor. To make matters worse, rural communities tend to be older and more prone to serious illnesses, particularly if care for chronic conditions has been neglected in the past. But for thousands of communities, there is no supply to meet their demand.

Private equity is trying to fill that gap as fast as it can. The PE industry knows what it's doing when it comes to urgent care expansion. The tricky part is recreating that success in rural America, where smaller populations mean lower patient volume and less revenue.

PE firms expand their companies' reach through acquisitions

US health care PE add-ons by year



Source: PitchBook | Geography: US

How PE is helping

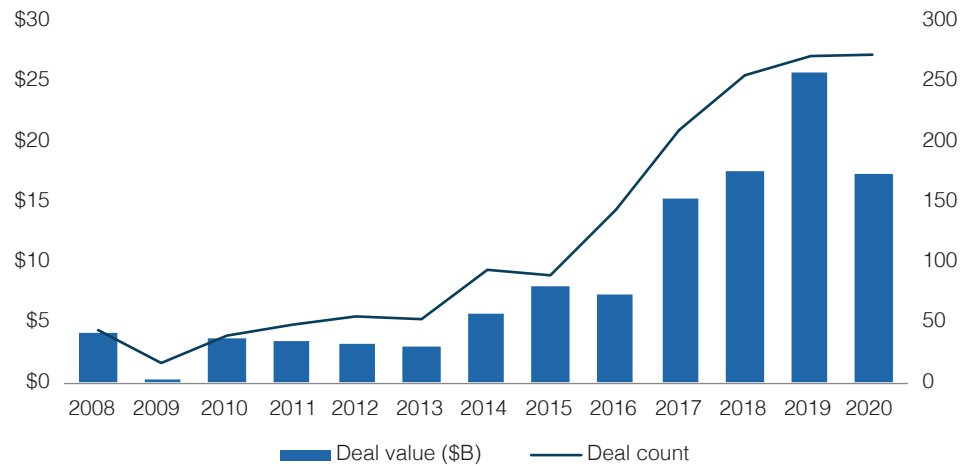
Even with those barriers in place, PE is actively addressing the problem. Urgent care centers are natural candidates for growth capital, since the model is scalable, replicable, and in high demand. PE firms start by investing in urgent care providers that have identified business models that work in their communities. Once partnered with private equity, they can use their new capital to open new locations in underserved areas. Using a “buy-and-build” approach, PE-sponsored providers can increase the number of care facilities under their umbrella, reducing overhead costs and, ultimately, patients' bills. For many patients without urgent care options, relatively “local” hospitals are their only option, and emergency room bills can be stratospheric. A 2017 study from

West Virginia University, which analyzed the impact of one urgent care chain—MedExpress—on the Appalachian area, found that “MedExpress's entry would seem to be freeing up valuable resources for more serious medical situations” and that urgent care centers “lead to a substitution to a lower cost option” for patients.

Usually under the radar, PE firms have been leading the charge on rural health care expansion. Examples from Alabama, Tennessee, both Carolinas, Oklahoma, Kansas, and West Virginia can be found on pages 5 and 6. According to *The Journal of Urgent Care Medicine*, there is “probably the potential for another 1,500 urgent care centers in rural/secondary markets” across the country, and that pent-up demand would be welcomed with gratitude and

loyalty by local towns. To meet that demand, PE firms are partnering with entrepreneurial physicians who have built sustainable business models and want to see their companies expand into underserved markets. As they often do, PE firms are also bringing experienced managerial help to urgent care portfolio companies. Sverica Capital, for example, acquired Med First in Jacksonville, NC, in 2016. As part of the partnership, two former CEOs of major hospitals joined the company's board. Sverica aimed to expand the company's model into other rural markets in the southeast and has almost doubled the number of Med First clinics over the span of five years.

Outpatient clinics such as urgent care can be expanded efficiently
US clinics and outpatient services add-ons by year

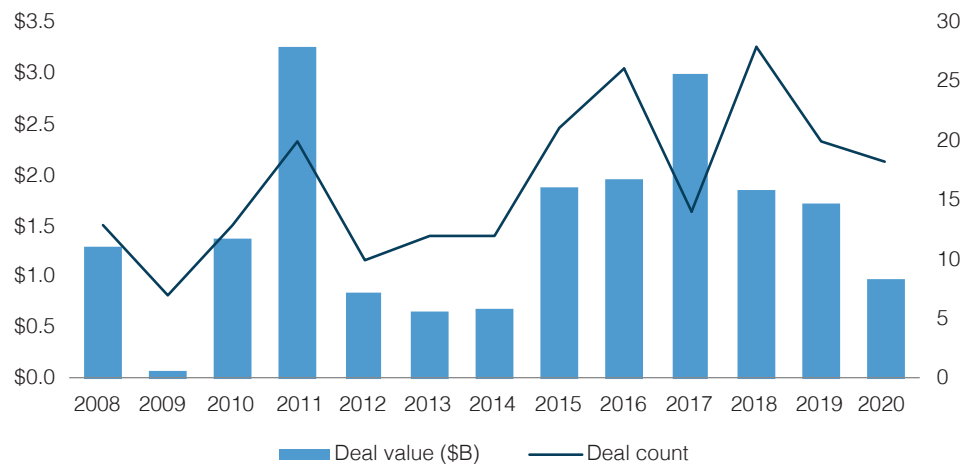


Source: PitchBook | Geography: US

A resource for vaccinations

The importance of urgent care will outlive the COVID pandemic, but in the meantime, PE-backed urgent care centers are vital for vaccine distribution. Over the past year, urgent care centers have been a lifeline for COVID testing, particularly for essential workers in rural communities. With multiple vaccines now approved, urgent care centers can pivot to vaccination centers—in some cases, they may be the only options for miles. Moderna's vaccine will be available in rural urgent care clinics, since their doses don't require specialized, hospital-quality freezers in which to store them. That flexibility is a positive for rural communities in particular, since 2019 saw a record number of rural hospital closures.

Inpatient clinics are harder to expand
US hospitals and inpatient services add-ons by year



Source: PitchBook | Geography: US

Private equity at work



Headquarters: Jacksonville, NC
 PE firm: Sverica Capital Management
 Deal date: August 2, 2016
 Sub-15k locations: 10 centers, 56,034 combined population
 Sub-5k locations: 6 centers, 16,751 combined population

Med First, an urgent care chain across rural North and South Carolina, was acquired by Sverica Capital in summer 2016. The chain has expanded from 13 to 19 clinics under Sverica, which also brought two former hospital CEOs onto the company's board when it was acquired. Med First has a hybrid primary care and urgent care model that is being replicated across the board in the Carolinas.



Headquarters: Brentwood, TN
 PE firm: Shore Capital Partners
 Deal date: December 2012 to August 2016
 Sub-15k locations: 121 centers, 884,487 combined population
 Sub-5k locations: 37 centers, 72,815 combined population

Fast Pace Urgent Care has been under PE sponsorship for almost ten years, first with Shore Capital and now with Revelstoke Capital Partners. Under Shore Capital, Fast Pace executed an accelerated growth plan, resulting in 29 new locations across rural Tennessee and Kentucky. It also increased foot traffic from 40,000 patient visits in 2012 to about 400,000 in 2016. That success allowed it to grow employee headcount from 50 to 700 in 2016.



Headquarters: Enid, OK
 PE firm: Latticework Capital
 Deal date: July 20, 2018
 Sub-15k locations: 6 centers, 72,147 combined population

Xpress Wellness runs a chain of walk-in clinics across Oklahoma and Kansas, and was acquired by Latticework Capital in November 2018. The company had ten locations at the time and now operates 22, more than doubling its footprint in the span of two years.



Headquarters: Birmingham, AL
 PE firm: Trinity Hunt Partners
 Deal date: September 3, 2020
 Sub-15k locations: 14 centers, 129,678 combined population
 Sub-5k locations: 1 center, 3,525 combined population

Trinity Hunt acquired MainStreet late in 2020, so it's too early to report on its expansion results. Based in Alabama, MainStreet had 16 clinics at the time of the deal, with plans to expand into Georgia. The company runs a tech-enabled operating model and is leaning on Trinity Hunt as it ramps up its new location and add-on acquisition strategies going forward.



Headquarters: Morgantown, WV
 PE firm: General Atlantic, Sequoia Capital
 Deal date: September 22, 2010
 Sub-15k locations: 7 centers, 32,845 combined population
 Sub-5k locations: 5 centers, 13,460 combined population

MedExpress is a major success story in rural health care access, and private equity helped fuel its growth. Its sponsorship history includes General Atlantic and Sequoia Capital, which jointly bought the chain from Excellere, another investor. MedExpress's story began in West Virginia, where the company had a profound impact on health care access and costs for its patients. It now has urgent care centers in 162 cities spanning West Virginia, Florida, Pennsylvania, Arkansas and Texas.



Headquarters: Broussard, LA
 PE firm: Shore Capital Partners
 Deal date: October 13, 2017
 Sub-15k locations: 21 centers, 159,490 combined population
 Sub-5k locations: 8 centers, 32,670 combined population

Shore Capital Partners, a lower-middle-market firm, bought Hulin Health in 2017. An urgent care chain with clinics throughout the Gulf Coast, Hulin's footprint has expanded under PE sponsorship from three clinics to 27. Its flagship brand, SouthStar Urgent Care, opened clinics in 18 Louisiana markets in 2020, including Farmerville (population 3,860) and Gramercy (population 3,613).



RURAL PARTNERS IN MEDICINE

Headquarters: Broomfield, CO
 PE firm: Latticework Capital Management
 Deal date: July 3, 2018

Another Latticework Capital portfolio company, Rural Partners in Medicine is an outsourced provider of specialty physician services to rural hospitals around the country. Patients in rural communities that need specialized care—like spine surgery, orthopedics, pain management and plastic surgery—can be treated by physicians who come to them, instead of the other way around.



Headquarters: Las Vegas, NV
 PE firm: Sorenson Capital, Leavitt Equity Partners
 Deal date: April 21, 2015

Rural Physicians Group provides a physician network of full-time, on-site hospitalists and surgicalists to help rural hospitals meet their local needs. The company has doubled its network base to nearly two dozen rural hospital customers. Under Sorenson, it has also expanded the number of services offered and grown its presence to twenty states, including rural areas of California, Oregon, Colorado, Washington, Ohio, and Illinois.

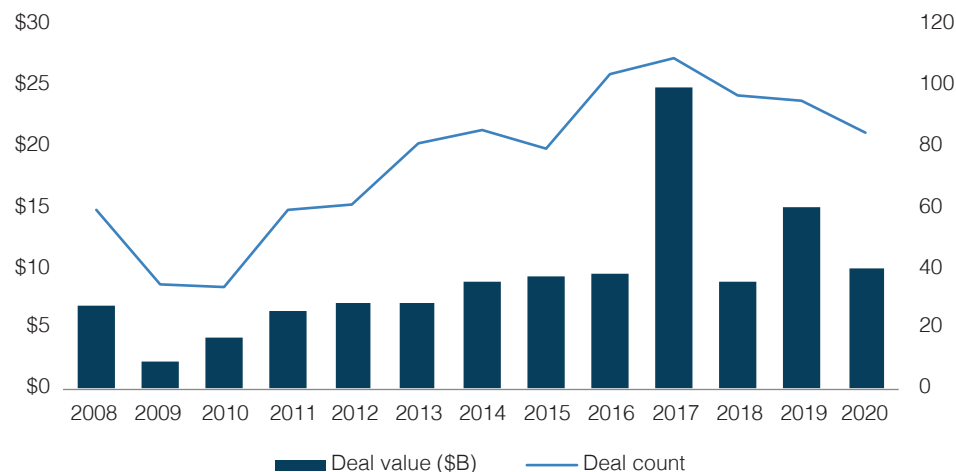
Driving innovation

One of PE's strengths is finding underappreciated assets and piling resources into them to give them a second chance. In the pharma space, assets are de-prioritized drug candidates. Understandably, many pharmaceutical companies need to spend their time and money elsewhere; some very promising drug candidates are thrown into limbo as a result.

PE is becoming adept at resurfacing those drug candidates, financing them, and giving them a fighting chance at regulatory approval in expensive, late-stage clinical trials. To do this, firms such as Blackstone and Bain Capital have partnered with well-established pharmaceutical companies such as Pfizer and Novartis. The results are standalone joint ventures, with PE putting up the money and pharmaceutical companies dusting off their drug candidates. The approach is reminiscent of a longstanding PE practice called a "corporate carveout," where PE investors acquire unloved side businesses of larger conglomerates and turn them into separate companies.

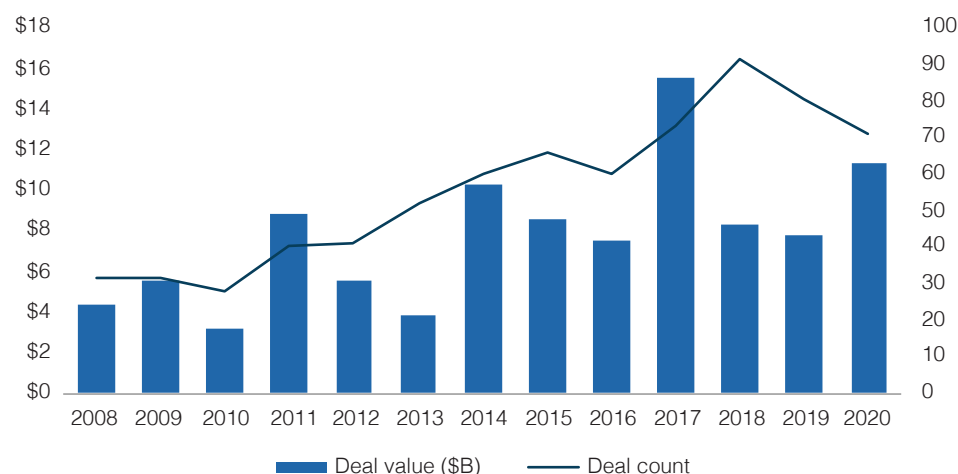
Bain Capital's partnership with Pfizer exemplified this when they launched Cerevel, a joint venture that targets central nervous system disorders. Cerevel resurrected a portfolio of pre-commercial compounds by committing \$350.0 million to the project, which now has eleven pre-clinical and clinical-stage therapeutic candidates. Tavapadon, which targets Parkinson's Disease, is now in Phase 3 trials. Cereval's pipeline targets other horrendous diseases such as schizophrenia and substance abuse disorders, and these potential

US life sciences PE deal activity



Source: PitchBook | Geography: US

US pharma & biotech PE deal activity



Source: PitchBook | Geography: US

drug candidates now have a fighting chance thanks to PE capital. Bain's Life Sciences team has also been active on

COVID-19, leading a \$215 million round for Atea Pharmaceuticals in May 2020.

Private equity at work

Blackstone and Novartis partnership



Date created: February 27, 2019
PE amount: \$250.0 million

Blackstone Life Sciences, in partnership with Novartis, launched Anthos Therapeutics in early 2019. Anthos' therapies are aimed at treating high-risk cardiovascular patients. Cardiovascular disease studies are usually more expensive than other studies, and development costs tend to complicate plans to target common disorders such as blood clots. The partnership's primary drug candidate, MAA868, was

shepherded through Phase 1 trials before Novartis' plans for midphase trials were withdrawn. Blackstone's \$250.0 million commitment is aimed at one of the world's deadliest killers, thrombotic disorders, which cause nearly 500,000 deaths per year.

Drug candidates:

- Thrombotic disorders

Bain Capital and Pfizer partnership



Date created: October 23, 2018
PE amount: \$350.0 million

Bain Capital and Pfizer teamed up in 2018 to form Cerevel Therapeutics, which now houses several pre-clinical and clinical-stage compounds targeting central nervous system disorders. Insufficient resources forced Pfizer to curtail research in the area, but several Cerevel therapies are showing promise. Tavapadon, which treats early and late-stage Parkinson's Disease, is now in Phase 3 trials, while Darigabat, an epilepsy treatment, has advanced to Stage 2. Bain Capital committed \$350.0 million to the

project and is open to committing more, if needed.

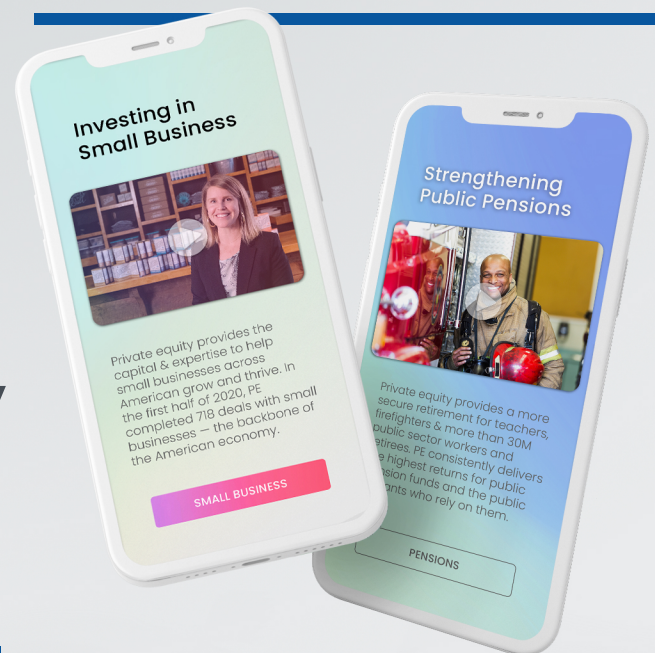
Drug candidates:

- Parkinson's
- Alzheimer's
- Epilepsy
- Schizophrenia
- Substance abuse disorder

PRIVATE EQUITY INVESTING IN AMERICA

From urban to rural and everywhere in between, private equity is making a positive impact across America and investing in every community to:

- Back small businesses
- Support good-paying jobs
- Boost the American economy
- Strengthen public pensions



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