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PE Firms Compete More Avidly for Value in Healthcare

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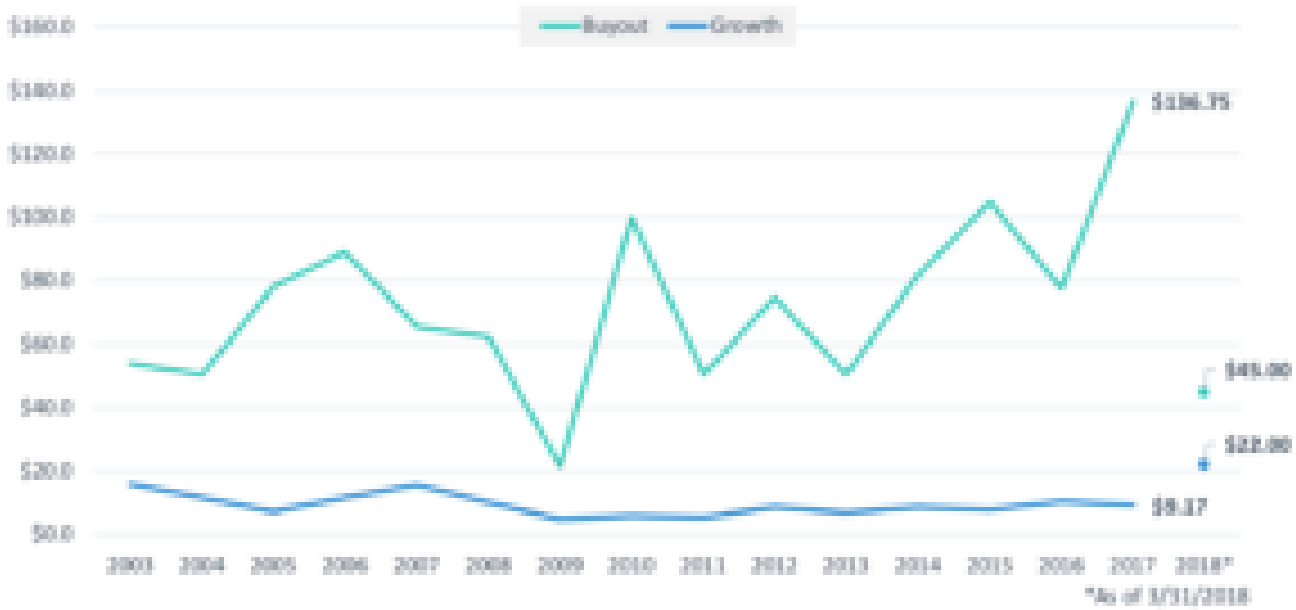

After steadily climbing over the past several years, the median size of healthcare private equity buyouts across North America and Europe peaked at a remarkable $136.8 million in 2017. Growth investing, meanwhile, has stayed relatively steady throughout the same period. (It should be noted that choppiness in yearly figures is due to the fact that granular, sector-specific numbers tend to exhibit considerable volatility.) However, the first quarter of 2018 saw these trends reverse. It’s worth bearing in mind that the below statistic is based on one quarter’s worth of figures, so 2018 on the whole could eventually see a resurgence. But such a disparity is worth exploring, especially in the context of other trends.

When analyzing this sudden decline in tandem with the surge in the popularity of add-ons explored in last week’s Lead Left, it’s clear that PE firms are more assiduously pursuing lower-middle-market opportunities within healthcare. This is likely partially driven by the steady increase in median buyout sizes; PE firms are naturally responding to a high-priced market by competing closely for the best-valued opportunities, even if they are smaller enterprises, and adapting strategies to focus on establishing and fleshing out platforms via add-ons. Specifically, they are avidly competing for the right assets and practices to build out platforms within healthcare niches, particularly care provider segments such as behavioral health and dental practice management. The temporary jump in the median growth investment size is likely more of a quarterly aberration than anything else, however, as PE strategies in healthcare thus far have skewed toward platform building and, given the right circumstances, carveouts. What’s ultimately clearest is that PE firms have turned most frequently to add-ons in order to navigate the complicated, costly healthcare dealmaking environment.

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