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A Partner to Health Care

How Private Equity Complements and Strengthens the Health Care Industry

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A message from Drew Maloney

Private equity's relationship with the US health care industry is a long and successful one. America's health care system is one of the most complicated in the world, and PE's unrivaled ability to make things more efficient helps improve the system in big and small ways. PitchBook estimates that health care funds currently have about \$73 billion under management. All of that capital is being recycled into hospital systems, outpatient clinics, pharmaceutical manufacturers, medical device innovation, and dozens of other life-saving and cost-reducing initiatives that ultimately improve patients' lives.

The reason is simple—PE firms continue to get better at investing in the US health care system. They know exactly where their capital is most useful, whether it involves expanding a physician practice into rural communities, financing innovative medical devices, increasing medical supplies, or financing promising new drug candidates that can treat hundreds of diseases.

Today's sponsors are hyperspecialized and knowledgeable, which is important for a system as complex as ours. Many investors hire doctors and Ph.D. holders who put their knowledge and experience to work on behalf of hundreds of companies. Those relationships are valuable to management teams, which can be confident that PE sponsorship will improve patients' lives, increase health care access, and put their companies on a better trajectory in the years ahead.

PE health care investing comes in dozens of forms. This report, done in conjunction with PitchBook, highlights just a few areas where PE is stepping in. Many of our members are dedicated to improving the industry, including TPG, The Jordan Company, The Halifax Group, The Edgewater Funds, GTCR, and Patient Square Capital, to name just a few. We want to highlight their contributions to the industry, because PE's positive outcomes often go unnoticed.

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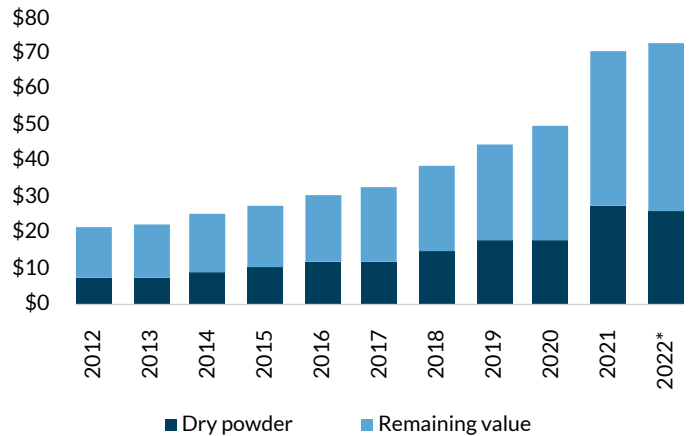
Drew Maloney

Drew Maloney
President & CEO,
American Investment Council

Overview

Today, private equity manages almost \$73 billion of capital dedicated to health care investments. New PE firms are started every year, and many of them are dedicated health care investors that want to invest in specific types of health care companies. More often than not, these new firms are run by experts in the industry. Quite a few of them hire former medical doctors who have run practices of their own. That is not a small detail. Former doctors not only understand their fields, they can become operating partners to PE firms and provide day-to-day consulting to several portfolio companies at once.

Health care PE AUM (\$B)



Source: PitchBook • Geography: US
*As of August 30, 2023

What the studies say

New studies come out every year that demonstrate PE's ability to expand health care access, reduce costs, and improve the health care services system overall.



Hospitals: PE firms aren't as active in hospitals as they are in outpatient services, but multiple studies show that sponsors bring significant benefits to large-scale hospital systems. According to a 2021 study authored by professors at Georgetown and the University of Indiana, "PE acquirers improve hospitals' operational efficiency without compromising healthcare quality." In fact, "we find that PE-acquired hospitals have better survival prospects and operating profitability compared to similar non-acquired hospitals as well as hospitals acquired by non-PE buyers." In other words, PE sponsors bring a unique set of capabilities to hospitals that allow them to operate more efficiently while increasing patient survival rates.¹

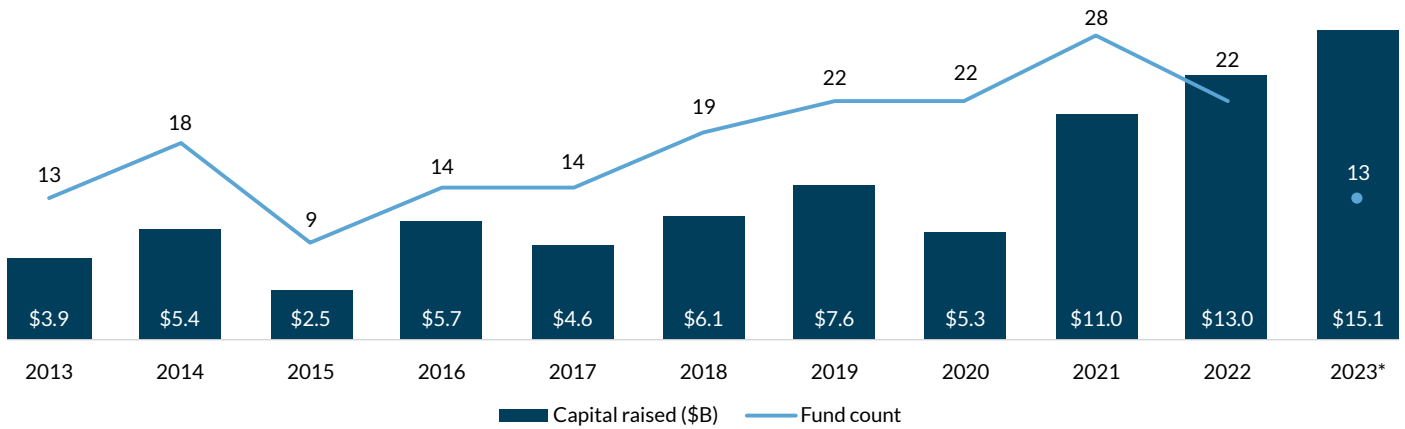


Urgent care centers: A 2017 study done by West Virginia University looked at MedExpress, a chain of Appalachian urgent care centers that has been heavily supported by private equity. With PE capital, MedExpress was able to open new locations in more rural areas throughout the region, where hospital closures have become common. According to the study, new MedExpress clinics were "associated with fewer short-term admissions to hospitals, fewer inpatient days, fewer emergency room visits, and a reduction in outpatient visits at hospitals." That's a critical development for rural communities, where patients can travel shorter distances to get the care they need while not overwhelming the limited number of hospitals in their areas.²

1: "Private Equity in the Hospital Industry," SSRN, Janet Gao, Merih Sevilir and Yongseok Kim, September 15, 2021.

2: "The Effect of Health Care Entrepreneurship on Local Health: The Case of MedExpress in Appalachia," West Virginia University, Amir B. Neto and Joshua C. Hall, 2017.

Health care PE fundraising activity



Source: PitchBook • Geography: US
*As of August 30, 2023

In more complicated corners, like pharmaceuticals and biotechnology, PE firms tend to hire Ph.D. holders with backgrounds in organic chemistry and biology. They know how to produce life-saving drugs, and they also know how to identify and finance promising drug candidates that need time and funding to get into patients' hands. Food and Drug Administration (FDA) trials are long and expensive, companies often have to fundraise, hat-in-hand, at each juncture of the process. PE partnership gives those companies a more permanent capital base so the company can focus on the trials without wasting time and asking for more money.

In those cases, PE firms resuscitate promising drug candidates and reintroduce them to testing by the FDA. There are too many success stories to name, but a short

list of them includes drugs for cystic fibrosis, leukemia, epilepsy, lymphoma, multiple sclerosis, and HIV.

PE capital ultimately helps patients, and that assistance comes in dozens of ways. Health care quality is improved—PE sponsors help finance innovative medical devices and provide safer recoveries for patients. Affordability is improved, especially when PE sponsors help reorganize health care institutions and make them more efficient. Most importantly, PE sponsors improve health care access by helping urgent care centers expand deeper into rural America as well as helping specialized clinics like oncology and OB-GYN centers open new locations, hire more doctors and staff, and make those services available to more patients around the country.

Private equity at work



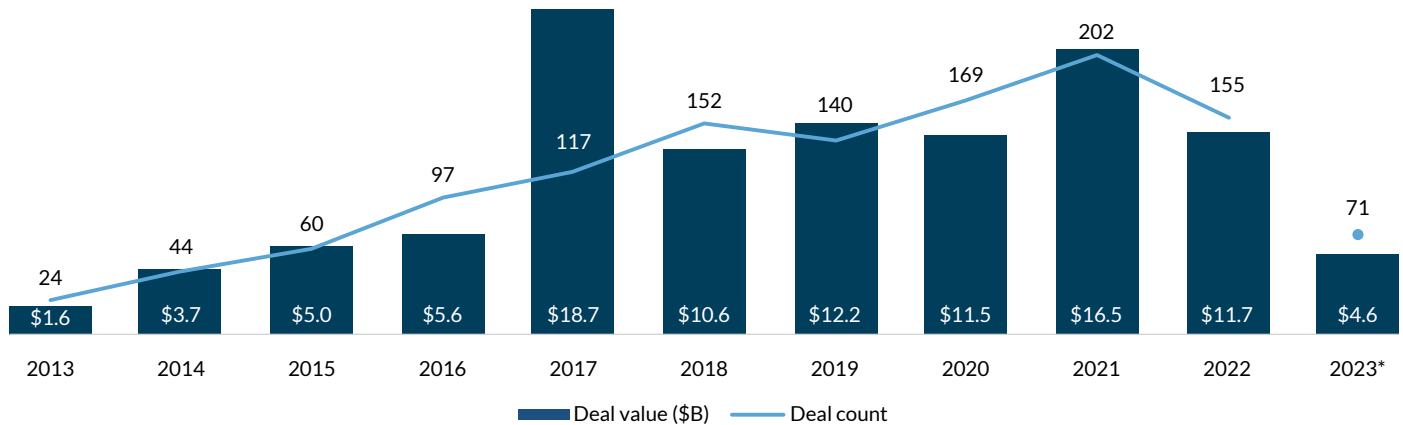
Patient Square Capital is a member of AIC and a health-care-focused investor in Menlo Park, California. The firm raised its first fund in 2021 with \$3.9 billion, and it is currently raising a second fund after a successful first run. Led by Managing Partner Jim Momtazee, who helped establish KKR's health care group, Patient Square Capital employs multiple

Ph.D. holders and former doctors. Its investments span the health care industry, including late-stage investments in clinical-trial drug platforms, multiple behavioral health practices, prosthetics services, therapeutic device manufacturers, and telehealth providers. Because of the firm's deep base of knowledge, companies are eager to partner with Patient Square, especially considering its networks and relationships in the health care industry.³

3: "Focused, Deep & Broad Industry Network," Patient Square Capital, n.d., accessed October 23, 2023.

Outpatient services

Outpatient services PE deal activity



Source: PitchBook • Geography: US
*As of August 30, 2023

PE is very active in outpatient services. These are specialized clinics that treat specific needs, like orthopedics, radiology, dermatology, ophthalmology, and gynecology, as well as mental and behavioral health. PE sponsors partner with hundreds of these practices every year.

PE sponsorship brings several benefits to the table. Physician retirements are often a key reason clinics shut down, ending their ability to employ support staff and treat longstanding patients. With PE sponsorship, though, the clinics do not go anywhere, and sometimes are folded into larger, PE-backed practices that can expand access to different regions while also reducing operating costs. This is a critical benefit to rural communities, which

cannot afford to lose specialized health care treatments as physicians retire.

At the same time, studies show that more physicians are working in large, multi-specialty clinics than ever. 27% of physicians now work in these clinics (up from 22% in 2012), and 18% work in practices with at least 50 other physicians (up from 12% in 2012). The American Medical Association found that “physicians are less likely to work in private practice than 10 years ago due to economic, administrative and regulatory burdens.”⁴ More doctors are choosing to work under one roof with other physicians, and PE capital is a catalyst in helping those practices expand and diversify—especially into areas where more physicians are needed.

Private equity at work



Gastro Health is a Miami-based gastrointestinal group that has benefited significantly from private equity. Audax Group originally sponsored the physician group in 2016,⁵ when Gastro Health had 21 locations across southern Florida. Thanks to Audax and extra capital, the company’s footprint grew to over 150 locations across Florida, Alabama, and Virginia, while also expanding to new regions like Ohio, Maryland, and Washington. Audax also helped propel the practice to 250 physicians, who can serve even more patients thanks to Audax’s expansion success.⁶

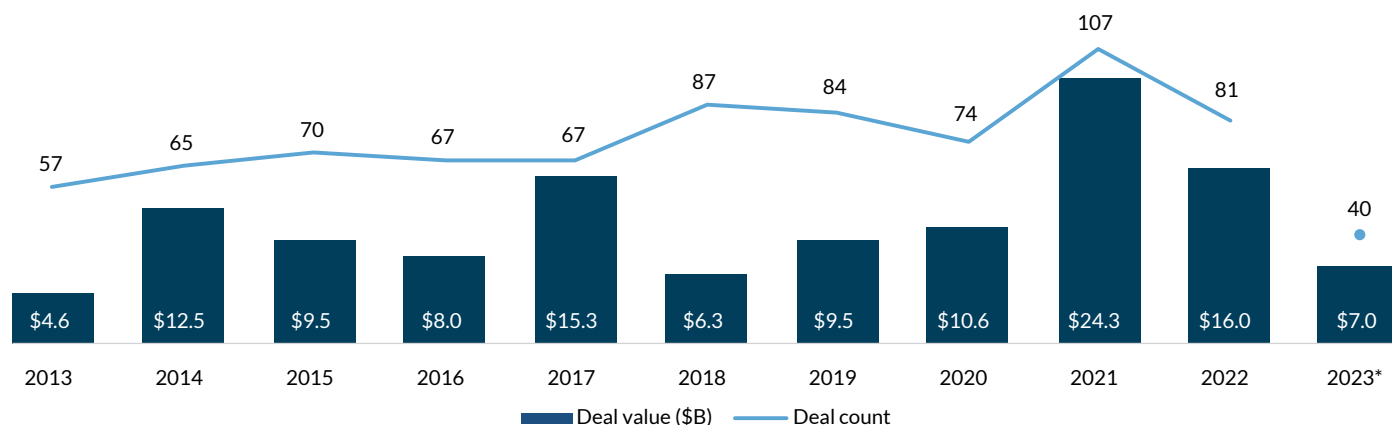
4: “AMA Examines Decade of Change in Physician Practice Ownership and Organization,” the American Medical Association, July 12, 2023.

5: “Audax Private Equity Announces a Definitive Agreement for the Recapitalization of Gastro Health,” Gastro Health, March 14, 2016.

6: “OMERS Buys Audax’s Gastro Health at Mid-\$900m Valuation,” PE Hub, Sarah Pringle, May 20, 2021.

Pharmaceuticals

Pharmaceuticals PE deal activity



Source: PitchBook • Geography: US
*As of August 30, 2023

Private equity’s relationship with pharmaceutical manufacturers is a highly supportive one. It is common to see PE sponsors capitalize pharmaceutical software companies, contract research organizations, and back other highly beneficial support providers that help the global pharmaceutical industry. Other success stories have been found in pharmaceutical marketing services, as well as market data and analytics providers, all of which are crucial to a drug’s ability to reach more patients. But PE sponsors help finance drug manufacturers, too, especially over-the-counter and generic drug makers that provide low-cost options to patients. AIC member Blackstone launched a new pharmaceutical company named Anthos in 2019. Its purpose was to create new therapies for high-risk cardiovascular issues. The effort bore fruit with

Anthos’ MAA868, which “has the potential to prevent a variety of cardiovascular disorders with minimal or no bleeding risk, which would provide major advantages over the conventional standards of care.”⁷

The pharmaceutical industry has a massive, behind-the-scenes aspect involving service providers. PE sponsors have backed hundreds of these companies over the years. They include services like contract research and manufacturing as well as other services that strengthen and support the pharmaceutical ecosystem. PE firms help pharmaceutical companies expand and become more efficient at the same time, introducing new technologies and resources that allow them to innovate better and faster than they otherwise would have.

Private equity at work

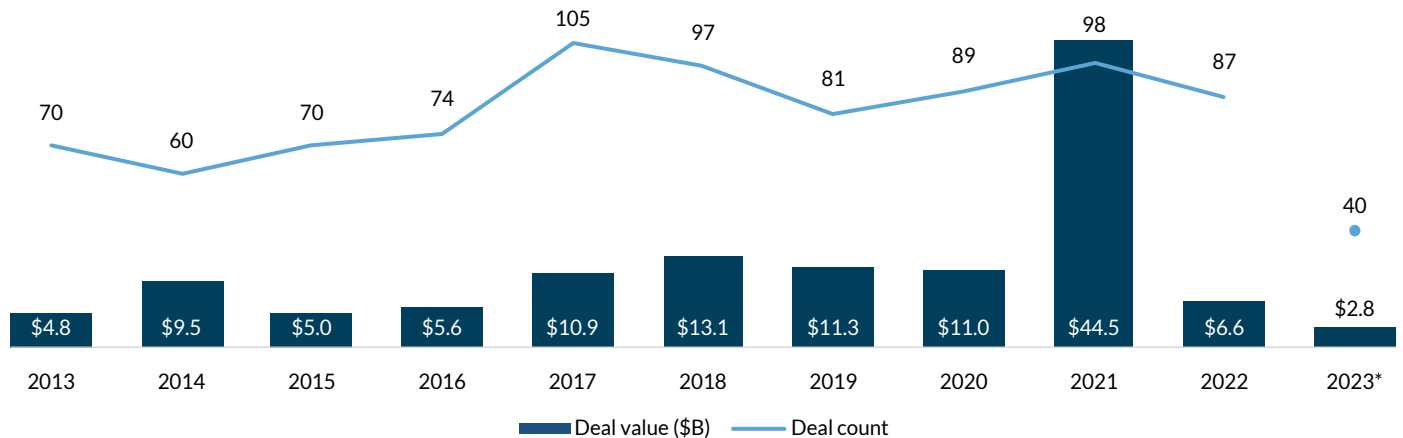


WCG Clinical Services, based in Princeton, New Jersey, is the first clinical services organization that serves the pharmaceuticals industry. It was sponsored by AIC member Arsenal Capital Partners in 2012, when it began to thrive under PE ownership. Arsenal helped identify a significant bottleneck in the sector, an insight that helped WCG serve its clients by reducing their wait times during review by the Institutional Review Board. Today the company sits at the epicenter of the clinical trial system, serving thousands of pharmaceutical companies, institutions, medical centers and, ultimately, patients.⁷

7: “Blackstone Life Sciences and Novartis Launch Anthos Therapeutics to Develop Innovative Medicines for Cardiovascular Disease,” Blackstone, February 27, 2019.
8: “WCG Clinical Services,” Arsenal Capital Partners, n.d., accessed October 23, 2023.

Medical devices

Medical devices PE deal activity



Source: PitchBook • Geography: US
*As of August 30, 2023

Take a trip to the doctor's office and you will find medical devices everywhere. Some are common, like blood pressure monitors and stethoscopes, while others are much more specific to treatments and diseases. PE-backed companies are responsible for many of these devices, and making them requires capital, manufacturing centers, and growth plans.

According to PitchBook, PE sponsors have invested over \$125 billion into medical device manufacturers over the past decade. In the same time frame, 871 manufacturers

partnered with PE sponsors to grow their footprints, innovate their products, hire more people to make them, and ultimately distribute them to the doctors and patients who need them. PE capital is used to finance devices that can address unmet needs. Not only did these devices not exist before PE capital became involved, but the devices themselves provide life-improving benefits to patients, including more successful surgeries and shorter, less-painful recovery times.

Private equity at work



Manufacturer **ev3**, based in Plymouth, Minnesota, was founded in 2000 by a veteran of the **medical device industry**, Dale Spencer, alongside AIC member Warburg Pincus and health care specialist The Vertical Group. Its goal was to become an innovative and comprehensive manufacturer of stents, catheters, and other specialized medical devices. It quickly became an important player in the market, producing critical devices for vascular surgery and launching

seven new products in 2004 and six more in 2005.⁹ Five years after its founding, ev3 was able to go public, and after five years as a public company, it was acquired for \$2.6 billion by Covidien. Over that 10-year span, ev3's headcount had grown to 1,350 employees—all from scratch and thanks to private equity sponsorship.¹⁰

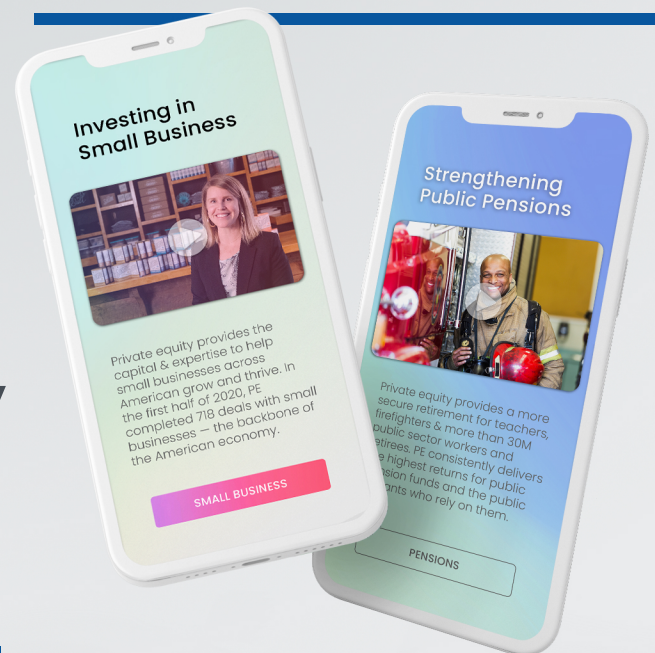
9: "Registration No. 333-123851," US Securities and Exchange Commission, May 10, 2005.

10: "Covidien to Buy ev3 for \$2.6 Billion in Cash," The New York Times, June 1, 2010.

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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