Healthcare investment outpaces overall PE market

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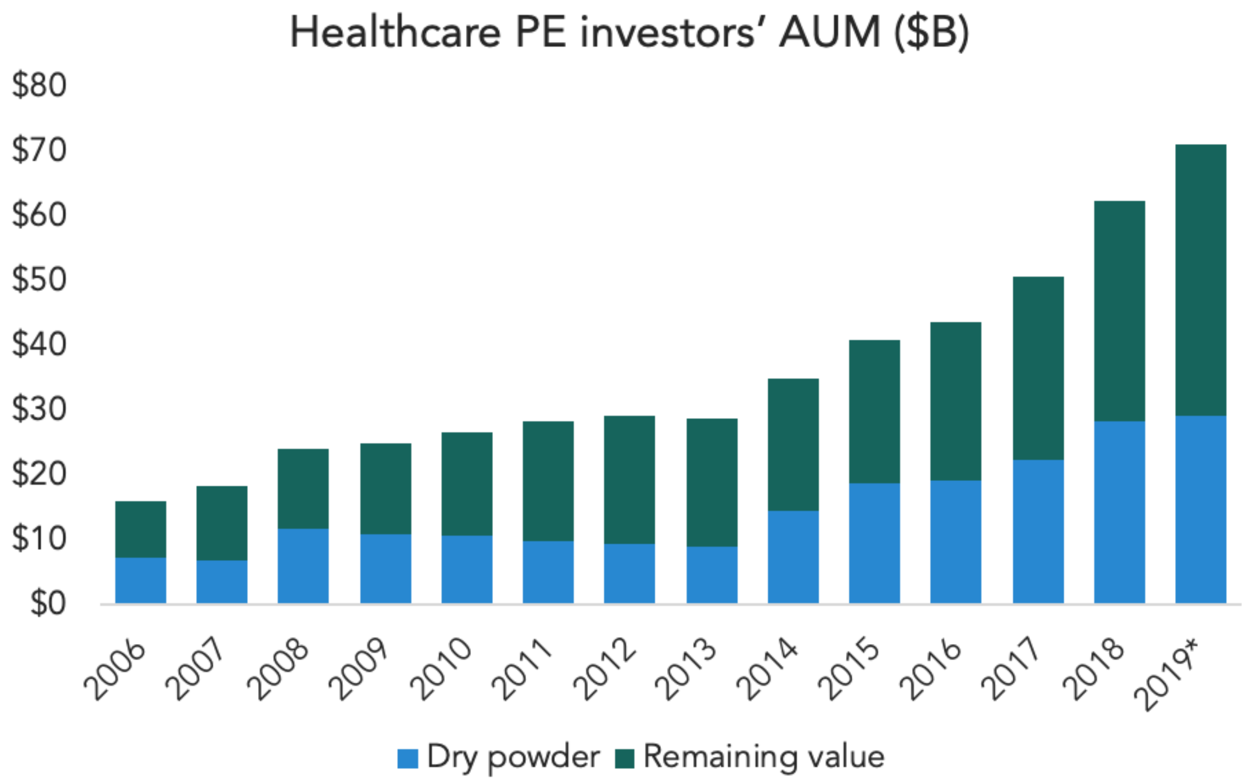

PE activity in the healthcare space has outpaced the broader PE market since 2009. A new PitchBook analyst note, to be released tomorrow morning, chronicles the trend: tailwinds include an aging population, an uptick in global per capita healthcare spending, strong growth rates and attractive margin profiles, and a perpetually fragmented industry in need of consolidation. The COVID outbreak added a layer of uncertainty for the industry, but not enough to derail its prominence. Early shutdowns of walk-in clinics and thousands of outpatient services highlighted how much transformational growth the industry has experienced in recent decades.

Highly regulated as it is, the industry tends to attract specialist investors who can dissect trends accurately and capitalize on them. Across North America and Europe, healthcare-specific AUM has seen visible growth in recent years. Healthcare PE AUM stood at $43.6 billion in 2016, a figure that grew by 63% over three years to $71.1 billion in 2019. Healthcare investors had (by far) their best year last year on the fundraising trail, raising more than $18 billion altogether. The prior high mark was $10.7 billion raised in 2016, but that will likely be topped once again in 2020. $10.1 billion was raised through the end of June, despite the chaotic landscape. A number of healthcare funds are still on the market, including names like Avista Capital Partners and Water Street Healthcare Partners. 2020 will likely see another big wave of capital come in when all is said and done.

On that point, PitchBook's note also highlights better returns on the healthcare side, going back several vintages. The 2012-2014 vintage bucket, for example, returned a median IRR of 23.2% for healthcare-focused investors versus 14.4% for the rest of the industry. It did take time, however, for that discrepancy to materialize, since healthcare funds tend to have lower near-term capital returns than other funds.