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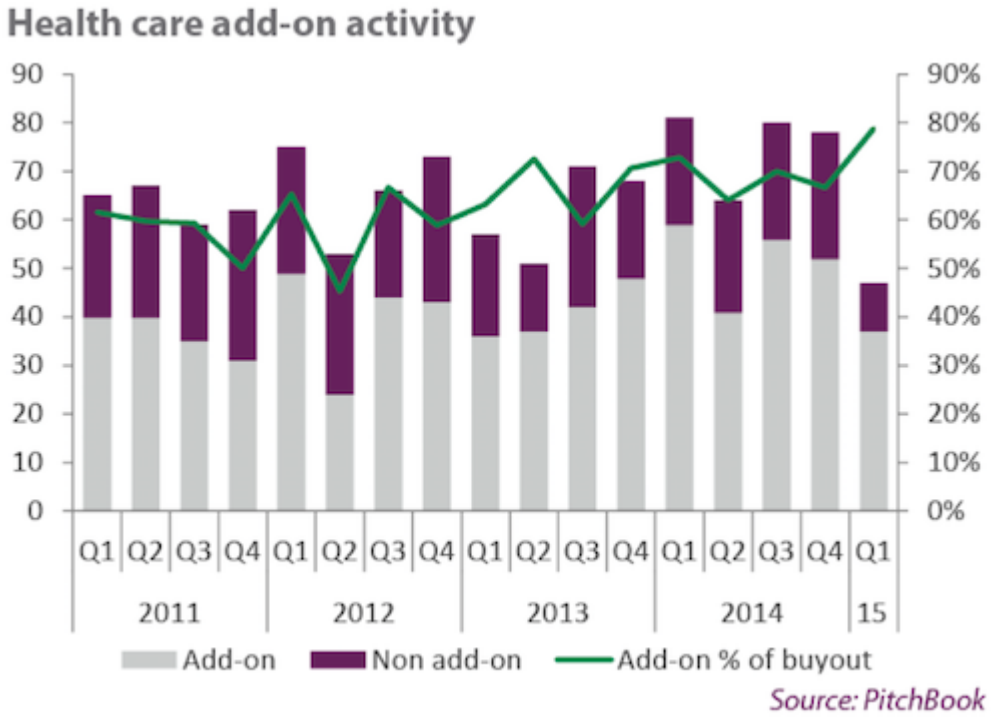
80% of 1Q Healthcare Buyouts were Add-ons

Bain & Company did a recent study on healthcare investing, looking at investment trends from a breadth and depth perspective. Turns out that healthcare buyers, both strategic and financial, are benefiting more when pursuing depth and becoming "category leaders" in their respective markets. We were curious to see where PE add-on activity was in the industry relative to platform activity. Buy-and-build is increasing as a PE strategy nationwide, but not to the extent that it is in healthcare. Almost four in five majority deals in the first quarter were for add-ons, compared to about 50%-60% in other sectors. Interestingly, though, add-ons aren't taking place at the expense of platform buyouts, which are just as frequent today as they were in 2006 and 2007. What's changed is the sheer number of add-ons.



More specifically, PE's focus has been on macro trends in U.S. healthcare, which has shifted to a lower-cost, more consumer-financed model following Obamacare. To keep their platforms competitive, PE sponsors are rapidly consolidating niche sectors that are benefiting from shifting healthcare spending, like urgent care practices and non-hospital care providers. As an aside, PE is also trying to lower its exposure to reimbursement risks, buying up companies that aren't dependent on declining Medicare/Medicaid reimbursements – healthcare consulting, staffing, healthcare IT and the like.

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