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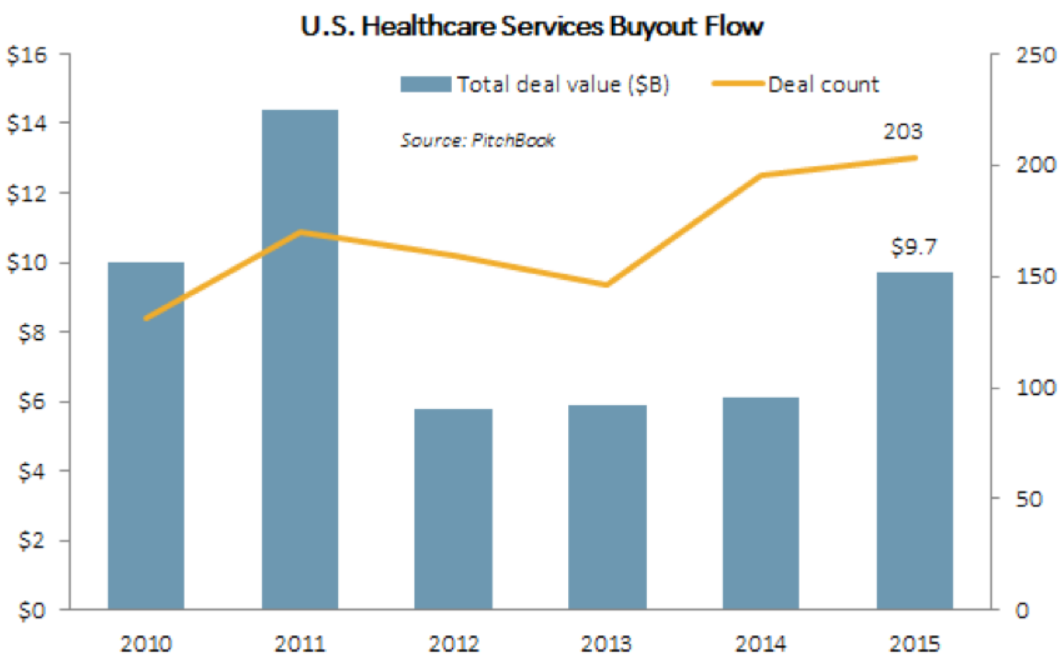
The Pulse of Private Equity – 1/11/2016

PitchBook | January 13, 2016

Long proclaimed as one of the U.S. sectors most ripe for private equity investment, given its growth prospects as well as its relatively fragmented nature, healthcare services saw a decade high of 203 completed buyouts in 2015. Total deal value also surged after staying relatively flat for three years, although it did not come close to 2011 numbers, in a sign more of buyer caution around elevated multiples and a focus on the core and lower middle market than anything else.



The elevated investment count testifies to how active PE firms have been in rolling up providers in the core and lower middle market by enterprise size, consolidating across verticals and geographies in order to scale efficiencies. Through such adding on, PE buyers can also mitigate fairly high initial purchase multiples, further sweetening the appeal of buying up provider practices. Given the depth and breadth of the U.S. healthcare provider network, PE buyout flow in the space should remain fairly strong in 2016, although perhaps not at quite the same height as more and more firms flock to the space in hopes of building out healthcare platforms and competition, as well as costs, stymie activity somewhat. M&A in healthcare on the whole should continue apace as chains seek more efficiency across different provider and population segments, offering potential exit avenues for PE sponsors. That should help maintain robust selling off of PE-backed holdings throughout all of next year.

Contact: Garrett Black
garrett.black@pitchbook.com