

Private Equity Healthcare Services

Q3 2024

Market Update

General: Private equity healthcare services deal activity in Q3-24 remained consistent with Q2-24. A total of 136 deals were completed versus 142 deals in Q2-24, but there seems to be a shift in sentiment. Throughout most of 2024, bankers have expressed that their pipelines have been building up and investors eagerly awaiting more deal flow, but those deals are now launching. Most of the quarter-over-quarter decline, or stagnant deal flow, can be partly attributed to the softening in PPM deals this year, which have faced increased regulatory filing scrutiny in several states. Deals below \$100M TEV are still closing at higher levels than those more than \$100M TEV as financing these deals with buyer and seller equity have been easier and more effective than access to leverage. However, as the cost of debt starts to decrease, getting more favorable credit facilities should increase dealmaking volume across all TEV tiers. Additionally, investors are starting to feel pressure to deploy capital. Most of the deployment has been allocated to add-ons for existing portfolio companies, but Provident expects more platform deals to close in Q4-24 and in 2025.

Valuations: Amid the macroeconomic and regulatory battles, valuations have crept down or “normalized” since the 2020 and 2021 peaks. Seller valuation expectations are starting to moderate and the gap between buyer expectations are decreasing. However, high-quality assets are still demanding premium multiples, including pharmaceutical and life sciences services, as the market is experiencing a supply and demand imbalance for highly unique, A+ assets. Medical spa services and veterinary assets which also saw extremely high valuations the past few years, have also started to normalize as patients and clients are not willing to spend as much disposable income on these services.

Exit Activity: Although PE exit activity is not as robust in 2024 as some anticipated, there has been more confidence in the market and investors are starting to feel pressure from LPs to return capital. Q3-24 saw 24 exits, notably NMS Capital selling its portfolio company Flourish Research to Genstar Capital. The traditional lower middle market exit playbook comprises passing platforms upmarket to larger PE firms, however, the bid-ask spread for these assets is slightly more apparent at this level than founder and entrepreneur backed businesses looking to transact as noted above.

Select Transactions

Month	Investor	Target	Deal Description
August			Avista Capital Partners acquired Trillium Health Care Products, a contract development and manufacturing organization (CDMO) of branded OTC products in North America. Trillium is a partner to leading global consumer healthcare and pharmaceutical companies, with broad capabilities across liquid, semi-solid and solid dosage forms. The capital from the transaction will help Trillium expand its footprint and capabilities across North America and serve a larger customer base across different therapeutic categories.
August			Northrim Horizon, an Arizona-based investment firm, acquired Allure Medspa, a multi-location medical spa that provides a comprehensive suite of minimally-invasive aesthetic treatments across its locations in the Phoenix metro area. Allure is actively pursuing acquisition opportunities which will be a key growth driver for the platform. Additionally, Allure appointed Kylie Tan as CEO to support the existing management team and lead expansion. Ms. Tan joins Allure from McKinsey & Company bringing with her expertise in strategy, growth, and operations for consumer, brand-forward businesses.
July			Shore Capital Partners formed Innovate 32 with the completion of a strategic partnership with Dr. Clint Newman. Innovate 32, headquartered in Nashville, TN, is a DSO that partners with growth-minded dentists and premier practices to deliver expertise in business development, finance, marketing, recruiting, benefits and other practice administration. Shore's extensive multi-site experience will help Innovate 32 grow to a multi-regional DSO and continue to provide high-quality care to its patients.

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