

Client

PE Co. is a mid-market private equity firm that has been in private equity for over 30 years, with over \$6B invested in their portfolio companies. PE Co. focuses primarily on the Consumer Goods, Manufacturing, Services, and Healthcare industries.

Background

PE Co. operates in a highly competitive market, constantly competing for investment opportunities in highly dynamic and fast-evolving markets. With the globalization of capital markets and growth in tech innovations, the challenge of identifying, qualifying, and evaluating the best opportunities has never been more significant.

In 2022, during the height of the U.S. Healthcare tech growth period, PE Co. recognized the need to move quickly in exploring investment opportunities. PE Co. initially decided to partner with a global consulting firm to support the deal-sourcing phase of their initiative but found the insights largely anecdotal based on past industry trends.

Opportunity

According to The Commonwealth Fund, private equity firms invested over \$200 billion in healthcare acquisitions in 2021¹. With private equity's role rapidly growing in healthcare, PE Co. decided it was the right time to expand its healthcare portfolio. PE Co.'s healthcare investment team has focused mainly on provider practice, healthcare devices, and healthcare real estate. However, recent growth trends in the healthcare technology and services sectors caught their attention.

1. <https://www.commonwealthfund.org/publications/explainer/2023/nov/private-equity-role-health-care>

Challenge

PE Co. recognized that healthcare is the most complicated industry in the U.S., and separating the right investment opportunities from the noise in healthcare tech and services segments requires more profound expertise and greater diligence. Although the high-level insights they received from the global consulting firm helped identify subsegments and growth trends in each segment, there was still a lack of clarity on which innovations had the most significant promise in capturing more outstanding market share and had the greatest potential for vertical and horizontal integration.

PE Co. identified three key areas where they needed help to create and execute the best gameplan for their next investment in healthcare:

- In-depth market research to better understand each sub-segment within the health tech and service sectors and how they intertwine with other segments in healthcare
- Quantitative and qualitative analysis of the growth opportunity in each subsegment
- Which business models were most successful and promised continuing success as the market evolved, and why?

Approach

PE Co. selected Covalence Health to help address their challenges because Covalence Health had demonstrated success with similar projects and the depth and breadth of the firm's personnel's background in the healthcare technology and services sectors.

Covalence Health devised a four-phased project to address PE Co.'s challenges:

- Discovery: Gathering information from firms on what they already know and narrowing the scope of the research to segments and opportunity types that align best with PE Co.'s strategy.

- **Research:** Qualitative and quantitative research of the healthcare tech and services space to better understand strategies, business models, significant players, and market forces influencing growth trends such as innovation, policy, and economics.
- **Analysis:** Complete segmentation analysis accompanied by a segment benchmarking matrix outlining critical players in each segment along with their strengths, weaknesses, opportunities, threats, financial situation, management team, and customers. Perceptual maps for each segment present how companies compete on key variables such as price, delivery, operations, market reputation, and customer retention.
- **Recommendation:** Collaboration between Covalence Health and PE Co. to refine the analysis and arrive at a list of companies to consider and a first pass at the valuation of those companies.

Delivery

Given the accelerated rate of mergers and acquisitions in healthcare, the project was on a tight timeline. Covalence Health quickly arrived at a short list of companies to invest seven days ahead of schedule. Covalence Health delivered a ranked list of four companies to consider, based on the thorough market analysis, feedback from market leaders during in-depth interviews (IDIs), and the potential of partnerships and integration with PE Co.'s existing portfolio companies. Covalence Health also presented each company's five-year financial pro forma and sensitivity analysis to help kickstart the valuation process.

Conclusion

PE Co. extended its agreement with Covalence to offer support during the due diligence and valuation processes and closed the acquisition of one of the four companies for 14% below the asking price within four months of the engagement. PE Co.'s Partners credited Covalence Health's qualitative analysis for their decision to evaluate and close the deal quickly. Covalence Health continues to serve as an advisor for PE Co.'s healthcare portfolio as needed.