WINTER 2021

MIDDLE MARKET Growth

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Health Care's Retail Revolution

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The Health Tech Boom

CBD Sparks Investor Interest

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A Long-Term Look at Health Care

KATHRYN MULLIGAN
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To say it's been a turbulent 12 months for health care would be quite an understatement. So where to begin when discussing the industry's future?

That was the dilemma our editors faced as we planned this health care-themed edition of *Middle Market Growth*. Between hospitalizations of COVID-19 patients, testing and the vaccine rollout, covering the coronavirus alone could fill the pages of this issue.

Knowing that those topics are receiving daily coverage in other outlets, we focused this edition on the long-term trends within health care. Still, the pandemic casts its shadow over the entire industry and is present within each of our articles.

"Consumerization" is among the developments that was accelerated by COVID-19. This issue's cover story (p. 26) looks at how health care providers have been incorporating technology to make their services more user-friendly, even before the outbreak. In the modern marketplace, consumers of health care have choices as they shop for services, and they're increasingly looking for convenience, transparency and affordability.

COVID-19 could also spark further consolidation, thanks to the financial and emotional pressure put on independent health care providers over the last year. Strategic acquirers and private equity funds are armed with dry powder and eager to buy businesses and help them adapt to the current moment. Investors we spoke with described strategies for creating value within their portfolios by appealing to patients as customers—many of whom now expect their doctor to offer virtual check-ups, online scheduling and easy-to-access records.

Technology promises not only to improve the patient experience, but to help health care organizations operate more efficiently and control costs. Software, cybersecurity and data management businesses are proliferating to meet that need, and many are using private capital to scale, a topic we explore in our feature story, "The Health Tech Boom" (p. 34).

Targeting inefficiencies is private equity's sweet spot, so it's no surprise that investors are backing tech-based solutions to health care's pain points, of which there are many. Fortunately, there's a lot of money looking for problems to solve. //

Kathryn Mulligan

ACG's New Normal: Membership Made Easy

BRENT BAXTER
Chairman, ACG Board of Directors, and Managing Director, Nolan & Associates

After the trials of 2020, the start of the new year feels like a turning point. But even as the world inches back toward normalcy thanks to the COVID-19 vaccine, it will likely look different than it did before the outbreak.

That's not necessarily a bad thing.

The M&A community, for one, has adapted to Zoom coffees and virtual due diligence. My colleagues and I experienced that shift at Nolan & Associates, a boutique investment bank. Those modes of digital communication won't entirely replace air travel and cocktail hours, but they'll likely stick around in some form.

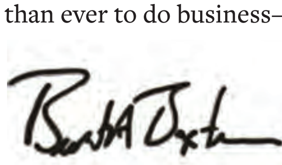
ACG, too, pivoted in response to the pandemic and the needs of its members. It introduced online programs and networking events, accelerated governance changes, and began creating a more unified membership experience through "One ACG."

These changes are here to stay. I became chairman of the ACG board of directors on Jan. 1, and I plan to work with my fellow board members, ACG CEO Tom Bohn and the ACG staff to steer the organization into its next phase of growth.

Integrating the ACG membership experience across chapters through One ACG is among the board's highest priorities. Since One ACG is a term new to many of you, I would like to share some of our objectives, all building on the success of our chapters. Members will gain access to networking, conferences and other benefits across the ACG chapter network, for example. Deal-making marketplaces like ACG DealSource will be uniform across chapters, with familiar scheduling software and registration systems. ACG sponsors will be able to share their thought leadership in multiple markets through a single touch point, in addition to continuing their support of local chapters. As a longtime member and a past president of ACG St. Louis, I know firsthand the impact that a seamless experience will have on sourcing and closing deals.

One ACG is well underway, and it's aided by governance changes made last year under the leadership of my predecessor, Marty Okner. ACG shrunk its board of directors from 27 members to 15, enabling us to be nimble in our decision-making. ACG also formed a new chapter council, made up of representatives from ACG's various markets, to unify the organization further.

Although it may be months before we're taking flights and shaking hands again, ACG's fresh approach to membership is making it easier than ever to do business—regardless of where you're working. //



WINTER 2021

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COVER STORY

Health Care's Retail Revolution

Just a decade ago, the consumer experience was not much of a consideration in the health care space. And the idea of tailoring services for a modern, tech-savvy end user was unheard of. But patients are beginning to behave more like customers in an open marketplace, a shift that's prompting health care providers – and the private equity firms that invest in them – to rethink their offerings and how they measure business performance. **26**

TREND

The Health Tech Boom

Even before the COVID-19 outbreak, investors were flocking to technology that targeted health care inefficiencies. From workforce management and physician compensation solutions to telemedicine, private equity firms are seeing opportunities as medical leaders race to adapt to a high-tech world. **34**

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MMG CONVERSATIONS

Family Office Dynamics: People Over Process

This podcast episode explores how family dynamics can impact the success of a family office. Michael Beduze, managing partner of Da Vinci Global Consulting, and Tom Stewart, chief knowledge officer at AchieveNext, examine why family dynamics are frequently overlooked, why advisors should delve into “soft” issues to ensure a better outcome for their clients, and how to address family dynamics when a business is involved.

This podcast is part of ACG’s Family Office Series, sponsored by RSM US LLP, a leading accounting, tax and advisory firm dedicated to the middle market. Find more articles, videos and podcast episodes about family offices at middlemarketgrowth.org.

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Printed in the United States of America.

ISSN 2475-921X (print)
ISSN 2475-9228 (online)

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A Better Approach to Treating Chronic Disease

GARRY WELCH, PH.D.

Title: Chief Scientific Officer

Company: Silver Fern Healthcare

Location: Hartford, CT

Expertise: Garry Welch, Ph.D., has more than 30 years' experience leading clinical research on behavior change strategies for people with diabetes and other chronic diseases.

▸ What does the chronic disease epidemic look like today?

The growth in chronic diseases has been steep and steady. One in two adult Americans suffers from lifestyle-related chronic conditions, such as diabetes, cardiovascular disease and chronic kidney disease. There is an even larger population of people clinically recognized as being in a pre-disease phase. The cost is immense, with the U.S. spending more than $3 trillion annually to treat chronic diseases, yet the large majority of patients do not meet national guideline recommendations for the key drivers of chronic conditions, including blood glucose levels, blood pressure, blood lipid levels, stress, smoking and physical activity.

▸ What's missing from our current approach to treating chronic disease?

In nearly all cases, lifestyle-related chronic diseases are preventable or reversible with proper treatment, but the health care system is hyper-concentrated on acute care and medical treatments, which research shows contribute to only 10% of patient outcomes and rarely focus on disease prevention. With 30% of patient outcomes attributed to genetics, the real opportunity to affect patient outcomes is by influencing the 60% of them attributed to individual behaviors and social/environmental factors.

▸ Can digital health solutions help realign our approach?

Part of effectively treating chronic disease is understanding a person's individual experience living with a chronic condition. The system will benefit immensely from adopting digital tools that enable clinicians to efficiently and systematically assess the factors that are known to impact patient outcomes. Clinical teams can then use this information to build treatment plans that address root causes and that are customized to patients' individual barriers, goals and preferences. By addressing these components and engaging patients in the care plan, digital tools can help facilitate systemic lifestyle change for people with chronic diseases, resulting in prevention or reduced complications and comorbidity, effectively reducing total cost of care. This isn't being done at scale yet, but the market is progressing quickly.

▸ What is the role of investors in improving the health care system's approach to chronic disease management?

Only 1% of venture capital investments since 1990 have been directed toward solutions that address individual behavior and psychosocial factors. The remaining 99% of investments have funded specialist-oriented treatments, medical devices and specialty drugs, which no matter their effectiveness, only drive 10% of individual health outcomes. Deliberate and comprehensive lifestyle changes have much better outcomes for patients. Investments aimed at these solutions are essential for the system to shift toward value-based care and to move the needle on population health outcomes. //

Private Equity Deals in a COVID-19 Environment

ELIE AZAR

Title: Founder, CEO and Managing Director

Company: White Wolf Capital LLC

Location: Miami, FL

Expertise: Elie Azar is a seasoned private equity professional, drawing on a career that spans over 20 years of M&A and private equity investing experience. Prior to founding White Wolf in 2011, Azar worked at Cerberus Capital Management, Ernst & Young and Arthur Andersen.

▸ How would you characterize COVID-19's impact on private equity?

COVID-19 wreaked havoc on businesses, communities, families; no sector of the economy was untouched, with small businesses taking the biggest hit. While there have been a few bright spots for private equity—for example, deal flow has remained robust—credit markets have tightened, making it more difficult to get deals done. Nevertheless, as innovation often creates disruption, disruption can trigger innovation. For White Wolf, our adaptation to the virus resulted in several new practices that we will continue even after the pandemic recedes.

▸ What are some examples of new practices that you will retain?

I would categorize examples under two headings: Due Diligence and Deal Sourcing.

Due Diligence: We closed eight add-on transactions in 2020. Due to travel restrictions, we were forced to come up with ways to do virtual site visits. We hired local professional photographers to shoot video and photos. In some cases, we retained local architectural or graphic design firms to do virtual 360/3D walkthroughs. While we hope to get back to in-person visits soon, this is a practice we will continue post-pandemic. Visualizations are meaningful diligence work products (as are investment decks and economic models) and they facilitate communications with lenders and limited partners.

Deal Sourcing: While we continued to screen opportunities brought to us by the valued sell-side partners that we have worked with over the years, we rediscovered the wealth of potential deal contacts embedded across our existing portfolio. All of our management teams know of companies with competencies highly valued by their customers. Some firms with prized competencies are still run by their founders who, while they may have given some thought to "exit," have not taken the step of speaking with sell-side advisors because they believe they're not ready to "test the market." The pandemic reminded us that we should actively mine our extensive portfolio network for new opportunities.

▸ Has the pandemic impacted what you are looking for in a potential acquisition?

Not really. We stick to industries we know well. Assuming that the overall deal makes sense in terms of valuation/financial performance, the most important thing we look for is cultural fit and alignment of interest and goals. We love partnering with growth-oriented, motivated management teams who are interested in that second "bite of the apple." We obviously understand ownership and management's desire to take chips off the table and diversify their holdings, but we prefer situations where strong, motivated leadership is looking to re-invest/roll into the new partnership and together embark on an aggressive growth strategy. While there are no guarantees, the objective is to make their rolled portion at exit become more valuable than its value at entry. //

Alcohol and Drug Treatment Centers Draw Private Equity Backing

By Phil Albinus

Drew Rothermel has seen it all during his career in behavioral health and drug and alcohol abuse treatment.

As chief executive officer at BRC Healthcare, an Austin, Texas, entity that operates five substance abuse treatment centers, he has watched the escalating opioid epidemic and the evolving national conversation about addiction, one that has shifted away from blame toward a more nuanced understanding of substance abuse.

He has also seen a wave of investment in recent years.

"I've been doing this before private equity thought it was cool to invest in this space," says Rothermel, who has held senior roles at City Line Behavioral Healthcare and Caron Treatment Centers.

Private equity's interest in behavioral and drug and alcohol rehabilitation facilities comes in response to a growing need for recovery services. A total of 3.7 million people received treatment in the U.S. in 2019, and facilities are scrambling to provide beds to patients struggling with addiction. As states decriminalize drug possession, some like Oregon advocate drug treatment over prison terms.

> "AS WE LOOKED AT THE MARKET LANDSCAPE, WE THOUGHT THAT THERE WAS A HOLE IN THE MARKET IN TERMS OF TREATMENT OPTIONS."
>
> HEATHER GARTIN
> Director, FFL Partners

The COVID-19 lockdowns last year further underscored the magnitude of the addiction crisis. The Centers for Disease Control and Prevention reported 81,000 drug overdose deaths in the U.S. in the 12 months ending in May 2020, the highest number ever recorded in a 12-month period. Alcohol remains the leading abused substance, followed by opioids and painkillers, according to addiction experts.

There are more than 14,000 treatment centers in the U.S. that provide detox services, addiction recovery programs and sobriety after-care. They were set to generate $42 billion in 2020, according to researchandmarkets.com.

For private equity firm FFL Partners, entering the addiction treatment space came after observing a gap in available offerings for patients. The firm invested in Summit Behavioral Healthcare LLC, a consortium of behavioral and mental health centers with a focus on drug and alcohol recovery facilities based in Franklin, Tennessee, in 2017.

"As we looked at the market landscape, we thought that there was a hole in the market in terms of treatment options. There were high-end, out-of-network providers that often required large out-of-pocket [payments] from patients," says Heather Gartin, director at FFL. On the other end of the spectrum, she noticed a lack of high-quality, not-for-profit solutions.

She says Summit Behavioral in particular focused on a strategy to provide an in-network residential program with best-in-class clinical capabilities.

Still, the growing demand for behavioral health care and addiction treatment isn't sufficient to draw investors. The businesses have to be solid, too.

"There's no question that there is a crisis that's created a demand for these companies. Unfortunately, they're not all created equal. There are good ones and there are bad ones," says Jeff Stevenson, managing partner of VSS, which invested in BRC Recovery in a deal that was completed last year, along with NewSpring Health Capital. The transaction helped create BRC Healthcare, a holding company for future BRC Recovery acquisitions. In early 2020, VSS also invested in Ascent Behavioral Health, an operator of Utah-based mental health facilities for at-risk teenagers.

When it comes to choosing which treatment facility to invest in, dedicated management teams that understand the marketplace and revenue streams are critical, says Stevenson. He and his team primarily look for "strong, talented" management teams that understand the marketplace. "It's about the clinical program that drives whether it's an attractive opportunity or not," he says.

Buy-in from the founder of the treatment facility is paramount, adds Stevenson, whose firm often takes minority or slight majority interests in rehab centers. "Most private equity firms are structured as buyout firms and as such, they want to buy 100% or close to 100%. You want to keep that founder engaged and aligned," he says.

Buy-in also helps the investors because finding the right talent is a challenge. "There are very few good managers in the field. You have to understand the revenue cycle management and find a group that has the quality of care," he says.

"THERE'S NO QUESTION THAT THERE IS A CRISIS THAT'S CREATED A DEMAND FOR THESE COMPANIES."

JEFF STEVENSON
Managing Partner, VSS

Challenges Remain

Investing in the addiction treatment space comes with risks. Among them is the sector's changing cash flow, warns J. Jette Campbell, partner at investment bank Carl Marks Advisors, based in New York.

"For-profit health care is a lot different than not-for-profit health care, and I've seen it in other industries where there is a perception that there's a lot of cash flow and opportunity here," Campbell says.

He points to the Affordable Care Act, whose plans often come with high out-of-pocket costs. He says PE firms often miss "traps" in the revenue cycle, namely instances where patients are unable to pay their deductible at the beginning of a 20- to 60-day program. "Your deductible is a very important part of the cash flow, and if you think you're just going to collect it from insurance reimbursement, your cash is a lot lower than you think it is," he says.

Unlike patients who receive dental care or physical therapy after reconstructive surgery, the population served by rehab centers is a fragile one, according to Rothermel. Addicts regularly balk at treatment that can take from 20 to 40 days and often starts with an intensive detox program.

This patient base is also plagued with denial, shame and stigma about their disease. "It's not like someone tells me I need my knee replaced. I'm not going to argue that I don't really need that," says Rothermel.

The pandemic has posed a whole new set of challenges. Treatment centers have had to provide COVID-19 testing for staff and patients, and social distancing can be a challenge in these facilities, many of which offer daily Alcoholics Anonymous meetings.

That said, the COVID-19 vaccine rollout could spur a rise in substance abuse treatment enrollment later this year.

"I think the economic toll that COVID has taken on a lot of people has exacerbated mental health issues," Gartin says. "The hope is that with the public acceptance of behavioral health as a need, this will encourage more people to seek care when they need it." //

Home Is Where the Care Is

Aging population pushes more dollars to at-home health care sector

By Benjamin Glick

An aging population and changing lifestyle preferences among retirees are driving demand for health care services that are provided at home and fueling an increase in M&A activity involving home health care businesses.

Home health services, a niche medical sector that includes home nursing, personal care, hospice, home medical supply delivery and at-home diagnostics, saw deal activity accelerate in the final innings of 2020.

After a dip early in the year due to the COVID-19 outbreak, deal volume in the home health space jumped 120%, with 22 publicly announced transactions in Q3—compared with 10 acquisitions in Q2, according to data from HealthCareMandA.com and Deal Search Online. Compared with Q3 2019, M&A activity increased by 10%.

Private equity groups, strategic acquirers, insurance payers, hospital systems and other home health providers are all actively looking for targets in the home health space, according to Michael Weber, a managing director at investment bank Lincoln International.

"We're going to see a tremendous amount of M&A activity further accelerated over the next 12 months versus what we've seen even in years past," he said during a panel organized by ACG Philadelphia and ACG Boston for the M&A East conference last October.

Home health is made up of mostly small businesses. About 78% of home care providers employ fewer than 50 workers, according to a report from PHI, a workforce advocacy organization. Despite the size of many home health providers, EBITDA multiples have reached double digits, according to Weber. Meanwhile, the industry has undergone consolidation in market segments that include hospice care, skilled home health and non-medical home care.

Some of the largest transactions in 2020 included The Providence Service Corporation's purchase of Simplura Health Group from One Equity Partners for $575 million, and Addus HomeCare Corporation's acquisition of A Plus Health Care, Inc. for $122 million.

The boom in home-based health care includes more than just patient-facing services. Investor enthusiasm has also extended into niche spaces like specialized medical equipment manufacturing, logistics, information technology and patient transportation.

Making House Calls

Home care is one of the fastest-growing segments of the long-term care sector, driven primarily by demographic changes.

There are currently 52 million Americans over the age of 65, a group expected to increase to 75 million over the next 30 years, according to census figures. Many of this cohort are opting to remain in their homes as they age.

In addition, around 24 million Americans have a severe disability. While around half of that population is over 75 years of age, only about 4.5% live in assisted living facilities—the rest live at home.

"As baby boomers age, we will need to be thinking about how we take care of a population of people that will have some disabilities as they age but are still going to find it attractive to be independent and continue to be as viable as long as they can," says Grace Terrell, CEO of Eventus Whole Health, an operator of skilled nursing and assisted living facilities in five states across the Southern and Midwestern U.S.

Eventus mainly focused on assisted-living facilities, but as COVID-19 hit elderly populations, the company, backed by private equity firm Enhanced Healthcare Partners, shifted its focus to televisits and the private residential market.

"Our mission is not just about where an individual resides, but the type of patient that needs a different sort of care," she says.

When COVID-19 began spreading in March 2020, many health care services quickly pivoted to telehealth platforms, but for home-bound and elderly patients, a video chat often isn't enough.

Terrell, who is also a practicing physician, saw many of her patients unable to access treatment for chronic conditions. "There is a lot that can be done through telehealth, but it's not everything," she says.

In November 2020, Eventus acquired Doctors Making House Calls, or DMHC, a North Carolina-based physician group delivering health care services to assisted living facilities and private residences for elderly, disabled and high-risk patients.

"THERE IS A LOT THAT CAN BE DONE THROUGH TELEHEALTH, BUT IT'S NOT EVERYTHING."

GRACE TERRELL
CEO, Eventus Whole Health

DMHC was one of only 15 practices nationwide selected to participate in the Independence at Home Demonstration Project, a study launched by the Centers for Medicare and Medicaid Services in 2012 to measure the effectiveness of at-home primary care services. At the end of a five-year study, the company had the highest performance in quality and cost reductions.

"People who get care where they live do better," Terrell says.

According to Terrell, there's about a 30% cost reduction for an at-home medical treatment program relative to the same care administered in a hospital setting. Those savings are pushing government payers like Medicare and Medicaid—as well as private insurance groups—toward at-home care.

Medicare Market

There are three reasons government funding is expected to increase, according to Greg Belinfanti, senior managing director at private equity firm One Equity Partners: At-home health care is less expensive, patients increasingly want to receive care in their homes, and at-home treatments show improved results over institutional settings.

When his firm started looking into home health care about seven or eight years ago, it noticed an interesting trend in government spending.

"Medicare and Medicaid spending reached a crossover point where more dollars are being spent on delivery of care and what's called home and community-based settings, as opposed to institutional settings," Belinfanti says.

The increase in spending by government payers is creating opportunities to invest in home health care companies themselves, as well as in adjacent businesses. Last July, One Equity invested in Adapt, a maker of durable medical equipment designed to help patients manage conditions like mobility limitations, sleep apnea and other chronic respiratory ailments.

Adapt has since acquired a business called AeroCare to expand its services targeting direct-to-patient equipment, such as CPAP machines and oxygen concentrators.

Belinfanti expects increased federal government funding to provide uplift for Adapt just as it did for Simplura Health Group, an operator of home health care agencies that One Equity bought in 2016 and sold in 2020.

Last summer, then-presidential candidate Joe Biden announced a plan to boost the caregiver economy by committing $775 billion to Medicare and Medicaid.

"Simply put, home health is going to continue to grow, and it's going to receive an increasing percentage of Medicare, Medicaid and managed care dollars spent going forward," Belinfanti says. //

What's Ahead for Health Care M&A in 2021

A Q&A with David Crean, Managing Director, Objective Capital Partners

David Crean, Ph.D., is a managing director at investment banking and valuation firm Objective Capital Partners, where he leads the firm's M&A, partnering, strategic advisory and capital financing transactions with life science and health care clients. Crean has more than 25 years of life sciences R&D and corporate development transactional experience in the pharmaceutical industry, and has been responsible for leading mergers, acquisitions, licensing and collaborations, and establishing corporate strategy. He is also the president of the board for ACG San Diego.

Crean recently spoke with *Middle Market Growth* Editor-in-Chief Kathryn Mulligan about his outlook for M&A in the health care sector in the year ahead. This interview has been lightly edited and condensed for clarity.

"IT'S DIFFICULT TO FORECAST FOR YOUR BUSINESS KNOWING THERE'S SO MUCH RISK OUT THERE, AND SO MUCH UNCERTAINTY ABOUT HOW LONG THE PANDEMIC IS GOING TO LAST."

Q During the first peak of the COVID-19 outbreak last spring, we saw an abrupt slowdown in deal activity. As M&A activity picked back up in the second half of the year, what types of health care businesses did you see come to market?

A We saw a combination of several things. For health care companies that had begun the sales process prior to March, COVID-19 just slowed the transactions down. It added several months to processes because companies were trying to get a better handle on how COVID-19 would affect their top and bottom lines, and the probability of a transaction. That's one group—businesses that were going to get transacted no matter what.

Then there are some that entered the market during the pandemic seeing an opportunity. If I'm a buyer and I have a significant balance sheet and I'm noticing, for example, a company that's up for sale that's going through weakness, I can buy on the weakness. We're seeing some of that.

The pandemic really exposed weakness in business models. If you were a poorly performing company and your quality of earnings was really poor, COVID-19 exposed it. Management teams at health care companies had to say: Maybe we put this sale on pause because we're not going to get the valuation that we're looking for. Private equity firms and strategic acquirers interested in this space are not going to pay us what we want, so let's stop the process and come back to market after we address our weaknesses or change our business model.

On the physician practice side, we're seeing an interest in exploring M&A because they don't want to go through this type of disruption again. It's difficult to forecast for your business knowing there's so much risk out there, and so much uncertainty about how long the pandemic is going to last. These practices are not focused on infectious disease, they're not a general practitioner or general medicine; they're doing elective surgeries, or they're in plastic surgery or dermatology, and it's hard to predict when their business will open up.

Q How active do you expect the health care M&A market to be this year?

A I think you'll see more activity in 2021. We already saw it in the third and fourth quarters of 2020, and I don't anticipate 2021 to be slower than that. I think if anything, there's going to be increased activity.

I think you will also see the emergence of companies that were weak and got weaker after last year's round of Paycheck Protection Program loans dried up. There are certain companies that had liquidity issues; now they have solvency issues. I think what you're going to see is a lot of companies coming to market, having been forced to look at selling because they don't have the finances.

There's going to be a number of buyers. Private equity will be interested, particularly if a business has good technology and they can buy it on the cheap. Same thing with corporates—corporate buyers have tons of money on their balance sheets, and I see them wanting to potentially buy a good company with good technology, or because it has great customer service, or customers they want access to, or they want to expand.

Q As virtual care and telemedicine gained traction over the past year, how have you seen health care providers access these capabilities?

A One route is to partner with a company that's already doing telemedicine. Why reinvent the wheel, since there are a lot of great companies out there in the digital health and telemedicine arena that are looking for partnerships?

In other cases, if a technology is going to help drive business, and help connect a patient to a provider—whether it's at their facility or at home—we're seeing M&A activity there.

To me, M&A or partnership is the new R&D. Why go out and try to build something if you can just buy it and jettison your business to a level where you should have been six months or a year ago?

Q Are you seeing health care businesses shift toward partnerships in lieu of M&A, or are these activities complementary?

A Partnerships are really part of a "crawl-walk-run" model. If I enter a partnership today, and I test-drive a technology and it looks really good, I'm just going to buy it. I'll use a partnership to see how this works out, but if it's going to really, truly jettison my business and there's great synergy, why not just go from that partnership to now we're going to buy it?

Q What other motivations are there for entering into this type of partnership arrangement?

A At the end of the day, it comes down to what's in the best interest of the patient. It's all about patient personalization right now, and there's a lot of power in the hands of the consumer—i.e., the patient. And for health systems or even physicians to retain patients, you really have to think about what's in the best interest of the patient. I think you're going to see more and more health care businesses entering partnership models, and trying various ones—whether it's a digital health platform or telemedicine, diagnostic platforms, or others—especially when there's so much uncertainty in the market, and businesses are trying to diversify and shore up the ship. That's what I'm seeing happening, and ultimately it leads to M&A. //

CBD Makers Make Their Case to Consumers

Gold rush may be over, but there's still plenty of green

By Benjamin Glick

Cannabidiol, better known as CBD, is no longer as novel as it once was, but companies that place emphasis on the efficacy of their products are becoming more prevalent as consumers and regulators demand transparency.

When CBD was legalized in 2018 as part of the Agriculture Improvement Act, it created an industry practically overnight for the non-psychoactive compound, which is derived from hemp. Users claim its anti-inflammatory properties can treat a wide range of afflictions, from muscle aches to anxiety.

Media outlets and industry watchers referred to the aftermath of legalization as a gold rush—and for good reason. An estimate published by the Brightfield Group, which studies the cannabis market, found the CBD industry grew by over 500% in the year following the law's passage.

"Everyone was jumping into CBD left and right," says Sean McDonald, COO at CBD Living, a CBD maker founded in 2013.

The influx of CBD businesses stemmed in large part from the eye-popping estimates of the industry's growth potential. Just before the 2018 law—better known as the Farm Bill—passed, Brightfield projected the $600 million market for hemp-derived CBD products would balloon to $22 billion by 2022.

By 2020, there were more than 3,800 CBD brands jockeying for market position. Estimates last year from market research firm Nielsen place the CBD market's value between $900 million to $1.2 billion, and project growth of $6 billion by 2025.

The vast majority of companies are small. Out of more than 6,800 companies indexed by Grata, a middle-market company search engine, about 6,300 had fewer than 50 employees.

The COVID-19 pandemic has helped cull the field a bit, according to David Metzler, CEO of private equity firm CBD Capital Group. Many companies struggled to reach customers amid the lockdowns last spring. Still, the market suffers from an excess of players that may not be able to stay afloat. "It's going to be a bloodletting," Metzler predicts.

Data provided by Grata

As the industry reorganizes, he argues the only CBD makers that will survive are those that can prove their products work—and he's not alone.

“THE BIGGEST BARRIER FOR PEOPLE ADOPTING CBD NOW IS THEY DON'T HAVE ANY CLARITY TO THE EFFICACIOUS NATURE OF IT.”

DAVID METZLER
CEO, CBD Capital Group

The Wellness Vertical

After a career in the alcohol industry, Smoke Wallin and his business partner decided to break into the burgeoning cannabis space just before the legalization of hemp cultivation in 2018.

“I came from a very competitive industry with some very large players but thousands of brands,” says Wallin, now the CEO of CBD maker Vertical Wellness. “I used to spend a lot of time thinking ‘What's the white space? What's the opportunity that I see that I could come up with that's different?'” he says. “Well, I have the same challenge here except what's different is the entire industry is white space.”

Vertical Wellness contracted with farmers on 1,800 acres of land in Kentucky and Tennessee to grow hemp, and it built a plant large enough to process 9 million pounds of the plant annually for its products, including lotions, dog treats and capsules. Vertical Wellness, which sold a minority stake to private equity firm Merida Capital Holdings in 2019, acquired several businesses during the pandemic, including a CBD-infused candy manufacturer.

“We've been able to continue to attract capital. We've been able to acquire companies at a fair valuation,” Wallin says. “As more mainstream retailers start to add CBD brands to their shelves, that drives new investment into the space and further opportunities for M&A.”

As the CBD market grew, quantity often ran inverse to quality. Without government oversight, many products had little to no CBD in them, or low-quality CBD, according to CBD Living's McDonald. Respondents to a 2020 Nielsen survey reported difficulty gauging the effectiveness of CBD products as the top reason they don't want to try them.

One way to alleviate consumers' worries is by partnering with trusted voices.

In May 2020, Vertical Wellness partnered with Kathy Ireland, an actress, model and influencer who has helped sell more than $2.6 billion in health and wellness products since 1993. “Consumers may not know that much about CBD, but they trust Kathy,” Wallin says. “It's all about giving them the surety that what we say is in the bottle is in the bottle and that it's effective, and that it's backed up by people they recognize.”

CBD Living has adopted a similar philosophy. The Corona, California-based company partnered with a laboratory in Florida to test the CBD concentration of its product lineup, which it publishes on its website. “We want consumers to know CBD is in there, whether you're taking a water-soluble or ingestible,” McDonald says.

Science over Snake Oil

CBD Capital Group's Metzler is going one step further to make the case for a CBD product's viability as a health and wellness product.

“The biggest barrier for people adopting CBD now is they don't have any clarity to the efficacious nature of it,” he says. “The only companies that can survive are ones that can demonstrate applications.”

In September, CBD Capital announced the findings of one of its studies that found CBD products correlate with improvement in many quality-of-life metrics. It focused on the three main reasons people take CBD: pain, anxiety and insomnia. After a 13-week trial, participants saw improvements. The firm has since submitted its findings to the Food and Drug Administration.

Proving that using CBD products have the positive effects many companies claim is becoming more than just a nice-to-have, or a way for companies to distinguish themselves in the crowded market. In December, the FDA and the Federal Trade Commission issued warning letters to multiple companies that claimed their products were treatments for various medical conditions.

In 2021, Metzler says his firm will begin testing thousands of CBD brands to gauge their efficacy using a medical-grade outcome survey developed by the RAND Corporation, and will then collect that data in an index.

“We thought this was a good way to see which brands are recession-proof. If they actually solve people's pain, anxiety, insomnia, then people are going to keep paying for it. If it's just snake oil, then they're not,” Metzler says. //

ACG Winter Summit 2021: Looking Ahead

By Phil Albinus and Benjamin Glick

> “TWO THINGS THAT ARE SHOCKING ABOUT 2020: THE WORLD CONTINUED ON WITH OUR NORMAL BUSINESS LIVES, AND IT’S REMARKABLE HOW QUICKLY THE GLOBE MOBILIZED AND PRODUCED VACCINES.”
>
> GRETCHEN PERKINS
> Partner, Avance Investment Management

Investment opportunities in emerging technologies, the M&A deal environment and the return to work were the session topics of the virtual ACG Winter Summit held in January. Although panelists said that the global pandemic had a profound impact on business and client interactions, they all closed deals in 2020 and are looking forward to the year ahead.

“Two things that are shocking about 2020: The world continued on with our normal business lives, and it’s remarkable how quickly the globe mobilized and produced vaccines,” said Gretchen Perkins, partner at private equity firm Avance Investment Management and the moderator of the “M&A Outlook: 2021 Deal Trends” panel that was sponsored by Datasite.

“2020 was certainly an interesting year and, surprisingly, we ended up doing more deals in 2020 than we ever have as a firm,” says Greg Treger, co-founder and managing director of Clearsight Advisors, an investment bank focused on business services and tech-enabled services companies.

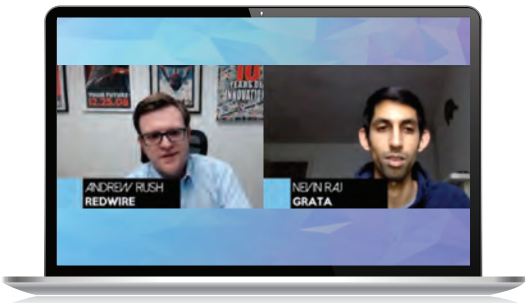
Kevin Manning, managing director and head of industrials at Stout, added that while this year started out light in terms of deals, he expects M&A activity to accelerate, thanks in part to tax increases that the new Biden administration is expected to implement next year. “We think it’s going to be a very active year and a good year for a lot of us,” he said.

Business travel and in-person meetings will return, but if a business owner wishes to conduct meetings over Zoom, then virtual visits will continue, said Treger. “If our prospective client wants us there, we’re going to be there. Most of our clients we’ve signed up over the last six months, we’ve never met face to face.”

Meeting over Zoom has its benefits for companies considering a sale. For one, it cuts down on concern and speculation among employees. “You don’t have leadership teams gone for a week and [workers asking] what’s going on with the CEO and CFO,” said Steven Moon, managing director and deputy head of M&A for Duff & Phelps Securities.

Emerging Niches

Although telemedicine was gaining ground before the lockdowns, the global pandemic set virtual physician visits off and running. Panelists on the “Emerging Opportunities in Virtual Care” panel, sponsored by Sapling Financial Consultants, predicted that businesses that enable virtual care will see consolidation.



"WE'RE ENTERING THAT ERA WHERE WE RECOGNIZE THAT ADDITIVE MANUFACTURING IS AN AMAZING TOOL THAT ENABLES US TO MAKE LIMITED PRODUCTION RUNS IN A COST-EFFECTIVE WAY."

ANDREW RUSH
President and COO, Redwire

Telehealth is convenient and there is "some pent-up demand to people in rural areas," but looser regulations and lower costs could spur mergers in the coming decade, said Rob Hong, co-founder and CEO of Sapling Financial Consultants.

That said, telemedicine is still maturing and expanding beyond general medicine and into medical specialties and after care. "The question that the middle-market PE groups need to ask themselves is, how can we apply virtual care?" said Bret Larsen, virtual care strategist, CEO and co-founder of eVisit, a virtual care platform.

Another niche industry that's attracted investor attention is additive manufacturing, the suite of technologies that includes 3D printing. During the "Emerging Opportunities in 3D Printing" panel, Andrew Rush, president and COO of Redwire, a space manufacturing company, said 3D printing will see a growing presence not only in aerospace, but also in medical and dental applications, and even jewelry-making.

"We're entering that era where we recognize that additive manufacturing is an amazing tool that enables us to make limited production runs in a cost-effective way," Rush said.

Chatbots is a third sector that appears to be ripe for investment, particularly as health care entities adopt the interactive AI technology. Michael Lamm, a managing partner at investment bank Corporate Advisory Solutions, sees chatbot applications being used to bolster medical revenue cycle management, bill coding and collection.

"The market's really evolving and health care has been slow to move on everything, but I think due to COVID and the evolution of telehealth, it's been a big movement for automation," Lamm said during the "Emerging Opportunities in Chatbots" session, sponsored by SAP Software Solutions.

An increasing number of companies are looking to scale, and AI-powered chatbots could be the building block of this expansion. "If I look at the companies that we work with, they don't want to be small and medium businesses. They want to be the next big company," said Greg Petraetis, a senior vice president and general manager at SAP North America.

The Future of Work

The Summit's panelists expect many middle-market businesses to change hands throughout 2021, but where will their employees be working? That answer hinges on whether the COVID-19 vaccines are effective, and if workers feel confident to return to the office, said Insperity CEO and Chairman Paul Sarvadi during a one-on-one discussion with ACG CEO Tom Bohn.

Insperity, which sponsored "The Future of Work" session, is an Official Sponsor of Growth with ACG, the association's highest sponsorship category. Last summer, ACG named Insperity an endorsed partner.

According to Sarvadi, companies have to make the workplace more attractive for returning employees. "I believe we're going to have a competition of corporate culture," he said. "The companies with the best corporate culture were able to transition to work-from-home the easiest. They were able to maintain their effectiveness because culture was ingrained, and people knew what to do."

Even with a successful vaccine rollout, Savardi foresees remote work continuing, but to a lesser degree. "We reached out to our corporate staff and said, help us figure out the optimal mix of how much time per day where you get the culture and innovation and collaboration," he said. "But you also get some of the advantages and conveniences of work-from-home and family life."

Savardi asked, "How do we find that happy medium?" //

Health Care Companies Look to the Future

"Over the last five years, we've had some level of telehealth, but it's really been accelerated."

SIMON CURTIS,
Vice President of Ambulatory Services, Duke Health Private Diagnostic Clinic, on the rapid increase in video and telephone consultations Duke conducted last spring

"If we help our customers, they're going to stay financially solvent, and be able to continue to pay us. And so that's what we focused on in 2020, and what we will always focus on: What can we do to help our pediatricians thrive?"

ELLEN PURDY,
Chief Financial Officer, Office Practicum, on the priorities of her firm – a pediatric-specific electronic health records provider – in 2020 and beyond

"Health care is a complex industry where deep expertise matters. It requires an understanding of the regulatory environment, third-party payer system, revenue dynamics, payment mechanisms, operational challenges and market opportunities, all of which are constantly changing. Our understanding of those evolving dynamics across the health care industry can be a significant advantage to our clients."

KEVIN LOCKE,
Managing Principal, DHG Healthcare, on the benefits of specialized knowledge in the health care sector

"TECHNOLOGICAL ADVANCEMENT—FOR EXAMPLE IN THE AREAS OF BIOMETRIC SENSORS, ADVANCED CAMERA AND AUDIO DATA CAPTURE AND EVEN AI—OFFER VERY INTERESTING OPPORTUNITIES TO TAKE TELEHEALTH TO THE NEXT LEVEL."

MICHAEL COLE,
Managing Director, Alvarez and Marsal, on the innovation shaping virtual care

Apara Delivers Therapies for Growing Autism Community

Seeing a need, one private equity firm built an autism treatment center from scratch

By Phil Albinus

Along with the 1 in 40 American children diagnosed as being on the autism disorder spectrum each year comes a stream of parents desperate for services to help their families.

This is personal for Tyler Moore, CEO of Apara Autism Center. As the father of a college-aged daughter on the spectrum, he knows what parents look for when entering the often confusing world of autism services.

Moore's company, which began as a single clinic in Sugarland, Texas, provides an array of services centered around applied behavior analysis (ABA), the therapeutic practice of teaching behaviors and skills that neurotypical children master at the age of two or four. Other therapies include caregiver ABA training, therapy and feeding programs, speech and language therapy, spectrum social skills and modified yoga.

Apara's origins trace back to 2018, when Dallas-based private equity firm Havencrest Capital Management approached Moore, a vice president of operations in the behavioral health sector at the time, and asked for his help evaluating therapy clinics and practices for possible investment.

Moore's personal and professional experiences were a solid fit for the assignment. He did not like what he saw. He recalls visiting autism centers that lacked tailored offerings for a client base that is, by definition, special needs.

Rather than buy a business, Havencrest decided to build one from scratch.

The first Apara Autism Center opened in July 2019. Shortly after, Apara acquired a Dallas-based company, and it plans to open a third facility in February. The company expects to have five centers operating by spring, and a total of eight centers by the end of the year. Apara currently has around 80 clients who receive services from 16 board-certified behavioral analysts.

Data is key to Apara's approach. "If we want to reduce elopement, which is spontaneous running away, [we ask] how many times was the opportunity presented," Moore says. "I want to be able to tell a story that it was 100 opportunities this week [but eventually reduced to] 50, where we get to an 85% skills acquisition rate."

Only then, Moore says, will parents be told: "behavioral modification accomplished."

Apara's growth reflects a trend that Christopher Kersey, founding managing partner at Havencrest, is watching pick up in the broader autism services industry: "more consolidation of small and medium regional players to large national organizations."

Yet autism services businesses require a different perspective on growth than a traditional private equity investment.

"If you want to drive this to some insane profit margin in three months so you can flip it, you're going to be disappointed," Moore says. "What's worse is you're going to create a clinical experience for real human beings that can be detrimental to their behavioral health."

Havencrest was sensitive to these dynamics from the outset. Moore recalls spending six months walking the private equity firm through what behavioral health looks like from an operational, outcome and insurance perspective, adding that he advised the investors to be "patient with the trajectory." //

John McCormick

Partner, Monument Group

John McCormick is a partner in the Boston office of Monument Group, an independent full-service advisor and fundraising partner in the alternative investment industry. He joined Monument in 2006 and has investor coverage responsibility in the U.S. and Latin America. He recently corresponded with *MMG* about the fundraising landscape for health care-focused private equity funds.

"THE PANDEMIC HAS SHED LIGHT ON MANY DISPARITIES AND, AS A RESULT, ON OPPORTUNITIES THAT STILL EXIST IN THE U.S. HEALTH CARE INDUSTRY, INCLUDING LOGISTICS, DISTRIBUTION, TELEHEALTH OR CARE DELIVERY."

Q What impact has the pandemic had on fundraising by health care-focused private equity funds in 2020?

A Health care, as a sector, has continued to be a main priority for limited partners, as investments in the sector have generally outperformed deals in other areas of the economy. This has been the case across most strategies, spanning more general later-stage investments to earlier-stage life science ventures and, more recently, health care technology opportunities.

Attention among limited partners and general partners has certainly increased as a result of the pandemic, as everyone has become more acutely aware of protocols and procedures for everything from lab services focused on vaccine solutions to tracing, treatment or preventive efforts. LPs, as a result, have continued to add health care managers or rotate GPs as newer managers have emerged.

The general fundraising dynamics for private equity also applied to health care managers during the pandemic. Established health care managers were able to gather commitments almost seamlessly for their new funds while emerging managers faced stronger-than-expected headwinds as many investors shifted their efforts away from underwriting brand-new relationships. These investors, while showing interest in health care, did not feel compelled to engage broadly with emerging managers without the luxury of in-person meetings.

Q What will investors be looking for from health care fund managers in 2021?

A The pandemic has shed light on many disparities and, as a result, on opportunities that still exist in the U.S. health care industry, including logistics, distribution, telehealth or care delivery.

The dynamics for investors seeking health care exposure have not changed dramatically. Some have begun to segment the industry, seeking exposure to specific areas such as services or products, only having recently built out their initial health care exposure. The highly publicized approval process for the varied COVID-19 vaccine candidates has also generated a renewed interest in life science investments. Firms specializing in life sciences have benefited from broad access to public markets for their early-stage product companies much sooner than in the past.

This allows venture capital investors to offload the financing risk to public investors to get potential blockbuster products through the FDA approval processes.

Other strategies generating interest are growth equity managers with a focus on health care technology companies. In particular, virtual diagnostics is a segment drawing interest from GPs, as health care systems have had to adapt to limitations around in-person interactions.

Traditionally, health care has been woefully slow to adapt to new technologies, but these trends are accelerating transformation efforts across the sector.

Q How is investors' increasing focus on environmental, social and governance considerations shaping private equity investments in health care?

A This focus on ESG principles is still early in its evolution, but for health care-focused PE firms, there is an increased attention on how the operations of their underlying portfolio companies incorporate these considerations and how managers are overseeing and tracking progress through measurement against key performance indicators.

There will certainly be more attention paid to the equal disbursement of treatment given the racial and ethnic disparities that exist in the U.S. system. There is also a more general focus on these underlying principles and how they are being added to the underwriting procedures and approach when assessing potential investments. We see this as becoming mandatory over time as institutional investors continue to press on managers to evolve. //

Health Care's Retail Revolution

Tailoring services for the **modern consumer**

BY S.A. SWANSON

Consumer expectations for convenience and personalized service have shaped many industries. But even a decade ago, health care wasn't one of them.

"The notion of a consumer experience in health care—that seemed like such a foreign concept years ago," says Barry Uphoff, managing partner and founder of Martis Capital, a private equity firm that invests in middle-market health care companies.

That's changed. Today, the patient experience is shaping the way care is delivered, and it's prompting health care providers to rethink their offerings and how they measure business performance.

"YOU CAN DO ANYTHING FROM ANYWHERE, IN A WAY THAT IS CUSTOMIZED AND DELIVERED ON DEMAND TO YOU, EXCEPT FOR THE MOST IMPORTANT PART OF YOUR LIFE, WHICH IS HEALTH CARE."

MATT WOLF
Director and Health Care Senior Analyst, RSM US LLP

Matt Wolf, director and health care senior analyst at RSM US LLP, sees two main drivers behind this "consumerization" trend in health care: rising costs and lack of convenience. Patients are spending more money than ever on premiums, deductibles and co-pays. When they don't see improved services along with those increased costs, they're disappointed. They've come to expect convenience in other areas of their lives, such as banking and entertainment. Why not their doctor's office?

"You can do anything from anywhere, in a way that is customized and delivered on demand to you, except for the most important part of your life, which is health care," Wolf says.

Regulations within HIPAA, the law designed to protect patients' privacy, have stifled health care's technology adoption, something Wolf experienced firsthand last year. After his toddler dragged his eyeglasses across concrete, Wolf needed a copy of his prescription to order a new pair and was told that it had to be sent by fax.

Wolf expects innovators will find ways to provide more convenient, customized service. "Obviously, it needs to be done in a way that's safe and effective and clinically relevant, but outside the traditional regulatory framework," he says. "There's an opportunity for outside disruption. We haven't seen it yet, but it's going to happen."

One area he's watching is mental health. "It is still sort of new territory. Obviously, it's still highly regulated, but the clay is a little easier to shape, in terms of innovative digital delivery models," Wolf says. He also notes that the Affordable Care Act expanded coverage for mental and behavioral health. "We've seen more acquisition and private equity investment focused on that ... because for many people, they are now covered for the first time."

RETAIL THERAPY

Expanded coverage isn't the only force boosting interest in behavioral health services. More recently, the COVID-19 outbreak prompted a spike in mental health treatment. MindPath Care Centers, an outpatient mental health care practice, hired 47 clinicians between April and December last year in an effort to meet demand. "Pre-pandemic, we prided ourselves on getting patients in within 14 days," says MindPath CEO Jeff Williams. "Demand is so blistering, now it's 10 weeks." In November 2019, MindPath clinicians handled about 3,500 patient visits a week—a year later, that number had surged to about 6,000.

Another dramatic shift for MindPath has been the increased use of telemedicine. The company had already implemented a

telemedicine platform three years earlier, but as of the first week of March 2020, only about 11% of visits took place remotely. By the end of the year, about 90% of MindPath's therapy visits and 76% of medication management took place online.

This reflects a nationwide health care trend in 2020. When the Centers for Disease Control and Prevention analyzed data from four of the largest U.S. telehealth providers that offer services in all states, it found that the number of telehealth visits increased by 50% during the first quarter of 2020, compared with the same period in 2019.

Although Williams expects telemedicine visits will decline when the pandemic ends, he estimates telemedicine could still account for about 35% of visits, or triple the volume experienced by MindPath before the COVID-19 outbreak.

The company's increased use of telemedicine has required some operational fine-tuning, including having staff to hop on the phone with providers and patients when technology malfunctions or isn't intuitive. "Normally, you've got patients in the waiting room … Now you've got patients on the phone saying, 'I can't find the app. I can't get logged on. I don't know how to find where I'm supposed to go,'" Williams says. "I mean, it's like it's endless. And so there's a lot of handholding that is happening at that level."

MindPath tries to create positive experiences for consumers, beginning with the call center for new patient intake. "These people answering the phones are trained to realize that they're not just an order-taker, they're not just booking appointments," Williams says. "They're actually starting the therapy for the patient. Patients finally took that first step and realize they needed help. And the first hand that reaches out » with this person on the other end of the phone, that makes them feel like they're already on their way."

The company measures patient satisfaction with every interaction, according to Williams. "We're working every day to put things in place and be even more patient-centric," he says.

That includes hiring a new position, a patient experience manager, at the start of 2021. "The intent for that role is to be in charge of the patient experience," he says. "And that means from appointment to care, to billing and rescheduling—everything that's happening along that cycle."

MindPath has always been diligent about following up with customer complaints, something the new staff member will take even further. They will be tasked with finding ways to address the causes of complaints, which typically don't involve the care itself.

"The appointment is the easy part, because the providers are good," Williams says. "It's everything else. How easy is it? How easy is it for [patients] to do business with us? That's what it comes down to. And is it a good experience?"

MILLENNIAL MODEL

Health care executives aren't the only leaders focused on the patient experience. Investors also are watching the shift toward patient-centric care as they make investment decisions and work with portfolio companies.

At its annual meeting in late 2019, private equity firm Martis Capital emphasized consumerization as the driving force in health care. "We felt that we were starting to see, fundamentally, the consumer starting to act like a consumer," says Uphoff. "And we highlighted how much of that consumerization was being driven by millennials starting to make decisions in health care, not only for themselves, but also for their parents."

When considering potential investments, Martis likes companies that have a strong consumer focus, but it's not a requirement. "If a company does not have that, we're not afraid to invest and view that as an opportunity for improvement," Uphoff says.

Several of the firm's portfolio companies use net promoter scores, or NPS, which measure the likelihood that a consumer will recommend a product or service to someone else. Uphoff says Martis began implementing NPS about five years ago, as part of a commitment to supporting its companies' consumerization efforts with data collection and analytics, along with other technology resources.

A decade ago, Uphoff wasn't even aware of NPS; even five years ago, these metrics were still associated with tech giants like Amazon, he says. "But now, we look at those numbers across the board and see how they're doing, and invest money to make sure that we're improving those numbers throughout our ownership period."

Those ratings matter, as brand perception gains relevance. When more health care providers adopt virtual care models, it changes how those businesses compete.

"It used to be that brand name wasn't terribly important for health care providers," says RSM's Wolf. What mattered was having facilities in convenient locations, and a good referral network with other providers. "But as care becomes virtually scalable and digitized, brand might become more important," he says. "If you can use any provider around the world on your phone, will you want to use the one down the street?"

SHINING LIGHT ON IMPROVEMENTS

Sun Capital Partners has invested in several health care-related companies, and helps them develop a consumer-focused approach that encompasses more than clinical care.

When the private equity firm looks for investments, it focuses on providers with specialized clinical capabilities, says Stephen Cella, a principal at the firm. "That's the most important part and most difficult function of a multi-site health care business," he says.

> "NORMALLY, YOU'VE GOT PATIENTS IN THE WAITING ROOM ... NOW YOU'VE GOT PATIENTS ON THE PHONE SAYING, 'I CAN'T FIND THE APP. I CAN'T GET LOGGED ON. I DON'T KNOW HOW TO FIND WHERE I'M SUPPOSED TO GO.'"
>
> JEFF WILLIAMS
> CEO, MindPath Care

After Sun Capital finds a company that knows how to recruit and retain the best doctors, it focuses on implementing consumer best practices. That can include working with businesses to build digital marketing expertise, or enhancing call center operations so they provide a more informational and consultative function, instead of just booking appointments.

After investing in dental implant provider ClearChoice (which Sun Capital sold in November), the firm helped guide the company's approach to scheduling. It began reserving appointments in blocks, similar to the way that airlines operate, says Cella. "[Airlines] are able to estimate who is most likely and least likely to show up for a flight, and so they can often sell more than 100% of tickets to the »

“WE FELT THAT WE WERE STARTING TO SEE, FUNDAMENTALLY, THE CONSUMER STARTING TO ACT LIKE A CONSUMER.”

BARRY UPHOFF
Managing Partner and Founder, Martis Capital

plane. We installed a very similar model within ClearChoice.”

Sun Capital also worked with ClearChoice’s team to test communication effectiveness with patients to determine whether a follow-up call or an email with an explanatory video would work best to address questions and concerns. The company also considered which points in the patient life cycle benefited most from certain types of communication. Says Cella: “We were able to develop a much more comprehensive, longer-term dialogue with the patient, where they were now coming in, feeling educated, confident, excited about the procedure.” The result, he adds, was a higher volume of completed procedures, greater patient satisfaction, and less anxiety about those procedures.

Sun Capital also helps its portfolio companies use analytics and key performance indicators, or KPIs, to improve the ways they serve consumers. “We want to make sure they’re actually tracking and measuring things that reflect on the patient experience,” Cella says. “How often are your patients coming back within a year? What’s your recurring patient base? Are there certain offices or doctors or patient types that are performing lower on these metrics that we can have insights into?”

The goal is to encourage management teams to expand their focus beyond measuring clinical quality and outcomes, and also consider patient feedback and the overall patient experience, he says.

THE DATA DILEMMA

Not all health care businesses have the systems to collect and analyze data, which poses a dilemma for investors.

"In private equity, there's a lot of frustration ... they're looking to make a decision and the data's not there because consumerization has not been a priority for that practice," says Jay Stine, a partner at accounting firm DHG.

Small practices don't have the budget or resources required even to begin analyzing their customer base and to determine what improvements should be made, notes Stine, who leads the health care-focused team within DHG's Transaction Advisory Practice.

"Typically, the owner is the leading provider. And so he's seeing patients Monday through Friday, 8 a.m. to 5 p.m. ... they just don't have the time. Why would I invest dollars in something that I don't even have time to analyze?"

That can complicate M&A decisions. During due diligence, relevant data is sometimes missing: the number of patient visits for a specific provider, for example, or the number of visits by service type. "Stuff like that, where we're trying to go one layer deeper and it's sometimes just not there," Stine says.

When a practice lacks analytics to help explain why certain numbers have dropped, that can be a red flag for private equity. Says Stine, "How do we make sure that it's not going to continue to go down? As we're looking to try to put a valuation on this ... how do you get comfortable with those trends to make an investment?"

Yet despite these challenges, private equity buy-and-build strategies are expected to continue. "In talking with [our] private equity clients, there's an even stronger thought process around the roll-up. I think it's only getting bigger," Stine says.

TECHNOLOGY'S LIMITS

Although technology remains vital for continued consumerization, Wolf cautions against overstating its place in health care's future.

"There will always be a role for humans in clinical care," he says. "Even if we get to the point where I could put my thumb on my iPhone and it could tell me whether or not I had one of 300 different types of cancer, I still want that oncologist who understands what went into the diagnosis, who understands what it means for me, and puts her hand on my shoulder and explains the process. And provides the sort of guidance, and that human touch that only a board-certified oncologist could do."

"IN PRIVATE EQUITY, THERE'S A LOT OF FRUSTRATION ... THEY'RE LOOKING TO MAKE A DECISION AND THE DATA'S NOT THERE BECAUSE CONSUMERIZATION HAS NOT BEEN A PRIORITY FOR THAT PRACTICE."

JAY STINE
Partner, DHG LLP

Consumerization isn't about replacing clinicians, Wolf stresses. "It's about augmenting them, so they can focus on the most value-added part of their role, which is providing care and helping people get better or stay healthy."

The patient experience was a growing priority for health care providers before COVID-19. "Prior to the pandemic, we would talk to clients or anyone who would listen about the direction where health care was going. This idea of a highly customized, on-demand health care experience," Wolf recalls. "We would say, 'This is the point on the horizon where you want to start steering the ship, but it's a ways out.'"

The increase in virtual visits and rising use of technology over the last 12 months suggest that ship has sailed. "I think in many respects, the pandemic accelerated that by five or maybe 10 years," he says. **//**

S.A. Swanson is a contributing editor for *Middle Market Growth*.

The Health Tech

Investors flock to technology targeting **health care's inefficiencies**

BOOM

BY ANNEMARIE MANNION

The COVID-19 pandemic strained the U.S. health care system in ways unimaginable before 2020, from shortages of ventilators and personal protective equipment that put patients and health care workers at risk, to canceled elective surgeries that threatened the survival of private practices.

Combined, the trials of the last 12 months have raised awareness of the challenges within the health care industry and drawn investors' attention to companies with technology solutions that promise to make health care function more efficiently and effectively.

Enhanced Healthcare Partners is among the private equity firms to show interest in health tech. In December, EHP invested in Hallmark Health Care Solutions, a New York-based company offering software that provides workforce management and physician compensation solutions.

EHP's investment was motivated by an interest in finding a better way to determine physician compensation and to address a nationwide nursing shortage.

Matt Thompson, general partner at EHP, says physician compensation is a highly complex calculation that includes multiple components, such as the type of work a doctor is doing, their specialty, location, individual quality scores and productivity, all of which must be collected from many different systems, individual payers and insurance companies.

"It might take weeks to process, and then it is tough to incorporate back into the payroll system," Thompson says.

Hallmark's solution automates calculating and adjudicating physician pay. It intelligently monitors compensation while providing real-time feedback to administrators and physicians according to their particular compensation methodology.

Compensation can vary from physician to physician, and the need for transparency is growing as hospitals ramp up their hiring. The share of physicians employed by a hospital or health system nearly doubled from about 25% of U.S. physicians in 2012 to 44% in 2018, according to a report by Avalere Health and The Physicians Advocacy Institute, a not-for-profit focused on health care policy.

"The more transparency and light you can bring, the more satisfaction physicians will feel. And you can reward physicians whose patients have great outcomes," Thompson says.

In addition to Hallmark, EHP's 12 portfolio companies include investments in a hospital, physician practice, pain management group, primary care group and urgent care practice. Working with those holdings underscored the need for better options for staffing nurses, another factor that influenced EHP's decision to invest in Hallmark.

Even before the pandemic, the nursing shortage was a troubling issue. The U.S. workforce has about 4 million registered nurses and about 60% work in hospitals. The U.S. Bureau of Labor Statistics reports that about 1.1 million new RNs are needed by 2022 to avoid a nursing shortage.

Hallmark's cloud-based, artificially intelligent tool helps hospitals more efficiently deploy per-diem, traveling, part-time or retired nurses who can fill staffing gaps like those experienced by another EHP-backed business, NeuroPsychiatric Hospitals (NPH), during the pandemic. "It was challenging to staff facilities during COVID, and because of the overall nursing shortage nationwide," Thompson says.

With Hallmark's solution, hospitals can reduce costs by managing full-time, part-time and contingent workers in a single system. Managers can better predict their staffing needs for a shift and source the most appropriate and cost-effective labor, according to Thompson.

"The solutions that Hallmark brings to bear can not only soften the pain points of our other investments, but our other investments can help turbo charge their growth," he says.

HEALTH TECH ENTERS THE SPOTLIGHT

Dynamics in health care that were caused or heightened by the pandemic, such as the nursing shortage, have focused investor interest on technology as a means to address difficult challenges.

"The pandemic has thrust health tech into the spotlight, so activity remains strong across the board by all types of investors and acquirers," says Dhruv Vig, vice president of Healthcare Insights at Silicon Valley Bank.

That wasn't always the case. A 2019 report from McKinsey & Company noted a lack of interest from private equity investors, which may stem from health tech's complexity.

Despite such challenges, McKinsey reported that health

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>
> LIAM LOGUE
> Executive Vice President, Corporate Development, UDG Healthcare

care companies with a strong technology element are valued, on average, at 17.1x earnings, compared with an average of 14.9x across the industry. The multiples surpass those in other subcategories, including pharmaceuticals, services, diagnostics, payers and health care providers.

“In recent years, well-managed health care tech companies have performed even better, with some exits at 23x to 25x earnings before interest, taxes, depreciation, and amortization (EBITDA),” the report states.

Although PE investors have been slow to enter health tech, they have plenty of money to spend. According to Preqin, a data provider, investors are sitting on $1.5 trillion in cash, which is the highest amount ever and double what it was five years ago.

Where they spend that capital may be influenced, in part, by COVID-19.

Some of the changes brought on by the pandemic, such as the increased use of telemedicine, are here to stay, predicts Kevin Cable, co-founder and managing director of investment banking firm Cascadia Capital.

Data from the Centers for Disease Control and Prevention supports Cable’s assertion. The CDC reports a 154% increase in telehealth visits during the last week of March 2020, compared with the same period in 2019.

Another area where Cable sees growth is in the treatment of patients with chronic conditions, such as diabetes or heart disease, because of the need for ongoing monitoring. “Patients will need services over and over again,” he says.

Life sciences is another health care segment where investors are looking for opportunities. “We’ve seen a lot of interest and completed a number of transactions to help companies get through clinical trials and help them think about different opportunities in the market,” notes Greg Treger, managing director of investment banking firm Clearsight Advisors.

“We see considerable interest from PE for pharma services companies helping drug manufacturers at all stages of the drug life cycle, but particularly at Phase II and beyond,” he adds.

CHASING A CURE AND A DEAL

Addressing pain points during clinical trials was top of mind for Chicago-based private equity firm Sterling Partners when it invested in Datacubed Health in September.

New York City-based Datacubed offers an app that makes it easier for patients in clinical trials to complete electronic clinical outcomes assessments.

Sterling Co-founder and Chairman Steven Taslitz notes that clinical trials may be hampered by issues such as outdated forms of communication and tracking that create friction between the trial operators and patients, or data gaps that result in errors and delays in bringing drugs to market.

During clinical trials, participants provide health information that clinicians, researchers and the participants themselves use to track their condition and the impact of treatment on their symptoms. According to

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“THE PANDEMIC HAS THRUST HEALTH TECH INTO THE SPOTLIGHT, SO ACTIVITY REMAINS STRONG ACROSS THE BOARD BY ALL TYPES OF INVESTORS AND ACQUIRERS.”

DHRUV VIG
Vice President, Healthcare Insights, Silicon Valley Bank

Taslitz, however, participants often fail to provide key information for various reasons—including ones as simple as having to wait to talk with a clinician, or needing to log on to a computer or tablet.

“We were attracted to the space because clinical trials are incredibly complex, often involving thousands of participants, costing tens of millions of dollars, and lasting a decade or more,” he says. “We realized they could benefit from the adoption of new technology to streamline the trial process.”

Depending on the therapeutic area, Datacubed estimates typical compliance rates for trial participants providing health information are about 65%. The company claims that its compliance rate is much higher, in the range of 90% to 95%, because participants can enter their data at any time by mobile phone. The app also prompts users with reminders and yields rewards, such as a burst of confetti and an in-app currency that participants can use to purchase games or make charitable donations.

Using its app, patients stay in trials longer, Datacubed reports. It claims that its average retention rate is 85% compared with an industry average of 70%.

While Sterling’s investment was driven by a desire to reduce costs and address other challenges associated with clinical trials, there also is a need for better ways to bring drugs to market, which was the driver behind an investment made a couple of years ago by UDG Healthcare, a publicly traded health care services provider.

“Technology in our space is generally about how to do things better than they were done before,” says Liam Logue, executive vice president of corporate development for UDG.

“Our main focus is on anyone who is doing something innovative,” he adds. “We focus on what the problem is, what the company is setting out to solve, and how they get there.”

Over the last 15 years, the company has made about 50 acquisitions. In 2018, it acquired SmartAnalyst, which offers technology to help pharmaceutical companies prioritize which drugs they put through development and bring to market. The company aims to reduce costs and development time.

“There are a lot of strong views within the pharmaceutical industry that research and development has to become more productive,” Logue says. “There are too many dollars spent on products that failed or that had development timelines that were too long.”

Logue says the acquisition of SmartAnyalyst has paid off. “We’ve performed ahead of our plan. In the first two years, we grew our profits by more than 30%. So far, so good.”

THE NEXT BUYER

For financial buyers of health tech businesses, eventually the time will come to sell.

Enhanced Healthcare Partners’ Thompson says his firm plans for how the decision to exit will be made at the time of the investment.

Those criteria vary, but often the decision hinges on whether a company has been able to expand its offerings.

“We want to see a company prove that it can add new products, bring them to market, launch them and see them continue to grow,” Thompson says.

In the case of Hallmark, Thompson says EHP plans to work with the company to introduce two new products over the next couple of years.

“That would put Hallmark in a really exciting position,” he says. “If we’re able to do it, then I think we’ll have the kind of track record that the next buyer can look at and say ‘Yes. This is the kind of company that has a true, leading market differentiator.’”

Thanks to the pandemic and ever-changing regulations, health care technology is a space that continues to evolve. Because of that, engaging in the industry requires a degree of flexibility.

“No investment goes in a straight line,” Thompson says. “Some of the greatest successes we’ve had are ones where we had to pivot strategies mid-investment. Those can work out just as well, if not better, as you pivot through time.” //

Annemarie Mannion is a former reporter for the *Chicago Tribune* and a freelance writer who covers business.

Monitoring Performance in a Pandemic

SOUND DECISIONS // How to harness data for better decision-making

Connie Benten Cagle
Partner, BKD CPAs & Advisors

Continuing effects from COVID-19 brought challenges throughout 2020 related to operations, expenses and bottom lines. Acquisition activities slowed during the year for many industries, and previously robust activity to consolidate physician-owned health care entities by private equity slowed as well. One report from Irving Levin Associates and SOLIC Capital found that health care M&A declined 20% after the first quarter of 2020 to the second quarter, and the third quarter of 2020 was down 25% from the third quarter of 2019.

While the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) brought relief in many forms—including the Provider Relief Fund and Medicare Accelerated and Advanced Payment Programs for health care entities, and the Paycheck Protection Program for small businesses—these programs brought complexities with regulatory bodies and internally for management teams.

Entities were faced with offering new services, such as telehealth visits, to fill some of the gaps from lost revenues, and many organizations faced productivity and revenue losses throughout the year. After a difficult year, management teams faced financial reporting requirements for asset impairments, going concern and debt covenant compliance. Private equity-backed physician-owned health care companies with multiple entities, consolidated through acquisition, typically carry significant goodwill and intangible assets on their balance sheets. Companies may have disparate general ledger systems that make information difficult to come by with no consistency of data, making management's analyses manual and inefficient. As these assessments for financial reporting will continue through 2021, management teams will need to be proactive in their evaluations of assets and liquidity.

Management teams use cash flow projections, forecasts and other cash management tools for their financial reporting assessments at year-end. In an environment with multiple entities, decision-makers need fast, reliable data to make operating and financial decisions. Best practices in financial reporting include the ability to report and monitor key performance indicators over time and benchmark multiple subsidiaries, business units and product/service lines in a common, consistent format. A business intelligence tool can help organize data from various sources and systems into common formats, reduce time in monthly reporting requirements, and enhance the information you require for making informed, real-time business decisions.

BKD recommends our corporate performance management tool called Financial Performance Insights (FPI) that allows users to visualize financial and operational data using customized dashboards and reports to summarize key information on a real-time basis. FPI can streamline the company's financial reporting needs, enabling key management and investors to focus on operating and improving the business.

A tool such as FPI provides a convenient, cost-efficient method of aggregating and analyzing data from multiple subsidiaries and disparate systems in real time. In a year of global, personal, public and business disruptions, firms need to monitor their assets in great detail and in an easy-to-use manner to prepare for important operational and financial decisions. //

Connie Benten Cagle is a partner at BKD CPAs & Advisors and leads the health care private equity practice.

Virtual Data Solutions Deliver Health Care Stability

SOUND DECISIONS // Start by choosing the right technology partners

Marcio Moerbeck
Vice President of Marketing, Americas, Datasite

Today's health care organizations are under more financial pressure than ever. Seeking to build stronger, more stable organizations, many hospitals and other service providers have long been considering financing, M&A and other initiatives to improve liquidity. The ongoing global pandemic has made a challenging situation even worse, putting new economic strains on hospitals and other point-of-care providers. Managing complex transactions on top of daily operations is daunting for organizations that lack dedicated specialists and in-house knowledge.

Even under ideal conditions, health care companies are faced with managing massive volumes of medical records and other paperwork. As they handle and exchange documents, they must comply with strict regulations, such as the Health Insurance Portability and Accountability Act (HIPAA), as well as the new California Consumer Privacy Act (CCPA). Fortunately, with the right preparation and experienced technology partners, health care organizations can push past today's challenges and position themselves to grow and thrive in the years ahead.

Preparation Can Minimize Burdens

Managing complex transactions like M&A, partnerships and fundraising has never been easy. Even the most seasoned professionals struggle to prepare and manage documents, collaborate effectively and meet data privacy regulations. According to a 2020 Datasite Insight survey of corporate development professionals, 82% said transaction oversight is laborious and time consuming.

Early preparation can set the tone for smoother financial transactions. For example, preparing for a transaction may require hard copies, email, internal shared drives and virtual data rooms. Gathering, uploading and verifying all these materials can be time consuming, labor intensive and prone to errors. For organizations engaged in a highly complex transaction, creating a space to get ready is key. A virtual data room can support uploading documents at scale and make workflows more manageable.

Establishing a virtual data room can also provide a single, secure location to store sensitive projects, to mitigate legal and knowledge loss risks. Audit trails capture a detailed record of every document uploaded, updated and viewed, as well as internal communications as part of the project record.

Managing Disclosure and Oversight

With valuable intellectual property and personal data in the mix, managing disclosure is critical. There is never a need for every party involved in a transaction to be able to see everything, and it is essential to redact and share sensitive documents in the most appropriate way. Artificial intelligence-enabled technology in virtual data rooms can enable organizations to easily set up and manage user and document permissions, along with integrated redaction capabilities.

Virtual data rooms can also help organizations streamline oversight and track every step and component as transactions progress.

Not every health care organization has the knowledge and resources in house to put these strategies in place. Fortunately, a strong technology partner can provide knowledgeable support for data room setup and organization tasks.

While there are no fast fixes to today's ongoing challenges, by embracing best practices, intelligent technologies and the right partners for transaction management, health care leadership teams can succeed in shoring up their organizations for a sustainable future. //

Marcio Moerbeck is vice president of marketing for the Americas at Datasite.

Health Care: A Resilient Sector in Unprecedented Times

MID-MARKET TRENDS // Demand for add-on and platform deals persists

Faraaz Kamran
Senior Partner, Twin Brook Capital Partners

Tim Wentink
Managing Director, Twin Brook Capital Partners

Despite ongoing uncertainty and significant global adversity due to COVID-19, health care generally remained an active sector for middle-market leveraged finance, with deal flow quickly bouncing back in the latter half of 2020. Overall, we believe that private equity-backed health care businesses were able to manage through this uniquely challenging environment relatively well given the non-discretionary and inelastic nature of demand for their services—which has contributed to continued transaction activity across a broad spectrum of health care subsectors—as well as their deep lender relationships and access to a wealth of operational expertise via seasoned sponsors.

When health care businesses began feeling the impact of the outbreak of COVID-19 in the U.S. in early 2020, we saw many PE sponsors and their portfolio companies' management teams rapidly turn their focus to preserving liquidity and cutting costs. In many cases, their decisive action and ability to make timely decisions early on helped avoid potential liquidity issues as the months wore on. As a result, upon reopening once pandemic-related lockdown measures were lifted, we saw that these companies were often able to quickly ramp back up, work with their lending partners to resolve covenant issues as needed, and pivot to strategic acquisitions.

Before the pandemic, the private credit market was awash with capital, and—although less common in the lower middle market—there were certainly some PE firms that viewed lenders as a commodity. Following the outbreak of COVID-19, there was a dearth of dry powder to support new opportunities, as many lenders turned their focus to their existing portfolios. In this environment, we believe the value of dependable partnerships became abundantly clear, particularly as health care companies and their sponsors were able to begin shifting their attention back to growing their businesses.

At Twin Brook, we have long sought to build strong relationships with our sponsors and borrowers—which helps us develop a deep understanding of their equity theses and businesses, respectively—and our team has substantial experience working through multiple market cycles and in the health care space. Additionally, our underwriting approach is designed to be consistent, methodical and comprehensive—regardless of market conditions—so sponsors know what to expect when it comes to working with us and, in our experience, appreciate the reliability we bring to bear. We believe all of these factors, combined with our ample buying power, make us well-prepared to help sponsors both navigate the challenges and act on the opportunities present at any given time.

Despite the resurgence of COVID-19 heading into the end of last year, we continued to see demand for both health care add-on and new platform deals. As noted earlier, there has been limited volatility in demand for most of these services given their essential nature, and the operational and cost structure adjustments many of these companies made early on left them better positioned to navigate the ever-changing pandemic environment. Moving forward, we expect robust private equity activity in the health care space to continue despite persistent market uncertainty, creating opportunities for experienced health care lenders to deploy capital and support their sponsor clients as they execute on their value creation strategies. //

Faraaz Kamran is a senior partner and member of the investment committee at Twin Brook Capital Partners, where he focuses on the firm's health care portfolio and oversees origination activity. **Tim Wentink** is a managing director at Twin Brook, where he focuses on the origination, evaluation, structuring and negotiation of new health care lending opportunities with private equity sponsors.

Health Care M&A Activity Remains Immune to COVID-19

BY THE NUMBERS // Deals and consolidation set to continue in 2021

John Jones
Chair of Health Care Transactions & Regulatory, Troutman Pepper

Solomon Hunter
Vice Chair of Health Care Transactions & Regulatory, Troutman Pepper

The coronavirus has had a significant impact on health care businesses, the health care industry and health care M&A throughout the United States and abroad. Notwithstanding the impact, top drivers from 2019 continue to fuel consolidation and look to do so in 2021, including low cost of capital and accessible debt markets, large balance sheets, availability of dry powder and cost pressures. A significant new driver involves an acceleration in liquidity events by baby boomers—who still make up the largest population of business owners and lived through the dot-com bubble, the 2007-09 Great Recession, and now COVID-19.

The health care space remains ripe for consolidation, with many highly fragmented founder-owned businesses presenting a significant opportunity to consolidate and reduce costs and scale. Before the pandemic, financial sponsors sat on a lot of dry powder with significant capital to deploy. COVID-19 did not change this. There has, however, been a shift in subsectors and toward quality assets. Although the market experienced a slowdown in hospital and physician practice management deals toward the end of 2019, COVID-19 accelerated the slowdown given the postponement of elective procedures and wellness visits. COVID-19 also impacted the post-acute market because census dropped in the nursing home industry. Given the shift to in-home care, the market is experiencing greater consolidation among in-home care providers, such as pharmaceuticals, home health and hospice; direct-to-consumer and remote care providers; as well as health care IT and digital health suppliers supporting those care platforms.

Enterprise values and EBITDA multiples appear to remain constant for quality assets despite COVID-19, and there seems to be significant competition among buyers for these assets. Simply put, sellers of quality assets are not prepared to take a discount, and it seems financial sponsors and strategics are comfortable taking these risks since these companies remain structurally sound. Given the acceleration for a liquidity event on the sell-side, high competition for quality assets on the buy-side, and future headwinds including COVID-19 and the potential for tax and drug pricing reform, buyers must now move nimbly and quickly—as currently seen in the market.

Toward the end of 2019, we expected deal activity to remain constant throughout 2020, but many deals were put on hold or abandoned during the peak of COVID-19. Last year clearly did not deliver on our expectations, but the health care M&A market is reflecting significant signs of optimism. The market is clearly bouncing back in certain subsectors, especially for quality assets. COVID-19 has accelerated the shift of care to the home and noninstitutional settings, with M&A activity flourishing in those areas.

Deal-makers also have accepted the fact that COVID-19 is here to stay, and they need to manage and mitigate risk. Rather than discontinuing deal activity altogether, financial sponsors and strategics have determined ways to structure deals and build value with sound investments. We expect this approach to continue to bolster health care M&A activity in 2021. //

John Jones is chair of health care transactions and regulatory for Troutman Pepper. **Solomon Hunter** is vice chair for health care transactions and regulatory for Troutman Pepper.

Adapt Your Supply Chain to New Realities

MID-MARKET TRENDS // Technology and financing can improve supply chain resiliency

Anthony Casciano
President and CEO, Siemens Financial Services, Inc.

The fact that the COVID-19 pandemic has disrupted the global supply chain is not a surprise. We are dealing with these consequences every day, but there are also many other current and potential future disruptors—from climate change and de-globalization to shifting demographics and technological advancement—that convince us that a review of supply chain strategy is necessary.

With this disruption comes greater cost and impact to the continuity of supply. There are instances where shortages of a low-tech, low-cost component caused significant delays in highly complex, yet essential technology. There are also cost drivers and interdependencies in the supply chain that impact resiliency, but technology can help.

Research from Siemens Advanta—Siemens' digitalization consulting arm—found that 73% of supply chain leaders say they've encountered problems in their supplier footprint that require changes in the future. Technology can accelerate change—improving cost, reliability and customer satisfaction, yet knowing how and what to invest in may be tricky to navigate.

Contrary to widespread belief, implementing an internet of things (IoT) strategy and leveraging digital transformation do not require significant up-front investment. Companies can start small and allow their business cases to drive the use of technology.

The first step is enabling connectivity. At Siemens, we see a growing number of manufacturers digitally enabling their equipment so they can gain visibility into how it is performing in the field. With the data, the manufacturer can begin to paint a picture of how their products are being used by customers. They can also better understand any issues the customer is experiencing and identify opportunities for improvements. This is beneficial for many organizations, as the sale of the physical product is only one component of their overall business model. For large pieces of equipment, there are often service and maintenance contracts that go along with the sale, which represent long-term revenue streams.

Take an industrial air compressor, for example. By connecting the compressor and gathering operational data, the manufacturer can monitor its condition and conduct maintenance and service based on need rather than on frequency. This type of predictive maintenance benefits the customer by reducing downtime. It also benefits the manufacturer by allowing them to efficiently allocate valuable time and resources, such as labor, while guaranteeing a certain level of performance to their customers.

By embracing IoT and connectivity, industrial companies can begin to adopt an "as-a-service" or "outcome"-based business model. In the case of the air compressor, the customer is no longer simply buying the compressor; they are buying the outcome of compressed air.

The idea of using technology to rethink supply chain strategy is transferable to any sector. Operating across energy, health care and industrial segments, Siemens brings electrification, automation and digitalization solutions to many clients around the world. Siemens Financial Services provides financing for clients who are either supplying to or consumers of products and services within these industries. //

Anthony Casciano is president and CEO of Siemens Financial Services, Inc. He also leads its IoT efforts in the United States.

VistaVu Helps SEF Energy Find Success Amid Downturn

> **Three years ago, we were top quartile in our space, but as a result of the work we did with VistaVu, we are now number one in our space—and we did that through the worst downturn in the industry's history.**
>
> **ALAN WHITE**
> **Vice President of Information Technology, SEF**

To put it mildly, 2020 was a very difficult year for many industries. One of the hardest hit sectors was the oil and gas sector. Global oil demand fell by 25% in April, according to Deloitte. Similarly, oil prices and energy stocks have underperformed since July 2020. U.S. oil and gas companies laid off about 14% of permanent employees in 2020, and Deloitte's research shows that 70% of jobs lost during the pandemic may not come back by the end of 2021.

This all added up to bad news for companies in the energy sector, like SEF Energy, LLC. Founded in 2014, SEF develops and implements technology solutions for the oilfield and fracking industry. Among other things, the Oklahoma City-based company takes humans out of dangerous situations and replaces them with technology.

At the start of the pandemic, SEF had a booming business with more than 500 employees. Today the company is a different organization than it was 12 months ago, according to Alan White, Vice President of Information Technology at SEF. "We have less than 250 employees today, but we have record market share. The pandemic forced us to evaluate our processes and drove us to accelerate our programs. We are a better, stronger company today than we were before the pandemic," says White.

While White and his team worked hard to pivot during such uncertain times, they didn't do it in a vacuum. VistaVu Solutions, its ERP solutions partner, was there to help them every step of the way. White says it was the work that VistaVu engaged with them in during the height of the pandemic that contributed to SEF's success.

"The biggest thing for us was the flexible approach they took during this period," says White. "We went to the VistaVu team and said we needed help. They were proactive, ready to assist and understood the state of our business. Their willingness to support a mutually beneficial working arrangement made a big difference. It contributed directly to us surviving the summer of 2020 and come out the other side thriving."

SEF isn't alone. COVID impacted many businesses, but also pushed them to find operational efficiencies that were necessary to survive, which led many companies to seek out VistaVu. "We have never been busier helping our existing and new clients navigate through these uncertain times," says Jory Lamb, CEO and Founder of VistaVu Solutions.

Founded in 1996 and a certified gold partner of the software giant SAP since 2003, VistaVu focuses on partnering and building out ERP systems for small and mid-sized publicly traded and private equity-funded businesses between $50 million and $500 million in revenue. VistaVu also partners with Dell Boomi and AWS and currently boasts about 60 employees throughout North America, with additional growth on the horizon.

VistaVu expects to see additional opportunities as companies continue to look for innovative software solutions. "According to the research paper, 'The Case for Digital Transformation' which was published by middlemarketcenter.org, less than 20% of mid-sized firms have gone through a digital transformation," says Lamb. "With our team of experts, we're well-equipped to support different companies on their digital journey." Added Logy Aviles, President at VistaVu Solutions, "Our strength lies in helping mid-market companies scale through implementing and supporting their software solutions and providing process improvements. Once a company is on our system, they are on a platform to achieve growth and operational improvements."

VistaVu has expertise in a broad number of industries, including industrial field services and rentals,

VISTAVU: ALWAYS MOVING FORWARD

- **2016:** Moved the business to the cloud
- **2017:** Added customer engagement executives and concierge services
- **2018:** Created a net promoter score sheet
- **2019:** Created a customer success team
- **2020:** Created a customer experience department

aerospace and defense, life sciences, discrete manufacturing, food and beverage, and high tech.

The relationship between VistaVu and SEF started in the spring of 2018 when SEF decided it needed ERP help. The company was growing by acquisition and, as a result, had disparate systems. "We needed to consolidate all of our data, improve our process efficiency and get all the relevant information in the same place," says White. "VistaVu responded to the RFP and impressed us with their approach to helping our company. They understood our business, our current state and where we wanted to go. It felt like a good fit."

White told the VistaVu team upfront that flexibility was key and change was really the only constant for the rapidly growing company. "A lot of other folks were very rigid and didn't want to go outside the box. What VistaVu built for us was cutting edge and flexible. They implemented a system for us, built processes across the company and provided ongoing support," says White.

After the implementation, VistaVu continued to review SEF's processes, optimize the inventory management and financial systems, and support onboarding and adoption with SEF employees, especially those who were resisting the new technology. "They asked our employees about what wasn't working and said that they would find a way to do it better. They understood the pain points and addressed them quickly," says White.

Over the next three years, SEF leaned into the relationship and started to use VistaVu to build digital ecosystems, like AI and IIoT, that are tied into the technology work that SEF does in the oil fields. SEF is now collecting data at oil sites from the start of their projects until the end, giving SEF a real-time view into how jobs are progressing and if they are expected to hit completion deadlines and production targets.

SEF's relationship with VistaVu has paid off. "Three years ago, we were top quartile in our space, but as a result of the work we did with VistaVu, we are now number one in our space—and we did that through the worst downturn in the industry's history," says White.

Going forward, VistaVu expects to continue delivering high value to its clients and adding a laser focus on its own employees. "From quarterly NPS surveys, to our dedicated customer experience, engagement, success, and support departments, for VistaVu it is all about the customer," says Lamb. Lezli Giguere, Vice President of Customer Experience at VistaVu Solutions, agrees. Giguere says, "To support our customer-centric focus, this year we are making large investments into our employee experience including training, career pathing and new reward programs with the simple belief that happy employees create raving fans!" //

ALAN WHITE
Vice President, Information Technology, SEF Energy

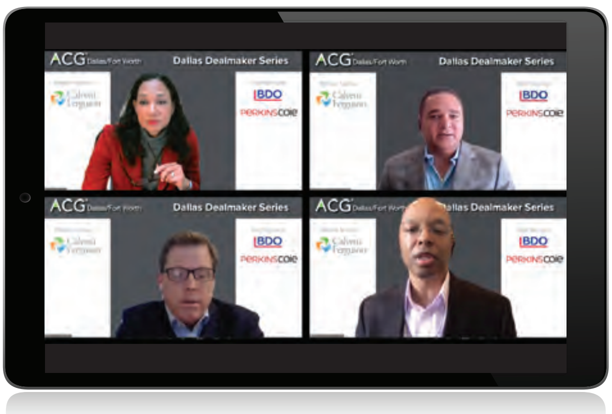
JORY LAMB
CEO and Founder, VistaVu Solutions

LOGY AVILES
President, VistaVu Solutions

LEZLI GIGUERE
Vice President of Customer Experience, VistaVu Solutions

ACG@WORK

Autumn is among the busiest seasons for ACG chapters, and that continued to be true despite the pandemic. Chapters across ACG consistently held online panel discussions, networking events and other digital deal-making forums. Many of the virtual programs hosted in the latter part of 2020 involved collaboration between multiple chapters and drew attendees from all geographies. Expect that pace of programming to continue: As vaccines are rolled out across the globe, ACG remains committed to keeping middle-market deal-makers safe while providing world-class programs to help them connect and do business.



ACG DALLAS/FORT WORTH

ACG Dallas/Fort Worth hosted a pint-sized M&A meeting with attendees from a wide geographic footprint. Private equity firms and investment banks from five ACG chapters gathered for an installment of the virtual Small Group DealSource series. The event, sponsored by Trajectory, drew members for a series of 20-minute meetings in a round-robin format.

ACG DETROIT

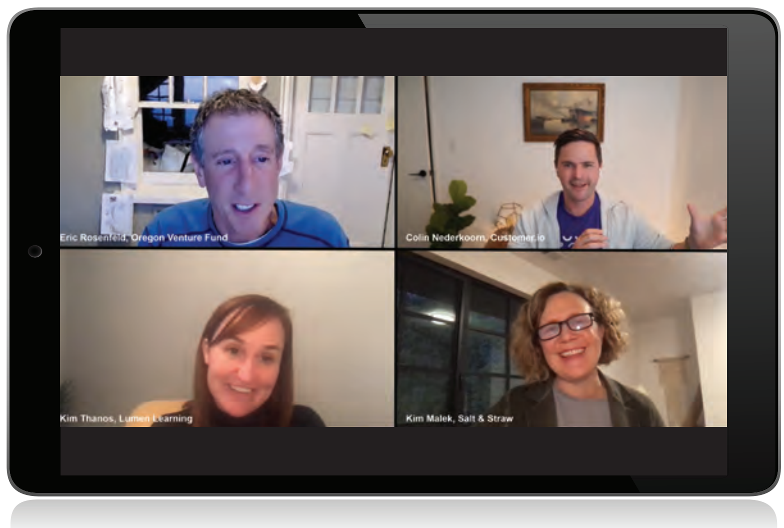
Some of the Detroit area's most successful diverse business owners shared how they overcame the unique challenges of starting a business. Around 85 ACG members attended the virtual panel, "Successes and Roadblocks of Minority Owned Companies and Their Entrepreneurial Journeys." This was the first conversation exploring the minority entrepreneurial journey presented by the ACG Detroit Diversity and Inclusion Committee. The panelists included Leon Richardson, The Chemico Group; Kenneth Kelly, First Independence Bank; Lorron James, James Group International; Steve Savoy, Savoit Consulting; and LaShanda Thomas, The Clairmont Group.

ACG KENTUCKY

ACG Kentucky highlighted some of its members' biggest transactions of 2020 at its annual Deal of the Year ceremony. This year's top award went to DD Williamson & Co., for the company's acquisition of Dupont's Natural Colors business. Pictured is DD Williamson & Co. CEO Ted Nixon (center) with ACG Kentucky President Matt Berrian (left), and ACG Kentucky board member and Deal of the Year Committee member Bill Strench. Finalists included Rabbit Hole Distillery's partnership with Paris-based spirits conglomerate Pernod Ricard, and 3DR Labs' acquisition by Accumen, Inc.

ACG NORTH FLORIDA

In partnership with the Economic Roundtable of Jacksonville, ACG North Florida hosted a panel discussion with David Altig, director of Research at the Federal Reserve Bank of Atlanta. Altig was joined by Sarah Arteaga, director of the Regional Economic Information Network of the Jacksonville branch of the Federal Reserve Bank of Atlanta, to discuss the current economic forecast and engage in Q&A. The event was co-moderated by Daniel Gilham, vice president of investments at the Forbes Gilham Group.



ACG PORTLAND

ACG Portland's virtual Fall Signature Event focused on the fast-moving world of venture-funded companies in the region that are revolutionizing their industry. The panel session brought together CEOs from three portfolio companies of the Oregon Venture Fund. Panelists included OVF Founder Eric Rosenfeld; Kim Thanos, Lumen Learning; Kim Malek, Salt & Straw; and Colin Nederkoorn, Customer.io.

> "WHAT WE SEE, GENERALLY, IS A SLOW AND STEADY RECOVERY, ONE THAT HAS A LOT OF CAVEATS TO IT... THERE ARE GOING TO BE, EVEN MORE THAN USUAL IN A RECESSION, WINNERS AND LOSERS. AND THOSE WINNERS AND LOSERS MAY BECOME A PERMANENT PART OF THE STRUCTURE OF THE ECONOMY IN WAYS THAT ARE CURRENTLY HARD TO CONTEMPLATE."
>
> DAVID ALTIG
> Director of Research, Federal Reserve Bank of Atlanta

ACG ST. LOUIS, ACG KANSAS CITY AND ACG NEBRASKA

Three ACG chapters came together for a joint networking event for their female members. ACG St. Louis, ACG Kansas City and ACG Nebraska held the ACG Women's Virtual Networking event, where women from the chapters gave updates on the state of M&A in their respective markets. The event also featured small-group networking sessions that gave members the opportunity to meet new contacts in the three-state region.

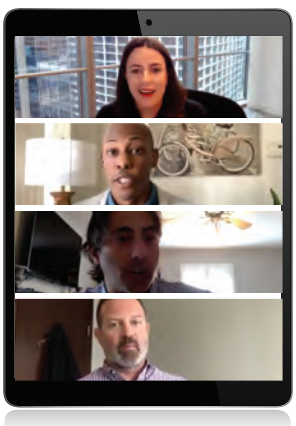
ACG PHILADELPHIA AND ACG BOSTON

ACG Philadelphia's signature event moved into the digital domain this year. The 18th annual M&A East conference drew more than 750 middle-market deal-makers from across the country for two days of exclusive panel sessions and peer networking hosted in an innovative virtual platform. Organized in partnership with ACG Boston, M&A East featured a wide range of panel sessions that included topics on changing consumer behavior, virtual deal-making, and the impact of the 2020 federal elections on tax policy.

More than 2,250 one-on-one DealSource meetings were conducted, and nearly 60% of attendees came from investment banks and private equity firms, and more than half came from outside the Philadelphia metro area.

"I THINK WE'RE LOOKING AT A ROCKY RIDE THROUGH THE END OF THE YEAR AND INTO THE SPRING. YOU CAN BOX RISK, BUT YOU CAN'T BOX THE UNKNOWNS."

ERIC ROTH
Managing Director, MidOcean Partners, speaking about the volatility of the consumer products industry in the wake of COVID-19 during M&A East.



ACG CHICAGO

ACG Chicago hosted a panel discussion to explore opportunities in the developing cannabis industry in Illinois, which generated hundreds of millions of dollars in revenue in the first six months of legalization. Panelists discussed the expansion of the cannabis industry in the state, including social equity opportunities, development, joint ventures, supply constraints and more. The panel was moderated by Bryna Dahlin, Benesch, and included Michael Gruber, Salveo Capital; Ron Holmes, The Majority-Minority Group; and Jeremy Unruh, PharmaCann.

ACG TORONTO

ACG Toronto hosted one of the largest debt and equity conferences in Canada. The chapter held its 18th annual Capital Connection conference, this time in a virtual format. The event brought together mid-market company executives, business owners, intermediaries and service providers from Canadian and U.S. private equity firms, banks and specialty financial institutions. Panel discussion topics included health care, impact investing and alternative lending in Canada during the COVID-19 pandemic.

ACG NEW YORK

ACG New York hosted its annual Technology M&A Conference focused on deal-making in the middle-market technology sector. The virtual event brought together more than 100 senior capital providers and technology sector insiders representing billions in dry powder. Panelists included high-profile founders that have sold to Facebook, Amazon, Apple, Netflix and Google, as well as private one-on-one meetings for attendees. A percentage of proceeds was donated to ACG Cares, which assists college and graduate students from a range of social backgrounds who are interested in a career in business as they find their first job.

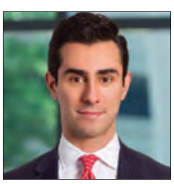
UPCOMING VIRTUAL EVENTS

For a full list, visit acg.org/events

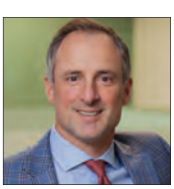
- **ACG Utah** – Intermountain DealSource Summit and Ski Event – March 4-5
- **ACG Edmonton** – Corporate Growth Summit – March 10-12
- **ACG Denver** – 2021 Rocky Mountain Corporate Growth Conference – March 29-30
- **Texas ACG Capital Connection** – March 31-April 1
- **ACG San Francisco** – M&A West – April 20-22
- **ACG New York** – Women of Leadership Summit – April 22

MEMBERS ON THE MOVE

TOM SHAW has been promoted to principal from the position of vice president at HKW, an Indianapolis-based middle-market private equity firm. The promotion was effective January 1, 2021 and he will continue to focus on the firm's health and wellness businesses. As part of the transaction team, Shaw's primary responsibilities include evaluating new investment opportunities, due diligence oversight, execution of platform and add-on transactions, and portfolio company growth initiatives. Prior to joining HKW in 2016, Shaw worked at Wynnchurch Capital and Global Industrials Group at Bank of America Merrill Lynch. He currently serves on the board of directors for two HKW portfolio companies, Certified Tracking Solutions and Allied Vision Group.



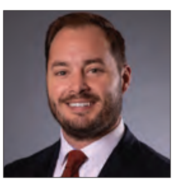
RICK AMMAR has joined HKW, where he will serve in a senior role as part of HKW's expanding technology efforts. Ammar began his career at Goldman, Sachs & Co. in its Americas Special Situations Group, where he helped lead investments in the technology sector. He also served at Macquarie Group and Perry Capital. Ammar is based in HKW's New York office and will focus on investing in high-growth technology and technology-enabled companies.

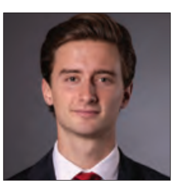


Guardian Capital Partners, a suburban Philadelphia-based private equity firm, has hired THOMAS J. CARUSO as partner, portfolio operations, for its newly formed Guardian Operations and Advisory Company business unit. For the past eight years, Caruso has worked in the middle-market buyout field with experience in operations, management and private equity. Prior to joining Guardian, Caruso was a senior operating partner with Graham Partners Operating Company, where he led diligence activities, add-on integrations, portfolio company strategic planning sessions and value creation execution for portfolio companies. Prior to that, Caruso worked at Cerberus Capital Management and at General Electric, where he began his career and received academy training in management, operations and finance. Guardian Capital Partners invests in lower middle-market consumer products, niche manufacturing and specialty service companies.

Kian Capital Partners, a middle market-focused private investment firm, promoted DAVID DUKE (top) to the role of partner, business development, and DAVID HARE to vice president. Duke has more than 20 years of experience in private equity and investment banking, and has worked at Kian since February 2018. Prior to joining Kian Capital, he was the director of business development at Edgewater Capital Partners, where he led the firm's sourcing and development. Hare has been part of the Kian Capital team since January 2018 and is primarily responsible for evaluating, underwriting and monitoring new and existing investment opportunities. Prior to joining Kian Capital, Hare was an analyst in the investment banking group at SunTrust Robinson Humphrey.

Blue Point Capital Partners, a private equity firm with offices in Cleveland, Charlotte, Seattle and Shanghai, appointed KIMBERLY REED as managing director of talent. Reed has more than 25 years of human capital strategy, talent assessment and organization development experience. Most recently, Reed served as vice president of human resources for a global, private equity-sponsored company and held leadership roles with General Motors, Johnson Controls and Saint-Gobain. She will work with Blue Point's investment teams and portfolio companies to enhance the human capital aspects of new investments, establish and execute talent strategies across the entire portfolio and help recruit board members and operating executives.





O'Keefe, a Detroit-based private equity firm, appointed MARCO EADIE (top) as managing director to lead its new Corporate Finance practice. He will focus on transaction advisory services including mergers, acquisitions, buy- and sell-side advisory, debt recapitalizations, corporate development, restructurings, divestitures and more. Prior to joining O'Keefe, Eadie was a co-founder and managing director at Boulevard & Co., a middle-market boutique investment firm. Additionally, BRIAN VARGASON has joined O'Keefe as an analyst and will assist the corporate finance group leadership. Prior to landing at O'Keefe, Vargason served as an analyst at Boulevard & Co.

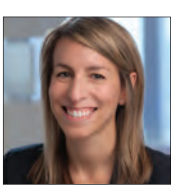
National law firm Dykema added RYAN S. ALEXANDER to its corporate finance practice group as a member in the firm's Los Angeles office. Alexander hails from Lewis Brisbois, Bisgaard & Smith, LLP where he completed M&A transactions ranging in size between $25 million to $800 million in the automotive, consumer products, defense, energy, gaming and health care sectors. He represents publicly traded companies, privately held companies, private equity funds, partnerships and professional service firms for clients in the automotive, consumer products, utility, government vendor, financial services, and media and advertising sectors.

JULIETTE HARRHY, Esq., has joined Janas Investment Bankers and Management Consultants, a firm based in Pasadena, California. In her role as managing director, she will focus on transactions for middle-market client companies. Harrhy is a former M&A attorney in both the U.K. and the U.S. with 30 years of transactional experience and has led teams on both sell-side and buy-side transactions with values of more than $1 billion. She has managed M&A transactions in London and Southern California. Prior to joining Janas, Harrhy practiced at law firms in the U.K. and the U.S., including Kirkland & Ellis, Alston & Bird, and Hahn & Hahn.

MEMBERS ON THE MOVE

GRETCHEN PERKINS has signed onto M&A startup Avance Investment Management and will work out of the firm's Miami office. Prior to joining Avance, Perkins served for 12 years as a partner at Huron Capital, a Detroit-based private equity firm. She also worked at Long Point Capital and has been an active member of the Association for Corporate Growth for more than two decades. She has held multiple board and leadership positions in ACG at the chapter and national levels. Perkins will chair the ACG Intergrowth national conference in 2022.

SK Capital Partners, a private investment firm focused on the specialty materials, chemicals and pharmaceuticals sectors, expanded its team with the addition of **GEORGE GREGORY** as senior director. With more than 30 years of experience in this space, he most recently served as president and CEO of HMT LLC, a provider of engineered products and services for the above-ground storage tank industry. He also served as president and CEO of Kraton Polymers LLC, a global supplier of specialized polymers, and KoSa, B.V., a producer of polyester resins, fibers and intermediates. He earlier held various positions with Koch Industries, including EVP of Koch Chemicals and managing director of Koch Equities.



Global law firm Ropes & Gray promoted three attorneys to the firm's new asset management counsel that specializes in private funds. **NICOLE KREA** (left) joins the asset management practice, where she advises investment advisors regarding various regulatory, compliance and fundraising matters. She routinely advises both registered and exempt advisors to private equity funds, real estate funds, credit funds, venture capital funds, hedge funds and separate accounts. **LAVANYA RAGHAVAN** (top) has a broad-based investment funds practice, having advised established and emerging sponsors of private funds spanning a range of asset classes on fund formation, co-investments, carried interest and executive participation schemes, governance arrangements and ESG issues. **STEVEN ZAORSKI** joins the firm's asset management group, and has advised private investment funds on structuring and regulatory issues. Prior to joining the firm, Zaorski was a fellow with the Iraq & Afghanistan Veterans of America.

Heartwood Partners, based in Norwalk, Connecticut, announced two additions to its team: **JASON PHILLIPS** (top) as senior vice president of portfolio operations and **SAER BROWN** as an associate. Prior to joining Heartwood, Phillips served as the COO at Archway, a provider of operating services for Fortune 500 clients, and as the vice president of operations at Johnson Brothers. He was also a director at AlixPartners, a management consulting firm, and vice president of technology for Beiersdorf North America. As an associate, Brown is involved in executing new investments and the management of Heartwood's existing investment portfolio of 13 companies. Prior to joining Heartwood, Brown was an associate with EC Mergers & Acquisitions, an investment bank focused on industrial technology.

Northcreek Mezzanine Fund, a provider of mezzanine debt and equity, has named KEN MAI as vice president of finance where he will oversee administrative, financial and risk management operations. He served previously as CFO for Oak Ridge Waste & Recycling.

JESSE SPELTZ has joined Cabretta Capital, a Savannah, Georgia-based specialty finance firm with a focus on structured tax equity and tax-advantaged investment strategies. He will serve as director of tax credit investments with a mandate to help banks, private equity groups, family offices, specialty finance companies and strategic businesses to lower their federal and state tax liabilities. Speltz has more than three decades of experience working with middle-market companies. Before joining Cabretta, he led business development for DHG's private equity and transaction advisory teams where he assisted buyers and sellers with their M&A and financial accounting requirements. He currently serves as a board member for ACG Atlanta.

Hilco Global appointed KYLE C. MURPHY to managing director, business development, of Hilco Valuation and Industrial Services. Murphy, who is based in Boston, will focus on private equity sponsors, lenders, advisors, consultants and companies in the northeast region of the U.S. Prior to joining Hilco Valuation & Industrial Services, Murphy served at J.P. Morgan, where he led business development and loan origination for their Middle Market Banking Group's New England region. Before that, he worked at Wells Fargo Capital Finance on the loan originations team covering the Northeast and Mid-Atlantic. He began his lending career at New Stream Secured Capital. Murphy is active in the Boston chapter of the Association for Corporate Growth and runs its DealHunters Committee.

The Watermill Group, a private investment firm based in Lexington, Massachusetts, added ANABELLE SKALLEBERG (top) and OLGA LEVIN to its team. Skalleberg has been appointed to the role of principal and will be responsible for transactions and business development efforts spanning cross-border opportunities, COVID investment initiatives and WMX, a Watermill investing mechanism that brings private equity access and resources to gender-diverse teams. Before joining Watermill, Skalleberg worked on the M&A team for Flight Centre Travel Group and served as vice president for Pine Street Capital Partners, a mezzanine investment firm. Levin joins Watermill as director of finance and will manage the firm's corporate accounting and finance function, as well as support Watermill's investors. Levin joins Watermill after four years at Cambridge Associates, a global investment firm, where she was a manager in the Portfolio Administration Group. She was also a senior associate at PricewaterhouseCoopers.

IT'S THE SMALL THINGS

TRENDS IN HEALTH CARE // The doctor is in

1

Washington Targets Pharma

Reducing prescription drug costs has long been a top priority for voters. President Joe Biden could reduce drug pricing by expanding Obamacare coverage and continuing some of former President Trump's initiatives, like expanding pharmaceutical imports from abroad. There could also be targeted action in Congress. One bill proposed in the Senate would penalize drug companies for any price hikes higher than inflation. – *Vox*

2

Seize the Data

Increasing adoption of electronic health records, more private investments, and the emergence of big data are contributing to a growing market for health care analytics, whose applications include financial, clinical, operational and administrative, and population health analytics. It's a market that's expected to reach $50.5 billion by 2024 from $14 billion in 2019. – Markets and Markets

3

Paging Dr. Bot

Federated learning – a method whereby entities like hospitals, research institutions and treatment centers pool data – could revolutionize how artificial intelligence models are trained. Large hospital networks would benefit from access to secure, cross-institutional data, while community and rural hospitals would enjoy access to expert-level AI algorithms to diagnose diseases. Health care startups could also bring cutting-edge innovations to market faster. – NVIDIA

4

PPE Gets an Upgrade

After grappling with two surges of COVID-19 in 2020, personal protective equipment for health care workers needs an upgrade, experts say. Some hospitals are joining forces with companies and universities to develop new PPE that includes wearable communication devices and voice-controlled technology like the Amazon Echo. Congress is also showing support. The House proposed The Moving Forward Act last July that would commit funding for hospitals to make technological improvements. – *Forbes*

– **Benjamin Glick**

5

Telehealth Searches for Signal

Despite a spike in usage at the beginning of the COVID-19 pandemic, telehealth services have been on the decline through 2020. As a share of all primary care visits, they dropped from their peak of 69% in April to 21% in July, according to the Commonwealth Fund, a health care foundation. While the trend leveled off in the final months of 2020, telehealth is poised to grow as health care providers recalibrate. They are expected to augment existing services in 2021. – STAT

6

Using Data to Close the Gaps

The COVID-19 pandemic revealed the inequities in the current health care system, with the disproportionate impact on people of color. However, the burgeoning field of social informatics may be one solution. Researchers are exploring this approach, which combines social data – such as where a patient lives, or their access to transportation, for example – with health data, to inform treatment decisions and improve equity in health care. – EHG Intelligence

7

Keeping Health Stocked

When the pandemic stripped many hospitals of vital medical equipment, company leaders began placing greater emphasis on logistics. According to a report from Deloitte, 94% of life science executives and 86% of leaders at health care providers said that improving their supply chain overall was a priority in 2021. However, pharmaceutical executives want to focus on improving supply chain transparency more than their health providing peers, whereas the opposite is true for improving supply chain security. – Deloitte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US PE Breakdown

2020 Annual

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Introduction

After a tumultuous March and April, marred by the COVID-19 pandemic, PE dealmaking bounced back during the latter half of 2020 to finish on a high note. When traditional LBO activity for platforms effectively froze, sponsors quickly pivoted to put capital to work in minority transactions and public companies. Smaller add-on acquisitions, which had already accounted for the bulk of buyouts, proliferated as well. Not surprisingly, the pandemic seems to have further cemented the industry's interest in the technology and healthcare sectors. Although deal count and value diminished year-over-year (YoY), the momentum gained during Q3 and Q4 indicates dealmakers are bullish heading into 2021.

Exit activity followed a similar trajectory but fell even more during the crisis only to rebound more strongly. As portfolio company marks tumbled, PE firms hunkered down, investing additional capital into their holdings and pushing out exit timeframes. After the mayhem witnessed in the spring, financial markets began to bounce back. SPACs became the hottest thing on Wall Street, and a plethora of companies underwent traditional public listings. Despite this, several multibillion-dollar exits went to other PE firms, as sponsors proved they can compete with strategics and public markets on price.

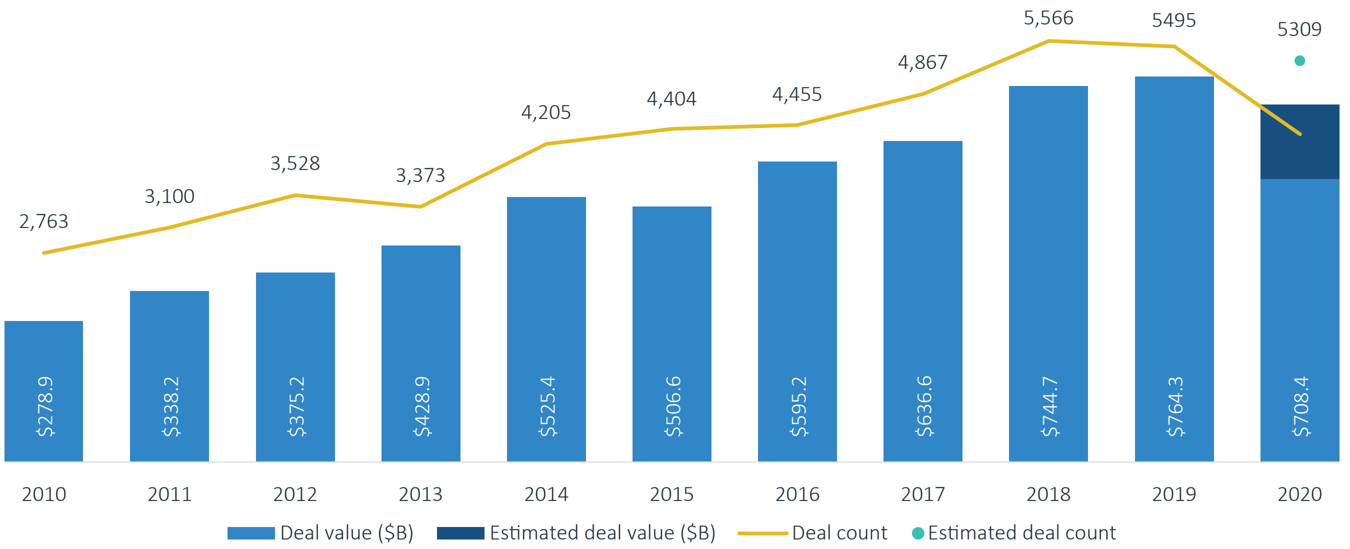
Although it also witnessed a mild decline, fundraising remained steadier than deals and exits. Early pandemic-related difficulties, such as performing due diligence via videoconferencing, delayed many fundraising efforts. However, the largest PE firms thrived as LPs reupped with existing relationships. Several name-brand firms even reported record fundraising quarters after the pandemic began. Funds targeting key themes, such as technology investments and longer holding periods, also continued to raise ample amounts of capital. Family offices and wealthy individuals stepped up to keep first-time funds afloat, although many of these emerging managers are hoping for a more fruitful 2021.

Wylie Fernyhough
Senior Analyst, PE Lead

Rebecca Springer
PE Analyst

Overview

US PE deal activity



Source: PitchBook | **Geography**: US

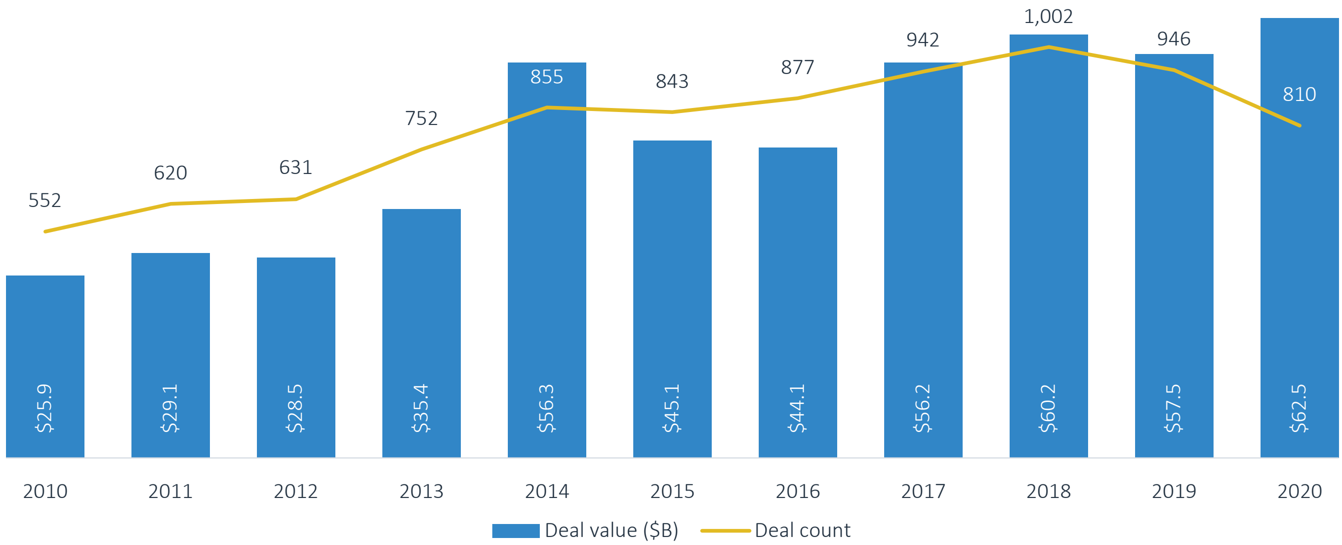
US PE dealmaking activity in 2020 was a rollercoaster. The year started out at a fervent pace in Q1 before going into freefall in Q2 and finally rebounding in the back half of 2020. Although many were predicting a broader economic slowdown and/or recession coming into 2020, almost nobody was predicting the pandemic that triggered such a swift crash in financial markets and an equally speedy economic recovery. PE deal activity saw 5,309 deals close for a combined $708.4 billion—YoY dips of 3.4% and 7.3%, respectively. This marks the first time since 2009 that both dealmaking value and count diminished.

The story of 2020 PE activity is as much about broader economic factors as it is GPs closing deals. The Federal Reserve's unprecedented policy actions—which included buying corporate debt, ETFs backed by highly rated bonds, Treasurys, agency mortgage-backed securities, and more—has been credited with backstopping the economy and letting investors feel comfortable taking on risk. The Fed's liquidity injections kept the gears of the economy turning and led to a rebound in stock market prices and buyout activity. However, the stock market performance reflects the stellar performance of a few massive companies and is not an indication of the health of the broader economy. The tech-heavy NASDAQ trounced the S&P 500 and the Russell 2000, which is made up of smaller companies. Also, thanks in part to the Fed's actions, the anticipated wall of PE-backed bankruptcies never materialized. To be sure, many PE-backed companies did not emerge from this crisis, but the number and magnitude of these business failures was far fewer than many had imagined.

Sponsors also took on a more supportive role than in past crises, providing more cash to portfolio companies than during the global financial crisis (GFC). PE firms helped portfolio companies find cost-saving solutions as well as generate incremental revenue. These firms believed keeping companies afloat would be better than a lender takeover or restructuring, according to Lincoln International.[1] The shift in the composition of lenders from mostly banks to private debt entities may also have played a role in the buoyancy of PE-backed companies. "Sponsors and lenders have worked very well together to make sure these companies have staying power," said Ron Kahn, co-head of Lincoln's valuations and opinions group.[2] The eye of the storm seems to have passed. For example, Owl Rock Capital Corp, a middle-market lender, is seeing loan amendment requests diminish as borrowers are now on a more solid footing.[3] The steps sponsors, portfolio companies, and lenders took together to prevent wide-spread bankruptcies during this downturn exemplify how PE has stabilized over the past decade.

1: "Private Equity Cash Boosts Fortunes of America's Mid-Sized Firms," Bloomberg, Kelsey Butler, November 12, 2020.
2: Ibid.
3: Ibid.

US PE growth equity activity



Source: PitchBook | **Geography**: US

Growth equity was a standout performer in 2020, reaching the highest deal value on record despite the dip in PE dealmaking overall. The strategy notched $62.5 billion in deal value, up 8.8% from 2019. The resilience of growth equity underscores two key points. First, growth equity was already gaining in popularity prior to 2020, with total deal value roughly tripling since 2009. Often characterized as a middle ground between venture capital and leveraged buyouts, growth equity attracts investors because it promises the opportunity for strong returns while limiting downside risk. Growth equity is now firmly established as a mainstream PE strategy: For instance, Blackstone has doubled down on its growth equity strategy since hiring Jon Korngold, formerly of General Atlantic, to lead its growth equity investing platform last year. Among other significant deals, the firm led a star-studded $200.0 million fundraise for Swedish oat milk company Oatly in July; Oatly is reportedly planning a 2021 public listing.[4] Second, growth equity was particularly strong in the information technology sector, a clear "winner" emerging from the pandemic for reasons we describe below. 2020 saw the value of IT growth equity deals rise by 72.4%, from $11.6 billion in 2019 to $20.0 billion. The year's largest growth equity deal was a $3.5 billion investment by Harvest Partners, TA Associates, and GI Partners into MRI Software, a real estate and investment management SaaS (software as a service) company. Another eye-catching deal, Silver Lake's and Sixth Street's April investment into Airbnb, now appears quite prescient. The $1.0 billion deal gave the PE firms warrants exercisable at an $18 billion valuation,[5] well below the company's equity market cap of $90.0 billion just nine months later.

Although not all growth equity investments are likely to produce such a stratospheric return, PE firms are clearly warming to the idea of minority investments. A greater proportion of PE funds now target or are willing to target non-control investments than before the GFC, and they are using this strategy in a broader variety of sector and target company contexts. The classic growth equity target is still founder-owned, with organic growth potential and a proven business model–yet the slate of this year's largest growth equity deals paints a more nuanced picture. For example, PE managers used growth equity financing to take advantage of pandemic-related shifts in demand by investing in mature, PE-owned companies. Lineage Logistics Holdings, a cold storage logistics company owned by Bay Grove Capital, raised $1.6 billion in September in anticipation of soaring demand due to vaccine distribution. Yet not all pandemic-related growth equity bets paid off. In May, as restaurant lockdowns and panic buying of household essentials lifted grocery sales, Apollo and other investors injected $1.75 billion into Albertsons, a longtime portfolio company of Cerberus Capital Management. But as the pandemic tailwinds faded,

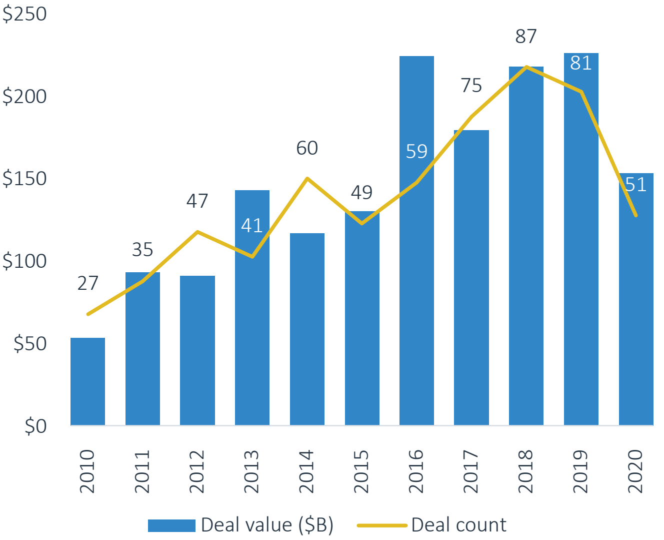
4: "Oatly, Vegan Food Brand Backed by Oprah, Is Planning to IPO Later This Year, Sources Say," CNBC, Leslie Picker, Jan. 5, 2020.
5: "Airbnb's New $1 Billion Investment Comes at Lower Valuation—Sources," Reuters, Joshua Franklin, April 7, 2020.

Cerberus pushed forward with a downsized public listing for the debt-laden company, valuing it at $7.66 billion, a contraction from the $10.0 billion valuation at which Apollo invested.[6]

PE firms pursued several PIPEs (private investment in public equity), which are also non-control investments, during the downturn in the second and third quarters. PIPEs often become more popular during downturns, as public companies rush to add liquidity to their balance sheets in the face of market uncertainty; for PE firms, PIPEs represent opportunities to deploy capital at a time when buyouts have slowed. Although the structure of PIPE deals is highly bespoke, they are usually structured as preferred stock instruments. This offers investors the potential for attractive returns while maintaining downside protections. In April and May, respectively, the NYSE and NASDAQ temporarily waived their so-called "20% rules," which required companies to seek shareholder approval for private financing deals representing more than 20% of their existing stock or voting power.[7] The following month saw the number of PIPE deals jump, and NYSE claims that "a significant number of companies have benefited from the flexibility provided by the waiver."[8]

Apollo Global Management and Silver Lake Partners were particularly active in the space during the height of the pandemic. In a deal with parallels to its midyear Airbnb equity investment, Silver Lake joined with Apollo to provide Expedia with liquidity to help weather the pandemic, together taking a $1.2 billion stake of preferred shares with warrants. The inclusion of warrants with the preferred stock purchased should allow Apollo and Silver Lake to profit nicely from the resumption in travel as the pandemic abates. Private equity managers are also engaging in PIPE deals that form part of broader strategies aimed at improving relationships with investors. Earlier in the year, Silver Lake had completed a $1.0 billion PIPE investment in Twitter as part of an agreement that allowed Twitter CEO Jack Dorsey to remain at the helm despite activist investor pressure. Apollo also built on its existing minority stake in Athene Holding, a financial services firm focused on retirement products, through a $1.55 billion investment for 18% of the company, bringing the PE firm's ownership to approximately 35%. The PIPE transaction was accompanied by the removal of Athene Holding's multi-class share structure, which had frustrated investors.[9] In all, PE firms demonstrated

US PE mega-deal activity ($1B+)



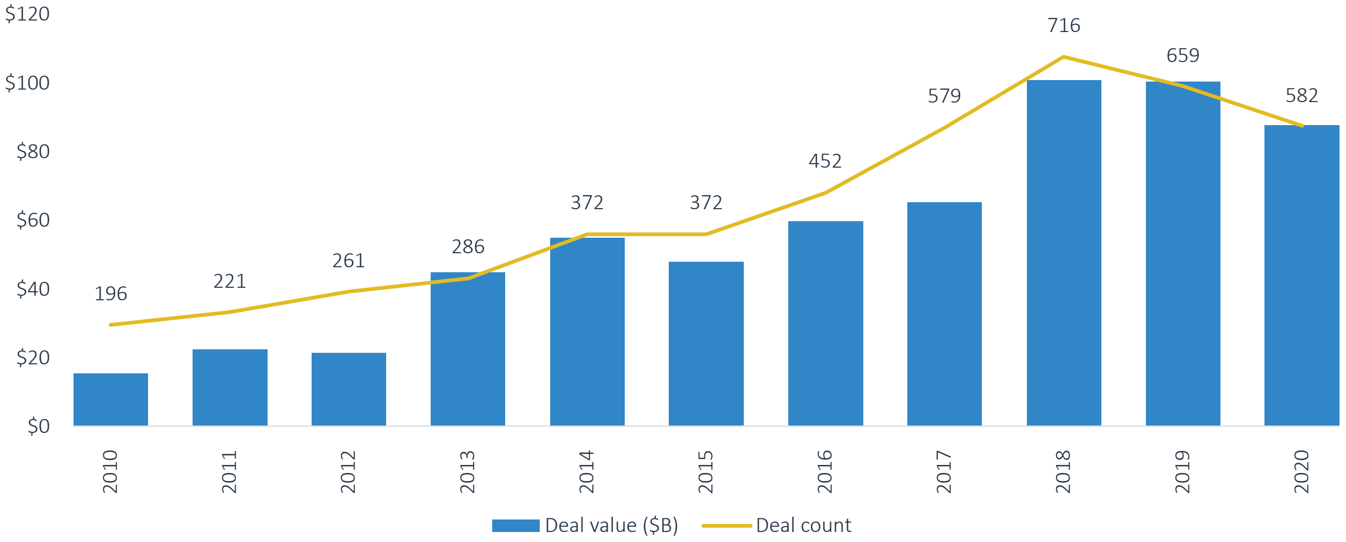
Source: PitchBook | **Geography**: US

that they could provide a much wider range of capital solutions than just the vanilla LBO during 2020. These firms can provide capital of all sorts to companies throughout the corporate life cycle.

The pandemic also shined a light on the industry's investments into technology and healthcare, two of the fastest growing and most important sectors for PE firms. Private capital's love affair with technology investments—software in particular—has been noted for years. Much of the venture ecosystem is based around software investments and specialist firms including Thoma Bravo and Vista Equity Partners, which have each amassed over $70 billion in AUM, validating the investment thesis. Software has been a refuge for investors during the COVID-19 pandemic, as stay-at-home orders accelerated adoption of digital entertainment, ecommerce, education, and healthcare technologies and as companies continued to invest in productivity tools for their now primarily remote workforces. The SaaS business model is seen as particularly attractive because it combines recurring revenue streams with the potential for low-capital-intensity growth. Moreover, once a service is embedded in a company's workflow, switching costs can be high, which discourages companies from seeking other SaaS vendors. Software companies saw their valuations soar

6: "Cerberus-Backed Albertsons Falls Short With $800 Million IPO," Bloomberg, Crystal Tse and Scott Deveau, June 25, 2020.
7: The NYSE waiver is still in effect, and NYSE is proposing a rules change to make the waiver permanent. The NASDAQ waiver expired June 31, 2020.
8: "NYSE Proposes to Amend Shareholder Approval Requirements," Cooley PubCo, Cydney Posner, Jan. 5, 2021.
9: "Apollo Raises Athene Stake in Bid to Boost Its Value," Reuters, Chibuike Oguh, October 28, 2019.

US PE software deal activity



Source: PitchBook | **Geography**: US

in public markets, keeping private market prices well above other sectors. Dealmaking in software accounted for 15.6% of overall deal value—a healthy step up from the 13.1% in 2019 and significantly higher than the 5.3% it accounted for in 2009. A few select deals, such as the combination of Ultimate Software Group and Kronos—the combined entity was worth north of $22 billion—propelled overall deal value.

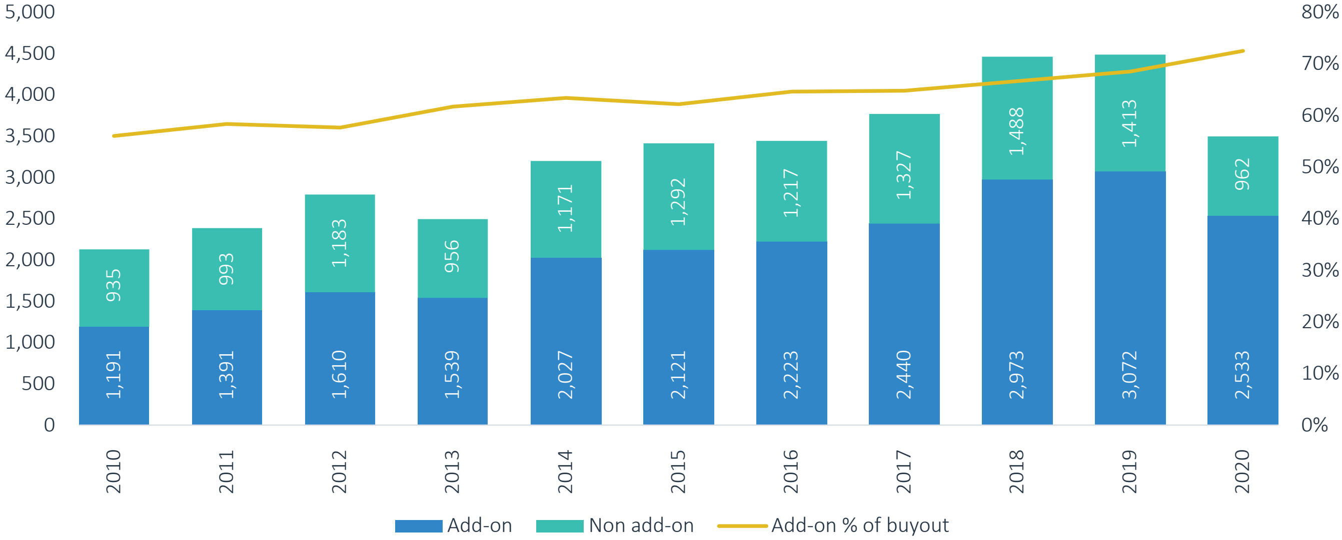
Activity in the sector may pick up in 2021. Thoma Bravo announced it will buy Real Page—a property management software company—for $9.6 billion in December in one of the largest tech deals in recent years. Vista Equity announced its intention to acquire Pluralsight for $3.5 billion. Both transactions are take-privates and may be a sign of activity to come. As public market multiples continue to diverge from private markets, opportunistic PE firms will target underperforming public companies they believe can be materially improved and returned to public markets at a loftier valuation. Furthermore, the recent fundraising success of Thoma Bravo, Silver Lake, Vista Equity, and Francisco Partners—four of the most prolific software investors—augurs well for dealmaking in the sector.

Healthcare, traditionally a haven for investors during downturns, also witnessed healthy dealmaking activity. The sector remained close to even as a share of PE deal activity, going from 15.6% in 2019 to 14.1% in 2020. Pandemic closures decimated revenues of hospitals, retail healthcare providers, and other firms with exposure to elective procedures. Nevertheless, Nirad Jain, Bain's healthcare private equity practice co-lead, reports that investors are bullish on healthcare. Dealmaking on healthcare facilities slowed primarily because GPs saw depressed revenues and looked for bargains, although sellers preferred to hold out on assets with strong fundamentals in hopes that demand for elective procedures would bounce back as the pandemic waned.[10] The regulatory environment is also worth watching. Although the recent legislation passed by Congress sought to end so-called "surprise billing" for out-of-network hospital physician fees[11]—a key revenue source for physician staffing firms such as KKR's Envision and Blackstone's TeamHealth[12]—many believe the language provides a win to PE firms. However, a Biden administration may be less friendly to PE firms, so the regulatory landscape may continue to sour in the healthcare space.

Add-ons also propelled deal activity in 2020. The strategy of augmenting a larger platform company by tacking on similar, smaller companies has been gaining in popularity in recent years, and the pandemic has accelerated the trend. In 2020, add-ons accounted for 72.5% of all buyouts, an all-time high. This easily outpaces the 68.5% achieved in 2019, the previous record. Much of the activity was completed by serial

10: "Healthcare and COVID-19: The Aftershocks," Bain & Company, Hugh MacArthur, Kara Murphy, and Nirad Jain, June 11, 2020.
11: "Congress Moves to End Surprise Medical Billing," The Wall Street Journal, Kristina Peterson, December 17, 2020.
12: "Ill-Timed Health-Care Buyouts Bruise KKR and Blackstone," The Wall Street Journal, Miriam Gottfried, May 28.

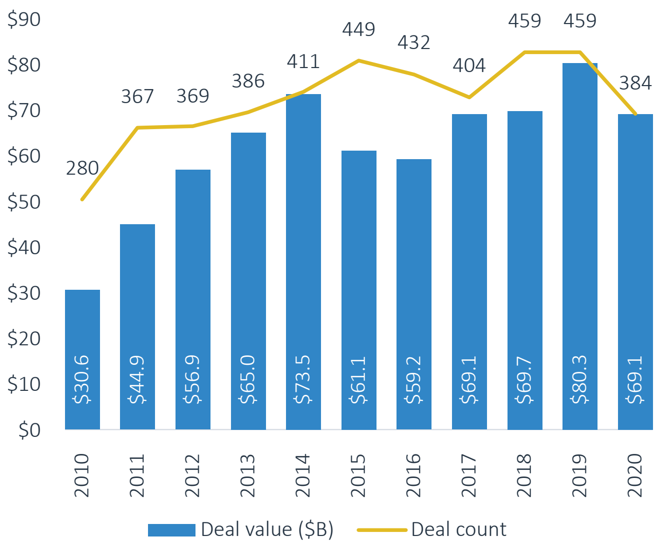
US PE add-on activity



Source: PitchBook | **Geography**: US

acquirers. One example is Insurity, which provides software to the insurance industry. Since GI Partners bought the company in July 2019, Insurity has completed five add-ons, four in 2020. The acquisitions helped to round out the company's suite of solutions, including adding products to focus on personal lines, a new billing system, and offerings for the broker and managing general agent (MGA) markets. With such an uncertain economic backdrop, buyout firms felt as though plowing capital into known entities through add-on acquisitions was safer than buying new entities. Similarly, small companies—those with $3 million-$10 million in EBITDA—may have felt a sale was the best course of action because they lacked a sufficient financial cushion to handle the downturn. The business owners could realize some liquidity and plow it into a larger company during an uncertain time. Headed into 2021, though, add-ons may account for a lower proportion of deals, or at least the growth rate will slow. GPs are likely to feel more confident deploying massive sums of dry powder into larger platforms.

US PE carveout activity

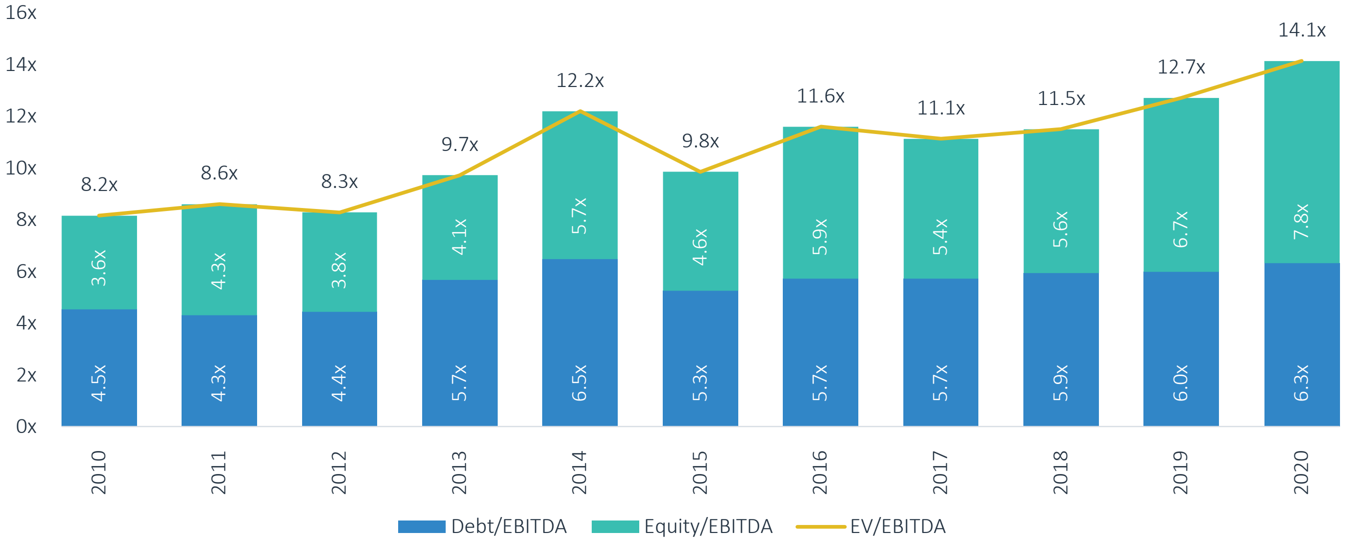


Source: PitchBook | **Geography**: US

Carveouts also accounted for a healthy percentage of deal activity, and the future looks bright for this deal sourcing opportunity. Although these deals contributed less than a tenth of the overall deal count, several notable transactions were carved out from larger companies. DXC Technologies sold its state and local health and human services business to Veritas for $5.0 billion in the year's largest such deal. Another hefty carveout came when HD Supply sold its construction and supply arm, White Cap, to CD&R for $2.9 billion. White Cap was then merged with Sterling Group-backed Construction Supply Group in a deal valued at $4.0 billion. Carveouts can easily reach the $1 billion+ threshold, which is especially attractive to large PE firms sitting on freshly raised mountains of cash.

Overview

Median buyout multiple



Source: PitchBook | **Geography**: US

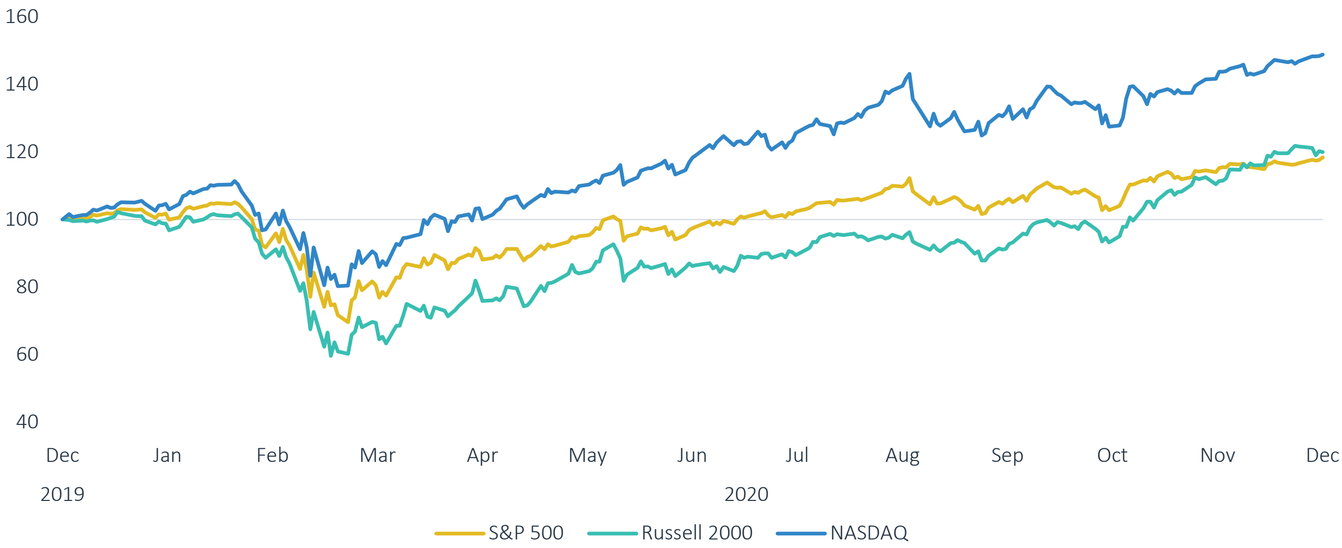
US high yield option-adjusted spread

Source: ICE Data Indicies, LLC | **Geography**: US

Several additional tailwinds ought to propel carveout activity higher in 2021. The DOJ updated its merger remedies guidelines in September 2020 for the first time in nearly a decade. The changes describe PE firms as viable—and in some cases, preferred—buyers of divested assets in mega-mergers. PE firms were added as preferred buyers because their business model has evolved over the past decade-plus, according to Markan Delrahim, assistant attorney general for the Antitrust Division of the Department of Justice. On top of these updated guidelines, the pandemic has battered hundreds of large conglomerates, forcing these companies to take on heavy debt loads to survive. Many of these same companies are now looking to sell noncore assets to raise cash and shore up their balance sheets. On Carlyle's earnings call in Q3 2020, CEO Kewsong Lee indicated that the company is busy working on several large carveouts, signaling that divestiture activity may be heating up.

Heading into 2021, as the promise of a widespread vaccine and herd immunity becomes clear, much of the American economy still needs to recover. Despite millions remaining unemployed, discretionary spending went up in 2020, providing unique opportunities. Technology, healthcare, and financial services appear poised for a healthy recovery, although consumer-facing businesses, especially those not targeting the upper end of the income spectrum, may have to alter their price and value equation to flourish in 2021. Dry powder levels remain elevated as dealmaking slowed,

Total return for select public indices



Source: Morningstar | **Geography**: US

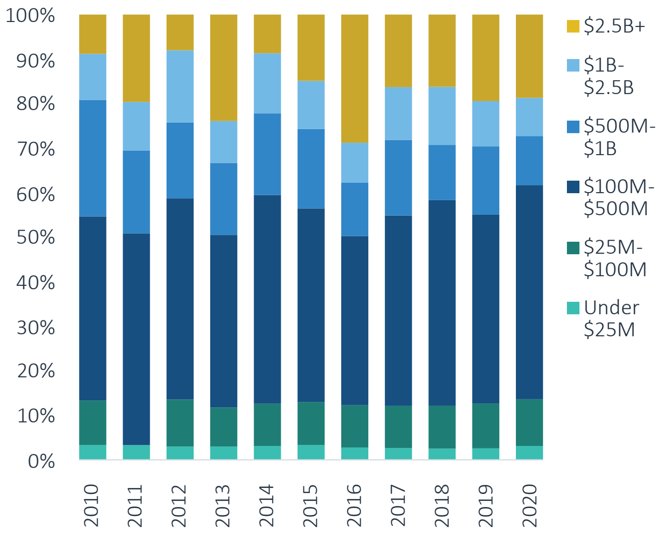
whereas large GPs continued to successfully fundraise. US PE firms are sitting on more than $550 billion in dry powder that was less than two years old as of March 31, 2020. Furthermore, PE firms appear antsy to put this capital to work. Platinum Equity and Thoma Bravo each announced $7 billion+ deals in December, and additional deals may be coming down the pike as firms target massive corporate divestitures, take-privates, and more. Looking optimistically at the year ahead, Claudine Cohen and Margaret Shanley of CohnReznick say that capital is not an issue because of the ready availability of equity, debt, and sponsor purchasing power. They also indicated that, despite a flurry of announced deals in the third and fourth quarters, there is still pent up demand that will drive robust dealmaking figures in the first half of 2021, before settling into a more normalized figure in the back half of the year.[13]

There are some reasons to be cautious, though. Additional regulations by a less business-friendly administration and somewhat higher tax rates are likely. And while other regulations may be less likely, PE will continue to be under increased scrutiny as its global AUM soars past the $2 trillion mark and these firms play a larger role in the overall economy. Despite being brought on by pandemic-related hardship, PE-backed bankruptcies in the coming quarters may give extra ammunition to lawmakers looking to clamp down on the buyout industry. Regulations around who is ultimately responsible for debts of bankrupt companies could alter the calculus of many LBOs. In August, the New England Teamsters & Trucking Industry Pension Fund asked the Supreme Court to revisit a lower-court ruling that said private-equity firm Sun Capital Partners isn't responsible for $4.5 million in pension liabilities of a bankrupt company that was owned by two of the firm's funds. These will be key themes to watch as 2021 unfolds.

13: Claudine Cohen and Margaret Shanley, Telephone Interview, Jan. 6, 2021.

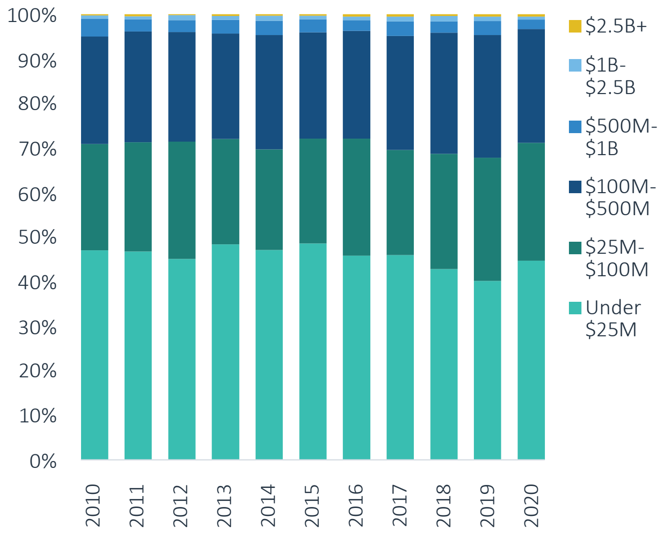
Deals by size and sector

PE deals ($) by size



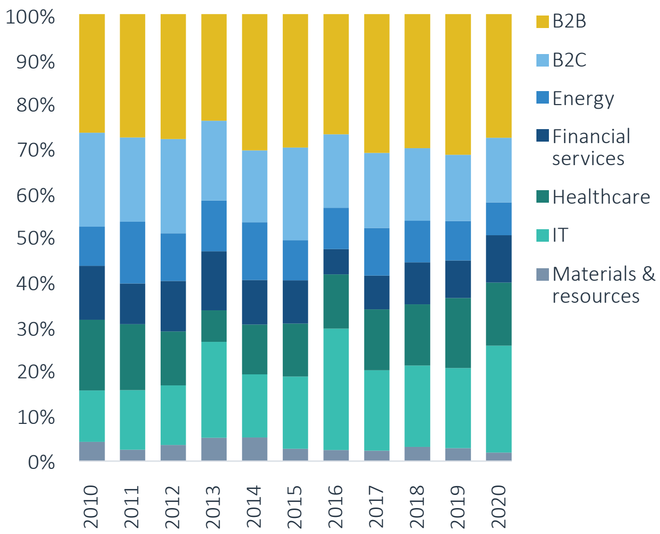
Source: PitchBook | **Geography:** US

PE deals (#) by size



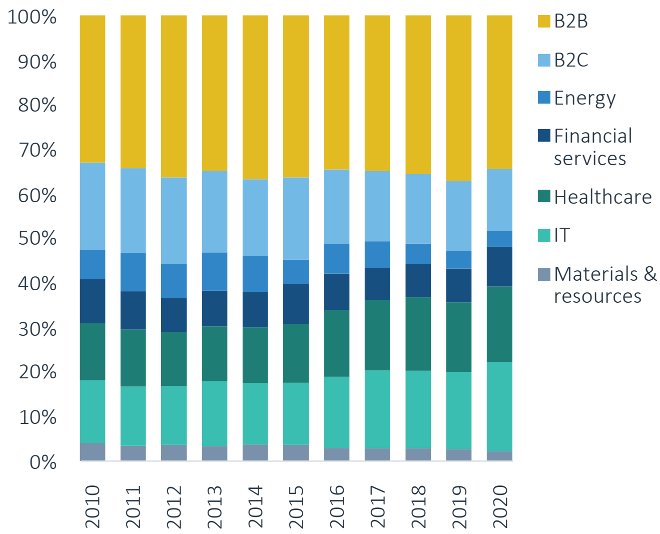
Source: PitchBook | **Geography:** US

PE deals ($) by sector



Source: PitchBook | **Geography:** US

PE deals (#) by sector



Source: PitchBook | **Geography:** US

Q&A: Grant Thornton

Carlos Ferreira

National Managing Partner, Private Equity
Grant Thornton

Carlos leads the strategic direction for the firm's private equity services designed to generate value across the investment life cycle, including areas such as M&A, growth, transformation, operations, resilience and fund and portfolio company compliance. With 25 years of experience, Carlos has developed expertise in audit and transaction services, helping business owners and investors identify the risks and maximize value in a deal.

Candice Turner

National Managing Principal, M&A Tax
Grant Thornton

Candice leads the firm's national M&A tax practice and has more than 20 years of public accounting and private industry experience and has advised clients with respect to all US and international tax matters. She has represented funds, sovereigns, foreign pensions and consortiums on investments, acquisitions, re-financings and exit strategies across various industries, including private equity and public capital markets.

What are the key risks and opportunities for private equity heading into 2021 that are least discussed?

Since the COVID-19 pandemic started, key issues being discussed have included valuations, pivoting strategies to include distressed situations, and the impact of liquidity, supply chain, and work force issues at the portfolio company level. Healthcare (including telehealth) and national security industries have also been a key focus. We expect these to continue to be key issues and opportunities in 2021.

A few issues, however, are not being discussed at the level we would expect. First, as the US and other governments have spent trillions of dollars to prop up economies, reputational risk is a key issue that should be top of mind. Taxpayer dollars have been used to lend significant funds to companies under the PPP regime, and many of those companies have been acquired by PE funds immediately after loan forgiveness. More thought needs to be given to the implications of this loan forgiveness, not only because of the impact on public opinion but also how such actions could impact further government action. Additionally, a major change to US tax law takes effect in 2021: The calculation of the amount of interest limitation under IRC Code section 163(j) becomes much more restrictive as it moves from being essentially EBITDA to EBIT based. Finally, with the economic pressure on states and inaction by the federal government, we expect to see possible privatization of key government functions moving forward.

Which recent or upcoming regulatory changes, e.g. ASC 842 or tax cuts, are having or are set to have the most impact?

We can expect the CARES Act to continue to have a significant impact on PE-owned portfolio companies. President-elect Joe Biden has been vocal about his plan to increase the corporate tax rate as well as the highest individual tax rate. In Q4 of 2020 we saw significant deal volume driven by Biden's proposed tax changes that would increase the maximum capital gains tax rate from 20% to 39.6%, which drove individual business owners to sell. Additionally, other regulatory issues might take on a greater focus. For example, climate regulations, including carbon taxes, are likely to play a critical role in PE strategy in 2021.

In 2016, the FASB and IASB issued new standards to bring lease obligations on the balance sheet, and we expect the new FASB standard (ASC 842) to have significant impact for lessees. A 2005 SEC survey estimated the off-balance sheet obligation associated with operating leases for public companies at $1.25 trillion. Under the new standards, all leases (including operating leases) with a lease term greater than 12 months will need to be recognized on the balance sheet as an asset and a liability. These changes will impact business valuations and debt covenants as it will change the calculation of EBITDA and indebtedness.

Given the potential turning point in the COVID-19 pandemic with the rollout of vaccines, what risks and impacts do you anticipate persisting and being important for PE dealmakers to be apprised of?

Valuations remain high with excess capital seeking fewer quality deals. Therefore, a key challenge in 2021 is sourcing adequate investment prospects to deploy capital. Sourcing new deals and completing diligence during the COVID-19 environment will require different processes and techniques than have been historically relied upon. Other risks that will persist into 2021 will include:

- Continued and future government stimulus for businesses and workers, including the post recovery return of this capital, and an expected increase in fraudulent activities by borrowers.
- Possible increased industry-specific regulations in asset management, healthcare, pharma, and energy.
- For funds managed in the European marketplace or Europe-based limited partners, compliance with new ESG standards will be required effective March 20, 2021.
- Understanding the lagging effects of COVID-19 on individual business plans, and how consumers and businesses may be permanently affected by change in behaviors caused by COVID-19, with travel and, media and entertainment as examples.
- Given the trade disputes that were occurring pre-pandemic, the supply chain disruptions that occurred in the early stages of the pandemic, and the growing consumer belief and political agenda for onshoring, we expect to see an increase interest in US PE investing close to home.
- In a recent survey we conducted of almost 200 M&A professionals, we found that approximately half of deals wound up in some form of accounting dispute; this risk should be a consideration for future deals. Visit gt.com/disputesurvey for insights on the most common causes for disputes, how to guard against them, and best practices for arbitration.

What characteristics of recent deals stand out to you and why? Were there any features or occurrences that surprised you?

We expected special purpose acquisition companies (SPACs) to grow in 2020, but the volume of deals involving SPACs has exceeded expectations. SPACs have been heavily pursuing areas such as tech and healthcare. In 2020 there were more than 250 SPACs raised, representing over $75 billion of capital, and we expect to see this trend continue. More capital will follow these existing SPACs through PIPEs and other private equity co-investors.

Deal activity has increased dramatically over the last six months of 2020, and deal valuations and EBITDA multiples have increased. We have seen deals terminated over unsupported valuations, and potential buyers continue to walk away when the numbers don't work.

On a sector basis, which do you think are primed for turnarounds heading into 2021 more so than expected, and why?

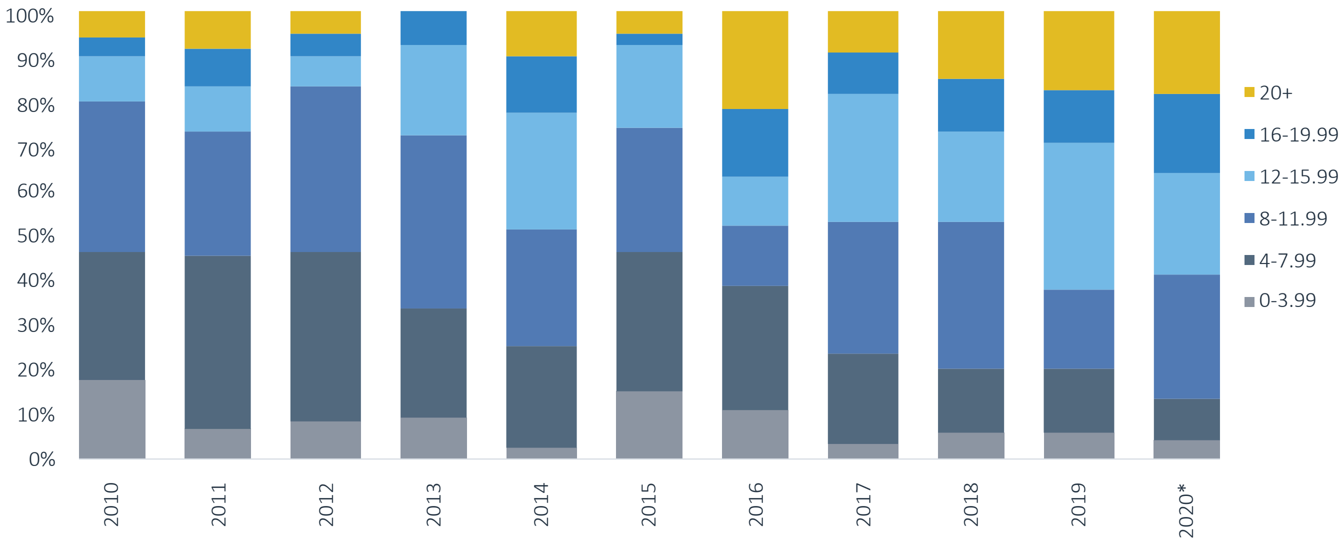
Pre-pandemic, the US consumer and "Made in America" businesses saw significant growth. Once the mass distribution of vaccines increases the consumer confidence to return to consumer experiences and shopping, we expect this growth trend will continue. This macro trend and the possibility of increased regulations from the new administration is expected to result in increased deal activity in sectors such as healthcare, infrastructure, energy, FinTech, media, software, and cybersecurity.

Within the healthcare sector, reimbursement changes to a bundled and value-based payment structure with more pricing transparency will have a direct impact on providers and ultimately which subsectors investors will focus on. We have seen new standout subsectors such as laboratories and pharma logistics benefiting from COVID-19. In addition, at-risk healthcare models and home health models have fared extremely well during the pandemic, and we see these as sectors that will continue to experience growth. Finally, we saw a tremendous increase in deals in healthcare technology enablement services. Particularly SaaS companies offering solutions for practice management and electronic medical records and SaaS platforms with solutions to improve and automate revenue cycle management. This current market segment is fragmented, with solutions focused on specific specialties, such as acute care, mental health, elective surgery, etc. We expect continued consolidation of SaaS solutions within specialties to offer more comprehensive packages to hospitals, clinics, and physician groups.

Cybersecurity and digital transformation companies are expected to continue to be a hot space for PE investors in 2021. In our 2020 CFO survey, we asked CFOs how they expect certain expenses to change over the next year as a result of the pandemic and found that CFOs expect expenses overall to stay the same with some reductions in travel and recruiting (Full survey results are available at gt.com/cfosurvey2020). Notably, 43.5% of CFOs foresaw increased spending on cybersecurity, and 40.1% saw increased spending on digital transformation. This aligns with the results from our December recession survey, in which the majority of ramped-up investments through a recession were expected in the same areas.

Spotlight: 2021 US PE Outlooks[14]

PE deal activity by EV/EBITDA bucket



Source: PitchBook | **Geography**: US
*As of November 22, 2020
**Low sample size for 2020

Prediction: 20% of buyouts will be priced above 20x EBITDA.

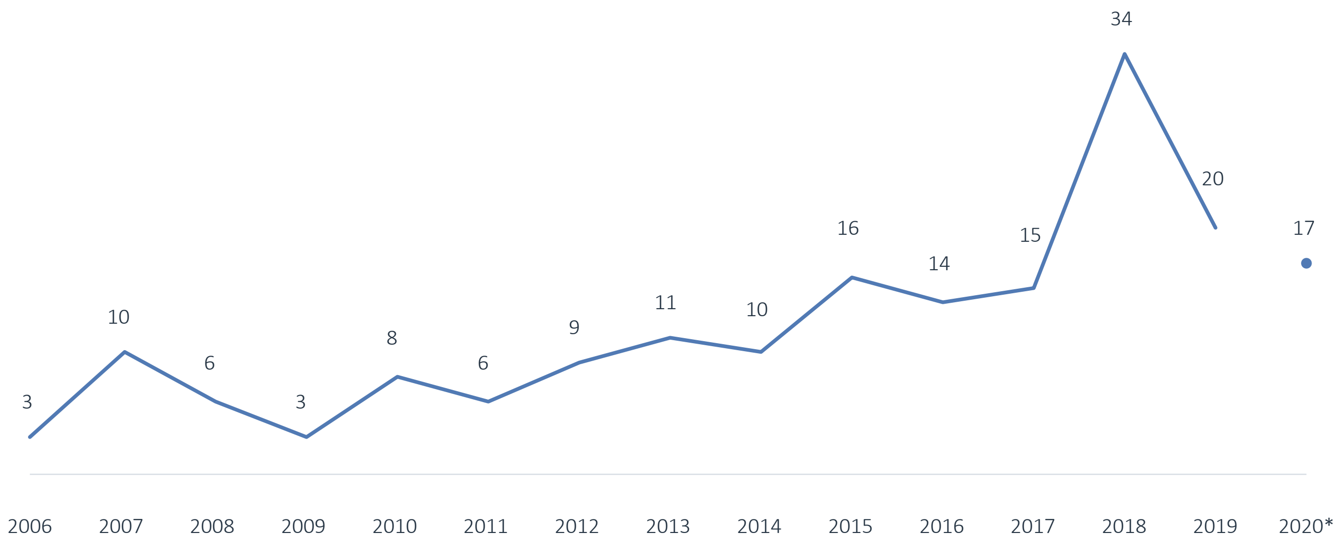
Rationale: There are two main reasons we foresee an increase in completed deals at the pricier end. First, price multiples in both public and private markets have been elevated for some time, and we see no reason for this to change in 2021. The S&P 500 now trades at a cyclically adjusted price-to-earnings ratio (CAPE) of 34.43 due to several factors including monetary easing, widespread risk-on appetite, and the emergence of large growth-oriented companies that trade at high multiples of revenue, let alone earnings. On the private side, the median EV/EBITDA multiple for buyouts was 12.7x through Q3 2020, tying its record high. Although debt/EBITDA multiples were slightly lower in 2020, we expect the use of leverage in 2021 to be propelled by low interest rates, strong demand for high-yield debt, and a surfeit of dry powder in direct lending funds.

Second, buyout funds are increasingly targeting growth-stage technology companies that tend to trade at much higher multiples of earnings than the traditional PE target. For example, software specialist Thoma Bravo acquired UK-based cybersecurity firm Sophos for about 46x the trailing 12 months (TTM) EBITDA in January 2020, an eye-popping figure that is becoming more common. Many of these internet-native businesses have seen bottom-line improvements from the accelerated move to a digital economy during widespread lockdowns. Even if pricing stays the same for most businesses, a higher proportion of buyouts taking place in sectors such as software and biotech should boost the proportion of deals taking place in this pricier range.

Caveat: If the world quickly goes back to normal after a COVID-19 vaccine arrives, we would expect to see multiple compression for those businesses that have benefitted from the lockdown, thereby decreasing the number of deals completed above this threshold. Alternatively, the COVID-19 pandemic could worsen, dampening not just economic activity but also the appetite for riskier assets more broadly.

14: These are two of our six 2021 US PE outlooks. To read the remaining four, and to see how we scored on our predictions last year, please read our 2021 US PE Outlooks.

GP stakes deal activity (#)



Source: PitchBook | **Geography**: US
*As of November 22, 2020

Prediction: There will be at least one new type of exit from a GP stakes portfolio in 2021.

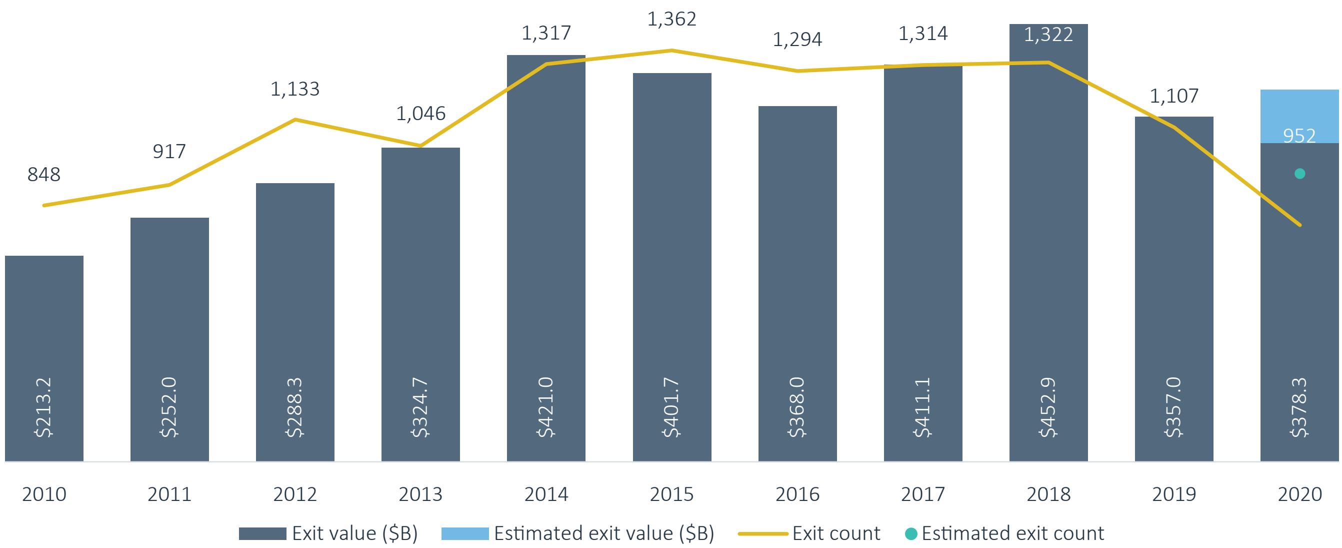
Rationale: There have been more than 100 GP stakes deals in recent years with innovation centering around deal types and target GPs, although the innovation on the exit side has been lacking. Pricing in the GP stakes market remains competitive, and the specialized PE firms will be looking to capitalize on whatever is available to achieve the best outcome for fund investors. A lift in pricing, whether it be through a strip sale, securitization, portfolio public listing, or something else, will help with future fundraising efforts and potentially bring in more LPs.

Funds including Dyal II and Petershill II are getting older and to the point that LPs may pressure them for a liquidity option. Dyal and Petershill have proven to be first movers, and we believe all options are on the table. Dyal was reportedly seeking to complete a strip sale earlier in 2020, and our analysts have heard talks that one unnamed GP is looking to securitize an entire portfolio. The potential tie up between Dyal and Owl Rock (backed by Dyal), which intends to go public via a reverse merger with a SPAC, shows the appetite for exit innovation. We believe 2021 will be a year for ingenuity in GP stakes monetizations.

Caveat: There are several fine options for monetizing GP stakes already, including sales to strategics or other sponsors. The fear of the unknown may dissuade GP stakes firms from pushing the envelope. Additionally, the GPs that sold stakes to those funds may push back on certain exit options if they believe they would be adversely impacted (i.e., sold to a nonamenable party, publicly floated, or securitized).

Exits

US PE exit activity



Source: PitchBook | **Geography**: US

Note: In this report and going forward, we will be changing "IPO" to "public listing" to reflect the prominence of SPACs and direct listings. However, SPAC IPOs are not reflected in PE exit activity unless they merge with a PE-backed company. Additionally, we will be changing "secondary buyout" to "sponsor-to-sponsor transaction" to reflect the possibility of growth-equity backed firms being bought out by a new sponsor.

PE-backed exit value fared better than expected and ended up in 2020 despite deal counts falling YoY. In total, PE firms recorded 952 exits for a combined $378.3 billion—a decrease of 14% in count and an increase of 6% in value. While myriad GPs put sales processes on hold as the full effect of COVID-19 became clear in March and April, many of those same firms restarted the processes in late Q3 and into Q4 as marks recovered. Ellie Mae—a mortgage service software firm—was one of the sales that proceeded through the downturn and minted an astounding gain for Thoma Bravo in a short window. Thoma Bravo bought Ellie Mae for $3.7 billion in April 2019 and sold it for $11.0 billion to Intercontinental Exchange just a year and a half later. Reports suggest the buyout firm only put up $2.2 billion in equity, meaning the $7.3 billion in profit was more than three times its cost. Stories like this, where PE firms realize massive gains in a relatively short timeframe, are one reason LPs continue plowing capital into tech-focused PE firms.

The story of how Thoma Bravo built up the value so quickly illustrates how PE firms must employ strategies far beyond simple financial engineering if they hope to produce top quartile (let alone top decile) returns. The firm was able to bring existing Ellie Mae customers to a significantly higher pricing tier without measurably reducing Ellie Mae's 98% retention rate. Thoma Bravo also reorganized the workforce to ensure product managers and engineers spent more time in their primary roles while boosting headcount in less expensive labor markets outside of Silicon Valley.[15] The software specialist's playbook has led to other successful monetizations in 2020, including a $1.6 billion sale of PlanView to TPG and TA Associates in December, a $2.0 billion sale of Compuware to KKR-backed BMC Software in June, and two partial sales of Dynatrace that netted Thoma Bravo over $1.9 billion.[16]

Although the splashy Ellie Mae sale was the most substantial of the year, public listings made a comeback in 2020 and propelled exit value higher than was expected. Public markets had an incredible run in 2020, all things considered. The tech-heavy NASDAQ

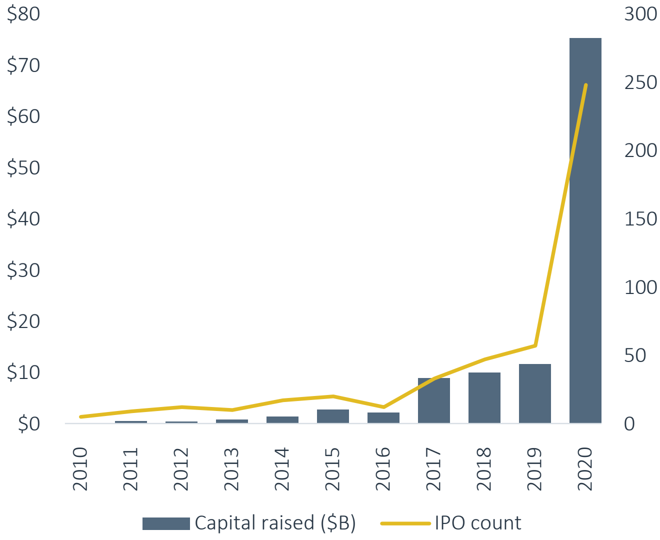
15: "Orlando Bravo Rides Software Deals to Heights of Private-Equity Industry," Wall Street Journal, Miriam Gottfried, September 22, 2020.
16: Thoma Bravo bought Compuware for $2.4 billion in December 2014. In 2019, Thoma Bravo carved out Dynatrace, a Compuware subsidiary, and took it public. Dynatrace's equity value is now north of $12 billion. Thoma Bravo then sold Compuware sans Dynatrace to BMC Software for $2.0 billion in June 2020.

was up over 40% on the year. Public listings were the preferred route for the largest exits in 2020, reflecting the arbitrage opportunity between multiples in public and private markets. In fact, eight of the 10 largest exits were public listings. The multiples spread between the S&P 500 and private markets have widened in recent years to 16 percent premium. Many of the largest exits were either directly tech companies or were primarily technology companies operating in other industries such as healthcare or financial services.

In several instances, public listings produced eye-popping returns in a truncated timeframe. For example, GoHealth—an online health insurance marketplace—went public in a listing that paid off handsomely for Centerbridge Partners, its PE backer. Centerbridge bought most of the company at a $1.5 billion valuation; just 10 months later, GoHealth went public at a $6.5 billion valuation. COVID-19 is expected to provide a tailwind to GoHealth as more Americans decide to purchase insurance online, according to its public listing prospectus. Although Centerbridge's 4x+ payoff in under a year was impressive, TA Associates and Carlyle produced even more substantial profits with their ZoomInfo investments. Based off ZoomInfo's closing $49.68 share price as of June 23, Carlyle bagged a 13x return in just over a year. TA Associates' holding period was markedly longer—it originally bought ZoomInfo for $90.0 million in May 2014—but the reports peg the firm's investment return at an astounding 80x, marking the largest gain in the PE firm's history. Lucrative payoffs such as these mean we may see even more competition from specialist and generalist managers for technology assets in the future.

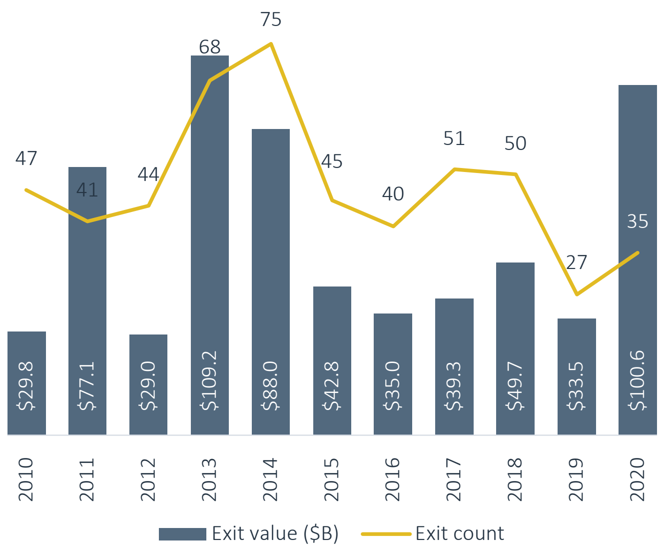
In addition to spurring a public listing comeback, roaring public equity markets made 2020 the year of the SPAC. These blank check companies raised more capital than in the previous decade combined. Well over 250 SPACs were launched on US markets in 2020. SPACs, like public listings or direct listings, allow private companies to publicly list, but they have some distinct advantages; some have deemed this a form of regulatory arbitrage. The lengthy public listing roadshow is avoided when a company chooses to go public through a reverse merger with a SPAC. These transactions are more akin to acquisitions, allowing for a swifter entry to public markets. Deals with SPACs also allow the target company to put forth forward revenue guidance, which is a violation of SEC regulations for companies listing with an IPO. This is a distinct advantage for companies wishing to be valued off future growth expectations or with lower leverage profiles. However, there are also tradeoffs. SPACs used to carry a more negative connotation as few institutional players typically dabbled in the space, and they were dismissed as a disreputable Wall Street relic. This is because SPAC sponsors are awarded founder shares, which usually equates to 20% of the SPAC size and expire after two years. This expiring option meant that many sponsors sought deals no matter the price or valuation, and the shares of SPACs often dramatically underperformed public listings because of it. The promote has come under scrutiny during the current SPAC boom and "has prompted the SEC's Division of

US SPAC IPO activity



Source: PitchBook | **Geography**: US

US PE-backed public listing activity

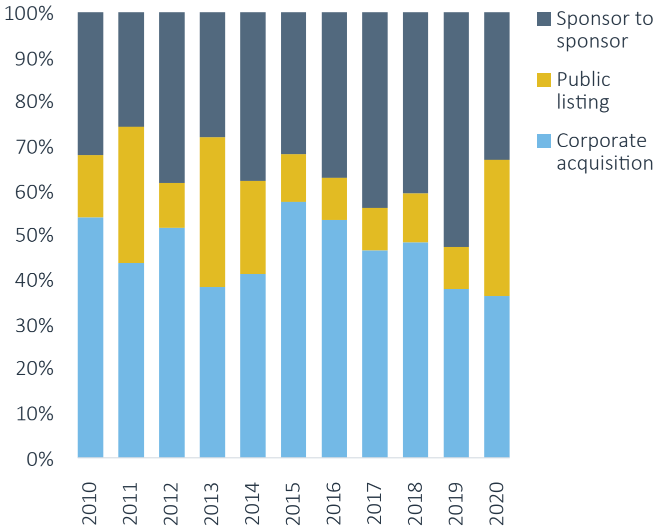


Source: PitchBook | **Geography**: US

Corporation Finance (CorpFin) to issue CF Disclosure Guidance: Topic No. 11, Special Purpose Acquisition Companies, and highlights the importance of good disclosures regarding the motivations of those involved in the transaction and particularly the compensation and incentives of the sponsors," according to Carlos Ferreira, national managing partner, private equity, at Grant Thornton. Despite all these potential concerns, public markets showed unbridled enthusiasm for blank check companies, and they are now sitting on record dry powder levels. According to LUMA Partners, SPACs typically merge with companies five times their size,[17] meaning the $75 billion+ raised in 2020 equates to approximately $375 billion in buying power, more than US PE and VC firms raised in 2020, combined.

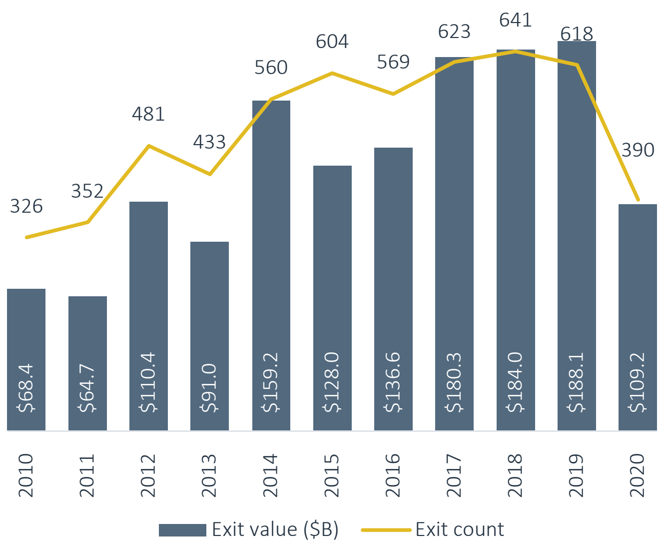
With this massive influx of capital comes choice for private companies. All else being equal, companies are likely to prefer working with higher quality, institutional SPAC sponsors. This has improved the quality of SPAC sponsors and has meant that higher quality private companies have also decided to merge with SPACs. PE firms, known for their valuation sensitivities, had typically stayed away from SPACs until 2020. Some, such as the Gores Group, had raised SPACs in the past, but many firms steered clear from merging their portfolio companies with SPACs. 2020 changed that as well. Hellman & Friedman-backed hedge fund GCM Grosvenor went public via a reverse merger with a Cantor Fitzgerald SPAC in August. In the following months, HydraFacial and Owl Rock Capital Group—both PE backed—would announce their intent to publicly list through reverse mergers with SPACs. Blackstone and CVC—often seen as bellwethers for the PE industry in the US and Europe—have also jumped into the fray, setting up Paysafe to go public via a SPAC transaction valuing the company at $9.0 billion. The PE firms reportedly stand to more than triple their money on the investment and will roll significant equity into the newly public entity. As PE firms and higher quality SPAC sponsors continue to make up a higher share of the capital raised, we believe more GPs will choose to publicly list portfolio companies through SPACs in the coming years.

US PE exit activity ($) by type



Source: PitchBook | **Geography**: US

US PE sponsor-to-sponsor exit activity



Source: PitchBook | **Geography**: US

Despite public listings and SPACs having a banner year, the pandemic sent sponsor-to-sponsor exits off a cliff in 2020. The year saw GP exits to other GPs totaling approximately half the value of 2019 and drop to 33.6% of overall PE exit value, even as the median sponsor-to-sponsor exit size continued climb. This reverses the recent trend in which sponsor-to-sponsor deals became more popular exit options, growing from 31.9% of exits in 2015 to an all-time high of 52.7% in 2019. During that period, stores of dry powder spurred competition for high quality targets, prompting private equity buyers to pay lofty premiums. Furthermore, the proliferation of add-ons and the operational intensity of buyout firms means they act more like strategics—often outbidding non-sponsor-backed bidders. This year, though, saw a pricing

17: "SPAC LUMAscape," LUMA, ND.

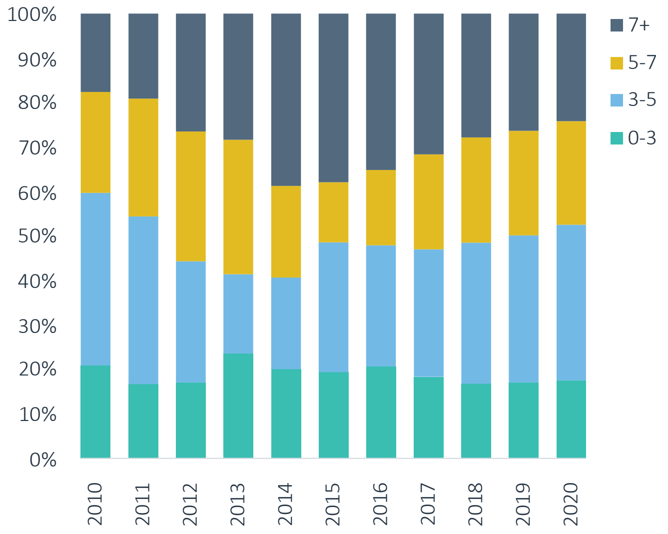
mismatch as bid-ask spreads widened considerably. PE buyers looked for deals in an uncertain environment, but PE sellers tried to avoid exiting at depressed prices.

Despite the pricing mismatch for the bulk of the year, it appears that we have already passed the nadir in sponsor-to-sponsor activity. A handful of large deals late in the year propelled fourth quarter sponsor-to-sponsor exit values up to $49.1 billion, nearly 4x the third quarter result. Among them were three of the largest deals of the year, exemplifying key pandemic-era trends. In October, KKR sold Epicor to Clayton Dubilier & Rice (CD&R) for $4.7 billion, having purchased the enterprise software provider for $3.3 billion in 2016. The easy scalability and "sticky" revenue of enterprise software has made it an increasingly attractive private equity target during the downturn, including for generalist firms like CD&R. In December, Silver Lake, Spectrum Equity, and Permira sold their stakes in DNA testing company Ancestry to Blackstone at a $4.7 billion valuation; minority investor GIC chose to retain its stake. The deal is the first out of Blackstone's record breaking eight flagship corporate private equity funds and continues the firm's trend toward deploying capital in areas of the economy with long tailwinds, such as DNA services and personalized medicine. AEA's announced sale in September of 1-800 Contacts to KKR for $3.3 billion also exemplified KKR's desire to wager on this rapidly growing market.

The median holding period remained approximately steady through 2020, although the composition was slightly altered. Long held assets (7+ years) accounted for a diminished proportion of exit activity compared to recent years, prolonging a trend that began in 2015. However, there were notably fewer exits in 2020 compared to previous years. The same story played out during the GFC where holding times were relatively flat as exit count cratered and then extended considerably over the next five years. While we do not believe holding periods will be as affected by COVID-19 as they were post-GFC, it is likely that holding times will tick upward in 2021 and 2022.

The calculus behind how PitchBook calculates holding periods became murkier during 2020, as a swelling number of investors chose to hold onto minority pieces of a company post exit. As previously mentioned, GIC retained its minority stake in Ancestry.com after its sale. Thoma Bravo also decided to maintain a minority position in Planview after agreeing to sell the company to TA Associates and TPG at a $1.6 billion enterprise value. In

PE holding periods (#) by exit year



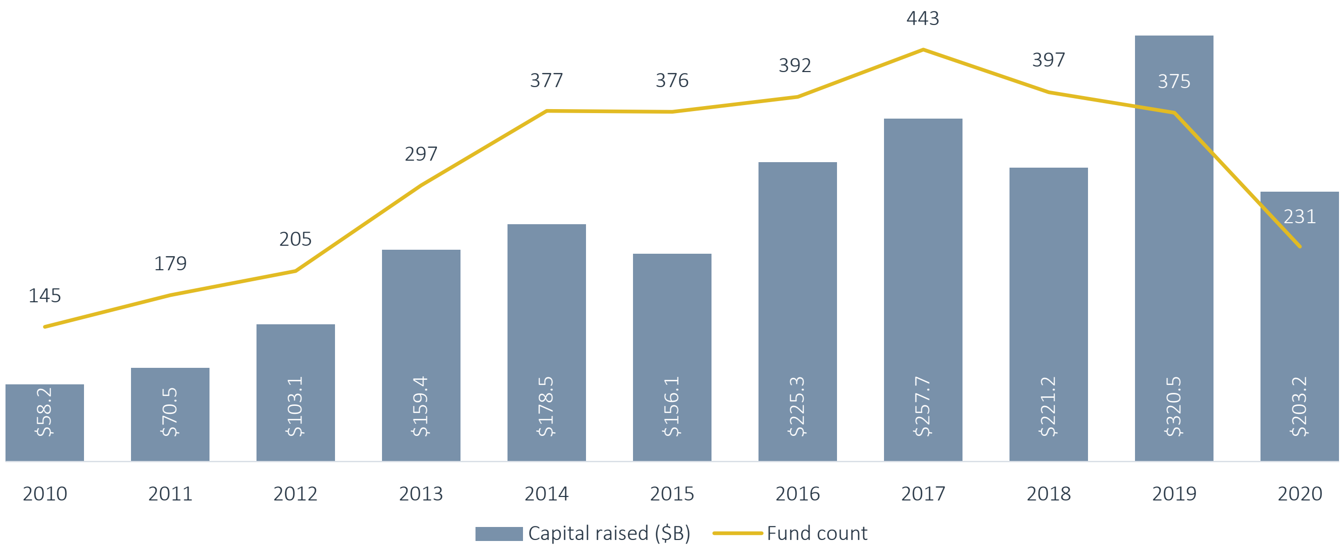
Source: PitchBook | **Geography**: US

fact, Planview's previous owner, Insight Partners, also retained a minority stake in the company when it sold the company to Thoma Bravo in 2017. Retaining a minority stake in portfolio companies allows PE firms to retain some upside in the portfolio company they are exiting while returning a significant chunk of capital to LPs. Other options for a partial return of capital, such as dividend recaps, were also prevalent during 2020 and are likely to continue playing a significant role in returning capital to LPs.

PE fund monetizations can take on other forms besides full exits, including secondaries transactions. The secondaries market, which we typically segment into LP-led and GP-led, has boomed over the past decade as the stigma around exiting funds early diminished. Secondaries play a vital role in LP portfolio construction and maintenance. GP-led secondaries transactions—whereby a GP rolls one or more portfolio companies into a new special purpose vehicle (SPV) and allows LPs to opt in or cash out—have proliferated as GPs sought to push out the traditional exit timeframe. Although these transactions will not show up in our exits data because they are not company sales, LPs should be aware of how their presence impacts holding times and the liquidity of PE funds. As this segment of the market continues to balloon, it will have even greater influence over the exit environment and give LPs and GPs more exit options.

Fundraising

US PE fundraising activity



Source: PitchBook | **Geography**: US

US PE fundraising dipped in 2020, although the amount of capital raised appears reasonable given the pandemic-related difficulties of fundraising. In total, PE firms closed on 231 funds for a total of $203.2 billion—YoY declines of 38.4% and 36.6%, respectively. Back in December 2019, before the market was aware of the COVID-19 virus, our PE outlooks predicted a fall in fundraising for 2020 as many of the largest funds closed in 2019, marking a record-breaking year. And while fundraising was down in 2020—in part due to both a lack of mega-funds and virus-related issues—US PE firms closed on a healthy amount of capital, all things considered. After the initial shock of a country-wide lockdown in March began to wear off, established PE firms including KKR and Blackstone reported healthy fundraising figures where due diligence had been conducted via video conferencing. Many limited partners believed 2020 vintage funds will produce outsized returns akin to 2009 vintage funds and thus sought to quickly allocate capital. However, much of the capital raised focused on distressed or special situations credit funds. By the time buyout managers thought to launch an opportunistic fund, raise capital, and then deploy it, the opportunity set had mostly dried up. For example, one of Cohen's clients raised a distressed fund focused on the lower middle-market in the spring of 2020 and had not completed a single deal out of the fund as of early January 2021.

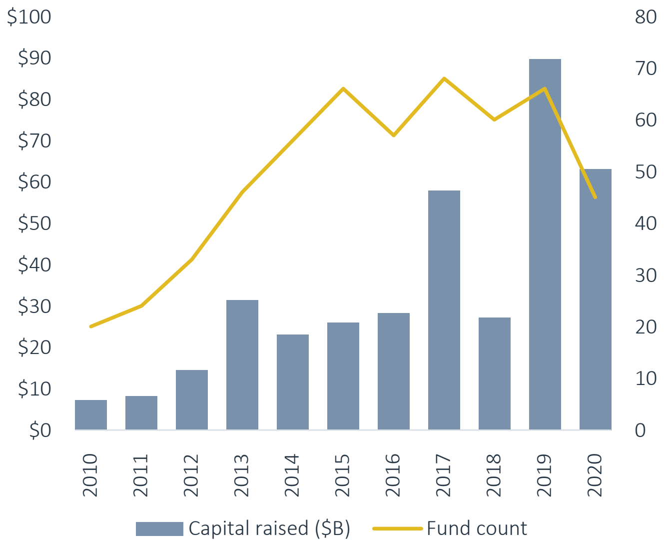
Most of the PE funds raised during the year had been planned pre-pandemic, and LPs re-up with established managers rather than risk placing capital with lesser-known entities. Similar to 2019, $5 billion+ vehicles amassed approximately half of the capital raised in 2020, but just 10 of these funds closed. Perhaps the most noteworthy massive fund closure belonged to Thoma Bravo. The software-focused buyout shop secured a combined $22.8 billion across three separate funds, including $17.8 billion in its flagship Thoma Bravo Fund XIV. The two smaller funds—Discover Fund III collected $3.9 billion and Explore Fund tallied $1.1 billion—will run parallel strategies in the middle and lower middle markets.

While Thoma Bravo's substantial fundraising effort dwarfs other 2020 closures, the $22.8 billion simultaneously collected across three funds is emblematic of the broader trend of LPs continuing to plough money into technology-focused funds. Although the pandemic took a toll on fundraising most generally, it may have been a boon for the largest technology-focused GPs. Fundraising in this sector was robust in 2019, driven by headlining numbers from Thoma Bravo and Vista Equity Partners. While failing to reach 2019's heights, 2020 US technology fundraising did surpass every other year on record, totaling $63.1 billion across 45 funds. Capital raised in technology-focused 2020 vintage funds will be more concentrated than ever before, as average technology fund size hit an all-time high. As technology valuations rise, large funds may be better positioned to invest in the most desirable targets.

In addition to Thoma Bravo's $22.8 billion haul, 2020 produced several mega-fund closures. In April, Insight Partners secured $9.5 billion for Insight Venture Partners XI, a software-focused growth fund that looks to write checks between $10 and $350 million. Insight Partners began fundraising for this vehicle in 2019 but was able to close at the height of the pandemic uncertainty. In June, Francisco Partners closed nearly $10 billion in fundraising across a trio of funds, including a $7.45 billion flagship that blew past its $5.5 billion target. In the secondaries markets, Francisco Partners IV, Silver Lake Partners IV, and Thoma Bravo Fund XI were among the highest-priced funds of the year, selling for 112%, 110%, and 110% of NAV respectively.[18] In 2021, we expect another technology mega-fund to close early in the year: As of August, Silver Lake Management had exceeded their $18.0 billion target for Silver Lake Partners VI, but the firm was reportedly still fundraising.[19]

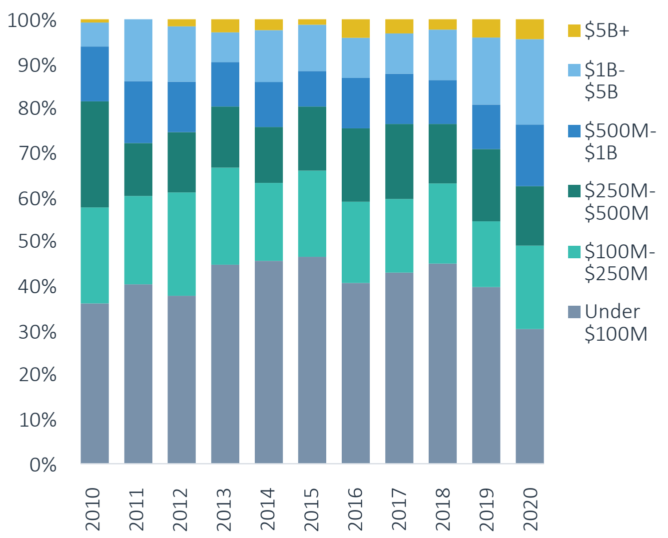
While mega-funds accounted for the lion's share of 2020 technology fundraising, it should be noted that smaller technology-focused funds are also seeing robust investor interest. For example, Accel-KKR's first small-cap fund, Accel-KKR Emerging Buyout Partners, was oversubscribed and hit its $640.0 million hard cap.[20] A pair of firms headed by Silver Lake alumni are also thriving with middle-market technology-focused funds. Sumeru Equity Partners, which solely invests in enterprise tech and SaaS, surpassed its $600.0 million target for its Sumeru Equity Partners Fund III to close on $720.0 million. LPs bet the firm's realization record would continue because each of the exits from Sumeru Equity Partners Funds I and II returned at least 4x Sumeru's invested capital, according to the Wall Street Journal as of November. Luminate Capital Partners is also raising a third fund, seeking $700.0 million. Although Luminate has not held a final close, the Washington State Investment Board approved a $150.0 million commitment to the fund in December 2020. Going forward, middle-market-sized, technology-focused PE firms will likely keep succeeding with fundraising as LPs try to establish relationships with the next Thoma Bravo, Silver Lake, or Vista.

US PE technology-focused fundraising activity



Source: PitchBook | **Geography**: US

US PE fundraising activity by size (#)



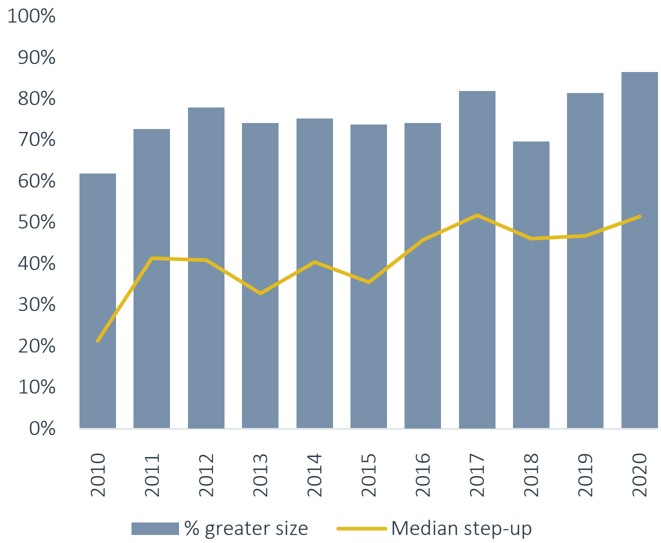
Source: PitchBook | **Geography**: US

18: "These Are the Most Popular Private Equity Funds in the Secondary Market," Institutional Investor, Christine Idzelis, December 21, 2020.
19: "Silver Lake Shoots Past $1.8bn Target for Fund VI, Private Equity International, Kirk Falconer, August 17, 2020.
20: "Accel-KKR Announces Close of $640 Million Emerging Buyout Partners LP Fund Focused on Small-Cap Software Companies," AKKR, October 29, 2020.

In 2020, the trend surrounding long-dated funds—which are meant to last longer than the traditional 10-year timeframe—appeared to continue its momentum. Not only did COVID-19 delay many exits and thereby lift holding times, but a pair of long-dated funds also hit meaningful milestones. Amassing $8.0 billion, Blackstone's Core Equity Partners II fund proved the most notable of the two. Blackstone joins KKR, Carlyle, and CVC as bulge bracket PE firms that have expanded into long-dated funds in the last five years. The fund's full $8.0 billion in commitments came during the pandemic and is around 70% larger than its predecessor, which illustrates investor demand for longer-life buyout funds. CalPERS' $1.0 billion commitment to the fund was significant, but the pension made an even heftier commitment to long-dated buyout funds in 2020: In September, CalPERS also seeded LongRange Capital, a new long-dated PE firm, with $1.5 billion for its first PE fund. LongRange is one of a few upstarts to target strictly longer holding periods. Altas Partners and Cove Hill Partners also closed on $1 billion+ long-dated funds in recent years. CalPERS often proves to be an industry bellwether, meaning other pensions with $50 billion+ in AUM may look to make similar allocations to long-dated funds in the future. The 10- to 15-year expected holding times also fit well with the multigenerational goals of many sovereign wealth funds (SWFs), endowments, and family offices.[21]

Some technology-focused specialists are also seeking to raise long-dated funds. Vista Equity Partners is pursuing at least $3.0 billion for its inaugural Vista Equity Partners Perennial long-dated fund, which Vista sells as its permanent capital strategy. As of late 2019, the fund had raised $1.5 billion. Silver Lake also forayed into longer-term funds with a unique tie-up with Abu Dhabi-based SWF, Mubadala Investment Company. Mubadala bought a minority equity stake in Silver Lake from Dyal Capital Partners, while Silver Lake and Mubadala initiated a 25-year strategy supported by the SWF's $2.0 billion investment. Although other partnerships may take different forms, we foresee sophisticated institutional investors pursuing sizable commitments to longer-dated PE funds in the years to come.

Step ups and % of funds that were larger than previous



Source: PitchBook | **Geography**: US

Despite Blackstone's and Silver Lake's windfalls, not every firm pursuing long-dated funds is triumphing. BlackRock Long-Term Private Capital fund's target had to be scaled back from $12.0 billion to between $4.0 and $6.0 billion, of which it has already raised $3.4 billion, according to reports.[22] The fund has witnessed executive-level turnover and may have been too lofty of a target for the firm's initial attempt at buyouts. These funds are one solution to the trend of holding high-quality companies longer. There has also been a concurrent rise in GP-led secondaries deals and firms. These specialized transactions allow GPs to extend the holding time by an average of 3-5 years for one or a basket of portfolio companies by rolling them into a new SPV. LPs in the fund typically get the option to cash out or continue holding their stakes.

21: "BlackRock Scales Back Private-Equity Fund Ambitions," The Wall Street Journal, Dawn Lim, January 1, 2021.
22: Ibid.

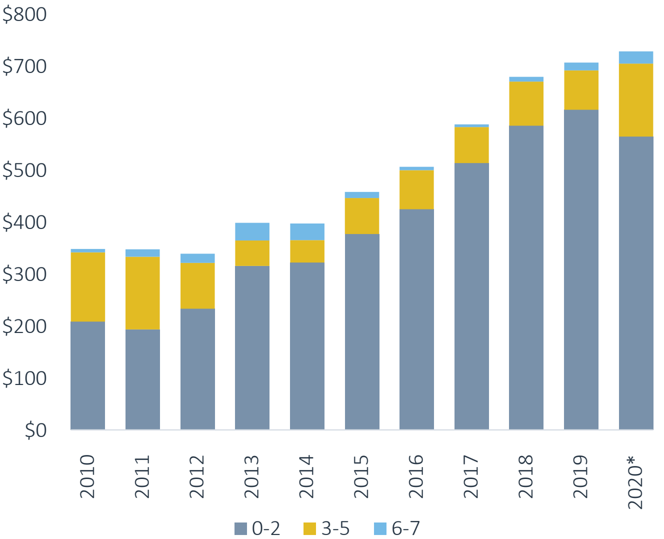
Select list of US PE funds to close in 2020

FUND NAME	CLOSE DATE	FUND SIZE ($B)	FUND LOCATION
Thoma Bravo Fund XIV	October 26, 2020	$17.8	Chicago, IL
Platinum Equity Capital Partners V	January 7, 2020	$10.0	Los Angeles, CA
Insight Venture Partners XI	April 3, 2020	$9.5	New York, NY
BDT Capital Partners Fund III	May 12, 2020	$9.1	Chicago, IL
Blackstone Core Equity Partners II	October 26, 2020	$8.0	New York, NY
GTCR Fund XIII	November 10, 2020	$7.5	Chicago, IL
Francisco Partners VI	June 2, 2020	$7.5	San Francisco, CA
Clearlake Capital Partners VI	March 30, 2020	$7.1	Santa Monica, CA
Trident VIII	January 14, 2020	$7.0	Greenwich, CT
Atlantic Park Investment Fund	April 1, 2020	$5.0	New York, NY
Blackstone Life Sciences V	July 9, 2020	$4.6	New York, NY
Thoma Bravo Discover Fund III	October 27, 2020	$3.9	Chicago, IL

Source: PitchBook | **Geography**: US

GP stakes funds, most of which expect holding periods longer than a decade, have also prospered in recent years. Dyal, the world's largest GP stakes player, seeks to raise $9+ billion for its fifth flagship fund, while Petershill and Blackstone are currently in the market for another round of funds, each targeting $4.0 billion. SEC documents reveal that Blackstone has already amassed more than $3.5 billion for this effort. Smaller firms are also jumping into the space. As of December 2020, Bonaccord Capital Partners has raised more than half of its fund's $1.0 billion target, according to sources familiar with the matter. Current fundraising figures for Stonyrock Partners' $1.0 billion fund are unavailable, but Investcorp Strategic Capital Partners, which seeks $750.0 million, has wrangled $160.0 million, according to public documents. Two other sizable players seeking outside capital include RidgeLake Partners, which has secured $500.0 million in seed capital from its parent organizations, and Hunter Point Capital. We expect RidgeLake's fundraising goal to be $1.0-$1.5 billion, while rumors suggest Hunter Point may attempt to secure $2.0-$3.0 billion. Although every firm in the space except Dyal appears to have faced a somewhat challenging fundraising environment in 2020, the broader acceptance by LPs and PE firms of decade-plus holding times and a desire for a differentiated income stream may continue to attract LPs to this niche.

US PE dry powder by age ($)

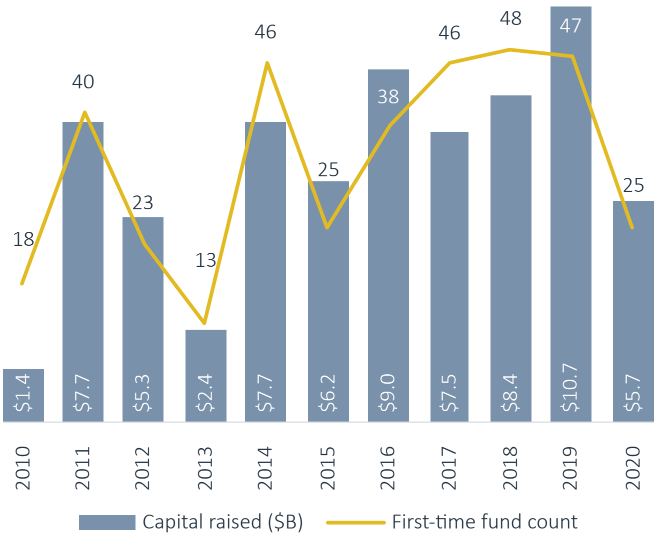


Source: PitchBook | **Geography**: US
*As of March 31, 2020

First-time funds also faced an uphill fundraising battle in 2020, as business travel ground to a halt during the pandemic. First-time managers posted their lowest fundraising numbers since 2013, raising 25 funds totaling $5.7 billion. However, the narrative around first-time fundraising difficulties appears to be overstated. To be sure, anecdotal conversations with first-time managers and the institutions looking to allocate to them indicate that many decisions have been delayed until 2021, but first-time funds accounted for approximately 10% of funds raised in 2020, a figure proportionate to the preceding five years. This suggests that LPs' strong appetites for developing relationships with the top-performing managers of tomorrow has not waned. Family offices, which typically finance the largest portion of a debut manager's fund, were active in 2020. Although Bonaccord Capital Partners did not hold a final close in 2020, the firm established a valuable partnership with multifamily office CAZ Investments, which committed up to $250 million to Bonaccord's fund. Despite the difficulties posed by restricted face-to-face due diligence meetings, the value propositions offered by first-time funds remain unaltered by 2020's upheaval. On average, first-time funds perform better than follow-on funds for several reasons. The stakes are higher for managers seeking to build a track record from scratch, and managers' attention is not diverted by legacy investments. Some socially conscious LPs are seeking to invest with more diverse fund managers, who tend to be better represented in first-time funds.[23] For these reasons and more, our 2020 PE outlooks predict that first-time fundraising will rebound in 2021 to the highest levels since the GFC.

GPs are also looking for capital with a longer duration. This move has led some of the largest players, including Apollo Global Management and KKR, to acquire insurance companies or assets off their balance sheet to invest the float. Insurance companies provide a new and unique source of capital to these managers. Apollo, the clear leader in this space, tacked on nearly $100 billion in AUM in 2020, largely due to acquisitions by insurance companies that Apollo effectively controls. Athora acquired VIVAT, while Athene closed a deal with Jackson National. Approximately 60% of Apollo's AUM now consists of permanent capital. KKR is expected to close on Global Atlantic in 2021, which should boost the firm's AUM by more than $70 billion.

US PE first-time fundraising activity

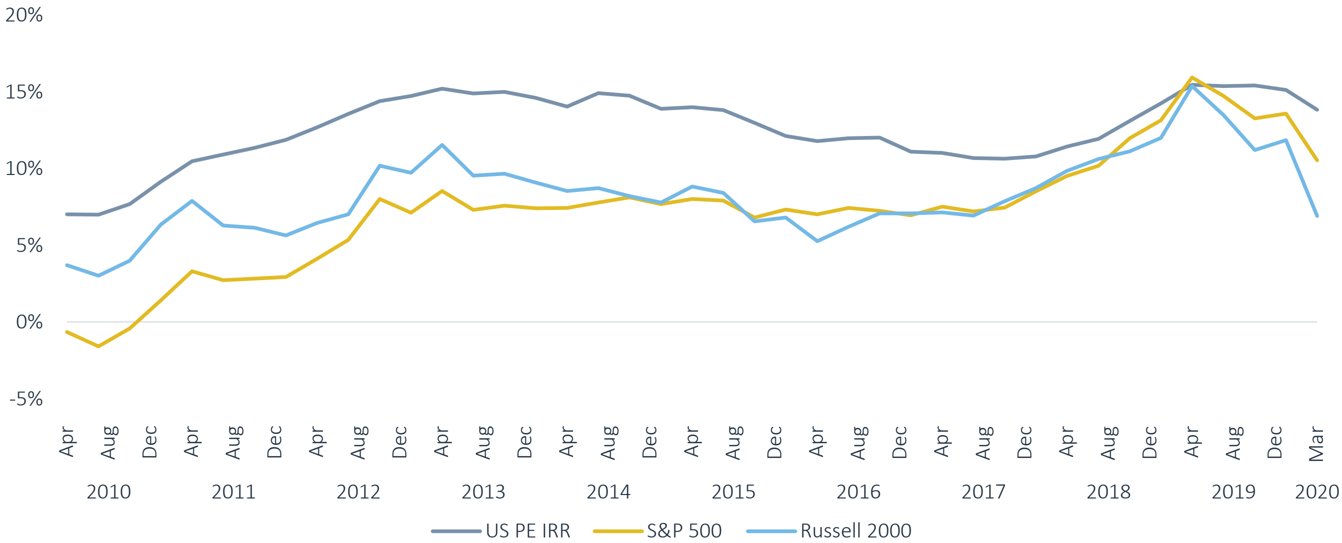


Source: PitchBook | **Geography**: US

Blackstone, meanwhile, has approached the permanent capital strategy from a different angle. The firm performed a unique recapitalization of BioMed Realty in Q3 2020, which valued the company at a gargantuan $14.6 billion. In fact, the transaction netted Blackstone the third-most profit on a single deal in the firm's history. Interestingly, BioMed was not sold. Rather, Blackstone rolled the company into a new perpetual life vehicle that allowed LPs to continue holding their stakes. Importantly, this kept a colossal and growing asset under Blackstone's stewardship. Just a few months later, Blackstone purchased $3.45 billion worth of medical research properties from Brookfield and combined them with BioMed in December. The combined entity was valued at approximately $20 billion.[24] The importance of this single transaction lives in its potential implications on fundraising and AUM in the coming years. Blackstone, or any of the other 30+ bulge bracket PE firms, could use this same approach to portfolio companies outside of the real estate sphere as well. These types of deals could allow GPs to collect management and performance fees on high-quality assets long after the traditional 10+1+1 lifespan of a buyout fund. Depending on its success and buy-in from the LPs, this is an area that has the potential to significantly alter how these mammoth PE firms approach liquidity for select assets.

23: "How a Diligent LP Finds Overlooked Private Equity Opportunities," Institutional Investor, December 7, 2020.
24: "Blackstone Buys Portfolio from Brookfield for $20bn Life-Science Real Estate Fund," IPE Real Assets, Richard Lowe, December 14, 2020.

Rolling 10-year return by asset class

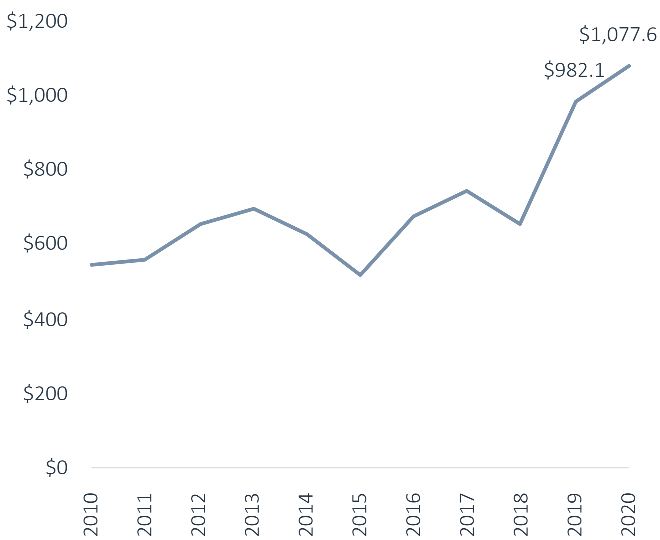


Source: PitchBook | **Geography**: US
*As of March 31, 2020

Another longer-term determinant of fundraising is the amount of outperformance LPs believe they can capture by allocating to PE. Relative to public markets, PE investors expect to earn premiums for illiquidity and the active management that PE firms bring to portfolio companies. Some academics now point to public equity indices outperforming PE over the past decade, during which US public equities have been on a tear. Although it is true that the rolling 10-year public equity market returns overtook PE in a recent quarter, PE performance has come with significantly less downside or variance. Furthermore, the benefits of PE in an institutional portfolio were on full display in the first three quarters of the year. When public markets went into freefall, PE firms marked their NAV down by just 6.4%. The result to the upside was similar, when the S&P 500 was up 20% in the second quarter, but PE returns lagged. PE can act as a ballast in these portfolios while delivering market-matching performance on the upside (as seen over the past decade) and less downward volatility in a crisis.

Public equity outperformance in recent years may even benefit PE fundraising in a roundabout way. As the public equity portion of the pie grows more quickly, institutional investors must rebalance away from the public part of the equity allocation and allocate to PE. This is known as the reverse denominator effect. Despite the discussion among academics, institutional investors do not appear dissuaded from investing in PE. In fact, an industry survey from Eaton Partners in December 2020 revealed that 57% of the respondents plan on

Average US PE buyout fund size ($M)



Source: PitchBook | **Geography**: US

Correlation between quarterly exit value and distributions

Source: PitchBook | **Geography**: US
*As of March 31, 2020

investing even more money in the asset class in 2021 with 43% planning to not make any allocation changes.[25] No respondents indicated a desire to cut allocations. Furthermore, 62% of respondents indicated that PE was the most attractive alternative asset class going into 2021. With interest rates hovering around all-time lows and the fixed income side of the portfolio struggling to produce a decent return, large investors are pushing into alternatives to try to help them hit their 5% to 7% annual return targets.

The dearth of exit activity in the first half of the year, which ought to lead to lower distributions, may impede LPs' ability to allocate to new funds because distributions from funds are typically rolled into new commitments. However, this appears likely to change going into 2021 as exit activity rebounded in Q3 and Q4. If exit activity continues through the early months in 2021 as many expect, this could provide LPs with ample capital with which to reinvest. Furthermore, dividend recap activity was fervent in 2020, meaning LPs could receive significant chunks of their capital back without a full exit taking place.

As we head into 2021, a healthy number of massive funds appear likely to close, with launches from additional GPs likely in the coming months. CD&R, Dyal, Silver Lake, New Mountain, and more kicked off fundraising efforts in 2020 for their mega-funds currently in market, and all are likely to close in 2021, given how long previous funds have been in market. Similarly, well-known managers, including Genstar and Quantum Energy, have launched new funds targeting $5 billion+. Genstar is seeking a combined $10 billion+ between two funds in a unique split. Genstar Capital Partners X is targeting $8.0 billion while an overage sidecar fund—which can be used to target larger deals—is seeking an additional $2.0 billion. Meanwhile, Quantum is targeting $5.5 billion for its QEP Public Opportunities Fund. Others, including KKR and Bain may also open new flagship offerings in 2021. We will be closely watching the fundraising environment and anticipate a fervent year.

25: "New Eaton Partners Survey Indicates High Expectations for Private Capital Market Performance in 2021," Eaton Partners, December 17, 2020.

Methodologies

Deals

PitchBook's PE deal data includes buyouts and PE growth investments. Only closed transactions, not rumored or announced deals, are counted.

Capital invested extrapolation

Capital invested is defined as the total amount of equity and debt used in the private equity investment. PitchBook's total capital invested figures include deal amounts that were not collected by PitchBook but have been extrapolated using a multidimensional estimation matrix. Some datasets will include these extrapolated numbers while others will be compiled using only data collected directly by PitchBook; this explains any potential discrepancies.

Deal and exit estimation

Due to the nature of private market data, information often does not become available until well after a transaction takes place. To provide the most accurate data possible, we estimate how much of this new information will become available in the next four quarters by calculating the average percentage change in deal flow over the trailing 24 months observed four quarters after the initial reporting cycle. We then add this estimate to the reported figure for the most recent four quarters. Both the original reported figure and the estimated figure are provided for your reference.

Geographical scope

Only transactions involving companies headquartered in the US are included.

Exits

PitchBook only tracks completed exits, not rumored or announced transactions. Exit value, like deal value, includes exit amounts that were not collected by PitchBook but have been extrapolated using a multidimensional estimation matrix. Unless otherwise noted, initial public offering (IPO) sizes are based on the pre-money valuation of the company at the time of IPO. We exclude exits in which the only PE backing was a PIPE.

Fundraising

Unless otherwise noted, PE fund data includes buyout, diversified PE, mezzanine, mezzanine captive, growth and restructuring/turnaround funds. Fund location is determined by specific location tagged to the fund entity, not the investor headquarters. Only closed funds are tracked. Mega-funds are classified as those that are $5 billion or more in size for the following fund categories: PE, real assets, private debt and funds-of-funds.