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AXIA

Issue 11 / December 2024

Contents

Private Equity Newsletter

SG Analytics' premier private equity monthly newsletter and your window to the latest trends, deals, and strategies reshaping the industry. Each edition of Axia will bring you an exclusive feature article and topical news developments with our experts dissecting critical topics, offering insights and commentary that go beyond the headlines.

The Silent Cost of PE in Healthcare

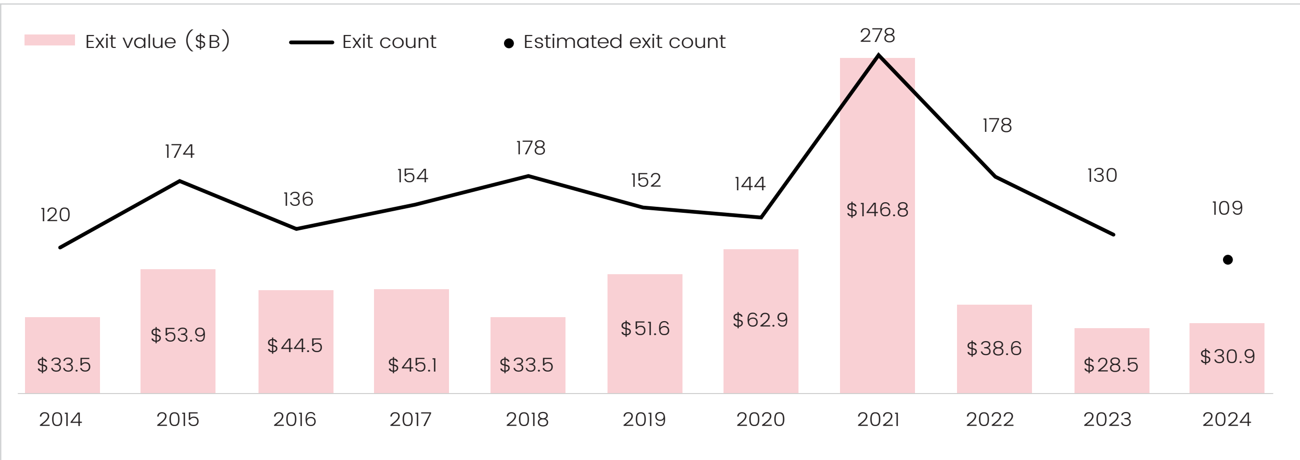
The dominant private equity (PE) firms in US healthcare have attracted heightened scrutiny owing to their aggressive profit-driven models. While PE investments claim to enhance efficiency, their profit-centric model has drawn mounting criticism.

Over the past decade, PE firms have made substantial investments in the US healthcare industry. Healthcare services led the list of US PE deals in 2Q24, accounting for over 60% of healthcare transactions, as per Pitchbook. Healthcare exits rebounded in 3Q24, with exit counts rising 144.5% QoQ, as per Pitchbook.

While PE investors are actively capitalizing on their existing investments, they are adopting a conservative approach to new healthcare investments. Healthcare US PE activity slightly declined in 3Q24, with YTD deal value at 11.1% and deal count at 13%, down from the 2023 level, as per Pitchbook. This indicates slow dealmaking in the sector, which reflects concerns over market volatility, regulatory changes, and valuation challenges.

PE-backed healthcare firms are increasingly declaring bankruptcy and routinely involve asset-stripping, averaging a loss of $28 million within two years after the acquisition, according to JAMA research.

Figure 1: Healthcare PE exit activity of the US



Source: Pitchbook, as of September 30, 2024

The Downside of PE-driven Healthcare

PE's short-term profit-driven approach has raised serious concerns about patient care, contributing to staffing shortages, poor working conditions, and job losses for medical workers. PE ownership is often linked to higher hospital charges, which drives patient expenses. For those unable to afford rising costs, PE health providers give medical credit cards and installment loans, which further adds interest on top of medical bills, contributing to medical debt crises.

Additionally, PE firms affect the financial stability of healthcare firms through the substantial use of debt for dividend recapitalization (recaps), especially during elevated interest rates and wide credit spreads. In June 2024, Ensemble, a PE-backed provider of revenue cycle management services for health systems, announced over $800 million in loans to fund dividend recaps. In March 2024, Medical Solutions was downgraded to B3-PD due to high debt after dividend recaps of $200 million in 2022 and $350 million in 2023.

Rising Bankruptcies

PE-backed healthcare firms are increasingly declaring bankruptcy and routinely involve asset-stripping, averaging a loss of $28 million within two years after the acquisition, according to JAMA research in July 2024. Additionally, in 1H24, PSEP tracked at least nine PE-owned firms that filed for bankruptcy, representing 23% of all healthcare bankruptcy cases.

Steward Health Care's bankruptcy in May 2024 underscores the risk of PE in healthcare, leaving 31 facilities in turmoil. Previously owned by Cerebus Capital, which profited $800 million, thrice more than its investment, Steward faced financial strain after it sold its property in 2016 and leased it back, leaving the hospital unable to afford critical supplies and maintenance.

Moreover, many PE firms are increasingly inclined toward distressed exchanges to defer insolvencies. At least six large PE-driven healthcare companies have completed distressed swaps in 1H24, with four of six firms receiving default ratings at Caa-PD. In early 2024, AccentCare completed a distressed debt exchange; however, in March 2024, Moody's noted that its high financial leverage will continue to remain high for the coming months, raising the risk of default. This suggests that even though companies have managed to defer bankruptcies using distressed exchanges, they still have obstacles ahead.

A Tide of Scrutiny

Owing to recent bankruptcies, PE-backed healthcare firms have gained attention from the press, the public, researchers, and authorities. California recently introduced Assembly Bill 3129 to strengthen the state's Attorney General in reviewing and ensuring that PE acquisitions protect patient care quality and affordability. However, Governor Newsom vetoed the bill on September 28, 2024, citing concerns over its redundancy with the current healthcare review role of the state's Office of Healthcare Access (OHCA).

A Connecticut Bill (H.B. 5319) aimed at restricting PE-backed control over healthcare facilities has been stalled in committee and is scheduled for review in early 2025. Other stalled initiatives, including Minnesota (HF 4206 in conjunction with SF 4392), are expected to be revisited next year. In contrast, states like Illinois, Indiana, and Nevada were able to enact regulatory bills, ramping up administrative oversight.

Future Take

The outlook for PE in healthcare faces several headwinds. Despite the recent Fed cut, interest rates remain relatively high, affecting refinancing, capital access, and valuations, ultimately creating financial pressures on PE-driven healthcare firms. The unwinding of Medicaid continuous enrollment in 2023 has further strained the system, leaving millions uninsured. As of July 2024, CMS reports Medicaid/CHIP enrollment has declined by 16% since March 2023. To assess future obstacles, PE must improve its internal governance and consult with professional societies, which aim to provide ethical guidelines to navigate and minimize potential issues of PE firms in the healthcare industry.

Conclusion

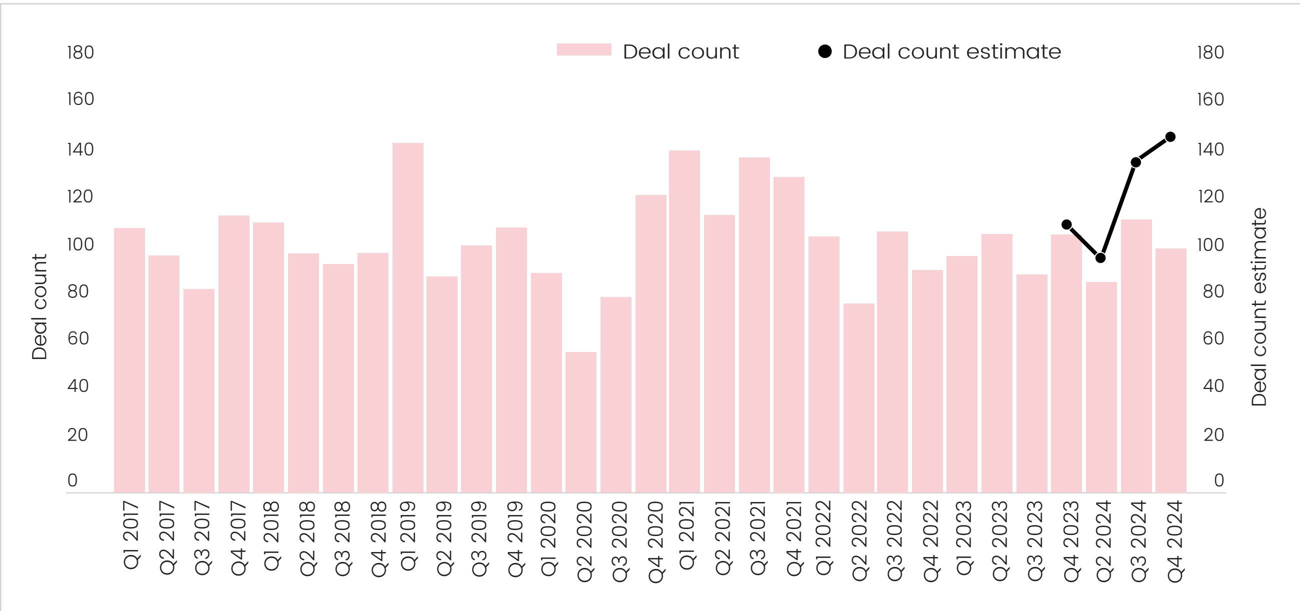
The longevity of PE in the healthcare industry, facing increased scrutiny, is being questioned because of negative patient outcomes and increased insolvencies. To eradicate the risks, PE firms must practice ethical standards that value patients' well-being over short-term profits. PE-backed healthcare firms must take appropriate measures to avoid public and legislative resistance, ultimately establishing credibility in the investment landscape.

Monthly News and Analysis

PE Exit Rate Struggles to Clear Inventory Backlog

According to PitchBook, in 3Q24, the food & beverage consumer packaged goods (CPG) sector recorded an estimated 149 deals, the highest quarterly total since 2017, surpassing 2Q's 138 deals. This sector saw a notable surge in PE activity despite economic headwinds, with 385 transactions recorded in the first three quarters of 2024, as per PitchBook.

Figure 2: Food & Beverage CPG deal count by quarter



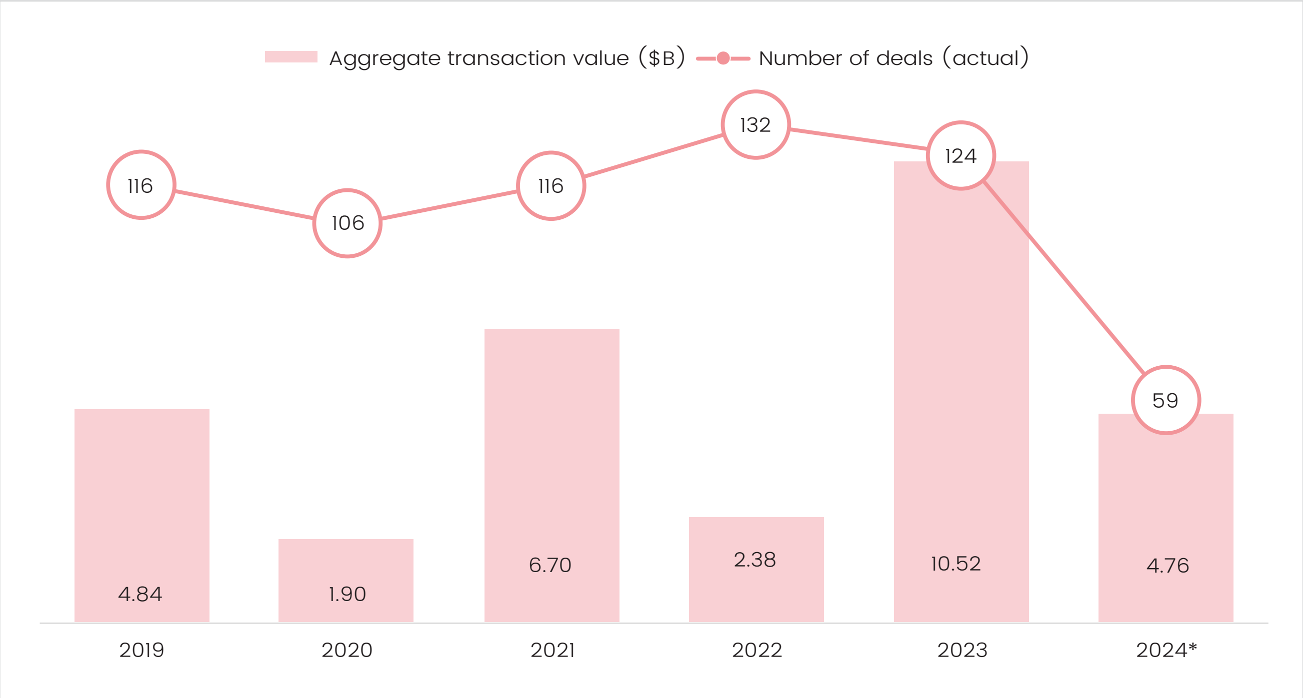
Source: Pitchbook, as of September 30, 2024

This sector's momentum has been largely driven by PE's growing focus on alcohol, baked goods, and co-packers. The market has shifted toward smaller deals, growth rounds, and add-on acquisitions rather than large buyouts, as firms target VC-backed companies to capitalize on rapid production innovation and shifting consumer preferences, as per Pitchbook. Celebrity brands have also emerged as a key driver of activity in this space. In mid-October, actor Tom Holland and John Herman launched Bero, a non-alcoholic beer brand, backed by Imagination Ventures and WME Ventures, demonstrating a growing celebrity interest in this sector. During the same period, Anderson Group, a Florida-based PE firm, acquired Double B Foods, a Texas-based producer of frozen food products, marking Anderson's 17th investment in the food & beverage sector since 2010. Although this sector offers opportunities, it remains unpredictable due to short-term cycles and changing consumer trends, making it a challenging era for PE firms. Concerns like tariffs, raw material costs, and policy uncertainties under the new administration will likely influence future strategies, despite the expected growth in deal activity as inflation and interest rates stabilize.

Declining Metal and Mining PE deals in 2024

According to S&P Global, PE and VC deals in the global metal and mining sector declined sharply in 2024, with a transaction value of $4.76 billion as of September 30, 2024, down over 50% from $10.52 billion in 2023. With only 59 deals announced, 2024 is on track for the lowest deal count in five years.

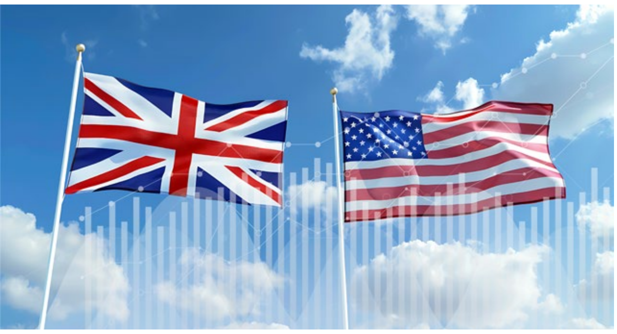
Figure 3: Global PE/VC investments in metal and mining sector



Source: S&P Global, as of September 30, 2024

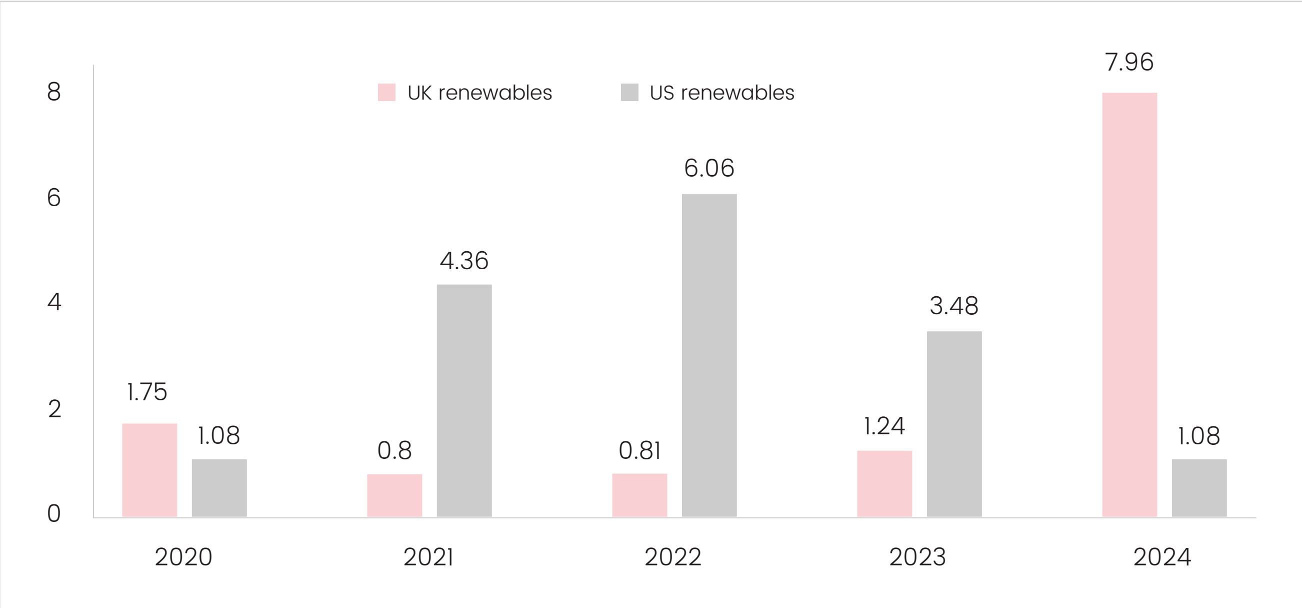
Elevated acquisition debt financing rates and declining VC investments are impacting the sector's deal activity in 2024. In contrast, 2023 benefitted from substantial transactions and interest from non-specialist investors, fueled by optimistic narratives around electric vehicles (EVs) requiring critical metals like lithium, nickel, and cobalt. This enthusiasm has waned in 2024, restricting deal momentum. Antti Gronlund, MD at Appian Capital Advisory, highlighted the sector's opportunities and challenges with the energy transition and infrastructure modernization driving metals like copper and zinc. Limited copper exploration and declining zinc production from existing mines poses significant obstacles to meeting future demand. Additionally, mining companies face escalating costs, higher capital needs, and extended permitting timelines, with mine development now averaging nearly 18 years. Despite these hurdles, the sector offers immense potential, with global net-zero goals driving an estimated $2.1 trillion in funding needs by 2025, as per Bloomberg NEF. Institutional investor confidence remains strong, encouraging optimism about the sector's resilience and long-term growth opportunities.

UK Outpaces US in PE Renewables Investment



PE and VC investments in the UK renewables surpassed US flows in the first nine months of 2024. UK renewables companies raised $7.96 billion YTD through September 30, 2024, exceeding the total of the previous four years and outpacing US investments during the same period, according to S&P Global.

Figure 4: Global PE/VC backed investments in UK and US renewables (in $billions)



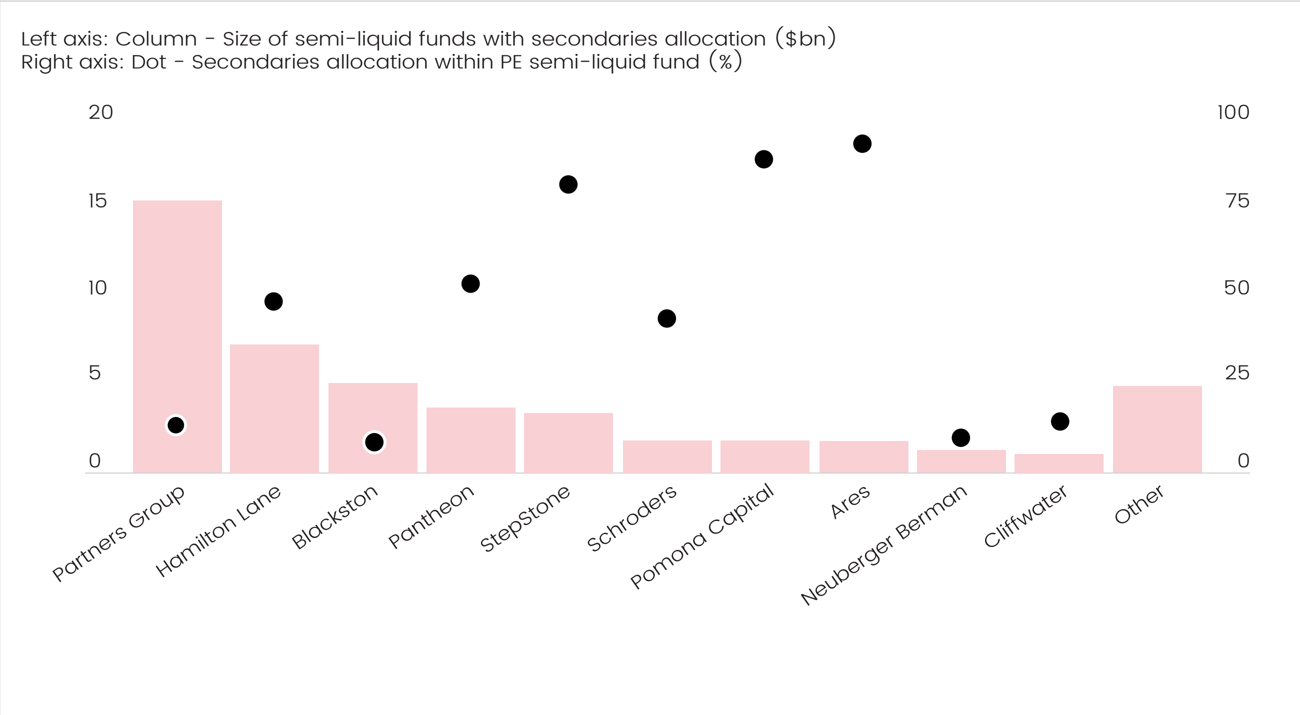
Source: S&P Global, as of October 9, 2024

Several strategic factors influence the notable influx of PE investment in the UK renewables sector. Energy Capital Partners' acquisition of Atlantica Sustainable Infrastructure for $7.87 billion, an outsized transaction in 2024, drove this surge and represented a substantial part of the UK's investment in this area. In comparison, the US renewables sector's largest PE investment in 2024 was $244 million in Fervo Energy, backed by Capricorn Investment Group, to accelerate geothermal energy deployment. The UK's robust policies supporting renewable energy and the growing interest in European clean energy projects continue to draw private capital. Meanwhile, investments in the US renewables sector have experienced a slowdown, totaling only $1.08 billion in the first nine months of 2024, compared to $3.48 billion the previous year, according to S&P Global. This reduction in investment pace reflects the market's anticipation of potential policy shifts following recent political developments. While the Inflation Reduction Act provides substantial incentives for renewable energy, the evolving political landscape will lead investors to adopt a cautious approach, favoring stable, predictable policy environments for long-term investments.

Rise in Evergreen Funds in Secondaries

According to an October 2024 Baird report, evergreen funds are expanding in the secondary market and are expected to reach $200 billion by 2034. In the same month, Apollo launched its two evergreen funds, S3 Private Markets Fund and S3 Private Markets Lux, offering diversified portfolios of multi-asset secondary investments in the private market.

Figure 5: Growing Secondaries Evergreen Market: Scaled Managers Launching Vehicles



Source: Baird

The secondary market is experiencing a surge in activity as evergreen funds reshape the landscape with unique advantages. These vehicles offer a replenishable capital base, allowing investors to stay engaged longer, while avoiding the frequent fundraising cycles of closed-end funds. Most recently, in mid-November, 2024, Pantheon launched the PGPE feeder fund and P-SECC, secondaries-focused evergreen funds to expand its global private wealth platform offerings. An October Baird report revealed that in 2024, evergreen vehicles managed approximately $50 billion in assets in the secondary market. During the same year, these funds raised $11 billion in fresh capital and invested $6 billion in secondary transactions, highlighting their growing role in the market. However, these structures also bring challenges, including administrative complexities and liquidity constraints which wealth investors must carefully evaluate. As evergreen funds continue to expand, their increased activity has also influenced pricing in LP-led deals, with some investments offering expected returns as low as 10–12%. This trend poses barriers for traditional buyers who aim for higher returns. As evergreen vehicles evolve, they are expected to offer a broader range of tailored solutions, further transforming the secondary market.

Key takeaways from Interact 2024: Blurring the Lines Between Public and Private Markets

In October 2024, prominent executives from alternative asset managers and insurers gathered at the Interact conference in New York for a panel titled 'Blurring the Lines Between Public and Private Markets'. Moderated by Darren Thomas, global head of lending solutions at S&P Global, the discussion focused on strategies for navigating public and private credit financing decisions.

Panelists highlighted the complexities of choosing between public and private financing, which often depends on a firm's growth stage and financial stability. Private markets are better suited for less developed companies lacking the scale or audited financials required for public issuance. As firms mature, the decision shifts, with public markets offering cost-efficient options but private credit providing stronger relationships, flexibility, and tailored solutions. Asset-backed financing, built on portfolios of loans, leases, and receivables, connects investors to tangible assets like credit cards, student loans, and auto loans, and has now extended to modern areas like data centers and private equity interests. While private credit has grown increasingly, some panelists noted that smaller private credit firms face risks due to concentration in specific sectors or companies. Larger firms benefit from greater diversification and stronger risk management. In conclusion, the growing collaboration between private lenders, public markets, and banks is reshaping the financial landscape, fostering innovation, competition, and long-term growth.

Deals Flash

River Associates Acquires ID Label

River Associates, a Tennessee-based PE firm, has acquired ID Label, an Illinois-based manufacturer of industrial labeling solutions. Founded in 1994, ID Label manufactures information barcode labels and warehouse signage for third-party logistics providers and multi-site manufacturers. This acquisition will enable ID Label to enhance its capabilities and broaden its market reach while maintaining its brand reputation and quality. This represents River Associates' third platform investment for 2024 and positions the firm to leverage ID Label as a platform for strategic add-on acquisitions.

Eagle Merchant Invests in AYA Medical Spa

Eagle Merchant Partners, an Atlanta-based PE firm, has invested in AYA Medical Spa, an Atlanta-based provider of medical spa services. Founded in 1998, AYA's team of experts provides a wide range of services, including neurotoxin and filler injections, clinical skin treatments, laser hair removal, and high-end retail skincare items. This investment will enable AYA to expand its presence across the US and pursue strategic acquisitions while continuing to deliver quality patient care. Further, this deal will allow Eagle Merchant to strengthen its portfolio in the multi-unit consumer sector.

Kingswood Acquires Branding Iron

Kingwood Capital, a Los Angeles-based PE firm, has acquired Branding Iron Holdings, an Illinois-based protein manufacturer. Founded in 1960, Branding Iron provides protein products, including beef and pork, focusing on frozen and refrigerated ground meats and serving food service, retail, and chain restaurant channels. This acquisition will enable Branding Iron to improve customer service across all channels and maintain its delivery standards. Further, it will allow Kingswood to drive growth by leveraging Branding Iron's manufacturing capabilities and established customer relationships.

Sagewind Buys Majority Stake in Aechelon

Sagewind Capital, a New York-based PE firm, has announced a majority investment in Aechelon Technology, a San Francisco-based provider of image generation software. Founded in 1998, Aechelon provides real-time computer graphics solutions for training, simulation, and visualization in defense and commercial applications, focusing on image and data generation products. This investment will enable Aechelon to scale its operations and achieve its growth prospects. Further, it will allow Sagewind to enhance military training through Aechelon's advanced simulation and visualization technology, driving innovation in defense training solutions.

MidOcean Acquires Arnott Industries

MidOcean Partners, a New York-based PE firm, has acquired Arnott Industries, a Florida-based manufacturer of suspension products for the automotive aftermarket. Founded in 1989, Arnott designs and manufactures quality aftermarket replacement air suspension products and accessories and serves a broad customer base, including wholesale distributors and national and local retailers. With this acquisition, Arnott aims to strengthen its leadership in suspension technologies by leveraging MidOcean's expertise in the automotive aftermarket, driving growth through organic initiatives and strategic acquisitions.

Charlesbank Invests in IMPLAN

Charlesbank Capital Partners, a New York-based PE firm, has announced an investment in IMPLAN Group, a North Carolina-based provider of economic analytics software. Founded in 1976, IMPLAN develops economic impact data and analytical software and serves corporations, energy companies, financial services organizations, governments, trade associations, real estate firms, and more. This deal will enable IMPLAN to expand its platform, enhance its offerings, and capitalize on market opportunities. Further, it will allow Charlesbank to leverage its SaaS expertise to support IMPLAN's growth and strengthen its market position in the economic analysis sector.

Highlander Exits McIntosh to Bose

Highlander Partners, a Dallas-based PE firm, has sold its portfolio company McIntosh Group, a New York-based high-end audio equipment manufacturer to Bose, a Massachusetts-based manufacturer of commercial audio systems. McIntosh Group, the parent company of the audio brands, McIntosh and Sonus Faber, is known for crafting premium amplifiers, speakers, and turntables with a focus on performance, refined design, and artisan manufacturing. This transaction will allow McIntosh and Sonus Faber to grow further and strengthen their position in the high-end audio market under Bose's ownership.

Odyssey Exits NSI Industries

Odyssey Investment Partners, a New York-based PE firm, has sold NSI Industries, a North Carolina-based electrical and HVAC products provider. Founded in 1975, NSI provides branded replenishment components for the electrical and HVAC markets across the US and Canada, with products distributed through national, regional, and local distributors. Odyssey initially invested in NSI in 2020 and supported 11 add-on acquisitions. This transaction will enable NSI to maintain its strong distributor relationships, enhance its operational capabilities, and build on its established market presence. Further, it reflects Odessey's efforts to broaden NSI's product portfolio through targeted acquisitions.

Court Square to Exit ADSG to Cardinal Health

Court Square Capital Partners, a New York-based PE- firm, will sell Advanced Diabetes Supply Group (ADSG), a California-based national distributor of specialized diabetes supplies to Cardinal Health, a Dublin-based distributor of pharmaceuticals and specialty products. Court Square initially acquired ADSG in December 2020. Founded in 2002, ADSG supports around 500,000 patients through a high-touch model, improving experience and compliance for patients, manufacturers, and payors. Once acquired, ADSG will join Cardinal Health's at-home solutions business, which serves over five million patients annually.

Littlejohn Acquires Sunbelt Modular

Littlejohn, a Connecticut-based PE firm, has acquired Sunbelt Modular, an Arizona-based manufacturer of modular solutions. Founded in 1976, Sunbelt offers various highly constructed structures for custom and fleet applications, serving a wide range of commercial end markets. This acquisition will enable Sunbelt to accelerate growth, expand its reach, and enhance capabilities while maintaining quality standards. Further, it will allow Littlejohn to capitalize on the growing modular construction trend, expand its portfolio in the building products sector, and scale Sunbelt's operations.

TRENDS AND STATS

November Middle Market Deal Summary

50.2%
of the deals were made in the Business Products and Services (B2B) sector

66.3%
of B2B deals were in Commercial Services

20.9%
of the deals were in the Information Technology (IT) sector

61.9%
of IT deals were in Software

California
experienced the highest dealmaking activity, followed by Texas

81.7%
of the deals were buyout deals

Figure 6: November Middle Market Deal Summary

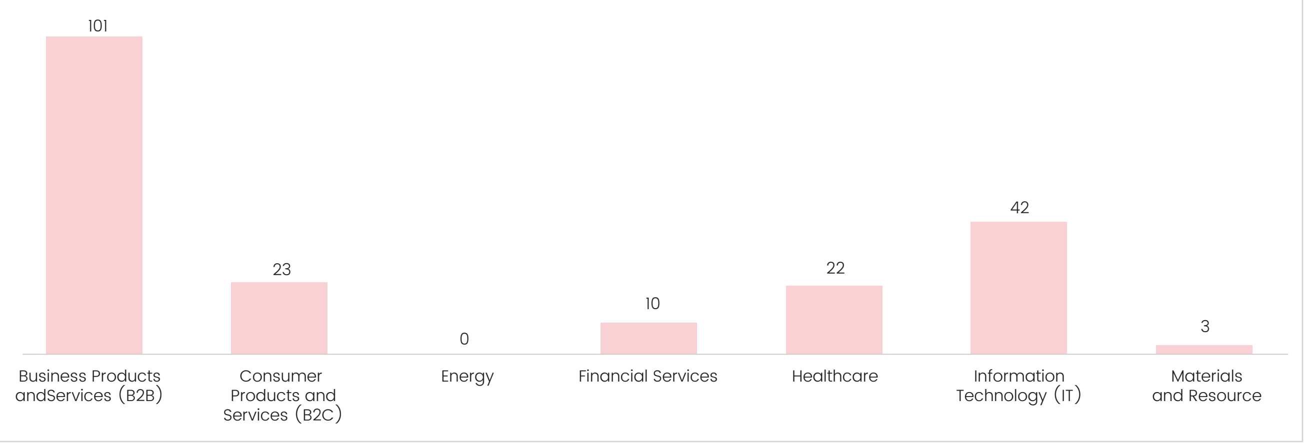


Figure 7: Consumer Products and Services

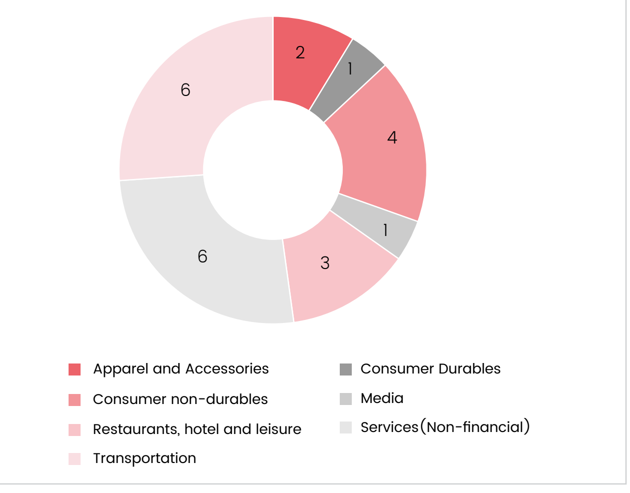
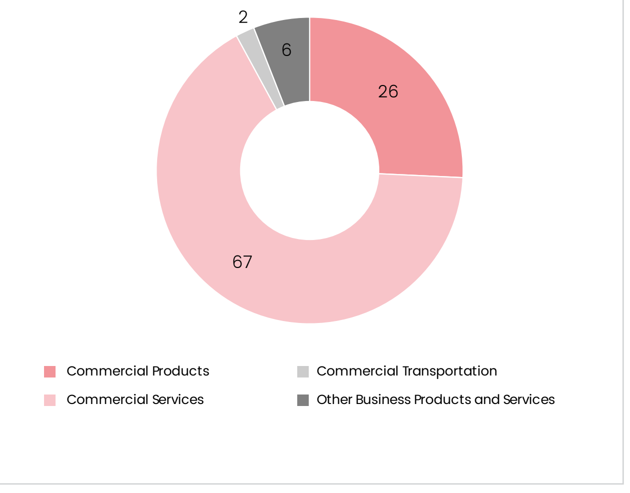


Figure 8: Business Products and Services

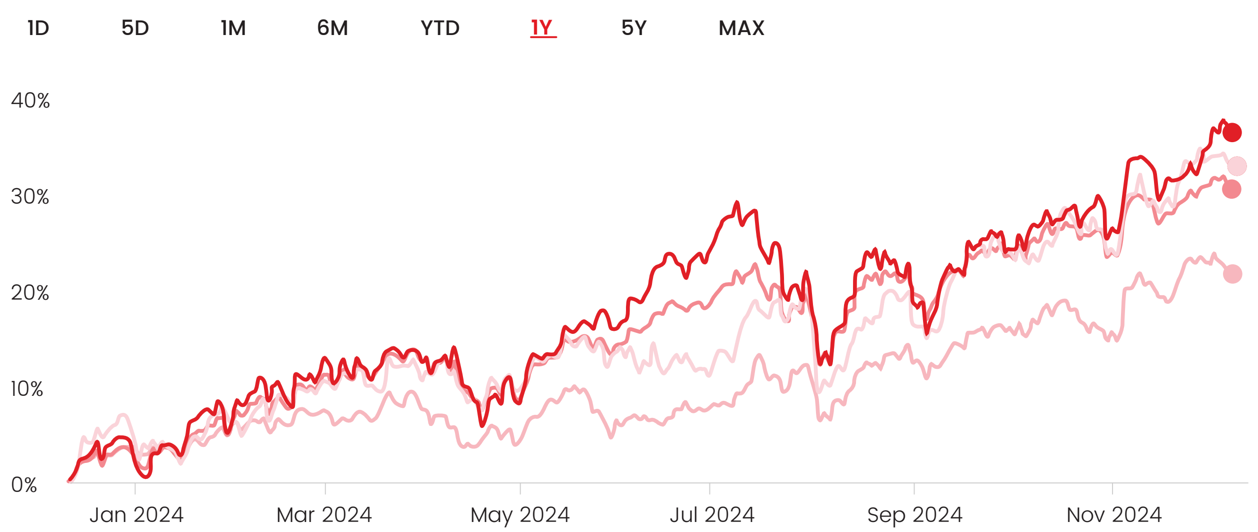


Source: SG Analytics Research

Note: This dataset specifically targets investor fund preferences within the $2–8 million EBITDA range. It is important to note that the summary focuses solely on these investor preferences and does not include details related to deal sizes.

S&P Listed Private Equity Index

Figure 9: S&P Listed Private Equity Index

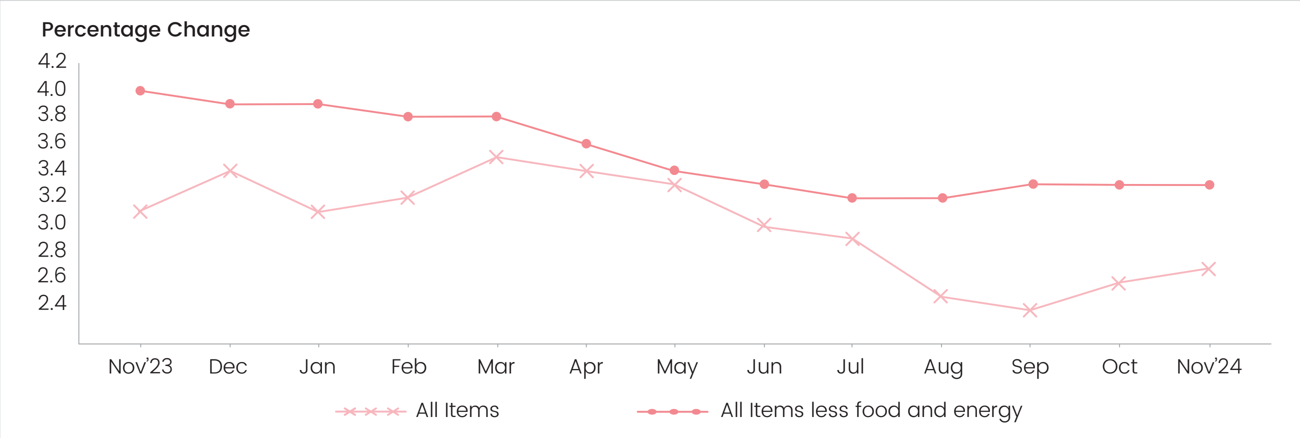


S&P Listed Private Equity Index	265.42	+65.43	32.72%
S&P 500	6,034.91	+1,412.47	30.56%
Nasdaq Composite	19,687.24	+5,254.75	36.41%
Dow Jones Industrial Average	44,247.83	+7,842.90	21.54%

Data as of December 11, 2024

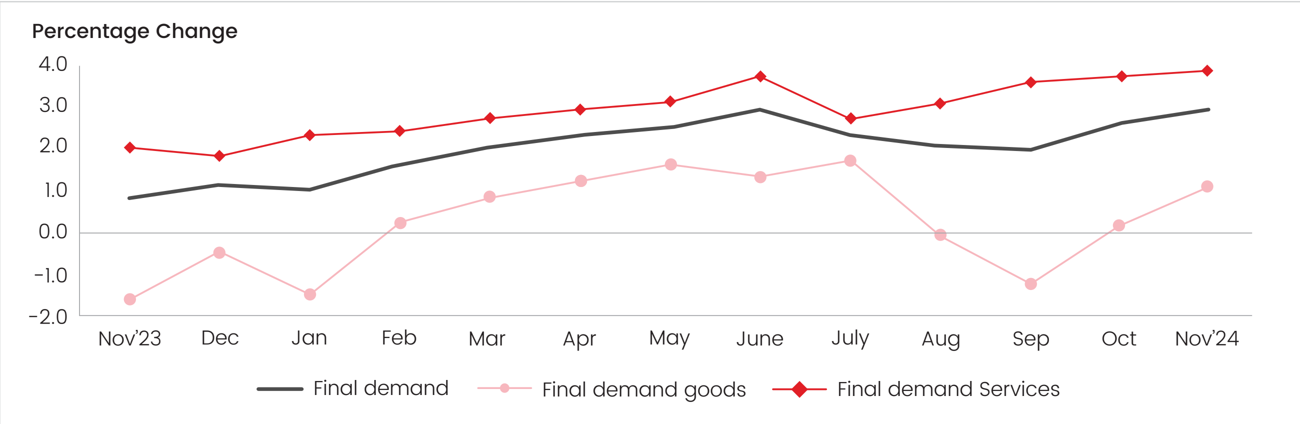
Index	Month-over-Month	YTD
Consumer Price Index	0.3%	2.7%
Producer Price Index	0.4%	3.0%

Figure 10: 12-month Percent Change in CPI for All Urban Consumers, Not Seasonally Adjusted



Source: US Bureau of Labor Statistics

Figure 11: 12-month Percent Change in Selected PPI Final Demand Price Indexes, Not Seasonally Adjusted



Source: US Bureau of Labor Statistics

Upcoming Events

2025 North-East Private Equity Conference	January 08–09, 2025	Lotte New York Palace, New York
AM&AA 2025 Winter Conference	January 21–22, 2025	The Scott Resort & Spa Scottsdale, Arizona
Global Alts 2025	January 27–30, 2025	Miami Beach Convention Center, Florida

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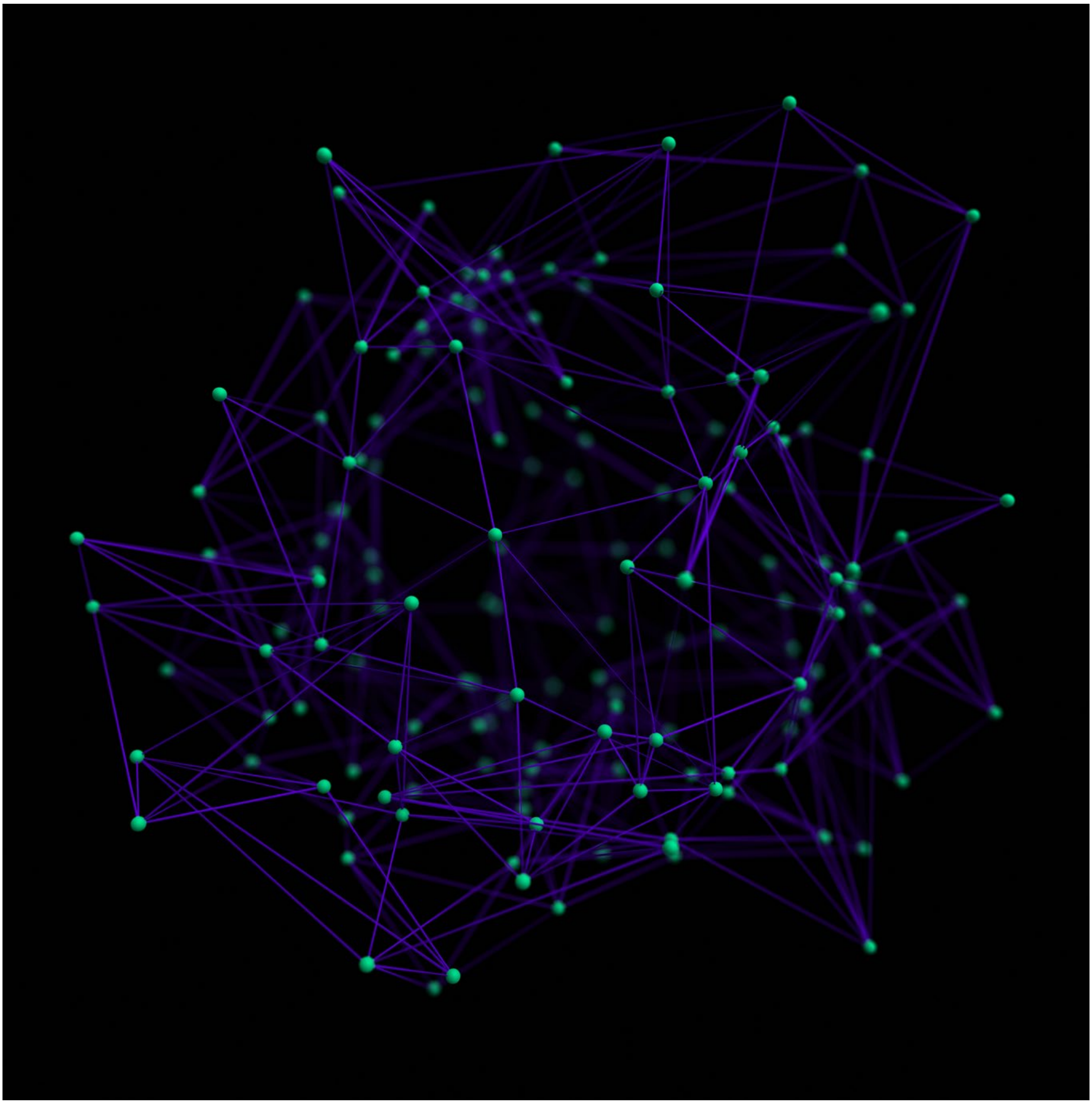

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