SECONDARY TRANSACTIONS FOR HEALTHCARE PRIVATE EQUITY

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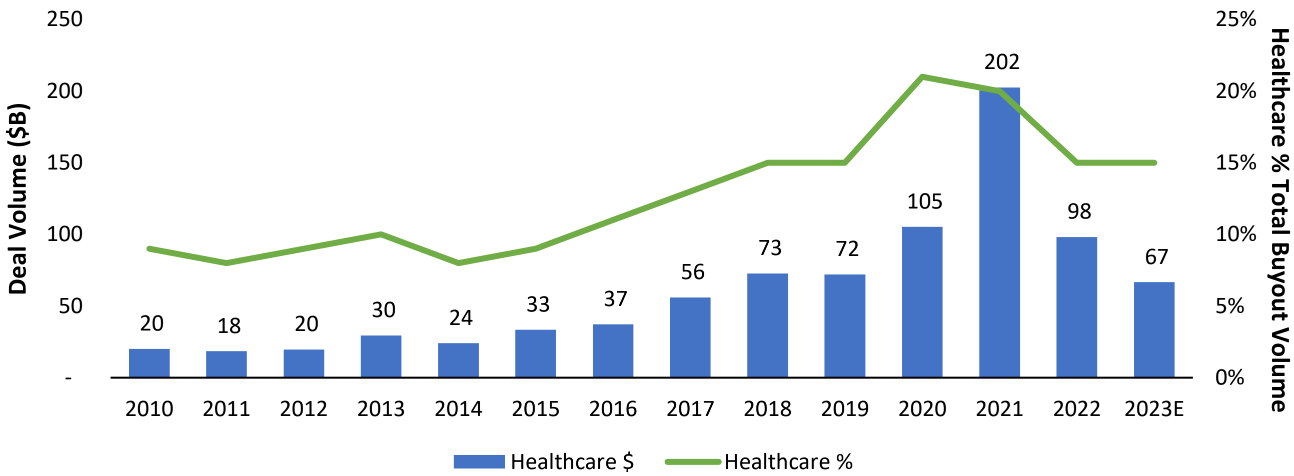
Introduction

The last 18 months have been sluggish for private equity fund managers ("GPs") as well as Limited Partners ("LPs"). Across the global buyout market, it has been challenging for GPs to deploy capital given the valuation overhang from 2021-2022 as well as the current interest rate environment. Similarly, these market factors have limited both M&A and IPO activity, making it difficult to generate liquidity for LPs. For newer fund managers, who may lack a long-term track record, these factors combine to pose an additional hurdle to new fundraising as well. In healthcare, which comprises 15-20% of private equity investments, we see the same thing.

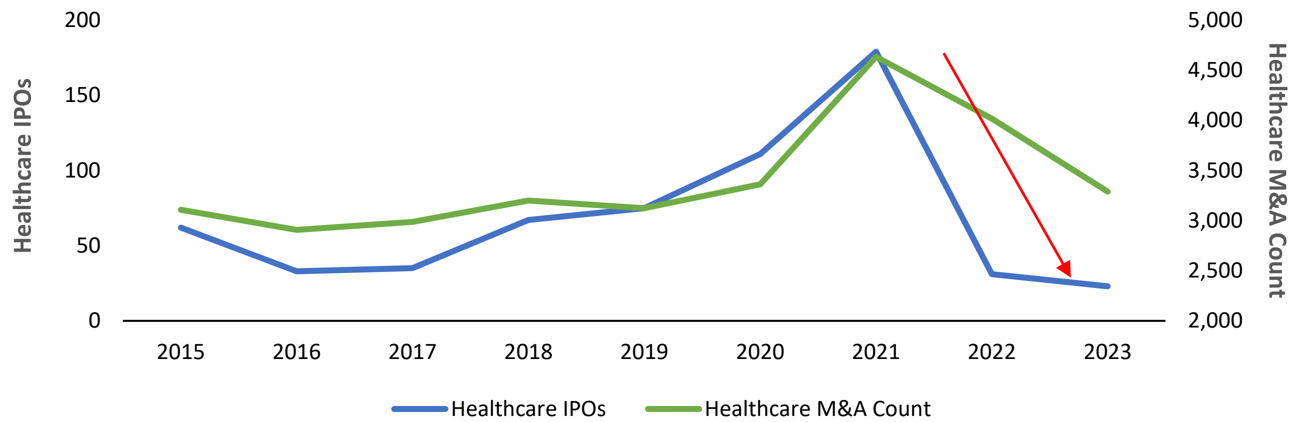
Healthcare Buyout Deal Value ($B) and Percent of Total Buyout Deal Volume[1]



Despite record dollars invested over the last three years in the healthcare sector, exits – the key driver of distributions – have been limited. According to SVB, there were only 23 healthcare IPOs in 2023 – 19 of which were in biopharma. Meanwhile, according to Pitchbook, sponsor exits in healthcare have been in decline since 2021. This is impacting distributions to Limited Partners. According to Andrea Auerbach, Head of Global Private Investments at Cambridge Associates, 2023 was the second worst year for private equity distributions in over 20 years. As a result, LPs are increasingly seeking ways to generate liquidity, either directly or indirectly. This is particularly pressing as LPs are asked to re-up commitments to new funds and need to free up capital to do so.

[1] Source: Bain & Company, "Global Healthcare Private Equity Report" (2024). Excludes add-ons and spin-offs

Healthcare M&A[2] and IPO[3] Activity



With companies staying private longer, fund managers are required to support portfolio companies with more capital than in prior years. Insider financings and private debt financings are at all-time highs, leading to a depletion of insider reserves.

For emerging fund managers, the environment is even more challenging. Across both venture capital and private equity, there have been over 120 new healthcare investment firms started in the last 5 years. These firms have collectively raised over $60 billion.[4] If you look at the DPI for many of these funds, however, it's close to zero. Meanwhile, these fund managers are attempting to fundraise in the most challenging environment in years. The funds that are most successful at fundraising are those that have high DPI relative to other funds.

This is creating a paradox for fund managers – do they sell portfolio companies in a market with compressed multiples in order to generate liquidity for LPs while sacrificing the upside? Or do you continue to support portfolio companies with limited reserves to maximize value over a longer holding period?

Fortunately, there is another solution available to funds. GPs are increasingly turning to the secondary market to provide liquidity to their LPs, support portfolio companies, and optimize value creation.

GP-led Secondary Overview

GP-led secondaries have taken off in recent years in response to a more challenging environment for liquidity. Both GPs and LPs have become more accustomed to the secondary model and the compelling value proposition these transactions offer. Today, secondaries are a $115 billion market. One of the more common forms of secondary transactions is a GP-led secondary. In these transactions, the GP takes an active role in structuring a secondary transaction as a tool to manage LP liquidity and support portfolio companies.

While there are several forms of GP-led secondaries, continuation vehicles ("CVs") are the most common form, accounting for 87% of all GP-led secondary volume. In a CV, the GP sets up a new vehicle that acquires assets from an existing fund. This vehicle can be single or multi-asset. LPs have an option to roll their equity into this new vehicle or sell their interest (generally at some discount to NAV). By restructuring into a new vehicle, the GP effectively extends the life of the fund. This relieves pressure on the GP to exit investments before key value-creation

[2] Source: Pitchbook 2023 Annual Global M&A Report (2024).
[3] Source: SVB Healthcare Investments and Exits Annual Report 2023 (2024).
[4] Source: Based on Pitchbook data.

milestones have occurred. It also resets the management fee and carried interest for the GP. In many cases, there is an unfunded component that provides additional capital for both offensive and defensive investment opportunities.

There are several motivations for a GP-led secondary.

- **Provide liquidity to LPs** which can help support raising a subsequent fund. A secondary transaction can either allow LPs to sell their interests or receive a distribution.
- **Extend the duration of the asset(s)** to manage the asset(s) beyond the originally prescribed term and maximize the value of the remaining fund asset(s).
- **Obtain additional capital** to support portfolio companies. The use of unfunded can be for offensive or defensive purposes.
- **Reset economics**. Recapitalizing a fund can reset the clock on fees and re-allocate carried interest to better align the GP with LPs.

Characteristics of CV Transactions

Based on publicly announced deals, there were at least 16 healthcare-focused CVs that closed between 2023 and April 2024 with a total of $9.4 billion of estimated deal value.

Select Healthcare Continuation Vehicles (Jan 2023-April 2024)[5]

	Deal Related						Fund Related		
Fund	**Date**	**Category**	**Asset(s)**	**Sector**	**Geography**	**Deal Size**	**Vintage**	**Fund Size**	**Investors**
Lorient Capital	Jan-23	Single Asset	ShiftKey	Tech-Enabled Services	US	$300	ND	ND	Ares, Pantheon, Clearlake, Health Velocity
Adiuva Capital	Apr-23	Single Asset	Sanecum Group	Services	Europe	$324	ND	ND	Montana Capital Partners
BPOC	Apr-23	Multi Asset	5 Assets	Blended Portfolio	US	$425	2013	$503	**Apollo S3, Blackstone, Five Arrows**
GHO Capital Partners	May-23	Single Asset	Sterling Pharma Solutions	Services	Europe	500*	2015	$715	Partners Group, AlpInvest, Pantheon
Calera Capital	Jun-23	Single Asset	ImageFIRST	Services	US	$750	2017	$555	**Goldman Sachs, Blackstone, Portfolio Advisors, TPG**
Charterhouse Capital Partner	Jun-23	Single Asset	SERB	Biopharma	Europe	$761	2016	$2,520	Goldman Sachs, CPP Investments, Hamilton Lane
L Catterton	Jul-23	Single Asset	PatientPoint Health Technologies	HCIT	US	$750*	2006	$1,000	**Neuberger Berman, Fortress Investment Group**
WindRose Health Investors	Aug-23	Single Asset	Healthmap	Tech-Enabled Services	US	$600	2016	$365	StepStone Group
ABS Capital	Oct-23	Multi Asset	LabConnect, Viventium	Blended Portfolio	US	$250*	ND	ND	**Kline Hill Partners, Five Arrows**
Aterian Investment Partners	Oct-23	Single Asset	Vander-Bend Manufacturing	Manufacturing	US	$460	2013	$257	J.P. Morgan, Hollyport, Blackstone
Persistence Capital Partners	Nov-23	Single Asset	MedSpa Partners	Services	Canada	$275	2019	$82	**Morgan Stanley, Tail End Capital Partners**
GTCR	Dec-23	Single Asset	TerSera	Biopharma	US	$1,000	2014	$3,850	
New Mountain Capital	Dec-23	Single Asset	Datavant	HCIT	US	$1,000	2013	$4,130	**ICG**
Hildred Capital	Mar-24	Multi Asset	Crown, Hyland's	Consumer Health	US	$750	ND	ND	Lexington
Cinven	Mar-24	Single Asset	Barentz	Life Sciences	Europe	$918	2019	$11,230	**Goldman Sachs, AlpInvest**
GREENPEAK Partners	Apr-24	Multi Asset	ACADEMIA, CERTANIA	Lab Services	Europe	$377	2021	ND	HarbourVest Partners, Kline Hill Partners
			Subtotal			$9,440			

Source: Public Press Releases, Pitchbook, Secondaries Investor
* Estimated
Bold: Lead investor

These 16 deals share several characteristics. Each included scaled, profitable businesses. Each deal size is greater than $250 million. Additionally, all retained financial advisors.

Beyond that, there are differences between these deals which we've summarized on the following page along with a broader market perspective.

[5] Source: Public press releases, Pitchbook, Secondaries Investor

Market Highlights

Characteristic	Deal Composition	Market Perspective
Single vs. Multi-asset	• 75% of deals were single-asset • In reality, the mix of single vs. multi-asset CVs for healthcare assets may be closer to 50/50 as many multi-asset, blended portfolio deals include healthcare positions	• Current dispersion of demand • Longtime secondary buyers are focused primarily on multi-asset transactions given portfolio composition dynamics of their underlying funds • Traditional buyers are complemented by newer entrants that are solely focused on single-asset opportunities
Fund Manager	• Mix of blue-chip large caps to lower middle market firms • Primarily private equity sponsors; a few growth equity firms • Mix of healthcare specialists and generalists	• Underwriting focuses on the underlying manager's track record, entry valuation, and the ability to create proper alignment through GP commitment
Sector	• Mix of healthcare sectors but heavy focus on services and manufacturing	• Investors are focusing on underlying companies in differentiated subsectors with strong contracted revenues and conservative balance sheets • Investors are also raising their return thresholds for businesses with meaningful regulatory risk or transactions whose value creation relies solely on transformative acquisitions
Deal Size	• Average deal size was $590 million	• Over the last two years there has been a focus on middle market transactions ranging from $250 - $750 million • Recent uptick in the size of transactions across single and multi-asset transactions
Vintage	• The majority of deals were included in funds that were at least 5 years old	• Optimal target companies have been held for at least 4 to 6+ years • Ideally, companies have generated strong performance since inception
Asset Financial Profile	• Generally scaled, profitable businesses	• Characteristics of transaction assets include highly performing and mature companies that have generated strong interim returns (at least 2.0x MOIC) to date

Perspectives from a Healthcare-focused Secondary Investor

As a dedicated secondary investor in the healthcare space with $1.5 billion of committed capital, Revelation Partners evaluates hundreds of healthcare secondary transactions each year, including many continuation vehicles. Revelation is focused on investing in companies that have the following characteristics.

- Scaled businesses with strong commercial and financial KPIs
- Proven business models with a strong moat
- Good managements teams
- Reimbursement, regulatory, and clinical risk we can understand and underwrite to
- Limited financing risk
- Clear and defined exit thesis

Revelation Partners has a flexible mandate, but these are the specific characteristics we generally look for in CVs.

Single vs. multi-asset. Revelation Partners invests in a mix of single and multi-asset deals, with a portfolio that has roughly a 50/50 split. For single asset deals, we are looking for high quality businesses that are the "crown jewels" in a fund's portfolio and that have cash runway for continued growth. For multi-asset deals, we favor diverse portfolios with multiple value-drivers for appreciation.

Fund manager. Revelation is agnostic with regards to the category of fund managers with whom we transact. We work with venture capital, growth equity, and private equity fund managers. We also work with hedge funds, large asset managers, and strategics. In all cases, we prefer to partner with fund managers who have expertise relative to the underlying portfolio companies to ensure ongoing support of those assets.

Deal size. Revelation Partners is relatively agnostic on deal size and role. We are comfortable leading the pricing and terms for a deal, and in some cases can finance the entire CV. In other cases (particularly larger deals), we can be a meaningful syndicate partner that can help catalyze a broader syndicated effort.

Asset financial profile. Revelation Partners is comfortable underwriting companies pre-profitability. In all cases, whether profitable or pre-profitability, we are looking for businesses with strong financial profiles and strong KPIs.

Best Practices for Successful CV Execution

The GP-led market has experienced tremendous growth over the last five years. PJT Partners is currently tracking over 150 live GP transactions as of the date of this publication (a record in this burgeoning marketplace). While there are more buyside entrants coming into the fold to address the supply, there are a meaningful number of deals that aren't completed each year. We've highlighted select best practices for successful transaction outcomes based on our recently closed mandates:

Time to Engage Advisor. Optimally, a GP will have a longstanding relationship with an advisor across multiple channels (M&A, secondary advisory, primary fundraise) to discuss transaction/strategic options well in advance. When that isn't possible, at a minimum, engagement should be concurrent with initial considerations regarding a liquidity event (M&A or Secondary) around a specific asset or group of assets.

Transaction Rationale. GPs should clearly articulate the need for an extended hold period; in addition, any unfunded capital should be substantiated with clear deployment targets for either pre-identified pipeline of accretive add-on acquisitions or new platform opportunities.

LP Communication. Successful transactions incorporate the strategic objectives of all three key counterparts: GPs, new investors, as well as the existing limited partners. Consistent communication prior to and throughout the process is paramount. Key LPs should be engaged early in the process to solicit feedback where necessary and ensure their awareness of major transaction milestones.

GP/Asset Quality. Focus on managers with strong historic track records and/or differentiated expertise in specific sub sectors. It's also important that the underlying asset(s) have a clear growth thesis, resilient business model, and conservative capital structure.

Valuation & Go-forward Returns. Ongoing macroeconomic volatility coupled with minimal changes in private asset marks has sharpened focus on current valuations. Buyers are currently underwriting GP transactions to generate at a minimum a high teens IRR and a multiple greater than 2.0x net MOIC.

Alignment. Alignment via a meaningful GP commitment is paramount to a successful transaction. The GP commitment is a combination of the manager's existing exposure to the asset(s) (existing NAV and any unrealized carry) plus any additional commitment made through outside capital and/or investment from the manager's latest flagship vehicle. Over 60% of the closed transactions over the last year had a GP commitment between 5 and 10%.

Case Studies

Case Study: Project Napoli

In 2024, PJT advised GREENPEAK Partners ("GREENPEAK" or "the Sponsor") on a Fund Continuation Vehicle ("FCV") for two assets in the Specialty Laboratory and Testing, Inspection and Certification ("TIC") verticals. The assets were held in a 2020-vintage fund and a co-investment vehicle. In addition to crystallizing strong performance and providing a comprehensive liquidity option to investors, the Sponsor sought additional capital to support accretive buy-and-build opportunities, and the FCV raised approximately €100 million of unfunded commitments.

An innovative transaction structure enabled bespoke exposure to the assets, with HarbourVest Partners acting as Principal Lead for both assets while Kline Hill Partners acted as Co-Lead Investor for ACADEMIA. Valuation support was multi-faceted. A competitive FCV process generated robust demand and resulted in an oversubscribed transaction, and the value of one asset was underpinned by a minority sale that preceded the FCV transaction.

PJT secured a syndicate comprised of international primary-focused investors - all of whom were new relationships for the Sponsor. The transaction was transformational for GREENPEAK, representing a meaningful increase in its AUM.

	Profile	Commentary
# of Assets	• Hybrid Two-Asset	• Investors received customized exposure to the assets
Fund Manager	• PE Firm	• Sponsor was services-focused
Sectors	• Specialty Laboratory • Testing, Inspection and Certification	• Observed demand for services businesses with demonstrable organic and inorganic growth
Deal Size	• ~€350 million	• Scale limited syndication risk
Vintage	• Approx. 4-Year-Old Fund	• FCV crystallized early DPI for fund
Asset Financial Profile	• Growing, profitable companies	• Unfunded commitments were raised to support buy-and-build

Sponsor	Companies	Investors
GREENPEAK PARTNERS	ACADEMIA	HARBOURVEST
	CERTANIA	KHP KLINE HILL PARTNERS

Case Study: Ballast Point Ventures

Summary: Revelation partnered with Ballast Point Ventures **("BPV")** to form a continuation vehicle for a 2009 vintage fund. The fund was past its intended term and had a mix of technology and healthcare investments. In the case of the technology investments, there was a nearer-term exit horizon. In the case of the three remaining healthcare investments, given the longer expected duration, a longer-term solution was preferred. Revelation recognized that it could provide a custom solution for BPV and thus engaged the firm proactively regarding a potential continuation fund around just the healthcare investments. In the end, Revelation backed BPV in providing liquidity to their limited partners for the healthcare investments through the use of a continuation fund. The continuation vehicle provided an option for the fund's limited partners to either sell their healthcare interests for cash and lock in an attractive DPI for their 2009 commitment, or roll their interests into the new vehicle. The transaction also allowed BPV access to additional follow-on capital to invest in the healthcare investments as needed.

Revelation offered BPV a fully backstopped continuation fund option that did not require syndication, providing certainty of closure. In the case of BPV's process, although they did not formally engage an advisor, they had prior continuation fund experience and performed a robust market check in conjunction with the Revelation process to ensure fairness for their limited partners, a key to any continuation fund process.

Healthcare Investments: There were three growth equity companies involved in the transaction that BPV continues to manage by virtue of the continuation fund. YPrime, a software company that provides e-clinical solutions for biopharma companies; BioTissue, a regulated medtech company that sells retinal and surgical tissue products; and React Health, a company that sells FDA regulated sleep, oxygen and ventilation solutions.

Firm: BPV is one of the largest and most active venture capital and growth equity firms in the Southeast and is uniquely positioned to partner with talented entrepreneurs and provide the capital, experience, network, and support to fuel long-term success. The firm has invested in 55 companies over more than 20 years in operation.

Sponsor	Companies	Investors
Ballast Point Ventures	YPrime	Revelation Partners
	BioTissue Surgical	
	REACTHEALTH	

About the Authors

PJT Park Hill

PJT Park Hill provides global alternative asset advisory and fundraising services across four specialized verticals. Our platform is built on our vast experience and deep expertise across asset classes. Since inception we've advised on over $500 billion of placement and capital solutions activity.

Darren Schluter is a Managing Director and Daniel Schuster is a Principal at PJT Park Hill.

Revelation Partners

Revelation Partners provides flexible capital solutions to the healthcare ecosystem. The firm's long-term approach allows it to address the issues faced by a wide range of counterparties, including founders, company management teams, institutional investors (including general partners), and limited partners. These customized solutions provide liquidity, align shareholders, and support the growth of privately held healthcare companies.

Rob Rein is a Vice President and Fred Lee is a Partner at Revelation Partners.

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