MERGERMARKET

More Public-to-Private HCIT Deals Predicted

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- *Abundance of private capital drives up values*
- *PE bets on future value of data aggregation services*

High private market valuations for healthcare services companies are likely to prompt more public companies to go private or sell IT assets to private equity firms, sector experts said.

In recent months, there has been a spate of publicly traded healthcare information technology companies (HCIT) companies and assets bought by private equity firms. They include Press Ganey, which forged a deal to be bought by EQT Partners this month for USD 2.3bn, after having been publicly traded for just over a year.

A second HCIT company, Imprivata, agreed to be taken private in July by Thoma Bravo for USD 440m just two years after its IPO. Still a third, Connecture (NASDAQ:CNXR), which went public on NASDAQ in December 2014, was the subject of a large minority investment by Francisco Partners and Chrysalis Ventures in March through a convertible offering.

“Public market valuations for HCIT assets are less attractive than private valuations,” said one sector advisor. He said there will be “more interesting plays ahead” as private equity firms bid up the prices for promising HCIT assets, both public and private.

The valuation gap is already reflected in deals by Verisk Analytics (NASDAQ:VRSK) and McKesson (NYSE:MCK), which recently agreed to sell their HCIT assets. McKesson in June forged a deal to merge its HCIT unit with Blackstone’s Change Healthcare for about USD 1.25bn, while Verisk sold its Verisk Health assets to Veritas Capital for about USD 820m.

Industry bankers said the trend is likely to continue due to a variety of factors. Among them is that private equity firms are awash in capital and driving up the prices for promising HCIT assets in competitive auctions. And these firms may be more cognizant of the future value of data aggregation services as acquisition plays in the future for all kinds of healthcare providers.

“Each of these companies gather data in a little different way, but ultimately they will have tremendous value to companies like UnitedHealthcare, Blue Cross Blue Shield and other payers,” said Greg Hagood, senior managing director for healthcare at SOLIC Capital, a middle market investment bank. “Public markets don’t get it or don’t care right now.”

Hagood cited sleep equipment maker ResMed's (NYSE:RMD) USD 800m deal for Brightree LLC from Battery Ventures in February as an example of a healthcare provider looking to build its outcomes data capabilities to deliver better client care.

He said similar such strategic buys are expected in the space, as well as mergers between HCIT startups, as they look to build scale and appeal better to buyers. Those buyers include physician groups, hospitals, insurance groups and others which are under pressure to deliver care more efficiently through outcomes data.

There are already a large number of HCIT assets on the block and many are expected to be snapped up by both strategic and private equity buyers, or merged with peers. Recent companies hitting the block include Intelligent Medical Objects, Health Information Designs, HealthX, Intel Care Innovations,IMDsoft, SigmaCare and others, this news service has reported. Viverae's growth story could attract a buyer, also according to this news service.

One sector expert said the high valuations for HCIT assets are being driven as much by PE demands to put capital to work as by the intrinsic value of the assets, however.

"You have a lot of funds with a significant overhang of capital," the advisor said. "It would be nice to say that the high valuations are because PE firms know things, but the reality is there are way too many funds with too much capital and way too little differentiation between them."

The advisor added that the abundance of PE capital has led to "ferocious price wars" for any promising HCIT company with USD 10m or more in EBITDA. "Private equity is paying crazy multiples."

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