PART 4 OF A FOUR-PART SERIES

STRATEGIC INVESTMENT IN HEALTH CARE INNOVATION

Why growth equity is increasingly a good fit for innovation investors

As we have stressed throughout our series on health care innovation investing, successful private investing involves far more than merely writing a check in return for a stake in a business. Investors play a key role in nurturing portfolio companies and helping them achieve their potential. But that role and the resulting investment outcomes vary significantly based on the kind of investments the firm targets.

In this article, Concord Health Partners explains why growth-equity investing is an attractive area for innovation investing in health care.

This is the final article in a four-part series about innovation investing in health care. In the first article, we covered the forces driving health care innovation and the ways health care companies are approaching the opportunity. The second article offered a primer on private equity, and the third article (URL to come) summarized key ingredients for success in health care innovation investing.

The growth-equity sweet spot

Growth equity exists in the middle of a continuum between the least and most mature private-company investments. Early-stage investors, often referred to as venture capitalists, tend to help founders develop and hone a viable product or service. At the opposite end of the continuum, buyout-oriented private-equity firms take a controlling stake in companies and seek to add value by further professionalizing and scaling the business, often by acquiring and integrating additional companies.

Growth equity occupies a sweet spot between venture capital and buyout investing. Here's why.

In venture capital, the risk of failure is high. The product is unproven and it may not work. The company may struggle to obtain regulatory approval or it may face difficulties securing its first customers; this can take years and may turn out to be an insurmountable hurdle. The management team may falter or lose focus.

Buyout private-equity strategies face a different set of constraints. More mature companies can be difficult to change. Investors are competing for deals with institutional investors and other big organizations that have larger sums to invest. For attractive opportunities, negotiating against larger institutions can make a deal expensive. This reduces the upside potential and increases performance risk, particularly if the deal is negotiated under inflated market conditions.

Advantages of growth equity

Growth-equity investing can offer a higher chance of success than venture capital and greater upside than buyout strategies. Several factors mitigate risk for growth-equity investors. The target companies at this stage tend to be at an inflection point and poised for rapid growth. Companies typically have built their products or services, can demonstrate that they work and

Our Series on Innovation Investing

Throughout this series, the AHA and Concord have sought to provide more information to hospitals and health care providers about innovation investing and deepen their understanding of the various private-equity strategies that are involved, including venture capital, growth equity and buyout strategies.

Topics in the series

PART 1 | **The Rise of Innovation Investing**

PART 2 | **Private-Equity Primer for Health Care Providers**

PART 3 | **Ingredients for Success in Health Care Innovation Investing**

PART 4 | **Growth-Equity Investing in Health Care**

Growth-equity investing has risen rapidly in recent years, both monetarily and as a portion of the overall private-equity industry.

are generating revenue. Additionally, companies tend to have commercial contracts that can serve as references. These are critical in the health care sector: Large organizations usually are reluctant to consider a product that has not been proven in real-world situations.

An experienced, professional growth-equity investment firm can add significant value to an entrepreneurial venture by helping the company professionalize, recruiting executives and board members, and introducing it to potential customers. An investment firm with a strong network can open doors and facilitate meetings, expedite the sales process and accelerate the adoption of the company's products and services. When it is time to exit the investment, the growth in revenue and margins can elevate the venture to a level that would make it an attractive target for an institutional buyer or a strategic company, which may yield higher bids. All these factors can lead valuation multiples to expand throughout the life of a growth-equity investment.

Growth-equity investing has risen rapidly in recent years, both monetarily and as a portion of the overall private-equity industry. In the past, companies that needed access to capital frequently relied on public-equity markets. Today, however, a plethora of capital is available via private markets. This enables growing enterprises to remain private longer before seeking a strategic investor or initial public offering.

Start your innovation investing journey today

Learn more. Contact [Concord Health Partners] for more information. ●

General Disclosures: This material is provided for educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities. Private equity investments are speculative, highly illiquid, involve a high degree of risk, have fees and expenses that could meaningfully reduce returns, and subject to the possibility of partial or total loss of fund capital; they are, therefore, intended for experienced and sophisticated long-term investors who can accept such risks. Investments with private equity sponsors typically are not transferable without consent of the sponsor, involve conflicts of interest, often involve leverage and limited partners have little to no ability to influence decisions.