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## PE DEALS

# GTCR's The Leaders Strategy paves the way for successful healthcare investing

'Many of these segments within healthcare are a little bit more technical, and more complex, so our unique The Leaders Strategy approach pays real dividends there,' said GTCR's Cunningham.

**G**TCCR is one of the most active private equity firms in the business, and healthcare is a key sector in which the firm invests. Just this week, Resonetics, an engineering and manufacturing company for the life sciences industry that is backed by Carlyle and GTCR, announced the acquisition of Agile MV, which produces minimally invasive and interventional medical devices.

As part of our ongoing series profiling private equity firms investing in healthcare, PE Hub discussed GTCR's strategy with Sean Cunningham and Ben Daverman, managing directors and co-heads of healthcare.

Founded in 1980 and headquartered in Chicago, GTCR closed its 13th flagship buyout fund at \$7.5 billion, surpassing its \$6.75 billion target, in 2020. The fund raised all its equity capital in just five months.

### Been there, done that

GTCR pioneered The Leaders Strategy, which involves partnering with management leaders in core domains to identify, acquire and build market-leading companies through transformational acquisitions and organic growth.

The approach "always starts with an exceptional management team, whether that's an incumbent team that we're backing, or a management team that we're

bringing into an investment," Cunningham explained.

When seeking management, GTCR looks for folks who have "been-there, done-that," Cunningham said. "By that, I mean executives and teams that have a demonstrable track record of success, particularly in businesses that have been growing both organically and with M&A. We like to back executives in the industries and areas of healthcare where they've been most successful in their history. We like the teams that have a track record of equity value creation. And if we can find ways to get capital behind them, that's always for us the first step."

A recent example of The Leaders Strategy is GTCR's investment in PathGroup.

GTCR met Ben Davis, CEO of PathGroup, back in 2015 and since then, GTCR kept track of the company, Daverman explained.

"When the opportunity presented itself to potentially make an investment in PathGroup, we had already established a pre-existing relationship with the team," Daverman recalled. "Combined with the fact that we also had a relationship with Dave King, who's the former chairman and CEO of LabCorp.

"Dave's experience, having run one of the largest labs in the world, was directly applicable to an investment in PathGroup, which is one of the larger

independent regional labs in the country," he said. "Bringing Dave to the situation is complementary from a leadership perspective to that of Ben. The way we think about this investment is really from a people perspective. We can have Dave and Ben come together really as a powerful duo, helping continue to lead and scale this business."

### Separating from the competition

"We have a large team, as today there are more than 20 dedicated folks that focus exclusively on healthcare here at GTCR, and at any given time, that team is looking at several opportunities across the healthcare landscape," said Cunningham.

GTCR invests in healthcare services; healthcare technology; healthcare products; pharmaceuticals; devices; life sciences; payer services; and supply chain.

"The nice thing about our size and our history is that we look across the entire spectrum," he said. "Big themes would be continuing to find business models on the services side that are finding creative ways to offer more patient-centric delivery of care that fits the needs of patients, not just providers and clinicians. The adoption of technology and healthcare continues to be a very broad theme. The innovation in pharmaceuticals, devices and life sciences also continues to be a theme for us."

A common denominator with the sub-sectors of healthcare GTCR plays in and

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with healthcare in general, is that it is more technical and complex.

“I do think that our unique The Leaders Strategy approach pays real dividends there, as these are sectors that it really requires not only financial acumen to be successful, but real deep domain expertise, and very technical experience,” said Cunningham.

“It’s not easy to come in from the outside and just buy a business without having any history in the space or a track record,” said Cunningham. “The fact that GTCR has been investing for more than 40 years as a firm in healthcare, and we’ve done dozens of healthcare platform investments, and then those platform investments have bought, quite literally hundreds of add-on acquisitions, is a big differentiator.”

The healthcare private equity landscape is competitive, but according to Daverman, that just means GTCR needs to spend more time trying to figure out different discrete pockets within the industry, where maybe private equity is not as focused and try to get there before the competition ratchets up.

“We often do that, again, by working with executives who can help us try to see where the puck is moving to and act accordingly,” he said. “Healthcare does move rather slowly in terms of change in technology adoption. So, I think the key is to not necessarily be getting out too far ahead of where we think the industry is going to evolve but trying to capture themes that are about to occur. And then when we make an investment and hopefully that investment is participating in a change in the market, or a change based on recent innovation, our company investments will benefit from that change in the near term.”

## Thematic investing

“I think we try to take a pretty thematic approach to healthcare. We’re constantly

proactively looking at different industry segments, and we’re trying to look at themes and then drill down into the sub segments, even if they’re pretty niche-y sub segments within healthcare,” said Daverman.

He added that the idea is to “identify areas that may be going through a bit of change and if we can try to get out in front of that change, that could be one way that we can find unique investment opportunities.”

## Life sciences

“Life sciences in the aggregate was an area that maybe five to 10 years ago was less of a focus for private equity and now, some firms have pivoted and made some moves there,” said Daverman. “We’ve been pretty focused on the life sciences space, going back 15 years or so. We’ve had biologic companies and we’ve had biologic drugs and pharmaceutical drug companies, and then the life sciences adjacencies, to the pharma industry. We’ve played on some of those themes with some of our companies like Maravai LifeSciences and Antylia Scientific.”

He added that “we like to think” that GTCR was one of the earlier firms to go after the life sciences space and that he thinks that life sciences is going to be a good space going forward. “There are other firms that have come in, and they’ve made some investments across the space, and some firms have even moved into some venture capital, or early-stage biotech areas. So, I do think you’re seeing an increased activity across the broader life sciences space.”

## Current market

“I agree that there’s a lot of chatter in this market environment about valuations moderating,” said Cunningham. “I would say from our perspective, high-quality businesses tend to trade at premium multiples and given the competition for high quality assets, the way we think about it is a little bit more, what you can do with those assets? We will pay up for quality

businesses, if we have an outstanding management team with a specific, credible investment thesis to accelerate growth, both organically and with M&A. That’s the most important thing for us. We never really think about ourselves as making a lot of money on the buy, so to speak. It’s really always about what can we do with the business? Is there a thesis to really transform the business and change the growth trajectory?”

He added that in prior cycles, he has seen prices moderate, but “it can take some time.”

“There’s a lag effect,” he said. “We don’t see prices changing much right now, here in the second quarter of 2022. Although, there’s a bit of a bias in the data, because it’s the highest quality businesses that are transacting in this market environment. But in the second half of the year, we would expect to hopefully see a little bit of moderation in prices.”

## Recent exits

GTCR sold a majority interest in Transaction Data Systems, a pharmacy software solutions and services, to BlackRock Long Term Private Capital in 2021 after the initial investment in 2015. Antylia sold its Masterflex Bioprocessing business unit to Avantor (NYSE: AVTR) in an all-cash transaction valued at \$2.9 billion in 2021 after the initial investment in 2019.

Regatta Medical sold a minority equity stake in its platform, Resonetics, to The Carlyle Group in a transaction that valued the company at \$2.25 billion in 2021 after the initial investment in 2018.

Sotera and Maravai LifeSciences, GTCR’s specialty life sciences reagents portfolio company, completed three secondary offerings in the public markets in 2021 after initial investment in 2011 for Sotera and 2014 for Maravai.

## Recent investments

GTCR invested in PathGroup, Experity and Avryo in 2022 and Epselon in 2021.

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## GTCR's healthcare portfolio highlights

(Dates refer to initial investments)

*Antylia Scientific: A diversified life science tools business with a portfolio of products serving the pharma, biopharma, healthcare and environmental markets. (September 2019)*

*Avryo Healthcare: Formed in April 2022 as a partnership between Kelly McCrann and GTCR. Avryo is a multi-site healthcare provider services industry with a focus on building a company that utilizes new technologies and operating strategies to enhance patient access and experiences. (April 2022)*

*Cedar Gate Technologies: Provides high-performance analytic, technological and advisory services to providers, payers and self-insured employers to enable them to meet and exceed the performance thresholds of value-*

*based care contracts, networks and programs. (August 2014)*

*Corza Medical: A global manufacturer of innovative surgical technologies. (March 2019)*

*Epselon Global: Formed in 2021 as a partnership between Michael Mulhern, Phil Macnabb and GTCR, with a mission to build a market-leading healthcare business. (March 2021)*

*Experity: Formed through the combination of Practice Velocity and DocuTAP and provides technology solutions to more than 5,700 urgent care practices across the United States. (March 2022)*

*Maravai LifeSciences: Formed in 2014 as a partnership between GTCR and life sciences executive Carl Hull. The company is a provider of specialized chemistry reagent products used*

*in applications across the biopharmaceutical, diagnostics and life science research end markets. (March 2014)*

*PathGroup: PathGroup is one of the largest independent laboratories in the United States. The Company provides anatomic pathology, digital pathology, molecular diagnostic and clinical testing services to physician groups and hospital systems across the Southeast and Midwest. (May 2022)*

*Regatta Medical: Formed in 2017 as a partnership between GTCR and medical device executive Chip Hance. (April 2017)*

*Sotera Health: Sotera is a global outsourcer of sterilization and lab services, gamma technologies and medical isotopes, and the only vertically integrated sterilization company in the world. (May 2015)*