

# PE Hub

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PUBLISHED: 4 April, 2022

## PE DEALS

# VSCP seeks healthcare 'founders looking for a true partner to help them grow'

"We have a focused strategy that allows us to leverage our significant healthcare services industry knowledge and our vast network," VSCP's Adam Feinstein said. "Because we have those things, our sourcing strategy consists of backing founders and corporate carve-outs."

**P**E Hub's ongoing series of private equity firms investing in healthcare continues with insights from Adam Feinstein, managing partner, Vesey Street Capital Partners. Feinstein founded VSCP in 2014 and has served as managing partner of the firm since then. Previously, he was the senior vice president of corporate development, strategic planning and office of the chief executive officer at LabCorp. Prior to LabCorp, he served as the managing director in equity research at Barclays Capital/Lehman Brothers for 14 years. Here he has outlined VSCP's approach to healthcare investing.

### Investment strategy

"We are a private equity firm with substantial and differentiated expertise that invests in lower middle-market businesses that provide services to hospitals, physician groups, payors, consumers and life sciences companies, and are focused on reducing costs, enhancing efficiency and driving quality of care," Feinstein told PE Hub. "We invest in asset-light business models with high barriers to entry that have strong cash flow characteristics and limited regulatory risk."

VSCP focuses on a handful of themes and trends taking place in the healthcare investing landscape, including how

things differ from pre-and post-covid, consumerism in the space, healthcare staffing shortages and life sciences developments.

"As a result of covid, there is a lot of pent-up demand in the system, so we think we will see a big increase in utilization trends over the next 12 months as things get back to normal – as people deferred physician office visits and surgeries," he said. "We also think clinical diagnostic testing is something people will do on a more regular basis, as the patients and providers recognize the value-proposition of clinical lab testing."

Feinstein believes that the consumerism of healthcare is here to stay.

"Services are marketing directly to the consumer in today's world," he said. "Consumer spending on medicine will pick up in areas like aesthetic medicine, dental and vision care with multi-site locations."

Labor shortages are acute and chronic in the healthcare world.

"We believe the staffing shortages are not temporary, and it is going to be difficult to staff hospitals, physician offices, and surgery centers long term," he said. "That being said, we think there is a real value-proposition for the companies that alleviate the burden by helping to improve productivity. With utilization going up and

supply of labor going down, there will be a lot of need for healthcare staffing and related services."

Feinstein thinks of life sciences as "the backbone of clinical trials."

"We want to invest in companies that are helping to support the growth in clinical trials and to improve the process; these companies are the backbone of clinical trials," he said. "Life sciences companies continue to spend more on developing new products and need assistance with this complex process. We don't invest in pharmaceutical companies, but we want to provide services to drug companies developing new products."

### Founders and carve-outs

"We are not trying to do every sector," Feinstein explained. "Instead, we have a focused strategy that allows us to leverage our significant healthcare services industry knowledge and our vast network. Because we have those things, our sourcing strategy consists of backing founders and corporate carve-outs. We typically do not purchase businesses from other PE firms, so we tend to do deals with founders who are looking for a true partner to help them grow and scale the business."

One area the firm prides itself on is corporate carve-outs.

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“Carve-outs are also where we really differentiate ourselves,” he said. “We’ve completed three carve-outs in the last eight years and those are a function of our relationships with sellers, like large healthcare companies that have non-core segments, but these are great businesses. These are typically not auction deals, so it is all about relationships and trust. They are looking for a partner who they know can move quickly and be a good steward for that business after the transaction.”

Both QualityMetric and Imedex were carve-outs. VSCP purchased QualityMetric from United Healthcare in 2020. During the hold period, the firm has refined the corporate strategy with some “enhancements.”

According to the firm, it enhanced the executive team with the additions of chief executive officer Gus Gardner, chief financial officer John Hart and chief commercial officer Angela Host.

“We also enhanced the business development effort through the addition of new customers, expanded the company’s pipeline of M&A targets and executed on a cost savings plan,” according to the firm.

VSCP purchased Imedex from AmerisourceBergen in 2017. During the hold period, the firm executed on the following initiatives.

“We enhanced focus on high margin areas of the business, utilized the VSCP Strategic Resources Group to drive costs savings, enhanced the executive team through with the addition of Dan Lowrie as chief executive officer, added seasoned healthcare executives to the board of directors and proprietarily sourced a buyer for the business within two years of our hold period,” the firm noted.

## Exit strategy and hold periods

“These go in cycles when it comes to the markets, and things are very different now than they were the previous decade,” he said. “Holding periods have been compressed on healthcare assets over the past 10 years.”

But Feinstein believes people will “potentially” be holding assets longer over the next 10 years.

“PE investors need to buy a business where you can grow EBDITA and revenue, and you have to underwrite transactions now assuming that the multiple is not going to be higher when you sell it, based on what you are paying today, because valuations are higher today than they were 10 years ago.”

Feinstein also foresees PE holding periods for healthcare and other sectors becoming more normalized over the next decade.

“With that being said, we invest in the lower-mid-market for a reason – because there is more inefficiency there, so our purchase price multiples can theoretically be lower, so lower-mid-market returns can be better and the ability to exit quicker could be there.”

When VSCP thinks about exits, the firm typically wants to sell to a strategic buyer.

“There is a consolidation wave in healthcare services and our companies are attractive partners to strategic buyers,” he said. “We also have a lot of experience with taking companies public, so those are our preferred routes.”

## Macroeconomic challenges

“We are always thinking about risk mitigation and as a result, we tend to use less leverage than a typical PE deal with a target leverage ratio of 3-4x EBITDA,”

Feinstein said. “We do that because we don’t know where rates will be three or five years from now, but we want the ability for the company to have a clean balance to support its growth in the future and consolidation.”

He noted that inflation is a “real threat” and something that the firm “has to manage.”

“So, we look for companies that have pricing power so they can pass pricing to their customers to help support their businesses in a higher inflation environment,” he said.

## Firm facts

Founded in 2014, New York City-based VSCP specializes in buyouts of lower mid-market healthcare services businesses, typically with EBITDA of \$10-\$15 million and a target equity check of between \$50-\$200 million. The firm has consummated 23 transactions across eight platform businesses and has deployed over \$700 million of equity capital.

## Recent investments

VSCP invested in Safecor Health in 2021, QualityMetric in 2020, Exponent Health in 2018 and AirSculpt in 2018. (See the sidebar, below, for more details.)

## Recent exits

VSCP took AirSculpt public in 2021 via initial public offering, exited HRGi in 2019, exited Imedex in 2017 and recapitalized ScribeAmerica in 2016.

In 2017, VSCP invested in HRGi, and then in 2019 VSCP pushed for a recap of the company where the firm exited its position in HRGi in exchange for shares in a new company. That company today is now called Exponent Health.

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## VSCP's healthcare portfolio highlights

*(Dates refer to initial investments.)*

**AirSculpt:** A national provider of body contouring procedures. The company provides custom body contouring using its proprietary method that removes unwanted fat in a minimally invasive procedure. (2018)

**Exponent Health:** Formerly called HRGi, the company provides cost-containment technology and solutions to the healthcare industry. Over 50 million consumers across the US and Canada have access to HRGi products and services. (2019)

**Health Channels:** HealthChannels is a healthcare solutions company operating the largest collection of medical scribe programs in the US. Its programs directly enhance provider

efficiency and reduce burnout while improving the overall quality of care. (2016)

**Imedex:** Providing independent continuing medical education for health care professionals. Imedex develops scientific programming that aims to translate the latest research into clinically relevant information. (2015)

**PathGroup:** A full-service laboratory providing clinical, anatomic pathology, cytology, oncology, molecular and genetic testing services to patients, physicians and hospitals across the US. (2016)

**QualityMetric:** The company works with the world's largest healthcare and life sciences companies to provide accredited, scientifically proven tools to capture the patient's voice during the clinical trials process. QualityMetric's products and services help evaluate and market new drugs and other

medical products, screen populations for chronic disease, assess treatment effectiveness and identify future health risks. (2020)

**Safecor Health:** The company provides unit dose drug packaging services for hospitals, long-term care providers, pharmaceutical manufacturers, and retail and digital health companies. It also markets a growing line of commercial unit dose products for use in institutions. (2021)

**ScribeAmerica:** A provider of medical scribe solutions to hospitals and physicians. The company's EMR experts are trained to alleviate up to 90 percent of a healthcare provider's administrative responsibilities, thereby enhancing provider productivity, improving accuracy of clinical information and enabling physicians to focus on delivering high-quality patient care. (2014)