# 2024 Health IT Private Equity Survey

***Healthcare Growth Partners & Eliciting Insights***

**OCTOBER 2024**

**www.hgp.com**

# Executive Summary

In the fall of 2024, HGP and Eliciting Insights conducted a comprehensive survey of private equity investment professionals, primarily focusing on their activities in Healthcare and Health IT. The timing of this survey was deliberate, driven by several key factors: We are at a pivotal point in the interest rate cycle, navigating economic fluctuations, and approaching a major U.S. presidential election. These dynamics suggest the market is operating under a "new normal," which the survey aims to define.

The survey gathered responses from a diverse mix of venture capital, growth equity, and buyout investors. The results offer insights into current private equity trends in valuations, fundraising, and market dynamics, and delves into the challenges and opportunities within Health IT investing.

## Key Themes Among Investors:

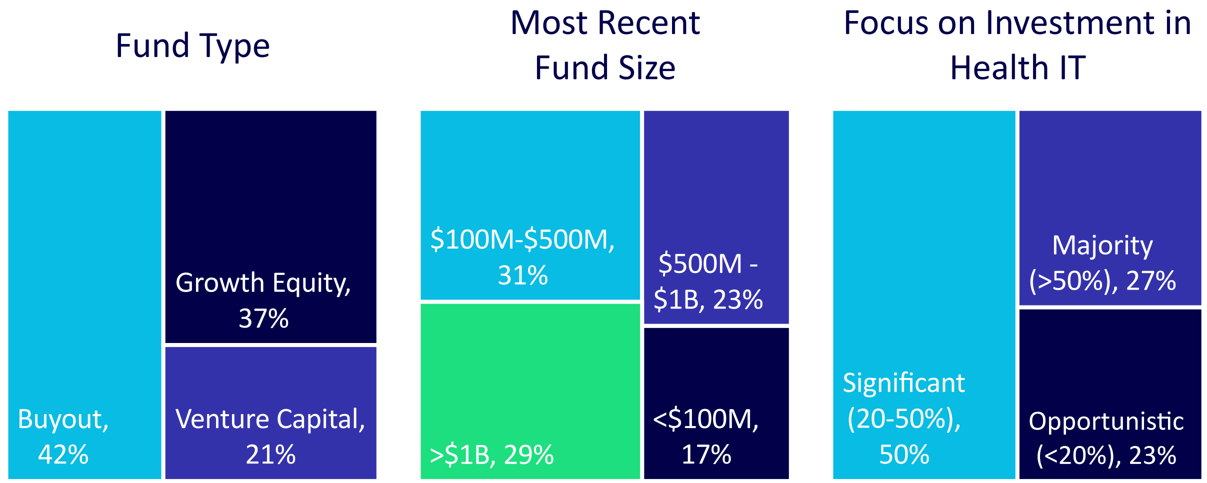
1. Valuations and Activity: Valuations have declined across the board for new investments and exits, yet investment and exit activity has increased. Buyout and growth equity funds remain resilient, while venture capital funds have experienced sharper declines in activity.
2. Profitability vs. Growth: Buyout and growth equity investors view the focus on profitability as a return to discipline. Venture capital investors, however, feel the market may have overcorrected, placing too much emphasis on profitability over growth.
3. Health IT Investing: Health IT investing shows polarization, with venture capitalists being less optimistic, while growth equity and buyout investors experience increased activity. Buyout investors are particularly bullish, citing higher valuations in Health IT compared to the broader market.
4. AI and Technology: AI remains a significant area of focus across all fund types, though it is largely seen as a tool for improving operations rather than a primary driver of new investments.
5. Market Conditions: Most investors expressed minimal concern about the slowdown in the IPO market and rising interest rates, indicating that private markets remain strong with alternative exit strategies available.
6. Election Sentiment: The majority of respondents believe a Trump presidency would benefit private equity and healthcare investing more than a Harris presidency.

## Q1–Q3. Survey Demographics

In October 2024, HGP and Eliciting Insights surveyed private equity investment professionals, focusing on their involvement in Healthcare and Health IT investing. The survey respondents represented a cross-section of venture capital, growth equity, and buyout funds, offering a diverse view of the market.

Among the 90 respondents, 27% reported a majority focus on Health IT, while 73% dedicate a minority of their attention to the sector. This split reflects varying investment priorities, with many funds maintaining a balanced approach across multiple industries.

The charts below provide a snapshot of the respondents' focus areas and investment strategies.



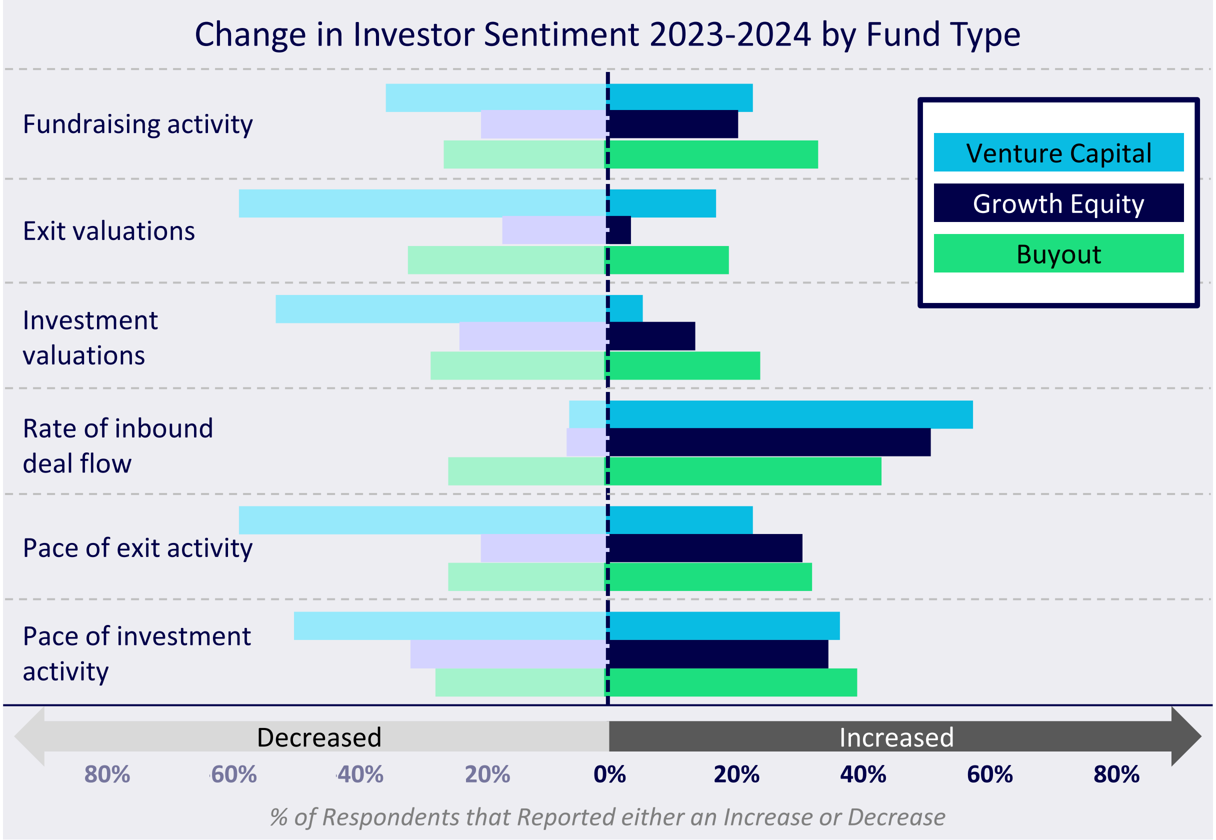

The following sections present the detailed survey results. Questions 4-11 cover overall private equity investing trends, while Questions 12-17 delve into specific trends within Health IT investing.

# Q4. Please compare the following measures in 2024 compared to 2023.

Across all fund types, respondents reported a general decline in valuations for both new investments and exits. However, despite the lower valuations, both investment and exit activity increased, showing continued market movement and a degree of acceptance of the valuation environment. Breaking this down by fund type, the feedback was more varied:

- Venture capital funds experienced a sharp decline in both exit activity and new investments, with a much larger drop in valuations.
- Buyout funds reported only a modest decline in valuations for both new investments and exits. Notably, buyout funds also saw an increase in both deal flow and investing activity, indicating resilience in this segment of the market.
- Growth equity investors also noted a decline in valuations but saw an uptick in both new investments and exits. Interestingly, the drop in valuations for new investments appeared to benefit growth equity investors more significantly.

These trends correlate with fundraising activity: While venture fundraising was down, both buyout and growth equity funds reported an increase. Though the venture segment has the most ground to recover from the pandemic's effects, it stands to benefit the most from AI, potentially causing some dislocation in this segment. We were surprised by the resilience of growth equity, which appears to be tracking more closely to buyout funds than venture in its recovery.

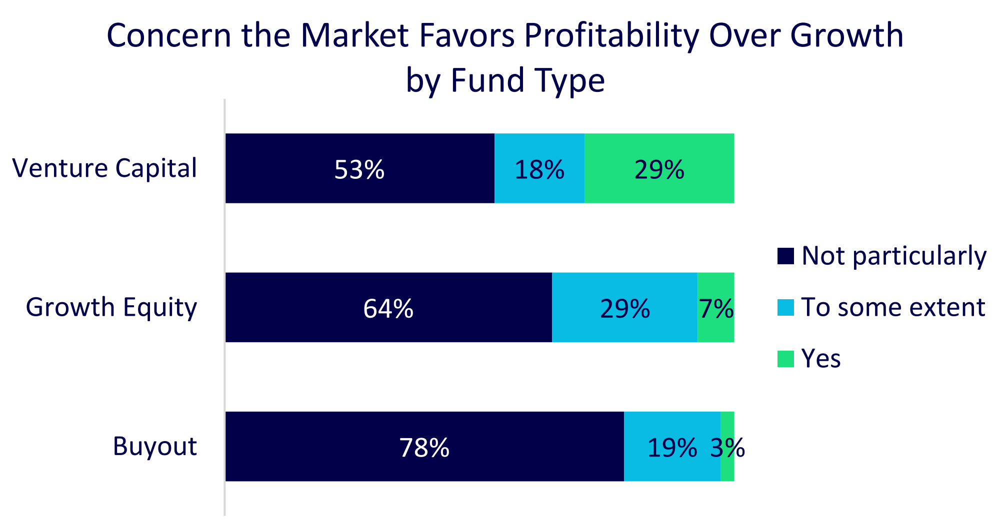


## Q5. Are you concerned that the market has gone too far in favoring profitability over growth?

When asked about the current market emphasis on profitability over growth, there was a clear distinction between fund types. Buyout and growth equity investors generally showed little concern with the shift toward profitability, seeing it as a return to discipline. In contrast, venture capital investors expressed concerns that the market may have overcorrected, placing too much emphasis on profitability at the expense of growth.

Several respondents commented on this shift, highlighting that while the focus on profitability may have swung too far, it is ultimately leading to a healthier balance in the long term. One respondent noted, *"Maybe the pendulum has swung a bit too much back to profitability, but it should resettle into a good equilibrium in the medium term bearing an exogenous force."* Another respondent emphasized, *"Ultimately, it seems investors are being more disciplined and scrutinizing the core economic model better."* This sentiment was echoed by others who believe that *"we're at a good balance."*

However, the variation in perspective often reflects the specific mandates and risk tolerance of the funds themselves. As one investor explained, *"It's ultimately a reflection of what is in the particular manager's investment mandate and the underlying risk tolerance. Many funds are still comfortable backing loss-making companies if they are growing well and have near-term profitability visibility."* This suggests that while there is a general trend toward profitability, there remains flexibility in the market, especially for funds that see clear paths to future profitability.

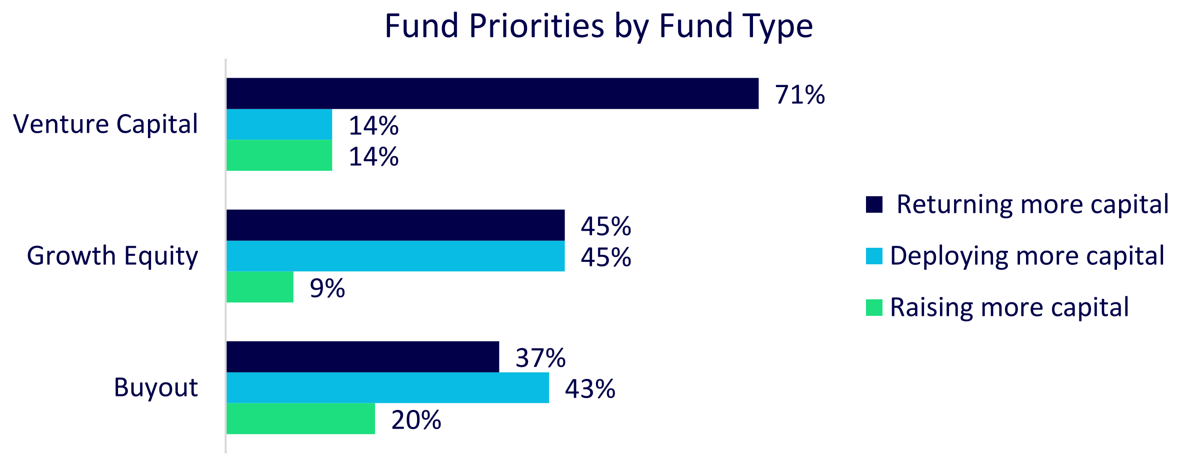


## Q6. Given the current market conditions, please rank your fund's top priorities for late 2024 and 2025.

Looking ahead, respondents identified their key priorities in the following order:

1. Returning capital (exits)
2. Deploying capital (investments)
3. Raising capital (fundraising)

Interestingly, there was some bifurcation in priorities depending on fund type. Venture capital investors were more focused on exits, while buyout investors prioritized deploying capital. This suggests that buyout investors see current market conditions as ripe for new investments, while venture capital firms are more concerned with generating liquidity from their existing portfolios.

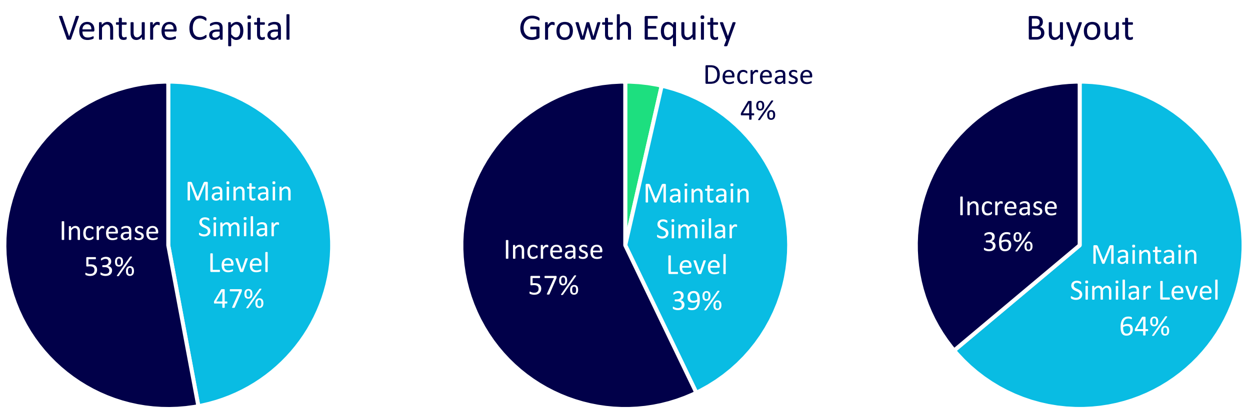



## Q7. How are you adjusting the structure (e.g., the use of preferences, participation, and other security rights) of your investments in 2024 compared to previous years?

The survey revealed that the use of structured deals has become more prevalent, particularly among growth equity investors. In private equity, "structure" typically refers to security features like preferences or participation rights that provide economic advantages to investors. The increased use of structure tends to indicate a market favoring buyers.

While structured deals are common in venture capital, their rising use in growth equity suggests a shift in market dynamics. It seems growth equity investors, who may have relaxed the use of structured deals during the pandemic, are now leveraging these mechanisms more frequently. This may be due to companies attempting to maintain higher valuations, creating an opening for investors to trade price for structure.

Use of Structure in New Investments by Fund Type




## Q8. How has the slowdown in the IPO market influenced your investment strategy or valuation approach?

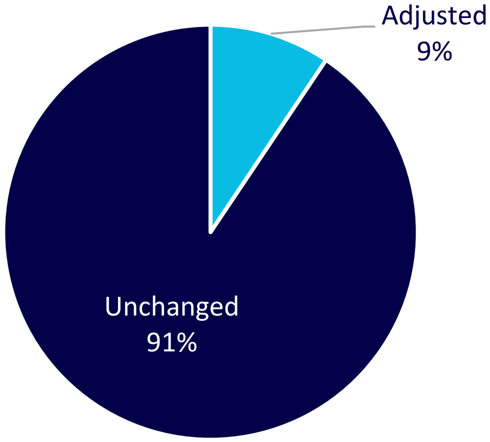
Despite the slowdown in the IPO market, most private equity investors across fund types expressed minimal concern. Venture capital and growth equity investors showed slightly more apprehension, with around 10% expressing concern, compared to just 6% of buyout investors.

Respondents provided some insight into their reasoning, with many pointing to a growing disconnect between public and private markets. As one respondent observed, *“See a lot of bifurcation between publics and private. Publics have over-rotated on profit, while high-quality private companies that are growing 20%+ are still fetching the most premium valuations.”* This dislocation has made public markets less relevant for many private investors, and as a result, IPOs are no longer the primary exit strategy for many.

Several investors also noted the increasing role of private capital and alternative exit strategies, reducing reliance on public markets. One respondent commented on this trend, stating, *“IPOs will happen around a $1.5 billion minimum market cap. That means companies need to have significant scale and maintained growth, moving the goalpost by years.”* This sentiment reflects the reality that only the largest companies will be able to exit through an IPO, while others will continue to grow in private markets.

In sum, while the slowdown in IPOs has garnered attention, private equity investors—particularly those in buyout and growth equity—are adapting to a market where private exits and continuation vehicles offer viable alternatives. Although the survey did not specifically ask about the FTC's increased oversight of M&A transactions, no respondents raised concerns about this issue in their comments.

Impact of IPO Market Slowdown on Investment and/or Valuation Approach




## Q9. Given the current interest rate environment, how concerned are you about the debt burden of your portfolio companies?

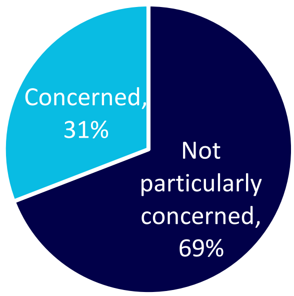
Surprisingly, most private equity investors expressed limited concern about rising interest rates and their impact on portfolio companies. A significant 69% of respondents indicated minimal concern. However, among buyout investors—who tend to be more sensitive to interest rates due to their use of debt financing—31% expressed moderate concern, the highest among all investor types.

Many buyout investors have managed this shift by using conservative leverage and focusing on profitability within their portfolio companies. One respondent encapsulated this sentiment well, stating, *"Only a few companies have debt service issues, as we are relatively conservative on leverage and focused on portfolio profitability."* This suggests that the buyout market is adapting to the higher interest rate environment by managing debt more cautiously.

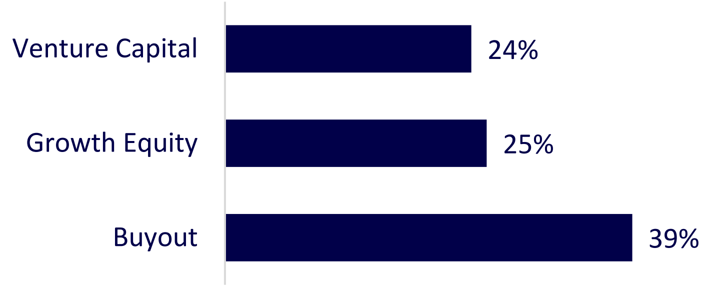
Venture and growth equity investors were less worried about rising interest rates, likely because their portfolios tend to be less leveraged. For these investors, the primary concern lies in the broader exit environment rather than immediate operational challenges. As one venture investor explained, *"Our portfolio is generally unlevered; we're more concerned about interest rate impact on the exit environment."*

These insights reflect a cautious but pragmatic approach to rising interest rates, with most investors seeing manageable risks, particularly as they maintain conservative debt practices and focus on long-term portfolio health.

Level of Concern with Rising Interest Rates (All Fund Types)



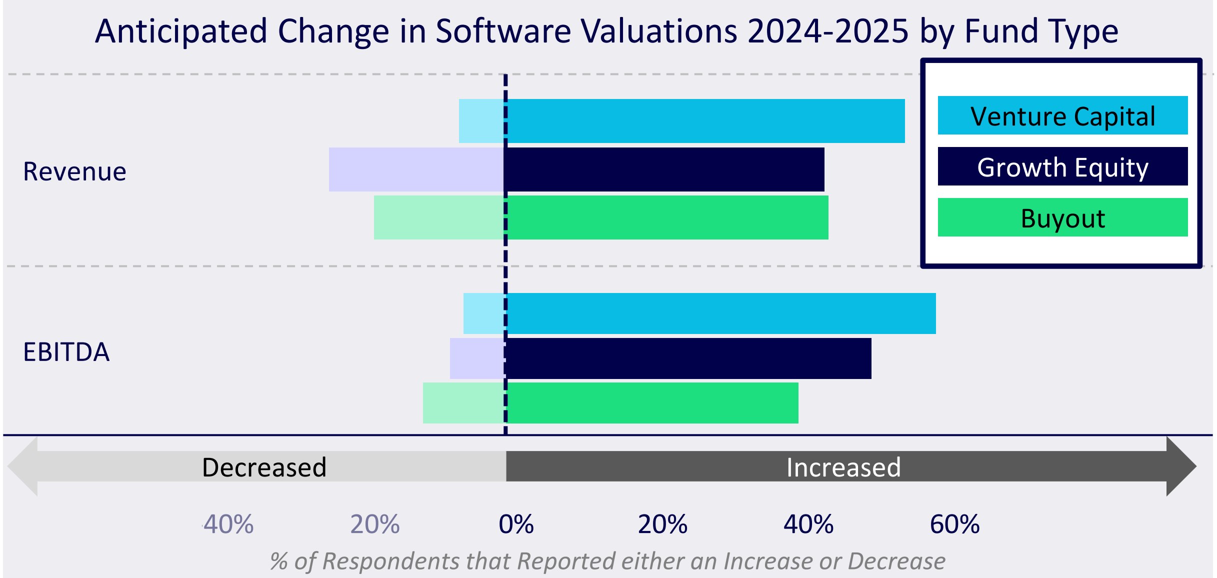

% Investors Concerned with Rising Interest Rates by Fund Type




## Q10. How do you expect software valuations to change in 2025 vs. 2024?

Looking ahead to 2025, investors expressed a generally bullish outlook on valuation trends, with a more optimistic view of EBITDA multiples compared to revenue multiples. This sentiment was relatively consistent across all fund types, with only minor variations. Growth equity investors, however, expressed slightly more concern about a rebound in revenue multiples.

Interestingly, these results somewhat surprised us, as the broader market trends have shown a greater suppression of revenue multiples compared to EBITDA multiples over the past two years. We expected more room for revenue multiples to recover, given this historical context, and expected investors to see a stronger recovery in revenue multiples. Despite this, the consensus across investors remains positive about the potential for a continued valuation recovery in the coming year.



## Q11. What changes have you seen within portfolio companies regarding remote vs in-office requirements?

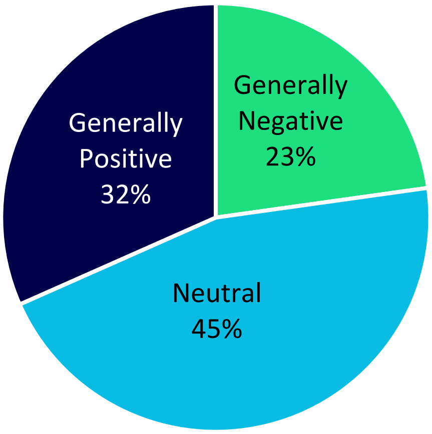
When asked about the shift to remote work, investor sentiment was mixed but largely neutral. Approximately one-third of respondents viewed remote work positively, while around 20% saw it as a negative trend. The remaining majority felt the impact of remote work was largely neutral, reflecting the ongoing debate within the industry about its long-term effects.

The comments from investors further highlighted the trade-offs of remote work. Some investors noted that while certain teams experienced increased productivity and job satisfaction, other parts of the workforce struggled. As one respondent put it, "*Productivity and happiness of engineers is up. Others down."*

Another key theme was the tension between accessing a broader talent pool and maintaining company culture. One respondent commented, *"It has been great to have access to all this talent across the country, but it can come at a cost—the ability to create and maintain a good company culture."* This sentiment was echoed by another respondent, who observed, *"Many have benefited from new working models—overhead expenses, access to talent, etc. However, interest is heightened on trying to regain some collaboration and culture-building elements of in-person."*

The diverse opinions on remote work suggest that while it has clear benefits in terms of talent acquisition and flexibility, there are growing concerns about its impact on culture and team dynamics.

Perspective on Remote Work Relative to In-Office



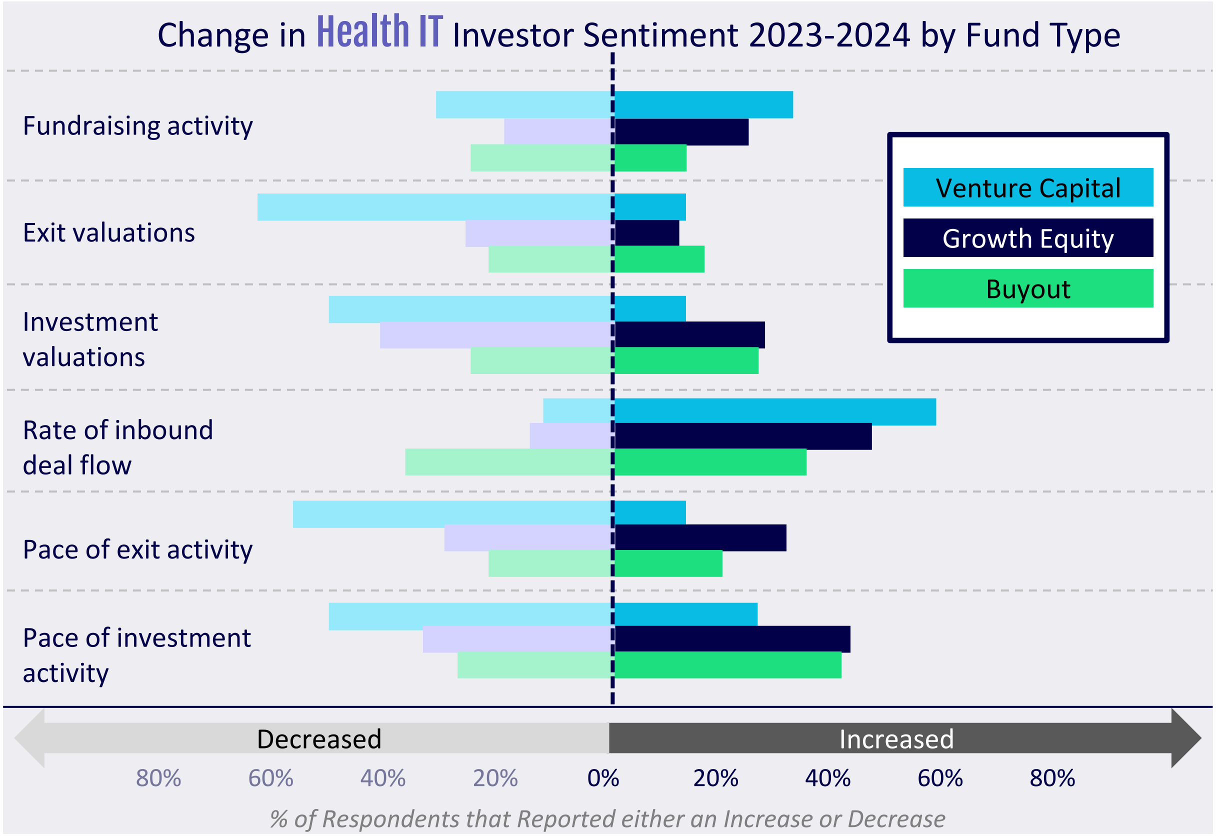
## Questions 12-17 focus specifically on Healthcare IT.

## Q12. Please compare the following measures for your fund's Health IT investments in 2024 compared to 2023.

In the section focusing on Health IT, the results closely mirrored the overall private equity investing trends identified earlier, though with more polarization. Venture capital investors in Health IT were notably less optimistic about the pace of new investments and exits compared to the broader market. In contrast, growth equity investors reported an increase in Health IT investments, despite mixed views on valuations.

Buyout investors were especially bullish, reporting higher valuations in Health IT compared to the overall market. This aligns with actual transaction data, which suggests that 2024 is a record year for Health IT buyouts in terms of deal volume.

We interpret this polarization to mean sectors within Health IT are experiencing varying trends. Telehealth and other pandemic-boosted segments have seen sharper valuation declines, while areas like revenue cycle management, supply chain, and life sciences IT have maintained stronger valuations. Investor sentiment may depend on the individual investor's exposure to specific segments within Health IT.



# Q13. Health IT has experienced some headwinds following COVID. Which of the following most closely aligns with your opinion on the long-term impact of current market challenges?

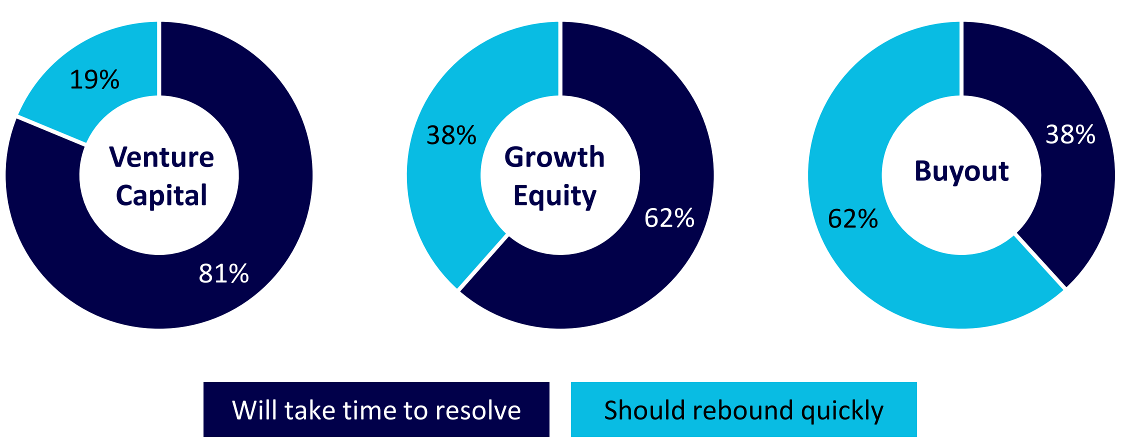
Investor sentiment around Health IT is sharply divided between different types of funds. Venture and growth equity investors were notably more bearish, with 81% of venture and 62% of growth equity respondents believing that the Health IT market has exposed deep vulnerabilities or will take time to recover. In contrast, only 38% of buyout investors shared this cautious view.

This divide can be attributed to differences in expectations regarding the pace of change in healthcare. Venture and growth equity investors, who often focus on earlier-stage companies, tend to anticipate rapid market shifts, which may lead to disappointment when the realities of healthcare's slower transformation set in. As one respondent remarked, *"Health IT valuations should typically be lower than other verticals. Gross margins are almost always lower, markets are typically smaller, and there are fewer large-cap outcomes."* This underscores the challenges of scaling Health IT companies compared to other sectors.

Conversely, buyout investors, who typically focus on more mature companies, may have a more tempered and realistic outlook. Another respondent highlighted this by noting, *"Certain Health IT spaces will experience some headwinds, but overall the secular dynamics remain unchanged. However, positive secular trends do not necessarily translate to strong M&A activity."* This reflects the buyout investors' view that while some areas of Health IT may face challenges, the broader market remains stable, albeit with greater selectivity.

In summary, while venture and growth equity investors are more cautious, buyout investors maintain a more confident outlook, possibly driven by an investment strategy predicated on healthcare's slower but steady evolution.

Perspective on Long-Term Impact of Market Challenges by Fund Type

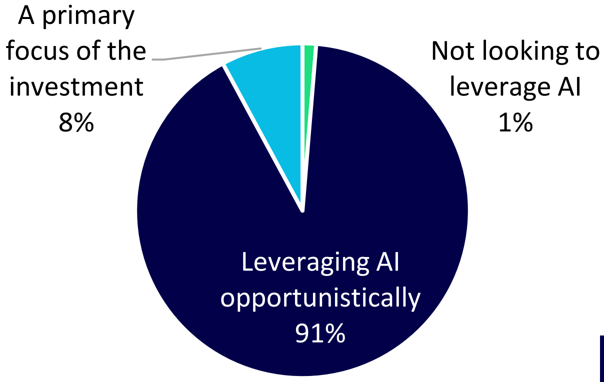


## Q14. To what extent does artificial intelligence (AI) play a role in the strategy of your investments?

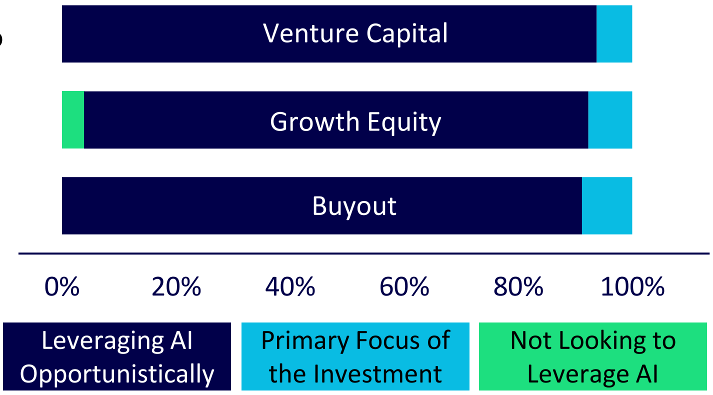
Across all investor types, there was strong interest in leveraging artificial intelligence (AI) within both existing and new investments. While AI is seen as an important factor, it is not viewed as critical to new investments, even for venture capital investors. Just 6% of venture capital respondents cited AI as a primary focus for new investments, reflecting a measured approach to integrating AI into their portfolios.

For most investors, AI is recognized as a powerful tool for enhancing the efficiency of existing operations and investments, rather than as a standalone investment thesis. This balanced approach suggests that while AI is a significant trend, investors are taking a measured and strategic stance on its potential to drive new investments.

Influence of AI on Investment Strategy (All Fund Types)




Influence of AI on Investment Strategy by Fund Type



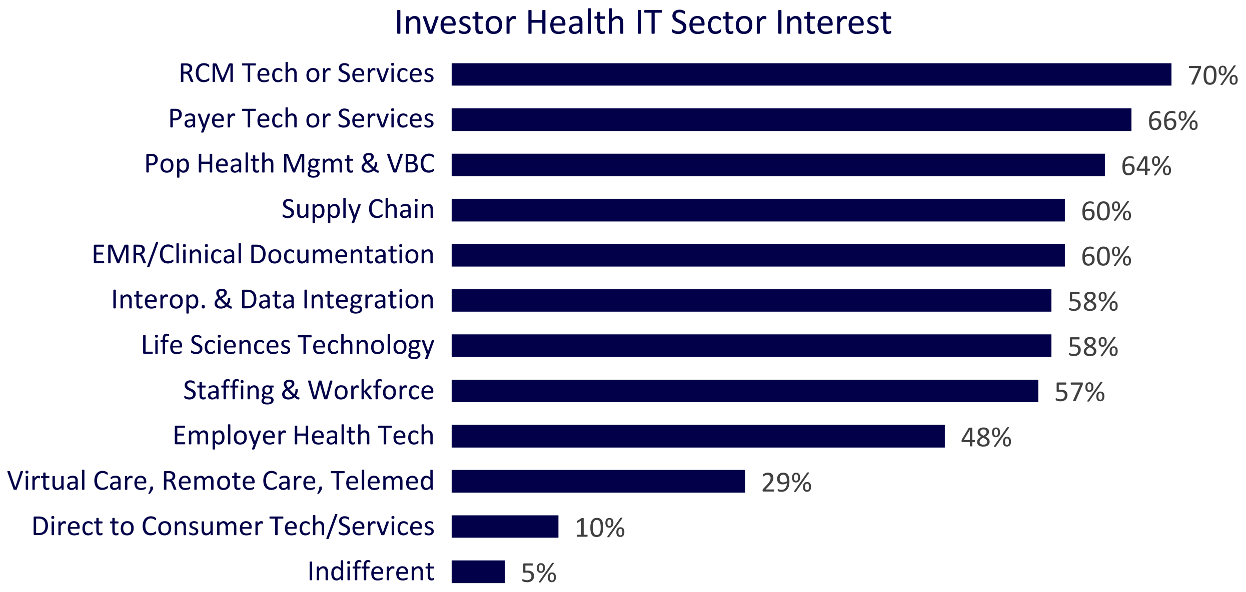

## Q15. Within Health IT, which sectors or themes are under consideration for investment? Check all that apply.

When asked about the most attractive areas within Health IT, investors ranked revenue cycle management (RCM) as the top sector, followed by payer technology and services, population health, and supply chain. In contrast, sectors like direct-to-consumer technology and services, along with virtual care/telemedicine, were the least favored overall.

However, a clear contrast emerged between venture investors and buyout investors. Venture investors showed significantly more interest in consumer-facing technologies, with 31% selecting direct-to-consumer health tech and 44% identifying virtual care as key areas of focus. This differs sharply from buyout investors, of whom <10% expressed interest in these sectors.

The divide can be attributed to the differing perspectives on the pace of change and disruption in healthcare. Venture investors, along with early-stage founders, often believe that healthcare is ripe to undergo rapid transformation and are more idealistic and disruptive in their go-to-market strategies. As a category, they are more likely to seek models that disrupt the status quo, often pursuing a different direction from the existing market. The combination of this optimism and strategic philosophy drives their interest in direct-to-consumer innovations, despite the barriers to scaling such businesses.

In contrast, buyout investors, who typically focus on more mature companies, take a more measured approach often by virtue of their investment stage. Mature companies are more attuned to the realities of the complex regulatory environments, sales model, and established customer bases. As a result, buyout investors naturally gravitate toward areas where business models are more established, and the pace of adoption is better aligned with the healthcare system's inherent complexity.

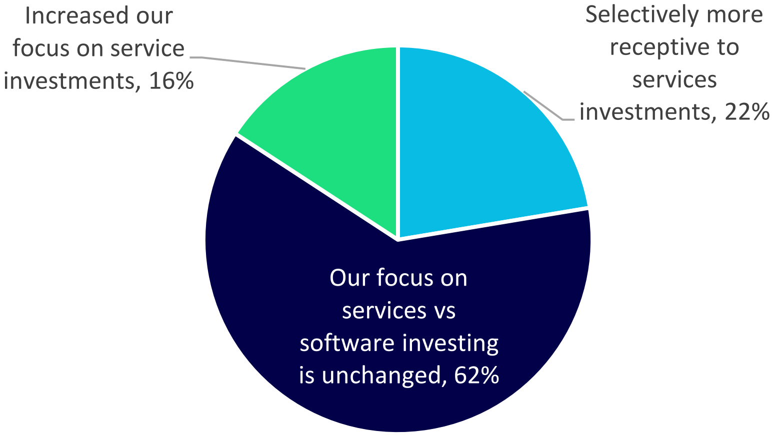



## Q16. Given the potential for AI to enhance the scalability and efficiency of services companies, how has your fund's investment focus evolved?

Nearly 40% of investors reported an upward change in receptivity to investing in services, particularly those that can scale and gain efficiencies through AI. Surprisingly, this sentiment was consistent across all types of funds, showing broad interest in the potential for AI to disrupt traditional services models.

Comments from respondents reflected this shift, with one investor stating, *"We think AI can become a significant threat to those services companies that have not incorporated AI."* Another added, *"We expect the markets to evolve very slowly over time. Meaning real change can take decades to be pervasive."* These remarks suggest that while AI offers tremendous potential, investors believe the transformation will be gradual, with companies that fail to adapt facing long-term challenges.

Technology vs. Services Investment Focus

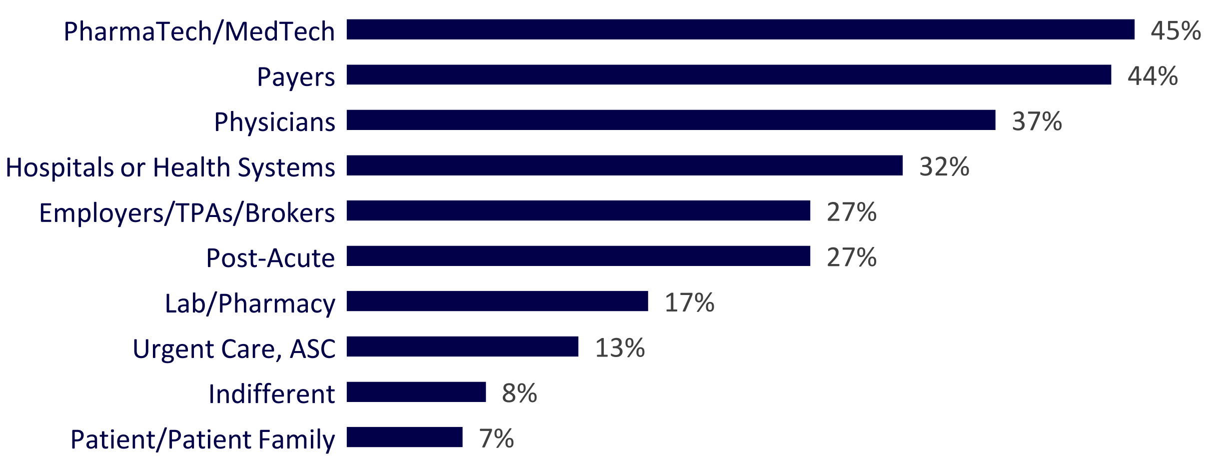



## Q17. What is the most attractive customer segment represented by Health IT companies you evaluate?

In terms of customer end-markets, investors showed the most interest in PharmaTech/MedTech, followed by payer organizations, physician groups, and hospitals. The least favored end-market was direct-to-consumer, which aligns with the broader sentiment seen in Question 15.

Despite this, venture investors continued to show some interest in the direct-to-consumer segment, reflecting their willingness to take risks in consumer-facing healthcare innovations. On the other hand, buyout and growth equity investors gravitated toward sectors with more established infrastructure, demand, and large addressable markets.

Investor Health IT Customer Segment Interest



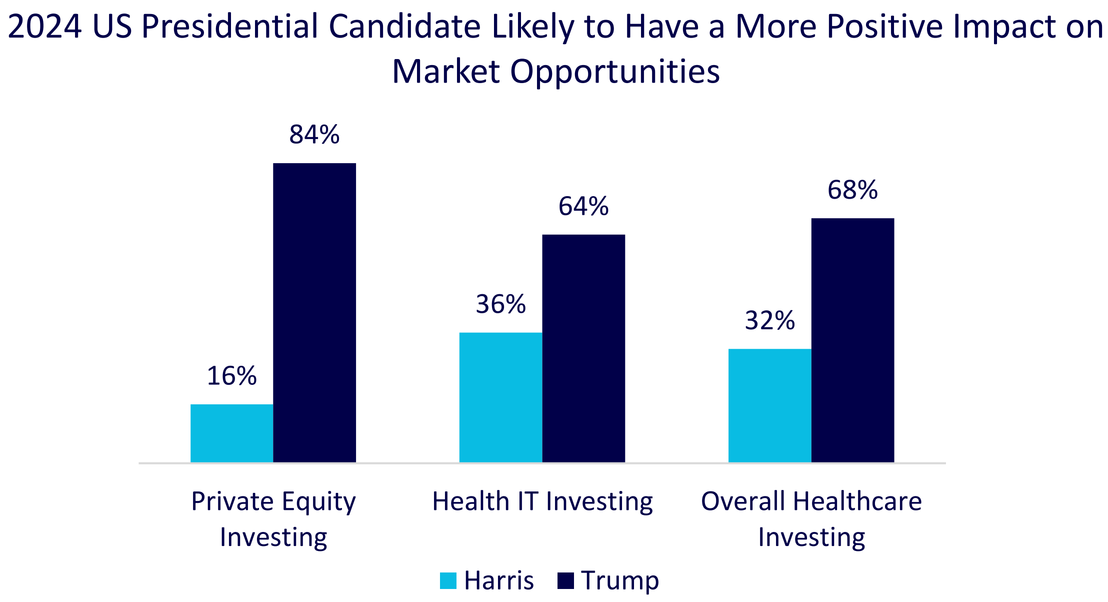
## Q18. Which presidential candidate is likely to have a more positive impact on market opportunities?

When asked which presidential candidate would likely have a more positive impact on private equity Healthcare and Health IT investing (not necessarily where respondents are casting their personal vote), the majority of respondents favored Donald Trump. For private equity as a whole, Trump was seen as the more favorable candidate by 84% of respondents, with just 16% viewing a Harris presidency as more beneficial to the market.

Interestingly, Trump was also viewed as more beneficial for Healthcare and Health IT investing, though the margin was narrower—64% of respondents favored Trump, compared to 36% for Harris. This finding contrasts with the traditional expectation that Democratic candidates, who generally advocate for increased government spending and regulation, would be seen as more beneficial to healthcare operators.

The breakdown by fund type provides additional context. Buyout investors were the most supportive of Trump, with the largest margin in favor of his policies, followed closely by venture capital investors. Growth equity investors were more evenly split regarding Healthcare and Health IT investing but still leaned toward Trump for private equity overall.

This outcome reflects private equity's general preference for policies that emphasize lower regulation and a more favorable business environment, which many investors associate with Republican leadership. Despite the perception that Democrats might increase healthcare spending, the private equity community seems to believe that Trump's policies would provide greater overall benefits to their investment strategies.



# About Healthcare Growth Partners

Healthcare Growth Partners (HGP) is an exceptionally experienced Investment Banking & Strategic Advisory firm exclusively focused on the transformational Health IT market. We unlock value for our clients through our Sell-Side Advisory, Buy-Side Advisory, Capital Advisory, and Pre-Transaction Growth Strategy services, functioning as the exclusive investment banking advisor to over 140 health IT transactions representing over $5 billion in value since 2007.

Our passion for healthcare inspires us to not only create value for our clients, but also generate broad, overarching improvements to the functionality and sustainability of health. With our focus, we deliver knowledgeable, honest, and customized guidance to select clients looking to execute high-value health IT, health information services, and digital health transactions. For more information, please visit www.hgp.com.

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# About Eliciting Insights

Eliciting Insights is a healthcare strategy and market research firm that leverages decades of experience in HCIT, digital health, and RCM, and a proprietary panel of thousands of healthcare executives, to deliver bespoke insights to help investors and technology firms make strategic business decisions.

Core services include:

- Strategic Advisory: M&A needs assessment, due diligence, roadmap planning, market sizing/assessment, interim product strategy support.

- Product/Marketing: net promoter programs, competitive assessments, win/loss analysis, pricing studies, persona development, roadmap planning, business case development.

Since its founding in 2015, Eliciting Insights has worked with hundreds of healthcare technology and services companies serving payers, providers, and consumers. For more information, please visit elicitinginsights.com.

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