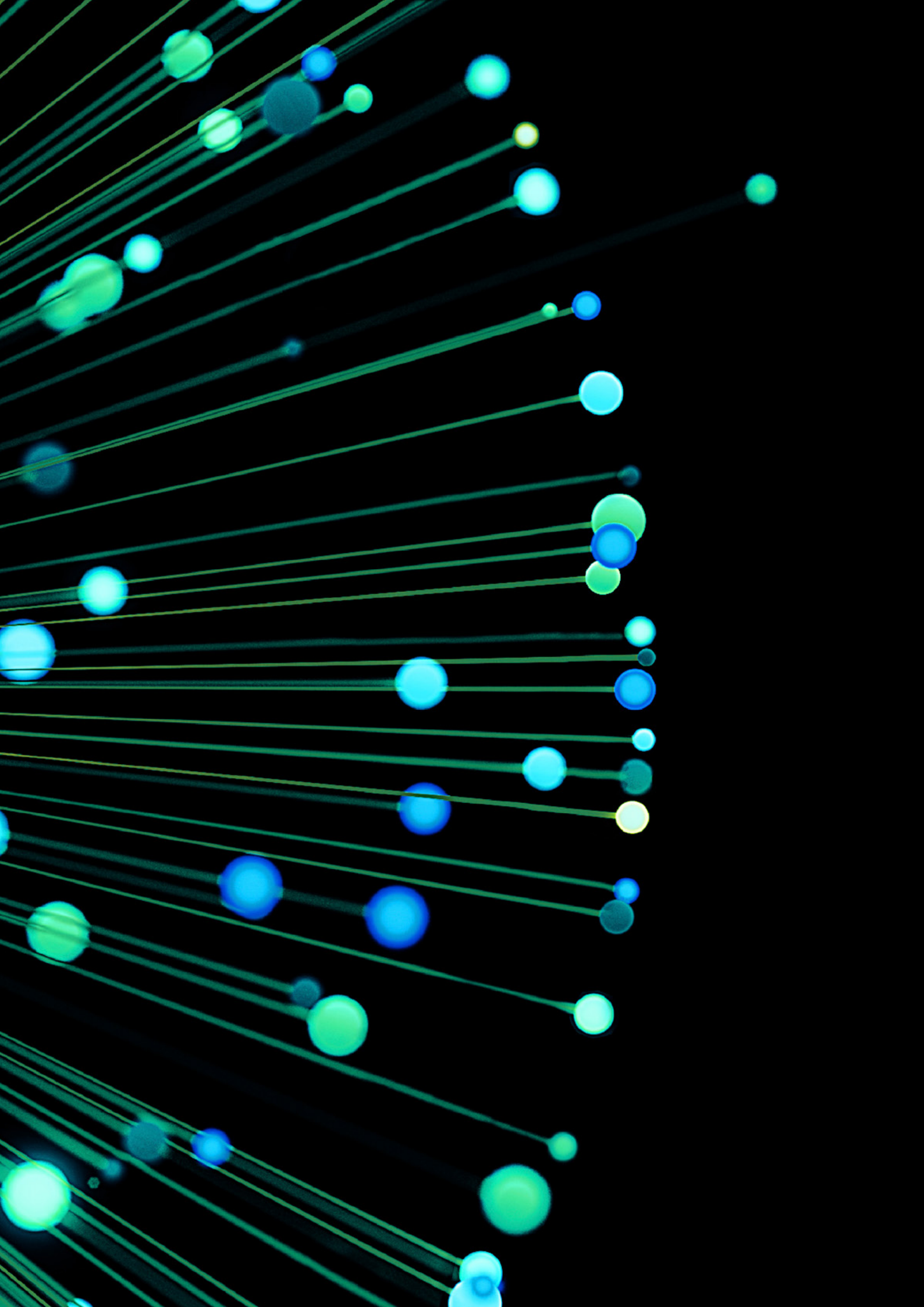




Platform business models – Private equity opportunities
in the life sciences and health care sector

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June 2024



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Private equity opportunities in the life sciences and health care sector

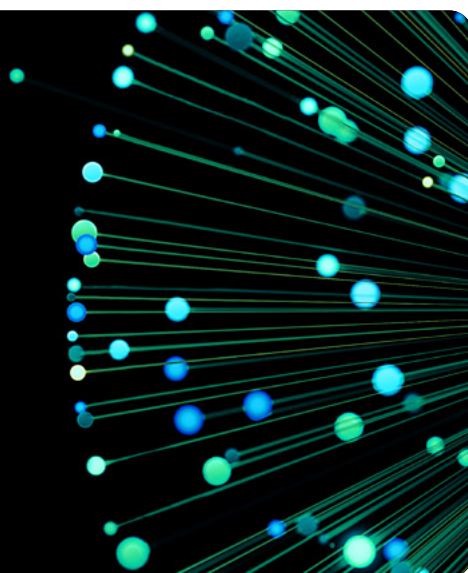
The life sciences and health care industry is undergoing a series of significant sector-level transformations that are fundamentally changing the basis of competition and driving the continued reassembly of the industry.

Putting these changes in the context of the next 10 to 20 years, we envision a Future of Health characterized by an empowered consumer with interoperable data sets at their fingertips and personalized interventions focused on maintaining and restoring health and wellness. This will be a future fueled by unprecedented access to personalized data with insights that can intervene further upstream in the disease process.

Ultimately, the pace of these changes and the abundance of new consumer-centric capabilities to win in this market underscore the need for a new way of partnering through platforms and ecosystems.

“To win amidst these dynamics, private equity firms and their portfolio companies will need to embrace a platform-centric business model that can create exponential value for its ecosystem.”

The power of platform enabled business models



Platforms are mechanisms to orchestrate interactions and facilitate the co-creation of goods, services, and ideas with a broader ecosystem.

Ecosystems represent a web of relationships brokered by the platform that enhances economic value for all participants using the platform. Platform businesses are rewiring the traditional value chain. In nearly every industry, well-thought-out platform businesses typically beat traditional businesses because of superior unit economics and network effects.

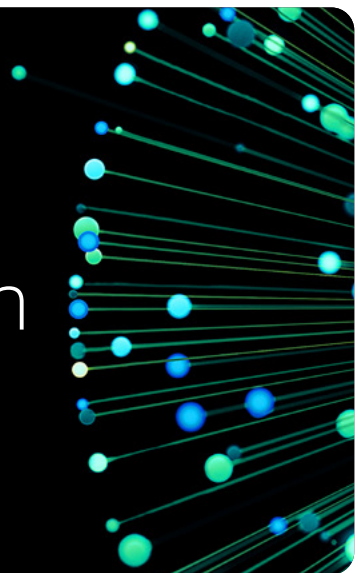
One of the most prominent demonstrations of success in platform business models can be seen in the hospitality industry with companies that don't own any lodging facilities. These companies connect consumers to property owners and are able to scale more effectively than traditional hotel chains. Platform businesses enable value-creating interactions between producers and consumers, unlocking spare capacity in supply and matching that to the demand of the user community.

As described in Deloitte's paper [The Power of Networked Ecosystems](#),¹ it states that the life sciences and health care industry is primed for platform disruption, mainly because the current industry is plagued by significant information asymmetry, persistent consumer dissatisfaction, non-scalable gatekeepers, and sclerotic legacy technology. In fact, it forecasts that platform businesses will continue to grow and have the potential to capture approximately 50% of all health spending by 2040.²

Platform businesses outcompete their non-platform counterparts. In health care, they boast higher valuations and EV/Revenue multiples (2.7X vs 1.7X)³ and higher revenue per employee (\$929K vs \$465K)³.

"With an estimated \$1 trillion⁴ opportunity for platform businesses in health care, private equity funds should look to transition select life sciences or health care portfolio companies to platform businesses, and command higher valuations."

Implications of platform enabled business models in healthtech and medtech



In healthtech, many portfolio companies have formed sustainable businesses by owning a piece of the value chain. Examples include payment integrity, revenue cycle, care management, and virtual care.

PE-backed healthtech companies should seek to understand how they can leverage their captive base and dominance in a part of the value chain to expand into adjacent parts of the value chain as a platform.

For example, healthtech companies focused on interoperability can expand into a platform for care navigation or those focused on provider enablement can expand into platforms for value based care. This requires embracing a cloud-enabled modern tech stack and forming partnerships to augment capabilities in your core business.

Similarly, PE-backed medtech companies should seek to understand how they can migrate from a hardware business to an Everything-as-a-Service (XaaS) platform that commands a higher valuation in the market. A typical medical device company has a portfolio of device or hardware solutions.

When bundled with software, and value-added services, a medtech company can form a suite of XaaS-driven platform offerings to optimize performance and expedite clinical transformation.

As described in [Beyond the device: Medtech's expansion into Everything-as-a-Service](#)⁵ XaaS involves the bundling of hardware (in this case medical devices, equipment, and/or consumables) with software and/or services that count toward customers' OPEX budgets.

“Med device companies can leverage XaaS-driven platforms as they aim to modernize their customer model and capture new profit pools.”

This is articulated further in the following strategies:

Expand offerings. Provide integrated, end-to-end medtech services and software to augment feature-oriented hardware, equipment, and consumables that boost provider efficiency and improve patient quality of care. Service-centric offerings may also help medtech players build lasting relationships with providers through increased customer stickiness.

Adapt monetization models. Instead of one-time, upfront CapEx sales and leasing contracts, medtech companies should consider transitioning to recurring payments via cost-effective OpEx subscription, consumption, and outcome-based solutions that enable providers to manage rising infrastructure and equipment costs.

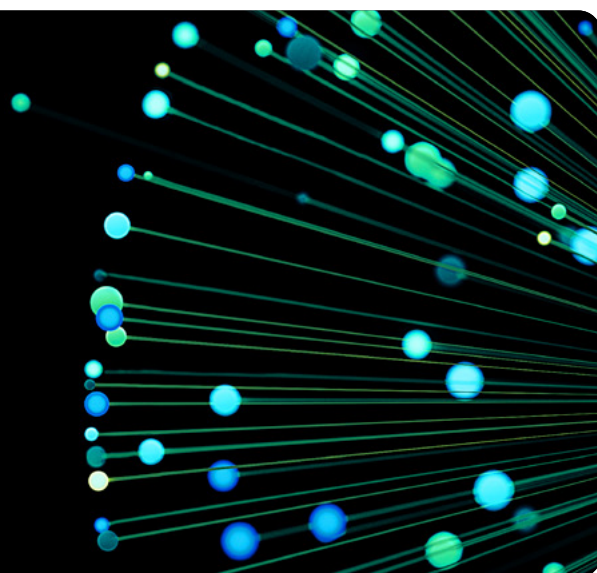
Capture new profit pools. Tailor offerings to the needs of consumers willing to pay for higher-end solutions that meet their specific health needs—expanding beyond traditional business-to-business (B2B) customers (that is, hospitals, clinics, physicians, and insurance providers). This new business-to-consumer (B2C) segment provides an opportunity to diversify revenue streams and tap into a broader consumer ecosystem of high-margin premium software solutions and consumer technology.

Modernize delivery models. Leverage cloud services to enhance scalability, automation, and real-time integration. Use a private-public cloud hybrid model to host personally identifiable information (PII) and operational data, depending on specific business requirements around costs, capacity, and data security.

Develop an ecosystem. Foster partnerships with disrupters to proactively shape an ecosystem that connects “beyond the walls” care solutions across the patient health journey versus ad-hoc, point of intervention offerings within traditional sites of care. As patients become active consumers, such partnerships can enable med device companies to incorporate behavioral science insights into their services to effectively address the needs of the emerging B2C market segment.



Seizing the opportunity for private equity



More broadly, private equity firms stand to potentially find greater benefit from platform and ecosystem investments than traditional companies.

By nature of their M&A focus and ability to acquire and hold multiple portfolio companies.

“private equity firms can act as platform businesses themselves and drive additional value in unique ways such as, cross-selling and up-selling by linking products into portfolio solutions that better meet a customer along their journey.”

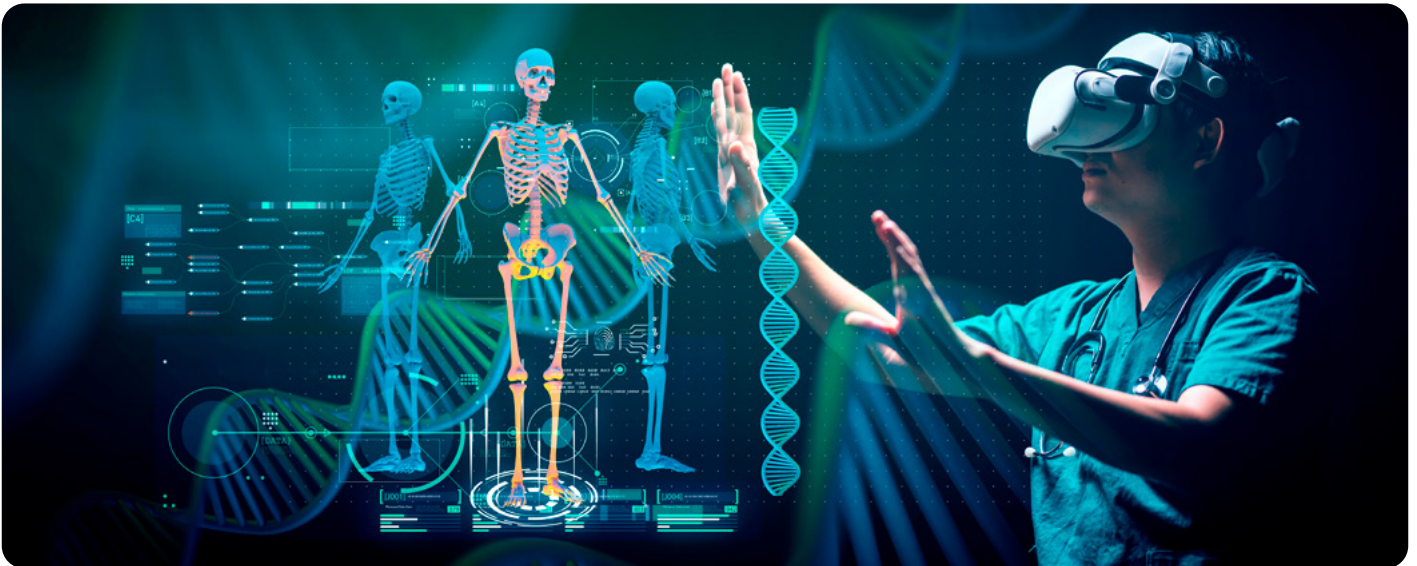
Leveraging shared back-end and core resources across portfolio companies, and/or updating learnings across multiple portfolio companies—oftentimes quicker than traditional companies by nature of the speed at which they work.

Through the adoption of a platform business model, PE-backed healthtech and medtech companies and the private equity funds themselves, can effectively navigate dynamic industry shifts and evolving provider and patient needs. Examples include:

By partnering with innovative ecosystem players such as hyperscalers, companies can create additional revenue streams from non-traditional services such as behavioral science analysis and insights.

One prominent continuous glucose monitoring leader has collaborated with consumer technology hyperscalers, enabling diabetes patients to monitor their glucose levels using the hyperscalers' hardware and software prowess.

To expand offerings, one healthtech organization identified a need for a virtual health offering for its captive long-term care customers. The organization partnered with a virtual care technology company, leveraging their telehealth software technology and integrations, and determined a shared revenue model.



Macro industry trends are fundamentally changing the market landscape and growth trajectory of medtech and healthtech companies.

To begin transformation to a platform business, companies should ask the following questions:

What part of my business or capabilities can be delegated to the ecosystem?

Which partners should I consider and how do I incentivize them on my platform?

What monetization models should be considered for the new business?

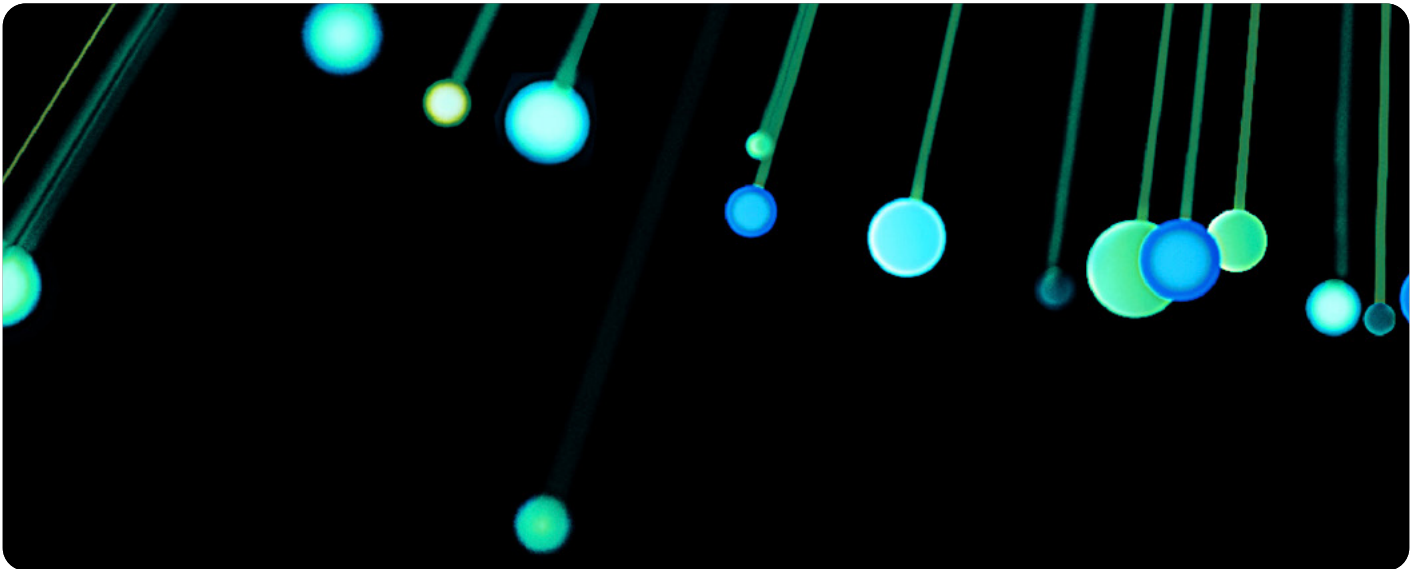
How do I quickly test the viability of the business model before scaling?

How do I organize my operating model to sustain a platform business?

Equipped with this new business model, private equity-backed portfolio companies can generate new value for patients, providers, and themselves, while embracing a key driver of future growth.

"To thrive amid these shifts and create customer stickiness, companies will need to embrace a holistic view of the patient care journey, which may require services outside of their core competencies."





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End Notes

1. Deloitte, "The power of networked ecosystems: How platforms can be a force-multiplier in health," 2021
2. Deloitte analysis
3. Summit Health Advisors, "2024 healthcare platform report," 2024
4. Summit Health Advisors, "2023 healthcare platform report," 2023
5. Deloitte, "Beyond the device: Medtech's expansion into Everything-as-a-Service," 2023

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