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NEWS AND ANALYSIS

OceanSound eyes M&A expansion for Par Excellence

OceanSound expects Par Excellence to become an active consolidator in hospital inventory management.

OceanSound Partners aims to pursue potential add-on opportunities to help its debut healthcare platform, Par Excellence Systems, a provider of supply chain management technology, become an active consolidator in the hospital inventory management space and potentially expand into other healthcare subsectors, Joe Benavides, managing partner and co-founder of OceanSound, shared with PE Hub.

The New York firm announced its acquisition of the Cincinnati-based supply chain and cost management software developer in early September from Northlane Capital Partners, which, along with Par's management team, will remain a minority investor.

"The annual total addressable market for Par's existing solutions, excluding potential acquisitions we may make to expand the business, is large and exceeds \$2.5 billion," said Benavides. "The company's solutions are deployed over several years at each customer and, together with both backlog and recurring revenue, provide substantial cashflow visibility, all of which is ideal for a PE investor."

Par provides government, non-profit and private healthcare systems, including Veterans Health Administration-run hospitals, with cloud- and AI-based software aimed at reducing medical supply inventory workflow inefficiencies,



Joe Benavides, OceanSound Partners

automating manual tasks and reducing unnecessary spending.

Potential market expansions

Northlane, which invested in the company in 2017, previously explored strategic alternatives with Par's management team in 2022 but decided not to transact at the time. Upon hearing that the company was once again looking at alternatives, OceanSound pursued a deal for Par, said Benavides, seeing strong growth potential due to its strong revenue visibility as well as hard and soft backlog and over 100 percent revenue retention.

OceanSound, which invests in technology and technology-enabled businesses serving government and highly

regulated end markets, sees opportunities to build out Par's cost management capabilities and introduce its technology to new spaces, including pharmaceutical prescriptions and medical devices. This, said Benavides, will create attractive exit opportunities long term.

"We believe Par could ultimately become a total cost management solutions provider and serve as a key partner to the CEOs and CFOs of healthcare facilities," he said. "We believe Par's embedded position in the healthcare supply chain makes its data a powerful component within broader healthcare cost and outcomes optimization initiatives in subsets of healthcare beyond the hospital space."

The firm also plans to convert Par's license and maintenance revenue model to a subscription-based, recurring model and pursue other advancements to increase the company's equity value.

Curbing costs

US healthcare systems collectively spent approximately \$1 trillion in 2023 on labor and supply costs, which are steadily growing beyond the annual inflation rate, according to Benavides. An American Hospital Association report attributed the rise in costs to hospitals routinely seeking to purchase the latest supplies and equipment to keep up with quality care standards, along with expensive contract labor to fill workforce gaps and maintain access to care.

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“Cost management solutions in the hospital market are becoming increasingly valuable and will generate accelerated growth and investment activity,” said Benavides.

He added that the market is also attractive due to being largely fragmented and made up of small divisions of large healthcare companies such as Becton Dickinson, Cardinal Health and Owens & Minor.

“With respect to our ownership of Par, there are a number of initiatives we will pursue together with Par’s management

team consistent with the engineering-like approach we take in transforming these types of companies into more strategically valuable businesses,” said Benavides.

Par Excellence is OceanSound’s eighth investment this year. In January, the firm acquired Thompson Software Solutions via its portfolio company Lynx Software Technologies, which it invested in back in 2022. In March, it acquired Insight Group via RMA Companies, followed by DEC via Gannett Fleming. It also completed a \$1.15 billion continuation fund for SMX Group and acquired software provider

Message Broadcast in April. The firm acquired Earth Engineers in July via RMA companies and then acquired and merged TranSystems with Gannett Fleming in August.

OceanSound also recently spoke with PE Hub about its plans to pursue several add-on acquisitions for Message Broadcast, a provider of customer engagement software in the electric utility sector that OceanSound acquired alongside Energy Impact Partners from Link Mobility.