

GREAT HILL EYES NEXT CHAPTER OF PARETO GROWTH

After a partial exit to Warburg, the firm plans further growth for the employee healthcare benefits platform, which includes targeted add-ons.

BY ARMIE MARGARET LEE

Opting for a partial sale of its stake in employee healthcare benefits platform Pareto Health Inc. over a full exit, Great Hill Partners LP sees opportunities for continuing to help grow the portfolio company, with M&A being part of the plans.

Great Hill sold part of its stake in Pareto to Warburg Pincus LLC in a deal that closed the week of May 29.

“We had people inquiring [about buying Great Hill’s entire stake],” said Great Hill managing director Mark D. Taber in an interview. Great Hill, however, didn’t want to fully exit the company, he said.

“Bringing in Warburg gives us the opportunity to stay in the business,” Taber said.

Based in Philadelphia, Pareto provides offerings that enable small and midsized businesses to self-fund their health benefits. As of January, more than 2,200 employer groups that comprise north of 760,000 covered lives participate in a Pareto program.

Great Hill purchased a majority stake in Pareto in August 2019, becoming the company’s first institutional investor, in a deal reportedly valued at more than \$200 million.



Great Hill managing director Mark Taber

With the transaction that closed last month, Great Hill and Warburg now own equal stakes in Pareto, alongside a continuing investment from the management team. Terms of the deal were not disclosed.

As part of its growth strategy, Pareto is eyeing add-on acquisitions.

“We are looking at a variety of potential acquisitions, including smaller captives, cost containment solutions,” Taber said.

In addition, Great Hill and Warburg are investing in sales, marketing and technology at Pareto.

Pareto focuses on businesses with 50 to 500 employees, with its average employer having under 200 employees, Taber said.

The total core addressable market for employers with 50 to 500 employees is about \$8 billion, Taber said.

Pareto has under 1% penetration of its core market and is expanding to move into the 25- to 50-employee market, he said.

“We like the value proposition because it offers both lower costs and lower risk: Pareto’s solution allows small employers to participate in the savings that self-funding their health plan provides, while participating in the larger captive pool insulates them from the financial risk of a spike in claims cost, which could be catastrophic for a small employer trying to self-insure alone,” Taber said. ■