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ANALYZING VALUE CREATION MECHANISMS IN PRIVATE EQUITY INVESTMENTS: EVIDENCE FROM USP HOSPITALES

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Abstract

This thesis analyzes the main value creation mechanisms in Private Equity (PE) investments, with a focus on leveraged buyouts (LBOs) in the healthcare sector through the case of USP Hospitales. It combines a theoretical framework with an empirical case study to assess how financial and operational levers contribute to returns. The findings show that value creation is driven by a balanced interaction of mechanisms rather than reliance on a single factor. Operational improvements—particularly revenue growth, efficiency gains, and specialization in high-margin services—played a central role. Additionally, the implementation of a buy-and-build strategy enabled scale expansion and market consolidation. Financial engineering, including leverage, multiple expansion, and dividend recapitalization, further amplified returns. The investment achieved strong performance, supported by favourable industry and macroeconomic conditions. Overall, the study highlights that successful PE investments depend on the coordinated execution of strategic, operational and financial initiatives.

Key words: Private Equity, Leveraged Buyouts, Value Creation, Healthcare Sector, Financial Engineering, Operational Improvements, USP Hospitales.

Esta tesis analiza los mecanismos de creación de valor en el Private Equity (PE), enfocándose en las compras apalancadas (LBO) del sector sanitario mediante el caso de USP Hospitales. Combina un marco teórico con un estudio empírico para evaluar cómo las palancas financieras y operativas generan rentabilidad. Los hallazgos muestran que el valor surge de una interacción equilibrada de mecanismos, no de un solo factor. Las mejoras operativas —crecimiento de ingresos, eficiencia y especialización en servicios de alto margen— fueron fundamentales. Asimismo, la estrategia buy-and-build facilitó la expansión de escala y consolidación sectorial. La ingeniería financiera, incluyendo apalancamiento, expansión de múltiplos y recapitalización de dividendos, amplificó los retornos. La inversión obtuvo un sólido desempeño, impulsado por un entorno macroeconómico y sectorial favorable. En conclusión, el estudio subraya que el éxito en PE requiere la ejecución coordinada de iniciativas estratégicas, operativas y financieras.

Palabras clave: Capital Privado, Adquisición Apalancada, Creación de Valor, Sector Sanitario, Ingeniería Financiera, Mejoras Operativas, USP Hospitales.

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1. Introduction

Private Equity has become an increasingly relevant force in modern economies, playing a key role in financing, restructuring, and scaling companies across multiple industries. At the same time, the healthcare sector, particularly hospital services, has gained strategic importance due to demographic trends such as population ageing, rising demand for medical services, and increasing pressure for efficiency and quality. In Spain, these dynamics have driven both sector growth and consolidation, creating fertile ground for Private Equity investment. However, not all transactions are successful, and outcomes can vary significantly depending on how value creation strategies are implemented. For this reason, it is of particular interest for both academia and practitioners to analyse specific case studies that allow the identification of the key levers behind successful investments and provide insights into how value can be effectively generated in practice.

1.1. Objectives

The objective of this thesis is to identify and examine the primary value creation levers employed in Private Equity investments, with a particular focus on understanding how these mechanisms contribute to the generation of returns in leveraged buyout (LBO) transactions within the hospital sector. The analysis seeks to assess which levers whether operational, financial, or strategic prove most effective in enhancing the performance and long-term value of Private Equity investments.

1.2. Methodology

This thesis is structured into 2 main parts:

- **Theoretical framework:** This section provides a comprehensive overview of the Private Equity (PE) industry. It first introduces the main categories of PE investments, with a specific focus on Leveraged Buyouts (LBOs). The analysis then details the fundamental structure of an LBO deal and outlines the key value creation mechanisms employed by PE firms. The section concludes by analysing the Private Equity landscape in Spain.
- **Case study and literature review:** This section provides an in-depth case study analysing the Leveraged Buyout (LBO) of USP Hospitales by Mercapital. It focuses on the specific mechanisms of value creation realized throughout the investment lifecycle, including the acquisition's entry price, operational improvements, the implementation of a buy-and-build strategy, refinancing,

dividend recapitalization and the final exit strategy. This detailed case analysis is then benchmarked against existing academic literature to identify key variables and factors driving value creation in the healthcare sector, highlighting any potential differences between the academic findings and the case study.

1.3. Motivation

This thesis is motivated by the critical trends in two core economic sectors: healthcare and Private Equity. The hospital services industry experienced rapid consolidation in the early 2000s, driven by demographic shifts, technological demands, and the need for greater operational efficiency in markets like Spain. Private Equity firms can execute this consolidation through leveraged buyouts, aiming to generate high returns through a combination of financial engineering and strategic operational improvements (scale, professionalized management, buy-and-build). This thesis, therefore, fills a critical gap by providing an evidence-based examination of these value creation levers within a specific case benchmarking them against established academic theory,

2. Theoretical framework

2.1. What is Private Equity?

Private Equity (PE) refers to the investment of equity capital in companies that are not publicly traded often through negotiated transactions and, in some cases, buying listed companies and taking them private (Goldman Sachs, 2022). As of 2022, the number of U.S. private firms was 64 times bigger than the number of public firms, a gap that has been widening since the mid-90s (KKR, 2023), which provides an entire universe of companies to invest in. PE funds generally invest in companies with a medium to long-term vision and managers pursue an active ownership approach, working closely with management to enhance performance over a defined holding period (Invest Europe, 2025). At exit, the fund seeks to realize returns through a secondary sale, a public listing or any other transaction that provides liquidity (Goldman Sachs, 2022).

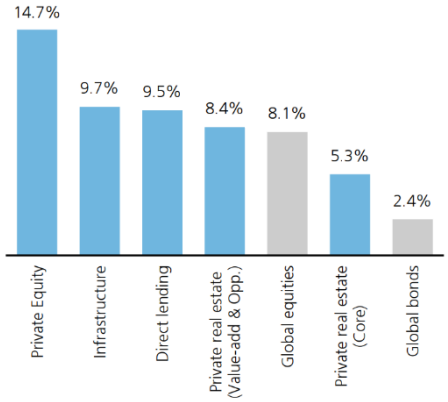
Private Equity funds are structured as limited partnerships managed by a general partner (GP) on behalf of limited partners (LPs). Limited partners are investors that provide the capital for the fund, these are generally institutional investors such as pension funds, endowments and other financial institutions (Meketa Investment Group, 2022). General partners are professional managers responsible for (KKR, 2023):

- Sourcing companies for investment
- Negotiating investment terms and structures
- Managing or advising the executive team
- Partnering with management to implement the strategy
- Exiting the investment

The compensation structure for Private Equity General Partners (GPs) is centred around the "2 and 20" fee structure, which is split into two primary components. First, the GPs receive a recurring management fee to cover operating costs, typically set at approximately 2% of the total committed capital annually. Second, and serving as the primary incentive to foster performance, GPs are entitled to carried interest, which generally accounts for 20% of the gross profits generated from successful investments. This performance-based payout is not guaranteed, as it is usually subject to a hurdle rate, which defines the minimum annual return required on the Limited Partners' capital before the GPs can claim their share of the profits. (Stepstone Group, 2022).

Private Equity investing can be very attractive, as it provides certain upsides when compared to public markets. Private markets have historically outperformed public markets, between 2004 and 2023, on a time weighted average global Private Equity yielded annual average returns of 14,7% while global public equities just achieved an 8,1% return, as shown in Figure 1 (UBS, 2024).

Figure 1 - Private versus public market returns (2004-2023)

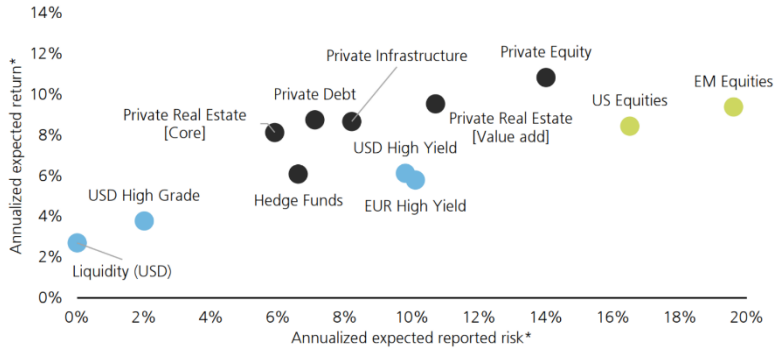


Source: UBS, 2024

In terms of risk, Private Equity investments have exhibited lower volatility than public equities as private assets are not priced daily and are not subject to market sentiment shocks which is presented in Figure 2 (Meketa Investment Group, 2022). Consequently,

Private Equity offers an attractive risk-return profile relative to other asset classes (UBS, 2024).

Figure 2 - Expected annualized risk/return for public and private asset classes

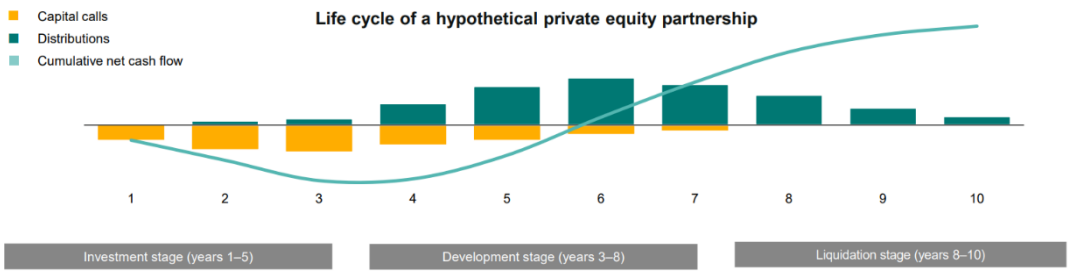


Source: UBS, 2024

As mentioned earlier the investment scope for PE is much larger which enables investment in a wide range of companies not available in public markets. In many cases this allows investors to further diversify their portfolio introducing alternative investments which in some cases have low or zero correlation with public markets (UBS, 2024). Additionally, information asymmetry and the complexity of private markets transactions can provide compelling investment opportunities at steep discounts (UBS, 2024).

Conversely, investing in Private Equity presents several notable downsides. Unlike public markets, private market investing is not universally accessible; significant capital barriers exist, often requiring substantial minimum investment tickets (SEC, 2014). In some cases, fees paid to GPs can be considerably higher than other asset classes (Meketa Investment Group, 2022). Furthermore, private markets are inherently highly illiquid, which negatively impacts investors as their capital remains locked in for extended periods, typically exceeding five years. This illiquidity is graphically represented by the J-Curve in Figure 3, which illustrates the fluctuation of cumulative cash flows over the typical ten-year life cycle of a PE fund. During the initial investment stage (Years 1-5), capital calls outweigh returns, resulting in negative cumulative cash flow. This is followed by the development stage (Years 3-8), where the fund continues to deploy capital while initiating early exits, leading to the beginning of positive distributions. Finally, the liquidation stage occurs toward the end of the fund's term, where remaining portfolio companies are fully divested and LPs receive their final, often largest, distributions (Vanguard, 2024).

Figure 3 - The J-Curve



Source: Vanguard, 2024

Private Equity refers to a very diverse asset class that is made up of four main investment strategies:

- **Venture capital:** is a subset of Private Equity that provides equity financing to early-stage companies or startups. These companies are often not profitable but require capital to develop their business model (Eurostat, s.f.). Funds take minority stakes and provide active support to help transform early research and ideas into scalable products and companies. VC is designed to fund high-growth, high-uncertainty opportunities, accepting elevated failure risk in exchange for the potential for significant value appreciation (Stepstone Group, 2022).
- **Growth equity:** these investments back fast-growing companies that are beyond the start-up phase but not yet at the scale or maturity typical of buyout targets. Investors provide expansion capital for initiatives such as new products, geographic expansion, or acquisitions, usually in the form of minority stakes (Goldman Sachs, 2022).
- **Leveraged Buyouts (LBO):** involve the acquisition of a mature public or private company. LBOs utilize high leverage, with the purchase price usually financed by debt representing 50% to 70% of the Enterprise Value (EV), and the remaining financed with equity. The target's assets and cash flows serve as collateral and the principal and interest payments are covered with the target's cash flows. Private Equity investors typically operate with a medium-term holding horizon, generally spanning five to seven years which supports value creation plans. After the holding period the fund exits the investment through an IPO, a secondary buyout or a sale to a strategic buyer. The objective is to maximize returns at exit through a combination of debt paydown, multiple expansion and operational improvements (Investopedia, 2025) (Stepstone Group, 2022).

- **Distressed investments:** this investment category involves acquiring the debt of companies that are near default, in bankruptcy or undergoing restructuring. This debt is purchased at deep discounts to face value, allowing investors to yield substantial returns in the event of a successful turnaround. These investments are executed using two primary strategies. The "debt-to-control" strategy, where investors first become major creditors of the company and after restructuring the debts is converted into newly issued equity at favourable valuations to gain control of the company. The "debt-for-profit" strategy, which involves profiting solely from the appreciation of the debt's value as the company's financial health and credit profile subsequently recover (Stepstone Group, 2022).

2.2. Leveraged Buyouts: Value Creation Levers

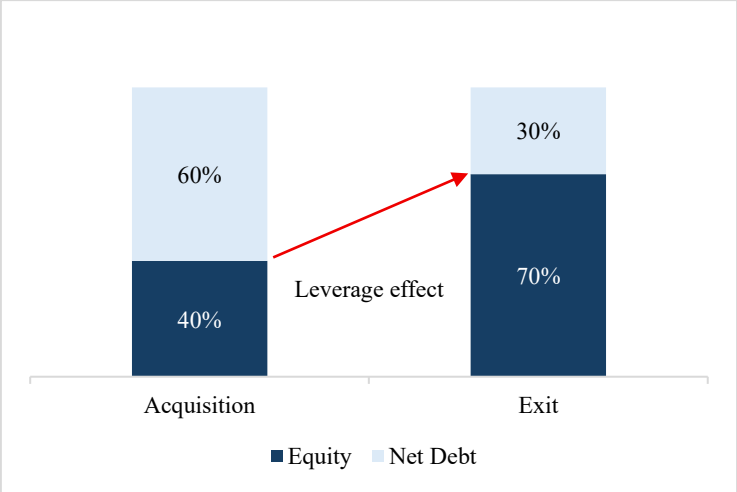
Leveraged Buyouts are a Private Equity strategy aimed at maximizing returns to investors. To achieve this, sponsors implement a mix of financial and operational levers throughout the holding period. On the financial side, value creation comes from leverage, debt refinancing, dividend recapitalizations and multiple expansion. On the operating side, sponsors drive performance improvements and pursue buy-and-build acquisitions.

2.2.1. Financial levers

- **Leverage:** is the basis of this Leveraged Buyouts and a key driver of returns. Companies are acquired with a high proportion of debt relative to equity, often around 50% or more of the capital structure (Stepstone Group, 2022). During the holding period the target’s cash flows service the interests and amortize the principal, which decreases net debt. At the time of exit, the net debt has been reduced which increases the equity portion of the Enterprise Value, thereby amplifying returns. As Figure 4 shows, for a company acquired with 60% debt and 40% equity, if half of the debt is repaid by exit while the enterprise value is unchanged, investors still realize a 1,75x multiple on invested capital. In other words, deleveraging alone lifts the equity value even without any multiple or EBITDA improvement. In terms of capital, the cost of debt is cheaper than the cost of equity, so funds are better off obtaining financing through debt up to an optimal level. Additionally, debt interest payments are tax deductible unlike dividend payments, so this provides a “tax shield” which enables the company to pay additional interests or repayments instead of taxes. Despite the benefits of

leverage, there exists a fundamental trade-off between maximizing equity returns and minimizing financial risk. Increased debt levels inherently lead to higher debt service obligations and a corresponding elevated risk of default. Consequently, fund managers must optimize the capital structure to ensure the leverage level maximizes shareholder value while avoiding financial distress (Canderle, 2022).

Figure 4 - Capital Structure Evolution in a Leveraged Buyout



Source: First Principles, 2003

- **Multiple expansion:** is the increase in the valuation multiple between entry and exit. To improve the exit multiple, PE sponsors typically: time the sale for a favourable market environment, improve operational efficiency and enhance scale and quality so buyers are willing to pay more for a larger, lower-risk platform (CFI, s.f.).
- **Dividend recapitalization:** this mechanism involves issuing new debt to fund a special dividend to shareholders before exit. The target's assets and cash flows secure the new borrowing, increasing leverage and altering the capital structure. Sponsors use recaps to provide liquidity to investors and earlier cash distributions can boost returns without relying on retained earnings. They are most common when credit is abundant and rates are favourable. The trade-off is higher financial risk as additional debt can raise default probability, strain covenants and damage credit ratings. Consequently, sponsors must conduct rigorous due diligence and assess the risks to confirm the business can service the extra interest and principal without incurring financial distress. (CFI, s.f.).

- **OpCo-PropCo structure:** is a mechanism that involves separating the target company into an operating company "OpCo" which runs the regular business and a property company "PropCo" which owns the real estate assets. It is often used in industries where real estate is an important asset such as healthcare, retail and hospitality services. This structure offers several financial and operational benefits (Market Financial Solutions, s.f.):
  - Asset protection by isolating assets from the operational risk and liabilities incurred by the OpCo
  - Tax benefits as entities are subject to different tax regimes
  - Improved financing terms, reflecting a lower risk profile and access to asset-backed funding via the PropCo structure
  - Strategic flexibility and increased transparency
- **Debt refinancing:** is a process that involves replacing existing debt with newly issued debt with more favourable terms and conditions. In practice, the new debt is used to pay down the existing debt. This mechanism provides certain advantages (PGIM Private Capital, 2024):
  - Improved interest rate terms
  - Adjusting maturity profiles to match long-term strategic goals and to allow for changes in repayment schedules
  - Enhanced credit profile
  - Incremental capacity to raise additional debt to fund new projects
  - Switching variable-rate debt to fixed-rate debt or vice versa

2.2.2. Operational levers

- **Operational improvements:** involve a series of mechanisms designed to accelerate portfolio company growth and performance through strategic management and execution. These actions permeate all functional areas of the business and are deployed to enhance the firm's long-term competitive potential. The main strategies utilized include:
  - Revenue growth through the introduction of new product lines, geographical and sector expansion and price optimization.
  - Margin improvements by driving efficiency gains and implementing technological changes
  - Strategic focus on high-margin or high potential business areas

- Leadership capabilities are strengthened through targeted management upgrades and recruiting (CFI, s.f.)
- Supply chain optimization through improved inventory management, logistics optimization and efficient procurement (Bartel, 2025).

- **Buy and build:** is an M&A strategy that combines core mechanisms: the acquisition of a well-established platform company, which is subsequently leveraged to acquire and integrate smaller businesses in the same or adjacent segments. The aim is to create synergies, gain rapid growth and create a larger, better-positioned group with the rationale that a combined entity is more valuable than the sum of the parts. This strategy is especially effective in situations where: the sector is very fragmented, synergies are tangible and bigger companies have better valuations. The three main value creation levers are: business growth and expansion, leverage, multiple expansion by acquiring smaller companies at low valuations and selling the combined entity at a higher multiple (Baker Tilly, s.f.). This strategy has become increasing popular over the last few years, according to Bain & Company in 2003 21% of platforms had made 4 or more acquisitions while in recent years it has risen to approximately 30%. Additionally, the firms targeted by platform companies are becoming bigger as large funds acquire larger firms. Additionally, consolidation activity is accelerating toward larger scale: as major funds target bigger add-on companies (Bain & Company, 2019).

2.3. The Private Equity sector in Spain

The Private Equity market in Spain has evolved rapidly in recent years. Following the pandemic, 2021 was a record year, with +400 deals and €52,2bn in value (MergerMarket, cited in Cuatrecasas, 2025). This surge reflected a favourable macroeconomic backdrop with low interest rates and abundant liquidity from monetary stimulus (Bain & Company, 2022). Momentum then cooled amid global headwinds as rates hiked and uncertainty entered financial markets, which produced a mixed picture in Spain: deal value fell 36%, while volumes rose (MergerMarket, cited in Cuatrecasas, 2025; McKinsey & Company, 2024). The challenges extended into 2023, when both value and volume declined. Conditions improved thereafter as rates eased and activity firmed, prompting a rebound in 2024: all key metrics rose, with deal count surpassing 600 (up 37% vs. 2023) and exit value jumping 124% to €20,8bn (MergerMarket, cited in Cuatrecasas, 2025). This growth is partly linked to attractive performance: in the analysed sample of private companies in

a study conducted by EY, returns roughly doubled those of the IBEX 35 and exceeded the Euro Stoxx 600 by about 50% (EY, 2024).

Regarding deal sizes in 2024, lower-mid market transactions (valuations below €100m) accounted for 71% of all deals but only 11% of total value. The upper-mid market (€100–€500m) represented 22% of deal count and 33% of aggregate value. Large-cap deals (above €500m) comprised just 7% of transactions yet generated over half of total value (MergerMarket, cited in Cuatrecasas, 2025). In addition, during H1 2024 the leading deal type by value was the leveraged buyout (49%), followed by venture capital (29%) and growth equity (22%) (Capital and Corporate, 2024). Technology was the most active sector, accounting for 19% of all transactions, followed by life sciences & biotech (13%), services (11%), and industrial (10%) (MergerMarket, cited in Cuatrecasas, 2025).

Several clear trends have shaped the market over the last years. Buy-and-build has emerged as the standard operating model, as sponsors seek to create larger platforms, accelerate growth and capture operating synergies. International funds have strengthened their footprint accounting for roughly 60% of investment in 2024 despite increasing regulation on FDI (Capital and Corporate, 2024) (Cuatrecasas, 2025). Sustainable/ESG investing continues to gain traction, building on a steady expansion since 2006 (EY, 2024). On the regulatory front, reforms enacted in 2022 have begun to broaden retail access to Private Equity by lowering minimum investment thresholds (EY-Crescenta, 2024).

3. Empirical analysis: Identify levers through USP Case study

3.1. The Healthcare Industry

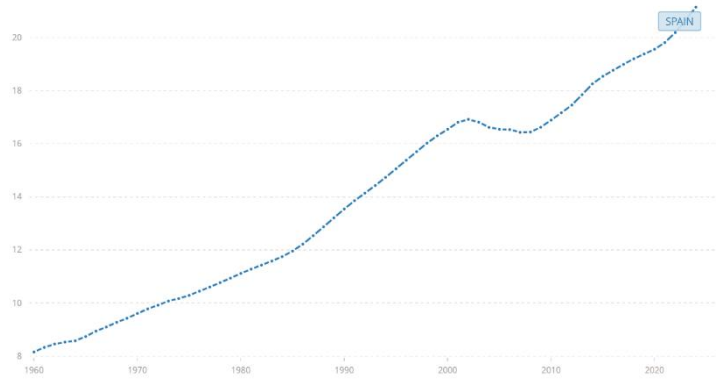
3.1.1. Overview

The European health sector experienced several transformations in the late 1990s and early 2000s, driven by the rising cost of new treatments and procedures and the progressive ageing of the population (Orosz, 2003) which resulted in a sustained expenditure growth (OECD, 2003). In the following years, health infrastructure was expected to expand through additional hospitals and clinical centres. Spain followed the same pattern as the broader European continent. Although its healthcare spending had been among the fastest-growing in the EU, total expenditure remained low as a share of

GDP about 7,5% in 2001 (OECD, 2003) across public and private sectors, placing Spain below many peers before 2004.

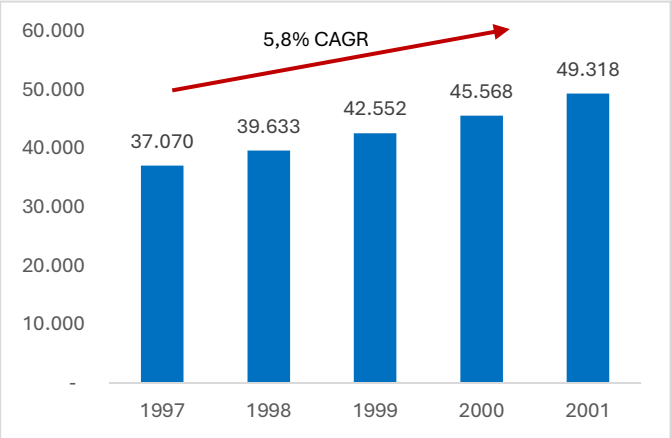
Similarly in Spain, this period shows two important trends: a steady rise in the share of the population aged 65 and over which is represented in Figure 5 (Group, 2025) and a consistent increase in total health expenditure as a percentage of GDP (Ministerio de Sanidad y Consumo, 2005). As for the percentage of population aged 65 or above, it represented 11% of the total population in 1980 while it currently represents 21% of the population, proving the aging tendency over the last decades (Group, 2025). Consequently as illustrated in Figure 6, healthcare expenditure has risen significantly undergoing a 5,8% $CAGR_{1997\text{-}2001}$, this represents 7,5% of GDP a 0,8% increase from 1990 (Ministerio de Sanidad y Consumo, 2005) (OECD, 2003). This uptick reflects higher utilization, diffusion of new procedures and the greater care intensity associated with an ageing case mix (Orosz, 2003). Health services increasingly combined their own capacity with contracted private provision to manage waiting lists and urban growth. By the early 2000s, over a third of discharges in private hospitals were publicly financed through such arrangements (Ministerio de Sanidad y Consumo, 2004).

Figure 5 - Share of population aged +65 evolution (1960-2024)



Source: World Bank Group, 2025
Note: Figures expressed as a % of total population

Figure 6 - Healthcare expenditure evolution (1997-2001)

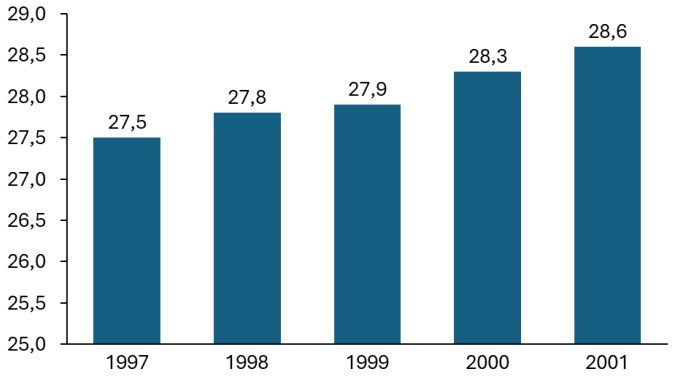


Source: Ministerio de Sanidad y Consumo and OECD, 2003
Note: figures expressed in m€

3.1.2. The Private Sector

The healthcare sector growth during the period was largely attributed to the development of the private sector. Expenditure accounted for 28,6% of total spending in 2001 up from 27,5% in 1997, illustrated in Figure 7 (OECD, cited in USP, 2003). Despite universal coverage by the NHS, the private healthcare industry coexisted with the NHS, serving approximately 17% of the population (over 20% in the larger cities). Both systems became increasingly complementary due to the inefficiency of the public health agencies and the trend for the NHS to outsource work to the private sector resulting in a bigger market share for the private sector in an expanding industry (USP, 2004).

Figure 7 - Private health expenditure evolution (1997-2001)

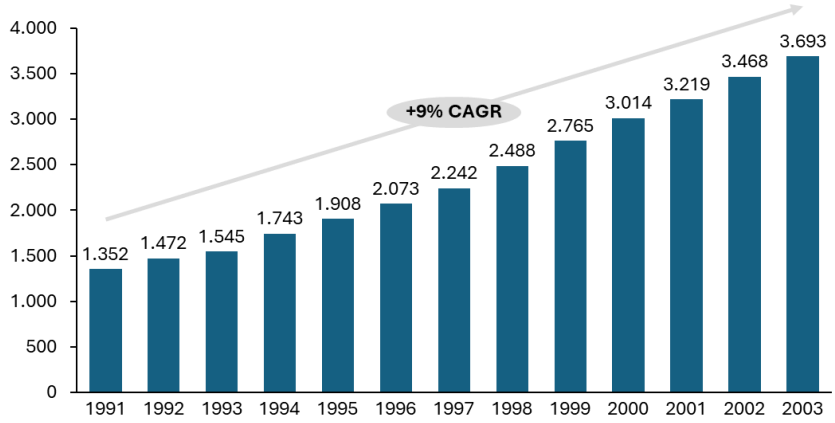


Source: OECD, 2003
Note: figures expressed as a % of total

The strong historical growth of private hospitals was largely driven by: ageing population, immigration, new technology, procedures not covered by NHS and number of employers offering private health insurance as a benefit (USP, 2004). This resulted in a market size

that doubled in size from 1991 to 1999 with a 8,7% $CAGR_{1991-2003}$ as represented in figure 8 (USP, 2004). In addition to this, the sector was highly fragmented as the top ten players in the market represented 33,5% of the sector revenue with numerous single-site or small local operators. Geographic concentration was also uneven, with Cataluña having 32% of beds, Andalucía 13%, Madrid 11%, Canary Islands 10% and Galicia 8%, highlighting different local dynamics and multiple regional sub-markets. Overall, the data showed an attractive market with strong growth, an ideal environment for consolidation and geographical expansion (DBK, cited in USP, 2004).

Figure 8 - Private hospitals market evolution (1991-2003)



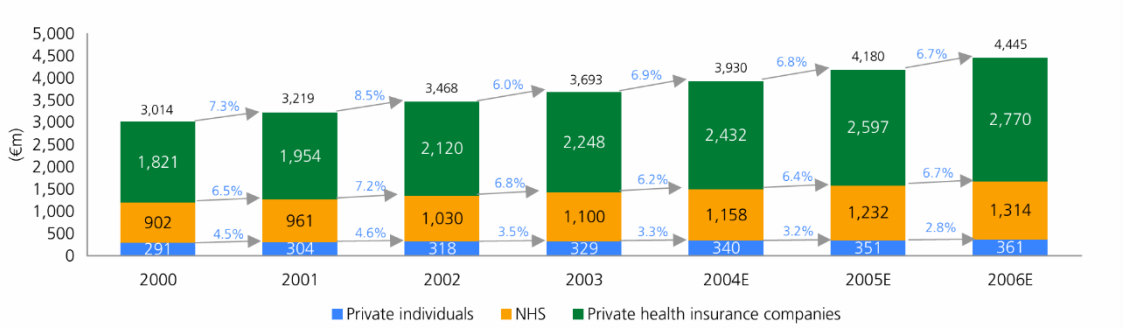
Source: USP, 2004
Note: figures expressed in m€

In terms of demand, three main types of clients operated in the hospital sector. Private health insurance companies accounted for 62% of the market in 2003. Although some insurers operated their own facilities, they remained the dominant purchaser for independent providers and represented 72% of USP's revenue. The NHS was the second largest client segment accounting for 30% of the market. Despite mounting capacity constraints that increased NHS outsourcing to private providers, these contracts contributed just 11% of USP's revenue. Private individuals made up around 9% of the market accounting for 17% of sales for USP. Importantly, USP's exposure was concentrated in the fastest-growing segment: HIC-funded activity expanded at about 8,3% $CAGR_{1999-2003}$, supported by a steady increase in spending on private insurance policies which roughly quadrupled since 1990 (DBK, cited in USP, 2004).

At that time growth prospects for the industry were highly optimistic supported by increased healthcare expenditure and strong sales growth. The sector was expected to reach €4.445m in 2006 with an overall CAGR of 6%, as illustrated in Figure 9. Private

health insurers segment was projected to be most dynamic segment as both number of policies and revenue per policy continued to increase. NHS business was also expected to grow over 6% driven by increased collaboration with the private sector and the private individual's segment at 3% (DBK, cited in USP, 2004). These projections, combined with sustained industry growth, high fragmentation and USP's strong position as the second-largest player in the fastest-growing private health insurance segment, made the sector a highly attractive opportunity for Mercapital's acquisition.

Figure 9 - Forecasted market evolution by client segment (2000-2006)



Source: DBK, 2004
Note: figures expressed in m€

3.2. USP Hospitales

3.2.1. Business Overview

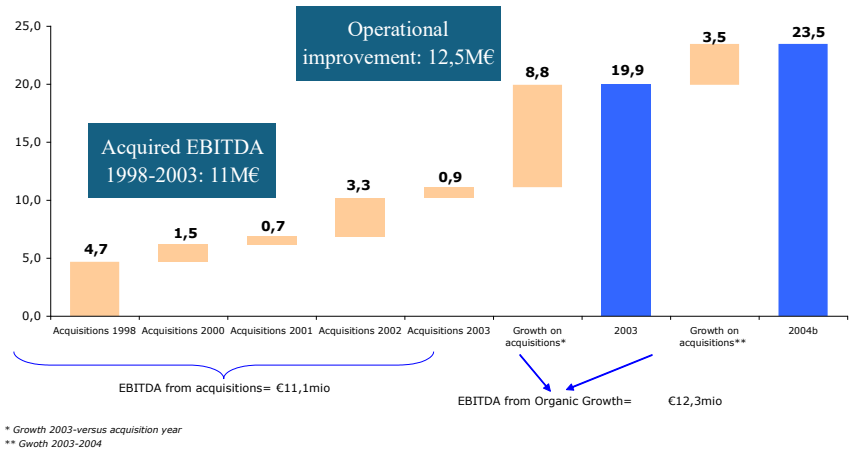
United Surgical Partners Europe was established in 1998 to provide services to the growing private healthcare sector. In 7 years USP successfully met its strategic goal of developing a hospital and ambulatory centre network via acquisitions and new development. This company presented a very compelling investment target as it stood out as a leading independent private hospital network in Spain combining national scale with a focused presence in major urban and tourist areas.

Operationally, USP distinguished itself with a specialist-oriented model built around high-volume, high-margin surgical lines. Their activity was mainly focused on five key highly demanded specialities which accounted for approximately 64% of revenues. Performance was supported by standardized clinical pathways, and cross-site "cross-fertilization" of protocols and expertise to lift efficiency and margins. The network was concentrated in major urban hubs (Madrid, Barcelona, Sevilla etc.), where private health-insurance coverage reached 22–25% (vs. 17% nationally), aligning USP with the largest

client segment which accounted for 72% of 2003 sales. The high-margin self-pay segment generated 17% of revenues, a position that was reinforced by the successful expansion into the lucrative tourist market in 2003.

USP's expansion combined disciplined organic development with a proven buy-and-build strategy as shown in Figure 10. This inorganic growth was firstly based on a strict selection criteria looking for location in high population densities with high private insurance penetration, prestige, considerable size, low margins and a similar product mix. Since inception the company had acquired 10 facilities for an aggregate EV consideration of €90m at a weighted average entry multiple of 7,8x EV/EBITDA. By 2004, the implicit cost multiple of the portfolio had declined to 3,8x, while aggregate EBITDA had doubled compared to the acquisition level, evidencing material value creation from integration and performance improvement. This trajectory was enabled by a strong, deeply experienced management team that successfully built the network focusing on selection, integration and operational improvement.

Figure 10 - EBITDA evolution (1998-2004)

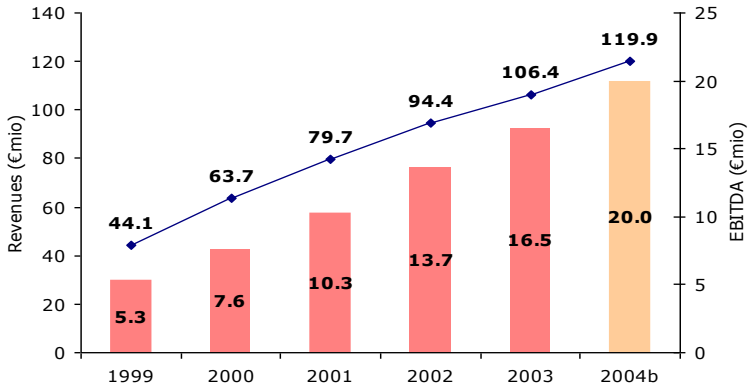


Source: USP, 2004
Note: figures expressed in m€

Similarly, financial performance was strong, with revenues growing at an average rate of 22% from 1999 to 2004, including organic growth averaging 25%, which is presented in Figure 11. EBITDA margins significantly improved from 12% in 1999 to 16,7% in 2004 positioning USP in the top quartile. In terms of assets, the company was widely recognised for its premium and profitable base with limited capex required in the upcoming years. Properties were mostly owned, with a market value of €64m,

significantly higher than the book value of €50m and two were operated under long-term leases.

Figure 11 - Revenues and EBITDA evolution (1999-2004)



Source: USP, 2004
Note: figures expressed in m€

3.2.2. Business Plan

The management team developed a post-acquisition business plan for 2004-2009 aimed at sustaining growth and positioning USP Hospitales as a leading European private-healthcare platform. This approach was structured around two fundamental areas: an organic growth strategy and an ambitious acquisition strategy. Both areas shared key objectives that were to be executed by the incumbent management team, fully supported by the acquirers.

As for the organic business plan, it was designed based on various main pillars: boosting operational efficiency and profitability through focus on ambulatory care and the standardization of procedures, prioritizing key high margin specialties, strengthening current relationships and expanding through organic growth. The plan projected a 9% revenue $CAGR_{2004\text{-}2009}$ and a 15% EBITDA $CAGR_{2004\text{-}2009}$ with multiple investments in facility improvements and enlargements.

The organic growth plan was to be complemented by the potential acquisition of up to 20 targets over the next five years, identified by USP's management. Consistent with the Group's strategy, objectives focused on:

- Consolidating existing regional markets by entering new, high-density urban areas with strong private insurance penetration
- Penetrating attractive tourist markets

- Expanding into new geographies, first Portugal, then Italy

Target selection criteria included strategic fit with USP's model, profitability improvement potential, shareholders' willingness to sell and competitive price. If executed, these transactions were expected to add up to €30m to Group EBITDA, i.e., more than 2004 EBITDA.

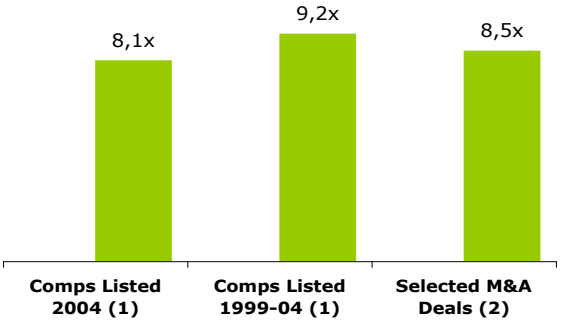
3.3. USP Leveraged Buyout

3.3.1. Acquisition

In April 2004, United Surgical Partners International (USPI) launched the sale of its Spanish subsidiary, United Surgical Partners Europe (USP), which operated as an independent business unit. The divestment was structured as a broad auction process involving 12 bidders, primarily Private Equity funds such as Advent International, Investindustrial, and Apax alongside a mix of financial institutions and strategic industrial players. The company stood out for its strong market position, high-quality asset base, value-driven growth track record, and a top-tier management team. These strengths, combined with the increasing penetration of private healthcare in a highly fragmented market, created a significant opportunity for sector consolidation and made USP a highly compelling investment opportunity.

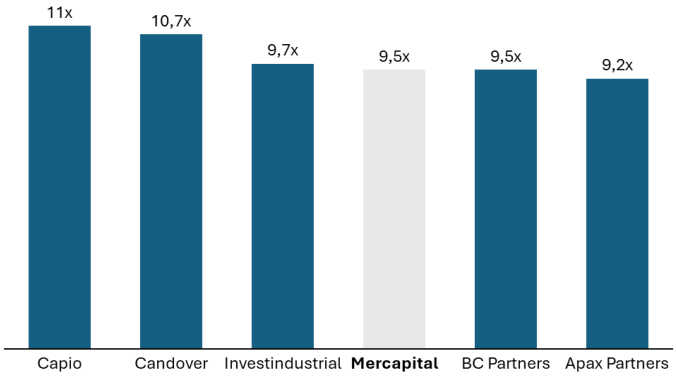
Based on comparable company trading multiples and precedent M&A transactions shown in Figure 12, USP was initially valued at an EV/EBITDA multiple of 8,6x. However, given its status as a premium platform operating in a fast-growing market, bidding dynamics drove valuations above this level, with offers ranging between 9,2x and 11,0x EV/EBITDA multiples, as illustrated in Figure 13. Mercapital's bid implied a 9,5x EV/EBITDA valuation for the business (10,4x at the fund level, after accounting for dilution), positioning it below several competing offers. Despite the highly competitive auction process, Mercapital successfully secured the transaction due to its deep sector expertise, strong alignment with management, long-term investment horizon, and investments in two highly synergistic hospital groups.

Figure 12 – Comparable EV/EBITDA multiple analysis for USP



Source: Mercapital, 2004

Figure 13 – Submitted bids for USP EV/EBITDA 2004



Source: Mercapital, 2004

The transaction was structured as a management buyout (MBO) which is presented in Figure 14. USP was valued at an enterprise value of €203m, financed through a combination of equity and debt. The equity contribution amounted to €89,5m, of which the fund invested €79,6m, representing a 78,9% ownership stake, while the management team held the remaining equity. Of the management investment, the core team represented approximately 60% and committed to retaining a majority stake while remaining on the board throughout the investment period. On the debt side, the acquisition was supported by a comprehensive financing package totalling €110,2m, comprising €28,6m of existing debt that was not refinanced and €81,6m of newly raised debt, complemented by additional future facilities of up to €60m allocated to capex, working capital, and bolt-on acquisitions. As a result, the capital structure at entry consisted of 44% equity, 54% debt, and 2% minority interests.

Figure 14 – Transaction sources and uses

Sources	€ mio	Uses	€ mio
Senior Debt	61.6	Purchase Price	120.1
Mezzanine Facility	20.0		
Total Debt Provided	**81.6**	Refinancing of existing debt	44.6
Existing debt (not refinanced)	28.6	Existing debt (not refinanced)	28.6
IG's initial investment	63.5		
USPI (Vendor's note)	14.7*		
Management Team Investment	11.3		
Common equity	**89.5**	Transaction expenses**	6.4
Minority interests	**3.3**	Minority interests	3.3
Sub-total Sources	**203.0**	**Sub-total Uses**	**203.0**
Working Capital Facility	5.0	Working Capital Facility	5.0
Capex Facility	25.0	Capex Facility	25.0
Acquisition Facility	30.0	Acquisition Facility	30.0
Total Sources	**263.0**	**Total Uses**	**263.0**

**To be disbursed in 2 years time (capitalized value of €16.1mio)*

***Transaction expenses include: Underwriting fees (€2.9mio), Mercapital's advisors (€2.9mio) and Management Advisors & Others (€0.5mio)*

Source: Mercapital, 2004

The investment was underwritten with a five-year holding period, with exit options including a secondary buyout or a sale to an industrial buyer. Under the base-case organic business plan, the investment was expected to deliver returns in the range of 2,5x–3,0x invested capital. Under the inorganic scenario, which assumed the execution of five add-on acquisitions at lower entry multiples combined with operational improvements, returns were expected to exceed 3,0x invested capital.

3.3.2. Value Creation Levers

3.3.2.1. Operational improvements

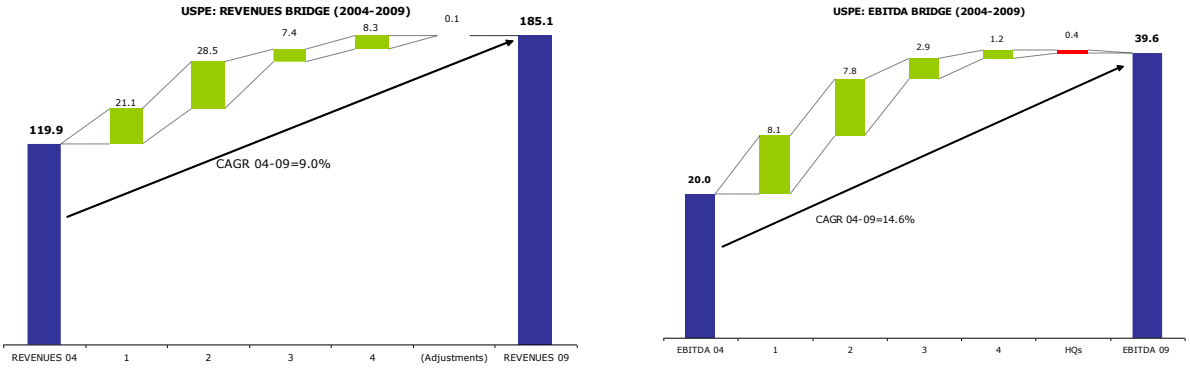
Following the acquisition of USP Hospitales, management designed an organic Business Plan for the period of 2004-2009 aimed at sustaining growth while reinforcing the company's position as a leading private healthcare platform in Spain. The organic strategy rested on four main pillars:

- Increasing operational efficiency and profitability through standardization of procedures and a stronger focus on ambulatory care
- Prioritizing high-margin specialties such as obstetrics, orthopaedics and plastic surgery
- Strengthening relationships with physicians, customers and suppliers
- Executing targeted capacity expansion and refurbishment projects across existing facilities.

A central element of the plan was the development of several expansion projects within the existing portfolio. Three hospitals were already undergoing refurbishment and enlargement programs, expected to increase capacity and enhance profitability. The most significant initiative was the construction of the "New Dexeus" facility in Barcelona, designed to replace the existing clinic with a hospital featuring expanded inpatient capacity, advanced surgical areas and modern outpatient facilities. This project was expected to require a total investment of c.€50m between 2003 and 2007 and was projected to generate approximately one-third of total revenue growth over the period, underscoring its central strategic role within the overall business plan.

Under the base-case scenario represented in Figure 15, consolidated revenues were forecast to grow at a 9% $CAGR_{2004-2009}$ reaching €185m, while EBITDA was expected to increase at a 14,6% $CAGR_{2004-2009}$ to close to €40m, implying a margin expansion from 16% to 21%. The main contributors of this growth were the New Dexeus (41% of growth), USP Marbella (14%) and Madrid San Camilo (13%) and new projects underway in Sevilla, Madrid and Murcia were expected to contribute 15%. Net capex was estimated at €77m comprising: €58m expansion capex, €32m maintenance capex and €13m from the sale of the old Dexeus Clinic.

Figure 15 – Management Organic Business Plan - Revenue and EBITDA bridge (2004-2009)



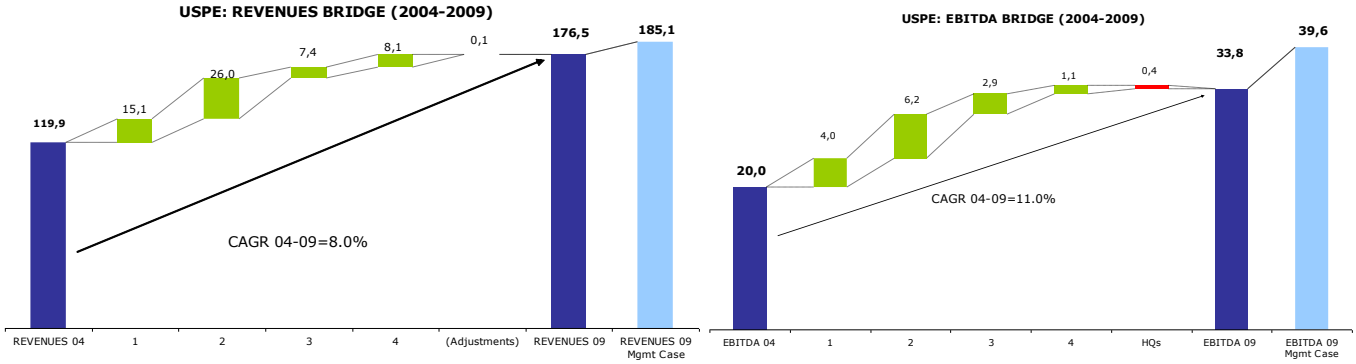
1 New Dexeus
2 Units Refurbished / Enlarged: Madrid I, Madrid II, Murcia, Marbella and Seville units
3 New Projects: New ASC in Madrid, New ASC in Seville and Radiotherapy unit in Murcia
4 Organic Growth: Coruña and Vitoria untis

Source: Mercapital, 2004
Note: figures expressed in m€

Mercapital conducted a sensitivity analysis to define a conservative low case scenario based on lower growth and occupancy rates and a more challenging competitive environment. As shown in Figure 16, under this plan revenues were expected to grow at 8% $CAGR_{2004-2009}$ reaching €177m, while EBITDA was expected to increase at 11%

$CAGR_{2004-2009}$ to close to €34m. In terms of returns, assuming the same exit multiple (i.e. 9,5x EV/EBITDA) the investment would generate a 16,9% IRR and a 2,4x cash-on-cash multiple.

Figure 16 – Sponsor Organic Business Plan - Revenue and EBITDA bridge (2004-2009)



1 New Dexeus
2 Units Refurbished / Enlarged: Madrid I, Madrid II, Murcia, Marbella and Seville units
3 New Projects: New ASC in Madrid, New ASC in Seville and Radiotherapy unit in Murcia
4 Organic Growth: Coruña and Vitoria untis

Source: Mercapital, 2004
Note: figures expressed in m€

At exit performance had been remarkable in organic terms as shown in Figure 17. In terms of revenue, figures increased from €121m in 2004 to €256m in 2007, which represented a 28% $CAGR_{2004-2007PF}$. This performance aligns with the evidence presented by Puche et al. (2015), who show that, on average, approximately 1,0x of the typical 1,7x unlevered multiple of money generated by Private Equity funds is attributable to revenue growth (Benjamin Puche, 2015). In this case, revenue expansion was an even more significant value driver, contributing to an approximately 2,1x increase. The main drivers of this growth were:

- Positive evolution of the healthcare sector in Spain which grew 7,4% between 2002 and 2006, specially in the insurance sector (USP's main business area)
- Increased utilization rates in most clinical centres
- Specialization in high growth medical specialties (cardiology, oncology and ophthalmology)

In terms of EBITDA, growth was also significant from €20m in 2004 to €37m in 2007 which represents a 23% $CAGR_{2004-2007PF}$, despite a margin contraction of c.2 percentage points. Although more moderate than revenue expansion, consistent with the findings of Puche et al. (2015), who show that EBITDA improvements typically account for only

approximately 0,3x of unlevered multiple of money returns (Benjamin Puche, 2015). The main drivers of EBITDA growth were as follows:

- High operating leverage allowed revenue growth to translate into higher operating results, as fixed costs were spread across a larger volume of activity
- Focus on higher margin specialties

As Heinrich et al. (2023) document, post-buyout companies tend to exhibit higher EBITDA margins compared to non–Private Equity-backed peers, primarily driven by operational improvements rather than purely financial restructuring (Heinrich, 2023). In the present case, EBITDA margins contracted slightly due to higher operational costs and operational inefficiencies. Additionally, the difference of approximately 2,6 percentage points between revenue CAGR and EBITDA CAGR suggests that growth was largely attributable to business growth and operating leverage rather than cost-cutting initiatives.

Employment dynamics further support this interpretation. Workforce reductions, often cited as a key mechanism behind EBITDA margin improvements in buyouts, were not observed. On the contrary, the number of physicians increased by approximately 50%, from around 1.400 in 2006 to roughly 2.100 in 2007, driven by the opening of new hospitals and clinics. Consistent with this evidence, Grubb et al. (2007) find little support for the hypothesis that buyouts improve profitability primarily by transferring value away from employees through reductions in compensation or employment (Jonsson, 2007).

Another potential explanation for financial improvements is that USP exhibited below-average profitability prior to the buyout, a pattern frequently identified in Private Equity targets (Heinrich, 2023). However, despite this possibility, USP achieved strong EBITDA margins averaging 15,5% during the period, placing the company within the top quartile of industry benchmarks and suggesting that performance improvements were not solely driven by the reversion from initially low profitability levels.

Figure 17 – Organic P&L (2004-2007)

€ million	2004PF	2005	2006PF	2007PF
Sales	**121.3**	**182.7**	**256.2**	**367.1**
% Growth	*14.0%*	*50.6%*	*40.2%*	*43.3%*
Consolidated EBITDA	**20.0**	**29.9**	**37.4**	**53.0**
% Growth	*21.2%*	*49.5%*	*25.1%*	*41.7%*
% Margin	*16.5%*	*16.4%*	*14.6%*	*14.4%*
Depreciation	**(11.1)**	**(17.1)**	**(17.9)**	**(22.4)**
% Sales	*9.2%*	*9.4%*	*7.0%*	*6.1%*
% Capex		*231.1%*	*106.5%*	*24.8%*
EBIT	**8.9**	**12.8**	**19.5**	**30.6**
% Margin	*7.3%*	*7.0%*	*7.6%*	*8.3%*
Capex	**NA**	**(7.4)**	**(16.8)**	**(90.3)**
% Sales		*4.1%*	*6.6%*	*24.6%*

Source: Goldman Sachs, 2007

3.3.2.2. Buy and build strategy

This value creation lever was one of the key factors underpinning the investment's success. Prior to the acquisition, USP Hospitales had already established a strong track record of inorganic growth: since its foundation in 1998, the company had completed ten acquisitions and successfully integrated them, leading to substantial operational improvements doubling aggregate EBITDA. This aligns closely with the findings of Hammer et al. (2017), who show that Private Equity investors strategically target firms with favourable characteristics for buy-and-build strategies, particularly experienced management teams and proven integration capabilities (Benjamin Hammer, 2017). Additionally, USP's status as the 4th biggest player made it a suitable platform investment. Knauer et al. argue that firm size is positively correlated with add-on acquisition activity, as larger platforms tend to enjoy improved access to capital and are better positioned to capture operational and integration synergies (Alexander Knauer, 2016). In parallel, Mercapital's own history of executing buy-and-build strategies reinforced its attractiveness as a sponsor. Knauer et al. (2016) document that Private Equity firms with prior experience and demonstrated performance are significantly more likely to successfully pursue buy-and-build strategies (Alexander Knauer, 2016). The combination of USP's operational execution capabilities and Mercapital's sector expertise therefore created a strong and complementary partnership to effectively implement this value creation lever.

Macroeconomic and industry conditions also played a crucial role in supporting the success of the strategy. The highly fragmented structure of the hospital sector was particularly attractive, with the ten largest providers accounting for only 33,5% of total industry revenues, offering a compelling opportunity for consolidation through add-on

acquisitions. At a macroeconomic level, financing conditions were very favourable, as interest rates remained at historically low levels, around 1% between June 2003 and December 2005, facilitating transactions that rely heavily on leverage. Both industry fragmentation and easy access to inexpensive debt are identified by Knauer et al. (2016) as critical enabling factors for the effective execution of buy-and-build strategies (Alexander Knauer, 2016).

The factors discussed above made USP Hospitales an attractive platform company for the implementation of a buy-and-build strategy. For these reasons, the fund was willing to pay a premium for the company, as mentioned in the previous section. This premium is consistent with the findings of Schweizer et al. (2022), who show that entry multiples for buy-and-build platform investments are higher than those for traditional buyout targets, with EV/Sales entry multiples being 19–24% higher. Their analysis also indicates that transaction multiples increase with firm size, as larger companies typically trade at a premium (Denis Schweizer, 2022).

The Management team identified 20 potential targets for acquisition during the five-year period which were presented in the inorganic business plan which were expected to generate an incremental EBITDA of €30m. In order to carry out these transactions the fund had secured additional equity injections of around €80-€100m. These acquisitions had two main objectives: the consolidation of markets with established presence (Madrid, Cataluña, Andalucía, Galicia and Murcia) and the entry to the healthcare tourist markets in Valencia and the Baleares and Canary Islands. An ambitious inorganic business plan was built which included the incremental revenues from all the potential bolt-on acquisitions. In terms of revenues, they were expected to rise from €119,9m in 2004 to €461,4m in 2009 which represented a 3,8x times and a 30% $CAGR_{2004\text{-}2009E}$. As for EBITDA, it was expected to increase from €20m in 2004 to €84,1m in 2009 representing a 33% $CAGR_{2004\text{-}2009E}$.

Following the acquisition in September 2004, the first two add-on transactions were completed in 2005, involving the purchase of two hospitals in Tenerife and Alicante, marking the group's entry into the tourist healthcare market. In 2006, two additional hospitals were acquired in Tenerife and Palma de Mallorca, followed by a final acquisition in 2007 in Madrid. Furthermore, six outpatient centres were acquired, and the purchase of a 25% stake in HPP, the third-largest hospital group in Portugal, enabled the company to enter the Portuguese market. This acquisitive strategy aligns with the findings of

Hammer et al., who argue that Private Equity entry significantly increases acquisition activity, with the likelihood of executing add-on acquisitions nearly doubling, particularly during the first two years of the holding period (Benjamin Hammer, 2017).

Overall, these acquisitions represented an aggregated Enterprise Value of €93m and generated €19m of EBITDA in 2007. The average EV/EBITDA multiple was 8,6x versus the 9,5x multiple paid for USP Hospitales. This multiple difference is in line with the results of Schweizer et al. which show that EV/EBITDA multiples for add-ons are 22% lower thus these lower prices offset the premiums paid for the platform company (Denis Schweizer, 2022). In terms of sales, they increased from €120m in 2004 to €293m in 2007PF. This substantial increase enabled USP to become the 2nd largest market player in 2006 with a 5% market share versus ranking 4th in 2003 with a 2,9% share. Based on market data, the sector grew at a 7,4% $CAGR_{2002\text{-}2006}$ versus a 35% $CAGR_{2004\text{-}2007PF}$ for USP Hospitales.

3.3.2.3. Refinancing and Dividend Recapitalization

The acquisition of USP Hospitales was financed with a significant level of leverage in order to enhance equity returns, supported by the company's strong cash-generative profile. Total new debt raised amounted to €81,6m, consisting of €61,6m of senior debt and a €20m mezzanine facility. In addition, €28,6m of existing debt was not refinanced as part of the transaction. This resulted in an initial Debt/EBITDA multiple of 5,4x, which was projected to decline to 4,6x in 2007 and further to 3,5x in 2008. This high level of leverage is consistent with the findings of Stromberg et al., who show that Private Equity funds typically target companies with predictable operating cash flows and low earnings volatility. These characteristics allow firms to sustain the substantial debt burden associated with leveraged buyouts. However, the authors also note that such targets generally have moderate capital expenditure requirements (Stromberg, 2009). In contrast, USP Hospitales planned significant investments to renovate several of its facilities, implying higher capital expenditure needs than those typically associated with LBO targets. Alongside the acquisition financing, an additional €60m of committed facilities were arranged, including a €5m working capital facility, a €25m capex facility, and a €30m acquisition facility to support future growth initiatives.

Given the strong performance of the company, in December 2006 the fund managers requested an extraordinary dividend recapitalization in order to return capital to investors

and enhance equity returns. This strategy is consistent with the findings of Grupa et al., who show that Private Equity funds typically undertake recapitalizations in well-performing portfolio companies (Sabrina T. Howell, 2024). As discussed earlier, a dividend recapitalization involves raising additional debt to finance a cash distribution to shareholders (CFI, s.f.). Considering the asset-intensive nature of the business, an effective way to implement this strategy was through an OpCo–PropCo structure. This mechanism separates the company into two distinct entities: an operating company (OpCo), responsible for the core business operations, and a property company (PropCo), which holds the underlying real estate assets. By structuring the assets in this way, the company was able to access financing at a lower weighted average cost of debt, as the real estate assets could be used to secure asset-backed financing (Market Financial Solutions, s.f.). Specifically, the weighted average margin on the newly drawn OpCo–PropCo debt was approximately 2,6%, compared with 4,8% under the conventional LBO structure in 2004. In addition, the weighted average margin on undrawn facilities declined from 2,4% to 2,2%. Favourable credit market conditions at the time further supported the transaction, as debt financing was attractively priced, with the average EURIBOR rate around 4% during the period (Anon., 2026).

This transaction resulted in a refinancing of the company's debt with modified maturities and lower borrowing costs. In total, €419m of debt was raised, including €110m of undrawn facilities to support future growth initiatives, consisting of €75m for add-on acquisitions and €35m for capital expenditures. The new financing package also included a €111m dividend distribution to investors, representing a base return of 0,9x invested capital within just two years. Academic literature suggests that dividend recapitalizations have mixed effects on deal outcomes as they tend to increase the dispersion of outcomes by raising the likelihood of exceptionally strong performance. In particular, the probability of achieving IRRs above 20% and cash-on-cash multiples between 2x and 4x increases significantly. At the same time, the higher leverage associated with recapitalizations also raises the probability of adverse outcomes, such as negative IRRs or multiples below 1x, due to the increased risk of financial distress (Abhishek Bhardwaj, 2025). Following the recapitalization, leverage increased substantially, with the Debt/EBITDA ratio reaching 8,2x at the consolidated level, although it stood at 4,1x at the OpCo level, as debt was raised separately by each entity under the OpCo–PropCo structure. Consistent with this outcome, Bhardwaj et al. find that dividend

recapitalizations significantly increase leverage both in relative and absolute terms, by approximately 17pp and 3pp, respectively (Abhishek Bhardwaj, 2025).

3.3.3. Exit

After three years of ownership, the company was exited in September 2007 through a secondary buyout to Cinven, supported by both strong financial performance and favourable market conditions. This exit timing is consistent with the findings of Cornelius et al. (2009), who argue that attractive industry and market environments facilitate exits by allowing Private Equity investors to capitalize on favourable cyclical momentum (Peter Cornelius, 2009). Additionally, research on secondary buyouts shows that purchasing funds are significantly larger than selling funds, as is the case in this transaction.

As shown in Figure 18, the company's financial performance throughout the holding period was remarkable, significantly exceeding the initial business plan projections. The 4 main growth drivers:

- Strong financial performance, both organically and through acquisitions, positioning the company as the second-largest player in the healthcare market with a 5% market share. Over the 2004–2007 period revenues increased from €120,4m to €292,5m, while EBITDA grew from €20m to €48,2m, representing a 34% $CAGR_{2004\text{-}2007}$ for both metrics.
- Favourable market conditions, with the healthcare market growing at 7,4% between 2002 and 2006, supported by the expansion of the insurance market (8,6% growth), driven by increased insurance penetration and higher insurance premiums.
- Opco-Propco structure which enabled the company to access more advantageous financing conditions and supported the dividend recapitalization transaction which provided an early liquidity event for investors with a return of 0,9x cost.
- Significant appreciation in the value of the company's facilities, increasing from €60m in assets at entry to €294m at exit, driven by the completion of the new Dexeus hospital as well as the new buildings and centres acquired through add-on transactions.

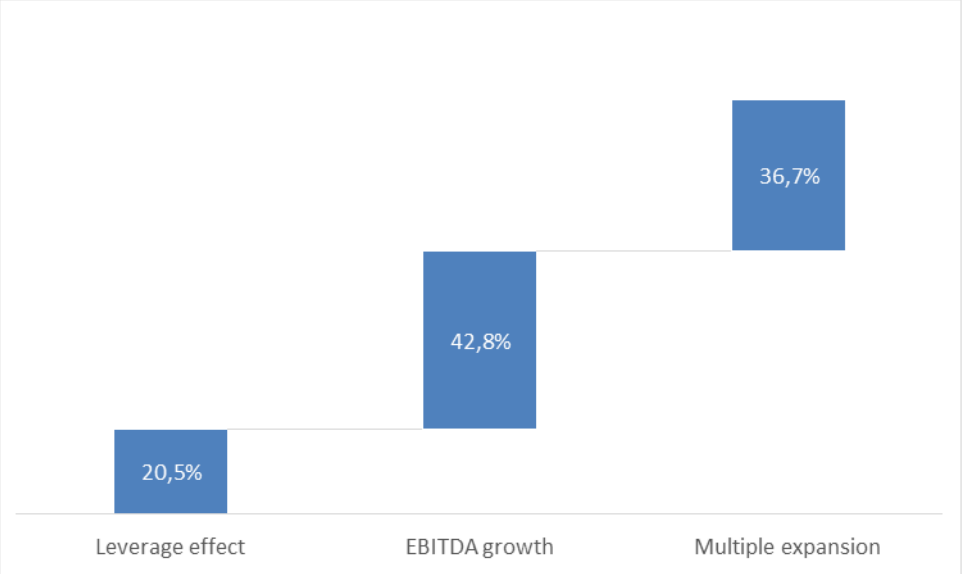
Figure 18 – USP Hospitales Consolidated financials (2004-2007)

	Consolidated financials				
(€m)	**2004**	**2005**	**2006**	**2007PF**	**$CAGR_{2004-2007PF}$**
Revenue	**120,4**	**182,7**	**240,6**	**292,5**	***34%***
Growth %	*13%*	*52%*	*32%*	*22%*	*n.a.*
EBITDA	**20,0**	**29,9**	**37,4**	**48,2**	***34%***
EBITDA Margin %	*17%*	*16%*	*16%*	*16%*	*n.a.*
Net Debt	102,8	150,7	331,1	394,9	*57%*
Enterprise Value (EV)	**208,6**	**280,9**	**348,8**	**412,5**	***26%***
EV/EBITDA	**10,2x**	**9,0x**	**8,4x**	**8,6x**	***n.a.***

Source: Mercapital, 2007

The exit was executed through a secondary buyout at highly attractive valuation multiples of 18x EBITDA (2006) and 14x EBITDA (2007), compared with 9,5x EBITDA at entry in 2004. This significant multiple expansion is consistent with the findings of Schweizer et al., who show that buy-and-build transactions are, on average, valued approximately five percentage points higher than comparable standalone deals (Denis Schweizer, 2022). In terms of performance, the investment generated an IRR of 55,7% and a 3,4x cash-on-cash multiple. The value creation drivers can be decomposed as shown in Figure 19. Approximately 42,8% of the value growth was attributable to EBITDA expansion, 36,7% to multiple expansion and 20,5% to leverage effects. These results highlight a relatively balanced value creation profile, where financial engineering comprising leverage and multiple expansion, accounts for 57,2% of the total value created, while the remaining 42,8% is explained by operational improvements reflected in EBITDA growth. These returns were partly driven by the relatively short holding period and the dividend recapitalization, which, as discussed in the previous section, tends to increase the dispersion of outcomes and the likelihood of exceptionally strong positive or negative returns according to the academic literature. However, contrary to studies suggesting that dividend recapitalizations are associated with longer holding periods, the investment was exited after only three years, taking advantage of favourable market conditions at the time (Abhishek Bhardwaj, 2025).

Figure 19 – Deal value creation drivers



Source: Mercapital, 2007

4. Conclusions

This work set out to identify and analyse the main value creation levers used by Private Equity investors in LBO transactions, with a particular focus on the healthcare sector through the case study of USP Hospitales. By combining a theoretical framework with an empirical case analysis, the study provides evidence on how financial and operational mechanisms interact to generate returns throughout the investment lifecycle.

The case study demonstrates that value creation in the leveraged buyout of USP Hospitales was driven by a balanced combination of operational improvements and financial engineering, rather than relying exclusively on leverage. The investment generated a 55,7% IRR and a 3,4x cash-on-cash multiple, significantly exceeding the initial expectations established in the investment plan. These results highlight how multiple value creation mechanisms can reinforce each other when executed within a favourable market and industry context.

From an operational perspective, EBITDA growth represented the single largest driver of value creation, accounting for approximately 42,8% of total value generated. This performance was mainly achieved through organic growth, improvements in operational efficiency, specialization in high-margin medical services and the expansion of hospital capacity. The construction of the new Dexeus hospital and several refurbishment projects

significantly increased the group's operational scale and profitability. In addition, workforce expansion and increased utilization rates indicate that profitability improvements were largely driven by business growth and operating leverage rather than cost-cutting measures.

A second key operational driver was the successful implementation of a buy-and-build strategy. The acquisition of additional hospitals and outpatient centres allowed USP to significantly increase its scale and market share, becoming the second largest private healthcare operator in Spain with a 5% market share. Importantly, these add-on acquisitions were executed at lower EV/EBITDA multiples than the platform acquisition, allowing the fund to create value through consolidation and operational synergies. The strategy benefited from the fragmented structure of the Spanish hospital market and the strong integration capabilities of the management team.

Financial engineering also played a crucial role in the value creation process. Multiple expansion accounted for 36,7% of total value creation, reflecting both the successful scaling of the platform and favourable exit market conditions. The exit multiple increased substantially from 10x EBITDA at entry to up to 18x EBITDA, highlighting the importance of building a larger and more attractive platform company for potential buyers.

Leverage and capital structure management represented the third key lever, contributing 20,5% of the value created. The use of debt financing amplified equity returns, while the dividend recapitalization allowed the fund to return 0,9x of invested capital to investors after only two years. The implementation of the OpCo–PropCo structure further optimized financing conditions by enabling the use of asset-backed debt linked to the company's real estate portfolio.

The case study also highlights the importance of industry and macroeconomic conditions. The investment benefited from a rapidly growing healthcare sector, increasing private insurance penetration, and favourable credit market conditions characterized by low interest rates and abundant liquidity. These factors facilitated both the execution of acquisitions and the successful exit through a secondary buyout.

Despite the strong overall performance of the investment, some limitations and risks should be acknowledged. First, EBITDA margins experienced a slight contraction during the holding period, suggesting that growth was driven more by revenue expansion than by improvements in operational efficiency or cost optimization. This may indicate that certain operational initiatives did not fully translate into margin enhancement. Second, the transaction relied on a relatively high level of leverage, which, although beneficial for amplifying returns, increased the company's financial risk. The post-recapitalization capital structure, in particular, exposed the firm to higher debt servicing obligations and potential vulnerability to adverse market conditions. These factors highlight that, while the investment was ultimately successful, part of the value creation came with increased operational and financial risk, reinforcing the importance of carefully balancing growth, profitability, and capital structure in Private Equity transactions.

Taking these considerations into account, the analysis of the USP Hospitales transaction ultimately confirms that successful Private Equity investments rely on a combination of complementary value creation levers. Operational improvements, strategic acquisitions, financial structuring and favourable market timing jointly contributed to the investment's success. The case illustrates how Private Equity sponsors can transform a regional healthcare provider into a scalable national platform while simultaneously generating substantial financial returns, while also underscoring the trade-offs and risks inherent in such strategies.

5. Declaration of the use of Artificial Intelligence tools

Por la presente, yo, Gonzalo Barallobre Pollastrini, estudiante de E2-Analytics de la Universidad Pontificia Comillas al presentar mi Trabajo Fin de Grado titulado " Analyzing Value Creation Mechanisms In Private Equity Investments: Evidence from USP Hospitales", declaro que he utilizado la herramienta de Inteligencia Artificial Generativa ChatGPT u otras similares de IAG de código sólo en el contexto de las actividades descritas a continuación:

1. **Referencias:** Usado conjuntamente con otras herramientas, como Science, para identificar referencias preliminares que luego he contrastado y validado.
2. **Constructor de plantillas:** Para diseñar formatos específicos para secciones del trabajo.
3. **Corrector de estilo literario y de lenguaje:** Para mejorar la calidad lingüística y estilística del texto.
4. **Revisor:** Para recibir sugerencias sobre cómo mejorar y perfeccionar el trabajo con diferentes niveles de exigencia.
5. **Traductor:** Para traducir textos de un lenguaje a otro.

Afirmo que toda la información y contenido presentados en este trabajo son producto de mi investigación y esfuerzo individual, excepto donde se ha indicado lo contrario y se han dado los créditos correspondientes (he incluido las referencias adecuadas en el TFG y he explicitado para que se ha usado ChatGPT u otras herramientas similares). Soy consciente de las implicaciones académicas y éticas de presentar un trabajo no original y acepto las consecuencias de cualquier violación a esta declaración.

Fecha: Abril 2026

Firma: Gonzalo Barallobre Pollastrini

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