

FEATURED CASE STUDY

HCAP PARTNERS

INVESTMENT:

BETTERNIGHT

Leading virtual-care sleep disorder solution provider of diagnosis and long-term treatment in the US advancing sleep-related health outcomes.



CASE STUDY

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INVESTMENT STRATEGY	HCAP PARTNERS IV, L.P.	INVESTMENT TYPE	MEZZANINE DEBT AND EQUITY
SECTOR	HEALTHCARE	OWNERSHIP STAKE	MINORITY
INVESTMENT DATE	AUGUST 2019	IMPACT VALUE CREATION MODALITY	SYSTEMS, GROWTH
GEOGRAPHY	UNITED STATES		

INVESTOR & COMPANY OVERVIEW

HCAP PARTNERS specializes in providing mezzanine debt and equity for underserved, lower-middle market companies. Core to its investment approach is HCAP's [Gainful Jobs Approach™](#). This impact management framework combines a quantitative assessment of job quality, HR guidance, workforce tools, and technical assistance to expand economic opportunities, improve job quality, and advance diversity, equity, and inclusion (DEI) for underserved businesses, their employees, and the communities they serve. Additionally, HCAP brings deep sector expertise in health care, technology, business services and manufacturing.

BETTERNIGHT is a healthcare technology company revolutionizing the diagnosis, treatment, and care management of sleep disorders with the goal to improve accessibility, affordability, and health outcomes for patients. BetterNight has pioneered the use of home sleep testing to address the fragmented and difficult-to-navigate treatment journey and challenge that 80% of cases of moderate and severe sleep apnea remain undiagnosed. The company prioritizes the development of a diverse workforce that is reflective of

BetterNight's patient populations through intentional recruitment practices, mentorship and professional development of staff, and inclusive workplace practices.



INVESTMENT THESIS

HCAP invested in BetterNight to support the business's vision to leverage technology and establish a national telehealth platform to address sleep disorders nationwide through increased access to care, improved quality of care, and lowered cost of care. BetterNight sought support in furthering its commercial capabilities, building out its technological infrastructure, and recruiting and retaining top talent in a competitive labor market in order to achieve its growth objectives. HCAP also recognized the potential to enhance BetterNight's workplace practices, company culture initiatives, and make job quality improvements through its Gainful Jobs Approach.

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FINANCIAL MATERIALITY OF IMPACT

HCAP's value creation strategy has been anchored in both SYSTEMS and GROWTH modalities:

IMPACT VALUE CREATION MODALITY	VALUE CREATION ACTIVITY	FINANCIAL VALUE DRIVER	VISIBILITY OF FMI
 <p>GROWTH</p>	<p>Developing a technology roadmap to scale the regional business into a national platform leveraging HCAP's technology and healthcare sector expertise and industry connections</p>	<ul style="list-style-type: none"> • Revenue growth as a result of leveraging the telehealth platform to scale and reach a broader patient population utilizing the same resources • Margin improvement as the telehealth platform eliminated the need to invest in brick-and-mortar facilities as BetterNight expands into new territories 	<p>BetterNight's potential to develop a telehealth model that would allow for revenue growth, improved patient outcomes, and reduced cost was readily apparent.</p>
 <p>SYSTEMS</p>	<p>Institutionalizing and enhancing workplace practices, job quality, and culture utilizing its proprietary Gainful Jobs Approach™ and ensuring strong mission alignment with management</p>	<ul style="list-style-type: none"> • Long-term productivity via improved patient and employee satisfaction • Revenue growth through increased service capacity • Margin improvement via decreased training and recruitment costs 	<p>While the need to address labor challenges in the healthcare sector was discernible, HCAP's deep expertise surfaced opportunities to improve business performance with enhanced workforce practices and job quality improvements.</p>

VALUE CREATION

DEVELOPING AND SCALING A NATIONAL TELEHEALTH PLATFORM

As experts in digital health, HCAP recognized the potential of telehealth to expand BetterNight's reach by offering its core services through virtual consultations, at-home diagnostics tests, and digital monitoring nationally. HCAP leveraged its operating partners, including former healthcare executives, to develop a product roadmap and rollout plan to support the buildout of the technology platform. Software developed included the launch of Clarity Care, a digital population health tool that provides payers, patients, and health administrators with unprecedented visibility and greater accountability of patient care.

HCAP also supported sales efforts for the new telehealth services by devising a marketing strategy and assisting in the formation of BetterNight's sales team, utilizing its network to bring in a new Chief Commercial Officer from a prior portfolio company.

VALUE CREATION

ENHANCING WORKFORCE PRACTICE AND JOB QUALITY

With a deep focus on improving job quality to enhance business performance using its Gainful Jobs Approach™, HCAP recognized the value of investing in BetterNight's workforce. To establish tailored job quality improvement goals, HCAP collaborates closely with company management, documented in a multi-year Gainful Jobs Strategic Roadmap and included in financing terms.

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Initiatives identified in BetterNight's Gainful Jobs Strategic Roadmap included supporting employee economic and professional development opportunities and firm culture (e.g., increasing wages to living wage standards, establishing career roadmaps, conducting an annual employee engagement survey, etc.). HCAP's measurement and reporting of job quality data created important feedback loops that enabled BetterNight's HR team to introduce expanded health and retirement benefits and regular leadership lunches to build culture and create additional communication channels between leadership and frontline staff. These initiatives helped the business recruit and retain talent in a tight labor market and realize productivity gains and operational efficiencies that translated into improved patient outcomes and satisfaction levels.

With access to HCAP's tools and technical assistance, BetterNight has become an employer of choice, attracting talent, reducing turnover, and lowering recruitment and training costs. HCAP's collaboration with BetterNight on the Gainful Jobs Approach™ has led to significant job quality improvements with 100% of employees in quality jobs and the company being recognized by the San Diego Union Tribune as a top workplace for three consecutive years.

LESSONS LEARNED

- **Rigorous, programmatic approach:** The Gainful Jobs Approach™ equips HCAP with the expertise, discipline, and readily available tools to serve as a market leader in workforce-focused impact value creation. A structured approach with supporting tools refined through research and experience can help streamline effective value creation planning and implementation for the investor and investee.
- **Mission alignment:** As a debt investor with a minority equity stake, HCAP ensures values alignment with management to allow for successful value creation during the investment period, particularly around prioritizing workforce initiatives. HCAP seeks entrepreneurs who view this expertise as an advantage and are seeking a partner with shared commitments.

