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INDUSTRY RESEARCH

Healthcare Services Report

PE trends and investment strategies

Q3 2022 Launch REPORT

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Institutional Research Group

Analysis

Rebecca Springer, Ph.D. Senior Analyst, Healthcare
rebecca.springer@pitchbook.com
pbinstitutionalresearch@pitchbook.com

Data

Matthew Nacionales Data Analyst

Publishing

Report designed by **Joey Schaffer** and **Drew Sanders**

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[1]As of Q2 2022

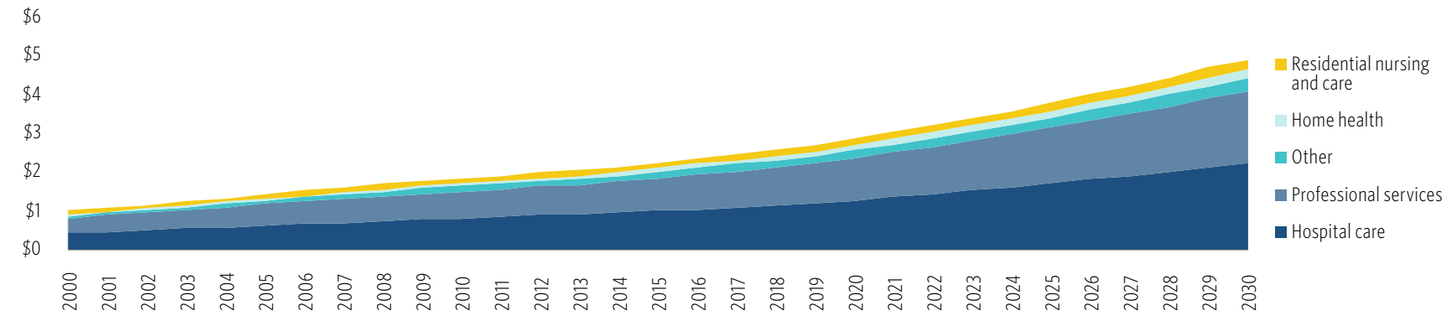
United Healthcare

Vertical overview

Healthcare services is the largest vertical within PE healthcare investing, accounting for roughly 10% of PE buyout and growth deals overall in the US in 2022. The vertical includes traditional healthcare providers that offer medical treatment in hospitals, clinics, residential facilities, and homes.

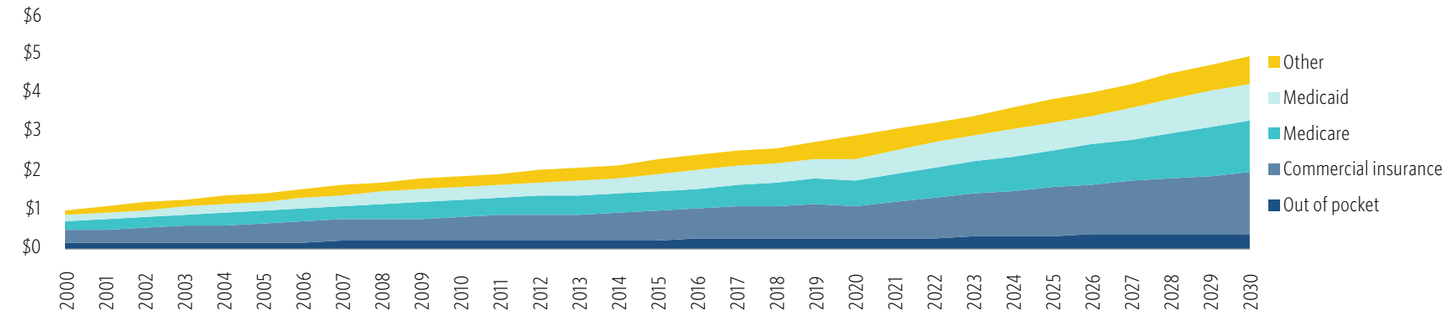
As one of the oldest PE buy-and-build plays, healthcare services continues to attract investor interest due to its favorable demographic trends, acyclical characteristics, and consolidation opportunities. According to Centers for Medicare & Medicaid Services (CMS) data, US healthcare services care expenditures reached $2.9 trillion in 2020 and is projected to exceed $4 trillion by 2027. This figure includes government and commercial payer reimbursement and out-of-pocket spending on care categories excluding retail prescriptions and medical products.[1] We estimate that US PE firms currently have $62.0 billion in dry powder available to deploy in healthcare services, which translates to roughly $150 billion in cumulative company enterprise value.

Historical and projected US healthcare services expenditures by type ($T)*



Source: Centers for Medicare & Medicaid Services | Geography: US | *2021 to 2030 projected

Historical and projected US healthcare services expenditures by funds source ($T)*



Source: Centers for Medicare & Medicaid Services | Geography: US | *2021 to 2030 projected

1: "National Health Expenditure Data," CMS.gov, n.d., accessed October 20, 2022.

VERTICAL OVERVIEW

Population aging drives the growth of healthcare spending in the US. Not only are a growing proportion of people living in the US aged 60 or older, but as life expectancy increases, more people are living well past 80, which is when medical care becomes most expensive. More sophisticated and specialized care may also lead to increased costs. Unequal access to care and disproportionate care costs incurred by a small proportion of people also contribute. For example, 5% of Americans account for roughly 50% of the country's healthcare costs.[2] Much of PE healthcare services investing represents an effort to capitalize on demographic trends by consolidating specialties that provide advanced care to older adults—and, under value-based models, using preventative care to improve health outcomes for the sickest individuals.

Although healthcare is traditionally considered a haven for investors during market downturns, the COVID-19 pandemic and subsequent labor disruption have resulted in unprecedented stress for the industry. Most healthcare businesses saw revenue recover to pre-pandemic levels in 2021, and valuations hit all-time highs in many provider categories due to intense investor demand. However, acute carer, nurse, and provider shortages have become endemic in the industry, threatening both profitability and care quality. Cost inflation can be especially troublesome for healthcare providers because reimbursement rates are typically negotiated with payers on multiyear contracts, many of which do not include inflation adjustments. PE investors must help their platforms navigate labor supply-demand dynamics through carefully planned expansion, improved employee satisfaction, and streamlined recruitment processes in order to stem potential losses. In previously red-hot categories such as behavioral health, multiples may begin to cool as growth slows due to staffing limitations.

Competition and disruption

PE firms investing in healthcare services face competition from other PE-backed platforms; hospitals and health systems; publicly traded healthcare services companies such as Acadia, DaVita, and McKesson; and vertically integrated payer-providers ("payviders") including UnitedHealth Group, Humana, Elevance, and CVS Health. Hospitals and health systems dominate the US healthcare system, accounting for 37.5% of US healthcare services spending. Historically, hospitals have also been the leading consolidators of independent physician practices in the US. As of January 2022, hospitals and health systems employed 341,200 physicians nationally—an 18.3% increase since January 2020. However, corporate entities, which include PE-backed platforms, publicly traded provider groups, and payviders, are now consolidating at a faster rate than hospitals. In January 2022, they employed 142,900 physicians, a 39.4% increase from January 2020.[3]

Healthcare services is also experiencing disruption from new telehealth, membership-based, and direct-to-consumer healthcare models, as well as from digital and brick-and-mortar retailers such as Amazon, Walmart, Walgreens, and CVS. In the face of healthcare consumerization, PE healthcare services investors must help providers adapt their care delivery models to be more convenient, digital, and patient-centric. Additionally, many PE investors in specialist physician categories seek to avoid direct competition with digital-first disruptors by backing "medically oriented"—as opposed to consumer-oriented—platforms that specialize in complex cases, or cases that garner higher margins and require in-person care and longer-term clinician-patient relationships. By contrast, the potential for disruption in categories such as primary care, home health, and behavioral health is significant, as these are typically lower-margin businesses that lend themselves to tech-enabled access and care coordination innovations.

2: "How Do Health Expenditures Vary Across the Population?" Peterson-KFF Health System Tracker, Jared Ortaliza, et al., November 12, 2021.
3: "COVID-19's Impact On Acquisitions of Physician Practices and Physician Employment 2019-2021," Physicians Advocacy Institute, Avalere Health, April 2022.

VERTICAL OVERVIEW

PE strategy trends

Traditionally, PE investment in healthcare services focused on consolidating medical specialties such as dentistry, dermatology, and vision, with returns driven primarily by multiple arbitrage, financial leverage, and the development of ancillary business lines. Firms have also looked for opportunities to finance de novo expansion in provider categories with favorable supply-demand dynamics, such as behavioral health. Across provider categories, scale enables not only fixed cost efficiencies but market power. By increasing market share in a given metropolitan, state, or regional geography, a platform can position itself to negotiate more favorable payer contracts. For categories that are not referral-based, scale also helps to increase brand awareness, thereby driving patient volume.

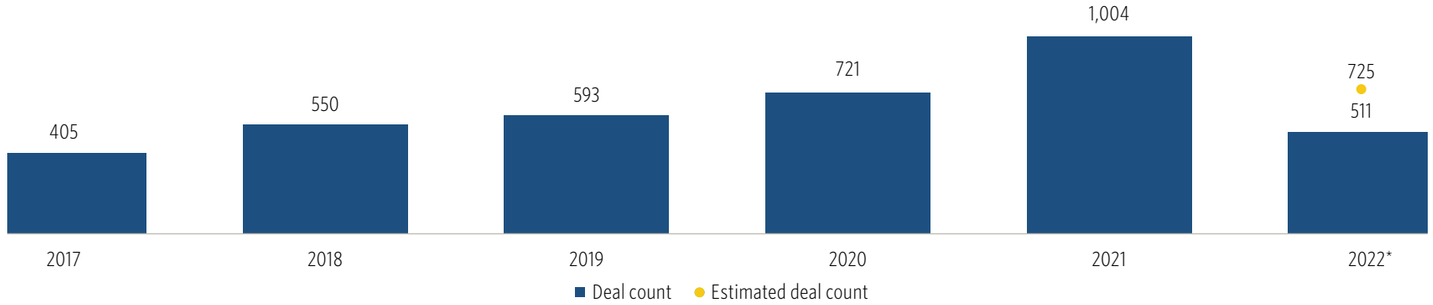
While PE investment in these established provider categories is still going strong, PE firms have become more sophisticated healthcare services investors—not only entering new provider categories but also seeking out opportunities wherein scale and capital availability provide second-order advantages in improving patient care and returns. Nowhere is this more apparent than in value-based care, which requires care coordination, data analytics capabilities, finesse in payer negotiations, and sheer scale far beyond what most independent provider groups can achieve. The industry's push toward value-based care has also spurred greater PE experimentation with building multispecialty medical practices and taking on population health management for communities with higher Medicare and Medicaid spend.

PE activity

Amid macroeconomic turmoil, healthcare services PE deal activity has shown resiliency so far in 2022, especially in the lower middle market. Our estimated deal count for Q1 to Q3 2022 already exceeds 2020's full-year number. However, the industry faces growing headwinds. Staffing shortages are squeezing virtually every type of healthcare services organization, increasing costs and inhibiting growth. The financial strain is most acute for hospitals, which have significant fixed costs due to facility overhead, and which had little time to regroup financially after the worst of the pandemic abated. Also heavily affected are healthcare organizations that rely on low- or moderately skilled care providers and operate on lower per-visit margins, such as home care agencies, applied behavior analysis (ABA) therapy clinics, and group homes for people with intellectual and developmental disabilities (IDDs).

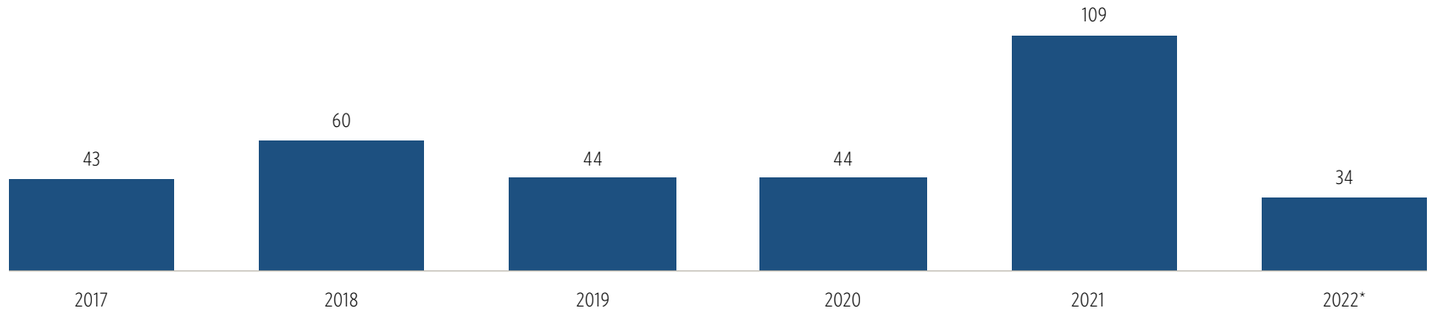
Despite these challenges, the healthcare services deal pipeline overall has been resilient. According to Jeff Friedman and Matthew Brohm, Partners and Co-heads of Healthcare PE at Arnall Golden Gregory, many lower-middle-market platforms are still growing aggressively, and where multiples have relaxed, they have done so only slightly—to pre-pandemic levels. While reimbursement and staffing cost pressures have prompted buyers to more closely scrutinize quality of

Healthcare services PE deal count



Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Healthcare services PE exit count



Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

PE ACTIVITY

earnings and forward EBITDA projections, they have also continued to push independent practice sellers into the market.[4] Looking at the top end of the market, Q3 also saw several large platform trades, including Monte Nido, Action Behavior Centers, EyeSouth Partners, and Paradigm Oral Surgery. In the syndicated loan market, although new-issue spreads for healthcare services have ticked upward in line with macroeconomic pessimism—meaning that leveraged finance in the syndicated market is becoming more expensive—the industry has not yet seen a decrease in average EBITDA purchase multiples or leverage ratios. This is partly because most deals closed so far this year were initiated in late 2021 or early 2022, before financing conditions deteriorated, and partly because only higher-quality assets can access syndicated loan finance.

Exit activity is tracking close to the pace set in 2017 to 2020. No longer are PE investors pulling forward realization timelines to take advantage of frothy multiples—at least not on the scale we saw in 2021. Additionally, with the denominator effect shrinking allocations to PE, GPs are less motivated than they were in 2021 to return capital to LPs and restart the fundraising cycle. Public listings, which in 2021 were becoming a viable exit route for both Medicare Advantage (MA)-focused primary care aggregators and a broader range of healthcare services platforms, are decidedly off the table. By contrast, the landscape of strategic buyers has become more dynamic as payviders and retailers jostle in the MA, employer-direct, behavioral, and home health markets.

Looking ahead, the shuttering of leveraged loan markets will strongly dissuade assets over $1 billion or so from coming to market for the remainder of 2022. The exception may be carveouts and sales of businesses that are over levered and struggling to stay above water as staffing costs rise; whereas current deal activity selects toward resilient and high-quality assets, we expect to see more distressed deals beginning in 2023 if the macroeconomic picture does not improve. In the meantime, we believe that high-quality platforms at or below the $1 billion threshold will still be able to secure financing (often via private credit) and find willing buyers at respectable multiples.

About the data

What is estimated deal count? The 2022 estimated deal count shown represents the likely actual deal count through the third quarter of 2022. Because of the difficulty of gathering private markets data, our deal counts lag for recent quarters, especially for the smaller deals that characterize many healthcare services roll-ups. We arrived at the estimation by reviewing average data lags in our historical datasets for companies within the healthcare services vertical. We do not provide this estimation at the segment or category level due to lower data counts.

What do platform, add-on, and growth mean? In our methodology, an "add-on" is any acquisition by a PE-backed company (regardless of target size), and a "platform" is any buyout (majority equity acquisition) that is not an add-on. "Growth" refers to any minority equity investment, including follow-on investments by the same PE firm. Note that very small tuck-in and no-goodwill deals are unlikely to appear in our dataset.

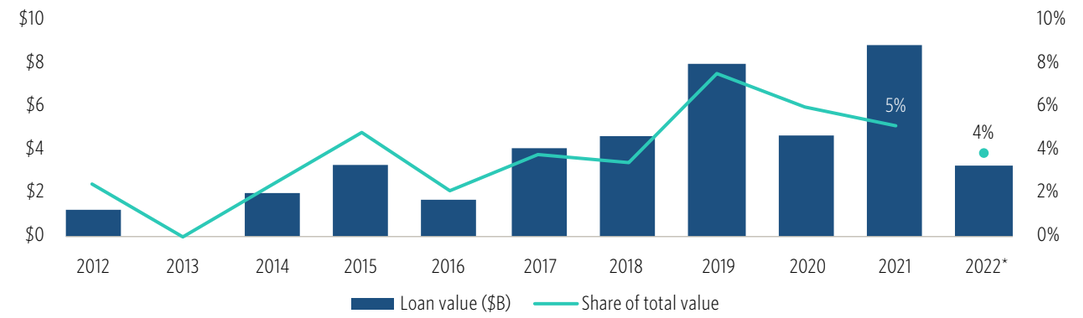
Why is the data scoped to the US and Canada? This report focuses on US healthcare services. In general, PE-backed healthcare providers based in the US do not expand overseas due to the size and idiosyncrasy of the US healthcare services market. However, some platforms in categories such as dental and veterinary straddle the US and Canadian markets. Therefore, we include both US- and Canada-headquartered healthcare providers in deal figures.

How can I ensure my company's M&A activity is captured in your data? Please reach out to survey@pitchbook.com to submit data.

4: Jeff Friedman and Matt Brohm, Partners and Co-heads of Healthcare PE at Arnall Golden Gregory, phone interview with Rebecca Springer, September 20, 2022.

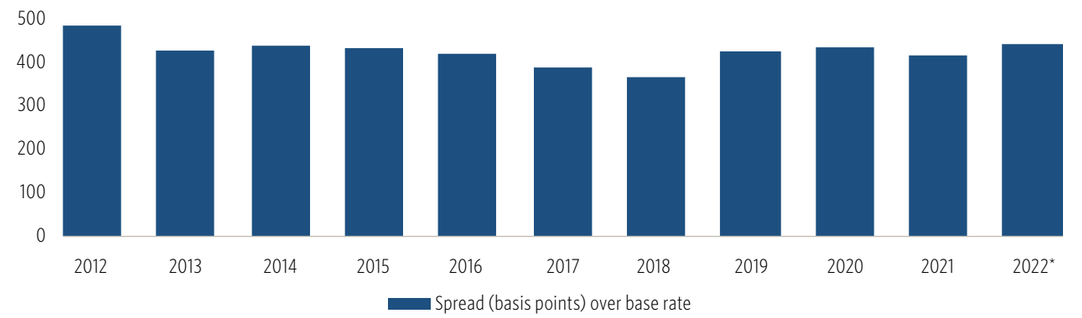
PE ACTIVITY

Leveraged buyout-related health service loan value and share



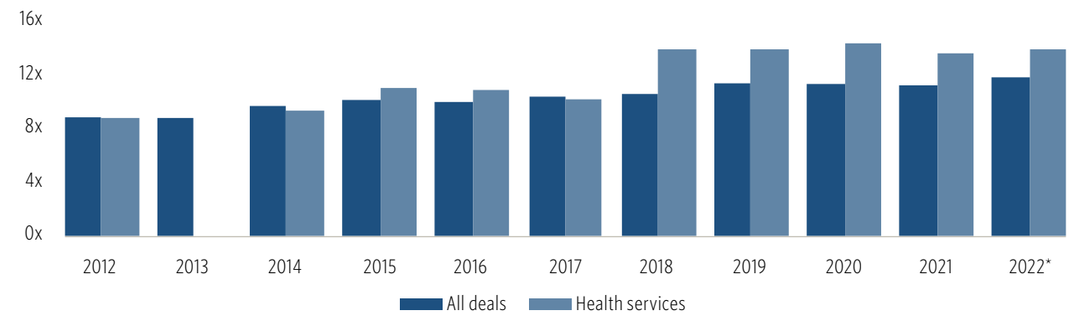
Source: LCD | Geography: US | *As of October 17, 2022

New-issue spread for health services loans



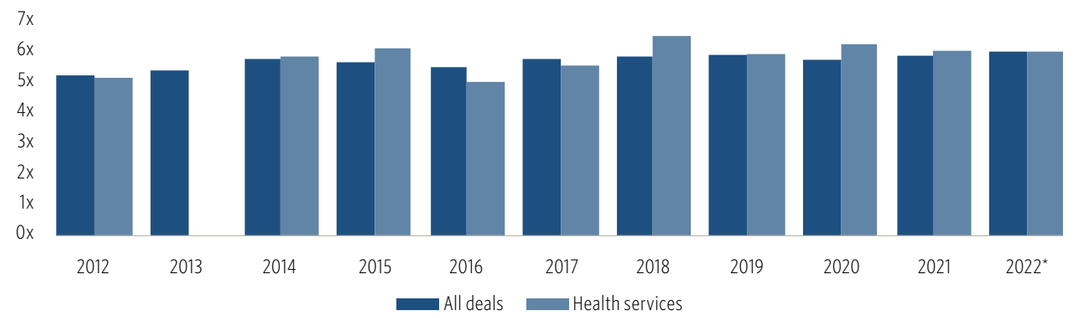
Source: LCD | Geography: US | *As of October 17, 2022

Average LBO purchase price multiple



Source: LCD | Geography: US | *As of September 30, 2022
Note: Based on borrowers with EBITDA of $50 million or more

Average LBO leverage ratio



Source: LCD | Geography: US | *As of September 30, 2022
Note: Based on borrowers with EBITDA of $50 million or more

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Healthcare services PE ecosystem market map

Click to view the interactive market map on the PitchBook Platform.

Market map is a representative overview of active PE-backed platforms headquartered in the US or Canada. Companies listed have undergone a PE buyout or growth equity investment.

Generalists

Occupational and correctional health

wellpath, YesCare, Premise Health, Medicine for Business Industry, MobileHealth

Primary care

InovaCare Health, everside Health, vera Whole Health, Southeast Primary Care Partners, MainStreet Family Care

Urgent and emergency care

BestMed, CareSpot by FastMed, CityMD, FastMed, Fast Pace Health Urgent Care

Multispecialty

Ambulatory surgical centers

BlueCloud, Covenant Physician Partners, National Surgical Hospitals, SCA Health

Clinical staffing

EH Emergency Health, Envision Healthcare, SIROMED, RestorixHealth, Synergy Health Partners

Hospitals and health systems

Steward, ScionHealth, Northwest Specialty Hospital, Ardent Health Services

Multispecialty clinics and networks

essen Health Care, LEON Medical Centers, rendr, duly Health and Care

Skilled care and behavioral health

ABA and pediatric therapy

360 Behavioral Health, acorn Health, ABA4KIDS, Autism Learning Partners, Center for Social Dynamics

Home health and hospice

accentCare, Affinity Hospice, BrightSpring Health Services, Charter Healthcare, cms Clinical Medical Services

IDD care

CAREGIVER, People's Care, BEACON Specialized Living, CBC Community Based Care

Infusion

AOM Infusion, California Specialty Pharmacy, Infusion Associates, Infusion for Health, KabaFusion

Mental health and SUD treatment

LifePoint Health, Springstone, Promises Behavioral Health, Newport Academy, Eating Recovery Center

Skilled nursing

Advantage, BridgeWater, Cambridge, Collage, Ernest Health

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PPMs

Cardiovascular

Cardiothoracic & Vascular Surgical Associates, P.A. | Cardiovascular Associates of America | CVM Cardiovascular Medicine, P.C. | Metro Vein Centers | Mobile Vascular Physicians

Dental

Allied Dental | benevis | Canadian Dental Partners | Dental365 | Heartland Dental

Dermatology

Anne Arundel Dermatology | Dermatologists of Central States | Epiphany Dermatology | Forefront Dermatology | LaserMD Med Spa

Ear, nose, and throat

Advent | Allergy Partners | Aspire Allergy & Asthma | ENT Partners | Family Allergy & Asthma

Gastroenterology

Allied Digestive Health | gastro Care Partners | Gastro Health | Grand Health Partners | New York Bariatric Group

Musculoskeletal

ATI Physical Therapy | Alliance Physical Therapy Partners | Beacon Orthopaedics & Sports Medicine | CORA Physical Therapy | Drayer

Obstetrics and gynecology

Austin Perinatal Associates | Axia Women's Health | Reproductive Gynecology & Infertility | The Women's Health Group | Unified Women's Healthcare

Oncology

Integrated Oncology Network | OneOncology | Verdi Oncology

Other medical specialists

Healogics | Advantage Surgical & Wound Care | IDC | Midwest Immunology | NEURO International

Reproductive medicine

Extend Fertility | CCRM Fertility | Institute for Human Reproduction | Pacific Fertility Center Los Angeles | Santa Monica Fertility

Urology/renal

American Renal | Renal Care 360° | The Urology Group | United Shockwave Services | UrologyAmerica

Veterinary

Amerivet | Animal Dermatology Clinic | Best Friends Pet Care | Community Veterinary Partners | Heartland Veterinary Partners

Vision

Atlantic Vision Partners | Capital Vision Services | EyeCare Partners | EyeCare | NVISION

Healthcare services PE investor map

Click to view the interactive investor list on the PitchBook Platform.

Investor map is a representative overview of active investors in US and Canada healthcare services buyouts and growth equity. Investors are classified by the size of the fund out of which they primarily invest in healthcare services. An asterisk denotes either target fund size or, in an open fund, capital raised to date above the target fund size.

Lower middle market (less than $500 million)

- BPEA Private Equity — Strategic Healthcare Fund II open
- Compass Group — $255M 2022 Fund II
- Endurance Search Partners
- Enhanced Healthcare Partners — $300M 2019 Healthcare Fund
- Havencrest — $365M 2022 Fund II
- InTandem Capital Partners — $225M 2022 Opportunities Fund
- Leavitt Equity Partners — Fund III open
- LorientCapital — $225M 2021 Fund II
- Maven Equity Partners — Fund II open
- Peterson Partners — $225M 2021 Fund IX
- petra Capital Partners — $208M 2019 Fund IV
- Pharos Capital Group, LLC — Fund IV open
- Pine Tree Equity Partners — $147.5M 2020 Fund IV
- RF Investment Partners — Fund II open
- RiverGlade Capital — $453M 2022 Fund II
- SBJ Capital — Fund II open
- Sheridan Capital Partners — Fund III open
- Shore Capital Partners — $368.7M 2021 Fund IV

Middle market ($500 million to $1.5 billion)

- Amulet Capital Partners LP — $650M 2021 Fund II
- Assured Healthcare Partners — $759M 2022 Fund II
- BPOC — $550M* Fund VI open
- Chicago Pacific Founders — $796.8M* Fund III open
- Cressey & Company LP — Building Leading Healthcare Businesses — Fund VII open
- FFL Partners — $900M 2022 Fund V
- Frazier Healthcare Partners — $1.4B 2021 Growth Buyout Fund X
- H.I.G. Capital — $1.3B 2020 Fund VI
- LightBay Capital — $800M* Fund II open
- NMS | Capital — $467M Fund IV* open
- NexPhase Capital — Fund V open
- Revelstoke Capital Partners — $1.2B* Fund III open
- RoundTable Healthcare Partners — $800M 2022 Fund VI
- Trinity Hunt Partners — $460M 2021 Fund VI
- Two Sigma — Fund I open
- Varsity Healthcare Partners — $600M* Fund IV open
- VSS — $500M* Fund IV open
- Waud Capital — Fund VI open

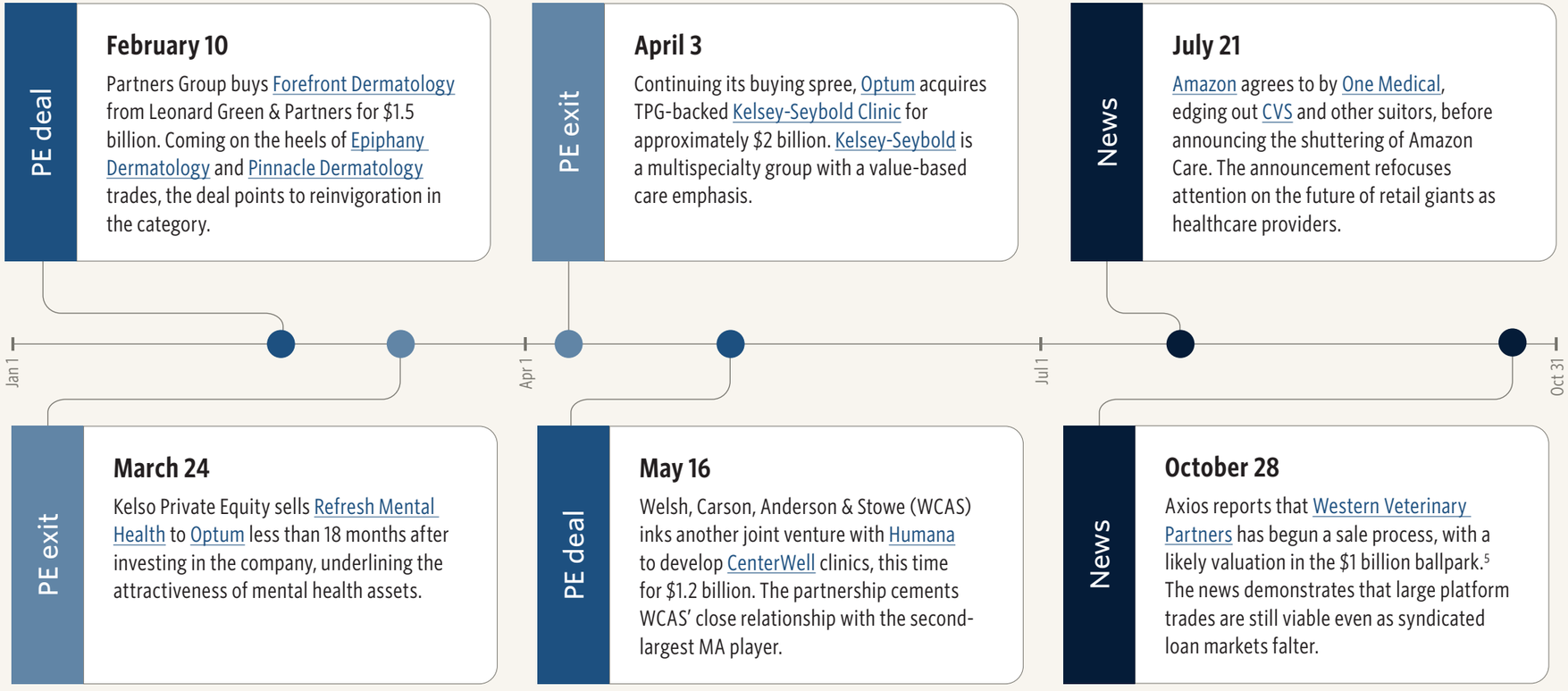
Upper middle market ($1.5 billion to $5 billion)

- ALTAS — $3.3B* Fund III open
- Audax Group — Fund VII open
- Kinderhook Industries — $1.9B 2022 Fund VII
- Patient Square Capital — Fund I open
- Ridgemont Equity Partners — $2.4B 2021 Fund IV
- Sun Capital Partners, Inc. — $2.5B* Fund VIII open
- Vistria — $2.7B 2021 Fund IV
- WCAS — $5B* Fund XIV open
- Webster Equity Partners — $1.7B 2022 Fund V

Large cap ($5 billion+)

- Clayton, Dubilier & Rice — $20B* Fund XII open
- General Atlantic — $13.6B evergreen fund
- KKR — $3.8B 2021 Healthcare Strategic Growth Fund II
- LGP Leonard Green & Partners — $14.7B 2022 Fund IX
- OMERS Private Equity
- Partners Group — $15B 2021 Fund IV
- Summit Partners — $8.3B 2021 Fund XI

Q1 to Q3 2022 timeline



PE activity

211
total deals in Q3 (estimated)

725
total deals in Q1 to Q3 (estimated)

1,089
TTM deal count (estimated)

-23.6%
QoQ change in deal count

-10.3%
YoY change in Q3 deal count

17.8%
TTM YoY change in deal count

5: "Axios Pro: Health Tech Deals," Axios, Erin Brodwin and Sarah Pringle, October 28, 2022.

Key regulatory developments

Finalized Medicare rates for 2023

On November 1, 2022, CMS issued finalized Physician Fee Schedule (PFS), Home Health Prospective Payment System (HH PPS), and Hospital Outpatient Prospective Payments System (OPPS) and Ambulatory Surgical Center (ASC) rules, with implications for several PE healthcare services investment categories.

PFS: CMS will reduce the PFS conversion rate, which is used to calculate reimbursement, by about 4.5% from 2022's level. The PFS accounts for the bulk of Medicare reimbursement in most provider categories.

HH PPS and Home Infusion Therapy Services rules: Payments to home health agencies will increase in aggregate by 0.7%, with additional cuts via behavior adjustments planned for 2024 and beyond. Legislation introduced in the Senate would delay these phased-in cuts until 2026, but the bill's fate is uncertain.[6] Although the final rule is significantly better for the home health industry than CMS' initial proposal of an aggregate 4.2% cut in 2023, providers argue it is not sufficient to ameliorate the margin pressure that home health agencies are facing, discussed below.

OPPS and ASC rules: CMS will increase OPPS and ASC rates by 3.8% in aggregate. This is 1.1 percentage points higher than the initially proposed rate increase, but providers argue it is still insufficient to mitigate increased staffing costs.

Telemedicine and behavioral health

The final 2023 PFS provides for the extension of telehealth policies enacted under the public health emergency (PHE), with a couple of noteworthy exceptions. Under current legislation and the finalized rule, 151 days after the end of the PHE (likely in H1 2023), virtual direct supervision will not be covered under Medicare. Additionally, providers will not be able to bill separately for audio-only evaluation and management (E/M) behavioral health telemedicine visits, except for SUD treatment and some other exceptions, including a patient's inability to access two-way audio/video.[7] H.R. 4040, currently before the Senate, would further extend PHE telehealth waivers through 2024.[8]

SUD treatment and controlled substances: Under the 2019 SUPPORT Act, telehealth treatment of SUD and co-occurring mental health disorders are payable by Medicare without in-person visit requirements. However, providers face a dynamic policy landscape around controlled substances prescription. The US Drug Enforcement Administration has not yet made the PHE waiver of in-person evaluation requirements permanent. The finalized 2023 PFS rule permanently extends the PHE allowance for opioid use disorder treatment programs to begin medication-assisted treatment (MAT) with buprenorphine—but not methadone—via telehealth. This may help PE-backed providers serve patients with limited transportation access, although methadone is more cost effective than buprenorphine.

Other behavioral-health-related provisions: The finalized PFS allows providers to bill for services provided by licensed counselors and therapists, as well as mental health disorder and SUD treatment, under general, rather than direct, supervision. This should increase the capacity of PE-backed behavioral health companies to treat more patients amid provider shortages.

6: "S.4605 – Preserving Access to Home Health Act of 2022," Congress.gov, 117th Congress (2021-2022), July 25, 2022.
7: "Medicare Telehealth Services for 2023 – CMS Proposes Substantial Changes," Foley & Lardner LLP, Rachel B. Goodman, Nathaniel M. Lacktman, and Thomas B. Ferrante, July 14, 2022.
8: "H.R.4040 – Advancing Telehealth Beyond COVID-19 Act of 2021," Congress.gov, 117th Congress (2021-2022), June 22, 2021.

A WORD FROM UNITEDHEALTHCARE

Accelerating the pace of innovation in healthcare

Deep knowledge of industry challenges and strategic collaborations are helping build a future of personalized care and more seamless digital experiences.

Today's healthcare landscape is changing fast.

Age-old industry challenges remain pressing today, with stakeholders collaborating to develop solutions that aim to lower costs, improve health outcomes, and create experiences that are better tailored to unique member needs. Beyond the challenges associated with the traditional Triple Aim, health inequities and social determinants of health (SDOH) have garnered more attention than ever since the onset of COVID-19.

Yet despite all the challenges facing healthcare today—many becoming more apparent and urgent during the pandemic—the public health crisis also spurred rapid innovation and an influx of investment.

These important developments in healthcare innovation can be categorized into three overarching trends affecting employers and their employees, now and moving forward:

Personalized care grounded in data

Members increasingly expect providers to personalize their experience—to recognize them at an individual level across the spectrum of touchpoints, as is increasingly common in other industries.[9] Personalization in healthcare can mean many things—everything from providers virtually delivering care to wearable devices enabling individualized management of chronic diseases such as diabetes.[10]

"No two human beings are the same, but too often they are treated the same in a medical setting," said Jaime Murillo, Senior Vice President and Chief Medical Officer of Optum Labs. He sees a future wherein clinicians have access to an AI-based algorithm that draws on various data streams—including medical history and relevant demographic and SDOH-related data—to suggest the best treatment.

For instance, data-informed tools can help clinicians direct members to available lower-cost drugs and proactively push prescription savings opportunity alerts. "It's a good example of how innovation efforts can drive costs out of the system while improving the member experience," said Susan Maddux, Chief Pharmacy Officer at UnitedHealthcare. "Affordability and improving that experience are core goals for us."

The impact of data and personalization is also seen in the provider's office. Real-time access to improved data about the quality of network specialists, for example, could help reduce overall costs and suggest a care regimen more tailored to members' unique needs.

"We can help providers better support members by providing this kind of information so they can adjust their decision-making based on potential impacts on each patient sitting before them," said Dr. Gerald Hautman, Chief Medical Officer and Senior Vice President of UnitedHealthcare National Accounts.

Digital fuels the provider-patient relationship

The future of digital is about more than specific tools and platforms used to improve the member experience: apps, member portals, virtual care, and remote monitoring devices. These things matter, but the value of digital goes beyond channels and devices.

9: "New Survey Shows Consumers Expect Better Healthcare Experiences-But Are Often Disappointed," Forbes, Deb Gordon, December 7, 2021.
10: "UnitedHealthcare Taps Wearables, Individualized Coaching To Enhance Diabetes Management," Fierce Healthcare, Evan Sweeney, January 10, 2018.

"It's great that these devices will ping you and say you need to stand, or you need to walk, or your blood pressure is too high," said Craig Kurtzweil, Vice President, UnitedHealthcare Center for Advanced Analytics®. "But what members really struggle with is, 'What do I do with that information? What does it mean?'"

By putting data-driven tools and analytics in the hands of providers, outcomes may be improved.

"Some of Optum Labs' innovation efforts have focused on developing decision-support tools and algorithms to help providers make better decisions by surfacing information that helps streamline administrative tasks and overall care delivery," said Troy Anderson, Vice President of Product Management at Optum Labs.

For example, Optum Labs is developing a care-enablement tool that helps providers identify patients who are at higher risk for mild to moderate mental health challenges and facilitates collaboration with mental health professionals, which is designed to be as seamless as possible.

Strategic collaboration powers innovation

Given the complexity of healthcare delivery and systems, strategic collaborations to drive innovation take many forms. UnitedHealth Group, the parent company of UnitedHealthcare and Optum, collaborates with stakeholders both inside and outside the organization to advance its innovation agenda—from nurturing promising startups through direct investments via Optum Ventures, a venture capital fund with more than $600 million in assets under management, to helping early-stage startups foster growth through mentorship and investing, thereby enabling pathways to commercialization via the UnitedHealthcare Accelerator program.

As Vice President of Innovation at UnitedHealthcare, Kaylene Thompson oversees the Accelerator program. The immediate goal is to help startups grow, but the program plays an important role in reinforcing the culture of innovation at UnitedHealthcare by providing exposure to new ways of thinking and risk-taking. "My team is really focused on how we accelerate the pace of innovation and how we bolster the right capabilities to innovate with speed and confidence," said Thompson.

In healthcare, a common obstacle to successful innovation—meaning new products and services that work at scale—is the fragmented nature of the sector. But the integrated nature of UnitedHealth Group brings together a payer (UnitedHealthcare), a technology company (Optum), and a provider (Optum Care) under one roof as innovation collaborators.

According to Thompson, that matters because it sets the stage for strategic collaborations: "We have a greater chance of being able to actually scale things in a meaningful way."

Strategy is key in private equity and your portfolio's healthcare benefit spending. Let the UnitedHealthcare private equity benefits team show you how to lower your portfolio's healthcare costs and free up more money for investment growth.

Disease Management programs and services may vary on a location-by-location basis and are subject to change with written notice. UnitedHealthcare does not guarantee availability of programs in all service areas and provider participation may vary. Certain items may be excluded from coverage and other requirements or restrictions may apply. If you select a new provider or are assigned to a provider who does not participate in the Disease Management program, your participation in the program will be terminated. Self-Funded or Self-Insured Plans (ASO) covered persons may have an additional premium cost. Please check with your employer.

Segment overview

Generalist providers

Investors look to generalists to control costs and increase access across the healthcare system.

Multispecialty providers

Staffing costs and reimbursement changes force multispecialty providers to adapt.

PPMs

Amid macroeconomic turmoil, underlying demand drivers keep dealmaking on pace.

Skilled care and behavioral health

Providers navigate staffing shortages and reimbursement pressure amid sky-high demand.

Generalist providers

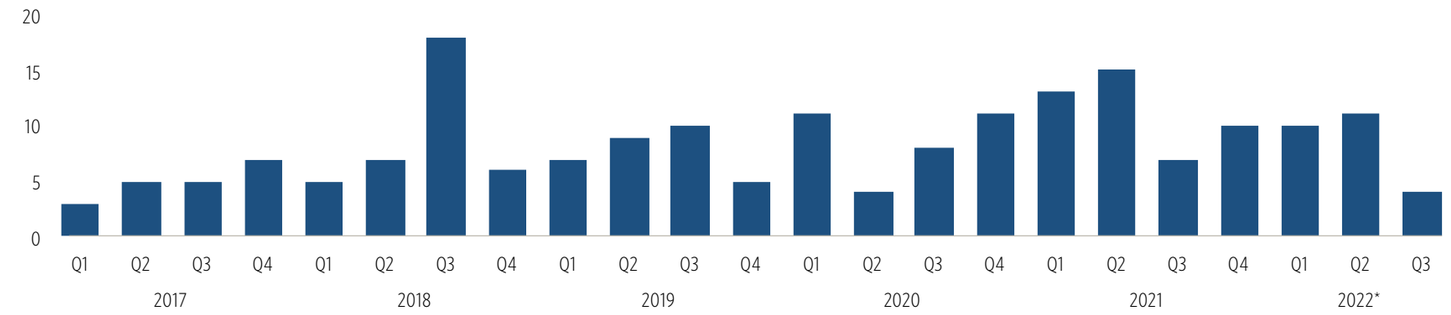
Investors look to generalists to control costs and increase access across the healthcare system

Overview

Generalist healthcare practitioners provide preventative care and treatment for a broad range of acute and chronic conditions. The "front door" of the healthcare system, they often serve as a patient's first port of call and refer to specialists as needed. Generalist providers have not always found favor with PE investors because they generate tighter margins than many specialists, and because pure-play PE platforms cannot use generalists as referral generators in the same way that hospitals and health systems do. However, two key industry shifts—the adoption of value-based payment models and healthcare consumerization—have brought generalists to the forefront within the last half-decade.

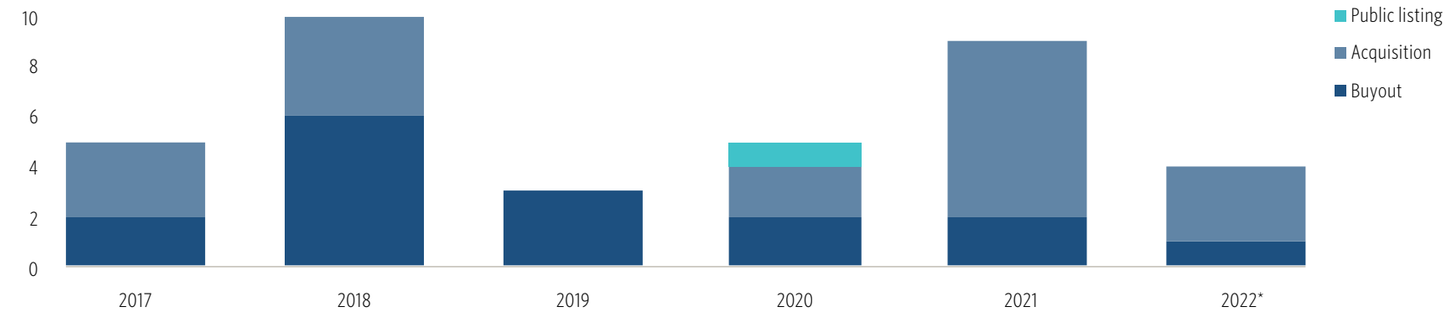
Consolidation within primary care has historically been driven by health systems. Beginning in the mid-2010s, payers—chiefly UnitedHealth (Optum) and Humana—recognized the benefits of vertical integration and began buying up leading primary

Generalist PE deal count by quarter



Source: PitchBook | Geography: US and Canada | *September 30, 2022

Generalist PE exit count by type



Source: PitchBook | Geography: US and Canada | *September 30, 2022

care practices within their provider arms. Retail giants have also begun to play in the primary care/urgent care space by opening walk-in clinics in their retail stores, including CVS via its MinuteClinics and HealthHUBs, Walgreens via its subsidiary VillageMD, and Walmart via its Walmart Health locations and Oak Street Health partnership. Recently, retailers have moved to acquire primary/urgent care groups, such as Amazon's purchase of One Medical and VillageMD's merger with Summit Health. Medical PE-backed platforms grow through a combination of larger group add-ons and de novo expansion. The latter strategy is attractive due to relatively low startup costs and sky-high multiples for scaled groups with proven MA track records.

Occupational and correctional health providers operate in a somewhat different sphere due to their narrowly defined patient populations and unique revenue streams—direct employer contracts and workers' compensation insurance in the case of occupational health and criminal justice agency contracts in the case of correctional health. Some strategics have an outsized presence in this category, such as Centene's Centurion Health correctional business.

This segment includes the following categories:

Occupational and correctional health: Occupational health groups contract with employers and workers' compensation insurance companies to provide care for employees in physically demanding jobs. They provide services such as primary care, urgent care, drug tests, fitness-for-work and hazardous materials physicals and screenings, and injury rehabilitation. They also provide care coordination services and return-to-work planning for injuries and conditions covered under workers' compensation policies. Correctional health groups contract with local, state, and federal criminal justice agencies to provide healthcare to incarcerated individuals. They may also provide community-based services such as re-entry programs or SUD treatment.

Primary care: Primary care covers a range of preventative care, wellness, and common illness treatment for adults and children. This category includes family medicine, nonspecialist pediatric medicine, primary care for older adults ("senior primary care"), and internal medicine.

Urgent and emergency care: Urgent care providers treat common, time-sensitive injuries and illnesses on a walk-in basis. Urgent care providers work within a similar scope of practice to primary care providers, but focus on acute cases rather than prevention and do not establish long-term patient-physician relationships. Urgent care practices may also incorporate limited on-site radiology and laboratory functions. Emergency care provides triage and treatment for severe and extremely time-sensitive injuries and illnesses. This segment encompasses freestanding emergency care clinics only, not emergency department staffing services for hospitals.

Investment drivers

Primary care at the forefront: An often-cited statistic among healthcare investors is that primary care accounts for around 5% of US healthcare spending but directly affects care quality and cost across the other 95%. In an ideal world, a primary care physician (PCP) contributes to a patient's overall health and wellness by encouraging healthy lifestyle choices, identifies risks early before they turn into severe illnesses or emergencies, and proactively helps connect patients to specialist care as needed. This also allows the PCP to manage a patient's holistic treatment plan when they are cared for by multiple specialists by understanding their medical history as well as potential interactions between different conditions and treatment regimes. As value-based care and contracting models proliferate, government and commercial payers have become increasingly aware of this important role for primary care and have adjusted reimbursement models to incentivize investment in primary care.

Medicare Advantage: MA is CMS' largest value-based care effort. MA plans currently enroll around 48% of Medicare beneficiaries, with leading plan providers UnitedHealth and Humana controlling a combined 46% of the market. The Congressional Budget Office estimates MA penetration will reach 60% of the total Medicare market by 2030.[11] Because CMS is committed to a wholesale transition from fee-for-service to value-based models, the agency has calibrated MA risk-adjusted payments and performance incentives to offer attractive margins on care. Successful MA plans reinvest these earnings into improved plan offerings, such as dental coverage, fitness classes, or transportation to appointments, in turn attracting more members. PCPs that can successfully negotiate with payers to share in these margins—and then effectively lower the cost of care—can enjoy significant upside.

Diverting low-acuity emergency department (ED) visits: Many patients, especially people with lower socioeconomic status and/or health literacy, utilize hospital emergency departments for nonemergency situations because they struggle to get the treatment they need via a PCP.[12] The availability of walk-in primary care such as urgent care is inversely correlated with low-acuity emergency department utilization.[13] Urgent care facilities also provide significant savings over hospital emergency department rates and are financially easier to manage because they are less exposed to unpredictable, high-cost utilization episodes and payment collection challenges. Many urgent care practices offer affordable flat-rate, cash-pay options for people without insurance.

Rural access: While the first wave of PE investment in urgent care centers focused on Tier 1, or large metropolitan, markets, PE investors have increasingly begun focusing on suburban and rural urgent care centers in areas that are either under- or unserved by primary care and/or hospitals. As of 2019, 15.8% of the US population lives in rural areas, while only 9.2% of primary care physicians practice in rural areas.[14] As financial pressure on rural and community hospitals increases, rural urgent care is likely to increase in importance. Freestanding EDs are less common, but they offer a similar value proposition: faster, more cost-effective service than hospital EDs due to reduced overhead, and the ability to locate more EDs in rural areas that cannot support a full hospital.

PE activity

So far in 2022, PE investment activity in generalist providers has held steady, exhibiting only a modest slowdown in Q3. Investment activity in occupational and correctional health and urgent and emergency care has been robust, with several new platform formations and healthy add-on activity.

By contrast, both platform and add-on activity in primary care slowed significantly from the pace we saw in 2018 to 2021 as an increasingly risk-off environment made buyers more hesitant to pay top dollar for MA assets. The year's only noteworthy MA-focused deal was Revelstoke Capital Partners' growth investment in Claremedica Health Partners, already a Beecken Petty O'Keefe & Company (BPOC) portfolio company. Instead, investors pursued less trodden primary care themes: TPG

11: "Medicare Advantage in 2022: Enrollment Update and Key Trends," KFF, Meredith Freed, et al., August 25, 2022.
12: "URGENT CARE INDUSTRY WHITE PAPER 2018 (Unabridged) The Essential Role of the Urgent Care Center in Population Health," Urgent Care Association, Laurel Stoimenoff, PT, CHC, and Nate Newman, MD, FAAFP, 2018.
13: "Enhancing Value-Based Care With a Walk-in Clinic: A Primary Care Provider Intervention to Decrease Low Acuity Emergency Department Overutilization," PubMed Central, Cureus, Derek J. Baughman, et al., February 2021.
14: "Primary Care in the United States: A Chartbook of Facts and Statistics," Robert Graham Center, American Board of Family Medicine, and IBM Watson Health, Brian Antono, et al., February 2021.

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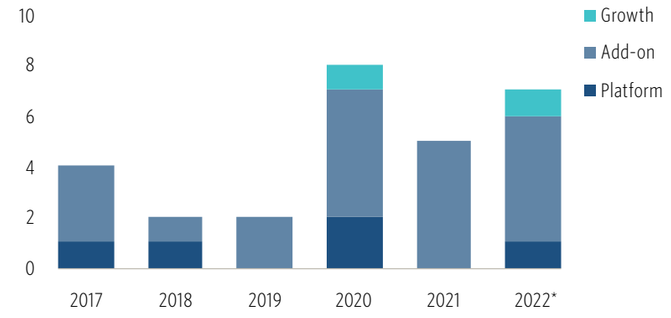
recapitalized Summit Partners-backed Pediatric Associates, while Pine Tree Equity Partners acquired Premier Physician Support Services, a Medicaid-focused group.

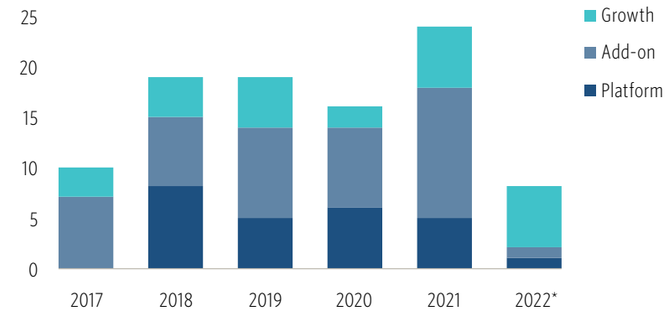
Unlike in most healthcare services categories, opportunities for generalist platforms skew toward strategics rather than sponsor-to-sponsor buyouts. No significant primary care exits were announced in 2022. However, steady exit activity in urgent care underscored the opportunities associated with moving after-hours care out of understaffed hospitals, and we expect to see resiliency in that category even as market conditions deteriorate.

Occupational and correctional health PE deal count by type



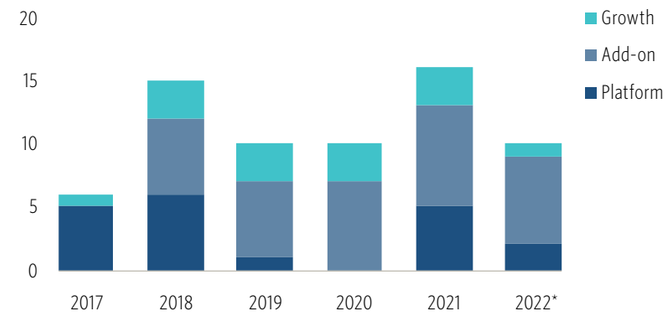
Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

Primary care PE deal count by type



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

Urgent and emergency care PE deal count by type



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

Spotlight: Primary care

Once eschewed by investors because of low fee-for-service reimbursement, primary care—that is, senior primary care—has become the site of a turf war among payviders, retailers, and PE-backed platforms due to the high margins that MA contracts can generate. PE investors must carefully form geographic and service line strategies and weigh elevated entrance multiples against return prospects and long-term trends.

Payvider partnership strategy: Two of the three greatest risks in senior primary care investing are competition from payviders, which wield outsized market power in both the MA plan and provider arenas, and unjustifiable practice valuations. Welsh, Carson, Anderson & Stowe's (WCAS) joint-venture-based senior primary care strategy is noteworthy as a hedge against these two risk factors. (The third is the possibility of belt-tightening by CMS on risk adjustments, which we believe to be five to ten years away.) The firm has established two joint ventures with Humana to expand the CenterWell primary care brand through de novo clinic openings, the first for a combined $600.0 million in 2020 and the second for $1.2 billion in May 2022. WCAS' up-front capital provision allows CenterWell to expand aggressively through clinic openings in Tiers 2 and 3 markets, while Humana leads clinic operations. The joint ventures also provide a put-call structure for Humana to buy out WCAS' majority equity share within a defined time frame, giving WCAS a guaranteed exit on its investment. In September 2022, Humana announced it would buy WCAS' stake in the clinics established thus far under the first joint venture for between $450 million and $550 million.

Geographic greenfields: Due to demographic, reimbursement, and market dynamics, senior primary care activity has concentrated in specific geographies, Florida chief among them. PE-backed senior primary care platforms currently active in Florida include Bluestone Physician Services, Claremedica Health Partners, InnovaCare Health, MAXHealth, Millennium Physician Group, and MyCare Medical Group—not to mention strategics Cano Health, CenterWell (Humana), Conviva Care Center (Humana), Oak Street Health, Privia Health, and others.

BPOC-backed Southeast Primary Care Partners (SPCP), a noteworthy recent entrant in the PE primary care-backed landscape, has taken a different approach by initially scaling in Georgia. Formed from North Atlanta Primary Care as the platform in 2021, SPCP has avoided the extended ramp-up times associated with de novo openings by prioritizing inorganic growth, expanding from approximately 40 practices in 2021 to around 150 at present. Building a Georgia-based platform offers several advantages. First, the state has traditionally been dominated by health systems, meaning that remaining independent primary care physicians are wary of health system integration and may be more attracted to the flexible support that a platform like SPCP can provide. Second, SPCP has cultivated strong relationships with the local physician community through hands-on engagement by management, in contrast to national players. Third, practice valuations are lower in Georgia, which has relatively low value-based care penetration, than in more competitive markets. Whereas Florida primary care practices are valued based on the number of attributable MA lives, SPCP can buy practices on an attractive multiple of EBITDA and then gradually work toward bringing those practices onto a higher proportion of value-based—and ultimately capitated—contracts. The platform expects to derive about 25% of its revenue from Medicare ACO and commercial value-based contracts in 2023—compared with less than 5% in 2021—before entering the MA space in 2024.

"Primary care plus": Strategics and PE-backed primary care platforms are looking to ancillaries to the core primary care business to improve holistic patient care and avoid costly care episodes. They may do this through either acquisitions or partnerships. Walk-in clinics and extended opening hours

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provide patients with an alternative to visiting the ED. Trinity Hunt Partners-backed MainStreet Family Care, an adult and pediatric primary care practice operating in rural communities in the Southeast, offers urgent care seven days a week. Home healthcare facilitates screening, medication adherence, and therapy for patients with limited mobility or transportation access, thus allowing care coordination teams to intervene with the most medically in-need patients and avoid acute care episodes. Prominent examples include CVS' acquisition of Signify, a provider of in-home health evaluation visits that partially substitute for in-clinic primary care, and Humana's acquisition of Kindred at Home, now CenterWell Home Health. Finally, behavioral health has become a popular primary care add-on because behavioral comorbidities such as depression and anxiety drag on health, put patients at risk for SUDs, and interfere with treatment plans. Clayton, Dubilier & Rice-backed Vera Whole Health offers in-person and virtual behavioral healthcare as part of its "advanced primary care" model, and Everside has also incorporated behavioral health into its model, which aims to eventually provide care in additional specialties, such as dental and vision, through either partnerships or M&A.[15]

15: "Axios Pro: Health Tech Deals," Axios, Erin Brodwin and Sarah Pringle, October 20, 2022.

Select generalist PE deals in 2022*

Company	Category	Deal type	Close date	Sponsor(s)	Acquirer
Everside Health	Primary care	Growth	July 25	New Enterprise Associates, Alta Partners, Endeavor Catalyst, Oak HC/FT	N/A
Premier Physician Support Services	Primary care	Growth	July 1	Pine Tree Equity Partners	N/A
Taylor Made Diagnostics	Occupational and correctional health	Add-on	June 13	Welsh, Carson, Anderson & Stowe, Cressey & Company	Concentra
Agile Occupational Medicine	Occupational and correctional health	Growth	May 11	Angeles Equity Partners, Innova Capital Partners	N/A
Smoky Mountain Urgent Care	Urgent and emergency care	Buyout	May 10	Kinderhood Industries	N/A
Perlman Clinic	Primary care	Buyout	April 13	FFL Partners	N/A
Claremedica Health Partners	Primary care	Growth	February 24	Revelstoke Capital Partners	N/A
US Mobile Health Exams	Occupational and correctional health	Buyout	February 23	Potomac Equity Partners	N/A
Community Medical Group	Primary care	Carveout (Centene)	February 14	Waud Capital	N/A
Pediatric Associates	Primary care	Buyout	February 8	TPG	N/A

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

GENERALIST PROVIDERS

Select generalist PE exits in 2022*

Company	Category	Exit type	Close date	Exiting sponsor(s)	Acquirer
Physicians Immediate Care	Urgent and emergency care	Acquisition	July 1	Elevance Health, LLR Partners	WellNow Urgent Care
PeakMed	Urgent and emergency care	Acquisition	April 15	The Convergence Group	One Medical

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Multispecialty providers

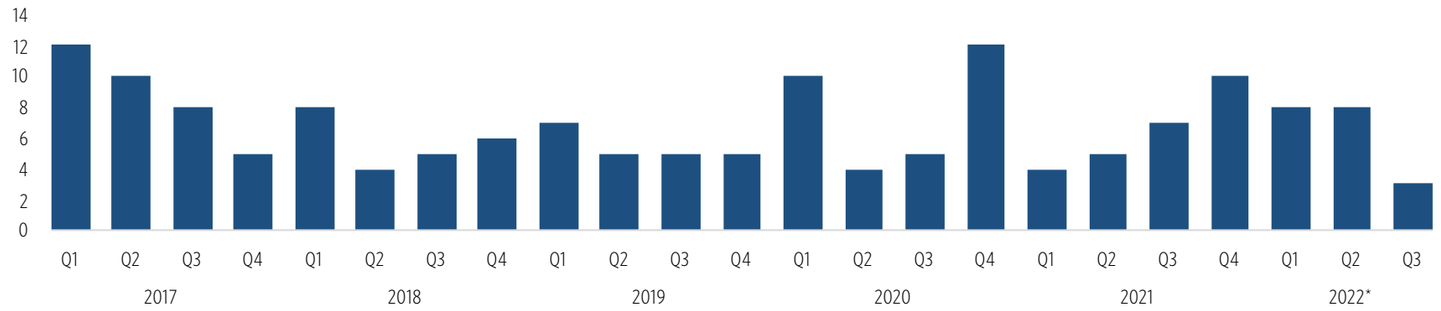
Staffing costs and reimbursement changes force multispecialty providers to adapt

Overview

Multispecialty providers provide a broad range of specialized care and treatment, allowing patients to undertake much or all of their care within a single organizational umbrella. The advantages of multispecialty providers are manifold. From the provider perspective, they keep referral-based income in-house and, in the case of health systems, hedge against patient and payer pressures to move care from inpatient to outpatient settings. From the patient perspective, they can provide a more integrated care experience by centralizing patient records and billing processes across specialist providers. This segment also includes ambulatory surgical centers, which can facilitate surgeries of a single specialty or across a range of specialties, and clinical staffing groups, which contract with a variety of provider types including hospitals.

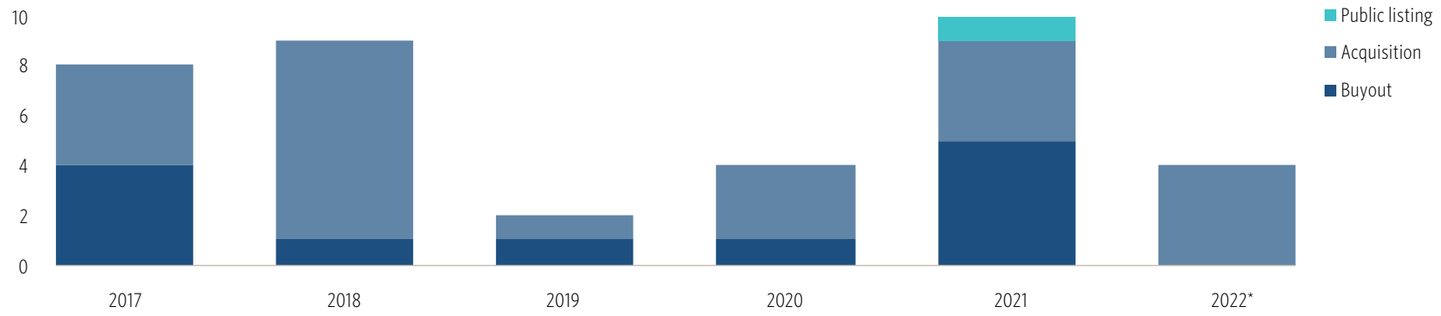
Competition in this segment occurs primarily within discrete regional markets. This is because one of the greatest advantages

Multispecialty PE deal count by quarter



Source: PitchBook | Geography: US and Canada | *September 30, 2022

Multispecialty PE exit count by type



Source: PitchBook | Geography: US and Canada | *September 30, 2022

of multispecialty groups—the ability to refer internally—requires geographic concentration. One or more hospital-centered health systems dominate many regional markets, and while some PE firms have invested in hospitals and health systems, this is relatively unusual; hospitals and health systems more often represent competitors with PE firms for market share and acquisition targets. HCA Healthcare, Community Health Systems, and Tenet Healthcare are the largest national-scale for-profit hospital groups. In the ambulatory surgical center space, national strategics SCA Health (now part of Optum) and United Surgical Partners International have advanced consolidation over the past two decades alongside PE investors.

This segment includes the following categories:

Ambulatory surgical centers (ASCs): ASCs are facilities in which physicians can perform outpatient surgeries. An ASC may host surgeries within a certain medical specialty, such as optometry, dermatology, gastroenterology, or orthopedics, or they may offer surgeries across a range of specialties. ASCs may be owned by hospitals/health systems, specialist physician practices, physicians, ASC management companies, or a combination of these, often through a joint venture.

Clinical staffing: These are companies that employ physicians, therapists, nurses, and other skilled medical practitioners and contract these workers out to medical facilities such as hospitals, clinics, skilled nursing facilities, or home health agencies. These groups may offer a range of staffing solutions or focus on a particular specialty, such as anesthesiology, ED, or physical and occupational therapy.

Hospitals and health systems: Hospitals provide inpatient care for acute and chronic conditions across a broad range of specialties. Around two-thirds of US hospitals are affiliated with health systems, regional organizations that operate outpatient, ambulatory, and inpatient facilities across a range of specialties. Independent (not system-affiliated) psychiatric hospitals and animal hospitals are excluded from this category.

Multispecialty clinics and networks: This category encompasses multisite outpatient provider groups that offer care in numerous specialties. It also includes independent provider networks (IPNs) and clinically integrated networks (CINs).

Investment drivers

Outpatient convenience and cost savings: The cost of surgical procedures performed in ASCs is roughly half the cost for the same procedure performed in a hospital outpatient department (HOPD). Cost savings are greater still when comparing an ASC-based procedure with a hospital inpatient procedure. For this reason, over recent decades, payers have pushed for more surgeries to be performed in ASCs, and CMS has expanded the ASC Covered Procedures List to allow a greater range of surgical care to take place in outpatient settings.

Population health: Hospitals, health systems, and multispecialty networks are well equipped to take on more advanced risk-bearing contract types (capitation). Because they are often the dominant healthcare provider in a given local area, and because they treat individuals across the care continuum, these groups may be able to observe improved outcomes in the form of reduced high-acuity cases as a result of investments in primary care, case management, and social determinants of health (SDOH) efforts.

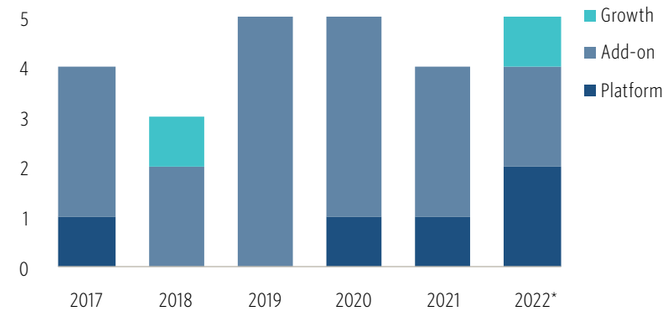
Staffing shortages: The COVID-19 pandemic brought about severe dislocation in the healthcare workforce, which was already facing provider and nurse shortages in many geographies. While hospitals are under immense financial stress as a result, clinical staffing groups have seen demand for contract workers soar. Outsourced solutions can also help hospitals deal with utilization variation—due to pandemic surges, for example—and can reduce administrative burdens for internal human resources departments.

PE activity

Deal activity in the multispecialty provider space has remained fairly consistent. Because investment activity in these categories is limited to a few trackable deals per quarter, quarter-to-quarter variation is to be expected, and 2022's deal totals are in line with historical norms. Notably, we have not recorded a new clinical staffing platform creation since 2020. One noteworthy platform creation in the ambulatory surgical space was TPG's investment in Blue Cloud Pediatric Surgery Centers via The Rise Fund, the firm's impact investment arm. Blue Cloud seeks to address significant unmet demand for Medicaid-eligible pediatric and IDD oral surgery—a niche that is also being addressed by VC-backed OFFOR Health.

On the whole, multispecialty exit activity has been muted, with sponsors sitting on the sidelines amid an uncertain pricing environment. Optum's acquisition of TPG-backed Kelsey-Seybold Clinic, a Houston-based multispecialty group, for a reported $2 billion is a noteworthy exception. Kelsey-Seybold is known to be a leader in commercial value-based care contracts, which most providers have struggled to develop successfully.

Ambulatory surgical centers PE deal count by type



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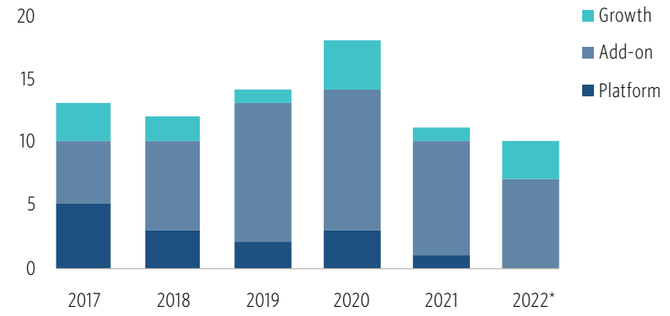
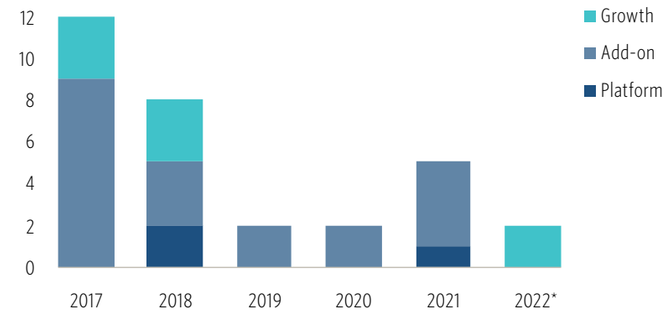
Clinical staffing PE deal count by type



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

Hospitals and health systems PE deal count by type



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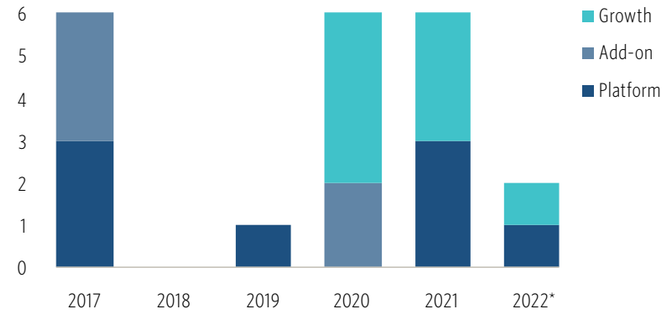
Multispecialty clinics and networks PE deal count by type



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*As of September 30, 2022

Spotlight: Clinical staffing

With hospitals, skilled nursing facilities, and other healthcare providers facing acute labor shortages, clinical staffing groups are navigating a volatile environment. Although demand for all levels of skilled care is high—in most cases above pre-pandemic levels—clinical staffing groups have fared differently depending on the type of service they offer.

Nurse staffing: Nurse staffing groups directly bill hospitals, skilled nursing facilities, and other provider groups, meaning they have been able to pass along the increased costs of hiring and retaining nurses in a competitive labor environment to their clients.

Locum tenens: On the other hand, locum tenens groups, which contract out physicians or advanced practice providers (APPs) for hospital roles such as ED and anesthesiology, hold their own payer contracts and reimburse separately from the facility with which they are contracted, meaning they must negotiate higher rates with payers (a slow process not guaranteed to succeed) to account for increased labor costs. Even so, nurse and allied health staffing business face labor force limitations on their ability to scale up to meet demand. Publicly traded AMN Healthcare Services offers an informative example. During 2021, the company's nursing and allied health division saw a 31% increase in average bill rate on only a 2% increase in billable hours; by contrast, its physician and leadership solutions segment saw a 20% increase in days filled and only a 6% increase in revenue per day filled.[16]

In addition to labor supply constraints, some locum tenens groups are navigating a shifting reimbursement environment. The No Surprises Act, enacted in December 2020 and effective beginning January 1, 2021, aimed to reduce patient exposure to unexpectedly high medical bills by prohibiting balance billing by out-of-network providers, instead requiring payers and providers to negotiate cost sharing for out-of-network bills or enter arbitration if they cannot reach agreement. Prior to 2020, several states had already enacted comparable laws. The precise details of the arbitration process—broadly seen as favorable to payers—have been the subject of lawsuits and three rules revisions, with the final revision issued in August 2022.

No Surprises Act: High-profile reporting drew public attention to the reliance of large PE-backed provider groups, Blackstone's TeamHealth and KKR's Envision Healthcare, on balance billing revenue. However, according to Geoffrey Cockrell, Partner and Chair of the private equity group at McGuireWoods, most PE-backed clinical staffing groups have already moved to bring as much of their revenue in-network as possible because in-network rates, though lower, represent a more reliable income stream. Instead, middle-market physician staffing groups try to build market presence in specific regions in order to manage in-network rates to a tolerable level.[17] This is broadly consistent with the trend across PE-backed healthcare services platforms over the last two decades, which has seen firms eschew the higher rates garnered by some out-of-network practices, such as the destination SUD treatment centers that PE firms rolled up in the early 2000s, because of payer rate cuts and efforts to push patients toward in-network alternatives.

16: "Annual Report 2021," AMN Healthcare, n.d., accessed October 20, 2022.
17: Geoffrey Cockrell, Partner and Chair of the private equity group at McGuireWoods, phone interview with Rebecca Springer, March 22, 2022.

Spotlight: Hospitals and health systems

Antitrust activity: PE acquisitions of hospitals—as opposed to hospital real estate—have historically been limited to a small number of deals by some of the largest firms. The space is now noteworthy as the only corner within healthcare wherein antitrust and regulatory action are significantly affecting dealmaking.

The Biden administration and Lina Khan's Federal Trade Commission (FTC) have been vocal in their desire to increase antitrust scrutiny in several sectors including healthcare. In July 2021, the Biden administration's "Executive Order on Promoting Competition in the American Economy" specifically identified hospital consolidation as a priority enforcement area. At least six hospital mergers, including Cerberus-backed Steward Health Care's proposed sale of five hospitals to HCA Healthcare, have been canceled or delayed due to antitrust action so far in 2022. Additionally, in 2021, Leonard Green & Partners' Prospect Medical Holdings agreed to put up $80.0 million of sale proceeds in escrow to ensure business continuity after a management buyout after the Rhode Island attorney general threatened to block the deal. Because

Select hospital deals affected by antitrust/regulatory action*

Parties	State	PE sponsor (if applicable)	Antitrust/regulatory action	Outcome
Prospect Medical Holdings (two hospitals), management buyout	Rhode Island	Leonard Green & Partners	State Attorney General required $80 million in escrow to ensure operating continuity post-sale	Sale approved June 1, 2021
Lifespan, Care New England	Rhode Island	N/A	FTC lawsuit; state attorney general announced intention to join the lawsuit	Canceled February 23, 2022
Hackensack Meridian Health, Englewood Health	New Jersey	N/A	FTC lawsuit	Canceled April 11, 2022
Dartmouth Health, GraniteOne Health	New Hampshire	N/A	State attorney general declined to approve	Canceled May 16, 2022
RWJBarnabas Health, Saint Peter's Healthcare System	New Jersey	N/A	FTC lawsuit	Canceled June 14, 2022
Steward Health Care (five hospitals), HCA Healthcare	Utah	Cerberus Capital Management (Steward)	FTC lawsuit	Canceled June 17, 2022
Advocate Aurora Health, Atrium Health	Illinois	N/A	State Health Facilities & Services Review Board initially declined to approve	Delayed September 14, 2022

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

MULTISPECIALTY PROVIDERS

hospitals are often the largest and most prominent healthcare providers in a given municipality or rural market, PE activity in the hospital space tends to draw intense public scrutiny, and the current antitrust climate will significantly hinder further deals in the space for the time being.

Effects on PE investors: This will have the greatest effect on the small number of firms with active hospital investments, including Cerberus, Equity Group Investments, and Apollo Global Management, which may see exit and consolidation options constrained. Few firms are likely to enter the hospital space due to the size of assets, poor financial condition of many hospitals, and the secular shift away from inpatient care. One noteworthy exception is StoneBridge Healthcare, an MPT- and Oaktree Capital-backed holding company launched in 2020 with the aim of buying and turning around distressed hospitals. StoneBridge has not yet announced any acquisitions. We have not yet seen antitrust enforcement significantly impair dealmaking in other healthcare categories in which PE-backed platforms typically grow incrementally. Rather, regulatory action that prevents hospitals from consolidating local markets can be beneficial to PE-backed platforms that compete with those hospitals for market power.

Select multispecialty PE deals in 2022*

Company	Category	Deal type	Close date	Sponsor(s)	Acquirer
Physicians Ambulatory Surgery Center	Ambulatory surgical centers	Add-on	July 7	Migration Capital, New MainStream Capital	U.S. Urology Partners
Advanced Surgical Solutions	Ambulatory surgical centers	Add-on	June 14	Sentinel Capital Partners	New York Bariatric Group
Integrative Physiatry	Clinical staffing	Add-on	June 1	Webster Equity Partners	Integrated Rehab Consultants
Allegheny Health Network	Hospitals and health systems	Growth	April 26	Graham Healthcare Capital	N/A
SoCal Anesthesia Solutions	Clinical staffing	Add-on	April 20	Enhanced Healthcare Partners	Synergy Health Partners
Accountable Care Medical Group	Multispecialty clinics and networks	Add-on	April 7	Crestline Investors	Genuine Health Group
Cumberland Anesthesia Associates	Clinical staffing	Add-on	March 15	Leonard Green & Partners, Ares, American Securities	North American Partners in Anesthesia
Blue Cloud Pediatric Surgery Centers	Ambulatory surgical centers	Buyout	January 21	TPG	N/A

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

MULTISPECIALTY PROVIDERS

Select multispecialty PE exits in 2022*

Company	Category	Exit type	Close date	Exiting sponsor(s)	Acquirer
Kelsey-Seybold Clinic	Primary care	Acquisition	April 3	TPG	Optum
EnduraCare Acute Care Services	Clinical staffing	Acquisition	March 18	Fulcrum Equity Partners	Enhance Therapies

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Physician Practice Management Companies (PPMs)

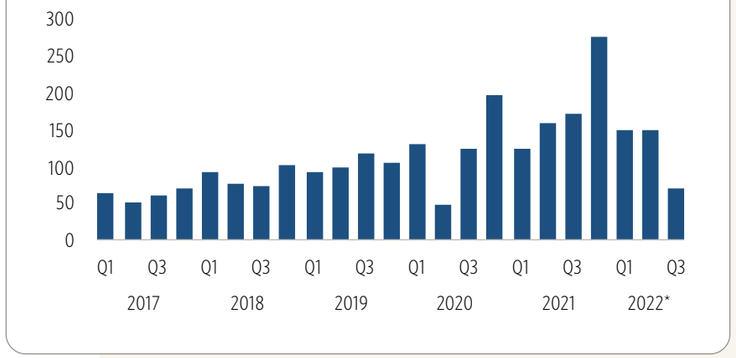
Staffing costs and reimbursement changes force multispecialty providers to adapt

Overview

PPM roll-ups lie at the heart of PE healthcare services investing. The term PPM refers to the organizational structure that physician groups take on when acquired by PE firms, in which a management services organization (MSO), also known as a PPM, supports administrative and business functions for a physician-owned provider corporation (PC). In the healthcare services investment industry, "PPM" is shorthand for a single-specialty PE-backed consolidator in a category wherein a physician ownership model is commonplace.

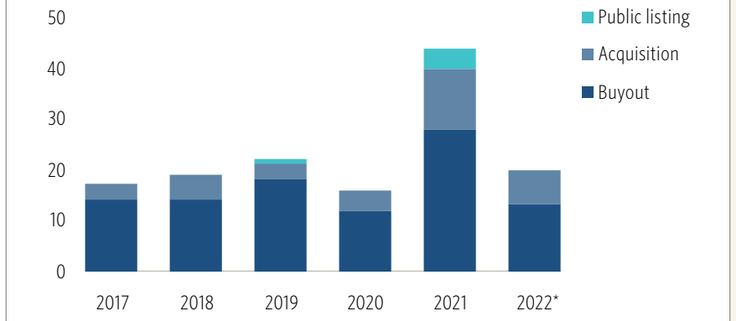
PPM platforms compete for market share with other PE-backed platforms, local hospitals and health systems, and, in some categories, strategics—for instance, DaVita and Fresenius in urology or McKesson in oncology. Although each category has unique practice structures, revenue and cost levers, physician compensation dynamics, and provider landscapes, PPM categories have basic investment themes in common, including the opportunity for multiple arbitrage and enhanced revenue through the development of ancillary business lines. PE consolidation in a given category also tends to follow a predictable pattern. A few firms enter a greenfield space as first movers; they are followed by successive waves of platform creation; platforms are traded from smaller PE firms to larger ones as they grow, before consolidating (larger platforms buy smaller ones). Along the way, PE firms also explore variations on the core category play, such as pure-play retina care as a variation on ophthalmology.

PPM PE deal count by quarter



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

PPM PE exit count by type



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

PHYSICIAN PRACTICE MANAGEMENT COMPANIES (PPMS)

This segment contains the following categories:

Cardiovascular: Providers that specialize in treatment of the heart and/or veins.

Dental: This category includes orthodontics, prosthodontics, endodontics, periodontics, oral surgery, maxillofacial surgery, and pediatric dentistry. While the classic dental roll-up incorporates general dentistry along with several oral health subspecialties, pure-play roll-ups in orthodontics, oral surgery, and, to a lesser extent, pediatric dentistry have also become popular in recent years.

Dermatology: This category includes providers of medical dermatology services, such as skin cancer treatment, Mohs surgery, treatment of skin diseases, and reconstructive surgery; cosmetic dermatology services, such as plastic surgery; and medspa or aesthetic dermatology services, such as Botox and laser hair removal. Dermatology platforms may incorporate a mix of medical and cosmetic/aesthetic services or focus exclusively on one type.

Ear, nose, and throat (ENT): These providers may broadly treat conditions affecting the otolaryngeal system or focus exclusively on audiology, allergy, or sleep medicine.

Gastroenterology: This category includes specialists in the gastrointestinal system. Related specialties include medical weight loss care, such as bariatric surgery; endocrinology, or treatment of the endocrine glands; and hepatology, or treatment of the liver.

Musculoskeletal: This broad category is typically used to refer to orthopedic surgeons, physical therapists, or, less commonly, chiropractors. Some platforms provide integrated musculoskeletal care across the acuity spectrum, from sports medicine and physical therapy to orthopedic joint replacement. Specialists in the musculoskeletal rehabilitation of a specific body part, such as podiatrists, hand therapists, and interventional pain management specialists ("pain and spine") are also included.

Obstetrics and gynecology (women's care): Obstetrics refers to prenatal, maternity, and postnatal care, while gynecology refers to care of the female reproductive organs.

Oncology: This category includes all cancer treatment practices except medical dermatology practices focused on skin cancer. There are three main subspecialties within oncology, organized by treatment type: surgical, medical (that is, chemotherapy treatment), and radiation. Current PE oncology investment is concentrated in medical oncology.

Reproductive medicine (fertility clinics): These providers focus exclusively on fertility care, including fertility testing, in vitro fertilization, egg donation/freezing services, and LGBTQ family building.

Urology/renal: Urologists offer specialist care of genitourinary system, including kidneys, bladder, urinary tract, and male reproductive organs. This category includes dialysis providers.

Veterinary: This category includes all animal clinics and hospitals, including specialists in specific species, such as equine, bird, and reptile, and specific organs or systems, such as eye care.

Vision: This category includes optometry, or primary care related to the eye, as well as ophthalmology, or eye care that can include more advanced treatments, such as surgery. Typical PE-backed vision groups incorporate both ophthalmology and optometry, but some groups focus exclusively on optometry or on retina care, an ophthalmic specialty.

Other medical specialists: This category includes medical providers in specialties that have not yet attracted sufficient PE investment to warrant inclusion as a separate category, including pulmonary care, men's health, neurosurgery, and wound care/hyperbaric treatment.

Industry drivers

Fragmentation: The extent of fragmentation varies by specialty, but all the categories included in this segment are dominated by small, independent providers. This allows platforms to grow rapidly via M&A—although de novo and within-four-walls growth is also important—and benefit from multiple arbitrage. Platforms can maximize revenue from the practices they acquire by streamlining administrative processes to allow for increased patient volume—and more importantly by putting capital to work to add ancillary business lines that increase per-patient reimbursement or create cash-pay revenue streams.

Aging population: With a few exceptions, demand growth in many PPM categories can largely be attributed to patient demographic trends. Incidence of conditions such as periodontal disease, cataracts, osteoarthritis, and cancer is significantly higher among patients over the age of 60.

Provider demographics and generational turnover: When Generation X physicians graduated from medical school, many started their own practices, thus contributing to the current fragmented landscape. As that generation of physicians approaches retirement, many find acquisition by a PE-backed platform an attractive option for liquidating the wealth they have built via their practice—especially after the harrowing COVID-19 years. By contrast, many newly minted doctors prefer an employment model over starting their own practice, as employment provides greater flexibility and avoids adding startup costs to substantial student loan debt. This generational dynamic allows PE-backed platforms to both acquire add-ons and hire young physicians to backfill retirements and expand practices.

Changing fertility patterns: While US fertility rates are declining overall, fertility among older women has increased significantly in the past three decades due to improved fertility care and women pursuing careers prior to having children. Between 1990 and 2019, the number of babies born annually to women aged 30 to 34 increased by 22.1%, aged 35 to 39 by 67.4%, and 40 to 44 by 132.5%.[18] This translates to increased demand for reproductive medicine, because older women are more likely to utilize fertility care to conceive.

Pandemic pets: Growing pet ownership and "pet humanization"—that is, owners providing their pets with healthcare and products comparable to human equivalents—predated COVID-19, but accelerated as white-collar workers sought companionship while working from home. As a result, demand for veterinary services has increased significantly, making the category highly sought after by investors.

PE activity

PPM deal activity figures—for which deal counts are high, thereby allowing quarter-to-quarter analysis with greater certainty—point clearly to a midyear shift in market sentiment. Note, however, that Q3's actual total deal count is likely higher due to data collection lags. Although we are still seeing platform trades and strong inorganic growth, investors are becoming more circumspect and price conscious.

Deal activity in the most popular roll-up categories, including dental, gastroenterology, musculoskeletal, veterinary, and vision, shows a reversion to activity levels resembling what we saw in 2019, although with fewer platform trades occurring. Large platform deals included EyeSouth Partners, GI Alliance, Paradigm Oral Surgery, People, Pets & Vets, Novum Orthopedic Partners, Mid-Atlantic Dental Partners, Therapy Partner Solutions, Vision Innovation Partners, and the merger of

18: "Fertility Rates: Declined for Younger Women, Increased for Older Women," US Census Bureau, Anne Morse, April 6, 2022.

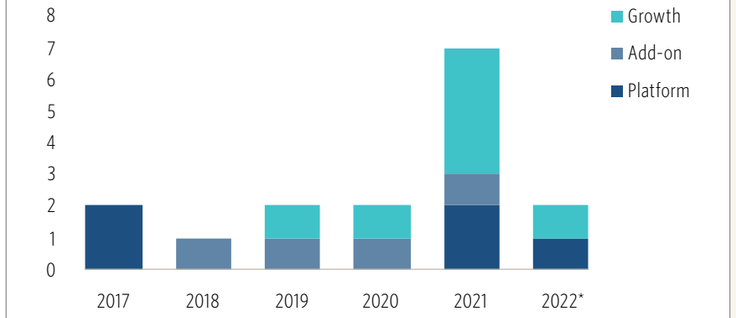
PHYSICIAN PRACTICE MANAGEMENT COMPANIES (PPMS)

Platinum Dermatology Partners and West Dermatology. The dental, dermatology, musculoskeletal, veterinary medicine, and vision spaces are by now well established, with 50+ location platforms being acquired by even larger groups.

After many independent practice sellers pushed to complete deals before year's end in 2021 to avoid capital gains tax and take advantage of lofty multiples, the sell-side pipeline for add-ons is somewhat diminished. Of note is the recovery in dermatology transaction activity, which had declined from 2017 to 2018 highs but now appears reinvigorated following a handful of large platform trades of established medical dermatology practices (Dermatologists of Central States, Epiphany Dermatology, and Forefront Dermatology) and growth investments in several smaller cosmetic and aesthetic/medspa groups. Smaller deals in interventional pain management (Mays & Schnapp Neurospine and Pain), vascular care (Texas Endovascular Associates), and reproductive health (Fertility Institute of NJ & NY) in 2021 and 2022 demonstrate that GPs are continuing to develop investment theses in emerging subcategories.

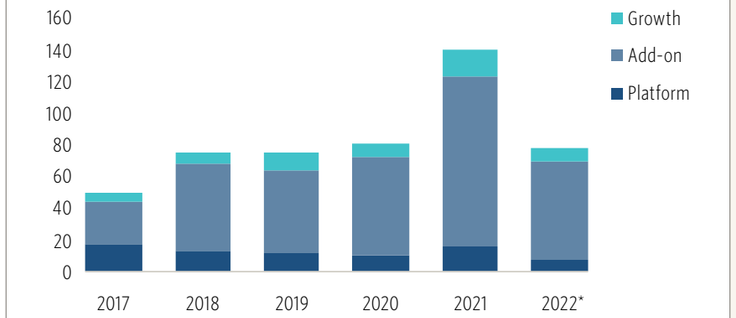
PPM exits may have slowed significantly from 2021's pace, but 2021 was anomalous, and data through Q3 2022 suggests that the full year could post the second-highest exit count on record—if the market does not completely shutter. We expect that PPM platform trades for the remainder of the year will skew toward smaller assets due to the condition of syndicated loan markets. Although most PPM exits are sponsor-to-sponsor buyouts, strategics acquired three large platforms so far in 2022: Alpaca Audiology, SAGE Veterinary Centers, and Vein Clinics of America.

Cardiovascular PE deal count by type



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

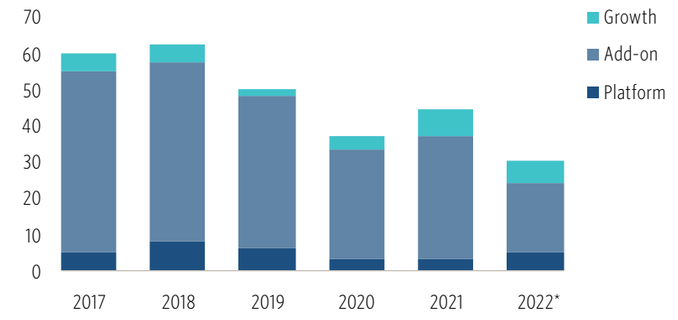
Dental PE deal count by type



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

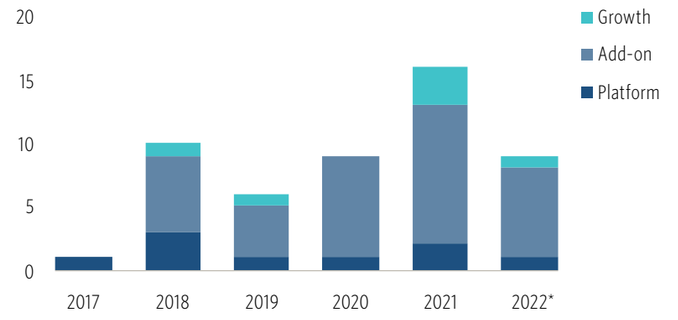
PHYSICIAN PRACTICE MANAGEMENT COMPANIES (PPMS)

Dermatology PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Ear, nose, and throat PE deal count by type



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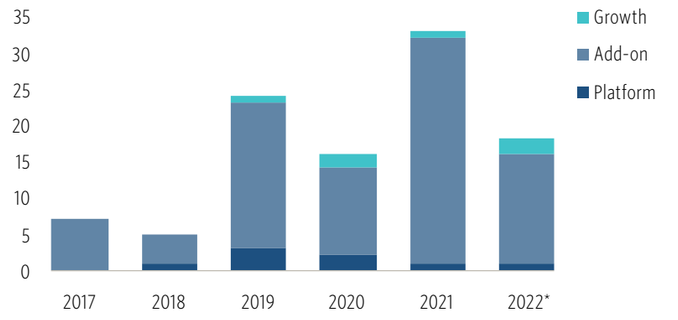
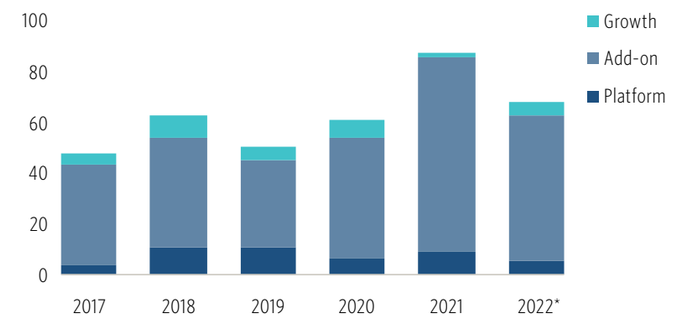
Gastroenterology PE deal count by type



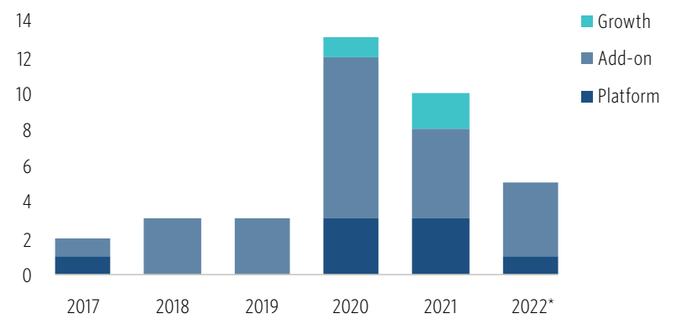
Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Musculoskeletal PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Obstetrics and gynecology PE deal count by type



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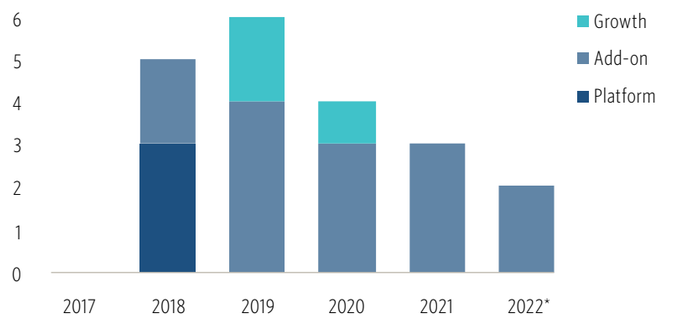
Oncology PE deal count by type



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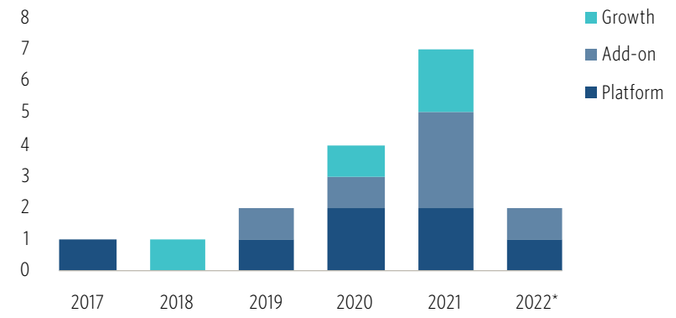
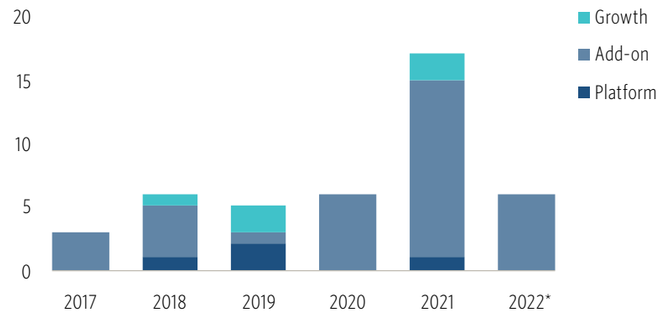
PHYSICIAN PRACTICE MANAGEMENT COMPANIES (PPMS)

Other medical specialists PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Reproductive medicine PE deal count by type



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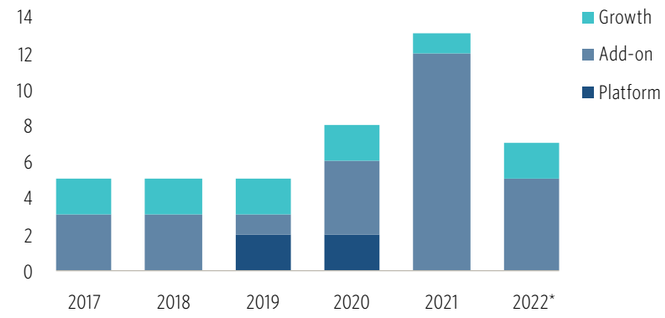
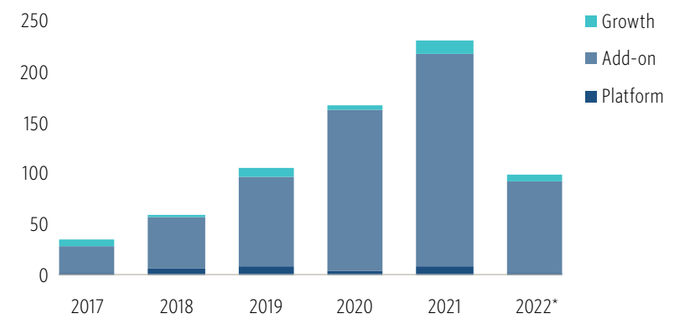
Urology/renal PE deal count by type



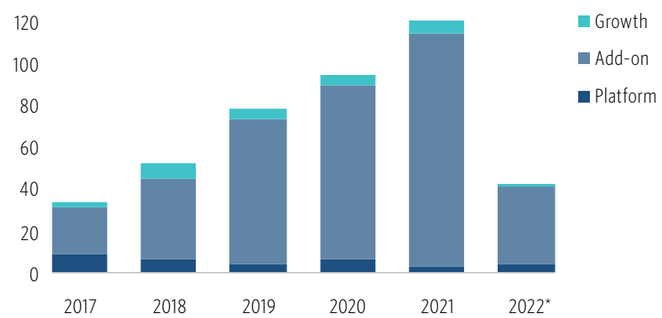
Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Veterinary PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Vision PE deal count by type



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Spotlight: Oncology

Although we have not tracked an oncology platform creation since 2018, numerous independent providers remain candidates for acquisition by active PE-backed platforms, including OneOncology, Verdi Oncology, Integrated Oncology Network, and The Oncology Institute, which is now public. Oncology is also noteworthy as one of the few PPM specialties wherein experimentation with total cost of care (TCOC) capitation models is taking place, and is therefore an important bellwether for firms seeking to understand the tradeoffs associated with moving further along the risk spectrum.

Enhanced Oncology Model: In August, CMS announced the Enhanced Oncology Model (EOM), a new five-year reimbursement model pilot building on the previous Oncology Care Model (OCM), which ran from 2016 to 2021. CMS seeks to improve cancer outcomes while controlling costs, as cancer is among the costliest conditions to treat, with incidence concentrated in the growing 65+ population. Counterintuitively, advancements in oncology are expected to lead to ballooning treatment costs as expensive but effective new therapies, such as checkpoint inhibitors, become the clinical standard of care and patients live longer. Additionally, advances in precision oncology, including liquid biopsy, and real-world evidence, though nascent, hold promise for improving early cancer detection, refining clinical pathways, and more accurately predicting outcomes.

EOM improvements over OCM: Although the OCM produced mixed results, the EOM incorporates several improvements, which should result in more favorable outcomes. One problem with the OCM was that novel therapy adjustments—intended to account for treatment with clinically superior, yet expensive, drugs—were calculated in aggregate rather than by cancer type, thereby exposing practices to significant cost variation. Another was that cost prediction models—used to set a target total cost of care based on a patient's risk profile—were based solely on claims data, which does not capture nuances in indication that inform care regimens and therefore costs.[19] In contrast, the EOM uses cancer-type-specific price prediction models and novel therapy adjustments and will also incorporate clinical data into price prediction. Limiting the EOM to common cancer types helps ensure that sufficient data will be available to support this.[20]

Finally, the OCM proved to be a poor fit for low risk/low intensity cancer episodes such as hormonal treatment for prostate or breast cancer. This is because one of the primary ways oncologists can lower TCOC for patients undergoing chemotherapy is through care coordination to alleviate chemotherapy symptoms that may result in acute episodes such as ED visits due to dehydration. Oncologists have less opportunity to affect TCOC savings in this way for lower-risk cancer patients.[21] The EOM addresses this by excluding patients who are receiving hormonal therapy.

Other updates incorporated in the EOM include a requirement for all participants to start the program with both upside and downside risk, reduced practice-level payments to better align with actual costs, an incentive to treat dual-eligible (Medicare and Medicaid) patients, and more extensive participant redesign requirements including health equity planning.[22] Taken as a whole, the EOM updates will require greater upfront administrative lift from participants than the OCM—which was already administration-intensive—but should lead to less cost variation, which will be attractive to PE-backed platforms that have already invested in the OCM and other value-based care capabilities.

19: "The Oncology Care Model at 5 Years—Value-Based Payment in the Precision Medicine Era," JAMA Network, Viewpoint, Samyukta Mullangi, MD, MBA, Stephen M. Schleicher, MD, MBA, and Ravi B. Parikh, MD, MPP, July 1, 2021.
20: "The Enhanced Oncology Care Model and What it Means for Participating Oncology Practices," OneOncology, Dr. Davey Daniel, August 29, 2022.
21: Ibid.
22: "What You Need To Know About CMS' New Enhancing Oncology Model," Advisory Board, Lindsey Paul and Ashley Riley, July 1, 2022.

PHYSICIAN PRACTICE MANAGEMENT COMPANIES (PPMS)

PE opportunities: Unlike the lucrative radiation oncology space, which strategics and PE firms consolidated in the early 2000s, medical oncology practices have tighter margins and have traditionally relied on patient volume as the primary revenue lever, according to Nick Hernandez, CEO of ABISA.[23] Risk-based arrangements like the EOM offer potential for greater upside, while the scale and capital availability enjoyed by PE-backed platforms gives them an advantage in building the administrative, technological, and clinical capabilities necessary to succeed in the program. For example, General Atlantic-backed OneOncology announced in October 2022 that all 14 of its practices had applied to participate in the EOM (although application is not binding). Although questions about the design of the EOM remain—especially around the narrowing of the eligible patient population—participation is likely to be attractive for PE-backed platforms looking to improve clinical outcomes and demonstrate their ability to succeed in a value-based environment to commercial payers and prospective buyers.

Select PPM PE deals in 2022*

Company	Category	Deal type	Close date	Sponsor(s)	Acquirer
Arbor Centers for Eyecare	Vision	Add-on	September 15	Shore Capital Partners	EyeSouth Partners
Mays & Schnapp Neurospine and Pain	Musculoskeletal	Buyout	September 13	Compass Group Equity Partners	N/A
Fertility Institute of NJ & NY	Reproductive medicine	Add-on	September 6	Partners Group	Axia Women's Health
People, Pets & Vets	Veterinary	Add-on	September 1	Harvest Partners	VetCor
Novum Orthopedic Partners	Musculoskeletal	Add-on	July 20	Welsh, Carson, Anderson & Stowe	United Musculoskeletal Partners
Vet's Best Friend	Veterinary	Add-on	June 30	Revelstoke Capital Partners, Halle Capital Management, et al.	Rarebreed Veterinary Partners
Mid-Atlantic Dental Partners	Dental	Add-on	June 22	New Mountain Capital	Sonrava Health (FKA Western Dental)
Platinum Dermatology Partners, West Dermatology	Dermatology	Merger	June 21	Sterling Partners (Platinum), Sun Capital (West)	N/A
Vision Innovation Partners	Opthalmology	Buyout	April 7	Gryphon Investors	N/A
Texas Endovascular Associates	Cardiovascular	Buyout	January 14	Fulcrum Equity Partners	Fulcrum Equity Partners

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

23: Nick Hernandez, CEO of ABISA, phone interview with Rebecca Springer, March 22, 2022.

PHYSICIAN PRACTICE MANAGEMENT COMPANIES (PPMS)

Select PPM PE exits in 2022*

Company	Category	Exit type	Close date	Exiting sponsor(s)	Acquirer
EyeSouth Partners	Vision	Buyout	October 7	Shore Capital Partners	Olympus Partners
Vein Clinics of America	Cardiovascular	Acquisition	October 4	Frazier Healthcare Partners	USA Vein Clinics
GI Alliance	Gastroenterology	Management buyout	September 15	Waud Capital Partners	Management, Apollo Global Management
Paradigm Oral Surgery	Dental	Buyout	September 2	InTandem Capital Partners	BlackRock Private Equity Partners
SAGE Veterinary Centers	Veterinary	Acquisition	June 3	Chicago Pacific Founders	National Veterinary Associates
Dermatologists of Central States	Dermatology	Buyout	June 1	Sheridan Capital Partners	SkyKnight Capital
Alpaca Audiology	ENT	Acquisition	February 28	Thompson Street Capital Partners	Sonova
Forefront Dermatology	Dermatology	Buyout	February 10	OMERS Private Equity, Penfund Management	Partners Group
Epiphany Dermatology	Dermatology	Buyout	February 1	CI Capital Partners	Leonard Green & Partners
Therapy Partner Solutions	Musculoskeletal	Buyout	January 14	Broadcrest Asset Management, Walnut Grove Capital Partners	Lee Equity Partners

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

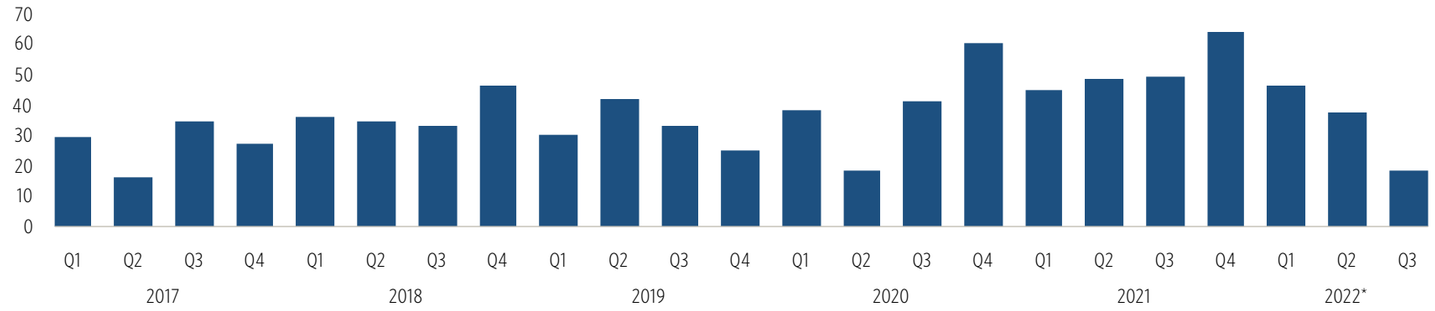
Skilled care and behavioral health

Providers navigate staffing shortages and reimbursement pressure amid sky-high demand

Overview

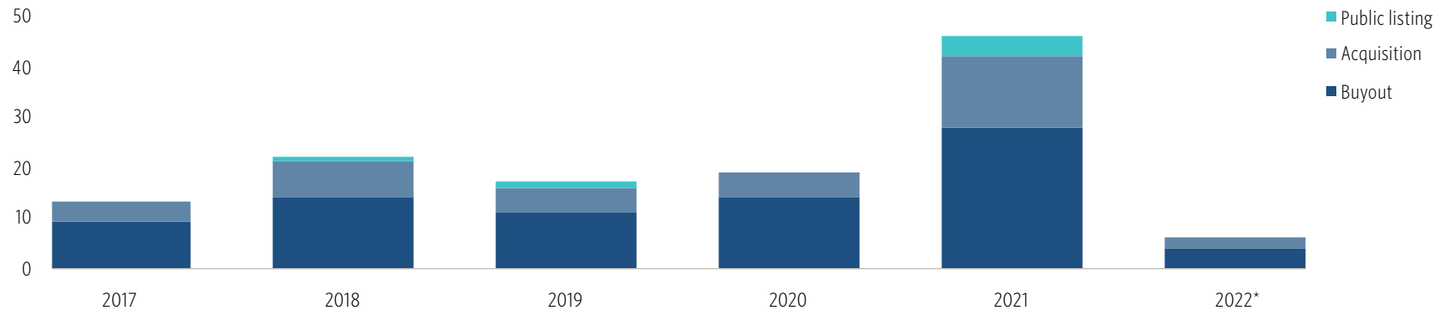
Skilled care and behavioral health providers focus on rehabilitation, chronic conditions, and overall health and wellness management rather than acute conditions. The segment includes care and treatment carried out largely by nurses, licensed therapists and technicians, and sometimes overseen by physicians. These providers deliver some of the most in-demand healthcare services in the US today. Much of the skilled care industry focuses on providing nursing and therapy for older adults, whether in the home or in residential facilities, meaning that demand for these services will continue to expand as the US population ages. Another key constituency is people with IDDs. For decades, IDD healthcare has been an

Skilled care and behavioral health PE deal count by quarter



Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Skilled care and behavioral health PE exit count by type



Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

underinvested area, creating immense growth opportunities. Finally, a societal shift toward recognizing behavioral health as an important dimension of overall health and wellness, coupled with rising rates of mental illness, has underscored the need for a significant increase in behavioral health provision, especially in rural and underserved areas.

This segment contains the following categories:

ABA and pediatric therapy: ABA refers to a type of therapy that can be used to treat a range of developmental disorders, but it is typically associated with the treatment of autism spectrum disorder (ASD) in children. ABA groups often provide a combination of ABA and other speech, educational, occupational, or physical therapy, and may provide services in the home or in schools, in addition to in clinics. ABA therapy is provided by board-certified behavior analysts (BCBAs) and registered behavior technicians (RBTs).

Home health and hospice: This category encompasses Medicare-focused home health and hospice agencies and Medicaid home and community-based services (HCBS) providers, as well as home-based medical care for children. Our data excludes companies that offer exclusively unskilled home care or facilitate self-directed care.

IDD care: This category encompasses a variety of medical and support services for adults and children with intellectual and developmental disabilities. These services include residential group homes, adult day care, home care, and community-based care.

Infusion: Infusion therapy refers to the intravenous or subcutaneous administration of specialty drugs. Infusion providers may be specialty pharmacies or providers that work with such pharmacies. They may provide infusion therapy in an ambulatory clinic and/or in the home. Rheumatology clinics, which use infusion therapy to treat conditions such as rheumatoid arthritis and osteoporosis, are included in this category.

Mental health and SUD treatment: At the lowest acuity level, mental health treatment involves "talk therapy" for conditions such as anxiety and depression, or simply to improve a patient's mental well-being. Further up the acuity scale, patients may be treated through intensive outpatient programs (IOPs), partial hospitalization programs (PHPs), or in inpatient psychiatric hospital settings. Eating disorder treatment is a subcategory of mental health, and can be provided in inpatient, residential, or day treatment (IOP or PHP) settings. Many PE-backed SUD treatment providers focus on opioid use disorder and utilize medication-assisted treatment (MAT). Others may provide daytime/community-based programs, intensive outpatient treatment via IOPs or PHPs, and/or residential programs. Providers may focus on one type of treatment, such as mental health, eating disorder treatment, or SUD treatment, or offer a combination thereof.

Skilled nursing: This segment includes nursing homes and residential rehabilitation facilities that offer short-term/post-acute care and/or long-term care. This can be care for older adults or other patients who are recovering from an injury, illness, or medical procedure, including traumatic brain injury (TBI). Assisted living and retirement communities that do not provide medical care are excluded from our dataset.

Investment drivers

Aging population: Demand in the home health, palliative care, and hospice and skilled nursing categories is driven primarily by demographic trends. As more US residents live into their eighties and beyond, families, government agencies, and

payers—chief among them Medicare—are searching for better and more affordable ways to care for older adults.

Rising autism rates: Rates of ASD diagnosis among US children have increased steadily from about 1 in 150 in 2000 to about 1 in 44 in 2018, the last year for which data is available.[24] This is believed to be due to a combination of increased prevalence, increased diagnosis rates, and expansion in the clinical definition of autism. Rising autism rates have created significant unmet demand for ABA, the clinical gold standard in ASD treatment. The supply of BCBAs, practitioners who oversee ABA therapy, is also increasing rapidly to catch up to demand, thereby creating opportunities for de novo expansion by PE-backed ABA platforms. The number of BCBAs in the US increased by 65% between 2018 and 2021, but 37.4% of counties still had no BCBAs practicing in 2021.[25]

Shift from skilled nursing to home care: Even prior to the COVID-19 pandemic, patient and family preferences and cost pressures were leading to a shift away from skilled nursing facilities (SNFs) and toward in-home care for older adults. The pandemic accelerated this movement, as many SNFs struggled with virus outbreaks, staffing shortages, and the need to strictly limit visitors. While SNFs still play an important role in rehabilitation and care for some patients, demand trends have made in-home care an extremely attractive investment area.

Mental health and SUD rates: In recent years, the medical field has moved toward a more holistic approach to patient care, including treatment of behavioral comorbidities alongside physical ailments. The COVID-19 pandemic exacerbated unmet demand for providers, as many struggled to cope with lockdowns, social isolation, and economic instability, thus resulting in elevated rates of depression, anxiety, and SUD. Additionally, public awareness of and interest in treating behavioral health issues has grown, thus prompting more people to seek care.

Specialty drugs: As generics and patent phase-out put pressure on commonly used drugs and biologics technology advances, pharmaceutical companies have developed a promising pipeline of specialty drugs, many of which are administered via infusion. As a result, the number of patients receiving infusion therapy is increasing, and payers are highly motivated to control infusion therapy costs by moving infusion therapy into ambulatory settings, which offers a roughly 60% cost savings over hospital infusion, and the home, which offers 80% to 90% cost savings over hospital infusion, wherever possible.

PE activity

The dramatic decline in deal and exit activity in the skilled care and behavioral health segment underscores the dual-pronged staffing and reimbursement pressure that many businesses face. ABA and pediatric therapy deal activity has held up, although platform creation in the category has slowed since 2018 to 2019. ABA has experienced flat reimbursement amid rising staffing costs, but the space is not under the same margin pressure as home health and continues to be buoyed by high demand and a growing—if still insufficient—workforce. The category saw three larger platform trades so far in 2022: Autism In Motion Clinics, Theraplay, and, most recently, Action Behavior Centers. Additionally, deal activity in

24: "Data & Statistics on Autism Spectrum Disorder," CDC, March 2, 2022.
25: "Trends in Geographic Access to Board Certified Behavior Analysts Among Children with Autism Spectrum Disorder, 2018–2021," Springer Link, Journal of Autism and Developmental Disorders, Marissa E Yingling, Matthew H. Ruther, and Erick M. Dubuque, January 5, 2022.

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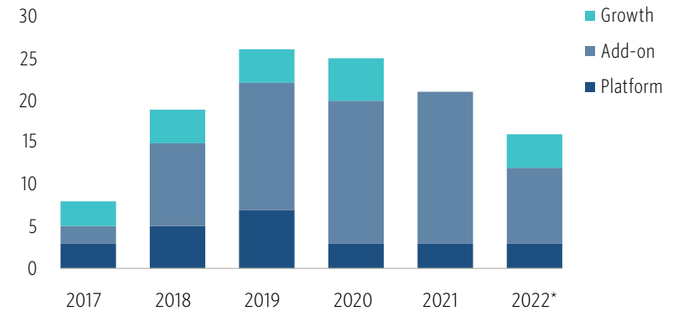
infusion, which represents a small proportion of the segment's overall deal flow, has been strong this year, with 2022's deal activity already on par with 2021's whole-year record. Finally, although deal activity in mental health and SUD treatment has declined modestly from the levels seen in 2020 and 2021, the category still saw several noteworthy deals in 2022, including trades of Monte Nido & Affiliates and Bradford Health Services and Vistria Group's acquisition of adolescent-focused Sandstone Care.

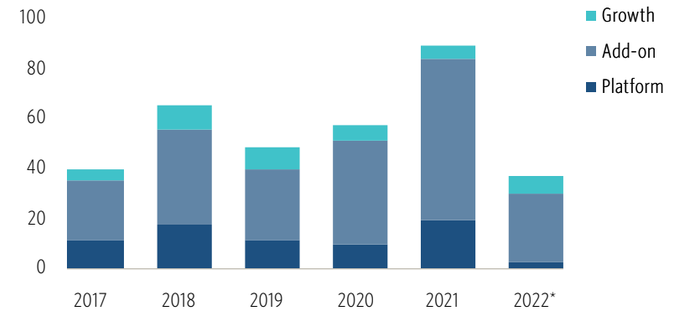
Despite the near-term economic headwinds that skilled care and behavioral health segments are experiencing, investors continue to flock to the space due to compelling long-term demand trends. Two high-profile acquisitions by Optum in 2022—Refresh Mental Health, which Kelso Private Equity sold less than 1.5 years after buying, and home health provider LHC Group, which Optum has agreed to buy for $6.0 billion—demonstrate that the space will see attractive exit opportunities once valuations normalize and macroeconomic uncertainty recedes. In response, Optum's competitors, including both payviders and retailers, will undoubtedly look to the behavioral health and home health spaces to augment their primary care plays. As a result, we expect deal activity in skilled care and behavioral health to bounce back in 2023.

ABA and pediatric therapy PE deal count by type



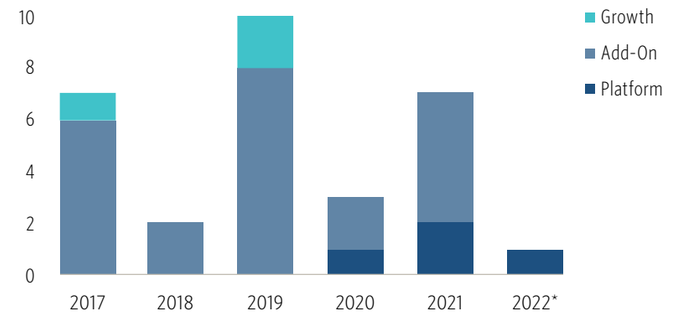
Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

Home health and hospice PE deal count by type



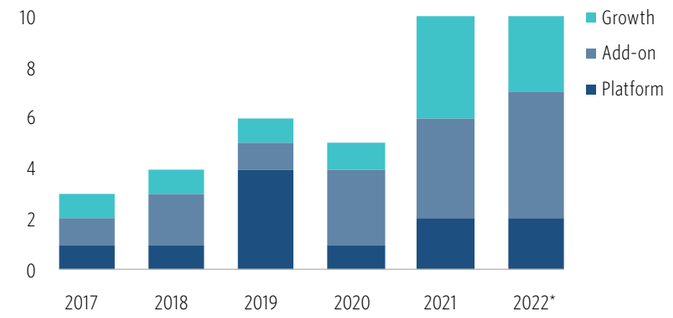
Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

IDD care PE deal count by type



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

Infusion PE deal count by type



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

Spotlight: Home health and hospice

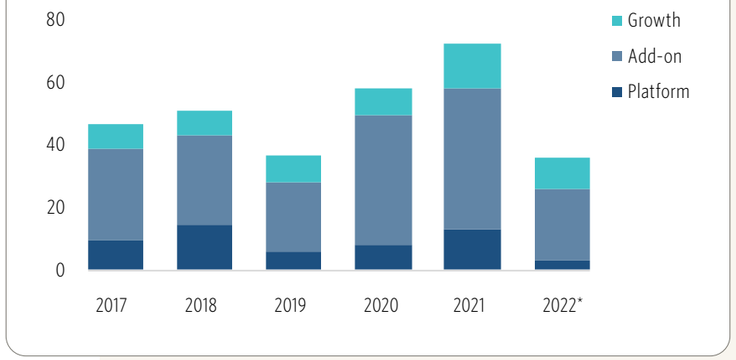
Dealmaking falters: For many years, demographic trends and a widespread consumer- and payer-led transition from residential skilled nursing facilities into the home have made home health a compelling investment opportunity. However, after a banner 2021, the space has seen a sharp decline in deal activity, with only two platform buyouts in Q3 2022. Humana's $2.8 billion sale of 60% of Kindred at Home's hospice business to Clayton, Dubilier & Rice is an exception that proves the rule, as it completes a divestment that Humana publicly committed to in April 2021.

Two forces have temporarily hobbled the space, with different effects on different subcategories: rising staffing costs and unfavorable reimbursement dynamics. According to Barry Freeman, Managing Director and Co-head of Healthcare at Lincoln International, these dynamics have created seller-buyer pricing misalignment. In early 2021, multiples for small platforms—$10 million to $20 million EBITDA—were as high as mid-to-high teens for home hospice businesses, low teens for skilled home health, and low double digits for nonmedical home care (Medicaid and private duty). Many sellers are still seeking multiples at this level, whereas buyers are seeking adjustments to account for uncertainty about future EBITDA and margin projections.[26] This means that deal activity will likely resume in late 2022 or 2023—albeit at lower multiples—as operators adjust to a "new normal" staffing and reimbursement environment and a pricing consensus emerges.

Home care (Medicaid and private duty): Although much of the healthcare industry is struggling with staffing shortages, the home care space has been particularly hard hit due to its reliance on low-skilled care workers, who are more likely to leave healthcare altogether for more attractive low-skilled work in other industries. Medicaid-focused and private duty agencies that provide personal care and companionship services have therefore been the hardest hit. As low-margin businesses, many smaller home care agencies are now struggling to fill authorized hours and maintain profitability. Well-run multistate platforms that enjoy advantages of scale are best-positioned to weather the storm. Home care providers are also lobbying states and MCOs for reimbursement rate increases. However, any rate increases are likely to take effect slowly, and providers may need to pass a portion of these improved rates on via wages in order to retain staff. On the positive side, margin pressures may prompt small operators to sell, thus enabling existing platforms to grow opportunistically via M&A.

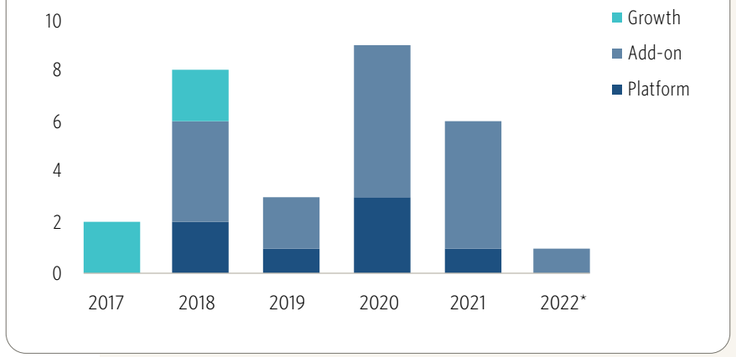
26: Barry Freeman, Managing Director and Co-head of Healthcare at Lincoln International, phone interview with Rebecca Springer, October 14, 2022.

Mental health and SUD treatment PE deal count by type



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

Skilled nursing PE deal count by type



Source: PitchBook | Geography: US and Canada
*As of September 30, 2022

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Home health and hospice (Medicare): Medicare-focused home health and hospice businesses have also come under pressure. These agencies, which employ primarily registered nurses and therapists, are also seeing staffing costs rise, though not to the extent of Medicaid and private duty home care companies. However, the Medicare reimbursement environment has faced a series of challenges. Since the introduction of the Prospective Payments System (PPS) in 1997, Medicare has provided capitated home health reimbursement based on patient risk scoring. First, beginning January 1, 2021, CMS' new patient-driven grouping model (PDGM) removed the opportunity to receive upward adjustments on these capitated payments in exchange for providing physical and/or occupational therapy sessions. Second, CMS' finalized 2023 home health PPS rule provides a scant 0.7% upward revision for home health payments, and the agency has said it will continue to phase in reimbursement cuts in the form of behavior adjustments in the coming years. Although the 0.7% increase is a material improvement over the initially proposed 4.2% cut, lingering uncertainty over how additional cuts will be implemented in 2024 and beyond may continue to negatively affect deal flow.

Medicare Advantage implications: The growing market share of MA plans within the Medicare-eligible population has also created challenges and opportunities within home health. Unlike traditional Medicare, which reimburses home health visits on an episodic basis, MA plans generally reimburse on a per-visit basis, resulting in significantly lower reimbursement under MA, according to James Clark and Michael Mahoney, Managing Director and Vice President at Harris Williams. PE-backed platforms that have achieved market power through scale, can invest in data and analytics capabilities to track outcomes and cost savings, and have a sophisticated approach to payer negotiations are far more likely to succeed in MA-based models, and will likely see add-on acquisition opportunities proliferate as smaller providers come under pressure.[28]

Home Health Value-Based Purchasing: CMS' update and expansion of the Home Health Value-Based Purchasing (HHVBP) program provides another upside opportunity for home health agencies able to adapt to value-based care models, according to Clark and Mahoney.[29] HHVBP was first piloted in nine states between 2016 and 2021 and is now being rolled out nationwide, with 2023 the first performance year. The program constitutes a performance overlay on traditional Medicare based on quality comparisons to peer providers. This will reward home health agencies that can track and improve on clinical quality measures and patient satisfaction.

As a result of the industry's shift toward value, Freeman believes that home health providers that can succeed under risk-based contracts will see enhanced partnership and exit opportunities with health systems, payviders, and primary care aggregators looking to extend MA-focused senior primary care into the home. Precedent examples include Lifespark (backed by Virgo Invesment Group and UCare Minnesota), Landmark Health (formerly General Atlantic-backed and acquired by Optum in 2021), and Aspire Health (acquired by Elevance in 2018).[30] Lower-middle-market players are also moving to front run the impending MA transition: In August 2022, Cimarron Healthcare Capital, Peterson Partners, and Tacoma Investment Holdings invested in Dallas-based Frontpoint Health, an exclusively MA-focused home health and hospice business, with the goal of forming health system partnerships.[31]

27: "CMS Mulls $810M Cut to Home Health Medicare Payments," Fierce Healthcare, Robert King, June 22, 2022.
28: James Clark, Managing Director at Harris Williams, and Michael Mahoney, Vice President at Harris Williams, phone interview with Rebecca Springer, October 20, 2022.
29: Ibid.
30: Barry Freeman, Managing Director and Co-head of Healthcare at Lincoln International, phone interview with Rebecca Springer, October 14, 2022.
31: "Inside 'Frontpoint Health': Health System Vet Builds New Home Health Business Around Medicare Advantage," Home Health Care News, Andrew Donlan, September 12, 2022.

Spotlight: Infusion

Advantages of clinic-based model: Infusion is one of the only healthcare services categories in which dealmaking accelerated in 2022 even from 2021's highs. Several large home infusion platforms were created in the late 2010s, and the model remained attractive during the COVID-19 pandemic as many infusion patients were confined to their homes. However, recent dealmaking has pivoted to focus on the ambulatory setting. According to Eugene Goldenberg, Managing Director at Edgemont Partners, ambulatory infusion centers (AICs) offer significant labor efficiencies over home centers—a key consideration amid severe care staff shortages. This is because the infusion process typically takes several hours depending on the treatment therapy, and one nurse can simultaneously monitor several processes. In addition to focusing on superior clinical outcomes in the lowest-cost setting, AICs are increasingly differentiating themselves with the patient by competing amenities to improve the patient experience, such as private rooms, comfortable, reclining chairs, food and beverages, and entertainment systems. In this way, AICs have followed the broader healthcare industry shift toward consumerization. In order to increase access and patient adherence, many centers are located in retail-adjacent locations, offer weekend or evening hours, or even provide free transportation via rideshare partners. Transportation to appointments is covered by some MA plans, or the clinic may bear the cost.[32]

Platform growth strategies: Infusion is characterized by a dearth of scaled, independent practices available for platform creation. Infusion therapy provision is dominated by health systems; publicly traded (formerly Madison Dearborn-backed) Option Care Health; payvider and retail pharmacy subsidiaries BriovaRx, Diplomat (both subsidiaries of OptumRx), Coram (CVS Health), and PharMerica (Walgreens/BrightSpring Health). Outside of this group, there are approximately 800 independent infusion services providers, most of them very small.[33] However, infusion center startup costs are fairly low (around $200,000 to $500,000, depending on footprint and numbers of chairs), and because payers are highly motivated to transition patients from inpatient to outpatient infusion care to control costs, they are willing to work with AIC providers to bring new clinics online and in-network quickly in high-need geographies, according to Goldenberg.[34]

PE-backed platforms have an advantage in scaling because access to capital allows them to not only open new locations but acquire the costly drug inventory necessary to operate despite reimbursement lags. As a result, many PE-backed ambulatory infusion center practices have been able to grow rapidly through de novo center openings. This dynamic is evident in our data: Only 41.7% of PE infusion deals since 2017 have been add-ons, compared with 84.3% for healthcare services overall.

32: Eugene Goldenberg, Managing Director at Edgemont Partners, phone interview with Rebecca Springer, October 17, 2022.
33: "Pharmacy and Infusion Services Market Update," Harris Williams, Paul Hepper, Cheairs Porter, and Andrew Hoft, n.d., accessed October 20, 2022.
34: Eugene Goldenberg, Managing Director at Edgemont Partners, phone interview with Rebecca Springer, October 17, 2022.

Select skilled care and behavioral health PE deals in 2022*

Company	Category	Deal type	Close date	Sponsor(s)	Acquirer
Frontpoint Health	Home health and hospice	Growth	August 15	Cimarron Healthcare Capital, Peterson Partners, Tacoma Investment Holdings	N/A
Kindred at Home	Home health and hospice	Carveout	August 11	Clayton, Dubilier & Rice	N/A
Theraplay	ABA and pediatric therapy	Add-on	July 19	Leavitt Equity Partners, Waud Capital Partners	Ivy Rehab
Sandstone Care	Mental health and SUD treatment	Buyout	June 28	Vistria Group	N/A
California Specialty Pharmacy	Infusion	Buyout	June 8	Assured Healthcare Partners	N/A
Howard Chudler & Associates	ABA and pediatric therapy	Growth	May 24	Enhanced Healthcare Partners	N/A
Lighthouse Behavioral Health Solutions	Mental health and SUD treatment	Growth	March 28	Amulet Capital Partners	N/A
AOM Infusion	Infusion	Buyout	February 24	Ridgemont Equity Partners	N/A
Autism in Motion Clinics	ABA and pediatric therapy	Add-on	January 26	Arsenal Capital Partners, Baird Capital, Vista Verde Group	Hopebridge
Providence Care	Home health and hospice	Growth	January 19	InTandem Capital Partners	Lee Equity Partners

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Select skilled care and behavioral health PE exits in 2022*

Company	Category	Exit type	Close date	Exiting sponsor(s)	Acquirer
Action Behavior Centers	ABA and pediatric therapy	Buyout	September 6	Juna Equity Partners, NexPhase Capital	Charlesbank Capital Partners
Monte Nido	Mental health and SUD treatment	Buyout	August 25	Levine Leichtman Capital Partners	Revelstoke Capital Partners
Refresh Mental Health	Mental health and SUD treatment	Acquisition	March 24	Kelso Private Equity	Optum
Oceans Healthcare	Mental health and SUD treatment	Buyout	February 1	General Catalyst	Webster Equity Partners
Meridian Behavioral Health	Mental health and SUD treatment	Unknown	N/A	Audax Private Equity	Unknown
Beacon Specialized Living Services	IDD care	Buyout	March 25	Pharos Capital Group	Vistria Group
Bradford Health Services	Mental health and SUD treatment	Buyout	October 28	Centre Partners (partial), Yukon Partners	Lee Equity Partners

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Appendix

Top PE investors in healthcare services by number of platform investments since 2020*

Investor	Platform deals
Shore Capital Partners	16
Revelstoke Capital Partners	8
Webster Equity Partners	7
Beecken Petty O'Keefe & Company	7
Petra Capital Partners	7
Endurance Search Partners	6
Partners Group	6
Vistria Group	6
SBJ Capital	5
BPEA Private Equity	5

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

Most acquisitive PE-backed healthcare services platforms since 2020*

Platform	Add-ons
Southern Veterinary Partners	113
Smile Doctors	43
AEG Vision	32
Southern Orthodontic Partners	28
Eyecare Partners	25
Retina Consultants of America	24
Therapy Partners Group	21
PetVet Care Centers	20
Texas Digestive Disease Consultants	19
BayMark Health Services	18

Source: PitchBook | Geography: US and Canada | *As of September 30, 2022

PitchBook Data, Inc.

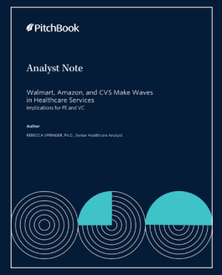
John Gabbert Founder, CEO

Nizar Tarhuni Senior Director, Institutional Research & Editorial

Paul Condra Head of Emerging Technology Research

Additional research

Healthcare and PE



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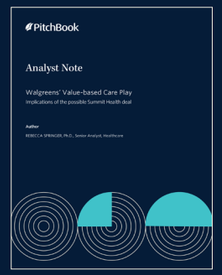

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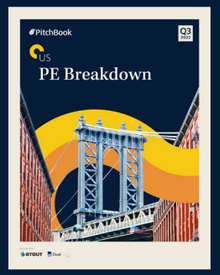

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