McGuireWoods

PRIVATE EQUITY IN HEALTHCARE –

AN UPDATED REVIEW OF SELECTED NICHE INVESTMENT AREAS

August 7, 2023

www.mcguirewoods.com

CONTRIBUTORS

TREY ANDREWS
PARTNER
LOS ANGELES - CENTURY CITY
T +1 310 315 8241
tandrews@mcguirewoods.com

H. HOLDEN BROOKS
PARTNER
CHICAGO
T +1 312 750 5758
hbrooks@mcguirewoods.com

REBECCA A. BROPHY
PARTNER
RALEIGH
T +1 919 755 6671
rbrophy@mcguirewoods.com

HOLLY BUCKLEY
PARTNER
CHICAGO
T +1 312 849 3687
hbuckley@mcguirewoods.com

ALYSSA C. CAMPBELL
PARTNER
CHICAGO
T +1 312 750 3510
accampbell@mcguirewoods.com

DIANA C. CASTRO
ASSOCIATE
CHARLOTTE
T +1 704 343 2202
dcastro@mcguirewoods.com

KRISTEN H. CHANG
ASSOCIATE
CHICAGO
T +1 312 750 3538
kchang@mcguirewoods.com

GEOFFREY C. COCKRELL
PARTNER
CHICAGO
T +1 312 849 8272
gcockrell@mcguirewoods.com

ERIN E. DINE
ASSOCIATE
CHICAGO
T +1 312 750 3524
edine@mcguirewoods.com

ROYCE B. DUBINER
ASSOCIATE
CHICAGO
T +1 312 750 8636
rdubiner@mcguirewoods.com

TIMOTHY J. FRY
PARTNER
CHICAGO
T +1 312 750 8659
tfry@mcguirewoods.com

GREGORY P. HAWVER
PARTNER
CHICAGO
T +1 312 750 2788
ghawver@mcguirewoods.com

ERICA L. JEWELL
ASSOCIATE
CHICAGO
T +1 312 849 8254
ejewell@mcguirewoods.com

KIMBERLY J. KANNENSOHN
PARTNER
CHICAGO
T +1 312 750 8649
kkannensohn@mcguirewoods.com

BRIAN F. KING
ASSOCIATE
CHARLOTTE
T +1 704 343 2028
bking@mcguirewoods.com

WILLIAM CLAYTON LANDA
COUNSEL
RICHMOND
T +1 804 775 7750
wlanda@mcguirewoods.com

LAURALEE R. LAWLEY
PARTNER
CHARLOTTE
T +1 704 373 8997
llawley@mcguirewoods.com

KAYLA MCCANN MARTY
PARTNER
CHARLOTTE
T +1 704 343 2352
kmccannmarty@mcguirewoods.com

COLIN P. MCCARTHY
COUNSEL
RICHMOND
T +1 804 775 7819
cmccarthy@mcguirewoods.com

RUBIN PUSHA III
PARTNER
CHICAGO
T +1 312 641 2022
rpusha@mcguirewoods.com

AMANDA K. ROENIUS
ASSOCIATE
CHICAGO
T +1 312 849 8157
aroenius@mcguirewoods.com

JAMES J. SCHANABERGER
COUNSEL
CHICAGO
T +1 312 750 2781
jschanaberger@mcguirewoods.com

THOMAS J. STALLINGS
PARTNER
RICHMOND
T +1 804 775 1007
tstallings@mcguirewoods.com

HELEN H. SUH
PARTNER
CHICAGO
T +1 312 849 8248
hsuh@mcguirewoods.com

GRETCHEN HEINZE TOWNSHEND
PARTNER
CHICAGO
T +1 312 849 8237
ghtownshend@mcguirewoods.com

ANNA M. TIMMERMAN
PARTNER
CHICAGO
T +1 312 750 8604
atimmerman@mcguirewoods.com

BART WALKER
PARTNER
CHARLOTTE
T +1 704 373 8923
bwalker@mcguirewoods.com

AMBER MCGRAW WALSH
PARTNER
CHICAGO
T +1 312 750 3596
awalsh@mcguirewoods.com

KRISTEN MCDERMOTT WOODRUM
PARTNER
ATLANTA
T +1 404 443 5725
kwoodrum@mcguirewoods.com

Table of Contents

Introduction

Since mid-2022, the macro acquisition environment has faced the challenges of inflation and increasing interest rates, among a variety of other headwinds. Global deal flow is down from its 2021 peak. Yet, as this white paper will explain at a granular level, private equity investment in healthcare companies remains a viable and, in some cases, thriving asset class in relation to other target industries.

Expect private equity backed healthcare investing to remain active (relative to the field) during this time of economic uncertainty. If and when the macroeconomic headwinds clear, investments in the healthcare sector should be well-positioned for successful exit opportunities. Tailwinds currently supporting healthcare investing include the following:

- ***Underlying market economics remain intact***. Generally speaking (and with certain exceptions noted herein), there is sufficient white space between (a) the largest acquirers in the healthcare industry and (b) various platforms that are natural sellers to such players.
- ***"Dry powder" in the private equity ecosystem remains at historic highs****.* The private equity industry ended 2022 with a record $3.7 trillion of dry powder.[1] While some of this buying power will remain on the sidelines until uncertainty clears, the sheer volume of capital to be deployed is a tailwind pushing deal activity.
- ***New and emerging areas for investment***. Change and progress are inevitable in the delivery of healthcare services. This white paper will detail certain "white hot" areas for private equity investment, such as cardiology and pharma services, as well as identify opportunities ripe for increased scale and value-based investment across various sectors.
- ***Inherent resilience of healthcare***. Healthcare investing is more resilient as a sector, given that much of healthcare spending and service utilization persists regardless of economic climate.

Headwinds challenging the healthcare sector include:

- ***Labor shortages and operational challenges***. Healthcare service platforms are, by and large, people-intensive businesses. Ongoing wage and workforce issues continue to plague this space. Technology solutions, such as generative artificial intelligence, may relieve some pressure in this area and could be an investing bright spot and/or competitive advantage.
- ***Higher interest rates and availability of debt financing***. While this trend is not restricted to healthcare, components of the traditional private equity investment decision must be reconsidered in light of higher interest rates. There has been a sharp rise in transactions that are primarily financed with either equity checks or capacity under existing credit facilities. This headwind has created opportunities for those funds that can finance transactions with private credit solutions.
- ***Growing antitrust regulatory angst***. Over the past few years, antitrust enforcement in the healthcare transactional space has ramped up significantly. For better or worse, the federal antitrust agencies — the Federal Trade Commission (FTC) and Department of Justice Antitrust Division — are laser-focused

1 *Bain Global Private Equity Report 2023*, Bain & Company (2023), https://www.bain.com/insights/topics/global-private-equity-report/ (last visited Jul. 19, 2023).

on the effects consolidation may have on access to and cost of healthcare. State governments are following suit, and in some cases, leading the way, adding healthcare-specific oversight processes as well as further layers of approvals to transactions with pre-close review requirements. Finally, current FTC leadership and several state legislatures have taken a dim view of noncompete provisions, casting doubt on this customary tool for dealmakers seeking to protect their investments.

- ***Litigation threatening practice management structures***. While each state historically has taken a different enforcement position on its corporate practice restrictions, additional challenges are occurring in a few select places, including one lawsuit currently being litigated in California. While any such decision in the case will be limited, it is important to continue staying abreast of any changes in the corporate practice landscape.

While uncertainty persists in global acquisition markets, private equity investment in healthcare continues to grow and evolve. McGuireWoods sees strength in this industry, relative to others, and this white paper will provide observations and insights on the key investment niches that are important in 2023 and beyond. Specifically, it covers 27 investment areas, with a note indicating whether the specialty should expect steady (i.e., roughly equal), less or more private equity interest in that sector, as compared to historical averages. This is not intended to be an empirical study, but rather our collective analysis based on our own direct experience in these sectors. Even areas with "less" interest will continue to have viable investment opportunities.

The specific investment areas discussed are as follows:

1. Aesthetics/Medical Spa
2. Ambulatory Surgery Centers (ASCs)
3. Anesthesiology and Pain Management
4. Behavioral Health
5. Cardiology
6. Compounding and Specialty Pharmacy
7. Dental
8. Dermatology
9. Ear, Nose and Throat
10. Gastroenterology
11. Healthcare IT and Tech-Enabled Provider Solutions
12. Hospital-Based/Emergency Medicine
13. Hospitals
14. Laboratory Businesses
15. Oncology
16. Orthopedics
17. Payor Services
18. Pharma Services
19. Physical Therapy, Occupational Therapy, Speech Language Pathology
20. Podiatry
21. Post-Acute Care
22. Primary Care
23. Urgent Care
24. Urology
25. Veterinary Services
26. Vision Care
27. Women's Health

1 Aesthetics/Medical Spa (More)

With increased demand for cosmetic procedures and wellness treatments among both older and younger generations, the medical spa industry is experiencing significant tailwinds. The global med spa market is expected to grow from $14.4 billion in 2022 to $25.9 billion by 2026, and some estimates indicate this sector will continue expanding at a compound annual growth rate (CAGR) of 14.97% annually until 2030.[2] Given their high profit margins, lack of exposure to both commercial and government payors, ability to reach down-market into non-medical services (e.g., facials, massages and acupuncture), recurring service opportunities, potential for expansive service line growth, and a highly fragmented market, investor appetite for aesthetics and medical spa deals is increasing.

In addition to purely aesthetic-service med spas, med spa services such as Botox or other injectables can be offered through medical practices such as dermatology or even dental offices. This optionality can benefit traditional practices by offering diversification of products as well as self-pay service lines. Similarly, adjacent sectors, such as cosmetic and drug companies that supply products used by med spas, are seeing increased appetite for transactions, with a new trend of hospitality companies investing in resorts that provide med spa services.

Notwithstanding increased interest and diversification opportunities, this sector also faces challenges, such as variability in state regulatory landscapes. In particular, state corporate practice of medicine doctrines and non-physician provider supervision and delegation requirements vary from state to state. In addition, certain states have increased interest in regulatory oversight, and there is intermittent and varied guidance from state licensure boards. Further, differences in state regulatory landscapes may make uniform implementation of service lines across the country challenging. For example, some states are imposing stricter guidelines around which professionals can and cannot render services such as Botox.

As stated, the med spa space has been ripe for investor activity. Last year, KKR invested in SkinSpirit, one of the largest providers of Botox and fillers in the country. In the med spa provider space so far in 2023, Thurston Group has invested in the El Dorado Hills Esthetics Center, and Princeton Medspa Partners closed on the acquisition of Skinjectables, an Arizona-based medical spa.

2 Ambulatory Surgery Centers (Steady)

The ASC market has been a thriving one for private equity investment for several decades, most traditionally through multisite management companies that take an equity position and provide management services for a fee.

But in the past few years, the historical interest in direct investment in ASC businesses has evolved alongside private equity investors' interest in surgical practices where ASCs are a key ancillary element of the surgical practice's core business. This strategy occurs most commonly in orthopedics, ophthalmology, pain management, ENT and gastroenterology. Further, as the healthcare industry at large moves toward greater provision of care in the outpatient setting, more gynecology, cardiology, urology and dermatology services are being performed in an ASC, and more such specialists (and private equity investors aligned with such specialists) are investing in ASCs. As such, there is a great deal of ASC interest as private equity investors continue their steady investment into various surgical practice management platforms.

In just a handful of examples of recent ASC

---

2 *Global Medical Spa Market to Reach $25.9 Billion by the Year 2026*, Cision PR Newswire, Research and Markets (Aug. 5, 2022), https://www.prnewswire.com/news-releases/global-medical-spa-market-to-reach-25-9-billion-by-the-year-2026--301600772.html.

transactions and affiliations, 2022 brought the acquisition by SCA Health (a division of Optum) of Physicians Endoscopy, as well as Health Velocity Capital's investment in Compass Surgical Partners. Earlier this year, in connection with a restructuring, AmSurg agreed to purchase Envision Healthcare's ASCs. Additionally, Surgery Partners entered into an affiliation agreement with ValueHealth to manage its ASCs. These large acquisitions are in addition to de novo activity, especially involving health systems such as Southeast Health in Missouri, SSM Health in Wisconsin, and SAC Health in California, and in addition to the private equity investments in surgical physician practice management (PPM) platforms that have an ASC component to the business. With numerous tailwinds driving growth of the ASC industry, expect both direct private equity interest and interest through affiliated surgical PPM platforms to continue just as strongly in the coming years.

Note, however, that investors in this space do face challenges. Many states still require a certificate of need (CON) before building, purchasing, or expanding an ASC. These CON processes often delay transactions and force investors to build coalitions to complete their projects. While the national ASC management companies have learned to navigate these rules (and, in some cases, focus on locations where the laws are less difficult), PPM platform investors often do not have that option as they seek to add new ASCs to existing physician practice footprints.

3 Anesthesiology and Pain Management (Steady)

Investment in the subsectors of anesthesia and pain management became fairly steady in the years leading up to the COVID-19 pandemic, and this area continues to be a steady sector for investment. Notably, anesthesia remains an important part of multispecialty and single-specialty medical practice models. It also remains a key subspecialty for select facility providers such as ASCs, meaning platforms often bring anesthesia services in-house to control quality and access. Demand for anesthesia providers (both anesthesiologists and certified registered nurse anesthetists) increased dramatically in recent years, with facility operators often needing to provide subsidies and other financial incentives to ensure anesthesia coverage.

Because anesthesia is a necessary part of outpatient, inpatient and office-based surgical procedures, investing in the anesthesia space requires careful review of relationships between referring physicians and anesthesia providers in a manner similar to that required for laboratory, imaging and other diagnostic and therapy services. Anesthesia providers rely primarily on referrals from other providers (especially hospitals and ASCs) rather than direct patient relationships in establishing sustainable business streams.

Historically, relationships have garnered scrutiny when anesthesia providers offered investment opportunities for their referral sources (e.g., surgeons) to attract contracting advantages. However, in recent years, primary areas of scrutiny have been subsidies and other payments by facilities to anesthesia providers to secure coverage, due to the shortage of providers. The frequent intersections with providers in other specialties due to referral and financial relationships creates an environment ripe for intense scrutiny from government regulators. As a result, investors in this area must evaluate regulatory developments and ensure that the structuring of any relationship complies with applicable laws. The regulatory implications of these relationships are further complicated when anesthesia and pain management providers (who do have direct patient relationships and are referral sources in their own right) are combined in a single practice.

Separate from traditional anesthesia business lines, pain management practices may be components of larger anesthesia groups or separate, free-standing groups. In either case, pain management practices typically provide a wide range of care in office-based surgical suites, ASCs and/or, in some cases, physician-owned hospitals. These high-volume procedures tend to be economically lucrative, particularly when the physicians are investors in the facility and are receiving both their professional fees and a share of the facility fees.

In addition, the frequent prescribing of pain management medication by pain management providers and the monitoring of such prescriptions through laboratory testing create sensitive regulatory issues to understand. One of these is the significant public attention to opioid addiction and the appropriate utilization of laboratory testing to monitor same. The pain management subsector is also the focus of False Claims Act cases, raised through both government and whistleblower actions, which require investors to take steps to ensure that their pain management practices strictly adhere to applicable laws.[3]

Anesthesia providers face potential negative impact from the enactment of the No Surprises Act, which in protecting patients from surprise billing has created an arbitration process for out-of-network patients that, anecdotally, has not led to increased reimbursement collections or new in-network payor arrangements for many such providers.

Recent investments in the pain management space include Iron Path Capital's platform company, Capitol Pain Institute, which acquired three add-on pain management companies: Spinal Diagnostics and Regenerative Medicine, Springs Rehabilitation, and The Peak Physical Medicine. Separately, in the anesthesia space, Ambulatory Management Solutions, an outpatient anesthesia and administrative services provider based in Illinois, invested in the Texas-based Noble Anesthesia Partners as well as M2 Anesthesia, a pediatric dental outpatient anesthesia provider in the Pacific Northwest. In addition, National Partners in Healthcare (NPH), a national healthcare organization delivering anesthesiology services and a portfolio company of Assured Healthcare Partners, acquired Medstream Anesthesia Solutions. The acquisition closed in April 2023.

Expect investment in both the anesthesia and pain management subsectors to continue steadily as larger platforms develop and expand through acquisitions to benefit from economies of scale, similar to trends in other sectors.

4 Behavioral Health (More)

The behavioral health sector encompasses a wide range of subsectors in a highly fragmented space, including substance use and addiction treatment facilities and providers, inpatient psychiatric hospitals, mental health service providers, inpatient and outpatient eating disorder programs, autism and educational therapy providers, and other similar businesses. Many of these sectors have the potential for significant growth and value creation, particularly due to historical stigmas related to such care that appear to be waning. The opioid epidemic and COVID-19 pandemic increased awareness of the need for mental health access and parity, which likely will result in continued, or even increased, interest and investment in the behavioral health sector in the coming years.

In 2021, investments in all behavioral health subsectors grew at a significant pace, especially the subsectors related to mental health, substance use disorder, autism, and intellectual and developmental disability providers. More recently, investment in these areas and other subsectors tapered somewhat from 2021 levels, but the degree of investment still remains above pre-COVID-19 levels.

Notwithstanding any tapering effect from 2021 levels, the steady growth of the industry can be in part attributed to destigmatization of patients obtaining behavioral health services and increased access to services and reimbursement. Access has been driven primarily by the Mental Health Parity

3 *See, e.g., Athens, Georgia, Pain Medicine Owner, Practice Manager Agree to $5 Million Settlement Resolving Violations Under the False Claims Act, U.S. Attorney's Office* (Mar. 20, 2023), https://www.justice.gov/usao-mdga/pr/athens-georgia-pain-medicine-owner-practice-manager-agree-5-million-settlement. *See Woodstock pain management doctor and clinics pay $625,000 to resolve false claims act allegations,* U.S. Attorney's Office (May 30, 2023), https://www.justice.gov/usao-ndga/pr/woodstock-pain-management-doctor-and-clinics-pay-625000-resolve-false-claims-act.) *See Surgery Centers and Medical Offices in New Jersey Settle Allegations of Federal Health Care Fraud, U.S. Attorney's Office* (Jan. 12, 2022), https://www.justice.gov/usao-edny/pr/surgery-centers-and-medical-offices-brooklyn-and-new-jersey-settle-allegations-federal.

and Addiction Equality Act, which requires insurance coverage for mental health conditions for a variety of reasons, as well as increased access through telepsychology and tele-mental health. Additionally, the federal government has continued to support expansion of behavioral health access by expanding Medicare payment to licensed marriage and family therapists for mental health services.[4] Finally, private investors have been able to leverage unique growth strategies, including combining several different types of treatment modalities and using out-of-network or higher-end cash pay models of care to drive growth.

Investors focused on the behavioral health space may face challenges similar to those in other healthcare subsectors, including regulatory scrutiny of ancillary service lines and continued challenges in workforce recruitment and retention. Behavioral health entities often include numerous ancillaries, such as laboratories, residential and outpatient settings, monitoring services, therapy, and imaging and diagnostic testing services. Some of these ancillaries may be subject to scrutiny by government agencies from a fraud and abuse perspective. Because of this scrutiny, investors should be aware that referral relationships and financial relationships will need to be reviewed and monitored to ensure compliance with government regulations and laws.

Additionally, despite greater numbers of clinical professionals providing services in the behavioral health space, there continue to be staffing shortages. These shortages may continue to put pressure on the ultimate number of services that can be provided to patients. As behavioral health treatment becomes more mainstream and accepted, investors will need to find creative ways to recruit and retain behavioral healthcare providers to ensure that labor constraints do not unnecessarily restrict growth. Traditional practices also will face competition from telehealth-focused providers, which may offer patients convenience and allow for more discrete treatment options.

Recent investments in the behavioral health space include KKR's investment in pediatric behavioral health through Brightline, a California-based provider of virtual behavioral health services, and its investment in behavioral health technology such as its partnership with the software platform Therapy Brands. Separately, Avesi Partners acquired the California-based Muir Wood Adolescent and Family Services with 10 residential campuses for mental health and substance use disorders, and Lifepoint Health acquired a majority ownership interest in Springstone, a national behavioral health provider with 18 behavioral health hospitals and 35 outpatient locations. Other active players in the behavioral health space include Shore Capital Partners, Revelstoke Capital Partners (which recently acquired Monte Nido & Affiliates, a residential and outpatient eating disorder treatment provider), Webster Equity Partners, and Vistria Group. In spite of economic pressures and certain challenges in the industry, expect investment in behavioral health subsectors to continue growing as investors create new platforms, expand existing platforms through add-on acquisitions, and make equity investment infusions.

5 Cardiology (More)

The cardiology subsector has become one of the most sought-after and competitive specialties for healthcare investors. Stemming from an aging population and rising obesity, demand for cardiovascular services is projected to increase significantly. Already, cardiovascular disease accounts for 12% of total U.S. health expenditures, the most of any major diagnostic group, according to the American Heart Association, which also reports 127.9 million U.S. adults had some form of cardiovascular disease between 2017 and 2020.[5] There is no reason to suspect these tailwinds will slow, and many commentators anticipate significant

---

[4] *Medicare*, National Board for Certified Counselors (last visited July 19, 2023), https://www.nbcc.org/govtaffairs/medicare.

[5] Connie W. Tsao et al., *2023 Heart Disease and Stroke Statistics Update Fact Sheet*, American Heart Association (Jan. 25, 2023), https://professional.heart.org/en/science-news/-/media/453448D7D79948B39D5851D1FF2A0CFE.ashx.

growth in the sector's overall expenditures.[6]

In addition to these macro trends, investors are attracted to the sector's outpatient procedure migration and high-value ancillaries. More states are permitting cardiac procedures to be performed on an outpatient basis, and at the same time, Medicare has been adding these surgeries to its list of covered ASC procedures. With this shift, Bain & Co. reported that, by the mid-2020s, 30-35% of cardiology procedures will be performed in ASCs.[7] The ability to invest in ASCs and cardiac catheterization office-based labs (OBLs) — the name often given to an interventional suite in a physician office — is attractive to investors. Cardiology also lends itself to an array of ancillary service lines beyond ASC/OBLs, such as echocardiograms, nuclear heart studies, ultrasound exams, stress tests, remote monitoring and cardiac rehab services. These ancillary services produce additional revenue — particularly in larger groups — and allow providers to serve as a "one-stop shop" for cardiovascular conditions.

That said, the subsector also presents some complexity. First, cardiology practices often have strong, long-standing hospital relationships. These arrangements can strengthen ties between cardiology practices and a health system, but they also can have unwind provisions limiting investment opportunities. Further, state laws can impact the migration of cardiac cases out of the inpatient setting. This requires investors to consider specific state laws and not simply adopt a one-size-fits-all-states investment thesis. Finally, experts such as Physicians Thrive expect cardiology to have the greatest physician deficit through 2025, compared to all other physician specialties.[8] With a projected deficit of 7,080 cardiologists in the United States, cardiology practices may not be able to serve patient needs without transforming their care models to use more extenders and other workflow solutions.

With these trends, the sector is experiencing a flurry of transactions. First, Novocardia, a value-based cardiovascular care delivery platform, announced its merger with Cardiovascular Associates of America, a cardiovascular PPM that was formed by Webster Equity Partners. US Heart and Vascular, a portfolio company of Ares Management, also announced a partnership with Orion Medical this year, strengthening its presence in Houston (after completing a large Houston transaction in 2022). Lee Equity Partners, in partnership with Cardiovascular Institute of the South, a large independent cardiovascular practice, launched a new platform called Cardiovascular Logistics, and RC Capital completed its investment in James River Cardiology to form Aligned Cardiovascular Partners. Finally, in late 2021, Assured Healthcare Partners formed Heart & Vascular Partners, which has since partnered with leading practices in Oklahoma, Texas, Colorado and Illinois, now with more than 50 partner physicians.

Despite the ballooning of investor interest in this space, the cardiology subsector remains highly fragmented — with partnership opportunities and transactions expected to continue to boom.[9]

6 Compounding and Specialty Pharmacy (More)

The compounding and specialty pharmacy markets enjoyed steady deal activity in 2022 and appear to have growing interest halfway through 2023.

---

[6] *An Update on Investment & Consolidation in Cardiology,* Provident Healthcare Partners (Dec. 2022), https://www.providenthp.com/expertise/an-update-on-investment-consolidation-in-cardiology/.

[7] Tim van Biesen and Todd Johnson, *Ambulatory Surgery Center Growth Accelerates: Is Medtech Ready?*, Bain & Company (Sept. 23, 2019), https://www.bain.com/insights/ambulatory-surgery-center-growth-accelerates-is-medtech-ready/.

[8] Physicians Thrive, 2023 Physician Compensation Report (2023), https://physiciansthrive.com/physician-compensation/report/.

[9] Holly Buckley et al., *Subsector Snapshots — Why Investor Interest Is Ballooning in Cardiology,* McGuireWoods (May 1, 2023), https://www.mcguirewoods.com/client-resources/Alerts/2023/5/subsector-snapshots-cardiology-investments.

Despite industrywide macroeconomic headwinds, the compounding and specialty pharmacy sectors have continued to garner relatively high valuations, according to industry reports. Most stakeholders still expect deal volume in this sector to surpass pre-pandemic levels in 2023.

Consistent with the past several years, private equity and other investors used acquisitions to achieve vertical and horizontal integration. For example, in late 2022, Elevance Health (formerly Anthem) announced it was acquiring BioPlus from CarepathRx (a portfolio company of Nautic Partners), and the transaction closed in early 2023.[10] BioPlus provides specialty pharmacy services to patients with various chronic conditions, such as cancer, multiple sclerosis, autoimmune conditions and hepatitis C. The acquisition will allow Elevance Health to better fill its patients' specialty drug needs in a vertical platform that includes insurance, pharmacy benefits management, specialty pharmacy and provider services.[11]

Industry stakeholders believe the compounding and specialty pharmacy markets in 2023 will see an increased focus on specialty medicines, oncology treatments and cell and gene therapies. Specialty pharmacies also are driving growth and focusing on clinical performance measures as the industry shifts toward value-based care. A positive side effect of the pandemic was a broad acceptance of telehealth, which created new opportunities for specialty pharmacies.

Compounding pharmacies increasingly are becoming key parts of any app-based telemedicine and drug patient encounter. With the emergence of men's health and new psychiatric therapies such as Ketamine, there has been an increased role for compounding pharmacies to deliver targeted medications that traditionally have taken less-consumer-friendly forms (such as chewable forms of drugs that can be discreetly packaged or non-invasive drug delivery methods like nasal sprays or pills for drugs that traditionally have been injectable). The market will continue to see new roles and partnerships emerge for compounding pharmacies, likely with some pharmacies tied exclusively to telemedicine companies.

Strong valuations, the continued availability of capital, and a highly fragmented market may make compounding and specialty pharmacies favorable candidates for continued investment in 2023. For example, earlier this year, Hildred Capital Management completed a strategic investment in AleraCare, a national company whose services include specialty pharmacy.

7 Dental (Less)

Despite market uncertainty over the past several years, private equity investment in the dental sector has continued. Further, as the effects of the COVID-19 pandemic fade, acquisitions have continued, particularly in dental specialty areas such as oral surgery, endodontics, orthodontics and periodontics. While initial dental support organization (DSO) growth focused on general dentistry, as this area matured, there has been a rush to roll up specialty dental providers. The sector is also beginning to see more activity related to specialty dental providers and multispecialty dental platforms, a trend that is likely to continue in 2023 and beyond.

However, there are still challenges in the dental industry. According to an American Dental Association poll, as of the end of 2022, dentists are concerned about patient volumes, primarily driven by no-shows, cancellations and unfilled practice schedules.[12] Further, workforce shortages continue to create challenges for dental practices. In tandem

[10] Jeff Lagasse, *Elevance Health acquires specialty pharmacy company BioPlus*, Healthcare Finance News (Feb. 17, 2023), https://www.healthcarefinancenews.com/news/elevance-health-acquires-specialty-pharmacy-company-bioplus.

[11] *Therapies*, BioPlus Specialty Pharmacy, https://www.bioplusrx.com/therapies/ (last visited July 19, 2023).

[12] Stacie Crozier, Dentists report less busy schedules in latest HPI poll, ADA News (Nov. 2, 2022), https://adanews.ada.org/ada-news/2022/november/dentists-report-less-busy-schedules-in-latest-hpi-poll/.

with the COVID-19 pandemic, the dental industry saw an exodus of certain staff members, including dental hygienists. This trend creates higher costs for dental practices — as they are forced to pay higher wages to attract and retain staff — and a potential inability to meet office scheduling needs. Finally, the increasing cost of debt has caused some DSOs to reevaluate both their valuations and how purchase prices should be paid. While dental practice multiples remain strong, they are starting to decline somewhat from recent all-time high levels.

Notwithstanding the challenges facing the market, 2022 was a very strong year for dental practice acquisitions. Throughout 2023, DSOs have continued to seek growth opportunities. There is still significant fragmentation in the market, creating opportunity for buyers, and acquisitions of individual practices have continued to be strong, although less than five years ago.

While there were fewer large DSO formations to close out 2022, a number of dental transactions are of note. Western Dental acquired another DSO, Mid-Atlantic Dental Partners, in a deal announced May 5. First Choice Dental, a multispecialty DSO in the Madison, Wisconsin, area, recapitalized with an affiliate of The Beekman Group in July 2022. Further, Court Square Capital Partners completed a major investment in West Coast Dental, a multispecialty provider group. Specialty Dental Brands partnered with TSG Consumer Partners and Leon Capital Group in September 2022. Also in September 2022, Paradigm Oral Health, a DSO focused on oral surgery practices, was acquired by BlackRock Long Term Private Capital. US Endo Partners formed a sister DSO in October 2022 to facilitate further growth in additional dental specialties.

8 Dermatology (Less)

The dermatology industry remained an attractive sector in 2022 for private equity investors, albeit less than in the late 2010s. While add-on acquisitions remained steady, the market also experienced several large recapitalizations contributing to the activity in the market.

In part because the dermatology sector remains highly fragmented, this industry continues to draw support from private equity. Since many dermatology practices are still operated by solo practitioners or single-specialty groups, dermatology practices continue to seek opportunities to increase scale in order to support the costs associated with infrastructure, overhead expenses and advanced technology systems, such as electronic health record systems and novel diagnostic technologies. Further, while dermatology platforms historically have targeted groups focused on medical and surgical services, their focus has shifted toward dermatology groups that are concurrently engaged in cosmetic dermatology (due to a shift in patient preference and interest in aesthetic procedures) and less dependent on commercial and government reimbursement.

The continued activity among dermatology platforms has allowed dermatology practices to increase the ancillary services offered, providing an additional benefit to patients. For example, growing larger in scale has allowed dermatology platforms to add dermatopathology as an in-house service line, as well as retail services and cosmetic products. The increase in certain retail service lines has allowed dermatology platforms to develop a more diverse payor mix, given the high percentage of private pay for such treatments.

The medical spa market (discussed above) also experienced significant growth over the last several years as consumer focus has shifted to self-care and anti-aging services. Though a shortage of dermatologists in the United States persists, greater utilization of physician assistants, nurse practitioners and other non-physician providers has contributed to the continued growth in the dermatology sector as practices are better able to address patient demand. In addition, more platforms seek to create their own residency programs or non-physician provider training for the space.

2022 saw steady investment activity in the dermatology space, with notable transactions such as each of Dermatologists of Central States (sponsored by SkyKnight Capital) and Forefront Dermatology (sponsored by Partners Group) undergoing majority recapitalizations. Other notable acquisitions include QualDerm Partners' sale to

Pinnacle Dermatology (backed by BayPine) and Platinum Dermatology Partners' merger with West Dermatology (backed by Sun Capital Partners).

9 Ear, Nose and Throat (Steady)

One of several relatively fragmented sectors within physician practice management, otolaryngology — or ear, nose and throat (ENT) — practices continue to transact. In just the six-year period between 2015 and 2021, private equity investors acquired 23 ENT practices.[13] However, the number of private equity acquisitions during that period actually increased over time, with one practice acquisition in 2015, four practices in 2019 and eight practices in 2021.[14]

As in other sectors with heavy surgical and elective procedure volume, ENT practices have regained the patient engagement that faltered during COVID-19. Given the strong resurgence of elective procedures and the fact that ENT is a specialty in the early stages of the transaction life cycle, expect to see continued growth in private equity-backed ENT platforms.

ENT practices cover a broad array of services with varying degrees of ancillary services and ASC support, such as allergy-related services (which, by their nature, require ongoing visits that keep patients returning to the practice and create a steady income stream), as well as hearing aid services and head and neck surgery. Practices with heavier ancillary services tend to be more attractive targets for investment, particularly for a private equity platform's initial investment or expansion into a new state.

On the other hand, smaller practices that are not able to leverage ancillary services and ASC ownership on their own pose opportunities for add-on activity and the ability to expand into those ancillary service lines upon merging into a larger practice. Once a larger platform is established, the playbook looks similar to that of other sectors, as smaller practices find it difficult to compete with the ability to engage in more innovative payor contracting strategies and efficient administrative support of the larger platforms.

Prior to 2023, private equity investment in ENT focused on the formation of new platforms. For example, in 2018, Prairie Capital invested in Family Allergy & Asthma and in 2022, Trinity Hunt Partners entered the ENT space with its affiliation with ENT & Allergy of Delaware (now Parallel ENT Allergy Partners). However, more recently, the focus has also shifted to add-on activity. Since the formation of Parallel ENT, it has expanded from Delaware into Michigan and, most recently, Texas following its affiliation with the Ear Institute of Texas and the Hearing Institute of Texas.

Given the existing fragmentation in the ENT industry, expect continued development of new private equity-backed ENT platforms, as well as increased add-on transactions and regional growth.

10 Gastroenterology (Steady)

Investor interest in gastroenterology (GI) has remained steady in recent years and continues to produce a high volume of deals and significant competition for growth targets among the major players in the subsector. The industry also is at the tail end of a blitz of transactions in which early private equity investors in GI are exiting their own investments.

Platforms are seeing new investors step in to manage and fund growth — including the physician-led buyout of Waud Capital and recapitalization of GI Alliance through an investment by Apollo in September 2022 and, most recently, the sale of United Digestive from Frazier Healthcare Partners to Kohlberg & Company in March 2023.

---

[13] Hemali Shah et al., *Trends in Private Equity Acquisitions of US Otolaryngology Practices*, NIH (Apr. 1, 2023), https://pubmed.ncbi.nlm.nih.gov/37003295/.

[14] *Id.*

In addition to the upstream platform transfers occurring in the GI space, the GI practice platforms themselves have continued to deploy active growth strategies through various-sized add-on acquisitions and de novo growth (particularly de novo growth in the GI ancillary service line subsector). Investors remain attracted to GI's steady and profitable ancillary service lines such as ASCs, in-office endoscopy suites, anesthesia and pathology. Like orthopedics, in addition to significant ancillary services, GI offers a diverse payor mix (e.g., heavy Medicare, significant commercial and some elective/cash-pay opportunities), and well-paid partner physicians who are accustomed to working independently.

While the industry remains highly fragmented, fierce competition for fresh physician talent and an increased scarcity of established, multiphysician practices to target for acquisition present significant challenges for investors looking to expand in GI. Despite these headwinds, 2022 saw significant deal volume in GI, including One GI's acquisition of Colon, Stomach, and Liver Center and Loudoun Endoscopy Group, and Gastro Health's affiliations with Greater Boston Gastroenterology, Digestive Health Specialists, and Middlesex Gastroenterology.

This solid add-on transaction volume illustrates that investor interest in GI remains steady, with the ongoing potential for increasing interest depending on how the industry continues to evolve.

11 Healthcare IT and Tech-Enabled Provider Solutions (Steady)

Investment dollars and valuations for healthcare technology and digital health companies shattered records during an incredible boom period peaking in 2021. Investments have been on a downward trajectory that accelerated in late 2022, though more acutely for venture capital than private equity. The early 2023 collapse of Silicon Valley Bank and related economic and banking impacts have played a role in quelling a potential rebound. While this sector is unlikely to reach the heights of recent years again soon, expect continued strong investment and steady growth in this area.

Advancements in technology and momentum in the adoption of healthcare IT and digital health solutions have accelerated in the pipeline. A drive for interoperability in clinical records and health information and the shift toward value-based care have helped fuel interest in data analytics, clinical decision support, care coordination and electronic health records. Economic and labor pressures on health systems and other providers have driven interest in healthcare automation, operational solutions and revenue cycle management. Related technologies in robotic process automation, generative artificial intelligence and other technologies are poised to address the myriad of problems facing healthcare industry stakeholders.

Investors continue to seek innovative healthcare IT targets for acquisition, venture capital or growth equity investment, as they look to establish themselves as sector players in advance of anticipated large-scale technology investments by physician practices and hospital systems. For example, Bain & Company reports that 95% of providers expect to invest in software in 2023, with about a third of those providers expecting their investments to exceed their typical annual software spend.[15]

Momentum continues to drive digital health and tech-enabled provider solutions. Many of the regulatory flexibilities adopted during the COVID-19 pandemic were extended, avoiding the much-feared "telehealth cliff" — though some uncertainty looms. The adoption of tech-enabled care has been widely (but not universally) popular with patients, providers and payors and aligned with a shift in care to lower-cost and more convenient care settings.

[15] Eric Berger et al., *2022 Healthcare Provider IT Report: Post-Pandemic Investment Priorities*, Bain & Company (Oct. 17, 2022), https://www.bain.com/insights/2022-healthcare-provider-it-report-post-pandemic-investment-priorities/.

For example, the Acute Hospital Care at Home (HaH) program was extended through 2024.[16] As of June 16, 2023, 283 hospitals associated with 125 systems in 37 states have been approved for HaH waivers.[17] Additionally, based on its receipt of 38,000+ comments, the federal Drug Enforcement Agency (DEA) significantly scaled back a proposed rule released in late February 2023 that would have restored stringent restrictions on the prescription of controlled substances to patients without an in-person encounter.[18] Instead, the DEA and Substance Abuse and Mental Health Services Administration (SAMHSA) temporarily extended full flexibilities through Nov. 11, 2023, and provided a further one-year grace period for prescriptions based on practitioner-patient telemedicine relationships established on or before Nov. 11, 2023.[19]

While these developments support the continuation of care models and businesses established during the public health emergency for a time, the regulatory authority is finite. There will be continued legislative advocacy and lobbying efforts during these periods. Congress and governmental agencies will continue to monitor alternative care delivery's impact on care quality, patient safety, program integrity and other factors.

Still, the healthcare IT sector is seeing high demand and remains competitive, fragmented and ripe for investment. Recent years' deal volume has included (a) Assured Healthcare Partners' formation of DeliverHealth Solutions, a healthcare IT and revenue cycle services company established in connection with the carveout of Nuance Communications, Inc.'s health information management, transcription and electronic health record services businesses in early 2021; (b) Bon Secours Mercy Health System's launch of Accrete Health Partners in May 2022; (c) Accrete's acquisition of Nordic Consulting Partners in June 2022, further expanding Accrete's digital health and healthcare IT services offerings; (d) UnitedHealth's proposed acquisition of U.K.-based healthcare technology company EMIS Group; and (e) Enhanced Healthcare Partners' growth equity investment in Janus, a healthcare revenue cycle management technology provider in March 2023. Value-based enablers Vytalize and Wellvana raised sizable rounds in early 2023.

Though this subsector offers great opportunities for venture capital and growth equity investors, it is also heavily regulated. Investors also should expect to see increased transaction costs in this area compared to investments in less-regulated technology sectors. Despite some headwinds, expect to see investment in this sector rebound as the industry continues to focus on patient experience and omnichannel health, transition to value-based care, and seek tech-enabled solutions to clinical, financial and operational challenges.

12 Hospital-Based/ Emergency Medicine (Less)

Hospital-based and emergency medicine undeniably suffered during the COVID-19 pandemic. The recovery has been choppy at best, and while overall hospital-based specialty demand

---

[16] Eli Adashi et al., *Hospital at Home Receives a New Lease on Life: A Promising if Uncertain Future,* NIH (Jun. 25, 2023), https://www.ncbi.nlm.nih.gov/pmc/articles/PMC10290764/.

[17] Larry Beresford, *Acute Care in the Home Gets Waiver Extension*, Medscape (Jan. 4, 2023), https://www.medscape.com/viewarticle/986491.

[18] *See DEA Announces Proposed Rules for Permanent Telemedicine Flexibilities*, Drug Enforcement Administration (Feb. 24, 2023), https://www.dea.gov/press-releases/2023/02/24/dea-announces-proposed-rules-permanent-telemedicine-flexibilities. *See DEA, SAMHSA Extended COVID-19 Telemedicine Flexibilities for Prescribing Controlled Medications for Six Months While Considering Comments from the Public,* Drug Enforcement Administration (May 9, 2023), https://www.dea.gov/press-releases/2023/05/09/dea-samhsa-extend-covid-19-telemedicine-flexibilities-prescribing.

[19] DEA, SAMHSA Extend COVID-19 Telemedicine Flexibilities for Prescribing Controlled Medications for Six Months While Considering Comments from the Public, Substance Abuse and Mental Health Services Administration, (May 9, 2023), https://www.samhsa.gov/newsroom/press-announcements/20230509/dea-extend-covid19-telemedicine-flexibilities-prescribing-controlled-medications.

for services has rebounded, investment interest remains depressed (at least at the top of the market).

A major market player in the hospital-based services space, Team Health Holdings (TeamHealth), recently had its debt rating downgraded from CCC+ to CCC by Fitch Ratings.[20] TeamHealth reported a 30% decline in EBITDA year over year for the first nine months of 2022.[21] Again, operational headwinds in the form of reimbursement cuts, staffing costs, No Surprises Act-related arbitrations and claim denials, and a heavy debt load may well limit upside in the foreseeable future.

The unanswered question is whether these same problems will stymie smaller, independent and private equity-backed platforms in the space. Anecdotally, several ER groups are being formed in certain pockets in the wake of messy, public breakups of hospitals and outsourced staffing companies. This is spurred in part by the significant demand for these services from hospitals and health systems, which are struggling to find coverage for such services due to labor shortages and other factors.

In addition to financial headwinds, new threats are lurking in the form of renewed antitrust scrutiny and challenges to the corporate practice of medicine (CPOM) doctrines in a few select places. For example, trade associations or professional societies are taking aim at the MSO-PC business model itself (in contrast with historical CPOM challenges, which focused on individual, isolated perceived abuses or injustices). For example, in California, Envision Healthcare is defending a lawsuit from the American Academy of Emergency Medicine Physician Group, Inc.[22] wherein the plaintiff makes certain allegations regarding Envision's business structures.

Notably, this lawsuit has survived a motion to dismiss and is currently scheduled for trial in January 2024. The California Medical Association is also advocating against Envision. Plaintiffs have indicated that they are not interested in a monetary settlement and are asking the court to ban this practice model altogether. Because CPOM doctrines are state-specific, the impact of any decision in California could be limited, but it is certainly a trend worth watching, given the fundamental nature of the structural issues in dispute.

Due to increasing corporate practice interest and government scrutiny on private equity-backed investments in emergency medicine, expect investor interest to decrease in the coming year. However, there may be some opportunities for reorganizations of existing businesses that undergo scrutiny, as well as aggregation of smaller provider networks in particular geographies.

13 Hospitals (Less)

While hospitals have been extremely active players in healthcare transactions for years, both as acquirers and sellers, their acquisition and joint venture efforts were significantly reduced over the past few years with attention shifting to responding to COVID-19. As the burden of COVID-19 has eased, hospitals have begun to re-engage as active players in the marketplace.

One approach they have used to fuel growth is through private investment funds aimed at investing in innovative healthcare delivery models that could create efficiency for the hospital. Hospitals are also uniquely situated to capitalize on value-based care initiatives, given their inpatient/outpatient services, ancillary service lines, relationships with physicians, and payor alignment strategies. Further, with high interest rates making it more expensive for private equity investors to grow their portfolios, hospitals with excess capital may be able to better compete

[20] *Fitch Downgrades Team Health IDR to 'CCC', FitchRatings,* (Nov. 14, 2022), https://www.fitchratings.com/research/corporate-finance/fitch-downgrades-team-health-idr-to-ccc-14-11-2022.

[21] *Id.*

[22] *American Academy of Emergency Medicine Physician Group, Inc. v. Envision Healthcare Corporation et al*, Case No. 3:22-cv-00421 (N.D. Cal. 2022).

in the marketplace as buyers of physician practices.

While these opportunities exist, hospitals also face significant financial pressures in the post-COVID-19 environment. Increased staffing costs, growing inflationary pressure, cessation of supplementary pandemic-related funding, declining inpatient admissions, and increased supply chain costs/disruptions are tightening budgets. This decline in financial performance has made hospitals a less-attractive target for investors and has hindered hospitals from acting as acquirers in the current market.

Despite the challenges noted above, the number of hospital transactions in 2022 increased from 2021 historic lows and hit historic highs in average seller size — a reflection of several megamergers last year between some of the largest nonprofit systems in the country. Examples of deals announced in 2022 include transactions between Advocate Aurora Health and Atrium Health, Essentia Health and Marshfield Clinic Health Systems, and Sanford Health and Fairview Health.[23] University of Michigan Health also committed to spending $800 million to expand services in connection with its Sparrow Health merger.[24]

Looking forward, expect those types of transactions to continue. In addition, hospitals that are not able to navigate the increased cost environment will be looking for potential acquirers to ensure continued community support. All of these transactions must navigate heightened antitrust scrutiny, which has blocked several potential transactions in recent years. Finally, hospitals will continue to seek strategic alignment with others in the healthcare industry to find potential joint ventures and other affiliations to round out their service offerings and remain key players in their markets.

14 Laboratory Businesses (Steady)

Laboratories, perhaps more than any other area of the healthcare sector, have seen dramatic shifts due to the uptick in volume of lab testing during the COVID-19 pandemic. The increased demand sparked developments in diagnostic testing that have revealed areas for future growth outside COVID-19 testing. Factors such as advancements in technological innovation, an aging population, data analytics and machine learning, and the growth of value-based care models continue to indicate a favorable market for private equity investment. While market activity may have slowed somewhat during the early part of the COVID-19 pandemic, the lab industry's still somewhat-fragmented market is seeing a steady volume of private equity investment and other acquisition activity.

The need to increase testing volumes and speed of results to keep up with COVID-19 demand spurred technological innovation across the lab sector. While major and traditional mainstay labs such as Abbott Labs, Roche Diagnostics, Quest Diagnostics and Labcorp were positioned as industry leaders, smaller regional and local labs also benefited from the technology advancements to increase volume and decrease results time. This innovation has increased potential for private equity and industry growth in the lab market.

For example, GTCR joined Pritzker Private Capital and Vesey Street Capital as an owner in PathGroup, a clinical testing and pathology provider, in a deal worth $1.2 billion according to Axios. Strategic partnerships with hospital labs have also heated up. In 2022, Labcorp acquired RWJBarnabas Health's labs, while Quest partnered with Summa Health's labs. Further, already this year, Quest has acquired the outreach business from the labs of from Northern Light Health (Maine)

[23] Jacqueline Lapointe, *Healthcare Mergers and Acquisitions Regain Momentum*, RevCycleIntelligence (Jan. 16, 2023), https://revcycleintelligence.com/news/healthcare-mergers-and-acquisitions-regain-momentum.

[24] *Id.*

and New York-Presbyterian.

Demand for biopharmaceutical products and biosimilars also has led to growth within the laboratory space. Development of new medications requires advanced immunology bioanalytical testing as well as the use of bioanalytical testing in bodily fluids and tissue samples. New testing in areas such as personal genomics also presents opportunities, including Labcorp's $450 million acquisition (with an additional contingent consideration of $125 million possible) of Personal Genome Diagnostics, and ProPhase Labs' $14.6 million acquisition of Nebula Genomics. Acquisition efforts also have targeted companies supporting lab providers, including ArchiMed's recent acquisition of Zyto Group, a cancer test and equipment provider, and Caliber Companies' growth investment in Innovative Lab Services, a preventative maintenance and repair service provider for analytical labs.

While continued and steady growth in the lab sector is expected, the laboratory industry remains one of the most highly regulated (as the industry was the original concern that prompted drafting the Stark Law). Expect continued government scrutiny in the lab sector regarding financial relationships with referral sources and marketing practices. For example, there have been an increasing number of Department of Justice enforcement investigations and actions under the Eliminating Kickbacks in Recovery Act, which is meant to prohibit kickbacks in the substance use recovery sector but also prohibits kickbacks involving laboratory testing. Such regulatory scrutiny requires investors to carefully review a target's compliance culture and thereafter invest in the platforms' compliance infrastructure.

15 Oncology (Steady)

The oncology space continues to grow, with patient volumes increasing by approximately 1% per year. Precedence Research indicated in its Oncology Market forecast for 2023 to 2032 that the global oncology market was valued at more than $203 billion in 2022 and is projected to reach nearly $471 billion by 2032.[25] In the past five years, there has been significant transaction volume as private equity and corporate-backed platforms continue to pursue strategic alignment and add-on acquisitions.

Simultaneously, the industry is undergoing significant operational change in terms of treatment and payment norms. With the increase in patient volume, oncology practices are experiencing significant growth in specific areas, such as treatment for breast cancer, lung cancer, colon cancer and leukemia. Similarly, providers are looking to provide care across the oncology continuum by aligning medical oncology, radiation oncology, diagnostic imaging and other ancillary services to provide patient-centric, full-service care. As cancer treatment becomes more targeted, and as the individualized patient treatment regime, which includes the growth of personalized oncology treatments, becomes more important, many practices are focusing on smaller subspecialties within the oncology space, such as urologic, gynecologic and dermatologic. Expect such growth and specialization to continue.

Diagnoses and treatments are provided in hospitals, physician offices, free-standing radiation oncology centers and free-standing infusion centers. Investors interested in the space must understand the healthcare regulatory implications, as well as the business opportunities and challenges associated with a myriad of different ownership structures (including joint venture models unique to the oncology space) and a full array of delivery-of-care models.

As a headwind, both oncology practices and potential investors must be flexible with respect to future developments in reimbursement. CMS is urging commercial and governmental payors away from fee-for-service reimbursement and toward alternative, value-based payment models, which will create challenges for oncology providers. CMS released the Enhancing Oncology Model, a

[25] *Oncology Market Size, Share, Growth, Trends, Report 2023-2032*, Precedence Research (Jun. 2023), https://www.precedenceresearch.com/oncology-market.

voluntary risk-sharing payment model, which commenced July 1, 2023, as a replacement to the Oncology Care Model that expired June 30, 2022. It gives financial and performance accountability to participating oncology practices on chemotherapy administration.[26] CMS has indicated that this program, like other value-based initiatives, "aims to drive transformation and improve care coordination in oncology care by preserving and enhancing the quality of care furnished to beneficiaries undergoing treatment for cancer while reducing program spending under Medicare fee-for-service."[27]

Investors should continue to monitor these developments in reimbursement as they consider investment opportunities in the oncology space. Oncology providers who capitalize on value-based care initiatives early will be the market leaders as fee-for-service reimbursement continues to drop.

Investors also will be trying to forecast whether the June 2023 Genesiscare USA, Inc. Chapter 11 bankruptcy filing is a bellwether, an outlier, or neither. Genesiscare announced that it filed for Chapter 11 bankruptcy protection in Texas, indicating its desire to separate its U.S. business line (which operated as 21st Century Oncology until the Genesiscare acquisition in 2020). Genesiscare seeks a buyer for the 130 U.S.-based radiation-therapy centers who can invest the resources to turn the operations around.

16 Orthopedics (Steady)

The orthopedic industry continues to experience substantial investor interest due to the aging population, increased prevalence of musculoskeletal conditions and the opportunity to expand multiple ancillary service lines. Moreover, most orthopedic procedures are not truly elective in nature. Despite a flurry of activity in the space, the orthopedic sector remains highly fragmented, which likely will result in continued and steady transaction volume throughout the coming years.

Due to utilization of numerous ancillary service lines — including imaging, physical therapy (PT), durable medical equipment (DME), sports medicine and pain management, among others — orthopedic practices offer investors the ability to capture additional revenue streams and serve as a "one-stop shop" for patients. This, in turn, facilitates greater access to care, as well as consumer convenience and satisfaction — all important factors as value-based care models increase in popularity.

Further, orthopedic practices have long invested in surgery centers, which provide an attractive, lower-cost site of service relative to hospitals for certain types of surgical procedures. According to the Ambulatory Surgery Center Association, based on data provided by the CMS in December 2022, orthopedics and pain management were the two most common specialties for ASCs.[28] Given the high-acuity nature of orthopedic procedures, ASCs offer attractive financial opportunities, and, with increased payor and patient emphasis on moving appropriate cases to outpatient sites of services, the ASC component of the orthopedics sector only bolsters interest in the space.

Although attractive and profitable, investment in the orthopedics space does present a number of challenges. Investments in the space typically involve very high transaction multiples, which can be difficult to fund in the current debt markets. Further, many orthopedic practices have numerous well-paid partners who are used to working independently, often with entrenched "eat-what-you-kill" compensation models. Given these dynamics, physician alignment models are critically important. Expense allocation should ensure that individual decisions impact compensation, while group overhead is fairly allocated.

Also, close to 60% of orthopedic surgeons in active

---

[26] *Enhancing Oncology Model*, Centers for Medicare & Medicaid Services (Jul. 17, 2023), https://innovation.cms.gov/innovation-models/enhancing-oncology-model.

[27] *Id.*

[28] *What is an ASC?*, ADVANCING SURGICAL CARE, https://www.ascassociation.org/advancingsurgicalcare/asc/whatisanasc (last visited Jul. 19, 2023).

practice are 55 years old or older, so a "retirement cliff" in the specialty is looming.[29] As a result, the Health Resources and Services Administration projects a shortage of 5,050 orthopedic surgeons by 2025.[30] This shortage will put pressure on orthopedic providers to leverage non-physician providers and utilize technology solutions to meet patient needs.

On the regulatory side, investors should carefully exercise due diligence regarding targeted orthopedic practices to ensure historical (and any potential go-forward) risk is understood and addressed. For example, orthopedic practices increasingly are contracting with third parties to manage a particular service line, such as PT and DME. If improperly structured, such arrangements may present so-called "contractual joint venture" risk under the federal Anti-Kickback Statute. Additionally, as mentioned, ancillary service lines are prominent in the orthopedic space. While structuring an attractive physician compensation plan is key for physician alignment, investors should ensure compensation is properly structured so as not to implicate federal fraud and abuse laws.

Orthopedic investors continue to be active, with the first half of 2023 alone including several notable transactions, such as OrthoAlliance's expansion into Indiana through its partnership with Central Indiana Orthopedics, a 26-physician specialty orthopedic practice. Spire Orthopedic Partners partnered with Orthopedic Associates of Duchess County, a New York-based orthopedic group, and, in January 2023, Midwest Orthopaedics at Rush and Rockford Orthopedic Associates, now OrthoIllinois, announced that they were "aggregating" as two separate business units of a single contracting entity, OrthoMidwest.

17 Payor Services (More)

As regulatory scrutiny of healthcare providers continues to increase, many private equity and other strategic investors seek to diversify their healthcare investments with non-provider investments. This desire, along with other factors, has caused a skyrocketing of healthcare investments in payor services companies, including medical review, ancillary benefit management, cost containment and IT service providers. These investments generally focus on selling direct cost-saving opportunities to payors in the short term, rather than solutions for health improvements for patients that result in long-term cost savings.

The pressure on these cost-saving initiatives is directly related to the pressure insurers face from employers to reduce costs of insurance year over year. In the competitive U.S. market, payors are willing to spend significant sums with third-party service companies to gain an economic advantage. Some estimates note that 8.3% of U.S. healthcare spending is administrative costs, compared to just 2% in the United Kingdom.[31] This heightened cost is likely an indicator that opportunities for payor services companies will remain high throughout the next several years.

Several factors continue to drive viability of investments in payor services companies. These include increased complications in billing administration, continued increases in healthcare costs, and climbing enrollment of individuals in healthcare plans. Increased complexity in billing administration has provided significant opportunities for medical review companies because providers frequently face challenges complying with payor requirements.

Similar to the way medical review companies assist

---

[29] Phillip Miller, *A Shortage of Orthopedic Surgeons is Looming*, Merritt Hawkins (Nov. 12, 2019), https://www.merritthawkins.com/news-and-insights/blog/healthcare-news-and-trends/a-shortage-of-orthopedic-surgeons-is-looming/.

[30] *National and Regional Projections of Supply and Demand for Surgical Specialty Practitioners: 2013-2025*, U.S. Dep't of Health and Human Services (Dec. 2016), https://bhw.hrsa.gov/sites/default/files/bureau-health-workforce/data-research/surgical-specialty-report.pdf.

[31] *Provident Perspectives: Tailwinds Driving Investment in Payor Services,* PROVIDENT HEALTHCARE PARTNERS (Jan. 2022), https://www.providenthp.com/wp-content/uploads/2022/01/Tailwinds-Driving-Investment-in-Payor-Services-vF.pdf.

payors in identifying inaccuracies due to billing complexities, cost containment companies assist payors in identifying fraud and combating the increasing cost of healthcare. Cost containment companies also assist in reducing the cost of healthcare by facilitating lower-cost care delivery models (e.g., telemedicine). These cost-lowering strategies are significant profit opportunities for payors and investors in these companies.

Finally, since the passage of the Affordable Care Act (ACA), the United States has seen increases in health plan enrollment coupled with heightened obligations on the part of plans under the ACA. With rising enrollment, the demand for ancillary benefit management has also increased, and opportunities for investment in companies that centralize beneficiary management for payors have become attractive.

In 2022, there were a number of notable transactions in this space, including the acquisition of Change Healthcare by Optum (a subsidiary of UnitedHealth Group) on Oct. 3, 2022, and TPG Capital's acquisition of ClaimsXten for $2.2 billion. Since the trends above are expected to continue for at least the next several years, do not expect the demand for investment in payor services companies to decrease. This demand is likely to span each of the subsectors of payor services, but in particular, as the pressure to reduce healthcare costs increases, expect the demand for cost containment solutions to increase. Expect, too, that these investments will continue to be the most attractive for private equity investment, as a result of the deep value they provide to payors.

18 Pharma Services (More)

Pharmaceutical services providers have attracted enormous interest from private equity investors in recent years, and this trend is expected to continue. This surge in private equity interest is a relatively new development, with many funds that have not historically invested in life sciences showing strong interest. Key areas of interest include traditional pharmaceutical service providers such as contract research organizations, contract development and manufacturing organizations, contract manufacturing organizations, contract packaging organizations, and third-party logistics providers, as well as newer breeds of specialized service providers, including those discussed below, with an evolving market focus on personalized and specialty medicine.

Over the course of the last decade, the pharmaceutical industry has experienced a shift in focus from traditional drugs intended to impact a broad patient population, to specialized and precision medicines for a narrow and diverse target patient population. For example, spending on specialty drugs used to treat chronic, rare or complex diseases increased by 43% between 2016 and 2021, for a total spend of $301 billion. In 2021, 20% of all prescription drug spending was on *new* specialty drugs (i.e., specialty drugs introduced in 2016 or later).[32] This represents a massive shift and an enormous business opportunity.

The development of these specialty drugs is primarily led by small- to medium-sized biopharmaceutical (SMB) companies that often require a greater degree of outsourced support from specific vendors than traditionally utilized by big pharma. Because these specialized vendors typically provide a single service designed to address a specific challenge, there is significant opportunity to build scale and increase efficiency and innovation potential among these vendors.

One such subsector expected to be poised for continued growth is the real-world data (RWD) and real-world evidence (RWE) sector. RWD is data relating to patient health status and the delivery of healthcare, routinely collected from sources such as electronic health records, claims and billing data, product and disease registries, patient-generated data and external devices. RWE refers to clinical evidence regarding the benefits and risks of a

[32] Sonal Parasrampuria and Stephen Murphy, *Trends in Prescription Drug Spending, 2016-2021*, U.S. Dep't of Health and Human and Human Services, Office of the Assistant Sec. for Planning and Evaluation, (Sept. 2022) (in part analyzing IQVIA National Sales Perspective Data).

medical product derived from RWD.

The current market landscape of outsourced RWD and RWE providers consists primarily of niche, specialized or siloed solutions, but trial sponsors are expected to increasingly seek out vendors that are able to aggregate data from multiple sources and provide analytical expertise to translate the data into new insights.[33] Recent activity includes Breyer Capital's investment in Atropos Health, Innovatus Capital Partners and Merck Global Health Innovation Fund's investment in Syapse and Arsenal Capital Partners and McKesson's investment in OncoHealth.

Another subsector seeing increased investment from private equity is the medical affairs and medical communications (MAMC) sector. The importance of this sector has grown as the industry focus has shifted to highly specialized and complex drugs. Pharma companies and SMBs increasingly rely on outsourced medical communications professionals, such as medical science liaisons, to translate complex clinical insights into digestible narratives for stakeholders. This has made the MAMC sector one of the fastest-growing outsourced services in the industry — the sector is projected to grow at a 12%+ CAGR to over $3.5 billion by 2030.[34] Both private equity and strategic platforms are capitalizing on this growth opportunity. Recent transactions include NMS Capital's partnership with Health & Wellness Partners Group, Knox Lane's investment in Spectrum Science, and WindRose Health Investors' investment in RevHealth.

19 Physical Therapy, Occupational Therapy, Speech Language Pathology (Steady)

Physical therapy (PT), occupational therapy (OT) and speech language pathology investments are expected to see steady growth compared to recent years. With an amplified shift from inpatient to outpatient settings for care, an emphasis on drug-free treatments, certain payors requiring PT before surgical interventions, and an aging population, the PT, OT and speech language pathology subsectors remain necessary and integral players in the healthcare industry, especially as the drive toward value-based care continues.

These subsectors also remain highly fragmented compared to other healthcare service sectors, which attracts investors seeking to achieve the benefits of scale with consolidation. According to the publicly available US Physical Therapy, Inc. Investor Presentation from Nov. 7, 2022, there is no outpatient rehabilitation company in the United States with greater than a 10% market share.[35]

Despite the attractive outlook for the PT, OT and speech language pathology subsectors, providers in these sectors recently experienced certain headwinds disproportionately compared to other healthcare providers. These headwinds include Medicare reimbursement hits, labor shortages and instability due to the COVID-19 pandemic. Effective Jan. 1, 2022, CMS reduced the payment for Medicare-covered outpatient therapy services rendered by physical therapy assistants (PTAs) and occupational therapy assistants (OTAs) to 85% of the Medicare Part B fee schedule.[36] This change,

---

[33] Ian Tzeng et al., *Looking Ahead in Pharma Services: Key Trends Impacting the Industry,* L.E.K. Consulting, Life Sciences & Pharma, Executive Insights (Apr. 14, 2022), https://www.lek.com/insights/ei/looking-ahead-pharma-services-key-trends-impacting-industry.

[34] Colin Aldridge, *The Evolution of Medical Affairs & Communications into Strategic Partner,* TripleTree (Apr. 13, 2022), https://www.triple-tree.com/strategic-insights/2022/april/evolution-of-medical-affairs-and-communications/.

[35] *Investor Presentation*, USPH (Nov. 7, 2022), https://www.usph.com/wp-content/uploads/2022/11/Investor-Presentation-10-7-22FINAL.pdf.

[36] *Reduced Payment for Physical Therapy and Occupational Therapy Services Furnished in Whole or In Part by a Physical Therapist Assistant or an Occupational Therapy Assistant*, Center for Medicaid & Medicare Services (Nov. 30, 2021), https://www.cms.gov/files/document/mm12397-reduced-payment-physical-therapy-and-occupational-

as well as other changes CMS made to the Medicare Part B fee schedule impacting therapists, likely will lead to lower compensation rates for PTAs and OTAs. In turn, this change may cause additional providers in the space to leave the workforce in 2023 and beyond.

In addition, while the pandemic negatively impacted revenue and labor in many healthcare subsectors, the therapy subsectors were hit especially hard, due partly to the inability to transition fully to telemedicine. This led to a loss of business and patient starts for a subsector that expects and exists on repeat visits. With the revenue, expense and operational challenges facing outpatient therapy clinics, such practices may look to private equity investors to provide the financial assistance and management services support needed to navigate the post-COVID-19 landscape.

With respect to deals in this subsector, add-on transactions dominated the PT space in 2022, as demonstrated by Athletico's acquisitions in the Mississippi and Oklahoma markets. Other recent, notable transactions indicating that investors are expected to continue to capitalize on the heavy fragmentation in the industry include Upstream Rehabilitation's acquisition of ACTS Occupational and Physical Therapy in July 2022 and BPOC's acquisition of Alliance Physical Therapy Partners.

In other therapy spaces, recent transactions include Solace Pediatric Home Healthcare's acquisition of The Hello Foundation, an in-person and online speech language pathology and OT provider network, and Kain Capital-owned Akeso Occupational Health's acquisition of WorkPartners Occupational Health Specialists.

20 Podiatry (Steady)

With an estimated 77% of Americans experiencing foot or ankle problems,[37] podiatry is seeing continued investor interest, presenting a unique opportunity for investors to enter the podiatry market as "early movers" in the space. Podiatry practices offer a distinctive prospect to invest in a niche healthcare market with strong growth potential and an opportunity to add a complementary service line to orthopedic or primary care investments. Podiatry groups are typically smaller, independent businesses that can be scaled with the right investment and management support. These practices often have a loyal patient base and a steady stream of referrals from other healthcare providers.

Investor interest in this subsector likely can be attributed to the growing rise in "super groups" (i.e., podiatry practices with upwards of 30 practitioners), as well as the aging population and incidences of diabetes and obesity, conditions that often exacerbate health issues that require podiatric care. Additionally, podiatrists have focused on developing new regenerative medicine technologies, as alternatives to traditional surgical procedures, and a plethora of elective services, presenting additional growth and income opportunities for investors. Within the sector, solo practice margins are being challenged, making private equity investment an attractive alternative for providers as well. An understanding of this space and how to expand podiatry services to include ancillary service lines, such as ASCs and vascular care, is an important component investors bring to the table when evaluating and selecting target acquisitions.

While the early days of COVID-19 kept many patients out of podiatric offices due to stay-at-home orders and elective procedure bans, such restrictions have long been lifted and will not hinder in-person operations going forward. However, during the pandemic, some clinics did begin offering tele-podiatry for foot ulcer management, a trend that may continue for this and other podiatric ailments, especially for low-risk patients.

In the past, the podiatry space lagged behind other healthcare specialties with respect to private equity

therapy-services-furnished-whole-or-part.pdf.

[37] *Public Opinion Research on Foot Health and Care*, APMA (Mar. 2014), https://www.apma.org/files/APMA2014TodaysPodiatristSurveyAllFindings.pdf.

attention, but today's investors are showing an increased interest in acquiring podiatric practices. Some reports show that, in 2022, podiatry saw a level of investments similar to that in physical therapy and orthopedics, with 10 or more private equity deals.[38] NMS Capital's US Foot & Ankle Specialists has continued to roll up practices, including 18 in 2022 and nine so far in 2023. In November 2022, Albaron Partners LP's Beyond Podiatry acquired Cincinnati Foot & Ankle Care, one of the largest podiatry practice management organizations in the Midwest. With the podiatry market expected to reach $4.99 billion by 2028,[39] investment interest in this relatively small but active sector is expected to continue.

21 Post-Acute Care (More)

The post-acute sector includes a wide range of providers, such as hospice and home health agencies, unskilled personal and home care agencies, and skilled and assisted living facilities. Investment opportunities in skilled and assisted living facilities have not been a robust focus for private equity investors in the past several years. However, home health, hospice and unskilled personal and home care agencies have long been recognized as areas with immense investment potential due to an aging population and a growing preference for receiving healthcare services in the home. Private equity investors have been drawn to these sectors due to their strong growth potential, industry fragmentation and ability to make a positive impact on patient care. Expect to see continued significant interest in deals in this space.

One of the primary drivers fueling private equity investment in the home health and hospice sector is the increased demand for these services. As the population ages, the need for home-based healthcare solutions has risen dramatically. While investors had begun targeting the home health and hospice sector prior to COVID-19, the pandemic rapidly changed individual preferences for receiving care in the home. Patients and their families increasingly value the convenience, cost-effectiveness and personalized care that home health and hospice services provide. This demand is further amplified by the desire to reduce healthcare costs and improve patient outcomes, leading to a shift from institutional care settings to the home environment (although workforce challenges caused by the pandemic also lowered some platforms' returns).

Investors are relying on key factors when considering investments in the home health and hospice sector, including (a) substantial growth opportunities due to demographic trends, changing healthcare preferences and industry fragmentation; (b) increased diversification in available reimbursements for home health and hospice services; (c) improvements in operational efficiencies, including companies where processes can be streamlined, resources can be optimized in their allocation, and management systems can be implemented; (d) high-quality patient care with a proven track record of delivering exceptional care outcomes, patient satisfaction and low readmission rates; (e) whether innovative care or value-based care models can be implemented into the agency; and (f) how technology can be utilized and integrated to provide efficient patient care, including embracing digital health tools, telehealth capabilities, remote monitoring and data analytics to enhance patient care, operational efficiency and scalability.

Very recently, investors have begun focusing on structuring post-acute platforms to benefit from the transition from the traditional Medicare Part A benefit for home health and hospice services, to the Medicare Part C (known as Medicare Advantage) benefit, to determine how this will impact existing and future platforms. Specifically, nearly half of all Medicare beneficiaries currently receive their

[38] Victoria Bailey, *Outpatient Sector Saw the Most Private Equity Investments in 2022,* Revcycle Intelligence (Mar. 3, 2023), https://revcycleintelligence.com/news/outpatient-sector-saw-the-most-private-equity-investments-in-2022.

[39] *Podiatry Services Market Size Worth $4.99 Billion by 2028*, Polaris Market Research, https://www.polarismarketresearch.com/press-releases/podiatry-services-market (last accessed Jul. 19, 2023).

benefits from Medicare Advantage plans and the Congressional Budget Office projects that this figure will be over 60% by 2032.[40] With these projections in mind, investors are considering how the increase in beneficiaries with Medicare Advantage benefits can help fuel growth in a post-acute care platform.

Recent investments in the home health and hospice space include UnitedHealth Group subsidiary Optum, Inc.'s acquisition of LHC Group, Inc. for $5.4 billion, and Eden Health's acquisition of Community Home Health & Hospice. In addition, Kosciusko Home Care & Hospice merged with Stillwater Hospice, and ProMedica agreed to sell its hospice and home care business to Gentiva, a Humana- and private equity-backed company, for $710 million. Other active players in the home health and hospice space include Revelstoke Capital Partners, LLR Partners, Prairie Capital and Ridgemont Equity Partners. Clearly, private equity is continuing to circle home health and hospice agencies as a significant focus for acquisitions. Expect this strong appetite to continue for the foreseeable future.

22 Primary Care (More)

Investment in the primary care sector continues to increase. Responding to an environment ripe for growth due to the privatization of government healthcare programs such as Medicare Advantage, consolidation of the healthcare industry, shrinking numbers of stand-alone medical practices (and growing numbers of employed physicians), and opportunities related to value-based care, investors in the primary care space continue to seek opportunities for expansion. Consequently, investment in primary care grows even as investment in other healthcare subsectors may be steady, decreasing or in flux.

Further, particularly for providers focused on geriatric patients, the number of primary care patients continues to increase as the population ages, leading to greater medical needs. The aging population also translates into growth in the number of Medicare-eligible adults and Medicare beneficiaries, which currently stands at approximately 60 million. In response to providing care for increasing numbers of Medicare beneficiaries, the federal government continues to expand opportunities for privatized healthcare with over half of beneficiaries enrolled in Medicare Advantage.

As the patient base expands and the need for services in the sector increases, value-based care and capitated payments may represent further avenues that private equity uses to maximize investment returns. Value-based care models can involve the provision of a flat, fixed payment to insurers and healthcare providers to provide care for a patient, in exchange for taking the financial risk of the individual patients' care, incentivizing preventative care and the use of less-expensive settings to furnish services rather than more costly hospital care and specialist treatments.

Among value-based care models, investment activity remains focused on primary care and Medicare Advantage, though some opportunities across other payor and specialty segments are expanding as well. For example, Valtruis, a private equity-backed portfolio company, specifically invests in healthcare companies with a focus on adopting value-based care and outcomes. Aside from primary care, the company's investments include bringing value-based models to renal care, mental health and oncology practices.[41] Private equity companies can offer proficiency with risk-based contracting and value-based care to bring efficiencies to healthcare and increase access. Still, while value-based models are increasingly common in discussions among market observers and investors, using value-based investment models may not result in immediate returns.

Aside from potential delays in returns on investments from value-based care, investors

---

[40] Meredith Freed et al., *Medicare Advantage in 2022: Enrollment Update and Key Trends*, KFF (Aug. 25, 2022), https://www.kff.org/medicare/issue-brief/medicare-advantage-in-2022-enrollment-update-and-key-trends/.

[41] *Companies,* Valtruis (last visited July 20, 2023), https://www.valtruis.com/companies.

should also be conscious of other potential challenges. As with many other industries, investors in primary care must grapple with inflation and shortages in the labor supply of healthcare providers. The United States currently faces a shortage of primary care physicians, incited in part by these physicians' lower compensation and longer hours compared to many physicians in other practice areas, as well as high levels of burnout among physicians more generally.

The primary care space is also subject to regulatory scrutiny, whether with respect to physician referral relationships or other fraud and abuse issues. For example, CMS recently finalized Risk Adjustment Data Validation regulations to allow audit and collection of overpayments in instances where Medicare Advantage organizations paid providers or provider entities more than they should have for certain medical diagnoses that patient records did not support.

Even with potential challenges, investors continue pouring funds into primary care. Recent investments in the primary care space include Oak HC/FT's investment in Everside Health. Humana and Welsh, Carson, Anderson & Stowe reinvested $1.2 billion in CenterWell Senior Primary Care, a network of value-based care clinics. Separately, Webster Equity Partners acquired the New Jersey-based Pediatric Affiliates. P3 Health Partners, a physician-led population health management company, entered into agreements to sell securities to a group of institutional investors, including Chicago Pacific Founders and Leavitt Partners. In April 2023, ClareMedica Health Partners, a Revelstoke Capital Partners-backed value-based primary care provider focusing on Medicare Advantage patients, acquired Plaza Medical Centers.

As a mainstay of the healthcare industry, primary care likely will see more transaction activity and continued growth because of its immense patient base and its considerably lower sensitivity toward elastic consumer activity.

23 Urgent Care (Steady)

The urgent care market has grown steadily, fueled by patient demand. There are currently 14,347 urgent care centers in the United States,[42] compared to 6,100 in 2013,[43] and growth is expected to accelerate. Growth in patient volumes has surpassed other sites of service, with a 60% increase since 2019 according to the Urgent Care Association.[44]

The pandemic brought urgent care centers front and center in the healthcare industry due to demand for COVID-19 care and to consumers seeking low-acuity care outside crowded hospital emergency departments. While revenues from COVID-19 care have subsided, which may put financial pressure on some facilities, urgent care volumes have stabilized at above-historic levels.

Urgent care fills the gap when patients need episodic care for non-emergency conditions such as colds and respiratory illness, ear and urinary tract infections, rashes, sprains and other minor injuries. As consumers (even those with insurance coverage) bear increasing financial responsibility for healthcare costs, urgent care is an attractive alternative to higher-cost emergency departments. The Department of Health & Human Services reported to Congress in 2021 that the average cost of care by an emergency department is an estimated 10-12 times higher than the cost of comparable care provided by an urgent care facility.[45]

---

[42] (note this number has grown to 14,382 as of 07/20/23). Urgent Care Association, https://urgentcareassociation.org/ (last visited July 20, 2023).

[43] Frédéric Michas, *Number of Urgent Care Centers in the U.S. from 2013 to 2019*, Statista (Apr. 6, 2020), https://www.statista.com/statistics/908860/number-of-us-urgent-care-centers/.

[44] *Urgent Care Fast Facts,* Urgent Care Association (2022), https://urgentcareassociation.org/wp-content/uploads/2022/10/Urgent-Care-Fast-Facts.pdf.

[45] U.S. Dep't of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, Trends in the Utilization of Emergency Dep't Services, 2009-2018 5 (March 2, 2021), https://aspe.hhs.gov/sites/default/files/private/pdf/265086/ED-report-to-Congress.pdf.

Patients also visit urgent care facilities rather than seeking care from primary care physicians. Recent studies from Blue Cross Blue Shield and Kaiser have found that younger generations, including millennials, are less likely than older generations to have a primary care physician.[46] The growing consumerization of healthcare, which includes a shift away from a primary care home and focus on cost of care, has also shifted expectations toward the convenience and expediency of urgent care visits.

Most urgent care facilities rely on commercial reimbursement and, unlike hospital emergency departments, are not obligated under the federal Emergency Medical Treatment & Labor Act to stabilize and treat patients regardless of insurance status or their ability to pay. Hospitals may find urgent care investments attractive as a mechanism to shift patient volumes away from the emergency room, increase access in the community, and build brand recognition. Some hospitals seek to integrate urgent care into their broader care network and promote continuity of appropriate care, including with primary care and specialist physicians. This coordination may be beneficial in containing the total cost of care for those systems venturing into value-based payment arrangements.

A number of other factors are fueling growth in urgent care transactions. Compared to other healthcare sectors, there are low barriers to entry and regulatory hurdles in investing in and scaling operations. Also, the urgent care market remains largely fragmented with opportunities for consolidation. The top 10 urgent care providers currently account for approximately 20% of total urgent care locations.[47] Some of the largest private equity-backed urgent care operators have been holding their investments for upwards of six years, which typically portends exit or recapitalization transaction activity.

Based on some estimates, 22% of urgent care centers in the United States are owned by hospitals and 15% are owned through health system joint ventures.[48] Recently, HCA Healthcare announced a deal to buy 41 urgent care centers in Texas from FastMed, which would add to the 59 Florida urgent care locations it added in January 2022 through its acquisition of MD Now Urgent Care, and 12 Virginia and North Carolina centers it purchased from BetterMed in June 2022.

The growth of retail medicine — such as primary care clinics operated by large chain drug stores — may compete with urgent care facilities for low-acuity visits. Additionally, traditional providers and new virtual care entrants may compete with urgent care facilities by offering alternative care delivery such as telehealth, making immediate care more accessible. Urgent care facilities often offer occupational health services and may expand to additional service offerings to better compete in the market and diversify revenues. Urgent care centers largely rely on advanced practice practitioners, including physician assistants and nurse practitioners, to deliver care. According to one source, the percentage of physician providers in urgent care facilities dropped from 70% in 2009 to 16% by 2022.

The exit market for urgent care is diverse, with the possibility of health system, private equity and strategic buyers. Expect deal activity in the urgent care sector to remain strong.

24 Urology (Steady)

Private equity investment in urology practices should see steady growth compared to recent years. Deal activity in the urology space increased in late 2021 and 2022, but, for 2023, investors predict steady (rather than increased) activity due to the headwinds facing healthcare investments generally. This steady growth is due to a

---

[46] *Blue Cross Blue Shield Association Study Finds Millennials are Less Healthy than Generation X Were at the Same Age*, Blue Cross Blue Shield (Apr. 24, 2019), https://www.bcbs.com/press-releases/blue-cross-blue-shield-association-study-finds-millennials-are-less-healthy.

[47] John Meindl, et al., *2023 Healthcare M&A Report*, VMG Health (2023), https://vmghealth.com/2023-healthcare-ma-report/.

[48] Healthline Editorial Team, *Why Hospitals Are Getting Into The Urgent Care Center Business,* Healthline (Apr. 8, 2016), https://www.healthline.com/health-news/hospitals-getting-into-urgent-care-center-business.

fragmented market with an opportunity to expand practices' ancillary service lines.

Urological practices can offer solid ancillary service lines, such as ASCs, in-office surgical suites, imaging, lithotripsy, in-office drug dispensing, radiation therapy and in-office laboratory services. These ancillaries often provide patient convenience and greater care adherence, particularly for services like radiation therapy that require successive treatments over a short period of time.

However, rollout of new ancillaries does not come without challenges. For example, ASCs in particular require a fairly large physician group to fully utilize a single specialty urology ASC, and physicians face challenges with adapting to new practice patterns. Lithotripsy joint ventures have proven tricky due to various entanglements with third-party providers that are difficult to sever (especially restrictive covenants and lack of ability to divest existing investments). Finally, the industry is experiencing increased pressure and competition from specialty men's health providers (both traditional practices and telemedicine/tech-enabled) for certain ancillaries, such as telemedicine-prescribed erectile disfunction drugs. Consolidated group practices with private equity investment often have greater opportunity to roll out ancillary service lines than do independent groups that may not have capital to fully develop this.

Urology also can expect to see attention from the investment community in light of demographic factors. With payor emphasis on value-based care and pressure to aggregate providers in a network to control the continuity of a patient's care, investors likely will seek to acquire urological practices. The subsector continues to see a shortage of urologists while there is a concurrent increased demand for urology care from an aging population and a growing number of Americans with chronic diseases. The June 2023 Brown Gibbons Lang & Company Healthcare & Life Sciences Insider reports that one in eight men will be diagnosed with prostate cancer during his lifetime, and further notes that the United States is experiencing a growth in urologic disease.

The treatment for prostate cancer is very expensive, but with the influx of investment capital, urology groups will have the opportunity to purchase expensive equipment and incorporate high-end technologies (with high reimbursement rates and opportunities) into their practices, such as robotics and intensity-modulated radiation therapy. With the increased prevalence of prostate cancer and bladder cancer among American men and the fact that prostate enlargement (or benign prostatic hyperplasia) affects half of men aged 60 or older, the need for urological treatment is also on the rise.[49]

On the other hand, urology is one of the main service sectors looking to navigate challenges arising in response to COVID-19 that have lasted after the end of the pandemic. Certain urological conditions, particularly male erectile dysfunction concerns, were heavily advertised through telemedicine throughout the pandemic. Now that both remote care and mailed drug dispensing are proven, the convenience of such remote care, which reduces potential perceived embarrassment, likely will last and serve as a strong competitor to traditional practices. This shift is occurring as urology practices respond to changes in regulatory guidance regarding mail and home delivery of drugs that could make traditional practices less competitive.

Prior to 2023, the industry saw the formation of new private equity-backed urological platforms, and the investment landscape is expected to see steady add-on transactions and regional growth in 2023. So far this year, Solaris Health, a Lee Equity Partners platform, has acquired UroPartners (operating in Northern Illinois and Southeast Wisconsin), Lowcountry Urology (serving Charleston, South Carolina) and Spokane Urology (located in Washington state), and NMS Capital-

[49] *Enlarged Prostate (Benign Prostatic Hyperplasia),* Yale Medicine, https://www.yalemedicine.org/conditions/enlarged-prostate-benign-prostatic-hyperplasia-bph (last visited Jul. 19, 2023).

backed U.S. Urology has acquired Urology of Indiana, expanding its geographical footprint across four states (New York, Ohio, Florida and Indiana).

25 Veterinary Services (Steady)

Investment in the veterinary services sector was steady in the years leading up to the COVID-19 pandemic, and this area continues to enjoy steady investment. The pet industry plays a significant role in the need for veterinary services, and owners' desire to prioritize spending on their pets' health remains high. In 2020, total spending in the U.S. pet industry reached a historic high of $108.9 billion and continued to grow, reaching $123.6 billion in 2021 and $136.8 billion in 2022.[50] This growth in spending comes even as pet ownership declined slightly between 2021 and 2022 after increasing during the start of the COVID-19 pandemic.

Further, the industry remains highly fragmented with many independent businesses, making the environment ripe for growth and consolidation. The fragmentation of the sector, the fact that the majority of business is cash-based, and the relatively low regulatory oversight compared to human medicine businesses all create solid investment returns in the veterinary services space. These factors also may help lower some of the barriers to entry for investment compared to other healthcare sectors. Aside from traditional office-based services, veterinary operators can expand into additional ancillary business lines such as lab, grooming, telehealth, pharmaceutical, DME, cremation, urgent care, hospitals and therapeutic products — providing attractive expansion opportunities.

Although, compared to human medicine, veterinary businesses do not face the same degree of regulatory scrutiny, investors in veterinary services are still subject to some similar oversight requirements. For instance, many state laws expressly prohibit or restrict the corporate practice of veterinary medicine, meaning investors must establish a veterinary services organization structure with a licensed veterinarian as the owner of a veterinary practice, clinic or hospital. Similarly, pet pharmacies are typically subject to the same licensure rules and regulations as pharmacies providing medicine to human patients, and they are also generally subject to the same regulatory compliance requirements with respect to controlled substances. These challenges are not unique or novel, and investors continue to find ways to ensure compliance while also seeking investment returns.

Shore Capital Partners, a key player in the private equity veterinary space, continued its expansion during the past year by making dozens of acquisitions through two of its portfolio companies, Southern Veterinary Partners and Mission Veterinary Partners. Revelstoke Capital Partners completed fundraising to support the growth of Rarebreed Veterinary Partners. Rarebreed also acquired Revelstoke's portfolio company, Vet's Best Friend, expanding Rarebreed to approximately 118 veterinary hospitals. Other recent transactions include: the acquisition of Avanti Equine Veterinary Partners by Ufenau Capital Partners; additional capital provided to Pet Food Express by Rainier Partners; and the acquisition of Crum & Forster Pet Insurance Group by Independence Pet Group through its financial sponsor, JAB Holding Company.

The broad variation of deal sizes and veterinary services subsectors depicts the diverse investment opportunities available as investors survey the market. Although economic pressures and challenges facing the healthcare industry generally also may affect investment in the veterinary

---

[50] *Pet Industry Market Size, Trends & Ownership Statistics* (2022), American Pet Products Association, https://www.americanpetproducts.org/press_industrytrends.asp#:~:text=Total%20U.S.%20Pet%20Industry%20Expenditures&text=In%202022%2C%20%24136.8%20billion%20was%20spent%20on%20our%20pets%20in%20the%20U.S (Includes sales of pet food, supplies, live animals and over the counter medicine, veterinary care and product sales, and other services such as grooming, boarding, insurance training, pet sitting, walking, and services outside of veterinary care).

services space, investors appear undaunted.

26 Vision Care (Less)

The vision sector continues to see significant private equity investment, including an estimated 245 practices acquired by 30 private equity-backed platform companies during the period between October 2019 and September 2021.[51] This level of investment activity continued through 2022 and is expected to remain steady in 2023 and beyond. Despite the significant amount of investment by private equity, there is still fragmentation in the vision space, which drives the continued ability to consolidate and grow practices.

In addition to the availability of targets for acquisition, high levels of investment in the vision space are driven by growing demand for ophthalmology and optometry services, primarily due to the aging population's loss of sight, increasing vision-related diseases, and interest from younger generations in procedures such as LASIK. The vision space offers lucrative ancillary services that can be leveraged, including the use and ownership of ASCs and retail sales, two areas that have become increasingly attractive to investors. Investor interest in the space has included Physician Directed Partners' acquisition of Athens Eye Associates in August 2022; Atlantic Vision Partners' acquisition of Shenandoah Lasik & Cataract Center, Eye Associates of Winchester and Winchester Eye Surgery Center in November 2022; and Michigan-based Sunvera Group's expansion into the Ohio and Pennsylvania markets by partnering with Ophthalmic Physicians Inc. and Zimm Cataract & Laser Center, respectively.

Vision practices often can diversify from a reimbursement perspective by providing premium eye-care service offerings, such as LASIK, premium intraocular lens and dry-eye treatments, all of which can have significant cash-pay components, further supporting investor interest in the space. Ophthalmology platforms also cultivate synergies and increase care integration by acquiring optometry and optical businesses within their platforms, or structuring relationships with optometrists in their community.

Despite growing demand for care, the number of ophthalmologists is shrinking, creating headwinds for investors in this sector. Retiring ophthalmologists continue to outpace younger physicians beginning their careers in this space, with some estimates that 550 ophthalmologists are retiring every year while only 450 residents are graduating each year.[52] These labor shortages are requiring increased productivity per physician, thereby creating an attractive investment opportunity for private equity; accordingly, the need for these funds to develop successful physician alignment and create leverage with non-physician providers, or by using optometrists in such roles, remains tantamount. Investors are frequently promoting younger physicians into leadership positions earlier in their careers to align incentives and focus engagement.

Expect to continue to see a flurry of private equity activity throughout the next several years, followed by additional consolidation and buyouts, as evidenced by EyeCare Partners' acquisition of CVP Health in November 2021 and Olympus Partners' acquisition of EyeSouth Partners in 2022, as well as other platforms increasing their regional presence.

27 Women's Health (More)

Women's health businesses continued to garner interest from private equity investors over the past several years. According to a Provident Healthcare Partners analysis, more than 90 women's health transactions have occurred since 2020.[53] This interest is driven largely by the diversified need for

[51] Sachi A. Patil, B.A., et al., *Private Equity Acquisition in Ophthalmology and Optometry: A Time Series Analysis of the Pre-COVID, COVID Pre-Vaccine, and COVID Post-Vaccine Eras,* medRxiv (Feb. 3, 2022), https://www.medrxiv.org/content/10.1101/2022.02.03.22270390v1.full.pdf.

[52] Alex Young, *Supply and demand: Navigating the future of ophthalmology,* Healio (July 10, 2021), https://www.healio.com/news/ophthalmology/20210707/supply-and-demand-navigating-the-future-of-ophthalmology.

[53] *An Update on Investment & Consolidation in Women's Healthcare,* PROVIDENT HEALTHCARE PARTNERS (Jul. 2022),

women's health services (e.g., fertility, imaging, laborist programs, OB/GYN and oncology), as well as an extremely fragmented market of providers, ripe to take advantage of economies of scale resulting from aggregation and the unique opportunities for market partnerships and continued development of ancillary service lines.

In addition to those drivers of interest, several interesting trends have surfaced among women's health businesses, including significant advancements in Femtech,[54] a desire to bring ancillaries in-house and a focus on value-based care opportunities. These trends all drive interest among private equity investors. While more investments in this area thus far have come from venture capital, the attention on women's health and tech-based solutions has created buzz and excitement in the market. Expect to see some interesting Femtech elements added on to more traditional women's health platforms. With these developments in Femtech, expect also to continue to see unique challenges, such as how to maintain privacy for data collected by the technology. For example, in 2022, a number of period tracking apps saw a decrease in usage due to concerns related to the privacy of user information.[55]

Regarding ancillaries, the primary focus has been in-house laboratories and mammography equipment that require a sizeable number of providers in order to be profitable. In-house laboratories provide convenient testing for patients and higher clinical confidence in results for providers. They also make genetic testing accessible to more women earlier in their pregnancies. Many providers also seek to roll out in-house mammography to ensure that patients are receiving regular mammograms, but the equipment is expensive and can be cumbersome to implement without operational and capital partners. Private equity often provides the operational expertise and capital to make this service line available to patients.

Finally, women's health providers have been wading into value-based care more quickly than other clinicians have. For example, many women's health businesses already have payor arrangements that consider site of service and outcomes in their commercial reimbursement arrangement. This exposure to the value-based care environment causes many women's health providers to be interested in investing in data and taking risk on the continuum of care. Private equity investors are a natural partner during this transition, due to their availability of capital to drive investments in data and outcome management.

Private equity and strategic investors' elevated interest in the women's health space is demonstrated by the development — just in the past five years — of more than seven significant private equity-backed OB/GYN platforms, including Together Women's Health, Unified Women's Healthcare and Axia Women's Health; more than six private equity- or venture-backed fertility platforms; and many investments in maternal fetal medicine, oncology and imaging businesses that exclusively support women's health. Expect to continue to see these investments and new platforms in the women's health space.

https://www.providenthp.com/expertise/an-update-on-investment-consolidation-in-womens-healthcare/.

[54] Femtech refers to the diagnostic tools, products, services, wearables and software that use technology to address women's health issues. *The Dawn of the FemTech Revolution,* McKinsey & Company (Feb. 14, 2022), https://www.mckinsey.com/industries/healthcare/our-insights/the-dawn-of-the-femtech-revolution.

[55] Flora Garamvolgyi, *Why US Women are Deleting their Period Tracking Apps,* The Guardian, (Jun. 28, 2022), https://www.theguardian.com/world/2022/jun/28/why-us-woman-are-deleting-their-period-tracking-apps#:~:text=Many%20American%20women%20in%20recent,where%20abortion%20has%20become%20illegal.

McGuireWoods