VMG HEALTH

2025

Healthcare M&A Report

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Foreword

In 2024, the healthcare merger and acquisition (M&A) landscape navigated a challenging economic environment marked by persistent inflation, rising interest rates, and global economic instability. Despite these headwinds, the value of health services M&A deals saw a modest increase, rising from $63 billion in 2023 to $69 billion in 2024. This shift highlights that, while the overall volume of transactions has slowed, the value of select deals remains strong.

Private equity (PE) firms, facing extended investment holding periods, are under increasing pressure from limited partners to deliver returns. This dynamic may lead to a resurgence in deal activity as these firms look to liquidate investments made during the 2020–2022 period.

Major health systems are focused on portfolio optimization and recovering pre-COVID operating margins. More organizations are leveraging technological solutions, particularly artificial intelligence (AI), as a key strategy to maintain profitability. AI continues to attract significant interest, evidenced by a rise in venture capital funding for U.S. health AI startups, which reached approximately $23 billion in 2024. However, in the context of M&A activity, AI primarily serves to enhance operational efficiencies and drives strategic value in transactions.

Another key trend that highlights the aim of optimization is the growing interest in vertical integration. Health systems are increasingly acquiring or creating joint ventures with ancillary healthcare services, such as outpatient care centers, post-acute providers, and behavioral health, to create more comprehensive care models, reduce costs, and enhance patient outcomes—all while responding to patient preferences for convenient and accessible care.

Using our industry-leading expertise in consulting services, VMG Health is proud to present its *2025 Healthcare M&A Report.* We will provide valuable insights into transaction activity while examining regulatory dynamics shaping operational and deal-making strategies. This annual report also explores the evolving reimbursement landscape, offering a closer look at financial pressures and opportunities impacting healthcare providers and organizations.

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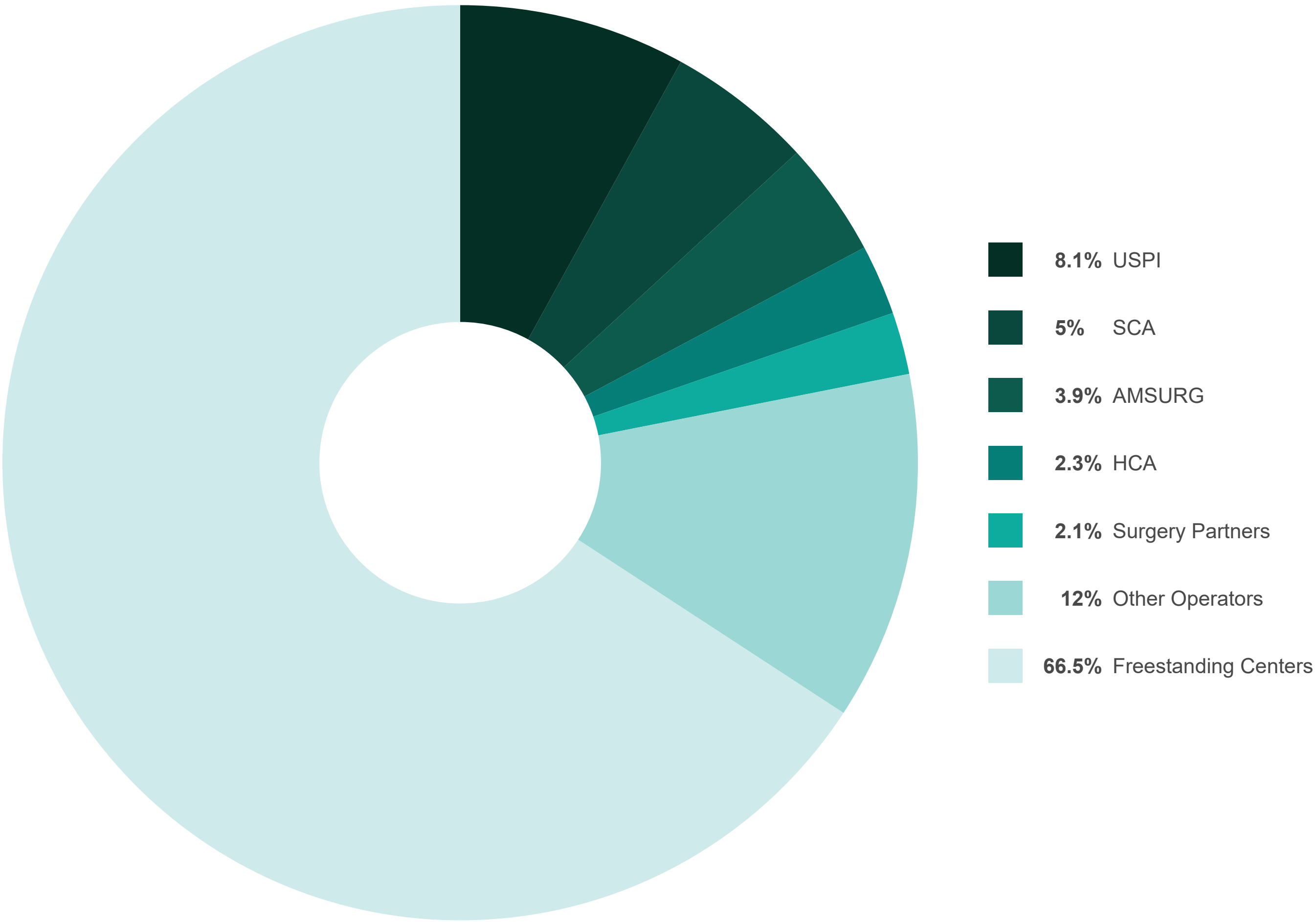
01. **Ambulatory Surgery Centers**

Market Share by Center Count, 2024



Between 2011 and 2024, the total number of Medicare-certified ambulatory surgery centers (ASCs) in the United States steadily climbed, reflecting the nationwide shift toward outpatient care. This growth hasn't been explosive in any given year, but rather a consistent increase of a compound annual rate of 1.6%, translating to a jump from 5,217 to 6,394 Medicare-certified ASCs. Despite the industry's upward trajectory, the ASC market continues to remain highly fragmented, with approximately 67% of freestanding ASCs being independently owned and operated. The remaining 33% of the ASC industry is owned and operated by large players, including United Surgical Partners, Inc. (USPI, whose parent company is Tenet Healthcare and acquired SurgCenter Development's centers), SCA Health (owned by Optum/UnitedHealth Group, Inc.), AmSurg Corp, HCA Healthcare, Inc., Surgery Partners, Inc. (39% owned by Bain Capital), and other multi-site owners and operators.

Industry Trends

In recent years, higher-acuity procedures, once exclusive to an inpatient or hospital outpatient department (HOPD) setting, have increasingly migrated to the freestanding ASC setting. This shift has redefined ASCs' capabilities, establishing them as safe and efficient hubs for complex procedures while establishing a new standard for the level of acuity that an ASC setting can handle safely and efficiently. While the Centers for Medicare & Medicaid Services (CMS) has slowed the addition of higher-acuity procedures to the ASC Covered Procedures List (CPL), those already added are increasingly performed in outpatient settings. This growth is further driven by M&A activity among large, multi-site operators and new market entrants, including private equity investors.

In July 2024, Sg2, a healthcare analytics and consulting company focused on helping health systems and hospitals improve market relevance and achieve growth, released their 2024 Impact of Change Forecast Highlights. According to the report, ASC volume is expected to increase up 21% and overall outpatient volume is expected to increase by 17% over the next 10 years. Tori Richie, Senior Consulting Director of Intelligence at Sg2, highlights the expectation that "surgical volumes are expected to shift to lower-cost care sites, such as the ASC, for a variety of reasons, including clinical innovation, competition, payer pressures, physician alignment dynamics and consumer preferences." While the ASC industry continues to provide significant opportunities, Richie highlights orthopedics, spine, and gastroenterology as high-impact specialties with significant opportunity. While these specialties have long been frontrunners in the shift toward the outpatient setting, she notes that, "private equity firms are heavily invested in these service lines, contributing to their movement from the HOPD to the ASC. Physicians are increasingly participating in equity models that make it financially beneficial to perform these surgical services in the ASC. Because these services cost less to provide in the ASC, payers and consumers benefit financially from the cost savings, putting increased pressure on this shift."

21%
expected volume increase

17%
overall outpatient volume increase

35%
of total case mix is musculoskeletal

50%
of total net revenue is musculoskeletal

M&A Trends

The ASC subindustry continues to focus on higher-acuity specialties when considering both organic growth and M&A opportunities. In their Fourth Quarter 2024 Investor Presentation, Tenet Healthcare reported that USPI same-facility ASC total joints had grown 19.4% year-to-date (YTD) as of December 2024, up 14.2% YTD from September 2023 as noted in the 2023 Investor Presentation. Furthermore, Surgery Partners noted in its presentation at the 42nd Annual J.P. Morgan Healthcare Conference in 2023 that musculoskeletal case volume now represents 35% of total case mix and over 50% of total net revenue.

Saum Sutaria, President of Tenet Healthcare, parent company of USPI, the largest outpatient surgery center operator in the U.S., noted the ASC industry's continued focus on higher-acuity service lines in the company's Q4 2024 earnings call. Sutaria reported that Tenet is committed to scaling their ASC portfolio, noting that Tenet "added nearly 70 ambulatory surgical centers to the portfolio in 2024, as we were very active in both M&A and de novo development," and they intend to continue their growth and further focus on the shift to higher-acuity procedures.

The new additions to their ASC portfolio represent a mix of individual center acquisitions and large, platform-level transactions, including their recent acquisition of Covenant Physician Partners. This underscores the ASC subindustry's emphasis on both M&A and higher-acuity service lines, suggesting a sustained trend toward using ASCs for such procedures in the future.

> **[2024], more growth in acuity and intensity. And part of what we're signaling for 2025 is it's definitely our plan to continue this shift to higher-acuity procedures.**
>
> ***Saum Sutaria***
>
> *President, Tenet Healthcare, Q4 2024 Earnings Call*

Alongside the major multi-site operators, private equity (PE) investors have continued to shift their focus toward the ASC market. Recent PE interest in ASCs is most often tied to related physician practice portfolio companies. Benefiting from favorable market conditions, this type of investment in ASCs allows PE investors to capture additional revenue streams related to their physician practice holdings. While private equity interest in ASCs persisted throughout 2024, activity appeared to slow compared to prior years. PE interest in an ASC strategy outside of a physician practice portfolio company has also increased.

According to PitchBook's Q2 2024 Healthcare Services Report, the ASC industry saw four total, trackable PE deals through June 30, 2024. These deals included two add-on investments and two minority deals. Though ASC-specific deal information was not available in PitchBook's Q3 & Q4 reports, activity through Q2 suggests that total PE deal volume in the ASC space is on track to remain steady with the past five years.

Notably, both 2023 and YTD June 2024 included no tracked platform PE deals through PitchBook's report. Looking at total PE deal count for the healthcare industry as a whole per PitchBook's Q4 2024 Healthcare Services report, 2024 continued a downward trend of lower total deal count year-over-year (YOY) since 2021.

In line with the growing PE interest in the ASC market, significant consolidation conversations involving major industry players emerged in August 2024. Reports surfaced that TPG Inc. and UnitedHealth Group were exploring a potential acquisition of Surgery Partners, one of the largest ASC operators in the country. Further, in January 2025, Surgery Partners received a nonbinding acquisition proposal from Bain Capital (who already has a 39% stake in the company) offering to buy all outstanding shares in cash. This offer values Surgery Partners at $3.2 billion. While there is no definitive agreement as of this report's publication, the potential deal highlights consolidation trends within the outpatient surgical space.

For UnitedHealth Group, which already owns SCA Health through its Optum subsidiary, acquiring Surgery Partners would further solidify its presence in the outpatient market by expanding its ASC footprint and enhancing its ability to deliver cost-effective, high-quality, surgical care. This development reflects the strategic moves by major healthcare players to strengthen their market position amid rising demand for outpatient surgical services. These growth opportunities provided by the outpatient care setting for both established players and new entrants to the market will likely continue to attract additional suitors and further drive the growth and consolidation of the subindustry.

"Our efforts on outpatient surgery continue to advance. We're advancing the number of surgery centers that we have in our company through greenfield development as well as some targeted acquisitions.

Samuel N. Hazen
CEO & Director, HCA Healthcare, Inc., Q3 2024 Earnings Call

In 2024, VMG Health observed continued stabilization in the valuation multiple ranges for ASC transactions. While the 25th percentile and median total invested capital (TIC) to earnings before interest, taxes, depreciation, and amortization (EBITDA) multiples dropped slightly, the 75th percentile remained stable from 2023 to 2024. The wider range in 2019–2021 is likely attributable to the uncertainty in the industry as a result of the COVID-19 pandemic during that time. Relative to before COVID-19, we have observed a convergence in multiples at the 8x range. The slight convergence of the median multiple can also be attributed to the competitive consolidation of the ASC industry and maturation of viable investment opportunities evident over the last 10 years.

This multiple range is backed by two key industry leaders. In Tenet Healthcare's quarterly investor presentations, they highlight an average initial acquisition multiple of 8x–10x for their ASC ownership interest, which understandably places them on the higher end of the range as a large platform player. Similarly, during their investors' presentation at the 42nd Annual J.P. Morgan Healthcare Conference in early 2024, Surgery Partners' CEO communicated an average, pre-synergized purchase price multiple of less than 8x, trailing 12 months earnings for acquisition capital deployed through January 2024.

TIC EBITDA	2017	2018	2019	2020	2021	2022	2023	2024
25th Percentile	6x	6.6x	6.5x	6.9x	7.5x	7.4x	7.4x	7.3x
Median	6.8x	7.4x	7.7x	7.8x	7.8	7.8x	7.7x	7.6x
75th Percentile	7.4x	7.9x	8.4x	9.7x	8.4x	8x	8x	8x
Number of Observations	**24**	**30**	**30**	**21**	**25**	**19**	**21**	**18**

Source:VMG Health's Internal Database

Note: The chart above represents the ASC multiples for single-site, control-level transactions observed by VMG Health.

Disclaimer: The median multiples and multiple ranges can be used to observe a market trend (increase, decrease, tightening, etc,) and should not be used in isolation to develop a valuation for an individual center, which may bear unique characteristics and circumstances. It should also be noted that the valuation multiples above represent those for individual ASCs and not ASC platform companies.

Notable Transactions

Between 2015 and 2018, the ASC industry went through a period of consolidation, marked by several mega-mergers—transactions that unite multi-billion-dollar corporations. These mergers reshaped the industry, creating larger, more integrated players that influence market dynamics today.

Tenet and USPI merged in 2015, while Envision Healthcare Holdings and AmSurg Corp. merged in 2016. In 2017, SCA was acquired by Optum (a subsidiary of UnitedHealth Group); National Surgical Healthcare was acquired by Surgery Partners; and Bain Capital acquired a controlling equity interest in Surgery Partners. In addition, private equity firm KKR & Co. made two large acquisitions of ASC operators during this period and acquired Nashville-based Covenant Surgical Partners, an operator of ASCs and physician practices across 17 states. In October 2018, KKR finalized its acquisition of Envision and its subsidiary AmSurg. The history of mega-transactions has left only one publicly traded, pure-play ASC company remaining: Surgery Partners. The company is publicly traded but controlled by Bain Capital.

In 2020, Tenet finalized a deal for $1.1 billion to acquire 45 ASCs from SurgCenter Development. Additionally, in Q4 2021, USPI entered into a $1.2 billion deal to acquire SurgCenter Development's remaining centers and established a long-term development deal. The transaction included acquiring ownership interest in an additional 92 ASCs, other support services in 21 states, and providing continuity for future de novo development projects.

In April 2024, it was reported that Covenant Physician Partners, a Nashville-based ASC operator, had been sold to USPI/Tenet. Debtwire reported that the sale was strategic after PE owner KKR paid off lenders at par, to avoid a potential distressed debt exchange. Covenant Physician Partners had been an acquirer and operator of ambulatory surgery centers and other physician services focusing on gastroenterology, ophthalmology, and optometry. The company had more than 80 locations across 17 states, and the acquisition by USPI further solidifies its position as the largest ASC operator in the nation.

In 2024, the ASC market continued its consolidation trend, with significant transactions involving both established platform players and emerging, PE-backed entities. Despite ongoing consolidation, approximately 67% of ASC facilities remained independent as of 2024, indicating substantial potential for further consolidation at the individual-facility level.

In Q2 2024, USPI added 11 new ASCs, notably through a strategic partnership with the Florida Orthopedic Institute, which contributed three, high-volume orthopedic surgery centers performing over 15,000 cases annually. Additionally, USPI opened six new ASCs in the third quarter, including a collaboration with Synergy Orthopedics to develop San Diego's largest dedicated musculoskeletal outpatient surgery center.

Surgery Partners actively expanded its ASC network through strategic acquisitions and partnerships in 2024. In February, the company entered a joint venture with Parkview Health to develop ASCs across Indiana, marking its entry into the state's outpatient surgery market. In October, Surgery Partners, in collaboration with ValueHealth, completed a new ASC in The Villages, Florida, offering a range of specialty services. Additionally, in November, the company announced a long-term strategic partnership with Duly Health and Care, acquiring a 26% stake in Duly's Lombard and Westmont surgery centers in Illinois.

In March 2024, TriasMD, the parent company of DISC Surgery Centers, acquired Thousand Oaks Surgery Center in California, expanding its data-driven ASC model and enhancing its complex spine and orthopedic service offerings.

Bon Secours Mercy Health and Compass Surgical Partners expanded their joint venture by opening multiple ASCs, including the Springfield Regional Outpatient Surgery Center in Ohio and the Millennium Surgery Center in South Carolina. These developments are part of their broader strategy to establish over 30 ASCs.

In July 2024, Atlas Healthcare Partners partnered with MultiCare Health System to expand outpatient surgical services across the Pacific Northwest, focusing on developing cardiovascular, gastrointestinal, and general practice ASCs to meet growing regional demand. Building on this momentum, in August, Atlas formed a joint venture with ChristianaCare to create a major network of ASCs across Delaware, Maryland, New Jersey, and Pennsylvania, with plans to develop over 10 centers in the next five years. These strategic partnerships highlight Atlas' continued efforts to strengthen its national presence in the ASC market.

In December 2024, SCA Health—the ASC arm of Optum—acquired OrthoAlliance, an orthopedic management services organization headquartered in Ohio with over 200 physician partners specializing in a wide range of orthopedic specialties. SCA's targeted expansion in orthopedics underscores the broader industry shift toward more surgical procedures migrating from the hospital to outpatient settings and strengthens their position in the orthopedic space with focus on higher-acuity orthopedic volume.

Reimbursement

On November 2, 2023, the Centers for Medicare & Medicaid Services (CMS) released the current year 2024 Hospital Outpatient Prospective Payment System (OPPS) and ASC payment system policy changes and payment rates final rule. Based on the final ruling, CMS increased the ASC conversion factor by 3.1% in the calendar year (CY) 2024, a substantial decrease from the CY 2022 final rule, which increased ASC payment rates by 3.8%.

Moreover, the ASC payment final rule for CY 2025 was released by CMS on November 1, 2024, resulting in overall expected growth in payments equal to 2.9% in CY 2025. This increase is determined based on a projected inflation rate of 3.4% less the MFP reduction of 0.5% mandated by the ACA. The 2.9% growth in payments represents a continuation of decreases in projected payments since the largest-ever 3.8% increase in 2023, resulting in pushback from industry leaders who point to the increases in labor, supplies, and other cost pressures seen over the last three years. Many major players believe the increase was insufficient given the extraordinary cost pressures hospitals and ASCs are facing and question the lower increase compared to 2023 and 2024.

> **"This final rule is a step sideways in a time when millions of Medicare beneficiaries need CMS to advance policies that expand access to the safe, convenient and efficient care that surgery centers provide. CMS must recognize the enormous impact of rising employment and anesthesia costs, and reform outdated budget policies that shortchange ASC reimbursements so that surgery centers can better serve Medicare patients in their communities.**
>
> ***Bill Prentice***
>
> *Chief Executive Officer, Ambulatory Surgery Center Association, November 2024*

Regulatory

In the CY 2024 final rule, CMS finalized the addition of 37 surgical procedures to the ASC Covered Procedure List (CPL) for CY 2024. These include 26 dental codes that were included in the proposed rule and 11 surgical codes that were not included in the proposed rule—most notably, total shoulder arthroplasty. These additions were met with positive feedback in the continued push toward higher-acuity procedures being performed in the outpatient setting.

In the CY 2025 final rule, CMS approved 21 new medical and dental surgical procedures to be added to the ASC CPL for CY 2025, including 16 dental and two regenerative cell therapy codes that were included in the proposed rule, and three dental codes that were recommended during the comment period. These codes correspond to procedures that have few to no inpatient admissions and are widely performed in outpatient settings.

The addition of a larger number of surgical procedures to the CPL in the 2024 final rule was not well received by some major players in the ASC market, as neither the proposed nor final rules included 18 heart and spine codes proposed by the Ambulatory Surgery Center Association (ASCA). These codes have been safely performed in the ASC setting for years on non-Medicare patients, and the omission of these codes in the 2025 rule has advocates of the industry concerned. Bill Prentice, ASCA CEO, was vocally critical of the “supposedly more transparent process” that did not address the proposed codes.

While the impact of shifting higher-acuity procedures to the outpatient setting continues to expand and drive the growth of the ASC market as a whole, now that high-profile procedures like total knees, hips, and shoulders have been added, the industry will be looking toward the next wave of high-acuity procedures to be added to the CPL and become more widely performed in the outpatient setting in coming years.

Conclusion & Future Outlook

The ASC marketplace remains an active transaction space at the forefront of the healthcare industry, as major operators consolidate and look for new opportunities in the subindustry. As the market matures, we anticipate seeing more strategic acquisitions of multiple ASCs (platform transactions) by larger players seeking geographic expansion and operational synergies. In addition to legacy operators, a diverse range of investors continue to enter the space. PE firms, in particular, are increasingly attracted to the ASC market’s stable cash flow, strong growth potential, and favorable tailwinds. Overall, there is an optimistic outlook on ASC transactions of all types, with positive momentum in recent years expected to fuel further deal activity through 2025.

02. Diagnostic Imaging Centers

Industry Overview

In the United States, current estimates indicate roughly 730 million diagnostic imaging procedures are performed annually, generating over $100 billion in net revenues each year. Radiology services are critical to the provision of quality and efficient healthcare and directly impact patient safety, patient experience, length of hospital stay, downstream healthcare resource utilization, and more. The industry is projected to grow at a single-digit, compound annual growth rate (estimates generally range between 3.5% and 7%) over the next decade due to the aging population; technological improvements to the quality and resolution of imaging equipment; advances in contrast materials, radioactive pharmaceuticals, and post-processing software; more education within the referring physician community; and greater consumer awareness of and demand for preventative diagnostic screening.

The imaging and radiology industry is highly fragmented, as a large percentage of industry players are “mom-and-pop” radiologists who own a single facility, or small groups of radiologists who own multiple facilities. Approximately 40–50% of imaging procedure volumes occur in non-hospital-based settings (i.e., freestanding centers and physician offices), while 50–60% of imaging procedures occur within hospitals. RadNet, Inc., one of the major national providers of diagnostic imaging services in the U.S., is responsible (directly or indirectly through joint ventures) for 399 centers as of September 30, 2024—over 7,500 freestanding locations believed to exist across the U.S.

40–50%
of imaging procedure volumes occur in non-hospital-based settings

50–60%
of imaging procedure volumes occur within hospitals

7,500
freestanding locations believed to exist across the U.S.

M&A Trends

In a highly fragmented industry, M&A activity in the diagnostic imaging industry primarily involves smaller, tuck-in acquisitions of the mom-and-pop or single-modality imaging providers. Overall growth in this industry, according to RadNet CFO Mark D. Stolper, is “growing in the low single digits” due to the high demand for imaging services significantly outpacing the growth of outpatient sites capable of accommodating for such increases.

Major changes in the imaging and radiology industry include shifts in patient volume from hospitals to outpatient departments coupled with insurance company initiatives to direct patients to lower-cost alternatives. The shift to outpatient sites of care has caused significant patient backlogging and a need for more de novo facilities nationwide. RadNet and other providers have increased focus to de novo center development. During a Bank of America Securities Conference, RadNet CFO Mark Stopler stated that the company anticipates the opening of 15 de novo centers in 2025 and believes this trend will continue over the coming years.

> **What we're seeing with the recent de novos and what we expect with the de novos that we have under construction currently is that they're ramping up much more quickly. And within a quarter or two, they're already starting to have a positive EBITDA contribution.**
>
> ***Mark D. Stolper***
> *Executive Vice President & CFO, RadNet, Q4 2024 Earnings Call*

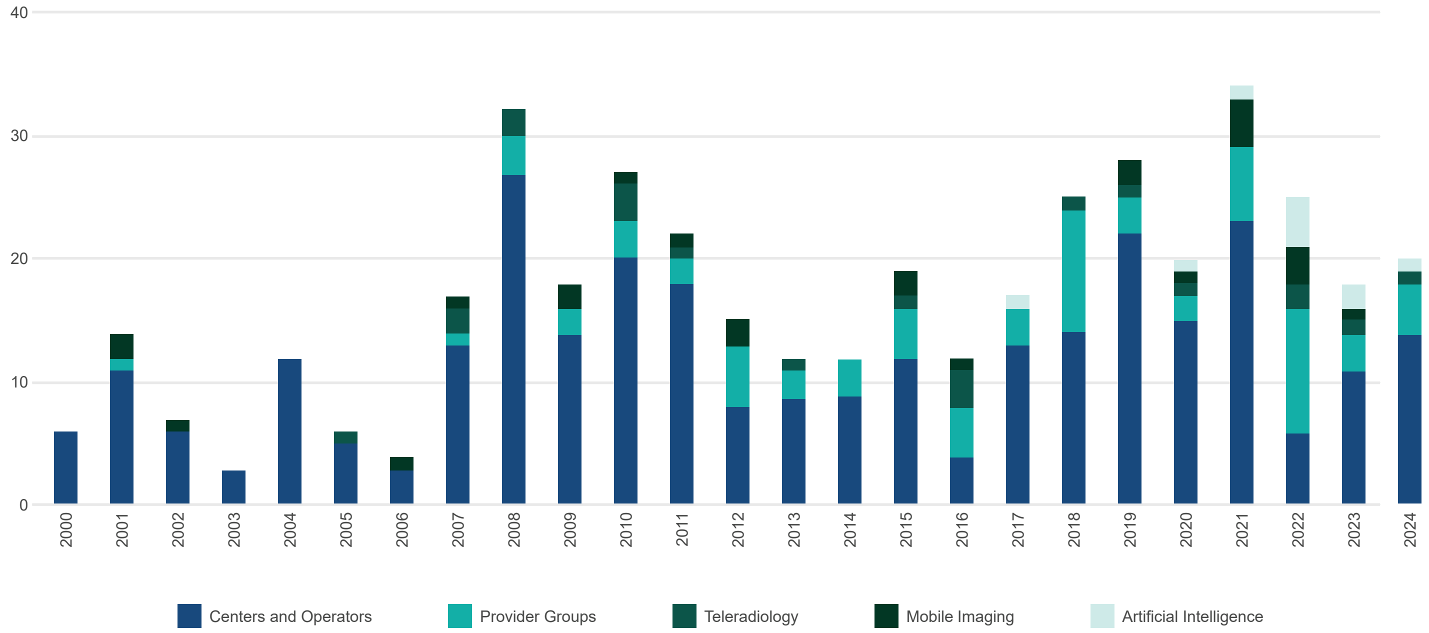
The anticipated rise in de novo centers may drive consolidation by larger providers or joint ventures with hospital systems. Hospitals can benefit from joint venture partnerships as they seek expertise and business acumen with imaging that operate with lower costs and higher volumes. RadNet noted that joint ventures may become a larger portion of its business, as 37.4% of their centers are currently under joint venture partnerships with major health systems like Cedars-Siani, MemorialCare, and Dignity Health.

With increased demand and awareness for diagnostic imaging services, technological advancements in digital health have been a major aspect of change in the diagnostic imaging space for the major providers in the industry. Radiology Partners recently announced a strategic partnership with RADPAIR, a leader in generative AI-driven radiology solutions. The collaboration seeks to create a “more rewarding and sustainable practice environment for radiologists” and address critical capacity shortages to deliver superior outcomes for patients and providers.

Additionally, RadNet has continued using artificial intelligence (AI) technology for its CT and MRI machines to detect abnormalities with higher accuracy and precision. During a company conference with Bank of America Securities, RadNet CFO Mark Stolper affirmed that consolidation will occur within the radiology AI space as the company expands opportunities beyond its core business strategy of acquiring smaller, mom-and-pop, tuck-in transactions. Increased capital investment in AI and digital health will create acquisition opportunities beyond the traditional, horizontal consolidation of freestanding imaging centers. Moving forward, digital health technology in diagnostic imaging services will become an opportunity for major providers with resource and size advantages to significantly improve patient outcomes and service offerings that smaller, freestanding centers may struggle to compete with.

> **AI can generate faster and more accurate image results than traditional methods. This helps radiologists detect diseases, such as cancers or fractures, earlier and with greater precision, improving patient outcomes. With more accurate and faster results of screening, AI opens the opportunity to discover early-stage diseases and cancers, detecting and diagnosing them for better treatment options.**
>
> ***Dr. John Simon***
> *CEO & Founder, SimonMed Imaging, Q&A Session, December 2024*

Diagnostic Imaging: Announced Transactions



Notable Transactions

On February 16, 2024, RadNet entered into an agreement to acquire the assets of seven imaging centers in the Houston, Texas metropolitan area from Houston Medical Imaging, LLC for $29 million. The seven centers RadNet acquired collectively performed over 135,000 procedures and generated over $28 million in Revenue in 2023. In April, RadNet had its second major deal in the Houston area following its Houston Medical Imaging, LLC acquisition by acquiring six additional imaging centers from American Health Imaging.

Entering new markets, According to RadNet CEO, is part of the company's strategy to "grow a core network" by strengthening its market position in populous areas. In 2024's first quarter, RadNet acquired nine imaging centers across separate transactions, including Antelope Valley Imaging, which operates five centers in north Los Angeles County, for $3.53 million, and Grossman Imaging Centers, which has four locations in Ventura County, for $10.5 million. RadNet's tuck-in acquisitions strategy in current and new markets reflects the continuing consolidation of smaller imaging centers by providers with greater resources and scale.

There were some notable joint venture transactions in the diagnostic imaging space, facilitated by major providers. Nevada Arizona Diagnostic Radiology—a joint venture formed between RadNet and Arizona Diagnostic Radiology Group, LLC—acquired seven outpatient imaging centers from Evernorth Care Group in Phoenix, a market it entered back in 2020. Nevada Arizona Diagnostic Radiology has "committed to growing scale" in the core markets, according to RadNet President and CEO Howard Berger.

A few months later, RadNet launched a new joint venture with Providence Health System, operating under the name Tri Valley Imaging Group, to build seven de novo locations in Southern California. Providence is the largest health system in the region, operating 11 hospitals and over 100 clinics. RadNet further noted that, through its partnership with Providence, it seeks to "integrate RadNet's eRAD and DeepHealth solutions with Providence's Epic EHR system," reflecting the industry's changing landscape as it seeks to revolutionize diagnostic imaging services through integrating AI and other technological capabilities.

Private Equity Transactions

Over the past decade, PE investors have become major players in the M&A space of healthcare. PE investors commonly pursue acquisitions of large practices and providers, which in turn acquire smaller, freestanding facilities to achieve economies of scale through managerial expertise, extensive resources, broad networks, and strong negotiating power with payers. With recent drops in reimbursement and increased investment in digital health to create advanced service offerings, large PE-backed providers will use this opportunity to further consolidate and expand their network across the country. Despite PE investors' growing interest, PE investment in the healthcare space can create profit-driven decision-making that could negatively influence effective patient care delivery. As a result, prioritizing growth through patient-centered care delivery and delivering high-quality outcomes over revenue generation will be a vital focal point for investors seeking successful acquisitions in the market.

2024 saw notable transactions from PE investors in diagnostic imaging, ranging from a series of equity investments to smaller, tuck-in acquisitions. February was an active month for major PE transactions, starting with the conclusion of a Chapter 11 bankruptcy proceeding for major imaging provider Akumin, which resulted in a buyout by its primary lender Stonepeak Capital. In addition, Radiology Partners (RP) completed a series of growth equity investments of approximately $720 million, making it one of the largest growth financings in the healthcare industry in the past two years acquired Mammography and Ultrasound Imaging Center in Gainesville, Florida, adding to its several locations in a rapidly growing market.

$720m
in growth equity investments by Radiology Partners

25%
reduction of technical component for certain imaging procedures in 2006

50%
reduction of technical component for certain imaging procedures in 2011

90%
utilization rate for CT and MRIs, lowering technical fees

Reimbursement

M&A activity within the diagnostic imaging industry has become more consolidated due to long-standing reimbursement pressures on imaging services. In 1997, the Hospital Outpatient Prospective Payment System (HOPPS) shifted outpatient services from a cost-based to a prospective payment model, reducing multiple procedures from a single outpatient encounter to one payment. The Deficit Reduction Act (DRA) then mandated that the technical component (TC) of in-office imaging procedures be paid at the lower of the HOPPS or Physician Fee Schedule (PFS) rate, decreasing reimbursement for imaging in private offices and freestanding imaging centers. The DRA's Multiple Procedure Payment Reduction (MPPR) further cut TC payments for certain imaging procedures performed in the same setting.

In 2006, CMS reduced TC by 25% for certain imaging procedures on contiguous body parts, and in 2011, CMS cut TC by 50% and the professional component by 25% for all billing codes. The Affordable Care Act (ACA) of 2010 further decreased TC for radiologic procedures by increasing Assumed Imaging Utilization rates for CT and MRI to 90%, leading to lower technical fees for high-frequency studies.

According to a 2022 study, 50 of the most common imaging studies in diagnostic radiology experienced a combined mean reduction of inflation-adjusted payments of 44.4% from 2011 to 2021.

Subsequently, many payers no longer cover certain radiology scans performed at hospitals, requiring patients to receive care at lower-cost, outpatient settings. For example, the average network rate for an abdominal MRI scan at an outpatient diagnostic imaging center is approximately 61% less than the average rate for an inpatient imaging procedure. According to a study on healthcare savings from hospital outmigration, hospitals faced a 30.8% reduction for commercial payers and 28.4% reduction in Medicare patients, primarily driven by the overall cost savings associated with non-hospital settings.

In its most recent final rule, CMS proposed a 2.8% reduction under the physician fee schedules, a reduction that could significantly affect providers with a high number of Medicare patients in its payer mix going into 2025 RadNet CEO Howard Berger stated that the fee schedule reduction would mean the company could face an approximately $6–8 million revenue hit in 2025 from its Medicare business. Despite increasing demand and awareness for diagnostic imaging services, Medicare fee reductions will continue to make it more difficult for providers to deliver high-quality care without sufficient compensation.

Regulatory

In addition to managing the implications of reimbursement changes, the regulatory environment governing the diagnostic imaging industry is complex, including facility licensing and certification laws, corporate practice of medicine laws, federal and state anti-kickback statutes and Stark laws, healthcare reform legislation, U.S. Food and Drug Administration (FDA) requirements, radiologist licensing requirements, and insurance laws and regulations. The labyrinth industry participants must navigate directly affects operating profitability and may be more challenging for the mom-and-pop and single-modality imaging providers that dominate the industry's market as compared to a regional or national provider. The regulatory environment is often cited as a factor for mergers and acquisitions within the industry, as larger, more sophisticated owners and operators have more resources to monitor healthcare law developments and ensure compliance with applicable regulations.

Recent legislative issues include the No Surprises Act passed by Congress, and the proposed Medicare Access to Radiology Care Act (MARCA), which has not been enacted. The No Surprises Act bans balance billing for out-of-network emergency care until the patient can consent and be moved to an in-network facility; bans balance billing for scheduled, out-of-network services at an in-network facility when the patient has not been notified or provided consent; prohibits insurers from assigning higher deductibles (and other cost sharing) to patients for out-of-network care than they do for in-network care without patient notification and consent; and requires providers to give patients a good faith estimate of the cost of services provided to uninsured and self-pay patients in advance of the patient's appointment.

MARCA would provide payment to the supervising radiologist for registered radiologist assistant (RRA) services performed in a facility setting and would not allow for independent RRA practice nor payment. Notably, MARCA currently has little congressional support.

At the start of 2024, Congress and CMS placed an indefinite pause on the Protecting Access to Medicare Act (PAMA) appropriate use criteria (AUC), a program aimed to promote the delivery of high-value care by ensuring advanced imaging procedures are solely for clinically necessary purposes. The decision follows concerns that the AUC program's requirements added unnecessary administrative burdens on physicians and staff. CMS stated that all AUC-related codes and modifiers will end on December 31, 2024, putting an effective end to the program in 2025.

Conclusion

In summary, the M&A landscape for diagnostic imaging remains relatively modest compared to other healthcare sectors in the U.S., likely caused by the industry's highly fragmented nature and lack of providers with enough capital and resources to make such acquisitions.

Despite the decreasing transactions in recent years, 2025 will see increased M&A activity, as increased patient demand and digital health technology integration will be a major driving force for potential growth. The type of acquisitions the industry can expect will vary, as de novo centers can be targeted for tuck-in acquisitions by larger providers or joint venture partnerships by various hospital systems. Moving forward, investing in strategies that enhance service offerings, such as acquiring technology to improve clinical and non-clinical operations and strategic plans to strengthen market position, will be a key component of growth.

03. Acute Care Hospitals

Industry Overview

As of December 2024, there were approximately 5,432 total acute care hospitals (ACHs) in the U.S. Of this total, just under 60% operated as not-for-profit, approximately 25% were investor-owned for-profit, and the remainder were operated by state and local governments. Excluded from this total are the hospitals that are not accessible to the public, including federal prison hospitals, college infirmaries, and psychiatric hospitals. Hospital service spending continues to account for a significant portion of the total national health expenditure. In 2024, hospital service spending is estimated to represent 30.9% of total national health expenditures and has grown 5.3%, compounded annually from $1.035 trillion in 2016 to approximately $1.559 trillion in 2024. Entering 2025, the political landscape and healthcare policy surrounding the 2024 election will have an impact on the national health expenditure in the hospital sector. Potential changes under the new administration regarding ACA subsidies, the Medicaid program, 340b, price transparency and site neutral reimbursement may significantly alter the economics of the vertical.

Throughout CY 2024, continued stabilization was a key theme, supported by S&P and Fitch adjusting 2025 not-for-profit hospital and health system ratings in December 2024 to stable and neutral respectively. On Dec 9, 2024, Fitch Ratings revised the outlook for U.S.-based, not-for-profit hospitals and health systems from “deteriorating” to “neutral,” predicting median hospital margins of 1–2% in 2025. Fitch Ratings indicated that “the sector has shown steady improvement following considerable margin compression in 2022–23.”

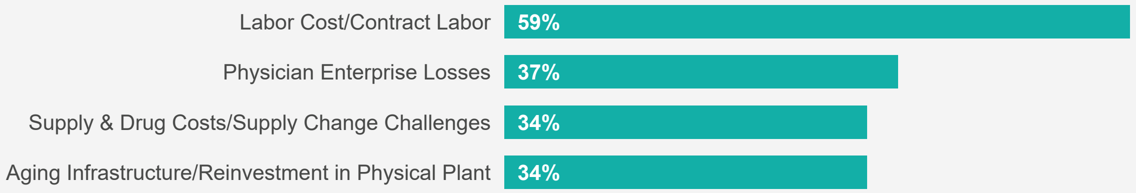
> **We continue to see strong growth in service lines such as cardiology, neurosurgery, and orthopedics, which are supported by our capital investments and physician alignment strategies across our markets.**
>
> ***Saum Sutaria***
> *Chairman & CEO, Tenet Healthcare,*
> *Q4 2024 Earnings Call*

Hospitals observed improved financial and operational performance, largely attributable to volume stability, a gradual decline in average length of stay, mitigated contract labor costs, and a steady shift from inpatient to outpatient care. Across the board, most volumes have returned to pre-pandemic levels or higher. However, margins remain below pre-pandemic levels due to elevated labor expenses, inflationary pressures and reimbursement increases not keeping pace. Mean 2024 operating margins were greater than 4% throughout the year, significantly higher than December and November 2023 mean operating margins of 2.5% and 2.7%, respectively.

Mean operating margins don’t tell the full story for the year. Throughout 2024, health systems observed a widening margin spread between the lowest- and highest-performing hospitals. Leading hospitals across different markets saw continued growth; meanwhile, underperforming hospitals continued to experience narrow operating margins, increasing the divide. Hospital operators still underperforming are generally struggling with the same issues from 2022.

VMG Health performed a market study to gain insight into health system leader expectations for 2025. In November 2024, approximately 73 hospital leaders surveyed across the nation. Ninety percent of those surveyed expect 2025 financial performance to be similar to or better than 2024 results. Leaders anticipate labor costs, physician enterprise losses, supply and drug costs, and aging infrastructure to be the most prominent financial challenges of 2025 (see chart below).

The most prominent financial challenges expected for 2025 will be:



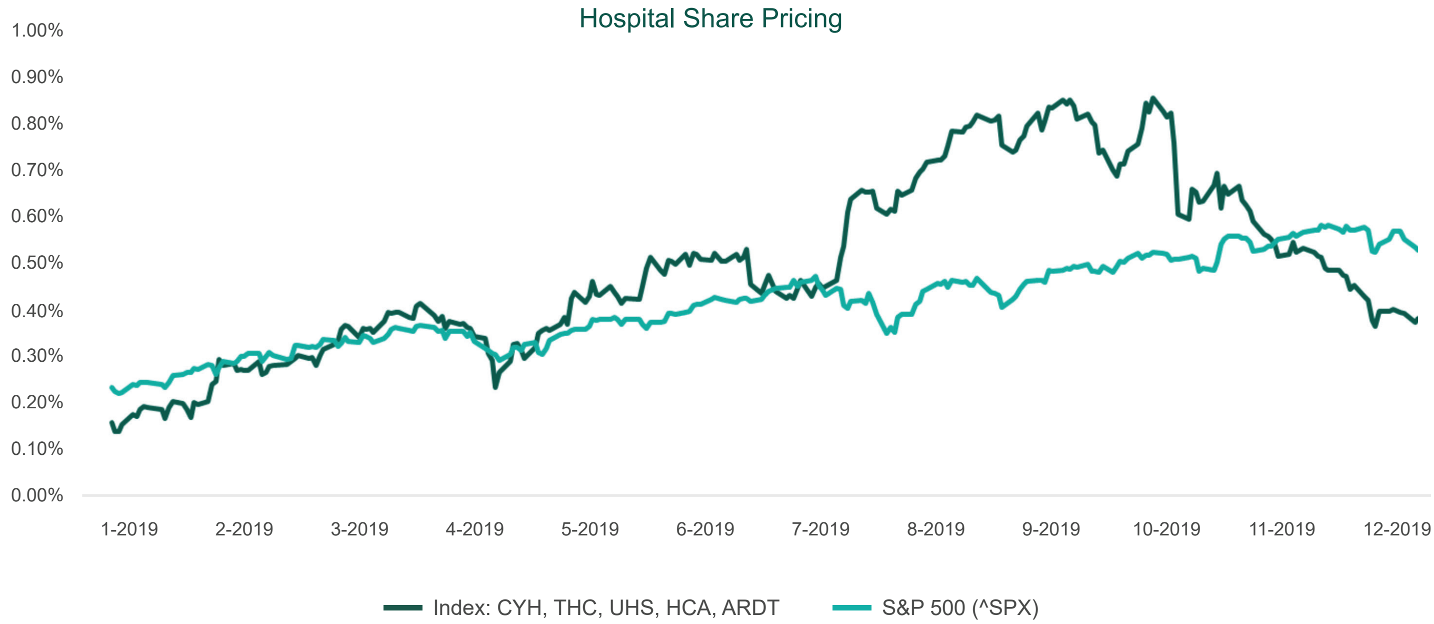
While hospitals have stabilized over 2024, Q4 results identified potential setbacks for financial performance in 2025. Key factors like healthcare policy updates under the new administration, changes in payer mix (shift to Medicare Advantage and the aging population), inflationary pressures, and continued subsidies from physician employment/PSA models were contributing factors.

Communication from public operators supports the observed trends and health system financial and operational outlook:

> **In terms of wages in fourth quarter, the wages were stable, wage inflation was stable. And our guidance really contemplates—if you think about our margin guidance, it really contemplates a steady operating environment as we head into 2025, including overall wage inflation being what I think is stable and rational. So, we're in a good spot on labor.**
>
> ***Mike Marks***
> *CFO, HCA Healthcare, Q4 2024 Earnings Call*

During HCA Healthcare's Q4 2024 earnings call, Samuel N. Hazen, CEO and Director of HCA Healthcare, stated that no site-neutral policy "will force us or cause us to rethink our strategy around building outpatient networks." He emphasized that HCA Healthcare is prioritizing finding opportunities to extend their networks into new communities, improve patient access and treatment efficiency, and fully integrate new facilities into their larger health system—regardless of a potential Medicare site-neutral provision.

Key industry trends and previously mentioned factors are revealed in the equity prices of five public company operators in the acute care hospital space: HCA Healthcare, Community Health Systems, Inc. (CYH), Tenet Healthcare (THC), Ardent Health Partners, Inc. (ARDT), and Universal Health Services (UHS). The chart below provides a comparative analysis of the indexed share prices of the five public company operators to S&P 500. Although the ACH index showed some volatility throughout the period, it generally outperformed the S&P Index, reaching a high in October 2024 (+60.89%), until it dropped below the S&P index by December 2024. The ACH index performance through November can be attributed to the financial performance and stabilization of earnings across the four companies. Despite solid performance throughout the year, Hurricanes Helene and Milton caused significant financial disruption to operations in Q4 2024, causing stock prices for the ACH index to drop. 2024's Q4 decline in the ACH index can be attributed to investor concerns and reactions over the 2024 election and its potential impact on government healthcare spending in 2025.



M&A Trends

Against the backdrop of the industry dynamics outlined above, acute care hospital transactions were driven by portfolio realignment efforts, innovative new partnership models, and financial distress. Some trends from 2023 continued into 2024, including operational and financial headwinds, member substitutions, and divestitures of assets in non-core markets.

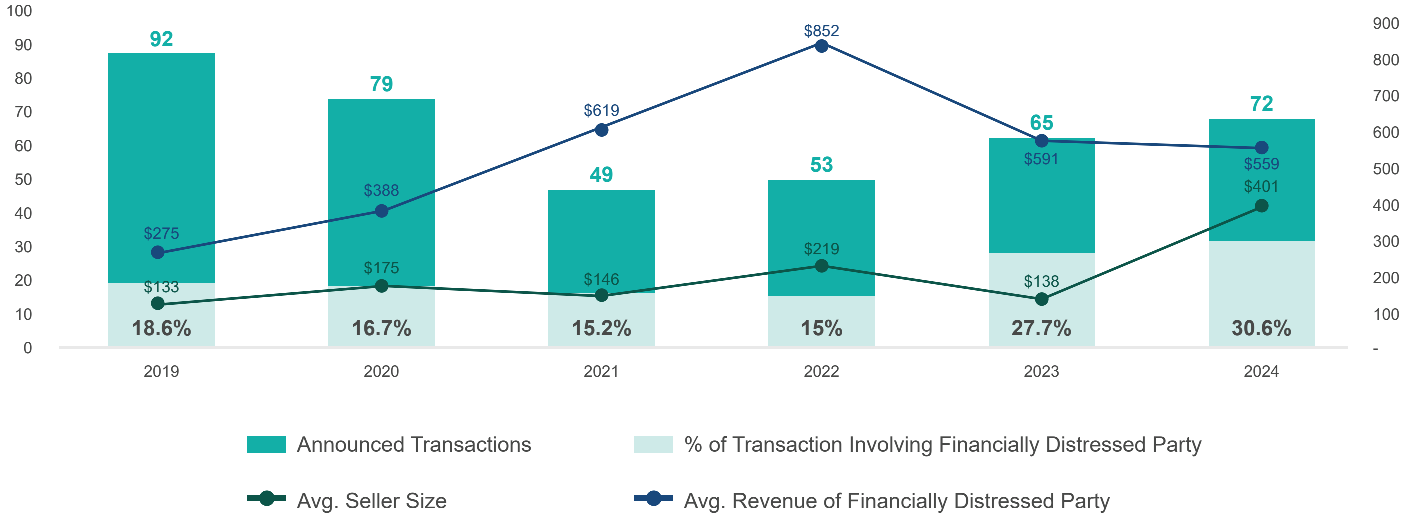
According to Kaufman Hall, there were 72 announced transactions in 2024, still down from the 92 mergers in 2019 but up from the 65 announced transactions in 2023. Approximately 62.5% (or 45) of the announced transactions involved a divestiture. Hospital asset and portfolio realignment efforts drove these transactions.

Tenet divested numerous hospitals throughout the year, including Brookwood Baptist Health, four hospitals in the Pacific Coast Network, and several hospitals in California, as they worked to raise capital for the USPI strategy in progress. Similarly, Ascension Health sold hospitals in the Illinois and Michigan markets as they worked to realign their portfolio and focus on key geographies and service lines. Both Tenet's and Ascension's divestitures highlight the trend toward portfolio realignment and asset divestitures in non-core markets. Another large driver of the large number of divestitures in 2024 was Steward Health's bankruptcy filing. Steward Health filed for Chapter 11 bankruptcy on May 6, 2024 and put all 31 hospitals up for sale, contributing to a significant portion of the divestitures in 2024 but not fully explaining the trend.

Approximately 30.6% (or 22) of 2024's announced transactions involved a party under financial distress. Growth has been observed in both the quantity of financially distressed ACH transactions and the size of the party under financial distress, according to Kaufman Hall. The percentage of deals where the smaller party had a credit rating of A- or higher fell to an all-time low of 2.8%, as compared to 12.3% in 2023. Financial and operational headwinds have been a key theme observed throughout the past few years in the acute care hospital space, and a large driver of the member substitution transaction structure where little to no cash is exchanged. Though 2024 saw acute care hospital volume stabilization, gradual declines in average length of stay, and contract labor cost mitigation, hospitals are still experiencing operational strain.

While underperforming hospitals' operating margins continue to narrow, leading hospitals across different markets saw continued growth, increasing the divide between the lowest- and highest-performing hospitals. Underperforming hospital operators are generally struggling with the same issues from 2022, leading to more distress-driven deals, such as the Steward hospital divestitures and larger organizations seeking partnership. In 2023, innovative new partnership models were a key theme that into 2024.

Health System M&A Trends: 2019-2024



In 2023, Kaiser Permanente announced the formation of a new nonprofit health system, Risant Health, and the acquisition of Geisinger Health to join the new nonprofit health system. Continuing into 2024, Risant Health closed on a transaction to become the sole corporate member of nonprofit Cone Health in December 2024, continuing Risant's M&A strategy to acquire four to five regional or community-based health systems and achieve $30–$35 billion in revenue.

In January 2024, General Catalyst's investment subsidiary Health Assurance Transformation Corporation (HATCo) further highlighted transformative partnership models when it announced its intent to acquire Summa Health, later signing a definitive agreement to close the deal in November 2024. The involvement of venture capitalism in the acute care hospital transaction space is an innovative dynamic intended to enhance health systems' technological capabilities, improve financial results, and further the shift to value-based care.

Hospital markets saw a significant shift with the Initial Public Offering of Ardent Health in July 2024, creating a new, publicly traded hospital operator. Ardent Health operates 30 hospitals across six states: Texas, Oklahoma, New Mexico, New Jersey, Idaho, and Kansas. In the following 12 months, Ardent Health had revenues of approximately $5.7 billion. As stated in their Q3 2024 investor presentation, Ardent plans to expand their acute care hospital "presence in mid-sized urban markets through M&A by leveraging a differentiated [joint venture] model."

The M&A environment remained strong throughout 2024, as the transaction count increased compared to levels between 2021 and 2023. Financial distress, portfolio realignment efforts, and innovative new partnership models drove transactions throughout the year. When reviewing 2024, hospitals hit their peak valuations around September/October but have since experienced a decline into the new year. In 2025, most large health systems are expected to achieve stable-to-growing performance, while the disparity between top performers and underperformers will continue to widen.

Notable Transactions

Announced	Seller Name	State	Seller Status	Revenue	Buyer	Buyer Status	Revenue
12/11/2024	Lake Norman Regional Medical Center (CHS)	NC	For Profit	$144	Duke University Health System	Non-Profit	$4,745
11/22/2024	Shore Point Health - Port Charlotte / Punta Gorda (CHS)	FL	For Profit	$263	AdventHealth	Non-Profit	$16,207
11/7/2024	Foothill Regional Medical Center (Prospect)	CA	For Profit	$202	Astrana Health	For Profit	$4,78
10/28/2024	7 Florida / Texas Hospitals (Steward)	TX/FL	For Profit	$1,263	Healthcare Systems of America / American Healthcare Systems	For Profit	$395
9/12/2024	Florence Hospital / Tempe St. Luke's Hospital / Mountain Vista Hospital (Steward)	AZ	For Profit	$326	HonorHealth	Non-Profit	$2,903
8/5/2024	Brookwood Baptist Health - 5 Hospitals (Tenet)	AL	Non-Profit	$846	Orlando Health	Non-Profit	$5,727
7/25/2024	Ascension (9 Hospitals)	IL	Non-Profit	$1,804	Prime Healthcare	For Profit	$4,963
7/18/2024	Blount Memorial Hospital	TN	Non-Profit	$361	Prisma Health	Non-Profit	$6,018
7/10/2024	Marshfield Clinic Health System	WI/MI	Non-Profit	$3,007	Sanford Health	Non-Profit	$7,189
6/25/2024	Ascension St. Vincent's Health System	AL	Non-Profit	$862	UAB Health System	Non-Profit	$2,759
6/24/2024	Cone Health	NC	Non-Profit	$2,675	Kaiser Permanente / Risant Health	Non-Profit	$100,847
5/21/2024	Overlake Medical Center & Clinics	WA	Non-Profit	$737	MultiCare Health System	Non-Profit	$4,738
2/28/2024	Nuvance Health	NY/CT	Non-Profit	$2,631	Northwell Health	Non-Profit	$16,699
2/9/2024	M Health Fairview University of Minnesota Medical Center	MN	For Profit	$1,878	University of Minnesota	Non-Profit	N/R
2/1/2024	Pacific Coast Network - 4 Hospitals (Tenet)	CA	Non-Profit	$1,000	UC Health - CA (UCI)	Non-Profit	$19,270
1/17/2024	Summa Health	OH	Non-Profit	$1,859	General Catalyst / HATCo	For Profit	N/R

Reimbursement

On August 1, 2024, CMS issued CY 2025 Inpatient Prospective Payment System (IPPS) policy changes and payment rates final rule. CMS CY 2025 final rule established that IPPS payment rates will increase by 2.9% in 2025. The final rule is derived from a 3.45% hospital market basket update partially offset by 0.5% productivity adjustment. This update follows on the heels of the CY 2024 final rule, which increased the IPPS payment rates by 3.1%. The increase in operating and capital IPPS payment rates will inflate hospital payments in FY 2025 by and aggregate $2.9 billion, according to CMS.

Under the IPPS, regulations allowing additional payments for Medicare-dependent hospitals (MDHs) and temporary payment adjustments for low-volume hospitals are set to expire December 31, 2024. In previous years, legislation extended these payments; however, if they were to expire, CMS estimates that payments to these hospitals would decrease by $0.4 billion in CY 2025. Moreover, hospitals may be subject to other adjustments like payment reductions for excess readmissions under the Hospital Readmissions Reduction Program (HRRP). There will also be a continuation of the payment reduction of 1% for the worst-performing quartile under the Hospital Acquired Condition (HAC) Reduction Program, and upward and downward adjustments under the Hospital Value-Based Purchasing (VBP) Program, with the expected pool for VBP incentives of $1.7 billion.

CMS will decrease the disproportionate share hospital (DSH) payments and Medicare uncompensated care payments by roughly $0.2 billion in CY 2025, from the CY 2024 $957 million amount. This decrease reflects the CMS Office of the Actuary's use of updated estimates and data in its projections. CMS also projects that additional payments for inpatient cases involving new medical technologies will decrease by $0.3 billion in CY 2025, driven primarily by the approval of new technology add-on payments for several technologies.

For outpatient services, CMS finalized its Hospital Outpatient Prospective Payment System (HOPPS) on November 1, 2024. This update directs the payments to be made to hospital outpatient departments and ASCs. Consistent with the IPPS update, the final rule includes a 2.9% increase in payments. Hospitals that do not meet applicable quality reporting program requirements will be subject to a 2% reduction in payments, negating most of this increase.

The American Hospital Association (AHA) expressed their concern in a published statement: “Medicare’s sustained and substantial underpayment of hospitals has stretched for almost two decades, and today’s final outpatient rule only worsens this chronic problem. The agency’s final increase of less than 3% for outpatient hospital services will make the provision of care, investments in the health care workforce, and addressing new challenges, such as cybersecurity threats, more difficult. These inadequate payments will have a negative impact on patient access to care, especially in rural and underserved communities nationwide.”

In response to the inflationary pressures and compressed margins, health systems and hospitals are turning to commercial payer negotiations for additional relief. According to the Q3 2024 earnings calls, net revenue increases of 2.5% (Community Health Systems [CYH]) to upward of 3.3% (Tenet Healthcare Corporation [THC]) are driven by these improved rates and reimbursement under state Medicaid programs.

Regulatory

Strict M&A regulation by the Federal Trade Commission (FTC) continued in 2024. The FTC sued to block the proposed acquisition of Lake Norman Regional Medical Center and Davis Regional Medical Center—two Community Health Systems, Inc. Hospitals—by Novant Health on January 25, 2024. After the U.S. Court of Appeals granted the FTC an injunction that delayed closure of the deal until the conclusion of an appeal process for the Fourth Circuit, Novant Health backed out of the deal because of the uncertainty and long appeal process. In Indiana, which has state-level Certificate of Public Advantage (COPA) laws, Union Health withdrew their COPA application for the proposed merger with Terre Haute Regional Hospital, which is owned by HCA Healthcare. A COPA agreement outlines the specific commitments and details of a proposed transaction, and states with COPA Laws have the right to approve or reject transactions involving hospitals. Union Health withdrew their application after the FTC advised the Indiana Department of Health to not approve the deal, as the FTC believed the merger would increase costs for consumers and lower wage growth for employers.

On October 10, 2024, the FTC approved changes to the Hart-Scott-Rodino Antitrust Improvement Act (HSR), which updates requirements to the level of detail required in premerger antitrust filings. The revised threshold requirements for transaction size increased to $119.5 million from $111.4 million. If the proposed transaction meets the threshold, the responsible party must file a transaction notice detailing the proposed transaction structure and past transaction history, minority shareholders, corporate relationships, and reasoning behind the transaction. Transaction-based filing fees or tiered filing fees were increased 7.3% from 2023. The additional time and costs that come with filing fees will be a deterrent for transaction activity. This regulation took effect on February 21, 2025, despite initial uncertainty due to an executive order signed by President Donald Trump that postponed the effective date of all federal agency regulations by 60 days. Additionally, the HSR changes were implemented but remain under scrutiny, as the U.S. Chamber of Commerce has sued the FTC to challenge the final rule.

In 2024, two more states added requirements to notify authorized state entities of certain proposed transactions. Indiana requires notification from the attorney general's office 90 days before the proposed transaction if the proposed merger or acquisition has a minimum of $10 million of total assets between the two healthcare entities. The state attorney general then has 45 days to review the proposed transaction and publish a report including any antitrust concerns. New Mexico now grants the attorney general the power to approve or deny mergers or acquisitions involving hospitals. The attorney general has 120 days to respond to a written request, approving if the transaction benefits the public by reducing costs and improving health outcomes. After approval, the controlling entity must submit annual reports proving compliance and operating results for three years. With federal regulation poised to decrease as a more business-friendly administration takes office, new state regulation could lead to the tempering of transaction activity for acute care hospitals.

The Lower Costs, More Transparency Act passed in the House of Representatives on December 11, 2023, causing a ripple effect for healthcare regulation regarding price transparency. While the bill has not been approved by the Senate, states are enacting their own laws and building on top of previous state regulations to increase price transparency. Georgia added to previous regulation by instructing all hospitals to use the same template to report their finances. Facility fees that could be affiliated with a health system have also been under scrutiny, as they are becoming more common—even in outpatient settings. The state of Maine requires facility-fee information to be displayed prominently onsite in addition to being on the entity's website.

At the federal level, while the CMS required hospitals to put prices online in 2021, the enforcement of these requirements has been under scrutiny. On October 2, 2024, the U.S. Government Accountability Office (GOA) released a report showing that only 14 hospitals incurred $4 million in penalties for not taking timely corrective actions in 2023. The GOA recommended that CMS review the completeness and accuracy of hospital pricing data and use this information to enforce penalties if necessary. Even though federal price transparency regulation has not come to fruition yet, states are continuing to take matters into their own hands.

$10m
minimum in total assets triggers merger notification requirements in Indiana

120
days for New Mexico's attorney general to approve or deny hospital mergers

14
hospitals incurred $4 million in penalties for price transparency violation in 2023

Conclusion

In 2024, the acute care hospital industry faced a dynamic landscape shaped by evolving healthcare policies, technological advancements, and shifting patient demographics. While demand for acute care services remained strong, hospitals navigated ongoing challenges like increased labor costs, physician enterprise losses, financial pressures, and regulatory changes. Financial distress, portfolio realignment efforts, and innovative partnership models drove M&A activity in the acute care hospital industry throughout 2024.

As we move into 2025, many health system leaders expect key issues like increased labor costs, physician enterprise losses, and supply chain challenges to persist. The acute care hospital M&A environment remains poised for continued divestitures and partnerships as organizations face ongoing operational and financial headwinds.

04. Post-Acute Care

Industry Overview

Post-acute care facility types include inpatient rehabilitation facilities (IRFs), long-term acute care hospitals (LTACHs), skilled nursing facilities (SNFs), home health agencies (HHAs), and hospice agencies (HSPAs). Of these facilities, SNFs, IRFs, and LTACHs provide post-acute services in an inpatient setting, while HHAs and HSPAs provide post-acute services in an outpatient setting. Nationally, the post-acute market accounted for approximately $482.97 billion in 2024 and is expected to nearly double from increased hospital demand and growth in inpatient rehabilitation by 2034.

Inpatient Rehab

IRFs saw decreased staffing challenges in 2024 compared to 2023; however, like other healthcare verticals, IRFs continue to invest in and integrate innovative solutions such as telehealth and AI to prevent potential future staffing challenges from being disruptive to the industry. Integrating telehealth can be a cost-effective and convenient option for chronic disease and medication management, care coordination, and other factors, while AI and automation alleviates staff workload by supporting tasks like scheduling and data analysis. These strategies highlight the critical role of technological adoption and strategic planning in IRFs and will remain a key industry focus.

LTACH

As the industry moves further from the COVID-19 pandemic, LTACHs' future remains uncertain. While they fill a critical role in the continuum of care, many health systems are managing patients who would otherwise be sent to LTACHs in-house—through LTACH beds within the hospital or general acute care beds—driving modest consolidation among large operators who have managed to sustain despite a challenging industry environment.

HHA

In 2024, HHAs faced changes to Medicare payment policies, rates and updates to the Home Health Value-Based Purchasing (HHVBP) program. Staffing shortages, reimbursement cuts, and Medicare Advantage were prevalent for HHAs in 2024. To combat these issues, home health leaders have turned to technology and AI, improvements in Medicare Advantage strategy, and limiting margin compression through payer and staffing strategy. As the number of home health patients increases, market growth will fuel efficiency in care.

Hospice

Following suit, the hospice market has been struggling with staffing, particularly retention and employee wellbeing. Hospice operators look to reduce burnout for their staff by easing the administrative burden and improving employee culture.

Hospital at Home

Recently, the acute care hospital-at-home (AHCAH) programs and providers have gained significant momentum, with healthcare operators seeking alternative care models in a post-COVID environment. Hospital-at-home programs enable some patients who need acute-level care to receive care in their homes rather than in a hospital. They have been shown to reduce costs, improve outcomes, and improve patient experience.

M&A Trends

Mergers and acquisitions for long-term care were down from 2023 due to fluctuating interest rates and inflation, increased regulatory scrutiny, and uncertainty in the market with a change in presidential administration. Hospice in particular was affected by heightened regulatory oversight, making transactions more complex. For what transactions did occur, financial distress was the common driver.

Encompass Health, the largest owner and operator of inpatient rehabilitation hospitals in the U.S., expanded its post-acute care services through strategic partnerships and new hospital openings. Notable developments include a joint venture expansion with Piedmont Healthcare to include Walton Rehabilitation Hospital in Augusta, Georgia and the opening of Rehabilitation Hospital of Fort Mill in South Carolina, In addition, Encompass is developing a new 40-bed rehabilitation hospital in Danbury, Connecticut. Construction began in June 2024 but encountered delays due to extensive sitework requirements. The expected completion date has been extended by six months, with the hospital now anticipated to open in August 2025.

> **"We currently anticipate that at least two de novos per annum will be built with full prefabrication. With 15 development projects beyond 2024 already announced and underway, our pipeline remains robust and balanced between wholly owned and joint ventures.**
>
> ***Mark J. Tarr***
> *CEO & Director, Encompass Health Corporation,*
> *Q3 2024 Earnings Call*

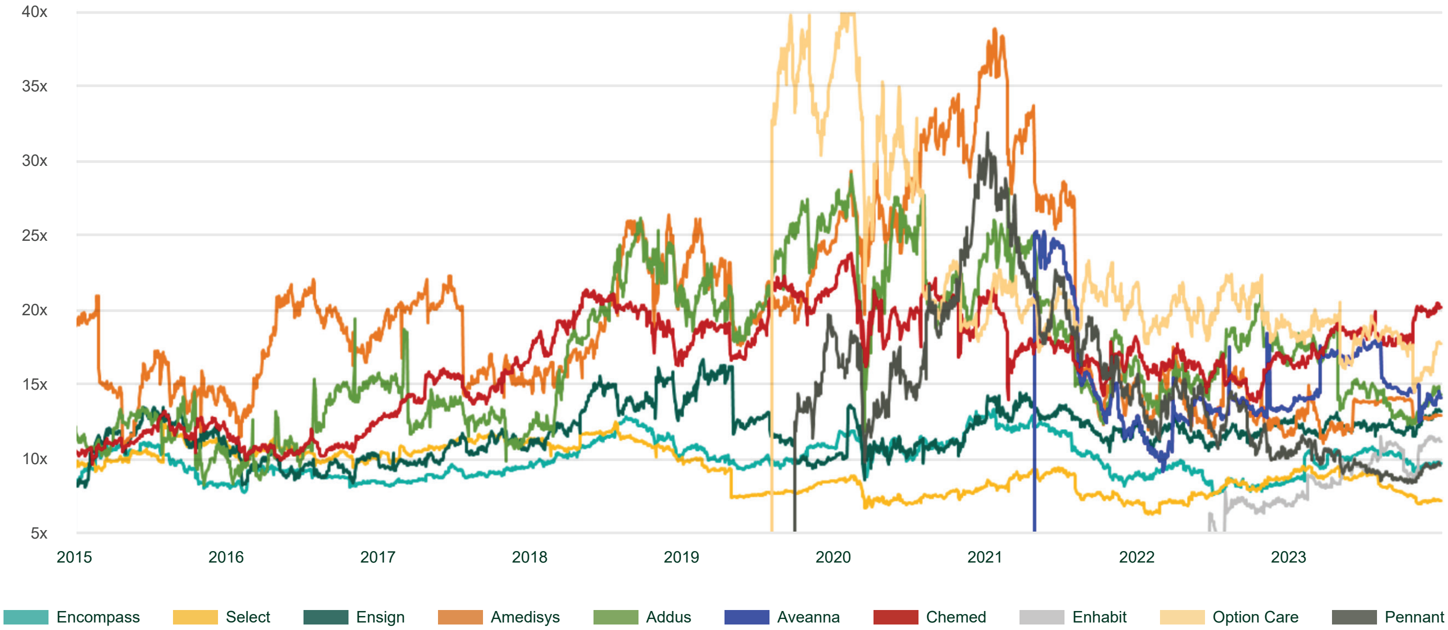
Enhabit Home Health & Hospice (NYSE: EHAB) did not pursue a sale or merger after its strategic review process in May 2024. Instead of pursuing a transaction, Enhabit's board of directors unanimously decided that it would remain an independent public company with an operating plan to negotiate better payer contracts, control G&A expenses, and add frontline clinicians. This attempt to sell occurred approximately one year after Encompass Health Corp.'s spin-off of Enhabit as a separate entity in July 2022. Management noted that Enhabit has been unable to complete acquisitions due to its existing debt load.

On June 10, 2024, Addus HomeCare's Chairman and CEO Dirk Allison remarked that "acquisitions remain an important part of our growth strategy," when announcing the acquisition of Gentiva's personal care operations for approximately $350 million. This acquisition, which covers Gentiva's operations in seven states, will expand Addus' personal care services into Texas, where Gentiva is the leading provider. The acquisition aligns with Addus' strategy of growing its personal care services and entering new markets with significant opportunities. With annualized revenues of $280 million, the deal is expected to enhance Addus' financial performance while maintaining a manageable leverage ratio. The transaction is also set to benefit Gentiva, allowing it to focus on its core hospice and palliative care services.

The chart below presents total enterprise value (TEV)/TTM EBITDA multiples for the major public post-acute operators since January 1, 2015. The chart consists of Encompass Health Corporation, Select Medical Holdings Corporation, The Ensign Group, Inc., Amedisys, Inc., Addus HomeCare Corporation, Aveanna Healthcare Holdings Inc., Chemed Corporation, Enhabit, Inc., Option Care Health, Inc., and The Pennant Group, Inc.

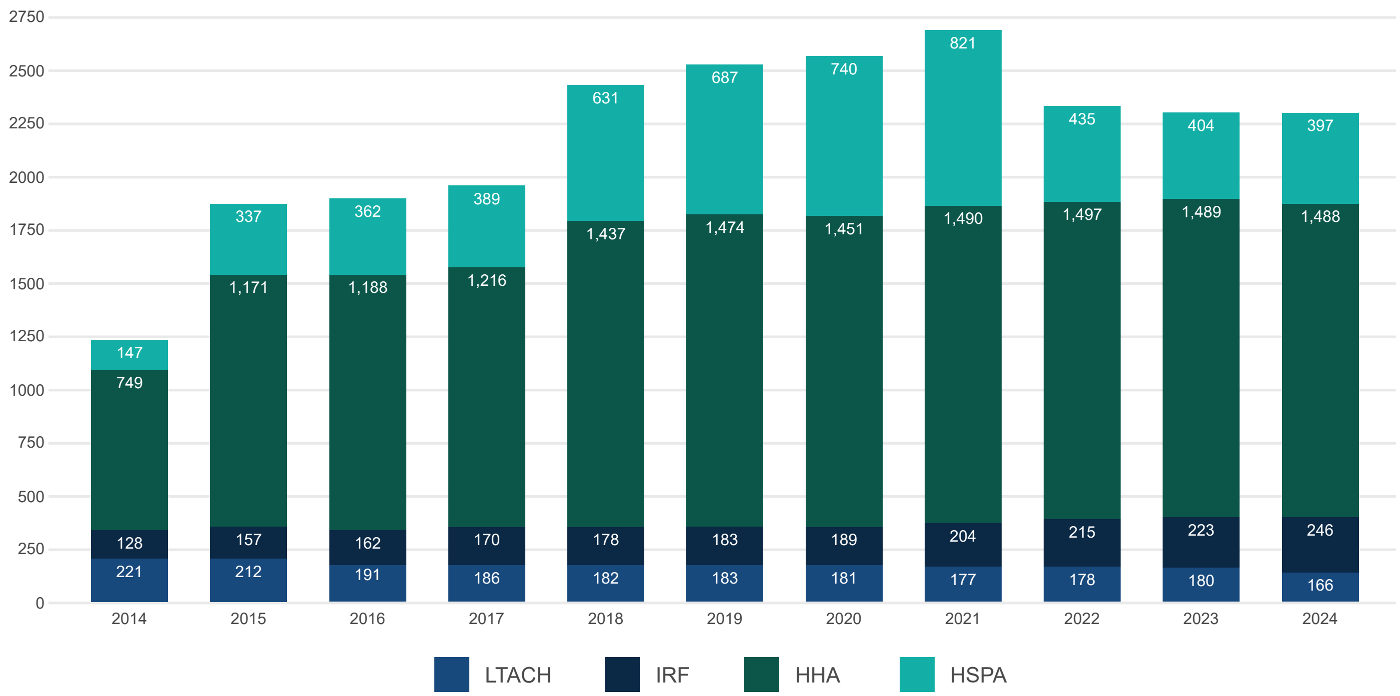
TEV/TTM EBITDA

January 2015–present



The following chart shows that total post-acute facilities stayed flat, further reiterating the idea that M&A activity in the public company post-acute setting was limited.

Total Public Company Post-Acute Facilities, 2014–2024



The following programs currently incentivize hospitals to coordinate care in the post-acute setting: value-based care (VBC) models, the Hospital Readmissions Reduction Program (HRRP), the Medicare Access & CHIP Reauthorization (MACRA) Act of 2015, and the Medicare Bundled Payments for Care Improvement Initiative. These programs prioritize quality and outcomes over service volume, enhancing patient transitions to post-acute care. Collaborative care models with hospitals and post-acute providers help ensure care plans are followed, patients are monitored, and interventions are in place to avoid complications and readmissions. Further, the historically fragmented post-acute industry has proven an opportunity for consolidation and investment from PE funds and existing public operator competitors, particularly in the home health, hospice, and nursing home settings.

Private Equity

Home health and hospice are particularly attractive subindustries for PE investors. They are fragmented industries with relatively low capital requirements and favorable demographic trends, including a rapidly aging population. Many PE firms continue to deploy platform-building strategies in the home health and hospice segments, leveraging the arbitrage opportunity between the higher EBITDA multiples typically commanded by larger agencies and the lower EBITDA multiples of smaller companies. At the platform level, compared to smaller operators, PE investors may have the ability to drive margin growth through economies of scale, payer contracting, and transition on value-based payment models.

PE investors have also been active in the skilled nursing subindustry—exemplified by Cascade Capital Group's $85 million acquisition of an Iowa nursing home chain in October 2024. PE ownership of nursing homes typically faces regulatory scrutiny. Ownership structures are increasingly complex, which makes it difficult to hold decision-makers accountable for changes (i.e., it is often unclear whether PE management or nursing home management is responsible for changes that affect patients and staff). Despite concerns about PE in healthcare, nursing homes remain an attractive investment due to their scalability and familiar platform-building strategies.

Notable Transactions

In April 2024, Lifepoint Rehabilitation acquired an IRF based in San Antonio, Texas from Everest Rehabilitation Hospitals. This transaction was the third between the two organizations, following an acquisition of four IRFs around the nation and another acquisition of an El Paso–based facility, both in 2023.

In April 2024, UnitedHealth Group proposed a $3.3 billion acquisition of Amedisys, aiming to expand its home health and hospice services. However, the U.S. Department of Justice filed a lawsuit in July 2024 to block the merger, citing concerns over reduced competition and potential negative impacts on Medicare Advantage plans.

Also in April 2024, Masonicare, a prominent senior living and healthcare provider in Connecticut, merged with United Methodist Homes and acquired Atria Greenridge Place, two senior residency and care facilities. According to Masonicare President Jon-Paul Venoit, the service capacity of Masonicare jumped from 4,500 to 7,500 patients being serviced daily.

In July 2024, Sila Realty Trust, Inc. completed the purchase of Fort Smith Inpatient Rehabilitation Facility in Tampa, FL. The IRF is 62,500 square feet with 50 beds and is leased to Mercy Rehabilitation Hospital, which is a joint venture between Mercy Hospital Fort Smith and Lifepoint Health.

In December 2024, Addus HomeCare Corporation announced the acquisition personal care services operator Gentiva, which serves over 16,000 consumers per day in a seven-state service area of Arizona, Arkansas, California, Missouri, North Carolina, Tennessee, and Texas. The acquisition was funded in a combination of cash on hand from the proceeds of a recent public offering and its existing revolving credit facility.

Joint Ventures

Hospitals and health systems are increasingly forming joint ventures with post-acute care providers to support value-based care, reduce readmissions, improve efficiency, enhance care transitions, access specialized services, strengthen market position, adapt to new reimbursement models, meet regulatory requirements, and secure capital.

In April 2024, Select Medical (SEM) and University of Florida (UF) Health formed a 48-bed inpatient rehabilitation joint venture to provide care for northern Florida and southern Georgia—an area with high demand per SEM Management. It was branded UF Health Rehabilitation Hospital North and will be managed by Select Medical.

In October 2024, Providence Health & Services, the fifth largest nonprofit healthcare provider in the U.S. (serving the Western U.S.), and Compassus, a PE-backed hospice and home health provider in over 30 states, formed a joint venture for home health, hospice, community-based palliative care and private duty caregiving services. The joint venture, called “Providence at Home with Compassus,” was finalized and services will be led by Compassus in several states, including Providence’s western U.S. market (California, Washington, Alaska, Oregon) and Texas.

In January 2025, Catalyst Healthcare Real Estate purchased PAM Inpatient Rehabilitation Hospital of Sussex. The two-story hospital spans 74,523 square feet and offers 40 inpatient beds for the Milford, DE community. The hospital is a joint venture between PAM Health and BayHealth. Catalyst and BayHealth established a real estate joint venture for the project and marks the second collaboration for the companies in Delaware.

48-bed
inpatient rehabilitation joint venture formed by SEM and UF Health

74,523
square foot PAM Inpatient Rehabilitation Hospital purchased by Catalyst Healthcare

5th
largest nonprofit healthcare provider in the U.S. is Providence Health & Services

VMG HEALTH

3%
increase in IRF payment rates for CY 2025

3%
increase in LTACH standard federal rate for CY 2025

3.1%
increase in hospice cap amount for FY 2024 ($33,494.01)

2.7%
increase in home health payment update percentage for CY 2025

.05%
estimated aggregate increase in Medicare payments to HHAs in CY 2025

Reimbursement

Inpatient Rehabilitation Facilities

On July 31, 2024, CMS released the CY 2025 final payment rule for the IRF prospective payment systems (PPS), which increased IRF PPS payment rates by 3%. This was a decrease from the CY 2024 final payment rule increase of 3.4%. The CY 2025 final payment rule resulted in a standard payment conversion factor increase of approximately 2%. This was a decrease from the CY 2024 final payment rule, which had previously resulted in a standard payment conversion factor increase of approximately 3.7%.

LTACHs

On August 1, 2024, CMS released the CY 2025 final payment rule for the LTACH PPS, which resulted in a standard federal rate increase of approximately 3%. This was a decrease from the CY 2024 final payment rule, which had previously resulted in a standard federal rate increase of approximately 3.3%.

HHAs

On November 1, 2024, CMS issued the CY 2025 final payment rule for the HH PPS, which resulted in a home health payment update percentage increase of 2.7% from the CY 2024 final payment rule, which previously resulted in a standardized, 30-day episode payment increase of 3%. This rate increase is offset by an estimated 1.8% decrease that reflects the permanent behavior adjustment and an estimated 0.4% decrease that reflects the updated fixed-dollar loss ratio (FDL). CMS estimates that Medicare payments to HHAs in CY 2025 would increase in the aggregate by 0.5% compared to CY 2024, based on the finalized policies. The HH PPS uses the latest core-based statistical area (CBSA) delineations and the latest available, “pre-reclassified” hospital wage data collected under the Hospital Inpatient Prospective Payment System. The wage index is applied to the labor share of the payment rate to account for differing wage levels where home health services are rendered.

Hospice

CMS set the FY 2024 hospice cap amount at $33,494.01, reflecting a 3.1% increase from the previous year’s cap of $32,486.92. This increase aligns with the 3.1% hospice payment update for FY 2024, based on the 4.1% inpatient hospital market basket update, reduced by a 0.3 percentage point adjustment.

Acute Hospital Care at Home

Since its launch in November 2020 to address hospital bed capacity during COVID-19, CMS’ Acute Hospital Care at Home (AHCAH) program has reimbursed cases at the same rate as inpatient stays under the prospective payment system. Per MedPac’s June 2024 report to congress, the payment is the same for AHCAH cases regardless of whether the patient’s stay included an initial overnight stay at the hospital facility or acute inpatient care began at home without a hospital facility stay. An AHCAH case transferred from home to the hospital is treated as a single discharge, so Medicare does not make an additional payment when a patient cannot remain in the home.

Regulatory

Inpatient Rehabilitation Facilities

The number of Medicare-certified IRFs increased from 1,211 in 2023 to 1,229 in 2024. An IRF can be licensed as a freestanding facility or as a hospital-based IRF, which is a specialty unit located within an acute care hospital. Per the March 2024 MedPac Report to Congress, as of 2022 there were 345 Medicare-certified freestanding IRFs and 836 Medicare-certified hospital-based IRFs. Of Medicare-certified facilities, total freestanding IRFs increased 4.9% year-over-year and total hospital-based IRFs decreased 1.9% year-over-year. In 2022, Medicare spent $8.8 billion on approximately 383,000 IRF stays in about 1,180 IRFs nationwide. On average, the FFS Medicare program accounted for about 51% of IRF discharges.

Long-Term Acute Care Hospitals

LTACHs were first approved for Medicare funding with the passage of the Tax Equity and Fiscal Responsibility Act of 1982. By 2002, there were approximately 300 LTACH facilities and the total annual Medicare spending was approximately $2.2 billion. Medicare implemented a PPS for LTACH hospitals in 2002, which went into effect January 1, 2003. After the implementation of the LTACH PPS, the number of LTACH facilities and total Medicare spending in 2006 increased by 7.3% and 19.6% compounded annually to 398 facilities and approximately $4.5 billion, respectively. As a result, Congress passed the MMSEA, which imposed a moratorium on new LTACHs from 2007 to 2012 unless specific exemptions were met.

The moratorium on LTACHs was reinstated by the SGR Reform Act for a three-year period from April 1, 2014, to September 30, 2017. As a result of the moratoriums, the number of LTACH facilities decreased 1.5% compounded annually from 426 in 2008 to 343 in 2022. Over the same period, Medicare spending on LTACH services slowed, decreasing 3.5% compounded annually from approximately $4.6 billion in 2008 to approximately $2.8 billion in 2022. On September 30, 2017, the moratorium on LTACHs expired. As of December 2024, there were 333 Medicare-certified LTACHs.

Home Health Agencies

To address rising home health utilization and Medicare spending, CMS introduced new coverage requirements, spending caps, and a PPS in 2000. The number of Medicare-certified HHAs grew until 2013, when CMS imposed a moratorium on new enrollments in high-fraud areas, later expanding it to four states. This led to a decline in HHAs until the moratorium was lifted nationwide in 2019 to improve patient access.

The Bipartisan Budget Act of 2018 mandated a shift from 60-day to 30-day payment units and eliminated therapy visit-based payments, further advancing the industry’s transition to VBC. The Patient-Driven Groupings Model (PDGM) replaced the prior system in 2020, with no major amendments since.

Hospice Agencies

The number of Medicare hospice beneficiaries increased 3.3%, compounded annually from approximately 1.16 million in 2010 to approximately 1.72 million in 2022, representing a slight increase from 1.71 million in 2021. During the same period, the number of HSPAs increased 4.5%, compounded annually from 4,488 in 2017 to 5,899 in 2022. The increase in HSPAs is primarily attributable to growth in for-profit hospice providers, which increased from 3,101 hospices in 2017 to 4,414 hospices in 2022, or approximately 7.3% compounded annually. Nonprofit and government-owned HSPAs represent a smaller portion of total agencies, and this trend continues into 2022 with a 1.1% decrease from 2017. Medicare hospice expenditures totaled $25.8 billion, which represents a steady increase in spending attributed to an aging population and general cost increases.

Hospital at Home

CMS launched the Hospital Without Walls initiative in March 2020 by using waiver authorities provided under section 1135 of the Social Security Act. These authorities permit the Secretary to waive certain facility standards during declared public health emergencies, such as the COVID-19 pandemic. In November 2020, CMS then launched the AHCAH program, allowing certain Medicare-certified hospitals to treat patients with inpatient-level care in their homes to address challenges with respect to hospital bed capacity during the COVID-19 pandemic.

Although the AHCAH program was originally set to expire at the conclusion of the COVID-19 public health emergency, Congress extended the program through December 31, 2024 through the Consolidated Appropriations Act, 2023. On December 21, 2024, President Biden signed a spending bill that extended the AHCAH program to March 31, 2025. The continuation of the program beyond March 31, 2025 depends on Congressional action regarding the Telehealth Modernization Act of 2024, H.R. 7623, 118th Cong. (2024), which proposes a five-year extension of AHCAH.

Conclusion

As the industry continues to move further from the COVID-19 pandemic and associated industry influences, LTACHs and IRFs are expected to face continued capital requirements and regulatory pressure. IRFs saw a modest uptick in joint venture and PE investment activity in 2024, as operators look to expand their continuum of care. HHAs and HSPAs faced significant staffing challenges in 2024 but remain fragmented industries with room for consolidation. Like IRFs, strategic buyers will likely seek to incorporate the entire continuum of care and to provide consumer-friendly alternatives to patients.

05. **Physician Medical Groups**

Industry Overview

The number of physicians in the U.S. has increased 1.3%, compounded annually from approximately 814,000 in 2000 to approximately 1.1 million as of September 2024. Based on the 2022 Physician Specialty Data Report, approximately 87% of active physicians primarily focus on providing patient care. The remaining 13% of physicians primarily focus on teaching, research, and other professional activities. There are over 130 specialties and subspecialties recognized by the Accreditation Council for Graduate Medical Education. The largest specialties in terms of active physicians are internal medicine and family medicine/general practice, accounting for approximately 20.1% and 14.2% of total active physicians, respectively.

National health expenditures continue to grow annually, with these costs potentially increasing at greater rates due to long-term impacts of COVID-19 and the higher inflationary environment. CMS expects healthcare expenditures will increase at least 5% each year from 2024 to 2032. At its annual high, healthcare expenditures grew 10.6% from 2019 to 2020 because of the pandemic.

1.1m
physicians in the U.S. as of Sept. 2024

1.3%
annual growth of U.S. physicians since 2000

87%
of active physicians focus on patient care

M&A Trends

Historically, the annual volume of physician services transactions has been impacted by large regulatory changes like the passage of the Affordable Care Act in 2010 and the passage of MACRA in 2015. Physicians increasingly opt to align into larger groups, adopt the accountable care organization (ACO) model, or align with health systems and other corporate entities rather than face the burden, expense, and uncertainty of increased regulatory and data reporting requirements alone.

> **Due to declining reimbursements and increasing regulatory and nonclinical burdens, more and more physicians decide to become employees of large organizations.**
>
> ***Vladimir Sinkov***
>
> *MD, Founder & CEO, Sinkov Spine Center, Becker's Healthcare Article, October 2024*

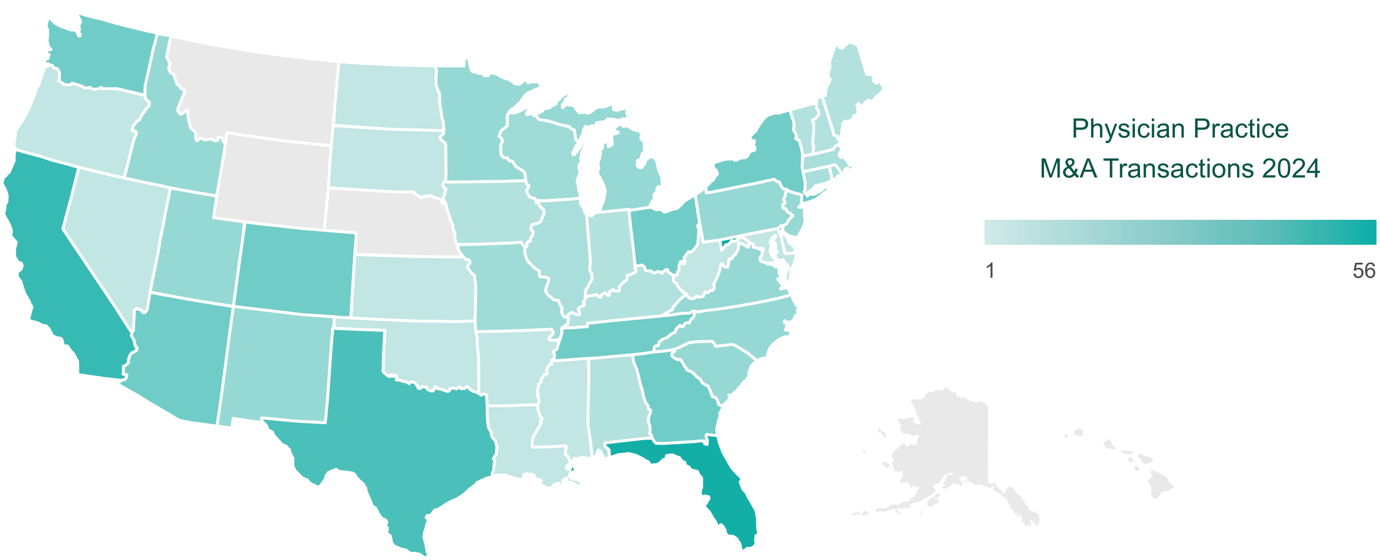
Independent practices are struggling to keep pace with the capital requirements of the industry's transition to value-based payments while also facing increasing competition in physician recruiting from health systems, PE firms, and health insurers. Value-based programs reward healthcare providers with incentive payments for the quality of care they provide to Medicare recipients. PE firms and their management services organizations (MSOs) offer the capital and business expertise needed for the scale and operational efficiencies required to combat these pressures. For PE firms, their ability to roll these acquisitions up into an efficient, large, and scalable platform is an attractive investment.

Platform practices can usually negotiate a higher acquisition price than smaller, bolt-on practices, which are subsequently acquired. A perceived arbitrage opportunity exists if the PE firm can effectively buy a practice at a lower bolt-on multiple and sell the entire business at a higher platform multiple (often sold to another PE firm).

PE firms typically target practices' ancillary revenue streams, which may have been performed in a local hospital or other outpatient settings historically. These ancillary services are consolidated to increase the revenue and earnings growth of the practices. Specialties with high prospects of generating additional incomes from ancillary services and low capital intensity tend to be the targets of PE acquisitions. Furthermore, PE firms have been shifting their focus to entities where reimbursement risk can be mitigated, such as medical spas and dental practices.

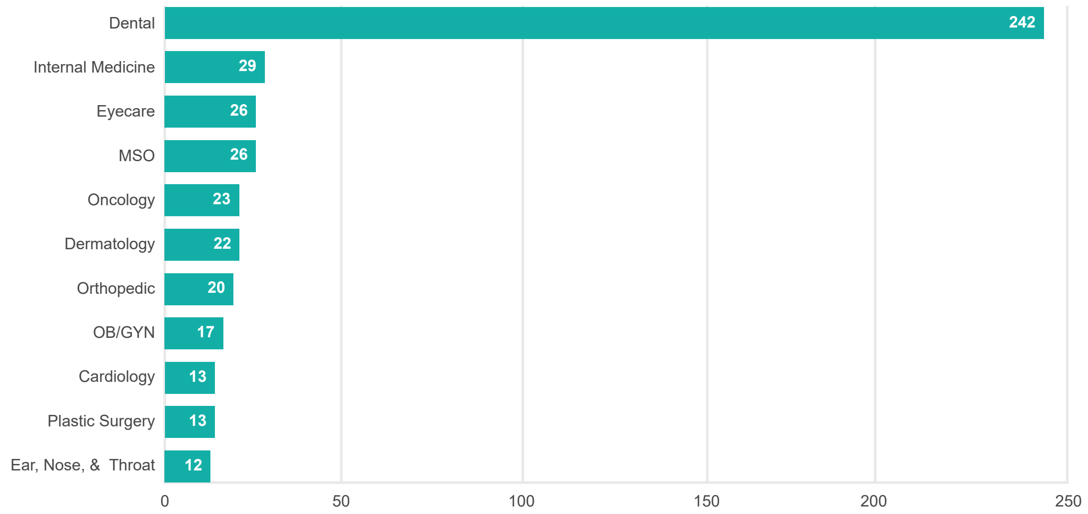
M&A activity across the healthcare spectrum was robust in 2024 but slightly lower than 2023, particularly within the physician medical group sector. To quantify by volume, physician medical group transaction activity was approximately 20% lower in 2024 than 2023. Driving this decrease in M&A deals were high interest rates, increasing labor costs, and a consolidated market and regulatory uncertainty amid a potential change in administration. Recent Federal Reserve rate cuts in Q3 and Q4, along with the court's rejection of the FTC's non-compete ban, are expected to boost investment in the physician medical group sector. Approximately 60% of physician transactions in 2024 were attributable to a PE firm or their portfolio companies.

Of note is the geographical spread of M&A transactions throughout the U.S. As demonstrated in the chart below, approximately a quarter of the 2024 physician medical group transactions occurred in Florida, Texas, and California. This finding is consistent with expectations that a larger population base could support future growth. However, many states undertook measures to regulate healthcare transactions in 2023 and 2024. These regulations could restrict or limit the PE firms' ability to partner with physician practices through management services organizations.



While physician medical groups cover a wide gamut of specialties, certain specialties showed greater activity than others. Internal medicine represented 29 transactions and dental practices represented 242 transactions in 2024. This trend favoring dental specialties held true prior to 2024, and consolidation is expected to accelerate into 2025 with burgeoning interest in primary care and other sub-specialties, like cardiology and orthopedics.

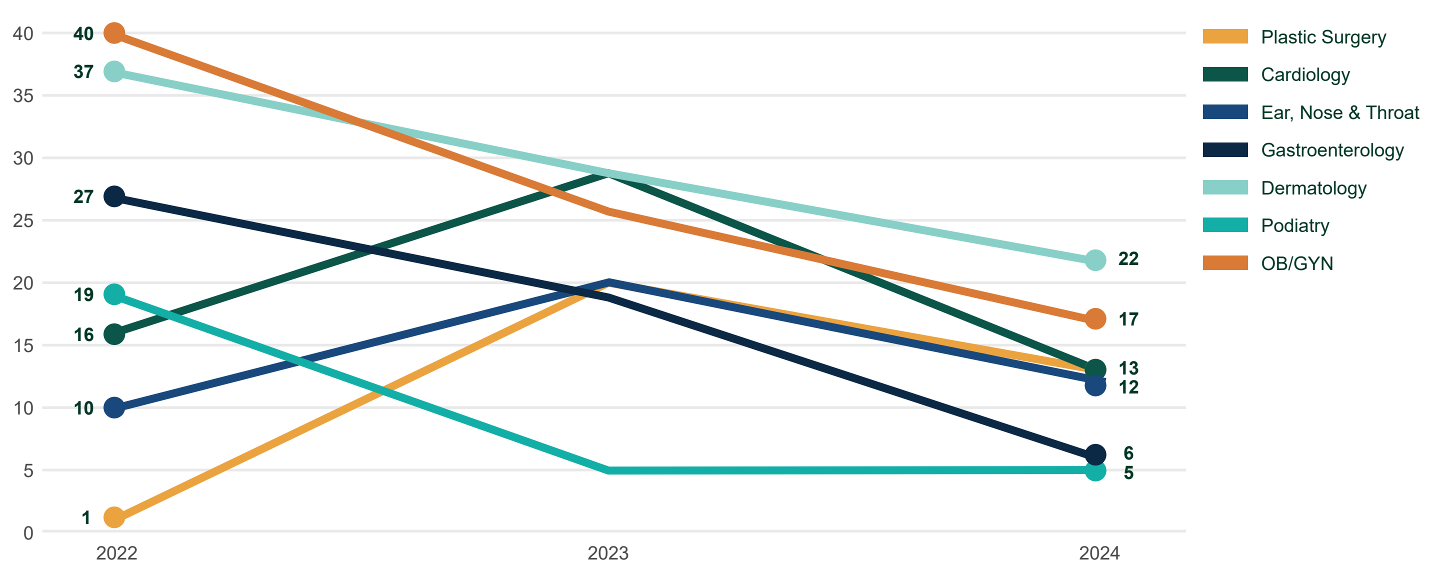
Top Physician Specialties by Deal Volume, 2024



Source:LevinPro HC, Healthcare Acquisition Report 2025

Historically, eyecare had significantly more transactions and a larger percentage of overall transactions, with peak transaction volume at 101 in 2020; however, transaction volume has steadily declined since then. Significantly, eyecare volume experienced a drop from 87 deals in 2022 to 47 deals in 2023, then further to 26 deals in 2024. Meanwhile, dental deals increased from 180 deals in 2023 to 242 deals in 2024, with major players like MB2 Dental Solutions leading the dental space. As shown in the table below, overall volumes are down, but other large movers in 2024 were plastic surgery, cardiology, ENT, gastroenterology, dermatology, podiatry, and obstetrics and gynecology.

Changes in Selected Specialty (2022–2024)



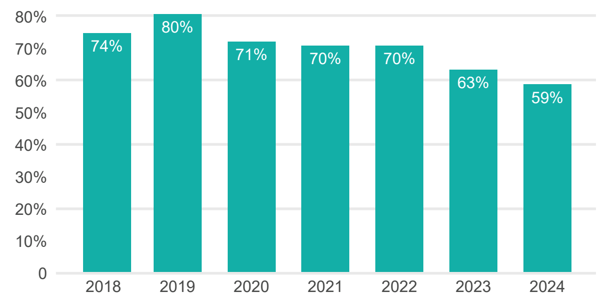
Given the fragmentation in the physician medical group sector, it is expected that interest in other specialties will continue to see deal activity. Specialties with higher commercial payer allocation and ancillary services are of particular interest because of greater reimbursement. Specialties with limited reimbursement risk by virtue of greater cash payments (dermatology and medical spas) also remain areas of interest.

Despite its deal volume decline from 2023, dentistry stood out in 2024 with greater deal volume than other subspecialties in healthcare. U.S. Oral Surgery and Management (USOSM) continues to announce partnerships across the country. As of December 2024, USOSM had more than 250 oral and maxillofacial surgery practice locations across 28 states and secured a $175 million credit expansion. Its Chief Financial Officer, Henry Moomaw, noted that this additional capital will allow USOSM to continue partnering with the top oral surgeons across the U.S.

To emphasize PE's role in the physician medical group space, the table below presents the number of PE deals over the last few years. PE deal volume in 2024 reflects a continuation of the 2023 M&A activity but with a slight decline. PE continues to play a significant role within the physician medical group subsector. 2022 saw the highest number of PE-driven deals in the subsector on record as well as the highest number of M&A deals overall. In the first few months of 2024, the trends were down compared to 2023. Through the end of 2024, there have been 280 PE firm transactions, which represent 58.4% of the overall physician medical group healthcare transactions of 2024. Physician medical groups accounted for the second most activity of all M&A activity at 27.7% of the market.

Year	Total Deals	PE & PE-Sponsored Deals	Share of Total
2018	258	191	74%
2019	245	195	80%
2020	188	133	71%
2021	461	325	70%
2022	607	424	70%
2023	535	338	63%
2024	430	280	59%

Private Equity Deals as a % of Total Physician Medical Group Deals



Expanded Offerings & New Trends in the Med Spa Industry

> **The med spa and aesthetic space continues to be all the rage, with new sponsors entering the market nearly every week. It feels very much like a land-grab opportunity. Currently, there are about 20 private equity platforms in this space, and it's still early innings.**
>
> ***Eugene Goldenberg***
>
> *Managing Director, Edgemont Partners, McGuireWoods' 17th Annual Healthcare Finance and Growth Conference, September 2024*

In 2024, VMG Health tracked 37 PE-backed med spa platforms. These platforms closed and announced 45 acquisitions during the calendar year. The pace of PE investment in the med spa industry is driving market growth in terms of overall consumer spending. However, increased de novo activity from PE-backed platforms and increased sales and marketing investments have made it difficult for practices to continue same-store revenue growth through traditional med spa services such as injectables and energy devices.

To improve same-store growth, many traditional med spas, both PE-backed and independent, are expanding offerings to include wellness services like hormone replacement therapy (HRT). HRT addresses age-related hormonal imbalances, aiming to alleviate symptoms like reduced energy, cognitive decline, and weight gain. This integration reflects a broader shift toward personalized wellness, emphasizing treatments that enhance both aesthetic appearance and overall well-being. By combining aesthetic procedures with therapeutic interventions like HRT, med spas are positioning themselves as comprehensive wellness centers, meeting the evolving demands of health-conscious consumers.

Incorporating services such as GLP-1 treatments have also become a prominent trend among med spas. Medications like semaglutide and tirzepatide effectively suppress appetite, supporting weight loss and attracting a broader clientele seeking comprehensive health solutions. The surge in GLP-1 medication popularity cannot be ignored by investors; however, its rapid growth has led to supply chain uncertainty and regulatory scrutiny. PE investors are split on their opinions regarding the long-term durability of weight loss services as a category and GLP-1 medications specifically.

Notable Transactions

In January 2024, Albaron Partners LP, a middle-market PE firm, sold Albaron Podiatry Holdings LLC, which operates under the name Beyond Podiatry, to CUC Inc. for $87 million. Beyond Podiatry is one of the Midwest’s leading podiatric medicine practice management companies, with over 200 employees across more than 30 locations in the region. The sale represented the first PE exit in U.S. podiatry.

In March 2024, Cardinal Health (NYSE: CAH) acquired Specialty Networks, a technology-enabled organization specializing in multi-specialty group purchasing and practice enhancement, for $1.2 billion in cash. The transaction increased clinical and economic value for approximately 11,500 specialty providers, including more than 7,000 physicians across 1,200 independent physician practices and expanded Cardinal Health’s presence across specialty therapeutic areas.

In August 2024, McKesson Corporation (NYSE: MCK) signed a definitive agreement to acquire controlling interest in Community Oncology Revitalization Enterprise Ventures, LLC (Core Ventures). Core Ventures is a business and administrative services organization established by Florida Cancer Specialists & Research Institute, LLC—a leading, physician-owned, community oncology practice. McKesson will purchase the controlling interest for approximately $2.49 billion in cash, which represents approximately 70% ownership.

In October 2024, Rural Healthcare Group (RHG) closed its acquisition of Steward Medical Group and Steward Health Care Network (collectively referred to as Stewardship Health) for $245 million. Stewardship Health is one of the largest primary care provider organizations in the nation, with a significant presence in Massachusetts and nine other states. RHG plans to make significant investments in Stewardship's infrastructure, allowing providers to continue seeing patients in existing clinics across Stewardships network, and keeping healthcare local for patients.

> **"This is an exciting time for both Stewardship and RHG, now known as Revere Medical. Combining the organizations will allow for Revere Medical to accelerate the impact of our operating model across more providers, patients, and communities.**
>
> ***Benson Sloan***
>
> *CEO, Revere Medical, Press Release, October 2024*

Also in October 2024, University of Iowa HC (UI Health Care) announced an agreement to create a comprehensive cancer care network with Mission Cancer + Blood, a physician-owned oncology practice in Iowa with 21 clinics across the state. The partnership aims to make advanced oncology care more widespread, particularly in rural areas, and seeks to address the issue of Iowa having one of the fastest-growing cancer rates in the country. The agreement has been valued at $280 million.

In November 2024, Cencora Inc. (NYSE: COR) entered into a definitive agreement to acquire Retina Consultants of America (RCA) from Webster Equity Partners for $4.6 billion in cash. Cencora will hold approximately 85% ownership in RCA upon closing. RCA has nearly 300 retina specialists across 23 states and the acquisition is expected to expand Cencora's capabilities in specialty and its MSO business, broadening physician and manufacturer relationships.

In November 2024, Astrana Health, Inc. (NASDAQ: ASTH) entered into a definitive agreement to acquire Prospect Health, which consists of multiple businesses and assets relating to Prospect Health System, including Prospect Health Plan; medical groups in California, Texas, Arizona, and Rhode Island; an MSO; a pharmacy; and Alta Newport Hospital, a fully accredited acute-care hospital. The planned purchase price is $745 million, and the acquisition will expand Astrana's presence in key markets, including Orange County, California, where they currently have limited operations.

Also in November 2024, GI Alliance (GIA) announced it had entered into a definitive agreement with Cardinal Health, through which Cardinal Health will acquire a majority stake in GIA, which is a physician-led MSO supporting independent gastroenterology practices. GIA consists of over 900 physicians across more than 345 office locations in 20 states. Cardinal Health will purchase its majority state for approximately $2.8 billion in cash, which will represent 71% ownership.

Reimbursement

On April 14, 2015, the Senate passed MACRA, permanently removing the Sustainable Growth Rate (SGR) formula from the determination of the conversion factor under the MPFS. Under MACRA, the SGR formula was replaced with fixed 0.5% annual increases through 2019. (The annual increase was reduced to 0.25% by the Balanced Budget Act of 2019.) After 2019, physician payments under the MPFS will remain flat through 2025. From 2020 to 2025, individual physicians can achieve payment increases through participation in the Merit-based Incentive Payment System, which will be developed by the Secretary of Health and Human Services, or participation in an alternative payment model such as an ACO.

On November 1, 2024, CMS released the CY 2025 MPFS final rule payment and policy changes final rule. The CY 2025 PFS has a conversion factor of $32.35, a decrease of $0.94 from the CY 2024 PFS factor of $33.29.

$32.35
conversion factor for CY 2025 PFS (decrease of $.94 from 2024)

.5%
annual physician payment increase through 2019

0.25%
reduction in annual increase by Balanced Budget Act in 2019

Regulatory

With the recent presidential administration change, there is uncertainty behind domestic policy changes, including cuts to healthcare spending and tariffs that may have negative ramifications. Additionally, changes to the appointees to the FTC may impact regulation on PE investments in physician practices.

Conclusion

As a result of economic and regulatory changes, physician medical groups continue to face headwinds associated with rising costs, the impact of tariffs, uncertainty behind policies enacted by the new administration, declining margins, provider recruitment challenges, a higher cost of capital, and uncertainty regarding future reimbursement. Nonetheless, these are not the only reasons physicians may choose to sell their practices. Other drivers may include impending retirement, a desire to reduce the administrative burden to focus on patient care, access to capital, and lucrative exit opportunities. These rationales provide opportunities for physician medical groups to align with larger groups, sell to PE firms, or integrate with health systems and insurers.

With these considerations, we expect M&A activity within the physician medical group space to remain stable in 2025.

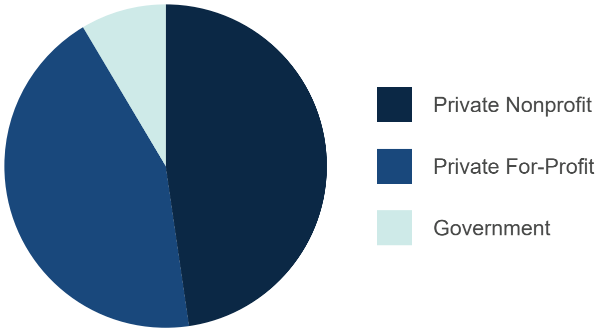
06. Behavioral Health

Industry Overview

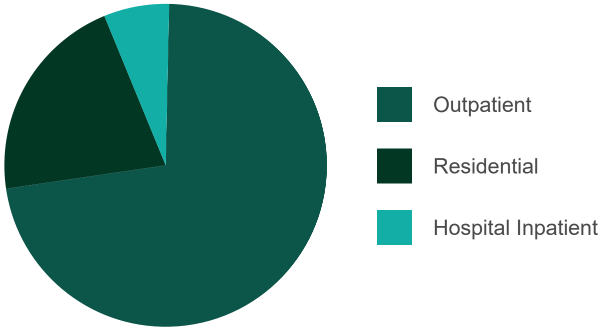
The behavioral health services sector remains a significant driver of growth within the healthcare industry. In 2023, the U.S. behavioral health market was valued at $83.78 billion and is expected to expand from $87.82 billion in 2024 to $132.46 billion by 2032. Around 58.7 million adults (22.8%) in the U.S. have experienced a mental illness, with 14.6 million (5.7%) reporting a serious mental illness in the past year. Additionally, 54.2 million people (19.1%) aged 12 or older required substance abuse treatment last year, but only 12.8 million (4.5%) received care. The disparity between the demand for and availability of care underscores a clear mismatch in the industry's supply and demand.

As of 2023, the U.S. has more than 20,000 behavioral health facilities (BHFs), including mental health treatment centers, substance abuse treatment centers, and facilities that treat both mental health and substance abuse. These BHFs encompass psychiatric hospitals, specialty units in acute care hospitals, residential treatment centers (RTCs), outpatient clinics, and telehealth outpatient programs. According to the Department of Health and Human Services' National Substance Use and Mental Health Services Survey, private, nonprofit organizations operate most of these facilities, accounting for about 51.9% of all BHFs. Furthermore, outpatient mental health services make up the bulk of these facilities, comprising 72.1% of the total.

Behavioral Health Facility Operators



Behavioral Health Facility Types



> **As communities across the United States continue to face an unprecedented mental health and addiction crisis with rising rates of depression, anxiety, substance use disorders, and suicide, Acadia continues to be committed to expanding access and providing the specialized care and treatment that's so desperately needed.**
>
> ***Christopher H. Hunter***
> *CEO & Director, Acadia Healthcare, Q4 2024 Earnings Call*

258
treatment facilities operated by Acadia Healthcare across 40 states

330
inpatient behavioral health centers run by UHS (U.S. and UK)

113
opioid treatment centers operated by BayMark Health Services

1/3+
of the U.S. population lives in mental health professional shortage areas

48
days is the average national wait time for behavioral health services

The largest behavioral health providers in the U.S. include publicly traded companies like Acadia Healthcare Company, Inc. and Universal Health Services, Inc. (UHS), along with the privately held Lifepoint Health. As of Q3 2024's end, Acadia, the largest dedicated behavioral health provider in the U.S. and Puerto Rico, operates in 40 states with 258 treatment facilities and more than 11,400 beds. UHS runs facilities in 39 U.S. states and the United Kingdom, with 186 inpatient behavioral health centers in the U.S. and 144 in the UK, totaling over 24,400 beds. Additionally, Lifepoint operates more than 30 rehabilitation and behavioral health hospitals across 28 states.

Furthermore, PE-backed behavioral health platform companies are becoming more prominent, expanding their market share. BayMark Health Services, backed by Webster Equity Partners, operates 113 opioid treatment centers, 49 outpatient Suboxone clinics, six outpatient withdrawal facilities, 31 inpatient withdrawal management centers, 13 residential treatment locations, and five mental health treatment facilities across the United States. Discovery Behavioral Health, also backed by Webster Equity Partners, runs hundreds of facilities across 17 states, spanning from the Pacific to the Atlantic coast. Summit BHC, backed by Patient Square Capital, operates 38 facilities in 20 states.

The need for behavioral health services continues to be highlighted by many initiatives across the country. Nonetheless, the shortage of qualified providers to meet this demand remains clear. As of August 2024, more than one-third of the U.S. population lives in a mental health professional shortage area (mental health HPSA). Six in 10 psychologists do not accept new patients, and the average national wait time for behavioral health services is 48 days. Workforce maldistribution leaves high-need areas without access to behavioral health services. The shortage of providers in rural areas exacerbates access challenges, while high turnover rates among the behavioral health workforce further strain service availability. Low wages, restrictive and inconsistent scopes of practice, large workloads, workplace violence, and a lack of organizational support are some of the factors that lead to this trend.

Reimbursement barriers have also historically hindered the accessibility of behavioral health services. Sixty percent of adults with any mental illness and perceived unmet need for services reported cost as one of the main reasons for not receiving behavioral healthcare. The departments of Labor and Health and Human Services as well as the Treasury issued final rules to add protections against restrictive treatment limitations for behavioral health benefits compared to other medical benefits to equitable access to behavioral healthcare. Most of these provisions will take effect for group health insurance coverage starting on or after January 1, 2025.

Several states across the U.S. are continuing or increasing their investment in psychiatric care. California and New York lead the country with the highest amount of mental health expenditures, with approximately $6.8 billion and $5 billion, respectively. There are eight other states with over $1 billion allocated toward mental health, including Pennsylvania, New Jersey, Arizona, Michigan, Texas, Maryland, Ohio, and Minnesota. This list consists of states with varying populations and sizes, showing that those factors aren't necessarily indicative of the amount of spending. These investments also reflect a growing recognition across both Republican- and Democrat-led states that mental health is a critical issue requiring significant attention and resources.

$6.8b
allocated to mental health by California

$5b
allocated to mental health by New York

10
states with over $1 billion dedicated to mental health

In New York, Governor Kathy Hochul's presentation of the state's fiscal year 2025 budget, she cited the mental health crisis as the defining challenge of our time and emphasized her commitment to expanding resources to New Yorkers. The budget targets increasing availability for schools to open mental health clinics, investing in care for complex behavioral health challenges, and the requiring commercial insurance companies to pay for State-licensed, outpatient mental health and substance use services, at least at the Medicaid rate.

In 2023, the 88th Texas Legislature approved a record $11.68 billion in behavioral health funding to construct mental health hospitals, expand inpatient capacity, establish intensive outpatient (IOP) services, and address the shortage of behavioral health professionals. Last year, the UT System Board of Regents continued this trend of behavioral health investment by implementing multiple initiatives to tackle student mental health challenges. Texas state lawmakers have continued to prioritize these initiatives, with the inclusion of multiple mental health items in Interim Legislative Charges for the upcoming Legislature.

M&A activity in the behavioral health space is expected to increase in 2025 due to a multitude of factors. Federal and state governments' continued investment in behavioral health services could create a more attractive market for PE and strategic investors by expanding the overall market size, creating new opportunities for providers to scale their operations. The influx of government funding to behavioral health will likely drive strategic growth initiatives, potentially leading to more transactions. New types of investors are attracted to the behavioral health sector space due to increased government focus. Payers and health systems are showing interest, which could lead to new types of M&A deals and partnerships.

PE investors that sat on the sidelines in recent years are eager to resume heightened deal activity amid the expectation of lowered interest rates coupled with the excess of unspent capital in recent periods. Dexter Braff, President of The Braff Group, stated that PE accounted for approximately 60% of all behavioral health deals in recent years. This point accentuates the effect that macro-level PE investment trends have on the behavioral health sector as a whole. Limited partners have expressed their dissatisfaction with PE firms holding behavioral health assets longer than typical investment timelines, pushing them to return to the M&A market.

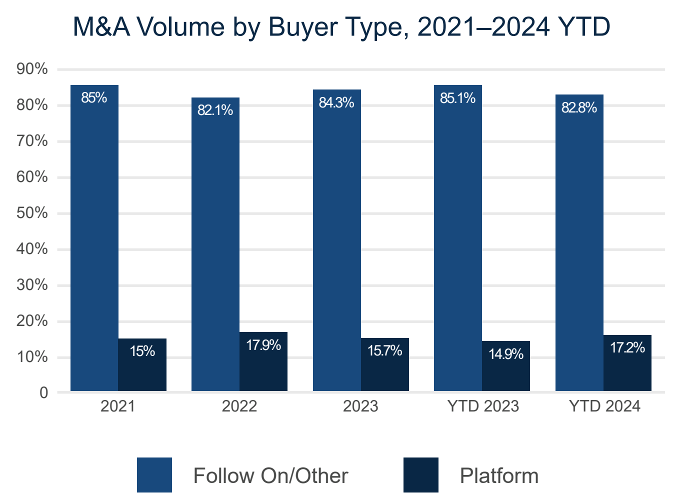
A model becoming more popular in behavioral health is joint venture partnerships between hospitals and behavioral healthcare providers. Acadia, Lifepoint, and UHS have embarked on this model, providing capital and clinicians to acute-care health systems that need a behavioral health operating expert. Leaders from both companies have cited that this model can present its own unique challenges, including a more difficult timeline than normal M&A transactions. Shelah Adams, Vice President of Corporate Development at UHS, stated that the shortest joint venture deal she's put together for UHS' behavioral health division took three years. One issue that can cause these delays is that joint ventures are freestanding operations that require new licenses and certificates of need (CONs).

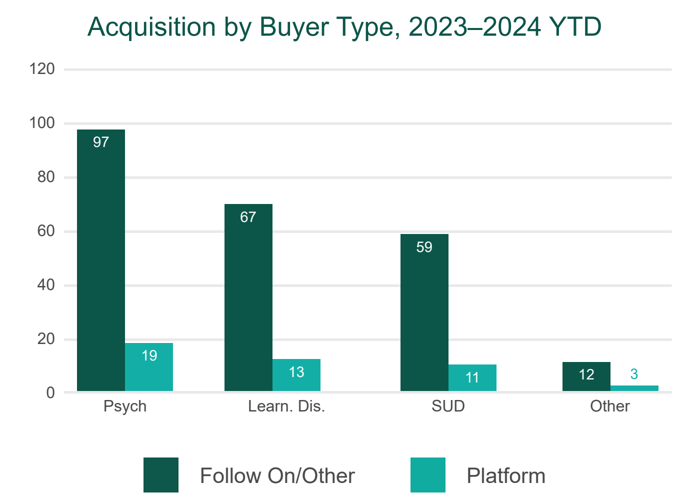
Aligning a new joint venture's goals and expectations can also be a concern of both for-profit and nonprofit partners in behavioral health. As represented by UHS' Adams, some nonprofit health systems have questioned the quality and motives of for-profit partners due to their tax status. However, some successful partnerships have demonstrated a history of providing high-quality patient care.

Michael Tierney, Managing Director at Fifth Third Securities, stated that the joint venture model interests many of his clients because nonprofit health systems don't typically have the same level of behavioral health expertise as the major for-profit players. Despite the potential challenges associated with the scope of a joint venture partnership, profit operators continue to load their development pipeline with these type of transactions deals, demonstrating that they are likely to continue going forward.

Private Equity

As seen in the following chart, follow-on (or add-on) deals account for approximately 80% of M&A activity in the behavioral health space compared to platform deals. Platforms serve as the foundation of the roll-up strategy, leading to a financially stable and recognized market leader to support the consolidation approach. An add-on acquisition in PE involves the purchase of a smaller target by an existing portfolio company, with the acquired firm being integrated into the current portfolio (platform). Often referred to as the "buy-and-build" strategy, add-ons have become more prevalent in the PE sector. In this approach, following the initial buyout of the core portfolio company, the financial sponsor aims to generate value by acquiring smaller targets and integrating them into the platform. This strategy enhances platforms by offering additional technical capabilities, diversifying revenue streams and expanding market opportunities, among other synergies.





Notable Transactions

In January, Acadia Healthcare Company, Inc. announced a joint venture partnership with Ascension, a leading integrated healthcare system in Austin, Texas. This joint venture expands access to behavioral healthcare services in Austin and surrounding communities. The joint venture will focus on expanding Acadia's current operations at Cross Creek Hospital. Acadia plans to construct a 106-bed expansion of the acute behavioral hospital, increasing the total licensed bed count to 196 upon completion.

In February 2024, Acadia Healthcare closed on its acquisition of Turning Point Centers from InTandem Capital Partners. Turning Point Centers is a 76-bed specialty provider of substance use disorder (SUD) and primary mental health treatment services in Salt Lake City, Utah. Acadia stated in their Q1 earnings call that they could potentially grow the facility by 48 beds. In the earnings call, Acadia stated that Turning Point Centers expands its specialty service line into a new state and completes its full continuum of care in Utah. Christopher Hunter, CEO and Director of Acadia, said, "Our ability to extend our specialty footprint, but also the synergies with our other lines of business, just have made this [acquisition] particularly attractive." This was a proprietary transaction that Acadia identified and sourced independently, aligning with their proven track record of successful expansion opportunities in the past.

In March, Acadia acquired three North Carolina–based Comprehensive Treatment Centers (CTCs) from Sellati & Co. that serve patients in Raleigh, Greenville, Hillsborough, and the surrounding communities. The acquisition of the Sellati & Co. CTCs was part of a strategy to expand Acadia's presence in North Carolina, a state with an "immense need and progressive approach to behavioral healthcare treatment programs," CEO Chris Hunter said during Acadia's most recent quarterly earnings call.

In October, Acadia announced the acquisition of three opioid treatment program clinics, formerly known as Recovery Concepts, Recovery Concepts of the Carolina Upstate, and Clear Skye Treatment Center in South Carolina. These clinics will be rebranded within Acadia's CTC service line, and they will provide treatment for people seeking recovery from opioid use disorder.

After the North and South Carolina facility acquisitions, Acadia's CTC division now operates 165 locations and treats over 72,000 patients daily across 33 states nationwide.

196
total licensed beds planned for Cross Creek Hospital after Acadia's 106-bed expansion

76-bed
specialty provider acquired by Acadia Healthcare

72,000+
patients treated daily across 165 CTC locations in 33 states

In May, there was a significant transaction between Texas Capital Management (Tenex) and Behavioral Innovations. Tenex is a New York City–based PE firm, and it acquired Behavioral Innovations for approximately $300 million. Behavioral Innovations, based in Addison, Texas, is one of the largest providers of autism services in the U.S. and has been backed by another PE firm, Shore Capital Partners. Tenex will assist in continuing Behavioral Innovations' growth and focus on improving quality of care and patient outcomes. Behavioral Innovations' CEO Dino Eliopoulos said, "We are extremely pleased to partner with Tenex as we look to capitalize on Behavioral Innovations' compelling growth potential through continued center expansion. Tenex is an ideal partner for us given their emphasis on quality of care and patient outcomes, operational prowess, shared vision, and track record of success in executing upon accretive growth with companies in similar situations as Behavioral Innovations."

In April 2024, Optum-backed Refresh Mental Health acquired a Minnesota-based outpatient mental health provider CARE Counseling Services. CARE Counseling is one of the fastest-growing companies in the U.S., according to the Inc. 500. This acquisition continues Optum's strategy, initiated in 2022 with the Refresh Mental Health acquisition, to reduce behavioral healthcare wait times. According to Heather Cianfrocco, Optum CEO, "There is a real issue in getting high-quality behavioral services today: On average, it takes over 50, 60 days to get an appointment for high-quality behavioral care." Optum is taking an active role to become the best in healthcare delivery.

In May 2024, T&R Recovery Group announced its acquisition and rebranding of a portfolio of Origins Behavioral Healthcare network of facilities in Texas, now called Origins Texas Recovery from the Hanley Foundation. The sale included two residential treatment centers, two intensive outpatient programs, and one transitional sober-living facility. T&R Recovery Group is a leading provider of mental health and addiction services. This acquisition strengthened T&R's commitment to providing high-quality comprehensive addiction treatment. Thomas Isbell, Co-Founder and CEO of T&R Recovery Group said, "Origins' reputation for compassionate, evidence-based treatment aligns perfectly with our mission and we will continue to build on these great qualities."

In May, Tulip Hill Recovery, Louisville Addiction Center, and Lexington Addiction Center announced a merger to create Tulip Hill Healthcare. The aligned organizations will provide partial hospitalization program (PHP) and intensive outpatient program (IOP) services across multiple states. In August, Tulip Hill Healthcare announced that it had acquired majority ownership of two detox facilities in Tennessee. These facilities include Tennessee Detox Center and Live Again Detox, and they will expand Tulip Hill Healthcare's operations and presence in Tennessee and neighboring Kentucky.

In November 2024, New York–based private equity firm JLL Partners acquired Tennessee-based Odyssey Behavioral Health from The Carlyle Group. Odyssey Behavioral Health operates 55 locations and provides treatments to adults and adolescents for various disorders in both outpatient and residential settings. This acquisition will allow Odyssey to continue expanding their outpatient offerings.

In January 2025, Texas-backed Oceans Healthcare, a provider of inpatient and outpatient behavioral health services, announced their acquisition of Haven Behavioral Healthcare, Inc., a Nashville-based provider of specialty behavioral health services. The transaction will expand Ocean's network into five new states along with seven new behavioral health hospitals and outpatient services. This leads to an overall footprint of 48 facilities across nine states.

ARC Health completed an impressive run of transaction activity in 2023, with nine acquisitions that expanded their presence in many locations to allow them to use their resources to improve their service to patients, enhancing provider capabilities and advancing mental healthcare. Their acquisitions included integrated mental health provider groups—such as Lilac Center, Positive Change Counseling Center, Denver Wellness Associates, Silver Lake Psychology, and Grow Counseling—as well as psychotherapy centers in Colorado and Chicago. Additionally, they acquired mental health practices like Dayspring Behavioral Health, LynLake Psychotherapy and Wellness Ltd, Advanced Psychiatric Group, and Exult Healthcare.

Reimbursement

On July 31, 2024, CMS published its Medicare Inpatient Psychiatric Facility Prospective Payment System (IPF PPS) final rule updating payment policies and rates for CY 2025. The policies included in the final rule support the provision of high-quality behavioral health treatment in IPF facilities. CMS updated the IPF PPS payment rates with a 2.8% increase after a 0.5% productivity adjustment. CMS estimates total IPF PPS payments will increase by 2.5% or $65 million in FY 2025 compared to FY 2024 payments. The rule also finalizes CMS' proposal to revise patient-level adjustment factors, increase the per-treatment amount for electroconvulsive therapy, and update the wage index using the latest labor market data available.

UHS and Acadia both cited the potential benefits associated with new Medicaid supplemental payment programs in various states. Tennessee proposed a CMS amendment to expand its benefits package, covering the full continuum of care for individuals with serious mental illness (SMI) and serious emotional disturbance (SED). If approved, it would grant the state authority to cover services for individuals with SMI or SED in facilities that meet the federal definition of an institution for mental diseases.

In UHS' Q3 2024 earnings call, Executive Vice President, CFO and Secretary Steve Filton also addressed a new Medicaid supplemental payment program in Washington, D.C. and a proposed funding increase to the existing program in Nevada. In Acadia's Q3 2024 earnings call, Chief Financial Officer Heather Dixon represented her belief that states are continuing to invest in psychiatric care, and Acadia's conversations with payers have remained positive because of that trend.

2.8%

increase in IPF PPS payment rates for CY 2025

$65m

estimated increase in total IPF PPS payments for FY 2025 compared to 2024

Conclusion

As has been a theme for the past few years, healthcare and overall patient outcomes will increasingly rely upon a well-developed behavioral healthcare delivery model. PE's continued interest in a highly fragmented market and not-for-profit healthcare's interest in divesting non-core assets will continue to drive transaction activity in 2025.

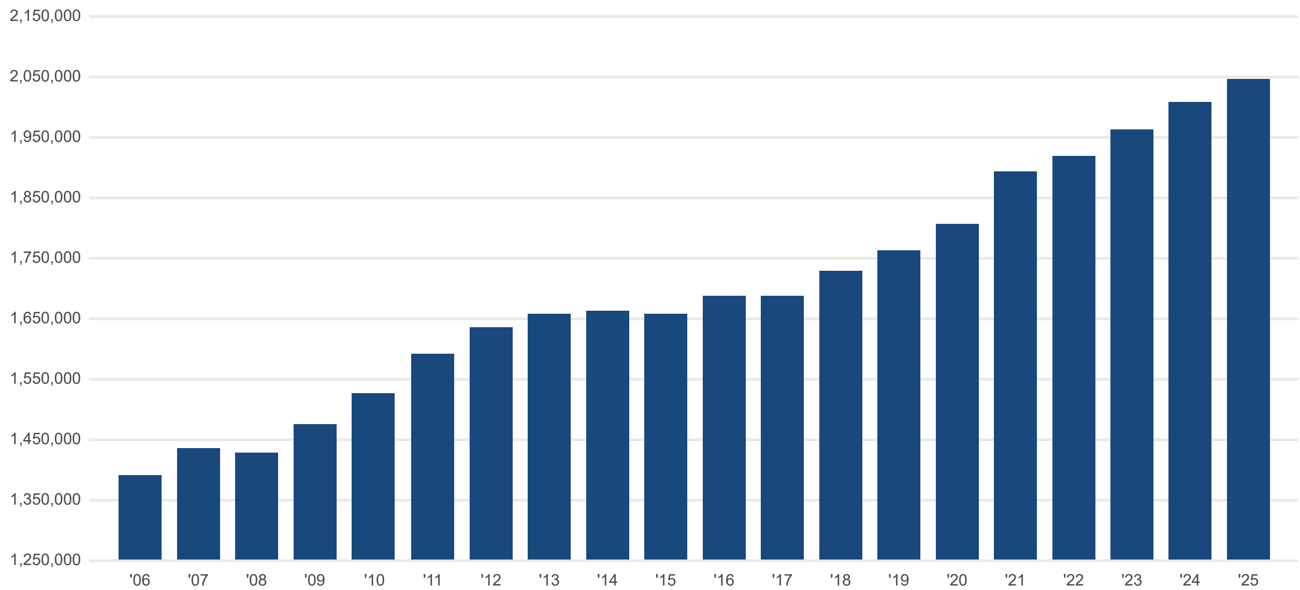
07. Oncology

Introduction

Approximately two million new cancer cases were diagnosed in the U.S. in 2024, with an estimated two million more expected in 2025. This represents a 2% increase from 2024 and a 1.7% compounded annual growth since 2013.

Estimated Number of New Cancer Cases, 2006–2025

Total Cases: 2.04 million (Est. 2025)



Based on the 2024 Oncology Market Report by Precedence Research, the global oncology market was valued at $255 billion in 2024. By 2034, it is projected to reach $668.3 billion and represent a 10.1% compounded annual growth rate.

According to Medicus Healthcare Solutions, there were 27,475 oncologists in the U.S. in 2024. Of the total oncologists, 59.4% were hematologists and oncologists, 21.7% were radiation oncologists, and 18.9% were other sub-specialties (pediatric, surgical, gynecological, etc.). It is estimated that 20% of the physicians were over the age of 64, with only 14.5% of oncologists under the age of 40. Because the population of active oncologists is aging, Medicus Healthcare Solutions estimated a shortage of nearly 2,200 oncologists in 2025.

M&A Trends

One of the more significant trends within the oncology sector has been the strategic acquisition of oncology platforms by major pharmaceutical distributors targeting vertical integration. Notable examples include McKesson's ownership of The US Oncology Network and OneOncology's 2023 acquisition by TPG and Cencora. Most recently, Cardinal Health completed an acquisition of Integrated Oncology Network (ION) from Silver Oak Capital Services Partners on February 19, 2025. ION represented the last remaining, PE-backed, pure-play oncology platform and was divested by Silver Oak Services Partners after six years—during which the platform expanded to more than 50 locations with over 100 providers. Following this acquisition, Cardinal Health plans to pursue strategic, tuck-in acquisitions in 2025.

> **We will continue to evaluate high-quality assets in strategic areas of importance, but we'll focus on integration and tuck-in acquisitions to the multi-specialty and oncology platforms that we have just acquired.**
>
> ***Aaron E. Alt***
>
> *CFO, Cardinal Health, Q4 2024 Earnings Call*

Recent PE Investment	Platform	Locations	Providers	PE Firm	Vintage	Acquisition Status
Medical & Radiation Oncology Platforms		**404+**	**1,311+**			
	Oncology Care Partners	2	200+	Welsh, Carson, Anderson & Stowe	2 years	n/a
	OneOncology	350+	1,000+	General Atlantic	5 years	Acquired by TPG and AmerisourceBergen in 2023
	Integrated Oncology Network	50+	100+	Silver Oak Services Partners	6 years	n/a
	Verdi Oncology	2	11	Pharos Capital Group	5 years	Joined The US Oncology Network in 2023
	Alliance HealthCare Services	n/a	n/a	Pharos Capital Group	4 years	Acquired by Akumin, Inc. in 2021
Urology Platforms[1]		**472+**	**1,400+**			
	United Urology Group	95	250+	Audax Private Equity	8 years	Acquired by OneOncology in 2024
	Urology Management Associates	n/a	n/a	Prospect Hill Growth Partners	4 years	Acquired by Summit Health in 2022
	Solaris Health	236+	730+	Lee Equity Partners	4 years	n/a
	Urology America	29	96+	Gauge Capital	4 years	n/a
	US Urology Partners	60+	150+	NMS Capital	6 years	n/a
	Unio Health Partners	52	164	Triton Pacific Capital Partners	3 years	n/a
Grand Totals		**876+**	**2,711+**	**Average Age**	**4.9**	

'(1) Urology platforms and investments considered due to radiation oncology component.

Similarly, The US Oncology Network and OneOncology have remained active. Specifically, The US Oncology Network extended its reach of care with the additions of Illinois CancerCare and Tennessee Cancer Specialists in Q3 2024. In 2024, OneOncology partnered with several additional organizations to improve cancer care and expand its geographical reach.

In partnership with Coastal Cancer Center from GenesisCare, OneOncology acquired two, community-based radiation oncology centers in South Carolina. Additionally, OneOncology grew its footprint in North and South Carolinas through partnerships with Southeastern Medical Oncology Center, Lowcountry Oncology Associates, and Carolina Oncology Specialists. Other partnerships include Anderson Area Cancer Center, Clearview Cancer Institute, and Connecticut Oncology Group.

Along with practice acquisitions and partnerships, OneOncology acquired Navigating Cancer, Inc., a leading care management and patient engagement platform. As the fastest-growing independent oncology practice platform, this investment in technology solutions aims to support opportunities for increased practice revenue through value-based care programs, elevated patient care, and therapy enablement. As value-based care programs are becoming more common, M&A activity surrounding care management platforms could increase in the coming years.

GenesisCare Bankruptcy

GenesisCare, a leading global cancer care provider, filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code on June 1, 2023, citing financial challenges from high debt levels and operational inefficiencies. The company underwent a restructuring process to reduce its $1.7 billion debt, with the goal of improving financial stability and streamlining operations. By February 2024, GenesisCare successfully emerged from bankruptcy, having restructured its U.S. and international operations into separate entities, including in Australia, Spain, and the UK.

According to bankruptcy filing documents, GenesisCare has divested 32 locations across 14 states. Assuming all the transactions close at the defined purchase price in the transaction agreements, cash proceeds to GenesisCare would be approximately $113 million, with an implied equity value of approximately $131 million. The assets have drawn interest from several buyer types, including health systems, large oncology platforms, and practices.

> **The strong interest we received from a wide variety of buyers from across the U.S. is a reflection of what we have long known—that GenesisCare's U.S. business benefits from an incredible team, a desirable footprint and a proven ability to care for patients.**
>
> ***Dr. Shaden Marzouk***
> *President, GenesisCare U.S.*

Total Assets	Acquirer	Notice of Winning Bid Date	Percentage Interest Acquired	Purchase Agreement Cash Purchase Price	Implied Equity Value
Three Practices in Alabama	Limitless Partners, LLC	Nov 13, 2023	100%	$5,000,000	$5,000,000
GenesisCare USA, Inc. of Ambergris, LLC	Berkley Medical Center	Nov 13, 2023	60%	$2,900,000	$4,833,333
Southern New England Regional Cancer Center; Roger Williams Radiation Therapy	American Shared Hospital Services	Nov 13, 2023	60%	$2,850,000	$4,750,000
Maryland Practice	Greenbelt Radiation Oncology Center, LLC	Nov 13, 2023	100%	$73,000	$73,000
Washington Practice; Three Nevada Practices	Oncology Consultants, PLLC	Nov 13, 2023	100%	$11,375,000	$11,375,000
Two West Virginia Practices	Physician Reliance Network, LLC	Nov 17, 2023	100%	$8,000,000	$8,000,000
Central Massachusetts Comprehensive Cancer Center, LLC	UMass Memorial Health - Harrington Hospital, Inc.	Dec 4, 2023	72.5%	$1,000,000	$1,379,310
Two Kentucky Practices	Central Kentucky Radiation Oncology Group, LLC	Dec 4, 2023	100%	$2,000,000	$2,000,000
California Radiation Therapy Management Services, Inc. Assets and Contracts	Rad Onc Investment Associates, LLC	Dec 4, 2023	100%	$3,880,000	$3,880,000
Five California Practices	Sutter Health	Dec 11, 2023	100%	$32,000,000	$32,000,000
GenesisCare Salinas Valley Memorial Radiation Therapy Management, LLC	MRKS, Inc.	Dec 11, 2023	60%	$3,600,000	$6,000,000
Vidant Radiation Oncology, LLC	ECU Health Medical Center	Dec 11, 2023	50%	$11,000,000	$22,000,000
Two South Carolina Practices	OneOncology East, LLC and Coastal Cancer Center	Jan 3, 2024	100%	$25,000,000	$25,000,000
Five California Practices	CRO Services, LLC	Jan 17, 2024	100%	$4,618,000	$4,618,000

$25m
acquisition of two radiation oncology practices by OneOncology

$32m
purchase price for five radiation oncology centers by Sutter Health

40,000
covered lives expected to be managed by Thyme Care in 2025

$1.115b
purchase of ION by Cardinal Health

250+
providers and 1,300 employees added to OneOncology through United Urology Group acquisition

One notable transaction was OneOncology's acquisition of two radiation oncology practices in South Carolina for $25 million (per the asset purchase agreement), expanding OneOncology's service offerings in an existing market. Specifically, OneOncology acquired a Myrtle Beach facility with three linear accelerators and a Conway center with one linear accelerator.

California-based Sutter Health purchased five radiation oncology practices in California located in Modesto, San Luis Obispo, Santa Cruz, Stockton, and Templeton. According to the purchase agreement, the total purchase price for these centers was $32 million. Sutter also has certain capital investments in mind, including new radiation oncology equipment, technologies, and other support services.

Value-Based Care

In May 2024, Thyme Care, a value-based oncology provider headquartered in Nashville, TN, received an investment from Echo Health Venture and CVS Health Ventures (NYSE: CVS) to scale its value-based oncology care model. The investment dollar amount was undisclosed. CVS Health Ventures owns Aetna.

Furthermore, Thyme Care announced partnerships with EmblemHealth, Oak Street Health, and Vytalize Health in December 2024. With the latest partnerships, Thyme expects to quadruple the number of covered lives to nearly 40,000 in 2025.

Notable Transactions

On February 19, 2025, Silver Oak Services Partners announced the sale of ION, a physician-led, independent community oncology network, to Cardinal Health for $1.115 billion in cash. The acquisition brings more than 100 providers across 50 community-based sites in 10 states into Cardinal Health's Navista oncology practice alliance. This strategic acquisition aims to enhance Cardinal Health's oncology offerings within the pharmaceutical and specialty solutions segment of Cardinal Health.

On October 10, 2024, OneOncology closed its acquisition of United Urology Group (UUG), expanding the group of independent oncology practices to include a urology management services organization. This acquisition enhances OneOncology's capabilities in treating specific genitourinary, prostate, and bladder cancers in addition to expanding personnel and geographic footprint by bringing over 250 providers and 1,300 employees with practices located in Maryland, Colorado, Arizona, and Tennessee. Per OneOncology's press release, acquiring UUG brings value to patients and providers by driving innovation and improving cancer care standards, leveraging UUG's operational leadership and integrated care model.

In May 2024, American Shared Hospital Services acquired a 60% stake in Southern New England Regional Cancer Center and Roger Williams Radiation Therapy from GenesisCare USA's Chapter 11 bankruptcy estate for $2.85 million after going through bankruptcy proceedings. This acquisition provides American Shared Hospital Services with three, fully equipped radiation therapy sites in Rhode Island with LINAC and CT simulators.

In August 2024, McKesson signed an agreement to acquire a 70% controlling interest in Core Ventures Community Oncology Revitalization Enterprise Ventures, LLC (Core Ventures) for $2.49 billion in cash. Core Ventures is the administrative service arm of Florida Cancer Specialist & Research Institute (FCS), which has over 250 physicians and 280 advanced practice providers working in nearly 100 locations across Florida. While the locations will be independently owned, FCS will join The US Oncology Network, McKesson's oncology practice division.

Reimbursement

On November 1, 2024, CMS released the final rule for the 2025 MPFS, which included several key changes that could have serious implications for oncology providers and practices in 2025 and beyond, including reimbursement, telehealth services, the Enhancing Oncology Model (EOM), and the 340B Program.

CMS cut the physician conversion factor from $33.29 to $32.35, representing a 2.8% decrease. Overall, according to the American Society of Clinical Oncology (ASCO), they estimate a 4% decrease for medical oncology services and a 3.25% decrease for radiation oncology services in 2025. The impact felt by oncologists will vary based on their geographic location and service mix.

$2.85m
acquisition of 60% stake in Southern New England Regional Cancer Center and Williams Radiation Therapy by American Shared Hospital Services

$2.49b
acquisition of 70% controlling interest in Core Ventures by McKesson

4%
decrease estimated for medical oncology services in 2025

Regulatory

During COVID-19, CMS expanded the list of Medicare beneficiaries who were eligible for telehealth services, which expired at the end of 2024. Starting January 1, 2025, restrictions will retake effect for geography, site of service, and eligible practitioners.

However, the CY 2025 final rule allows for flexibility in certain areas to preserve patient access to telehealth services through the end of 2025. These exceptions include the use of audio-only communication systems with distant site providers, suspension of frequency limitations, and allowing distant site providers to use their practice address instead of their home addresses.

The EOM is a voluntary payment model that began in July 2023 to improve quality of care and reduce spending through payment incentives with participating members. Currently, there are 41 practices and two commercial payers participating in EOM (Cohort 1).

CMS has since accepted a second round of participants (Cohort 2), who will begin in July 2025. Along with a new cohort, CMS also announced several adjustments to the payment model, including increasing the base Monthly Enhanced Oncology Services (MEOS) payment amount from $70 per beneficiary per month to $110 per beneficiary per month, increasing the threshold for when participants must repay CMS for patient care costs, and extending the model by two years (June 2030).

These updates will take effect for Cohort 1 on January 1, 2025, and for Cohort 2 on July 1, 2025.

Several states, including Utah, Colorado, Arkansas, Maine, and Nebraska, have introduced legislation to protect the 340B Drug Pricing Program amid pushback from pharmaceutical companies.

In 2024, major pharmaceutical companies like Sanofi, Johnson & Johnson, and Eli Lilly sought to bypass HHS and HRSA requirements by issuing rebates to hospitals after providers proved eligibility, rather than offering lower 340B prices at the time of sale. HHS and HRSA issued a Violation Letter and warned these pharmaceutical companies that if they continued, they would face fines and potential removal from the pharmaceutical pricing agreement with the government, resulting in their medication being removed from Medicare and Medicaid coverage.

On December 16, 2024, Sanofi filed a lawsuit against the HHS and HRSA over their Violation Letter. These legal battles could influence how the program operates and when and how the discounts for 340B eligible drugs are offered to providers.

Conclusion

Overall, oncology transaction trends can be characterized by a strategic shift toward consolidation, efficiency, and improved care delivery, driven by both market forces and regulatory changes. As larger healthcare organizations and PE firms seek to enhance market share and streamline care delivery, the growing consolidation of oncology practices aims to reduce costs and improve clinical outcomes.

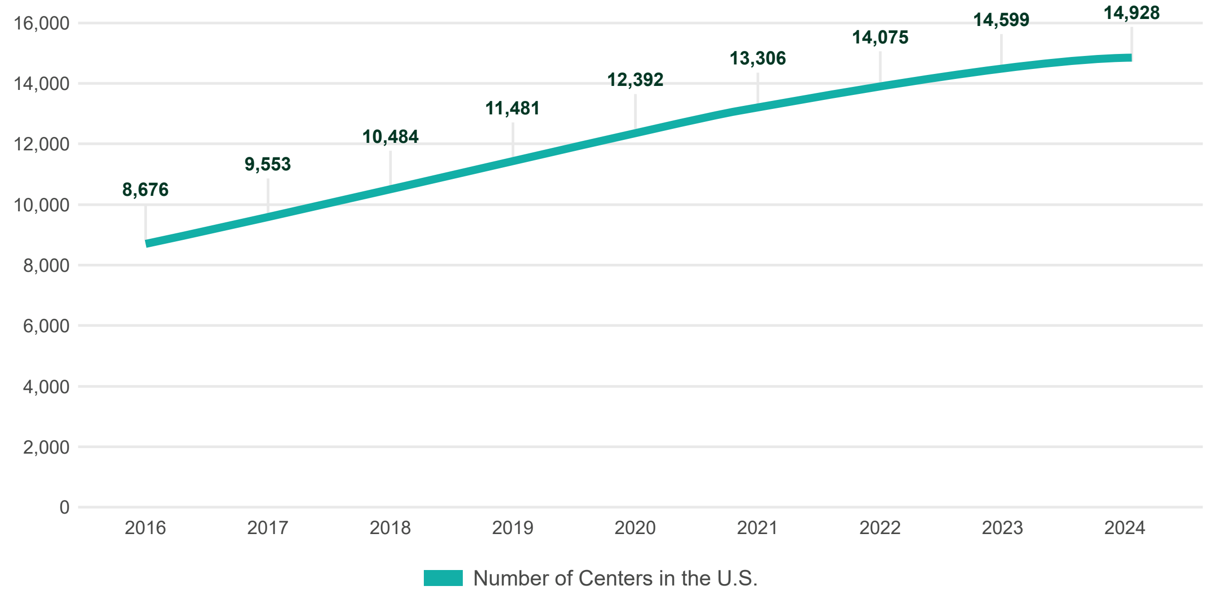
Additionally, PE firms are investing in more oncology practices due to the growing market demand, particularly as the population ages and the need for cancer care continues to rise. Lastly, as payment models shift to value-based care, there is a growing incentive for organizations to align themselves with models that reward quality care and cost-efficiency, prompting strategic acquisitions to meet these goals.

08. Urgent Care & Freestanding Emergency Departments

Industry Overview

The number of urgent care centers (UCCs) in the U.S. has grown 8.5%, compounded annually from 6,100 UCCs in 2013 to 14,928 UCCs in 2024, and this robust expansion is projected to continue as the UCC market is expected to reach $33.22 billion by 2028, increasing at 6.8% compounded annually.

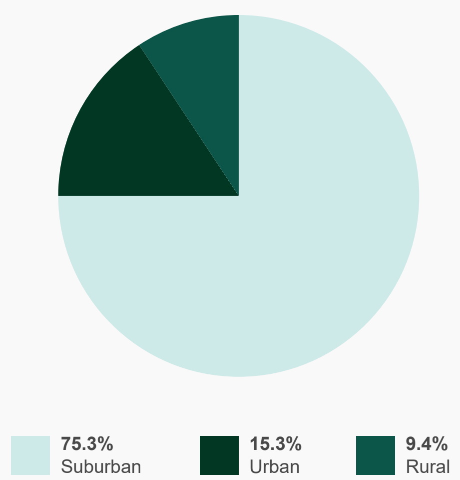
Urgent Care Center Growth in the U.S. 2016–2024



Data Source: Urgent Care Association

Market saturation in the UCC sector is most prevalent in large, suburban metro areas, with suburban UCC operators representing approximately 75% of total UCCs. Approximately 89% of the U.S. population lives within a 20-minute drive of a UCC, and 79% of the population lives within a 10-minute drive. The growth of de novo UCCs was the highest in rural areas despite a smaller population sample.

Distribution of UCCs



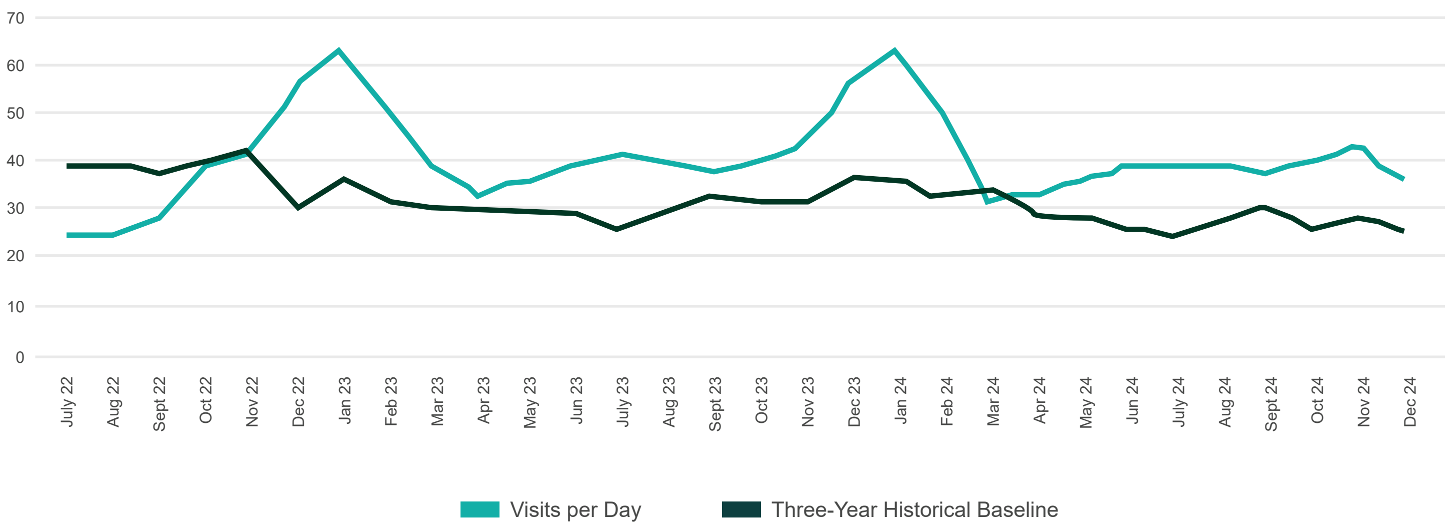
New Urgent Care Rooftops, 2024	% of Total De Novos
Rural	26%
Rural Adjacent	13%
Suburban	16%
Suburban Light	19%
Ultra Urban	13%
Urban	13%

The UCC market continues to experience significant growth driven by several macro factors. The growing prevalence of chronic diseases in the U.S. demands accessible care solutions, making UCCs vital in managing these conditions. Along with the increase in chronic conditions, the aging population contributes to higher healthcare utilization, enabling UCCs to keep growing as a convenient alternative for non-emergency needs. The Association of American Medical Colleges projects a shortage of up to 48,000 primary care physicians over the next 10 years, which could be further strained by chronic conditions and aging populations.

Technological advancements in telehealth and electronic health records have improved UCCs' operational efficiency and patient experiences, expanding both their reach and effectiveness for patients. Several major commercial payers continue to adjust their reimbursable emergency room visit policies, tightening the criteria for coverage. With emergency room visits costing 10–12x more than the average urgent care visit, according to the U.S. Department of Health, more patients are seeking lower-cost alternatives for non-emergent conditions. This shift has accelerated the redirection for patient volume from emergency rooms to UCCs. As the industry evolves, these financial and accessibility dynamics—coupled with the ongoing shortage of primary care providers—can be expected to create both opportunity and uncertainty in the UCC market.

During the pandemic, UCCs were the primary facilities where patients were evaluated for COVID-19. As such, UCCs experienced unprecedented visit volumes through 2022. During 2024, visit volumes tracked lower than 2023 volumes and continue to trend toward pre-COVID levels.

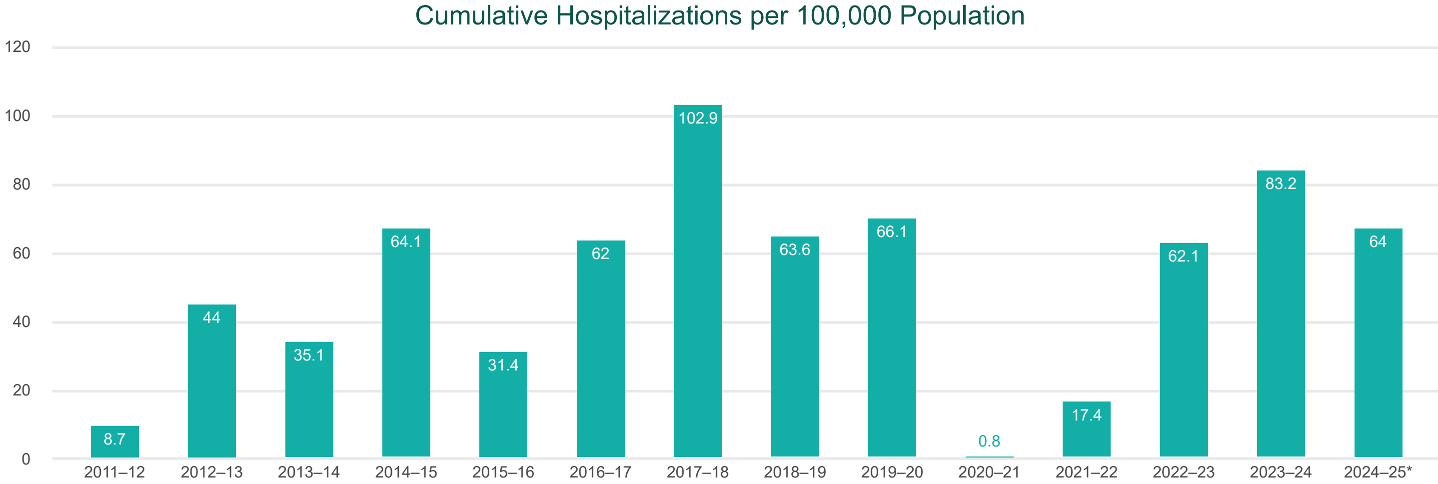
Average Urgent Care Visits per Clinic per Day



Experity Data

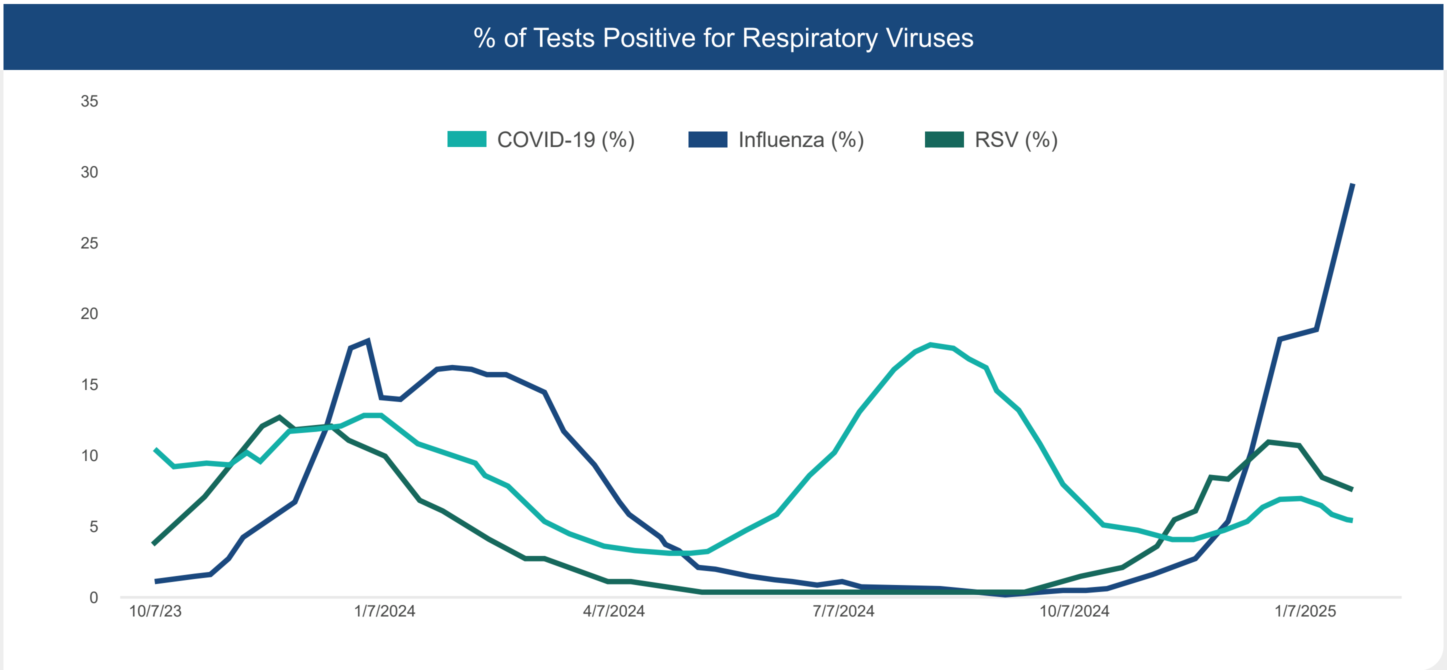
As of December 2024, the average UCC visit volume was approximately 25 patient visits per day per location. This represents a 3% decrease compared to December 2023 and a 31% decrease to the average per-day visit volume of 37 for the previous three years (December 2021, December 2022, and December 2023). The elevated COVID-19 volumes in 2021 and 2022 and the elevated flu season of 2023 directly impacted those three years.

Influenza-related hospitalizations serve as a key indicator of flu season severity and its impact on UCCs. The 2022–2023 season saw a sharp rise in hospitalizations compared to prior years, coinciding with increased cases of COVID-19 and RSV, creating a "tripledemic." The 2023–2024 season experienced an even greater spike in hospitalizations, driven by reduced population immunity from low flu exposure in prior years.



*Data through February 1, 2025 does not represent a full traditional flu season (October–April).
Source: *The Influenza Hospitalization Surveillance Network, based on observations of approximately 9% of U.S. Population as of February 1, 2025.*

While the 2024–2025 flu season is ongoing as of this report's publication, early data indicates elevated flu-related volumes compared to the 2023–2024 season. As the season progresses, UCCs may see a surge in visit volumes through spring 2025. UCCs will continue to experience seasonal fluctuations driven by flu and other respiratory virus activity, with visit volumes typically peaking in winter and declining in summer.



A critical concern for UCCs is the shortage of radiologic technologists, essential for imaging services. A recent American Society of Radiologic Technologists (ASRT) survey found an 18.1% vacancy rate, a dramatic increase from 6.2% just three years ago. This shortage is driven by clinician burnout, the lingering effects of the COVID-19 pandemic, and a demand for technologists that exceeds the current supply of trained professionals. As UCCs navigate these financial and workforce pressures, strategic workforce development and operational efficiencies will be essential to sustaining patient care quality and long-term viability.

The pandemic was declared a public health emergency, requiring the federal government and federally funded insurers to cover COVID-19 services, including copays, deductibles, and expanded telehealth options for Medicaid and Managed Medicaid plans. In May 2023, the public health emergency ended, and Medicaid pulled its requirements to fund COVID-19 services. The payer mix changes and impact to coverage could put UCC volumes at risk.

Commercial payers typically mirror CMS in raising reimbursement to align with cost increases or other annual changes. However, many UCCs have received low or static reimbursement rate adjustments from commercial payers over the past few years, creating financial strain when combined with current labor and inflationary pressures. WellNow Urgent Care, a UCC operator with over 200 locations across the country, and Excellus Blue Cross Blue Shield failed to renegotiate contract terms before their January 1, 2024 deadline. The missed deadline resulted in a 10-month stalemate between the two, leaving WellNow out of network until November 15, 2024.

During this period, Excellus members faced higher out-of-pocket costs to access WellNow services, causing confusion and potential delays in care. Dr. Robert Biernbaum, WellNow's Chief Medical Officer, expressed concern that patients were postponing necessary treatment due to increased expenses and uncertainty about coverage. While WellNow's return to in-network status restores coverage for thousands of patients, similar conflicts may emerge as insurers and providers navigate cost containment strategies. With persisting healthcare access gaps, particularly in areas affected by hospital closures, UCCs will play a critical role in maintaining accessible, cost-effective care, making equitable reimbursement agreements essential for long-term industry sustainability.

M&A Trends

The demand for urgent care services and industry growth continues to make UCCs attractive acquisition targets to a diverse buyer pool.

Typically, UCCs can provide both strategic and financial buyers with positive investment returns through the expansion of an existing platform and operational changes. In addition, the urgent care market is highly fragmented, with the top operators accounting for approximately 38% of total UCC locations. Of this amount, approximately 53% are affiliated with a healthcare system. Types of affiliations include majority/minority equity joint ventures, management-only contracts, clinical network integration, and more.

200+
locations operated by WellNow Urgent Care across the country

38%
of total UCC locations owned by top urgent care operators

53%
of top UCC operators affiliated with healthcare systems

As of February 2025, Concentra was the largest independent UCC operator with 532 locations, an increase from approximately 300 locations in 2015. This increase represents a 7% compounded annual growth rate. The largest hospital-owned UCC entity is HCA Healthcare Urgent Care, with 354 total locations as of February 2023.

Urgent Care Chain	Locations (Dec. 2023)	Locations (Feb. 2025)	Type	PE Firm	Vintage
Concentra	522	532	Health System	Select Medical Corp; WCAS	10
American Family Care	348	374	Franchise	n/a	n/a
HCA Healthcare	359	354	Health System	n/a	n/a
GoHealth	266	303	Private Equity	TPG Capital	11
Fast Pace	255	285	Private Equity	Revelstoke Capital Partners	8.5
CityMD	191	190	Private Equity	Wallgreens/VillageMD	2.5
WellNow Urgent Care	154	141	Private Equity	SV Life Sciences, Petra Capital, River Cities	13
MedExpress	188	140	Payer	n/a	n/a
Blue Cross Blue Shield	130	131	Payer	n/a	n/a
NextCare	129	103	Private Equity	Enhanced Healthcare Partners	14
WellStreet Urgent Care	99	102	Private Equity	FFL Partners	13
Patient First	78	78	Independent	n/a	n/a
CRH Healthcare	70	77	Private Equity	Freeman Spogli & Co.	6
PM Pediatrics	69	77	Private Equity	Convest Capital Partners	5.5
Urgent Team	61	18	Private Equity	Petra Capital, River Cities	9

Because the market is fragmented, consolidators can achieve financial gains by leveraging economies of scale. Furthermore, a multi-location urgent care platform can address current labor shortages by sharing staff and resources. Financial and strategic buyers often optimize staffing models by using more lower-cost, mid-level providers as a typical operational strategy. However, the required level of physician oversight, and therefore the viability of this strategy, is determined by state laws and varies across UCCs.

Despite industry headwinds and risks, many urgent care platforms are communicating optimistic pipelines and an appetite for growth through acquisitions and improving accessibility for patients and health systems across the country:

> **"It will provide convenient outpatient care options when and where [patients] need it. It also will help seamlessly connect these patients to our broader healthcare network when a higher level of care or specialty service is needed.**
>
> ***Erol Akdamar***
> *President, HCA Healthcare's American Group*

PE investors were actively involved in UCC transactions in 2024, and there are no indications that activity will slow down in the future. The table below shows the largest PE investors in UCCs. Many of these platforms are currently backed by a PE firm whose hold period exceeds the typical three- to seven-year investment window (vintage), indicating a potential exit opportunity in the near future.

Top 10 Largest PE Owners by Urgent Care Center Count 2024		
Private Equity Investors	**Total Center Count**	**Operating Platform**
Lorient Capital	402	American Family Care, Midwest Express Clinic
TPG	266	GoHealth Urgent Care
Revelstoke	255	Fast Pace Health
Leonard Green & Partners, Ares Private Equity	198	WellNow Urgent Care
Enhanced Equity Partners	170	NextCare Urgent Care
FFL Partners	149	WellStreet Urgent Care, Perlman Clinic
Shore Capital Partners	95	Community Care Partners
Freeman Spogli	87	CRH Healthcare
Petra Capital Partners, Crestline Investors	87	Urgent Team
Scopia, Jefferson River Capital	79	PM Pediatrics

Many of the private equity transactions in 2024 were characterized by smaller, tuck-in acquisitions than large platform acquisitions. A noticeable trend in 2024 acquisitions featured concentrated growth strategies in regional markets nationwide as providers focused on strengthening their market positions. Within these acquisitions, many of them were strategically centered around less populated regions to avoid the oversaturated markets.

For example, on October 16, 2024, American Family Care (AFC) acquired three, Alabama MedCare locations previously owned by CRH Healthcare. AFC currently owns 45 clinics across Alabama, and this tuck-in acquisition extends its market presence within the state.

Additionally, PM Pediatric Care recently acquired 10 pediatric UCCs from Pediatrix Medical Group in Florida, expanding its presence to 13 total locations.

The current interest rate environment has increased the cost of debt, making large transactions more expensive for investors, which pressures valuations. The disconnect between seller and buyer expectations could extend the private equity hold periods. Even with a growing holding period, these platforms are expected to continue pursuing tuck-in acquisition and other high-growth strategies.

Notable Transactions

Health systems, PE groups, and other buyers were active participants in UCC transactions during 2024. Many acquisitions in 2024 were characterized by smaller, tuck-in acquisitions in rural markets and health systems looking to expand their networks.

For health systems, UCCs offer a convenient access point into the health system. For many health systems, UCC growth can provide an opportunity to attract new patients into their health system, as urgent care patients will likely navigate through the care delivery network. During its Q3 2024 Earnings Call, Ardent Health Partners CEO Martin J. Bonick spoke on their ambulatory acquisition strategy and the impact of recent acquisitions moving forward:

> **Urgent care facilities are currently our most immediate focus, as they broaden our geographic footprint and access to new patients in our communities.**
>
> ***Martin Bonick***
> *President & CEO, Ardent Health Partners*

> **We are already seeing an increase in new patients with 30% of the patients treated at these urgent care centers representing new patients to Ardent Health, providing us with the opportunity to further bring these patients into our ecosystem of care.**
>
> ***Martin Bonick***
> *President & CEO, Ardent Health Partners*

Ardent Health's outpatient growth strategy, like many health systems, revolves around UCCs serving as primary entry point for patients in need of immediate care. A larger urgent care network can generate incremental downstream services like hospital visits and post-acute services that many urgent care visitors will likely require.

Ardent Health announced the acquisition of 18 UCCs in New Mexico and Oklahoma from NextCare Urgent Care. According to Ardent Health President and CEO Marty Bonick, the acquisition allows Ardent Health to "bring new patients into our network," emphasizing the opportunity UCCs create as the initial entry point of care for patients as it is likely the patient will be referred to secondary stages of care in hospitals and post-acute facilities Ardent and other hospital systems operate.

Northwest Urgent Care, LLC, a subsidiary of Community Health Systems, Inc., successfully acquired UCCs owned and operated by Carbon Health in Arizona. Following the acquisition on December 2, 2024, Northwest now operates more than 80 sites of care across the network, further expanding its market presence across Arizona.

In November 2024, Novant Health closed the acquisition of UCI Medical Affiliates from BlueCross BlueShield of South Carolina. The transaction included over 200 medical providers, 20 Progressive Therapy clinics, and 52 Doctors Care urgent care locations in South Carolina. Doctors Care is the largest urgent care provider in South Carolina, and the acquisition complements Novant's outpatient care strategy in the state.

On May 28, 2024, Goldman Sachs Alternatives announced its acquisition of Xpress Wellness, LLC, a UCC operator with 58 locations across Oklahoma, Kansas, and Texas—many of which focused on rural markets. The primary purpose of the deal is to accelerate development in both new and existing markets in rural areas with Rural Health Clinic designations.

Blue Cross Blue Shield of North Carolina announced in January 2024 that it successfully acquired 55 FastMed UCCs operating across 34 counties in the state of North Carolina. According to BCBS North Carolina CEO Tunde Sotunde, the FastMed acquisitions represents a “vital investment in North Carolina,” given that roughly half of all FastMed clinics are located in rural areas, where access to healthcare services can be very limited.

Concentra Health, the largest operator of occupational medicine clinics and an affiliate of Select Medical, completed its initial public offering (IPO) on July 26 under the symbol CON. Concentra raised $499.7 million (post-discounts and commissions) with a share price of $23.50. Post-IPO, Select Medical continues to retain approximately 80% of shares, making Concentra a controlled business. The net proceeds from the IPO and debt restructuring were used to pay down long-term, related-party debt with Select.

> **“The addition of our urgent care and physical therapy network enhances our ability to support patients across the state with their unexpected care needs and recovery from injuries. Our compassionate caregivers at these clinics are empowered and dedicated to working together to help our communities thrive.**
>
> ***Carl S. Armato***
> *President & CEO, Novant Health*

Concentra reports financial results under three segments: Occupational Health Centers, Onsite Health Clinics, and Other Businesses. As of June 30, 2024, the segments respectively represent 95%, 3%, and 2% of Concentra’s revenue. Concentra has several key strategic opportunities on the horizon, including expanding the company’s network of healthcare facilities, investing in advanced medical technologies, and enhancing its digital health platforms. Concentra intends to increase de novo site development to grow market share and density and pursue tuck-in acquisition opportunities.

2.83%
reduction from the CY 2024 conversion factor

$32.3465
Medicare conversion factor for CY 2025

Reimbursement

Medicare reimburses UCCs according to the MPFS. On November 1, 2024, the CMS released the CY 2025 MPFS final rule, setting the CY 2025 Medicare conversion factor to $32.3465. The CY 2025 conversion factor is a 2.83% reduction from the CY 2024 conversion factor of $33.2875, implemented on March 9, 2024 as a 1.66% increase to the originally proposed CY 2024 conversion factor of $32.7442. For 2025, the 2.83% reduction in the conversion factor is primarily due to the expiration of the 2.93% temporary increase at the end of 2024, combined with a 0% baseline adjustment for 2025 under the Medicare Access and CHIP Reauthorization Act.

Regulatory

Under the Emergency Medical Treatment and Labor Act (EMTALA), emergency departments are required to stabilize and treat patients regardless of insurance status or ability to pay. UCCs are not subject to EMTALA; therefore, they can choose which payers and patients to accept. UCCs are not required to accept Medicaid, Medicare, or be in network with private insurance payers. Typically, commercial insurers reimburse higher than Medicare and Medicaid. UCCs tend to have a higher commercial payer mix.

The urgent care industry is not as heavily regulated or restricted as other healthcare entities. Instead, UCCs are typically licensed under an individual physician's license or an affiliated hospital. Most states do not require a facility-specific license for UCCs. No states require a certificate of need (CON) to open an UCC. Without the need for a CON or any roadblock from other regulations related to the saturation of a particular market, it has been easier for platform operators to achieve growth through opening de novo clinics. This has led to an increasingly fragmented UCC market in many suburban areas.

Conclusion

The urgent care industry was positively impacted by the rise of COVID-19 testing volumes throughout the pandemic in 2021 and 2022. During 2024, volumes have continued to decline from pandemic highs as COVID-19 volumes normalized. Additionally, the UCC industry is facing similar risks as those impacting the entire healthcare industry and U.S. economy, including the current labor market, reimbursement pressures, and supply-cost inflation.

Despite these risks, the UCC industry grew throughout 2024, particularly in rural markets with less market saturation and competition. Future tailwinds for the industry include patient-return visits, as patients who came to clinic sites for COVID-19 testing are more likely to return to that location in the future. Additionally, technological advancements (e.g., adoption of telehealth capabilities), and specialization of services (e.g., behavioral health and wellness services) could result in operational efficiencies and a competitive advantage for some UCCs. Finally, the UCC industry will continue to grow due to macro factors like the rise in consumerism, patient expectations, and payer pressures to redirect emergency room visits to lower-cost sites of care.

M&A activity and transaction volume is expected to remain strong as PE buyers look to exit historical investments, platforms seek tuck-in acquisition opportunities, and health systems and other entities look to expand their outpatient and primary care service area. UCC operators that adapt to these market dynamics with service offerings, sophisticated telemedicine capabilities, COVID-19 testing and treatment capabilities, and changes in patient visit types will be popular acquisition targets.

09. Kidney Care

Industry Overview

In 2024, reports out of the kidney care industry have been positive. Growth in treatment volume and operating income have been bolstered by underlying, persistent patient demographic and health diagnosis trends that serve as tailwinds for the industry. The key factors driving the kidney care industry's sustained growth in the U.S. include an aging population, increasing rates of diabetes and hypertension, and the continued rise of chronic kidney disease (CKD) and end-stage renal disease (ESRD). Currently, nearly 808,000 individuals are living with ESRD (with 69% undergoing hemodialysis), and about 35.5 million adults are affected by CKD in the U.S. Though it still represents a smaller portion of dialysis treatments, home hemodialysis has gained in popularity as compared to in-center hemodialysis. There are two main types of home dialysis: peritoneal dialysis (PD), where a solution is put into the abdomen, and home hemodialysis (HHD), where a machine filters blood.

Underlying this steady overall growth and the trend toward home hemodialysis modalities are shifting industry themes that will continue to shape the industry in 2025 and beyond. This shifting landscape is propelled by legislative directives prioritizing care outside of traditional dialysis facilities, a growing number of consolidators on the nephrology practice side, the emergence of new pharmaceuticals, and the continued introduction and adoption of alternative payment models within renal care.

Although gradually, the shift away from traditional, in-center hemodialysis is growing. As of December 2024, CMS published data showing that there are approximately 7,573 Medicare-registered dialysis centers in the United States. The number of centers has grown at a compound annual rate of 2.4% over the last 14 years and increased from 5,413 dialysis facilities in 2010.

More recently, however, this historical growth has reversed. There has been a steady annual decline in licensed dialysis centers since 2022. Since 2021, facility numbers have decreased by 3.9% (306 facilities), following modest growth of 5.9% (438 facilities) from 2018 to 2021. Although traditional, in-center hemodialysis remains the dominant care protocol, from 2012 to 2022, the percentage of incident (new) and prevalent (existing) ERSD patients performing home dialysis treatments increased from 8.5% to 14.5% (approximately 70% growth), and from 10.2% to 14.5% (approximately 42% growth) respectively.

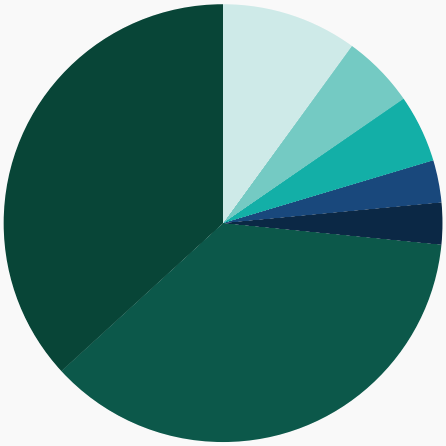
808k
individuals living with ESRD

35.5m
adults affected by CKD in the U.S.

7,573
Medicare-registered dialysis centers in the U.S.

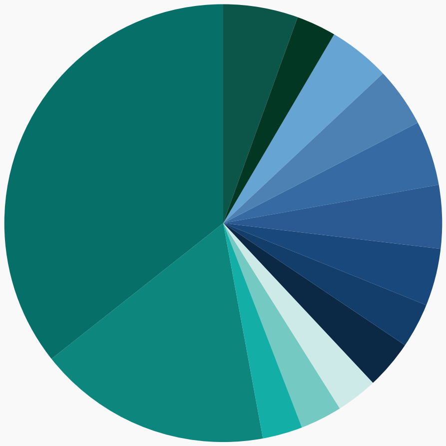
Compared to most healthcare verticals, the kidney care industry is highly consolidated and dominated by two large operators: DaVita and Fresenius. When combined, the two operate approximately 5,569 Medicare-registered U.S. dialysis facilities, representing 73.5% of the overall market. Additionally, they operate approximately 100,440 dialysis stations, around 75.4% of the overall market. Excluding DaVita and Fresenius, the next three largest operators combine to account for only 11.1% of the remaining market in the U.S., with each operating approximately 3%–5% of total U.S. dialysis facilities. These include US Renal Care (374 facilities), American Renal Associates (224 facilities), and Dialysis Clinic Inc., which operates approximately 243 facilities and is the largest nonprofit operator of its kind. The rest of the U.S. market is comprised of 411 single-site or smaller, multi-site chains and 749 independent operators, which accounts for the remaining 15.3% of outpatient dialysis facilities.

Market Share of Medicare Registered U.S. Dialysis Companies (by # of facilities)



- **36.6%** Fresenius
- **37%** DaVita
- **9.9%** Independent
- **5.4%** Rest of Market
- **4.9%** U.S. Renal Care
- **3.2%** Dialysis Clinic Inc.
- **3%** American Renal Associates

Market Share of Rest of Market (5.4%)



- **17%** Satellite Healthcare
- **36%** Other & < 8 Locations
- **5%** Kaiser Permanente
- **3%** Puget Sound Kidney Centers
- **5%** Wake Forest University
- **4%** Centers for Dialysis Care
- **5%** Northwest Kidney Centers
- **5%** State Owned
- **4%** Atlantis Healthcare Group
- **3%** Satellite Dialysis
- **4%** Greenfield Health Systems
- **3%** Sanford Health
- **3%** Mayo Clinic Dialysis
- **3%** Atlantic Dialysis Management Services

Data as if December 31,2024. SourceL Data.cms.gov

Large dialysis facility operators have continued to invest in opportunities and services that contribute to growth in home dialysis. Although DaVita, Inc. did not provide figures for the incremental growth in home dialysis treatments in its Q3 2024 10-Q and earnings call, they stated in a press release that in 2024, home dialysis accounted for approximately 15% of overall treatment volume, resulting in double-digit home dialysis treatment growth. Fresenius Medical Care indicated that historically, home dialysis treatments accounted for approximately 15.4% to 16% of overall treatment volumes. Additionally, they stated that the percentage of overall treatments occurring at home has continued to increase. Fresenius also states that between January and April 2024, the number of new HHD patients starting treatments in the U.S. grew by 18% compared to the prior 2023 period.

During its Q3 2024 earnings call and DaVita's October 2024 10-Q, Davita highlighted that elevated patient mortality rates and the resulting adverse effects on patient census has negatively impacted revenue and volume. They expect mortality rates to remain elevated in 2025, although the cause is currently unknown. Anticipated tailwinds in 2025 include declining center closures and the inclusion of oral medications if pharmacy companies are unable to get legislation passed to delay the inclusion. Oral medications for dialysis patients could reduce the burden on patients with more convenient alternatives to intravenous drugs and potentially lower overall costs for providers. Introducing new oral drugs, especially if they are more effective or cost efficient than current options, could lead to market growth.

Additionally, DaVita explained that treatments per day remained generally flat in 2024's third quarter. However, DaVita's Q3 2024 10-Q shows that treatment volumes have increased by 0.5% (112,000) since September 2023, despite treatment volumes being negatively impacted by higher-than-expected missed treatment rates.

In its Q3 2024 earnings call, Fresenius noted that same-market treatment growth in the U.S. has improved. Volume is expected to be up 0.5%–1% by year-end, with growth potentially reaching 2% with continued improvement into FY 2025. The core drivers of their medium- and long-term business prospects remain unchanged, with commentary on the anticipation that GLP-1 drugs will not impact their long-term growth plans. GLP-1 and related pharmaceuticals are a topic of much discussion as they relate to their long-term impact on dialysis operators.

Labor costs significantly impact dialysis facilities and often represent the largest portion of expenses due to the highly labor-intensive treatment process. Recently, economic conditions and political/regulatory developments have added additional volatility and uncertainty to staffing in an already challenging labor market. Companies are facing rising general labor costs and hiring difficulties due to high rates of burnout, an aging workforce, and an increased demand for dialysis services. These problems continue to increase labor expenses and supply chain costs and are exacerbated by the nationwide shortage of skilled clinical personnel.

In their third quarter 10-Q, DaVita discussed their experience with increased care costs per treatment, primarily due to increased compensation expenses, including increased wage rates and headcount and increased health benefit expenses. However, they stated that those increases are partially offset by decreased contract wages and other expenses. These elevated staffing and labor costs are expected to persist due to increased training costs and recent legislative changes, including the implementation of the provisions of Senate Bill 525 in California, which impacts minimum wage requirements for healthcare workers.

Fresenius also noted in their Q2 2024 earnings call that financial performance was strongly impacted by labor and inflationary cost increases. However, they had comparatively low labor costs in the second half of 2023. For 2024, they anticipated a net 3% increase in labor expenses due to higher wage inflation and staffing requirements, with a favorable outlook for their labor expenses going forward.

Recently, the dialysis industry has experienced difficulties with an increase in union organizing activities and staffing shortages that are affecting patient care. However, it seems that their cumulative impact is beginning to slow, and the additional pressure on companies' cost structures is lessening. Prolonged pressure could lead certain centers to close unexpectedly, adversely impact clinical operations, or adversely impact dialysis facilities' ability to provide services or meet the cost of providing those services.

M&A Trends

As it relates to major operators, DaVita continues to open new centers at a slower pace in favor of setting up programs that focus on home dialysis or expanding existing sites to accommodate home dialysis. Center acquisitions within the U.S. trended downward in past years, with a peak of 17 acquisitions occurring in 2021, then five acquisitions in 2022, and none in 2023. However, as of the end of Q3 2024, DaVita has completed 12 acquisitions. DaVita also opened 12 U.S. centers in the first three quarters of 2024, a decrease from 18 in the same period of 2023 and 33 in 2022.

> **We finished the year on a strong note, producing full year adjusted operating income and adjusted EPS in the top half of our guidance range with year-over-year growth of 21% and 26%, respectively.**
>
> ***Javier J. Rodriguez***
> *CEO & Executive Director, DaVita, Q4 2024 Earnings Call*

Year-over-year center closures have declined, with 31 centers classified as "Sold and Closed" or "Closed" in YTD 2024, down from 51 in YTD 2023 and 76 in YTD 2022, according to DaVita's Q3 2024 and 10-Q filings. The distinction between a "Sold and Closed" center and a "Closed" center is the retention of patients in existing outpatient dialysis centers. In the case of "Sold and Closed," most patients are not retained, while for a "Closed" center (which represents most of the closures), most patients are retained and transferred to another center.

Notable Transactions

In August 2023, it was announced that The Carlyle Group, a leading PE investor in the medical technology sector, will acquire Baxter International Inc.'s kidney care segment for $3.8 billion. Carlyle's healthcare investment platform, Atmas Health, partnered with the firm on the acquisition. Baxter International is a global medical technology leader in the U.S. Following the transaction, the segment will be named Vantive. Vantive employs more than 23,000 people globally and offers products and services for peritoneal dialysis, hemodialysis, and organ support therapies, including continuous renal replacement therapy.

In March 2024, DaVita continued to expand its international operations with four separate acquisitions from Fresenius Medical Care for a total of $300 million. The acquired clinics are located in Brazil, Columbia, Chile, and Ecuador and closed through the year. The four transactions represent a total of 154 dialysis clinics with more than 7,100 employees and over 30,000 dialysis patients. They recorded pro-forma revenue of approximately $381 million in 2023.

$3.8b
acquisition of Baxter International's kidney care segment by The Carlyle Group

$300m
spent by DaVita on four acquisitions from Fresenius Medical Care

154
dialysis clinics acquired by DaVita with 30,000+ dialysis patients

Reimbursement

On November 1, 2024, CMS issued a final rule that revises the ESRD Prospective Payment System (PPS) base rate for CY 2025, updates the payment rate for acute kidney injury (AKI) services for individuals in ESRD facilities, and extends Medicare payment to dialysis in-home settings for beneficiaries with AKI. The rule also modifies the calculation of Transitional Drug Add-on Payment Adjustment (TDAPA) for oral-only phosphate binders and updates requirements for the ESRD Quality Incentive Program (QIP), ESRD Facility Conditions for Coverage, and ESRD Treatment Choices Model.

CMS is increasing the ESRD PPS base rate by approximately 2.7%, based on the ESRDB market basket increase factor of 2.2%, decreased by a multifactor adjustment of less than 0.1%. The final adjustment increases total payments to all ESRD facilities by $2.80 to $273.82. For hospital-based ESRD facilities, CMS projects an increase in total payments of 4.5% and an increase in total payments of 2.6% for freestanding ESRD facilities.

Effective January 1, 2025, the ESRD bundled payment will include oral-only dialysis medications, specifically phosphate binders. The final ruling will pay the TDAPA for phosphate binders based on the Average Sales Price (ASP), plus an additional $36.41 for incremental costs of dispensing and storing phosphate binders. Additionally, the final ruling updates the AKI dialysis payment rate for CY 2025 to equal the CY 2025 ESRD PPS base rate and to apply the CY 2025 wage index.

> **While the 2.7% increase is slightly better than the draft rule, it is still below what we would have liked to see given the inflationary pressures on our industry. It is in line with our moderate assumption for reimbursement increases in our 2025 margin outlook.**
>
> ***Helen Giza***
> *Chair of Management Board & CEO, Fresenius*

Regulatory

The ESRD QIP program evaluates each facility's overall performance and applies payment reductions to those that fail to meet the minimum total performance score (mTPS). Beginning in payment year (PY) 2027, CMS will replace the Kt/V Dialysis Adequacy Comprehensive clinical measure with a Kt/V Dialysis Adequacy measure topic. The Kt/V Dialysis Adequacy measure topic is comprised of four separate Kt/V measures as opposed to the single set of performance measures under the Kt/V Dialysis Adequacy Comprehensive clinical measure. The updated measures—adult hemodialysis (HD) Kt/V, adult PD Kt/V, pediatric HD Ktv/V, and pediatric PD Kt/V—will more accurately assess Kt/V performance.

CMS will score the four measures as a Kt/V Dialysis Adequacy measure topic with a weighting limit of 11% of the total performance score (TPS), which is the current weighting of the Kt/V Dialysis Adequacy Comprehensive clinical measure. Beginning in PY 2027, CMS will remove the National Healthcare Safety Network (NHSN) Dialysis Event reporting measure from the ESRD QIP measure set.

Based on feedback to the proposed modification, CMS is updating the definition of an ESRD beneficiary in the context of transplant failures to identify attribution more accurately to the ETC Model.

Since the implementation of the present system in 2011, the ESRD has not incorporated oral-only products in its bundled payment. However, CMS has planned for oral-only products (e.g., phosphate binders) to be included in the bundle beginning in 2025. Federal lawmakers concerned with limited access and rising dialysis treatment costs are seeking to postpone this action until 2033 or until new therapies become available, whichever comes earlier.

Conclusion

The kidney care industry has maintained a stable trajectory in 2024, driven by the rising prevalence of CKD and demographic shifts, overall treatment volumes, and a growing patient base from the aging population. The impact of these tailwinds on operating income has been tempered by expense inflation, rising labor expenses, staffing shortages, and other challenges. These issues continue to impact the industry, leading to higher operational costs that have outpaced growth in reimbursement generally.

Legislative and reimbursement changes, particularly with the inclusion of oral dialysis medications, will influence financial outcomes in 2025 and beyond, especially as CMS adjusts the ESRD PPS.

M&A activity in the dialysis sector has been increasingly focused on building vertical scale to accommodate alternative payment models and manage risk. The two largest dialysis operators, who together have a dominant market share, have made significant investments in introducing home-based services and have embraced novel value-based care models. It is vital to observe the many changes occurring to the nephrology practice side, as the number of consolidators is growing. These emerging companies, supported by substantial PE and venture funding, aim to unify a fragmented industry and harness technology, analytics, and scale to accelerate the implementation of value-based care and shared-risk models.

Overall, while challenges persist, the industry's long-term growth prospects remain positive, supported by demographic trends, innovative treatments, and strategic investments in the continued growth of home dialysis.

10. Laboratories

Industry Overview

Laboratory tests and procedures are commonly used by hospitals, physicians, healthcare providers, and commercial clients to support the diagnosis, evaluation, detection, therapy selection, monitoring, and treatment for diseases and medical conditions. The laboratory industry is primarily made up of three types of providers: hospital-based laboratories, independent clinical laboratories, and physician-office laboratories. Hospital-based labs are organized by the type of testing they perform and staffed by specialized professionals. Some focus on microbiology, hematology, chemistry, and blood banking, while others concentrate on more advanced testing like electron microscopy and immunohistochemistry. Independent clinical laboratories operate separately from both physician offices and hospitals (unless they qualify as emergency hospitals). This category includes major commercial laboratories like Quest Diagnostics and Laboratory Corporation of America (LabCorp), along with numerous local, regional, and specialty reference labs. Physician office laboratories (POLs) are operated by individual physicians or physician groups to perform diagnostic tests related to their medical practice.

As mentioned above, the two largest commercial laboratory companies in the U.S. are Quest and LabCorp, accounting for over 15% of test volume in the industry combined; however, they make up less than 1% of all laboratory testing locations in the country. To increase their market share, both have been very active with acquisitions over the past several decades. In fact, over 50% of LabCorp's and Quest's combined revenue growth from the past 25 years has been linked to acquisitions.

15%+ of U.S. laboratory test volume handled by Quest and LabCorp combined

<1% of all laboratory testing locations represented by Quest and LabCorp

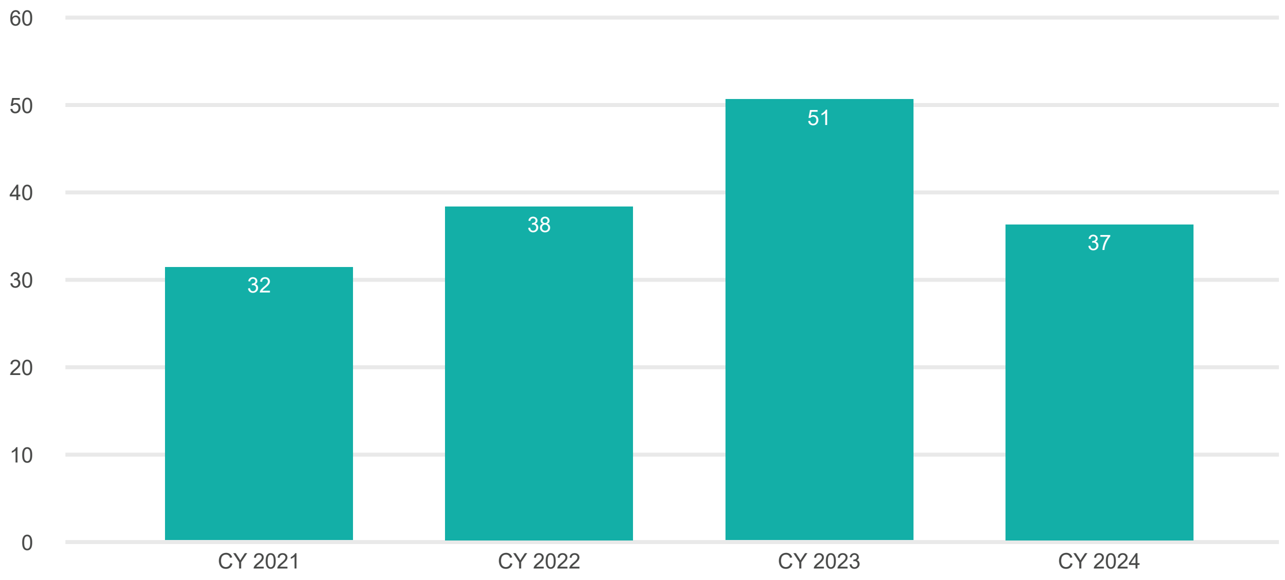
M&A Trends

According to reports by Scope Research, laboratory M&A deal volume has decreased approximately 28% from year-end 2023 to 2024. This decline is primarily driven by an uncertainty around Protecting Access to Medicare Act (PAMA) cuts and the overall macroeconomic picture. As a result, lab companies have amplified their focus on acquiring hospital outreach laboratories, which allow them to continue advancing their hospital and health system strategies by establishing and expanding strategic collaborations. This partnership is advantageous for both parties, as hospitals and health systems face economic challenges, such as reimbursement pressures and rising wages, gain crucial support in the form of additional capital and management expertise provided by these large commercial labs. This is noted in Quest Diagnostics Third Quarter earnings call regarding the overall push to focus on hospital outreach businesses and smaller independent levels.

Acquisitions are a key growth driver with an emphasis on accretive outreach purchases as well as other independent labs. We are now on track to complete eight acquisitions by year's end that meet our criteria for profitability, growth, and returns.

James E. Davis
Chairman, CEO & President, Quest Diagnostics, Q3 2024 Earnings Call

M&A Transaction Volume, 2021–2024



Notable Transactions

LabCorp and Quest dominate the independent laboratory space, attributing over 50% of their revenue growth from the past 25 years to acquisitions. As a result, each has remained committed to expanding their outreach laboratory services through various acquisitions and partnerships. In August, Quest announced the acquisition of select assets of University Hospitals outreach laboratory services.

In September, LabCorp announced a strategic collaboration with Ballad Health to provide outreach laboratory services across the Appalachian Highlands region.

Below is a snapshot of key acquisitions that were announced through year-end 2024.

Acquirer	Target	Announcement Date	Description
LabCorp	Lab Works	11/20/2024	Acquisition of select operating assets
LabCorp	Ballad Health	9/9/2024	Acquisition of select outreach laboratory services and operating assets
Quest	University Hospital	8/21/2024	Acquisition of outreach laboratory business and select operating assets
Quest	OhioHealth	7/10/2024	Acquisition of outreach laboratory business and select operating assets
Quest	LifeLabs	7/3/2024	Acquisition of outreach laboratory business and select operating assets
Quest	Allina Health	6/26/2024	Acquisition of select operating assets
LabCorp	Invitae	4/24/2024	Acquisition of select operating assets
LabCorp	BioReference Health	3/28/2024	Acquisition of select operating assets
Quest	Steward Outreach Lab	1/8/2024	Acquisition of outreach laboratory business and select operating assets

Reimbursement

CMS reimbursement for laboratory services has held steady over the past five years, despite regulatory pressures to decrease rates. In 2014, the Protecting Access to Medicare Act (PAMA) was enacted to gradually phase in cuts to the Clinical Laboratory Fee Schedules (CLFS). PAMA's goal was to put Medicare reimbursement closer to commercial payer reimbursement through mandatory reporting of commercial payer rates to the government. Unlike other medical services, it is common for commercial payers to reimburse laboratory services below the Medicare rate. With the information gathered from required reporting, CMS would slowly phase in cuts to the CLFS over a five-year span.

Initially, these cuts impacted the CLFS 10% each year from 2018 through 2020 and were expected to continue up to 15% in the following years. However, the COVID-19 pandemic originally delayed these cuts in 2020 and 2021, and they have yet to be phased back in. Each year, Congress has passed a bill to temporarily delay any cuts until the following year. For 2025, the cuts were delayed yet again through a bill passed in September 2024. Because of this, significant uncertainty remains around the reimbursement landscape for lab services, and there have been regulatory pushes to ensure any cuts do not get reimplemented going forward.

Regulatory

In 2022, the Saving Access to Laboratory Act (SALSA) was introduced in Congress, which would ensure the reimbursement impact from PAMA would not take effect if enacted. However, SALSA remains in the legislative process as of the beginning of 2025. The initial goal of SALSA was to reform PAMA and minimize the cuts to the CLFS. This act would delay reductions and reform commercial lab data collection.

Advocates of the bill believed the initial data reporting process in PAMA was flawed, which led to historical and proposed cuts that will be unsustainable for the industry in the future. Key players in the lab industry, including the American Clinical Laboratory Association (ACLA), believed the CLFS would be set to an appropriate level of reimbursement if SALSA passed. SALSA has not yet been enacted, leaving the future of laboratory reform uncertain.

2024's lab industry headline related to a separate regulatory factor: In May, The FDA implemented a rule to regulate Lab Developed Tests (LDTs) as medical devices. LDTs gained significant attention during the COVID-19 pandemic, as labs took an all-hands-on-deck approach to combat the crisis. Historically, LDTs have operated without direct FDA regulation; however, the FDA is set to slowly phase in this rule over a three-year period, and the first change will take effect in May of 2025.

The additional LDT oversight includes premarket review, quality system regulations, and post-market surveillance. The ACLA filed a lawsuit challenging this ruling, but the lawsuit is unsettled as of the publication of this report. Further, the new administration in Washington could delay or amend the implementation of the rule. Time will tell how this impacts M&A activity in the lab market space. Quest CEO James Davis noted in their Q2 earnings call that the company is proceeding as if the rule will take effect and will adapt accordingly if any proposed changes are rolled back.

Conclusion

Laboratory consolidations persisted throughout 2024, although large-scale acquisitions were down compared to prior years due to reimbursement, regulatory, and other economic factors. The primary transaction driver throughout 2024 was the acquisition of hospital outreach labs across the country.

Consistent with the last few years, 2024 saw continuing uncertainty surrounding regulatory and reimbursement policies, including another delay in PAMA cuts and the introduction of new LDT regulations, which require businesses to adapt to evolving compliance standards. Additionally, a new administration in Washington may also become a factor in the regulatory environment. As a result, the lab industry must continue navigating its acquisition pipeline strategically amid regulation and reimbursement uncertainty.

11. Value-Based Care & Risk-Bearing Entities

Industry Overview

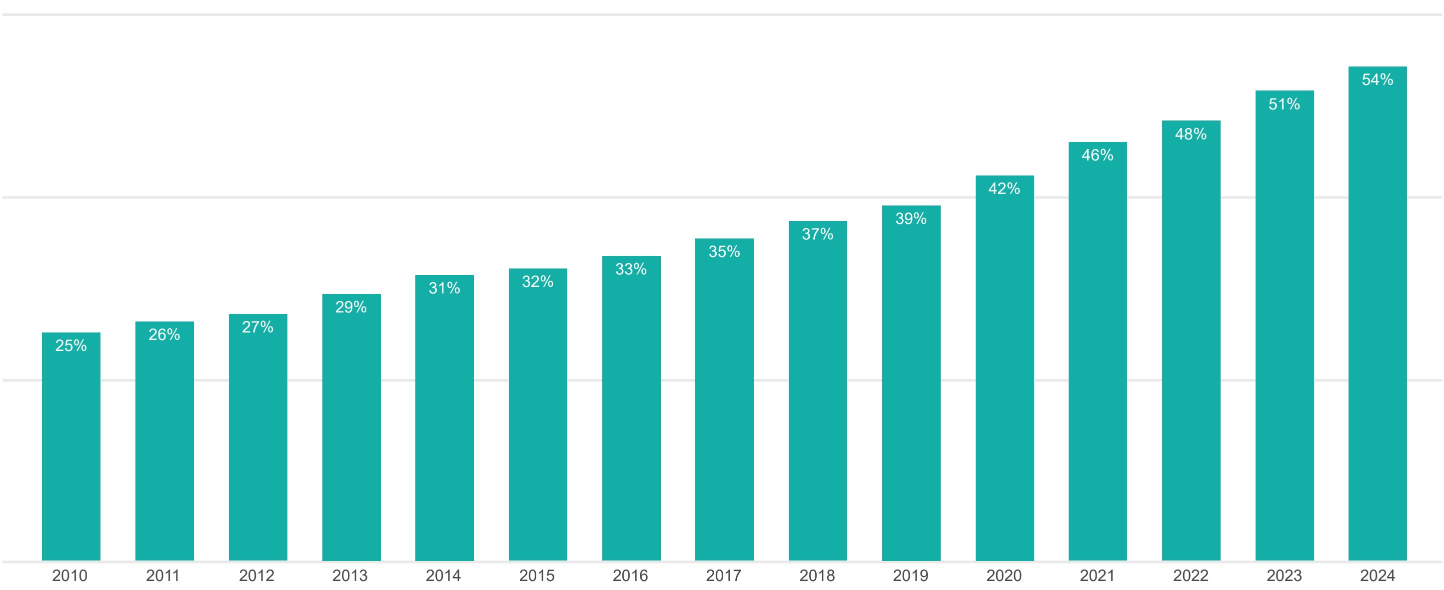
The healthcare sector is witnessing a surge in entities pursuing opportunities presented by the transition from fee-for-service to VBC models. This evolving market encompasses a diverse range of stakeholders, including payers, health systems, provider groups, technology-driven primary care platforms, retail organizations, and financial investors. This heterogeneity contributes to a fragmented market landscape, which is expected to experience continued transactional activity and further strategic partnerships among participating organizations.

M&A Trends

The transition to VBC represents a significant shift within the healthcare delivery system. While the conceptual underpinnings of VBC have been discussed for some time, its practical implementation has gained considerable momentum since the establishment of the CMS Innovation Center in 2010 as part of the ACA. A core strategy in this transition is to incentivize providers to move away from traditional fee-for-service Medicare to Medicare Advantage (MA) plans. This strategic push has resulted in a near doubling of MA enrollment as a proportion of eligible Medicare beneficiaries over the past decade.

Demographic trends, particularly the aging population, suggest that this growth trajectory will continue, positioning MA as a rapidly expanding segment of the healthcare market in the coming decade. Furthermore, CMS' stated objective of placing all Medicare beneficiaries within an accountable care relationship by 2030 underscores this commitment to VBC. Consequently, organizations proficient in population health management and care coordination for this demographic are strategically positioned to leverage these evolving market dynamics.

Share of Eligible Medicare Beneficiaries Enrolled in Medicare Advantage



Source: Kaiser Family Foundation, Medicare Advantage in 2024: Enrollment Update and Key Trends

Concurrently with the expansion of MA, similar trends toward risk reallocation and cost containment have emerged across various payer segments, including traditional Medicare through initiatives like the Medicare Shared Savings Program (MSSP), and within the commercial insurance market. Commercial payers, encompassing insurance providers and insurer-owned entities, have demonstrated a particularly keen interest in this evolving landscape. Following the implementation of the ACA, which mandates minimum medical loss ratios (MLRs) of 80–85% for insurers, many are pursuing vertical integration strategies to enhance profitability. Within the value-based care sector, their focus has predominantly centered on primary care, MA, and further payer provider convergence.

> **We have proven the business model drives higher-quality health care and lower overall costs even in a challenging macro environment. However, it is not without challenges.**
>
> ***Jeffrey Alan Schwaneke***
> *Executive Vice President & CFO, Agilon Health, Q3 2024 Earnings Call*

VBC is also gaining further momentum in specialty care. Many healthcare organizations and payers are exploring and implementing innovative approaches to improve quality and efficiency in areas like cardiology, oncology, nephrology, and orthopedics. As data systems and payment models evolve, and as regulatory barriers are addressed, VBC is likely to play an increasingly important role in shaping the future of specialty care.

Implementing VBC strategies presents a complex array of challenges for healthcare organizations, spanning operational, financial, technological, and cultural domains. Operationally, effective VBC requires seamless care coordination, robust data integration and analytics, workflow redesign, and active patient engagement. Siloed care models, fragmented data, resistance to change, and difficulties in patient communication can impede these efforts.

Financially, significant upfront investment is often required, and the transition from fee-for-service to value-based payments can create uncertainty. Technologically, interoperability issues, data security and privacy concerns, and challenges in technology adoption must be addressed. Beyond these practical hurdles, cultural challenges also play a significant role. Resistance to change among providers and staff, misaligned incentives between stakeholders, and a lack of leadership buy-in can hinder VBC implementation. Lastly, it takes time to establish the appropriate scale and response to these challenges for financial success.

Overcoming these multifaceted challenges requires a comprehensive and strategic approach. Organizations must invest in infrastructure, technology, and training; foster a culture of collaboration and innovation; and align incentives across all stakeholders. While the transition to VBC can be complex, those that succeed can create a more sustainable model that ultimately improves patient outcomes and controls costs while achieving profitability.

Given the number of well-capitalized players and the fragmentation of a market that benefits from scale, market activity in this sector is expected to remain elevated throughout 2025.

Notable Transactions

Payers & Retailers

On January 31, 2024, Cigna announced the sale of its Medicare business to Health Care Service Corporation (HCSC), a nonprofit health insurer, for $3.3 billion in cash. Following regulatory approval, the deal officially closed on March 19, 2025. The transaction freed up an additional $400 million in capital for Cigna. HCSC acquired Cigna's CareAllies, Medicare Advantage, and Medicare Part D businesses. Cigna's Medicare business represented $7.9 billion in revenue in 2022, implying a roughly 0.5x revenue multiple. The transaction expands HCSC's member count, as Cigna had 600,000 members enrolled in MA, another 450,000 in supplementary plans, and 2.5 million members in the Medicare Part D drug plan. CareAllies, another business included in the transaction, serves 400,000 patients and helps providers transition to VBC.

> **While we continue to believe the overall Medicare space is an attractive segment of the healthcare market, our Medicare businesses require sustained investment, focus, and dedicated resources disproportionate to their size within The Cigna Group's portfolio.**
>
> ***David Cordan***
> *Chairman & CEO, Cigna Group, January 2024*

In March 2024, Walgreens announced plans to close 160 VillageMD clinics, 100 more than it was expected to close in 2023. Moreover, Walgreens is currently considering selling all or part of its majority stake in VillageMD. The announcement comes less than three years after Walgreens acquired a controlling stake VillageMD for $5.2 billion in 2021. Additionally, in May 2024 Cigna wrote off $1.8 billion of its $2.5 billion investment in VillageMD.

On April 30, 2024, Walmart announced the closure of Walmart Health and Walmart Health Virtual Care, consisting of 51 clinics across five states. Walmart stated that the health centers are not a sustainable business model for the company, citing a challenging reimbursement environment and escalating labor and operating costs as primary drivers for the shutdown.

Provider Groups & Technology-Enabled Primary Care Platforms

On February 7, 2024, Everside Health and Marathon Health announced a strategic merger that will combine the two advanced primary care providers under the name Marathon Health. The new company will offer its services to employers and unions, serving over 2.5 million patients at over 680 centers in 41 states. The organization aims to improve employee and union-member access to better outcomes and reduce costs by implementing a VBC model.

In February 2024, Cano Health filed for Chapter 11 bankruptcy and began a reorganization process. By June 28, 2024, the company completed its court-supervised restructuring. During this process, Cano exited underperforming markets through asset sales and divestments, refocusing on its core Florida market. Post-reorganization, Cano's enterprise value was estimated to be between $580 million and $720 million, with implied Year 1 (2025) multiples of 5.2x adjusted EBITDA and approximately $2,800 per member.

10%
of U.S. physicians employed by Optum

$245m
all-cash deal for Stewardship Health sold to Revere Medical

400k
attributed lives managed by Stewardship Health across 5,000 providers in nine states

$745m
purchase of certain businesses and assets of Prospect Health System by Astrana Health

1.1m+
patients served by Astrana Health through VBC models

On June 28, 2024, Optum backed out of a deal to buy Steward Health's physician group, Stewardship Health. After the deal was announced, regulators immediately became skeptical of further consolidation on the part of Optum, who already employs 10% of the physicians in the United States. Optum did not officially comment on why it backed out of the deal, but it is likely that regulatory scrutiny played a role. On August 13, 2024, Steward Health announced a deal to sell its physician group, Stewardship Health, to PE-backed Revere Medical (FKA Rural Healthcare Group) in a $245 million all cash deal. Stewardship offers value-based care across 400,000 attributed lives and will add 5,000 providers across nine states to Revere's network. Federal regulators have approved the transaction.

On April 15, 2024, Elevance and its PE partner Clayton, Dubilier & Rice (CD&R) launched their care delivery platform, Mosaic Health. The platform combines CD&R's portfolio companies Apree Health and Millennium Physician Group with Elevance's Carelon division. The platform aims to create a community-based care model supported by digital engagement, care coordination, and navigation. Elevance owns a minority stake in Mosaic, with its investment made up of cash, equity in Apree, and the transfer of Carelon's assets. The joint venture, serving nearly one million consumers across 19 states, reflects Elevance's strategy to expand its provider network.

On November 8, 2024, Astrana Health (formerly Apollo Medical Holdings) entered into a definitive agreement to purchase certain business and assets of Prospect Health System. The transaction is valued at a total of $745 million at a multiple of 9.2x EBITDA. The businesses acquired included Prospect Health Plan, Prospect Medical Groups located in California, Rhode Island, and Arizona, Prospect Medical Systems, RightRx , and Foothill Regional Medical Center. As an integrated healthcare delivery platform, Astrana serves over 12,000 providers and over 1.1 million patients through VBC models. This transaction will expand its provider network and geographic footprint. On January 12, 2025, Prospect Health filed for Chapter 11 bankruptcy, which is not expected to affect the transaction with Astrana.

In November 2024, CareMax, a technology-enabled VBC delivery system, filed for Chapter 11 bankruptcy. As part of the restructuring process, CareMax is divesting segments of its business. In one transaction, ClareMedica Health Partners has agreed to acquire CareMax's core assets including a "vast majority" of CareMax's operating clinics for a purchase price of $100 million, including $35 million in cash. In a second transaction, CareMax has agreed to sell the MSSP portion of its MSO business. The business currently supports 80,000 Medicare beneficiaries and CareMax has agreed to sell to Revere Medical (formerly known as Rural Healthcare Group) for a purchase price of $10 million.

On December 23, 2024, NeueHealth announced that it would go private in a $1.3 billion deal with New Enterprise Associates, a venture capital firm, and its affiliates. Shareholders will receive $7.33 per share, a 70% premium over the closing price of the stock on the transaction date. NeueHealth stated that its aim in the transaction is to gain “flexibility and resources to continue advancing its value-driven, consumer-centric care model.” The transaction is expected to close in early 2025.

Other Players & Investors

In March 2024, Kaiser Permanente closed its acquisition of Geisinger Health, a health system based in Danville, Pennsylvania. Through the acquisition, Geisinger is the first to join Risant Health, a nonprofit organization created by Kaiser. As part of the deal, Risant will provide at least $2 billion to Geisinger through 2028 for strategic and routine capital and funding for its health plan, research, and education initiatives. Risant was formed with the goal of expanding and accelerating the adoption of VBC and plans to acquire four or five more health systems over the next five years.

On December 3, 2024, Risant closed its acquisition of Cone Health, a health system based in North Carolina. Cone Health operates four hospitals, an ACO, and a health plan with over 200,000 members. There is no purchase price; however, Risant will provide over $1 billion in capital to Cone Health as the sole corporate member of Cone Health. In addition, Risant will provide $400 million to assist with Cone Health’s integration into the system and the implementation of Risant’s VBC platform. Risant was formed with the goal of accelerating the adoption of VBC and the company plans to continue its acquisitions of health systems over the next four to five years.

$2b
to be provided to Geisinger through 2028 by Risant Health for strategic and routine capital funding

200k+
members in Cone Health's health plan

$1b+
to be provided to Cone Health by Risant

Reimbursement & Regulatory

In October 2024, CMS announced that MSSP saved more than $2.1 billion in 2023, the largest savings in the program’s history. On November 1, 2024, CMS released the 2025 PFS final rule, which builds on changes in the CY 2023 and CY 2024 PFS final rules to further drive growth in participation.

Notable items from the ruling include a prepaid savings plan that would allow ACOs to receive advanced payments based on their historical savings performance. Additionally, a new Health Equity Benchmark Adjustment (HEBA) was established to encourage ACOs to serve more beneficiaries in underserved communities.

During the prior year, CMS finalized the transition to a revised risk adjustment model, the 2024 CMS-HCC Risk Adjustment Model, Version 28 (V28), which includes changes to the MA capitation rate and risk adjustment methodologies. CMS planned a three-year phase-in for the revised model from the previous model, the 2020 CMS-HCC Risk Adjustment Model, Version 24 (V24). CY 2025 is the third year of this phase-in, marking the full transfer to V28.

Medicare Shared Savings Program

MSSP was launched in 2012 to evaluate VBC models in reducing costs and improving outcomes. As of January 2024, MSSP included 476 ACOs providing care to 11.2 million Medicare beneficiaries. The program offers different participation options that allow participating ACOs to assume various levels of risk. The ENHANCED track has the greatest level of downside financial risk. Despite the larger downside risk, adoption of the ENHANCED track is growing due to the greater shared savings rate (e.g., 75% vs. 50%). These shared savings opportunities continue to make the ENHANCED track a popular option for high-revenue or experienced ACOs.

ACO Tracks	1/1/2025	1/1/2024	1/1/2023	1/1/2022	1/1/2021	1/1/2020
Number of ACOs						
One Sided	137	159	151	199	163	191
Two Sided	339	321	305	284	195	192
ENHANCED Track	*253*	*207*	*161*	*146*	*76*	*80*
Percentage						
One Sided	28.5%	33.1%	33.1%	41.2%	45.5%	49.9%
Two Sided	70.6%	66.9%	66.9%	58.8%	54.5%	50.1%
ENHANCED Track	*52.7%*	*43.1%*	*35.3%*	*30.2%*	*21.2%*	*20.9%*

In recent periods, MSSP has developed an adjacent model that more specifically focuses on bringing health equity to underserved communities. The ACO REACH model has replaced or rebranded the Global and Professional Direct Contracting (GPDC) model, also known as DCE. ACO REACH started its participation on January 1, 2023. While both MSSP and ACO REACH change focus on an aspect of health equity, a health equity plan is not required for MSSP like it is for ACO REACH. Other changes from the GPDC Model to ACO REACH include increased provider-led governance; increased savings through reduced benchmark discounts; adjusted performance benchmarks, including the health equity adjustment; and increased transparency and vetting of model participants.

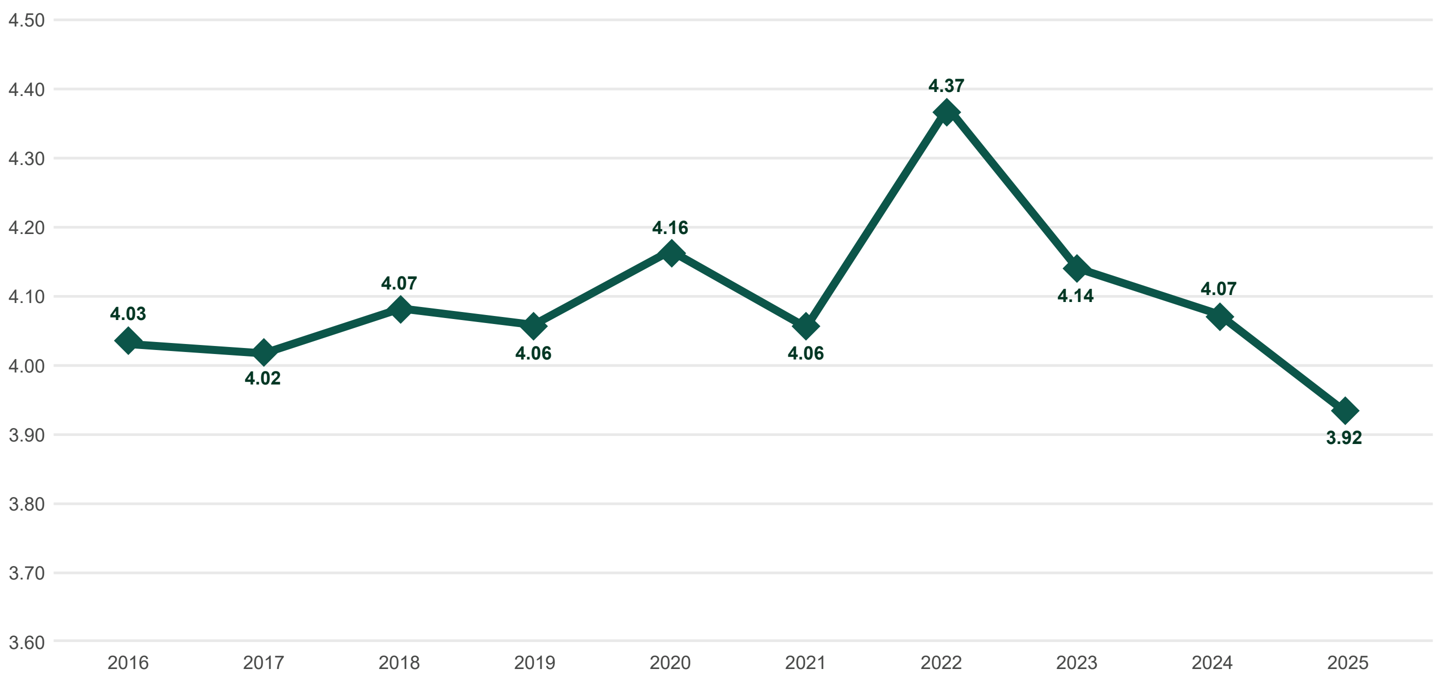
For 2025, the ACO REACH model has 103 ACOs, representing approximately 2.5 million beneficiaries. Early results from the ACO REACH model are neutral to positive. Based on a September 2023 CMS report, ACO REACH model participants scored statistically better on unplanned admissions for patients with multiple chronic conditions. On other measured metrics, such as all-condition readmission and timely follow-up after acute exacerbations of chronic conditions, ACO REACH model participants did not score statistically better or worse. Early results of the financial performance of the model indicate a 7.7% reduction in Medicare spending compared to benchmarks, but it is important to note that savings in the first half of the year tend to be overstated due to seasonality. Currently, the ACO Reach program is scheduled to end on December 31, 2026.

Beginning January 1, 2025, CMS is introducing the ACO PC Flex Model, which will include 24 ACOs serving 349,000 people. This new model for patients with traditional Medicare will test a new payment model for primary care while still participating in MSSP. One goal of this model is to increase the number of low-revenue ACOs in MSSP. Under this model, instead of fee-for-service payments, participating ACOs will receive monthly payments for primary care services. To provide more predictable funding for primary care, the monthly payments are based on the ACO's region instead of the ACO's historical spending. Under this model, ACOs may also receive an advanced shared savings payment to help cover the costs of forming an ACO and administrative expenses.

Medicare Advantage Star Ratings

CMS uses star ratings to measure the quality of MA and prescription drug (Part D) plans. In addition to helping consumers compare health plans, a plan's star rating can influence MA payments in the form of bonuses and rebates. Star ratings reached an all-time high in 2022, partially because of favorable provisions in response to impacts of the COVID-19 pandemic. Since then, star ratings have faced some downward pressure as these provisions rolled off and changes to the determination of star ratings went into effect.

Average Star Rating for MA-PD Contracts



MA-PD: Medicare Advantage with prescription drug (Part D) coverage

As announced in previous rulings, beginning with the 2024 star ratings, CMS utilized Tukey outlier deletion, which involves the removal of outlier scores. The goal of this change in methodology was to increase the stability and predictability of the star measure cut points. In application, this methodology resulted in the removal of primarily low-performing plans, shifting the cut points to a higher range.

The 2024 final rule announced some additional changes, including measure changes and a new reward system aimed at increasing health equity. These changes are expected to be implemented for 2026 and 2027 star ratings, respectively. Looking forward, there were no major changes to the star rating methodologies announced in the 2025 final rule.

Transforming Episode Accountability Model (TEAM)

In August 2024, CMS finalized a new bundled payment model under the Medicare Inpatient Prospective Payment System (IPPS) that will be mandatory for one in 10 hospitals in the U.S. The model will begin on January 1, 2026, and run for five years.

The following five surgical episode categories are the focus of the model: coronary artery bypass graft (inpatient), major bowl procedure (inpatient), lower extremity joint replacement (inpatient/outpatient), surgical hip and femur fracture treatment (inpatient), and spinal fusion (inpatient/outpatient). Participating hospitals will receive a target price covering more Medicare spending for an episode of care, including all services from the hospital stay to post-discharge care for a specific surgical procedure. The services captured under the bundled payment will require greater coordination and collaboration among hospitals and providers to ensure the provided care aligns with the model's quality measures.

The model's primary goals are to improve patient experience, incentivize hospitals to implement care redesign, and promote collaboration with ACOs. It provides three participation tracks with various levels of financial risk. The first track has upside risk only, while the second and third tracks provide upside and downside risk with varying ranges of stop-gain and stop-loss limits (e.g., 5% for Track 2 and 10% for Track 3). The first track allows participants to transition into full financial risk over time. Unless the hospital is a safety net hospital, it will move to Track 2 during the second year.

Conclusion

M&A activity within the VBC and risk-bearing entity sector is likely to continue throughout 2025 and into the future. This activity will likely be fueled by several factors: payers pursuing vertical integration, technology-enabled providers optimizing care coordination and management, and non-traditional market entrants scaling their service offerings. Increased participation from other healthcare organizations is anticipated as they recognize the imperative for innovative strategies to improve patient outcomes and manage costs. Building upon trends observed in 2024, these organizations are expected to prioritize strategic partnerships and collaborations with established entities already operating within the VBC landscape.

12. Private Equity

Industry Overview

Over the last decade, PE involvement within the healthcare industry has risen from 492 deals in 2017 to an estimated 678 deals in 2024, experiencing a high-water mark of 1,208 deals in 2021. The PE investment class offers qualifying individuals and entities with an alternative to public debt and equity investments, hoping to provide outsized returns relative to those markets. Driving the continued interest in the healthcare industry are trends in demographics (an aging population), technology (advancements in patient care and operational tools), the fragmented nature of the industry, and overall economics (healthcare spend as a percentage of U.S. GDP and recession-resilient qualities). Mounting financial challenges, including reduced reimbursement, wage inflation, and increased compliance requirements, have helped fuel independent healthcare providers' curiosity in potential partnerships with PE firms.

The PE investment thesis generally analyzes investment opportunities with a time horizon between three and five years, though the current M&A landscape has extended holding periods for PE firms to 5.5 years on average. This time horizon allows PE firms to align with their portfolio companies in driving incremental change, leading to long-term, positive results.

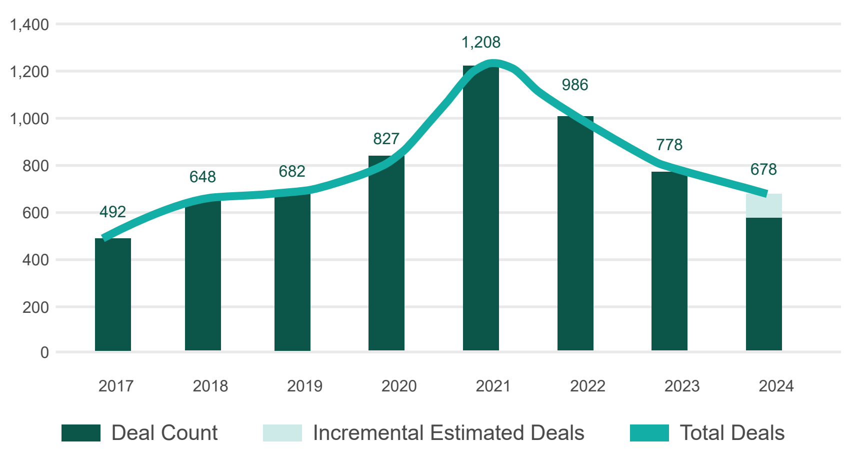
PE firms investing in the healthcare industry face competition from a growing number of groups, such as traditional hospitals and health systems; vertically integrated payer-providers (UnitedHealth Group, Humana, CVS Health, etc.); vertically integrated suppliers (McKesson, Cardinal Health, Cencora, etc.); and increasing allocations toward healthcare investments from rival PE firms.

Historically, PE investment in healthcare centered around physician practice management (PPM), deploying a buy-and-build strategy through both organic and inorganic methods to achieve size and scale. For much of the past decade, these specialties were primarily ophthalmology, dentistry, and dermatology. In recent years, investment teams have sought differentiated strategies, like pursuing similar PPM models in higher-acuity sub-specialties (e.g., cardiology, orthopedics); targeting businesses that are primarily cash pay (med spas, certain behavioral health segments); and pharmaceutical and healthcare IT services, respectively. Additionally, PE continues to assess investment opportunities involving the implementation of VBC arrangements and how those strategies may fit with their existing portfolio of companies.

M&A Trends

Compared to 2023, total deal activity for PE firms investing in the healthcare services industry declined in 2024, as deal volumes continued their downward trend following a slowing pace of activity in the second half of 2022. The decline in PE-related transaction activity observed during 2024 is a direct result of several headwinds, including higher-for-longer interest rates; continued challenges recruiting and retaining staff, though these seem to be abating; election uncertainty; and a scarcity of platform-scale assets for in-demand specialties, such as med spas and outpatient mental health clinics.

Healthcare Services PE Deal Count



As such, deal volumes for healthcare services involving PE declined by 12.9%, from 778 in 2023 to an estimated 678 in 2024, and continues the reversion trend to pre-pandemic transaction levels. Anecdotally, the sustained interest rate levels and other headwinds observed in the last two years have led previously active firms to focus on operational improvements rather than M&A.

Healthcare Services PE Deal Count by Quarter

Despite declining deal volumes, PE interest in the healthcare sector remains strong, as evidenced by the total deal value attributed to 2024 and the high levels of dry powder. Coupled with recent rounds of successful fundraising, there remain reasons to suggest volumes could rebound in the coming years. In 2024, PE deal-making within healthcare has been estimated at $115 billion, representing the second-highest deal value total on record. The growth in total deal value was driven by an increase in $1B+ deals, where 2024 saw five companies trade for $5 billion or more, compared to two deals in 2023 and one in 2022. Deal values remain concentrated in North America (65%), while Europe and Asia-Pacific represented 22% and 12%, respectively.

Notable 2024 fundraising achievements include Frazier Healthcare Partners surpassing its $2 billion target by closing its latest fund at $2.3 billion; The Vistria Group raising approximately $3 billion for its fifth main fund, focused on midsize healthcare investments; and Amulet Capital Partners closing Fund III at $1.2 billion.

PE firms that have traditionally focused on healthcare services are still broadening their investment parameters to capture more of those sectors adjacent to healthcare, primarily healthcare tech and pharma services. The drive to diversify portfolios stems partly from risk management to limit regulatory and reimbursement exposure and from generating value by turning existing cost centers into profit centers at the PE fund level.

Notable Transactions

PE firms looking to put their limited partners' capital to work will do so by acquiring a sizable entity (platform investment) and other entities to add to the platform (bolt-ons or tuck-ins). After achieving its target internal rate of return, the PE firm will look to exit its investment, either by taking the platform public (IPO, reverse-merger, etc.); selling to a public entity or another private entity (e.g., another PE firm, management buyout); or transferring the investment to a continuation fund, allowing the PE firm to extend its investment horizon and allow for the optimization of an exit.

Secondary Buyouts & IPOs

Secondary buyouts serve as important signals to healthcare providers who are contemplating partnering with PE. Traditional PE buyouts allow sellers to roll a portion of their proceeds into equity at the holding company, which is monetized during the secondary sale. A strong secondary buyout market helps to provide those initial sellers with the confidence that they will get “a second bite of the apple.” Despite the depressed level of secondary deals in 2023 and 2024 relative to 2022, certain transaction activity in Q4 of 2024 could serve as a catalyst for further consolidation of existing platform assets.

In February 2024, General Atlantic–backed Marathon Health and New Enterprise Associates–backed Everside Health announced a merger. The combination, which creates a larger challenger to market leader Premise Health, underlines the importance of scale in the DPC market.

The same month, Nautic Partners acquired Angels of Care Pediatric Home Health from Varsity Healthcare Partners for an undisclosed fee. Based in McKinney, Texas and located in seven states, Angels of Care Pediatric Home Health is a pediatric home-based care provider that employs more than over 5,000 nurses, physical therapists, occupational therapists, speech therapists, attendants, and specialists.

In March 2024, Elevance Health acquired infusion provider Paragon Healthcare for $1 billion. Headquartered in Plano, TX, Paragon Healthcare specializes in life-saving infusible and injectable therapies used to treat people with a wide range of diseases and conditions. Paragon Healthcare provides services related to hemophilia, home infusion therapy, infusion, onsite therapy, intravenous immunoglobin, neurology, rheumatology, and gastroenterology across 10 states.

In July 2024, Ardent Health Partners became a public company through an IPO priced at $192 million. Ardent Health is a leading provider of healthcare in growing, mid-sized urban communities across the U.S. and intended to use the proceeds for “working capital, to acquire complementary businesses, products, services or technologies and for general corporate purposes, which may include repayment of debt and capital expenditures.”

5,000
healthcare professionals employed by Angels of Care Pediatric Home Health

$1b
acquisition of Paragon Healthcare by Elevance Health

$192m
IPO takes Ardent Health Partners public

In the fourth quarter of 2024, Cardinal Health purchased Integrated Oncology Network (ION), a physician-led independent community oncology network, for $1.12 billion, and GI Alliance (GIA), the nation’s leading network of gastroenterology providers, for $2.8 billion. The two acquisitions represent investments in critical provider organizations serving growing patient demand and further establish Cardinal Health among the leaders in specialty healthcare services.

In the first few weeks of 2025, both Webster Equity Partners and Quad-C revealed plans to exit their eyecare-focused investments—Retina Consultants of America and PRISM Vision Group, respectively—by finalizing sales to two of the largest pharmaceutical and medical suppliers in the U.S.

Cencora acquired a ~85% stake in Retina Consultants of America for $4.6 billion, while McKesson acquired an 80% stake in PRISM for $850 million.

$16.5b
acquisition of manufacturer Catalent by Novo Holdings

$7.8b
purchase of R1 RCM platform by TowerBrook and CD&R

$11b
enterprise valuation for Cotiviti after recapitalization with Veritas and KKR

47
VIO Med Spa locations across 16 states acquired by Freeman Spogli

12
states with enacted, proposed, or introduced transaction regulations impacting healthcare deals

Noteworthy Areas of Investment & Activity

In 2024, biopharma led global healthcare deal value, with North America being the most active region. This surge was driven largely by investments in clinical trial IT infrastructure. One of the largest deals of the year was Novo Holdings' pending $16.5 billion acquisition of manufacturer Catalent. Additionally, Arsenal Capital Partners acquired Endpoint Clinical, a provider of interactive technology solutions for clinical trials, while EQT acquired CluePoints, a platform focused on risk-based quality management for clinical trials.

Healthcare IT also saw significant activity. TowerBrook and CD&R teamed up to acquire the R1 RCM platform for $7.8 billion, while TPG took over Surescripts, an electronic prescription network. In other notable investments, GI Partners backed eClinical Solutions, and Cotiviti underwent a recapitalization with Veritas and KKR, bringing its enterprise valuation to approximately $11 billion.

In the med spa and aesthetics sector, consolidation continued to gain momentum. Independent sponsor DuneGlass Capital launched Avivia Aesthetics in September, a med spa platform developed through a partnership with Pura Vida, a med spa in Fulton, MD. The platform's first acquisition was a merger with Aviva. Meanwhile, Freeman Spogli announced its acquisition of VIO Med Spa, a chain founded in 2017 with 47 locations across 16 states, including three corporate-owned locations in Ohio.

Regulatory

Healthcare is one of the most regulated industries in the U.S. and all investor types must stay abreast of potential changes. Historically, PE investors have relied more heavily on borrowed funds than health systems or other corporate entities for acquisitions, amplifying the effects of changes in reimbursement rates and expense patterns. In 2024, the provision of healthcare services continued to garner significant attention from both federal and state agencies.

Continuing the trend from previous years, healthcare transactions, including those conducted by PE, came under additional scrutiny from both federal and state agencies. The FTC and DOJ's joint public inquiry to identify PE investment activity that may undermine competition serves as a clear example of the heightened attention paid to the industry and its players. New state competition, quality, access and cost laws are creating additional requirements for healthcare entities considering new transactions, from PE-backed entities to independently owned MSOs.

Five states (California, Oregon, Nevada, Minnesota, and Illinois) have enacted such legislation, while five more states (Washington, Indiana, New York, Massachusetts, and Rhode Island) have enacted and proposed additional legislation to expand their existing process. Furthermore, two states more states (New Mexico and Vermont) have introduced legislation to the same effect for consideration.

In addition to increased scrutiny of healthcare transactions in more states, litigation has risen over the permissibility of the “Friendly PC” model commonly used by PE firms in healthcare. The Friendly PC model creates multiple contractual relationships between a portfolio company and an entity owned by a licensed healthcare professional, ensuring compliance with Corporate Practice of Medicine (CPOM) laws. The litigation introduced in this area could create regulatory headwinds for PE investors, though at this time, the risk is not viewed as material.

The incremental layer of scrutiny of a transaction has led PE firms to hold additional discussions with their legal teams and lobbyists to better define their investment thesis in these states, as each acquisition in a buy-and-build strategy would be subjected to the requirements. However, the impact of such legislation on any such portfolio company’s contemplated sale would have greater consequences. The inability to exit an investment is fundamentally at odds with a PE fund’s purpose of generating returns and ultimately returning capital to their limited partners, posing a significant risk to these strategies.

Conclusion

Overall, PE investment in healthcare services, measured by deal volume, declined in 2024 compared to the record-high activity of 2021 and the strong performance in 2022. Deal flow in the industry has seen a downward trend throughout the last two years, as economic uncertainty persisted due to higher-for-longer interest rates, labor challenges, and contracting reimbursement rates. However, these PE firms continue to raise and allocate additional capital to healthcare, and we expect activity to stabilize in 2025 with modest growth prospects. We expect PE investment to remain selective in the current lending environment, with capital deployed to quality assets with favorable geographic locations and growing patient demand. Overall, early indications from VMG Health’s clients point toward a rebound in volume for Q1 2025, with the expectation that the highlighted secondary trades in Q4 2024 will boost enthusiasm for both buyers and sellers through 2025.

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