PitchBook

INDUSTRY RESEARCH

Healthcare Services Report

PE trends and investment strategies

Q1 2023

Contents

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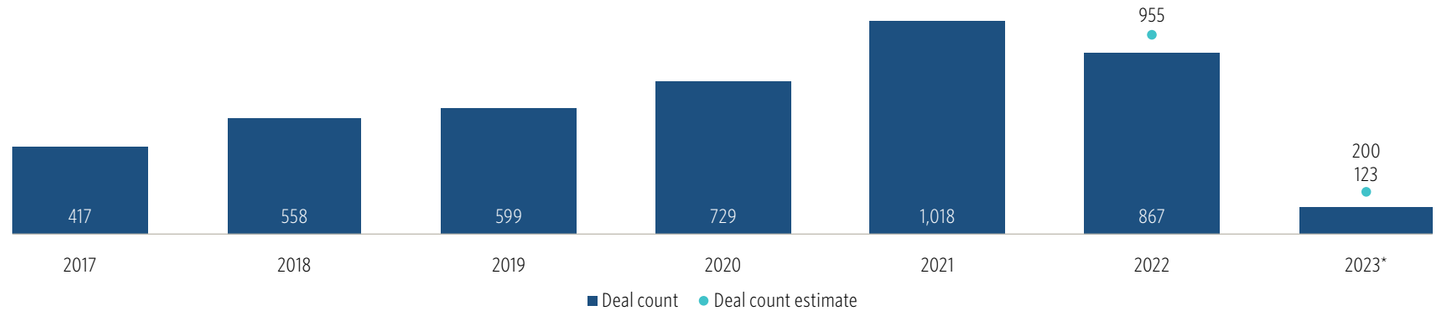
For previous updates as well as our complete healthcare services research, please see the designated analyst workspace on the PitchBook Platform.

PE activity

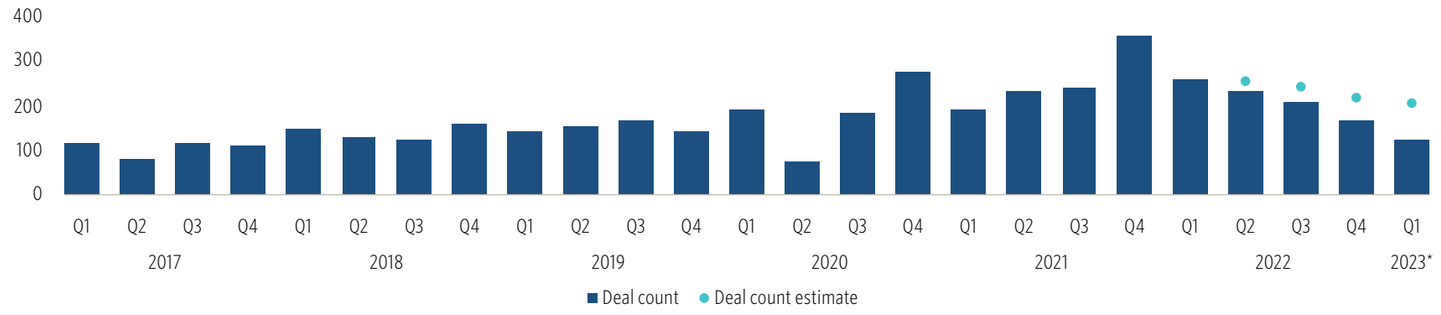
In line with our predictions, PE healthcare services investment declined for the fifth straight quarter to 200 deals in Q1 2023—21.5% off the pace set in 2021 but still 20.4% higher than the average quarter in 2018-2019. The industry is settling into a new normal of higher interest rates, lower multiples, and slower, more proprietary deal processes. In most categories, multiples are landing a couple of turns lower than where they sat in 2021, or approximately at 2018-2019 levels, with some exceptions (e.g., mental health). This is in part a function of reduced leverage; rather than 6x, lenders are willing to underwrite 4x or 5x, or slightly higher for a very high-quality business. Although early signs that the bank debt market might revive in Q1 were quashed by Silicon Valley Bank's collapse, it is still possible to get deals done: Our Global Private Debt Report notes that after a strong year of private credit fundraising, direct lenders closed out 2022 armed with $146.3 billion in dry powder, nearly equal to the total broadly syndicated loan origination volume in 2021. But both sponsors and lenders are more circumspect and proceeding with caution. We have also been hearing about the return of seller earnouts, which fell by the wayside in many competitive auction processes in 2021, to bridge valuation gaps and mitigate risk for sponsors.

PE deal count



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

PE deal count by quarter



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

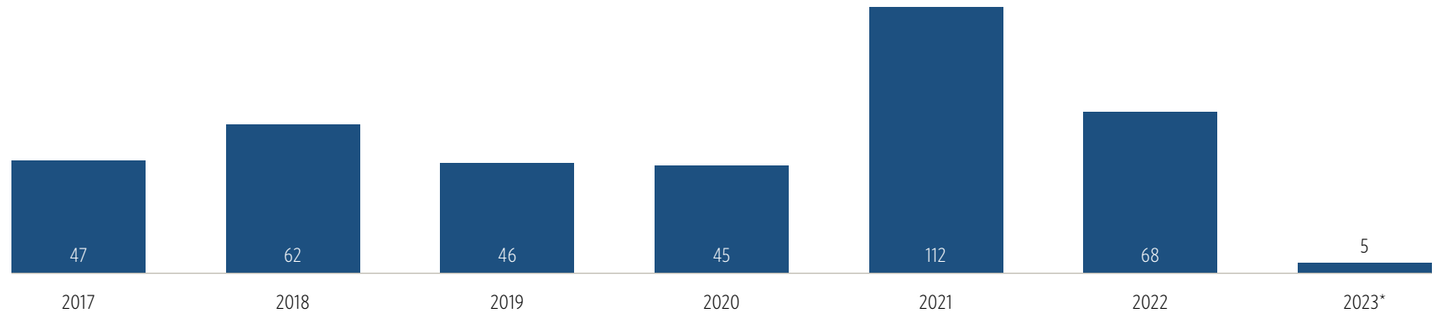
PE ACTIVITY

Sponsors continue to deploy capital via minority equity injections and mezzanine financing, both into new platforms and to fuel growth via add-ons. A growth deal makes sense for mature platforms that could be exploring an exit in sunnier times, but which instead need to keep growing to return a decent IRR when they eventually do trade. Equity/structured deals for HOPCo and Keplr Vision in Q1 are examples of this category. Team Health's $158.9 million capital injection was presumably intended to ease that company's documented struggles with its debt load.

PE investors are also pursuing buyouts and platform creations with groups that have not yet taken institutional funding, and we expect to see more such deals announced in coming quarters. Given rising costs, cash-pay categories such as medspa, veterinary, and private duty home care, and specialties with significant cash pay ancillaries, such as dentistry, are seeing increased sponsor interest. The obvious risk here is a significant hit to consumer discretionary spending if the US enters a moderate-to-deep recession.

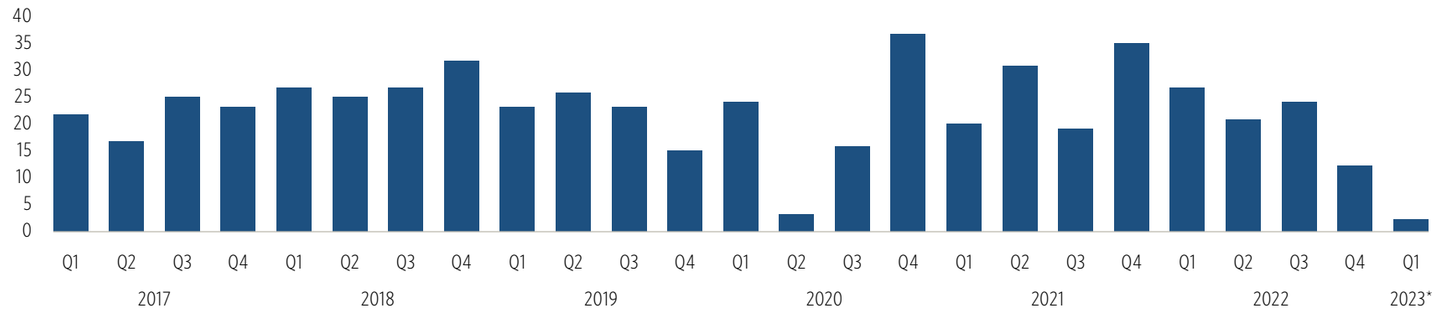
We recorded only two platform buyouts announced or completed in the quarter, less than in Q2 2020: Kohlberg & Company's acquisition of United Digestive from Frazier Healthcare, and Eads Bridge Holdings' buy of Stokes Counseling Services, a single-site talk therapy provider. Two platform

PE exit count



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

PE platform buyouts by quarter



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

combinations—Pharos Capital Group's exit of Motion PT Group to Confluent Health (backed by Partners Group and Chrysalis Ventures) and Deerfield Management's sale of Novocardia to Webster-backed Cardiovascular Associates of America—are recorded as add-ons in our dataset, while General Atlantic's $2.1 billion sale of OneOncology to TPG and AmerisourceBergen was announced after the end of Q1.

Cracks appearing

We continue to hear talk of heavily leveraged companies struggling with debt service and experiencing slower growth (or worse) as a result. Morningstar's US High-Yield Bond Index shows a disproportionate number of distressed bonds in healthcare services and in healthcare overall, a 19.2% distress ratio in healthcare services (by par value) and 23.3% in healthcare compared with 9.5% across all sectors. This is both a result of persistent wage inflation against nearly-flat reimbursement and some sponsors over-leveraging platforms to fund rapid inorganic growth. It has become tiresome to discuss the staffing shortages plaguing healthcare services, and operators expect only marginal, if any, near-term relief. Assuming that inflation continues to move in the right direction, the categories most reliant on low-wage labor, such as home healthcare, should eventually benefit from a softening labor market, since workers in these services are more likely to switch between healthcare and other sectors. However, shortages in nursing and other skilled labor categories are more structural and a result of workers retiring early, other workers transitioning to virtual care models and adjacent work, and reduced immigration. For healthcare services investing, using technology or outsourcing to improve workforce efficiency and investing in staff culture and development have become table stakes.

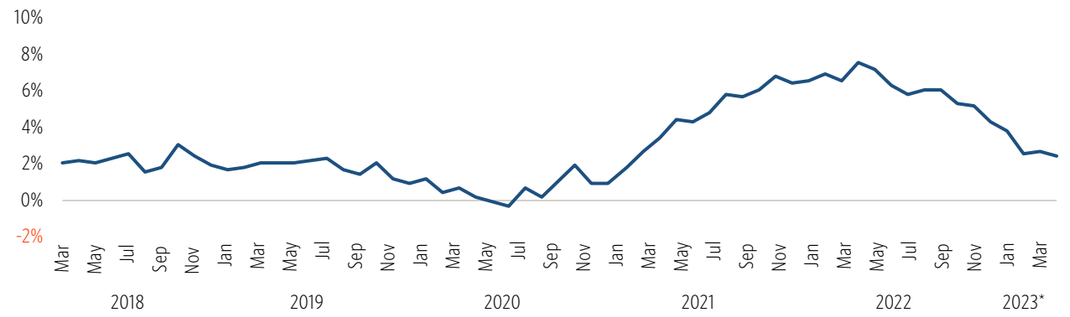
As hospitals, health systems, and residential facilities maneuver amid ongoing margin pressure, opportunistic PE investors are beginning to see interesting carveout opportunities. Lehigh Valley Health Network sold its occupational medicine service line to Welsh, Carson, Anderson & Stowe-backed Concentra in January. Apollo-backed ScionHealth and LifePoint Health picked off Cornerstone Healthcare Group and Springstone, both residential behavioral health providers, respectively. And ProMedica agreed to sell hospice and home care assets to Clayton, Dubilier & Rice-backed Gentiva for $710.0 million. The latter deal reportedly drew a single-digit multiple[1]—low for a national-scale hospice provider, implying some degree of distress. Antitrust regulators will keenly watch any activity involving hospitals or residential nursing facilities in combination with PE.

Outlook

Turning to the deal outlook for the remainder of the year, the key question is whether we have reached the nadir yet. We hear little sentiment from market participants that would suggest an imminent rebound in platform deal activity. However, the uptick in larger deals at the end of the quarter (United Digestive, Novocardia, OneOncology) may be a glimmer of things shaking loose. In this new normal, buyer-seller valuation gaps will wear down with time, and sponsors who have been taking a "wait and see" approach to exit timing may grow tired of waiting as the macroeconomic picture continues to show an elevated probability of recession. We will also see more distress-driven deals play out as the year continues. Putting the pieces together, our expectation is for a flat-to-slightly-up Q2 and second half of 2023.

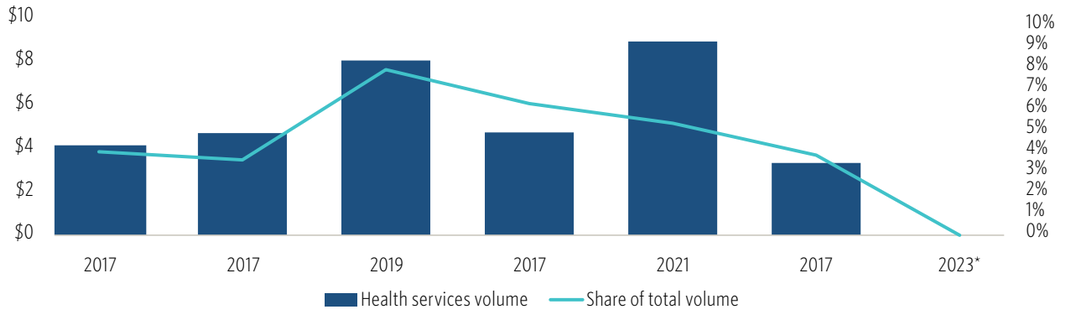
1: "Gentiva Buys ProMedica Home Care and Hospice Biz," AXIOS, Claire Rychlewski, February 28, 2023.

Producer Price Index Final Demand Services YoY % Change



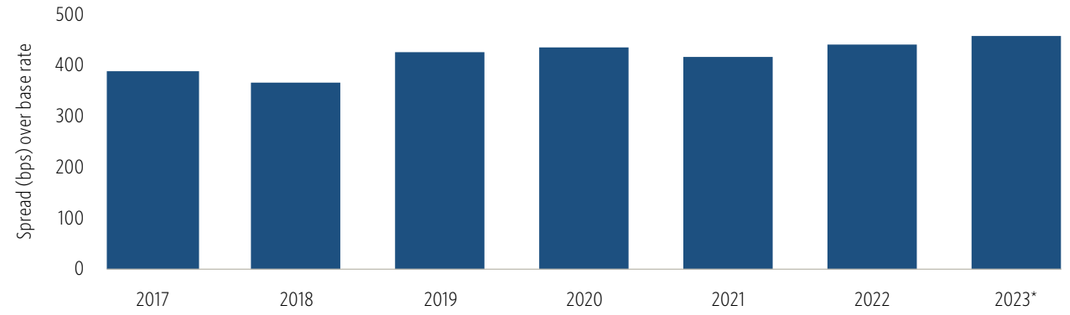
Source: FRED • Geography: US • *As of March 31, 2023

Leveraged buyout-related health services loan value and share



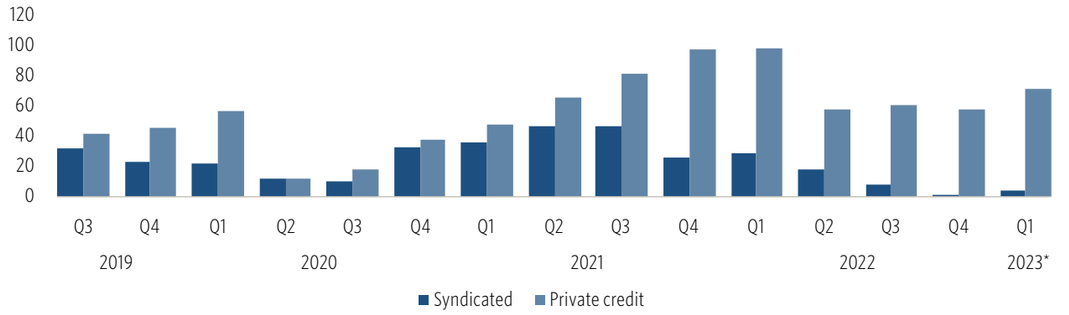
Source: Pitchbook | LCD • Geography: US • *As of March 31, 2023

New-issue spread for health services loans



Source: Pitchbook | LCD • Geography: US • *As of March 31, 2023

Count of LBOs financed in BSL vs private credit markets (all sectors)



Source: Pitchbook | LCD • Geography: US • *As of March 31, 2023

Morningstar US High-Yield Bond Index (sub-sector view), Healthcare

Healthcare sector	Sector # bonds	Sector bond par ($B)	Sector # distressed bonds	Sector par ($B) distressed	Distress ratio (by $)
Pharmaceuticals	38	$29.2	21	$14.1	48.25%
Facilities	41	$38.3	7	$5.1	13.35%
Services	35	$26.3	8	$5.1	19.19%
Managed care	6	$4.9	1	$1.1	21.30%
Medical products	14	$14.6	0	$0.0	n/a
TOTALS	134	$113.4	37	$25.3	22.32%

Source: Pitchbook | LCD • Geography: US • *As of March 31, 2023

Select PE healthcare services deals, Q1 2023 to present

Company	Category	Deal type	Closed/ announced date	Acquirer	Exiting sponsor(s)
OneOncology	Oncology	Buyout	4/20/23	TPG, AmerisourceBergen	General Atlantic
Novocardia	Cardiovascular	Add-on	4/18/23	Cardiovascular Associates of America (Webster Equity Partners)	Deerfield Management
HOPCo	Musculoskeletal	PE growth	4/13/23	N/A	N/A
United Digestive	Gastroenterology	Buyout	3/30/23	Kohlberg & Company	Frazier Healthcare Partners
Home Sweet Home In-Home Care	Home health, home care & hospice	Add-on	3/21/23	PurposeCare (Lorient Capital Management)	N/A
Keplr Vision	Vision	PE growth	3/15/23	Golub Capital, Imperial Capital	N/A
Team Health Holdings	Clinical staffing	PE growth	3/14/23	N/A	N/A
Ear, Nose & Throat Associates of Texas	Ear, nose & throat	PE growth	3/14/23	Elevate ENT Partners (Audax Group)	N/A
Tatum Highlands Medical Associates	Primary care	Add-on	2/28/23	Optima Medical (Trivest Partners)	N/A
Hospice and home care assets, ProMedica	Home health, home care & hospice	Add-on	2/27/23	Gentiva (Clayton, Dubilier, & Rice)	N/A
Pediatric Affiliates	Primary care	PE growth	2/17/23	Webster Equity Partners	N/A

Source: PitchBook • Geography: US & Canada • *As of May 9, 2023

Select PE healthcare services deals, Q1 2023 to present (continued)

Company	Category	Deal type	Closed/ announced date	Acquirer	Exiting sponsor(s)
Fertility Associates of Memphis	Reproductive medicine	Add-on	2/14/23	Ivy Fertility (InTandem Capital Partners)	N/A
All-Star Orthopaedics	Musculoskeletal	Add-on	2/9/23	United Musculoskeletal Partners (A&M Capital)	N/A
Springstone	Mental health and SUD treatment	Add-on	2/7/23	LifePoint Health (Apollo Global Management)	Medical Properties Trust
Cardiovascular Institute of the South	Cardiovascular	PE growth	2/1/23	Lee Equity Partners	N/A
Mosaic Dental Collective	Dental	PE growth	2/1/23	Audax Group, Churchill Asset Management	N/A
Motion PT Group	Musculoskeletal	Add-on	1/31/23	Confluent Health (Partners Group, Chrysalis Ventures)	Pharos Capital Group
Allied Physicians Group	Primary care	PE growth	1/30/23	Ascend Partners	N/A
Cornerstone Healthcare Group	Hospitals and health systems	Add-on	1/23/23	ScionHealth (Apollo Global Management)	Highland Capital Management
Muir Wood Adolescent and Family Services	Mental health and SUD treatment	PE growth	1/6/23	Avesi Partners	N/A

Source: PitchBook • Geography: US & Canada • *As of May 9, 2023

Healthcare services PE ecosystem market map

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

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

Generalists

Occupational & correctional health

Concentra · Medicine, Business & Industry · Excelsia · wellpath · MobileHealth exams

Primary care

Millennium Physician Group · InnovaCare Health · Premise Health · Physician Partners · ClareMedica · eventus · Southeast Primary Care Partners · MyCare Medical · RISEHEALTH · MA Medical Group · MainStreet Family Care · MDVIP · OnPoint Medical Group · Pediatric Affiliates · Pediatric Associates · TriValley · allied · Bluestone Physician Services · everside · Marathon Health

Urgent & emergency care

CareWell Urgent Care · ConvenientMD Urgent Care · fastpace health · FastMed · perlmanclinic · Texas MedClinic Urgent Care · XpressWellness

Multispecialty

Ambulatory surgical centers

BlueCloud · Covenant Physician Partners · Surgery Partners · LYNC Health Partners · valueHealth

Clinical staffing

Envision Healthcare · MMS · EH Emergency Health · Smile Source Private Practice Network · SAMGI · US Anesthesia Partners · TEAMHealth · SYNERGY Health Partners · Hospitalists Together We Achieve · SIROMED

Hospitals & health systems

Hall Render Health Partners · ScionHealth · Ardent Health Services · Steward · Northwest Specialty Hospital

Multispecialty clinics & networks

essen Health Care · Medical Specialists of the Palm Beaches, Inc. · rendr · shp

Skilled care & behavioral health

ABA & pediatric therapy

acorn Health · 360 Behavioral Health · Autism Learning Partners · Action Behavior Centers · inbloom Autism Services

Home health & hospice

accentCare · Affinity · Agape Care Group · AmazingCare Home Health Services · Angels of Care

IDD care

Beacon Specialized Living · broadstep · Caregiver · CBC Community Based Care · Support, Inc.

Infusion

AIS Healthcare · VIVO Infusion · KabaFusion · California Specialty Pharmacy · Center for Rheumatology

Mental health & SUD treatment

Discovery Behavioral Health · BayMark Health Services · BHG behavioral health group · Monte Nido Treating Eating Disorders · Community Medical Services

Skilled nursing

Advantage · exalt health · Collage · emera · Ernest Health

Healthcare services PE ecosystem market map

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PPMs

Cardiovascular

Cardiovascular Institute of the South | CVM Cardiovascular Medicine, PLLC | Partners First Cardiology | United Vein & Vascular Centers

Dental

Heartland Dental | AspenDental | Paradigm Oral Health | U.S. Oral Surgery Management | Southern Orthodontic Partners

Dermatology

Dermatologists of Central States | Epiphany Dermatology | Forefront Dermatology | Pinnacle Dermatology | Schweiger Dermatology Group

Ear, nose & throat

ADVENT | Allergy ENT Associates | ENT Partners | Parallel ENT & Allergy | South Florida ENT Associates

Gastroenterology

Allied Digestive Health | gastro Care Partners | Gastro Health | Pinnacle GI Partners | United Digestive

Musculoskeletal

Florida Orthopaedic Institute | HOPCo | Therapy Partners Group | SpineOne | The Orthopaedic Institute

Obstetrics & gynecology

Axia Women's Health | Femwell | The Women's Health Group | Together Women's Health | Unified Women's Healthcare

Oncology

OneOncology | Verdi Oncology

Other medical specialists

Advantage Surgical & Wound Care | Healogics | Midwest Immunology | revibe men's health

Reproductive medicine

inception | Institute for Human Reproduction | ivy Fertility | Santa Monica Fertility | first fertility

Urology/renal

DrSnip | The Urology Group | U.S. Renal Care | UrologyAmerica | Renal Care 360°

Veterinary

SVP | PetVet Care Centers | WellHaven Pet Health | Amerivet | rarebreed

Vision

Capital Vision Services | EyeSouth Partners | njretina | Retina Consultants of America | SightMD

Healthcare services PE investor map

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

Investor map is a representative overview of active investors in US & Canada healthcare services buyouts and growth equity. Investors are classified by the size of the fund out of which they primarily invest in healthcare services.

Lower middle market (less than $500 million)

BPEA Private Equity
Compass Group Equity Partners
Endurance Search Partners
Enhanced Healthcare Partners
Havencrest
InTandem Capital Partners
Leavitt Equity Partners
Lorient Capital
Maven Equity Partners
MBF Healthcare Partners
Peterson Partners
petra Capital Partners
Pharos Capital Group, LLC
Pine Tree Equity Partners
RF Investment Partners
RiverGlade Capital
Sheridan Capital Partners
Shore Capital Partners

Middle market ($500 million to $1.5 billion)

Amulet Capital Partners LP
Ascend
Assured Healthcare Partners
BPOC
Chicago Pacific Founders
Cressey & Company LP
FFL Partners
Frazier Healthcare Partners
Lee Equity
LightBay Capital
Martis Capital
NMS | Capital
NexPhase Capital
Revelstoke Capital Partners
RoundTable Healthcare Partners
The Cambria Group
Trinity Hunt Partners
Two Sigma
Varsity Healthcare Partners
VSS
Waud Capital
WindRose Health Investors

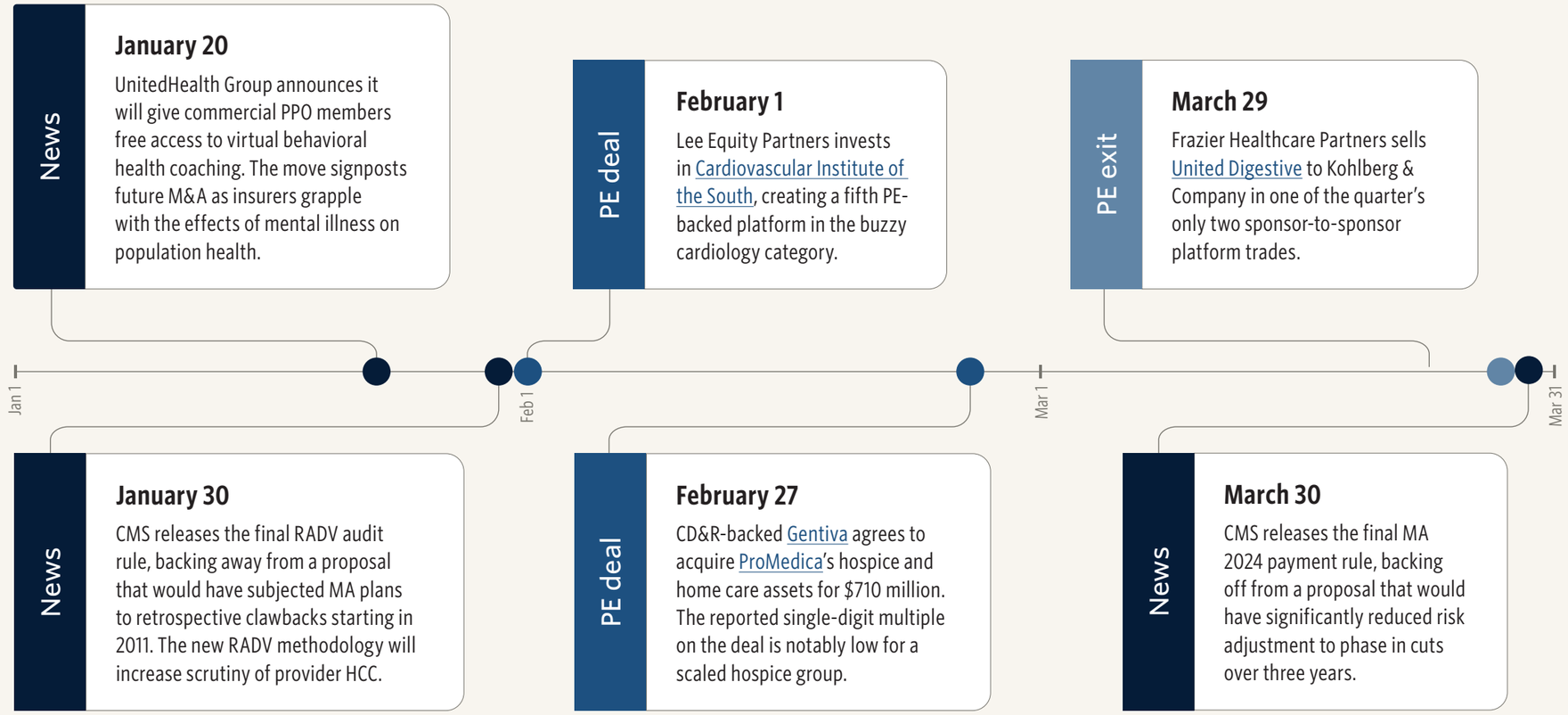
Upper middle market ($1.5 billion to $5 billion)

ALTAS
Audax Group
Kinderhook Industries
Linden
Patient Square Capital
Ridgemont Equity Partners
Sun Capital Partners, Inc.
Vistria
WCAS
Webster Equity Partners
abry partners

Large cap ($5 billion+)

Clayton, Dubilier & Rice
General Atlantic
KKR
LGP | Leonard Green & Partners
OMERS | Private Equity
Partners Group
Summit Partners
Ares
TPG

Q1 2023 timeline



PE activity

200
total deals in Q1 (estimated)

896
total deals TTM (estimated)

-6.2%
QoQ change in deal count

-22.6%
YoY change in Q4 deal count

-17.4%
TTM YoY change in deal count

Key regulatory developments

Two updates to Medicare Advantage (MA) in Q1—in addition to proposed revisions to the program's star ratings methodology that are expected to lower plan performance on average[2]—point collectively toward belt-tightening by CMS.

RADV final rule: On January 30, CMS released the final Risk Adjustment Data Validation (RADV) audit rule, finalizing a proposal originally made in 2018 with amendments.[3] CMS conducts RADV audits of MA plans every three years to validate the diagnoses that underlie plan benchmark risk adjustment via the Hierarchical Condition Category (HCC) model, also known as HCC coding, and uses this to recoup overpayments it made to plans. Per the rule, CMS will apply an extrapolation to its previous sample-based audit methodology, potentially increasing plans' exposure to recoupments. The 2018 proposal had included extrapolation applied from 2011 to the present, but the final rule applies the extrapolation only beginning in 2018.

The final rule also eliminates the previously utilized fee-for-service adjuster, which effectively created a baseline error rate below which no penalty would be assessed. CMS estimated it may collect $479 million from plans as a result of the final rule. The extrapolation methodology without FFS adjuster will also be applied for future RADV audits. In addition to the financial hit to plans, provider organizations will experience greater pressure from payers to document their HCC coding.

2024 final payment rule: On March 31, after intense lobbying from insurers, CMS released the final 2024 MA payment rule.[4] The agency's initial proposal, published in February, had incorporated technical changes to the program's risk adjustment methodology that would have resulted in a 1% increase in MA payments overall, a low figure given healthcare cost inflation. In the final rule, CMS announced it will blend in the new risk adjustment methodology over three years, using one-third of the new model and two-thirds of the old model in 2024. This results in a 3.3% increase in payments overall in 2024. Although the final rule was broadly seen as a win for the insurance lobby, it preserves the original proposal's goal of curbing risk adjustment, which has been a significant source of margin for payers.

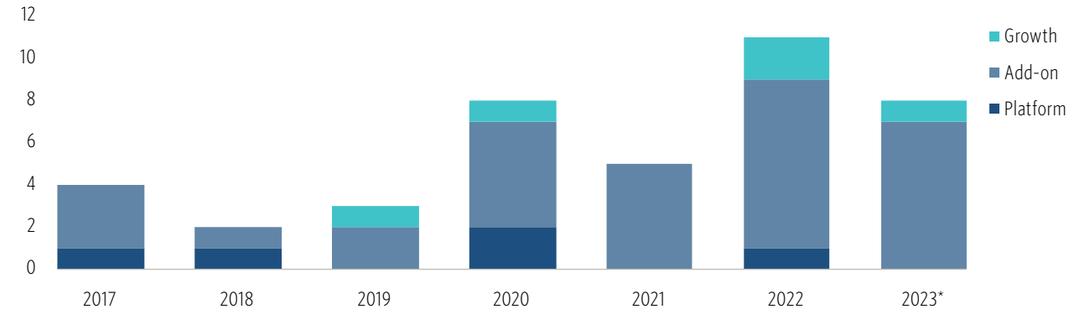
Medicare Advantage has historically enjoyed bipartisan centrist support, but progressive Democrats have become increasingly vocal in their opposition, which turns on a fundamental disagreement with privatization of Medicare. The cumulative effect of these changes is that plan margins will compress, making it even harder for providers who take on risk to capture an adequate portion of the premium dollar. If the political climate forces further reductions to MA, this may cause more plans to charge member premiums or reduce free add-ons such as dental and vision coverage, slowing the program's growth as a proportion of Medicare. Given these political factors, it may become increasingly advantageous for MA-focused providers to develop their traditional Medicare VBC revenue via participation in accountable care organizations (ACOs).

2: Medicare Advantage Star Ratings May Decline With New Methodology," McKinsey & Company, September 15, 2022.
3: "Medicare Advantage Risk Adjustment Data Validation Final Rule (CMS-4185-F2) Fact Sheet," CMS.gov, January 30, 2023.
4: "HHS Updates 2024 Medicare Advantage Program and Part D Payment Policies," CMS.gov, March 31, 2023.

Segment data

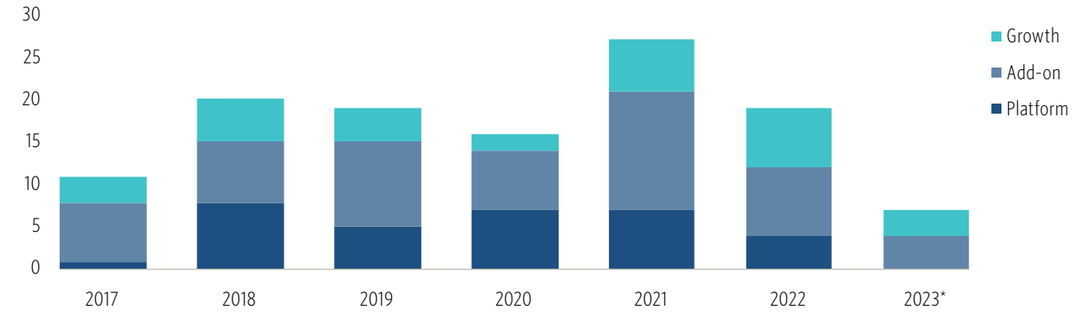
- Generalist providers
- Multispecialty providers
- PPMs
- Skilled care & behavioral health

Occupational & correctional health PE deal count by type



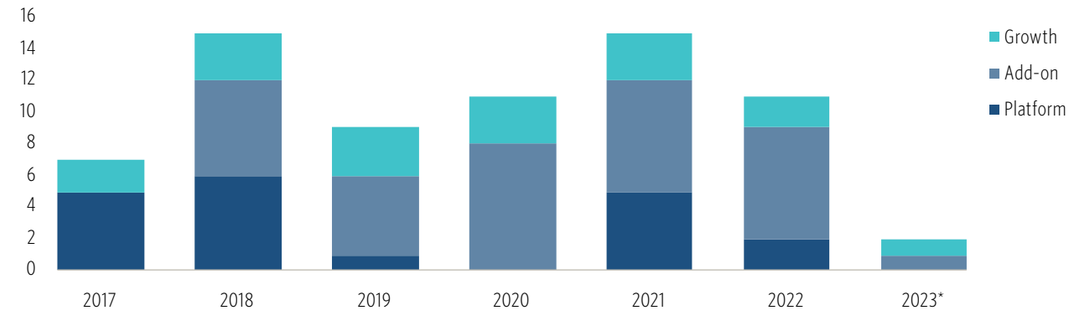
Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Primary care PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Urgent & emergency care PE deal count by type



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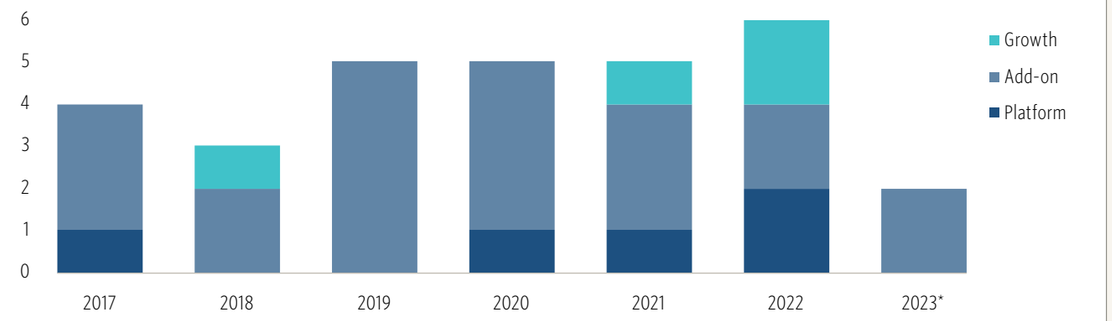
Ambulatory surgical centers PE deal count by type



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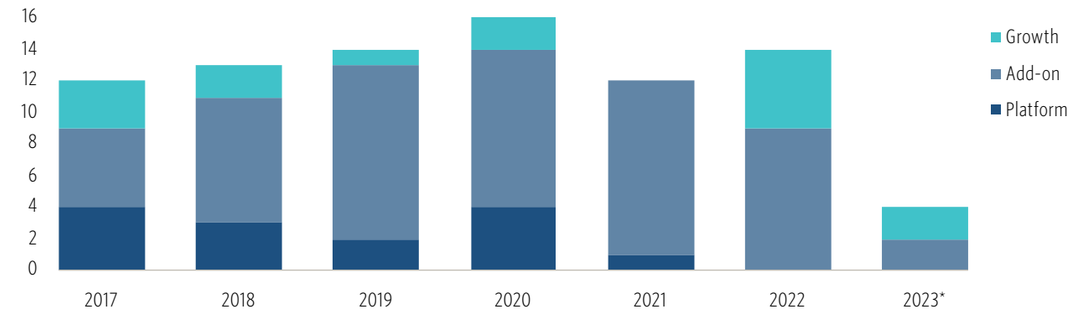
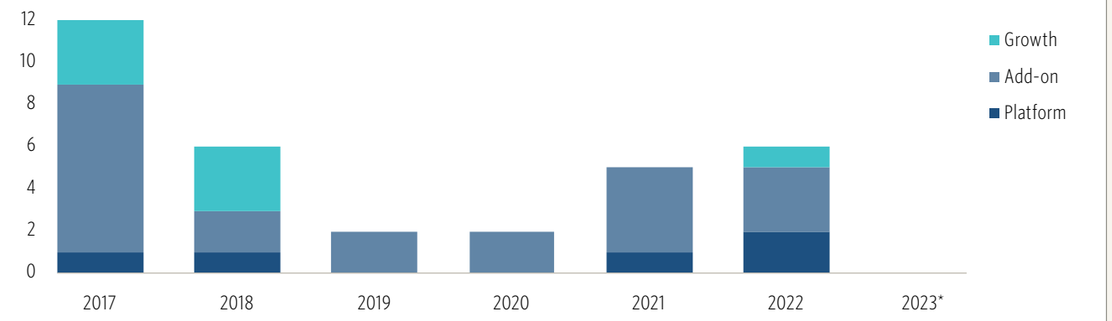
Clinical staffing PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Hospitals & health systems PE deal count by type



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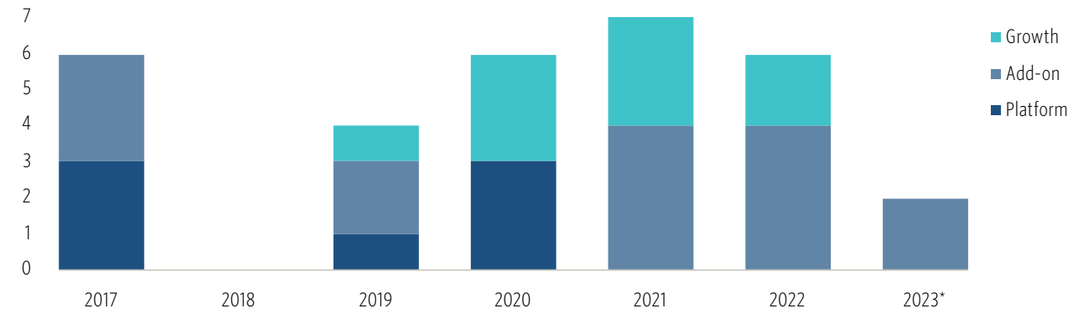
Multispecialty clinics & networks PE deal count by type



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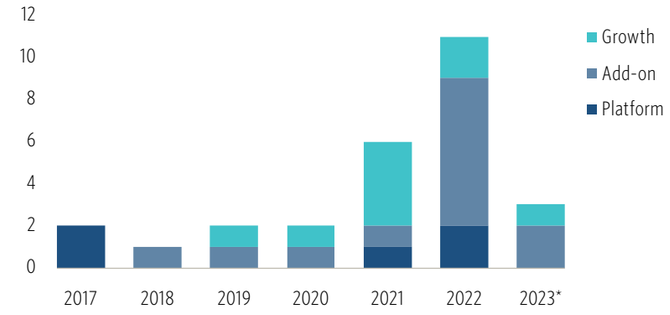
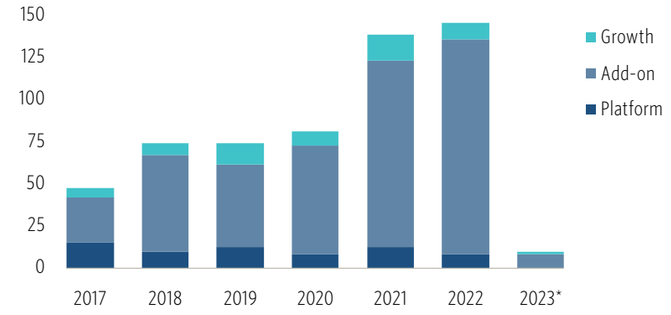
PPMS

Cardiovascular PE deal count by type



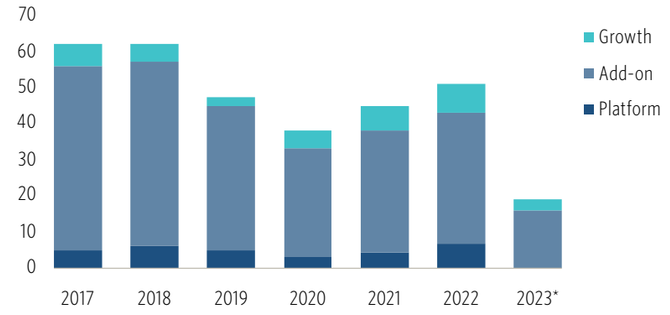
Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Dental PE deal count by type



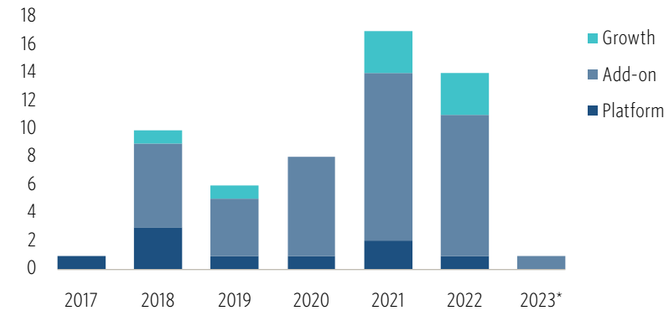
Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Dermatology PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

ENT PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

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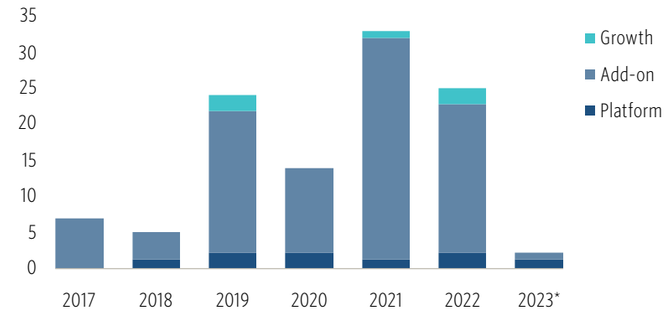
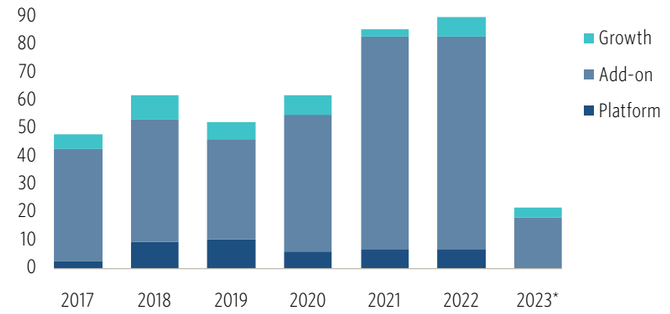


Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

MSK PE deal count by type



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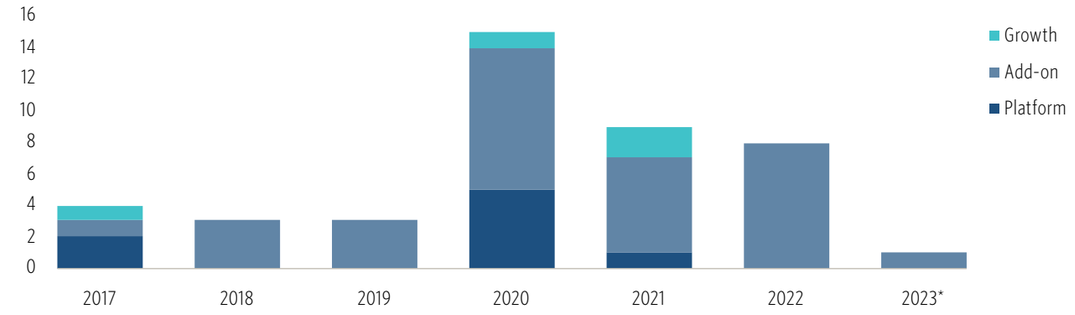
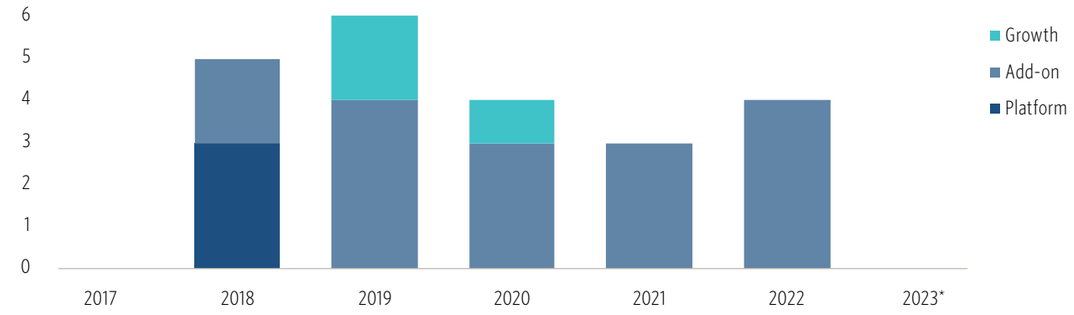
PPMS

Obstetrics & gynecology PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Oncology PE deal count by type



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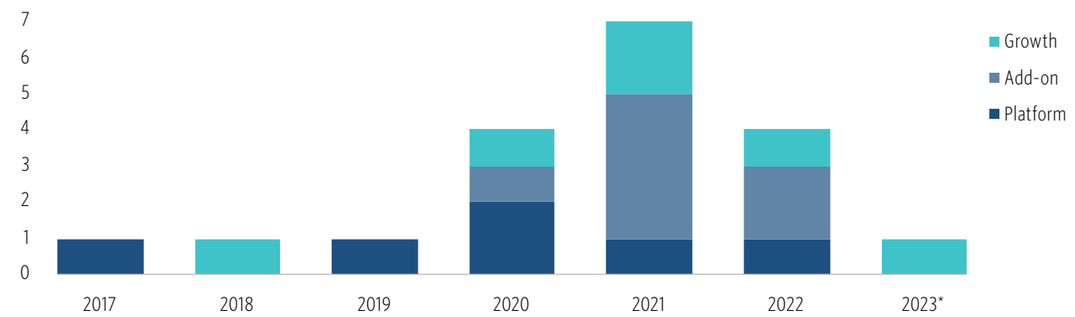
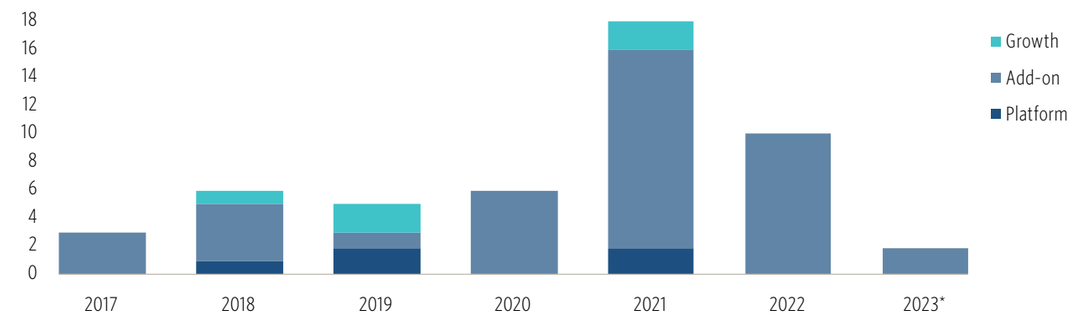
Other medical specialists PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Reproductive medicine PE deal count by type



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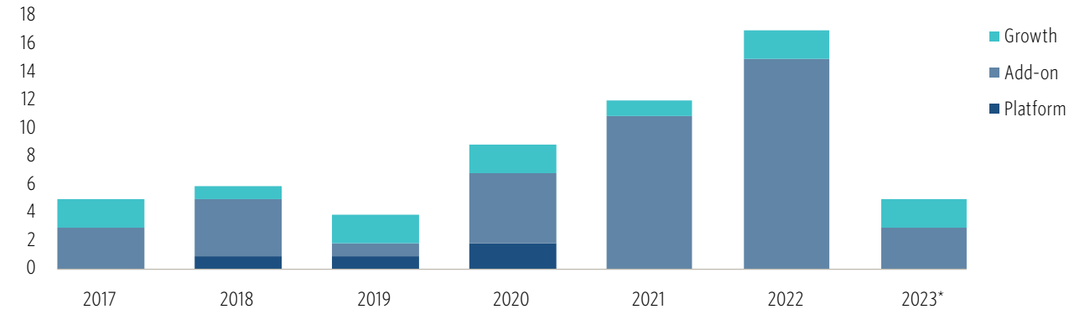
Urology/renal PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

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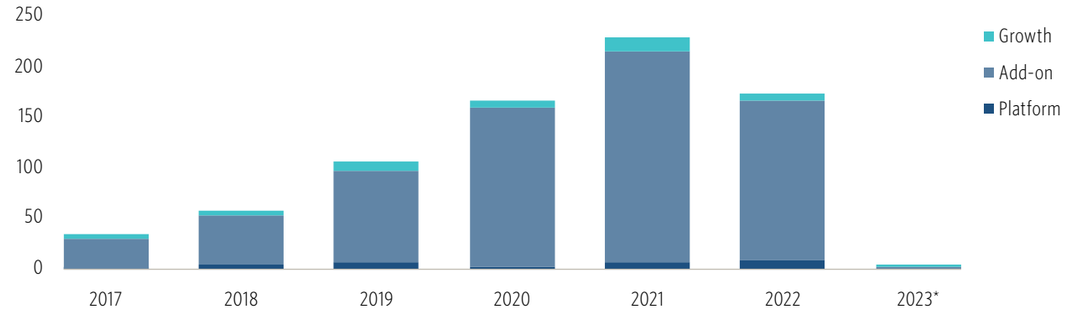

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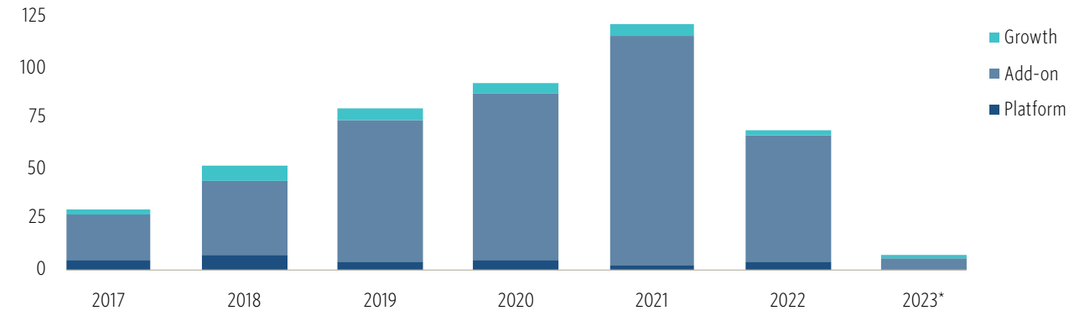
Vision PE deal count by type



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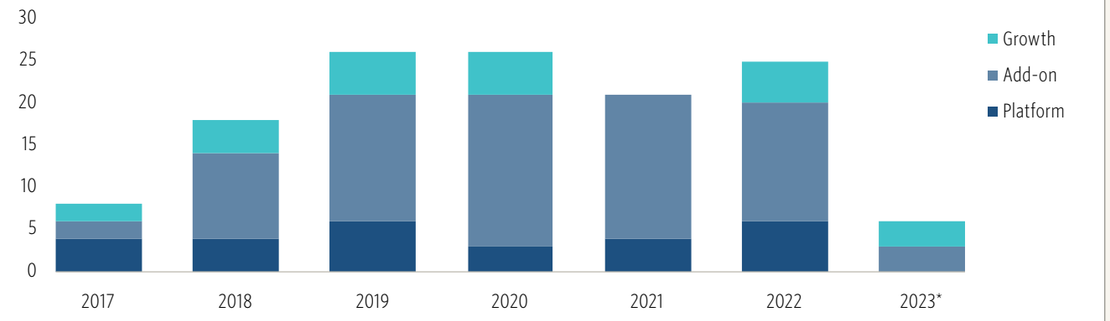
Applied behavior analysis (ABA) & pediatric therapy PE deal count by type



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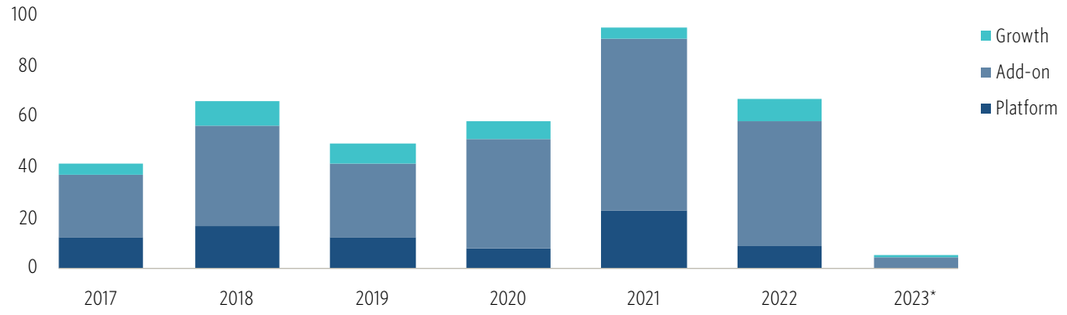
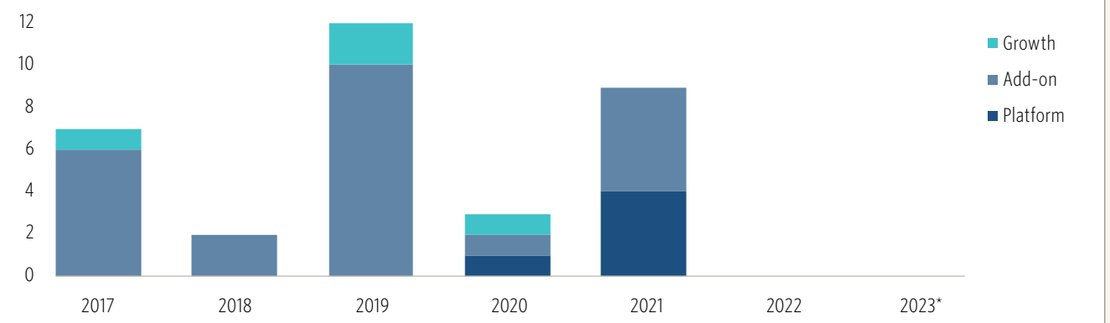
Home care, home health & hospice PE deal count by type



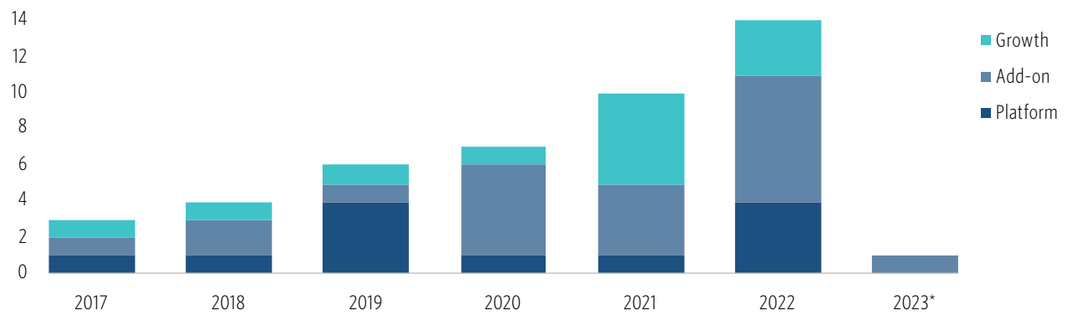
Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

IDD care PE deal count by type



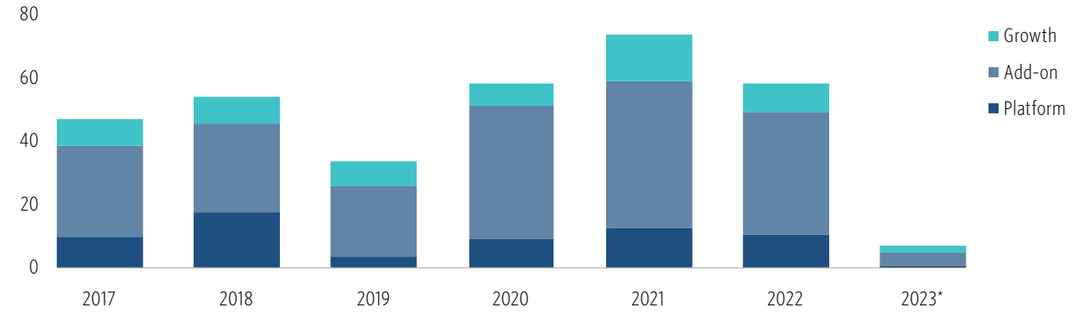
Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Infusion PE deal count by type



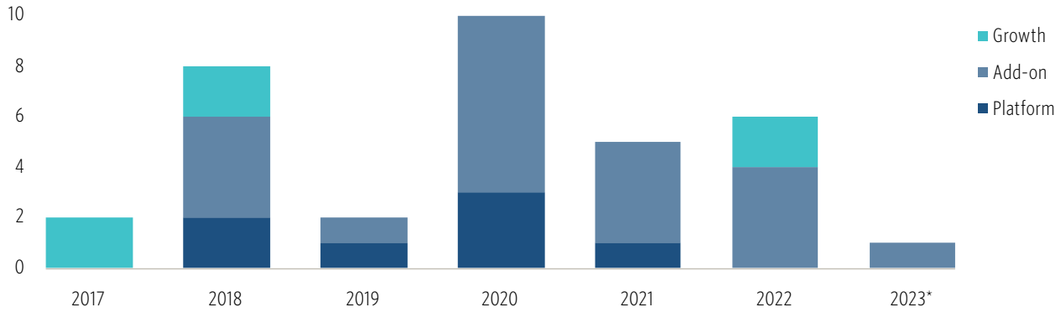
Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Mental health & SUD treatment PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Skilled nursing PE deal count by type



Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Spotlights

Cardiology

The hottest new PPM play poses both challenges and opportunities for first-wave investors.

Wound care

Despite some reimbursement risk, wound care may become more important under value-based models.

Cardiology

As we reported after the McGuireWoods Healthcare Private Equity and Finance Conference in March, cardiology is the buzziest physician practice management (PPM) specialty of 2023. A procedure-based specialty like gastroenterology and orthopedics, cardiology's entry onto investors' radar came in 2020 with CMS' addition of percutaneous coronary interventions (PCIs) to the covered procedures list for ambulatory surgery centers (ASCs). This constituted a tipping point wherein a large enough volume of cardiology procedures could be performed in an ASC to support the overhead associated with building and managing a separate facility. Experts believe that more procedures will be added in the coming years, starting with electrophysiology (EP) ablations.

Like many PPM categories, the cardiology investment thesis turns on compelling demographic trends. Around half of adults living in the US has some form of cardiovascular disease,[6] and direct medical costs from cardiology totaled $219.0 billion per year,[7] with that figure expected to grow as baby boomers age. Compounding the demand trajectory is a looming shortage on the supply side, with retirements precipitating a net loss of 500 cardiologists per year in the US.[8]

Deal dynamics

Cardiology is unique among PE procedural specialty plays in that it is currently a heavily hospital-based specialty, still in the early innings of its outpatient transition. Around 70% of cardiologists are employed by hospitals, compared with around half of gastroenterologists and orthopedic surgeons.[9] The specialty is also less familiar with PE investment than other PPMs, with many larger cardiology groups currently uninterested in taking outside capital. The resulting scarcity of both platforms and add-ons has driven multiples upward despite macroeconomic dynamics. With few platforms to choose from and many sponsors exploring the space, firms have paid up to secure a toehold, with scaled groups fetching multiples of 15-20x depending on ancillaries. Blending that multiple down is also challenging given that add-on multiples in the space regularly reach into the low double digits.

If pursuing de novo expansion, firms must be prepared for a slow, capital-intensive process, especially when building ASCs, because these must be built and retrofitted to exacting standards and undergo complex federal and state accreditation processes.

6: "Nearly Half of All US Adults Have Some Form of Cardiovascular Disease," Heart.org, Mariell Jessup, January 31, 2019.
7: "Health Topics—Heart Disease and Heart Attack," CDC, August 17, 2021.
8: "Resigned to the 'Great Resignation?'" Journal of the American College of Cardiology, Edward T.A. Fry, June 2022.
9: "Has Employment of Cardiologists Been a Successful Strategy?—Part 1," American College of Cardiology, Larry Sobal, November 6, 2019.

Current PE-backed cardiology platforms

Company	Sponsor(s)	Geography
Cardiovascular Associates of America	Webster Equity Partners, MedEquity Capital	AZ, GA, FL, IA, IL, NJ, RI, SC
Cardiovascular Institute of the South	Lee Equity Partners	LA, MI
Heart and Vascular Partners	Assured Healthcare Partners	CO, IL, OK, TX
United Cardiology Partners	Welsh, Carson, Anderson & Stowe	N/A
US Heart & Vascular	Ares Management	AZ, KS, TX

Source: PitchBook • Geography: US
*As of March 31, 2023

This is especially difficult in certificate-of-need (CON) states.[10] Firms pursuing a de novo growth strategy in cardiology must also manage their relationships with local health systems carefully, since they will compete directly for talent. At minimum, independent groups need to maintain admitting privileges and access to health systems' referral networks.

An attractive, but challenging, approach is to pursue three-way joint ventures (JVs) with health systems and physician groups. From the health systems' perspective, getting out ahead of cardiology's outpatient transition is imperative to mitigate the loss of procedural revenue. Three-way JVs can allow health systems to maintain relationships with physicians migrating to outpatient settings and access some of the resulting ASC-based revenue, while minimizing capital outlay. From the PE firm's perspective, health system JVs can facilitate more rapid patient acquisition and avoid creating adversarial competitive dynamics within a given geography. However, health systems are idiosyncratic and often require considerable internal consensus-building, necessitating patience and a bespoke approach to each agreement.

Another workaround for high deal multiples is to build a platform from scratch. Welsh, Carson, Anderson & Stowe (WCAS) has established a leadership team for United Cardiology Partners and is seeking a group to partner with to operationalize the platform. It seems likely that WCAS will follow a similar route to its nephrology play, seeding a new value-based care enabler via its portfolio company Valtruis before merging that enabler with a platform group.[11] Assembling a platform from several smaller groups—similar to some of the clinical trial site platform creations we have seen lately—may be an attractive way to enter the market given market scarcity and current limitations on leverage, but will require convincing independent cardiologist groups to cede some control to peer practices.

Reimbursement dynamics

Cardiology's outpatient transition presents an opportunity for PE investors but also introduces considerable reimbursement risk. Historically, payers have played whack-a-mole with PE investment that chases high margin reimbursement codes—and they are becoming more skilled at that game. Over the past couple years, reimbursement differentials for some cardiology procedures between ASCs and office-based laboratories (OBLs) constituted a site-of-care arbitrage opportunity for independent groups, especially since startup costs for OBLs are significantly lower than for ASCs. However, those gaps are beginning to close. For instance, peripheral artery disease procedural treatment codes, which once reimbursed consistently higher in OBLs than ASCs, are now approximately flat in Medicare reimbursement between the two sites, with some variation by procedure.[12] Some groups have taken the approach of building hybrid OBLs/ASCs to remain nimble as reimbursement shifts, while others believe that focusing

10: Under CON laws, healthcare providers must obtain state approval, in the form of a CON, before they can construct or expand certain types of healthcare facilities. CON laws apply to different types of facilities in different states. Approximately 35 states have some form of CON process, and some state CON programs have even imposed full moratoria on specific types of healthcare construction or expansion. "Certificate of Need State Laws," NCSL, January 1, 2023.

11: WCAS invested in Cricket Health via Valtruis in 2021 before merging Cricket with Fresenius Health Partners and InterWell Health under the Interwell brand in March 2022.

12: "Medicare's 2022 Fee Schedule for Cardiovascular ASC and OBL procedures: 5 Details," MedAxiom, Marc Toth, November 12, 2021.

exclusively on ASCs is prescient given expectations of continued ASC code migration. The best approach will vary depending on the target procedure mix—for instance, a group with a significant vascular service line may choose to focus on venous procedures as a volume play in the OBL setting. (Most arterial procedures are more complex and must be performed in an ASC or hospital, with some exceptions.)

Diagnostic imaging is another potential area of reimbursement risk in cardiology. One of the advantages of PE backing for a specialty PPM is capital provision to purchase more sophisticated equipment that enables new procedural revenue. PE-backed cardiology practices are investing in PET-CT (positron emission tomography—computed tomography) machines, which enable combined nuclear stress tests and CT scans for the diagnosis of coronary artery disease (CAD) and cost in the range of $1 million-$2 million. There has been considerable debate within cardiology on the relative merits of different non-invasive diagnostic imaging techniques for CAD, with alternative options including single-photon emission tomography (SPECT), PET (with or without CT), and coronary computed tomography angiography (CCTA). Of these options, PET-CT reimburses at the highest rate, while CCTA reimburses at a much lower rate. The argument in favor of nuclear stress

Medicare ASC reimbursement by procedure

CPT code	Procedure	ASC national average cost (physician and facility fees)
78491	Myocardial imaging, PET, perfusion, single study	$836
78430	Myocardial imaging, PET, perfusion, single study	$842
78451	Myocardial perfusion imaging, tomographic (SPECT), single study	$741
75572	Computed tomography, heart, with computed tomography angiography (CCTA)	$176

Source: Medicare.gov

tests suggests that this cost is offset by downstream care cost savings due to a reduction in false positives, which trigger more invasive testing.[13,14,15] However, other studies have argued that lower-cost CCTA procedures are equally effective, and in the past, payers have pushed to prioritize CCTA as a result.[16] Although reimbursement dynamics appear to be stable at present, there is some risk that if a consensus emerges in the academic literature in favor of higher value options, payers will react by implementing clinical pathways that will trigger prior authorization checks to control the utilization of nuclear stress tests, diminishing the return on a significant capital investment.

Value-based care play

Although some health systems are engaged in cardiology procedural bundles via BPCI-A and commercial contracts, value-based contracting for independent cardiology practices is still in its infancy. From the perspective of a PE investor in the cardiology "first wave," value-based care is important not only because it is the direction the broader healthcare services industry is headed, but because alternative payment models can enable PE firms to share in the savings they generate for payers by moving cardiovascular procedural volume out of hospitals and into ASCs.

However, effecting a fee-for-service to value-based-care (VBC) transition within a five-year hold period is a challenging task for a sponsor, even in a category like primary care or orthopedics with existing familiarity with VBC on both the payer and provider side. Cardiology generally lacks this familiarity, meaning that platforms may struggle to set up risk-bearing contracts with Medicare Advantage and commercial payers given that payers themselves are unsure on how to approach alternative payment models for the specialty. As a result, some cardiology platforms have begun working with Karoo Health, a seed-stage startup enabling cardiovascular networks to succeed in VBC by providing both value-oriented care and a technology platform. Karoo has initially focused on supporting practices' riskiest patients and provides care coordination, health coaching, nutritional and lifestyle services, and remote patient monitoring, as well as VBC enablement software. The promise of practicing with smaller patient panels and more flexibility to manage patient health outcomes—while maintaining similar income levels—under VBC contracts is enticing to many cardiologists and may help platforms attract employees and/or acquisition targets.

13: "Coronary CT Angiography as a Diagnostic and Prognostic Tool: Perspectives from the SCOT-HEART Trial," Current Cardiology Reports, Mhairi Doris and David E. Newby, January 18, 2016.
14: "Accuracy of Computed Tomographic Angiography and Single-Photon Emission Computed Tomography-Acquired Myocardial Perfusion Imaging for the Diagnosis of Coronary Artery Disease," Circulation: Cardiovascular Imaging, Armin Arbab-Zadeh et al., October 14, 2015.
15: "Comparison of Coronary CT Angiography, SPECT, PET, and Hybrid Imaging for Diagnosis of Ischemic Heart Disease Determined by Fractional Flow Reserve," JAMA Cardiology, Ibrahim Danad et al., October 2017.
16: "Are Commercial Insurance Providers Nudging Us Toward Clinical Improvements?" HeartFlow, September 23, 2020.

Wound care

Wound care is a branch of medicine that aids in healing for wounds that do not heal normally. Patients with diabetes, older patients, obese patients, and those with immunodeficiencies are at increased risk for needing advanced wound care. Wound care is typically a hospital service line, and although there has been significant PE and VC investment in the space via medtech companies that manufacture bioactive dressings, skin substitutes, negative pressure therapy systems, and other advanced wound care products, activity on the services side has been limited. Sponsored platforms come in three types: wound care management companies such as Clayton, Dubilier & Rice-backed Healogics, which contract with health systems to support the launch and day-to-day operations of wound care service lines; wound care staffing companies, such as Trivest-backed Vohra Wound Physicians; and independent, outpatient wound care/hyperbaric oxygen therapy (HBOT) clinics, such as Three Rivers Capital's R3 Wound Care and Hyperbarics. As described below, some investments in the category have faced challenges, but we believe there is an underdeveloped opportunity to help drive value via outpatient wound care for other sponsor-backed specialties.

Current PE-backed wound care services platforms

Company	Sponsor	Model	Geography
Healogics	Clayton, Dubilier & Rice et al.	Hospital management JV	National
American Medical Technologies	One Equity Partners, The Silverfern Group	Hospital management JV, SNF supplies and services	National
R3 Wound Care and Hyperbarics	3 Rivers Capital, Aldine Capital Partners	Outpatient de novo	TX
Advantage Surgical & Wound Care	NaviMed Capital	SNF services, outpatient de novo	CA
Vohra Wound Physicians	Trivest Partners	SNF services	National

Source: PitchBook • Geography: US & Canada

Wound care basics

Like many specialties, wound care clinics can achieve revenue efficiency via increasing procedural volumes and keeping providers working at top of license. The key procedures for wound care are debridements (surgical removal of skin layers that do not contribute to healing), negative pressure therapy (wound vac), total contact casting, skin grafts, and HBOT. Depending on state regulations, HBOT may be overseen by a physician assistant or nurse practitioner under physician supervision, while debridements can typically be performed by wound care-certified RNs. Non-procedural elements of wound care include changing dressings and patient education and can be performed by medical assistants, allowing advanced practice providers to focus on procedures. Controlling formulary costs is another important operational lever, since wound care is a supply-heavy specialty. Finally, wound care providers can differentiate themselves by benchmarking quality using the US Wound Registry.[17]

Historically, PE-backed providers indexed heavily on HBOT because the procedure reimbursed attractively at several hundred dollars per "dive" and was a relatively easy revenue lever to pull. In the mid-2010s, payers and regulators pushed back against overuse, and payers generally require prior authorization and evidence that lower-acuity interventions have been pursued before reimbursing for outpatient HBOT. Although there has been some debate in the academic literature, systematic reviews suggest that HBOT is effective at reducing the rate of amputations in high-risk patients but may have questionable efficacy in treating lower-risk patients. Additionally, some reviews have pointed to problems with study design in the existing literature.[18,19,20] Therefore, PE-backed wound care platforms must ensure they are providing HBOT for patient populations that will benefit the most from the treatment, rather than as a cure-all. Payers are still willing to reimburse at reasonable levels for outpatient HBOT in cases where the treatment is demonstrably reducing the risk of amputation. This requires building referral networks with primary care, skilled nursing, vascular surgery, orthopedics, and other providers to develop the correct patient mix. For instance, R3 Wound Care has pursued a HBOT-focused de-novo strategy, opening locations in high-need communities that are more than 30 minutes' driving distance from a hospital, and has enjoyed positive payer relationships.

Care coordination opportunities

PE-backed platforms that provided wound care management services have historically been left exposed by health systems deciding not to renew contracts due to diminished procedural revenue and/or a decision to take management in-house. We believe more promising opportunities lie in outpatient clinic management and staffing. As value-based care advances, there may be synergies between wound care-focused platforms and other PE-backed specialty groups. Recent sponsored activity in podiatry and vascular practices presents an opportunity integration to utilize fractional provider time (e.g., of podiatrists) and integrate surgical with post-surgical care. High quality wound care can reduce complication and readmission rates for high-risk patients following surgical procedures and can therefore be a key contributor to success in bundled contracts. Wound care specialist staffing may also see tailwinds given that the number of RNs pursuing wound care certifications is limited—especially as skilled nursing facilities increasingly participate in accountable care organizations (ACOs) or take on delegated Medicare Advantage risk.

17: "Changing Wound Care Through Data," US Wound Registry, n.d., accessed April 26, 2023.
18: "Systematic Review of the Effectiveness of Hyperbaric Oxygenation Therapy in the Management of Chronic Diabetic Foot Ulcers," Mayo Clinic Proceedings, Rui Liu et al., February 2013.
19: "Hyperbaric Oxygen Therapy for Wound Healing and Limb Salvage: A Systematic Review," Robert J. Goldman, May 2009.
20: "Hyperbaric Oxygen Therapy: Descriptive Review of the Technology and Current Application in Chronic Wounds," Plastic and Reconstructive Surgery, Babak Hajhosseini et al., September 2020.

Appendix

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

Investor	Platform deals
Shore Capital Partners	32
Petra Capital Partners	21
Webster Equity Partners	20
Summit Partners	20
Revelstroke Capital Partners	19
BPEA Private Equity	15
InTandem Capital Partners	14
Vistria Group	14
Audax Group	14
Endurance Search Partners	13

Source: PitchBook • Geography: US & Canada • *As of March 31, 2023

Most acquisitive PE-backed healthcare services platforms since 2020*

Platform	Add-ons
Southern Veterinary Partners	136
Smile Doctors	52
AEG Vision	32
Southern Orthodontic Partners	29
Retina Consultants of America	27
Eyecare Partners	26
Therapy Partners Group	22
PetVet Care Centers	21
Veterinary Practice Partners	20
BayMark Health Services	19

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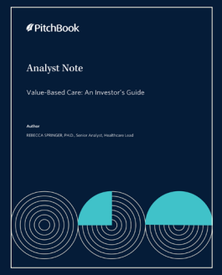
John Gabbert Founder, CEO

Nizar Tarhuni VP, Editorial & Institutional Research

Paul Condra Head of Emerging Technology Research

Additional research

Healthcare and PE



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