PitchBook

INDUSTRY RESEARCH

Healthcare Services Report

PE trends and investment strategies

Q1 2024

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

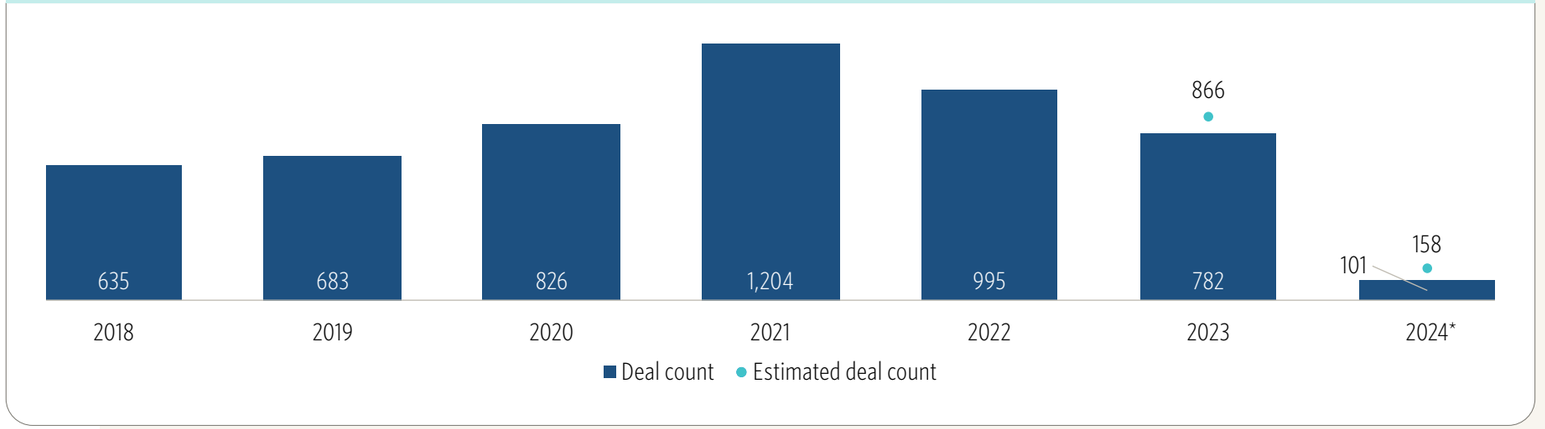
Click here to download our 2023 taxonomy report, which includes definitions, key investment drivers, and risks by segment.

PE healthcare services investing continued to stagnate in Q1 2024. PE sponsors announced or closed an estimated 158 deals in the quarter, a downward trend even from 2023's sluggish pace. A somewhat more optimistic narrative around deal mechanics—more sponsors are at least actively looking to deploy capital, and financing is a bit easier to come by than it was in mid-2023—has been tempered by the persistence of the bid-ask gap, a decidedly negative regulatory environment, and macroeconomic signs that point in the direction of the Federal Reserve (Fed) holding rates higher for longer. Firms have deals in the pipeline, to be sure, but we expect most of these processes to progress slowly, with announcements trickling in toward the end of the year and activity picking back up in earnest in 2025.

Deal environment

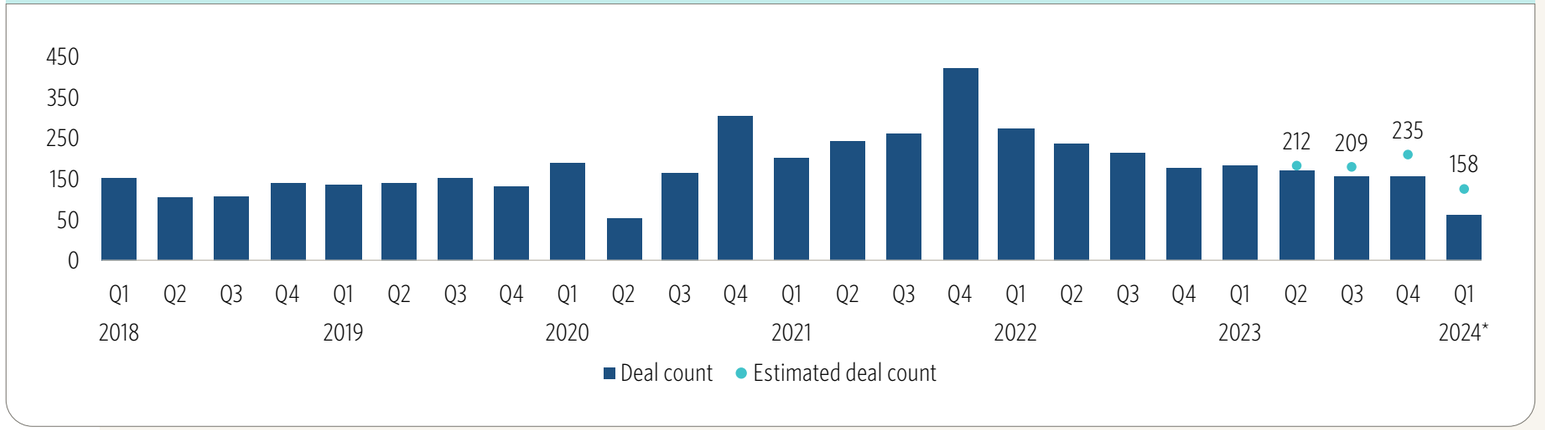
As we wrote in our McDermott Healthcare Private Equity conference recap, buyers continue to hold the upper hand amid elongated deal processes. Pro forma adjustments for de novo locations and not-yet-integrated add-ons are a key sticking

Healthcare services PE deal count



Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Healthcare services PE deal count by quarter

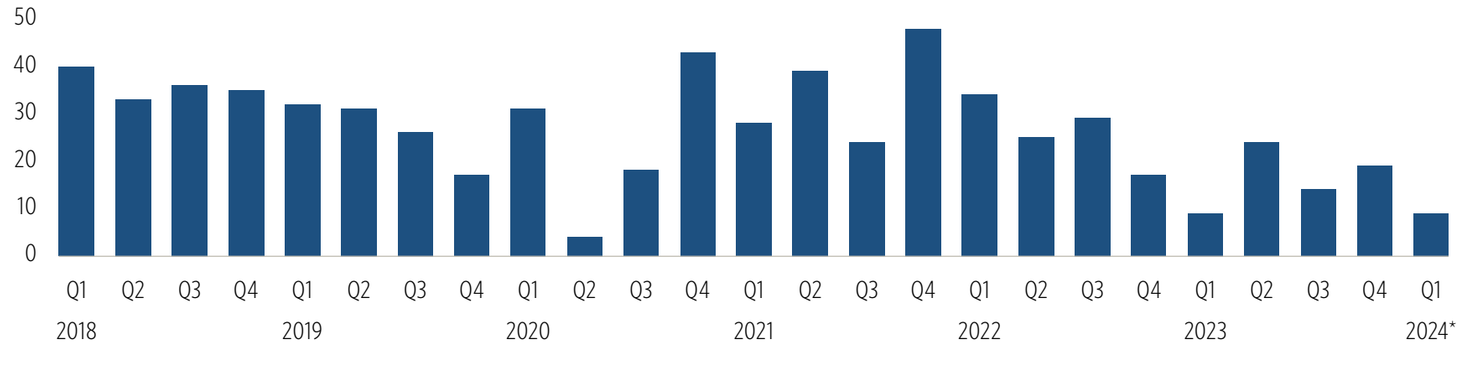


Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

point. In terms of pricing, many categories have not yet seen enough post-2021 deal flow to establish a new benchmark multiple range, although most platforms should expect to trade at two or three turns below 2021 levels, or more, as we have written previously. A few premium assets are crossing the line at strong valuations due to the scarcity effect. For other deals, valuation expectation gaps are being mitigated via creative deal structures, including 50/50 splits, super minorities, seller rollover, heavy earnouts, and growing utilization of preferred equity.

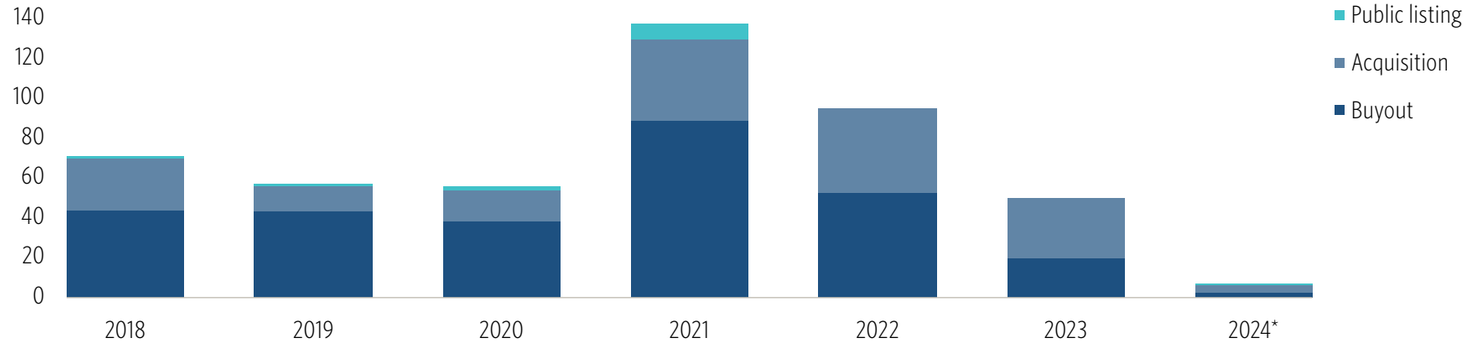
On the debt financing side, we are seeing the pressure ease slightly. After we recorded zero healthcare services buyouts financed in the broadly syndicated loan (BSL) markets, Cotiviti's $4.4 billion term loan financing in February was a welcome sign. For middle-market deals, lending conditions have eased slightly, with the debt multiple ceiling creeping back up into the 4.5x to 5x EBITDA range, although underwritten on a conservative version of EBITDA. According to Rita Ratner, Managing Director at Farragut Square Group, lenders continue to take a proactive role in due diligence around quality of earnings, compliance, and regulatory risks associated with

Healthcare services PE platform buyout count by quarter



Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Healthcare services PE exit count by type



Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

findings in medical record reviews. Farragut Square has also seen an uptick in sell-side engagements as sellers look to maximize readiness before bringing platforms to market. In particular, sellers are becoming increasingly aware that buyers will use chart reviews as a proxy for valuation and operational strength.[1]

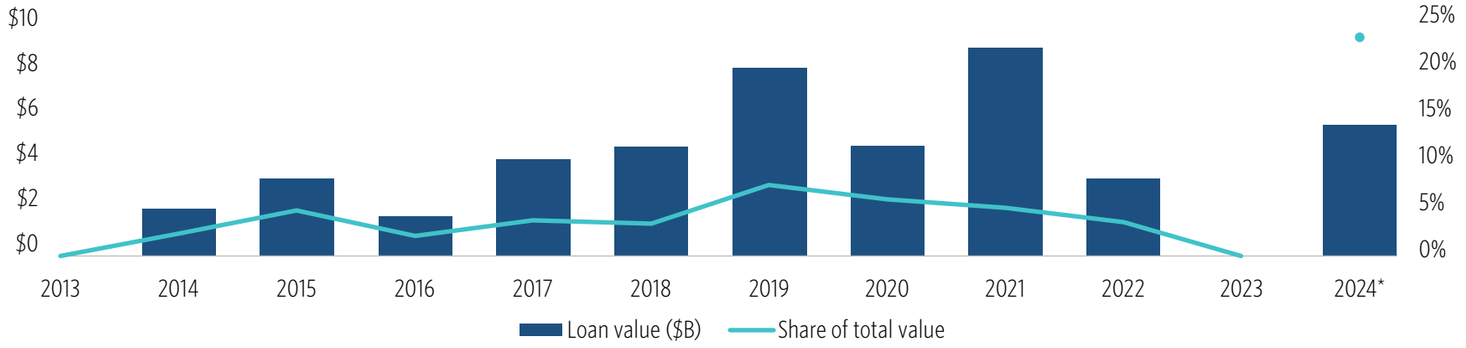
Regulatory risks

Various external factors brought additional headwinds in Q1. The Change Healthcare cybersecurity breach, which began on February 21 and was resolved in mid-March, caused temporary delays in active deal processes as target companies scrambled to reconfigure their billing processes and buyers looked for assurance that revenue would normalize at previous levels. The episode, and the regulatory attention it has engendered, is increasing buy-side attention to cybersecurity and HIPAA compliance risks, according to Ratner.[2]

We have written extensively about growing awareness of headline risk among healthcare services investors. On March 5, the Federal Trade Commission (FTC), Department of

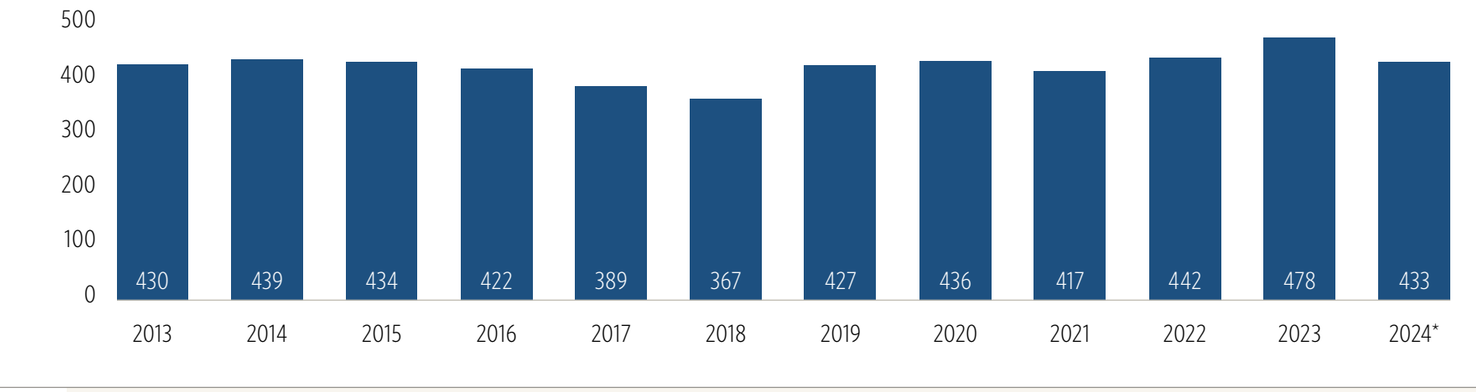
1: Rita Ratner, Managing Director at Farragut Square Group, phone interview by Rebecca Springer, April 4, 2024.
2: Ibid.

LBO-related healthcare services loan value and share



Source: PitchBook | LCD • Geography: US and Canada • *As of March 31, 2024

New-issue spread (basis points) for healthcare services loans



Source: PitchBook | LCD • Geography: US and Canada • *As of March 31, 2024

Justice (DOJ), and Department of Health and Human Services (HHS) announced an "inquiry on impact of corporate greed in healthcare," accompanied by a public briefing and request for information. Broadly speaking, the FTC has done exactly what it has been saying publicly it would do throughout Chair Lina Khan's tenure, and players in the PE healthcare ecosystem should not be surprised.

While direct antitrust enforcement risk remains low in the lower and core middle market, headline risk is growing as the US presidential election approaches. For instance, our analyst team has seen an uptick in media requests from journalists investigating specific PE healthcare consolidation trends in diverse segments and in some cases involving quite modestly sized platforms. Even if the public spotlight drifts elsewhere post-election, we fear a lasting effect on perceptions of PE's interests and approaches among potential sellers and partners in the provider landscape, including physician groups and health systems.

At the state level, California's Office of Health Care Affordability (OHCA) deal review process went into effect for transactions closing on or after April 1 for any transaction of $25 million or more, and could extend deal timelines up to 265 days for transactions where OHCA decides to conduct a "cost and market impact review" (CMIR). Disclosure requirements include transaction details, financial statements, and organizational charts, which will become public record absent OHCA approval of a confidential treatment request, and the CMIR process also includes a public comment period. Finally, transaction parties must reimburse OHCA for its review costs.[3] Additional states have followed California's lead, including Connecticut, Illinois, Indiana (deal value threshold of $10 million), Minnesota, Massachusetts, Minnesota, Nevada, New York, Oregon, and Washington.[4] There is considerable uncertainty around which and how many deals will be subject to review and how review processes will play out.

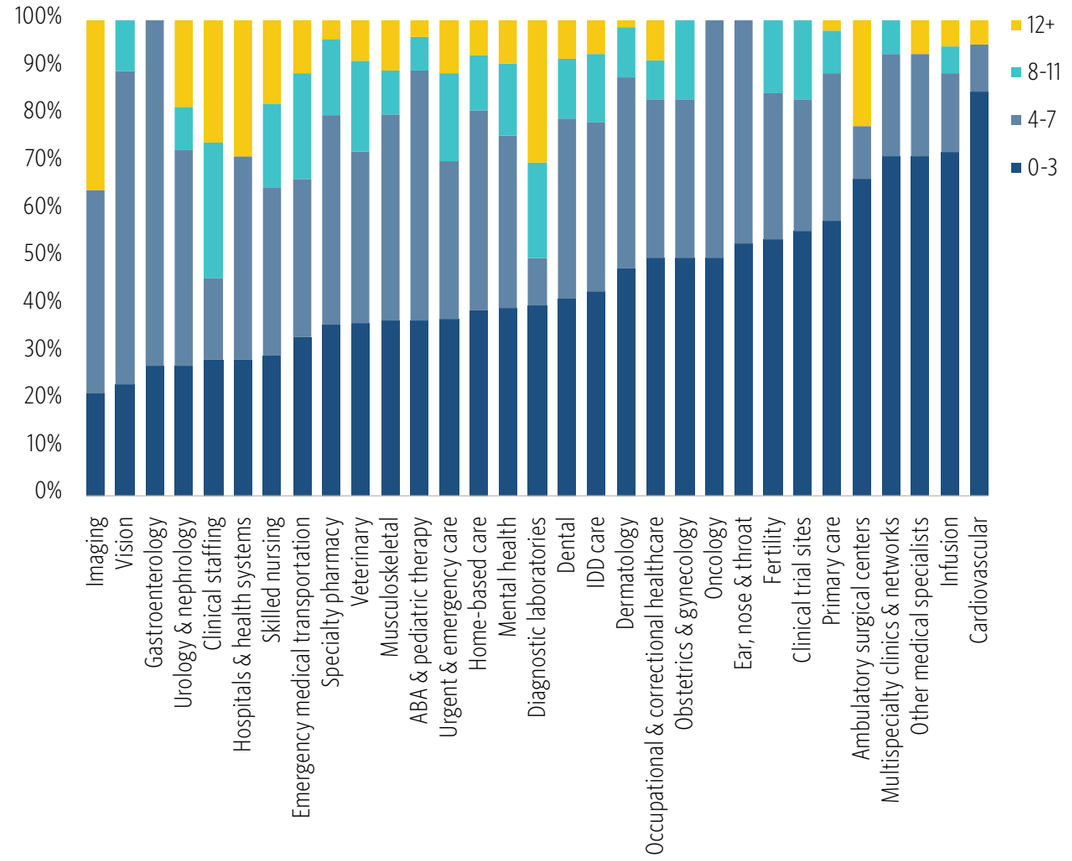
On April 23, the FTC voted to ban noncompetes, which are widely used for the clinical workforce, nationwide.[5] The rule carves out nonprofit entities due to jurisdictional limitations, transaction-related noncompetes, and upper-level executive roles. The decision is expected to face significant legal pushback, which could delay its implementation, currently set for 120 days after its publication in the Federal Register. If implemented, a noncompete ban would theoretically advantage health systems over PE-backed physician groups in physician and clinical staff retention, and could also result in further wage inflation in the industry. For now, it introduces an additional element of uncertainty into the dealmaking environment.

The future of PPMs?

Exit opportunities continue to appear limited for the large cohort of scaled PPM platforms currently aging in PE portfolios. We think the possibility that antitrust scrutiny will chill strategic provider M&A is easy to overstate—after all, Optum has continued to acquire despite an ongoing DOJ investigation. But the pool of interested large-cap PE buyers has likely shrunk considerably. The challenge is more pronounced in some categories than in others. New data shows that in veterinary, applied behavior analysis (ABA), emergency medical transportation (EMT), specialty pharmacy, imaging, and clinical staffing, the median age of a current PE-backed platform is between four and five years. In vision and urgent

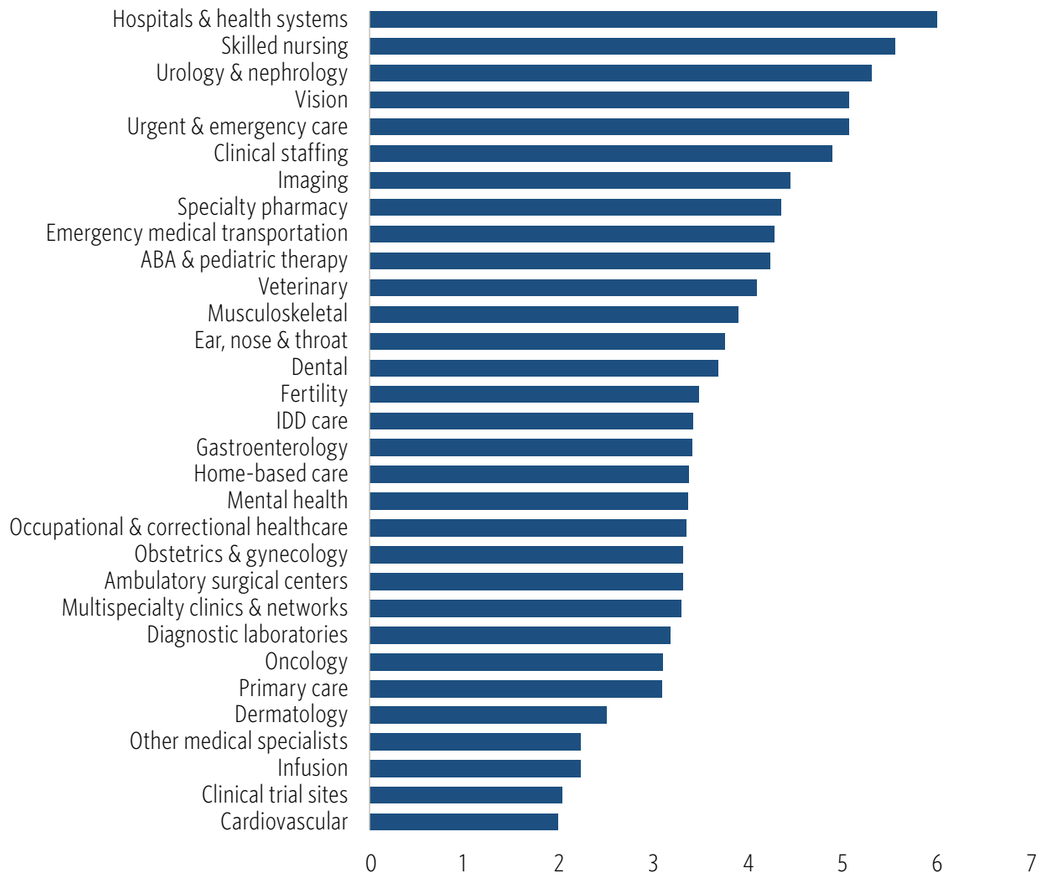
3: "California's Office of Health Care Affordability Finalizes Health Care Transaction Notice Regulations," Debevoise & Plimpton, Andrew L. Bab, et al., January 12, 2024.
4: "Indiana Becomes Latest State to Enact Mandatory Reporting of Healthcare Transactions," McGuireWoods, March 18, 2024.
5: "FTC Announces Rule Banning Noncompetes," FTC, April 23, 2024.

Share of current PE-backed platforms by years since first buyout*



Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Median hold time (years) of current PE-backed platforms*



Source: PitchBook • Geography: Geography: US and Canada • *As of March 31, 2024

care, as well as the sleepy categories of hospitals, skilled nursing, and nephrology, the median age is more than five years. By contrast, PE's newer forays—infusion, clinical trial sites, and cardiovascular—have median hold times sitting around two years and are under little pressure to turn over quickly. Taking another view, we can slice categories by their overall maturity: More than half of PE-backed clinical staffing groups and diagnostic labs have been in PE hands eight years or more.

We find it remarkable that the narrative in the PE healthcare industry has shifted to the extent that serious market players are asking out loud whether there is a future for investing in PPMs. To be sure, inorganic growth strategies play best in low-interest-rate environments—a state we may not return to for some time—and the healthcare services industry has weathered a systemic workforce reduction post-pandemic. The regulatory landscape has also become much more complex over the past year or so. Deals done at elevated multiples on generously adjusted EBITDA in 2018-2021 will in many cases yield weak returns when sponsors finally bite the bullet and sell.

But the fundamental tailwinds—aging population, scale opportunity, physician generational turnover, and the need for operational investment to increase access and care quality—remain unchanged. While some provider categories are more or less played out (oncology, nephrology, anesthesiology), others still sport a healthy supply of targets (dentistry), lend themselves well to de novo expansion (medspa, veterinary, ABA), or are in the early stages of outpatient migration (cardiovascular, infusion). There is also a need in the lower middle market to build platforms in categories that remain highly fragmented but lack mid-sized platform-scale targets (OB-GYN, mental health). We believe the current sponsor aversion to healthcare providers and PPMs in particular will subside in a few years, after the current crop of long-in-the-tooth platforms has cleared the market and valuations have reset to reflect more realistic growth and margin assumptions.

Segment updates

Cardiovascular: Both multiples and deal volumes have quieted slightly as sponsors that claimed territory in 2022-2023 turn to focus on integration and operational playbooks in this highly regulated and complex specialty. CVAUSA (Webster), Heart & Vascular Partners (AHP), US Heart and Vascular (Ares), and USHP (Summit) remain the major players. A few smaller entrants emerged in late 2023 and in Q1 2024, including Chicago Pacific Founders' Qoros (Houston and Florida), and Alvarez & Marsal's Phoenix-based Arizona Heart Rhythm Center. Welsh, Carson, Anderson & Stowe's holding company United Cardiology Partners has put in bids but has yet to make an acquisition. Given the limited target universe, firms still looking to make a play may struggle to find a market entry point that is not already occupied by a competitor.

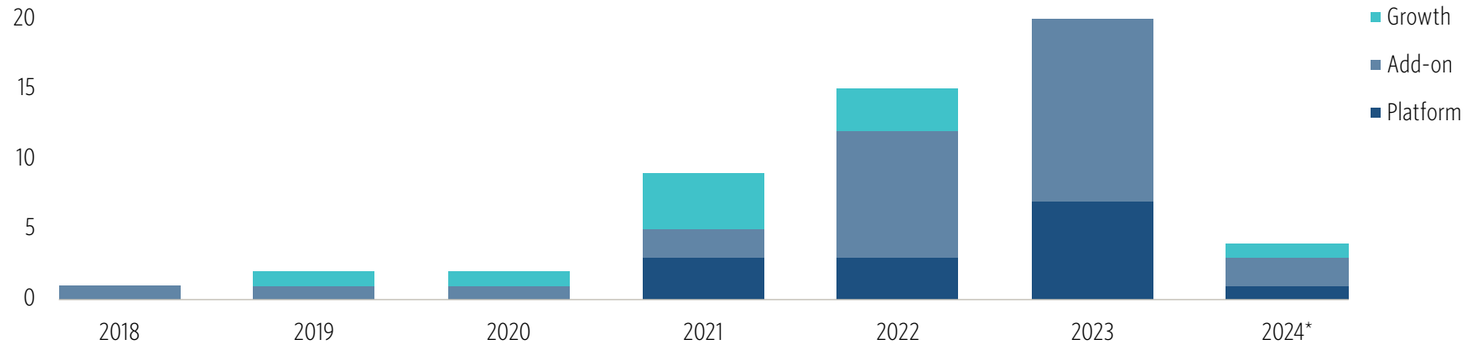
PE investors in cardiovascular continue to edge into the specialty's nascent value-based care (VBC) play. In October 2023, CVAUSA struck a value-based care partnership with Bain-backed InnovaCare Health, one of the larger PE-held senior primary care groups. The partnership initially involves collaboration between Family Care Partners, an InnovaCare subsidiary, and First Coast Heart and Vascular Centers, a CVAUSA subsidiary, and economic terms (risk sharing or otherwise) were not disclosed. In a noteworthy alternative strategy, WindRose Health Investors in early March announced its acquisition of CardioOne, a cardiovascular management services organization (MSO) that focuses on serving independent provider groups. CardioOne's client base has shifted toward slightly larger groups, including two health system spinouts, since the acquisition.

Home-based care: Despite compelling demand tailwinds, transaction activity in home-based care has continued to stagnate under downward reimbursement pressure and regulatory uncertainty. On the Medicare side, the Centers for

Medicare & Medicaid Services (CMS) is currently executing a strategy to claw back what it claims were overpayments prior to the 2021 Patient-Driven Groupings Model, and many agencies are struggling with Medicare Advantage (MA) contracts that impose significant prior authorization requirements and reimburse at around 25% below traditional Medicare. We believe there is still a good investment opportunity in hospice, which has fared better than home health in recent CMS fee schedules, and particularly in palliative care, which is increasingly seen as an important component of VBC. Monica Wallace and Sarah Kitchell, partners at McDermott Will & Emery, have observed modest sponsor interest in forming palliative care platforms and expect some mature hospice assets to begin testing the waters within the next year or so. However, sponsors contemplating hospice investments must take a rigorous approach to diligence and compliance to mitigate the growing risk of Unified Program Integrity Contractor (UPIC) audits, which can be costly—overpayments discovered in the audit may be extrapolated, potentially resulting in millions in recoupment—and appeals can drag on for years. CMS audit and enforcement activities, including moratoria on new enrollments, previously tended to cluster in key markets including Florida, Texas, Illinois, and Michigan, but are now being undertaken across geographies.[6]

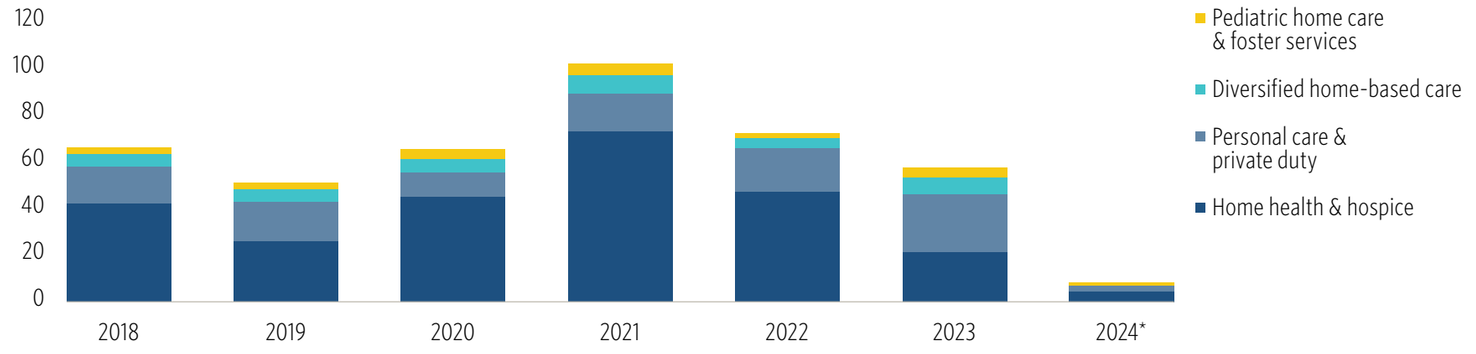
6: Monica Wallace and Sarah Kitchell, Partners at McDermott Will & Emery, phone interview by Rebecca Springer, April 16, 2024.

Cardiovascular PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Home-based care deal count by subcategory



Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

As we have written previously, investor attention in home-based care has shifted toward private duty personal care and, to a lesser extent, Medicaid home and community-based services (HCBS). In April, CMS dealt a blow to Medicaid HCBS providers in finalizing the so-called 80-20 rule, which requires HCBS home-based care agencies to spend a minimum of 80% of Medicaid payments on direct care-worker compensation after a six-year phase-in period.[7, 8] The rule, which is likely to face legal challenges,[9] will have a mixed effect across state markets; some states that already have relatively high care-worker wages will see little effect, while agencies in low minimum-wage/low-reimbursement states will struggle to sustain corporate overhead, including staff training and operational improvements. This will likely limit HCBS plays to a patchwork of higher-reimbursement geographies.

By contrast, private duty home-based care—like other cash-pay categories—is currently attractive to sponsors because the provider has some flexibility to adjust rates in line with labor costs, because de novo entrances into new geographies are relatively uncomplicated, and because private-pay agencies can help to fill the gap left by diminishing access to government-paid home-based care as a result of regulatory and reimbursement headwinds.

Continuous glucose monitor (CGM) distribution: Following a landmark Medicare coverage expansion, multiple deal processes are impending in a category that has not seen a significant transaction since 2021. We delve into the key drivers and investment considerations in this quarter's spotlight below.

Index of previous Healthcare Services Report spotlights

Each quarter, we take a deep dive into two or three categories or themes, from hot topics to unexplored niches.

Q4 2023: 2023's top three categories, obstetrics & gynecology, direct primary care

Q3 2023: New subcategory data

Q2 2023: Mental health, medical spas (medspas)

Q1 2023: Cardiology, wound care

7: "Ensuring Access to Medicaid Services Final Rule (CMS-2442-F)," CMS.gov, April 22, 2024.
8: "CMS Releases Final Rule: Medicaid Program; Ensuring Access to Medicaid Services," McDermottPlus, Katie Waldo, Kayla Holgash, and Jeffrey Davis, April 26, 2024.
9: "With Medicaid Access Rule Finalized, Home Care Providers Enter 'Wait-And-See' Mode," Home Health Care, Andrew Donlan, April 23, 2024.

Select PE healthcare services deals in Q1 2024*

Company	Category/subcategory	Deal type	Announced/close date	Exiting company/investor	Acquirer/investor(s)
Arizona Heart Rhythm Center	Cardiovascular	Buyout	March 15		Alvarez & Marsal
Paragon Healthcare	Infusion	Acquisition	March 11	Peak Rock Capital	Elevance Health
American Family Care	Urgent and emergency care	Growth	February 29		Lorient Capital Management
CardioOne	Cardiovascular	Buyout	February 22	Redesign Health	WindRose Health Investors
Turning Point Centers	SUD treatment	Acquisition	February 22	InTandem Capital Partners	Acadia Healthcare
Angels of Care Pediatric Home Health	Pediatric home-based care	Buyout	February 9	Varsity Healthcare Partners	Nautic Partners
Marathon Health and Everside Health	Direct primary care	Merger of equals	February 7		General Atlantic (Marathon), New Enterprise Associates (Everside)
Dynamic Growth Dental Support	Dental	Buyout	January 31	The Operland Group, et al.	Dental365 (Regal Healthcare Capital Partners, The Jordan Company)
Access Infusion Care	Infusion	Platform creation	January 30		New Harbor Capital
Compass Surgical Partners	Ambulatory surgical centers	Growth	January 23		Health Velocity Capital, TPG
Center for Restorative Breast Surgery	Oncology/asethetic dermatology	Buyout	January		Webster Equity Partners
Principles Recovery Center	SUD treatment	Buyout	January		Miramar Equity Partners

Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Healthcare services PE ecosystem market map

This market map is a representative overview of current PE-backed platforms. Click to view the full map on the PitchBook Platform.

1 Generalist & multispecialty providers

Hospitals & health systems

Ardent Health Services, ScionHealth, Steward

Multispecialty clinics & networks

duly, essen Health Care, shp

Occupational & correctional healthcare

Akeso, Excelsia Injury Care, Medicine for Business and Industry, wellpath, YesCare

Primary care

AMM, CLAREMEDICA, eventus WHOLE HEALTH, INNOVACARE HEALTH, MILLENNIUM PHYSICIAN GROUP

Urgent & emergency care

afc urgent care, convenientMD, EMERUS, EXCEL ER, fastpacehealth

2 Ancillary & outsourced services

Ambulatory surgical centers

aac, BlueCloud, COMPASS, Covenant Physician Partners, LYNC HEALTH PARTNERS

Clinical staffing

CHG Healthcare, EMERGENCY CARE PARTNERS, ESSENTIAL, NAPA North American Partners in Anesthesia, NorthStar ANESTHESIA

Diagnostic laboratories

Life Line Screening

Imaging

LucidHealth, PEAK Diagnostic, SOLIS Mammography

3 Skilled care & behavioral health

Applied behavior analysis & pediatric therapy

acorn HEALTH, ACTION BEHAVIOR CENTERS, BEHAVIORAL HEALTH WORKS, behavioral, BlueSprig

Home-based care

Arosa, harmonycares, HOSPICE CARE PROVIDERS, INC.

Intellectual & developmental disabilities care

abound HEALTH, BEACON Specialized Living, broadstep, CAREGIVER, CBC Community Based Care

Mental health

BayMark HEALTH SERVICES, BHG Behavioral Health Group, Community Medical Services, crossroads, DISCOVERY Behavioral Health

Skilled nursing

Advantage, ClearSky HEALTH, Collage, exalt health

4 PPMs

Cardiovascular

CardioOne, CARDIOVASCULAR ASSOCIATES of AMERICA, HEART & VASCULAR PARTNERS, United Vein & Vascular Centers, USHP

Clinical trial sites

ALCANZA CLINICAL RESEARCH FOR ALL, ALLIANCE Clinical Network, biobridges, CenExel, CONQUEST RESEARCH

Dental

DCA Dental Care Alliance, HEARTLAND DENTAL, LONE PEAK, PARADIGM DENTAL HEALTH, Smile Doctors

Dermatology

AMP, Anne Arundel DERMATOLOGY, DLCS, EPIPHANY DERMATOLOGY, FOREFRONT DERMATOLOGY

Ear, nose & throat

ADVENT, Elevate ENT PARTNERS, PARALLEL ENT & Allergy, SENTA PHYSICIAN LED · PATIENT FOCUSED, SOUTH FLORIDA ENT ASSOCIATES

Fertility

inception, ivey, PINNACLE FERTILITY, The Fertility Partners, USFertility

Gastroenterology

Allied Digestive Health, GASTRO HEALTH, PINNACLE GI PARTNERS, TDDC Texas Digestive Disease Consultants, UNITED DIGESTIVE

Musculoskeletal

BayLife Physical Therapy & Rehabilitation, Inc., BEACON Orthopaedics & Sports Medicine, CAPITOL PAIN INSTITUTE, cbi HEALTH, CORA

Obstetrics & gynecology

Axia WOMEN'S HEALTH, Femwell, HERA WOMEN'S HEALTH, TOGETHER WOMEN'S HEALTH, UNIFIED WOMEN'S HEALTHCARE

Oncology

OneOncology, PROTON THERAPY PARTNERS, VERDI ONCOLOGY

Urology & nephrology

Innovative Renal Care, 360, SOLARIS HEALTH, The Urology Group, US RENAL CARE

Veterinary

Alliance Animal Health, heart+paw, innovetive PETCARE, PetVet Care Centers, PIEPER VETERINARY

Vision

CAPITAL VISION SERVICES, EYE HEALTH AMERICA, EYECARE PARTNERS, EYESOUTH PARTNERS, keplr VISION

Other medical specialties

California ADULT CIRCUMCISION, Center for Rheumatology, Lindora, MIDWEST IMMUNOLOGY, OPTIONS MEDICAL WEIGHT LOSS

Emergency medical transportation

Angel MedFlight, FALCON, masa, PRIORITY AMBULANCE, REVA

Infusion

FLEXCARE INFUSION CENTERS, KabaFusion, Palmetto, ACCURX, vitalcare INFUSION SERVICES, VIVO infusion

Specialty pharmacy

AIS Healthcare, anovo, APOTHECO, CALIFORNIA SPECIALTY PHARMACY, Orsini Specialty Pharmacy

Healthcare services PE investor map

Investor map is a representative overview of active investors in US and Canada healthcare services buyouts and growth equity. Investors are classified by the size of the fund out of which they primarily invest in healthcare services. Click to view the full map on the PitchBook Platform.

Lower middle market (less than $500 million)

BPEA Private Equity
Capital Alignment Partners
Cimarron Healthcare Capital
Enhanced Healthcare Partners
Havencrest
The Heritage Group
Housatonic
InTandem Capital Partners
Latticework Capital Management
Leavitt Equity Partners
LorientCapital
New Harbor Capital
NewSpring
petra Capital Partners
Pine Tree Equity Partners
RCCapital
Resolute Capital Partners
RF Investment Partners
SBJ Capital
Shore Capital Partners
TG Thurston Group

Middle market ($500 million to $1.5 billion)

Amulet Capita Partners LP
Ascend
Assured Healthcare Partners
Balance Point Capital Partners
BPOC
Chicago Pacific Founders
Frazier Healthcare Partners
LEE Equity
LightBay Capital
Martis Capital
Peterson Partners
Pharos
Trinity Hunt Partners
Varsity Healthcare Partners
VSS
Waud Capital
Windrose Health Investors

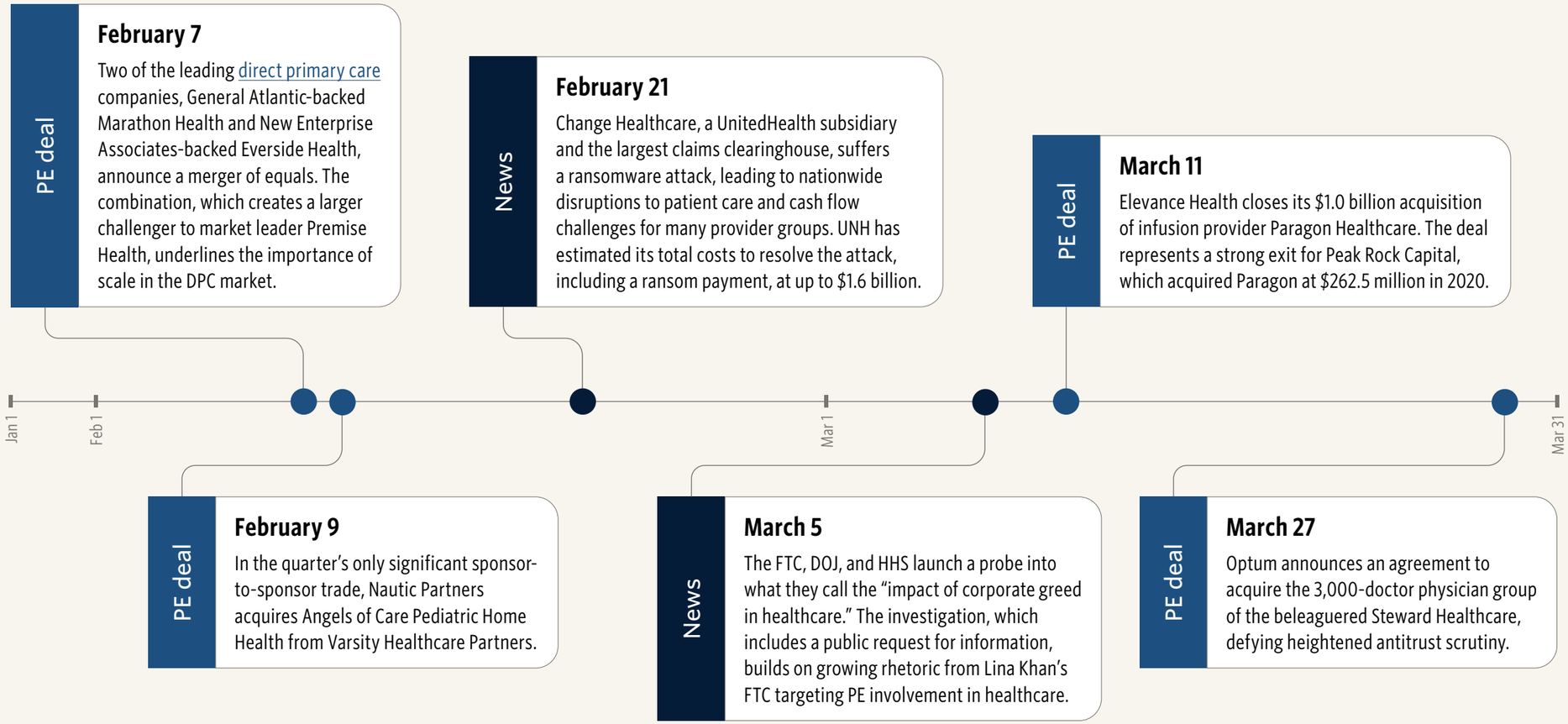
Upper middle market ($1.5 billion to $5 billion)

Centerbridge
FFL Partners
Kinderhook Industries
Linden
Nautic
Patient Square Capital
Revelstoke Capital Partners
Vistria
Webster Equity Partners

Large cap ($5 billion+)

Apollo
Ares
Audax Private Equity
Clayton Dubilier & Rice
General Atlantic
H.I.G. Capital
KKR
LGP
Partners Group
Summit Partners
TPG
WCAS

Q1 2024 timeline



PE activity

158
total deals in Q1 (estimated)

814
total deals LTM (estimated)

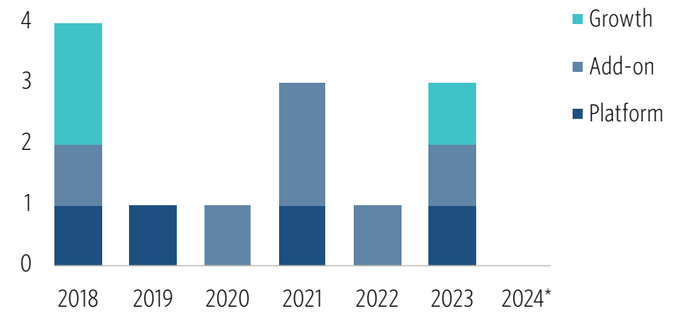
-32.7%
QoQ change in deal count

-10.6%
LTM change in deal count over previous LTM

Segment data

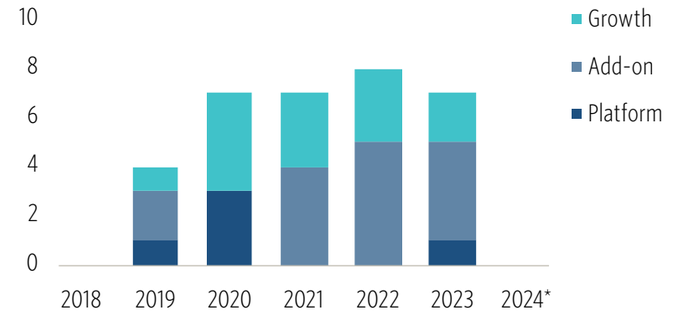
- Generalist & multispecialty providers
- Ancillary & outsourced services
- PPMs
- Skilled care & behavioral health

Hospitals & health systems PE deal count by type



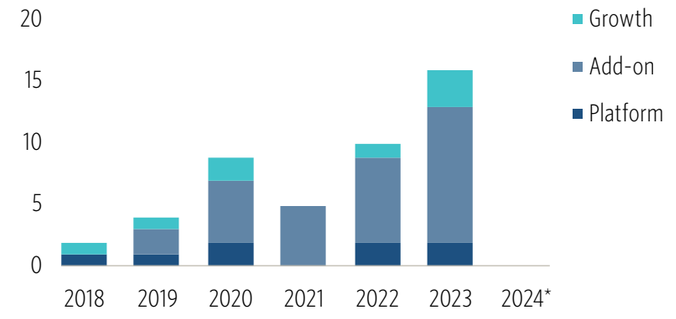
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Multispecialty clinics & networks PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Occupational & correctional healthcare PE deal count by type



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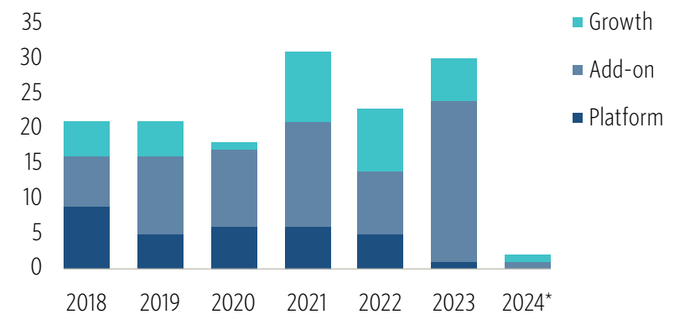
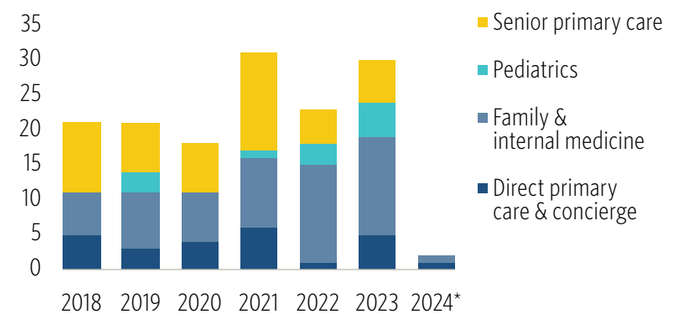
Primary care PE deal count by type



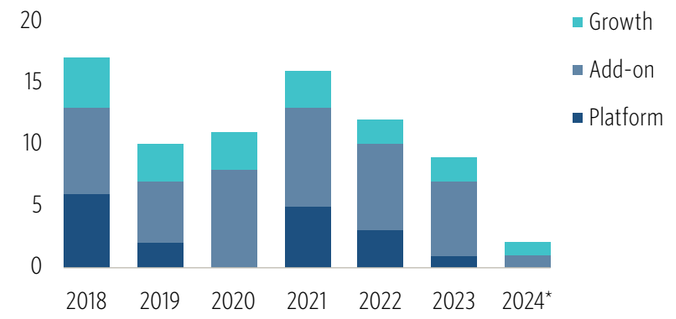
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Primary care PE deal count by subcategory



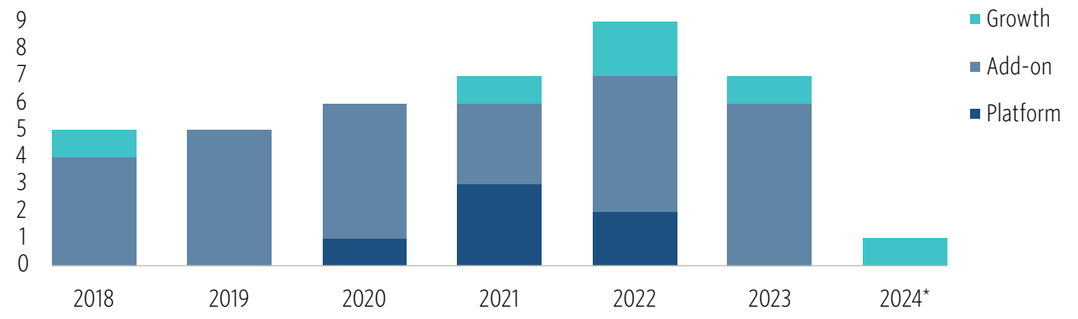
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Urgent & emergency care PE deal count by type



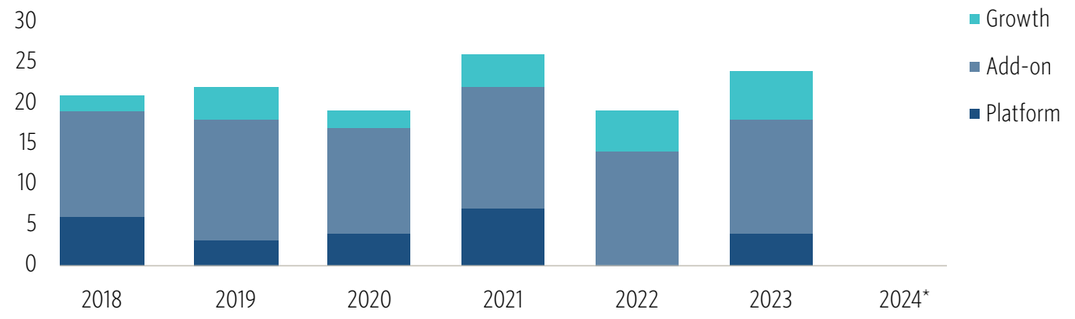
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Ambulatory & surgical centers PE deal count by type



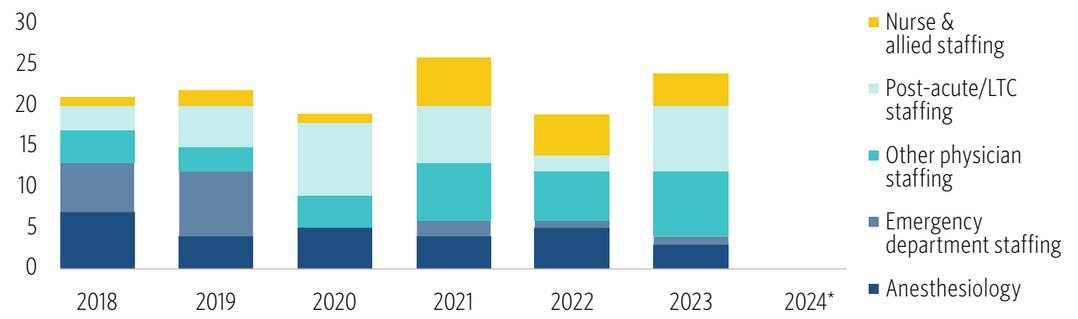
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Clinical staffing PE deal count by type



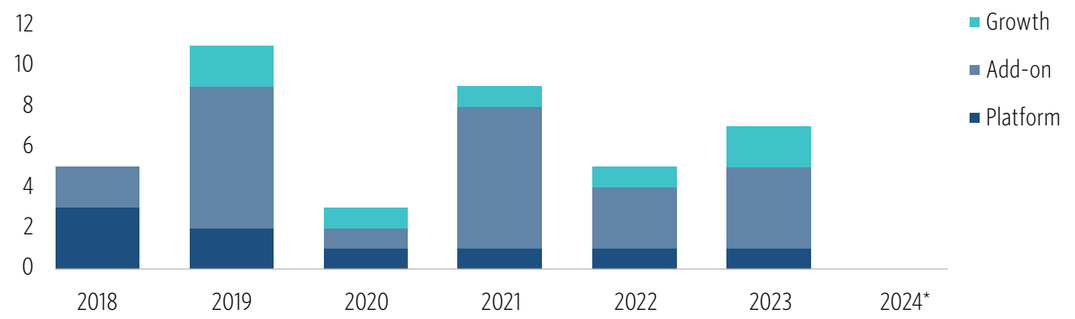
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Clinical staffing PE deal count by subcategory



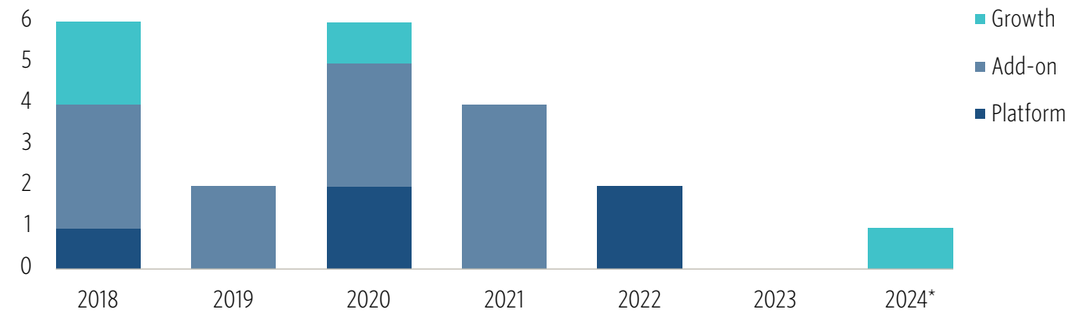
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Diagnostic laboratories PE deal count by type



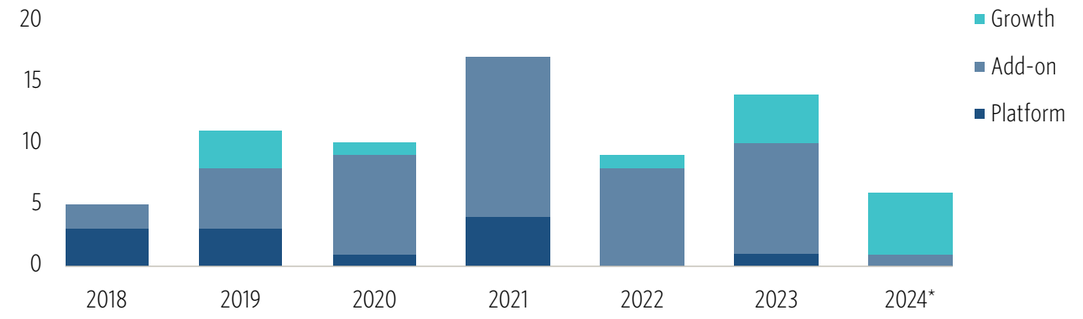
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Emergency medical transportation PE deal count by type



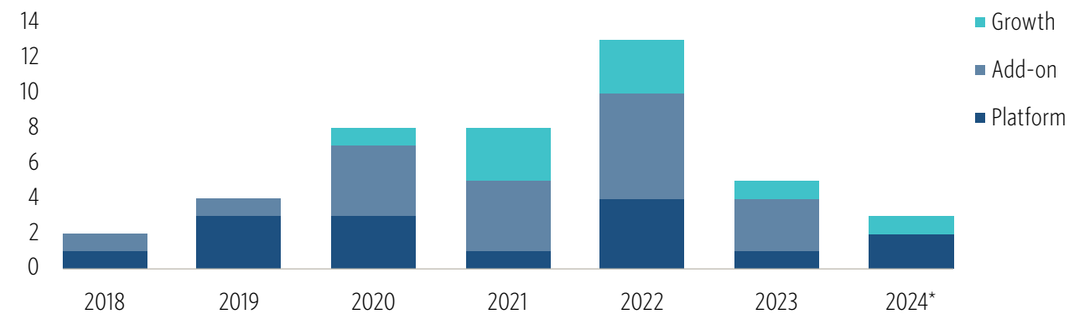
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Imaging PE deal count by type



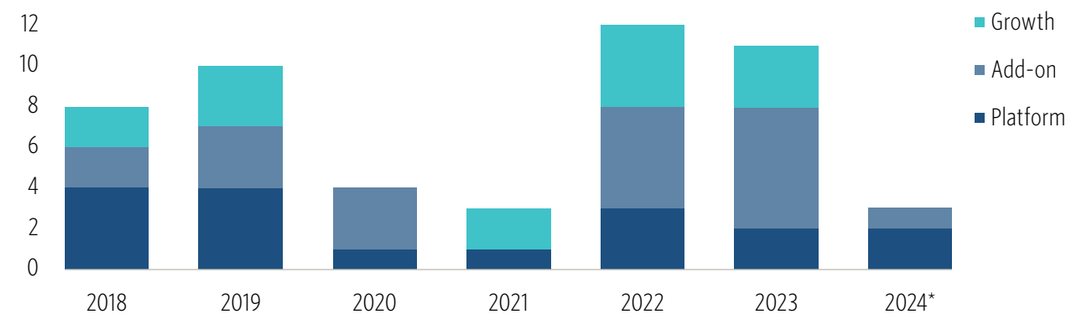
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Infusion PE deal count by type



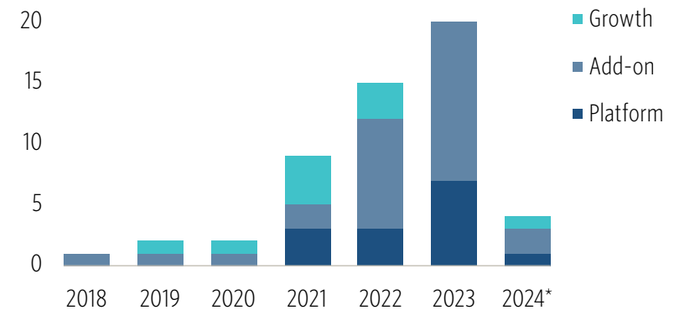
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Specialty pharmacy PE deal count by type



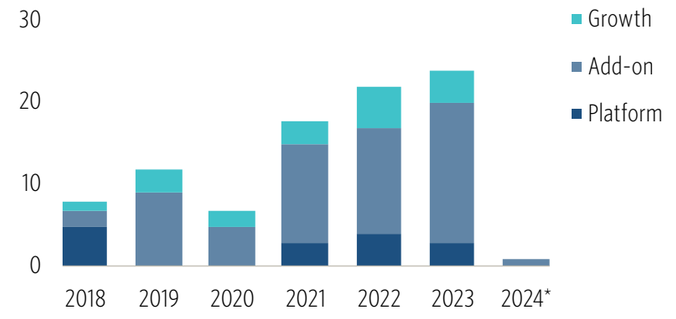
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Cardiovascular PE deal count by type



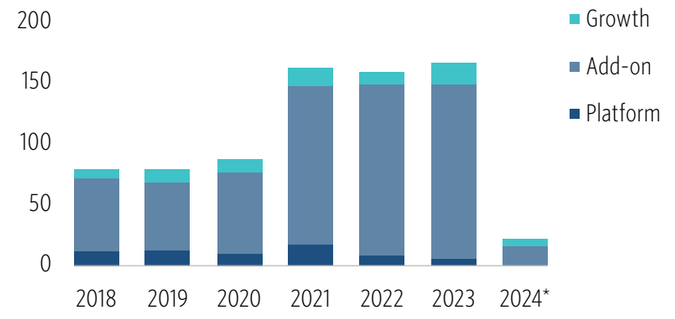
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Clinical trial sites PE deal count by type



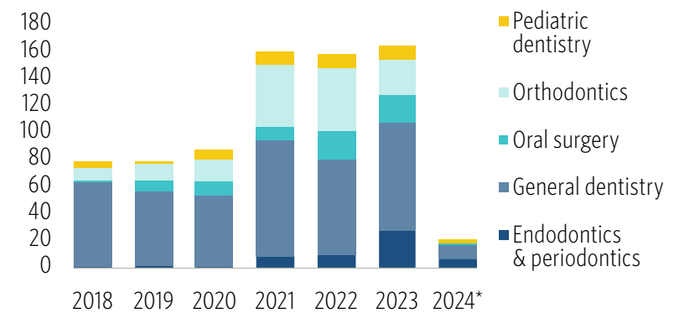
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Dental PE deal count by type



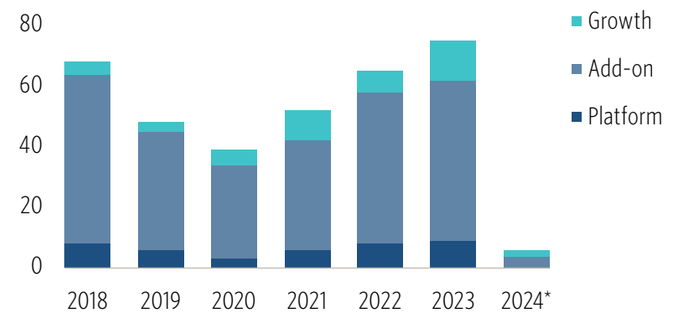
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Dental PE deal count by subcategory



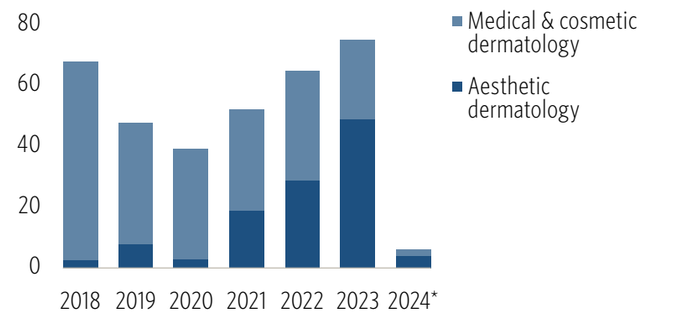
Source: PitchBook • Geography: US and Canada • *As of March 31, 202423

Dermatology PE deal count by type



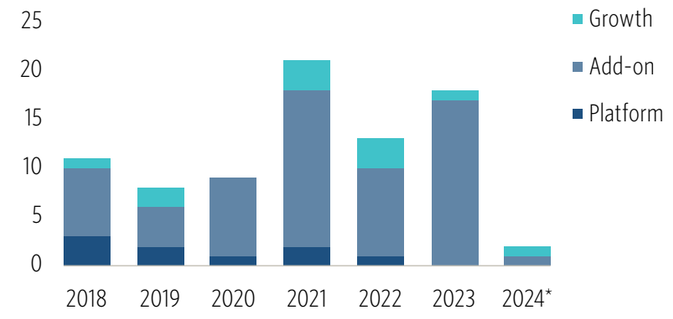
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Dermatology PE deal count by subcategory



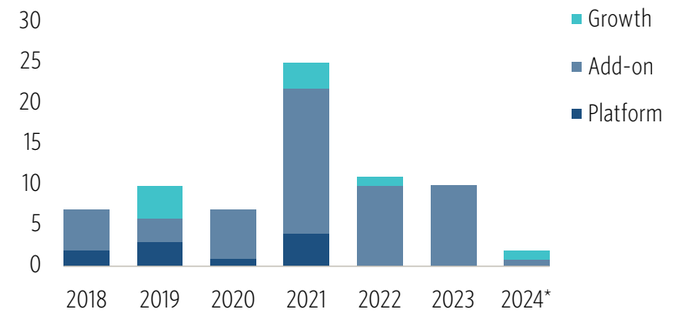
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Ear, nose & throat PE deal count by type



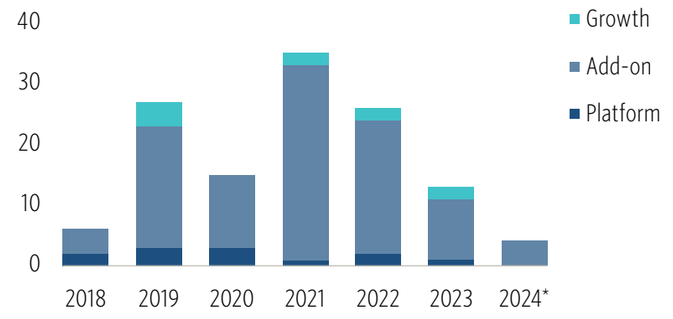
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Fertility PE deal count by type



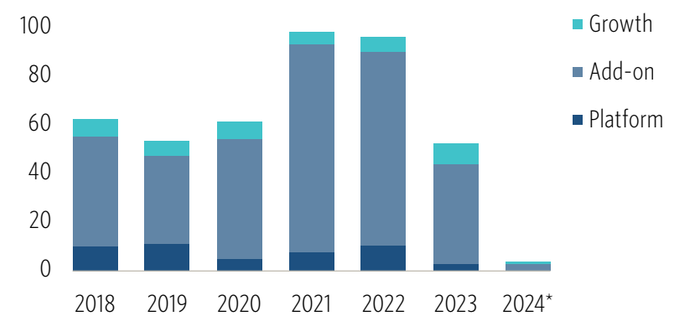
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Gastroenterology PE deal count by type



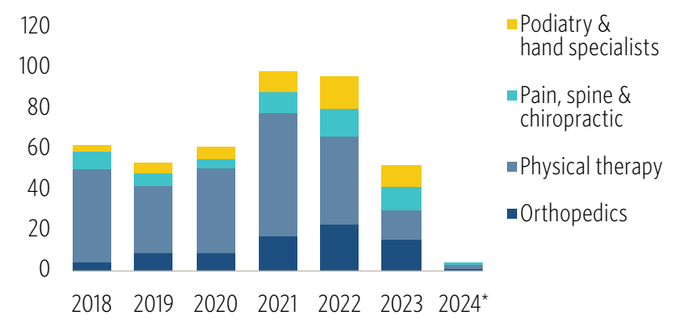
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

MSK PE deal count by type



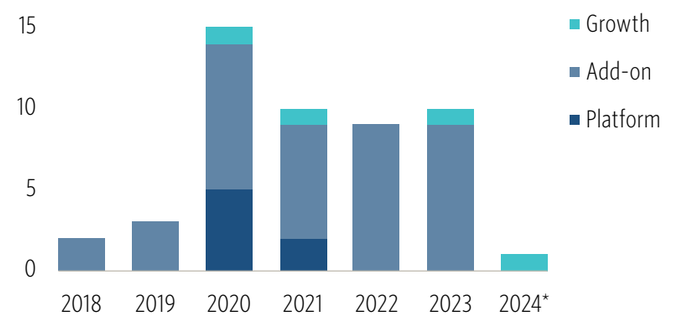
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

MSK PE deal count by subcategory



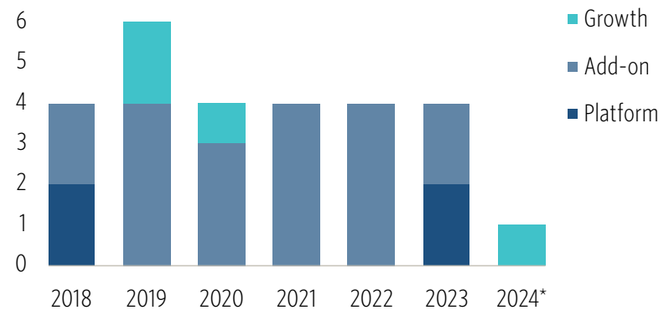
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Obstetrics & gynecology PE deal count by type



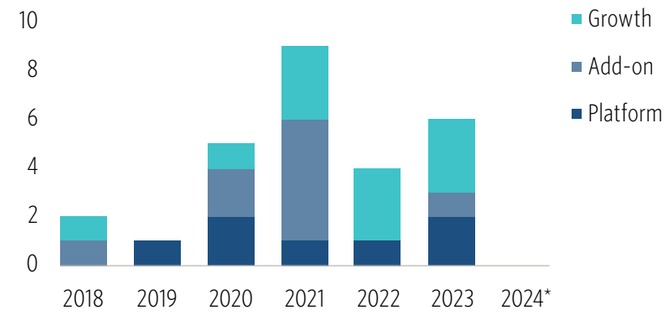
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Oncology PE deal count by type



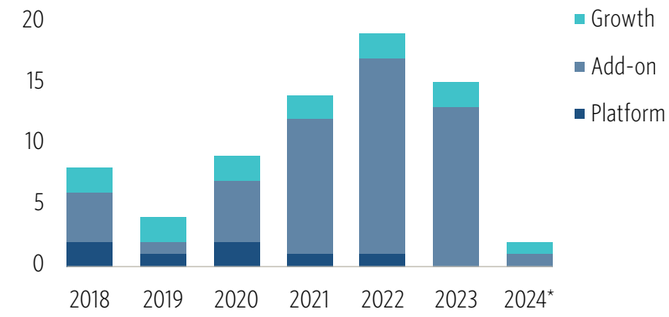
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Other medical specialists PE deal count by type



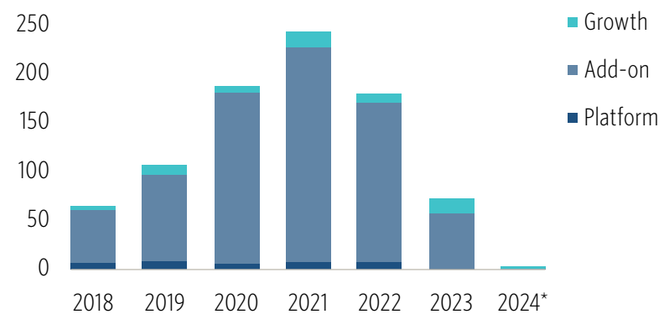
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Urology & nephrology PE deal count by type



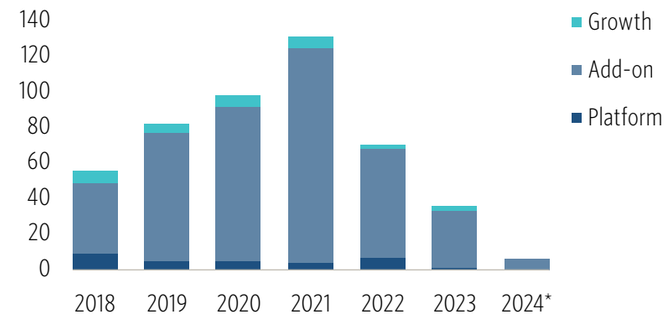
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Veterinary PE deal count by type



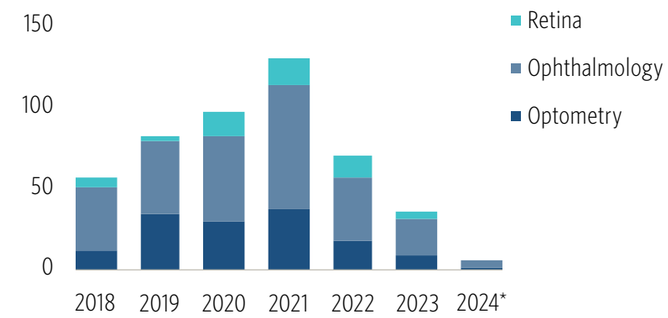
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Vision PE deal count by type



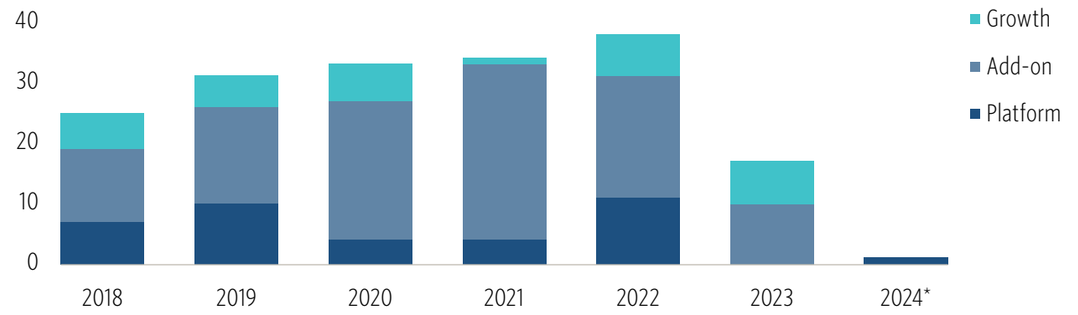
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Vision PE deal count by subcategory



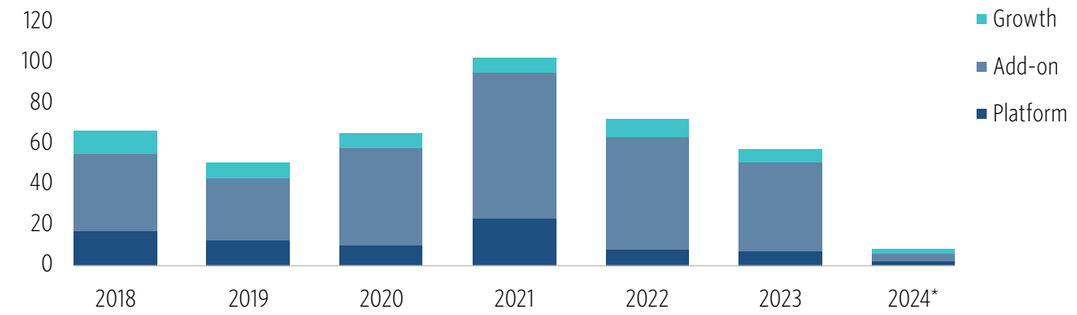
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

ABA & pediatric therapy PE deal count by type



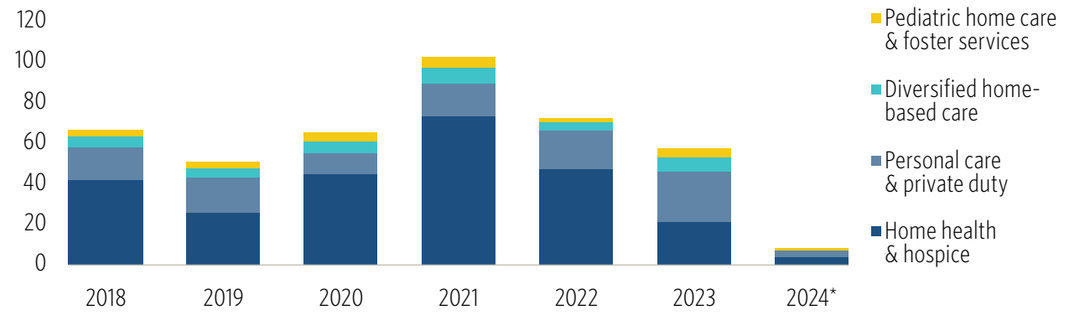
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Home-based care PE deal count by type



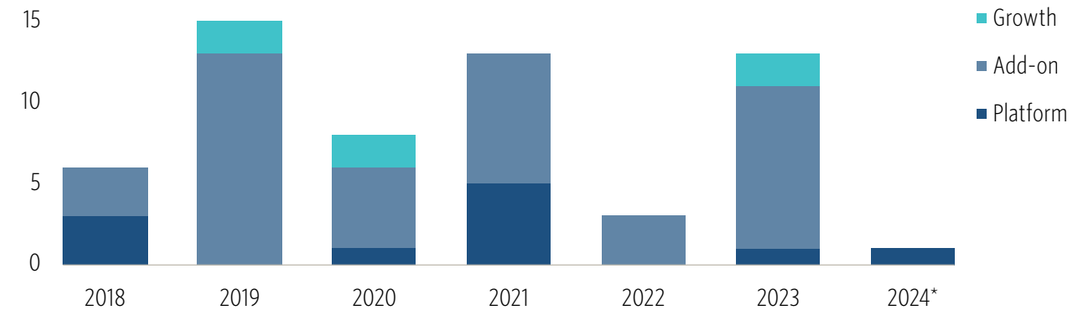
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Home-based care PE deal count by subcategory



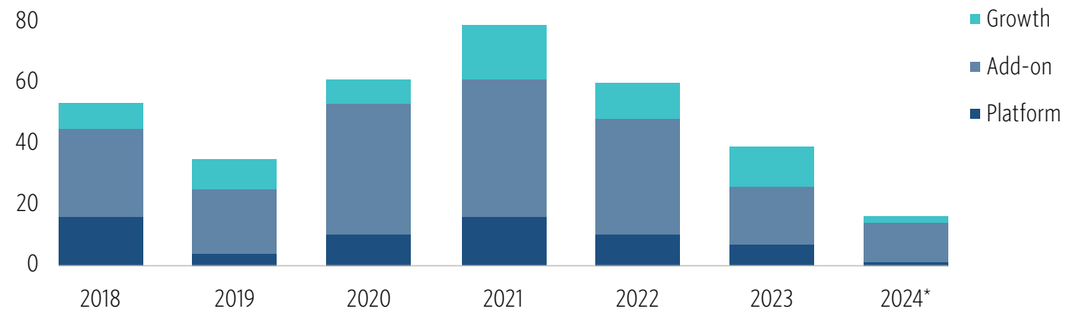
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

IDD care PE deal count by type



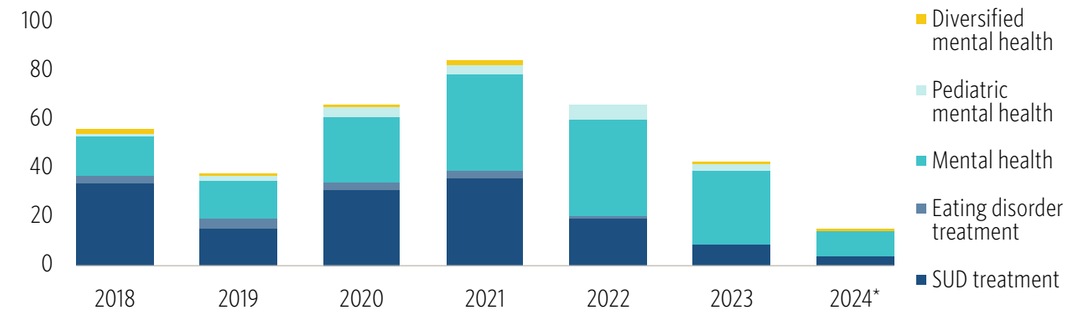
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Mental health PE deal count by type



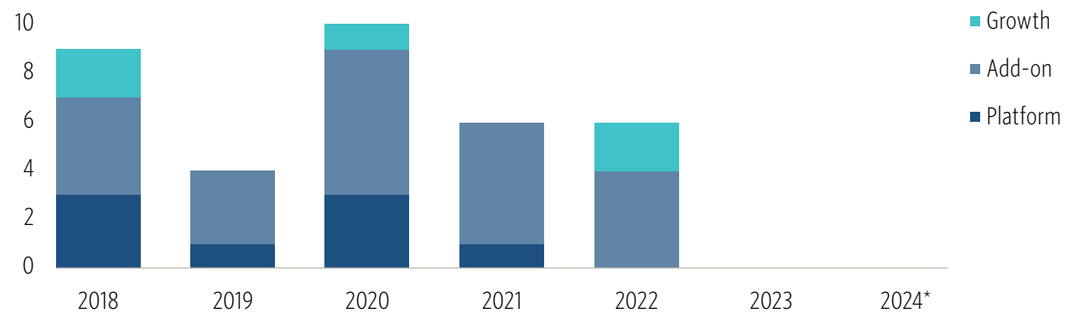
Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Mental health PE deal count by subcategory



Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Skilled nursing PE deal count by type



Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Spotlight

CGM distribution

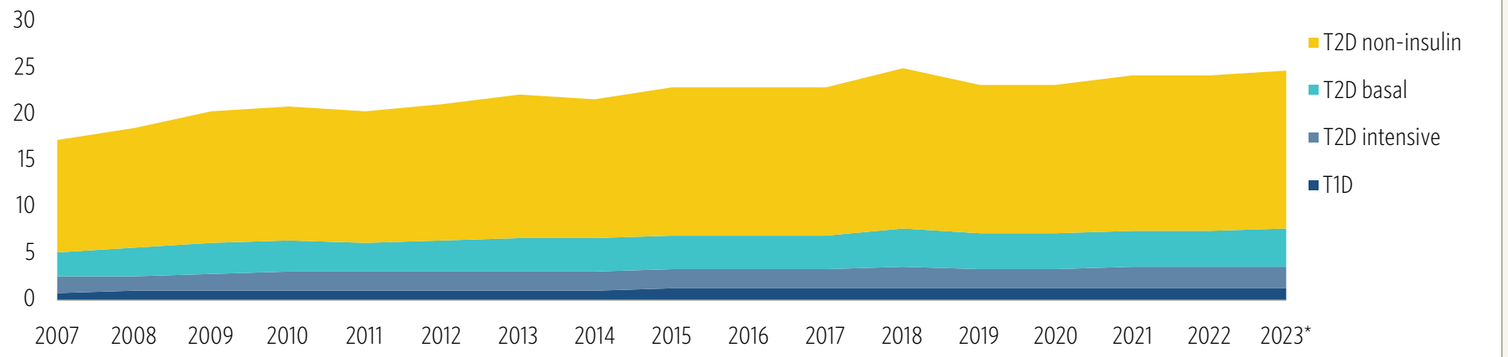
A landmark Medicare coverage expansion for continuous glucose monitors is driving renewed interest, but investors must be aware of complex reimbursement and market dynamics.

CGM distribution

8.4% of adults in the US, or around 25 million people, have been diagnosed with diabetes, and it is estimated that the total number of Americans with the disease is 38.4 million, or 11.6% of the population. Prevalence of diabetes is highest among American Indian and Alaska Native adults, non-Hispanic Black adults, and adults of Hispanic origin, and is also correlated with lower socioeconomic status and living in rural areas.[10] Diabetes patients account for around one-quarter of total US healthcare spending.[11] Type 1 diabetes (T1D) is an autoimmune disorder in which the body attacks insulin-making cells in the pancreas; it affects around 5% to 10% of people with diabetes, many of them children. Almost all T1D patients take insulin. With Type 2 diabetes (T2D), cells in the body become insulin resistant, leading to hyperglycemia (high blood sugar) as well as hypoglycemic (low blood sugar) episodes. Treatments for T2D include insulin, which can range from intensive (three or more doses per day) to basal (once daily) regimens; other medications, including GLP-1 agonists such as semaglutide; and modifications to diet, exercise, sleep, stress, and other lifestyle factors.

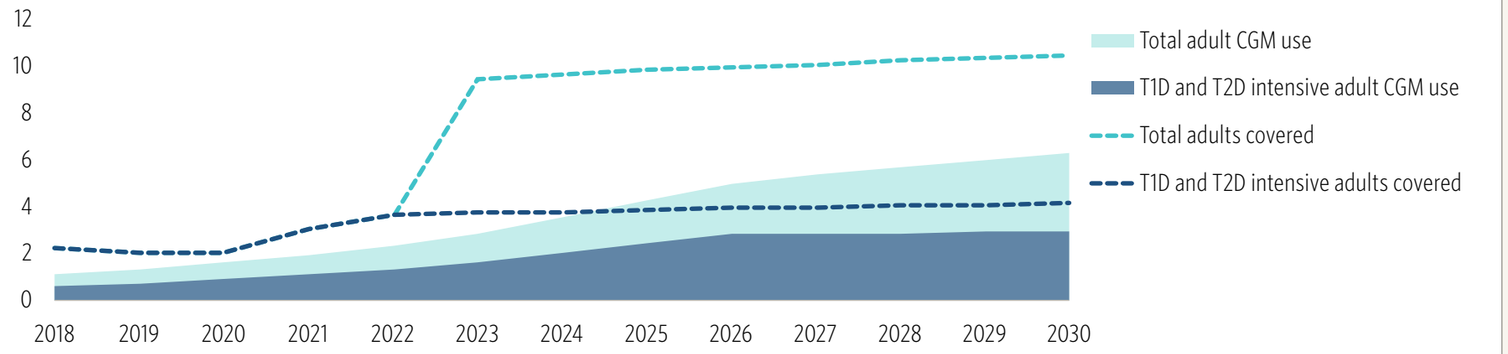
10: "National Diabetes Statistics Report," CDC, November 29, 2023.
11: "New American Diabetes Association Report Finds Annual Costs of Diabetes to be $412.9 Billion," American Diabetes Association, November 1, 2023.

Adults diagnosed with diabetes by treatment type (millions)



Sources: CDC, U.S. Census Bureau, PitchBook analysis • Geography: US • *As of December 31, 2023

Projected CGM coverage and market penetration (millions)*



Source: PitchBook • Geography: US • *As of March 31, 2024

Rapid technology development, clinical adoption, and reimbursement trends have made CGM distribution an attractive PE investment category over the past half-decade. After a quiet period, the two major PE-backed diabetes distributors, Advanced Diabetes Supply and CCS Medical, have hired bankers for sale processes, and we are also tracking some activity in the lower middle market. ADS is being marketed on an EBITDA of approximately $100 million, has revenue of around $1 billion, and according to public reports may fetch bids in the 12x to 15x range.[12] CCS was last sold in 2020 after being marketed on a 10x to 12x multiple of $25 million to $30 million EBITDA, and has grown significantly since then.[13]

Sponsors looking to enter the CGM market now must consider how changes in reimbursement, market penetration, and the competitive landscape have evolved since the previous consolidation wave. Below, we unpack the following key takeaways:

- The CGM distribution market consolidated significantly between 2017 and 2021, and is dominated by five main players, with the remainder of the market highly fragmented. Unless further coverage expansion occurs, the current roughly 20% growth rate in the CGM industry will bend downward within the next five years as the T1D and T2D-intensive insulin populations reach saturation, prompting market leaders to turn once more to inorganic growth. This should provide strategic exit opportunities for mid-sized platforms that emerge in the meantime.

- We expect customer acquisition costs to grow for distributors due to crowding in digital marketing channels and the growing role of primary care providers (PCPs) in the CGM referral base. VBC partnerships and investments in technology to streamline CGM ordering at the point of care may help distributors grow their PCP referral base.

- Since the mid-2010s, major commercial and MA payers have shifted CGM coverage to dual medical/DME and pharmacy benefits. The split appears to have stabilized at around 55% of orders for commercial and MA payers processed via pharmacy. While the market leaders have little choice but to leverage their scale advantages to compete in the pharmacy channel, smaller players face a strategic choice between focusing on referred Part B patients and accepting single-payer risk or building out a lower-margin pharmacy service line in conjunction with digital marketing efforts.

- Large CGM distributors are moving up the value chain by providing administrative, patient engagement, and care management solutions to payers. There is sound logic behind positioning distributors on the front lines for between-visits care, but the challenges of scaling clinical programs that engage both patients and providers are also significant. The success of initial efforts over the next five years or so will determine whether CGM distributors continue down the chronic condition management path.

Background and competitive landscape

Key equipment and supply categories for diabetes care include CGMs, insulin pumps, blood glucose monitors, and test strips. Some distributors offer products in adjacent categories such as incontinence, podiatry, and wound care. In recent years, growth and margin for diabetes distributors have primarily come from CGMs and, to a lesser extent, pumps. Two companies own roughly 80% of the global CGM market: Dexcom (primarily selling the G6 and G7 in the US)

12: "Court Square to Launch Review of Advanced Diabetes Supply Sale, Sources Say," PE Hub, Michael Schoeck, January 31, 2024.
13: "CMS Medical, Highland Capital-Owned Diabetes Equipment Supplier, Seeks Buyer," PE Hub, Sarah Pringle, March 2, 2020.

and Abbott (FreeStyle Libre 2 and Freestyle Libre 3). Insulin pumps serve a smaller, primarily T1D patient population and yield lower margins for distributors than CGMs. However, the pump category has generally benefited from tailwinds in CGM development, especially as CGMs have become better integrated with pumps, including via closed-loop systems that automatically adjust insulin doses. Medtronic, Insulet, and Tandem lead the pump market.

PE-backed and strategic consolidation of the durable medical equipment (DME) distribution industry began in the early 2000s. During this period, the primary categories for diabetes distribution were blood glucose meters and test strips, with most of the margin in recurring test strip orders. Consolidation continued in the 2010s as CMS implemented the DMEPOS (durable medical equipment, prosthetics, orthotics, and supplies) competitive bidding process, which placed significant downward pricing pressure and reimbursement uncertainty on suppliers and resulted in a sharp reduction in the number of independent suppliers. Test strips were subject to competitive bidding starting in 2013 but dropped from the program in the 2021 bidding round due to mounting evidence that the program was resulting in limited access to supplies. (CMS allowed the competitive bidding program to temporarily lapse in 2019.)

CGM Medicare billing codes*

Code	Description	Medicare rate (average)
HCPCS codes—billed by supplier		
E2102/E2103	Adjunctive/non-adjunctive CGM	$218/$279
A4238/A4239	Adjunctive/non-adjunctive CGM supply allowance, one month	$262/269
CPT codes—billed by provider, outpatient		
95249	Personal CGM startup/training, billed once	$65
95250	Provider-owned CGM startup/training, once per month	$147
95251	CGM interpretation, once per month	$34

Sources: CMS and Palmetto GBA • Geography: US • *As of April 23, 2024

Development of SMCD CGM recommendations and Medicare CGM coverage*

SMCD edition	SMCD CGM recommendation				Medicare coverage update
	T1D adults	T2D adults intensive insulin	T2D adults basal insulin	T2D adults non-insulin	
2019	With intensive insulin, to lower A1c; to address hypoglycemia unawareness/frequent hypoglycemic episodes	To address hypoglycemia unawareness/frequent hypoglycemic episodes	To address hypoglycemia unawareness/frequent hypoglycemic episodes	To address hypoglycemia unawareness/frequent hypoglycemic episodes	2018-2019: Coverage of therapeutic CGMs for T1D or T2D on MDI, 4x daily SMBG, with smartphone or standalone receiver
2020	With insulin, to lower/maintain A1c and reduce hypoglycemia	With insulin, to lower/maintain A1c and reduce hypoglycemia	To correct hyper/hypoglycemic patterns via medication adjustment	To correct hyper/hypoglycemic patterns via medication adjustment	
2021	With insulin, to lower/maintain A1c and reduce hypoglycemia; can replace SMBG	With insulin, to lower/maintain A1c and reduce hypoglycemia; can replace SMBG	To lower A1c, reduce hyper/ hypoglycemia	To lower A1c, reduce hyper/ hypoglycemia	July 2021: Eliminated 4x daily SMBG requirement and expanded definition of multiple daily insulin use to include CSII and inhaled insulin
2022	Should be offered for all who are capable of using device	Should be offered for all who are capable of using device	Can be offered for all who are capable of using device	Periodic use	March 2022: Coverage expanded to non-adjunctive CGMs used with a pump or standalone receiver
2023	Should be offered for all who are capable of using device	Should be offered for all who are capable of using device	Should be offered for all who are capable of using device	Periodic use	April 2023: Coverage expanded to T2D basal insulin and T2D non-insulin with problematic hypoglycemia
2024	Should be offered for all who are capable of using device	Should be offered for all who are capable of using device	Should be offered for all who are capable of using device	Periodic use	

Sources: American Diabetes Association, PitchBook • Geography: US • *As of April 23, 2024

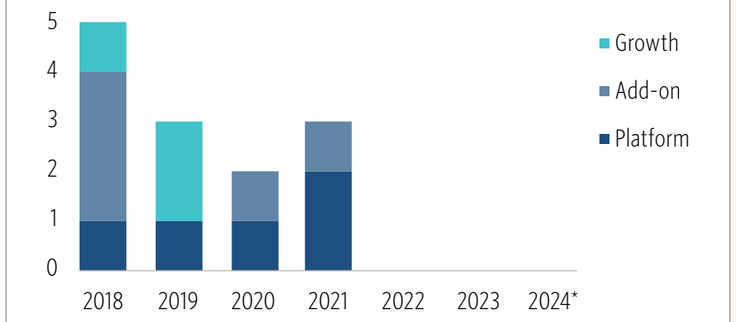
Note: CSII: continuous subcutaneous insulin infusion; MDI: multiple daily injections; SMBG: self-monitoring blood glucose

CGM DISTRIBUTION

Also, during the 2010s, continuous glucose monitoring began to emerge as a transformative treatment modality for diabetes care. CGMs rapidly became more accurate and usable, and a growing body of clinical evidence demonstrated efficacy and provided guidance for integration into T1D and, increasingly, T2D treatment plans. Medicare began covering CGMs via Part B in 2017—by that point, most commercial plans already covered the devices—and in 2019, the American Diabetes Association (ADA) began publishing a technology supplement to its Standards of Medical Care in Diabetes (SMCD), which included a section on CGM use recommendations. Both Medicare coverage (with commercial and Medicaid coverage following) and the scope of treatment recommended by SCMD have expanded steadily from 2017 to the present. In March 2023, CMS expanded Medicare's coverage of CGMs to T2D patients on basal insulin regimens, as well as patients not on insulin who have severe or difficult-to-manage hypoglycemic events. This decision expanded the number of CGM-covered Medicare patients by 2.5x and underscores payers' current orientation toward providing greater access to the technology.

CGM manufacturers and distributors have benefited tremendously from these adoption and coverage expansion tailwinds. This leads to two key questions for investors: First, how much greenfield space remains in the market? Second, is coverage expansion likely to continue? We estimate that the adult CGM market in the US is currently about 46% penetrated within current coverage levels. The outlook for expanded coverage is mixed. Many endocrinologists believe that CGMs could be beneficial to a somewhat broader population than is currently covered, supported by a limited but growing body of evidence.[14] However, there is also potential for unnecessary downstream care utilization as a result of CGM use that is not backed up by sound clinical evidence. After expanding its recommendations for CGM use every year from 2019 to 2021, the ADA held its SMCD recommendation for CGM use steady in the 2022 and 2023 editions, including only a "periodic use" recommendation for non-insulin T2D patients from 2022 to 2024. We therefore believe sponsors should conservatively underwrite deals to the current coverage scope and adopt this assumption in our market size modeling.

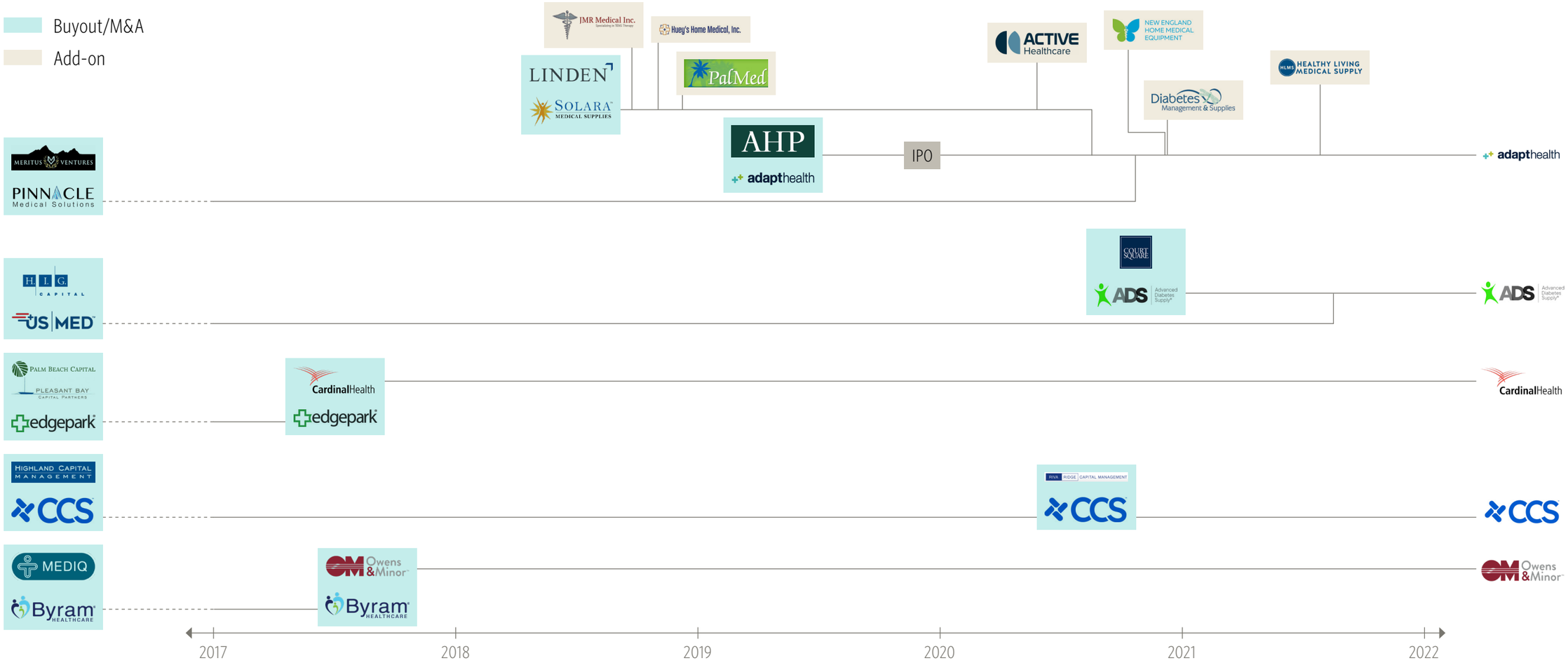
PE diabetes DME distribution deal count by type



Source: PitchBook • Geography: US and Canada
*As of March 31, 2024

14: "Use of Real-Time Continuous Glucose Monitoring Improves Glycemic Control and Other Clinical Outcomes in Type 2 Diabetes Patients Treated With Less Intensive Therapy," Diabetes Technology & Therapeutics, Thomas Grace and Jay Salyer, January 5, 2022.

Consolidation of major diabetes distribution companies (2017-2021)



Consolidation and market dynamics

The largest diabetes distribution players are Court Square-backed Advanced Diabetes Supply, Owens & Minor subsidiary Byram Healthcare, AdaptHealth, Cardinal Healthcare subsidiary Edgepark, and Riva Ridge-backed CCS Medical, roughly in that order. ADS represents the largest player both in the medical/DME channel and overall diabetes revenue. Larger sponsors compose most of the likely buyer universe for ADS and CCS. The universe of strategic buyers with sufficient scale and lacking an existing CGM business is limited but includes Medline, which was the subject of a $34.0 billion club buyout in 2021.

The remainder of the diabetes distribution landscape primarily comprises small distributors. There are very few mid-sized players, partly because of previous consolidation and partly because the largest companies tend to have a competitive advantage. After a wave of consolidation from 2017 to 2021, there were no significant diabetes distributor deals in 2022 or 2023, and well-positioned players are currently riding the roughly 20% market growth driven by expanded insurance coverage and growing adoption of CGM. However, we estimate that CGMs will reach saturation in the T1D population as early as 2026 and in the T2D population treated with intensive insulin as early as 2027. Barring additional coverage expansion, this will cause market growth rates to slow to single digits within the next three to five years. This, coupled with the margin pressures discussed below, may prompt the market leaders to refocus on inorganic growth, providing exit opportunities for mid-sized platforms that have emerged in the meantime.

Customer acquisition and referral base

CGM distributors acquire new customers principally via two avenues, physician and manufacturer referrals and digital marketing. According to Tom Cibotti, Managing Director, and Perry De Fazio, Vice Presdient at Covington Associates, EBITDA margins for CGM distributors often land in the mid-teens but can reach higher levels for DME distributors that build strong referral businesses and are less reliant on digital marketing. As payer coverage has expanded, digital marketing has allowed some Medicare-focused DME distributors to grow revenue aggressively. However, according to Cibotti and De Fazio, patients acquired via digital marketing channels churn at higher rates. A key indicator of customer retention is getting a second shipment order from a newly acquired patient, because the return on customer acquisition cost dramatically increases at this point.[15]

We foresee rising customer acquisition costs, resulting in margin pressure, for CGM distributors over the coming years. Although the insured patient population has grown, digital marketing channels are increasingly saturated, including by retail e-pharmacies such as Amazon Clinic and by the small but growing cohort of companies offering consumer-grade CGMs as a self-treatment, wellness, or weight loss solution for non-insulin users and non-diabetics, including Dexcom (Stelo), Abbott (Lingo), Levels, Nutrisense, Signos, and Veri. On the referral side, the expansion of Medicare coverage to patients on basal insulin regimens has also expanded the universe of referring providers. While most T1D and T2D-intensive insulin patients are managed by endocrinologists, T2D basal patients are generally managed by PCPs. As the T1D and T2D-intensive insulin populations move toward CGM saturation, PCP-managed patients will become the primary source of growth for CGM distributors. In 2023, 70% of Dexcom's new scripts were written by PCPs.[16]

15: Tom Cibotti and Perry De Fazio, managing directors at Covington Associates, phone interview by Rebecca Springer, April 16, 2024.
16: "Events & Presentations," Dexcom, April 2024.

This not only requires distributors to develop new provider relationships but also to devote considerably more resources to referral generation via provider engagement and education. Around 13% of the total Medicare population is now CGM-eligible, compared with the vast majority of an endocrinologist's panel. According to one study, only 38.6% of PCPs have ever prescribed a CGM.[17] Key barriers to CGM adoption for PCPs include unfamiliarity with the medical necessity documentation process required by Medicare Part B for DME ordering. Additionally, the PCP practice landscape is populated with numerous independent practices, in contrast to endocrinology, in which around 80% of providers are health system employed.

In addition to provider education, we see technology improvements as a key opportunity to help distributors win PCP referrals over time. Accountable care organizations (ACOs), integrated delivery networks, and other risk-bearing primary care entities are already investing in point-of-care technology solutions that use rules engines to prompt providers toward care pathways and facilitate high-value referrals. These groups are financially incentivized to invest in managing patients with diabetes and have become increasingly focused over the past year or two on network strategy and chronic condition management. We foresee an opportunity to integrate tech-enabled DME referrals into PCP workflows in conjunction with the development of VBC network strategies.

Streamlining certificates of medical necessity and prior authorizations is also key to removing barriers to PCP adoption. Parachute Health, a two-sided DME marketplace and the leading DME e-prescribing tool, is building toward rules-based, point-of-care automatic authorizations similar to Cohere Health's model. Cohere itself appears to be moving in the direction of DME in expanding its relationship with Humana to include sleep services.[18]

Pharmacy versus medical channel

Beginning in the mid-2010s, Medicaid managed care organizations began shifting coverage of CGMs from the medical (DME) benefit to the pharmacy benefit or to dual medical-pharmacy coverage. More recently, commercial and MA plans have shifted to dual coverage. Perceived advantages of the pharmacy over the medical channel include convenience for patients, because a patient can pick up a prescribed CGM at a retail pharmacy location within a day. Some retailers have also begun offering cash-pay CGMs via their pharmacies or pharmacy partners. Best Buy, for instance, advertises that patients can initiate a telehealth appointment, offered via Wheel Provider Group, to get a CGM prescription in "minutes," and then fill the prescription online for delivery to their home. On the other hand, DME distributors argue that they provide a higher level of customer service, patient education, and support, resulting in improved adherence and better patient outcomes. Relative to retail pharmacies, DME suppliers also offer broader and more reliable product inventories and can alleviate transportation access barriers via home delivery. The American Association for Homecare, which represents suppliers and manufacturers of home medical equipment, is actively engaged with CMS advocating for clarification of CGM coverage rules for MA plans, and believes the agency will move in the direction of mandating Part B or dual benefit coverage.[19]

The pharmacy wholesale rate for CGMs is approximately $350 monthly, with variation by manufacturer, compared with

17: "Continuous Glucose Monitoring in Primary Care: Understanding and Supporting Clinicians' Use to Enhance Diabetes Care," Annals of Family Medicine, Tamara K. Oser, et al., November/December 2022.
18: "Cohere Health and Humana Expand Prior Authorization Partnership, Adding Diagnostic Imaging and Sleep Services," PR Newswire, April 23, 2024.
19: "Comment on CMS-2024-0006-0001," Regulations.gov, March 11, 2024.

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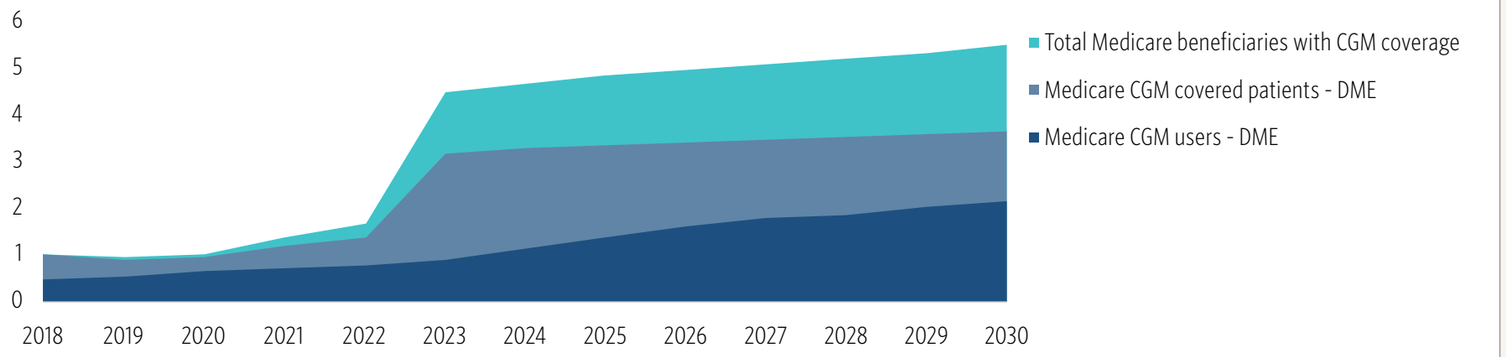
$269 paid by Medicare for a non-adjunctive CGM (50-state average) and $279 per month thereafter. We estimate that the actual CGM revenue per member is around $2,800 to $2,900 for the pharmacy benefit channel and $3,000 to $3,100 for the medical channel due to roughly 20% higher attrition rates for retail pharmacy patients. (However, some DME suppliers achieve comparable patient retention rates for pharmacy-order patients, significantly increasing annual per-patient revenue.) Market participants believe the channel shift dynamic has mostly stabilized with dual coverage as the favored option and about 55% of commercial-pay CGM orders being processed via the pharmacy benefit.[20] However, some distributors are still realizing negative effects from the shift in their broader diabetes supply businesses, and this may continue if new products come online with pharmacy-only coverage; for instance, AdaptHealth has reported revenue headwinds as a result of increased adoption of the Omnipod insulin pump, which is a tubeless or "patch" type pump reimbursed via the pharmacy benefit.[21]

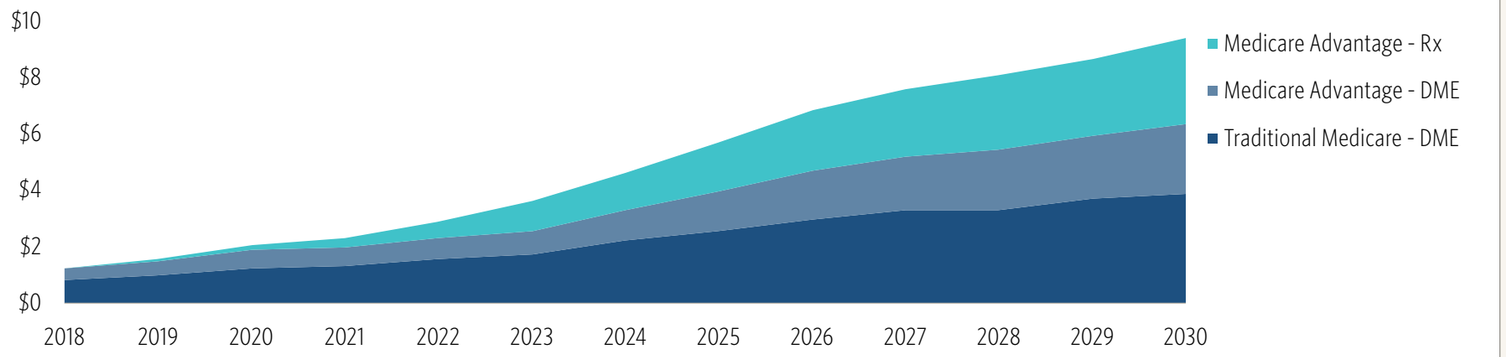
20: "Health Equity and Diabetes Technology: A Study of Access to Continuous Glucose Monitors by Payer, Geography and Race Executive Summary," American Diabetes Association, n.d., accessed April 24, 2024.
21: "AdaptHealth Corp. (AHCO) Q4 2023 Earnings Call Transcript," Seeking Alpha, February 27, 2024.

Projected Medicare patient count by CGM coverage and usage (millions)*



Source: PitchBook • Geography: US • *As of April 23, 2024

Projected Medicare CGM market revenue growth ($M)*



Source: PitchBook • Geography: US • *As of April 23, 2024

Major and middle-market DME distributors have acquired or built pharmacy direct-to-consumer businesses. The pharmacy channel is difficult to penetrate due to sticky wholesaler relationships and the role of pharmacy benefit managers (PBMs), but scale generally translates to improved margins. For the leading distributors competing for market share, developing a proactive strategy around the pharmacy channel—which represents around 43% of CGM-covered patients currently—is a necessity. To take one example, ADS brings in about 10% of its revenue from its 50-state mail-order pharmacy and has partnerships with 13,000 US pharmacies to route patients who present with a Medicare Part B benefit and CGM script to ADS. AdaptHealth, on the other hand, has been racing to grow patient census in its "government" payer channel (that is, primarily Part B) while stemming the tide in pharmacy: In Q3 2023 the company indicated that its commercial patient census was down low single digits YoY, while government was up high single digits, resulting in a flat revenue trend.[22]

Smaller distributors are likely to struggle with pharmacy reimbursement and must therefore make a cost-benefit analysis: They can bolt on a lower-margin mail-order pharmacy business to convert a greater proportion of their digital marketing leads or remain a DME pure-play targeting a smaller, but still rapidly growing, Part B market. The latter option also involves material stroke-of-the-pen risk, because it makes the business reliant on a single payer (CMS).

Value-add services

In recent years, diabetes DME distributors have begun to position themselves further up the value chain by seeking to provide value-add administrative, patient engagement, and chronic condition management services for their payer partners. We see this move both as an opportunistic response to the growing need for improved between-visits care management for patients with diabetes, and as a strategic step in anticipation of future margin compression due to rising customer acquisition costs.

In 2022, CCS Medical split itself into two divisions, CCS Medical (the DME business) and CCS Health, a services business focused on patient education, monitoring, and coaching. Later the same year, CCS announced partnerships with Welldoc, a digital coaching solution for metabolic condition management, and ZeOmega, a population health and care management analytics provider, to expand its LivingConnected care management solution. Byram also offers a digital diabetes coaching app, ByramConnect, via Welldoc. AdaptHealth has signaled that it intends to focus on value-add payer services, including aggregating CGM data to monitor treatment plan compliance and inform the deployment of diabetes coaches. ADS currently works with payers to support data collection on member A1c levels and utilization, and works directly with case managers to improve outcomes. The company is also enthusiastic about the opportunity for diabetes distributors to engage in clinically relevant condition management services and believes it will be well-positioned to develop a national-scale solution for payers in the future.

At first blush, wading into care management for an often complex and polychronic population is not an intuitive strategic move for companies that, at their core, specialize in collecting orders and shipping products to customers. However, the theory goes that DME distributors are well positioned to contribute to care management because they already maintain

22: "AdaptHealth Corp. (AHCO) Q3 2023 Earnings Call Transcript," Seeking Alpha, November 7, 2023.

frequent touch points with patients—often more frequent than the patient's endocrinologist or PCP—via the supply reordering processes, customer support, and patient education programs. DME distributors also benefit from operational expertise in customer support and call center buildout. There is precedent for distributors offering comprehensive care management services in the HME space, particularly for respiratory and other high-risk patient populations. Finally, the rapid adoption of GLP-1s may actually serve as a tailwind, because distributors can (with good evidence) position CGMs paired with patient engagement programs as a way to safely wean patients off of costly GLP-1 regimens.

We also foresee several key challenges for distributors seeking to move into chronic condition management. First, as described below, the current landscape of ambulatory remote patient monitoring providers is highly fragmented, which will pose challenges for distributors looking to deploy care models at scale via partnerships. Second, to maximize clinical impact, payer-sponsored chronic condition management programs must engage providers and plug seamlessly into their workflows without creating significant additional burdens. This has traditionally proven difficult even for specialized RPM/CCM companies. As mentioned above, partnerships with VBC-oriented PCPs may be a good starting place. Third, app-based condition management solutions often struggle to maintain adequate levels of patient engagement, especially for older patients. In view of both the significant challenges and opportunities, we believe the next five years or so will be critical in determining whether distributors continue down the chronic condition management path.

Appendix

Appendix

Top PE investors in healthcare services by number of platform investments since 2021*

Investor	Deal count	Primary investor type
Shore Capital Partners	18	PE/buyout
Webster Equity Partners	17	PE/buyout
Ares Management	12	Asset manager
Endurance Search Partners	10	Family office
BPEA Private Equity	9	PE/buyout
Oak HC/FT	9	VC
Petra Capital Partners	8	PE/buyout

Investor	Deal count	Primary investor type
BPOC	7	PE/buyout
Resolute Capital Partners	7	Mezzanine
Audax Private Equity	7	PE/buyout
Apollo Global Management	7	Asset manager
New Harbor Capital	7	PE/buyout
Kohlberg Kravis Roberts	7	PE/buyout
TPG	7	PE/buyout

Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

Most acquisitive PE-backed healthcare services platforms since 2021*

Platform	Add-on count
Southern Veterinary Partners	127
Smile Doctors	50
Specialized Dental Partners	46
Veterinary Practice Partners	32
Southern Orthodontic Partners	27
US Oral Surgery Management	26
Retina Consultants of America	23
Ivy Rehab Network	20
PetVet Care Centers	20
Unifeye Vision Partners Management	19

Source: PitchBook • Geography: US and Canada • *As of March 31, 2024

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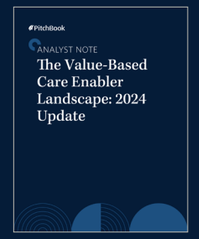

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