PitchBook

INDUSTRY RESEARCH

Healthcare Services Report

PE trends and investment strategies

Q4 2022

Contents

Institutional Research Group

Analysis

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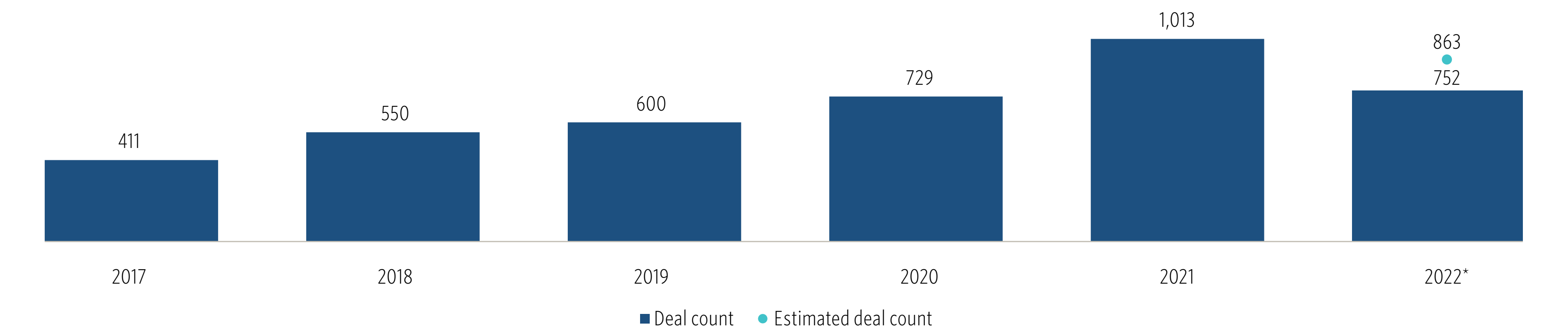
For previous updates as well as our complete healthcare services research, please see the designated analyst workspace on the PitchBook Platform.

PE activity

The healthcare services PE landscape closed out 2022 with a declining, but still healthy, level of deal activity. Firms announced or closed an estimated 863 deals in the year, making 2022 easily the second-best year for PE healthcare services dealmaking, after 2021. However, quarterly trends show a steady decline throughout the year, especially in Q4, for which we estimate 158 deals, 26.4% off Q3's figure. It is important to keep these numbers in perspective: Q4's dealmaking figure is entirely respectable by 2018-2019 standards. But it is also more than a third less than the average quarterly deal count in 2021. The industry is adjusting to a new normal.

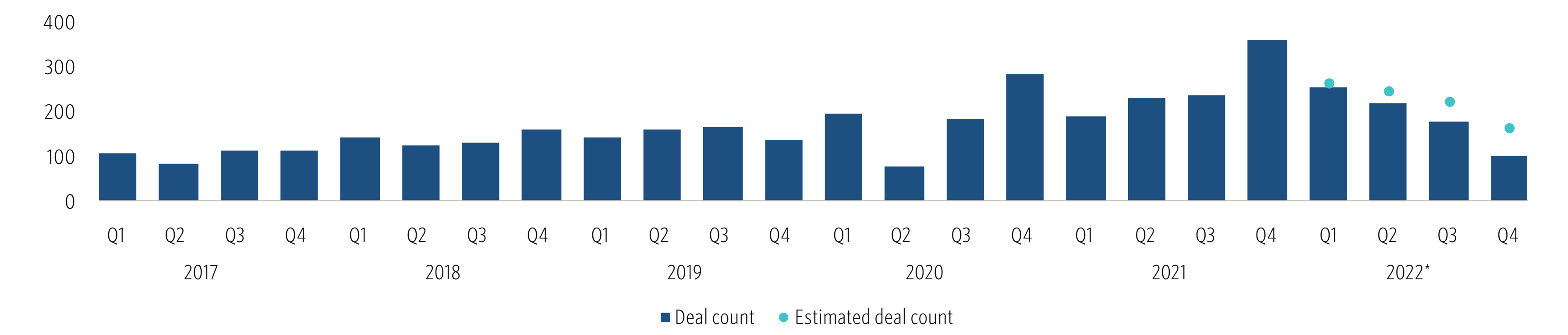
The end-of-year decline in deal activity can be attributed principally to two factors. First, the pace of PE dealmaking has slowed due to macroeconomic uncertainty and rising capital costs. Buyers and lenders alike are more circumspect, and the risk of overleveraging a platform is top of mind. Sellers in some cases still expect 2021-level valuations and will need to accept the reality of multiples a couple turns lower than the peak. Weeks-long deal processes seem like a distant memory. We are also hearing that many of the highest-quality assets traded in the dealmaking frenzy of late 2020 to 2021, meaning that deal pipelines are mixed in quality, with some top-shelf assets, plenty of middling ones, and some distress-driven sales.

Healthcare services PE deal count



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Healthcare services PE deal count by quarter



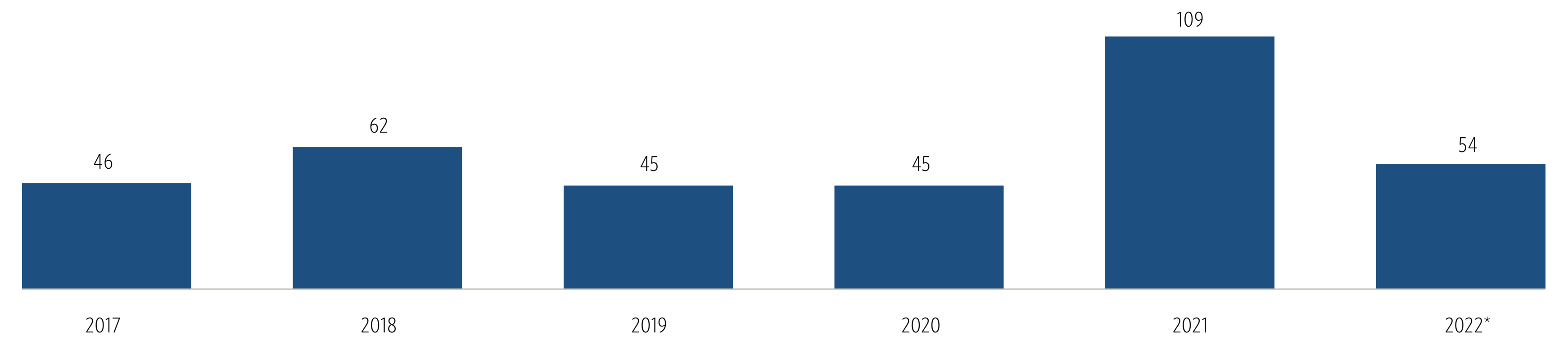
Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

PE ACTIVITY

Syndicated loan markets remain effectively closed, stymieing large deals. Paradigm Oral Surgery, EyeSouth Partners, and KabaFusion were the three main exceptions in Q4.

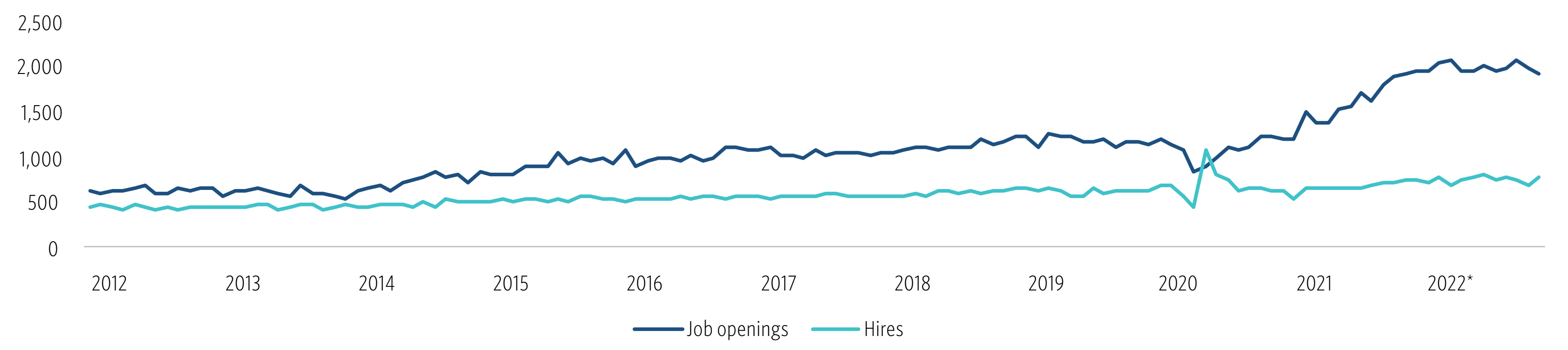
Second, staffing cost inflation continues to plague healthcare services businesses. The lowest-skilled roles are most affected due to workers' ability to maintain similar pay levels while transitioning into other industries. Here, the acyclical nature of many healthcare businesses is a double-edged sword because the demand for workers remains unaffected by tightening economic conditions. Healthcare operators do not foresee a material change in labor costs for the next 18 to 24 months, and reimbursement rates will take far longer than that to catch up. Golub Capital's Q4 2022 Altman Index reports a 10.3% YoY growth in healthcare revenue but only a 1.3% growth in earnings, compared with 10.8% and 9.2%, respectively, across all sectors.[1]

Healthcare services PE exit count



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

US healthcare and social assistance employment



Source: US Bureau of Labor Statistics | Geography: US | *As of November 30, 2022

1: "Golub Capital Middle Market Report," Golub Capital, Q4 2022.

Skilled care and behavioral health

Staffing pressures have forced many skilled care and behavioral health businesses to slow their growth considerably despite seemingly limitless demand. PE firms may opt for elongated holds to avoid selling at depressed valuations. Deal activity in mental health and substance use disorder (SUD) treatment as well as in intellectual and developmental disabilities (IDD) care slowed in 2022, while the home health market nearly ground to a halt in Q3. We anticipate that many deals in skilled care and behavioral health will take place in 2023—arguably, no segment of healthcare services has more compelling demand tailwinds and potential to reduce total cost of care—but that the deal mix will skew heavily toward new platform creations, minority equity infusions, and add-ons.

Additionally, care models that sidestep the staffing crunch will see heightened interest. Self-directed care enablers, which facilitate Medicaid waiver payments to individuals caring for their family members, saw significant investor interest in 2022. Additionally, InTandem Capital Partners' acquisition of HouseWorks may herald additional investment in private-duty (cash-pay) in-home care. The advantage of private duty is that agencies can pass up to 100% of staffing cost inflation on to their customers, depending on their positioning in the local market.

Infusion has been another bright spot within the skilled care and behavioral health segment. It was one of only two categories (the other being urology) in which deal activity accelerated from 2021 to 2022. The ambulatory infusion center (AIC) model is particularly attractive in the current environment due to its workforce efficiency. We discuss an emerging variation on AIC investment—rheumatology—later on in this report.

PPMs

The landscape for physician practice management companies (PPMs) looks robust, as these companies are less exposed to staffing shortages. Notably, add-on activity in the dental; dermatology; ear, nose, and throat (ENT); and musculoskeletal (MSK) categories notched numbers that were roughly flat with those for 2021, meaning that 2022's deal activity in these categories will likely exceed 2021's once data collection is complete. Rapid inorganic growth implies ample free cash flow and thus underlying financial health. Economic uncertainty and financing constraints are the main impediments to PPM platform trades at present, and we anticipate that a backlog of PPMs will come to market or resume sale processes if leveraged loan markets revitalize later in 2023. Some firms may also follow Harvest Partners' example with Dental Care Alliance and transfer assets to continuation vehicles to wait

Golub Capital Altman Index, Q4 2022

Sector	Revenue YoY growth	Earnings YoY growth
Healthcare	10.3%	1.3%
Consumer	9.4%	9.2%
Industrials	10.7%	11.4%
Technology	12.8%	14.3%
Overall	**10.8%**	**9.2%**

Source: Golub Capital Internal Data | Geography: US
*As of December 31, 2022

out the storm. Other key PPM categories, namely veterinary and vision, saw add-on activity decline significantly year over year. These categories may have hit a cyclical phase of slowing platform growth after a wave of heightened activity, similar to what dermatology has been experiencing since 2020.

Primary care and multispecialty groups

As we have written previously, 2022 was characterized by significant strategic M&A activity in primary care and multispecialty networks. Payviders (chiefly UnitedHealth Group and Humana) and retailers (chiefly Amazon, CVS, Walmart, and Walgreens) are jostling for advantageous positions in the transition to value-based care (VBC). The upshot for PE is that the exit landscape is now extremely dynamic for regional or national primary care, behavioral health, home health, and multispecialty network assets, especially those with a track record of taking on risk or providing critical services to support managed care. Q4 saw a few noteworthy deals on this theme, including Lorient Capital and Martis Capital's creation of Rise Health. This is the most recent entrant in a "second wave" of VBC enablement companies, which we discuss later in this report.

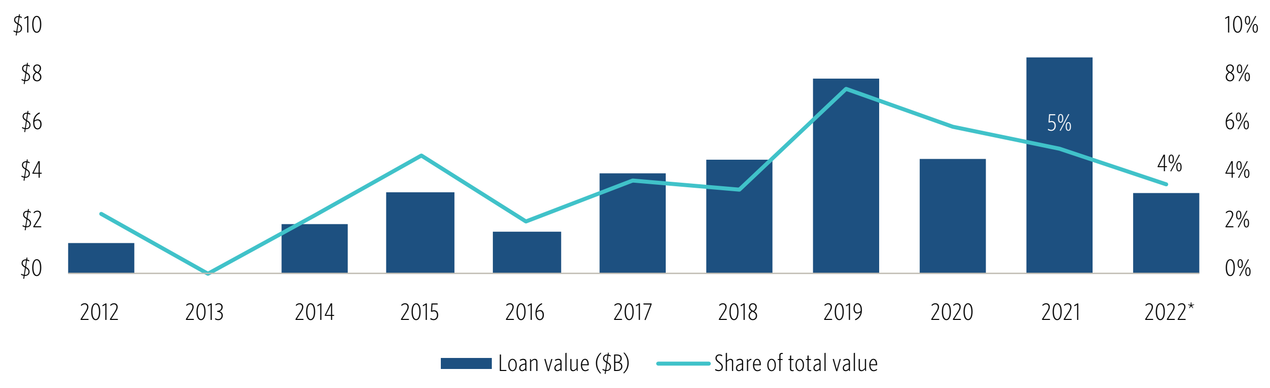
Ascend Partners also executed a pair of deals for multispecialty networks. Investing out of a $570.0 million Fund I, Ascend employs a unique model: All of the healthcare providers in its portfolio contract with CareAbout, a company created by Ascend that functions as both a management services organization (MSO) and an investor. Ascend's existing portfolio company Rendr acquired Excelsior, which is backed by Kain Capital; both focus on serving New York City's Asian American population, so the deal is a natural one. Ascend and CareAbout also invested in Medical Specialists of the Palm Beaches, a multispecialty group in southern Florida. It will be interesting to see whether Ascend pursues a VBC strategy for these groups via CareAbout.

2023 outlook

Looking ahead to the rest of 2023, we believe deal volumes may continue to decline in the first half of the year due to continued leverage- and staffing-related financial distress for some platforms, growing liquidity constraints, and the dwindling of war chests raised in 2020 and 2021. Although LPs are particularly interested in healthcare-focused managers during periods of economic volatility, the fundraising environment is increasingly inhospitable, especially for emerging and middle-market firms, and the sluggish pace of exits means institutional investors are running out of capital to allocate. If macroeconomic conditions stabilize midyear, we could begin to see a rebound in deal activity in the second half of 2023.

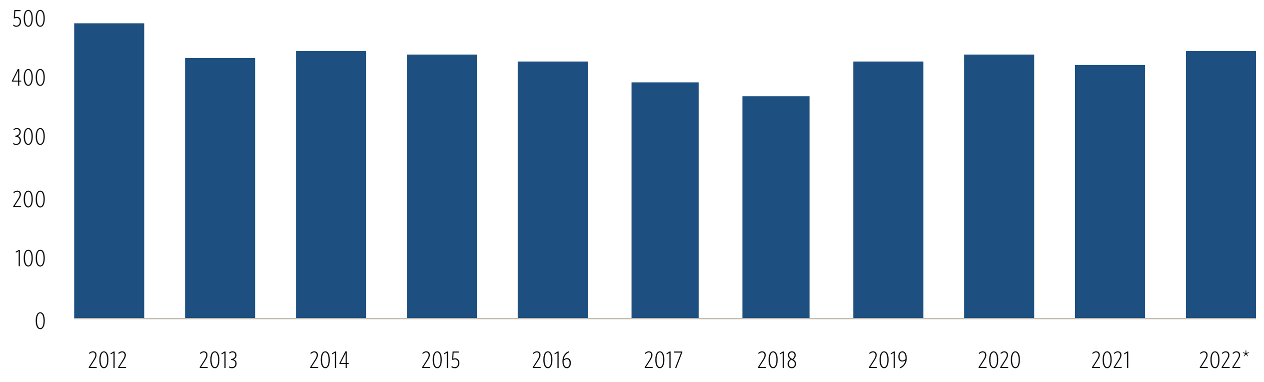
PE ACTIVITY

Leveraged buyout (LBO)-related health services loan value and share



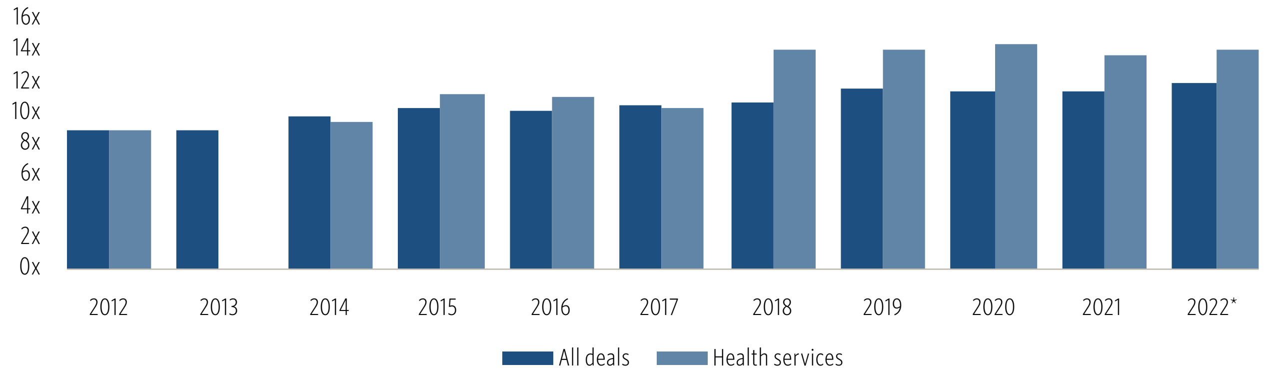
Source: LCD | Geography: US | *As of December 31, 2022

New-issue spread for health services loans



Source: LCD | Geography: US | *As of December 31, 2022

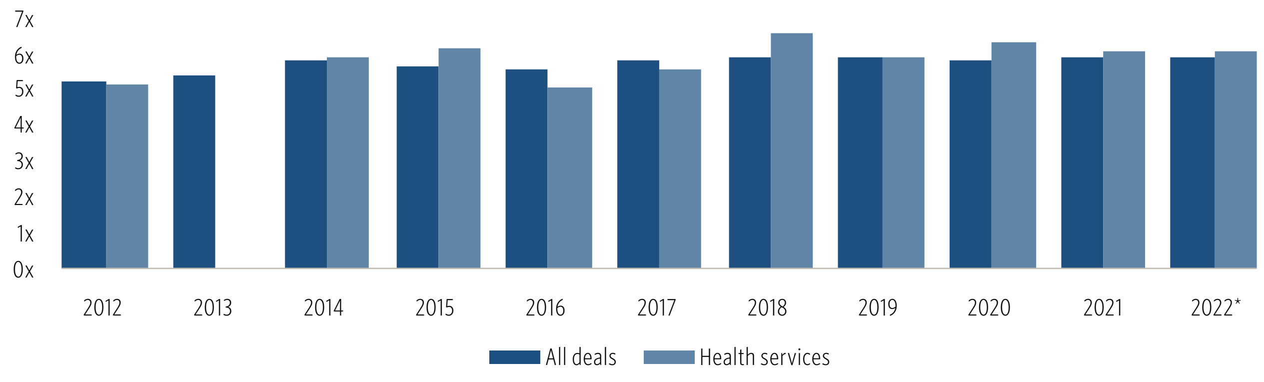
Average LBO purchase price multiple



Source: LCD | Geography: US | *As of December 31, 2022

Note: Based on borrowers with EBITDA of $50 million or more

Average LBO leverage ratio



Source: LCD | Geography: US | *As of December 31, 2022

Note: Based on borrowers with EBITDA of $50 million or more

PE ACTIVITY

Select PE healthcare services deals, Q4 2022 to present*

Company	Category	Deal type	Closed/ announced date	Sponsor(s)	Acquirer
Dentive	Dental	Buyout	January 19, 2023	HGGC	N/A
HouseWorks	Home care, home health, and hospice	Buyout	January 12, 2023	InTandem Capital Partners	N/A
ABA Connect	ABA and pediatric therapy	Buyout	December 12, 2022	MBF Healthcare Partners	N/A
Medical Specialists of the Palm Beaches	Multispecialty clinics and networks	Growth	December 5, 2022	Ascend Partners, CareAbout (Ascend Partners)	N/A
Medi-Weightloss	Other medical specialists	Buyout	November 28, 2022	Buzz Franchise Brands	Audax Group
United Vein & Vascular Centers	Cardiovascular	Buyout	November 18, 2022	Amulet Capital Partners	N/A
Centrata	Musculoskeletal	Growth	November 1, 2022	Trinity Hunt Partners	N/A
Prime Psychiatry	Mental health and SUD treatment	Growth	November 1, 2022	Albaron Partners	N/A
Discovery Senior Living	Skilled nursing	Buyout	October 12, 2022	Lee Equity Partners	Coastwood Senior Housing Partners
Enable Dental	Dental	Growth	October 1, 2022	Bardo Capital	N/A
Rise Health	Primary care	Platform creation	October 1, 2022	Lorient Capital Management, Martis Capital	N/A

Source: PitchBook | Geography: US and Canada | *As of January 31, 2023

PE ACTIVITY

Select PE healthcare services exits, Q4 2022 to present*

Company	Category	Exit type	Close date	Sponsor(s)	Acquirer(s)
Dental Care Alliance	Dental	Buyout	January 16, 2023	Crescent Capital Group	Mubadala Investment Company, Harvest Partners
Summit Medical Group	Multispecialty clinics and networks	Acquisition	January 3, 2023	CityMD, Consonance Capital	VillageMD (Walgreens), Evernorth Health (Cigna)
Excelsior Integrated Medical Group	Multispecialty clinics and networks	Add-on	November 28, 2022	CFT Capital Partners	Rendr (Ascend Partners), Kain Capital
Paradigm Oral Surgery	Dental	Buyout	November 16, 2022	InTandem Capital Partners	BlackRock Private Equity Partners
KabaFusion	Infusion	Buyout	November 2, 2022	Pritzker Private Capital	Novo Holdings
Bradford Health Services	Mental health and SUD treatment	Buyout	October 28, 2022	Centre Partners, Yukon Partners	Lee Equity Partners
EyeSouth Partners	Vision	Buyout	October 7, 2022	Shore Capital Partners	Olympus Partners

Source: PitchBook | Geography: US and Canada | *As of January 31, 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 and correctional health

- wellpath
- YesCare
- Premise Health
- Medicine Business Industry
- Mobile Health exams

Primary care

- InnovaCare Health
- everside health
- vera whole health
- Southeast Primary Care Partners
- MainStreet Family Care
- Bluestone Physician Services
- ClareMedica
- Millennium Physician Group
- Rancho Family Medical Group
- Pediatric Associates
- Marathon Health
- CenterWell
- eventus whole health
- FPG Family Physicians Group
- Community Medical Group
- MyCare Medical

Urgent and emergency care

- Texas MedClinic Urgent Care
- CareSpot / FastMed
- CityMD
- Fast Pace Health Urgent Care
- FastMed
- Greater Toledo Urgent Cares
- perlmanclinic
- SouthStar Urgent Care
- Xpress Wellness Urgent Care

Multispecialty

Ambulatory surgical centers

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

Clinical staffing

- EH Emergency Health
- Envision Healthcare
- Siromed
- RestorixHealth
- Synergy Health Partners
- TEAMHealth

Hospitals and health systems

- Steward
- ScionHealth
- Northwest Specialty Hospital
- Ardent Health Services

Multispecialty clinics and networks

- essen health care
- LEON Medical Centers
- rendr

Skilled care and behavioral health

ABA and pediatric therapy

- 360 Behavioral Health
- acorn health
- ABA4KIDS
- Autism Learning Partners
- CSD Center for Social Dynamics

Home health and hospice

- accentCare
- Affinity Hospice
- BrightSpring Health Services
- Charter Healthcare
- CMS Clinical Medical Services

IDD care

- Caregiver
- People's Care
- Beacon Specialized Living
- CBC Community Based Care

Infusion

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

Mental health and SUD treatment

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

Skilled nursing

- Advantage
- BridgeWater
- Cambridge
- Collage
- Ernest Health

Healthcare services PE ecosystem market map

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PPMs

Cardiovascular

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

Dental

- Allied
- benevis Dental Practice Management Services
- COP canadian orthodontic partners
- Dental365
- Heartland

Dermatology

- Anne Arundel Dermatology
- DOCS Dermatologists of Central States
- Epiphany Dermatology
- Forefront Dermatology
- LaserMD med spa

Ear, nose, and throat

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

Gastroenterology

- Allied Digestive Health
- gastro care partners
- Gastro Health
- Grand Health Partners
- New York Bariatric Group

Musculoskeletal

- Alliance Physical Therapy Partners
- ATI Physical Therapy
- Beacon
- CORA Physical Therapy
- Drayer

Obstetrics and gynecology

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

Oncology

- OneOncology
- Integrated Oncology Network
- Verdi Oncology

Other medical specialists

- Healogics
- Advantage Surgical & Wound Care
- IDC
- Midwest Immunology
- NeuroInternational

Reproductive medicine

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

Urology/renal

- American Renal
- Renal Care 360°
- The Urology Group
- U.S. Renal Care
- United Shockwave Services

Veterinary

- AmeriVet
- Animal Dermatology Group
- Best Friends Pet Hotel
- Community Veterinary Partners
- Heartland Veterinary Partners

Vision

- Atlantic Vision Partners
- Capital Vision Services
- EyeCare Partners
- EyeCare Services Partners
- NVISION

Healthcare services PE investor map

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

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

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

Large cap ($5 billion+)

- Clayton Dubilier & Rice
- General Atlantic
- KKR
- LGP Leonard Green & Partners
- OMERS Private Equity
- Partners Group
- Summit Partners

Q4 2022 timeline

PE exit

October 7

In easily the largest sponsor-to-sponsor trade of the quarter, Shore Capital Partners sells EyeSouth Partners to Olympus Partners at a roughly $2 billion valuation.

News

November 1

The Centers for Medicare & Medicaid Services (CMS) issues its 2023 finalized fee schedules, backing away from a proposed 4.2% cut to home health reimbursement and paving the way for a resumption of deal activity in the category.

PE deal

November 29

Amulet Capital Partners acquires United Vein & Vascular Centers, proving that midsize platform creations are still feasible even as dealmaking slows.

Oct 1 | Nov 1 | Dec 1 | Dec 31

News

October 11

The US Preventive Services Task Force recommends screening for anxiety in children ages 8 years and older and screening for depression in children ages 12 years and older, portending increased demand for mental health providers.

PE exit

November 7

Consonance Capital's CityMD announces it will sell Summit Medical Group to Walgreens' VillageMD for $8.9 billion. The deal supercharges Walgreens' value-based care play and is a bullish sign for PE-backed multispecialty groups.

News

December 29

President Biden signs the $1.7 trillion spending bill that includes significant provisions relating to Medicare reimbursement, behavioral health, and Medicaid eligibility.

PE activity

158
total deals in Q4 (estimated)

863
total deals in 2022 (estimated)

-26.4%
QoQ change in deal count

-56.2%
YoY change in Q4 deal count

-14.8%
TTM YoY change in deal count

Key regulatory developments

Evolving antitrust landscape

In the Q3 2022 Healthcare Services Report, we reported that hospital and health system mergers are the primary corner of healthcare services where antitrust action is significantly affecting dealmaking. However, recent state-level policy changes may have a broader effect over the coming years. In California, the newly created Office of Health Care Affordability (OHCA) has broad authority to review healthcare transactions for their effects not only on market competition but also on healthcare affordability. Beginning April 1, 2024, healthcare providers in California must notify OHCA 90 days in advance of all transactions, with some exceptions. OHCA will have the authority to conduct reviews, issue public reports, and refer findings to the state attorney general. The new OHCA review process is likely to elongate and add risk to healthcare services transactions in the state.

According to Anthony Del Rio, Healthcare M&A Partner, and Andrea Murino, Antitrust and Competition Partner at Kirkland & Ellis, it is becoming increasingly important to engage in antitrust risk assessments early in transaction processes. In addition to new state avenues of intervention like California's OHCA, federal antitrust attention to healthcare continues to evolve, including through investigation of areas of healthcare that were not formerly scrutinized and changing positions on vertical mergers, according to Del Rio and Murino.[2] Massachusetts, Rhode Island, New Hampshire, and Washington, DC, are also currently active in healthcare antitrust enforcement.

Omnibus funding bill provisions

The $1.7 trillion federal funding bill, signed by President Biden on December 29, 2022, includes several provisions that will affect PE healthcare services investors.

Congress delayed statutorily required reimbursement cuts, effectively **increasing Medicare physician fee schedule rates by 2.5%** over the 2023 Final Rule issued in November. The revenue increase will be significant for the many platforms facing margin pressures due to wage inflation. Participants in Advanced Alternative Payment models will also see a 3.5% bonus incentive for 2023; the current 5.0% incentive was previously set to expire.

Medicare will now reimburse mental health services provided by licensed marriage and family therapists (LMFTs), which represent around 25% of the behavioral health workforce.[3] This should increase the supply of mental health providers, primarily by expanding the pool of mental health professionals available for established groups to hire, since many independent LMFTs do not accept insurance. Typically, commercial payers follow CMS' lead in coverage expansion.

Although the public health emergency will now end on May 11, **states will resume Medicaid redeterminations beginning April 1, 2023**. As a result, an estimated 5 to 15 million people will lose coverage. However, Congress also required that children enrolled in Medicaid/CHIP be granted 12 months of consecutive coverage and preserved states' ability to offer Medicaid coverage to new mothers for 12 months postpartum. Taken together, these measures provide greater certainty for providers that accept Medicaid, despite the 2024 enrollment cliff. Pediatric Medicaid models in categories such as dentistry (discussed later in this report) will benefit from reduced enrollment churn.

2: Anthony Del Rio, Healthcare M&A Partner, and Andrea Murino, Antitrust and Competition Partner, Kirkland & Ellis, email to Rebecca Springer, January 20, 2023.
3: "Behavioral Health Workforce Projections," Health Resources & Services Administration, August 2022.

Segment data

Generalist providers

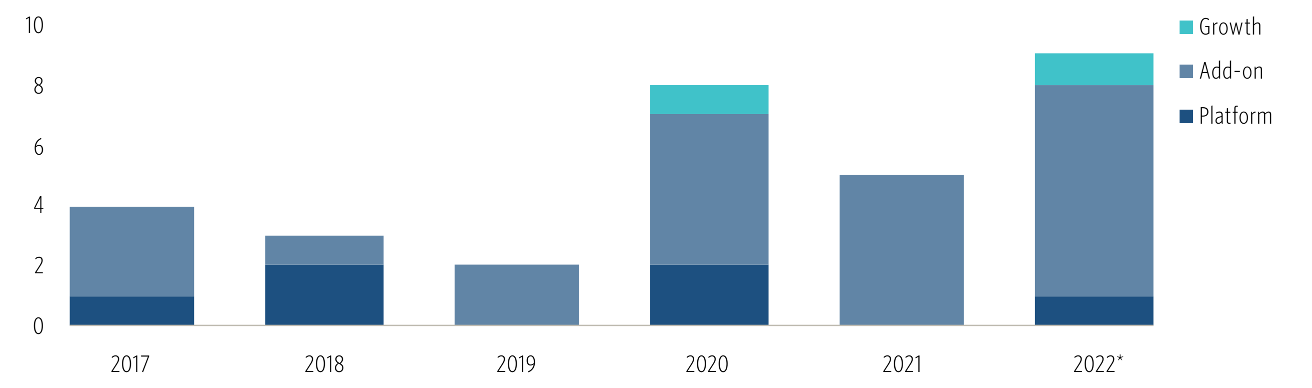
Multispecialty providers

PPMs

Skilled care and behavioral health

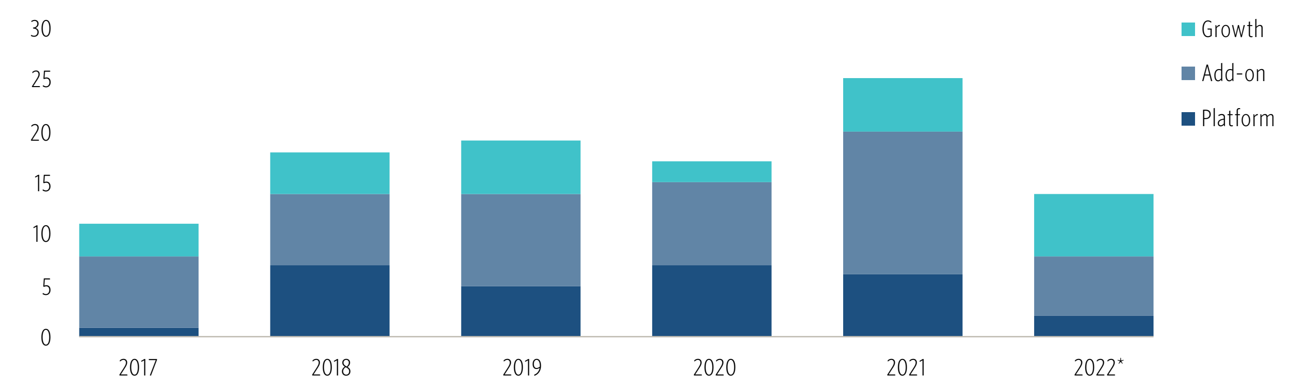
GENERALIST PROVIDERS

Occupational and correctional health PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Primary care PE deal count by type



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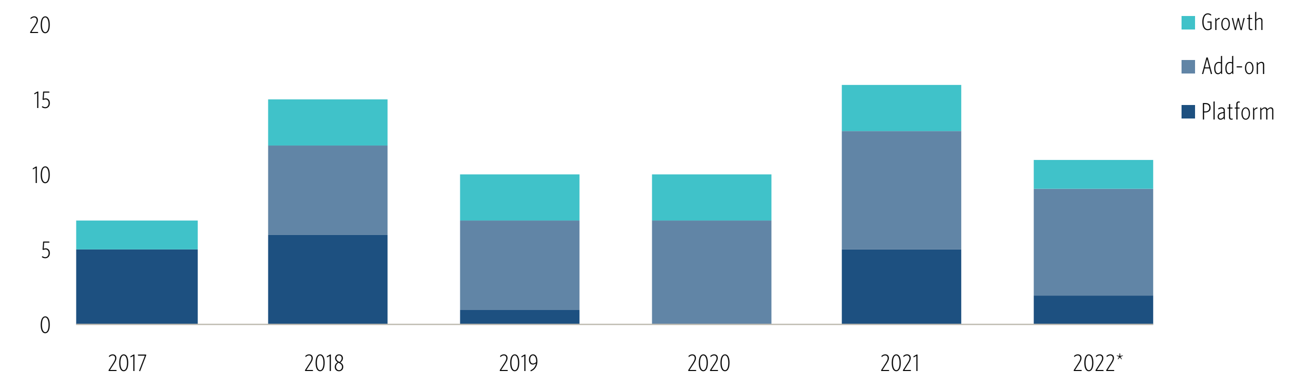
Urgent and emergency care PE deal count by type



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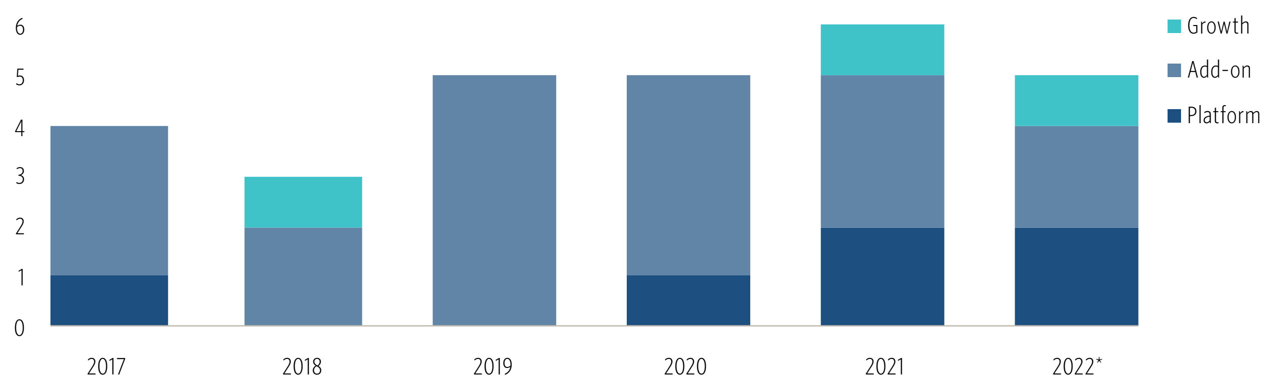
MULTISPECIALTY PROVIDERS

Ambulatory surgical centers PE deal count by type



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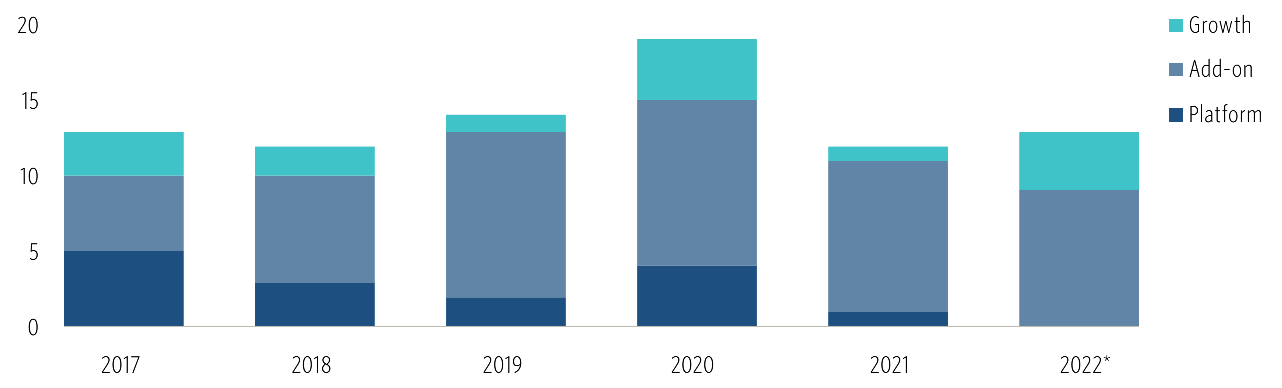
Clinical staffing PE deal count by type



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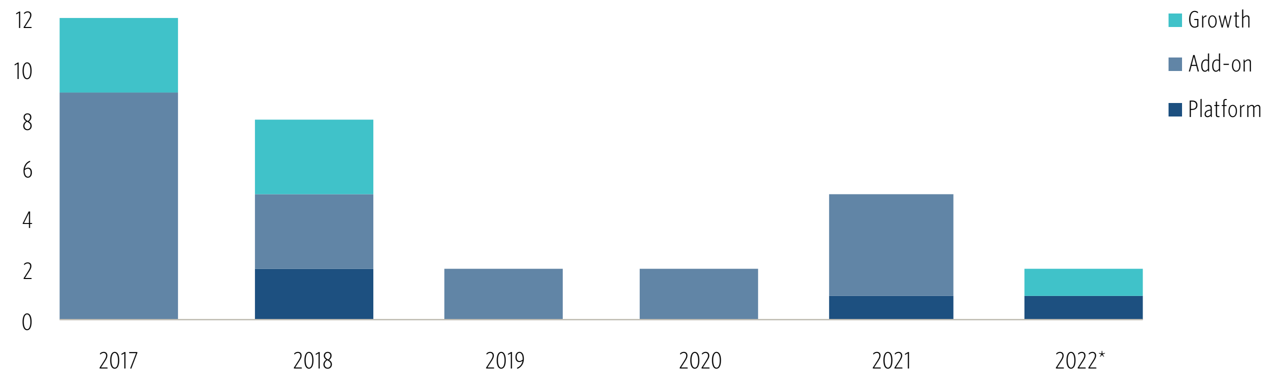
Hospitals and health systems PE deal count by type



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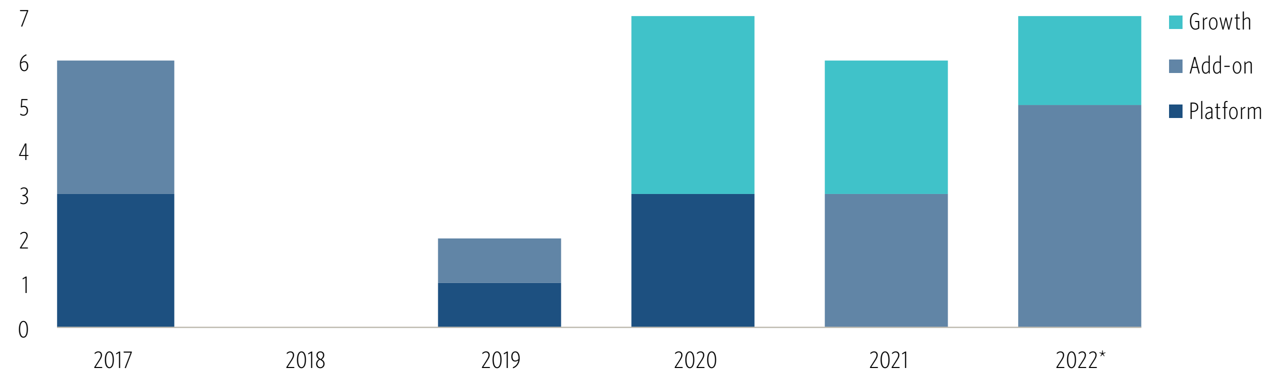
Multispecialty clinics and networks PE deal count by type



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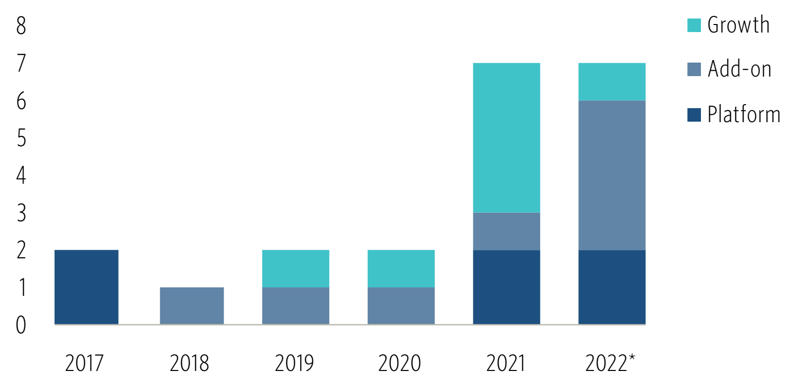
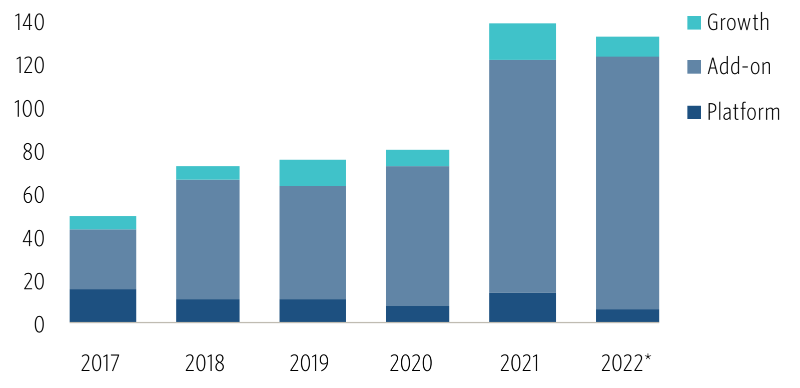
PPMS

Cardiovascular PE deal count by type



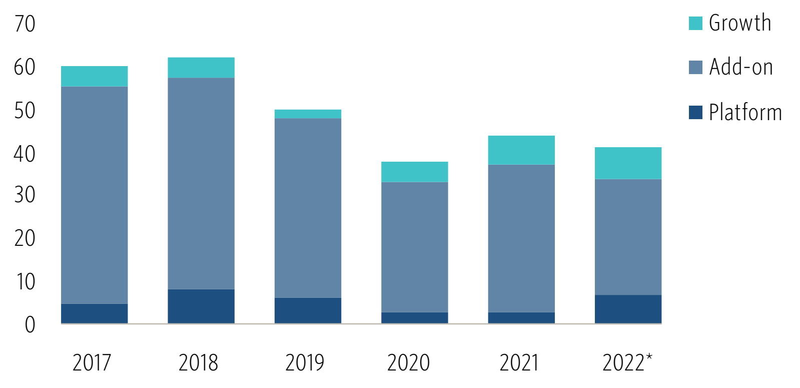
Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Dental PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Dermatology PE deal count by type



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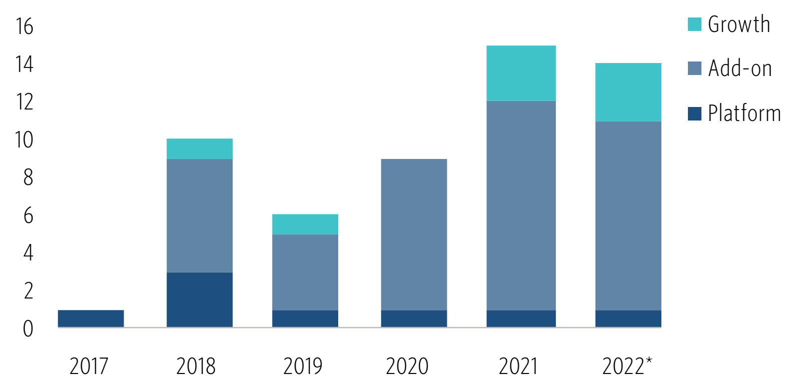
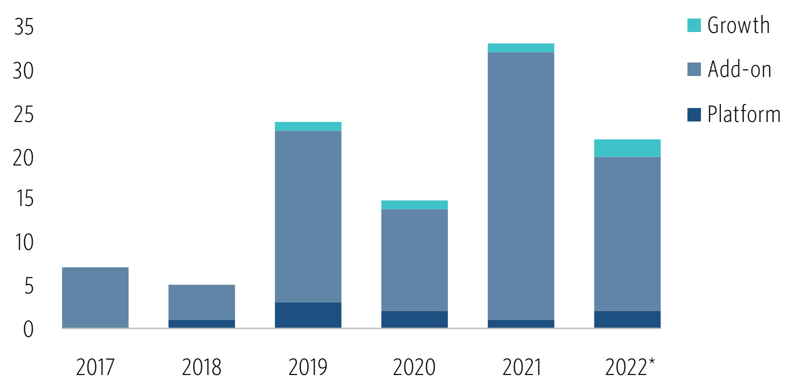
ENT PE deal count by type



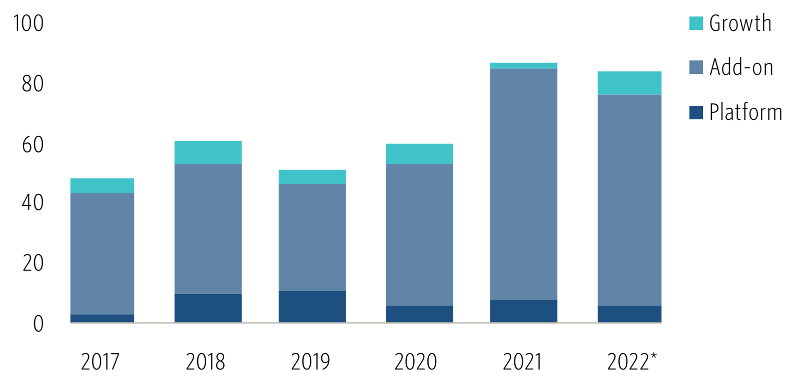
Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Gastroenterology PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

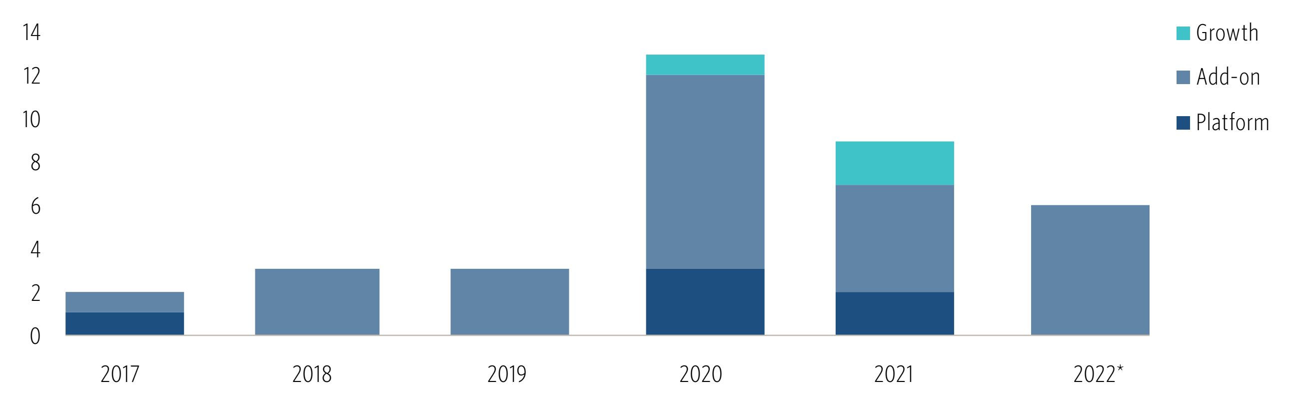
MSK PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

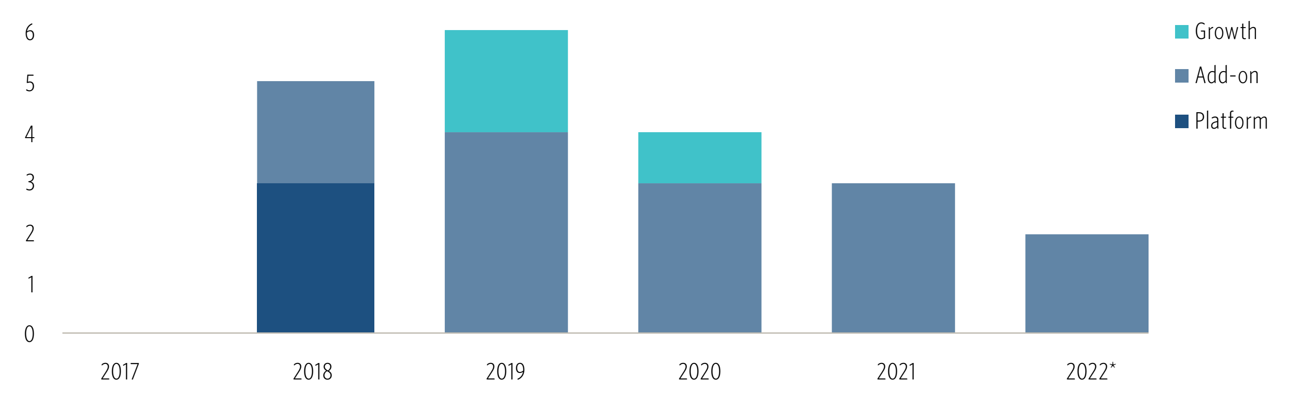
PPMS

Obstetrics and gynecology PE deal count by type



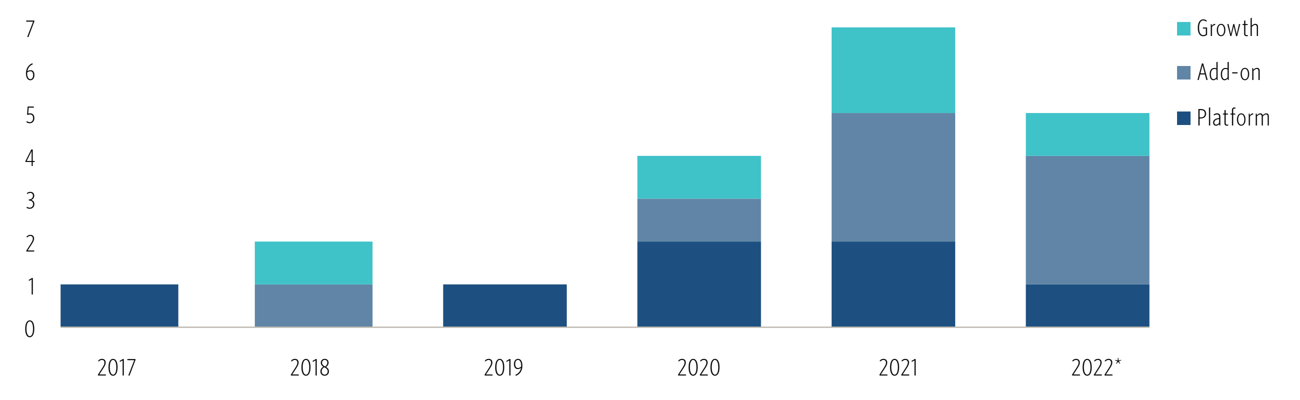
Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Oncology PE deal count by type



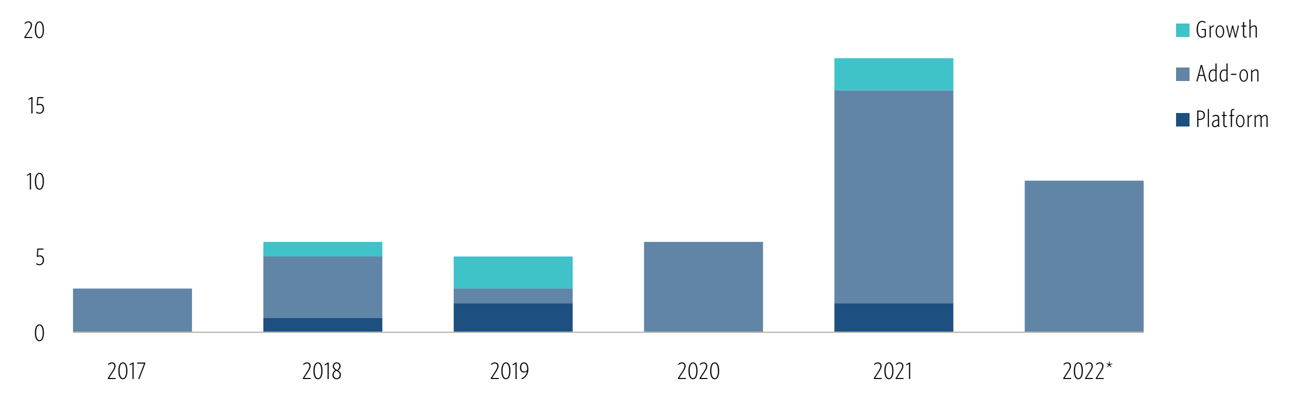
Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Other medical specialists PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

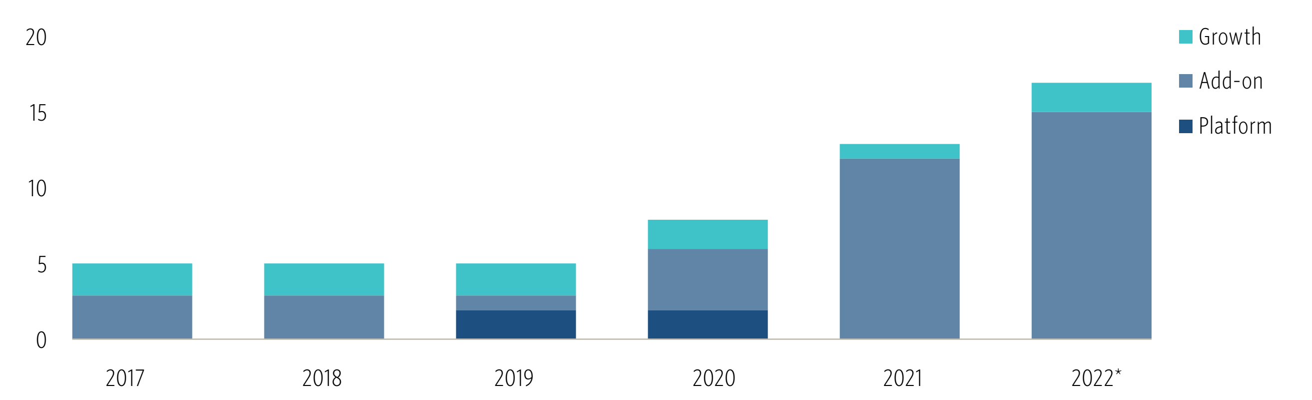
Reproductive medicine PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

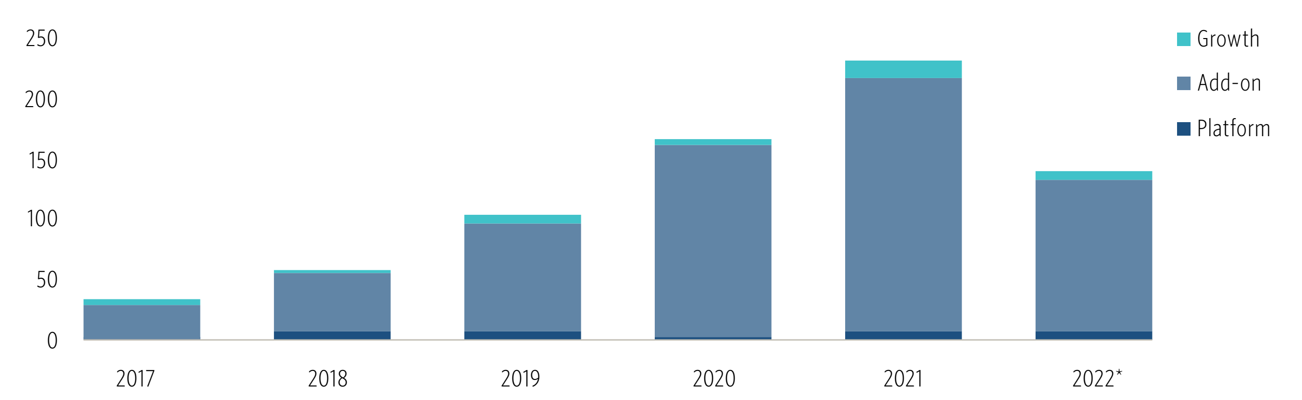
PPMS

Urology/renal PE deal count by type



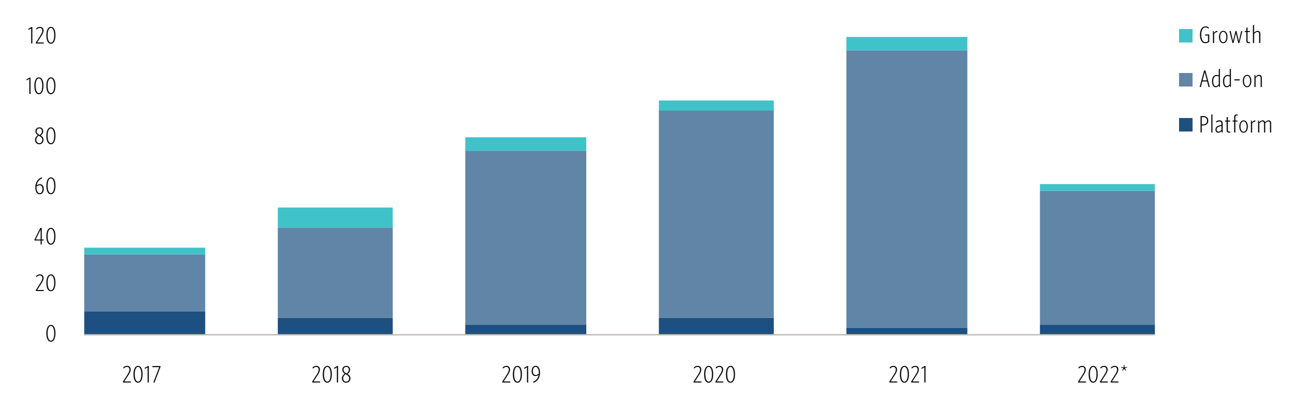
Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Veterinary PE deal count by type



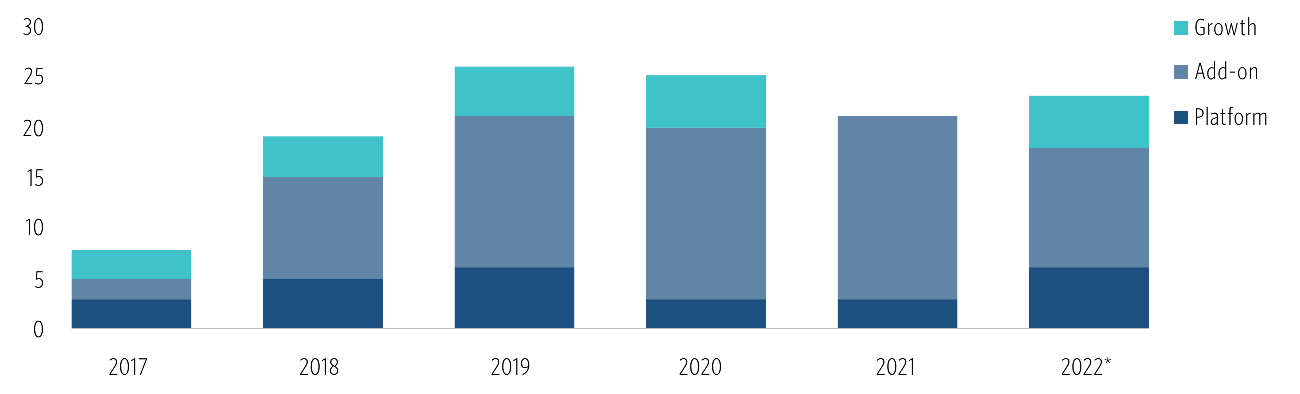
Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Vision PE deal count by type



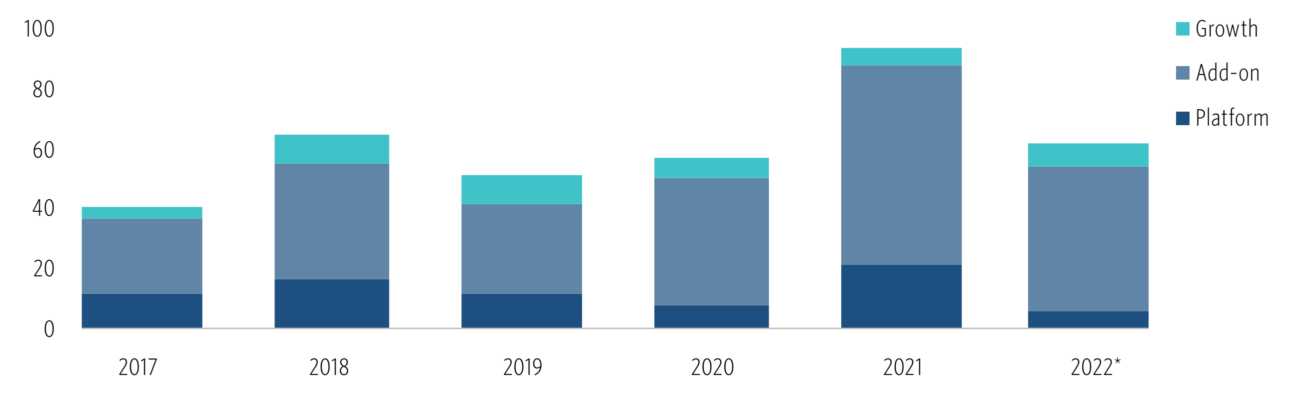
Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

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



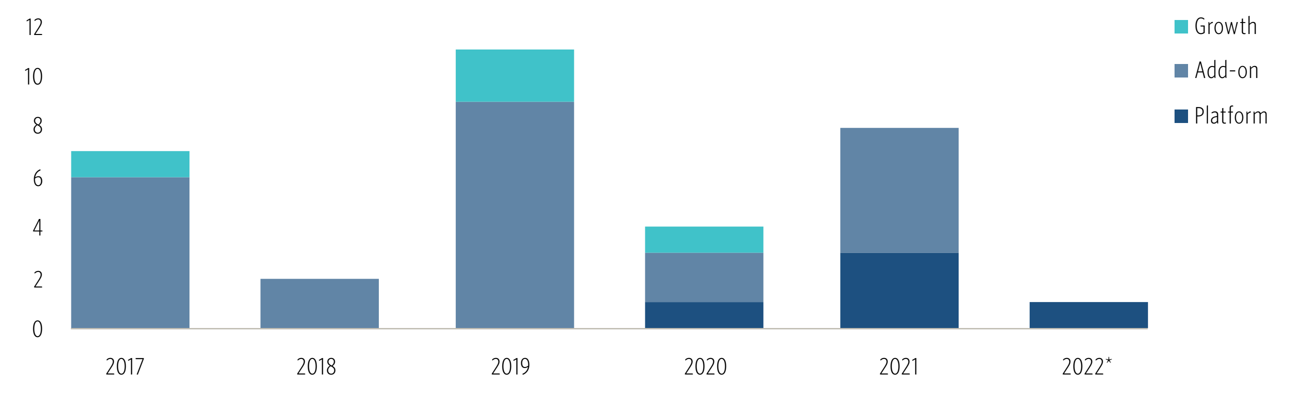
Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

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



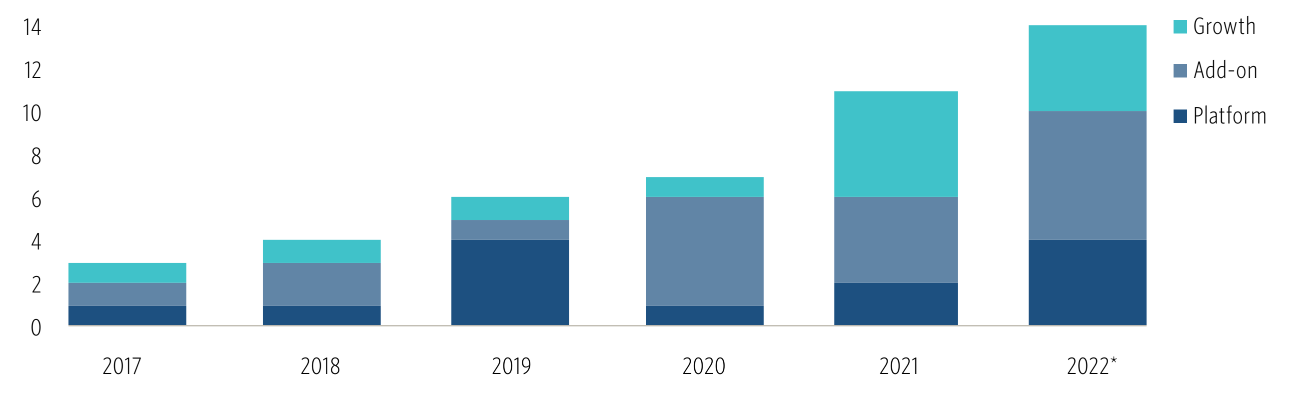
Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

IDD care PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

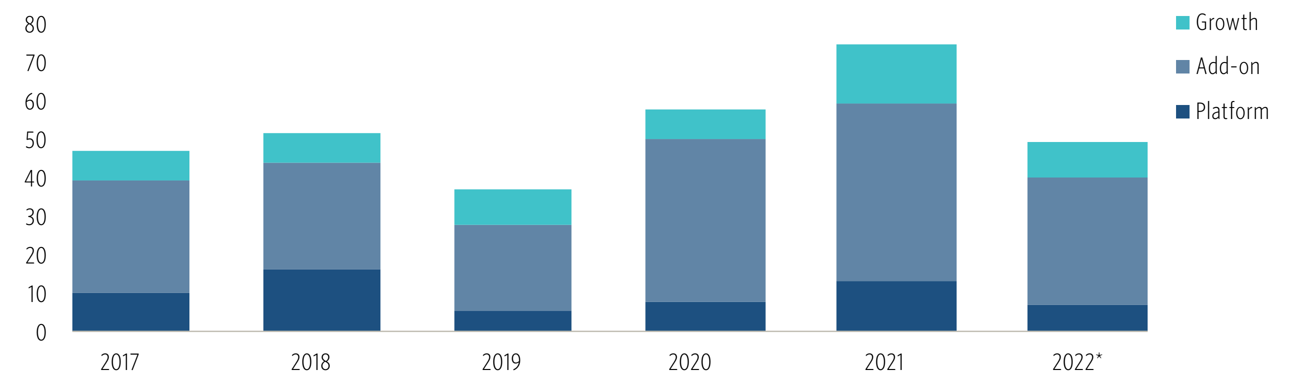
Infusion PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

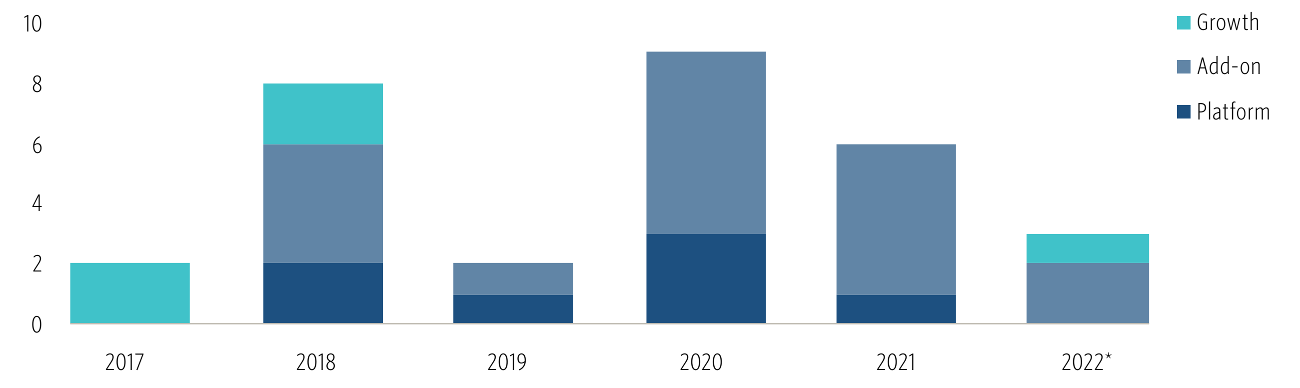
SKILLED CARE AND BEHAVIORAL HEALTH

Mental health and SUD treatment PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Skilled nursing PE deal count by type



Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Spotlights

Rheumatology

PE's first rheumatology platform heralds a new ambulatory infusion play.

VBC enablers

VBC enablement is now in its second wave.

Medicaid/CHIP pediatric dentistry

Investors seek social impact in an underserved and growing market.

Rheumatology

VSS Capital Partners' September 2022 investment in the Los Angeles-based Center for Rheumatology (CFR) represents an emerging PPM category and a variation on the AIC theme that has attracted significant investment of late. (See the Q3 2022 Healthcare Services Report for more on infusion.) Although several active PE-backed infusion and specialty pharmacy platforms offer infusion therapy treatment for rheumatology, including FlexCare Infusion Centers, Infusion Associates Management, Infusion for Health, IVX Health, and Vivo Infusion, we have not tracked any previous PE buyouts of rheumatology clinics. The group purchasing organization (GPO) space for rheumatology, which is dominated by McKesson's Onmark, saw one deal in April when Linden-backed UroGPO, a urology-focused GPO, bought United Rheumatology.

Rheumatology focuses on the treatment of diseases that affect the MSK system, such as osteoarthritis, osteoporosis, gout, myositis, fibromyalgia, and tendonitis, as well as autoimmune diseases, including rheumatoid arthritis, lupus, antiphospholipid syndrome, scleroderma, and vasculitis. Rheumatology clinics may offer a range of in-house services, including imaging, bone density scanning, and labs in addition to infusion. They may also serve as clinical trial sites.

Unlike physicians in other PPM categories that have seen heavy PE investment, such as dentistry, dermatology, orthopedics, and vision, rheumatologists are among the lower-paid physician specialists, and margins for a small rheumatology practice can be tight. However, the arbitrage opportunity is significant: The rheumatology landscape is highly fragmented, with only a handful of scaled practices nationally. CFR was a single-location, four-physician practice at the time of the deal, an extremely small platform for a $500.0 million fund. This fragmentation means that health systems are the only major buyers in the market—and they are currently sitting on the sidelines. Like those of many other physician specialties, the provider demographic for rheumatology includes many independent practice owners who are contemplating retirement and therefore are open to buyouts.

VSS' strategy for CFR focuses on building market density in the LA metro area primarily through small-practice M&A, the negotiation of improved commercial reimbursement rates, and the addition of infusion centers to integrated practices (and/or adding chairs to centers). Because of the complexity of managing specialty drug inventory, many small rheumatology practices do not own infusion centers. Since September, CFR has partnered with a two-physician practice and begun adding an infusion center to that practice. Out-of-state geographic expansion will follow a familiar playbook of focusing on states with large senior populations. As a first mover, the platform is likely to find plenty of runway for M&A. Demand for rheumatologists is expected to more than double supply by 2030,[4] and payer-driven tailwinds in the AIC space also bode well. We would not be surprised to see additional rheumatology PE platform creations in the coming years.

4: "2015 American College of Rheumatology Workforce Study: Supply and Demand Projections of Adult Rheumatology Workforce, 2015-2030," Arthritis Care & Research, Daniel F. Battafarano, et al., April 2018.

Select scaled, independent rheumatology groups*

Company	State(s)	Locations
Articularis Healthcare	Alabama, Florida, Georgia, Kentucky, Oklahoma, South Carolina, Tennessee	16
Rheumatology Associates	Texas	10
Arizona Arthritis Rheumatology Research	Arizona	8
Arthritis and Rheumatism Associates	Maryland; Washington, DC	7
Rheumatology Specialty Center	Pennsylvania	5

Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

VBC enablers

VBC enablement refers to a provider aggregation model premised on moving providers from fee-for-service (FFS) to value-based contracts. Although there are variations, the basic model is to affiliate independent practices with both an MSO and an accountable care organization (ACO); provide free population health software and some degree of care coordination and practice management support; negotiate Medicare Advantage (MA) contracts; enroll in ACO REACH programs with a progressively higher level of risk, and grow at-risk patient census; and split the upside, with the enabler taking around 70% to 75%. Enablers vary in their affiliation approach (MSO acquisition versus partnership, annual renewal versus long-term contract), the level of support they provide, their control over practice operations, their emphasis on MA versus ACO REACH, and their flexibility in provider partnership arrangements (for instance, adjusting the enabler's split of upside based on the amount of risk taken by the provider).

The first wave of VBC enablers, including agilon, Privia, Aledade, P3 Health Partners, and ApolloMed, has validated the thesis that guiding FFS primary care practices into risk contracts can materially improve outcomes, reduce variation, and lower the total cost of care within three years or so of going live. Additionally, despite an increasingly crowded primary care landscape of payviders, retailers, PE-backed aggregators, concierge clinics, and employer-focused hybrid groups, VBC enablers appear to have plenty of runway and are not directly competing for either patients or providers—at least for the time being.

As a result, a crop of new entrants has emerged with participation from both VC and PE investors. These include Enlace Health, Wellvana, Pearl, UpStream, On Belay Health Solutions, and, most recently, Rise Health. Equality Health replicates the traditionally Medicare-focused VBC enablement model for Medicaid and duals-focused providers.

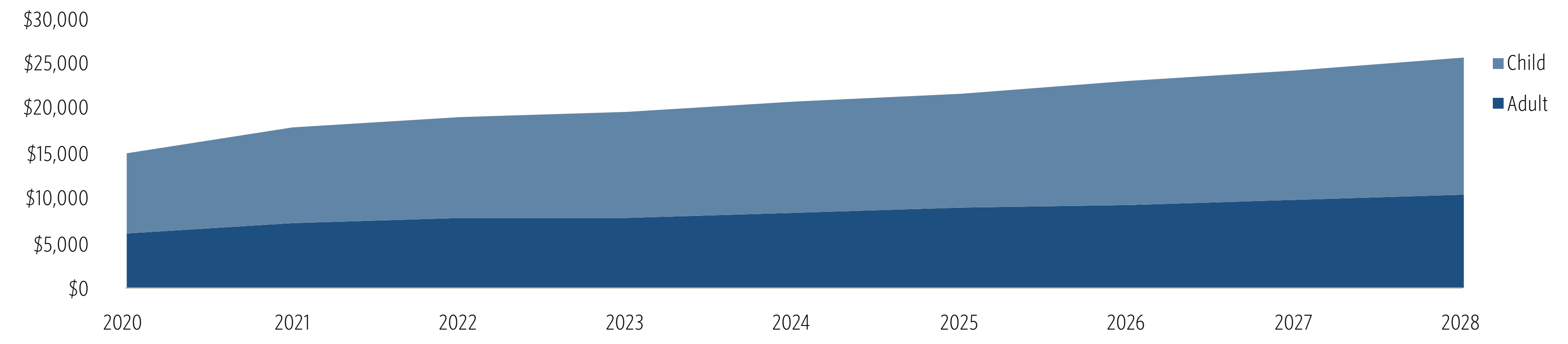
This second wave of VBC enablers will be likely candidates for PE buyouts as they mature. We also expect to see enabler consolidation begin within the next five years or so as certain markets become more competitive and CMS tightens the belt on MA plans, currently the largest revenue drivers. Health system partnerships represent an important opportunity for VBC enablers to scale quickly in the coming years, as health systems need to pursue increased revenue by taking on risk but currently cannot make significant clinical and technology investments. Given the organizational idiosyncrasies of health systems, the challenge with these partnerships will be to create a model that scales.

Medicaid/ CHIP pediatric dentistry

PE-backed dental support organizations typically focus on commercially insured populations and cash-pay ancillaries such as orthodontics. However, Medicaid-focused pediatric dentistry platforms address an important health need for underserved populations and represent a greenfield PE play. We have tracked several platforms in this category, including Benevis (New Mountain Capital); Abra Health Group, formerly known as ChildSmiles (Clairvest Group); Lone Peak Dental Group (Tailwind Capital); and Children's Choice Pediatric Dental Care (Amulet Capital Partners). In Q4, Austin-based Bardo Capital invested in Enable Dental, which provides in-home dental services to pediatric and adult patients enrolled in Medicaid, PACE, and MA.

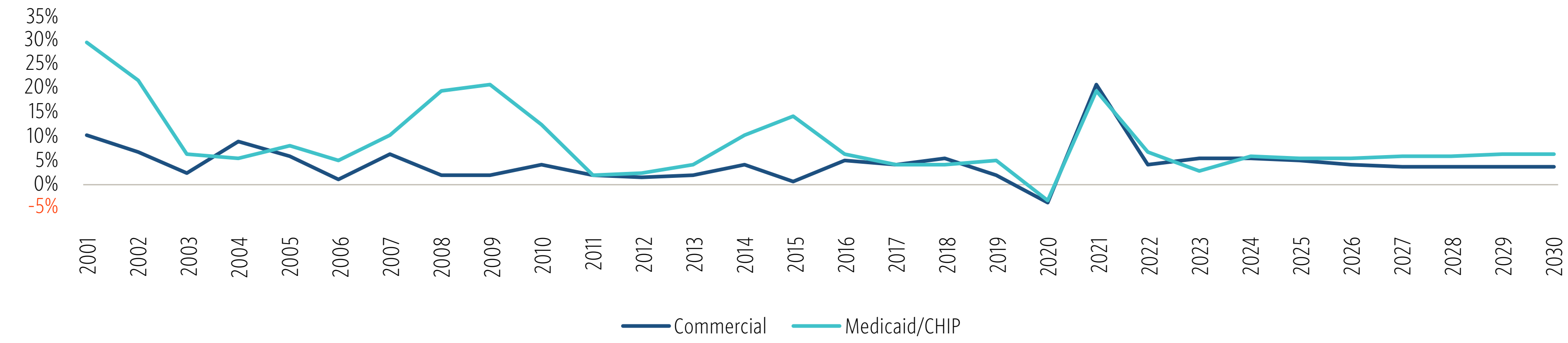
Medicaid and CHIP plans are required to cover routine dental care, as well as medically necessary orthodontics, for all beneficiaries under the age of 21 as part of the Early and Periodic Screening, Diagnostic, and Treatment benefit. Adult dental coverage through Medicaid is not federally required except for specific populations (such as mothers, from pregnancy through 60 days postpartum); however, the trend is toward state-level expansion of Medicaid

Projected US dental spending, Medicaid/CHIP*



Sources: CMS and PitchBook | Geography: US | *As of December 31, 2022

Year-over-year change in US dental spending by insurance type*



Source: CMS | Geography: US | *As of December 31, 2022

Note: The changes from 2021 to 2030 are projected.

MEDICAID/CHIP PEDIATRIC DENTISTRY

dental coverage, and at least 39 states plus Washington, DC, currently offer some level of nonemergency adult dental coverage via Medicaid. Medicaid dental benefits can be provided directly by the state in an FFS model with or without the assistance of a third-party administrator; directly contracted to a dental managed care organization (MCO); or "carved in" to the state's medical MCOs, which may or may not subcontract to a dental MCO.

There is a significant shortage of dentists who will take Medicaid patients, especially in medically underserved areas. In most cases, Medicaid rates are lower than commercial rates. On average, Medicaid FFS rates are 61.4% of commercial rates for pediatric dentistry and 53.3% for adult dentistry, with significant variation by state.[5] Additionally, dentists—especially small-practice owners—often find the administrative burden of Medicaid reimbursement difficult to manage and may feel restricted by Medicaid coverage limitations. As a result, only 15% of dentists see more than 100 Medicaid patients in a given year in the median state[6]—a remarkably low figure given that a single dentist's active patient census is typically in the 1,500-1,800 range. In some cases, state-level expansion of Medicaid dental coverage has created acute shortages due to pent-up demand.[7]

This demand-supply imbalance creates an attractive opportunity for PE platforms that can leverage scale and navigate changing state reimbursement landscapes—including policy changes and MCO procurement cycles—to create commercially viable pediatric dentistry practices for underserved communities. We estimate the US Medicaid/CHIP pediatric dental market will exceed $15 billion by 2028. This is despite the expected loss of Medicaid/CHIP coverage for more than 5 million children when states resume disenrollment in April 2023.[8] Medicaid/CHIP dental spending (both adult and pediatric) increased at a CAGR of 12.7% between 2000 and 2020 as federal and state regulators expanded coverage, and that growth is expected to slow to only 11.9% by 2030. By contrast, commercial-pay dental spending has grown at a rate of 6.5% since 2000.

Access to oral surgery is also extremely limited for Medicaid/CHIP beneficiaries. Oral surgeries performed in hospitals or ambulatory surgical centers can be subject to elongated wait times for Medicaid patients—up to six months or more. Furthermore, most anesthesiologists do not accept Medicaid, resulting in high out-of-pocket bills. OFFOR Health, which raised a series A1 in March 2022 led by AXA Venture Partners, contracts directly with MCOs to bring the operating room into the office, shifting the site of care closer to the patient. Services include providing anesthesia care teams for oral procedures. TPG's Blue Cloud Pediatric Surgery Centers also focuses on providing oral surgery for pediatric and IDD patients covered by Medicaid/CHIP and touts a two-week wait time for appointments.

Another noteworthy variation is Abra Health Group's combination of pediatric dentistry and oral surgery with primary care, creating a one-stop shop for parents and facilitating care coordination. This mirrors the established trend in pediatric therapy whereby ABA clinics are combined with speech, educational, occupational, and physical therapy practices. We anticipate that medical-dental integration will become more common as the more sophisticated MCOs increasingly take a value-based approach to managing spend that is conscious of social determinants of health. We are also watching to see if PE-backed Medicaid pediatric dentistry platforms follow ABA practices upstream into the school setting, especially in markets like Chicago that have established school-based dental screening programs.

5: "Reimbursement Rates for Child and Adult Dental Services in Medicaid by State," Health Policy Institute, October 2021.
6: "Dentist Participation in Medicaid: How Should It Be Measured? Does It Matter?" Health Policy Institute, Marko Vujicic, Ph.D., et al., October 2021.
7: "Lawmakers Expanded Dental Coverage but Mainers Are Still Struggling to Find Providers," Beacon, Dan Neumann, August 9, 2022.
8: "Unwinding the Medicaid Continuous Enrollment Provision: Projected Enrollment Effects and Policy Approaches," Office of the Assistant Secretary for Planning and Evaluation, August 19, 2022.
Projected Enrollment Effects and Policy Approaches

Appendix

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

Investor	Platform deals
Shore Capital Partners	23
Petra Capital Partners	9
Trilogy Search Partners	8
Revelstoke Capital Partners	8
Webster Equity Partners	7
Vistria Group	7
Beecken Petty O'Keefe & Company	7
BPEA Private Equity	6
Endurance Search Partners	6
Partners Group	6

Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

Most acquisitive PE-backed healthcare services platforms since 2011*

Platform	Add-ons
Southern Veterinary Partners	182
Smile Doctors	65
AEG Vision	55
Ivy Rehab	42
National Veterinary Associates	38
Eyecare Partners	34
EyeSouth Partners	31
Texas Digestive Disease Consultants	31
Southern Orthodontic Partners	29
BayMark Health Services	27

Source: PitchBook | Geography: US and Canada | *As of December 31, 2022

PitchBook Data, Inc.

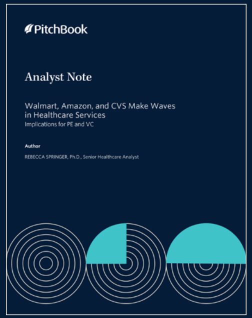
John Gabbert Founder, CEO

Nizar Tarhuni Vice President, Institutional Research & Editorial

Paul Condra Head of Emerging Technology Research

Additional research

Healthcare and PE



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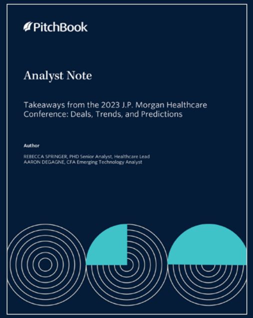

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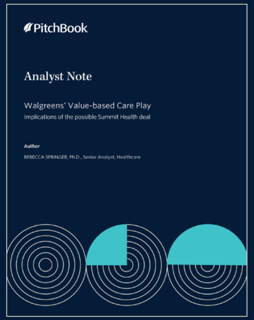

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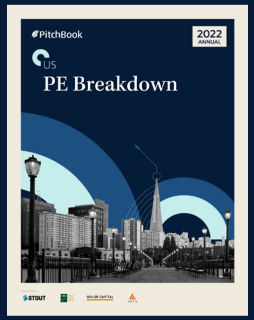

2022 Annual US PE Breakdown

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