Information and Insight for the RCM Industry June 2013

RCM INTEL

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Compliance, Consolidation, and Opportunity in RCM

The Revenue Cycle Management (RCM) industry is changing rapidly, due to the evolving demands of healthcare providers and regulators. The nature and pace of change is comparable to that in the interrelated Accounts Receivable Management (ARM) industry, in which some providers of ARM services also provide RCM services.

For example, the Health Insurance Portability and Accountability Act (HIPAA) is continually updated to provide additional patient privacy and information protection. This puts additional requirements and costs on providers, and vendors providing RCM (and other) services to them.

Similarly, the new ICD-10 reporting requirements and regulations resulting from the Patient Protection and Affordable Care Act (often referred to as "Obamacare"), help create a substantial compliance-focused "barrier to entry" (and "barrier to remain") in the healthcare services field. While generating plenty of challenges, this also creates opportunities for well-equipped firms in supporting industries such as RCM.

The connection between ARM and RCM. When we speak of RCM firms, we are referring to firms providing any services for healthcare providers, payers, and others involved in the revenue (or receivable) created when a healthcare service is provided. In contrast to ARM, RCM is often focused on early stages in the revenue cycle (e.g. registration, eligibility, billing, data and analytics), although these firms can also provide later stage recovery services, including charge-off collections, and other receivables work in sectors beyond healthcare as well. In fact, some of today's RCM firms previously focused on providing only charge-off collections for providers but have since migrated “up” the revenue cycle.

Growth in the RCM Industry. Due largely to the increased regulatory and compliance burden created by healthcare reform, many small clinics are being absorbed by larger hospitals and networks which have the scale to handle the new costs and regulations. The larger hospitals in turn, secure additional revenue when clients of these smaller clinics require hospitalization.

The impact of the following factors on provider revenue streams will continue driving the demand for outsourced RCM services that enhance and expedite revenue, reduce costs, and ensure compliance: 1) increases in patient volume; 2) tightening coding, billing, and privacy requirements; and 3) insurance remittance reductions (such as cost-shifting towards patients) and delays.

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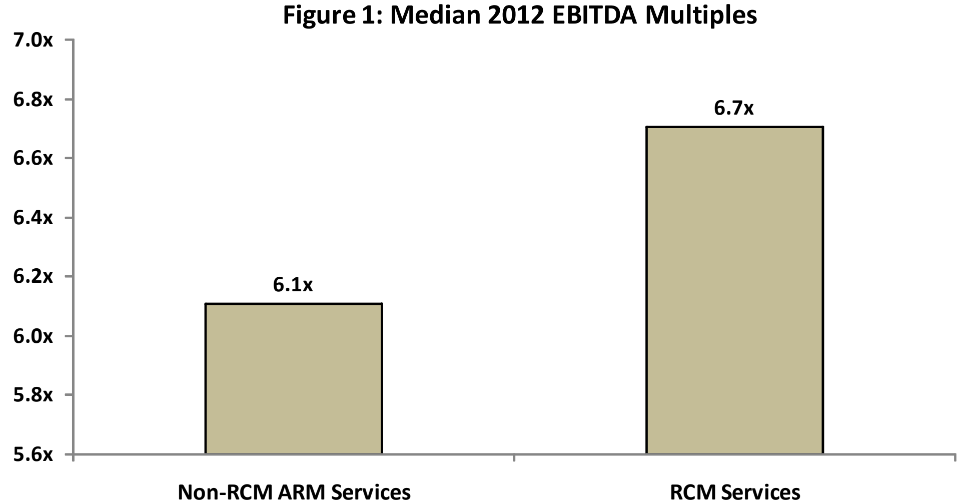
Greenberg Advisors, LLC *provides trusted M&A and strategic advice within the financial services and business services sectors worldwide. The firm is best known for its expertise in Accounts Receivable Management (ARM), Revenue Cycle Management (RCM), Business Process Outsourcing (BPO), and Specialty Finance. Focused on these interrelated sectors for over 17 years, the firm's professionals offer a comprehensive, yet highly specialized perspective from which to advise clients, which has resulted in the completion of nearly 100 merger & acquisition (M&A), capital raising, valuation, and strategic advisory engagements. These client successes reflect its distinct client-first approach, objective point of view, deep sector expertise, and roll-up-the-sleeves work ethic.*

M&A Outlook for RCM. These industry dynamics, along with macro trends (e.g. aging population), show no sign of abating and as a result, RCM should continue to be an active market for M&A. In analyzing our proprietary 2012 M&A deal data, we found that firms offering RCM services traded at a significant premium to ARM servicers **(Figure 1)**, reflecting the premium investors place upon RCM due to these favorable dynamics. It is likely that M&A multiples for RCM firms will be further strengthened given M&A activity and consolidation among providers. With fewer, albeit larger, regional and national healthcare groups, a premium will be placed on the RCM firms that have relationships with the larger providers, while others may be shut out of the marketplace.

Figure 1: Median 2012 EBITDA Multiples



Source: Greenberg Advisors

It is now more important than ever for RCM firms to take steps that will ensure their survival in this changing environment, as well as solidify their attractiveness if they are planning for a potential sale in the near or long-term. Gaining inroads to the right clients is one key piece of the puzzle.

Firms that already service a diverse group of mid-sized and large providers, especially those which are tightly integrated via operating model, technology or otherwise, are well-positioned and will therefore continue to see attractive M&A valuations. On the other hand, firms lacking these client relationships have significant incentive to acquire them or consider an exit before their valuation declines.

Please contact us if you have questions about M&A or capital raising in RCM, or to let us know your current interests.

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