Greenberg Advisors

M&A ADVISORY IN HEALTHCARE IT & RCM

M&A Update

First Half - 2024

Healthcare IT & Revenue Cycle Management

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Introduction

The Market is Once Again Abuzz With Activity!

The level of completed transactions in Revenue Cycle Management (RCM) and Healthcare IT (HCIT) syncs with what we see in the marketplace on a daily basis despite mixed feedback that we hear from some investors whose deal flow is down and who still perceive a significant bid-ask spread. On both points, we view the deal activity as convincing proof to the contrary.

Over $5.6 billion of transactions were completed in the first half of the year, more than double the total from 1H 2023. The second half is also off to a fast start with some high-profile transactions, including R1's (NASDAQ: RCM) planned acquisition by TowerBrook Capital Partners and Clayton, Dubilier & Rice, and GA's completed transactions involving the acquisition of ANI Healthcare Solutions by EnableComp (backed by Welsh, Carson, Anderson & Stowe) and the acquisition of Merrick Management, Inc. by Knack Global (backed by LKCM Headwater Investments).

With fresh rate cuts and more of them likely on the way, plenty of dry powder available, and new potential regulatory headwinds facing the provider market (discussed further on page 6), there is quite a bit to be bullish about in the RCM and HCIT M&A market.

Data Source

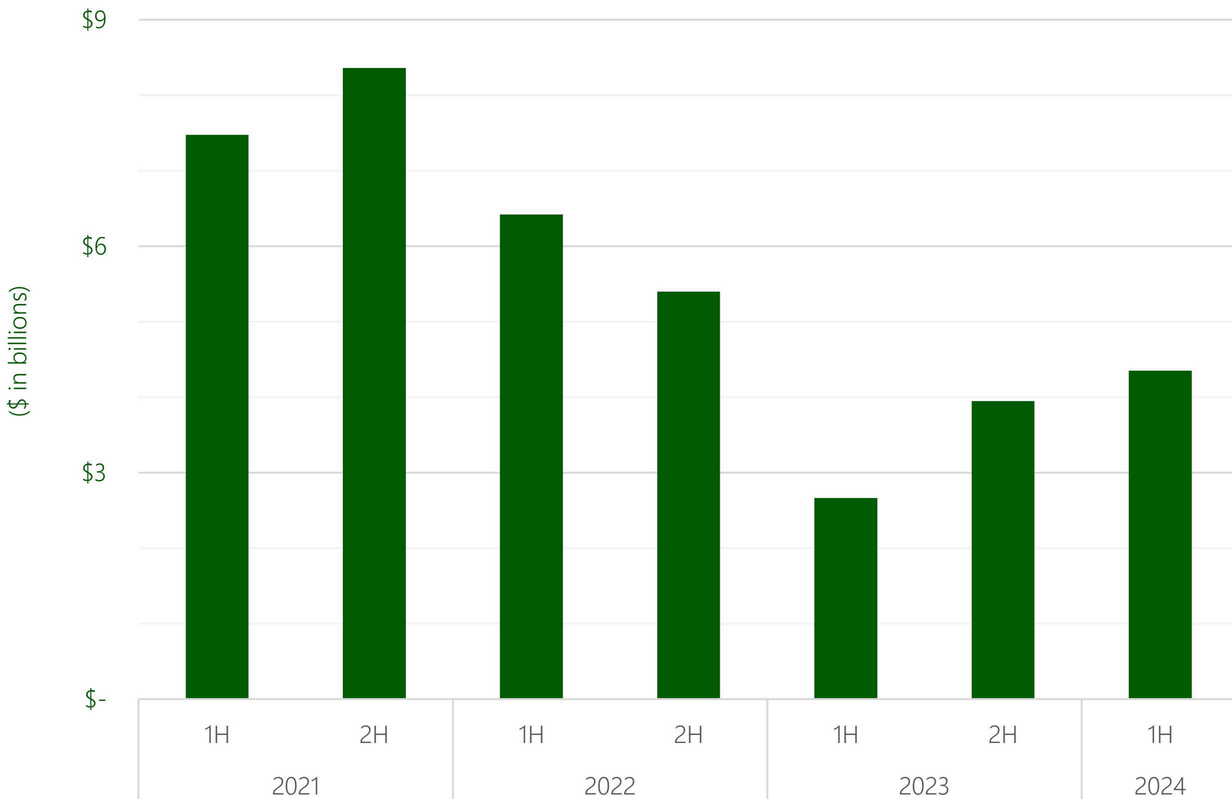
The data and analysis summarized herein are based on information from Greenberg Advisors' (GA) proprietary database in conjunction with GA's knowledge of the market. GA does not use market data from data vendors. Its data is highly reliable - most often obtained directly from transaction participants - and, in some instances, contains conservative estimates. We go to great lengths to gather this information to provide it in aggregate to the public in publications like this one but also to ensure that we, and our clients, are fully informed for transaction planning and execution.

Key Takeaway

Sub-$1 Billion Deals Rebound

For deal values under $1 billion, we've seen a slow, steady upward trend in transaction value since 1H 2023. In contrast, this follows periods of more sporadic activity and even a sharp decline. We think that this reversal confirms that many investors have gained a level of comfort with the current market, which has and will continue to offer an environment ripe for deals.

Cumulative Transaction Value for Deals Under $1 Billion



Source: Greenberg Advisors

Key Takeaway

Return of The Exit Market

The proportion of private equity (PE) sellers in Q2 2024 rose to its highest level since 2020, which should signal an end to a period in which many had considered the exit window to have dried up. This is important for two reasons. First, this will influence the valuation at which PE buyers initially invest, given their confidence in future attractive exit alternatives. Second, it will bring the next wave of add-on activity, as middle-market PE firms typically sell to other PE firms with larger funds, many of which will then augment their investment through add-on transactions.

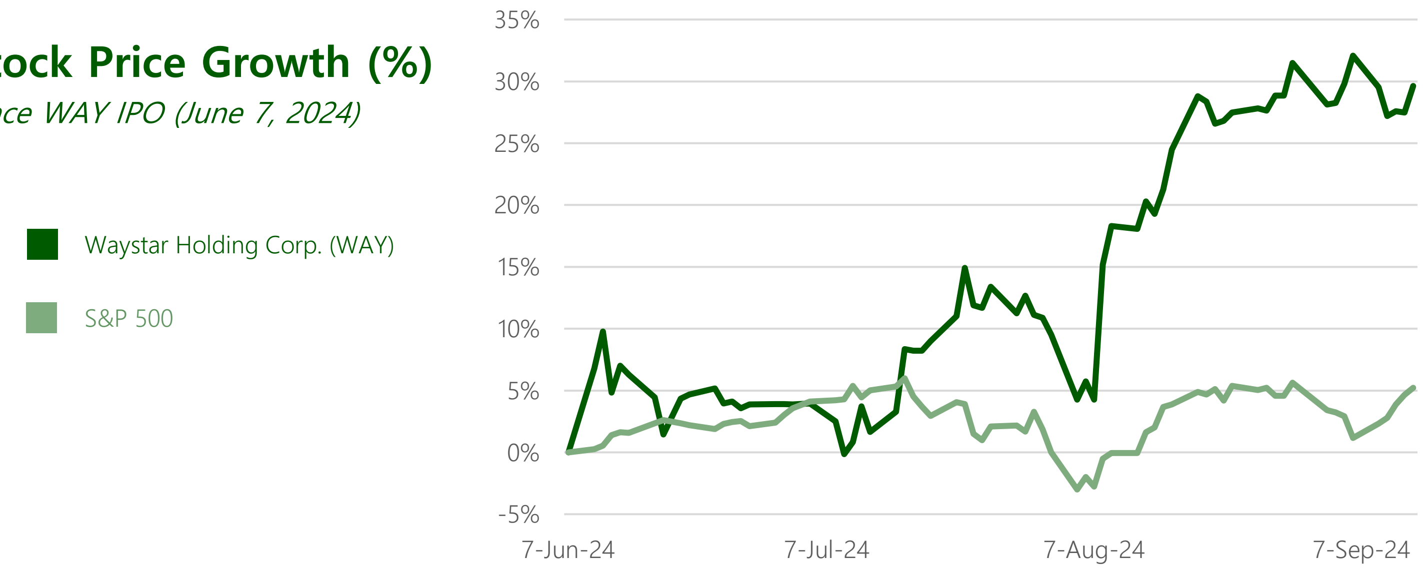
Waystar Goes Public

The start-and-stop ride ended with Waystar (NASDAQ: WAY) raising nearly $1 billion through an Initial Public Offering (IPO). Formed in 2017 through the merger of ZirMed and Navicure, Waystar reached a size of almost $800 million in revenue. Based on the initial share price, the market cap for Waystar was approximately $3.5 billion, roughly 30% higher than the $2.7 billion valuation Waystar received when EQT and CPPIB acquired a majority stake from Bain Capital in 2019. As of September 13, the stock is up 30% since its IPO vs. the S&P that is up 5% in that same period.

It's good to see a positive outcome here, especially as more PE firms invest in the RCM and HCIT markets, as IPOs provide another attractive exit avenue. Will more firms follow suit?

Stock Price Growth (%)

since WAY IPO (June 7, 2024)



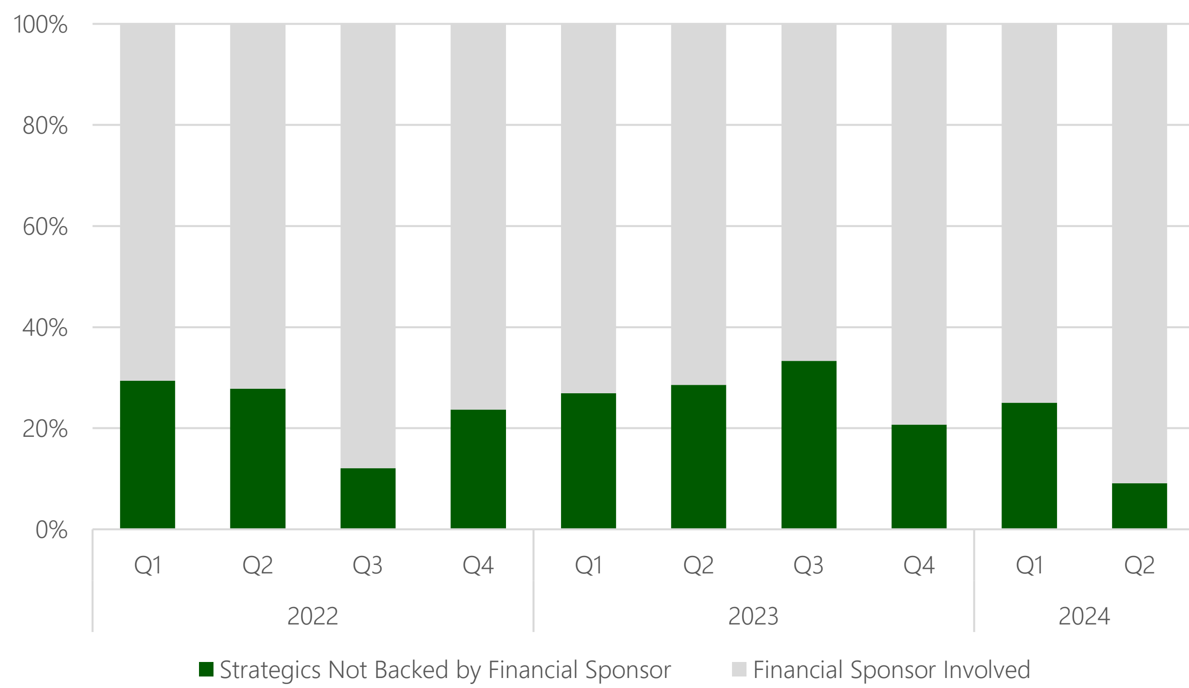
Key Takeaway

Have Valuations and Interest Rates Boxed Out Founder-Owned Buyers?

The percentage of buyers that were not backed by a PE sponsor dropped to its lowest level in nearly ten years. We believe that this is due to two factors. One, the pressure on PE-backed buyers to complete acquisitions was a driving force for some of the transactions whereas that pressure doesn't exist for most non-PE backed companies. Two, PE-backed firms fund transactions through a combination of equity, debt, and / or cash on the portfolio company's balance sheet. In short, they have choices and may, for example, elect to "over-equitize" a transaction. Companies not backed by PE simply don't have the same funding options. In the current high-interest rate environment, they are less likely to be the "winning bidder," especially in a competitive process. Of course, independent strategics that can execute and integrate at high levels will remain formidable buyers.

Transaction Volume by Buyer Type

Percent of all transactions



Source: Greenberg Advisors

Key Takeaway

New Buyers for Consulting Firms

Following up a trend we announced in last year's M&A Update, consulting firms are drawing interest from a new type of buyer: IT firms. Software as a Service (SaaS) businesses with high gross margins have widely been considered the "Holy Grail" of investments, but lately we've seen a shift. Providers, faced with a litany of software solution alternatives, sometimes find themselves lacking the customer service they need from software vendors. As a result, we're seeing software businesses more frequently acquire consulting firms with the intent to add more value for provider clients, improve customer service, and create "stickier" relationships.

HCIT Acquisition Targets

Example Consulting Offerings

- Implementation
- Strategy / Process Improvement
- Management Consulting
- Managed Services

Legislation Targeting PE Firms Investing in Healthcare Providers

Policy pundits we are not. However, it's worth keeping tabs on the chatter at the state and national levels regarding potential limitations on PE firms seeking to make direct investments into healthcare providers. The proposals range from requiring approval from different governmental agencies to penalties and fines related to adverse clinical outcomes. Of course, no one knows what legislation may ultimately be passed but the scrutiny alone is dissuading many PE firms from pursuing such investments. We've spoken to firms that have redirected their investment efforts to entering or expanding within the RCM and Healthcare IT market as a way to avoid these regulatory headwinds. This will increase competition amongst buyers, most likely driving valuations upward.

Key Takeaway

Where is the Activity?

Service Offerings. Transactions among billing and consulting firms have maintained the top two positions (in terms of deal volume), which they've held for four consecutive quarters.

Beyond billing, a theme has taken shape: M&A activity involving offerings related to post-encounter reimbursement have surged, specifically among those providing any combination of denials management, insurance follow-up, early-out, or bad debt recovery. Low operating margins continue to plague healthcare providers for many reasons, including reimbursement amounts lagging behind wage increases. Therefore, firms that facilitate direct payments to hospitals should continue to garner interest.

Technology Offerings. There was a divergence with respect to front-end offerings. Deal value among service-based companies was relatively flat compared to prior periods, but deal value involving sellers of IT companies that provided those same offerings was largely up. These include, among others, businesses that provide eligibility, patient registration, and prior authorization solutions.

The other trend worth highlighting is a noticeable drop in sellers offering population health and analytics solutions. This follows many quarters of heightened levels of investment in these areas. This is likely just a "breather" as these remain critical functions, especially harnessing clinical data to improve treatment therapies and patient outcomes as well as to facilitate value-based care.

Markets. Speaking of breathers, we saw activity slow in two markets with consistently favorable tailwinds: behavioral health and long-term care. We still like these markets but opportunities are becoming scarcer due to massive consolidation.

Further, the level of transactions in which the seller served physician groups rose to its highest level since 2H 2021. Revenue opportunities come in smaller bite sizes compared to the hospital / health system market, but sales cycles are usually shorter and there is often less client concentration risk.

Conclusion

A Bevy of Deals Ahead

Overall, the state of the market is robust. There is plenty of buyer / investor demand while many shareholders are also considering an exit. It has been fascinating from our perspective. While there isn't one primary theme that investors are pursuing (such as in prior years), investors see pockets of opportunity all over the market, which we believe is great for the long-term health of the M&A landscape in RCM and HCIT, as this will bring fresh capital and expanded investment and exit opportunities.

Further rate cuts, combined with the unprecedented levels of dry powder, and increased competition amongst buyers as they shy away from healthcare providers, will lead to an exciting finish to 2024 and sustained activity for years to come.

More Resources From GA

- DEAL ANNOUNCEMENT: GA Advises on the Acquisition of ANI Healthcare Solutions. Link
- DEAL ANNOUNCEMENT: GA Advises on the Acquisition of Merrick Management. Link
- DEAL ANNOUNCEMENT: GA Advises on the Acquisition of a Leading Billing Firm. Link
- INDUSTRY LEADERS: How have providers' views of offshoring changed in recent years? Link

About Greenberg Advisors

Greenberg Advisors, LLC (GA) is one of the most active M&A advisors specializing in Revenue Cycle Management (RCM) and Healthcare IT (HCIT) transactions.

GA's perspective provides clients with unique value that comes from a comprehensive understanding of the healthcare ecosystem, having worked with buyers and sellers in a variety of transactions across the RCM and HCIT sectors. GA's unmatched depth and its proprietary data assets prove invaluable to clients in determining the optimal path forward and maximizing their exit or investment.

Contact Us

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The Go-To M&A Advisor in RCM & HCIT

Our Differentiators

- Unmatched Track Record in RCM & HCIT Transactions
- Long-Term Relationships with Owners and Investors
- Proprietary Industry and M&A Data Assets
- We Treat Our Clients Like Family

Our Services

- Sell-Side M&A Advisory
- Buy-Side M&A Advisory
- Business Valuations
- M&A Planning and Strategy

Our RCM & HCIT Coverage

The firm's RCM and HCIT expertise spans nearly all care delivery methods and specialties across the following IT and service offerings, as well as many others.

Patient Access

Appointment Scheduling • Financial Counseling • Patient Advocacy & Enrollment • Patient Eligibility & Benefits Verification • Patient Engagement / Communication • Patient Finance • Patient Intake • Prior Authorization • Propensity to Pay Assessment

Analytics & Reporting

Claim Status & Denials Analytics • Clinical Analytics • Population Health • Predictive Analytics • Pricing Analytics • Revenue Cycle Analytics • Utilization Review • Value-Based Care Enablement

Payment & Reimbursement

Bad Debt • Billing • Coding • Coding Audits • Charge Capture • Complex Claims • Denials Management • DRG Review • Early-Out / EBO • Insurance Follow-Up • MVA & VA Claims • Out-of-State Medicaid • Payment Posting • RCM Consulting & Optimization • Revenue Integrity • Third-Party Liability • Underpayments • Workers' Compensation Claims • Zero-Balance Review

Enterprise Technology & Clinical Systems

Artificial Intelligence & Machine Learning • Care Coordination & Management • Claims Management • Clinical Decision Support • CRM • Digital Health • EHR / EMR • Implementation Services • Interoperability • Mobile Health • Natural Language Processing • Practice Management Systems • RPA • System Conversion & Integration • Technology Hosting & Infrastructure • Telehealth

Operations

Clinical Documentation Improvement • Compliance • Consulting • Contract Management • Credentialing • Health Information Management • Healthcare IT Consulting & Implementation • Practice Management & Marketing • Spend Management • Staffing • Transcription

Payor Offerings

Care Coordination • Consulting • Cost Containment • Fraud, Waste, and Abuse • Member Engagement • Payment Integrity • Payor Workflow Tools • Quality Improvement • Risk Adjustment • Rx Spend Management

Greenberg Advisors' Selected RCM & HCIT Transactions

enablecomp
complex claims revenue solutions
a portfolio company of
WCAS
acquired
ANI Healthcare Solutions

KnackGlobal
a portfolio company of
LKCM Headwater Investments
acquired
Merrick Management, Inc.

Multinational Strategic
acquired
RCM Firm Specializing in Hospital-Based Physician Groups

Commercial and Government-Focused RCM/HCIT Firm
was recapitalized by
Private Equity/Debt Investor

COSENTUS
acquired
AllianceMed
and its subsidiary
medcloud

EMS|MC
EMS MANAGEMENT & CONSULTANTS
a portfolio company of
bv INVESTMENT PARTNERS
acquired
PWW Advisory Group

SimiTree
a portfolio company of
SHERIDAN CAPITAL PARTNERS
acquired
GREENPOINTMED

SimiTree
a portfolio company of
SHERIDAN CAPITAL PARTNERS
acquired
afia

Ovation Healthcare
a portfolio company of
GRANT AVENUE
acquired
MedCo Uptain Group, Inc.

Greenberg Advisors' Selected RCM & HCIT Transactions

EMS|MC
EMS MANAGEMENT & CONSULTANTS
a portfolio company of
bv INVESTMENT PARTNERS
acquired
TransMedic
your medical billing professionals

EMS|MC
EMS MANAGEMENT & CONSULTANTS
a portfolio company of
bv INVESTMENT PARTNERS
acquired
AMB
ANDRES MEDICAL BILLING, Ltd.

ATWATER
SOLUTIONS
was acquired by
SIGNATURE
Performance

EMS|MC
EMS MANAGEMENT & CONSULTANTS
a portfolio company of
bv INVESTMENT PARTNERS
acquired
VAIRKKO

presidiohealth
was acquired by
DeliverHealth
a portfolio company of
ASSURED
HEALTHCARE PARTNERS®

eIVF
a portfolio company of
Atlantic Street Capital
made a growth investment in
univfy

ALN
acquired RCM assets of
fivos

INNOVATIVE
HEALTHCARE
was acquired by
HARRIS

mri medical reimbursement inc.
was acquired by
MiraMed
A GLOBAL SERVICES COMPANY

Intended Use

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