



What to Expect in Healthcare Transactions in 2025



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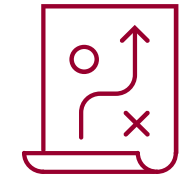
Learning Objectives



Analyze the market dynamics affecting & disrupting healthcare industry deal flow & evaluate the strategic transaction types expected to emerge in 2025.



Assess the impacts of rapid technological advancements, such as AI and telehealth within the healthcare industry.



Evaluate the key trends expected to influence the healthcare industry in the coming year and their implications for strategic decision-making.

Our Agenda Today



Current Trends & Disruptions



Growth Opportunities & Recent Transactions



Key Takeaways



Questions?



DISCUSSION QUESTION #1

Which of the following best describes your organization?

- 1 Hospital/Health System
- 2 Academic Medical Center
- 3 Physician Group
- 4 Outpatient/Ambulatory Surgery Center
- 5 Long Term/Post-Acute/Home Health
- 6 Investor Group/Lender/Other

Current Trends & Disruptions

Disruptions and Challenges in the Healthcare Industry

- ▶ **What is impacting and disrupting the healthcare industry today?**
 - Federal/State government regulation
 - Payor rate suppression amid expense inflation
 - Constraints on commercial debt financing
 - Industry consolidations, bankruptcies & insolvencies
 - Evolving technology (artificial intelligence, new medicine, etc.)
 - Increased data breach incidents & more sophisticated attacks (e.g., Change Healthcare)



Disruptions and Challenges in the Healthcare Industry

IMPACT OF INCREASED GOVERNMENTAL REGULATION

GOVERNMENT REGULATION OF PRIVATE EQUITY TRANSACTIONS

▶ Potential federal legislation:

“ ... [T]he role of private equity and hedge funds and big banks in health care ownership is one of the most important stories in health care.

SENATOR CHRIS MURPHY (D-CONN)

▶ Increased antitrust enforcement:

- On March 5, 2024, the FTC, the DOJ Antitrust Division, and HHS announced their start of a “*cross-government public inquiry into private equity and other corporations’ increasing control over health care.*” Little news on this has occurred since.

Source: <https://www.murphy.senate.gov/newsroom/press-releases/murphy-people-are-dying-in-these-hospitals-and-nursing-homes-so-out-of-state-executives-can-get-rich>



What’s the effect?

Healthcare private equity has declined each year since 2021, with less focus on regulated sectors and more on innovative medical devices and pharmaceutical services.

Disruptions and Challenges in the Healthcare Industry

IMPACT OF INCREASED GOVERNMENTAL REGULATION

GOVERNMENT REGULATION

- ▶ **Recent state transaction review proposed/actual laws**
 - **New York:** Material Transaction Review Law (Article 45-A of the Public Health Law) – 8 filings since this legislation became effective on August 1, 2023
 - **Massachusetts:** An Act Enhancing the Market Review Process (House Bill 5159) adopted January 8, 2025, and effective April 8, 2025, requires consent
 - **Other States:**
 - CO, CT, IL, IN, MN, and NV require notice of transactions.
 - OR requires prior consent, as does NM for hospital acquisitions
 - CA's law purports to require only notice; approval is required in practice
 - **Noteworthy News:** CA Proposed AB 3129 (requiring AG consent and approval) vetoed by Governor Newsom on September 28, 2024

KEY TAKEAWAYS:

- ▶ Increased state transaction review laws may lead to more active enforcement of antitrust laws
- ▶ Private equity is not being excluded. Governor Hochul's Commission on the Future of Healthcare (announced in 2023) included stakeholders in the PE-backed healthcare sector together with practitioners and policy experts

Disruptions and Challenges in the Healthcare Industry

FINANCIAL FACTORS

Lending/interest rates:

- ▶ Reductions in the federal funds rate had prompted optimism in some markets in 2024, however, Powell indicated the Fed anticipates only two rate cuts in 2025 (down from four)
- ▶ 2024 commercial rates had a chilling effect on transactions
 - This may extend into 2025

Payor Reimbursement and Inflation:

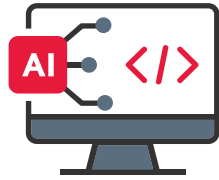
- ▶ **National trends:** Rates have stayed relatively flat, often increasing by less than inflation year over year
- ▶ Margins continue to be challenged as expense inflation outpaces reimbursement increase

Higher utilization of services in 2024:

- ▶ Bolstered hospital profitability in 2024, while adversely impacting organizations with risk-based contracts (e.g., Cano Health, CareMax and Agilon Health)
 - At-risk value-based contracts further challenged by the impact of CMS's v28 rate model (2024-2026)

Sources: [Commercial Reimbursement Benchmarking](#) | [AHCA Release Report Highlighting Unprecedented Crisis in Nursing Homes](#)

New Technology and Its Impact on the Healthcare Industry



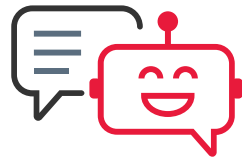
Back-end
efficiencies of AI
(and related privacy
and other issues)



Privacy and AI
regulatory issues



Remote
monitoring



Use of chatbots



Telehealth



Introduction of
new drugs



DISCUSSION QUESTION #2

As healthcare organizations plan for the future, how do you anticipate using AI technologies by 2025 to enhance your operations and patient care?

Please select the option that best describes your organization's intended use of AI.
(Select all that apply)

- 1 Clinical Decision Support
- 2 Predictive Analytics
- 3 Medical Imaging and Diagnostics
- 4 Administrative Automation
- 5 Patient Automation
- 6 No Plans to Use AI in 2025

NEW TECHNOLOGY AND ITS IMPACT ON THE HEALTHCARE INDUSTRY

What does ChatGPT think?

AI Application	Description
Medical Imaging and Diagnostics	AI analyzes medical images to detect abnormalities, assisting radiologists and reducing diagnostic errors.
Predictive Analytics	AI models predict patient outcomes and disease outbreaks, aiding in early intervention and resource allocation.
Personalized Medicine	AI tailors treatments based on genetic information and lifestyle, enabling personalized drug therapies and treatment plans.
Virtual Health Assistants and Chatbots	AI-powered chatbots provide medical information, appointment scheduling, and symptom checking, supporting healthcare providers with routine tasks.
Drug Discovery and Development	AI accelerates drug discovery by identifying potential candidates and predicting efficacy and safety, analyzing complex biological data.
Robotic Surgery	AI-driven robotic systems assist in precise and minimally invasive surgeries, enhancing outcomes and reducing recovery times.
Administrative Workflow Automation	AI automates tasks like billing, coding, and patient record management, improving efficiency and reducing human error.
Remote Monitoring and Telemedicine	AI enables remote monitoring through wearable devices and supports telemedicine with diagnostic support and treatment recommendations.
Natural Language Processing (NLP)	AI uses NLP to extract information from clinical notes and medical literature, aiding in documentation and data accessibility.

Here's a table summarizing the top uses of AI in healthcare.

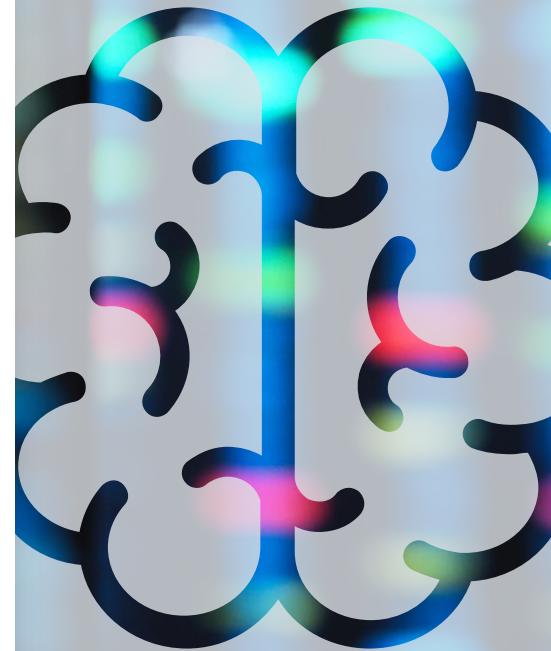
This table provides a concise overview of how AI is being utilized across various aspects of healthcare.

This chart and its content are an unedited output from AI

Artificial Intelligence: Back-end Efficiencies

Artificial intelligence is being utilized in several ways:

- ▶ AI can make administrative tasks more streamlined:
 - Improving user experience
 - Streamlining operations in contact centers
 - Increasing billing and collection efficiencies
 - Data mining (e.g., to identify under coding)
 - Clinical documentation (e.g., Natural Language Processing)
- ▶ Balancing efficiencies while avoiding AI having a role in clinical decision making
- ▶ Early adopters may save in the long run



Regulatory and Privacy Challenges of AI

PRIVACY ISSUES WITH AI

- ▶ California just adopted a law requiring patient notification when patient interacts with AI
- ▶ Some states have considered requiring the option for a patient to opt out of the use of AI or Chatbots
- ▶ Follow best practices on conducting due diligence when engaging AI companies

INCREASING REGULATORY SCRUTINY OF AI

- ▶ Regulation of utilization management and prior authorizations

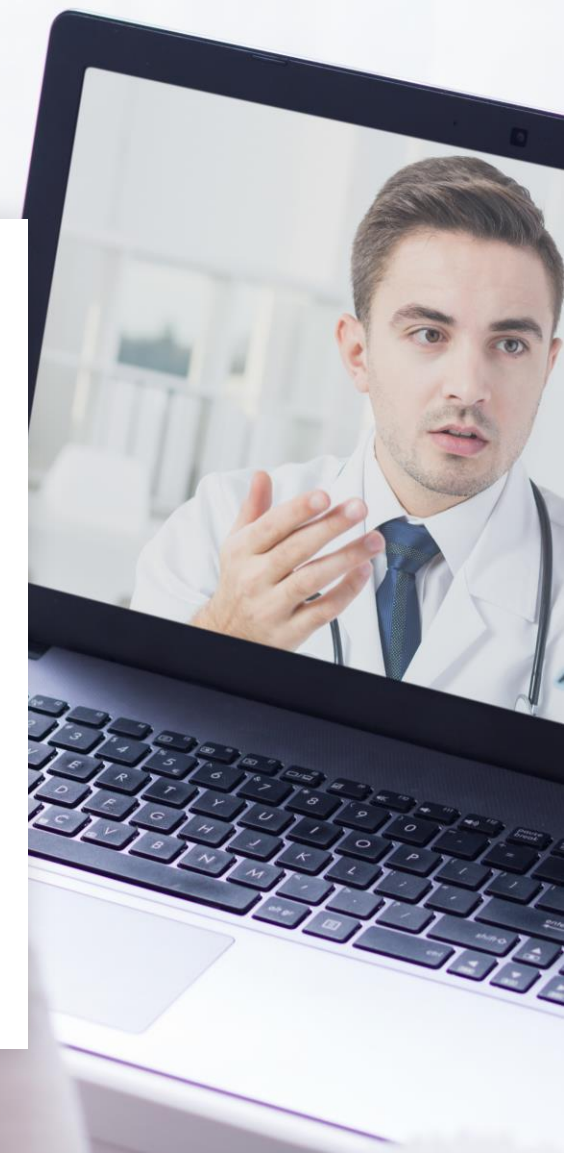
Remote Patient Monitoring & Remote Therapeutic Monitoring

REMOTE PHYSIOLOGIC MONITORING (RPM)

- ▶ The use of non-face-to-face technology to monitor and analyze a patient's physiological metrics
- ▶ Examples: Oxygen saturation, blood pressure, blood sugar or blood oxygen levels, weight loss or gain

REMOTE THERAPEUTIC MONITORING (RTM)

- ▶ Captures non-physiologic data related to a therapeutic treatment
- ▶ Includes data on a patient's musculoskeletal or respiratory system
- ▶ RTM can also monitor treatment adherence (e.g., medication compliance) and treatment response (e.g., pain management). Information can be transmitted using a connected medical device or be self-reported by the patient



New Technology and Its Impact on the Healthcare Industry

- ▶ Telehealth usage has dipped since the COVID-19 pandemic, but remains attractive for providers, payors, and patients
- ▶ Digital health technology became very popular during the pandemic, but became oversaturated and some companies consolidated or closed
- ▶ Continued developments in telehealth and remote monitoring streamline patient service and reduce burden on providers
- ▶ New drugs (e.g., Ozempic) have further strained weight-loss industry specialties, increased drug costs in the short-term, however, longer-term view required as obesity rates and associated chronic conditions will likely decline

KEY TAKEAWAYS:

- ▶ Heavy increases of new technology in recent years have had both positive and negative industry impacts
- ▶ New technology has fueled M&A activity for attractive technologies and consolidations in oversaturated areas

Sources: [Medicare Payment Policies](#) | [Stanford Medicine Online Second Opinion Program](#) | ["The Telehealth Era Is Just Beginning"](#)



DISCUSSION QUESTION #3

What do you anticipate as your organization's biggest challenges in 2025?

- 1 Cybersecurity threats
- 2 Increasing revenue
- 3 Increased federal / state regulation
- 4 Adopting new technology / clinical models
- 5 Acquiring commercial or other financing sources
- 6 None of the above

Growth Opportunities & Recent Transactions

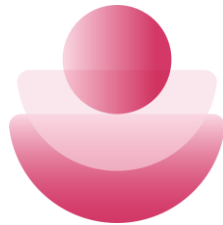
Growth Opportunities

1



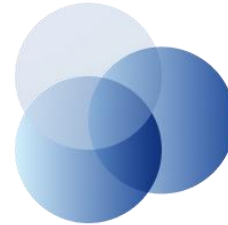
**M&A Deal Volumes
and 2025 Outlook**

2



**Trends on Joint
Venture**

3



**Bankruptcy/
Distressed Deals**

4



**Finance in
Healthcare**

Private Equity Investment in Healthcare

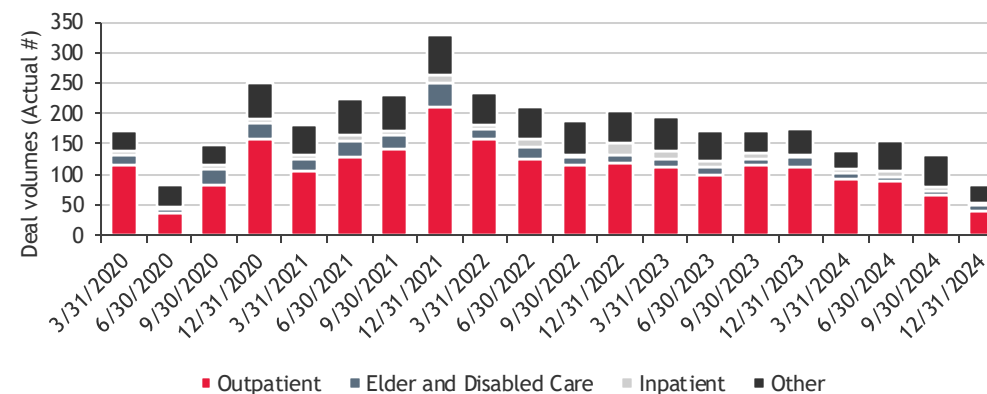
▶ CY24 deal volumes faced continued headwinds due to a combination of:

- High-interest rates and challenging credit markets
- Economic uncertainty
- Geopolitical instability
- Regulatory scrutiny

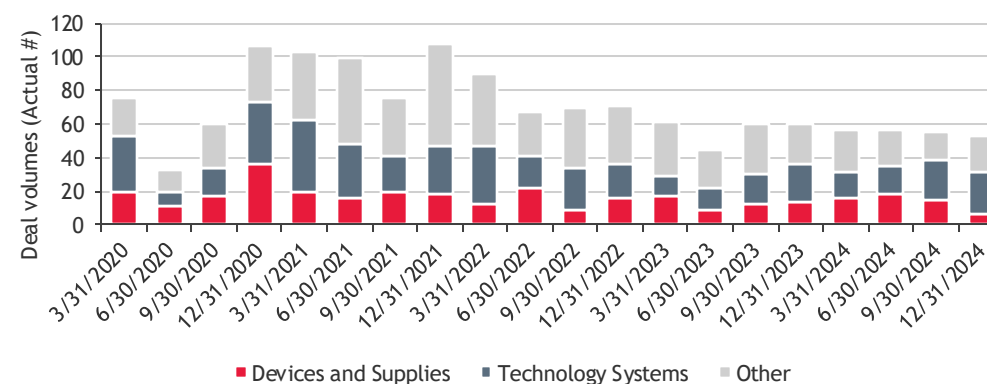
▶ Investors are cautiously optimistic CY25 deal volumes will rebound due to:

- More favorable financing conditions
- Convergence of valuation expectations
- Pent-up demand and deal backlog
- Significant “dry powder”

Healthcare Services - Quarterly Deal Count



Other Healthcare - Quarterly Deal Count

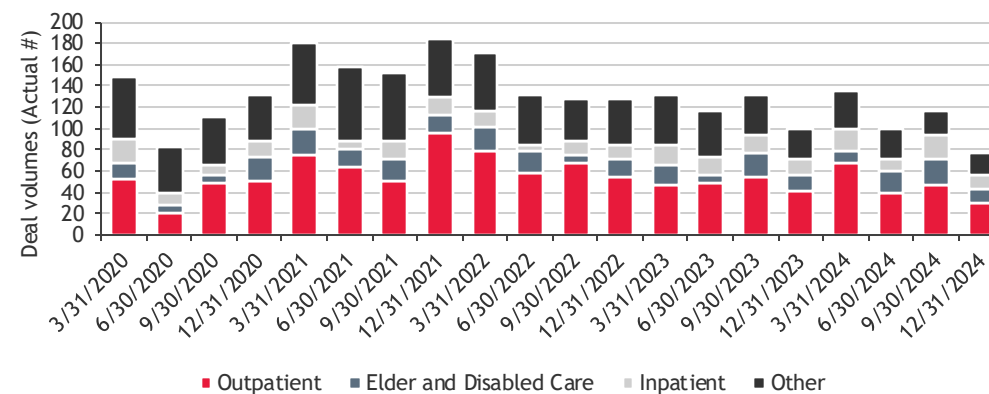


Source: Pitchbook | 2024 represents preliminary estimates

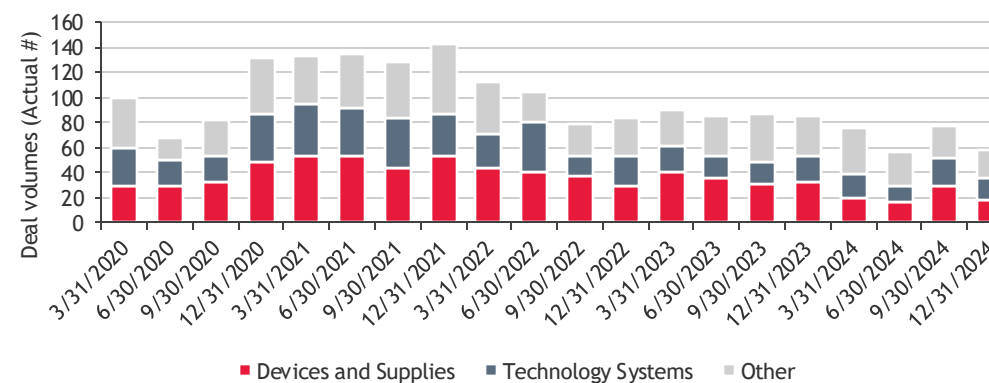
Strategic Corporate and Not-for-Profit Deal Activity

- ▶ Macroeconomic challenges also compressed CY24 strategic corporate and NFP deal activity, although to a lesser extent
- ▶ CY25 deal activity may realize investment themes similar to CY24, including:
 - Portfolio realignment strategies
 - Regional health system expansion
 - New market entrance
 - Digital health and tech-enabled solutions
 - Distressed assets divestment

Healthcare Services - Quarterly Deal Count



Other Healthcare - Quarterly Deal Count



Source: Pitchbook | 2024 represents preliminary estimates

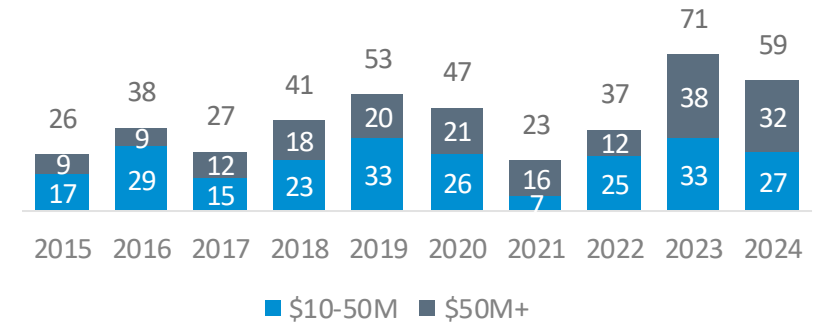
GROWTH OPPORTUNITIES

Landscape for Bankruptcy/ Distressed Deals

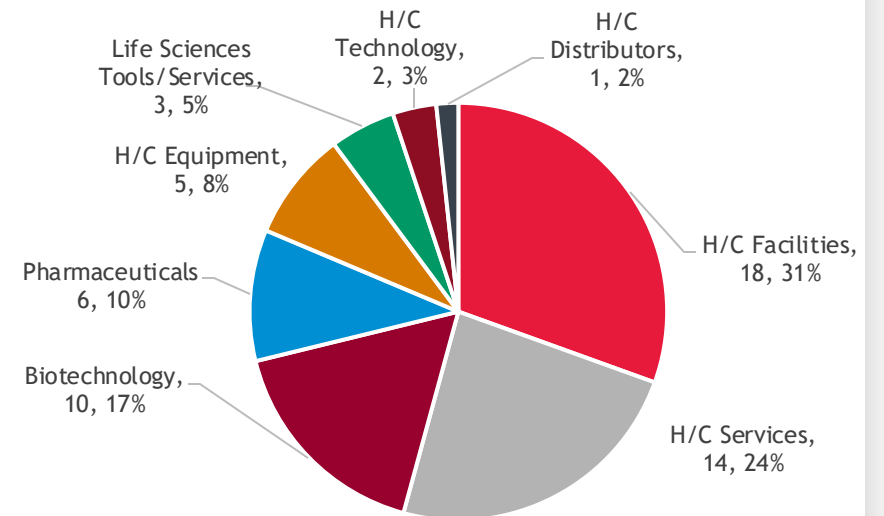
- ▶ 27 hospital-related bankruptcy mergers and acquisitions announced in Q3 2024 - the largest number in 7 years, 11 due to the Steward Health Care bankruptcy
 - Steward-related sales encountering numerous hurdles
 - Inherent difficulties in a carveout transaction
 - Broad reach in diverse markets with different regulatory issues
 - Sales vs closures
 - Prospect Medical Holdings filed for chapter 11 protection on Jan-11
- ▶ Out-of-court distressed deals - why is it distressed? Underlying fundamentals versus over-levered or under capitalized

Source:
[Hospitals' August margins stay level despite high volumes, shorter length of stay](#)

Number of Healthcare Bankruptcies (\$10M+ Liabilities)



Number of 2024 Healthcare Bankruptcies by Subsector (\$10M+ Liabilities)



Key Points for Bankruptcy/Distressed Deals

Participating in this area requires a gameplan. Being able to move quickly can lead to opportunities but must be balanced with risk review and ability to be able to integrate quickly to increase revenue in the distressed business.

- ▶ What do you need to know to move quickly?
 - Location of the business and assets
 - Synergies for businesses & ease of integration
 - Decide risk tolerance early—due diligence period may be limited
 - Regulatory hurdles

- ▶ Buying distressed assets in or outside of bankruptcy:
 - In bankruptcy, there are more protections for successor liability issues, but shorter time frame with less diligence
 - Outside of bankruptcy, diligence needs to be tighter because there are increased successor liability issues

GROWTH OPPORTUNITIES

Joint Ventures in Healthcare: Something Old, Something New...

AMBULATORY SURGERY CENTERS

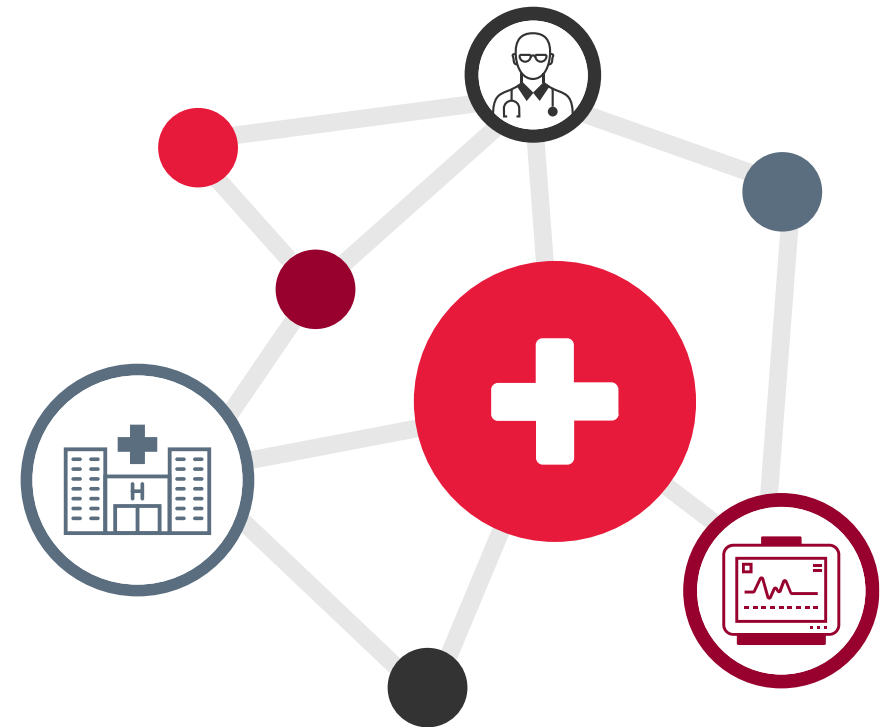
- ▶ Alignment of hospital, physician, and/or private equity business interests continues to drive ASCs
- ▶ Numerous legal issues implicated:
 - Management decisions
 - Exiting physicians
 - Securities laws
 - Compensation methodologies
 - Other typical issues



Joint Ventures in Healthcare: Something Old, Something New...

JOINT VENTURES TO DEVELOP SERVICE LINES

- ▶ Recent examples:
 - Developing urgent care centers between management service providers & practice entities
 - Adding a clinic to a hospital in a new practice line
- ▶ Frequently involves an institution and a private equity-backed entity establishing a new MSO to be the exclusive service provider of a new clinic
- ▶ Benefits (outside sources of capital, leveraging MSO industry expertise)



Joint Ventures in Healthcare: Something Old, Something New...

M&A & other legal considerations:

- ▶ Does a new practice need to be acquired to run the new service line?
- ▶ Applicable legal documentation
 - e.g., physician recruitment agreements



Common issues in negotiations:

- ▶ Disengaging if unsuccessful
- ▶ Managing change of ownership issues
- ▶ Addressing risks related to NFP status
- ▶ Third-party payor agreement is necessary, which may affect negotiating power



GROWTH OPPORTUNITIES

Value Based Care

Value-based and bundled service arrangements:



Challenges in adopting these arrangements (e.g., data collection abilities, cross-practice collaborating, etc.)



Broader implications on operational matters (e.g., physician compensation models)

What legal and regulatory considerations need to be kept in mind?

Anticipated 2025 Investment Themes

Focus on value-based care



Integrated Care Networks:

Organizations that focus on value-based care delivery, emphasizing patient outcomes and cost management.

Population Health Management:

Solutions that support population health initiatives and address social determinants of health.

Outcomes Measurement: Investment in technologies and services that enable better measurement and reporting of healthcare outcomes.

Continued investment in AI and digital health



AI and Data Analytics: Investments in diagnostics, personalized medicine, and data analytics platforms to improve patient outcomes and efficiency.

Tech-Enabled Healthcare: Platforms/solutions that integrate technology with traditional healthcare services to enhance efficiency, patient engagement, and care coordination.

Telemedicine Expansion: Continued growth in telemedicine platforms as they become more integrated into traditional healthcare systems.

Managing the aging population



Senior Care Services: Investment in senior living communities and assisted living facilities to accommodate the needs of an aging demographic.

Chronic Disease Management: Focus on companies that provide innovative solutions for managing chronic diseases like diabetes and heart disease.

Home Care Services: Growth in home healthcare services that cater to the aging population and those with chronic conditions.



DISCUSSION QUESTION #4

Which best describes your
2025 strategic vision?

- 1 Strategic / inorganic growth (merger/acquisition/JV)
- 2 Full-enterprise sale or partial divestment of assets
- 3 Pursuing equity growth capital
- 4 Adopting a new clinical integration model
- 5 Expansion of adjacent service offerings
- 6 None of the above

Key Takeaways

Key Takeaways

- ▶ Acceleration of change has affected the healthcare industry in numerous ways
- ▶ Increased regulation of transactions involving private equity is having mixed results
- ▶ Use and application of new technology must be fully vetted
- ▶ Cautious optimism from rate outlook and continued reimbursement rate and expense headwinds
- ▶ Beyond traditional M&A, key industry players are using a variety of strategic transaction types to increase revenue



Questions?

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