



AMERICAN
BANKRUPTCY
INSTITUTE

Health Care Program

Lightning Round: Hot Topics in Health Care

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Lightning Round Panel 5

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OVERVIEW

Topics, Trend and Observations

- Biggest challenges currently facing the healthcare industry.
- Areas of weakness in the healthcare space.
- Primary barriers to entry for buyers or potential investors.
- Intersection between real estate and healthcare
- What does the future delivery model look like
- Primary regulatory obstacles to entry and profitability. Where are the challenges coming from today (states, federal government) and what are they.
- Challenges facing the sector highlighted more than in the Senior Living space.

OVERVIEW: HEALTHCARE

Healthcare companies continue to face significant disruption as changes in industry dynamics and regulation put pressure on business performance

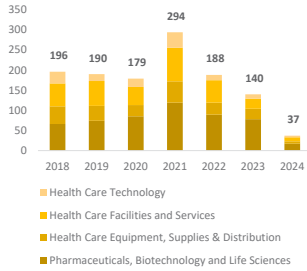


MARKET TRENDS AND OBSERVATIONS

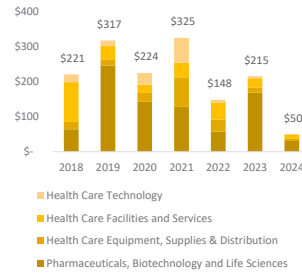
U.S. Healthcare Merger & Acquisition Activity

Activity has slowed, particularly in the PPM space, as sponsors digest historical acquisitions and liquidity management, and performance improvement initiatives take center stage.

**U.S. Healthcare M&A
Transaction Volume >\$50M Through
2024^[1] (# of Deals)**



**U.S. Healthcare M&A
Transaction Value >\$50M Through 2024^[1]
(\$ in Billions)**



HIGHLIGHTS

- 2021 set the high-water mark for M&A activity in US Healthcare. The number and value of deals declined in 2022 and 2023, as the sector digested deals from prior years and financing tightened. Through Q1, 2024 appears to be on a similar pace as 2023.
- We have also seen deal timelines increase as the profile of companies being marketed has changed (e.g., less sophisticated sellers, operating degradation due to economic pressures, tightening of financing, etc.)
- Multiples have also seen a decline in 2023 and YTD 2024, reflective of increased scrutiny in buyer diligence, less allowance for "pro forma adjustments", and the increased cost of capital.
- Looking forward into 2024, interest in certain sectors is increasing including HCIT, behavioral/home health and value-based care enablement.

Sources: CapIQ, VMG Healthcare M&A Report 2020, Levin Associates Healthcare M&A

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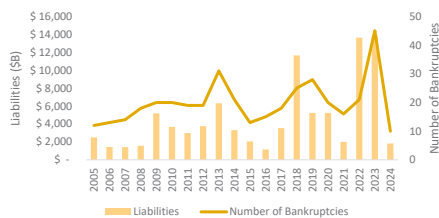
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MARKET TRENDS AND OBSERVATIONS

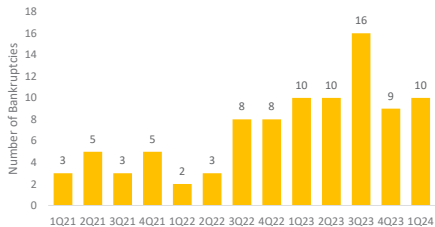
Healthcare Bankruptcy Activity

Bankruptcies have increased in 2023 and the healthcare industry will likely continue to see a high level of restructuring/bankruptcies in 2024, given reimbursement challenges, operating margin compression, and increased cost of capital.

Total Healthcare Bankruptcies with >\$25M in Liabilities^{[1][2]}



Quarterly Healthcare Bankruptcies with >\$25M in Liabilities



Sources: The Deal, Debtwire, Reorg, Rev Cycle Intelligence, Forbes

[1] Data through Q1 of 2024. [2] 2018 and 2022 were skewed by large filings: HCR ManorCare and Endo International, which had over \$4.3B and \$9.5B in liabilities, respectively.

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HIGHLIGHTS

In 2023, there were 45 healthcare bankruptcies with liabilities totaling \$25M or more.

- Life sciences companies accounted for the largest proportion of filings by volume and amount, with sixteen filings and \$3.6B of liabilities.
- Envision Healthcare (PPM), Genesis Care (Post-Acute), Mallinckrodt (Life Sciences) and SmileDirectClub (Medical Devices), Air Methods Corporation (HC Services), and Akumin Inc. (HC Services) were the largest filers, each with \$1B in liabilities.

Higher restructuring activity is likely to continue into 2024 as the healthcare industry adapts to lower operating margins, further challenged by a higher rate environment.




- Pressure on reimbursement from payors, especially government payors, will limit revenue growth in many Healthcare subsectors.
- On November 2, 2023, CMS issued its final ruling on the 2024 Medicare Physician Fee Schedule, which included a 3.37% rate reduction.
- Continued impact of the No Surprises Act on revenues.
- Ongoing labor pressures (staffing shortages and higher wages) and higher supply costs.
- Combination of limited revenue growth and higher costs will continue to compress margins and limit borrowers' ability to service debt and CapEx needs.

In addition, sources of new/refinanced capital for many borrowers will continue to be limited (and costly).

2024 HEALTH CARE PROGRAM

MARKET TRENDS AND OBSERVATIONS

Regulatory Risk and Market Impact

Federal Scrutiny 	State Scrutiny 	Change/United Data Breach 
<p>Oversight and investigations by the DOJ / FTC and legislative bodies will continue. This is viewed as a way to manage and maintain healthcare costs.</p> <ul style="list-style-type: none"> There is a lack of explanation/story of what PE has done to better healthcare (particularly during COVID) that, without coming to life, will be filled by those scrutinizing the industry. Increased oversight letters and bipartisan leadership on for-profit teams in healthcare. There may be changes coming based on the electoral map and election. <p>What We're Watching:</p> <ul style="list-style-type: none"> Pfizer's / Seagen approved in December 2023. FTC challenged Amgen / Horizon Therapeutics in May 2023 due to antitrust concerns. Elizabeth Warren / Steward Health Care in MA is looking at anyone involved in the transaction, not just buyer/seller. 	<p>States are taking a more active, protectionist role in healthcare acquisitions and cost containment measures. This includes future scrutiny on M&A, antitrust insurance commissions and rate scrutiny, consumer protection, etc.</p> <ul style="list-style-type: none"> CA is taking a very aggressive stance on healthcare mergers and acquisitions. Since April 1, 2024, healthcare entities involved in "material change transactions" must notify the OHCA 90 days before finalizing the deal. Commission and oversight bodies looking at any merger with the cost to the consumer as the focus. This particularly impacts PPMs and hospitals <p>What We're Watching</p> <ul style="list-style-type: none"> California Colorado Massachusetts 	<p>In late February, 2024, a ransomware attack hit Change Healthcare, which operates the largest clearinghouse for medical claims in the U.S and is a unit of UnitedHealth. This disrupted key billing and claims processing for many healthcare providers.</p> <ul style="list-style-type: none"> With the interdependence of healthcare, the attack disrupted critical services causing a ripple effect across hospitals, doctors and pharmacies. This will add more regulatory scrutiny to the entire system and raised questions about consolidation. The incident will shape acquisitions this year. Hospitals may have a leg up going forward because although the breach is over, hospitals are positioned to start recouping funds, paying back people and ensuring this doesn't happen again.

Sources: HFMA, HHS, FTC, DOJ, KFF

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SUBSECTOR OBSERVATIONS

Subsector Trends and Considerations

	Current Trends	Future Considerations
Physician Practice Management (PPM)	<ul style="list-style-type: none"> Across most specialties, physicians continue to experience downward reimbursement pressure from payers against escalating costs. PPM rollups have continued to acquire independent physician practices, as physicians trade autonomy for higher perceived compensation and less administrative burden, although deal flow remains slow due to higher interest rates and misalignment over valuations. PPMs are offering a variety of risk sharing opportunities to appeal to a larger audience of physicians looking to maintain autonomy. 	<ul style="list-style-type: none"> Successful management of rising labor costs with reduction of clinician burnout will be critical for value optimization. Leverage of scale to increase private payer rates will be key to offset stagnant reimbursement from government payers. Increased regulatory scrutiny on sponsor-backed healthcare providers (building off recent pressure from FTC and Congress). Change Healthcare outage may create liquidity issues for providers struggling to receive timely reimbursement. The No Surprises Act put pressure on PPMs with out-of-network (OON) revenues. Increased reports of cybersecurity incidents will require PPMs to bolster IT protocols and protection.
Payers and Health Plans	<ul style="list-style-type: none"> Effective March 2023, the Public Health Emergency related to COVID is no longer tied to the Medicaid continuous enrollment requirement. Since then, 17+ million people have lost Medicaid coverage. Large insurers continue vertical expansion (physicians, home health, behavioral health, pharmacies) to gain market power and control costs. 	<ul style="list-style-type: none"> Phase-in of HCC Risk Model v28, the latest update in a series of risk adjusted models used to estimate future health care costs for patients under Medicare Advantage plans, may impact the payment CMS makes to the health plans for each patient beginning in 2024. Regulatory scrutiny of payer administrative policies and procedures, such as AI in support of prior authorization and medical necessity, is likely to increase.
Behavioral Health	<ul style="list-style-type: none"> Demand determinants remain stable or increasing, reimbursement and funding continue to be prioritized, and the maturing telehealth space aims to provide low-cost and personalized care to patients. The industry is passing an inflection point, and incumbents will need to adapt accordingly. Increased demand for telehealth services is likely to remain post-COVID. 	<ul style="list-style-type: none"> The need for behavioral health providers will only increase as diagnoses are identified more frequently and wait times for care remain elevated relative to all other types of healthcare. Both non-physician staff and psychiatrist shortages continue to strain providers' ability to maintain or increase patient volumes.
Home Health	<ul style="list-style-type: none"> Service needs have expanded, and more skilled caregivers are required (infusion, respiratory, occupational, speech and physical therapy). Rural markets are underserved by home health providers. The use of technology and telehealth could expand the geographic reach of providers. 	<ul style="list-style-type: none"> Medicare payments to home health agencies were reduced by \$810M in 2023 due to the implementation of payment calculation changes. Given the highly fragmented market, home health does not have strong representation in Washington to fight CMS on reimbursement cuts. UnitedHealth's acquisition of LHC and planned acquisition of Amedisys would create the country's largest home health platform with ~10% market share.

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SUBSECTOR OBSERVATIONS

Subsector Trends and Considerations (Cont.)

	Current Trends	Future Considerations
Acute Care	<ul style="list-style-type: none"> Revenue for the hospitals industry is expected to gradually return to more stable, pre-COVID growth rates over the next five (5) years. While consolidations over the last five (5) years have lessened the supply of acute care facilities, they also created powerful synergies within the market. Post acute and behavioral health access is negatively impacting acute care LOS and throughput. 	<ul style="list-style-type: none"> Because Medicare and Medicaid payments are fixed costs, health systems are unable to absorb or deflect the negative impact of high inflation levels. There will continue to be cuts in staffing for non-clinical and administrative workers. Skill mix and technology optimization can be key levers to address persistent staffing shortages. Staffing shortages in clinical areas exert upward pressure on wages and reliance on staffing agencies.
Post-Acute Care	<ul style="list-style-type: none"> Occupancy continues to rebound and is expected to continue to grow with the “boomer wave”. Staffing shortages exert upward pressure on wages and reliance on staffing agencies. Non-wage inflation, in tandem with upward wage pressure and suppressed occupancy, continues to erode margins in an already low margin industry. 	<ul style="list-style-type: none"> Margin growth has improved with Medicare and Medicaid rate increases. As consumers and PAC referrals increasingly favor at-home health care, PAC facilities and SNFs may begin facing lower levels of admissions. Elective surgeries have not fully recovered to their pre-pandemic levels. Such backlog may strengthen PAC facilities’ patient pipeline.
Senior Living	<ul style="list-style-type: none"> Expense growth primarily due to the high inflationary environment. Since rates are market driven, operators can weigh pushing occupancy vs pushing rates to optimize revenue. Supply chain challenges and commodity (lumber, oil) inflation increase construction/CapEx costs; new construction is at an all-time low. Occupancy trends are nearing pre-pandemic levels. Senior housing is expected to be at full occupancy by the end of 2026 as virtually no new inventory is being added by then. 	<ul style="list-style-type: none"> Surge in demand for senior living from aging baby boomer population is anticipated to be delayed and felt over the next decade as the average age of entrants increases. Aging baby boomers are demanding a wider array of amenities, resulting in increased new construction and CapEx costs. Possibility of operating at lower occupancy levels at stabilization.
Life Sciences	<ul style="list-style-type: none"> Companies are increasingly focusing on investing in Research & Development (R&D), developing targeted therapies and personalized treatment, pursuing strategic partnerships and collaborations, adopting new technologies and meeting regulatory requirements. Growth is driven primarily by growing demand for healthcare services (especially in underserved regions), increasing number of chronic conditions and diseases, and growing demand for biologics and specialty drug. 	<ul style="list-style-type: none"> While the industry is expanding, it is facing challenges such as rising drug prices, increasing regulatory hurdles, and the need to manage complex global supply chains. Firms will look to M&A to expand their pipeline and gain access into other geographic markets. Companies will continue to invest in advanced technology to gain/maintain competitive advantage.

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OVERVIEW: LIFE SCIENCES

Life Science companies continue to experience negative headwinds

Tightened Access to Capital Markets	<ul style="list-style-type: none"> Tightened credit conditions and a non-existent IPO market have made it difficult for many life science companies to access capital to fund operations Increasing rate environment have weakened borrowers’ cash flows which has negatively impacted their ability to reinvest in the business
Upcoming Maturity Wall	<ul style="list-style-type: none"> Significant maturity wall expected in 2025 leading to potential increase in defaults of highly leveraged, low-quality borrowers Ability to refinance to lower cost of capital and extend maturities will be difficult as lending standards have tightened
Changing Regulatory Landscape & Pricing Pressure	<ul style="list-style-type: none"> Pricing pressure from regulatory changes pose potential risk <ul style="list-style-type: none"> Inflation Reduction Act (IRA) Elimination of Medicaid Rebate Cap (American Rescue Plan Act of 2021) Impact could be muted through strategic planning but heightened focus on lowering drug prices
Tightening FDA Approval Standards	<ul style="list-style-type: none"> Application rejections and Complete Response Letters (CRL) rose while FDA new drug approvals declined in 2022 Changing pricing and regulatory landscape could impact how companies approach business development opportunities (higher IRR hurdles could result in concentrated product focus)
Patent Expiration	<ul style="list-style-type: none"> Branded pharmaceutical companies face heightened pressure to develop new products or focus on acquisitions to fill drop in cash flows from a products’ loss of exclusivity (LOE) <ul style="list-style-type: none"> Significant patent expirations expected between 2025 to 2028 resulting in sizable loss of sales; some of which will be lost to generic/biosimilar competition
Challenges in Generics segment	<ul style="list-style-type: none"> Generic companies continue to face significant pricing pressure due to increased competition First to market is critical to give Generic companies pricing power New market entrants lead to drop in market share and price erosion

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2024 HEALTH CARE PROGRAM

MEDIA LANDSCAPE

Headlines: National Private Equity Narrative



[PE-Owned Health Care Saw Bankruptcy Surge as Playbook Failed](#)
Lauren Coleman-Lechner // April 17, 2024

- More distress is expected, advocacy group says in report
- Cost increases and high leverage are pushing firms to default

Private equity-owned businesses accounted for a high number of bankruptcies in the health-care sector last year, and another wave of distress looms, according to a new report from an advocacy group that monitors the sector.

PE-backed firms accounted for at least 17, or about a fifth, of the 80 bankruptcies of health-care companies last year, the Private Equity Stakeholder Project said in a report due to be released Wednesday. It called 2023 a "record year" for large health-care bankruptcies. Also, venture-capital backed companies made up another 12, or 15%, of the filings, it said in a study that looked at companies with liabilities of more than \$10 million.

"The healthcare default and bankruptcy wave is projected to continue in 2024 as companies are increasingly facing credit rating downgrades and potential defaults -- and most of the companies at the highest risk are owned by private equity firms," PESP wrote.

Two of the largest bankruptcies last year were KKR Group Co.-owned staffing company Envision Healthcare Corp. and cancer-treatment provider GenesisCare. Another KKR-backed company, Global Medical Response, has more than \$4 billion in debt due next year and had launched talks about amending and extending those obligations, Bloomberg has reported.

"This agenda-driven group exists only to attack the private equity industry -- not provide credible research," a spokesperson from industry group American Investment Council said in an e-mail. "The reality is that the health care system needs more capital and private equity has a strong record of investing in health care facilities and programs that improve lives."

The pandemic upended health care arguably more than any other industry as hospitals halted all-but-essential treatments, nursing homes went into lockdown and costs for workers and supplies soared. Today, higher expenses are still squeezing margins and putting many providers at risk of distress and bankruptcy.

For private equity, the playbook of issuing debt and finding efficiencies often isn't working in this high-rate market and tough business environment, leaving cash-strapped companies with debt burdens and limited access to capital.

Increased regulation has also played a role in health-care distress. The No Surprises Act requiring more billing transparency that took effect in 2022 contributed to the bankruptcies of Envision, American Physician Partners and ambulance company Air Methods Corp. last year.

Private equity "adopted the roll-up strategy," and levered up when interest rates were low, Ola Hannoun-Costa, associate managing director at Moody's Ratings, said in an interview. With maturities coming due, "we're seeing a rise in defaults in the form of a distressed exchange."

Moody's has predicted more health-care defaults this year, saying credit quality is falling, with more than 60% of borrowers rated B3 negative or lower characterized by weak liquidity and more than 90% by excessive leverage.

About 90% of those in the most at-risk categories are PE-owned, Moody's says, and many are in fragmented areas like emergency medicine and anesthesiology that are targets for consolidation. Because of the challenges facing the sector, "access to the market for some of these companies can be limited," Hannoun-Costa said. On the other hand, the scale PE firms can bring with acquisitions has advantages, including better access, she said.

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MEDIA LANDSCAPE

Headlines: National Private Equity Narrative (1/2)



[States Aim to Combat Private-Equity Healthcare Takeovers](#)
Chris Cumming // April 18, 2024

Statehouses across the country are enacting laws to curtail private-equity healthcare acquisitions, part of a political backlash against corporate consolidation in the medical sector.

More than a dozen states have passed laws to require corporate buyers such as private-equity firms to notify states of planned healthcare acquisitions. In some cases, these laws let state authorities block deals if they consider them against the public interest.

Most of these bills have passed in Democratic-controlled states, but last month Indiana -- where Republicans hold legislative majorities and the governor's office -- became the first red state to enact a private-equity healthcare merger-review law. New York, California, Massachusetts, Colorado and Illinois are among the states that have similar statutes on the books.

Some states are considering even tougher measures. A Minnesota bill introduced in February would ban private-equity and real-estate firms from buying healthcare companies in the state altogether. California lawmakers are weighing a bill to strengthen the state's merger-review rules and vet all private-equity and hedge-fund investments in healthcare.

Jim Wood, the Democratic state assemblyman who wrote the California bill, wants to prevent investors from trying to monopolize health services providers. He said the state has seen examples of companies buying up and combining numerous medical businesses -- a strategy private-equity investors call a roll-up -- to reduce competition and raise prices.

"Our system is stressed already and making it more expensive so that a private company can profit is counter to the way I look at healthcare," Wood said.

The private-equity industry is pushing back against these state efforts. The American Investment Council, private equity's main trade group, says the industry gives the healthcare sector much-needed capital -- about \$1 trillion since 2006 -- to improve care and develop lifesaving treatments.

In Oregon, Democratic lawmakers plan to reintroduce a bill that attorneys say would be among the strictest healthcare merger-review statutes in the nation. The bill died without a vote in the state Senate last month, but supporters plan to revive it when the next legislative session begins in 2025, said state Rep. Ben Bowman, leader of the Democratic-controlled House.

"We have to decide if healthcare in Oregon is a commodity to be bought and sold on the stock exchange, or whether it is a public good," Bowman said.

In Connecticut, state Sens. Jeff Gordon, a Republican, and Saud Anwar, a Democrat, proposed a bill last month that would give the state more authority over private-equity healthcare acquisitions. Both Gordon and Anwar are physicians as well as legislators, and Gordon said his professional experience has caused him to question private-equity firms' role in medicine.

"I have seen them focus on dividends and on profits, and not on patient care," Gordon said.

He believes private equity can play a helpful role in the healthcare sector -- for example, in managing physician practices -- but he doesn't think buyout firms should own hospitals. Gordon is hopeful the bill he co-sponsored can pass this year with bipartisan support, along with a companion bill to study private equity's role in medicine.

"I am not here to tell people not to make money, but we can't do it at the expense of the healthcare people need," Gordon said.

The post-pandemic period has seen a burst of private-equity investment in the medical sector. Healthcare buyouts peaked at \$151 billion in 2021 across more than 500 acquisitions, according to a report from industry consulting firm Bain & Co. While deal volume has fallen amid private equity's recent slump, healthcare remains one of the most active sectors for private-equity investments, with more than 380 transactions last year, Bain estimates.

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Headlines: National Private Equity Narrative (2/2)



Continued...

Studies show that the industry is consolidating at a rapid clip. The Physicians Advocacy Institute, a trade group for doctors, says corporations now own nearly a third of physician practices, after more than 44,000 were merged from 2019 to 2024.

Concerns have been raised about private equity's effect on patient care. A 2023 study led by researchers at Harvard Medical School, for example, concluded that patients have more adverse health events after hospitals are acquired by private equity, which the researchers say might reflect profit motives trumping safety.

Federal authorities are also looking into the matter. In March, regulators launched an investigation into private equity's role in healthcare. Last year, antitrust regulators changed merger-review rules to let them scrutinize more private-equity healthcare deals.

In September, the Federal Trade Commission sued a Texas-based anesthesia company and its private-equity owner for allegedly aiming to reduce competition and drive up prices, a move widely seen as a shot across the bow for private-equity roll-ups in the health sector.

The American Investment Council disputes that private-equity ownership worsens care quality. The group cites a 2021 study by professors at Georgetown University and Indiana University that said private-equity ownership of hospitals increases efficiency without compromising the quality of care.

"The American healthcare system faces enormous challenges, and these challenges aren't unique to the [private-equity] business model," said Drew Maloney, AIC's president and chief executive.

"Extreme, agenda-driven groups are focused on attacking the private-equity industry instead of trying to improve the healthcare system," he said. "The reality is that the healthcare system needs more capital, and private equity has a strong record of investing in healthcare facilities and programs that improve lives."

The California bill has attracted particular opposition because of the scale of private-equity investment in the state, some \$100 billion a year, according to the AIC. The trade group told the California attorney general that the bill "will send a strong message that private-capital investment is no longer welcome."

People who work on healthcare mergers have similar concerns. The new bill, should it pass, would add a layer of complexity to the merger process in California, which is already subject to extensive regulatory review, said Paul Gomez, co-chair of the behavioral healthcare practice at California law firm Polsinelli.

"I have concerns the cumulative effect will chill badly needed investment," Gomez said.

Not all state-level bills have been successful. Past proposals to scrutinize private-equity healthcare deals have failed in Florida, Maine and North Carolina, according to a review of recent legislation. Industry opposition has been a factor in slowing some merger-review proposals, lawmakers say. The Oregon proposal that died in March had bipartisan support and the backing of Oregon's physicians' and nurses' groups, but large out-of-state healthcare companies lobbied against it, according to Bowman, the House leader.

He said he and his colleagues intend to press forward with their efforts next year. The goal is to ensure that healthcare decisions are ultimately made by doctors, not investors, he said.

"This is happening across the country and it's not about one bill," Bowman said. "It's about the recognition of what happens when private equity takes over, and trying to figure out a policy fix to prevent it from getting worse."

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AlixPartners 1

Life Science companies continue to experience negative headwinds

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AlixPartners 2

Market Trends and Observations



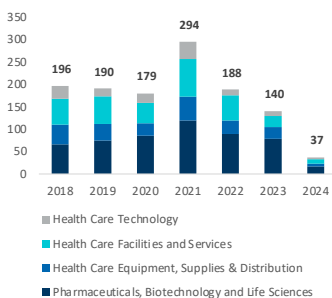
MARKET TRENDS AND OBSERVATIONS



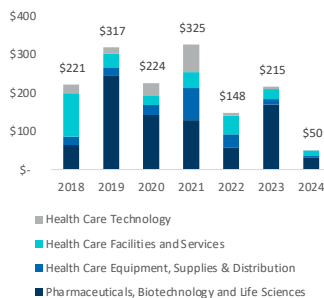
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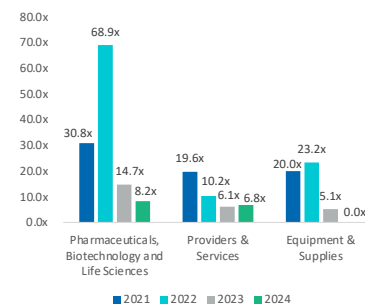
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U.S. Healthcare M&A Transaction Value >\$50M Through 2024^[1] (\$ in Billions)



Historical Average EV/EBITDA Multiples Through 2024^[1] [2]



HIGHLIGHTS

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- We have also seen deal timelines increase as the profile of companies being marketed has changed (e.g., less sophisticated sellers, operating degradation due to economic pressures, tightening of financing, etc.)
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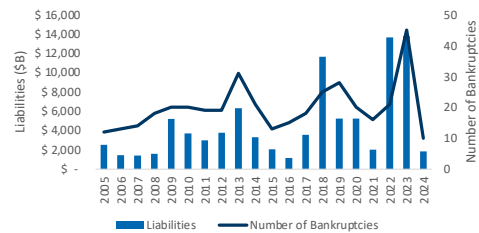
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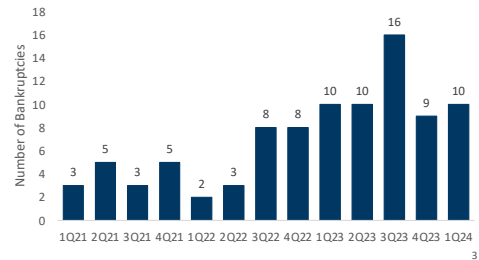
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- Continued impact of the No Surprises Act on revenues.
- Ongoing labor pressures (staffing shortages and higher wages) and higher supply costs.
- Combination of limited revenue growth and higher costs will continue to compress margins and limit borrowers' ability to service debt and CapEx needs.

In addition, sources of new/refinanced capital for many borrowers will continue to be limited (and costly).

Total Healthcare Bankruptcies with >\$25M in Liabilities^{[1][2]}



Quarterly Healthcare Bankruptcies with >\$25M in Liabilities






Sources: The Deal, Debtwire, Reorg, Rev Cycle Intelligence, Forbes

[1] Data through Q1 of 2024. [2] 2018 and 2022 were skewed by large filings: HCR ManorCare and Endo International, which had over \$4.3B and \$9.5B in liabilities, respectively.



Regulatory Risk and Market Impact

 Federal Scrutiny	 State Scrutiny	 Change/United Data Breach
<p>Oversite and investigations by the DOJ / FTC and legislative bodies will continue. This is viewed as a way to manage and maintain healthcare costs.</p> <ul style="list-style-type: none"> There is a lack of explanation/story of what PE has done to better healthcare (particularly during COVID) that, without coming to life, will be filled by those scrutinizing the industry. Increased oversight letters and bipartisan leadership on for-profit teams in healthcare. There may be changes coming based on the electoral map and election. <p>What We're Watching:</p> <ul style="list-style-type: none"> Pfizer's / Seagen approved in December 2023. FTC challenged Amgen / Horizon Therapeutics in May 2023 due to antitrust concerns. Elizabeth Warren / Steward Health Care in MA is looking at anyone involved in the transaction, not just buyer/seller. 	<p>States are taking a more active, protectionist role in healthcare acquisitions and cost containment measures. This includes future scrutiny on M&A, antitrust insurance commissions and rate scrutiny, consumer protection, etc.</p> <ul style="list-style-type: none"> CA is taking a very aggressive stance on healthcare mergers and acquisitions. Since April 1, 2024, healthcare entities involved in "material change transactions" must notify the OHCA 90 days before finalizing the deal. Commission and oversight bodies looking at any merger with the cost to the consumer as the focus. This particularly impacts PPMs and hospitals <p>What We're Watching</p> <ul style="list-style-type: none"> California Colorado Massachusetts 	<p>In late February, 2024, a ransomware attack hit Change Healthcare, which operates the largest clearinghouse for medical claims in the U.S and is a unit of UnitedHealth. This disrupted key billing and claims processing for many healthcare providers.</p> <ul style="list-style-type: none"> With the interdependence of healthcare, the attack disrupted critical services causing a ripple effect across hospitals, doctors and pharmacies. This will add more regulatory scrutiny to the entire system and raised questions about consolidation. The incident will shape acquisitions this year. Hospitals may have a leg up going forward because although the breach is over, hospitals are positioned to start recouping funds, paying back people and ensuring this doesn't happen again.

Sources: HFMA, HHS, FTC, DOJ, KFF

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Subsector Observations

Physician Practice Management

Payers and Health Plans

Behavioral Health

Home Health

Acute Care

Post-Acute Care and Senior Living

Life Sciences



SUBSECTOR OBSERVATIONS



Subsector Trends and Considerations

Current Trends

Future Considerations

Physician Practice Management (PPM)	<ul style="list-style-type: none"> Across most specialties, physicians continue to experience downward reimbursement pressure from payers against escalating costs. PPM rollups have continued to acquire independent physician practices, as physicians trade autonomy for higher perceived compensation and less administrative burden, although deal flow remains slow due to higher interest rates and misalignment over valuations. PPMs are offering a variety of risk sharing opportunities to appeal to a larger audience of physicians looking to maintain autonomy. 	<ul style="list-style-type: none"> Successful management of rising labor costs with reduction of clinician burnout will be critical for value optimization. Leverage of scale to increase private payer rates will be key to offset stagnant reimbursement from government payers. Increased regulatory scrutiny on sponsor-backed healthcare providers (building off recent pressure from FTC and Congress). Change Healthcare outage may create liquidity issues for providers struggling to receive timely reimbursement. The No Surprises Act put pressure on PPMs with out-of-network (OON) revenues. Increased reports of cybersecurity incidents will require PPMs to bolster IT protocols and protection.
Payers and Health Plans	<ul style="list-style-type: none"> Effective March 2023, the Public Health Emergency related to COVID is no longer tied to the Medicaid continuous enrollment requirement. Since then, 17+ million people have lost Medicaid coverage. Large insurers continue vertical expansion (physicians, home health, behavioral health, pharmacies) to gain market power and control costs. 	<ul style="list-style-type: none"> Phase-in of HCC Risk Model v28, the latest update in a series of risk-adjusted models used to estimate future health care costs for patients under Medicare Advantage plans, may impact the payment CMS makes to the health plans for each patient beginning in 2024. Regulatory scrutiny of payer administrative policies and procedures, such as AI in support of prior authorization and medical necessity, is likely to increase.
Behavioral Health	<ul style="list-style-type: none"> Demand determinants remain stable or increasing, reimbursement and funding continue to be prioritized, and the maturing telehealth space aims to provide low-cost and personalized care to patients. The industry is passing an inflection point, and incumbents will need to adapt accordingly. Increased demand for telehealth services is likely to remain post-COVID. 	<ul style="list-style-type: none"> The need for behavioral health providers will only increase as diagnoses are identified more frequently and wait times for care remain elevated relative to all other types of healthcare. Both non-physician staff and psychiatrist shortages continue to strain providers' ability to maintain or increase patient volumes.
Home Health	<ul style="list-style-type: none"> Service needs have expanded, and more skilled caregivers are required (infusion, respiratory, occupational, speech and physical therapy). Rural markets are underserved by home health providers. The use of technology and telehealth could expand the geographic reach of providers. 	<ul style="list-style-type: none"> Medicare payments to home health agencies were reduced by \$810M in 2023 due to the implementation of payment calculation changes. Given the highly fragmented market, home health does not have strong representation in Washington to fight CMS on reimbursement cuts. UnitedHealth's acquisition of LHC and planned acquisition of Amedisys would create the country's largest home health platform with ~10% market share.

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2024 HEALTH CARE PROGRAM

SUBSECTOR OBSERVATIONS



Subsector Trends and Considerations (Cont.)

	Current Trends	Future Considerations
Acute Care	<ul style="list-style-type: none"> Revenue for the hospitals industry is expected to gradually return to more stable, pre-COVID growth rates over the next five (5) years. While consolidations over the last five (5) years have lessened the supply of acute care facilities, they also created powerful synergies within the market. Post acute and behavioral health access is negatively impacting acute care LOS and throughput. 	<ul style="list-style-type: none"> Because Medicare and Medicaid payments are fixed costs, health systems are unable to absorb or deflect the negative impact of high inflation levels. There will continue to be cuts in staffing for non-clinical and administrative workers. Skill mix and technology optimization can be key levers to address persistent staffing shortages. Staffing shortages in clinical areas exert upward pressure on wages and reliance on staffing agencies.
Post-Acute Care	<ul style="list-style-type: none"> Occupancy continues to rebound but has not recovered to pre-pandemic levels. Staffing shortages exert upward pressure on wages and reliance on staffing agencies. Non-wage inflation, in tandem with upward wage pressure and suppressed occupancy, continues to erode margins in an already low margin industry. 	<ul style="list-style-type: none"> CMS' Patient Driven Payment Model parity cuts in October 2023 will lower SNF reimbursement. As consumers and PAC referrals increasingly favor at-home health care, PAC facilities and SNFs may begin facing lower levels of admissions. Elective surgeries have not fully recovered to their pre-pandemic levels. Such backlog may strengthen PAC facilities' patient pipeline.
Senior Living	<ul style="list-style-type: none"> Expense growth continues to outpace reimbursement growth, primarily due to the high inflationary environment and an unfavorable payor mix. Supply chain challenges and commodity (lumber, oil) inflation increase construction/CapEx costs. While occupancy trends have improved, occupancy continues to trail pre-pandemic levels. High reliance on staffing agencies to combat staffing shortages has further reduced operating margins. 	<ul style="list-style-type: none"> Reimbursement rates are expected to grow at a slower rate than expenses. Surge in demand for senior living from aging baby boomer population is anticipated to be delayed and felt over the next decade as the average age of entrants increases. Aging baby boomers are demanding a wider array of amenities, resulting in increased new construction and CapEx costs. Possibility of operating at lower occupancy levels at stabilization.
Life Sciences	<ul style="list-style-type: none"> Companies are increasingly focusing on investing in Research & Development (R&D), developing targeted therapies and personalized treatment, pursuing strategic partnerships and collaborations, adopting new technologies and meeting regulatory requirements. Growth is driven primarily by growing demand for healthcare services (especially in underserved regions), increasing number of chronic conditions and diseases, and growing demand for biologics and specialty drug. 	<ul style="list-style-type: none"> While the industry is expanding, it is facing challenges such as rising drug prices, increasing regulatory hurdles, and the need to manage complex global supply chains. Firms will look to M&A to expand their pipeline and gain access into other geographic markets. Companies will continue to invest in advanced technology to gain/maintain competitive advantage.

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SUBSECTOR OBSERVATIONS



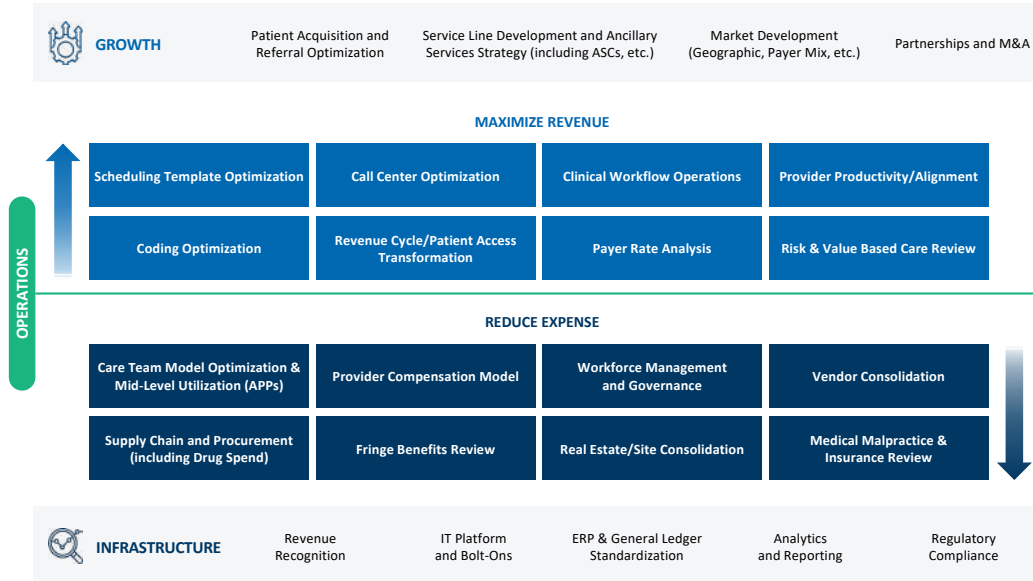
Physician Practice Management (PPM)

Market Overview	Opportunities/Tailwinds	Challenges/Headwinds	Outlook
<p>Despite steady consolidation, the PPM industry still has pockets of fragmentation. Independent practices continue to seek scale to benefit from the increased negotiating power and added front- and back-office efficiency of PPMs.</p> <ul style="list-style-type: none"> Physicians continue to exit from independent practices, as the percentage of physicians working in practices wholly owned by doctors declined from 60.1% to 46.7% from 2012 to 2022. Scale is critical, as smaller, physician-owned practices struggle with clinician burnout / retention, pressure from lower reimbursement rates, challenges meeting regulatory requirements, and minimal access to capital markets. Despite a slowdown in deal flow during 2023, private equity firms continue to seek strategic assets to bolt-on to their PPM portfolios and support revenue and EBITDA growth to drive exit multiples. 	<ul style="list-style-type: none"> Regulatory and administrative environment for independent practices will push physicians to seek PPM partnerships. Physician are increasing demand for corporate models that offer employment arrangements along with equity shares. Larger PPM negotiating power with private payers may lead to increased reimbursement. Use of technology can be utilized to drive efficiencies and improve the patient experience. Vendors may provide reduced rates for larger PPMs that individual practices could benefit. 	<ul style="list-style-type: none"> Reimbursement continues to fall behind increasing expenses, with physician pay declining 30% from 2001-2024 after adjusting for inflation. Recruitment, staffing, turnover and market wage inflation continue to challenge providers. Increase in days in A/R resulting from Change Healthcare outage continuing to impact timing of provider reimbursement. Data breaches and other cybersecurity incidents have reduced patient trust in PHI protection. Threat of labor unionization for clinical workforce has impacted retention and labor expense. Cash flow/liquidity issues have increased due to heavy debt loads and increased interest rates. Increased regulatory scrutiny on private equity investment in healthcare has led to some physician hesitancy with entering PPMs. Physicians have shown apprehension of private equity's prioritization of shareholders above patients and disruption to clinical workflow. 	<p>The PPM industry will continue to grow at a healthy rate over the next five (5) years as administrative and regulatory requirements continue to push physicians out of independent practices.</p> <ul style="list-style-type: none"> Private equity, with over \$62B in investable capital to deploy into the healthcare services space, will continue to remain active. As regulatory requirements and administrative pressures continue to burden independent practices, demand for consolidation under PPMs will grow. Economies of scale leveraged to improve margins will be needed to outweigh industry headwinds.

Sources: IBIS World, Pitchbook, Modern Healthcare, American Medical Association

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Physician Practice Management Value Creation Levers



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Payers and Health Plans

Market Overview	Opportunities/Tailwinds	Challenges/Headwinds	Outlook
<p>Medical cost inflation and increased demand will determine the performance of the health and medical insurance industries.</p> <ul style="list-style-type: none"> Key drivers of industry growth include private health expenditure and an aging U.S. population. Medicare expenditure will increase significantly as the baby boomer population ages and reaches retirement. The insured share of the population is expected to fall from 90.6% in 2018 to 89.4% by 2028. 	<ul style="list-style-type: none"> Adapting towards value-based care, offering narrower networks in exchange for lower premiums and out-of-pocket costs to consumers. Rising healthcare spend; expected to increase at annualized rate of 5+%. Increased demand for group health plans. Payer and provider vertical integration: <ul style="list-style-type: none"> Provider groups are increasingly acting as payers by either offering health plans or partnering with payers. Payers are growing their market share by adding healthcare services and Pharmacy Benefit Manager services to their offerings. 	<ul style="list-style-type: none"> Threat of regulatory changes. Cost inflation of medical services; as premiums increase with medical cost inflation, insurers attempt to improve profitability by negotiating medical benefit costs with providers. Eliminating Medicare Advantage (MA) inefficiencies. <ul style="list-style-type: none"> Currently, CMS pays MA insurers over \$1,000 more per person on average than it does original Medicare. As CMS reduces rates, healthcare insurance providers will need to seek operational efficiencies and/or consolidation with other payers in order to preserve margins. Medicare for All - any variant of Medicare for All would significantly alter the role of health insurance companies; however, if it could result in an expansion of Medicare Advantage-like opportunities for payers. 	<p>Rising health expenditures and demand for medical insurance will drive industry revenue through 2025.</p> <ul style="list-style-type: none"> Payer revenue is projected to grow to \$1.4T by 2025, increasing at an annualized rate of 4.1%. Private health insurance expenditure is forecasted to increase at an annualized rate of 5.5%. CMS anticipates Medicare to experience the fastest spending growth among major payers at 7.6% from 2019 to 2028, largely due to enrollment growth. The Medicare Trust Fund is expected to become insolvent by 2024, absent reforms to contain cost growth. Potential cost cutting measures in the coming years to address concerns will directly impact the industry. Shift in Stars measures to include a Health Equity factor will redistribute dollars to those MA plans that demonstrate progress addressing health disparities.

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Sources: IBIS World, cms.gov

2024 HEALTH CARE PROGRAM

SUBSECTOR OBSERVATIONS



Behavioral Health

 Market Overview	 Opportunities/Tailwinds	 Challenges/Headwinds	 Outlook
<p>Primarily consists of mental health and substance abuse treatment in inpatient, outpatient, and residential treatment settings.</p> <ul style="list-style-type: none"> Large incumbents only control upwards of 20% of the market. The rise of telehealth and technologically-integrated care has disrupted incumbents and other 'brick and mortar' providers. Fiscal policy and government reimbursement continue to focus on the development of mental health infrastructure, accessibility, and private payer involvement. However, industry revenue growth is expected to be only 3.4% and 2.0% for five (5)-year CAGR for clinics and psych hospitals, respectively. Thin profit margins (5.4% for clinics and psych hospitals). 	<ul style="list-style-type: none"> Severely underserved market <ul style="list-style-type: none"> One (1) in five (5) adults with a mental illness, one (1) in 25 being severe. Decreased stigma and growing demand with an emphasis on seeking care. Telehealth and new technology treatments/solutions (AI wearables, VR, psychedelics, digital pills); but highly dependent on regulatory/reimbursement support. Modernizing hospital therapies to assist in-residence treatments (revenue and service expansion opportunity for hospitals). Funding - Expansion of local, state and federal programs; private payer coverage and adjustment to parity. Changes to coverage of medication-assisted treatment. 	<ul style="list-style-type: none"> Labor shortages (psychiatrists, nurses and non-clinical), high turnover and increasing wage rates. Barriers to entry for traditional 'brick and mortar' providers and incumbent strength. Regulatory burdens, legal and reputational challenges. Technology aids but does not disrupt in psych hospital environment, which requires highly skilled labor. Telehealth regulatory/reimbursement issues. 	<p>Demand determinants remain stable or increasing, reimbursement and funding continue to be prioritized, and the maturing telehealth space aims to provide low-cost and personalized care to patients.</p> <ul style="list-style-type: none"> The need for behavioral health providers will only increase as diagnoses are identified more frequently and wait times for care remain elevated relative to all other types of healthcare. Both nonphysician staff and psychiatrist shortages will strain providers' ability to maintain or increase patient volumes. Fiscal policy and governmental and private reimbursement continue to trend favorably for operators by providing funding, loosening billing requirements, and mandating private payer parity. Virtual settings offer convenience and bespoke care for patients while lowering barriers to entry and operating costs for providers.





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Sources: Centers for Medicare and Medicaid Services, William Blair equity research, IBISWorld

SUBSECTOR OBSERVATIONS



Home Health

 Market Overview	 Opportunities/Tailwinds	 Challenges/Headwinds	 Outlook
<p>One of the leading subsectors for growth and activity within healthcare.</p> <ul style="list-style-type: none"> Revenue has grown at a CAGR of 3.4% to \$136.2B over the past five (5) years, including 4.8% growth in 2023 alone. Expected to grow at a CAGR of 5.7% to \$180B over the next five (5) years. Despite growth, industry profit under pressure (averaging 7.5% in recent years). Largest payers are governmental programs, with Medicare and Medicaid representing 72.7% of industry revenue in 2023. The home health landscape is highly fragmented, with ~9,400 agencies across the United States. The top four (4) players represent less than 5% of the market. 	<ul style="list-style-type: none"> Favorable demographics and patient preference to stay at home. Payers focus on lower-cost outpatient care. Introduction of more specialty programs with higher margins (respiratory and infusion therapy). Chronic disease management (6 in 10 adults with 4 in 10 adults having two (2) or more chronic diseases), which requires a system of coordinated care, with a focus on patient self-care. Expansion of non-medical personal care reimbursement. Use of new technologies (telehealth; in-home monitoring devices). Consolidation as a means to increase negotiating power and manage margins; focus on geographic coverage close to population centers. Prime example is UnitedHealth's acquisition of LHC and planned acquisition of Amedysis. 	<ul style="list-style-type: none"> Labor shortages, high turnover and increasing wage costs (45+% of cost structure). Reimbursement pressures – while viewed as more cost effective, rates have nonetheless been pressured. <ul style="list-style-type: none"> The Biden administration reduced Medicare payments to home health agencies by \$810M in 2023 due to the implementation of new changes to how payments are calculated. Varying state requirements for licensing and accreditation. 	<p>High growth, number of small undercapitalized participants and ability to effect change through consolidation. Technology provides a significant opportunity for investment returns.</p> <ul style="list-style-type: none"> There is increased demand for specialization and broader service offerings from providers. MA is adding/expanding supplemental coverage for non-medical in-home care. Scale (through partnerships or M&A) should be sought to address the following key areas: <ul style="list-style-type: none"> Strong technology, including productivity enhancements Contract management Recruitment, training and retention Quality outcomes Leadership Specialization Telehealth





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Sources: Centers for Medicare & Medicaid Services (CMS), IBIS World – "Home Care Providers in the US" – September 2023, Home Healthcare News

SUBSECTOR OBSERVATIONS



Acute Care

 Market Overview	 Opportunities/Tailwinds	 Challenges/Headwinds	 Outlook
<p>Although hospitals have struggled from the financial impact of COVID, the acute care market is projected to expand in the coming years. Increased access to insurance and growing demand from the elderly population will continue to support revenue growth.</p> <ul style="list-style-type: none"> The industry has seen overall revenue growth at an annualized rate of 2.6% to \$1.4T in the five (5) years ended 2023. There are over 4,700 acute care hospitals in the U.S., almost 70% of which are part of a larger health-care system. 	<ul style="list-style-type: none"> Increased demand from the aging population. Utilization of telehealth. <ul style="list-style-type: none"> Hospitals invested significant capital into R&D for digitally transformative solutions through medical devices, systems, and equipment. Transitioning from fee-for-service to value-based care. Developing workforce-related strategies. Redefining location of care. 	<ul style="list-style-type: none"> Increased labor and wage costs. Financial pressures. Uncompensated care. Staffing shortages <ul style="list-style-type: none"> Physicians Nursing Administrative and clinical support staff Increasingly competitive environment. Threats of rural hospital closures. Increased labor activity. Technology and change adoption. 	<p>Revenue for the hospitals industry is expected to gradually return to more stable, pre-COVID growth rates over the next five (5) years.</p> <ul style="list-style-type: none"> The industry's projected growth rate of 2.8% will bring total revenue to \$1.6T by 2028. Projected growth is largely attributed to: <ul style="list-style-type: none"> Greater prevalence of chronic diseases. Higher demand associated with the geriatric population. Increased federal funding for government health insurance, as well as rising affordability of emergency care. Technological advancements aimed at improving quality of treatment. Return to normalized volumes of elective procedures that were deferred during COVID will assist growth in the industry.





Sources: , IBIS World Reports, cms.gov, IBIS World Reports, LAN, Grand View Research

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SUBSECTOR OBSERVATIONS



Post-Acute Care and Senior Living

 Market Overview	 Opportunities/Tailwinds	 Challenges/Headwinds	 Outlook
<p>Post-Acute Care (PAC) serves a wide spectrum of individuals primarily discharged from acute-care hospitals with complex medical issues. Senior Living (SL) serves a range of senior citizens, from those in need of home maintenance and hospitality support to those in need of full nursing care.</p> <ul style="list-style-type: none"> PAC includes long-term acute care facilities, inpatient rehabilitation facilities and skilled nursing facilities. SL includes independent living, assisted living, memory care, and skilled nursing facilities in a freestanding or combined setting, as well as continuous care retirement communities. The industry is highly fragmented with over 6,000 hospital providers and more than 30,000 senior living properties. The four (4) largest SNF and IL/AL/MC operators represent 7% and 15% of total beds and units, respectively. 	<ul style="list-style-type: none"> An increase in the U.S. aging population. An increased prevalence of chronic diseases. An increased reliance on data and trend towards a consumer-driven market is expected. Geographic disparities in PAC instruction. Portfolio diversification benefits. 	<ul style="list-style-type: none"> Slow recovery of occupancy. Staffing shortages and wage increases. Aged facility inventory. Transition to home health remedies. More stringent SNF regulatory oversight from CMS. CMS reimbursement policy changes. More frequent facility consolidations. Ability to repay loans as future stimulus funds dry up. Competitive pricing within senior living to drive occupancy. 	<p>An increase in the U.S. aging population and prevalence of chronic diseases are expected to fuel significant industry growth over the next 10-15 years.</p> <ul style="list-style-type: none"> In 2022, there were about 58 million adults aged 65 and up in the U.S. (~17% of the population). The senior "boom" will begin in 2028, which refers to the inflection point at which the baby boomer generation will begin turning 80. By 2040, the 65+ population is expected to compose 22% of the total population, up from 17% in 2022. Demand is projected to exceed available beds within the next five (5) years.

Sources: IBIS World Reports, cms.gov, LAN, Grand View Research

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2024 HEALTH CARE PROGRAM

SUBSECTOR OBSERVATIONS



Life Sciences – Pharmaceuticals

The pharmaceutical industry is expected to continue its growth trajectory in 2024, driven by growth in demand for healthcare services, technological advances, and aging populations.

 Market Overview	 Opportunities/Tailwinds	 Challenges/Headwinds	 Outlook
<p>The global pharmaceutical market is expected to continue growing at a CAGR of 13.4% from 2024 to 2028, driven by increasing demand for digital health and AI, and aging populations.</p> <ul style="list-style-type: none">Companies are increasingly focusing on developing targeted therapies and personalized treatment approaches, catering to specific patient populations and enhancing treatment efficacy.Due to the increasing adoption of digital health technologies, pharmaceutical companies are integrating solutions such as remote patient monitoring into their product offerings.As we face the “patent cliff”, companies are responding by investing in R&D to develop new therapies and adopting new technologies and business models to stay competitive.Pharma companies are actively engaging in global partnerships and collaborations to expand access to healthcare, especially in underserved regions.	<ul style="list-style-type: none">Increased biosimilar development and higher levels of adoption will fuel demand, while the lower price level will increase access and demand.The global precision medicine market is projected to reach \$50.2B by 2028, growing at a CAGR of 11.5% from 2023 to 2028.Medicare Part D plan redesign will reduce beneficiary out of pocket spend, facilitating improved patient compliance and driving demand.The Radiopharmaceutical industry will experience significant growth driven by developments in medical imaging technology, growing emphasis on personalized therapy, and rising rates of chronic diseases.AI & machine learning utilized for drug discovery, driving improved patient outcomes and more efficient clinical trials.Opportunities to leverage IP resources and optimized supply chain networks to establish stronger presence in new international markets such as South America and Asia are arising.	<ul style="list-style-type: none">Pricing pressure from payers, governments, and consumers continue to intensify.Competition from overseas generic drug manufacturers results in compressed margins for players in this space as they act as price-takers.While biosimilars are priced below the brand name drug, the discount is much more modest, and challenges related to the manufacturing of biologics acts as a barrier to entry.Increased scrutiny FTC and EU around M&A activities.Navigating complex regulatory landscape/changing regulations for precision medicine.Global supply chain disruptions, exacerbated by geopolitical tensions, natural disasters, and pandemics.Ongoing drug shortages still exist.Failure to abide by stringent regulatory approvals can prompt citations.More sophisticated cybersecurity threats (i.e., Ransomware, etc.)	<p>The overall market will continue an upward trajectory despite headwinds from Medicare price negotiations and biosimilar competition.</p> <ul style="list-style-type: none">With an increase in healthcare access globally, especially in developing countries, and hubs of innovative and cutting-edge technologies in the U.S., Western Europe and Asia, investors have a positive outlook of the pharmaceutical industry.Biologics and specialty drug development has seen rapid growth, with specialty drug spend outpacing traditional drug spend. This trend is likely to persist as firms continue to invest in novel therapies targeting niche patient populations.Firms will look to M&A to expand their pipeline, access new geographic markets, and achieve economies of scale.AI and Machine learning use for drug discovery, improve patient outcomes, and clinical trials will continue to grow with digital therapeutics serving as a complement.

Sources: Yahoo Finance, Markets and Markets, BioSpace, Pharmaceutical Technology, IQVIA, KFF





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SUBSECTOR OBSERVATIONS



Life Sciences – Medical Devices

The medical device industry is evolving rapidly, driven by advancements in technology, changing regulations, and shifting market trends.





 Market Overview	 Opportunities/Tailwinds	 Challenges/Headwinds	 Outlook
<p>The global medical devices market size is projected to grow from \$492B in 2022 to \$656B by 2032, a CAGR of 3.0% during that period.</p> <ul style="list-style-type: none">The medical device sector includes PPE, artificial joints, implantable (pacemakers, etc.), wearables, and imaging equipment.The industry growth is driven by rapid technological innovation, such as artificial intelligence and robotics, enabling more precise and personalized medical solutions and enhancing patient care and treatment outcomes.Medicare pays for medical devices indirectly by reimbursing providers when they use devices in the course of delivering care to beneficiaries.	<ul style="list-style-type: none">Increased demand for digital therapeutics and wearables and biometric devices will lead to more players entering the market and improve production velocity and quality.Increased focus on drug-device combinations, increasing typical margin of devices due to the novel nature.Value-based care contracts can drive end consumer value.Medical implants are increasingly combined with service contracts, technology enablement etc., to provide a broader service beyond the device itself.Continued attention from regulatory agencies to support software-as-medical device, and digital surgery products.Increased adoption of eco-friendly production methods to reduce environmental impact.	<ul style="list-style-type: none">The regulatory landscape for medical devices continues to evolve, with an emphasis on ensuring product safety, efficacy, and quality.Stringent regulatory guidelines create administrative headwinds and add costs (EU MDR, FDA's premarket reforms, etc.).Compliance with changing cybersecurity requirements (i.e., Section 524B in the Federal Food, Drug, and Cosmetic Act.)Rising material input and transport costs compress margins.Recalls and lawsuits result in massive costs and can tarnish reputation.Increased focus on compliance, especially for commercial functions.Shortage and competition for skilled talent still persist.	<p>The rising incidence of chronic conditions such as cancer, diabetes, and infectious diseases is driving greater utilization of medical devices for diagnostics, testing, and monitoring purposes.</p> <ul style="list-style-type: none">The industry is witnessing significant growth opportunities in emerging markets, driven by factors such as rising healthcare expenditures, increasing prevalence of chronic diseases, and expanding access to healthcare services.Trend-setters in this growth market include organizations specializing in software as a medical device (SaMD), wearables and robotic surgery.A rapidly aging population is also fueling the increase in medical devices such as implantables and joints.Technological advances such as 3D printing will enable med device companies to produce more personalized products at a lower cost (i.e., up to 64% in energy reduction).

Sources: Yahoo Finance, Medical Device Network, Pride Industries, Medical Device Consulting, Wolters Kluwer, Perficient, MedTech Dive, Grandview Research

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Life Sciences – Diagnostics

Changing dynamics in the diagnostics space will lead to a period of stabilization, followed by growth as low performing labs shutter and larger players focus on M&A to gain scale and capitalize on favorable trends.

 Market Overview	 Opportunities/Tailwinds	 Challenges/Headwinds	 Outlook
<p>The global diagnostic market was valued at \$210B in 2023 and is expected to grow to \$264.12B by 2033 (CAGR of 3%).</p> <ul style="list-style-type: none"> Market includes, but is not limited to, In Vitro Diagnostics (IVD), Point of Care (POC) diagnostics, imaging diagnostics, genetic testing, and companion diagnostics. Key regions in global clinical diagnostics include North America, Asia-Pacific, Europe, Latin America, Middle East, and Africa. The market has gained significant momentum due to an increasing aging population, growing prevalence of target diseases, and technological advancements. COVID-19 continues to highlight the importance of diagnostics in healthcare, and specifically point-of-care diagnostics. 	<ul style="list-style-type: none"> High prevalence of chronic conditions raises interest in early detection and diagnosis. Technology advances are leading to a wider array of conditions or diseases that can be diagnosed via IVD testing. The increased focus on personalized medicine, such as gene therapy, will drive further demand for IVD, including use of companion diagnostics and testing for antibiotic resistance. The direct-to-consumer shift in healthcare and availability of at-home tests reduces barriers to care through increased accessibility. The use of AI and advanced analytics in diagnostics is expected to shape the future of diagnostics, offering faster, safer, and more accurate diagnostic testing. 	<ul style="list-style-type: none"> Staffing shortages remain prevalent. Reimbursement varies depending on the type of test, with routine tests having low levels of reimbursement. During COVID, clinical labs, hospitals, and individual practices entered the space, leading to high levels of saturation in the market. Regulation has increased, with ordering physicians now required to sign each requisition form, increasing administrative complexity. The rapid growth of technological advancements in diagnostics requires significant training, integration, testing, and overall change management. High/rising costs of diagnostic instruments and equipment make scale up in low- and middle-income countries difficult. 	<p>The diagnostics market will continue to grow, and molecular diagnostics will account for an increasingly larger share over time.</p> <ul style="list-style-type: none"> Key players in clinical diagnostics are focused on launching transportable, portable, handheld instruments to be easily used outside of laboratory settings. The increase in the number of chronic conditions and diseases will drive demand for diagnostics, with high growth anticipated for the oncology space. M&A activity will address current market over saturation, where players look to buy smaller, regional labs to gain scale and geographic reach.

Sources: Bloomberg, NIH, Grand View Research, Precedence Research

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Appendix: Defined Terms

Defined Terms

Term	Definition	Term	Definition
ACA	Affordable Care Act	IVD	In Vitro Diagnostics
ACH	Acute Care Hospital	LOS	Length of Stay
ACIP	Advisory Committee on Immunization Practices	LTAC	Long-Term Acute Care
ASC	Ambulatory Surgical Center	LTSS	Long-Term Services and Support
AHA	American Hospital Association	LVA	Low-Volume Adjustment
AKS	Anti-Kickback Statute	MA	Medicare Advantage
AL	Assisted Living	MAT	Medication-Assisted Treatment
AMA	American Medical Association	MC	Memory Care
BPCI	Bundled Payments for Care Improvement	MDA	Medicare-Dependent Hospital
CCRC	Continuing Care Retirement Community	MSA	Management Services Agreement
CGT	Cell & Gene Therapy	NPI	National Provider Identifier
COBRA	Consolidated Omnibus Budget Reconciliation Act	NSA	No Surprises Act
COVID	COVID-19	OON	Out-of-Network
CMS	Centers for Medicare & Medicaid Services	PAC	Post-Acute Care
DTx	Digital Therapeutics	PBM	Pharmacy Benefit Managers
ED	Emergency Department	PDGM	Patient-Driven Groupings Model
EF	Entrance Fee	PDPM	Patient-Driven Payment Model
EHR	Electronic Health Record	PHE	Public Health Emergency
FFS	Fee-for-Service	PMPM	Cost per Member per Month
FTI	FTI Consulting, Inc.	POC	Point of Care
HFMA	Healthcare Financial Management System	PPM	Physician Practice Management
HHA	Home Health Aide	PRF	Provider Relief Funds
HHS	Health and Human Services	QMS	Quality Management System
HOMG	Hospital Operated Medical Group	RAP	Requests for Anticipated Payment
HOPD	Hospital Outpatient Department	RUG	Resource Utilization Group
HPSA	Health Professional Shortage Area	SL	Senior Living
HRSA	Health Resources and Services Administration	SNF	Skilled Nursing Facility
IL	Independent Living	SPACs	Special Purpose Acquisition Corporations
IoMT	Internet of Medical Things	VBA	Value-Based Arrangements
IPPS	Inpatient Prospective Payment System	VBE	Value-Based Enterprises
IRF	Inpatient Rehabilitation Facility	WHO	World Health Organization

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Senior Housing Challenges

Challenges for owners of senior housing persist

- Significant new senior housing development undertaken immediately prior to COVID
- Existing debt
 - Cost of funds, especially if floating rate debt
 - Near-term debt maturity
- Operating results impacted by COVID
 - Occupancy
 - Labor cost, availability and retention
 - Reduced operating margin and lower profits
- Investors' cost of capital increased, driving property values lower making refinancing difficult
 - Existing loans being refinanced may need equity to meet loan-to-current value underwriting standards
 - Debt service coverage may fall short of thresholds
- Few lenders have been open to DPOs and REO

Faculty

Morris Alhale, CIRA is a director with AlixPartners, LLP in New York and has more than a decade of experience in guiding senior management teams, lending institutions and business owners through complex restructurings. He works with companies and creditors in periods of extremely tight liquidity to help them develop and implement strategic imperatives, recapitalize balance sheets and manage cash flow. Mr. Alhale has extensive advisory experience specializing in liquidity management, business planning, creditor recovery analysis, contingency planning and evaluating strategic alternatives. He has industry experience in health care, retail, media and entertainment, and consumer goods and services. Mr. Alhale co-authored an article in the *Journal of Corporate Renewal* titled, “Maximizing Value Amid Uncertainty in the Healthcare Industry.” He is a member of both the Turnaround Management Association and the Association of Insolvency & Restructuring Advisors. Mr. Alhale is 2022 honoree of ABI’s “40 Under 40.” He received his B.S.B.A. in finance and accounting *cum laude* from Boston University’s School of Management.

Talya Nevo-Hacohen is Chief Investment Officer, treasurer and executive vice president of Sabra Health Care REIT, Inc. in Tustin, Calif., a position she has held since November 2010. From September 2006 to August 2008 and from February 2009 to November 2010, she served as an advisor to private real estate developers and operators regarding property acquisitions and dispositions, corporate capitalization, and equity and debt capital-raising. From August 2008 to February 2009, Ms. Nevo-Hacohen was a managing director with Cerberus Real Estate Capital Management, LLC, an affiliate of Cerberus Capital Management, L.P., a private investment firm. From 2003-06, was a senior vice president of Capital Markets and treasurer for HCP, Inc., a health care REIT. Prior to that, Ms. Nevo-Hacohen worked for Goldman Sachs & Co., where she was a vice president in its investment banking and finance, operations and administration divisions, and she practiced architecture and was associated with several architectural firms in New York. Ms. Nevo-Hacohen currently serves on the board of trustees of Seritage Growth Properties, a position she has held since April 2022. She also is a trustee of South Coast Repertory and serves on its executive committee, and she serves on the board of advisors of Yale University’s Jackson School of Global Affairs. Ms. Nevo-Hacohen received her B.A. in architecture in 1981 from Yale University, her M.Arch. in architecture in 1984 from Columbia University Graduate School of Architecture, Planning & Preservation, and her M.B.A. in finance in 1993 from Columbia Business School.

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