

Greenberg Advisors

M&A ADVISORY IN HEALTHCARE IT & RCM

M&A Update 2022



**Healthcare IT &
Revenue Cycle Management**

301-576-4000



www.Greenberg-Advisors.com

Introduction

A Record Year for M&A

M&A transactions generated almost \$100 billion of deal value across the Revenue Cycle Management (RCM) and Healthcare IT (HCIT) M&A markets in 2022. That number, an all-time high, is an impressive milestone and adds to the long list of new highs in RCM and HCIT M&A over the last few years.

While there's no avoiding the macroeconomic forces that caused overall deal volume to cool, there was still a tremendous amount of activity with 181 transactions during the year. Has the environment changed? Slightly, and potentially only temporarily. The fact is, healthcare-related markets offer a greater degree of insulation against macroeconomic factors relative to many other industries, which will continue to fuel M&A activity. The level of interest that buyers and investors are showing for attractive opportunities hasn't changed significantly and for sellers with scale, defensible value propositions, and / or other desirable characteristics, valuations remain very strong.

In a year of many changes, artificial intelligence (A.I.) dominated headlines. Once merely a concept or buzzword with little substance behind it, A.I. seems to have found a home in healthcare, with providers, vendors, and investors equally excited and intrigued by its potential. Perhaps it was just a matter of time, but with difficulties stemming from disparate data silos and a reluctance to adopt new technologies in healthcare, it seemed very possible that A.I. would struggle to gain traction for a while. On the back of visionary business owners who were willing to 'take the leap,' in conjunction with the market's need for greater efficiencies, A.I. has advanced considerably and is showing promise in interesting use cases.

As far as Greenberg Advisors' activity, we are excited about the results we achieved for our clients, which led to the completion of ten transactions in 2022. These deals spanned a wide array of services, technology, and healthcare specialties, and ranged in size from under \$10 million to over \$100 million. More regarding our transactions on page 6.

In this report, we'll delve into noteworthy trends and pose questions that we have for the year ahead.

Data Source

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

Key Takeaway

Artificial Intelligence Shows Staying Power

For years, companies have been investing into the development of artificial intelligence and other advanced technologies to create a competitive advantage and improve their solutions. If 2022 activity is any indicator – A.I. is here to stay. Ranging from the merging of public companies, to mid-market acquisitions, to venture capital investments, investors were clearly attracted to companies with A.I. technology.

Example Deal Participants with A.I. Technology

CHANGE
HEALTHCAREaspirioncloudmed™jvionNUANCEpb
PatientBondpresidiohealthOrboGraph
Intelligent Payment Automation

Source: Greenberg Advisors

The use cases of A.I. varied across transactions. Some sellers utilized A.I. internally to enhance their existing services. Examples include Cloudmed and Aspirion, who leverage A.I. to identify issues and improve reimbursement and claims processing, among other things. Other companies that were acquired or raised capital sold A.I.-powered software solutions to address provider needs in patient engagement, payment processing, coding, clinical decision making, and many other areas. These companies, which sell software instead of services, are likely benefiting from the ongoing labor shortage that is forcing hospitals and health systems to consider technology solutions and automation as viable options – this is an important element that was largely missing in prior years.

It will be interesting to watch this new technology throughout its maturation process. Some firms boast of their A.I., but once the hood is lifted, the underlying software doesn't always use or benefit from A.I. in a meaningful way. With healthcare providers feeling the pressure of labor shortages and cash crunches, the timing seems optimal for the real A.I. solutions to stand out.

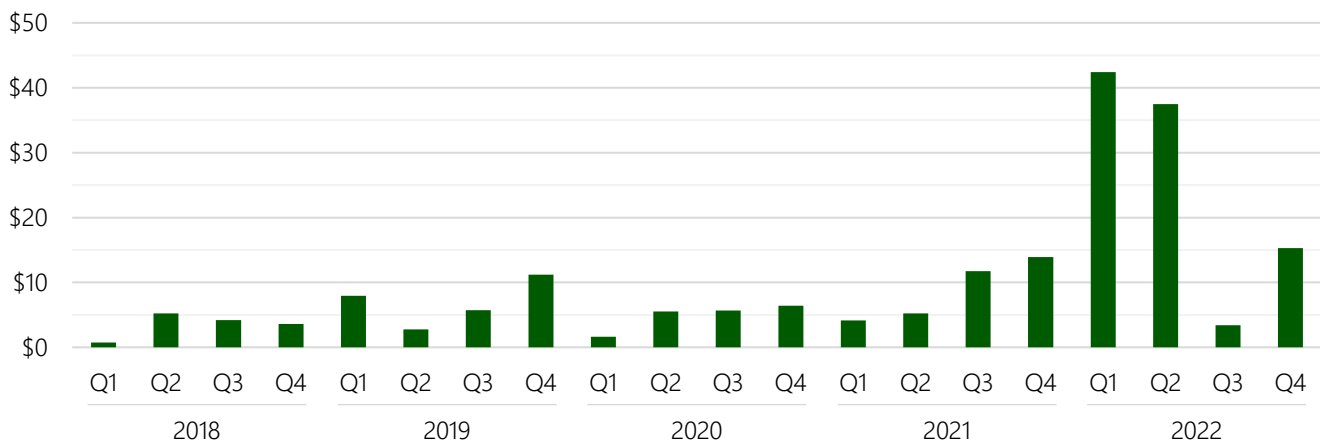
Key Takeaway

Reduced Volume Poised to Return

Transactions that exceeded \$1 billion in enterprise value accounted for 7% of all deals in 2022, the highest percentage in recent history. While these large transactions carried the transaction value to an increase over 2021, the number of transactions for the entire market declined by 33% in 2022. The data supports what we witnessed in practice – after the US Federal Reserve Board raised interest rates throughout 2022, many buyers (private equity firms in particular) temporarily paused / slowed their investment activity until they had a firm grasp on the impact of the changes and potential future changes. That led to a 43% decrease in transaction closings in the fourth quarter when compared to average deal volume in Q1-Q3. Since then, many of those groups have resumed searching for good targets under their new parameters, which should lead to increased activity.

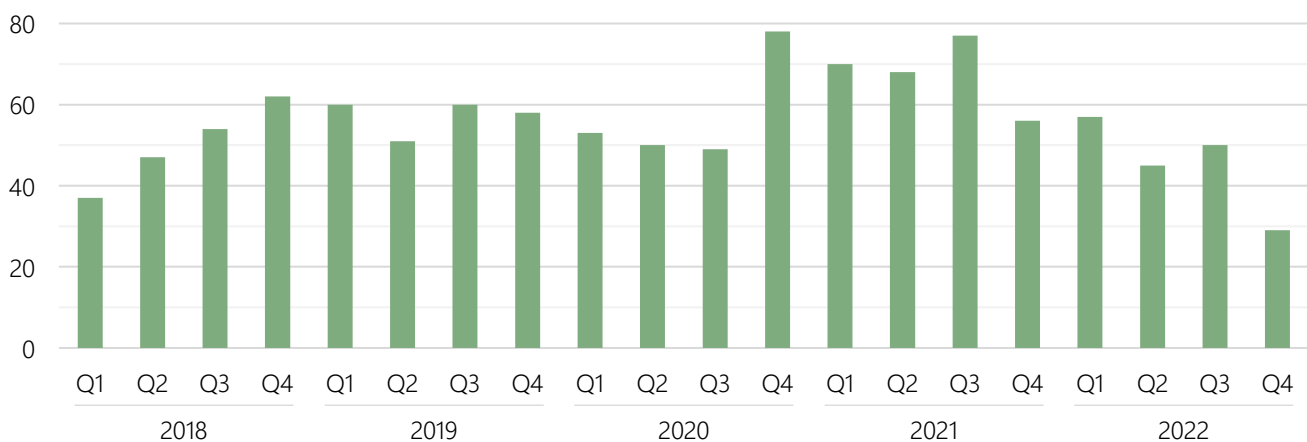
Transaction Value

\$ in billions



Source: Greenberg Advisors

Transaction Volume



Source: Greenberg Advisors

Key Takeaway

A Market Built for Add-Ons

'Buy-and-Build' is not a new concept for private equity firms to pursue and it makes a lot of sense in healthcare, which typically has longer sales cycles that create challenges to organic growth. Over the last five years, an average of 41% of transactions were made by financial buyers entering the market. With such a substantial amount of capital flowing into platform acquisitions, we expect that the buy-and-build strategy will fuel M&A activity in 2023, as their defined investment periods often require them to be more aggressive in securing growth through acquisitions. We've already begun to see this, with private equity-backed buyers representing 47% and 38% of transactions in 2021 and 2022, respectively, up from 33% and 28% in the prior two years.

75%

Financial investors or their portfolio companies were the buyer in 75% of transactions in 2022.

10

The most active private equity-backed strategic has completed ten acquisitions since 2020.

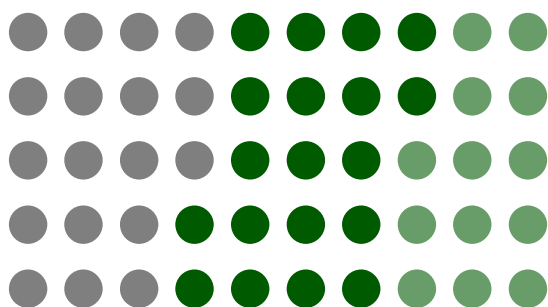
21%

Only 21% of 2022 transactions were financial investors exiting an investment.

Source: Greenberg Advisors

Buyer Types in 2022

Percent of all transactions



37% Financial Investors (Platform Investments)

38% Strategic Buyers Backed by Financial Investors

25% Other Strategic Buyers

Source: Greenberg Advisors

GREENBERG ADVISORS'

2022 Year-in-Review

It was an exceptional 2022 for our clients, and we look forward to continuing the momentum in 2023. Learn more about all of GA's 2022 transactions [here](#).

10

Completed
Transactions

45+

Offers Received or
Submitted on Behalf
of Clients

15

Different Client
Specialties


a portfolio company of
SHERIDAN
CAPITAL PARTNERS

acquired




a portfolio company of
SHERIDAN
CAPITAL PARTNERS

acquired



Private Equity-
Backed Strategic
Buyer

acquired

Midwest-Focused
RCM Firm
Specializing in EMS
(not yet announced)


a portfolio company of
**GRANT
AVENUE**

acquired


Uptain Group, Inc.

Private Equity-
Backed Strategic
Buyer

acquired

RCM Firm
Specializing in EMS
(not yet announced)

Specialized Payment
Automation
Technology Company

was acquired by

Private Equity-Backed
Strategic Buyer
(not yet announced)



was acquired by



EMS|MC
EMS MANAGEMENT & CONSULTANTS
a portfolio company of



acquired





RECEIVABLE MANAGEMENT
a portfolio company of
INCLINE
EQUITY PARTNERS

acquired

Commercial
Receivables
Management Firm



was acquired by


a portfolio company of
ASSURED
HEALTHCARE PARTNERS

Key Takeaway

Buyers Take Interest in Tech-Enabled Players

The number of transactions involving sellers with “technology-enabled” offerings jumped from 7% in 2021 to 13% this past year. This trend follows a long-playing theme of cash-constrained hospitals forcing downward pricing pressure onto their vendors. Historically, businesses have used offshore resources as one way to comply with pricing demands while sustaining profit margins. Over the last few years, however, we’ve seen more and more businesses implement internal technology solutions to boost efficiency, such as workflow drivers, RPAs (or bots), A.I., or other automation tools. From a buyer’s perspective, acquiring a company with effective internal technology also gives the buyer the ability to utilize that technology within its own organization, which can result in substantial synergies for the combined entity. This is a key reason that tech-enabled firms often garner aggressive valuation multiples.

How to Tell if Your Company is a Technology, Tech-Enabled Services, or a Pure Services Firm



Technology Firms: These companies sell a software product to clients - the client’s staff uses the software. Some of these firms will provide separate outsourced services, but in any case, the software stands on its own in the absence of services and is the primary revenue driver.



Pure Services Firms: These firms sell outsourced services to clients. Revenue is generated by human labor. These firms may use off-the-shelf software (i.e. software from a vendor) to facilitate their services but the value they create is based on the tasks being performed.



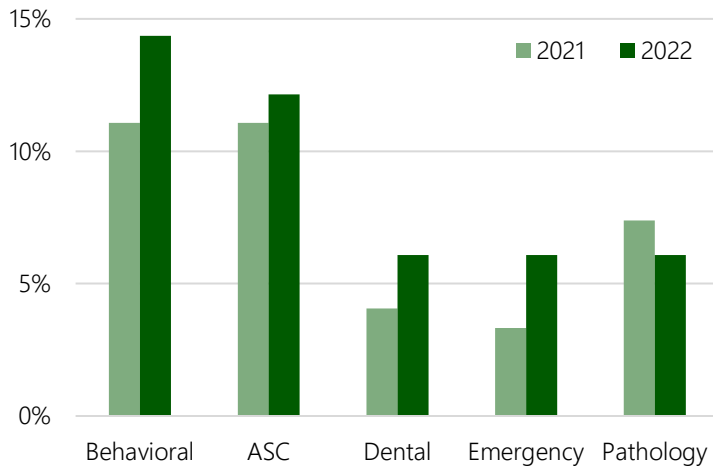
Tech-Enabled Services Firms: The term ‘tech-enabled’ refers to companies that sell outsourced services to clients but possess a proprietary technology that enhances results. It can also refer to firms that sell services but include proprietary value-added software tools to complement the services. An example would be a consulting company that uses a proprietary analytics engine to find unique areas of improvement while giving clients access to an online KPI dashboard; the company is being hired for its consulting services but the proprietary technology is integral to the value of its service, making it tech-enabled.

Key Takeaway

Peeling Back the Onion

Most Active Client Specialties

Percent of all transactions



Source: Greenberg Advisors

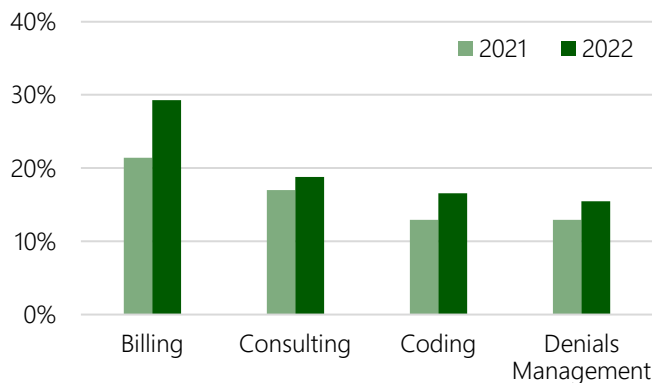
In terms of client specialties, two of the largest increases in deal activity were in the behavioral health and emergency segments. In fact, we (GA) completed several transactions in these markets. Private equity investments along with the upward trajectory of the behavioral health market, for example, are major factors fueling the increased activity.

The largest decline in activity occurred in the long-term care space. This was surprising, as there are favorable tailwinds for this market given the aging population of the US.

Billing services was the most popular solution offered by sellers, present in 29% of transactions. These types of firms are perpetually sought after because not only do they perform a crucial role for healthcare providers, which has become even more necessary given staffing challenges, but the market is incredibly fragmented, creating M&A opportunities at almost every revenue level. On the technology front, analytics and patient engagement retained their status as the most acquired software solutions in the market.

Most Active Service Offerings

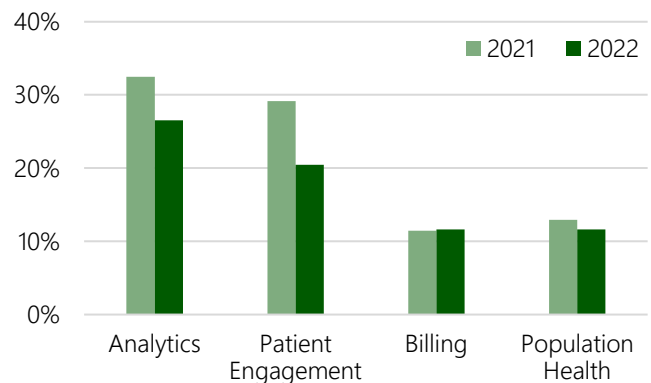
Percent of all transactions



Source: Greenberg Advisors

Most Active Technology Offerings

Percent of all transactions



Source: Greenberg Advisors

Conclusion

Gearing Up for an Active 2023

There is a lot to be excited about in the RCM and HCIT markets. \$100 billion in deal value doesn't happen by accident. 2022 was a 'bridge' year – we moved from inexpensive and what seemed like endless amounts of capital fueling fervent buyer activity to a more measured approach given the rising interest rates and economic uncertainty. As buyers ramp up their activity again, competition for attractive assets will increase, especially given that there are fewer acquisition opportunities in the market than in prior years. Ultimately, this will benefit sellers and spur additional M&A activity, as competition leads to higher valuations and higher valuations entice more sellers into the market.

Tailwinds for M&A Activity Entering 2023

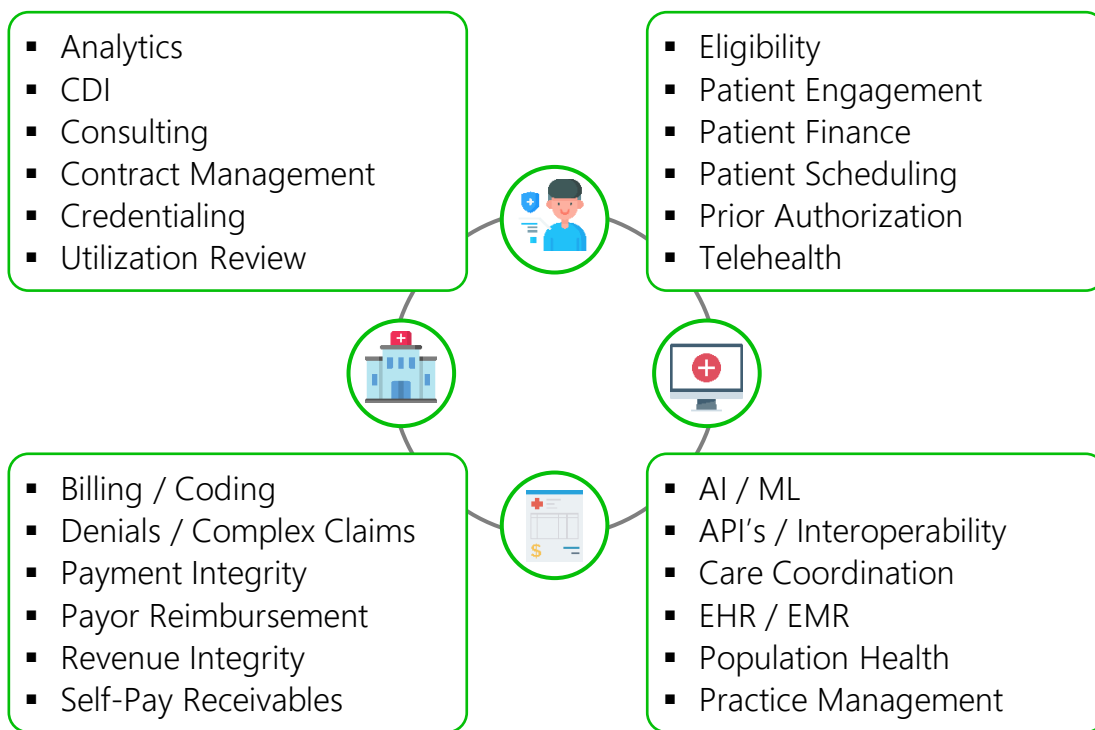
- **Staffing Shortages.** Healthcare provider staffing shortages will increase the need for outsourcing to vendors and technology / automation solutions.
- **Complexity.** Increased payor scrutiny and complexity will drive the need for specialists able to capture reimbursements for healthcare providers. Buyers may look for acquisitions that expand or deepen their expertise.
- **Value-Based Care.** Challenges associated with complying with Value-Based Care guidelines and the subsequent reimbursement impact to providers will create opportunities for subject matter experts.
- **Artificial Intelligence.** We don't expect the interest in A.I. to slow down. Firms that haven't already invested in A.I. development may turn to acquisitions to fill that gap.
- **And So Much More!** The many other dynamics unique to healthcare will continue to create new opportunities for buyers and sellers.

About Greenberg Advisors

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

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

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



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Note: This update is for informational use only. Information contained in this update is based on data obtained from sources believed to be reliable, and in some instances contains estimates. Data may include sellers that generate some non-RCM and / or non-HCIT revenue. Nothing in this publication is intended as investment advice. Use of any of the included proprietary information for any purpose without the written permission of Greenberg Advisors is prohibited.

Greenberg Advisors' Selected RCM & HCIT Transactions

 a portfolio company of
SHERIDAN
CAPITAL PARTNERS

acquired



 a portfolio company of
SHERIDAN
CAPITAL PARTNERS

acquired



Private Equity-Backed
Strategic Buyer

acquired

Midwest-Focused RCM
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Specialized Payment
Automation Technology
Company

was acquired by

Private Equity-Backed
Strategic Buyer

(not yet announced)

ATWATER
SOLUTIONS


was acquired by




EMS|MC
EMS MANAGEMENT & CONSULTANTS
a portfolio company of


acquired

VAIRKKO



was acquired by

 a portfolio company of
ASSURED
HEALTHCARE PARTNERS®

Greenberg Advisors' Selected RCM & HCIT Transactions


 a portfolio company of

 made a growth investment in


Tech-Enabled RCM Firm
 was acquired by
 Multinational Strategic
(not yet announced)


 acquired RCM assets of



 was acquired by



 was acquired by



 acquired a majority stake in



 a portfolio company of

 acquired



 acquired a majority stake in



 acquired
