

Investment & Consolidation in Healthcare Consulting

The overall increase in healthcare spend, changing regulatory environment, and disruptive technology has led to a surge in demand for healthcare consulting services, driving the speed and volume of industry consolidation.



INTRODUCTION

Healthcare consulting providers cover a wide array of advisory services to organizations of varying scale in both public and private sectors. Across the board however, the increasing complexity of healthcare reimbursement and regulation have propelled payors and providers to seek outside consulting services to position themselves for the future changes within the industry. As a result, demand for expertise from consulting firms will continue to soar. In the last five years, the surging demand facilitated the entrance of specialized players in several niche markets such as reimbursement analysis and medical audit. The rise in volume and specialty of healthcare consulting services has attracted the attention of industry incumbents, prompting an initial wave of consolidation as existing strategic players extend service offerings and enter new markets. In addition, industry crossovers also play a significant role in driving some of the mega mergers, such as the IMS Health and Quintiles merger that created a data-driven Contract Research Organization. As a result of these dynamics, consolidation through M&A has been a key strategy over the past three years.

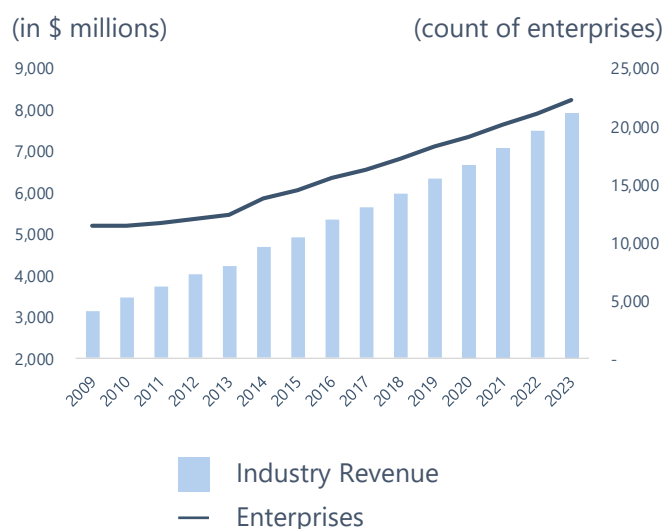
While transaction activity remains strong in the United States, active buyers are also targeting other global markets for potential acquisitions. Many of the mega industry incumbents have an international presence with multinational consulting expertise. Globally, the increasing rate of healthcare spending remains a major problem in many developed countries. While the U.S. has the highest total healthcare expenditure in the world, other developed countries are closing the gap at a rapid pace. This suggests that demand for healthcare consulting services will increase globally and buyers will look beyond traditional

Healthcare consulting services has recorded a new high in growth rate over the past year, and is expected to continue the momentum as industry demand surges and consolidation continues.

regional targets for consolidation.

Over the past five years, the healthcare consulting industry grew at a CAGR of seven percent to 17 thousand enterprises with over three million total establishments in 2018. This indicates sustained rapid growth augmented by continued expansion of incumbents. The industry landscape is becoming increasingly competitive, driving operators to seek alternative avenues for expanding current service lines and business development capabilities.

***U.S. Healthcare Consulting Industry
Revenue and Enterprise Count***



Source: IBIS World

MACROECONOMIC DRIVERS

Regulatory Environment

In an ever-changing regulatory environment, new policies and regulations have pushed industry participants to obtain specialized consulting services. To reduce system shock and allow adequate time for healthcare organizations to digest change, implementation often takes years. For example, the HITECH Act was passed and the concept of meaningful use was introduced in 2009, but stage one, two, and three were released over a span of six years. Two overarching themes construct the most notable industry trends. The shift from fee for service to value-based payment models will reward providers that can demonstrate improved outcomes and patient satisfaction. Price transparency is also a driving concern due to current opaque reimbursement. The affected entities include pharmaceutical companies, providers, and hospitals. In addition, key differences from federal guidelines and state specific policies have also further complicated the creation and modification of regulatory policies for healthcare organizations.

Under the increasing complexity of reimbursement regulations, healthcare organizations will continue to engage consulting services to comply with the most recent policy releases, adjust to profit maximizing operations, and factor in predictive diligence in financial planning and projections.

Disruptive Technology

Digitalization as Reimbursement Leverage

As EHR Meaningful Use is rolled out, more favorable reimbursement will be granted to

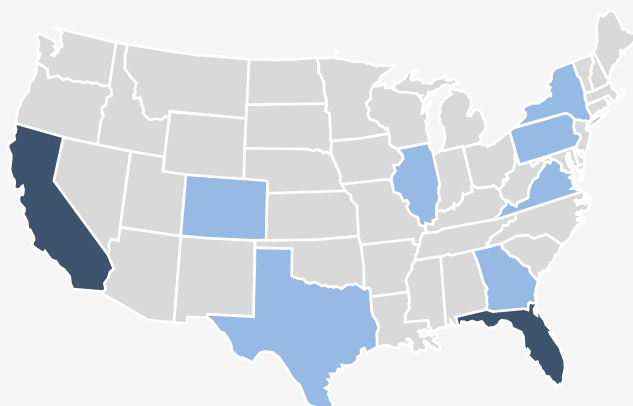
companies that have implemented Electronic Medical Records (EMR). The benefits of transitioning from traditional paper records to conveniently accessible digital platforms has prompted the demand of healthcare IT advisory, as organizations can leverage healthcare consultants for software selection, implementation, and education. In May 2018, Cumberland Consulting Group acquired LinkEHR, an Electronic Health Records managed services firm, adding a valuable piece to complement its provider managed service offerings.

Data Analytics Driven Service Offerings

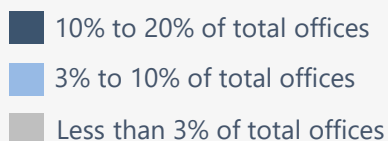
While many healthcare consulting providers conduct their own primary research, some purchase data from firms such as IQVIA and Symphony Health to supplement their service. Surveys and big data help to produce sound research, contribute to launching strategy development, and further the commercialization of products. Having access to a sound database and the ability to create consistent, meaningful reports greatly increases the competitiveness and service quality of a healthcare consulting firm. While some firms rely on data service firms to access highly technical analysis, several firms have already made the first move to bring these two functions together. In 2015, cloud-based data analytics firm Inovalon acquired healthcare consulting advisory firm Avalere, allowing healthcare consulting services to leverage in-house analytics data. The potential synergies of joint forces of this kind offer a cost-effective opportunity to integrate outsourced services in-house, driving mergers and acquisitions volume among lower to middle-market consulting firms seeking service offering expansion.

HEALTHCARE CONSULTING INDUSTRY

Business Location Concentration Map



Healthcare Consulting
Business Locations



Healthcare consulting businesses traditionally follow strategic site selection methods to maximize proximity to key markets. Access to local prospective clients such as hospitals, pharmaceutical companies, and healthcare services providers represents a significant, competitive advantage.

Due to the recent digitalization that revolutionized the healthcare industry as a whole, many consulting organizations have shifted to a multi-site operation model, where regional offices are opened or workers are allowed to work remotely, extending coverage of key markets.

This distribution allows sizable firms to seek de novo expansion opportunities in underserved regions by acquiring and growing regionally renowned practices, while adding local relationships to their pipeline.

Trend 1: Contingency-Based Compensation

Healthcare consulting services correspond to the healthcare industry's shift from fee-for-service to value-based reimbursement. The healthcare consulting revenue model is shifting towards performance from hourly charges and is expected to experience a gradual change over the next few years.

Trend 2: Technology-Enabled Services

Increased utilization of data analytics introduces significant competition for healthcare consulting. Firms that are capable of using sound data to

produce quality and consistent analyses will be able to turn this trend into a significant advantage to secure client relationships. Due to this disruptive technology, most major industry players have either built out their own or acquired data analytics providers. This provides IT consulting firms with easier access to enter or bolster their position in the healthcare consulting business, creating a cross-selling opportunity. However, as larger consulting firms bring data research teams in-house or outsource reports from data analytics providers, competition rises for other players in the industry.

HEALTHCARE CONSULTING INDUSTRY

Trend 3: Reimbursement Volatility

Reimbursement trends create opportunities for healthcare consulting firms. Due to the continuous shift from fee-for-service to value-based care and constant reimbursement pressure, healthcare organizations seek advisory to maximize budget efficiency. This comes with consistent dynamic policies and regulations, which are often open to interpretation. Healthcare expertise is highly sought after in management and operational consulting to keep up with reimbursement trends and make timely adjustments to maximize profit.

Trend 4: Versatile One-Stop Offering

Healthcare consultants provide a wide array of services. Corporations seek consulting services for better reimbursement guidance, product commercialization, and expansion strategies. With respect to reimbursement models, some consultants offer medical audit and utilization review to ensure accuracy. Private equity firms can insert management into their portfolio companies or when assessing acquisition targets. Having an all encompassing capability to accommodate very different client needs will become one of the strongest advantages in today's competitive landscape, allowing access to broader client base and cross-sell opportunities. As a result, dominant industry players continue to seek ways to extend their service lines through consolidation.

MERGERS & ACQUISITIONS ACTIVITY SINCE 2018

Time	Acquirer	Target	Primary Industry Sector
July 2019	McDermott Will & Emery	Farragut Square Group	Healthcare Research and Advisory
June 2019	Clearview Capital	IRI Consultants	Labor Relations Consulting
June 2019	UDG Healthcare	Putnam Associates; Incisive Health	Strategic Management Healthcare Consulting; Healthcare Policy and Comms
April 2019	NTT DATA Services	State Healthcare Consulting Practice	Healthcare IT Solutions
January 2019	Accenture	Knowledgent	Healthcare Data Analytics
December 2018	GHO Capital	Validant	Compliance and Regulatory Affairs Consulting
September 2018	Trinity Partners	TGaS Advisors	Life Sciences Advisory Services
August 2018	Integrity Marketing Group	Cornerstone Broker Insurance Services Agency	Medicare Consulting
June 2018	STG Partners	Morpace	Market Research and Consulting
May 2018	LNC Partners	West Physics	Diagnostic Medical and Health Physics Consulting
April 2018	Corridor Capital	SPM Marketing & Communications	Healthcare Consulting and Marketing Communication Services
February 2018	OPEN Health (Amulet Capital Partners)	Peloton Advantage	Clinical-focused Strategic Consulting
February 2018	The Chartis Group	Oncology Solutions	Cancer-exclusive Consulting

CONCLUDING THOUGHTS

The market is on the lookout for niche pure plays that specialize in life science consulting, reimbursement diligence, and data analytics capabilities. Among others, values that are highly sought after include management excellence, business development capabilities, work quality and consistency, and competitiveness on pitching and pricing.

Expanded healthcare spend, changing reimbursement regulations and policies, and increased demand for cost efficiency are driving the need to hire healthcare consultancy services, as seen in government agencies, healthcare corporations, institutional investors, and private payors.

To the extent that it is of interest, members of the Provident team would be happy to elaborate on any of these trends & provide specific insights on healthcare niches, specialties, and industry verticals. Please contact us at (617) 742-9800 for additional information.

Jasmine Zou

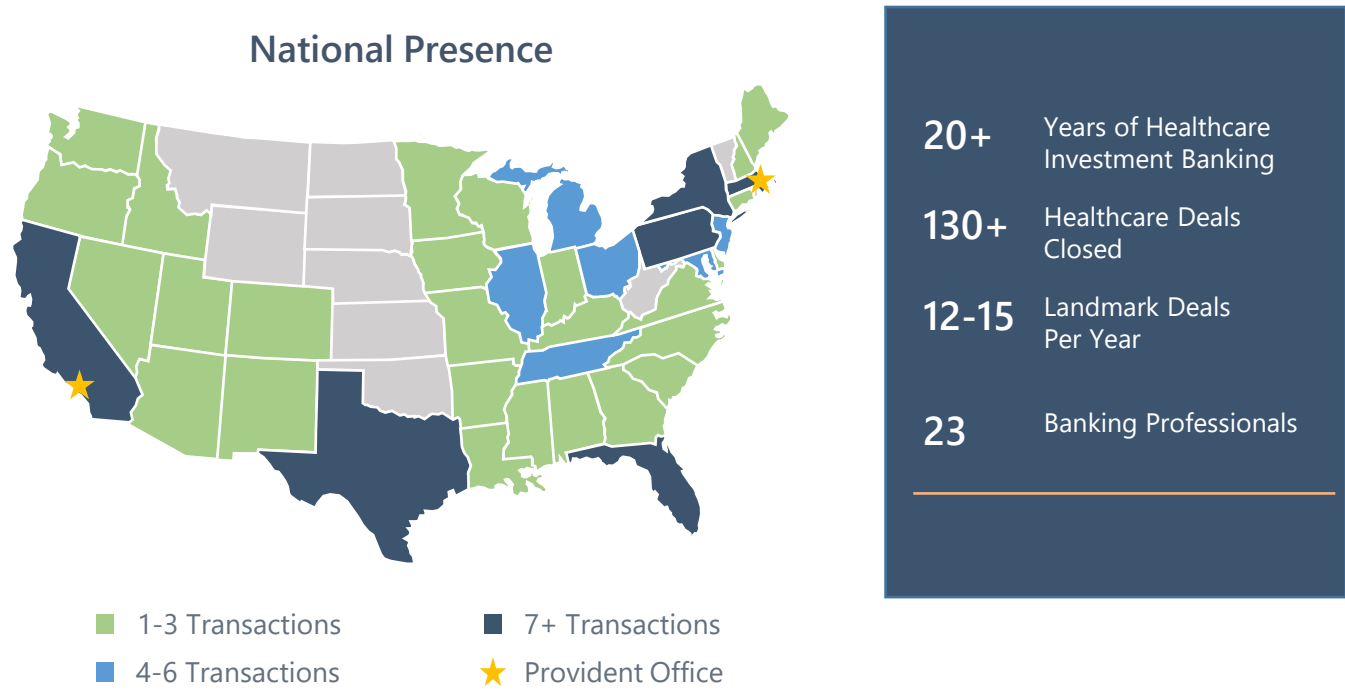
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PROVIDENT HEALTHCARE PARTNERS

Provident Healthcare Partner’s investment banking team works with privately owned healthcare companies to provide advisory services related to mergers and acquisitions. Prior to formal engagement, Provident works with companies to provide the upfront education to shareholders necessary to understand the economics, structure, and motivation of a transaction. Following the education process, if formally engaged, Provident leverages their extensive knowledge of the buyer universe to find the most compatible partner and drive valuations for a company’s previously illiquid stock. Driving the entire transaction process, Provident facilitates and assists with deal structuring, negotiations, exit planning/processing, counseling amongst shareholders, and due diligence.



Note: The above map represents states where Provident clients were headquartered. Provident has successfully closed transactions with clients operating in 45 states and Puerto Rico.

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Provident is the leading investment banking firm specializing in merger and acquisition advisory, strategic planning, and capital formation for middle-market and emerging growth healthcare companies.

The firm has a vast network of senior industry relationships, a thorough knowledge of market sectors and specialties, and unsurpassed experience and insight into the investment banking process.

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