

Q3-2022 Oncology Services Update

Market Update

Despite an uncertain macroeconomic environment, recessionary fears, and the impact of rising interest rates, the interest in acquiring oncology practice assets remained strong through the third quarter of 2022. This is aided by the maturity of the consolidation play within oncology services and the existence of a number of large and well capitalized strategic acquirers in the sector. While private equity interest for new platforms is still likely to come, the existing platforms with strong balance sheets and existing debt facilities are still well positioned to conduct M&A. This is so true that despite the volatility in public markets, it was publicly-traded The Oncology Institute of Hope & Innovation ("TOI") that completed the only two publicly announced transactions in the third quarter of 2022.

Elsewhere, rumors of additional platform-worthy oncology practices going to market permeated in M&A circles. This leads to an expectation for an increase in overall deal count and size in the coming 3-6 months. Additionally, it's been announced that one of the industry's largest networks of nearly 200 oncologists, American Oncology Network, is poised to go public through a special purpose acquisition company, also known as a blank check company or SPAC. The expectation is for this to be completed before the end of 2022 and would follow in the path of TOI's previous SPAC transaction upon the exiting of their prior private equity investors, Havencrest Capital Partners.

One of many factors fueling investor interest in the oncology sector is the more tangible and realistic opportunity to participate in value-based care payment models as compared to most of physician sub-specialties. Since 2016, the Oncology Care Model ("OCM"), which was developed by the Centers for Medicare and Medicaid Services ("CMS"), has allowed for bundled payments of care and encouraged provider collaboration, such that practices billed a Month Enhanced Oncology Services ("MEOS") payment and were also eligible for retroactive Performance-Based Payments ("PBP") measured by financial and quality benchmarks. While results show OCM participants spent less per episode than non-participating practices, the model ultimately cost more money than it saved and expired in June 2022, marking Q3 as the first outside of the OCM era in 5 years.

As the successor and launching in July 2023, CMS announced the Enhancing Oncology Model ("EOM"). Similar to OCM, EOM is voluntary and will run for five years, with six-month care episodes. Applications to participate in the program were first accepted in July of 2022. EOM participants will still receive retroactive PBPs contingent upon the patient's long-term performance, as well as MEOS payments. Most significantly, the EOM will have a downside risk component intended to incentivize outcome-driven treatment. The evolution of value-based care payment models is being monitored intently by investors and will undoubtedly fuel additional entrants to the market.

Select Transactions:

Month	Acquirer	Target	Deal Description
July		The Practice of Nutan Parikh, MD	The Oncology Institute, Inc. ("TOI"), one of the largest value-based community oncology groups in the country, announced the acquisition of the practice of Dr. Nutan Parikh. The addition of Dr. Parikh's locations further strengthens TOI's position in the Nevada market and amplifies its role as a leading value-based oncology care provider.
July		The Practice of Ranjan Sapra, MD	The Oncology Institute, Inc. also announced in the month of July the acquisition of the practice of Dr. Ranjan Sapra. This partnership expands TOI's network of 93 specially trained physicians and advanced practice providers across 55 clinics in five states, four of which are in Orange County, California.

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