

Provident Perspectives: Investment & Consolidation in the Oncology Practice Management Sector

Examining recent developments and key trends within the oncology practice management space



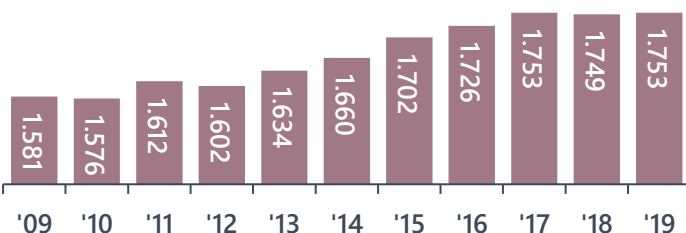
Provident
Healthcare Partners

Introduction

The prevailing investment thesis in the oncology practice management space, which is centered on favorable demographic trends and market fragmentation, continues to drive transaction activity and competition for independent practices in the sector. The fragmented marketplace, combined with an aging U.S. population, rising cancer case counts, and increased survivorship, has created a demand for services that more than outpaces the supply of providers.

There are more than 2,000+ oncology practices in the United States, with 76.0% of practices employing only one to five oncologists. Less than 5.0% of practices have over five clinic locations, with approximately 25.0% of practices having only two to five clinic locations.⁽¹⁾ Furthermore, cancer case counts continue to increase annually, with the total number of cases expected to almost double by 2050.⁽²⁾ Meanwhile, early career oncologists (less than 40 years old) represent less than 15.0% of all oncologists, with 20.0%+ of oncologist close to or at the retirement age of 65.⁽³⁾

Number of New Cancer Cases (Millions)⁽²⁾

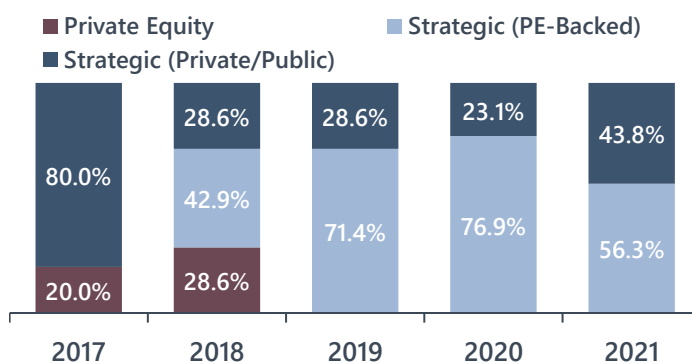


Oncologist Shortage⁽⁴⁾

Top Five MSAs Based on Oncologists Above Retirement Age (65+ Years)

MSA	% of Oncologists
Miami, FL	35.0%
North Port, FL	33.0%
New York, NY	30.0%
Los Angeles, CA	30.0%
Washington, D.C.	30.0%

Transactions by Acquirer Type (% of Total)⁽⁵⁾



Despite low competition and attractive macro tailwinds, strategic add-on acquisitions dominated transaction activity with zero new platforms created over the last three years. In 2017 and 2018, 20.0% to 30.0% of acquisitions represented platform creations or other private equity buyouts, while from 2019 to 2021, private equity-backed add-on acquisitions represented 65.0%+ of transaction activity. Further emphasizing the rising prevalence of private equity-backed platforms and the resulting increase in competition for add-ons, in 2017, corporate-backed and public strategic acquirers represented 80.0% of deals, whereas corporate-backed and public strategics only represented 43.8% of activity in 2021.⁽⁵⁾

Given the current transaction landscape and attractive market factors, we expect to see increased competition for add-on acquisitions among sponsors and strategic acquirers already invested in the space. Further, given the demand for services and a relatively low number of key platforms and strategic acquirers, we see the capacity for new platform investments looking to fill gaps in care across the United States.

Provident Healthcare Partners is an investment banking firm exclusively focused on advising healthcare companies through transactions. In this white paper, we examine consolidation drivers, emerging trends, and considerations for business owners looking to explore transaction options.

⁽¹⁾ Center for Medicare & Medicaid Services; ⁽²⁾ Center for Disease Control and Prevention; ⁽³⁾ cancernetwork; ⁽⁴⁾ Doximity; ⁽⁵⁾ Transaction statistics based on research completed by Provident

Surveying the Oncology Practice Management Landscape

Oncology Practice Management Investment Thesis	
Market Fragmentation ⁽¹⁾	Aging Population ⁽²⁾
<ul style="list-style-type: none">• 2,000+ oncology practices in the United States• 76.0% of practices employ one to five oncologists• 72.0% of practices have one clinic location	<ul style="list-style-type: none">• 100.0%+ projected increase in the number of individuals aged 65+ in the United States by 2040• One in five individuals expected to be aged 65 and older by 2040
Rising Case Counts & Increased Survivorship ⁽³⁾⁽⁴⁾	Provider Supply & Demand Imbalances ⁽⁶⁾
<ul style="list-style-type: none">• Cancer case counts increased by approximately 1.1% annually (1.6 million in 2009 to 1.8 million in 2019)• 24.4% projected increase in the number of cancer survivors by 2032	<ul style="list-style-type: none">• 40.0% projected increase in the demand for oncologist services by 2025• 25.0% projected increase in the supply of oncologists by 2025

Several macro-scale developments continue to affect the supply of providers and demand for services in the oncology practice management sector. While per capita (per 100,000 individuals) cancer incidence levels declined on average by -0.9% per year (480 in 2009 to 439 in 2019), cancer case counts increased by approximately 1.1% annually (1.6 million in 2009 to 1.8 million in 2019).⁽³⁾ According to research completed in 2021, the CDC expects the annual number of cancer cases to increase by almost 50.0%, from 1.7 million in 2015, to 2.3 million in 2050, with the largest absolute increases in breast, colon/rectum, and prostate cancers.

In 2015, the U.S. spent \$183 billion on cancer-related care, a number that is expected to increase 34.4% to \$246 billion by 2030. Factors contributing to the increase are complex, as there are 200+ different types of cancers with varying treatment requirements. The stage of diagnosis, type of treatment (chemotherapy, radiation, etc.), duration of treatment, and number of ancillary services required (lab tests, PET/CT scans, etc.), creates a wide discrepancy in costs from patient to patient.⁽⁴⁾

Furthering the demand for oncology services is the aging U.S. population. The median age of cancer diagnosis is 66 years, meaning half of all cases occur in individuals

below and above this age. 55.5% of cancer diagnoses occur in patients over the age of 65, a population which grew 34.2% over the past decade (2010 to 2020).⁽⁷⁾⁽⁸⁾ As the 65+ age cohort in the U.S. continues to expand, case counts and expenditures will likely see a sustained increase regardless of any projected decreases in per capita incidence levels.

Despite the favorable demand dynamics, 21.1% of oncologists are nearing the retirement age of 65 years old, with only 14.5% being early career (< 40 years old). Contributions to the shortfall include a lower supply of residents and a higher level of physician burnout due to clinical and operational frustrations with practice and or government requirements. Major metropolitan statistical areas with the highest concentrations of aging oncologists include Miami, New York, Los Angeles, and Washington D.C.⁽⁵⁾⁽⁹⁾

Combining all the above dynamics and trends with a fragmented marketplace and low competition provides many of the sought-after characteristics for private equity investment. The demand for transactions has led to rich valuations, as well as seller-friendly deal structures for business owners and providers looking to explore options in their market.

Consolidation Drivers

While there are several trends expected to impact the demand for services, supply of providers, and type of treatments offered, consolidation continues in the oncology space. Market fragmentation, back-office and business function enhancements, physician recruitment and retention efforts, and the ability to achieve cost and revenue synergies via partnership continue to be the primary drivers of consolidation.

Key Drivers of Consolidation	
Centralized Business Functions	Payor Negotiations & Efficient GPOs
Technology & Data Management	Recruitment & Retention
Ancillary Service Offerings	

Centralized Business Functions

Almost all investors in the oncology space bring financial and time burden relief by shifting non-clinical focused business functions away from physician shareholders. Larger investors often have existing teams of experienced accountants and back-office staff ready to facilitate the general administrative tasks required when running a healthcare services business. Furthermore, investors and acquired practices also benefit from economies of scale by offering centralized business functions such as accounting, finance, and human resources, resulting in significant bottom-line financial savings, improved operational efficiency, and enhanced scalability when considering future partnerships. Consolidating administrative tasks lowers costs due to fewer redundant workers, increased productivity, and reduced facility related expenses. As a result, partnering with investors is beneficial for both parties as revenues and expenses are optimized while shareholders can focus more on the parts of the business they enjoy.

Payor Negotiations & Efficient GPOs

Reimbursement rates and drug purchasing, along with the related negotiations with payors and participation in efficient GPOs, continue to be primary drivers of financial performance for oncology practices across the country. When partnering with a larger strategic organization, groups often realize an immediate boost to revenue, as acquiring groups are typically able to negotiate superior rates due market density and lower cost profiles for insurance plans. Acquiring groups can also draw practices into larger GPOs, or negotiate on their behalf, resulting in an uptick to financial performance from reduced drug costs. Members of The US Oncology Network enjoy access to the Unity GPO, one of the most lucrative GPOs in the country, allowing affiliated practices to reduce a patient’s co-insurance burden and improve financial performance. The standardized nature of efficient GPOs also allows organizations to quickly alter prescribing habits and take advantage of preferred pricing obtained through the GPO.

Centralized Back-Office Functions



Information Technology



Finance & Accounting



Marketing & Advertising



Practice Administration



Human Resources



Billing & Revenue Cycle Management

Key Drivers of Successful Payor Negotiations

 <div>Financial Scale</div>	 <div>Broad Geographic Coverage</div>
 <div>Large Patient Base</div>	 <div>Proven Clinical Outcomes</div>

Consolidation Drivers *(Continued)*

Technology & Data Management

Clinical data is crucial to the successful operation of an oncology practice. While practices of all sizes serve to benefit from data driven analytical insights, larger practices are more easily able to aggregate and use such information. Through acquisition, investors and shareholders alike benefit from data aggregation as the practice gains additional insights on patients to ultimately deliver more customized and effective treatment plans. Blinded oncology clinical data can also be bundled together and sold to biotech and pharmaceutical companies for research purposes. One large dataset combined via several partnerships and acquisitions carries a higher premium than several smaller data sets, optimizing an ancillary revenue-stream.

Recruitment & Retention

A leading challenge for oncology organizations across the country is the recruitment and retention of top tier talent. Larger health systems notoriously offer higher salaries and sign-on bonuses, effectively outbidding smaller practices from attracting and building their provider base. In response, independent practices began partnering with outside investors who set aside money and structure attractive partnership tracks exclusively for the purpose of hiring new talent. Several entities have begun to offer new recruits equity in the form of profit interests, which aligns incentives and provides financial upside for the newly hired physician. Groups will also form relationships with residency and training programs to ensure a continued pipeline of new recruits.

Ancillary Service Offerings

The definition of oncology practice management has evolved over the years from medical, radiation, and surgical oncology to include ancillary services such as in-house pharmacy dispensing, lab testing, and diagnostic imaging. While historically siloed in their specialty service offerings, community oncology practices recognize the benefit from offering comprehensive care, both from an economic perspective and where a patient receives all necessary treatment offerings in a one-stop centralized location.

To build out the ancillary services, community practices often align with a private equity partner or larger strategic acquirer who brings necessary capital and operational efficiencies. Outside investors also recognize the value created when patients remain within a single network of specialty and ancillary service line offerings. Despite the decreasing reimbursement environment and provider supply challenges, ancillary service offerings provide an additional source of revenue and further increase a patient's quality of care via a more comprehensive set of services.

The decision to offer ancillary services ultimately depends on the patients benefit and willingness of the clinical staff to implement such services. While there are several ancillary service options afforded to community oncology practices, the below provides an overview of the most frequently leveraged service lines.

Pharmacy: With an in-house oral pharmacy, patients receive timely access to prescriptions as compared to the use of an external pharmacy. Physicians are also able to more effectively manage treatment plans through medication management.

Lab Services: Onsite laboratories further enhance a patient's quality of care due to increased care continuity and convenient access to pathology and testing. Lab services also provide physicians with timely information, resulting in more informed clinical decision-making.

Radiology: Offering in-house PET/CT scans provides an economic benefit to a practice and allows physicians to provide more comprehensive and convenient care to patients.

Emerging Trends

Hospital-Based Oncology Practices

While community-based medical and radiation oncology remains common practice from a cancer care perspective, the economic and philosophical benefit received from aligning with a health system has led to an increased prevalence in hospital-based oncology practices. Beyond the required collaboration between oncologists and the hospital, practice owners must consider several practice models as outlined below to ensure financial alignment and regulatory adherence.

Partnership Models⁽¹⁾

Inpatient Employment Model:

The hospital employs medical and/or radiation oncologists to provide services at hospital-owned facilities. Benefits include less risk for the hospital, but such partnerships are generally less attractive for oncologists.

Clinical Joint Venture:

Radiation oncologists partner with the hospital and operate out of a mutually-owned outpatient cancer center. The JV model limits the use of medical oncologists (ex. medical directorships) due to Stark regulations and anti-kickback statutes.

Non-Clinical Joint Venture:

Medical and/or radiation oncologists establish an MSO and provide management services and lease equipment to the hospital. Stark laws eliminate the ability for the MSO to provide clinical services at the hospital.

Hospital-Branded Model:

The oncology practice and the hospital remain separate entities, but partner from a marketing perspective. This model is still subject to regulation such as anti-kickback statues and CPOM laws.

From a consolidation perspective, outside investors remain interested in both inpatient (non-hospital employed) and outpatient models. For those groups currently operating in an inpatient, non-hospital employed, partnership model, buyer diligence will largely focus on professional service agreements and non-competes from a legal scrutiny perspective. High market share favors groups who may even need sign-off from a hospital partner to formally sign and close a transaction.

Regardless of the partnership model, buyers will focus on existing referral patterns, concentration from any sources, as well as potential disruption to those referral channels resulting from a transaction. Diversification among hospitals and health systems, along with the stickiness of those relationships, increases the likelihood of a successful outcome. Favorable contract renewal terms, length of relationship, and the number of positions physicians hold on administrative and clinical committees will all be viewed more favorably.

To prepare for a transaction, hospital-based groups must review practice systems and the ability to access key information, all of which will be important to any incoming investor. As a starting point, groups should confirm access to financial statements and related performance metrics. Ownership of internal functions and systems, such as accounting, human resources, information technology, and marketing is also desired.

Growth drivers will also play a significant role in attracting outside investors. Groups must demonstrate the ability to expand relationships across additional hospitals within a larger health system, as added density and market dominance increase the likelihood of the health system accepting a potential deal. Groups can also boost and diversify revenue streams with directorship fees as well as joint ventures on radiosurgery centers and PET/CT infusion suites to cover a broader patient base.

⁽¹⁾ Oncology Practice Management

Emerging Trends *(Continued)*

Value-Based Care Payment Models

Introduced in 2016, the value-based Oncology Care Model (“OCM”) provided incentives to participating physicians who proactively and comprehensively addressed the needs of Medicare patients receiving chemotherapy. OCM bundled payments for care and encouraged provider collaboration, such that practices billed a Monthly 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.

As the successor and launching in July 2023, the Center for Medicare and Medicaid Services (“CMS”) announced the Enhancing Oncology Model (“EOM”). Similar to the OCM, the EOM is voluntary and will run for five years with six-month care episodes. EOM participants will still receive retroactive PBPs contingent on the patient’s long-term performance, as well as MEOS payments,

albeit at a rate of \$70 per month instead of the OCM rate of \$160 per month. Most significantly, the EOM will have a downside risk component intended to incentivize outcome-driven treatment. Further, EOM excludes several low-risk cancer types treated with hormone-only therapies and requires patient-reported information on medication adherence and side effects.⁽¹⁾ While both aspects intend to improve patient outcomes, practices cautioned the narrower field of cancer types and added reporting burden for physicians. Practices also voiced concerns about the yearlong gap between the expiration of the OCM and the launch of the EOM due to the expense burden without the incentive payment benefits.

For any value-based care model to be economically viable, CMS must see a reduction in per-episode costs that more than cover the monthly and performance-based incentive payments. The EOM’s success will largely be driven by practice participation and their ability to follow CMS’s implemented guidelines on high quality patient-centered care.

Oncology Care Model vs. Enhancing Oncology Model

Care Coordination	<ul style="list-style-type: none">• OCM intended to place the patient at the center of care (proactive outreach, management between appointments, extended hours, same-day appointments, etc.)• EOM builds upon OCM to include screening for Health-Related Social Needs (“HRSN”) and the implementation of Electronic Patient-Reported Outcomes (“ePRO”)
Quality & Costs	<ul style="list-style-type: none">• OCM proved a reduction in cost while maintaining high quality care via several quality measures, but demonstrated a greater need to address a patient’s emotional state• EOM aims to enhance quality care with the ePRO implementation and reduce costs further with targeted cancer types
Downside Risk	<ul style="list-style-type: none">• OCM primarily offered participating practices one-sided risk, in hindsight suggesting groups were not fully incentivized to embrace value-based care initiatives• EOM requires groups to take one of two downside risk models, including the full cost responsibility on drugs

⁽¹⁾ EOM will focus on seven cancer types: breast cancer, chronic leukemia, small intestine/colorectal cancer, lung cancer, lymphoma, multiple myeloma, and prostate cancer

Emerging Trends (Continued)

Cancer Diagnostics & Precision Medicine

Precision medicine uses genomic or proteomic profiling to identify mutations or other biomarkers in a patient and then matches treatments specifically to these abnormalities. In contrast to the traditional approach to treatment, where physicians treat patients with the same disease with the same drug, dose, and schedule, precision medicine treatments are specific to an individual patients' mutations or biomarkers. Patient specific treatment has a higher likelihood of survival with the avoidance of high risk, toxic therapies, leading to an improved quality of life.

Traditional Medicine vs. Precision Medicine⁽¹⁾

Traditional Medicine	Precision Medicine
Radiation: High-energy particles damage or destroy cancer cells	Genetics: Gene sequencing; locate cancer-causing genes
Chemotherapy: Chemicals attack cancer	Immunotherapy: Identify ways to customize treatment; find ways to turn on immune system; personalize treatment with immune-activating drugs
Surgery: Operate on part of the body to diagnose or treat cancer	Targeted Therapies: Drugs turn specific genes on or off

Precision medicine's emphasis on early diagnosis and specialized treatments also proves to decrease treatment related costs. A 2017 study found that early diagnosis reduced U.S. cancer-related costs by \$25.9 billion annually. As a percent of total 2017 estimated national expenditures, the study estimated melanoma, pancreas, and lung cancer types to have the greatest potential cost savings.⁽²⁾ Other studies showed treatments for patients diagnosed early are two to four times less expensive

than those of patients diagnosed in more advanced stages. Specialized treatments also avoid unnecessary expenses on costly drugs, which may provide little to no value for patients.

However, implementing precision medicine poses significant challenges. To start, clinicians require training to understand which tests to use, when to use each test, and how to interpret the subsequent findings. Genomic reports can include large amounts of unfamiliar information, making it difficult to match results to treatment plans. Practices seeking to take advantage of precision medicine will therefore need to invest considerably in continuing education for providers.

There are also financial barriers to the adoption of precision medicine. Genomic tests are expensive and are not comprehensively reimbursed by insurance plans. Payors have been slow to introduce new payment structures for precision medicine treatments and often require prior authorization for testing and the use of off-label drugs.

2017 Est. National Spend vs. Savings (Millions)⁽²⁾

Cancer Type	Spending	Savings	% of Spending
Melanoma	\$3,308	\$1,342	40.6%
Pancreas	\$3,040	\$784	25.8%
Lung	\$13,693	\$3,434	25.1%
Oral	\$4,102	\$1,010	24.6%
Ovary	\$5,339	\$1,306	24.5%
Esophagus	\$1,858	\$449	24.2%
Stomach	\$2,074	\$499	24.1%
Colorectal	\$15,727	\$3,477	22.1%
Lymphoma	\$15,096	\$2,609	17.3%
Leukemia	\$6,772	\$1,170	17.3%
All Others	\$81,891	\$9,822	12.0%
Total	\$152,901	\$25,902	16.9%

⁽¹⁾ NewYork-Presbyterian Hospital; ⁽²⁾ Estimating Cost Savings from Early Cancer Diagnosis, by Zura Kakushadze, Rakesh Raghubanshi, and Willie Yu

Emerging Trends (Continued)

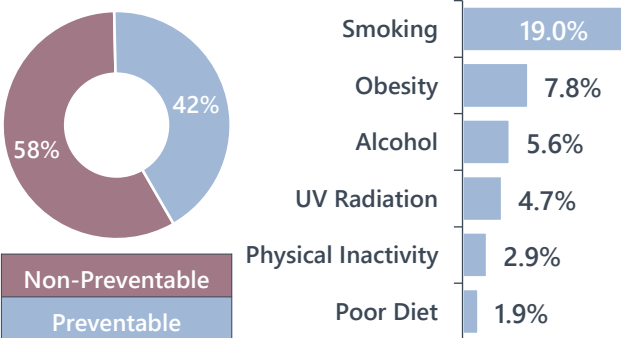
Avoidable Cancer Deaths

The American Cancer Society predicts 42.0% of newly diagnosed cancer cases in the U.S. are potentially avoidable. 19.0% of cancers related to smoking and at least 18.0% caused by excess body weight, alcohol consumption, poor nutrition, and physical inactivity represent the most avoidable cancer causes.

According to the CDC, U.S. obesity prevalence increased from 30.5% in 1999-2000 to 41.9% in 2017-2020, with severe obesity increasing from 4.7% to 9.2% over the same period. Research suggests this increase has halted the progress in obesity-related cancer mortality rates relative to other cancers.⁽¹⁾ In 2018, mortality rates for cases tied to obesity fell 0.8% annually while those unrelated fell 2.3%, demonstrating that high obesity levels will remain drivers for cancer care demand. Alternatively, smoking decreased from 20.9% of adults in 2005 to 12.5% in 2020, resulting in a decrease in smoking-related cancers.⁽²⁾ Lung cancer deaths peaked in 2005 at 159.3 thousand and decreased by 6.5% to 148.9 thousand in 2016, suggesting a decreased demand for related oncology treatments.⁽³⁾

Despite increasing public awareness about the dangers of certain activities, preventable cancers make up a considerable portion of U.S. cases. Earlier diagnosis and continued education on prevention strategies to the public will be critical to reducing avoidable cancer-related deaths.

Preventable Cancers⁽³⁾



Rising Drug Prices

According to a JAMA Oncology study, between 2009 and 2019, 74.0% of cancer drugs tracked increased in price faster than inflation. The median monthly treatment cost rose from \$5,790 in 2009, to \$14,580 in 2018. Comparatively, only 13.0% of drugs in Switzerland, 2.0% of drugs in England, and 0% of drugs in Germany increased prices at a rate faster than inflation. In fact, cancer drugs decreased on an inflation-adjusted price in the three European countries on aggregate. The study concluded that in comparison to the three European countries, cancer drugs in the United States launched at a higher price and increased at a faster rate, with neither showing a clinical benefit.

Much of the difference is attributed to the lack of drug price negotiations with pharmaceutical companies in the U.S. In the UK, Germany, and Switzerland, the government and key insurance providers lead negotiations with pharmaceutical companies, dictating what these groups can charge. In the U.S., pharmaceutical providers are largely free to charge whatever they think insurers will pay.

To address rising cancer drug prices in the U.S., the Presidents Cancer Panel, an independent panel established under the National Cancer Act of 1971, recommends the six critical actions below to “promote value, affordability, and innovation in cancer drug treatment.”

President’s Cancer Panel Recommendations

- Promote value-based pricing and use
- Enable communication on treatment options & costs
- Minimize drug cost contributions to financial toxicity
- Stimulate generic and biosimilar market competition
- Ensure adequate resources for FDA
- Invest in biomedical research

Considerations for Practice Owners & Operators

There are multiple partnership options afforded to practice owners looking to explore a transaction. With an array of buyer types from financial sponsors to strategic acquirers, not all partnership opportunities are created equal. As such, it is important to vet and perform in-depth reverse diligence on potential partners and their respective models to determine the likelihood of go-forward success as well as philosophical and cultural alignment.

Platform investments represent the first, or starting point investment, for a private equity firm, whereas add-ons represent subsequent acquisitions to follow in the future. Organizations with the infrastructure, scale, and motivation to drive growth post-transaction are best positioned as prospective platforms. Groups with some, but not all of these qualities are often best suited to partner with existing platforms in the market.

Platform vs. Add-On Investment

	Platform Investment	Add-On Acquisition
Valuations:	<ul style="list-style-type: none">• Typically, lower cash at close due to rollover equity requirement• No synergies factored into initial valuation	<ul style="list-style-type: none">• Higher valuation due to revenue and expense synergies• Potential for 100% buyout
Rollover Equity:	<ul style="list-style-type: none">• Ability to retain meaningful equity ownership and benefit from value appreciation	<ul style="list-style-type: none">• Rollover equity is shared across a network of agencies, diversifying risk, but limiting upside potential
Autonomy:	<ul style="list-style-type: none">• Allows for the most operational and strategic autonomy to retain key providers/staff	<ul style="list-style-type: none">• Lower strategic and operational autonomy as compared to a platform investment
Board Representation:	<ul style="list-style-type: none">• High likelihood for board level representation and voting power	<ul style="list-style-type: none">• Limited opportunity for board level representation and voting power
Risk:	<ul style="list-style-type: none">• More risk than joining an existing platform	<ul style="list-style-type: none">• Economies of scale and revenue diversification limits go-forward risk
Other Considerations:	<ul style="list-style-type: none">• Not an option for all groups due to size and infrastructure parameters• Platform companies must have the infrastructure and ambition to scale outside of their current markets• Sharing of best practices not necessarily available at initial phase• Existing management team leveraged for growth initiatives	<ul style="list-style-type: none">• Potential clash of organizational cultures within combined entity• Ability to share operational and clinical best practices• Ability to leverage platforms' centralized back-office resources and infrastructure• Access to experienced management teams• Potential to gain leverage with payors or benefit from improved rates due to economies of scale

Considerations for Practice Owners & Operators *(Continued)*


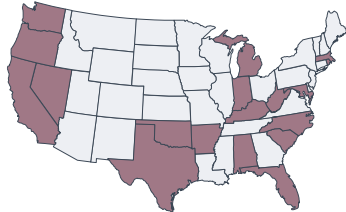

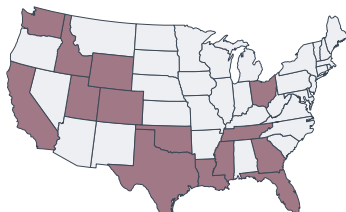

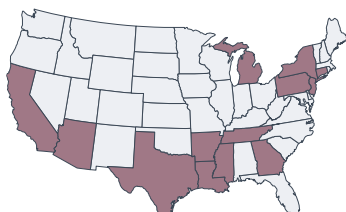

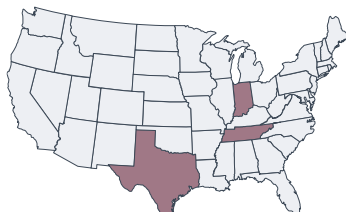
Furthermore, buyer types propose different transaction structures and offer different models from post-close compensation, to rollover equity requirements, and even EBITDA multiples due to expected synergies. While each model has its pros and cons, the best fit for a practice depends on several factors as outlined below, as well as individual shareholder perspectives such as those close to retirement and those nearing partnership.

Transaction Structures & Considerations

	Private Equity-Backed	National Consolidator	Public Company
MSO Term:	<ul style="list-style-type: none"> Typically, 20 to 30 years 	<ul style="list-style-type: none"> Typically, 20 to 30 years 	<ul style="list-style-type: none"> n/a
EBITDA Basis / MSO Fee:	<ul style="list-style-type: none"> 30% to 50% of pre-close P&L compensation for shareholders (excluding distributions) 	<ul style="list-style-type: none"> 20% to 30% of pre-close P&L compensation for all physicians (excluding distributions) 	<ul style="list-style-type: none"> 30% to 50% of pre-close P&L compensation for shareholders (excluding distributions)
Post-Close Compensation:	<ul style="list-style-type: none"> 50% to 70% of pre-close P&L compensation for shareholders Mutually agreed upon compensation package that enables the recruitment and retention of providers Acquirers typically target post-close compensation based on market rates for a given geography 	<ul style="list-style-type: none"> 70% to 80% of pre-close P&L compensation for all physicians (excluding distributions) Post-close compensation pool used for all physicians, not just shareholders 	<ul style="list-style-type: none"> 50% to 70% of pre-close P&L compensation for shareholders Mutually agreed upon compensation package that enables the recruitment and retention of providers Acquirers typically target post-close compensation based on market rates for a given geography
Rollover Equity:	<ul style="list-style-type: none"> 20% to 40% required to maximize alignment among stakeholders Rollover equity typically "pari-passu" to financial sponsor 	<ul style="list-style-type: none"> No rollover equity is typically required, although may be offered Equity/options available for key operational executives 	<ul style="list-style-type: none"> If required, typically comes with 6+ month minimum hold requirements Equity/options in public company available for medical directors
Earnout:	<ul style="list-style-type: none"> Depends on the practice, but typically based on future EBITDA targets 	<ul style="list-style-type: none"> 50% to 70% of purchase price structured as deferred payments contingent on continued employment 	<ul style="list-style-type: none"> Likely to be the case in lieu of or in addition to rollover to ensure post-close alignment
Funding:	<ul style="list-style-type: none"> Debt, equity, and cash 	<ul style="list-style-type: none"> Balance sheet cash 	<ul style="list-style-type: none"> Balance sheet cash

Considerations for Practice Owners & Operators *(Continued)*

Private Equity-Backed Oncology Practices

Operator	Platform Metrics	Geographic Footprint
	<ul style="list-style-type: none"> • Investor: Kohlberg Kravis Roberts • Headquarters: Sydney, AU • Year Created: 2004 • Employees: 6,000+ • Notable Acquisitions: 21st Century Oncology 	
	<ul style="list-style-type: none"> • Investor: Silver Oak Partners • Headquarters: Nashville, TN • Year Created: 2008 • Employees: 100+ • Notable Acquisitions: California Cancer Associates for Research & Excellence, e+CancerCare, Fairbanks Urology 	
	<ul style="list-style-type: none"> • Investor: General Atlantic • Headquarters: Nashville, TN • Year Created: 2018 • Providers / Employees: 800+ / 1,000+ • Notable Acquisitions: University Oncology & Hematology Associates, Cancer & Hematology Centers of Western Michigan 	
	<ul style="list-style-type: none"> • Investor: Pharos Capital Group • Headquarters: Brentwood, TN • Year Created: 2018 • Providers / Employees: 12 / 50 • Notable Acquisitions: Nashville Oncology Associates, Verdi Cancer & Research Center 	

Considerations for Practice Owners & Operators *(Continued)*

Corporate-Backed & Other Strategies

Operator	Platform Metrics	Geographic Footprint
	<ul style="list-style-type: none"> • Investor: Tahoe Investment Group (Minority Interest) • Parent: Akumin (NAS: AKU) • Headquarters: Irvine, CA • Year Created: 1997 • Employees: 2,500+ • Notable Acquisitions: e+CancerCare 	
	<ul style="list-style-type: none"> • Headquarters: Fort Meyers, FL • Year Created: 2017 • Providers / Employees: 190+ / 225+ • Notable Acquisitions: Genesis Cancer and Blood Institute, Hematology Oncology Clinic, Zangmeister Cancer Center, Messino Cancer Centers 	
	<ul style="list-style-type: none"> • Parent: City of Hope • Headquarters: Boca Raton, FL • Year Created: 1988 • Employees: 2,750+ 	
	<ul style="list-style-type: none"> • Ticker: TOI (NAS) • Headquarters: Cerritos, CA • Year Created: 2007 • Employees: 650+ • Notable Acquisitions: Women's Cancer Care, Pinellas Cancer Center 	
	<ul style="list-style-type: none"> • Parent: McKesson • Headquarters: Houston, TX • Year Created: 1992 • Providers / Employees: 1,500+ / 4,800+ • Notable Acquisitions: Alliance Cancer Specialists, Northwest Oncology 	

Transaction Activity

Select Private Equity Platform Investments & Key Strategic Transactions⁽¹⁾

Target	Date	Acquirer	Transaction Type
Alliance HealthCare Services	2021	• Akumin	• Quaternary Buyout
	2017	• Tahoe Investment Group	• Tertiary Buyout
	1999	• Kohlberg Kravis Roberts	• Secondary Buyout
	1997	• Apollo Global Management	• Platform Creation
American Oncology Network	2022	• Public Markets (NASDAQ)	• SPAC (Pending)
GenesisCare	2012	• Kohlberg Kravis Roberts	• Secondary Buyout
	2009	• Advent Partners	• Platform Creation
Integrated Oncology Network	2018	• Silver Oak Services Partners	• Platform Creation
OneOncology	2018	• General Atlantic	• Platform Creation
The Oncology Institute	2021	• Public Markets (NASDAQ)	• SPAC
	2018	• Havencrest Capital Management	• Platform Creation
Verdi Oncology	2018	• Pharos Capital Management	• Platform Creation

Select Add-On Acquisitions⁽¹⁾

Target	Date	Acquirer	Financial Sponsor
Charleston Oncology	Nov-22	• Roper St. Francis Healthcare	• n/a
Southern Cancer Center	Sep-22	• US Oncology Network	• n/a
Nutan Parikh Practice	Jul-22	• The Oncology Institute	• n/a
Ranjan Sapra Practice	Jul-22	• The Oncology Institute	• n/a
Cancer & Hematology Centers	Jun-22	• OneOncology	• General Atlantic
Women's Cancer Care	May-22	• The Oncology Institute	• n/a
Fairbanks Urology	Apr-22	• Integrated Oncology Network	• Silver Oak Services
OncoHealth (Atlanta)	Apr-22	• US Oncology Network	• n/a
California Cancer Associates	Apr-22	• Integrated Oncology Network	• Silver Oak Services
Medical Oncology Associates	Feb-22	• OneOncology	• General Atlantic
Cancer Treatment Centers of America	Feb-22	• City of Hope	• n/a
Rapides Cancer Center	Jan-22	• American Oncology Network	• n/a

⁽¹⁾ Transaction statistics based on research completed by Provident

Conclusion

The oncology practice management market remains ripe for consolidation due to several factors such as market fragmentation, rising cancer case counts, and an increasing demand for oncologists. While recent transaction activity shows a decrease in new platform investments and a focus on add-on acquisitions for existing strategic acquirers, the sector still yields an opportunity for additional investment.

Provident expects consolidation to continue via sustained transaction activity from financial sponsors seeking to deploy capital and strategic acquirers pursuing additional partnerships to fuel growth. The increased competition will only work to strengthen M&A

activity, as Provident expects valuations to remain stable going forward.

Companies that can demonstrate their value through growth prospects, strong infrastructure, robust expansion into ancillary service lines, successful participation in the value-based care Enhancing Oncology Model, and well-trained personnel will be in high demand in the future. Provident therefore expects the market to be favorable to sellers, offering the choice to consider the full scale of options regarding a potential partnership. Through a partnership, oncology providers will continue to make a meaningful impact on the lives of those suffering from cancer.

Provident Oncology Coverage Team



Scott Davis
Director
(617) 226-4259
sdavis@providenthp.com



Tommy Spiegel, CFA
Senior Associate
(617) 226-4216
tspiegel@providenthp.com



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.

Boston:
260 Franklin Street, 16th Floor
Boston, Massachusetts 02110
617-742-9800

New York:
441 Lexington Ave, Suite 504
New York, New York 10128
212-580-4500

Los Angeles:
1925 Century Park E
Los Angeles, California 90067
310-359-6600