

## **Provident Perspectives:**

# Transforming Healthcare Through Revenue Cycle Management

**2H 2024**

## Opening Remarks

While certain healthcare sub-verticals have experienced diminished transaction volume due to macroeconomic conditions, revenue cycle management (RCM) continues to exhibit transaction momentum. The buyer universe for revenue cycle management includes a diverse range of strategic operators and private equity firms. They are drawn to the sector's growth potential, recent adoption of technology, data analytics, and other related sub-verticals such as governance, risk, compliance (GRC), and patient engagement.

RCM is an important function monitored by key financial and billing department leaders within hospitals, health systems, and physician offices. Rising labor and supply costs, coupled with complex billing procedures and an emphasis on the patient experience, is fueling a surge in demand for platforms, and illustrates that RCM is more mission critical than ever before.

Despite momentum and interest from private equity and strategic platforms, the sector still exhibits headwinds present across healthcare, such as reimbursement complexities, retention of staff, adoption and integration of new technology and regulatory changes. These headwinds however present M&A opportunities as existing platforms can generate synergies and leverage their current technology and client bases to improve operational efficiencies of M&A target companies.

Although the sector has experienced consolidation, the market remains fragmented. This further presents opportunities for continued investment from private equity firms and strategic operators. Existing platforms will continue to find ways to increase their market share, whether through acquiring additional technology suites, or acquiring a platform in a different end market or specialty. Additionally, private equity firms with developed cost management, technology, and patient engagement strategies will look for market entry points. As multiple private equity-backed platforms consider launching M&A marketing processes over the next 12-24 months, Provident anticipates that financial sponsors will place premium valuations on differentiated RCM targets and utilize the proven organic and inorganic growth strategies of existing platforms during their investment period.

### Transaction Activity within Revenue Cycle Management (Deal Count by Acquisition Type)<sup>(1)</sup>

To discuss RCM Transaction Activity, please reach out to [rscoretta@providenthp.com](mailto:rscoretta@providenthp.com)

<sup>(1)</sup> Provident Market Research

# Introduction

## The Fundamentals

RCM manages financial processes and procedures within healthcare settings and is crucial to billings and collections for medical procedures. The revenue cycle can be split into three distinct stages: the front-end, middle, and back-end. Phases within these stages include initial patient registration and insurance eligibility verification, billing and coding, and collection of payment from payer and patient. RCM is employed in several different care settings such as physician practices, health systems & hospitals, and outpatient settings. Different phases and care settings present add-on opportunities to diversify a client base or add new modules.

## The Evolution

Within the past decade, RCM has significantly evolved, transitioning from inefficient and error prone paper-based processes, to sophisticated technology-driven solutions that leverage automation and data analytics. This transition, coupled with industry tailwinds, has resulted in heightened investor interest in the sector. Additionally, RCM continues to be mission critical as care settings need strong tools and systems to aid cash collection efforts given reimbursement pressure from payers, patients experiencing inflation, and healthcare settings experiencing heightened labor and supply costs. Growing demand for effective RCM solutions has driven significant M&A activity, with over 100 platform and add-on transactions executed in the past three years. Investors are increasingly targeting RCM companies with adaptable solutions, sustainable recurring revenue models, and advanced capabilities such as AI and automation, as these features supplement existing service offerings and offer opportunities for market consolidation and long-term growth.

## Stages of Revenue Cycle Management

Front	Middle	Back
✓ Appointment Scheduling	✓ Charge capture	✓ Remittance posting
✓ Patient Intake	✓ Accurate coding of procedures (ICD, CPT)	✓ Recording payments from insurance companies and patients
✓ Patient Registration	✓ Creation of claims based on captured charges	✓ Reconciling received payments with billed amounts
✓ Financial counseling	✓ Ensuring claims meet payor requirements	✓ Patient billing and payment plans
✓ Insurance eligibility verification	✓ Electronic or manual submission of claims to insurance companies	✓ Monitoring key performance indicators
✓ Medical history documentation	✓ Tracking of submitted claims	✓ Identifying trends in payment patterns and denials

## By The Numbers

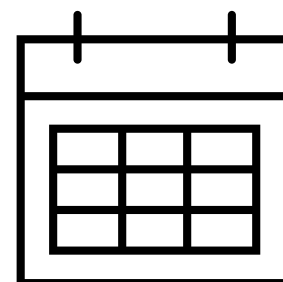
To discuss RCM By The Numbers, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

<sup>(1)</sup> Vizient Home RCM Market Report, 2022; <sup>(2)</sup> Emergen Research, 2022; <sup>(3)</sup> PharmiWeb, 2024; <sup>(4)</sup> Verified Market Research, 2024; <sup>(5)</sup> Based on Pitchbook Data and Industry Research; <sup>(6)</sup> MicroSourcing 2024

# Key Stages of the RCM Process

RCM has three stages: initial patient engagement and registration, care delivery followed by coding and documentation, and payment collection and follow-up.

## Front: Initial Engagement and Registration



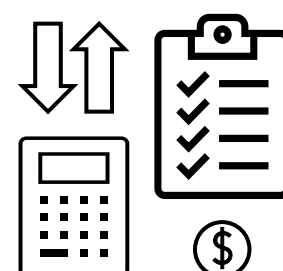
## Middle: Care Delivery and Billing



To discuss Key Stages of the RCM Process, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

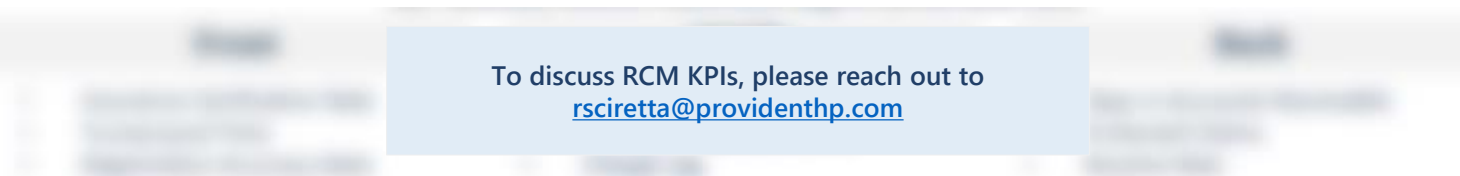


## Back: Payment Collection and Follow-up



## Key Performance Indicators (KPIs)

### Key Efficiency Metrics within Each Stage of the Revenue Cycle



To discuss RCM KPIs, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

<sup>(1)</sup> Instamed; <sup>(2)</sup> Healthcare Financial Management Association; <sup>(3)</sup> Rev Cycle Intelligence

# Payment Models

RCM companies offer flexible payment models, and all arrangements below present attractive revenue opportunities for investors looking for a platform. Provident however believes percentage-based arrangements are most attractive given more incentives for the RCM provider to close claims and shared upside.

## Sample Estimated Cost Analysis of Outsourced Billing<sup>(1)</sup>

For Cost Analysis, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)



### Set-Up Fees

Installation or one-time service fees varies. Some service providers may waive setup fees for new clients, and others charge an initial fee to cover onboarding costs. If there is an initial fee, costs approximate \$300 per physician or \$1,000 per office for clinics.<sup>(1)</sup>



### Flat Fees

One payment model RCM companies may leverage is charging healthcare practices flat fees for each claim they process. These fees range from \$4 to \$6 per claim on average.<sup>(2)</sup> This model provides RCM companies with a steady revenue stream and offers healthcare providers predictable costs.

For more information on RCM Payment Models, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

<sup>(1)</sup> Software Advice; <sup>(2)</sup> Medical Billing Service Review; <sup>(3)</sup> Advanced Data Systems Corporation

## Investor Interest-Transformative Technology

The integration of Artificial Intelligence (AI) and automated revenue cycle processes is revolutionizing RCM and sparking interest in M&A, particularly buy and build strategies. Technologies enhance patient interaction, automate charge capture, enable predictive analytics, and improve claims management and denial prevention. Through leveraging AI, healthcare providers can achieve significant improvements in efficiency, accuracy, and financial optimization in an increasingly complex and competitive industry. As automated healthcare solutions continue to evolve, their impacts will have positive downstream effects on the financial and operational performance of care settings and providers, which promotes M&A into different tech-enabled sub-verticals, such as care coordination, GRC, and payment integrity (PI).

For more information on Investor Interest in Transformative Technology, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

<sup>(1)</sup> Change Healthcare; <sup>(2)</sup> MD Clarity; <sup>(3)</sup> MGMA

## Investor Interest-Rise in Treatment Costs and Ensuing Complexities

Other RCM tailwinds fueling M&A include rising treatment costs, regulatory scrutiny, and claim complexity, proving RCM is mission critical. As providers face complex coding requirements and volatile denial rates, the adoption of advanced RCM solutions becomes paramount. These solutions not only streamline revenue collection processes but also handle the complexities of medical coding and prevent denials. By embracing sophisticated RCM technologies, healthcare providers can better manage margin compression risks associated with rising treatment costs. Buyers are increasingly pursuing acquisitions of niche RCM companies with specialized expertise in areas such as coding and denials management, positioning the sector for more integrated, scalable solutions.

For more information on Investor Interest in Treatment Cost and Ensuing Complexities, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

<sup>(1)</sup> American Medical Association; <sup>(2)</sup> Becker's Health; <sup>(3)</sup> Experian Health



## Investor Interest-Growing Treatment Consumerism

The convergence of growing treatment consumerism and the rise of value-based care is another significant M&A driver in RCM. With personalized payment solutions, updated communication methods, and transparent cost estimates mandated by regulations such as the No Surprises Act, healthcare providers are transitioning towards a patient-centric RCM approach. This approach encompasses all aspects of RCM, from appointment scheduling to patient billing and collections, ensuring that patients receive a seamless and transparent healthcare experience while facilitating efficient revenue collection for providers.

Treatment consumerism is driving M&A as organizations seek to scale and provide consumer-friendly solutions. Companies that can integrate RCM systems with advanced patient engagement platforms and offer cost transparency are particularly attractive acquisition targets, allowing larger healthcare organizations to meet rising consumer demands and stay competitive in an increasingly consumer-driven market.

For more information on Investor Interest in Growing Treatment Consumerism, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

<sup>(1)</sup> PYMNTS, 2023



# Investor Interest-Key Challenges in RCM

RCM companies face headwinds such as retention of existing trained professionals, outdated systems in existing facilities, and reimbursement complexities. These concepts, however, promote consolidation and further illustrate the importance of utilizing technology throughout all stages of the payment cycle.

For more information on Investor Challenges in RCM,  
please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

<sup>(1)</sup> GeBBS Healthcare Solutions, 2024; <sup>(2)</sup> HIMSS; <sup>(3)</sup> Claimocity, 2023

## RCM Market Landscape

When evaluating and prospecting within Revenue Cycle Management (RCM), Provident segments the market by phase, stage, and end market (i.e. health systems, post-acute care, or physician practices). This structured approach enables Provident to identify and craft a targeted buyer universe, which is crucial for finding a thesis-driven acquirer. This type of buyer is motivated to pay a premium valuation and facilitate a timely and seamless transaction process.

	Phase	Stage	End Market
Health Systems	Pre-Admission	Admission	Post-Admission
	Pre-Admission	Admission	Post-Admission
	Pre-Admission	Admission	Post-Admission
	Pre-Admission	Admission	Post-Admission
Physician Practices	Pre-Admission	Admission	Post-Admission
	Pre-Admission	Admission	Post-Admission
	Pre-Admission	Admission	Post-Admission
	Pre-Admission	Admission	Post-Admission
Post-Acute Care	Pre-Admission	Admission	Post-Admission
	Pre-Admission	Admission	Post-Admission
	Pre-Admission	Admission	Post-Admission
	Pre-Admission	Admission	Post-Admission

For more in-depth information on the RCM Market Landscape, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

<sup>(1)</sup> PR Newswire; <sup>(2)</sup> Middle Market Growth, 2024

## Characteristics of Leading RCM Platforms

The below themes promote M&A amongst strategic platforms, and private equity firms looking to develop a platform. Provident believes that assets with themes evident below is limited, which will lead to competition and elevated valuations.



For information on Characteristics of Leading RCM Platforms, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

## Partnership Considerations

There are a variety of partnership options available to business owners that are exploring a transaction, but not all are similar in nature. It is crucial to understand post-transaction goals and business models of potential partners to assess the probability of a successful long-term partnership.




























Partnership Type	Pros	Cons	Considerations
Joint Venture	✓	✗	Shared ownership and control
Strategic Alliance	✓	✗	Shared resources and expertise
Acquisition	✓	✗	Full ownership and control
Franchise	✓	✗	Standardized business model
Licensing	✓	✗	Shared intellectual property
Partnership	✓	✗	Shared ownership and control
Investment	✓	✗	Shared ownership and control
Joint Venture	✓	✗	Shared ownership and control
Strategic Alliance	✓	✗	Shared resources and expertise
Acquisition	✓	✗	Full ownership and control
Franchise	✓	✗	Standardized business model
Licensing	✓	✗	Shared intellectual property
Partnership	✓	✗	Shared ownership and control
Investment	✓	✗	Shared ownership and control

For information on RCM Partnership Considerations, please reach out to [rsciretta@providenthp.com](mailto:rsciretta@providenthp.com)

# Revenue Cycle Management Transaction Activity

Since 2023, there has been a consistent and elevated level of investor engagement within the RCM sector, outperforming long-term historical benchmarks.<sup>(1)</sup>

For full RCM Transaction List,  
please reach out to [rs Ciretta@providenthp.com](mailto:rs Ciretta@providenthp.com)

Oct-23	 WellSky	 Corridor	Post-acute care	PE-backed	
Oct-23	 cps i	 Viewgol	Ambulatory healthcare providers	Independent	
Oct-23	 accesshealthcare™	 envera	Patient engagement services	Independent	
Oct-23	 WAYSTAR	 HUMATA HEALTH human+data	 Olive	Nation's largest health systems	Independent
Oct-23	 ECLAT HEALTH SOLUTIONS	 excite HEALTH PARTNERS	Health Information Management division	Division	
Sep-23	 TELEVOX	 O D E Z	Hospitals and physician practices	Subsidiary	
Aug-23	 WAYSTAR	 HealthPay24™	Hospitals and physician practices	Subsidiary	
Jul-23	 VENTRA Health	 ArcMed DESIGN · CREATE · DELIVER	Hospitals and physician practices	Independent	
Jun-23	 MEDMETRIX™	 TRITECH HEALTHCARE MANAGEMENT	Workers' compensation and motor vehicle claims	Independent	
May-23	 TA ASSOCIATES	 ALPHA	Physician practices and consultants	PE-backed	
Feb-23	 VENTRA Health	 Deras Global Services	Hospital-based physician specialists	Independent	
Feb-23	 agshealth	 Availity	Patient Access	Division	
Jan-23	 SimiTree	 afia	Behavioral Health	Independent	

## Conclusion

The combination of strong industry tailwinds and private equity investment in RCM has created opportunities for founder led businesses to monetize their hard-earned equity and de-risk through taking on a capital partner. Taking on a capital partner allows a business owner to receive upfront cash proceeds but also upside through reinvestment into the new platform, which should appreciate over the investment period. This may be the first time an RCM business owner is pursuing a transaction process, and thus it's important to have a strong sell-side advisor who understands the market landscape, precedent transactions, and how these

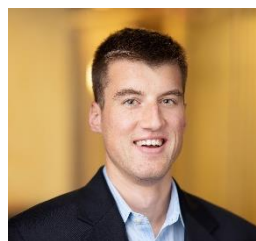
partnerships are structured to generate the best possible outcome.

Provident has completed over 200 transactions, generating billions in transaction value for clients in the firm's 26-year history. Founders have numerous options, whether its accelerating growth, receiving upfront cash, or fully exiting to retire and thus it's important to align with an advisor with experience in guiding Owners through this once in a lifetime event.

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Provident is one of the leading investment banking firms offering mergers and acquisition advisory services for high growth, middle market companies in the healthcare industry.

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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