SCALE+ healthcare

Predictions For 2022

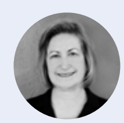
March 15, 2022

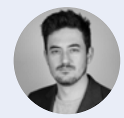
Macro Trends	Supporting Arguments

Healthcare Regulation	• Continued evolution of the best way to regulate healthcare .
	• Favoring more flexibility.
	  • Shared pools of risk.
	  • Care coordination.
	  • Increased desire for data transparency and sharing.
	  • Continued open mindedness towards "for profit" healthcare entities addressing government healthcare delivery (e.g., direct contracting entities initial rollout).
	• Favoring more regulation and / or government intervention.
	  • COVID reinforced healthcare as a national security issue.
	  • Emerging question on what regulating an increasingly consolidated market means
	  • Staffing shortages >>> will the government allow labor markets to clear naturally over time or will incentives be created to expand incentives for joining the healthcare labor pool. Expanding pool of publicly traded healthcare companies.
	  • Increasing share of risk pools shifted from regulated payers to unregulated practices (though payers remain ultimately responsible for liability and enforce insurance and / or reserves to mitigate this risk).

ASCs	• CMS aftermath – ASC back to hospital procedures and vascular OBLs. • Continued rapid growth of ASCs in response to further pricing / transparency.
Macro Trend: Payers	• Payors will be more active in actual delivery of care – but will struggle with operational realities that go beyond software solutions and require experienced and abundant human capital.
Risk-Based Programs	• Expansion of risk based programs – DCEs – expansion to many more single specialties. • Does full risk care coordination over time become increasingly easy – standard practice – or does it remain as it has been complex, opaque, high risk, capital intensive? If it's for some time, eventually less and less groups will commit to it (fatigue) Some consolidators will reach a point of pushing back on horizontal expansion and will start to focus on their core strengths, leaving coordination of care to specialists in coordination such as primary care groups (a new and all together separate category), leaving delivery of care to providers and administrators (a traditional category). Lines will ultimately be drawn more clearly. Imitators vs. true authentic leaders. There will ultimately be only a small number of true leaders.
Macro Trend: COVID	• COVID will become decreasingly relevant given therapy options… • Supply constraints across all levels/inflation.
Mergers & Acquisitions	• More M&A based national expansion among well-funded groups in VBC and other. • Mergers among true strategics.

Macro Trends	Supporting Arguments
Private Practice Evolution	• Further demise of small practices. • Some groups will run into trouble having scaled too quickly and under-estimated the magnitude of infrastructure required to support the heavy complex build, particularly in coordinated care. • Impact of larger pool of publicly traded health services companies on the industry at large – driving valuations and strategies.

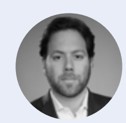
Clinical Specialty	SCALE Forecast	SCALE Company Watchlist	SCALE Executive Partner
ASC Management	• Greater focus/need for ASCs through increasing impact of price transparency on health systems and VBC cost oriented patient care management – result in increase in de novo and buy activity. • New competitive dynamics as traditional ASC MSOs and their historical service offerings make room for the entering national PPM MSOs who are expanding into ASC management. • Health systems will continue to use the appeal of HOPD rates to maintain a seat at the table.	Regent/Ascension USPI SCA/Optum	 Roy Bejarano
Behavioral Health	• PE backed platforms will continue to hold their original investments and grow and scale both organically and through acquisition. • Acquisition activity will continue to be extremely strong with attractive multiples for sellers. • Small providers will find myriad resources (outsourcing) to assist them with running their businesses (ie recruitment, RCM, technology). • While still a young field (a majority of Board Certified Behavior Analysts (BCBAs) have been in practice less than 4 years) clinical talent supply will be at an all-time high since the passing of legislative mandate in many states. Talent acquisition for Registered Behavior Technicians (RBTs) will continue to be a significant challenge for providers. • Assistive technology, telehealth, and other value-add tech platforms in this space are in its infancy thereby creating first to market opportunities. • As integrated care moves into behavioral health and the autism therapy space, there will be pressure on providers to expand their service lines including diagnostics, Licensed Clinical Social Work, speech and occupational therapy, and Case Management/Supports Coordination. • Reimbursement rates should remain stable in 2022.	AngelSense Caravel Autism Blue Sprig Cedar Learning	 Richard Loewenstein  Janice Pyrce

Clinical Specialty	SCALE Forecast	SCALE Company Watchlist	SCALE Executive Partner
Cardiovascular	• Increasing tensions will accumulate between increasingly outpatient focused cardio surgeons and traditional in-patient focused health-systems who are reluctant to lose employed high- earners. • The payor community and patients will welcome increased choice and lower cost/higher quality outpatient alternatives. • CMS will continue to examine clinical outcomes in outpatient settings to ensure quality is maintained.	Novocardia	 Roy Bejarano
Dental	• Increasing competition across the Dental and Orthodontic space due to increasingly larger share of sponsor backed companies. • Interesting dynamic where more and more dental providers are performing Orthodontic procedures (Invisalign, and in some rare cases, Braces). • Considering the different firm economics for a dental provider, they can potentially charge less per Orthodontic related procedure. • This causes the market to expect lower prices and forces orthodontics to lower their price and thus shrink their margins. • In addition, there are interesting dynamics with reduced up front Orthodontic start costs. • Normally, money down by a patient during the first day of treatment is >$1,200, or enough to cover the variable costs of setting aligners or braces. • From a cash point of view this needs to be done or the company creates a cash deficit. • Due to the increasing competition and pricing components mentioned above, certain providers are offering less money down payment options. • This is causing cash deficits, but they are offsetting this by using line of credits and third party financing companies. • The combination of lower start values, increasing competition and the use of third party financing firms should start to cause overall margin to come down over the next few years. • In addition, we can begin to see further consolidation of dental / orthodontic providers to compensate for cash shortfalls and to compete with the growing list of sponsor backed competitors.	Absolute Dental P1 Dental Childrens Choice Aspen Dental Dental Care Alliance Simply Beautiful Smiles	 Billy Ingram  Jack Trunz  Brennan Clements

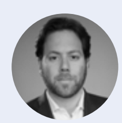
Clinical Specialty	SCALE Forecast	SCALE Company Watchlist	SCALE Executive Partner
Dermatology	• Strong patient demand for all dermatology services and increased competition to hire limited supply of dermatologists will continue. • Pace of closing tuck-in acquisitions among the 35+ PE sponsored platforms will increase. • Expect strategic mergers between PE sponsored dermatology platforms as next stage of consolidation.	West Derm Quigley US Eye	 Steve Straus

Dialysis/ Nephrology	• Continued focus on home dialysis, care management platforms and effective transplant programs.
	• The broad range of variables contributing to kidney disease and care will result in continued experimentation with care models. The market for managing kidney care will evolve differently from trends in consolidation observed across other specialties where conditions & care may be more contained within the single specialty. Within kidney care, technology solutions and care coordination models will be prioritized over simply pursuing traditional practice consolidation / ownership.
	  • Technology solutions will continue to be developed and marketed.
	  • Care programs will be complicated by the need for coordination across various specialists beyond nephrologists.
		Global Nephrology Solutions
		Cricket Health
		Prine Health
		Somatus
		PPG Health
		Strive Health
		Monogram Health
			
			Jason Schifman

ENT & Allergy	• Elective ENT and Allergy services will rebound due to reduced concerns over Covid-19. • Mergers of ENT and Allergy practices will continue to accelerate due to the financial advantages and economies of scale. • PE activity will likely increase. ENT and Allergy is an attractive target for PE due to its significant ancillary services offered (e.g., ambulatory surgery centers (ASC), allergy testing, audiology testing, hearing aids, sleep disorder clinics, and ENT pediatric centers. • Continued consolidation of hearing aid manufactures due to downward price pressures from insurer and the marketplace. • Significant innovation of hearing aid technology will continue to advance and new competitors with unique alternative technologies will enter the market. • If Hearing Aid coverage for traditional Medicare patients is signed into law, participating ENT practices may experience a significant increase in MC patient volumes. Providers should evaluate and prepare for this potential volume, and probable low patient service. • EMRs with integrated Telemedicine platforms and a focus on Otolaryngology with surge in this space.	ENT and Allergy The Centers for Advanced ENT Ear Lens Modernizing Medicine	 Denny Tritinger

Clinical Specialty	SCALE Forecast	SCALE Company Watchlist	SCALE Executive Partner
ER/Hospitalist/ ICU Physician Services	• Continued high demand for intensivists services. • M&A opportunities for ED has diminished and tuck in groups for existing companies a will be limited. • Recent Nevada court case resulting in a damages award to TeamHealth for lack of payment by insurance company. • Continued growth of hospitalist services especially in markets that are showing maturation of VBC and opportunities for performance reward related to quality and patient experience.	Envision Teamhealth	 Mike Reed  Ernie Varvoutis
Gastroenterology	Large consolidators start to see a thinning list of material tuck-ins and increasingly rely on: 1. New tuck-ins to rapidly form through practice consolidation (late adopters). 2. Peer to peer MSO acquisition/mergers. 3. Creative organic growth and performance enhancement initiatives – where does GI fit within a coordinated VBC platform? Option 3 will be most interesting to observe as true national strategics compete with changing ownership cycles among PE firms.	GI ALLIANCE Pinnacle Gastro Health PE GASTRO OneGI	 Roy Bejarano
Interventional Pain	• Heightened focus on compliance will continue to reward best-in-class operators who will function as natural leaders/consolidators for the category and candidates for muscular-skeletal horizontal expansion. • To what extent will a heavy reliance on opaque reimbursement models such as workers-comp and PI continue to impact the speed of consolidation and integration? • Successful PE investments will instill higher levels of confidence among institutional investors in the category. The bad news has been baked into asset prices.	Clearway Pain Prospira	 Roy Bejarano
Neurology / Neurosurgery	• Pure play neurology and neurosurgery platforms will remain limited. Broader platforms incorporating orthopedic surgery, pain management, physical therapy, etc. will be favored. • Reliance on the hospital site-of-service for a portion of care delivery across many neurology and neurosurgical platforms will make the space more challenging for investors. • For investors willing to accept the unique challenges of the market, there remains a fragmented market to consolidate. In the meantime, well-organized independent platforms have an opportunity to get a head start on this consolidation potential with relatively less competition from private equity.	ONS Altair New Jersey Brian and Spine Northeast Regional Epilepsy	 Jason Schifman

Clinical Specialty	SCALE Forecast	SCALE Company Watchlist	SCALE Executive Partner
Medical Devices	• Deal making and Investments: Record M&A volume by strategics, PE/VC with significant dry powder to invest. IPOs on the rise. • Digital Surgery: Robotics advancing to more complex and semi-automated procedures. Minimally invasive procedure and devices grow due to enabling imaging and guidance technology. Procedures enabled with Computer vision, AR/VR and AI applications become more mainstream with more practical applications. Medical wearables with specific diagnostic or virtual care management utilization. 3D-printing becomes less of a novelty for custom cases and becomes more standard manufacturing practice at scale. The digital era brings with it an increased demand for cybersecurity across multiple platforms. • Logistics/Supply Chain/Care Delivery: Resurgence in elective surgery due to backlog. Supply chain constraints and staffing limitations may limit growth potential. Point-of-care diagnostics and digital diagnostics grow. ASC shift continues due to COVID and reimbursement tailwinds. Outsourced manufacturing even more attractive.	Olympus JNJ Medtronic Stryker Siemens	 Nick Pachuda
Oncology	• Consolidation to continue with robust M&A activity. • Development of practice models willing and able to participate in VBC/Risk and capitation. • VBC oncology providers being exported to new markets driven by payer partners.	One Oncology The Oncology Institute	 Mike Reed
Ophthalmology	• Continued growth of platform mergers leading to large provider systems covering wider geographies. • Increased growth of in-office cataract surgery. While still small this could ultimately lead to cases moving out of ASC's in long term. • Downward price-pressure on LASIK surgery. • Downward pressure on insurance reimbursement with possible bundling for in-office. • Longer term impact of staffing shortages and supply chain delays may impact year-over-year growth in 2022.	OCLI Wilmer Eye Institute OOMC Retina Consultants of America	 Carl Friedrich
Orthopedics	• Continued growth of Supergroups and near-supergroups. Groups will merge, leave hospitals to join organizations that will improve margins as insurance contracts continue downward pressure. • Continued migration of cases out of hospitals to ASC's, allowing improved throughput and convenience while maintaining high quality care.	Rothman Institute Hospital For Special Surgery Kirlin-Jobe Prisma Health	 Carl Friedrich

Clinical Specialty	SCALE Forecast	SCALE Company Watchlist	SCALE Executive Partner
Orthopedics (continued)	• Increased pressure on health systems to form joint ventures with providers to slow down migration away from traditional hospital -based care delivery systems. • Increase in the penetration of multi-disciplinary approach to care to provide precision-medicine leading to better patient outcomes. • Longer term impact of staffing shortages and supply chain delays may impact year-over-year growth in 2022.		
Payer Landscape	• Behavioral Health: There will be continued focus on cost savings in behavioral health and value-based contracts, especially for payers in Medicaid. Also, a continued focus on telehealth for mental health services and substance abuse and medication adherence. • Specialty drugs: Commercial and government payers are continuing their scrutiny over utilization and costs involving specialty drugs. In Medicaid, this means more "carve-outs" for pharmacy and specialty drug services. • Home Health: The push to wider use of home health continues in Medicare and the VA's Choose Home initiative. Payers are accelerating use of services in the home despite staffing struggles within the industry. • Narrow Networks: We expect payers to inch towards more narrow networks in 2022 to reduce costs and associate more with providers that have more experice with value-based contracts. • Remote Patient Monitoring: Payers will continue to increase utilization for remote patient monitoring to reduce costs for chronic conditions and for behavioral health services in intellectual and developmental disabilities (I/DD). The increased use of value-base contracts will also rely on increased use of these services.		 David Blasczcak
Pediatric	• Institutional investors will need to continue to find niche interpretations of the category in order to aggregate and monetize value creation, such niche categories will continue to be defined by focused site of service consolidations such as, homecare, schools, virtual/telemedicine, and/or specific categories of care such as, high-acuity/post-acute, or early intervention/autism. • Traditional pediatric practices will offer some opportunities for institutional support but will garner limited interest due to minimal earnings potential.	Pediatric Home Service	 Roy Bejarano

Clinical Specialty	SCALE Forecast	SCALE Company Watchlist	SCALE Executive Partner
Pharmaceuticals	• Continued expanded adoption of Biosimilar's, in clinical categories formerly hesitate to utilize, e.g., Oncology, to lower drug expense. • Specialty Pharmacy agents, high-cost targeted medications generally used in high-risk patient population, exceeded 50% of total drug spend in CY 2021. This threshold was not expected to be reached for another 3-to-5-year timeframe and is projected to continue at similar annual growth rates. • Shrinking opportunity to control and lower drug cost using generic medications due to over-riding drug cost increases tied to use of new innovative drug molecules. • Drug cost and pricing control strategies will remain elusive and not expected to have significant impact on present trends because of demands for new treatment modalities and need to offset supply chain issues tied to pandemic stress and increase cost in systems to provide product. • Market consolidations/integrations involving all stakeholders (supply chain, Payor, Provider) that create drug revenues or manage cost of medication will continue, to demonstrate market penetration and growth.		 David Reese
Physical Therapy	• Continued consolidation / roll up of smaller Physical therapy practices happening across the country. • Most PT firms are having a very difficult time recruiting / hiring both office staff (front desk, billers) in addition to new PT's. • Very high turnover associated with Physical therapy companies as competing firms will often offer sign on bonus's and slightly higher hourly pay to drive employee growth. • Most smaller companies can not compete with the larger employee costs, as they do not have the capital backing or leverage with payors to replace lost margin. • Hence, we can see why these smaller companies are being more and more willing to sell to a larger group. • Additionally, we have seen from these transactions that multiple values have grown from 2020 / 2021 averages. Smaller companies (1- 3 locations) are now commanding multiples that a 5 – 7 location practice would have done historically. • As these trends continue, we will begin to see the rise of "Super Physical Therapy" groups, those that have 100+ locations and geographic coverage across multiple states.	Ivy Rehab Twin Boro	 Jack Trunz

Clinical Specialty	SCALE Forecast	SCALE Company Watchlist	SCALE Executive Partner
Plastic Surgery	• Early-stage consolidation now attracting sponsor investments, initially as add-on to derm and now as pure play. • Significant up-side potential in this category.	Pryor Health	 Roy Bejarano
Podiatry	• Shift towards new EMR's. • Increased opportunities in amputation prevention. • Innovative surgical technologies from orthopedic device companies focusing on Podiatric Surgeons.	Balance Health Upperline Podiatry Growth Partners Foot and Ankle Specialists of the Mid-Atlantic Weil Foot & Ankle Modernizing Medicine	 Lowell Weil
Primary Care / Coordinated Networks	• High demand for primary care driven, specialty inclusive networks with Medicare Advantage lives and experience from an M&A perspective. • Continued growth of providers participating in DCE contracting models. • Growth opportunities for single specialty providers to engage with primary care and specialty based networks.	Genuine Health Cano Health Best Value One Medical	 Mike Reed
Senior Care	• Senior care physician M&A. • Expansion of Home Based Care Services. • Technology Spend to Increase. • Rising Patient Acuity and Behavioral in Medicare/ Medicaid Reimbursed Facility-based Settings. • Physician specialists in Home and SNF/ALF. • Higher-acuity in Private Pay Senior Living Facilities. • Operators investing in risk-bearing entities. • Long-Term Care Population Health. • Provider-owned ancillary startups and JVs in adjacent vertical opportunities. • Home Health evolving from a transactional visit-based model to Physician-led, integrated and coordinated Primary Care at Home team-based approach.		 Bobby Choi
Urology	• True scaled and national players have emerged in the urology market over the past several years. The urology landscape over the next 12-24 months will be shaped by (i) a gravitational pull toward these scaled, national players offset by (ii) groups with strong conviction to remain independent seeking to offering competing alternatives to these national players.	New Jersey Urology Chesapeake Urology Solaris Health Urology Austin	 Jason Schifman

Clinical Specialty	SCALE Forecast	SCALE Company Watchlist	SCALE Executive Partner
Urology (continued)	• An active urology M&A market has increased competition, the attractive profile of urology practices – including a rich pool of potential ancillary service offerings – will continue to make urology an attractive market for investors. • Underdeveloped ASCs strategies will be a focus area for future value creation. • Continued focus on care programs – and supporting marketing programs – focused on customized men's and women's health. • How will urology groups differentiate themselves by integrating their care into broader, holistic senior care programs? What strategic partnerships will emerge?		
Wellness / Dieticians / Nutrition	• Health and wellness interest among payors, employers and segments of U.S. population will provide opportunities in nutrition/diet/exercise/weight loss services. • Health and wellness services will begin to coordinate with behavioral (health) modification programs. • Reimbursement rates will remain a concern for investors/providers.		 Steve Straus
Women's Health / Fertility	• We should see 2-3% decline in birth rates for those that are covered by insurance and a continued shift towards Medicaid for OB coverage. • Fertility will see about an 8% increase in demand domestically and a flood of international patients coming into the US as borders open up in the 2nd or 3rd quarter of 2022 as pent up demand from the pandemic is at an all time high. • Cosmetic and mental health services for women will grow at about 10% in 2022 as women continue to spend money on self-care.		 Andrew Mintz

Call us to speak with any of our SCALE Operating Partners on their area of focus and expertise.

SCALE healthcare

SCALE prides itself in developing customized solutions for its clients and helping healthcare organizations grow and thrive in a challenging marketplace. Now, we are ready to help you. We look forward to sharing examples of how we have helped our clients and invite you to schedule a 1-on-1 complimentary practice management consultation with us.

Contact Kevin Gillis at kgillis@scale-healthcare.com, or +1 (603) 440-3375 to continue the conversation.