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Many innovative trends in health technology have been made in the last few years, but the ones that we must understand

Influence or impact of digital technology
Dramatic improvements in teleworking

2024 Healthcare Industry Outlook

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Nearly one year removed from the end of the COVID-19 public health emergency, the healthcare industry expects a number of new opportunities in 2024, despite lingering challenges exposed by the pandemic. For example, healthcare organizations anticipate issues related to workforce shortages and legislative challenges; but the industry also expects that technological advancements will allow them to grow and transform.¹

Legislative Landscape

Congress failed to pass any major healthcare legislation in 2023, despite several bills being proposed. Nevertheless, there is hope that significant legislation can be passed in 2024, even though it is a presidential election year (historically an inopportune time in which to pass major legislation).² The delay in passing proper appropriations legislation resulted in the stalling of major healthcare spending and numerous programs and bills that needed to be reauthorized through the legislative process.³

On March 9, 2024, President Biden signed into law a \$460 billion spending package to continue funding the federal government for the remainder of the 2024 fiscal year.⁴ The legislation contains numerous healthcare provisions, including:

- Bumping Medicare physician payment by 1.68 percent (resulting in a reimbursement decrease of approximately 1.7 percent for the remainder of 2024)
- Delaying \$8 billion in cuts to Medicaid Disproportionate Share Hospitals (DSHs) through December 31, 2024
- Boosting geographic index pay for Medicare (adjustments that are made to physician reimbursement based on where physician services are provided)
- Extending an increase to Medicare hospice caps (the maximum reimbursement a hospice can receive for Medicare hospice services)
- Extending funding for the Special Diabetes Program, community health centers, the National Health Service Corps, and the Teaching Health Center Graduate Medical Education Program⁵

1 Neil Rao, "2024 Healthcare Services Outlook: Challenges and Opportunities," McKinsey and Company, December 19, 2023, <https://www.mckinsey.com/industries/healthcare/our-insights/2024-healthcare-services-outlook-challenges-and-opportunities>.

2 Michael McAuliff, "PBMs, Telehealth, Transparency Lead Congress' 2024 To-Do List," *Modern Healthcare*, January 3, 2024, <https://www.modernhealthcare.com/politics-policy/pbms-medicare-pay-telehealth-congress-2024>.

3 Ibid.

4 Peter Baker, "Biden Signs Legislation to Extend Funding for Critical Departments," *New York Times*, March 9, 2024, <https://www.nytimes.com/2024/03/09/us/politics/biden-signs-spending-legislation.html>.

5 Michael McAuliff, "Hospitals, Community Health Centers Get Reprieve from Congress," *Modern Healthcare*, January 18, 2024, <https://www.modernhealthcare.com/politics-policy/congress-stopgap-funding-bill-dsh-cuts-chcs-community-health-centers>; Michael McAuliff, "Hospitals, Health Centers, Doctors Get Relief in Funding Deal," *Modern Healthcare*, March 4, 2024, <https://www.modernhealthcare.com/politics-policy/spending-bill-dsh-cut-physician-payment-community-health-centers>.



In addition to the six spending bills enacted on March 9, Congress passed a second set of six spending bills in the early hours of March 23, 2024, to fund the remainder of government programs, including \$117 billion to fund the Department of Health and Human Services (HHS), for the remainder of the fiscal year.⁶

AI Implementation

Technology, such as generative artificial intelligence (AI), is expected to present both challenges and opportunities to the healthcare industry in 2024.⁷ According to a Deloitte survey, healthcare executives have acknowledged and agree that many of the healthcare sector's most important issues (patient wait times, claims, staff burnout, and access) could potentially be addressed with AI. Ultimately, AI may change the way healthcare is delivered, resulting in potential improvements ranging from better customer experience to improved efficiencies.⁸

The adoption of AI and similar technology will fuel the reinvention of healthcare business models, with providers and payors leveraging AI to enhance provider, member, and patient experiences, while lowering administrative costs and increasing productivity.⁹ AI is expected to play a crucial role in achieving more affordable healthcare, with estimations showing that the application of AI could cut annual U.S. healthcare costs by \$150 billion by reducing the number of treatments, doctor visits, and hospitalizations, and by focusing AI on overall health management rather than the treatment of disease.¹⁰

The sprint toward AI in all industries has raised concerns about the technology's risks and the lack of regulatory scrutiny; consequently, regulators have been scrambling to create and modify regulations related to AI usage.¹¹ On October 30, 2023, President Biden signed an executive order to establish new standards for AI in the U.S.¹² The order focuses on protecting the privacy of Americans and

6 Michael McAuliff, "Congress Passes \$1.2T Spending Bill That Includes HHS Funding" *Modern Healthcare*, March 23, 2024, <https://www.modernhealthcare.com/politics-policy/spending-bill-passes-hhs-funding>.

7 Rao, "2024 Healthcare Services Outlook."

8 Tina Wheeler and Wendy Gerhardt, "2024 Outlook for Health Care Planning for the Future of Health: Top Trends for 2024," *Health Forward Blog*, Deloitte, December 6, 2023, <https://www2.deloitte.com/us/en/blog/health-care-blog/2023/outlook-for-health-care.html>.

9 Thom Bales and Laura Robinette, "Next in Health Services 2024: Healthcare's Big Squeeze and the Way Out," PWC, accessed January 8, 2024, <https://www.pwc.com/us/en/industries/health-industries/library/healthcare-trends.html>.

10 Ibid.

11 "US FTC Opens Investigation into OpenAI over Misleading Statements," Reuters, July 13, 2023, <https://www.reuters.com/technology/us-ftc-opens-investigation-into-openai-washington-post-2023-07-13/>.

12 The White House, "Fact Sheet: President Biden Issues Executive Order on Safe, Secure, and Trustworthy Artificial Intelligence," October 30, 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/10/30/fact-sheet-president-biden-issues-executive-order-on-safe-secure-and-trustworthy-artificial-intelligence/>.

The level of development and the pace of clinical AI implementation may be directly influenced by the liability faced by practitioners, designers, and health systems, as more liability could discourage the use of AI in healthcare.

establishes new standards for security and safety in AI.¹³ While the executive order is not specific to healthcare, it contains some healthcare-specific provisions to enable more regulation and oversight of the usage of AI in the healthcare sector.¹⁴



The level of development and the pace of clinical AI implementation may be directly influenced by the liability faced by practitioners, designers, and health systems, as more liability could discourage the use of AI in healthcare.¹⁵ As the technology continues to be developed and utilized in 2024, new legal pathways will need to be established, especially as increased liability would likely repel practitioners, designers, and health systems from implementing and developing clinical AI models.¹⁶ While generative AI will continue to disrupt the healthcare industry, it aims to ultimately increase the efficacy of the healthcare delivery system.

Workforce Shortages and Outsourcing

The U.S. is in the midst of a precarious healthcare workforce shortage that is projected to worsen.¹⁷ By 2030, the country could face shortages of nearly 124,000 physicians and 200,000 nurses. These shortages are due not just to increased demand for healthcare services from the aging population, but also to a contracting supply of providers as a result of the aging healthcare workforce and workers leaving due to burnout.¹⁸ As a result, healthcare staffing needs are expected to intensify as industry leaders struggle to retain and attract talent.¹⁹ To alleviate staffing shortages, employers are expected to turn to offshoring, outsourcing, and managed care partnerships.²⁰

13 Ibid.
 14 See "Biden Issues Executive Order on Artificial Intelligence," *Health Capital Topics* 16, no. 11 (November 2023), https://www.healthcapital.com/hcc/newsletter/11_23/HTML/ORDER/convert_biden_exec_order_ai.php.
 15 Allison Smith Newsome and Jasmeet Singh, "Dr. Watson, A.I.: The Current Approach to Artificial Intelligence Training in the Medical Field and Legal Considerations for AI Diagnosis Dependence," American Health Law Association, July 6, 2023, <https://www.americanhealthlaw.org/content-library/publications/briefings/d88632df-8f1e-48ce-b5f4-066d19b12aa6/Dr-Watson-A-I-The-Current-Approach-to-Artificial-!?Token=60909932-7f8c-4a43-97b9-8bc7e610f4e>.
 16 Ibid.
 17 Alejandra O'Connell-Domenech, "The US Is Suffering a Healthcare Worker Shortage. Experts Fear It Will Only Get Worse," *Changing America* (newsletter), *The Hill*, September 28, 2023, <https://thehill.com/changing-america/well-being/prevention-cures/4225960-the-us-is-suffering-a-healthcare-worker-shortage-experts-fear-it-will-only-get-worse/>.
 18 Ibid.
 19 Bales and Robinette, "Next in Health Services 2024."
 20 Ibid.



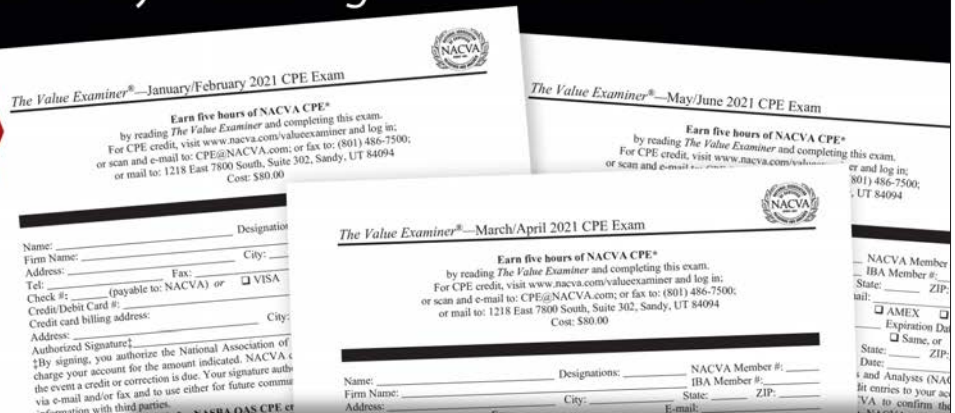
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While many in the healthcare industry may be hesitant to outsource, given the potential impact on local employees, increasingly compelling drivers—such as rising gaps in capabilities, inability to access needed talent, and potential cost savings—may leave industry leaders with no choice.²¹ Experts say that healthcare organizations may benefit from determining what they can do well and outsourcing other functions that may be done at a lower cost and more efficiently.²² By analyzing the efficiency, quality, and cost of outsourcing, healthcare organizations may be able to improve efficiencies, reduce costs, and streamline their operations.²³

According to a Deloitte survey, more than half of healthcare system executives are expecting workforce challenges and shortages in talent that will impact organizational strategy in

2024.²⁴ Some healthcare executives are aiming to address and reduce clinician burnout, while also attracting and retaining staff for clinical roles.²⁵

Mergers and Acquisitions (M&A)

Despite market challenges, the outlook for healthcare sector deals appears cautiously optimistic.²⁶ While regulatory concerns, interest rates, and valuation gaps have impacted the sector, record levels of nontraditional deals and capital are expected to drive momentum in 2024.²⁷ Experts suggest that companies may need to invest time in ensuring deals are structured to prepare for potential concessions in the event that a merger is challenged, and to appease regulators.²⁸

The COVID-19 pandemic was responsible for a sharp drop in M&A activity, but that activity has largely rebounded,

21 Rao, "2024 Healthcare Services Outlook."

22 Wheeler and Gerhardt, "2024 Outlook for Health Care Planning for the Future of Health."

23 Ibid.

24 Ibid.

25 Ibid.

26 Bales and Robinette, "Next in Health Services 2024."

27 Ibid.

28 Bales and Robinette, "Next in Health Services 2024."

In 2024, healthcare M&A is expected to continue rebounding and healthcare systems are expected to continue implementing transformative technology.

and is expected to continue rebounding in 2024.²⁹ Larger healthcare organizations have partnered with and acquired nontraditional industry innovators and disruptors (e.g., retail, tech giants, and telecom) as they aim to meet the needs of more empowered healthcare consumers.³⁰ Some of the new healthcare industry entrants have a stronger focus on consumer needs, and that focus may help health systems transition from their usual business models to offer services that meet the expectations of consumers.³¹

The M&A outlook for selected healthcare subsectors is summarized below.

Hospitals

The pace of hospital mergers increased throughout 2023, and many analysts expect more deals in 2024. Many will be driven by hospitals and health systems that continue to face financial pressures, while the financially healthy systems are looking for M&A targets to stay competitive in a rapidly changing healthcare landscape. In fact, 86 percent of health system executives indicated that M&A activity would have a “great impact” on their 2024 strategy.³² This year may also see a continuation of the trend of member substitution and debt payoff transactions, rather than cash transactions. While hospital transaction (EBITDA) multiples from cash transactions declined slightly from 2022 to 2023, 2024 valuation multiples are expected to remain relatively stable, if not increase.

Physician Practices

Physician practices should continue to be hot targets this year as rising costs, flat reimbursements, and increased capital requirements for the transition to value-based care make it difficult for independent practices to succeed. Many are looking for ways to consolidate or partner with

larger practices or area hospitals. However, private equity remains a significant—if not dominant—player in medical group investments. Due to the economic challenges physician practices confront, M&A activity within the physician practice space is expected to remain strong, with larger groups achieving much higher transaction multiples than smaller groups.

Ambulatory Surgery Centers (ASCs)

Healthcare participants (e.g., hospitals, physicians, private equity) are continuously seeking to grow revenue outside of traditional M&A activities. One option that continues to be popular is acquiring, partnering with, or establishing an ASC. The number of higher acuity cases—such as cardiology and higher-end orthopedic cases—that can be performed in an ASC or other outpatient setting, continues to increase. With these cases, ASC revenue and earnings increase and, as a result, transaction amounts are expected to rise.

Behavioral Health

The attention on mental health is growing, and digital health companies with solutions to address this critical issue are also gaining attention. Technological advancements in the delivery of behavioral health on an expanded geographical scope are likely to attract significant interest from buyers and investors. This includes innovative approaches to address mental health challenges, such as teletherapy platforms, mental health apps, and tools for mental health management. Further, in the aftermath of the COVID-19 pandemic and in light of the ongoing national opioid crisis, there is an expectation of continued growth in the full continuum of behavioral care. This includes residential care, partial hospitalization,

²⁹ Wheeler and Gerhardt, “2024 Outlook for Health Care Planning for the Future of Health.”

³⁰ Ibid.

³¹ Ibid.

³² Ibid.



and the full spectrum of treatments for depression, autism, substance abuse, and addiction disorders.

Other Sectors

Other sectors that for many years have been consistent targets of M&A activity include post-acute care (including home health and hospice), urgent care, dental, and diagnostics (lab/imaging), and these sectors are expected to experience an increase in transactions during 2024. M&A activity is expected to encompass not only outright acquisition, but also joint venture models with other providers.

Conclusion

In 2024, healthcare M&A is expected to continue rebounding and healthcare systems are expected to continue implementing transformative technology. The healthcare industry will turn to AI technology and outsourcing to address urgent workforce needs and satisfy consumers. Legislative challenges will continue to impact the healthcare industry, and federally backed healthcare spending and programs may stall as a result. While challenges remain, industry experts predict the healthcare industry will experience transformative changes over the next year. **VE**



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