



2023 M&A in Review: Indications for 2024

Overview

After healthcare mergers and acquisitions (M&A) activity began to regain momentum in 2022, following the slowing of deals in the wake of the COVID-19 pandemic, transactional activity continued to accelerate in 2023.¹ While the healthcare sector continued to be impacted by factors such as valuation gaps, higher-for-longer interest rates, general macroeconomic risks, and increased state and federal regulatory concerns in 2023, the outlook for 2024 remains cautiously optimistic.² This Health Capital Topics article reviews the U.S. healthcare industry's 2023 M&A activity and discusses what these trends may mean for 2024.

Healthcare Services

Although the health services deal volumes through November 15, 2023, experienced a decline of 13% compared to 2022 levels, the trailing 12-month volumes are nearly twice the average annual levels seen between 2018 and 2020.³ Since the end of 2021, industry-wide enterprise value (EV) to earnings before interest, tax, income, depreciation, and amortization (EBITDA) multiples have declined steadily.⁴ As of November 15, 2023, the average health services EBITDA multiple was 13.0x, comparatively lower than both 2022 (13.8x) and 2021 (15.9x) multiples.⁵

There were a number of major healthcare services acquisitions within 2023, by companies such as Amazon, CVS Health, and Village MD. Some of the largest (by deal size) are summarized below:

- Village MD, in which Walgreens Boots Alliance has majority ownership, completed an acquisition of Summit Health-City MD for \$8.9 billion, adding 2,800 providers to their ranks.
- Amazon acquired One Medical, a virtual and in-person primary care company, for \$3.9 billion.
- CVS Health added 10,000 providers to their network after acquiring Signify Health for \$8 billion. CVS Health also completed a \$10.6 billion acquisition of Oak Street Health, a primary care company.

Hospitals & Health Systems

Sixty-five hospital and health system transactions were announced in 2023, compared to 53 in 2022.⁶ While M&A activity continued to increase in 2023, there was also an increase in the percent of financially distressed

organizations that sought partners.⁷ The financial pressures faced by hospitals and health systems were a key driver in 2023 M&A activity, with financial distress cited as a factor in 28% of transactions, compared to only 15% in 2022.⁸

Hospital and health system M&A activity is expected to remain robust – and potentially intensify – in 2024.⁹ This expectation is informed by the following factors. First, health systems are focusing more on the development of regional markets. While cross-market mergers gained attention in 2023, health systems are expected to expand this focus and develop markets regionally, and larger health systems are expected to concentrate on developing key regions from their portfolios. An essential consideration will be balancing advantages of scale with the ability to respond to opportunities and regional issues with agility. Second, hospitals and health systems are examining new models of alignment. Factors such as regulatory challenges, retaining independence, and the desire to pursue less capital-intensive alignment structures are driving new waves of creative alignment models. Third, while hospital and health system financial performance is stabilizing, this stability may not be sustainable in the long-term. This may be especially true for smaller hospitals and health systems; as balance sheets across the country have been impacted by economic uncertainty, smaller hospitals have less margin for error. Organizations facing financial pressures, even those that maintained financial health during market headwinds, are expected to continue seeking partnerships with larger and more stable organizations.¹⁰

Physician Groups

In the physician services sector, consolidation continues to be a growing trend, even though activity in 2023 was comprised of a greater number of smaller “roll-up” deals (in contrast to larger “platform” transactions).¹¹ While very few private equity (PE) platforms exited the market in 2023, there is still a strong pipeline, and several platform sales are expected in 2024.¹² Primary care continued to be the most active subsector with physician services (with 15 deals in the fourth quarter of 2023), followed by dermatology (6), plastic surgery and medical spas (4), and urology (4). A variety of other physician group specialties were acquired, including orthopedics, allergy, oncology, eye care, cardiology, podiatry, and fertility.¹³

Home Health

2023 saw two large transactions in the home health and hospice sector. UnitedHealth Group closed on a \$5.4 billion acquisition of LHC Group, a home health company. Optum, a UnitedHealth Group subsidiary, announced plans to merge with Amedisys, a home and hospice care provider, in an all-cash deal valued at \$101 per share, pending regulatory and shareholder approval.¹⁴

Demand for home health services is expected to continue in 2024, due to the rising costs of healthcare, patient preference for personalized care, and an aging population.¹⁵ The increased demand for home health services is creating a buyer pool eagerly seeking acquisitions, resulting in escalating competition.¹⁶ Home health agencies that invest in integration, technology, and data analytics are expected to stand out as ideal targets.¹⁷ Despite concerns in proposed reimbursement cuts, favorable conditions in the home health market and increasing competition among buyers will increase the volume of sales and strategic alliances.¹⁸

Digital Health

Digital health deal volumes slumped toward the end of 2023; however, the sector still had the second highest deal volume in 2023.¹⁹ Digital health deal activity is expected to continue growing through 2024, as investors show interest in healthcare AI applications, among other innovative technologies, and in increasing the use of consumer-focused and cloud applications to improve the care experience for patients.²⁰

Conclusion

Overall, 2023 deal making volume in the healthcare industry slowed to pre-pandemic levels, and M&A activity is expected to hold steady in 2024.²¹ Dealmakers are expected to be on the lookout for opportunities in physician practices, digital health, and payor markets.²² In 2024, physician groups across a number of specialties are expected to remain prime acquisition targets, particularly for PE investors.²³ The digital health sector is expected to continue to develop, with the addition of new diagnostics, therapies, and treatments, as well as innovative approaches to the provision of cost-effective and quality healthcare.²⁴ Despite M&A activity slowing down in 2023, consolidation in healthcare is expected to drive an increase in deal activity.²⁵

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