

Evolve

Healthcare
Marketing®



The State of the Healthcare Industry 2023

A pulse check on the opportunities, challenges,
and predictions

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In the three years since we published our inaugural report, healthcare has undergone significant change and transformation. Providers navigated the pandemic—and all the loss, collective grief, and uncertainty that came with it. They quickly adopted new technologies and ways of delivering care, and were forced to adapt in the midst of an economic downturn and workforce challenges. Along the way, they also gained valuable insights into how consumers want to engage with their healthcare.

Over the past year, we've seen patient volumes continue to rebound, and they show no signs of slowing down. Given an aging population, a heavy disease burden, and the demand for mental health services, certain specialties and sub-sectors will only continue to grow. While staffing shortages persist and impact the industry as a whole, as people return to work, private practices, in particular, have experienced some relief.

Still, the ever-changing dynamics and market shifts in healthcare mean inherent challenges for providers. Declining reimbursement rates for Medicare, Medicaid, and commercial insurers, as well as lower pay rates for providers not affiliated with health systems, will make it challenging for practices to stay ahead.¹ Additionally, with the continued rise of healthcare consumerism, self-referrals are slowly replacing physician referrals as patients find their providers via search, digital ads, platforms, and social media.

With this new survey of key healthcare decision-makers, we set out to understand how private practices fared in 2022 and the key trends they anticipate will shape the marketplace. We wanted to know whether these leaders were optimistic about the year ahead, key challenges, drivers of growth, and what's next.

Many of the results were surprising, including nearly 50% of respondents who said they were likely to pursue a private equity transaction. That's good news, given that global private equity firms hold nearly \$1.8 trillion in dry powder.²

We invite you to explore the insights in this report and share them with your team and colleagues. We hope that the findings will be useful and inform your business growth over the upcoming months and beyond.

Signed,

Pete Cunningham, Evolve Healthcare Marketing

John Nantz, Redwood Advisors

Introduction

A Turning Point

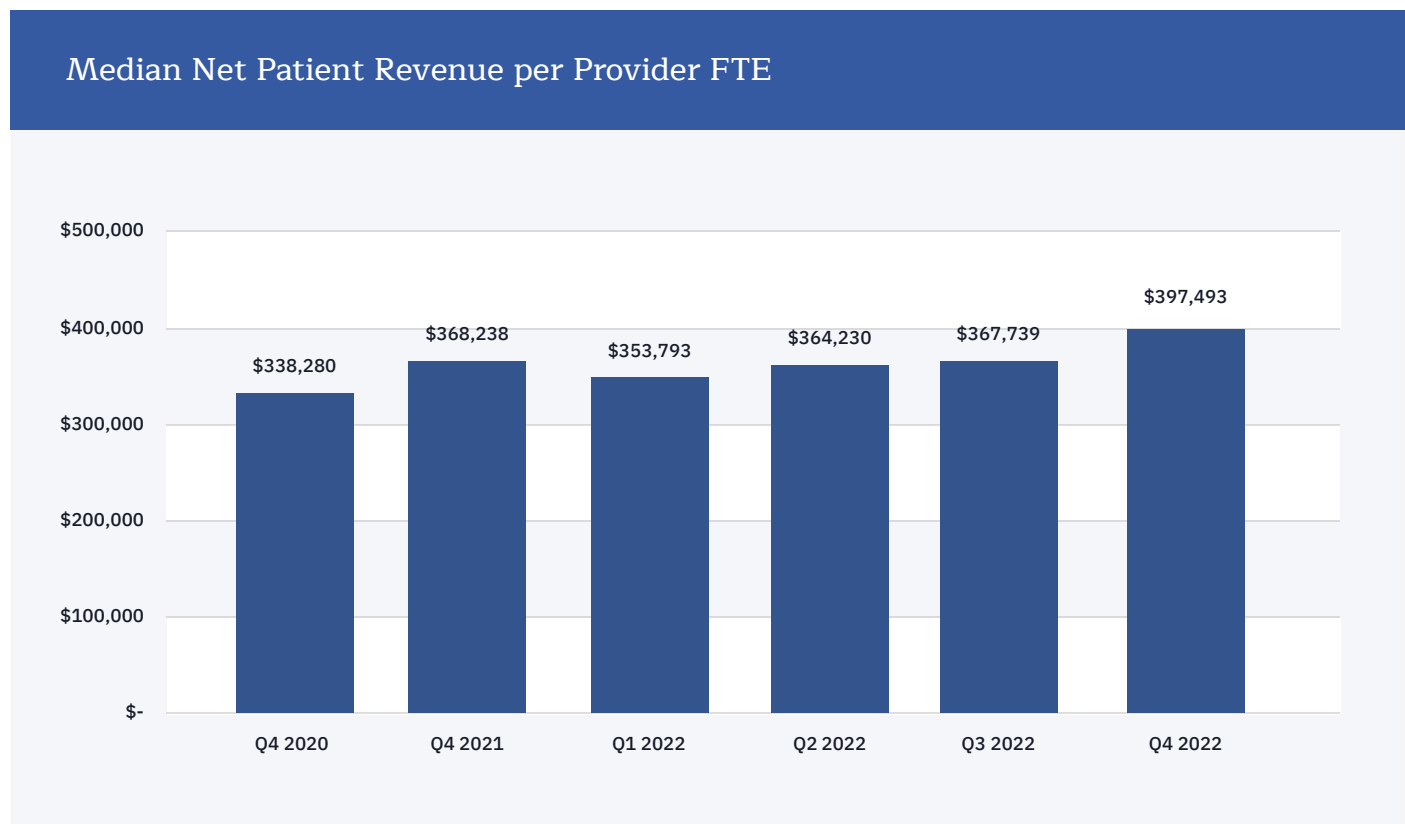
At the start of 2023, there was a renewed sense of optimism in the air. The end of the public health emergency (PHE) for COVID-19 was on the horizon, and people were returning to a more normal way of life—and the doctor’s office.

In fact, a 2022 MGMA survey³ found 55% of medical groups say patient volumes were up from 2021. Similarly, a recent report⁴ by Epic Research found that rates of screening for

breast, cervical, and colon cancers have finally returned to normal after an estimated 10 million preventative cancer screenings⁵ were missed during the pandemic.

Although the nation had been grappling with increasing rates of anxiety, depression, and mental health conditions well before the pandemic, demand has surged, and behavioral health visits are up 17%⁶ from pre-COVID levels.

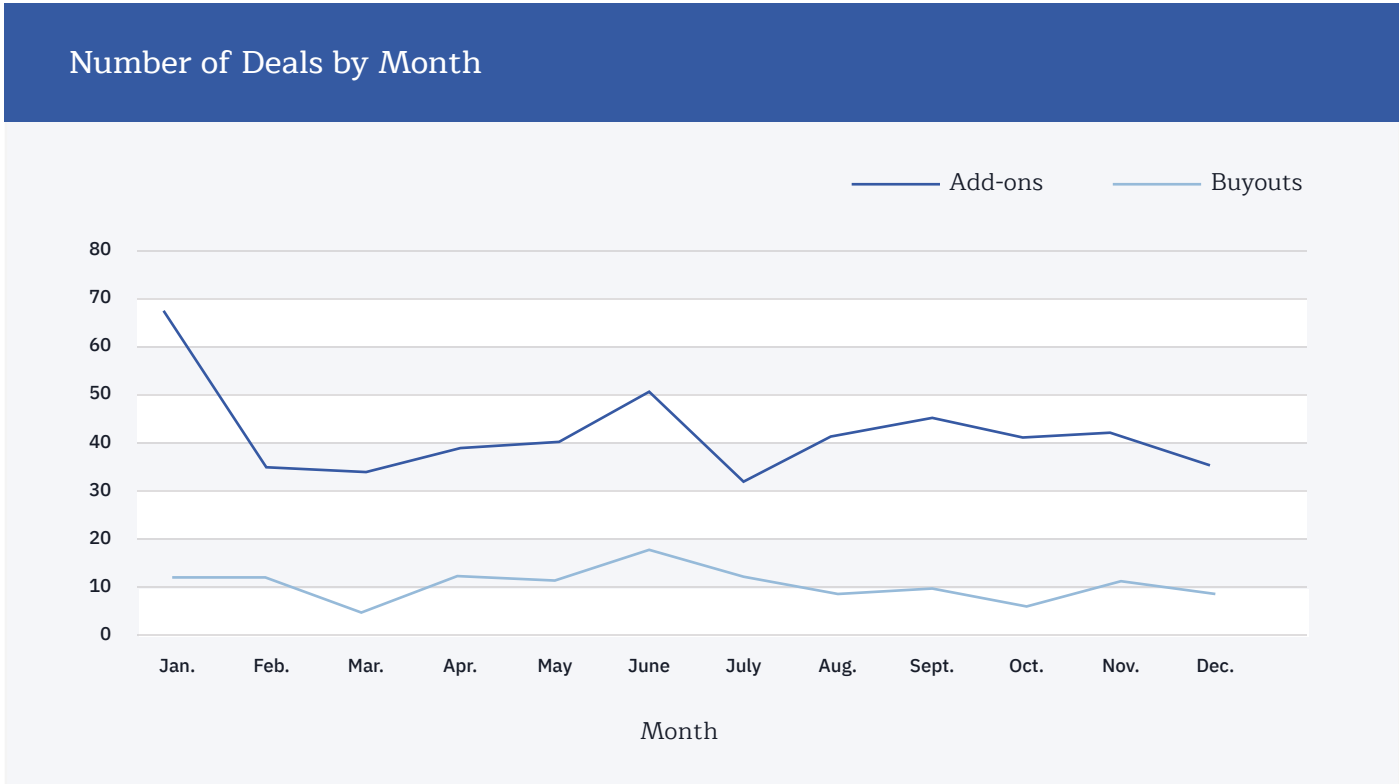
Median Net Patient Revenue per Provider FTE



Kaufman Hall Physician Flash Report 2023. Page 12. Median Net Patient Revenue per Provider FTE

Introduction

At the same time, as patient volumes continue to see an uptick, the industry is also seeing growth in private equity investments. A permanent demand for services, aging and chronic disease populations, and fragmented markets make healthcare ripe for consolidation.⁷ In 2022, 471 private equity firms and similar types of investors were involved in buyouts and add-on acquisition deals,⁷ with outpatient care leading the way.



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Introduction

Taking stock of the ever-changing dynamics of the marketplace, our researchers embarked on a study in Q4 2022 to learn how decision-makers have fared and what they anticipate for the future. Here's what we found:

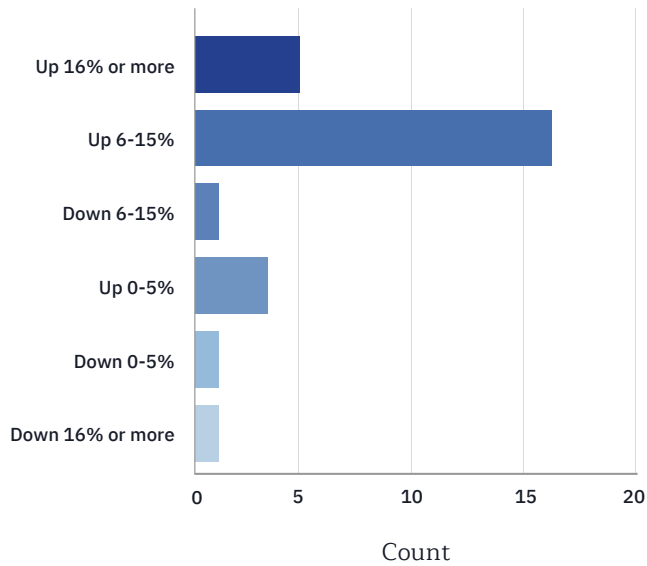
- 93% anticipate an increase in patient volume and revenue YoY, and more than half say volume and revenue will increase between 6% and 15%
- Nearly half say more than 20% of new patients are self-referral vs. physician referral
- Optimized staffing and payer negotiations are the most frequently identified drivers of growth in the next 3 years, with 59% of respondents naming each
- 89% cite staffing shortages as one of the biggest challenges to growth
- 65% of independent providers expect their practice to sell in the next 3 to 5 years
- Only 7% of independent providers selling their practices in the near future have built out value-based care (VBC) revenue streams. At the same time, 57% of providers who don't plan to sell their practices in the near future have built out VBC revenue by more than 20%

Overall, the healthcare industry is recovering well from the recent pandemic and economic downturn. Providers are feeling optimistic about their practices' growth in the next few years. However, trends of consolidation, value-based care implementation, and staffing shortages continue to affect these providers. The events of the last few years have seemingly accelerated these transformations, forcing providers to once again adapt quickly to capture the new opportunities (e.g., patient growth, changes in reimbursement) and mitigate the risks (e.g., consolidation, staffing shortages).

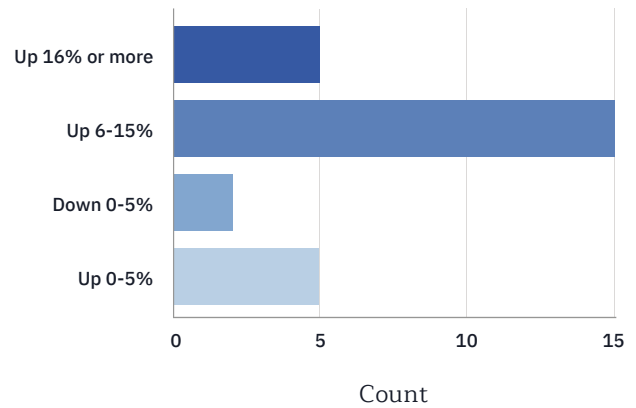
Survey results

Patient Volume

How do you estimate 2022 patient volumes will compare to 2021 for your practice?

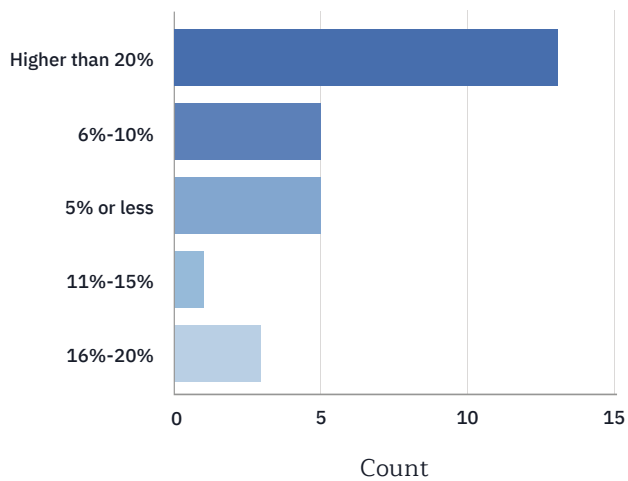


How do you think your practice will grow in terms of revenue in 2023 compared to 2022?



Referrals

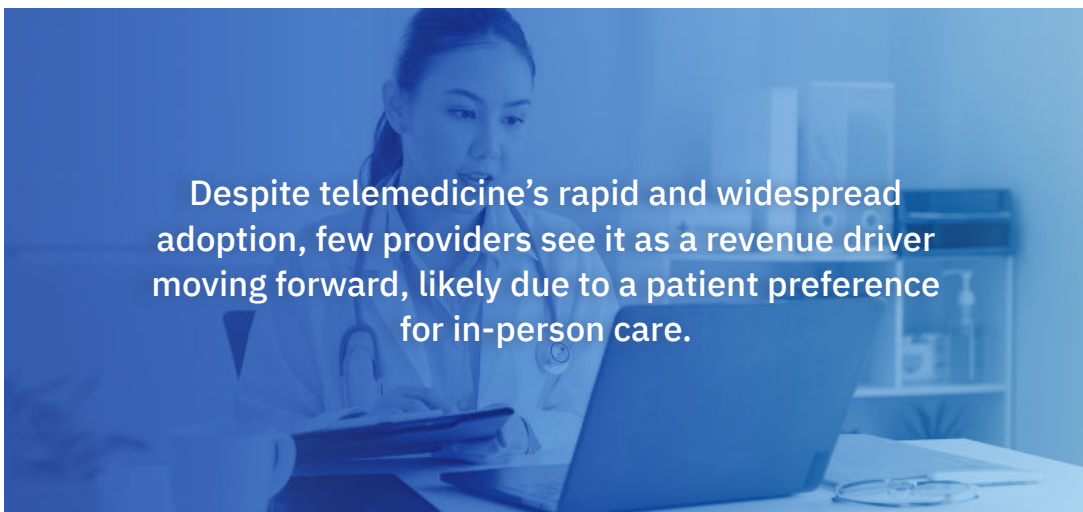
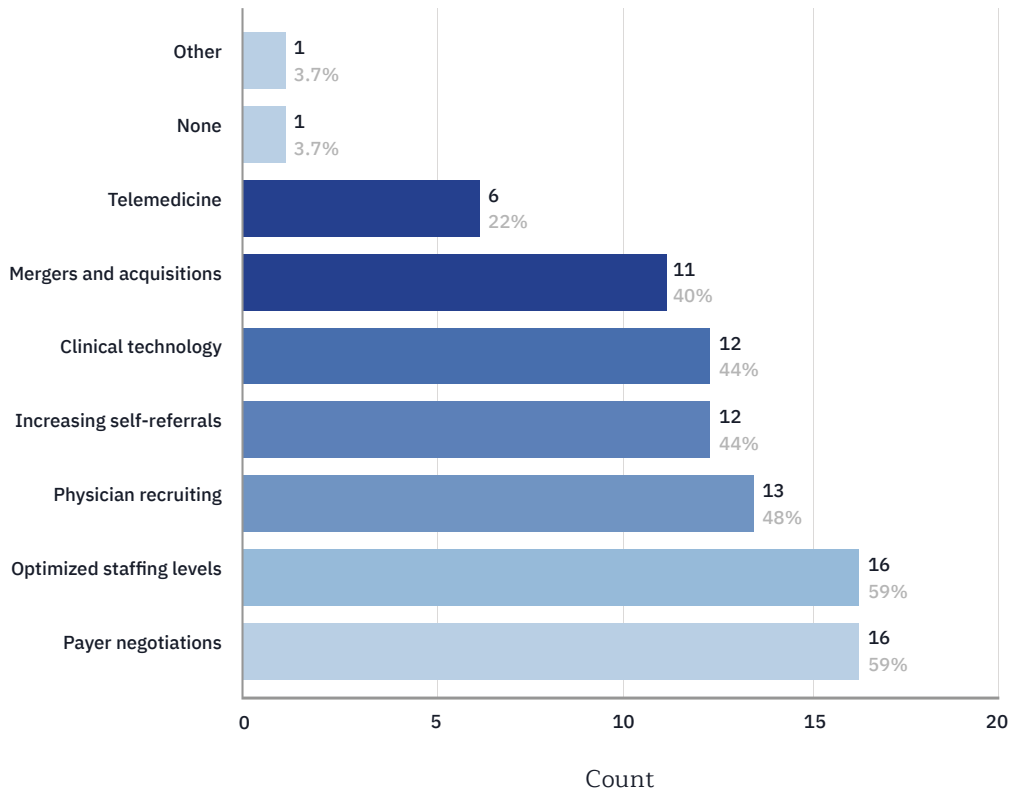
What percent of your new patients come self-referral versus physician referral?



Survey results

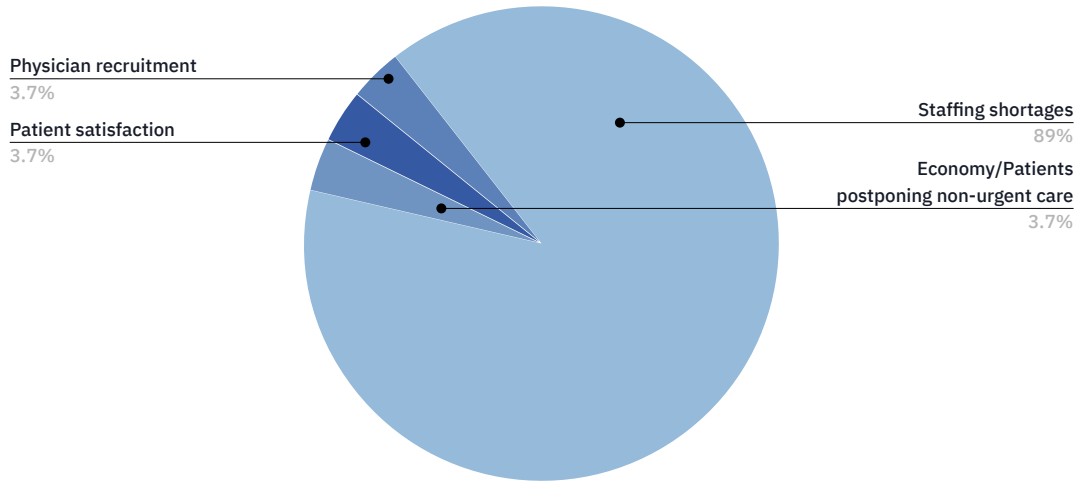
Staffing

What factor(s) do you expect to significantly drive revenue growth in your practice over the next 3 years?



Survey results

What are the top 1-3 challenges to growth you see for your practice in 2023?

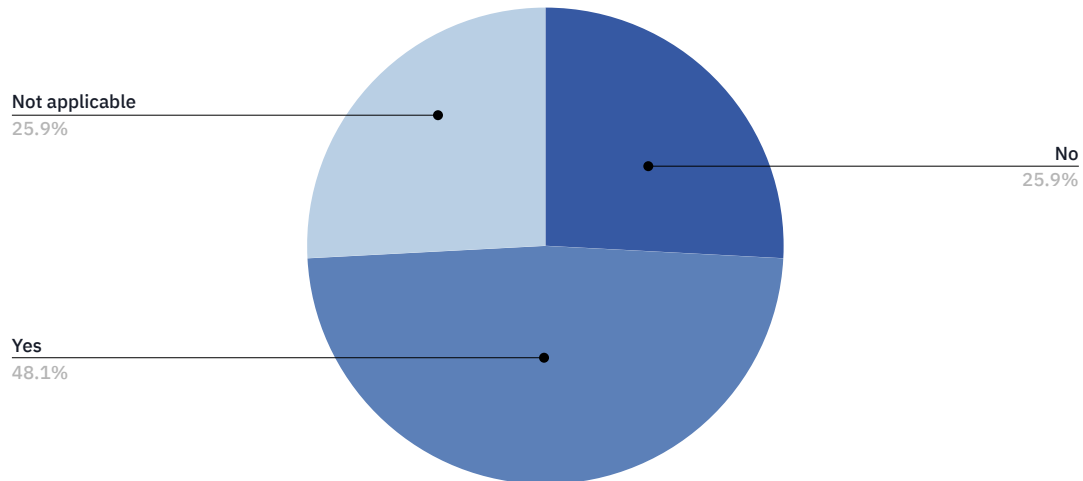


States with higher population inflows, especially those with higher percentages of educated professionals like Texas and North Carolina, were less likely to be concerned about staffing shortages.

Survey results

Consolidation

If you work or own an independent practice, do you think your practice is likely to sell to a hospital, specialty consolidator, or investor sometime in the next 3-5 years?



Methodology

The report is based on emailed surveys sent in Q4 2022. Our researchers contacted physicians, practice leaders, and outside investors. All of the responses received were from outpatient providers. The following further breaks down our survey's participants:

LOCATION

| | |
|----------------|-------|
| New York | 14.8% |
| Ohio | 11.1% |
| Texas | 11.1% |
| Alabama | 7.4% |
| Colorado | 7.4% |
| North Carolina | 7.4% |
| Pennsylvania | 7.4% |
| Arizona | 3.7% |
| Connecticut | 3.7% |
| Kansas | 3.7% |
| Michigan | 3.7% |
| California | 3.7% |
| Illinois | 3.7% |

| | |
|------------|------|
| Nevada | 3.7% |
| New Jersey | 3.7% |

SPECIALTY

| | |
|-----------------------------------|-------|
| General physicians | 18.5% |
| Mental health and substance abuse | 11.1% |
| Kidney dialysis centers | 9.1% |
| Pediatricians | 3.7% |
| Vascular surgery | 3.7% |
| Ambulatory health care services | 22.2% |
| Outpatient surgical centers | 3.7% |
| Outpatient infusion centers | 3.7% |
| Orthopedics | 3.7% |

Methodology

| | |
|--------------------------------|-------------|
| Allergy/Immunology | 7.4% |
| Pain management | 3.7% |
| Urology | 3.7% |
| Primary care & multi-specialty | 3.7% |
| Ophthalmology | 3.7% |

ROLE

| | |
|-----------------------|--------------|
| Physician (owner) | 11.1% |
| Physician (non-owner) | 3.7% |
| Investor | 7.4% |
| Administrator | 66.7% |
| Office manager | 3.7% |
| Senior director | 3.7% |
| CEO | 3.7% |

NUMBER OF PROVIDERS

| | |
|---------|-------------|
| 1-3 | 18% |
| 4-10 | 18% |
| 11-30 | 22% |
| 31-100 | 18% |
| 101-500 | 22% |
| 500+ | 3.7% |

Interested in learning more? Let's talk.

Evolve is a results-driven digital marketing agency focused exclusively on patient acquisition performance improvement for multi-site medical practices. We partner with clinically excellent organizations to create predictable and profitable marketing programs that generate patient volume and ultimately reduce reliance on PCP referrals. On average, our patient acquisition programs generate a 7-10x return on investment.

Redwood Advisors helps multi-site outpatient healthcare organizations maximize value and positive patient outcomes with best-in-class strategic support. We help clients with commercial due diligence, long-term growth strategy plans, M&A and de novo strategy, and practice integration and have worked with a number of successful providers including National Veterinary Associates, Unified Women's Care, U.S. Oral Surgery Management, and BioScrip among others.

About the authors

John Nantz

John Nantz has delivered more than 60 consulting projects focused exclusively on strategy and organizational excellence over the last 10 years. John has focused on supporting growing outpatient providers and has worked for Unified Physician Management (largest U.S. OB/GYN provider), BioScrip (largest U.S. home infusion provider), National Veterinary Associates (largest U.S. vet clinic platform), and Johnson & Johnson Diabetes Solutions among others. He started his career in McKinsey & Company's San Francisco office and earned a B.A. with distinction in economics and an M.S. in management science and engineering from Stanford University.

Peter Cunningham

Peter Cunningham is the founder and CEO of Evolve Healthcare Marketing, where he is responsible for the company's strategy and product innovation. For the last fifteen years, he has focused exclusively on supporting the growth of leading independent healthcare providers throughout the U.S., spanning seventeen different specialties. Some of his clients have included U.S. Anesthesia Partners, Caravel Autism Health, Ivy Rehab, Orthopedic Care Partners, and Gastro Care Partners. He regularly presents at both healthcare industry and private equity investment conferences. A graduate of Drake University, he also studied digital marketing at Northwestern University's Kellogg School of Management.

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