Doctor's Orders: Disruption Driving Deals

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Remember when you had to wait to hail a cab, could only watch a show on a weekly basis and had to go to a store to buy groceries? That was less than 10 years ago.

It is clear how industries like transportation, entertainment and retail have evolved, but healthcare is still in relatively early stages of technology-driven transformation. Sophisticated companies and investors recognize that everything from where a patient accesses care to how they pay for it are changing rapidly.

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TECH IMPROVES HEALTHCARE DELIVERED IN THE HOME:

Historically, healthcare has relied on physicians, nurses and other trained medical staff to treat patients in an institutional brick-and-mortar setting. Now, more business models are integrating technology to complement alternate site efforts, decrease costs and bring care closer to the consumer and their home. In fact, a recent BDO/NEJM Catalyst survey on the future of elder care found that 44% of healthcare organizations say that by 2020, they will invest more in-home health than they will in other care settings. Strategic deals like CVS-Aetna are driven in part by home and community-based care opportunities and their promise of more convenient and cost-effective patient care. Keep an eye on the Medicaid realm, which includes high-need and high-usage patient populations that can be huge cost drivers for state budgets. Telehealth, wireless sensors and mobile connectivity could dramatically improve the delivery of healthcare in the patient's home.

PHI: NEW OPPORTUNITIES, NEW CHALLENGES:

With the digital revolution comes the rapid increase in the collection and usage of personal health information. From this data, valuable new population-level and clinical understandings are being unlocked identifying new care pathways, reducing gaps in care and medical errors, and improving adherence, outcomes and satisfaction. Technology is also creating avenues for greater patient engagement in their own care, which results in better disease prevention. Health organizations and investors alike are placing new emphasis on securing patient health data and ensuring Health Insurance Portability and Accountability Act (HIPAA) compliance as part of the M&A transaction process. In addition, organizations and investors must think seriously about what future investments will be required to ensure today's software is scalable and can evolve as technology, data and regulatory requirements change in the future. PE investors are paying premiums for companies with scalable, compliant technology that streamlines workflows, promotes patient engagement or increases clinical insights.

Value-Based Business Models Command the Strongest Valuations: According to Kaufman Hall, there has been an increasing rate of hospital and health system M&A activity each year since 2009 (with one exception in 2016). Health organizations are now valuing actual clinical results over merely having clinical capabilities. Regardless of any uncertainty in the market, whether it be disruption in D.C. or a potential softening of the economy, the migration away from fee-for-service will persist. Companies focused on bundled payments, outcomes-based reimbursement, and risk-sharing models are definitely garnering premium valuations.