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Value-based care companies are a hot target for healthcare investors

Article

The trend: Healthcare private equity (PE) firms and other backers are homing in on value-based care (VBC) companies as key investment targets, according to Bain & Company's

Global Healthcare Private Equity and M&A Report 2023.

To control spending, providers and payers are collaborating on VBC initiatives in which physicians are financially incentivized to deliver low-cost, quality care versus a higher volume of care services.

The pandemic catalyst: Providers who only got compensated under a traditional fee-for-service (FFS) payment model suffered revenue losses due to abrupt reductions in patient visits. Investors quickly realized that providers would want greater financial protection against future FFS downturns.

- Private capital funding in VBC companies **more than quadrupled from 2019-2021**, according to a December 2022 McKinsey & Company analysis.

Who's getting the most dollars? Billions of dollars are pouring into Medicare Advantage-focused primary care players—MA is built on VBC principles.

- **Amazon** bought **One Medical**—which owns **Iora Health**, a VBC entity—for $3.9 billion last July.
- **CVS** reached a deal to acquire **Oak Street Health**, a value-based primary care company, for $10.5 billion in February.
- **Humana** and **Welsh, Carson, Anderson & Stowe** pumped $1.2 billion into a joint venture last May to expand the insurer's network of VBC clinics.

Companies that help providers transition to VBC are also garnering interest from investors.

- Just in the last few months, three startups providing technology services to provider customers shifting to VBC combined to **reel in over $300 million in funding rounds**.

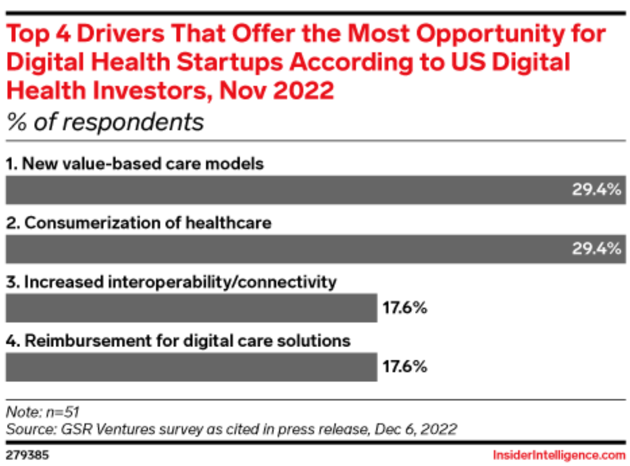
Yes, but: Shifting to VBC is costly, requires considerable change management, and short-term gains may not be realized. That's why VBC growth has been slow and steady—many stakeholders don't have the risk appetite for it.

- **FFS is still the predominant reimbursement model even though** the number of value-based payment arrangements between providers and payers has increased annually since 2015, per the Health Care Payment Learning & Action Network.

- About **80% of primary care providers say they're interested in value-based payment models but report technological and administrative limitations** as the biggest barriers, per Bain and Co.'s findings.
- Irrespective of the VBC model being implemented, "Risk-based models take time to turn profitable for any patient population," the report notes.

Key stat: Value-based payment arrangements will capture **15%-20% of market share from traditional FFS providers in primary care by 2030**, per Bain's analysis.

Our take: VBC providers and enablers are viewed as opportunistic investment targets because of their unrealized potential. Healthcare PE firms likely think they can get in at the ground floor, provide the necessary upfront investments, and help VBC practices profit by controlling costs. Patience will be critical—achieving financial success in VBC models will never happen overnight.



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