CLIENT ALERTS & INSIGHTS

Valuation Trends in Private Equity, Nephrology, Dialysis, Value-Based Care and Outpatient Labs

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Valuations, and how a business reacts to them, directly impact a business's ability to complete successful transactions. In the healthcare sector, compliance with federal and state laws against self-referral and kickbacks and require entities to ensure that the compensation arrangements within the proposed transaction are within the range of fair market value. Health care entities and physician practices must be prepared to handle ever evolving trends in health care as they are intertwined with change landscapes relating to private equity investment, newer payment models like value-based care, and regulatory changes.

At the Benesch Healthcare+ Third Annual Nephrology and Dialysis Conference in Chicago this June, we spoke to a panel of experts who provided critical perspectives on how to approach valuation in the healthcare sector.

Experts included David Gaynor, Principal of Marshall & Stevens Inc., and Matt Phillips, Managing Director of City Capital Investors. The panel was moderated by Lauri Cooper, Counsel for Benesch's Healthcare+ practice group.

Here are five key takeaways from the panel discussion:

1. **The role of private equity within the nephrology and dialysis sector is in flux.** Private equity firms currently face challenges due to the high cost of debt capital. Since capital is less available now, firms must put more equity capital into their transactions, which decreases their returns. Yet, simultaneously, for other firms that have built up capital over time, there is an excess of private equity capital out there to be invested. Thus, some firms are waiting for better conditions before investing, while others are willing to pay more and invest now. In addition, within the nephrology industry, there are differing opinions on the roles of private equity. Some practices embrace the influx of capital and accompanying stability while others view it as an intrusion onto their medical practice. As such, private equity is still working to win over the mindsets of the industry.
2. **Value-based care deals are still uncertain.** Value-based care models are still relatively new. As such, there is a lack of solid industry wide data available to help businesses and valuation companies conceptualize and build better and accurate models. There are still a wide range of services that need to be considered before experts will have sufficient data to help successfully guide businesses in this realm. And until that data is complete, many are likely to shy away from the model. That being said experts see real value, both for patient care and financials, in investing in value-based care.
3.

Medical Directorships and Joint Ventures in Dialysis Centers are Static, Home modalities are on the rise. Today's focus on value-based care places a premium on putting dialysis patients on home modalities and experts are seeing fewer deals and requests for services in the dialysis center joint ventures and medical directorships. And the growth of home care is consistent with the general trend in the broader healthcare sector post-COVID. The government has noted this increase and issued more guidance and regulations surrounding care like home dialysis in recent months which helps to mitigate regulatory risk associated with the home modalities.

4. **Healthcare practices should not be as affected by the new limits on non-competes.** In early 2023, the Federal Trade Commission announced a proposed blanket ban on all noncompete clauses. However, experts think this will have less of an effect for healthcare providers and their valuations because patients are not under contract and because these new policies will affect everyone to the same degree. Additionally, it is worth considering that there is a difference between employment non-compete agreements and ownership non-competes. These new rules will bring more challenges to the sector to the employment space than it will to owners. Further, since referrals are generally not allowed in healthcare anyways, there should be less impact even from the employment side of things than in other industries.

5. **The debt ceiling has forced businesses to introspect.** While it is not clear that the raise in the debt ceiling should have any particular effects on the healthcare sector, the frenzy has inspired business leaders to take a larger interest in determining their companies' values and articulating their goals. Ultimately, experts are pleased with this result, as it gives attorneys an opportunity to discuss concerns and ideas with their clients that otherwise may not have come to light.

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