



## EXECUTIVE INSIGHTS

# The HCIT Deal Landscape: An Analysis of M&A Activity

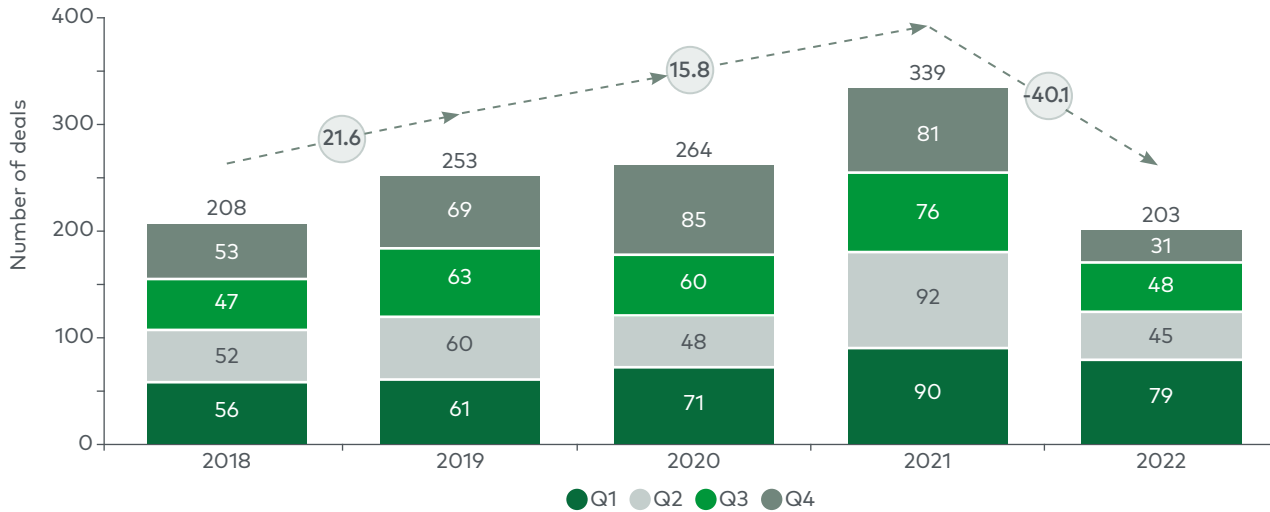
The U.S. healthcare market continues to evolve as the market has transitioned after the height of the COVID-19 pandemic. As a result of patients' increased desire for virtual care, the labor/staffing challenges and the evolving regulatory landscape, the need for robust healthcare information technology (HCIT) solutions has never been greater. L.E.K. Consulting defines HCIT as provider (including pharmacy), payer and life sciences tools that optimize clinical, financial and operational activities to improve patient outcomes/engagement, enhance financial results, and yield efficient, effective and timely operational processes.

Since the onset of the pandemic in March 2020, over 700 M&A transactions have been consummated in U.S. HCIT.<sup>1</sup> For market participants and investors, a number of questions arise in terms of how to make sense of these deals. How does recent activity compare to previous years, and where is the market headed? What types of companies are being acquired and combined? What assets drive value for care providers and other health organizations? Our analysis of these transactions yielded insights in four key areas: overall deal trajectory, areas of expansion for providers, the increasing importance of medical/care management software and the role of private equity (PE) in the market.

## 1. Overall deal trajectory

Prior to the pandemic, deal volumes had been growing consistently. From 2018 to 2021, total transactions increased ~18.% p.a., from 208 deals to 339, despite a brief slowdown in Q2 and Q3 2020 during the initial COVID-19 outbreak shutdowns (see Figure 1). This flurry of activity was catalyzed by pandemic-related issues, such as the sudden/urgent need for more robust virtual care capabilities and labor/staffing issues.

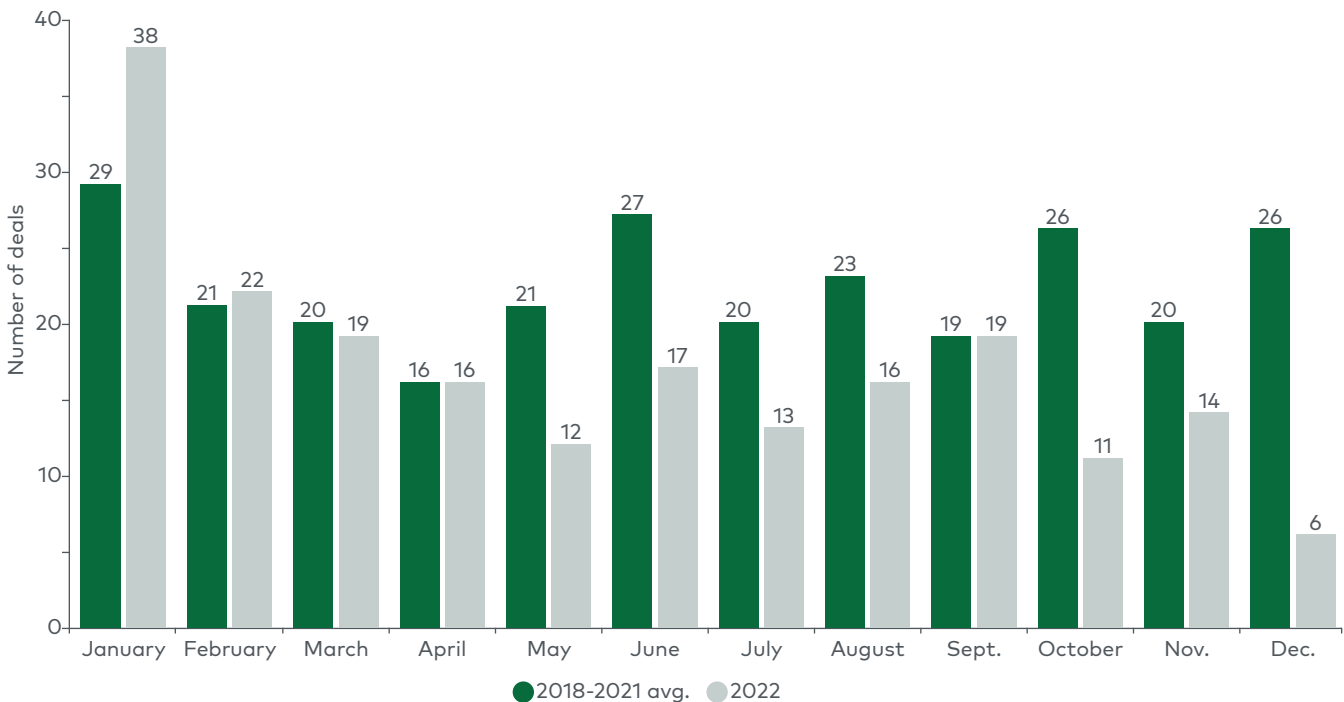
**Figure 1**  
Total deal volume, by year (2018-2022)



Source: L.E.K. research and analysis

In 2022, however, there was a clear slowdown from the 2018-2021 volume trend as the 203 total deals completed trail even 2018's total. Although the first four months of 2022 outpaced the historic 2018-2021 average in terms of total deal volume, recession concerns slowed deal activity starting in May with an acceleration of the relative decline extending through December (see Figure 2).

**Figure 2**  
Total deal volume, by month (2018-2021 average vs. 2022)



Source: L.E.K. research and analysis

An examination of the types of deals that are getting done shows that most deals have been provider-focused, targeting assets that offer solutions to automate patient engagement, clinical operations and administrative activities. The two categories of virtual care – telehealth and remote patient monitoring (RPM) – and electronic health records (EHR), practice management and data warehousing remain the most active sectors for the second year in a row as providers continue seeking to improve operational efficiency given ongoing staffing challenges in the post-COVID-19 world (see Figure 3).

**Figure 3**  
'Top 10' solutions, by total number of deals (2021-2022)

Solution	Service line	2022 (full year)		2021 (full year)		YoY movement* (Ranking comparison)
		# of deals	Deal volume ranking	# of deals	Deal volume ranking	
EHR, practice management and data warehousing	Care delivery/clinical operations	28	1	51	1	0 →
Virtual care	Patient engagement	21	2	35	2	0 →
Revenue cycle management	Administrative activities	20	3	15	9	6 ↑
Communication and workflow management	Care delivery/clinical operations	17	4	17	7	3 ↑
Disease/case management	Care delivery/clinical operations	13	5	17	8	3 ↑
Patient education and process management	Patient engagement	10	6	21	5	1 ↓
HIE/interoperability	Patient engagement	9	7	7	11	4 ↓
Health and wellness	Patient engagement	8	8	30	3	5 ↓
eClinical solutions	Clinical trials	7	9	19	6	3 ↓
Market access/fulfillment	Administrative activities	6	T-10	5	18	8 ↑
Population health management	Administrative activities	6	T-10	6	15	6 ↑
Provider operations	Commercialization/GTM	6	T-10	25	4	6 ↓

● Provider ● Payer/employer/PBM ● Life sciences

\*Clinical genomics dropped from a top 10 deal volume ranking in 2021 to a T-35 ranking in 2022 as clinical genomics deal volume declined from eight deals in 2022 to one deal in 2021

Note: EHR=electronic health record; HIE=health information exchange; GTM=go-to-market; PBM=pharmacy benefit manager

Source: Cap IQ; L.E.K. research and analysis

## 2. Expansion of EHR, practice management and data warehousing for providers

EHR, practice management and data warehousing continues to be a highly active subsegment in the HCIT market as established EHRs look to further differentiate through specialized offerings and enhanced data capabilities. For example:

- **January 2022** — WebPT, a physical therapy-focused EHR, acquired Clinicient, an outpatient rehab-focused provider of physical therapy electronic medical record (EMR) solutions
- **February 2022** — PointClickCare, a senior care-focused EHR, acquired Audacious Inquiry, a data and care coordination platform following its acquisition of Collective Medical in December 2020
- **August 2022** — Planet DDS, a provider of dental practice management software, acquired QSIDental, a cloud-based provider of dental practice management software
- **August 2022** — NetSmart, a behavioral health and post-acute care EHR, acquired Z-Core Analytics, a skilled nursing facility-focused data solutions provider
- **October 2022** — WELL Health, a digital health company now rebranded as Artera, acquired Cloud MD's Cloud Practice entity, which provides EMR and billing products

We would expect expertise in unique, differentiated specialties within a subsegment as well as proprietary data and analytics offerings to continue to be key drivers of sustainable differentiation moving forward, and thus they would be key areas of focus for M&A activity.

## 3. Increasing importance of virtual care for providers

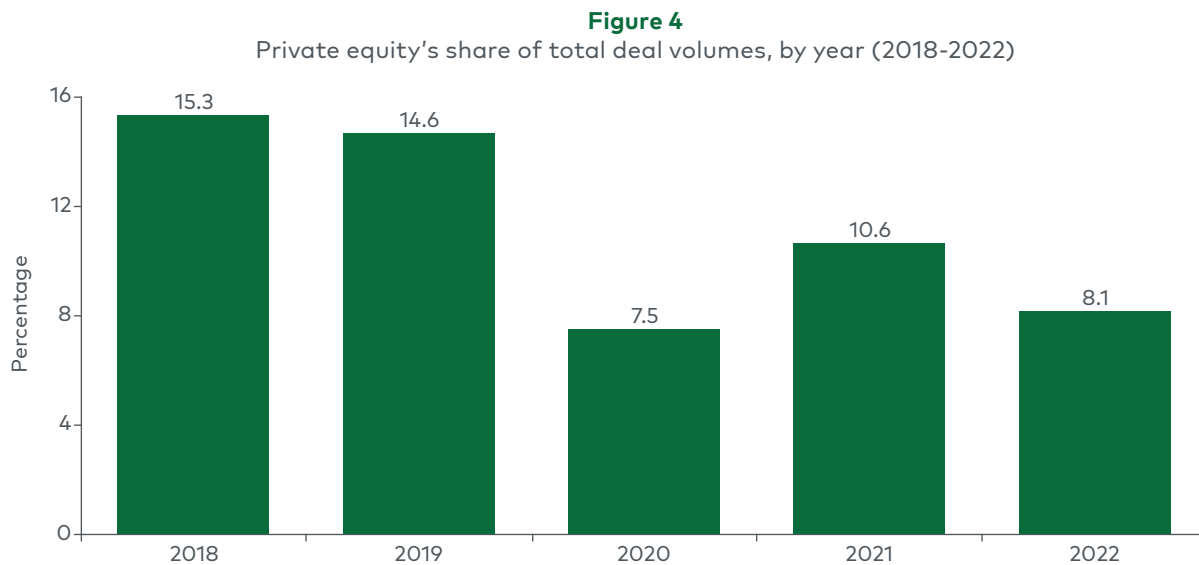
Even after the peak of the pandemic, there remains a strong interest in virtual care capabilities. As such, the solution category has retained its No. 2 ranking in terms of total number of deals. Recent highlights include:

- **June 2022** — One80 Intermediaries, a specialty insurance broker, acquired 1800MD, a national telemedicine provider
- **July 2022** — VeruStat, an RPM platform, acquired One Healthcare Solution, a provider of RPM, patient engagement and care management services
- **August 2022** — ReviveHealth, an online healthcare-based subscription membership solution, acquired iSelectMD, a telemedicine provider targeting employers
- **September 2022** — SOC Telemed, an acute care telemedicine provider, acquired Forefront TeleCare, a behavioral health-focused telehealth provider
- **November 2022** — Wheel Health, a virtual care platform, acquired GoodRx's back-end virtual care technology

There is a wide range of buyers across virtual care assets, with generally smaller deal sizes. This broad scope highlights that all corners of the healthcare market have continued to buy virtual care assets as caregivers look to control this channel of patient engagement in order to maintain healthier patient populations and allow for seamless, constant communication.

#### 4. Private equity's role in the market

In 2022, PE firms completed 16 transactions, or ~8% of all deals, a significant decline from 2018 and 2019 levels (see Figure 4).



Source: Cap IQ; L.E.K. research and analysis

Sample deals in 2022 include:

- **January 2022** — LCKM Headwater Investments and Weave Capital invested in Knack Global, a revenue cycle management (RCM) provider
- **February 2022** — Patient Square Capital acquired SOC Telemed, an acute care telemedicine provider
- **March 2022** — GTCR acquired a majority stake in Experity, an urgent care-focused provider of EHR, practice management, patient engagement, RCM and other solutions
- **June 2022** — Frazier Healthcare Partners acquired Apollo Intelligence, a data and analytics provider
- **August 2022** — Bain Capital acquired CitrusTech, a data and analytics provider

PE firms seem to be buying a similar mix of solutions as compared to the broader market (virtual care, EHR, practice management and data warehousing software, RCM services, etc.). The mix of acquirers illustrates that PE firms may be frequently squeezed out by corporate buyers that focus on obtaining potential post-acquisition synergies.

## Looking forward to 2023

Although 2023 follows a downswing in HCIT deal volumes along with high interest rates and the looming threat of recession, healthcare entities continue to face urgent underlying challenges related to tight clinician and administrative labor markets, the evolution of virtual care, the continued growth of physician practice management companies, and the need to harness the value of data and analytics in both clinical and administrative services. HCIT will continue to play a vital role in addressing these issues and creating value for strategic and financial buyers.

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## Endnotes

<sup>1</sup>S&P Capital IQ Database

## About the Authors



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Joe Johnson is a Managing Director and Partner, as well as L.E.K. Consulting's Healthcare sector lead for the Americas. Joe is a leader within the healthcare services practice area and helps industry leaders develop and implement new strategies while providing M&A advisory support to address the changing healthcare landscape. He has more than 20 years of consulting experience and has worked on numerous strategic growth, operations and commercial due diligence projects across the healthcare services industry.



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Todd Clark is a Managing Director and Partner in L.E.K. Consulting's San Francisco office. Todd leads the firm's HCIT practice while also serving as co-head of our Healthcare Services practice. He has been a leader in L.E.K.'s Healthcare Services practice since 2015, bringing more than 20 years of experience in strategy consulting, advanced analytics and corporate finance to the role.



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## About L.E.K. Consulting

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