

# Top 5 Items to Consider in Healthcare M&A

Private equity (PE) investment in the healthcare sector has risen significantly over the past decade. Estimated annual deals valued \$41.5B in 2010, rising to more than \$200B in 2021. And, despite higher interest rates and labor costs driving the number of acquisitions down in 2024, market research is showing that the acquisition pipeline is on the rise again for 2025.<sup>1</sup>

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## CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

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## A shifting focus

Throughout the early 2000s, PE groups invested mainly in hospitals and skilled nursing facilities. However, that **focus is now shifting to outpatient care**, including healthcare IT and pharmaceuticals. These lines of business deliver a lower acuity of care, do not primarily serve vulnerable populations and can help private equity groups build an investment strategy centered on long-term demand.

As a result, PE investments that center on provider categories such as home-based care, post-acute care, high-acuity behavioral health and intellectual and developmental disabilities (IDD) care are not expected to grow in 2024.

## Pros and cons to private equity investment

Regardless on which lines of business PE groups choose to focus, their involvement in the health care sector has been controversial.

On the positive side, the influx of money from PE has helped progress mRNA vaccinations, given patients access to expanded care in medical practices and created new jobs by funding research and development in the life science space.<sup>2</sup>

Many argue that the business model of PE firms – typically limiting ownership of an asset to three to seven years – minimizes the incentive to make any meaningful investment in patient care. These arguments often refer to studies that seem to show an emphasis on profits over patients, leading to increased costs (as high as 32%) and rising safety concerns.<sup>3</sup>

### Areas of growth

These arguments for and against PE funding have flooded the press in recent years and resulted in increased regulatory and federal scrutiny. However, we are seeing movement in two key areas: senior care and life sciences.

In 2023, the Centers for Medicare & Medicaid Services (CMS) finalized a rule requiring more transparency into nursing home ownership for any facilities enrolled in Medicare or Medicaid. The rule specifically requires disclosure of PE and/or real estate investment trust (REIT) involvement. Because of this increased regulation of skilled nursing facilities, as well as the growing trend of Baby Boomers taking proactive steps to live in graduated care facilities, PE investment interest has shifted to other areas of senior care, including assisted living, memory care and independent living facilities – all of which aren't federally regulated.

We also expect to see an uptick in smaller PE deals surrounding life sciences despite current FTC regulations. Interest in GLP-1 drugs and complementary therapeutic areas, as well as AI opportunities and MedTech, are driving the uptick in investment as PE groups **face continued pressure to acquire and/or divest assets.**



## M&A checklist: top 5 items to consider

For your clients affected by the changing healthcare investment landscape, due diligence around a sale or purchase is key. Here are the top five areas to consider.

- 1. Current schedule of insurance:** Be sure to include all insurance policies, effective dates, limits, deductibles and premiums, as well as who is and who is not covered.
- 2. Schedule of insureds:** This will help determine what entities need coverage and in what capacity, based on organizational charts and contractual requirements. During the purchase or sale of an organization, it's critical to make sure coverage is not dropped for any individuals or organizations during the chaos.
- 3. Contracts:** Any third-party and employee contracts should be reviewed and updated to reflect the compliance standards of the new entity. Most contracts will have non-transferability clauses, so a thorough review and sign-off will help ensure that nothing slips through the cracks. Some contracts may also have minimum insurance requirements for certain coverages and require that the other party be listed in some capacity.
- 4. Extended reporting period:** Also referred to as tail or run-off coverage, extended reporting (ERP) is pertinent when the current policy is written on a claims made basis. This means the policy only covers claims "made" against the insured during the policy period (from the prior acts date through the date of the sale). Purchasing ERP enables an insured to report claims in the future for wrongful acts that occurred subsequent to the retroactive date in the policy and prior to the date of the acquisition for some period. This additional period of time to report claims is purchased in 12-month increments typically ranging from 12 to 60 months (the most common being 36 months). From the acquiring company's standpoint, the ERP serves as collateral for future losses that may result from the acquired company's activities prior to the date of acquisition. And don't forget that the incumbent may not always be the best option; marketing for the buyer can help ensure that they are getting the right coverage at the right price.
- 5. Loss Experience:** When merging with or acquiring a new entity, it is important to understand their previous loss experience. Prior owner or operator losses can have a large impact on go-forward insurance costs, even when the go-forward policy is put under the new ownership. Reviewing at least five years of loss experience for frequency and severity can also help determine what areas of the operation may require more risk management.

## We help you win

To help structure the necessary coverage, negotiate market options and adequately protect all parties, you will want to work with a broker that specializes in the healthcare sector. As the country's leading wholesale brokerage, Amwins understands that the diversity of risks that your healthcare clients face requires the expertise of specialists who can secure comprehensive, competitive solutions

Our team works with you to safeguard your client's operation, build the most cost-effective structure and obtain the best coverage on a go-forward basis. Whether acquiring various entities or merging different operations, we help you find the right solution for your client.

### Insight provided by:

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<sup>1</sup>After decline, private equity investment in healthcare reaches turning point: PitchBook | Healthcare Dive

<sup>2</sup>Industry Voices—Private equity investment in healthcare is making a positive impact ... especially for doctors | Fierce Healthcare

<sup>3</sup>Federal government probes healthcare private equity deals | Healthcare Dive