

Predictions For 2021

January 6, 2021



Macro Trends	SCALE Forecasts	Supporting Arguments
More Covid	Plenty of residual headwinds in 2021	• Weakened healthcare company balance sheets across the board • More patient disruption in 2021 as virus continues to flare up • More operational disruption as "what is safe" continues to involve new standards of care • Making sense of 2020? We will have time in 2021 to revisit lessons learned and changes that need to be made henceforth • Anticipate lingering confusion as to the effectiveness of the vaccine against mutations • Pent up demand – The US Census Bureau "Pulse Survey" (weekly survey of 1 million people) still pegs the number of people "delaying care" at around 35% across the country. In 2021, there should be a lot more patients looking to move forward on a wide variety of electives as well as a higher number of urgent procedures due to preventative care and/or delays. • Healthcare tied to national security – what new regulations, reporting requirements and precautionary protocols will be implemented? What will be the resulting cost and administrative burden of any such measures?
Telemedicine Here For Good	Healthcare now intertwined with virtual care – expect waves of further adoption	• Wide variance in adoption by specialty e.g. behavioral high adoption vs. dental and procedure based specialties relatively low adoption • Migration from rapid across the board rollout of 2020 – where telemedicine was the service – to integrated telemedicine, where more sophisticated players develop telemedicine as a value-add solution embedded within broader care delivery programs • New market opportunities through potential for accelerated development of: • Expanded rural capabilities alleviates some of the growing pressures faced by these communities vis a vis access to care • Introduction of national and multi-national purely virtual specialty platforms; major areas: Televist, Remote Patient Monitoring, Home care, other models such as Hospital at Home • Largest benefits accrue to larger platforms with greatest investment dollars • Push toward integration with home diagnostic and monitoring technologies • The race for "distribution" is almost over, with the next wave of activity focused on consolidation of niche or specialty telemedicine platforms. The real race will be for "content". • The value-added applications that leverage the unique capabilities of telemedicine platforms (integrated with remote patient monitoring) to advance care solutions (e.g. TeleDoc/Livongo)

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To Private Equity or Not?	Public media attention slowly but noticeably returns to the question of PE in healthcare	• PE backed platforms continue to grow in SCALE primarily through acquisitions – founding platforms from the investment wave over the past several years are increasingly moving across state lines • Outsized returns continue to generally drive home the message that PE can add real value in the healthcare services segment • The question will be whether the valuations paid over the past 12-36 months were proven right or not • The failed or under-whelming investments will further drive home the message that more expertise is required beyond the standard playbook of finding the right CEO and independent board advisors • Continuation of the broken auctions as ‘not ready for prime time’ platforms continue try to sell themselves in a frothy market • PE backed platforms that are unable to meet debt covenants ultimately absorbed by their lenders • Growing list of publicly traded platforms brings an increased level of attention and performance transparency to the market
Amazon and Google Take Over?	Tech platforms continue to consolidate pharma, but struggle to penetrate broader healthcare services	• Retail healthcare remains the exclusive focus and domain of healthcare operators • ‘All Flash’ approach to retail healthcare. Inexperienced operators fail to deliver • Healthcare continues to evolve to position itself in the middle of people’s “life flows” – i.e., their daily lives and activities • Retail healthcare, augmented with telemedicine and remote patient monitoring, sits right in the middle of people’s daily lives • Retail platforms won’t come to healthcare, healthcare will come to the retail environment (eg, CVS and Walmart, Amazon in Rx and DME, Best Buy in remote patient monitoring). In doing so, they will leverage healthcare operators, augmented by retail and consumer tech experts who understand the consumer in ways healthcare executives never have.
Coordinated Care Working?	Increased investment leads to growing list of well capitalized consolidators	• Not all value-based care platforms will succeed – what will be the impact of the first round of public failures? • Further focus/attention allocated to rapidly growing national platforms reveals what’s working/sustainable and what needs further refinement • Disparate EMRs and pop health platforms will need to be reconciled by government mandate • Care coordination standards will evolve further and CMS will lead the way in terms of payment models • Coordinated care will work when enabled by a value based construct that incentivizes all to “coordinate”
Regulatory Changes Looming?	The path toward increased price and performance transparency will continue	Improving technology, consumer demand and cost pressures from consumers/ employers/payers/government

Clinical Specialty	SCALE Forecasts	SCALE Company Watchlist	SCALE Chief Advisor
Across Specialties	- Continued focus on building “in-house” capabilities across related clinical specialties: primary care + specialty care + surgical care + specialty-specific care management - Increased focus on branding & marketing and provider recruitment as core MSO operational disciplines; given increasingly sophisticated market competitors and tight physician labor markets across specialties - Platforms acquired over the past several years of heavy investment will enter a new phase of maturity where we will see - More multistate / national platforms - Private-equity backed platforms increasingly playing the role of a strategic vs. a private-equity option in auctions processes - Creative and more aggressive growth plans pursued post initial focus on stabilization - Contrast between centrally organized platforms with a reasonable level of standardization vs. looser affiliations		SCALE Team
Anesthesia	- Further reductions in OON/Surprise Billing revenues, as well as general downward pressure by payors to decrease reimbursement - CMS reduction in anesthesia rates by 5%-7% for 2021 - Further in-sourcing by hospital groups - hospitals seeking alternatives to outsourced groups will continue to pursue hospital employment of anesthesia providers - Winning strategies will require greater degree of specialty focus - Private Equity cannibalizing other private equity groups - Continued evolution to settle on a sustainable, market-clearing pricing model between physicians, facilities and management companies for specialties that do not directly control patient volume	CRH (SCALE Client) NAPA	 Howard Greenfield
ASC Management	- Continued pressure to expand breadth of services to include practice management - Continued support from government and payor community with expanded list of CMS approved procedures - Anticipate further intensifying levels of competition manifested in higher valuations for ASC assets - Challenges with at-risk reimbursement models that require collaboration between ASCs and affiliated practices that have different ownership structures	Regent Amsurg SCA Surgery Partners	 Roy Bejarano  Jason Schiffman

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Behavioral	• Leveraging analytics for treatments based on empirical results • Greenfield markets created via improved access to care and heightened awareness • Impact of telemedicine – look for sudden emergence of national virtual platforms • Broadening adoption of in-network services • Continued exploration of potential migration to outpatient and at home from more expensive inpatient settings where it makes clinical sense • Significant need for services post-pandemic given impact of isolation on the general population and impact of trauma of health care and front-line workers • Continued reduction in stigma and willingness to access help. Currently epidemiological studies suggest 20% of U.S. population has a diagnosable mental health problem in any given year • Downward pressure on reimbursement rates will move the Value Based Care and tiered reimbursement rates conversation to a handful of small pilot projects • Emerging use of technology such as TMS (transcranial magnetic stimulation) and Freespira for treatment of psychiatric disorders • Large PE backed providers to accelerate their ABA DeNovo growth plans and acquisition activity • Small, undercapitalized providers will close or be looking to sell • There will be a greater supply of Board Certified Behavior Analysts (BCBAs) for the first time in ABA's young history (the byproduct of small providers closing their doors) • As integrated care moves into behavioral health and the autism therapy space, there will be pressure on providers to expand their service lines including Diagnostics, Licensed Clinical Social Work, speech and occupational therapy, and Case Management/ Supports Coordination	Helping Hands aptihealth (SCALE Client) Action Behavior Centers Lifestance Refresh GIA Miami (SCALE Client)	 Richard Loewenstein  Janice Pyrce
Cardiovascular	• Increased interest in cardio physician practice market on the back of growing list of ASC-eligible procedure codes • Cardio ASC revenues to increase rapidly • Tension between physician practices and the hospital market – reminiscent of dynamics as orthopedic procedures increasingly migrated out of the hospital	CHC Oklahoma	 Roy Bejarano

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Dental	• Further focus on preventative dental care and coordinated networks • Further integration of surgical and cosmetic based models with traditional hygiene and orthodontists • Further recognition of very different models represented by pediatrics, vs. heavy Medicaid, vs. heavy commercial • Continued investment in supporting ancillaries such as devices • Continued focus on distressed/restructuring assets – lessons learned • Proliferation of at-risk reimbursement models to the dental market – will traditional medical payers increasingly move into the dental space?	Pro Health Dental Sing Orthodontics (SCALE Client)	 James Usdan  Joe Keane
Dermatology (Clinical & Cosmetic)	• Continued use of telemedicine options create rapid national growth opportunities for unique service offerings • Tight physician labor market will continue to shape market dynamics	West Derm Clearly Derm	 Steve Straus
Dialysis/ Nephrology	• At home models continue to grab market share from traditional outpatient and hospital-based locations • Ripe for expansion into coordinated care management including through expansion into adjacent specialties – e.g., endocrinology, vascular, cardiology, hematology, nutrition and specialized primary care • Emergence of specialty market players seeking to take advantage of opportunities in care coordination between the above-mentioned network of specialty providers	Somatus Prine Health PPG (SCALE Client) Cricket Health	 Jason Schiffman
ENT & Allergy	• Further consolidation, added reliance on ASCs • Look for weakness in pure allergy platforms	ENT Associates Family Allergy & Asthma	 Greg Levitin
ER/Hospitalist/ ICU Physician Services	• Continued evolution to settle on a sustainable, market-clearing pricing model between physicians, facilities and management companies for specialties that do not directly control patient volume • Further reductions in OON/Surprise Billing revenues	VEP (SCALE Client)	 Mike Reed  Ernie Varvoutis

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Gastroenterology	- Intensifying competition among larger national platforms continues to keep all GI asset valuations high - Continued margin pressure from bundling and / or reduced rates for anesthesia services - Rich field of opportunities for growth at the practice level 2021 is expected to be the most active year in GI PE transactions to-date, with the formation of both new PE-backed platforms and the expansion of existing consolidators into new markets - U.S. Preventive Services Task Force proposed lowering the colorectal cancer screening age from 50 to 45 in response to growing early-onset Colo-rectal cancer rates on Oct. 27, 2020. This dramatically increases the screening population available to practices in 2021.	The GI Alliance Gastro Health Physicians Endoscopy U.S Digestive Pinnacle GI GI Alliance	 Mark O'Neill  Roy Bejarano
Homecare & Hospice	- Expanded Market Size with migration out of traditional long-term care facilities (Impact of COVID) - Increased value as part of coordinate care networks - Relaxation of regulations to allow payers into the market as facility owners - More home care complimented with Home health - Hospital at Home		 Adam Nielsen  David Friend
Hospital Systems	- Additional multi-state mergers to create more SCALE efficiencies - More procedure leakage to outpatient sites of service - Further frictions with employed provider networks seeking faster rate of change - ACO performance eclipsed by national coordinated networks – JVs attractive - The new administration will try to Implement new changes around healthcare cost and price transparency. They may not be able to implement "Medicare for all", but they will impact all hospitals and practices around what is charged for each type of service - Despite pressures to evolve, hospitals will continue to be meaningfully insulated from market pressures due to: - Recognition as a component of national security during COVID - Continued heavy reliance on hospitals as a back-stop for high acuity care as well as care for low income and underserved populations	CommonSpirit Intermountain Healthcare	 Keith Safian  Mark Newton  Charles Trunz

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Interventional Pain	- Continued migration towards interventional pain and reduced reliance on heavy medication programs - Widening gap between national quality orientated platforms that are capable of expanding across musculoskeletal continuum and lower quality groups that fail to achieve successful partnerships - National Spine & Pain acquired Prospira in September - other platforms of SCALE have proven otherwise difficult to build; smaller regional players remain - Continued move to more advanced, minimally invasive treatments performed by Fellowship trained Pain Physicians - Any surprise medical billing legislation will have a negative impact on a large number of providers who have relied on Out of Network strategy to bolster revenue - Trend towards investment into more consolidated assets, which include MSK and Spine into larger "Pain Management" platforms, will allow for negotiation of bundled rates and shift to value based care - Continued downward pressure on laboratory reimbursement - Expansion of medical Marijuana and the passing of recreational marijuana legislation will make this an increasing area of interest for Pain Physicians - Reimbursement changes were mixed, with procedures like Spinal Cord Implants and Vertebroplasty seeing continued positive trends in the "in office" setting https://asipp.org/wp-content/uploads/2020/12/2021PhysicianF.pdf - Limited buyer universe - many investors will continue to approach this specialty with caution	Clearway Pain Solutions National Spine & Pain	 Joe Carlon
Neurology/Neurosurgery	- Continued challenges creating scalable platforms given current conditions – status quo generally considered satisfactory by providers - Integrating Neuro into the broader MSK spectrum remains a challenge – Ortho/Pain/PT - Wrestling with continued heavy reliance on hospital site of service for majority of procedures offers continued areas of vulnerability - OON rates continue to be offered by payors	Altair	 Jason Schiffman

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Nursing Homes/ Assisted Living	- Significant fallout from COVID counter balanced by strong demographic trends - Heightened regulatory focus on quality and compliance	Assembly Health (Shore Capital)	 Adam Nielsen  David Friend
Ophthalmology	- Practices will continue to become more efficient as they see more patients with less staff Medicare physician fee schedule will see a 3.75% increase to all codes, which will help mitigate the majority of the proposed cuts - Private Equity will continue to purchase private practices and quickly buy up solo practices of retiring physicians - The delta between well-managed successful PE groups and poorly-managed PE groups will become more evident	NVISION American Vision Partners Eye Health America Ocular Partners	 Jill Maher  Marcello Celentano  Stan Anderson
Orthopedics	- Continued tailwinds from migration to outpatient procedures, most recently hip replacements - Expect unsteady elective recovery in 1H 2021, with rebound recovery for lost procedures in 2H 2021 and 2022 - Expect consolidation due to operational challenges of private practice physicians which is still up to 50% of this segment - Expect significant digitization of patient assessment, surgical planning and intraoperative execution - Tailwinds include aging population, increasing activity and obesity. Expect back pain related issues to continue rapid increase. - Segments less impacted by Covid include Trauma, Bracing and Orthotics/Prosthetics - Surgical Disposables will make a bigger impact on supply chain and implants - Downward pressure on implant pricing will continue - MIS procedures will continue to grow	Illinois Bone & Joint Edge Surgical Surgio Health ISD Augmedics	 Jim Youssef  Steve Fiore  Nick Pachuda

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Orthopedics (continued)	• Augmented reality (e.g., Augmedics) will see more adoption • Robotics will become ubiquitous in most hospitals • Hospital employment of orthopedic practices remains a trend • Bundle pricing for routine procedures will gain momentum • Motion preservation as an alternative to fusion will also gain momentum • Beginning July 1, 2021, CMS will require prior authorization for cervical fusion with disc removal as well as implanted spinal neurostimulators • Increase in Ortho Walk-In centers • Broadening scope of care across the musculoskeletal continuum • Increased JV opportunity with certain Health Systems to build Ortho Service Line • Therapy continues low margin, but larger groups will need to remain in the business • DME will be growth opportunity for the right size group		
Pediatric	• Difficulty attracting institutional support for basic models • Better suited as part of broader women's health/family care strategy • Specialized business models will outperform e.g. at home pediatrics	Thrive Skill Pediatric	 Laurie East
Pharmaceuticals	• On-going disruption tied to COVID relative to medication access • Demand and stress on resource needs required to address COVID vaccination distribution and administration as it moves to general population • Vertical and lateral consolidation and integration will continue to reshape pharmacy landscape and impact all aspects of pharmacy spectrum, e.g. patient access, price points at all intersections, risk versus fee for service, and value of care • Disruptors to status quo will grow in market leverage and grow in numbers of participants • Anticipate legislative roller coaster given new administrations take on Health Care and challenges remaining from Pandemic status	Amazon All Retail Pharmacy Chains pushing into Primary Care GoodRX/SingleCare/Blink	 David Reese

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Primary Care/ Coordinated Care Networks	• Rapid national expansion vs. focused regional density • Contrast in employed provider business models vs. looser IPA-type affiliations • Further universal standards applied to commercial payor market	Oakstreet OneMedical Privia Titanium Health	 Mike Reed  Mike Mirt  Robert Dondes
Podiatry/Vascular	• Anticipate further consolidation and support from private equity • Continued exploration of merger potential between Podiatry, Vascular and MSK • Continued role for ASC development	Atlanta Podiatry Family Foot Center Podiatry	 Mark Newton
Radiology	• The CMS conversion factor is proposed to be cut 10.61% for 2021, from the current \$36.0896 per RVU to the proposed rate of \$32.2605. Resulting in an 11% decrease in Diagnostic Radiology and a 9% Decrease in Interventional Radiology. • A.I. advances in clinical pathology detection. Companies like A.I DOC and Infervision use a second look software in aiding the detection of fractures, pulmonary embolisms, aneurysms and more to come pending FDA approval. • Increased utilization of Tele-Radiology Services in the wake of COVID • Increased utilization of cloud services provided by big tech (Microsoft, Amazon, Rack Space and Large ISP providers) for Image storage/archiving • More Radiology software platforms moving to cloud based operations	CDI Radiology (SCALE Client)	 Joseph Racanelli  Andrew Mazzella
Urology	• Robust ancillary service potential – but requires strong technical expertise to build out • Positioning to market platforms for specialized men's/women's health • Anticipated tight physician labor market	Solaris Health (SCALE Client) New Jersey Urology	 Chris Ennis

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Women's Health/Fertility	- Continued transition to "at risk" revenue models - Continued heavy reliance on mammography/radiology/pathology - Reductions in frequency of C sections - Further expansion into family care/pediatrics/primary care - Small "COVID baby boom" now after several years of decreased fertility rates - Egg freezing will continue to grow at a fast rate - Small independent women's health practices continue to struggle with business operations and the need for more sophisticated payer contracting and reimbursement in the shift to value-based care - An environment rich for consolidation with ~50% of the 50,000 women's health physicians in independent practices of less than 5 providers	Advantia WHUSA Women's Care Enterprises Unified Physician Management	 Andrew Mintz  Brent Westhoven