



# 2025 Trends in Hospitals and Health Systems

Navigating Complexities in Staffing, Shifting Sites of Care,  
and Regulatory Dynamics

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# Introduction

In the years following the COVID pandemic, health systems have benefited from increased hospital volumes and higher utilization of healthcare services. Several publicly traded hospital and health system operators have reported strong volumes for both inpatient and outpatient services and repeatedly raised guidance in 2023 and 2024. Similarly, health insurers also noted higher utilization of healthcare services, particularly among seniors. These trends are expected to continue into 2025 and point toward an overall positive outlook for hospitals and health systems.

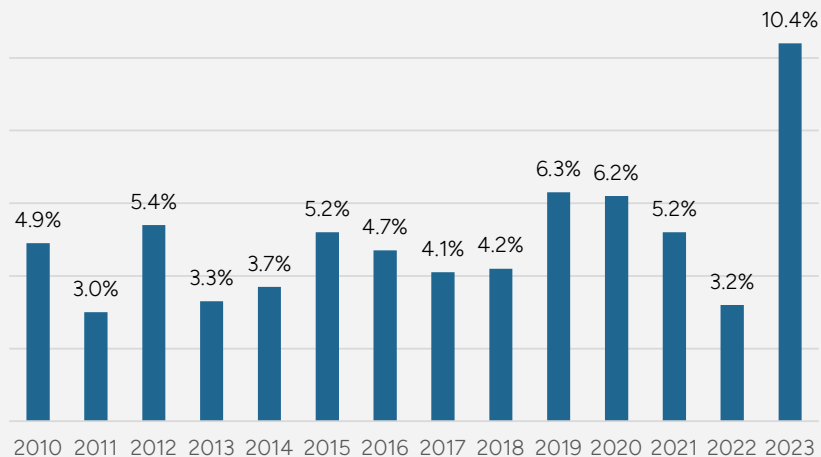
Despite the growing volumes and utilization on the inpatient side, there are numerous challenges and opportunities facing hospital and health system operators, including the shift of volumes to the outpatient setting, clinical staffing, antitrust actions, and escalating insurance claims denials. This article examines the current state of hospitals and health systems, projects the outlook for the industry, and explores different strategies being utilized by operators in the space.



# Hospital Spending

Beginning in 2023, spending on hospital services accelerated, as reported by the Centers for Medicare and Medicaid Services (CMS). As illustrated in **Figure 1**, national healthcare expenditures for hospital care meaningfully accelerated in 2023, growing 10.4% year over year, which represents the strongest growth in over a dozen years.

**Figure 1: National Health Expenditures: Hospital Care<sup>1</sup>**



The growth trends observed in **Figure 1** have been confirmed by publicly traded operators and continued into 2024, as many companies reported strong volumes and surpassed analyst expectations. Several operators, including Tenet Healthcare Corporation (Tenet), indicated that strong utilization trends in hospital admissions continued in the third quarter of 2024.

*The strong utilization environment remains with same-store hospital admissions up 5.2% as we continue to open up capacity in a cost-efficient way.*

– Tenet Healthcare Corporation on October 29, 2024

Looking ahead, some of the large health system operators expect above trend growth to continue. HCA Healthcare, Inc. (HCA) indicated on its third quarter of 2024 earnings call that it believes strong volume growth in the coming year (2025) will contribute to earnings growth above its long-term target.

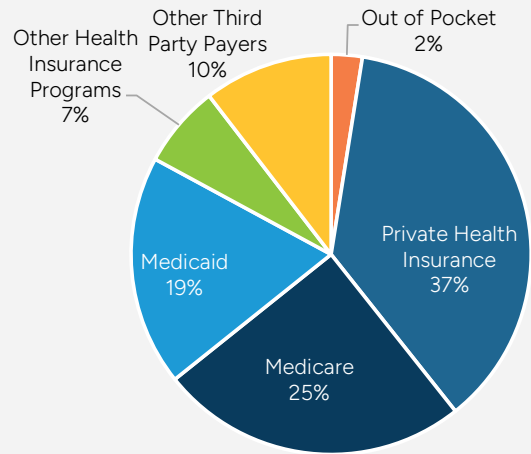
*As we look to 2025, we assume volume growth will continue at elevated levels in the range of 3% to 4% for the year. With respect to our earnings outlook for next year, given the strong volume growth assumption coupled with an anticipated mostly stable operating environment, [we] should generate earnings growth near or slightly above the upper end of our long-term target ranges for both diluted earnings per share and adjusted EBITDA.*

– HCA Healthcare, Inc. on October 25, 2024

In **Figure 2**, we present the payor mix / expenditure composition for hospital spending in 2023 per the CMS national health expenditures data set. We note that other health insurance programs include Children's Health Insurance Program (Titles XIX and XXI), Department of Defense, and Department of Veterans Affairs, which reimburse at similar rates to either Medicare or Medicaid, depending on the program. Other third-party payors include a combination of worksite health care, other private revenues, Indian Health Service, workers' compensation, general assistance, maternal and child health, vocational rehabilitation, other federal programs, Substance Abuse and Mental Health Services Administration, other state and local programs, and school health.<sup>2</sup>

While hospital care payor mix has been fairly consistent in recent years, increases in private insurance, Medicaid, and other health insurance programs as a percentage of total payments have offset declines in Medicare, other third-party payors, and out of pocket. We note that the data presented in **Figures 2 and 3** represent revenue and not patient volume, and are, therefore, reflective of the fact that private payors typically reimburse at much higher rates than governmental payors, with private insurance typically ranging from 200% to 250% of Medicare for hospital services.<sup>3</sup> In addition, ongoing changes to the Medicaid program and potential changes to health insurance exchange subsidies have impacted, and could continue to impact, hospital and health system payor mix going forward (discussed in more detail in later sections).

**Figure 2: Hospital Care Spending by Source of Funds**



**Figure 3: Trend in Hospital Care Payor Mix**

|                     | Out of Pocket | Private Health Insurance | Medicare | Medicaid | Other Health Insurance Programs | Other Third-Party Payers |
|---------------------|---------------|--------------------------|----------|----------|---------------------------------|--------------------------|
| 20 Year Average     | 3.1%          | 35.2%                    | 27.3%    | 17.6%    | 6.2%                            | 10.6%                    |
| 2023 Reported Mix   | 2.5%          | 36.8%                    | 24.9%    | 18.6%    | 6.7%                            | 10.4%                    |
| Increase (Decrease) | (0.6%)        | 1.6%                     | (2.4%)   | 1.0%     | 0.5%                            | (0.2%)                   |

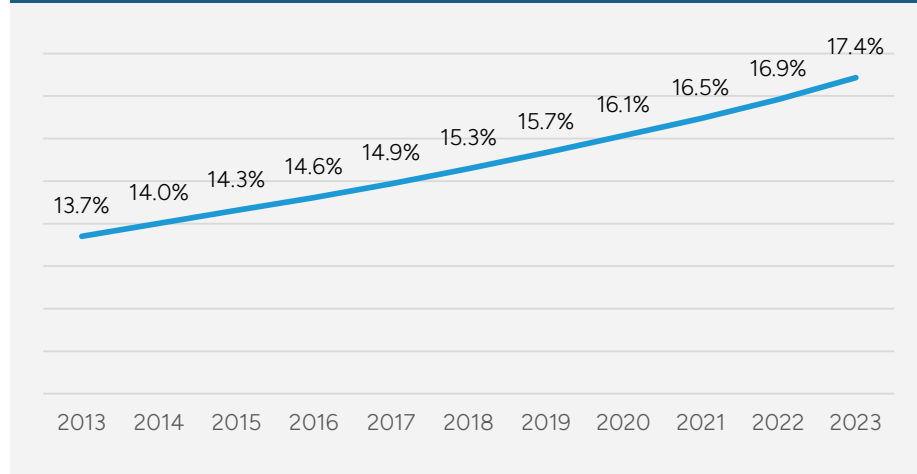
<sup>1</sup> CMS.gov, National Health Expenditures Table 2

<sup>2</sup> CMS.gov, National Health Expenditures Table 7

<sup>3</sup> "Private Health Plans During 2022 Paid Hospitals 254 Percent of What Medicare Would Pay," press release, RAND, May 13, 2024.

One factor contributing to strong hospital spending, and increasing healthcare spending overall, is the aging population. From 2013 through 2023, the percentage of the population over the age of 65 in the United States increased from 13.7% to 17.4%.<sup>4</sup> Based on population projections from the U.S. Census Bureau, the percentage of the total population aged 65 and older is expected to increase from 17% to 21% by 2030, and 22% by 2040.<sup>5</sup> Accordingly, there will be approximately 20 million more Americans over the age of 65. This will increase the demand for healthcare services across health systems (both inpatient and outpatient) and likely shift volume more toward Medicare and Medicare Advantage payors, assuming no changes in those programs.

**Figure 4: Population 65 Years and Older**



<sup>4</sup> "Population ages 65 and above for the United States," FRED, December 17, 2024.

<sup>5</sup> "2023 National Population Projections Tables: Main Series," United States Census Bureau, October 31, 2023.

## Shift to Outpatient and Lower Cost Sites of Care

Despite the strong hospital volume and revenue growth referenced herein, certain types of care continue to migrate to the outpatient setting due to improving technology and lower costs. Common examples of care migration that we encounter when working with clients include diagnostic imaging, surgical procedures, various cancer treatments, and other infusion services. In addition, hospital-at-home providers, while currently small from a volume standpoint, have the potential to shift inpatient volumes to the home setting. As a result of this shift, health systems are utilizing a variety of strategies, including M&A of outpatient providers, joint ventures with other providers, and *de novo* expansion of ambulatory site footprints.

### SURGICAL SITE OF CARE SHIFT

Surgical case volumes migrating to the outpatient setting has been an ongoing trend for many years, but has remained a focus for health systems, payors, and ambulatory surgery center (ASC) operators as more complex and higher acuity cases have started shifting to ASCs. Total joint replacements and other orthopedic and musculoskeletal cases have increasingly moved to the outpatient setting, with several large companies making significant investments in this area. Tenet has invested heavily in orthopedic focused ASC M&A and *de novo* expansion.

*Orthopedic volumes are strong and total joint replacements in the ASCs were up 19% over prior year, coupled with the ongoing growth in urology and GI procedures. We did open 6 new de novos in the quarter, including a new partnership with Synergy Orthopedics establishing the largest dedicated musculoskeletal outpatient surgery center in San Diego, California. De novo development activity remains an important part of USPI's growth story, and we have nearly 20 centers currently in syndication stages or under construction.*

*– Tenet Healthcare Corporation on October 29, 2024*

In addition to orthopedic cases, cardiology cases are increasingly viewed as an avenue for growth among providers of outpatient surgical care. In 2020, CMS announced the approval of PCI stenting in ASC settings. **Figure 5** displays CMS-approved cardiology CPT Codes for the ASC setting in recent years.

**Figure 5: 2022 CMS-Approved Cardiology CPT Codes in ASCs<sup>6</sup>**

**PERIPHERAL VASCULAR**

0238T, 0338T, 0339T, 36473-37483\*, 36555-36597\*, 36620, 36625, 36640, 36800, 36810, 36815, 36818-36835\*, 36860, 36861, 36901-36909, 37184-37188, 37197, 37200, 37211, 37212, 37220-37249, 37607, 37609, 37765, 37766, C9764-C9767, C9772-C9775

**EP DEVICES**

33206-33208, 33210-33235, 33240, 33241, 33249, 33262-33264, 33270-33275, 33285, 33286

**DIAGNOSTIC CATH**

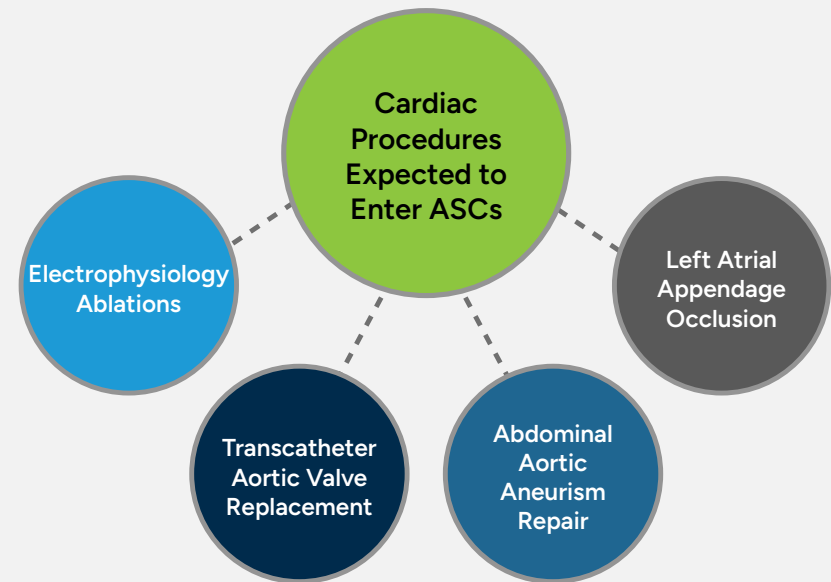
93451-93462, 93566-93568

**PCI**

92920, 92921, 92928, 92929, C9600, C9601

Cardiologists expect this tailwind to continue to be strong, with multiple procedures expected to be approved in the ASC setting over the next few years, as highlighted in **Figure 6**. We note that this area has seen significant investment from private equity in recent years, with several large physician practice management companies actively acquiring cardiology practices.

**Figure 6: Cardiac Procedures Expected to be Removed from Inpatient Only List<sup>7</sup>**



Looking forward, the Trump administration could provide a boost to ASCs if it revisits one of its proposals from the prior administration to phase out the inpatient only list, which could enable doctors to perform additional procedures in the outpatient setting. Overall, we expect the trend of higher acuity procedures shifting to the ASC setting to continue.

<sup>6</sup> Kristin Truesdell and Lori Griffith, "The Cardiovascular Shift to the Outpatient Setting," Cath Lab Digest, March 2022.

<sup>7</sup> "How to Prepare Hospitals for the Migration of Cardiovascular Procedures to OBLs and ASCs," Cardiovascular Business.

## DIAGNOSTIC IMAGING

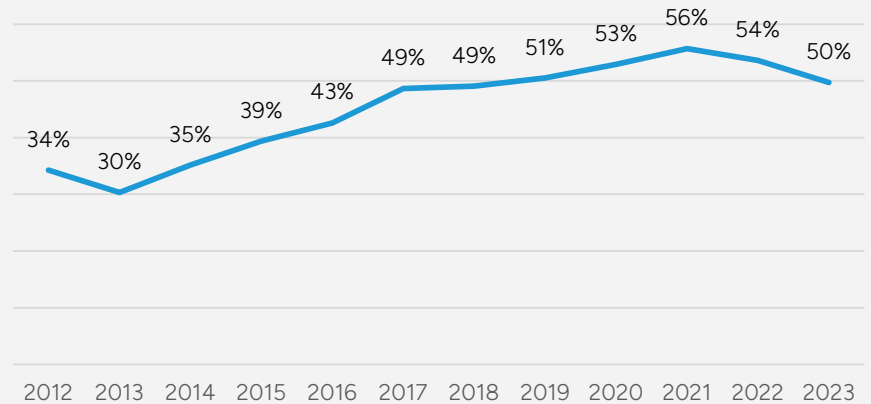
In addition to surgical procedures, diagnostic imaging volumes have been shifting more toward the outpatient setting and away from hospital campuses due to the lower cost of performing these procedures at independent diagnostic testing facilities (IDTFs), site neutral payment policies from CMS, and site of care reviews during the prior authorization processes implemented by private payors in the last few years.

Site neutral payment policies make hospital department imaging procedures less profitable, thus not allowing them to support the higher expense structure and instead seek joint venture partnerships as IDTFs. Estimates regarding the percentage of procedures that could be impacted by site of review policies from private payors range from 80% to 90% in non-rural markets,<sup>8</sup> suggesting that the impact to hospitals and health systems as a result of these policies, especially if implemented by additional payors, could be substantial. Congress has continued to introduce new legislation expanding site neutral payment policies, and the Trump administration is likely to support these policies.<sup>9</sup>

In addition to action by payors, the rise of high-deductible health plans and recent price transparency regulations may accelerate the trend toward lower cost settings. Radiologic imaging is one area of healthcare in which there is a well-documented elasticity of demand, resulting in price discrepancies for comparable services having a large impact on consumer behavior.<sup>10</sup> Price transparency regulations make it easier for consumers to ascertain comparative price information prior to choosing a site of service. These regulations, coupled with the trend toward high-deductible health plans in which consumers are more incentivized to price shop for healthcare services, should create an environment in which IDTFs continue to gain market share.

As outlined in **Figure 7**, high-deductible health plans have increased from approximately 30% of the private insurance market to more than 50% in recent years.<sup>11</sup>

**Figure 7: Growth in High-Deductible Health Plans as a Percentage of Private Insurance**



Convenience is also a factor driving consumer behavior, as visiting an IDTF for a scan is generally easier than navigating a hospital campus. Additionally, COVID-19 accelerated the shift away from hospital campuses as patients either elected not to, or were precluded from, going to hospital campuses during the acute phase of the pandemic. As COVID-19 fears have receded, hospital volumes have generally improved with more acute (and non-COVID-related) services driving the recoveries.

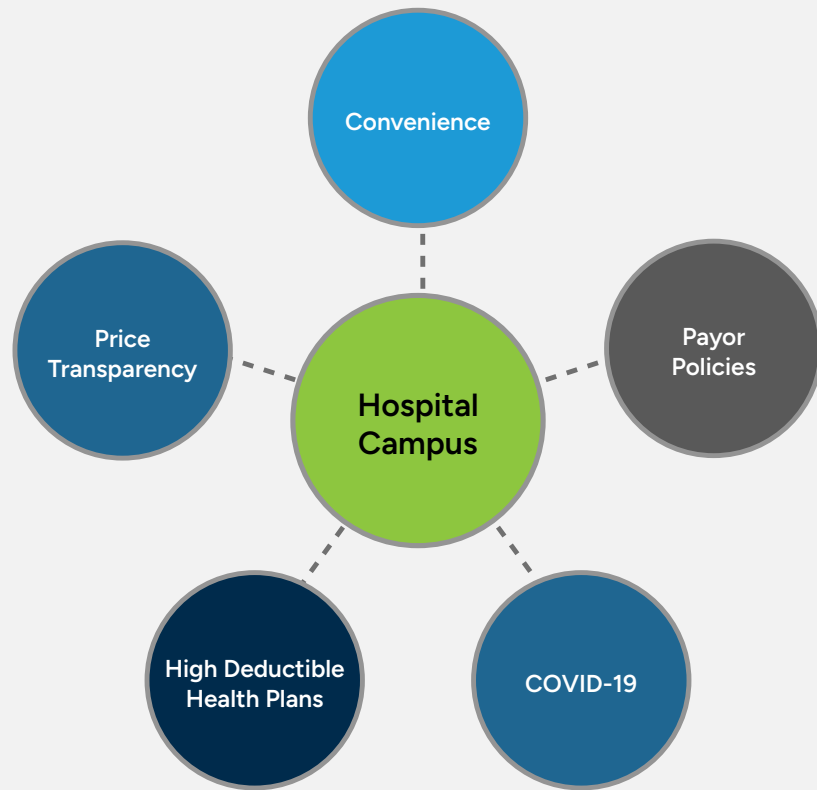
<sup>8</sup> "Scrutiny over hospital imaging prices continues: How you should respond to UHC's new policy," Advisory Board, July 24, 2023.

<sup>9</sup> "2024 Election Implications: Healthcare Organizations & Health Policy," Forvis Mazars, November 19, 2024.

<sup>10</sup> Sze-jung Wu, Gosia Sylwestrzak, Christiane Shah, and Andrea DeVries, "Price Transparency For MRIs Increased Use Of Less Costly Providers And Triggered Provider Competition, HealthAffairs, August 2014.

<sup>11</sup> State Health Compare, data analyzed by shadac.

**Figure 8: Factors Contributing to Hospital Department Outmigration in Radiology**

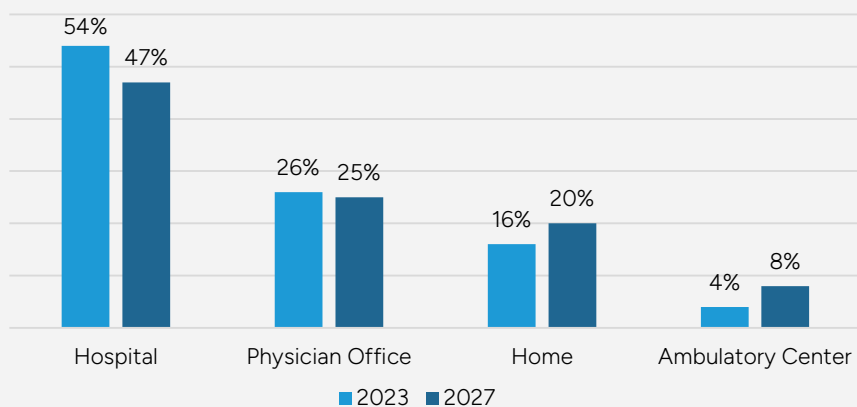


## INFUSION THERAPY SERVICES

Infusion therapy is another area of the healthcare market where care is shifting away from the hospital to alternate sites of care. Many of the same industry trends discussed herein are contributing to the shift of infusion therapy services away from hospitals, including patient preferences, lower costs, and technological (therapeutic) innovation.

As a result of these trends, there has been considerable investment by private equity sponsors in various home and ambulatory infusion center platforms. Market participants expect this trend to continue, with hospital market share of infusion therapy services expected to decline in the coming years as home and ambulatory infusion centers continue to grow.<sup>12</sup> We have worked with numerous companies that are expanding platforms via management services arrangements with physician groups. In certain cases, the platform assists the physician office with providing infusions in office, while other platforms offer alternative sites or home therapy to the practice's patients.

**Figure 9: Infusion Therapy Site of Service as a Percentage of Total**



An example of a recent transaction in this space is UnitedHealth Group subsidiary Optum's planned acquisition of FlexCare Infusion, which was announced on January 15, 2025. FlexCare operates ambulatory infusion center services in Alabama, Arizona, and Oklahoma. Optum has historically focused on acquiring healthcare providers that have benefited from the shift of certain services to outpatient sites of care, some of which, depending on geographic market location, are then able to reduce costs for its Medicare Advantage members.

## HOSPITAL AT HOME

Our work with hospitals and health systems, as well as with home health providers, suggests hospital-at-home models continue to gain traction and generate interest in the market. Recent improvements in technology and care provision standards have enabled home health providers to admit higher acuity patients. The largest operators in the space have focused on initiatives including "aging-in-place," "hospital-at-home," and "SNF-at-home" models involving caring for higher acuity patients in the home setting. The increasing prevalence of value-based care arrangements and the rapid growth of Medicare Advantage (MA) are expected to contribute to an acceleration of these trends.

The hospital-at-home market accelerated with Amedisys' acquisition of Contessa Health in June of 2021 for 3.9x LTM revenue, which significantly expanded Amedisys' footprint in the hospital-at-home, SNF-at-home, and palliative care space. This transaction, and the ability to provide care to higher acuity patients, increases the total addressable market for Amedisys (and other home health providers) from \$44 billion to \$73 billion.<sup>13</sup>

Recent studies of hospital-at-home programs suggest the care model is effective, and many operators believe we are approaching a tipping point of adoption. Specifically, one study of hospital-at-home patients showed relatively few patients were transferred to the hospital,<sup>14</sup> while another showed patients were less likely to experience delirium at the home than in the hospital.<sup>15</sup>

CMS's Acute Hospital Care at Home waiver, which started under COVID, has been extended through March of 2025 under the American Relief Act, 2025, which is a short-term extension of certain telehealth and related flexibilities. As

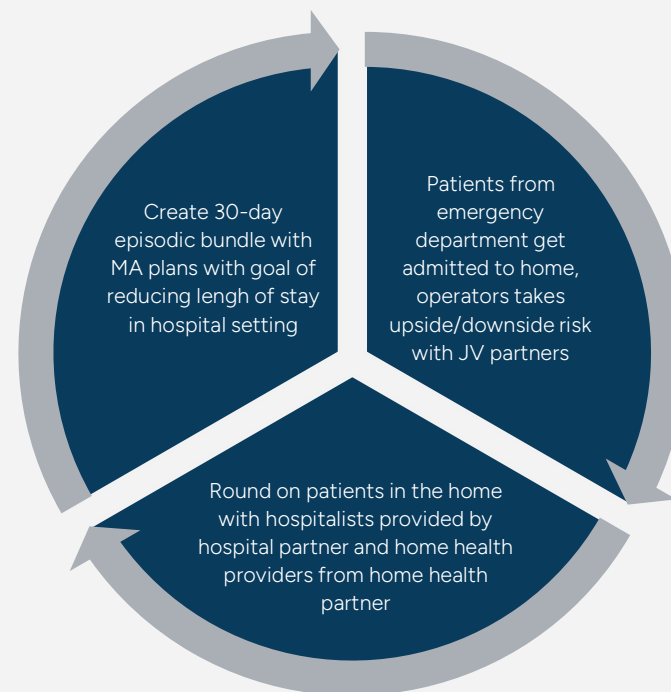
of October 2024, 366 hospitals have participated in the program. There is also proposed legislation (the HOME Services Act) that would expand the scope of services that can be offered through hospital-at-home models to include patients under observational status.

We have observed multiple hospital-at-home models and continue to see interest in the space from operators and investors. The growth and success of Contessa's joint venture model, and recent improvements in technology, point toward continued expansion of these services, particularly in connection with value-based care arrangements.

In addition to the joint venture model, there are hospital-at-home companies, like Medically Home, that enable hospitals and home care providers to implement hospital-at-home programs through licensed technology and other services. Outside of traditional healthcare providers, Best Buy has made several acquisitions of home care enablement platforms and now partners with many large health systems, including Mass General Brigham, Geisinger, Advocate Health, Mount Sinai, and NYU Health to implement their hospital-at-home programs.<sup>16</sup>

The lack of long-term clarity on the regulatory environment remains a key risk for operators (including hospitals) in the sector, although the continued extension of the CMS waiver and proposed HOME Services Act would serve as an indication that the models are here to stay. The ability to find nurses to care for patients in these arrangements remains a challenge, and, in our experience, operators typically recruit nurses with hospital-based work experience due to the requirements of the role. The need for a rapid response network (including 30-minute call response time) requires providers to place a premium on nursing. Utilizing virtual visits has been, and will continue to be, critical to growth of hospital-at-home arrangements, as is the use of social workers. Thus far, more than 100 hospital DRGs are covered by MA plans for hospital-at-home. The most common conditions treated under the CMS Waiver have been respiratory infection, heart failure and shock, and severe sepsis or septicemia, all with a comorbidity or severe complication.<sup>17</sup> An example of a hospital-at-home joint venture model is presented in **Figure 10**.

**Figure 10: Hospital-at-Home Model**



<sup>12</sup> Infusion Therapy Market Update, Bourne Partners.

<sup>13</sup> "Amedisys Announces Agreement to Acquire Contessa Health, Creating a Comprehensive Home Healthcare Delivery Platform," press release, Amedisys, June 30, 2021.

<sup>14</sup> Andrew Donian, "CMS' Acute Hospital Care At Home Waiver Delivers Promising Results," Home Health Care News, November 13, 2023.

<sup>15</sup> Danielle Adams, Ashby J. Wolfe, Jessica Warren, et al., "Initial Findings From an Acute Hospital Care at Home Waiver Initiative," JAMA Health Forum, November 3, 2023.

<sup>16</sup> Alexandra Schumm, "Growth of hospital at home models accelerated by recent Best Buy-health system partnerships," Chartis, November 17, 2023.

<sup>17</sup> Susan Morse, "Acute hospital care at home gets good grades from CMS research," Healthcare Finance, November 21, 2023.

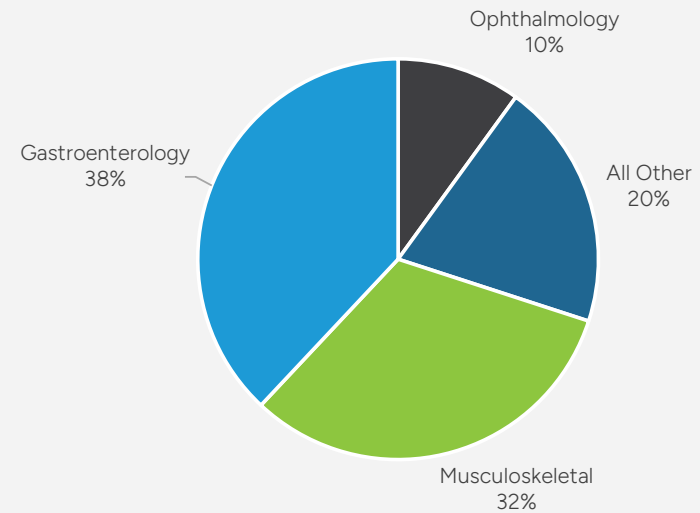
## PROVIDER STRATEGIES

As a result of volume shifting to outpatient sites of care, we continue to observe health system interest in expanding their footprint of ambulatory care sites. Health system operators have engaged in numerous strategies, including organic (*de novo*) portfolio expansion, M&A activity, and joint venture relationships. In the ASC space, we see numerous strategies being utilized across the landscape of health system operators. In imaging, we have observed more joint venture activity and majority or minority investment, and less *de novo* expansions (although we have observed *de novo* activity within existing JVs and from certain IDTF operators such as RadNet).

Within the ASC space, many of the large health system operators have expanded their footprint through an all-encompassing strategy that includes *de novo* expansion (frequently with partners in a joint venture structure), joint ventures of existing ASCs, and acquisitions of everything from single ASCs to large portfolios of ASCs. Tenet has become the largest owner-operator of ambulatory surgery centers in the country through its United Surgical Partners International (USPI) subsidiary. As of September 30, 2024, USPI operates 544 ASCs and surgical hospitals, and represents approximately 45% of Tenet's expected 2024 adjusted EBITDA. Tenet has approximately doubled its ASC footprint since 2017, while hospitals under ownership have declined from 76 at the end of 2017 to 49 as of October of 2024. Tenet's growth focus has been on high acuity orthopedic and other musculoskeletal procedures, which have contributed to a 38.5% adjusted EBITDA margin in the third quarter of 2024. Tenet's ASC case mix is presented in **Figure 11**.

The growth of USPI represents a strategic initiative by Tenet to increase its exposure to ambulatory surgery as the market increasingly moves in this direction for higher acuity procedures. While not deemphasizing hospitals, Tenet has focused on driving growth in its ASCs and other outpatient

Figure 11: Tenet Healthcare Corporation 2023 ASC Case Mix



sites of care. We note that Tenet recently sold five hospitals in Alabama to Orlando Health. In total Tenet sold 14 hospitals in 2024 as part of its portfolio transformation. As a result of this transformation, over the last several years USPI has increased its contribution to total company (Tenet) EBITDA from approximately one quarter to nearly one half.

Within the ASC space, certain providers including SCA Health (owned by UnitedHealth Group's Optum subsidiary), and, more recently, Surgery Partners, have focused on forming three-party joint ventures with health systems and physicians. Surgery Partners has historically operated under two-way ownership models with itself and physicians, but in recent years has expanded into partnerships that include health systems.

As highlighted in the following quote, Surgery Partners is working with health systems that are revisiting their outpatient strategy as a result of the factors discussed throughout this report.

*I'm pleased to announce new strategic partnerships with 2 prominent health systems, Intermountain Health and OhioHealth. While decades of growth remain in our core business of 2-way JVs with surgeons, Surgery Partners has emerged as a partner of choice for hospital systems revisiting their outpatient strategy...[a]ccordingly, Intermountain and OhioHealth are like-minded health systems that are joining with us on a long-term growth strategy, supporting the country's migration of procedures into the highest value setting...[sp]ecifically, in partnership with Intermountain, we will provide management services for 19 current and future ASCs in the Utah and Idaho markets. We will also partner with Intermountain to co-develop additional ASCs throughout their regional footprint in the years to come. Surgery Partners is now also the partner of choice with OhioHealth as it accelerates its plans to create a statewide ASC network in Ohio. In this partnership, we will provide management services to ASCs that we jointly acquire or develop in the coming years.*

*– Surgery Partners, Inc. on May 1, 2023*

Similarly, the shifting of volume to the IDTF setting has driven provider strategies in a variety of ways, including the formation of joint ventures. As indicated in the quote from RadNet's CEO, hospitals and health systems are increasingly looking to partner with outpatient providers of imaging services to form joint ventures. These joint venture IDTFs provide benefits to both parties, as hospitals

are able to mitigate some of the negative impact from lost volume, as well as provide physicians and patients with a wider range of imaging service options. IDTFs benefit from increased volume from hospitals and potentially better reimbursement rates from payors as partnerships with health systems provide IDTFs with more negotiating power.

*We now have 3 joint ventures with Cedars-Sinai encompassing 16 locations in the West Side, Downtown and San Fernando Valley areas of Los Angeles. As an increasing amount of patient volumes are being directed away from expensive hospital-based imaging procedures towards more cost-effective ambulatory outpatient settings, hospitals and health systems are seeking valuable long-term strategies for outpatient imaging. This is leading to increased interest among hospitals and health systems to engage with us in partnerships, discussions and outpatient strategies. RadNet's current partners are some of the largest and most successful systems in our geographies, including RWJ Barnabas, MemorialCare, Dignity Health, Lifebridge, University of Maryland Medical System, Cedars-Sinai and others. Our hospital and health system partners have been instrumental in increasing our procedural volumes through their relationships with physician partners. Additionally, the joint venture partners are helpful in providing support, if needed, in establishing long-term equitable outpatient reimbursement rates for our services. After giving effect to the expanded Cedars-Sinai relationship, 130 of our 366 centers, or 36%, are now held within health system partnerships.*

*– RadNet, Inc. on August 8, 2023*



## Key Takeaways: Shift to Outpatient

- Despite the migration of care to the outpatient setting, overall hospital inpatient demand has remained steady, and hospitals have seen an increase in acuity mix. In large part due to the aging population, hospitals have been able to shift lower acuity procedures to the outpatient setting and utilize the available inpatient capacity to provide higher acuity services, as indicated in the quote from HCA Healthcare. Over the last five years, many other hospitals have also experienced an increase in acuity mix, as measured by the Case Mix Index.<sup>18</sup>

*I've been really encouraged [by] the long-term durability of inpatient demand...the aging of the population, the persistence of chronic diseases and the like, just continues to show that even as lower acuity cases leave inpatient and go to outpatient, they're getting backfilled with more acuity. And so we're seeing pretty durable growth in our acuity.*

– HCA Healthcare, Inc. on November 21, 2024

- Based on the demographic projections and other factors discussed throughout this report, we do not believe that migration of certain services from the hospital to the outpatient setting represents a headwind to hospital operators. In many cases, it has led to higher acuity mix which should be a benefit to hospitals, although there are many other factors, including inflation and staffing expense (discussed in later sections), that may impact profitability.
- While there should be plenty of demand for healthcare services on the inpatient side, we continue to expect health system operators to invest in outpatient services. High acuity outpatient surgical services like total joints have a very high return on invested capital, and there are other downstream benefits of having relationships with outpatient providers and community physicians. Nearly every hospital operator has made significant investments in outpatient services and operates a network in the markets in which

<sup>18</sup> "2023 Costs of Caring," American Hospital Association, April 2023.

they are located. We expect a continued emphasis on network density in geographic markets for health system operators.

- Operators that have historically focused exclusively on partnerships with physicians have recently entered into three-party joint ventures with health systems due to the many benefits associated with these arrangements. Specifically, RadNet and Surgery Partners now operate many of their centers alongside health system co-investors. We believe this trend will continue as health systems, particularly those that do not already have large standalone outpatient sites of care, seek to rapidly expand their network.
- Hospital-at-home, although offering somewhat limited potential at the moment, represents a long-term opportunity for health system operators to move lower acuity patients to a lower cost setting while freeing up capacity for higher acuity patients. These arrangements also provide benefits to health systems in value-based care arrangements and Medicare Advantage payors.



## Hospital Operation Challenges

Hospitals faced a challenging operating environment with the onset of the COVID-19 pandemic, and the subsequent recovery was characterized by inflationary pressures and disruptions in clinical staffing markets. One of the most pressing challenges facing hospital operators in recent years has been ongoing disruption in the market for hospital-based physician services. On their recent earnings calls, hospitals and health systems have indicated that they are paying higher support payments to physician groups, and are increasingly looking for opportunities to reduce spend and/or increase the utility of their professional services arrangements. Despite increasing payments, however, two of the largest hospital-based physician services staffing companies recently declared bankruptcy. In particular, Envision Healthcare Corporation (Envision) and American Physician Partners (APP) both filed for Chapter 11 protection in 2023 as a result of numerous industry headwinds including COVID-19, the No Surprises Act (“NSA”), and elevated inflation.

There have also been recent proposals by certain payors, which have been scrapped for the time being, that would have capped payments to anesthesia providers (discussed in more detail herein). Although these policies have not been implemented at this time, it is likely that at least some of the reduced payments to anesthesia providers would be passed through to hospitals and other facilities in the form of higher future support payments. In addition to physician staffing challenges, operators were forced to navigate the disruption caused by COVID, rising CRNA costs, and inflationary pressures.

In this section, we discuss various headwinds health systems have faced in recent years, and how strategies have evolved to address these issues, particularly on the physician staffing side.

### COVID IMPACT ON HOSPITALS AND HOSPITAL-BASED SERVICE PROVIDERS

The COVID-19 pandemic had dramatic short-term and longer-term consequences for healthcare providers across the healthcare landscape, including hospitals

and affiliated hospital-based physician staffing companies. In the short-term, non-emergent visit volumes declined drastically as hospitals and health systems focused almost exclusively on COVID patients and others requiring lifesaving care, while any elective or deferrable care was put on hold. These immediate impacts resulted in dramatic declines in visits and revenue for many facilities and providers.

On the provider side specifically, Envision indicated that it lost approximately 65% to 70% of its non-emergency visits, and experienced declines in revenue of \$1.1 billion and EBITDA of \$415 million in 2020, followed by another negative \$380 million revenue impact in 2021. Meanwhile, APP cited the COVID-19 pandemic as a significant contributor to its deteriorating financial position. Ultimately, the COVID-19 pandemic contributed to the bankruptcy of both companies. Other hospital-based provider staffing companies suffered as well, including Pediatrix Medical Group, Inc. (formerly Mednax, Inc.), which sold its radiology and anesthesia businesses in 2020.

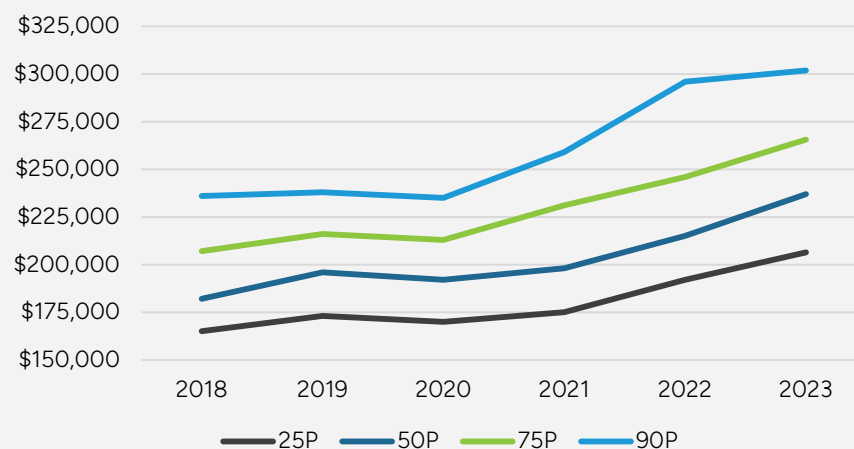
In addition to lost revenue for health systems as a result of COVID, the losses of professional revenue for their contractors had a direct impact on a medical group's ability to continue to pay and employ its physicians and advanced practice providers. For anesthesiology and surgical arrangements, groups had to contest with a loss of volumes, and having to reduce or lay off staff. When the non-emergent volumes returned, these groups often sought additional financial assistance from the facility to assist with costs associated with recruiting providers to replace those previously in the roles. For critical care and emergency medicine, groups had to contend with massive surges in volume, and sought financial assistance for additional providers, hazard pay, and overtime. Exhaustion and burnout were the obvious outcomes for the providers working in critical care units. The losses of revenue, losses of staff, and the effect COVID-19 had on certain specialties put the larger, national practices in a difficult financial and

operational position. As a result, they increasingly requested and were able to negotiate larger support payments from hospitals.

## RISING CRNA COSTS

In the post-COVID-19 landscape, hospitals and health systems found themselves trying to grow staffing back to pre-pandemic levels. The disruption of employment, coupled with the flexibility and cost savings of CRNAs compared to anesthesiologists, saw hospitals and health systems seek to rebuild their anesthetizing service lines with more CRNAs. As a result, the cost to employ CRNAs has greatly increased in recent years, as shown in **Figure 12**.<sup>19</sup>

**Figure 12: Summary of CRNA Cash Compensation From 2018 Through 2023**



<sup>19</sup> "2019 through 2023 Provider Compensation and Production Report: Based on 2019 through 2023 Survey Data," Medical Group Management Association.

The competition for CRNAs between medical groups and hospitals alike is intense, and keeping CRNAs under contract is also becoming difficult. We routinely hear from hospital and health system clients that the medical group they are engaged with requires additional financial assistance to increase CRNA salaries, or that their employed CRNAs are requesting additional compensation.

## INFLATION

Inflation, which has largely been a direct or indirect result of the pandemic, has represented a significant headwind for hospitals and health systems by directly impacting their operating expenses for items like medical supplies and personal protective equipment. From 2019 through 2021, hospital drug costs increased 36.9%, labor expense increased 19.1%, and supplies expense increased 20.6%.<sup>20</sup> As a result, total hospital expense per discharge increased 22.5% from 2019 through 2022.<sup>21</sup> Inflation has since moderated but continues to be top of mind for many hospital and health system operators.

In addition to the direct impact on hospital operating expenses, inflation had indirect impacts on health systems and hospitals by raising costs for the hospital-based physician staffing companies that they contract with. Staffing companies faced rising costs in connection with clinical staff, non-clinical staff, and other operating expenses. As an example, Envision reported a \$330 million increase in clinical staffing expense compared to 2019. As previously mentioned, hospital expenses per discharge increased 22.5% from 2019 through 2022, with labor expense driving a significant portion of this increase.<sup>22</sup> Much of the increase in labor expense is related to higher utilization of contract labor (e.g., locums tenens, travel nurses, etc.), which has been declining in recent quarters and has mostly normalized as of early 2025.

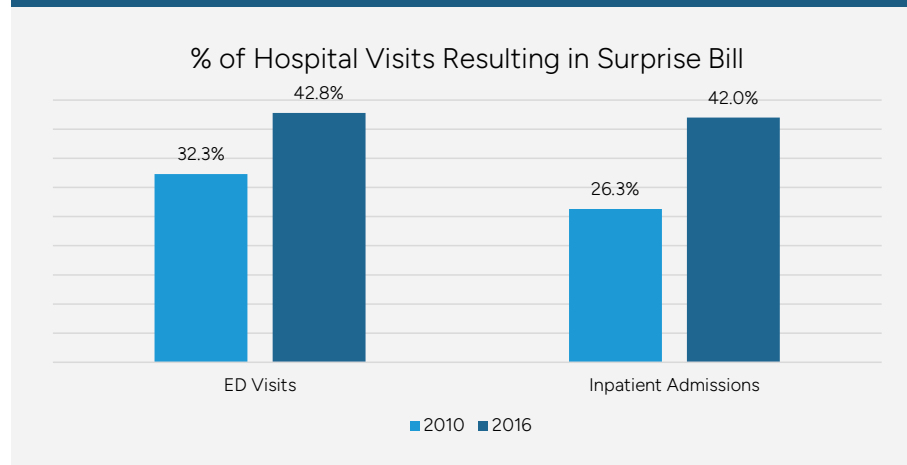
More broadly, the pandemic exacerbated the shortage of providers, which, in turn, made it more difficult and expensive to staff hospitals. While the short-term trend

of higher contract labor to deal with physician shortages may be on the decline, the longer-term trend of physician burnout and early retirement caused (or made worse) by COVID-19 is likely to impact the provider landscape for years.<sup>23</sup>

## NO SURPRISES ACT (NSA)

In 2021, the federal government issued several regulations with the intent of curtailing surprise billing, and these rules went into effect in 2022. In the hospital context, surprise billing was defined as receiving care from an out-of-network (OON) provider at an in-network facility. Within the text of the regulation, the government cites numerous statistics surrounding the practice of surprise billing. **Figure 13** illustrates the increase in surprise billing from 2010 to 2016.<sup>24</sup> These surprise medical bills frequently cost patients hundreds or thousands of dollars more than if the provider had been in network, and frequently do not count toward the patient's deductible or max out-of-pocket.

**Figure 13: Hospital Visits Resulting in a Surprise Bill**



<sup>20</sup> "Massive Growth in Expenses & Rising Inflation Fuel Financial Challenges for America's Hospitals & Health Systems," American Hospital Association.

<sup>21</sup> "Hospital Vitals: Financial and Operational Trends," Syntellis and the American Hospital Association.

<sup>22</sup> Ibid.

<sup>23</sup> Helen Falkner, "Physician burnout influencing post-COVID hiring trends," Medical Economics, March 9, 2023.

<sup>24</sup> "Requirements Related to Surprise Billing; Part I," Federal Register, July 13, 2021.

The NSA had a direct impact on hospital and health system operators by creating significant disruption among the physician staffing companies, as well as leading directly to payment disputes between hospital employed physician groups and payors. Prior to the NSA, several large staffing companies were already working to reduce their OON revenue due to backlash from the public, patients, payors, and hospitals. Many of the large staffing companies reportedly generate significant revenue and earnings from OON billing, including Envision, which accounted for more than 60% of total billings from 2011 to 2015, and TeamHealth, which generated approximately 13% of its billings from OON claims according to a study published in 2017 that analyzed claims data from 2011 through 2015.<sup>25</sup> Forcing these companies to move in-network had profound impacts on their own financial performance but also on the finances of the hospitals they contracted with.

The NSA furthered the need for these large staffing companies to move in-network but changed the dynamics in important ways. Without the ability to go OON with payors, staffing companies and health system employed medical groups lost significant negotiating leverage. This was further exacerbated by the NSA's implementation of the Qualifying Payment Amount (QPA), which capped the patient's responsibility at the median contracted rate for like services provided in the same geographic market. According to the staffing companies, these dynamics have made it difficult to negotiate favorable rates with payors.

*Now the payers have really relied on the implementation [of] the QPA, the qualified payment amount, and look at that in relationship to what the median in-network rate is...they're utilizing what we call ghost contracting, where they're taking all providers outside the specialty, including pediatricians, and taking those prevailing rates, which is lowering the QPA to 100% of Medicare or in some cases lower.*

*– Pediatrix Medical Group*

*While the legislative policy behind the No Surprises Act is sound, the regulatory implementation of the No Surprises Act has been highly flawed, ultimately shifting the power dynamic in payment disputes too far in the favor of insurance companies (referred to as “payors”). In fact, some payors (including Envision’s single largest payor) have used the No Surprises Act and its implementing regulations as an excuse to avoid payment to medical groups like Envision and affiliated entities. Moreover, payors have aggressively denied, delayed, and reduced payment terms, often below the direct cost of delivering care. This has left Envision, other medical groups, and healthcare providers to deal with the negative financial consequences. Although the legislation included an arbitration process intended to provide a forum for providers and payors to settle disputes, the process has proved highly ineffective.*

*– Envision Bankruptcy Filings*

To resolve disputes between payors and providers regarding what the payment for services should be, the NSA created the Independent Dispute Resolution (IDR) process. The IDR is effectively an arbitration hearing in which each party to the dispute (i.e., the provider or facility and the payor) submits a proposed payment, and the arbitrator selects the appropriate payment from the payments submitted by each of the two parties.

While the outcomes of IDR hearings have largely been favorable to providers, with the initiating party (i.e., the provider or facility) prevailing in approximately 77% of disputes from January through June of 2023, CMS experienced a significant backlog due to the high volume of disputes.<sup>26</sup> As a result, even when favorable rulings are achieved, the delay between the provision of services and the collection of payment increased significantly and caused material delays in cash collections and a lengthening of the cash conversion cycle. This delay in cash receipts contributed to deteriorating finances for staffing companies, although we note that OON claims also typically take longer to collect on. CMS reported the top five initiating parties to IDR disputes, outlined in **Figure 14**.<sup>27</sup>

**Figure 14: Top 5 Initiating Parties From January 1 Through June 30, 2023**

| Initiating Party or Their Representative | Number of Disputes, 1H 2023 | Percentage of All Disputes, 1H 2023 |
|--|-----------------------------|-------------------------------------|
| Team Health                              | 81,747                      | 30%                                 |
| SCP Health                               | 55,356                      | 20%                                 |
| Radiology Partners                       | 30,433                      | 11%                                 |
| Envision                                 | 24,249                      | 9%                                  |
| HCA Healthcare                           | 7,045                       | 3%                                  |

**Figure 15: Top Place of Service for IDR Disputes From October 1 Through December 31, 2022**

| Place of Service Code                | Q4 2022 | Percentage of Disputes |
|--------------------------------------|---------|------------------------|
| 23: Emergency Room – Hospital        | 75,463  | 73%                    |
| 21: Inpatient Hospital               | 16,789  | 16%                    |
| 22: On Campus – Outpatient Hospital  | 12,339  | 12%                    |
| 24: Ambulatory Surgical Center       | 3,844   | 4%                     |
| 19: Off Campus – Outpatient Hospital | 1,445   | 1%                     |
| 81: Independent Laboratory           | 232     | <1%                    |

CMS also provides data on the place of service for each IDR dispute. In the fourth quarter of 2022, 73% of disputed payments were from services provided in the emergency room, with an additional 16% from inpatient services. The place of service data from the fourth quarter of 2022 is presented in **Figure 15**.

As a result of the NSA and its impact on the industry, Envision and other hospital-based staffing companies have implemented certain strategies, including requesting higher support payments as OON claims generate higher revenue than in-network. The IDR process has also delayed and in some cases reduced cash collections, which could contribute to higher support payments in the future as the contractor attempts to pass through some of the associated expenses.

Many health systems have had to restructure their arrangements with physician groups to share the risk associated with lower payments from payors. This likely has meant shifting many of their fixed stipend arrangements to arrangements where a hospital pays the actual difference between a group’s desired level of revenue and their actual professional collections.

More recently, Anthem Blue Cross Blue Shield proposed a policy change for members in Connecticut, New York, and Missouri, which would have capped the amount paid to anesthesiologists for surgical services based on the number of minutes it expects the procedure to take. Anesthesiologists are typically reimbursed in 15-minute increments, and the Anthem policy proposed capping payment based on the CMS Physician Work Time workbook wherein it publishes the median time in minutes for each CPT Code (i.e., how long a physician would spend performing the procedure when billing a particular CPT Code). This would have resulted in anesthesiologists receiving less reimbursement for procedures that take longer than the median expected time. While Anthem has decided not to move forward with this policy for the time being, similar policies, if implemented in the future, could pose a headwind to anesthesia groups and ultimately to the hospitals and health systems that contract with them.

<sup>25</sup> Leif Murphy, “TeamHealth Unquestionably Supports a Ban on Surprise Medical Bills,” TeamHealth, September 14, 2019.

<sup>26</sup> “Federal Independent Dispute Resolution Process –Status Update,” Centers for Medicare & Medicaid Services, April 27, 2023.

<sup>27</sup> “Partial Report on the Independent Dispute Resolution (IDR) Process: October 1 – December 31, 2022.” Centers for Medicare & Medicaid Services.

## HEALTH SYSTEMS EXPLORING ACQUISITIONS/ EMPLOYMENT OF PHYSICIAN GROUPS

The ongoing disruption in the market should continue to affect hospitals and staffing companies going forward. Hospitals and health systems have experienced a variety of impacts, including the need to insource or consolidate certain previously outsourced provider services, and/or paying higher support payments to contracted providers.

For example, HCA Healthcare, Inc. recently consolidated its Valesco joint venture with Envision, which staffed many of its hospitals. On a recent earnings call with investors, HCA discussed Valesco's poor performance relative to expectations, citing weaker revenue. While HCA had initially anticipated no EBITDA impact from consolidating Valesco, the initial losses associated with consolidation were approximately \$50 million per quarter. Community Health Systems recently insourced more than 500 hospital-based providers as a result of the APP bankruptcy and has approximately 25% of its hospital-based provider contracts in-house.

*This [Valesco] result was not what we are expecting as we are experiencing revenue shortfalls compared to what we originally modeled. The Valesco operating results had a negative impact on adjusted EBITDA margins of approximately 80 basis points in the quarter and 40 basis points on a year-to-date basis. Going forward, we anticipate the loss from this venture to approximate \$50 million a quarter.*

*– HCA Healthcare on  
October 24, 2023*

*...As you likely know, American Physician Partners, or APP, has ceased operations effective July 31, amidst severe financial challenges. APP was contracted for ED and hospital provider services in a number of our markets. As it became likely that APP would not be able to continue operations, our team moved swiftly to transition the employment of more than 500 APP hospital-based providers working in our hospitals to affiliates of our company.*

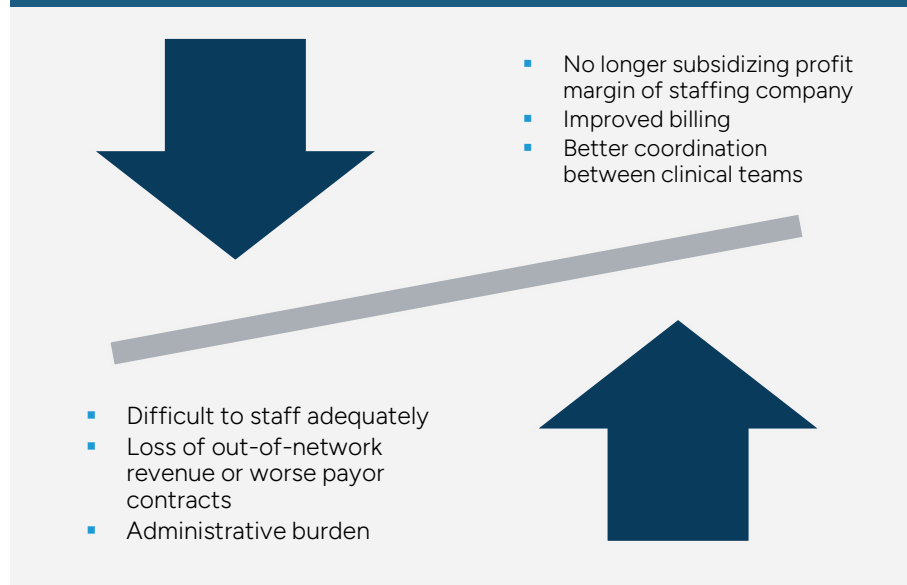
*– Community Health Systems on  
October 26, 2023*

Health system acquisitions of hospital-based physician groups are frequently structured as a buyout of the existing noncompete agreement between the platform and its providers. In certain cases, the sellers (i.e., the staffing company) have valued their provider non-competes based on a multiple of the provider salaries (e.g., 1.5x salary) in order to release them from noncompete agreements. For hospitals or health systems that require dozens of providers to staff their facilities, this can result in a hefty purchase consideration, and the hospital will likely still be generating a loss on the service.

When hospitals and health systems bring their hospital-based provider services in-house, there are several impacts to the financial statements. Once in-house, the hospital will bill and collect for the physician services, which increases revenue. The hospital then pays the physicians a salary, which increases payroll expense, but the support payment to the group goes away. Since salaries and the overhead expense associated with managing a physician group frequently exceed the revenue generated from the group, the hospital is losing money on the service (thus the need for the support payment to the independent contractor group).

However, the amount of the loss can be impacted by a variety of factors that may change with the service being in-house versus independently (i.e., management fee) for the staffing company, which goes away when the hospital brings the service in-house. Reimbursement rates charged to payors by the hospital may be different than those charged by the independent group, which could also impact the economics once the service is brought in-house. **Figure 16** outlines the various potential pros and cons of bringing hospital-based provider services in-house.

**Figure 16: Shifting Hospital-Based Physician Services In-House**





## Key Takeaways: Hospital Operating Challenges

- The pandemic caused a surge of travel nursing, locum tenens, and high utilization of contract labor at hospitals, which is significantly more expensive than typical clinical compensation arrangements. For the most part, these expenses have normalized, and hospitals and health systems are back to utilizing similar levels of locums and other forms of contract labor as they were pre-pandemic.
- Inflation led to higher cost structures of hospitals and health systems, as well as the physician groups they contract with. Many of the independent contractor physician groups then passed along these higher expenses in the form of a request for increased support payments.
- The NSA caused immense disruption in the hospital-based physician services market and led to significant financial headwinds for hospital-based staffing companies. Lower in-network reimbursement, coupled with a problematic IDR process, reduced collections from payors and has caused many groups to request higher support payments. These additional support payments have changed the inclinations of certain health systems when it comes to the decision to bring groups in-house or continue to contract with third parties.
- Hospitals and health systems have always faced the question of whether to employ or contract for hospital coverage, but our experience suggests more systems are bringing physicians in-house, either by choice, or in some cases, out of necessity. Bringing physician groups in-house has several impacts on a health system's finances and operations, including higher salaries and overhead expenses, offset by professional collections of the group. A change in payor reimbursement rates for professional services under a hospital's contracts can be a positive or negative depending on the market. Many systems say they benefit from better clinical coordination when physician groups are in-house.

## Federal Trade Commission Actions

The Federal Trade Commission (FTC) has been increasing enforcement action in the healthcare sector in recent years.<sup>28</sup> Much of the attention recently has been focused on private equity-backed physician practice management (PPM) companies, which could have some impact on health systems, but the FTC has also sued to block multiple hospital transactions in recent years.

In particular, John Muir Health and Tenet canceled a planned transaction in which John Muir Health would buy out Tenet's stake in San Ramon Regional Medical Center. Similarly, Novant abandoned its plans to buy two North Carolina hospitals from Community Health Systems in June of 2024. The stated reason for both FTC actions were that the proposed transactions would reduce competition, potentially raise prices for patients, and reduce employment options for healthcare providers in those markets.

In addition to enforcement actions to block hospital acquisitions, the FTC has taken action against a hospital-based physician staffing company. In September of 2023, the Federal Trade Commission (FTC) sued U.S. Anesthesia Partners (USAP) and its private equity sponsor Welsh, Carson, Anderson & Stowe (WCAS) over allegations that USAP violated antitrust law. USAP is one of the largest anesthesia providers in the country, with more than 4,500 anesthesia providers performing approximately 2.5 million procedures at 1,100 healthcare facilities.<sup>29</sup> WCAS founded USAP in 2012, although by the time of the lawsuit it was a 23% shareholder. Despite being a minority shareholder, the FTC alleges that WCAS exercised control over USAP with respect to the alleged violations and thus was included in the lawsuit.

The lawsuit includes allegations that USAP (at the direction of WCAS) consolidated the anesthesia market in Texas in order to gain enough market share that it could negotiate higher rates with payors. The lawsuit also alleges

that USAP entered into "price-setting arrangements" with independent practices wherein USAP would bill and collect for services provided by an independent group (that had lower reimbursement rates) and split the mark-up. Essentially, USAP entered into administrative services agreements with other practices wherein USAP would provide billing and collecting services, but would bill the payors under USAP's tax ID. In addition, USAP allegedly negotiated with a large competitor to keep it out of USAP's markets, which would restrict competition.<sup>30</sup>

WCAS recently reached a settlement with the FTC limiting its future involvement with USAP, although what impact this would have on health systems working with USAP is unclear. A general trend of more enforcement actions against large hospital-based PPMs could create more disruption in the market and lead to more hospitals bringing coverage in-house. In the longer term, more competition in the hospital-based physician staffing space would likely be a welcome development for health systems, as having more parties to negotiate with could offer more favorable terms from each facility's standpoint. More broadly, the Trump administration has not made clear its priorities for healthcare antitrust enforcement.

<sup>28</sup> Charles M. Honart, "Health Care Antitrust Update Part I: Key Developments in Antitrust Litigation Involving Health Care Acquisitions and Mergers," Stevens & Lee, April 10, 2024.

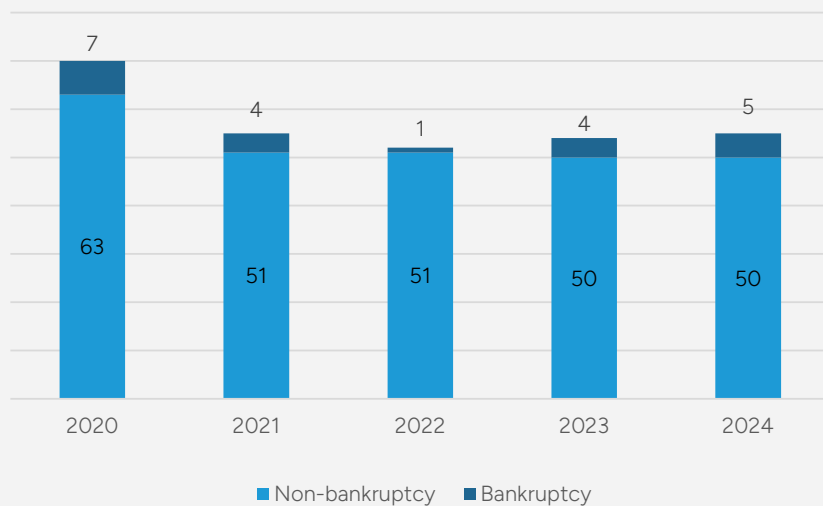
<sup>29</sup> Federal Trade Commission v. U.S. Anesthesia Partners, Inc., U.S. District Court for the Southern District of Texas Houston Division, September 21, 2023.

<sup>30</sup> Ibid.

## Transaction Activity

As illustrated in **Figure 17**,<sup>31</sup> hospital transaction activity has been steady for the last several years. Much of the transaction activity has involved for-profit operators rationalizing their portfolio and exiting certain markets where they do not have the desired density. During this time, large for-profit operators including Tenet, LifePoint Health, and Community Health Systems were all net sellers of general acute care hospitals. In many cases, we have observed not-for-profit systems acquiring these hospitals from for-profit sellers. On the not-for-profit side, Ascension has been a net seller of general acute care hospitals in recent years. As with the for-profit sellers, Ascension has been exiting markets where it felt it had insufficient market density.

**Figure 17: Hospital Transaction Volume**



## Conclusion

Despite many of the operational challenges discussed throughout this report, we believe the industry outlook for hospitals and health systems is largely positive. Demand for both inpatient and outpatient services remains robust, and many of the headwinds associated with COVID and inflation are largely in the rear view for now. We continue to advise hospitals on their coverage arrangements and the decision whether to bring certain services in-house, and we expect these conversations to be ongoing for the foreseeable future. Health system operators also continue to invest in network density and technological capabilities to improve clinical outcomes and improve operating efficiencies, and we expect these efforts to continue as well.

<sup>31</sup> LevinPro HC, Levin Associates, 2025, January, levinassociates.com

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Nick J. Janiga has over 15 years of experience providing his clients with analysis and consultation in business valuation, litigation support, intellectual property, and healthcare provider compensation relationships. His experience includes working with healthcare organizations, attorneys, administrators, providers, developers, consultants, investment bankers, and private equity groups in connection with a broad spectrum of transactions in the healthcare industry. Prior to joining Stout, Nick was a Partner at Healthcare Appraisers, Inc.



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Dan Levin has been providing his clients with analysis and consultation in business valuation, intellectual property, litigation support, and healthcare provider compensation relationships since 2016. His experience includes working with healthcare organizations, attorneys, administrators, providers, developers, consultants, investment bankers, and private equity groups in connection with transactions in the healthcare industry. Many of the transactions he analyzes involve Stark, Anti-Kickback, IRC 501(c)(3), and/or other regulatory implications, which require analysis of fair market value and the determination of commercial reasonableness. Prior to joining Stout, Dan was a Director with HealthCare Appraisers, Inc. He also has previous experience in sell-side equity research providing investment analysis on publicly traded healthcare companies.

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- Pricing Disputes
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- Fairness/Solvency Opinions
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- Purchase Price Allocation
- Quality of Earnings
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