



Mergers & Acquisitions | Capital Raise | Strategic Advisory

## Monthly Healthcare M&A Insights – Legislative & M&A Regulatory Updates

### Commentary:

Given the buzz around a series of potential healthcare legislation being contemplated in D.C., and the increasing scrutiny Mergers and Acquisitions (“M&A”) activity is garnering at the FTC, DOJ, and at the state level, we are providing an update on some of the relevant topics currently being discussed at this time.

#### 1. **PBMs**

In a rare case of bipartisanship, congress has shown a strong willingness to curb the cost of prescription drugs. As Pharmacy Benefit Managers (“PBMs”) have a critical role in prescription drug price negotiations, Congress is aiming at requiring more transparency provisions and limiting spread pricing. It is easy to believe that the PBM market is broken or at least inefficient with the three largest PBMs controlling 80%+ of the market. However, the questions remains whether Congress even understands enough about the complicated sector to draft a bill that would prove to be effective. Ultimately time will tell and momentum indicates some form of legislation will move forward that attempts to address prescription drug costs.

#### 2. **United Healthcare and Optum Investigation**

As recently reported by the Wall Street Journal, United Health Group and Optum are the subject of an antitrust investigation. As Optum’s pace of acquisitions shows no sign of slowing down, the Justice department has been interviewing non-Optum based groups to ascertain their views on how Optum’s acquisitions impact competition. This development is especially interesting in light of United’s planned transaction with Amedisys which has yet to close. Certainly, the recent interviews could be part of their review of this transaction as it comes on the heels of a deal with LHC Group, which closed in February of 2023.

#### 3. **Increasing State Level M&A Regulation in California and Beyond**

With California continuing to have a commanding lead in alienating businesses from its state by increasing regulations and taxes. SB184, which was passed in 2022 and will go into effect April 1, 2024, requires healthcare entities to provide written notice of a proposed transaction at least ninety days prior to entering into the agreement or transaction to the Office of Healthcare Affordability (OHCA). Similar rules are being enacted across 12 other states that require state level notification, akin to what the Federal Hart-Scott-Rodino (HSR) Act already requires for certain transactions.

#### 4. **Concluding Thoughts**

The paradox of an increasing regulatory environment for M&A transactions that make it harder for provider organizations to create scale and market power, is the opposite of what is needed to create more efficiencies and shift to value-based initiatives, which can drive lower costs and improved outcomes. While the government’s efforts are aimed at helping the consumer, these new state regulations will create a more protracted, costly, and guarded approach to acquisitions and for those considering selling.

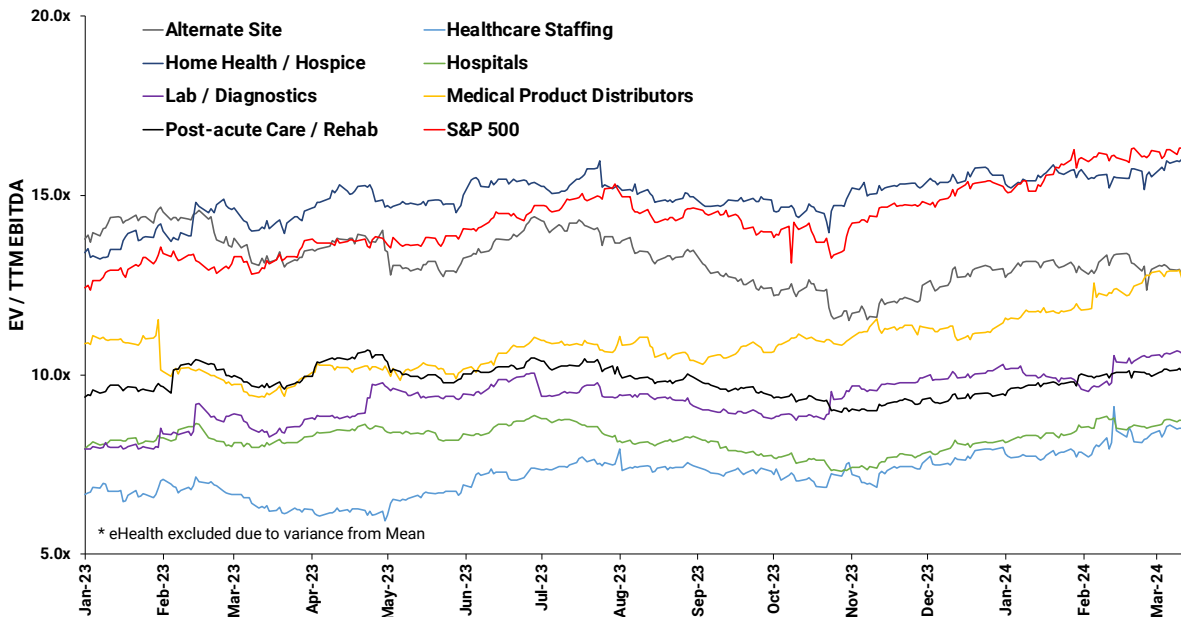
However, we still see transactions marching on as these regulations are navigable and regulation in general is nothing new to the space. Additionally, given we are in an election year, a new administration in 2025 taking a different approach may provide some relief at the Federal level to those participating in consolidation.

## Monthly Healthcare M&A Insights – Current Valuation Trends

### Healthcare Services Monthly Public Valuation Summary

Sector	% of 52 Week High	Since Previous Month	% Change YTD	% Change YoY	EV/EBITDA		EBITDA Margin
					2023E	2024E	2023E
S&P 500	99.8%	8.0%	8.5%	22.1%	-	-	-
Alternate site	73.2%	-	41.8%	(2.7%)	13.7x	12.6x	13.7%
eHealth	66.8%	(10.5%)	46.9%	(7.3%)	28.6x	26.9x	18.5%
Healthcare Staffing	70.9%	(10.1%)	28.5%	(1.5%)	8.0x	10.7x	12.1%
Home Health / Hospice	89.5%	9.5%	21.6%	12.8%	16.5x	15.2x	12.6%
Hospitals	84.6%	6.9%	45.5%	16.5%	9.8x	9.3x	17.2%
Labs / Diagnostics	87.9%	(3.9%)	7.4%	0.8%	10.8x	10.5x	18.6%
Medical Product Distributors	94.5%	10.1%	19.8%	36.9%	13.0x	12.1x	1.7%
Post-acute Care	93.2%	7.9%	24.5%	22.1%	12.9x	11.9x	14.4%

### Healthcare Services Historical EV/TTM EBITDA Multiples



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