February 2024

Lazard Healthcare Services Leaders Study 2024

Executive Summary

LAZARD

A Look Back at Lazard's February 2023 Healthcare Services Leaders Study

Before sharing the conclusions from our 2024 Healthcare Services Leaders Study, we reflect briefly on the predictive nature of our prior study. Lazard's study in February 2023 focused on expectations for a market recovery, catalysts for more optimistic market sentiment, predictions for transaction activity and key strategic priorities for both companies and investors. A year later, we see a high correlation between responses from industry leaders in last year's study and the course of subsequent events.

- In February 2023, more than half of respondents expected a recovery in healthcare services markets in 2024 or later, and more than 90% of respondents believed that an improved macroeconomic outlook would be the key catalyst of a recovery. Indeed, markets remained challenging throughout much of 2023, given tightening monetary policy. Persistent inflation and rising interest rates created a challenging environment, characterized by elongated sales cycles and elevated labor costs, and significantly increased companies' cost of capital, putting downward pressure on valuations and fueling high stock volatility.

>50%
of respondents to the February 2023 study did not expect a sustained market recovery until 2024 or beyond

- In our 2023 study, nearly 80% of respondents expected large-cap consolidation to remain at depressed levels, while views were split on whether bolt-on acquisitions and partnerships / collaborations would increase relative to the prior year. Additionally, approximately 60% of respondents expected corporate carve-out activity to remain the same or decrease. In fact, deal volume remained depressed throughout 2023, relative to normalized levels, as buyer and seller price expectations remained at odds while investors remained risk averse and focused on the highest quality companies that have sustainable revenue growth, unit economics and profitability, and a clear ROI for customers. Also, consistent with the predictions in last year's study, large-cap consolidation has not occurred.

~50%
of respondents expected bolt-on acquisition activity to increase

- In last year's study, respondents were pessimistic about the availability of capital for companies. Almost 90% of respondents expected venture capital and IPOs to remain at depressed levels, and more than 70% expected private and growth equity and debt to remain at low levels. Indeed, the IPO market was shut for most of 2023, as public markets remained highly volatile. Venture capital was generally available to the highest quality companies, while many other companies struggled to raise funds. While private and growth equity investors hoped to deploy their record levels of dry powder, few platform deals were completed as investment committees remained highly discerning and the threshold to deploy capital remained high. Debt markets were generally constructive, but debt remained expensive, and lenders were conservative about leverage levels.

88%
of respondents expected IPO activity to remain depressed

- A year ago, respondents identified software, mental health and primary care as the top strategic priorities for 2023. In fact, approximately 18% of acquisitions[1] in 2023 were in software, while only 5% were in primary care and 2% were in mental health. However, primary care deals represented 23% of total deal value in 2023, buoyed by CVS Health's $10.6 billion acquisition of Oak Street Health (software and mental health comprised just 9% and 1% of total deal value, respectively). In the private financing markets, approximately 29% of financings related to software, while only 11% related to mental health and 9% related to primary care.

49%
of respondents anticipated mental / behavioral health and software would receive greater investment in 2023

1 Includes announced change of control transactions with U.S. targets and transaction values of at least $100 million.

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Lazard Healthcare Services Leaders Study — 2024

Healthcare services companies confronted a challenging macroeconomic backdrop in 2023 as elevated inflation led the Federal Reserve ("Fed") to continue to maintain elevated interest rates. As we approached the end of 2023 the U.S. economy showed resilience, as expectations for U.S. real GDP growth rates in 2024 were approximately 1-2%, and inflation had eased considerably, though remained above the Fed's 2% target. The Fed's announcement on December 13, 2023 that it was holding interest rates steady and expected three rate cuts in 2024 proved to be a noteworthy inflection point for the markets, buoying most stocks and improving overall industry sentiment.

While the more dovish Fed outlook boosted market sentiment and confidence, the precise timing of any rate cuts remains uncertain—as does the timing and magnitude of any impact the cuts may have on cost of capital, company valuations and deal activity across the industry. Nevertheless, healthcare services companies have both strategic and financial imperatives to pursue deals, and investors have mandates to deploy record levels of dry powder and distribute capital to the investors in their funds.

Against this backdrop, we fielded this year's Healthcare Services Leaders Study in December 2023. This year's study included participation from 183 leaders across many of the largest healthcare services companies as well as smaller public and private companies and prominent investment firms. The respondents encompass 121 C-level corporate executives and 62 leading investors. Among the C-level executives, 11 are from large-cap public companies, 23 are from small- and mid-cap public companies, and 87 are from private companies.[1]

SURVEY RESPONDENTS

183
Participants

121
Corporate Executives

62
Leading Investors

CORPORATE EXECUTIVE BREAKDOWN

11
Large-Cap Public Company Executives

23
SMID-Cap Public Company Executives

87
Private Company Executives

1 C-level executives including CEOs, CFOs and senior executives involved in strategic decision-making. Large-cap healthcare services companies were defined as those with enterprise values (equity value + debt) of greater than $15 billion. Small- and mid-cap ("SMID-cap") companies were defined as those with enterprise values of less than $15 billion.

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Lazard Healthcare Services Leaders Study — 2024 (cont'd)

Our Central Findings

1. Healthcare services equity market conditions are not expected to recover to normalized, sustainable levels conducive to IPOs before the second half of 2024 or 2025. An improved macroeconomic outlook, greater access to capital and improved investor sentiment toward sector profitability are the factors expected to catalyze a market recovery.

2. While views are split on whether large-cap consolidation will increase or stay the same in the first half of 2024, private equity platform acquisitions, bolt-on acquisitions and corporate carve-outs are expected to increase. Greater alignment of buyer and seller price expectations, greater availability of affordable financing and lower perceived risk among buyers in achieving target company forecasts will be important catalysts of rising strategic activity.

3. Healthcare IT ("HCIT"), mental / behavioral health and home health are expected to receive greater investment in 2024 than in 2023, followed by payer solutions and pharma services. Respondents believe that facility-based care and supply chain are the areas least likely to receive greater investment in 2024.

4. Greater adoption of artificial intelligence / machine learning ("AI/ML") is the force expected to most transform healthcare services over the next decade, followed by the shift of care volume to alternative sites and the transition to value-based care. AI/ML is expected to drive the most improvement in areas such as clinical decision support, revenue cycle management and administration / operations.

5. Healthcare services leaders believe that a Republican victory in the 2024 U.S. Federal elections would lead to a more dovish antitrust environment and that a Democratic victory would lead to lower rebates for pharmacy benefits managers ("PBMs"). On the other hand, they do not believe the outcome of the elections will have a meaningful impact on value-based payment model participation, Medicare Advantage payments or the implementation of the drug pricing provisions of the Inflation Reduction Act ("IRA").

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1 Healthcare services equity market conditions are not expected to recover to normalized, sustainable levels conducive to IPOs before the second half of 2024 or 2025. An improved macroeconomic outlook, greater access to capital and improved investor sentiment toward sector profitability are the factors expected to catalyze a market recovery.

Expectations for Timing of Healthcare Services Market Recovery

Just 5% of respondents believe that there will be a healthcare services equity market recovery conducive to IPOs during the first half of 2024. Respondents are somewhat divided on whether a recovery is more likely in the second half of 2024 (39% of respondents) or 2025 (nearly half of respondents). This likely reflects the wide range of business models, operational expertise and progress toward profitability exhibited by individual companies within healthcare services subsectors.

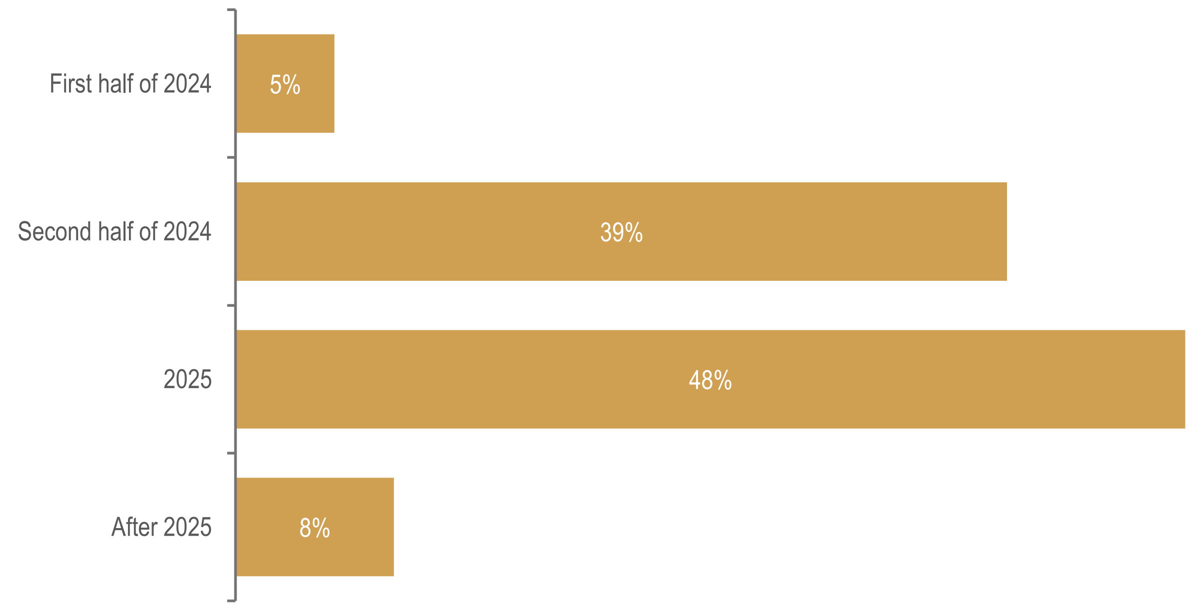
Consistent with last year's study, investors are more bullish than corporate executives about the timeline of a recovery, with more than half of investors expecting a recovery by the second half of 2024, as compared to 32% of executives.

Also consistent with last year's study, provider services leaders are the most bullish on the timeline for recovery, with 61% predicting a recovery in the second half of 2024.

Only 5%

of healthcare services leaders believe there will be a healthcare services market recovery conducive to IPOs in the first half of 2024

Q: ***When do you expect U.S. HC services equity market conditions to recover to a normalized, sustainable level conducive to IPOs (select one)?***



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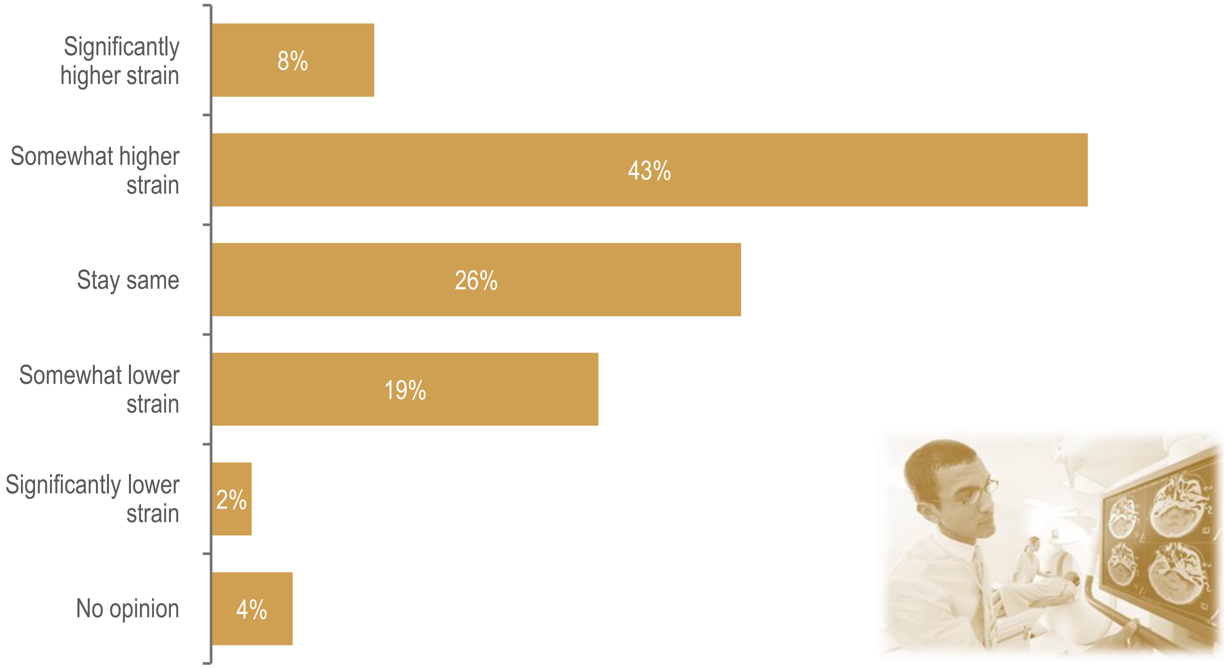
When asked specifically about expectations for hospitals, approximately half of healthcare services leaders expect hospitals to be under greater operational and financial strain in 2024, underscoring the extent of the near-term challenges facing hospitals. However, the outlook for hospitals is more optimistic than in last year's survey, in which 67% of respondents expected greater strain during the coming year.

Q: *How great will the operational and financial strain on hospitals be in 2024, relative to 2023 (e.g., with respect to reimbursement and cost pressures) (select one)?*



Catalysts of a Healthcare Services Market Recovery

Over 80% of healthcare services leaders believe that an improved macroeconomic outlook—including line-of-sight to normalized interest rates and better growth outlook—will be the most important catalyst of a sustained recovery of the U.S. healthcare services equity market. This key driver is followed by greater access to debt and equity capital (50% of respondents) and improved investor sentiment toward sector profitability outlook (45%). These three factors were similarly identified as the most important catalysts of a market recovery by respondents of last year's study.

SMID-cap and HCIT executives disproportionately (83% and 68%, respectively) regard improved investor sentiment toward profitability outlook as a key driver of a market recovery, perhaps given that many SMID-cap and HCIT companies have not yet achieved run-rate levels of profitability, while profitability remains a key focus for investors.

Note: Totals in output may sum to greater or less than 100% due to the rounding of figures to the nearest whole percentage.

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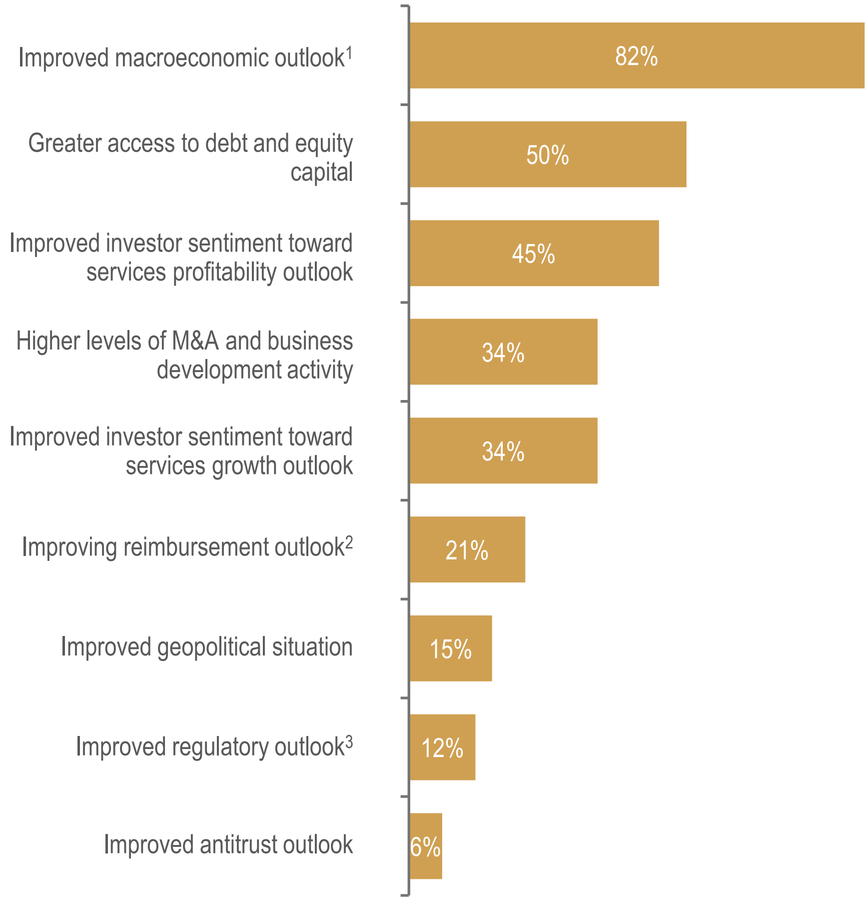
Q: ***What are the top 3 factors that you expect to drive a sustained recovery of the U.S. HC services equity markets (select three)?***



Over 80%

of healthcare services leaders believe that an improved macroeconomic outlook will be a primary catalyst of a sustained recovery of the U.S. healthcare services equity market

Large-cap public companies are

6x

more likely than respondents overall to view improved antitrust outlook as a key driver of market recovery

63% of investors believe that greater access to debt and equity capital will be a key driver of market recovery, compared to 50% of all respondents—highlighting their reliance on the capital markets to finance their investments.

MCO and supply chain / pharma services executives are much more likely than respondents overall to believe an improved geopolitical situation is a key driver of a sustained market recovery (43% of MCO executives and 29% of supply chain / pharma services executives have this view, compared to 15% of respondents overall).

Notably, MCO executives are half as likely as provider executives (14% versus 28%) to cite improving reimbursement outlook as a top driver of a market recovery—which is perhaps unsurprising given their relative roles in network / contracting negotiations.

While only 6% of healthcare services leaders believe an improved antitrust outlook will be an important driver of a sustained market recovery, 36% of leaders of large-cap public healthcare services companies believe it to be so, likely reflecting greater scrutiny by antitrust regulators of mergers and acquisitions by large-cap companies.

1 For example, line-of-sight to normalized interest rates, better global growth outlook, etc.
2 For example, government and commercial.
3 Excluding antitrust but including Centers for Medicare & Medicaid Services, Food and Drug Administration, etc.

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Availability of Capital

Healthcare services leaders are relatively optimistic about the availability of capital from private and growth equity and debt financings in the first half of 2024[1], with 53% of respondents expecting greater availability of each type of financings and more than 35% of respondents expecting the same level of availability (compared to the past six months). This outlook contrasts markedly with the negative outlook expressed by respondents in last year's study[2].

Healthcare services leaders are more measured about the availability of follow-on equity, with 40% expecting greater availability in the first half of 2024 and 50% expecting no change.

Respondents are more conservative about the availability of venture capital and IPOs, with only approximately 27% of respondents expecting greater availability and 50% or more expecting no change.

53%

of healthcare services leaders expect capital from private and growth equity and debt financings to be more available in the first half of 2024

Q: ***How available do you expect capital to be in 1H 2024, relative to the past six months (select one for each type of capital / financing)?***

	Private equity & growth equity	Venture capital	IPOs	Follow-on equity	Debt financings
Significantly Higher	4%	3%	2%	2%	4%
Somewhat Higher	49%	24%	26%	38%	49%
Stay Same	39%	50%	55%	50%	36%
Somewhat Lower	5%	17%	13%	8%	10%
Significantly Lower	3%	5%	5%	2%	2%

0% **50%** **100%**

Investors are more positive than respondents overall about the availability of private and growth equity and debt financings, with 71% expecting that private and growth equity will be more available and 69% expecting that debt financings will be more available.

Conversely, large-cap public company leaders are more pessimistic than respondents overall, with only 27% expecting greater availability of private and growth equity, 9% expecting greater availability of venture capital, 18% expecting greater availability of IPOs and 36% expecting greater availability of follow-on equity and debt.

Note: Totals in output may sum to greater or less than 100% due to the rounding of figures to the nearest whole percentage.

1 Relative to the past six months.

2 In which a large majority of respondents predicted that capital would be available at most at the same low levels as the six months preceding the study.

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2 While views are split on whether large-cap consolidation will increase or stay the same in the first half of 2024, private equity platform acquisitions, bolt-on acquisitions and corporate carve-outs are expected to increase. Greater alignment of buyer and seller price expectations, greater availability of affordable financing and lower perceived risk among buyers in achieving target company forecasts will be important catalysts of rising strategic activity.

Expectations for M&A Activity

While 42% of respondents believe the pace of large-cap consolidation will increase in the first half of 2024, relative to the past six months, 47% of respondents expect no change. Large-cap company respondents are more confident in large-cap consolidation than respondents overall, with 55% expecting increased levels of large-cap consolidation. MCO and payer services executives are similarly more confident, with nearly 60% of respondents expecting increased large-cap consolidation.

Nearly two-thirds of total respondents expect bolt-on acquisitions to increase, and more than half expect private equity platform acquisitions and corporate carve-outs to increase. Notably, two-thirds of investors expect an increase in private equity platform acquisitions, versus 53% of respondents overall, highlighting optimism among this group. 70% of payer services executives similarly expect an increase in private equity platform acquisitions, while only 14% of MCO executives agree. Breaking with respondents overall, only 24% of supply chain / pharma services executives expect corporate carve-outs to increase in the first half of 2024.

64%

of respondents expect bolt-on acquisition activity to increase in the first half of 2024

55%

of large-cap public company leaders expect increased levels of large-cap consolidation in the first half of 2024, versus 42% of respondents overall

Q: ***How much corporate development activity do you expect there to be in 1H 2024, relative to the past six months (select one for each type of corporate development activity)?***

	Large-cap strategic consolidation	Private equity platform acquisitions	Bolt-on acquisitions	Corporate carve-outs / business separations
Significantly Higher	2%	5%	9%	5%
Somewhat Higher	40%	48%	55%	46%
Stay Same	47%	33%	28%	39%
Somewhat Lower	9%	12%	7%	9%
Significantly Lower	1%	1%	1%	1%

0% **50%** **100%**

Note: Totals in output may sum to greater or less than 100% due to the rounding of figures to the nearest whole percentage.

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Challenges to Executing Deals in the Current Environment

Consistent with last year's study, respondents cite misalignment of buyer and seller price expectations as the top barrier to M&A in the current environment (86% of respondents cited it as a key barrier, versus 82% last year).

Notably, 91% of large-cap public company executives and 87% of investors view seller price expectations as a key barrier to M&A, versus 78% of SMID-cap public company executives, perhaps reflecting somewhat divergent perceptions between buyers and sellers of intrinsic value and pricing.

86%

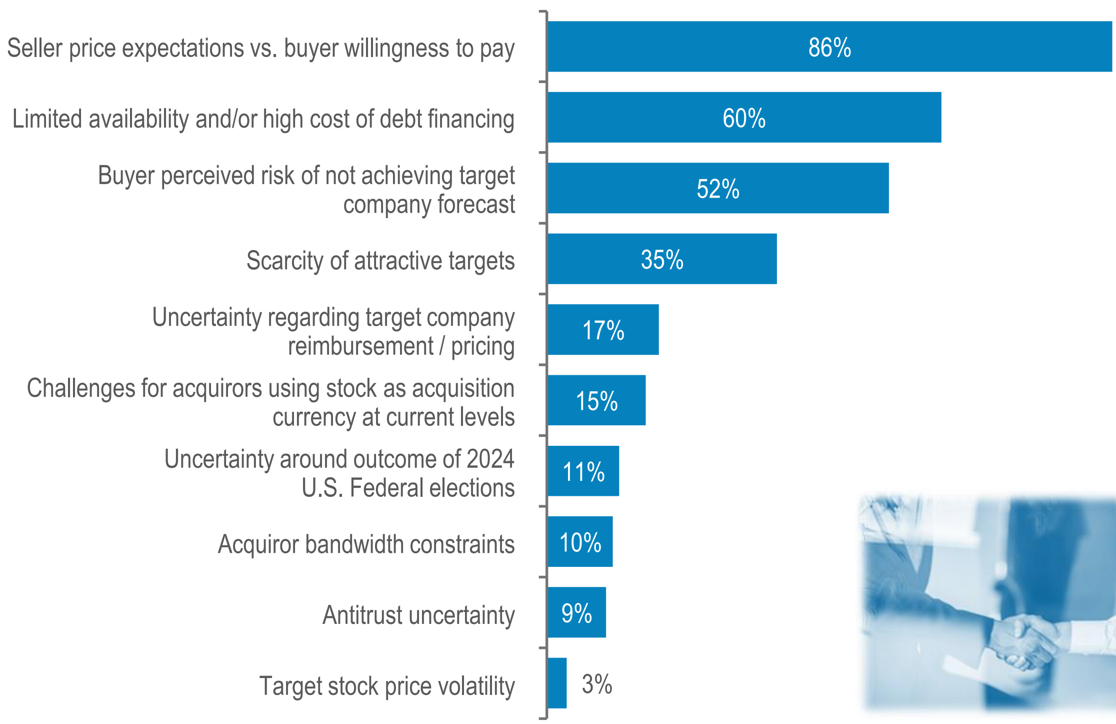
of respondents regard divergent buyer and seller price expectations as a key barrier to M&A in the current environment

Also consistent with last year's study, respondents view limited availability and/or high cost of debt financing as a key barrier to M&A (60% of respondents cited it this year, versus 68% last year). That said, only 36% of large-cap company executives share this view, reflecting their stronger access to capital.

52% of healthcare services leaders view risk around achievability of target company forecasts as a key challenge to M&A in the current environment. 70% of payer services leaders share this view, potentially because payer services companies can be reliant on a small number of usually significantly larger customers to drive growth.

Despite the muscular antitrust posture of the Department of Justice and Federal Trade Commission, only 9% of respondents regard antitrust uncertainty as a key barrier to M&A.

Q: ***What are the top 3 challenges to executing HC services M&A in the current environment (select three)?***



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3 HCIT, mental / behavioral health and home health are expected to receive greater investment in 2024 than in 2023, followed by payer solutions and pharma services. Respondents believe that facility-based care and supply chain are the areas least likely to receive greater investment in 2024.

61%

of respondents expect greater investment in HCIT in 2024

Investment Priorities

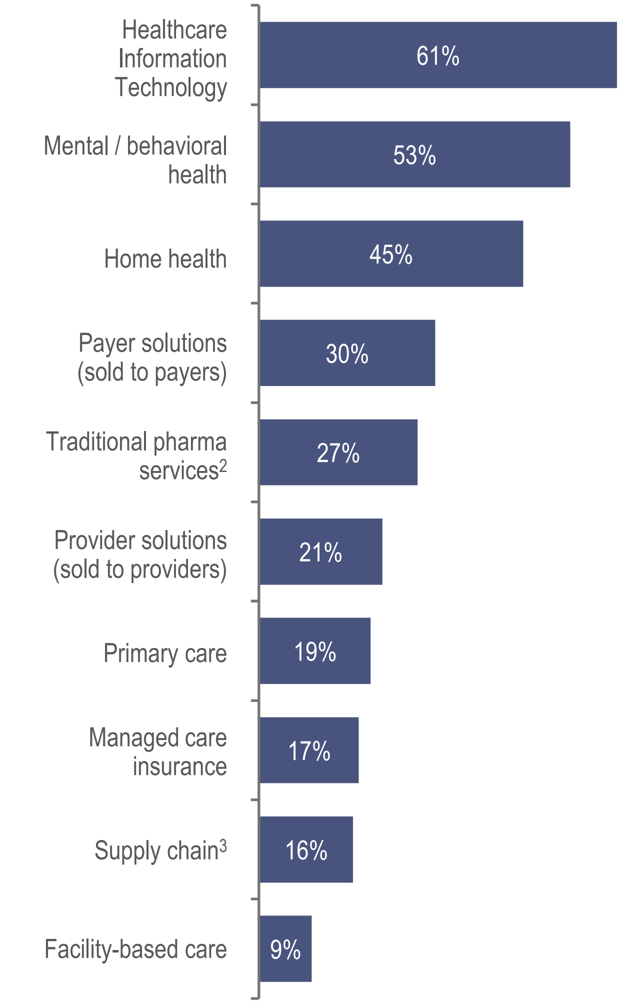
61% of respondents expect investment in HCIT to increase in 2024[1], while 53% and 45% of respondents expect investment in mental / behavioral health and home health, respectively, to increase. Interestingly, only half of provider executives expect HCIT to receive greater investment in 2024.

90% of payer services executives and 71% of MCO executives expect home health investment to increase, perhaps reflecting payers' incentive to shift care volume to the home to improve both patient experience and cost. By contrast, only 34% of investors expect investment in home health to increase.

Only 30% and 27% of respondents expect greater investment in payer solutions and pharma services, respectively. However, payer services respondents are twice as bullish as MCO executives and investors regarding the expected level of investment in payer solutions (60% of payer services executives expect greater investment versus only 32% of investors and 29% of MCO executives). On the other hand, 45% of investors expect greater investment in pharma services in 2024, versus only 27% of respondents overall, as investors prioritize pharma services, likely due to industry tailwinds and attractive end-market dynamics.

Whereas 43% of respondents in last year's study expected primary care to receive greater investment in the coming year, only 19% of this year's respondents agree.

Q: *Which sub-sectors do you expect will receive greater investment in 2024, relative to 2023 (select three)?*



1 Relative to 2023.
2 For example, CRO, CDMO, etc.
3 For example, distribution, group purchasing, pharmacy, etc.

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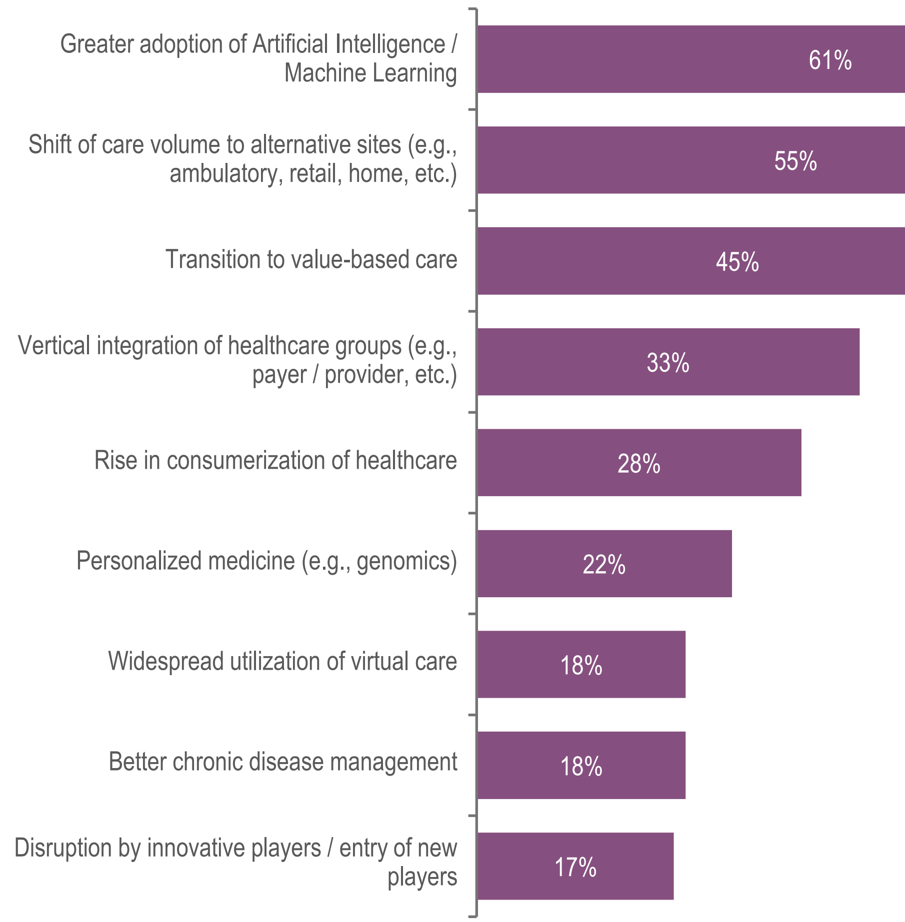
4 Greater adoption of AI/ML is the force expected to most transform healthcare services over the next decade, followed by the shift of care volume to alternative sites and the transition to value-based care. AI/ML is expected to drive the most improvement in areas such as clinical decision support, revenue cycle management and administration / operations.

Forces Fundamentally Transforming Healthcare Services

In a major increase, 61% of respondents—versus only 21% of respondents in last year's study—believe that greater adoption of AI/ML is the force most likely to transform healthcare services over the next decade. Private company executives, SMID-cap company executives and investors all share this view. Notably, while 86% of MCO executives believe that AI/ML will fundamentally transform the industry, only 30% of payer services executives agree.

Q: ***Which of the following forces do you believe will most transform healthcare services during the next 5–10 years (select three)?***



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Beyond greater adoption of AI/ML, the shift of care volume to alternative sites (e.g., ambulatory, retail and home) and the transition to value-based care are the forces most expected to transform healthcare services over the next decade, according to 55% and 45% of respondents, respectively.

MCO and payer services executives again have divergent views, with only 14% of MCO executives believing that the shift of care volume to alternative sites will transform the industry, compared with 70% of payer services executives.

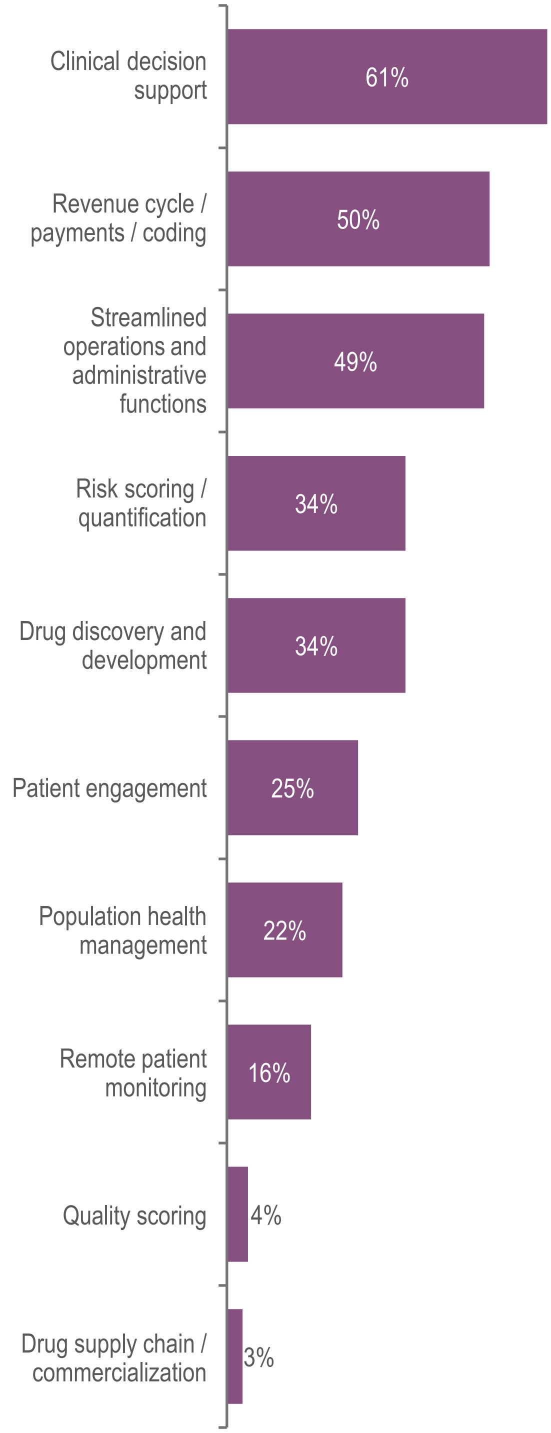
55% of large-cap company executives and 53% of investors believe the shift to value-based care will have a significant impact on the industry, compared with only 43% of SMID-cap company executives and 39% of private company executives.

When asked which areas are most ripe for disruption by AI/ML, 61% of respondents identified clinical decision support, 50% identified revenue cycle management and 49% identified operations and administrative functions. That said, provider services executives are especially bullish regarding applications of AI/ML to risk scoring, with 50% regarding it as an area most ripe for disruption. Whereas more than 40% of HCIT executives believe patient engagement is likely to be disrupted by AI/ML, only 16% of investors agree.

61%

of respondents regard clinical decision support as the area most likely to be disrupted by AI/ML

Q: What are the top 3 areas most ripe for disruption by AI/ML (select three)?



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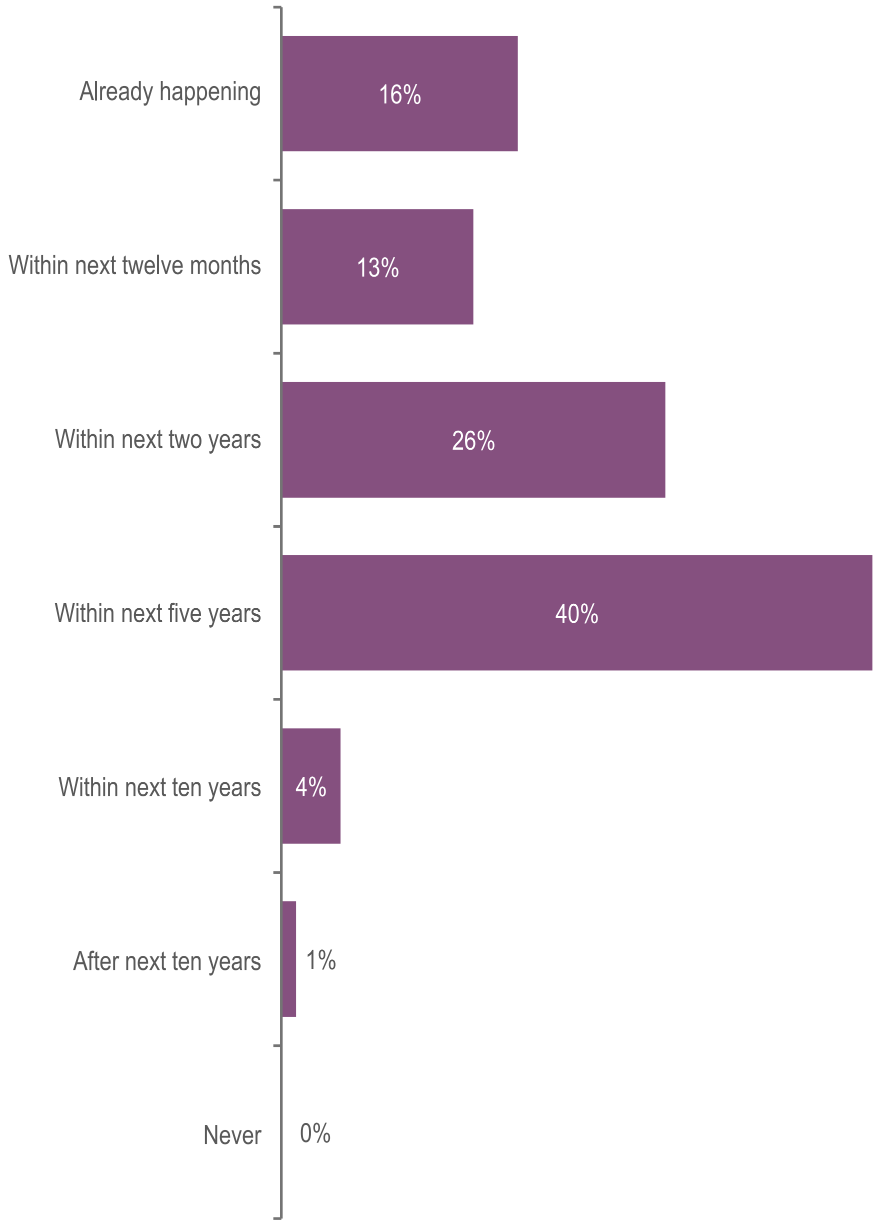
When asked about the timeline for disruption, 55% of respondents expressed their views that AI/ML would significantly improve healthcare services business models and/or care delivery within the next two years. 95% said it would do so within five years. MCO executives are even more optimistic, with 71% expecting disruption to occur within two years. 29% of pharma services executives believe that AI/ML is already disrupting the industry, compared with just 16% of respondents overall.

55%

of respondents believe that AI/ML will disrupt the industry within the next two years

Q: ***How long until AI/ML significantly improves healthcare services business models and/or care delivery (select one)?***



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5 Healthcare services leaders believe that a Republican victory in the 2024 U.S. Federal elections would lead to a more dovish antitrust environment and that a Democratic victory would lead to lower rebates for pharmacy benefits managers (“PBMs”). On the other hand, they do not believe the outcome of the elections will have a meaningful impact on value-based payment model participation, Medicare Advantage payments or the implementation of the drug pricing provisions of the Inflation Reduction Act (“IRA”).

Impact of 2024 U.S. Federal Elections on Healthcare Services

While more than three-quarters of respondents expect a Republican victory in the 2024 U.S. Federal elections would lead to a more dovish antitrust posture, respondents are divided regarding the impact that a Democratic victory would have, with 46% expecting no change versus status quo and 45% expecting more hawkish antitrust posture. Almost two-thirds of large-cap company executives expect a Democratic administration would be more aggressive than the status quo with respect to antitrust; investors are somewhat more sanguine, with only 37% expecting more hawkish antitrust posture in the event of a Democratic victory.

76%

of respondents expect a Republican victory in the 2024 U.S. Federal elections to lead to more dovish antitrust posture

When asked about the impact of the elections on PBM rebates, 45% of respondents said they expect a Democratic victory to lead to lower rebates, while only 23% of respondents said they expect a Republican victory to lead to lower rebates. MCO executives are an outlier, with 71% believing that a Democratic victory would lead to lower rebates.

Nearly half of respondents believe that the outcome of the elections will not meaningfully impact regulatory requirements for participation in value-based payment models. That said, 57% of MCO executives believe that a Democratic victory would precipitate greater participation in value-based payment models—compared with only 13% of respondents overall.

A plurality (42%) of respondents believe that the outcome of the elections will not meaningfully impact Medicare Advantage payment policy. 57% of MCO executives believe that a Republican victory would lead to higher Medicare Advantage payments from the government, with the same percentage believing that a Democratic victory would lead to lower payments.

Respondents are similarly divided over the impact that the elections will have on implementation of the drug pricing provisions of the Inflation Reduction Act, and a plurality (approximately 35%) of respondents expect the outcome of the elections will not impact their implementation at all.

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Q: ***To what extent do you expect a Democratic victory in the 2024 U.S. Federal elections to impact the following (select one)?***

	Antitrust posture	Regulatory requirements for advanced payment model participation by providers	Medicare Advantage payment policy	Pharmacy benefits manager rebates	Implementation of IRA's drug pricing provisions
More Favorable	4%	13%	20%	8%	28%
No Change	46%	48%	42%	36%	35%
Less Favorable	45%	28%	28%	45%	23%
Uncertain	5%	11%	10%	11%	13%

0% **50%** **100%**

Q: ***To what extent do you expect a Republican victory in the 2024 U.S. Federal elections to impact the following (select one)?***

	Antitrust posture	Regulatory requirements for advanced payment model participation by providers	Medicare Advantage payment policy	Pharmacy benefits manager rebates	Implementation of IRA's drug pricing provisions
More Favorable	76%	31%	26%	15%	20%
No Change	12%	45%	42%	48%	36%
Less Favorable	7%	11%	20%	23%	28%
Uncertain	5%	13%	11%	14%	17%

0% **50%** **100%**

Note: Totals in output may sum to greater or less than 100% due to the rounding of figures to the nearest whole percentage.

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