



RESEARCH REPORT

Healthcare Revenue Cycle Management Services –Market Analysis Report

Revenue Cycle Management (RCM) is a rapidly expanding segment in the Technology Enabled Business Services world.

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EXECUTIVE SUMMARY

Revenue Cycle Management (RCM) is a rapidly expanding segment in the Technology Enabled Business Services world. Companies that provide tech-enabled revenue cycle solutions to healthcare providers, in particular, have a unique opportunity to differentiate and expand market share as the demand for outsourced services is expected to continue accelerating over the next 10 years. Despite the presence of some major consolidating entities such as R1 and Ensemble, the market remains fragmented outside of the full end-to-end outsourcing segment catering primarily to large, multi-facility health systems. There is a significant opportunity for smaller “niche” services businesses to emerge as market leaders within the partial and niche outsourcing segment as a result of these factors:

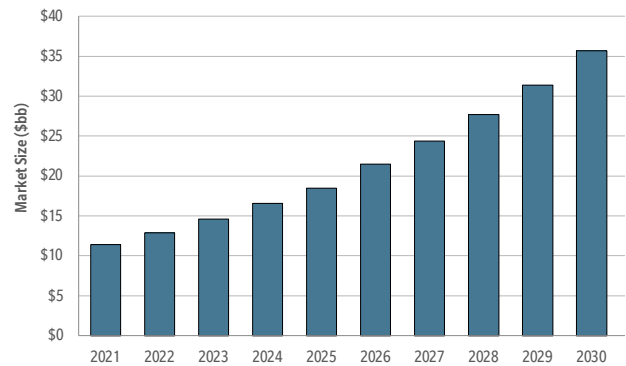
- Growing Demand for Outsourced Services by Healthcare Providers
- Increasing Complexity and Specialization of Revenue Cycle Functions
- Fragmented RCM Services Market for Small to Medium Sized Health Systems

RCM SERVICES MARKET OUTLOOK

Significant Growth Over Next 10 Years

According to a report from Future Market Insights, the medical billing outsourcing market in the U.S. is expected to grow to \$35 billion by 2030, up from \$12.7 billion in 2022 (see chart). Health systems, hospitals, and physician groups are under intense pressure to improve operating margin by reducing administrative costs. Most providers operate with a shoestring margin between 1% and 3%. There is a growing consensus in the industry that lowering the cost to collect represents one of the best opportunities to cut costs without impacting patient care. CFOs will increasingly turn to external vendors in order to maximize efficiency in coding, billing, and collections. These critical business functions are primary drivers of cash flow and working capital, but exist outside of the core clinical competencies of these organizations.

Global Medical Billing Outsourcing Market Size



Source: Future Market Insights: 06/30/22

“Niche” and Partial Outsourcing will Drive Majority of Growth

Over the next 10 years, the portion of revenue cycle functions outsourced to external vendors is expected to increase by more than 150%. We believe that most organizations will incrementally expand the scope of their outsourced functions by adding more niche vendors (or adding volume to existing niche vendors) rather than doing comprehensive outsourcing.

Meanwhile, a smaller number of large hospital networks and health systems will likely move towards a full end-to-end model, electing to outsource all revenue cycle functions to one of the handful of goliath RCM services conglomerates. While these deals make good headlines with recognizable brand-names and massive dollar figures, full end-to-end outsourcing arrangements will continue to be the exception, applying to a small number of organizations relative to the overall market.

Increasing Demand from Healthcare Providers

Healthcare Providers are under intense pressure to reduce administrative spending and we believe revenue cycle management represents their best opportunity to accomplish this without impacting patient care. External firms that specialize in RCM are able to invest in and develop the people, process, and technology capabilities necessary to maximize efficiency across each specific RCM function, such as Coding, Claims, Billing, Insurance Follow-up, and Self-Pay Collections. Rather than invest in building these capabilities internally, healthcare providers will likely outsource more of these functions to external vendors over the next 10 years.

DRIVERS OF OUTSOURCING GROWTH



Complexity and Specialization

RCM is a highly specialized and complex area with myriad state and federal regulations. Clinical providers are not well positioned to keep up with the demanding budget, talent, and technology requirements necessary to adequately manage their billing and collections, let alone optimize for maximum efficiency.



High Volume of Manual Labor Intensive Processes

The complexity of US health insurance reimbursement and lack of standards surrounding reimbursement requirements (ex. claim formatting and remittance code usage) has led to the need for deep, specialized knowledge and expertise of individual payers and health plans within each state and even local municipality. Acquiring and maintaining this knowledge and expertise requires an enormous effort and investment in staff training and retention.



Budget Constraints and Staff Efficiency

With healthcare margins under intense pressure, administrative functions (in particular RCM) are the primary target for cost reductions. Often this comes in the form of required staffing reductions (through attrition or otherwise). Most healthcare groups struggle to maintain adequate staff productivity, especially as routine processes now require strong computer skills. Automation tools can help remove some manual tasks allowing staff to focus on more complex issues (e.g. clinical denials).



Employee Retention & Training

Health systems are struggling to find and retain qualified staff due to ongoing labor crisis. In addition, there is significant cost associated with hiring and training new revenue cycle specialists, who require months of education and learning in order to understand the intricacies of their functional role in the provider specific environment. Health systems offer generous benefit programs that make it more expensive to retain internal staff as compared to vendors that specialize in services or technology.



Information Technology Expertise & Talent

The core competency of healthcare providers is medical expertise, clinical services, and patient care. For most organizations, the only way to leverage the available capabilities of their EMR and ancillary systems to drive efficiency and reduce cost is by hiring an external vendor that specializes in technology and revenue cycle process optimization.



Emerging Automation Capabilities

EMR systems and bolt-on “point” solutions have developed powerful functionality to automate many time-intensive manual processes and increase efficiency and productivity output of patient access, coding, and business office staff. However, these technologies are highly complex and difficult to implement, preventing most healthcare organizations from leveraging capabilities available within the EMR and ancillary systems they have purchased.








COMPETITIVE LANDSCAPE

Market is Fragmented Outside the Top-End

The fragmented nature of the outsourcing market represents a lower barrier to entry than the more established software categories such as claims processing, coding, insurance eligibility, and patient propensity-to-pay. However, several “goliaths” have emerged in the industry, including Optum, Ensemble, Parallon, Conifer, and R1. These companies put an emphasis on Comprehensive Revenue Cycle Outsourcing, attempting to reduce a health system’s cost to collect by a fraction when the entire billing and follow-up cycle is outsourced to them. Vendors are typically paid a contingency fee of between 2% to 5% of the total reimbursement secured on behalf of the health system for claims and patient accounts outsourced to the vendor. Most agreements also include performance guarantees to exceed collections and aging metrics from prior to outsourcing. Most of these large organizations will still offer niche outsourcing options, and therefore remain competitors to smaller firms. That said, large vendor performance in niche outsourcing programs is often suboptimal.

Many Opportunities within Niche / Partial Outsourcing Segment

Niche/point solution outsourcing is a popular trend in that it allows health systems to identify specific problem areas where their internal staff struggle to perform and outsource the individual functional area to a 3rd party vendor. Leveraging an external partner is often easier to approve than creating new permanent employed positions. Depending on the size of the functional area, outsourcing may not require staffing layoffs or union approval. In addition, leveraging an external partner is often easier to approve than creating new permanent employed positions, assuming the problem area cannot be addressed with existing head count.

Largest RCM Companies by Global Market Share			
Company	Rev. (est)	Mkt. Share	Ownership
 PARALLON	\$1.5B	11.8%	HCS Healthcare
 R1	\$1.47B	11.6%	Intermountain Health
 CONIFER HEALTH SOLUTIONS	\$1.3B	10.2%	Tenet Healthcare
 CorroHealth	\$855M	6.7%	The Carlyle Group
 ENSEMBLE HEALTH PARTNERS	\$700M	5.5%	Berkshire Partners
 Guidehouse	\$500M	3.9%	Veritas Capital
 OPTUM360	\$250M	2.0%	UnitedHealth Group
MED·METRIX	<\$100M	0.8%	A&M Capital Ptnrs. Hackensack Health
Total (RCM Giants)	\$6.7B	53%	

Source: Cherry Tree Research, Capital IQ: 02/01/23

Recent M&A Transactions		
Date	RCM Buyer	Company Acquired
01/09/23	Rsi	Invicta Health Solutions
12/05/22	JP Recovery Services	Meduit
10/25/22	MedTek	National Medical Billing Services
10/07/22	Amplus	RSource Healthcare (Knowtion Health)
10/03/22	Optum	Change Healthcare
09/22/22	Kaufman Hall.	Claro Healthcare
08/11/22	GrowthCurve Capital	Revecore
06/23/22	Linden Capital	Aspirion
06/21/22	R1	CloudMed
05/25/22	CorroHealth	Aergo Solutions

Source: Cherry Tree Research, Capital IQ: 02/01/23

NICHE SEGMENT OVERVIEW: BACK-END RCM FUNCTIONS

Important Niche Outsourcing Functions



Denied Claims and Appeals

One of the most complex follow-up areas for a health system to manage. Many organizations outsource all denied claims within 60 days if not resolved in-house.



Underpayment Review

Although many health systems are able to identify under-payments, almost no health system effectively balances the under-payment workload against their denial and follow-up work.



Specialty or Service Line Specific

Some specialty services have complex, billing requirements unique to only one clinical area. Providers often outsource RCM functions for these specialties to an external vendor.



Insurance Follow-up

Most providers leverage a vendor(s) to perform some follow-up and collections activities for a subset of their unpaid claims. This function has several sub-categories (see below).

Insurance Balance Collections Sub-Categories

Low-Balance and Aged Insurance

Many health systems outsource a portion of their unpaid claims to a third party, typically for lower value accounts with small or aged open balances, however, there are few vendors that focus on this space.

Payer Specific

It is common to outsource claim follow-up for only a subset of "difficult" payers or health plans to external expert. Examples of this include Out-of-State Medicaid, Veterans Affairs, & international patients.

Car Accidents / Third Parties/ Workers Comp

These types of claims are complex enough that niche vendors have managed to focus solely on billing and follow-up on these account populations. Many vendors will focus on all three areas [MVA, TPL, W/C].

Denied Claims Management and Appeals

Denied insurance claims are often one of the most complex follow-up areas for a health system to manage (and a great opportunity for automation as mentioned above). Without strict prioritization protocols and productivity monitoring, this area can lead to significant cash reductions and AR increases. Additionally, most organizations struggle to obtain quality root cause analysis reporting to identify and stop upstream causes of denials. Moreover, payors constantly change requirements and use denial remittance codes inconsistently, leading to a need to constantly adapt and change approaches on the provider side. To reduce the headaches, many organizations outsource some aspect of their denial work. A common approach is to attempt to resolve a denial through 1 or 2 appeals internally, and then off-loading to a focused group (e.g. STAT Revenue) to layer on more aggressive tactics with the payor.

COMPANY SPOTLIGHT:



ParaRev is a Revenue Cycle Management (RCM) outsourcing partner that specializes in insurance AR recovery and denied claim resolution across all payer and denial classes. ParaRev has developed a proprietary RCM technology platform that it leverages to optimize and automate the claim follow-up and collections process.

Underpayment Review

Many organizations will fail to review any underpayment less than \$1,000, leaving plenty of room for an external partner to improve collections. Underpayments can often be confused with denials, but are a separate classification. An underpayment occurs when a payor pays a claim without any indication of a denial, but the payment amount does not match the expected contracted reimbursement for the services. Providers use their EMR or external contract management system to compare payments to the calculated contractual terms in order to identify and flag claims that were underpaid. Most health systems are unable to address all of their underpayments due to inadequate staffing. Health systems prioritize unpaid and denied claims, and typically ignore some or even all of their identified underpayments.

Underpayment consulting companies like Triage Consulting may charge 20% or more on additional reimbursements identified. Many of these organizations work on zero balance accounts to retroactively audit for missed opportunities. In essence, once the health system has exhausted their collection efforts, the accounts are extracted to the vendor who looks for common underpaid scenarios, reviews accounts against contracts, and attempts to recoup missed payments.

Another way to consider outsourcing underpayments is to perform the review in real time. If a health system has a contract management system, you can typically flag underpaid accounts that do not have any denials and have those routed to a specific work queue or report. An outsource agency (or internal staff of course) can review these accounts prior to allowing the balance to move on to secondary insurance or self-pay. Alternatively, for lower balance underpayments, you could allow the balance to move on in the billing cycle while performing follow-up with the primary payor.

COMPANY SPOTLIGHT:



Savista is an RCM outsourcing company that specializes in Denials management and zero-balance account recovery. Savista leverages clients' existing EMR platform, integrating directly into existing RCM structures, thereby avoiding time-consuming implementation and data integration requirements.

Clinical Specialty / Service Line Specific

Some specialty services (ex. anesthesia) have complex, billing requirements unique to only that clinical area or specialty. Outsourcing is often the best or only option as providers are often unable to develop and maintain the internal staff and expertise required to perform billing and collections for that specific area. Vendors are able to focus on a single specialty area, creating efficiency and cost advantages.

COMPANY SPOTLIGHT:

AdvantEdge

AdvantEdge serves physician groups, hospitals, and behavioral health agencies, providing RCM services and technology for radiology and anesthesia practices. AdvantEdge staff are experts in the specific requirements for each specialty and the company has developed proprietary technology optimized for these clinical areas.

Insurance Follow-Up

Insurance follow-up is the process of working with insurance carriers on unpaid claims to expedite the receipt of payment. The process includes outbound messaging/statusing (some of which is automated by ANSI 276/277 claims status messages or using tools such as Recondo), managing coordination of benefits, resolving credit balances that exist between different claim and patient balances, collecting additional documentation, rebilling claims as necessary, and coordinating with coding, registration, and other departments on account and documentation updates. Within the insurance follow-up realm there are several sub-categories of niche outsource approaches. A few of the major examples include:

Low-Balance Insurance Claims – Low balance AR organizations focus solely on account resolution for low balance accounts (e.g. under \$2,000). This is typically a high-volume area that often is overlooked by health systems that sort their follow-up efforts based on the highest balance accounts. It is very common to see aging of low balance insurance accounts well beyond 120 days post-discharge. Leveraging a firm that ONLY performs low-balance work (like Professional Medical Services) increases the likelihood that they will actually work your accounts rather than cherry pick higher balances from their other service offerings.

Aged Accounts Receivable – Many health systems look to outsource their aged accounts to a third party, however, there are few vendors that focus only on this space. The higher aging on an account, the higher the contingency fee a vendor can charge, but also the less

likely it is they will collect. If accepting aged AR population, a vendor would likely want to make sure that it includes all denied and underpaid accounts rather than having those outsourced to another group (or maintained internally). Otherwise, it is likely they will receive random clean-up effort accounts that may be better suited for fixed or hourly fee structures.

COMPANY SPOTLIGHT:



Aergo Solutions is an outsourcing company that specializes in recovery of aged insurance AR. A typical client engagement involves recurring placements of unresolved patient accounts with insurance balances once they reach a pre-defined age from the date of services.

Payer Specific Outsourcing—It is common to outsource “difficult” payers to external experts. Examples of this include Out-of-State Medicaid plans and international patients (which may be true self-pay or some form of international insurance coverage).

Motor Vehicle Accidents / Third Party Liability / Workers Compensation – The world of collections for motor vehicle accidents, third party liabilities, and worker’s compensation are complex enough that niche vendors have managed to focus solely on these account populations. Many vendors (e.g. EnableComp) will focus on all three areas. Others (e.g. Continuum) may only focus on one area and attempt to be absolute experts in that area.

Motor Vehicle Accidents – this involves ambulance and emergency care for victims of motor vehicle accidents. There are often challenges obtaining automobile insurance information from multiple members of an accident, determining appropriate fault, and figuring out which auto insurance should pay and when a balance belongs to the health insurer. When done correctly, there is often no balance left for the patient, leading to a significant incentive to the health system to manage appropriately.

Third Party Liability – most commonly, these involve cases such as “slips, trips, and falls” that occur on someone else’s property, leading to a legal claim for support.

Worker’s Compensation – hospital and outpatient visits due to accidents occurring at work require special treatment to make sure the employers worker’s compensation insurance is billed correctly and only very specific (usually not related to the accident) charges apply to the patient.

COMPANY SPOTLIGHT:



Revecore provides reimbursement solutions for specialty claims. The company researches each accident, identifies the various parties responsible for payment of medical bills, and collects on behalf of the hospital from property and casualty, liability, and worker’s compensation carriers and health insurance plans.

PROSPECTS FOR CONSOLIDATION

Consolidation within the RCM Services Segment will Continue, Likely Accelerate

We expect the major consolidating entities (strategic and private equity) to continue aggressively pursuing growth through acquisitions that expand the breadth of their technology and service offerings over the near to medium term. Competition amongst the major consolidating entities will likely escalate over this period as RCM goliath consolidators, backed by PE firms with deep pockets and massive national healthcare systems jostle to acquire the same set of companies within the RCM services and outsourcing segment.

Opportunity for RCM Services Companies to Sell at Attractive Valuations

Competition amongst the major consolidating entities will likely drive up company valuations within the RCM services segment. Businesses that provide technology enabled RCM services and niche outsourced solutions may have a great opportunity to sell at an attractive valuation over the near to medium term.

RECENT OUTSOURCING DEAL ACTIVITY

Date	Health System	Outsourcing Vendor	Deal Description
02/21/23	RSource	Hennepin Health	Hennepin Healthcare selected healthcare revenue cycle management company RSource to provide services for two of its RCM programs.
12/15/22	Luminis Health	VisiQuate	Luminis Health chose VisiQuate to manage its revenue cycle management operations. Through the five-year partnership, Luminis will deploy VisiQuate's denials management, revenue management and reverse analytics tools.
12/01/22	Dayton (Ohio) Children's Hospital	VisiQuate	Dayton Children's Hospital chose artificial intelligence-powered analytics company VisiQuate to provide the hospital with billing analytics. The hospital aims for the four-year partnership to decrease claims denials, accelerate revenue and enable more equitable contractual agreements.
11/29/22	Cornerstone Specialty Hospitals West Monroe	CareCloud	Cornerstone Specialty Hospitals chose CareCloud to handle its revenue cycle management services. Cornerstone aims for the partnership to maximize revenue capture and reduce labor costs and billing errors.
11/02/22	Valley Health System Hospitals West Monroe	Ensemble Health Partners	Valley Health System selected Ensemble Health Partners to optimize its revenue cycle operations. Valley Health said it is working to rebound from financial losses due to lower procedural volumes, supply chain issues and staffing due to COVID-19.
10/20/22	Sinai Medical Group	Conifer Health Solutions	Sinai Medical Group selected Conifer Health Solutions for a five-year revenue cycle management partnership. The partnership involves full engagement, with a focus on clinical documentation improvement and coding.
08/31/22	Emergency Physicians	R1 RCM	Emergency Physicians Professional Association chose R1 RCM to be its exclusive revenue cycle services provider. The independently owned physician group serves more than 600,000 patients annually across 11 hospitals and medical centers as well as three urgency room locations.
08/25/22	St. Clair Health	R1 RCM	St. Clair Health selected R1 RCM to serve as its primary end-to-end revenue cycle management provider for the next 10 years. About 150 St. Clair Health revenue cycle employees will be offered comparable positions, pay and benefits with R1 RCM.
08/04/22	Great River Health	Omega Healthcare	Great River Health sent it is outsourcing medical coding to Omega Healthcare. Omega has offered the 35 affected employees permanent, full-time positions at similar compensation and benefits packages.
07/14/22	Sutter Health	R1 RCM	Sutter Health chose R1 RCM to be its exclusive end-to-end revenue cycle service partner for the next 10 years. As part of the agreement, about 1,150 Sutter revenue cycle employees were offered comparable positions, pay and benefits with R1 RCM.
07/07/22	OhioHealth	AGS Health	OhioHealth announced that 70 revenue cycle employees would be laid off as it outsources those functions to AGS Health. The health system is also eliminating 567 information technology jobs.
05/25/22	CorroHealth	Aergo Solutions	Revenue cycle management company CorroHealth is expanding its services with the acquisition of Aergo Solutions. The deal will help CorroHealth address growing demand for denials management and recovery services, the company said.
05/24/22	Conifer	Brookwood Baptist Health	Conifer reached a multiyear, multifacility agreement with Brookwood Baptist Health, central Alabama's largest healthcare network. The agreement expands the Frisco, Texas-based company's relationship with Brookwood Baptist Hospital and provides services for four more hospitals within the system.
05/11/22	Ensemble	Ardent Health Services	Ardent Health Services, a network of 30 hospitals in six states, expanded its revenue cycle management partnership with Ensemble Health Partners. Ensemble has provided RCM services to Ardent in Idaho, New Jersey and Texas since 2017. The partnership will now include all Ardent markets.

Source: Cherry Tree Research, Capital IQ: 02/01/23

ABOUT NORTHSTAR RCM

History and Background

NorthStar RCM is an advisory and outsourced services firm that partners with healthcare organizations to improve revenue cycle performance and reduce cost to collect. Founded by Cole Christianson in 2022, the business offers services and solutions that leverage technology and operational best practices to eliminate unnecessary manual labor and expensive vendor contracts, while increasing claim accuracy and cash collections. NorthStar's solutions have developed over his 15 years of experience working in both technology and operational leadership roles solving real-world challenges and transforming performance across multiple providers and health systems.

Executive Experience — Provider and Vendor

Prior to founding NorthStar, Cole served as the Vice President of Revenue Cycle at PIH Health, where he oversaw all RCM functions and staff across the health system, including three hospitals, 26 outpatient clinics, a multi-specialty medical group, home health services, and hospice care. After relocating to the Midwest, Cole spearheaded business development for a healthcare consulting startup, Chi-Matic, helping to grow revenue more than 200% while overseeing sales and strategic partnerships.

Technology and EMR Expertise

NorthStar has deep knowledge of healthcare EMR and patient accounting systems. The leadership team includes members who began their healthcare careers at Epic, overseeing the implementation and optimization of revenue cycle applications across a variety of health systems, academic medical centers, and medical groups, including UCLA Health, Gundersen Lutheran, and the University of Kansas Hospital.

ABOUT CHERRY TREE COMPANIES

History and Background

NorthStar RCM is affiliated with Cherry Tree Companies, a private investment banking and wealth management firm headquartered in Minneapolis, Minnesota. Our firm specializes in serving middle market companies and their owners, whether private, public, or divisions of larger corporations. Founded in 1980, Cherry Tree managed several successful institutional private funds focusing on platform acquisitions. Those funds led to more than 300 financings, 26 public offerings, and 41 strategic sales. In 1996 the firm diversified into investment banking services to take advantage of our long history and position in the market. In 2003, we added wealth management to our operations by acquiring and growing our existing business. Our professionals collectively have been members of more than 80 boards of directors, worked with more than 250 different companies, and advised on hundreds of financings and M&A transactions.



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