

# Revenue Cycle Management, Healthcare Billing & Payments

## Sector Spotlight

### Healthcare Investor Interest Turns to Billings, Payments, and Revenue Cycle Management as Technology Innovation Takes Hold

This decade will see perhaps the most significant shift in the Revenue Cycle Management (RCM) industry since its origin, and investors are intent on catching the upside where technology advancements can produce tremendous revenue growth opportunities.

Traditional RCM is being disrupted as Artificial Intelligence (AI) and digital automation supplement and begin to replace inefficient human processes. Automation offers a path to the industry’s Holy Grail—higher collections at lower cost—but brings many challenges: steep startup costs, significant adoption hurdles (in an industry not known for agility), and real implementation risks.

The Cascadia Healthcare team has a core focus on Healthcare Tech, and we’ve kept a close eye on the evolution of RCM, healthcare billings and payments through our direct work in the space. Since the current wave of industry change began in 2018, we’ve talked with hundreds of industry participants, from traditional RCM providers pushing into the digital age to would-be disrupters looking to break into the system from the outside.

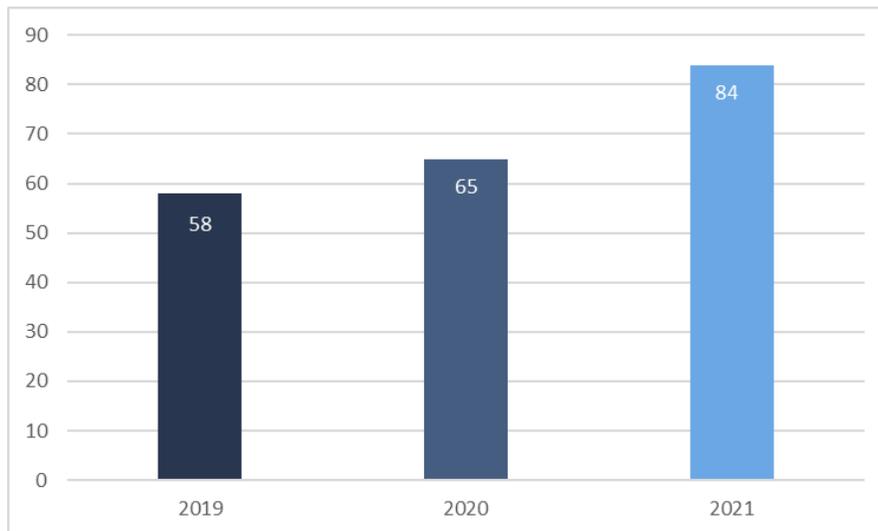
By virtue of our experiences serving as the sell-side advisor to a number of healthcare payments and RCM companies and advising Tegria on the buy-side, our team has developed a clear vision on where the market is heading. The industry is changing rapidly, and we’re at the forefront of the activity with this new wave of consolidation and rush into “intelligent” AI-driven RCM, billings, and payments.

### Select Transactions

 <p>has received an investment from</p>  <p>February 2022</p>	 <p>has been acquired by</p>  <p>June 2021</p>	 <p>has been acquired by</p>  <p>May 2021</p>	 <p>has been acquired by</p>  <p>March 2020</p>	 <p>has been acquired by</p>  <p>November 2019</p>
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## A Closer Look at the RCM, Healthcare Billings & Payments Sector

### Revenue Cycle Management and Healthcare Billings & Payments Deal Count



Source: Pitchbook

### RCM Automation Represents Significant Revenue Upside

From its paper-based roots in snail mail and landline phone calls, RCM has evolved through off-shoring, digitization, and a slow convergence with the digital payments industry. In 2021, when U.S. national health expenditure reached 18.2%<sup>1</sup> of GDP (more than double the 1980 percentage), RCM generated an estimated \$40 billion in revenue.<sup>2</sup>

For healthcare providers, RCM offers an obvious value proposition. Hospitals typically collect 60% to 70% of what they bill; an RCM program typically yields a 2-5% increase in that figure. Managed with efficiency in a system that bills \$3.5 trillion<sup>3</sup> annually, that could mean billions of dollars of additional revenue.

<sup>1</sup> Source: <https://www.statista.com/statistics/934320/us-health-expenditure-as-percent-of-gdp-forecast/>

<sup>2</sup> Source: MarketsandMarkets ([Report](#))

<sup>3</sup> Source: <https://www.singlecare.com/blog/medical-debt-statistics/>

## The Three Stages of RCM Automation

- The lowest-hanging fruit of RCM automation is using computers to read, tally and **automate the standardized billing codes** the healthcare industry relies on to set rates and charges for different procedures. While often maddening and confusing for patients deciphering a bill, there is a central bureaucratic logic to these unique identifiers, set mainly by the federal Centers for Medicare & Medicaid Services (CMS). Moreover, because so many services (and their associated billing codes) are bundled together in specific procedures, automation here can be a real time-saver. Hospitals and healthcare systems often achieve this sort of automation in-house or by partnering with a specialized coding business.
- **Robotic Process Automation (RPA)** is the next level of sophistication. Healthcare providers leverage human knowledge and collection pattern analysis to create sets of rules for computers to follow in handling specific billings. Imagine a hospital system mapping a decision tree: If Patient A has Procedure B and has Insurance Coverage C, then take Action E, but if they have Insurance Coverage D, then take Action F. You can probably visualize the flowchart in your head—now expand it many times over and multiply it by millions of patients. This kind of repetitive, rule-based decision-making is where computers excel. R1 RCM is a longtime player that shifted in recent years to RPA—and has enjoyed significant success at scale.
- The next frontier of RCM automation lies with **AI, Machine Learning (ML), Optical Character Recognition (OCR), and Natural Language Processing (NLP)**. Theoretically, ML, OCR, and NLP can combine to extract information from unstructured data settings—think handwritten notes, voice records, and the like—and interpret clinical terms, predict billing outcomes, identify potential write-offs, catch human errors (like unbilled procedures), or write an Explanation of Benefits. Companies that can successfully deploy this technology into the RCM stack will prevail as the industry continues to shift toward smarter, more sophisticated automation to extract the greatest efficiency and margins.

## Two Models Gain Traction

We see two approaches to automation that seem to be yielding the most significant results. On one side are hospital systems that have kept RCM in house but have been aggressive about investing in automation and patient pay capabilities. Ensemble is an automated RCM solutions provider built inside the multi-state Bon Secours Mercy Health system before it spun out in 2019 with the sale of a majority stake to private equity investor Golden Gate Capital.

Renton, Wash.-based Providence formed its own tech-enabled RCM unit, Tegria, by acquiring four different companies in the RCM space since 2019, all transactions for which Cascadia served as exclusive buy-side adviser.

We additionally see traction via the buy-and-build approach often pursued by private equity investors. They start by buying an old-line RCM player and build by adding specific automations and tech solutions that increase the efficiency and automation of the market-facing RCM solution.

R1 RCM is an example of this approach. The business, founded in 2003 as Accretive Health, experienced serious financial and operational setbacks in the first half of the 2010s. It remade itself via a 2016 RCM

partnership with the private hospital giant Ascension and a \$200 million growth capital infusion from TowerBrook Capital Partners. Since then, R1 (which is now NASDAQ-traded) has acquired:

- Intermedix, an RCM, practice optimization, and data analytics company focused on the physician market that extended the R1 RCM solution from acute care providers to ambulatory care providers;
- SCI Solutions, a patient engagement, and scheduling solution;
- RevWorks, an in-house RCM solution that spun out of healthcare IT provider Cerner; RCM inherited most of RevWorks' existing RCM clients, and Cerner now uses R1 as the RCM solution for its clients and prospects; and
- VisitPay, a digital payment solution provider that gave R1 a more patient-friendly front door for bill payments.
- And most recently, Cloudmed, in January 2022 to expand capabilities with advanced revenue intelligence, automation and end-to-end revenue integrity services.

The VisitPay acquisition, announced in May 2021, was evidence of a broader, patient-focused trend in RCM, an industry that long focused on insurer collections. Now, the goal is to optimize collections from the moment a patient schedules an appointment or enters the hospital door through to payment processing and billing follow-up. R1 and its competitors in the space—companies like Conifer, Ensemble (the Bon Secours spinout referenced earlier), and Optum360—are all taking comparable end-to-end approaches.

A similar dynamic is at play in the appetite of traditional fintech payment processors to acquire medical billings and healthcare payments software providers and other RCM services. These are providers—like Global Payments and JP Morgan Chase—who are already optimizing the consumer payment experience and now want a piece of the massive addressable market for patient payments in the healthcare space.

## Thoughtful Guidance

Anyone who has spent time around the U.S. healthcare system knows that change can be maddeningly slow; just think of how long we've been talking about electronic health records! In the RCM space, though, the digital revolution is finally upon us, and the appetite for change on the part of providers and patients has never been stronger.

If you own a business in or adjacent to the RCM or healthcare billings and payments space, our team is always eager to connect and share specifics about how what we are seeing in the market might help inform the path forward.

Cascadia Capital

# Healthcare Investment Banking Team

## Healthcare Sector Expertise

### Digital Health

- Care Coordination & Practice Management
- Data Analytics & Clinical Intelligence
- Healthcare IT Services & Consulting
- Interoperability
- Patient Engagement
- Pharmacy Tech
- Revenue Cycle Management, Healthcare Billing & Payments
- Simulation & Education Tech
- Telemedicine & Remote Patient Monitoring
- Workflow

### Healthcare Services

- Behavioral Health
- Cardiology
- Clinical Research
- Fertility
- Gastroenterology
- Oral Surgery
- Physician Practice Management
- Primary Care
- Urgent Care
- Women's Health

### Medical Products & Devices

- Medical Devices
- Contract Manufacturing Organizations
- Facilities
- Institutional & Retail Pharmacy
- Lab, Imaging & Diagnostics
- Medical Products & Consumables
- Original Equipment Manufacturers

## Contact the Healthcare Deal Team



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