

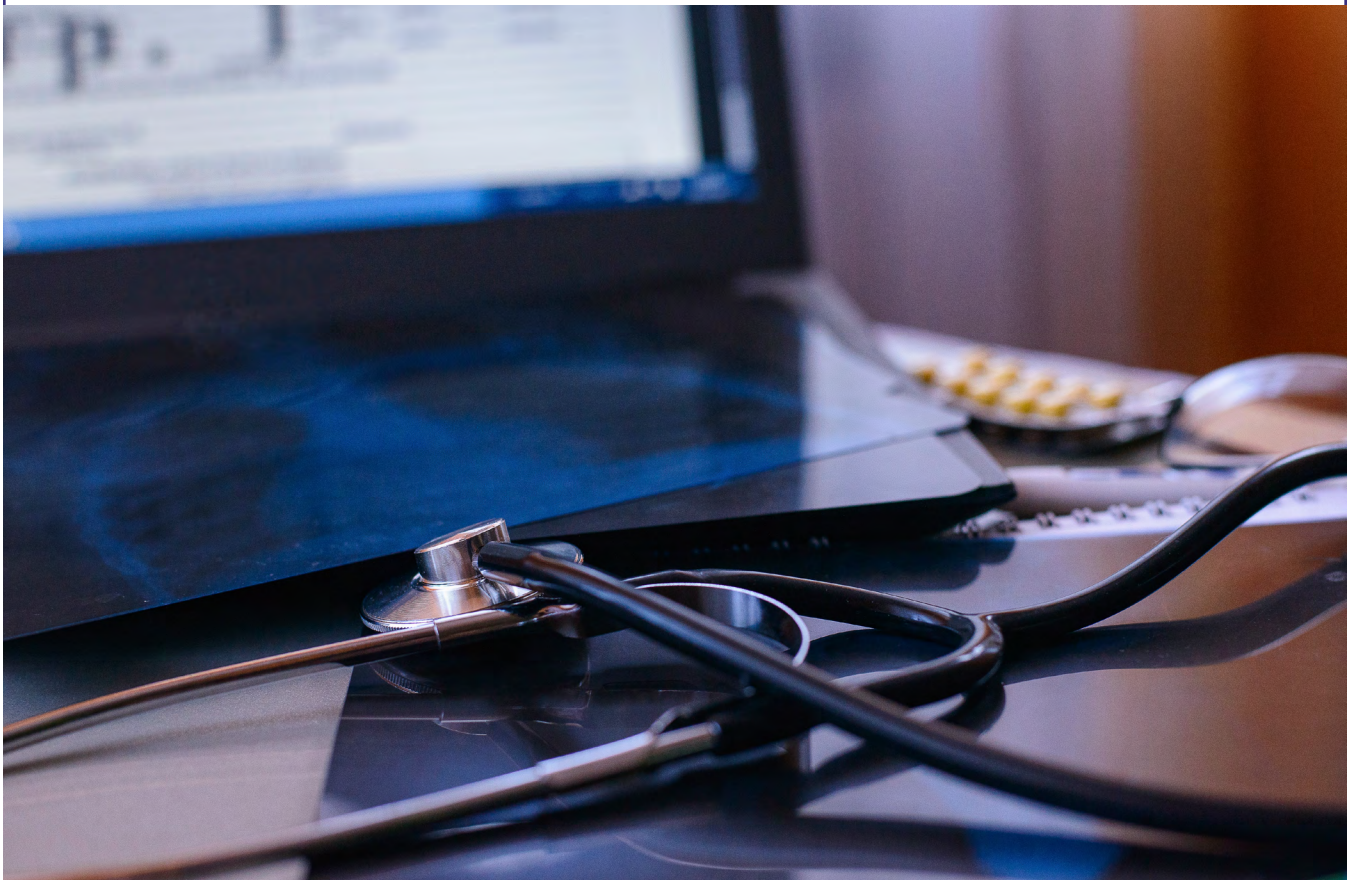
From Fragmentation To Integration: PE Strategies In Healthcare IT



Summary

PE investment in Provider and Payer IT services (together referred to as Healthcare IT Services) surged in 2024, driven by demographic shifts, regulatory evolution, and the digital transformation of healthcare delivery. With over \$1 trillion in dry powder, and after two decades of exponential growth in provider-focused healthcare investments, PE is now zeroing in on healthcare software as the next frontier.

There are three compelling strategic pathways for PE wins in this high-opportunity market: platform consolidation in fragmented markets, tech-enabled value-based care (VBC), and AI-driven operational transformation. Before outlining them, it is useful to review the provider and payer dimensions constituting the Healthcare IT Services value chain.



Overview Of Healthcare IT Services Value Chain

The **Provider IT Services** dimension consists of a set of supporting processes to deliver care to patients efficiently and effectively:

- **Data Capture:** Collect information through electronic health records (EHRs), imaging systems, and diagnostic tools, and then make data interoperable, i.e., shared across systems and care settings
- **Analytics Platforms:** Apply clinical data to deliver insights that support clinical decision-making, identify care gaps, and predict patient risks
- **Workflow Integration Tools:** Align insights from analytics platforms with provider routines, ensuring that technology enhances, rather than disrupts, care delivery
- **Patient Engagement Tools:** Empower patients to participate in their care via tools such as portals, messaging, and telehealth
- **Outcomes Reporting:** Aggregate and analyze performance metrics, enabling providers to meet regulatory requirements and succeed in VBC models.

In contrast, the **Payer IT Services** dimension forms a digital backbone that enables payers to operate efficiently, manage risk, and improve member outcomes:

- **Claims Processing:** Detect fraud, ensure accuracy, and streamline adjudication using advanced analytics and big data tools
- **Risk Adjustment:** Use data analytics to assess the health status of members and optimize reimbursement, especially in Medicare Advantage and Individual segments
- **Care Management:** Coordinate services for high-risk members, often integrating with provider systems
- **Patient Engagement Tools:** Improve satisfaction and adherence, e.g., wellness apps, digital communications, and incentive programs
- **Regulatory Compliance:** Ensure payers meet The Centers For Medicare And Medicaid Services (CMS), Health Insurance Portability And Accountability Act (HIPAA), and The National Committee for Quality Assurance (NCQA) standards through robust reporting and audit capabilities.

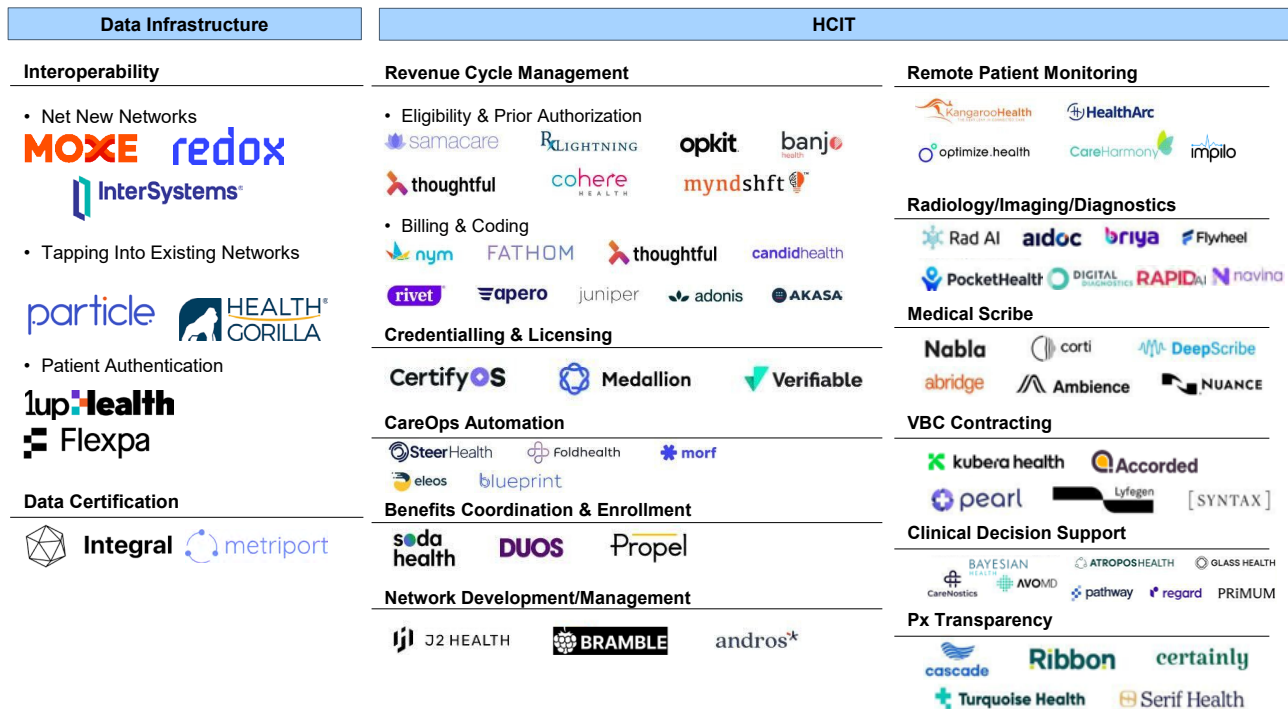


The IT services across these two dimensions are enabled by several data infrastructure solutions and delivered by a variety of ‘point solutions,’ often with an overlap in capabilities (the Exhibit below gives examples of smaller players who are driving innovation).

U.S. Healthcare IT Services Market Is Highly Fragmented

Healthcare Technology Market Map

– Illustrative –



Source: Gotham Consulting Partners Research

3 Strategic Pathways For PE

There are 3 strategies that offer outsized value in the Healthcare IT space:

- 1 Platform Consolidation In Fragmented Markets
- 2 Tech-Enabled VBC
- 3 AI-Driven Operational Transformation

1. Platform Consolidation In Fragmented Markets

Market Drivers

The Healthcare IT Services market remains fragmented, especially in payer services software, Revenue Cycle Management (RCM) and EHR systems, patient engagement platforms, and niche specialties, such as home health, which is characterized by 240+ products, in addition to in-house tools used by many players. As reimbursement pressures increase and healthcare costs continue to rise, demand is growing for integrated platforms that streamline billing, collections, and patient engagement. These drivers have led to a robust deal flow—in 2024, 140+ health IT deals were tracked, making it the second most active healthcare subsector for PE.



Case Example: Nextech Systems acquired by TPG

In July 2023, Nextech, a specialty EHR and practice management software provider, was acquired by TPG from Thomas H. Lee Partners (THL) for \$1.4B. THL executed a roll-up strategy, integrating smaller dermatology and ophthalmology IT vendors to create a unified platform that now services 16K+ physicians and 60K+ staff members. In 2025, Nextech’s EHR system was rated “Best in KLAS” for Ambulatory Ophthalmology Solutions and Ambulatory Specialty Tier Software.

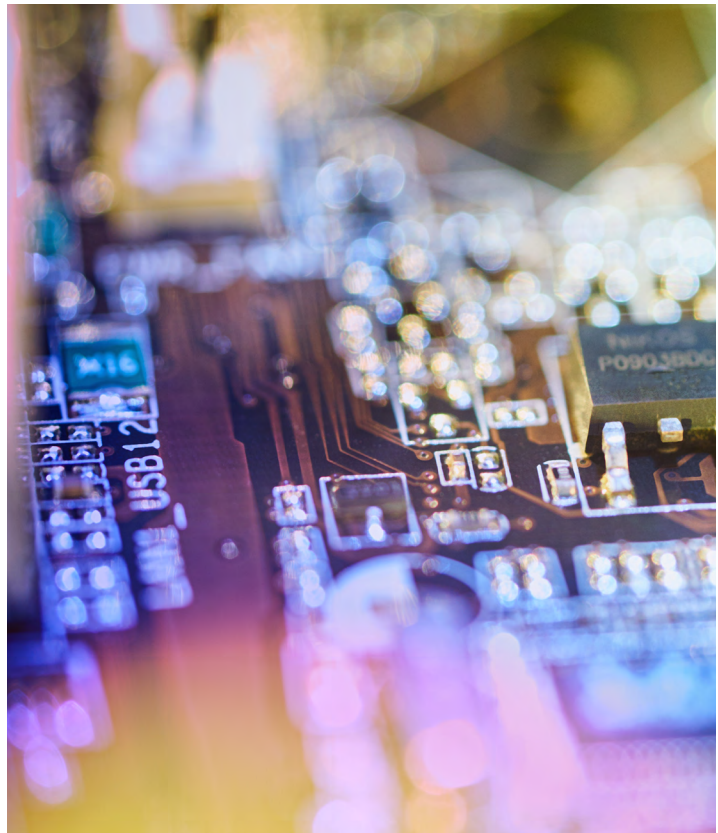
Strategic Playbook

PE firms should consider acquiring niche or regional IT vendors, as consolidating these businesses can lead to margin improvements of 15–25% achieved through efficiencies such as shared services, unified technology platforms, and centralized operations. One particularly attractive area for this strategy is the practice management software market, which includes hundreds of specialized vendors serving outpatient centers, specialty clinics, and small health systems. This fragmented landscape makes it ideal for a roll-up approach. To maximize impact, PE firms should begin by acquiring software players serving a single specialty or delivery modality such as dermatology, home health, or ambulatory care, to build up a customer base within the same vertical. Once the initial platform reaches sufficient scale, it can be leveraged to expand into adjacent areas to drive further growth.

2. Tech-Enabled VBC

Market Drivers

60% of U.S. adults have at least one chronic condition, and healthcare costs are rising faster than inflation. VBC has demonstrated the ability to buck this trend, by focusing reimbursement on outcomes rather than on the quantity of services delivered (as is done under the current ‘fee-for-service’ paradigm). Medicare Advantage enrollment is projected to exceed 33 million by 2025, driving demand for population health tools, with 50%+ of Medicare members expected to be in a Medicare Advantage plan by 2027 per Kaiser Family Foundation. Furthermore, 70% of healthcare leaders believe AI and technology will play a critical role in scaling VBC strategies, particularly as regards risk stratification, care gap identification, and population health management.



Case Example: CardioOne acquired by WindRose Health Investors

In March 2024, WindRose Health Investors acquired CardioOne, a physician enablement company serving independent cardiologists to prepare them for VBC. CardioOne’s integrated technology platform includes RCM, telehealth, patient portals, and advanced diagnostic tools. CardioOne’s support model enables a transition to VBC via remote patient monitoring, population health analytics, and care coordination. CardioOne also provides expertise in securing favorable payer contracting terms, payer relationship management, and contract analysis.

Strategic Playbook

PE firms should invest in platforms that unify clinical data, claims data, and social determinants of health data. These platforms enable real-time analytics, risk stratification, and care coordination—core capabilities for VBC. By consolidating fragmented data sources, firms can create scalable infrastructure that supports multiple provider and payer use cases. Second, they can offer tools that help providers manage risk-based contracts, track quality metrics, and optimize shared savings. By enabling transparent performance tracking and payer-provider alignment, these tools become indispensable in the shift from fee-for-service to VBC. Finally, portfolio companies can increase revenues via partnerships with Accountable Care Organizations (ACOs) or payer programs that support these models, e.g., some payers offer upfront care management fees, performance bonuses, or with capitation payments to providers who take on more risk.

3. AI-Driven Operational Transformation

Market Drivers

Generative AI is being used to automate clinical documentation and reduce physician burnout, and predictive analytics platforms are helping hospitals reduce readmissions by up to 20%. This has resulted in robust interest, primarily by Venture Capital—investments in healthcare AI startups crossed \$8 billion in 2024. Further, many AI platforms operate on a Software-as-a-service (SaaS) business model or usage-based pricing, offering predictable, high-margin revenue streams. Supporting these trends, CMS and FDA are becoming increasingly supportive of AI-enabled diagnostics and care management tools, which will open new reimbursement pathways.



Case Example: Machinify acquired by New Mountain Capital (NMC)

In January 2025, NMC announced the acquisition of Machinify, to build an AI-powered Payment Integrity (PI) platform. This acquisition closely followed NMC’s merger of the Rawlings Group, Apixio’s PI business, and Varis. The combined entity, named Machinify, with over 2,000 employees, will serve over 60 health plans, including 13 of the top 20 payers. This translates into millions of claims processed daily, giving Machinify a distinctive competitive advantage to leverage these datasets in training AI models.

Strategic Playbook

PE firms should integrate AI capabilities into their existing portfolio companies using either a build or buy approach. Further, AI tools can also be deployed across multiple provider or payer systems with minimal incremental cost, making them ideal for roll-up or platform strategies. Finally, PE firms should prioritize strategic focus areas with the highest demand for AI services:

- Clinical AI: Tools that assist with diagnostics, imaging interpretation, and treatment planning (e.g., radiology, pathology)
- Operational AI: Platforms that automate billing, coding, and prior authorization—areas ripe for efficiency gains
- Population Health & Risk Stratification: AI models that predict patient deterioration, readmission risk, or care gaps.



Key Success Factors For PE-Owned Portfolio Companies

To succeed in capturing this Healthcare IT Services Market opportunity, PE firms must navigate several challenges:



1. Regulatory Complexity: HIPAA compliance, The Health Information Technology for Economic and Clinical Health (HITECH) Act, and state-specific laws can significantly impact scalability. Due diligence must include a deep dive into data privacy and interoperability standards.



2. Clinical Workflow Integration: IT solutions must be integrated seamlessly into provider workflows. Poor integration leads to low adoption and churn. PE firms should prioritize platforms with proven clinical usability and provider satisfaction metrics.



3. Reimbursement Risk: Many Healthcare IT platforms rely on payer reimbursement models (e.g., telehealth, remote patient monitoring), underscoring the need for PE firms to assess payer mix and reimbursement stability before investing.



4. Talent and Leadership: Healthcare IT companies struggle to scale due to lack of leadership experience in both tech and healthcare, so PE firms should be prepared to bring in seasoned operators after the acquisition.

Gotham's niche market expertise and fact-based perspective are particularly relevant in the evolving and potentially high-opportunity Healthcare IT sector. To discuss further, please contact:

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About Gotham

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