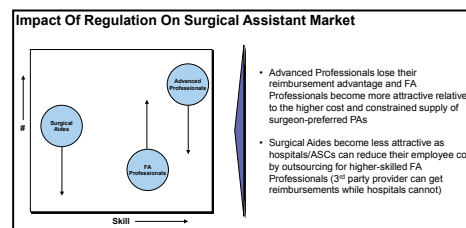


Customer & Market Due Diligence Of Entrepreneurial Healthcare Staffing Services Provider: Validating The Market Potential Of An Evolving Niche

Challenge: A middle-market private equity firm with a focus on healthcare sector was looking to invest in MedServiceCo, an entrepreneurial company operating in an evolving niche in the healthcare outsourced services industry, one primarily driven by state regulations mandating reimbursement by insurance companies. With the objective of uncovering some key facts about this emerging market and establishing MedServiceCo's position in the market, the PE firm asked Gotham to conduct a 3-week customer & market due diligence. Gotham was to focus on the: (1) implications of different professional backgrounds eligible to provide these services; (2) regulatory and reimbursement dynamics of the industry by state and payer type; (3) current competitors and future competitive threats; and (4) size and projected growth of the market.

The Partnership:

Analysis: As this was a proprietary deal with no offering material or data room, Gotham: (1) conducted secondary research to define the market; (2) interviewed industry experts to fill in the gaps in secondary research and validate any emerging hypothesis; (3) interviewed customers to capture their receptivity to the proposed business model; and (4) built a market model to estimate the size and growth rate of this market.



Gotham gathered data from the industry associations and certification authorities to understand the capability of different professional backgrounds to perform the services and their reimbursement dynamics in different states. From a review of state laws and supporting documents, we developed an understanding of the market impact of regulation and identified states with favorable current or pending regulation. The Gotham team also investigated the differences in the reimbursement dynamics between direct contracts with insurance companies and contracts with third-party PPO providers.

To analyze the competitive landscape, the team profiled current competitors and looked at possible future entrants (e.g., other staffing firms, freelancers, physician-employed service providers), and then assessed competitors' strengths and weaknesses versus MedServiceCo. The team then garnered input from industry associations to determine the annual number of individuals from different professional backgrounds entering the market. We concluded that this was a supply-constrained industry: individuals did not have the structural capability to compete in this space as the industry evolves; the business model of other staffing companies did not give them the capability to enter this niche; and physician-employed professionals had low earning potential because physicians did not have the capability to get sufficient reimbursement from the payers for the targeted services.

In parallel, Gotham designed an executed 55 customer interviews to provide meaningful cross-section of views, ensuring diversity by type of facility, size of facility, state, etc. Interviews revealed customer views in their: current arrangements; preferences regarding professional background of the providers; outsourcing trends; reasons for outsourcing or not outsourcing; and greatest concerns holding them back from outsourcing.

To establish market size and growth rates, the team leveraged available government data to build a "medical treatment profile" that classified procedures by codes with a breakdown by type of facility (Hospitals vs. Ambulatory Service Centers), state, and age demographics. In addition, the team mapped the service requirements for each procedure segment. Gotham then built a market sizing model quantifying the demand for this outsourced medical services market and used the model to estimate the growth potential based on various scenarios (e.g., changing regulations, reimbursement dynamics, outsourcing trends, availability of professionals).

Findings: Gotham's market sizing effort established that the current outsourced market size was approximately \$400MM (only about 3-4% of the total potential addressable market size) and was expected to grow at a 17% CAGR over the next 5 years (with a higher growth rate possible depending on regulatory and reimbursement dynamics). Our competitive assessment indicated that service providers accounted for only 25% of the outsourced services market, and included many small players and only 2 sizable players (MedServiceCo being 1 of those and accounting for roughly 10-15% of the service provider segment). The remaining 75% of the market was served by independent professionals, indicating an opportunity for MedServiceCo to grow by signing up these providers. In summary, Gotham established that MedServiceCo, with its leading position in an outsourced services niche still in its infancy, had a significant growth opportunity.

The Outcome: The due diligence findings indicated that the acquisition target was more appealing than originally thought; the PE firm is proceeding with the transaction and is on track to close it soon.