



Episode 135: The Thaw Has Arrived in Provider Services M&A, With J. Kyle Brown

Episode Summary

The provider services M&A market is probably approaching 50% of peak deal volume — well below historical norms — yet [J. Kyle Brown](#) sees real momentum building. Kyle is managing director and lead of the provider services group at [Brown Gibbons Lang & Company](#).

In this conversation with McGuireWoods partner and host [Geoff Cockrell](#), Kyle unpacks how, after holding over a hundred private equity provider services assets for six years, demand finally feels different – the first real shift since early 2023.

They examine the evolution from TopCo MSO equity to near-term incentive structures and discuss which subsectors — ASCs, infusion, ENT, and interventional pain — are drawing the most investor attention.

Transcript

Voice Over ([00:00](#)):

This is The Corner Series, a McGuireWoods series exploring business and legal issues prevalent in today's private equity industry. Tune in with McGuireWoods partner, Geoff Cockrell, as he and specialists share real world insight to help enhance your knowledge.

Geoff Cockrell ([00:20](#)):

Thank you for joining another episode of The Corner Series. I'm your host, Geoff Cockrell, a partner at McGuireWoods. Here at The Corner Series, we try to bring together deal makers and thought leaders at the intersection of healthcare and private equity. Today, I'm joined by my longtime friend, Kyle Brown. Kyle is the managing director and lead of the provider services group at Brown Gibbons Lang. BGL is one of the leading bankers in this arena and we're going to have a fascinating discussion of the state of the market in provider services where we both spend a lot of time. But Kyle, maybe introduce yourself and BGL a little bit and we'll jump into a discussion.

J. Kyle Brown ([00:52](#)):

Yeah. Thank you, Geoff. Always good to be with you and the rest of the McGuireWoods team. We see you guys out there on the battlefield quite often. Thanks for the brief intro. I'll keep it short. Yes, BGL's been around since '89. Middle market investment banking advisory. A firm. We're industry sector focused bankers, about 130 bankers now across the country, product capabilities, spanning sponsored coverage, equity, debt capital markets. Our core focus is M&A both on the buy and sell side on 50% of our mandates, a little over 50 sponsor backed and the rest being founders. So I think that's the lens we'll be looking at is a little mix of both. And like I said, going double clicking into the industry verticals, we've got a healthcare and life sciences vertical, broadly speaking. Then you go a step further into provider land, got a deep commitment there with several bankers that focus specifically on reimbursed services. So glad to be here. I'm looking forward to the discussion.

Geoff Cockrell ([01:52](#)):

So Kyle, in 2020 and 2021, everybody was buying and consolidating provider services in '25, '26, that's not been the case. From a high level view, what's your assessment of the state of the provider services market? And in particular, if you could bifurcate that response to founder sales versus PE to PE sales, what's the market look like to your eye?

J. Kyle Brown ([02:17](#)):

Yeah. And that's a good perspective. So 2021 was white-hot and coming off some pent-up demand from COVID. So we think of the market that we would all like to be in. I think some combination of 2021, 2022, and probably 2019. So if that's our base case, we are probably approaching 50%, which is historically bad. However, there's a lot of momentum. So 2023, '24, '25 in provider land, we're very weak in terms of deal volume. No surprise. This year into 2026, about at the midpoint. So there's insufficient data, which is somewhat frustrating or at least insufficient publicly, but there is a lot of activity. Deals are coming off of hold that have been on hold for even a couple of years, mandates that were awarded and just the market was not open. And so the insufficient data were how many of these had they tested the market? How many were on hold? But the pitch activity and the first quarter in particular massive somewhat slowed, but there's a lot of things now as we're approaching the back half of the year that are either in workup or about to come to market.

([03:36](#)):

So we would like to see more trades. There are some larger deals that are approaching the finish line. I would just say to your point specifically, Geoff that ... Now if I say five for founders ... And I'd say that probably just size driven more so. Founders, there's been a more active market for add-on activity, the strategics that's been driving a lot of ... They've been the culprits of the deals. So HCA, even doing another urgent care deal. That's great. But there are probably like a six or a seven. The sponsor to sponsor trade has still been few and far between. However, I will say that a lot of that

activity, it's going on right now. We are expecting a bigger second half than the first half of this year, certainly bigger than the second half of last year.

[\(04:31\)](#):

That's going to be driven by sponsor exits. There's now, look, approaching over a hundred private equity provider services, deals, assets rather, that are over six years in hold. And one thing is the LPs have been patient, but we are well past the one to two year COVID hold pass, if you will for hold periods. So product that needed to move, change hands in 2024, 2025, now 2026. So 2024 and 2025, a lot more conversation, a lot less action, quoting Elvis Presley there. But now you are seeing actual movement and we're excited to see some of these prints and for the everybody to start to feel that yes, there is more of an active market for the sponsor to sponsor exits.

Geoff Cockrell [\(05:29\)](#):

And we're in the same boat in the sense of great deal, mediocre deal, the same for what our jobs do in the midst of that. But focusing a little bit on the sponsor-buyer side, is the deal activity being pressed by need to sell or are you seeing changes in demand? Because I see lots of need to sell. Some of it distress, some of it's just time. But from your eye, are you seeing a change on the demand side or is it just a change in demand once prices change?

J. Kyle Brown [\(06:01\)](#):

That's a great question. I think it's probably threefold. So we'll get to the demand, but yes, just on the supply first, the strategics that may even larger sponsor back strategics that would be categorized as stuck, can't get the big recap that they were probably seeking and are hoping will be back on the table here in the very new and very near future. They sat around in 2024 and said, look, we need to show growth. And so they have been the middle of founder exits and perhaps distressed assets. So that market has been open. The supply is driven by, yes, a touch of distress but really more hold period for sponsors. And for sponsors and founders alike valuation expectations have eventually come down a touch so that has opened up supply.

[\(06:58\)](#):

On the demand side, you can only wait so long ... And sponsors have money burning holes in their proverbial pockets. And so from the demand side, I think relatively speaking, more attractive prices, that helps with the demand. Also, there's a little bit of this AI overture and back to services, a whole, because providers will be the beneficiaries of some of this AI craze. And so we've seen and heard from a number of sponsors that are back risk on. And I would also say because couple years ago, more so some of the consumer funds ... Not the healthcare services exclusive players, reimbursed services folks. Some of the consumer folks because tariffs were hurting consumer products were in the gut, unfortunately. And now you're seeing some of these folks that were more tech enabled that are getting nervous, software services have experienced ... Know of healthcare and are taking a harder look now at provider, which historically have been great businesses. I think there's been an

inability to exit in the past couple years unfortunately and/or some of them were purchased at a time where valuations were very, very steep and there's a lot of leverage on the business.

[\(08:20\)](#):

But fundamentally there are legitimate tailwinds that make these solid businesses. You see it, Geoff, more so than me, some of these cycles of sponsor interest and it's good for the first time in three years for there to be legitimate demand out there. And I do want to caveat that, that I'm not saying we're back up front, but it feels different, not just people saying it's different, but it actually feels and there's activity that there is a different state of demand than there has been since early 2023, late 2022.

Geoff Cockrell [\(08:57\)](#):

Kyle, from where you sit if I look back at the platforms that have struggled, one through line on the struggle has been difficulty in achieving provider alignment. A lot of that is economics. Some of it is culture and the ability to have a central company as opposed to a whole bunch of disparate parts. From where you sit, are you seeing evolutions on how folks are thinking about provider alignment, especially against a backdrop of the initial sell to a lot of these providers was keyed around secondary bytes at the apple. A lot of these platforms have been held for a long time and so that promise is feeling a little distant. How are folks re-envisioning provider alignment and how central when you're out in the market is that topic?

J. Kyle Brown [\(09:45\)](#):

Yeah. It is on the minds of all constituents from advisors to clearly physicians, more so for the founder-owned folks, but then also for those that are within sponsor-backed platform. And the evolution has been very interesting because we'll call it 10 years ago, 10 to 15 years ago it was all about TopCo MSO equity. And let's let it ride for five years and triple our money. And at that time that was ... Right. Think about it. Geoff, what, '15, '16, '17, '18. Big years for sponsor entrants into a multitude of provider sub-sectors. And so at the time there wasn't sufficient data to say, "Oh, how have these performed?" And the market all coagulated on MSO TopCo equity. And so that has been at least in the eyes of some physicians as these exits the second bite has prolonged, it's caused some skepticism, right, wrong or indifferent.

[\(10:58\)](#):

So over the past 10 years, the investor sentiment went to, okay, maybe more near term incentives, which would be akin to JVs and surgery centers. A lot of the work we do with just surgical specialties in general. And so those can distribute quarterly, even monthly and so you're not waiting. You may be bought out for a fixed multiple, but you get more near term incentives. And so the market, we're talking about the evolution from MSO to ASC focus and you're seeing more folks a key trend, more sponsors, more strategics be flexible on where the equity and the economic alignment is with their physicians. So some folks can have a sliver of a local surgery center, but also the MSO. It's not this

one size fits all having more flexibility to say a combination of, "Hey, let's show that we're in all this together. We want you rowing the boat for the greater organization, but then also let's make sure that you're comfortable here and can go be a champion of the platform because you're getting, call it above market comp because you are an owner and have a sliver in some of the surgical ancillaries that you're getting on a monthly or quarterly basis."

Geoff Cockrell ([12:16](#)):

Yeah. Very consistent with what I'm seeing and to frame that a little differently, one of the through lines of successful alignment has been trying to find ways to focus on current compensation as opposed to heavily weighting alignment in some sort of back event. And then the second one is finding ways to connect them economically closer to things that they can actually impact. I'm pretty creative with a pen. And so we're seeing lots of interesting approaches, whether I've drafted a TopCo tracking stock that connects down. You can be very, very elaborate and precise with phantom equity, which enables you to get very, very surgical on how narrow of a business subunit you're talking about, but building mechanisms that are both current and as local as you can get and want to get. That's been a real through line of things that have worked well.

J. Kyle Brown ([13:09](#)):

Actually, Geoff, a question to you because you're seeing as much if not more than we are, especially across McGuireWoods' platform. So the second liquidity event, where are you seeing equity percentages for the go forward here's the physician contingent? Because I think we were all accustomed to more of these founder back five, 10 plus years ago, even up to like the 60/40 deal retaining 40. And then you get along and we're seeing that equity retained dwindle, not in a bad way. And I'm curious as to where you're seeing your sponsor clients when they're exiting, how much the next buyer is requiring for physician ownership.

Geoff Cockrell ([13:47](#)):

You mentioned like the late teens, this was a topic that wasn't even in the HoldCo operating agreement, but it absolutely quickly became a part of it and is now part of every single one. And that is in connection with a subsequent sale, a mechanism that's going to require the doctors to roll a portion of their rollover. And that is usually somewhere between 30 and 50% that they're going to have to roll of what they own at the time of the event. But even there, you're talking about separating alignment because every time that happens and may happen a couple of times if you're only rolling 30% and then rolling 30% again, your percentage is going to get small. And so finding ways that are more resilient to subsequent buyers being able to maintain that alignment, that's been one of the benefits of some of the comp models that are the EBPC where their current comp is set up in a way that enables it to grow based on performance of the overall or entity or more likely the narrower portion of the entity that they're working in. But that ability to grow becomes an alignment construct that survives through a sale, which is why I'm a fan of phantom ideas where you can have versions of equity distributions that are framed as compensation.

(14:59):

You can have versions of sale economics that are also baked into that plan. You can also set it up so that it kind of carries through a subsequent sale. So having something that is resilient and enables a seller to deliver the full array of provider alignment through the sale, whereas the traditional models of TopCo equity, you're constantly chipping away at that. So that's been a nut that people have been trying to crack for a while.

J. Kyle Brown (15:25):

Yes, sir.

Geoff Cockrell (15:26):

Kyle, maybe taking us a little different direction, separating this into sub-sectors. So not everything is the same and some areas are of greater interest than others. There's been new buyers emerging in some, but those are limited effect like drug manufacturers viewing certain specialties as a mechanism for an enhancing distribution, but that's a pretty narrow subset of platforms. What areas within provider services have either new or more resilient demand?

J. Kyle Brown (15:57):

And so we were talking about that a little bit before, but ASCs and even multi-specialty. So ASC focused companies. Also infusion, those are on the ancillary side. You hit on, sure, the drug spend, the distributors, so the GIs, urology, oncology, retina, excellent, good for them, but I'm with you. We can just put those off to the side. Then maybe three more that are just somewhat random, ENT, interventional pain, concierge medicine. I'd say just separately that maybe where we've seen stuff cool off is the value-based care standard primary care folks. And I'd say more so they're just harvesting. There was a lot of investment there and then maybe just not the craze, but I think largely we're seeing attention shift elsewhere.

Geoff Cockrell (16:42):

On the ASC side, we see similar things. And one of the drivers to my mind is that once you get to scale ... So if you've got a broader platform that has practices across a region, maybe own several ASCs, depending on how they were set up on the front end and it can impact what you can do on the back end. But one of the ideas that people have been exploring is different forms of joint ventures with national ASC management companies, joint ventures with health systems, an idea that improving the reimbursement that some of those participants have also enables you to continue building ASCs in ways that can move procedures out of the hospital. So it sounds like it's a rent seeking activity that you consolidate and partner with somebody who's got higher reimbursement rates that must be bad for the system. But the reality, and I think the data supports this, is that those

higher reimbursement rates, what that truly enables is the further development of ASCs, which enables the further movement of procedures out of what is actually the most expensive and cost driving element, which is doing things at the hospital. So I'm seeing tons of interest in doing those deals. They're complicated and hard to navigate, but that has been a real driver of what we're seeing.

J. Kyle Brown ([17:54](#)):

Yeah. And to that, I think one of the concerns is folks ... And I say folks, the investor community. There was some degree of sentiment that it was going to continue the site of service. It's going to get into the office and there's just certain procedures that are not appropriate in office setting. So what we've seen in the past five years is it settle into the ASC setting. Is Geoff completely with you that it's out of the hospital, that's been a great trend. And a lot of folks were like, "Well, it may not stop at the ASC site of service." But also, investors, part of this not surprisingly is that reimbursement in the ASC environment has been on a nice five-year run and with no real headwinds. So it's nice when we work with providers or companies that enable providers and they fundamentally are advanced procedure focus or ASC focus and have invested the time and the money and the effort to get up and running in a very safe and effective environment. And to see that CMS and subsequently commercial payers are rewarding that behavior for what they believe and have results showing this is quality, it's efficacious for patients, it's nice when all that comes together.

Geoff Cockrell ([19:13](#)):

Kyle, we could talk about this for quite a while. We've both lived in this space for a long time, but I think that's probably us running out of time. I want to really thank you for joining me. It's always a blast to talk to you. You've got a lot of expertise and experience and a lot of ability to see the market and it's super interesting and just thanks for joining.

J. Kyle Brown ([19:31](#)):

Yeah. Always a pleasure and look forward to seeing you in Chicago soon.

Voice Over ([19:38](#)):

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