

2024 Healthcare Industry Outlook

By Todd Zigrang, MBA, MHA, FACHE, CVA, ASA, ABV

Nearly one year removed from the end of the COVID-19 public health emergency, the healthcare industry expects a number of new opportunities in 2024, despite lingering challenges from the pandemic. Healthcare organizations anticipate workforce shortages and legislative challenges; however, the industry also expects that opportunities emanating from technological advancements will allow them to grow and transform.

Legislative Landscape

There is talk on Capitol Hill that significant healthcare legislation could be passed in 2024, despite it being a presidential election year. However, the delay in passing proper appropriations legislation for 2024 has resulted in the stalling of major healthcare spending, as well as of numerous programs and bills that need to be reauthorized.¹

Congress has passed a short-term funding bill to extend the federal government's spending authority until early March 2024.² The bill includes numerous healthcare provisions, including extending:

- Funding for the Department of Veterans Affairs (VA) and the Food & Drug Administration (FDA) through March 1, 2024;
- Funding for the Department of Health and Human Services (HHS) through March 8, 2024;
- The Work Geographic Index Floor for Medicare physician reimbursement through March 8, 2024, although the pay cut to physician reimbursement for 2024 was retained; and
- Special diabetes programs, community health centers, the National Health Service Corps, and the Teaching Health Center Graduate Medical Education Program through March 8, 2024.³

Despite these extensions, the appropriations legislation leaves many other healthcare priorities untouched, such as stiffening pharmacy benefit manager (PBM) regulation, mandating greater pricing transparency in healthcare, and increasing telehealth access.

AI Implementation

Artificial intelligence (AI) is expected to present both challenges and opportunities to the healthcare industry in 2024. Healthcare executives agree that many of the industry's most important issues – patient wait times, claims, staff burnout, and access – could potentially be addressed with AI and ultimately change the way healthcare is delivered.⁴ However, AI is largely unregulated, leading to concerns regarding the technology's risks and the lack of regulatory scrutiny.

1 "PBMs, telehealth, transparency lead Congress' 2024 to-do list" By Michael McAuliff, Modern Healthcare, January 3, 2024, <https://www.modernhealthcare.com/politics-policy/pbms-medicare-pay-telehealth-congress-2024> (Accessed 1/8/24).

2 "House clears stopgap funding extension into March" By Aidan Quigley, Roll Call, January 18, 2024, <https://rollcall.com/2024/01/18/senate-passes-stopgap-funding-extension-into-march/> (Accessed 1/19/24).

3 "Hospitals, community health centers get reprieve from Congress" By Michael McAuliff, Modern Healthcare, January 18, 2024, <https://www.modernhealthcare.com/politics-policy/congress-stopgap-funding-bill-dsh-cuts-chcs-community-health-centers> (Accessed 1/19/24).

4 "2024 Outlook for Health Care Planning for the Future of Health: Top trends for 2024" By Tina Wheeler and Wendy Gerhardt, Deloitte Health Solutions, December 6, 2023, <https://www2.deloitte.com/us/en/blog/health-care-blog/2023/outlook-for-health-care.html> (Accessed 1/8/24).

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Providers and payors alike are expected to leverage AI in 2024 to enhance provider, member, and patient experiences, while lowering administrative costs and increasing productivity. AI is anticipated to play a crucial role in achieving more affordable healthcare, with estimations showing that the technology could cut annual U.S. healthcare costs by \$150 billion, by reducing the number of treatments, doctor visits, and hospitalizations, as well as by focusing AI on overall health management, rather than disease treatment.⁵

Over the past year, regulators have rushed to develop regulations and guidelines related to AI usage.⁶ In October 2023, President Biden signed an executive order to jumpstart AI regulation; healthcare-specific provisions seek to enable more regulation and oversight on AI usage in the healthcare industry.⁷ As the technology continues to be developed and utilized, new regulations will likely be established in 2024, especially as increased uncertainty may deter practitioners, designers, and health systems from implementing and developing clinical AI models.⁸ While AI will continue to disrupt the healthcare industry in 2024, it aims to ultimately increase the efficacy of healthcare delivery.

Workforce Shortages & Outsourcing

The healthcare industry is in the midst of a critical healthcare workforce shortage that is projected to worsen. By 2030, the U.S. could face shortages of nearly 124,000 physicians and 200,000 nurses; these shortages are due not just to increased demand for healthcare services from the aging population, but also to a contracting supply of providers as a result of the aging healthcare workforce and workers leaving due to burnout.⁹ Consequently, healthcare staffing needs are expected to continue to intensify, as industry leaders struggle to retain and attract talent.¹⁰

More than 50% of healthcare system executives are expecting workforce challenges and talent shortages that will impact organizational strategy in 2024.¹¹ Some healthcare executives are aiming to simultaneously address and reduce clinician burnout, while attracting and retaining clinical staff. Additionally, healthcare employers are expected to turn to off-shoring, outsourcing, and managed care partnerships in order to improve efficiencies, reduce costs, and streamline operations.¹²

5 “Next in health services 2024: Healthcare’s big squeeze and the way out” By Thom Bales and Laura Robinette, PWC, 2024, <https://www.pwc.com/us/en/industries/health-industries/library/healthcare-trends.html> (Accessed 1/8/24).

6 “US FTC opens investigation into OpenAI over misleading statements –document” Reuters, July 13, 2023, <https://www.reuters.com/technology/us-ftc-opens-investigation-into-openai-washington-post-2023-07-13/> (Accessed 1/9/24).

7 For more information, see “Biden Issues Executive Order on Artificial Intelligence” Health Capital Topics, Vol. 16, Issue 11 (November 2023), https://www.healthcapital.com/hcc/newsletter/11_23/HTML/ORDER/convert_biden_exec_order_ai.php (Accessed 1/19/24).

8 “Dr. Watson, A.I.: The Current Approach to Artificial Intelligence Training in the Medical Field and Legal Considerations for AI Diagnosis Dependence” By Allison Newsome and Jasmeet Singh, American Health Law Association, July 6, 2023, <https://www.americanhealthlaw.org/content-library/publications/briefings/d88632df-8f1e-48ce-b5f4-066d19b12aa6/Dr-Watson-A-I-The-Current-Approach-to-Artificial-Intelligence-Training-in-the-Medical-Field-and-Legal-Considerations-for-AI-Diagnosis-Dependence?Token=60909932-7f8c-4a43-97b9-8bcb7e610f4e> (Accessed 1/8/24).

9 “The US is suffering a healthcare worker shortage. Experts fear it will only get worse.” By Alejandra O’Connell-Domenech, The Hill, September 28, 2023, <https://thehill.com/changing-america/well-being/prevention-cures/4225960-the-us-is-suffering-a-healthcare-worker-shortage-experts-fear-it-will-only-get-worse/> (Accessed 1/9/24).

10 “Next in health services 2024: Healthcare’s big squeeze and the way out” By Thom Bales and Laura Robinette, PWC, 2024, <https://www.pwc.com/us/en/industries/health-industries/library/healthcare-trends.html> (Accessed 1/8/24).

11 “2024 Outlook for Health Care Planning for the Future of Health: Top trends for 2024” By Tina Wheeler and Wendy Gerhardt, Deloitte Health Solutions, December 6, 2023, <https://www2.deloitte.com/us/en/blog/health-care-blog/2023/outlook-for-health-care.html> (Accessed 1/8/24).

12 “Next in health services 2024: Healthcare’s big squeeze and the way out” By Thom Bales and Laura Robinette, PWC, 2024, <https://www.pwc.com/us/en/industries/health-industries/library/healthcare-trends.html> (Accessed 1/8/24); “2024 Outlook for Health Care Planning for the Future of Health: Top trends for 2024” By Tina Wheeler and Wendy Gerhardt, Deloitte Health Solutions, December 6, 2023, <https://www2.deloitte.com/us/en/blog/health-care-blog/2023/outlook-for-health-care.html> (Accessed 1/8/24).

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Mergers & Acquisitions (M&A)

Despite market challenges, the 2024 outlook for healthcare deals appears cautiously optimistic. While COVID-19 issues, regulatory concerns, interest rates, and valuation gaps have impacted the sector, record levels of non-traditional deals and capital are expected to drive momentum in 2024.¹³ Larger healthcare organizations have partnered with or acquired non-traditional industry innovators and disruptors (i.e., retail, tech giants, and telecom) as they aim to meet the needs of more empowered healthcare consumers. Some of the new healthcare industry entrants have a stronger focus on consumer needs, and that focus may help health systems transition from their usual business models to offer services that meet the expectations of consumers.¹⁴

Due to increasing regulatory scrutiny of healthcare competition, healthcare organizations may need to take additional steps in structuring deals to appease regulators and allow for potential concessions in the event a merger is challenged by antitrust authorities.¹⁵

The M&A outlook for selected healthcare subsectors is summarized in the below table:

Sector	M&A Outlook
Hospitals	The pace of hospital mergers increased throughout 2023, and many analysts expect more deals in 2024. Many will be driven by hospitals and health systems that continue to face financial pressures, while the financially healthy systems are looking for M&A targets to stay competitive in a rapidly changing healthcare landscape. In fact, 86% of health system executives indicated that M&A activity would have a “great impact” on their 2024 strategy. ¹⁶ 2024 may also see a continuation of the trend of member substitution and debt payoff transactions, rather than cash transactions. While hospital transaction (EBITDA) multiples from cash transactions declined slightly from 2022 to 2023, 2024 valuation multiples are expected to remain relatively stable, if not increase.
Physician Practices	Physician practices should continue to be hot targets in 2024 as rising costs, flat reimbursements, and increased capital requirements for the transition to value-based care make it difficult for independent practices to succeed. Many are looking for ways to consolidate or partner with larger practices or area hospitals. However, private equity remains a significant—if not dominant—player in medical group investments. Due to the economic challenges physician practices confront, M&A activity within the physician practice space is expected to remain strong, with larger groups achieving much higher transaction multiples than smaller groups.

13 “Next in health services 2024: Healthcare’s big squeeze and the way out” By Thom Bales and Laura Robinette, PWC, 2024, <https://www.pwc.com/us/en/industries/health-industries/library/healthcare-trends.html> (Accessed 1/8/24).

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Sector	M&A Outlook
Ambulatory Surgery Centers (ASCs)	Healthcare participants (e.g., hospitals, physicians, private equity) are continuously seeking to grow revenue outside of traditional M&A activities. One option that continues to be popular is acquiring, partnering, and/or establishing an ASC. The number of higher acuity cases that are able to be performed in an ASC or other outpatient setting, such as cardiology and higher-end orthopedic cases, are continuing to increase. With these higher acuity cases, ASC revenue and earnings increase, and as a result, transaction amounts are expected to rise.
Behavioral Health	The attention on mental health is growing, and digital health companies with solutions to address this critical issue are gaining attention. Technological advancements in the delivery of behavioral health on an expanded geographical scope, including teletherapy platforms, mental health apps, and tools for mental health management, are likely to attract significant interest from buyers and investors. There is also an expectation for continued growth in the full continuum of behavioral care, including residential care, partial hospitalization, as well as the full continuum of treatment for depression, autism, substance abuse, and addiction disorders, as a result of the ongoing national opioid crisis and the aftermath of the COVID pandemic.
Other Sectors	Other sectors that for many years have been consistent targets of M&A activity include post-acute care (including home health and hospice), urgent care, dental, and diagnostics (lab/imaging), and are expected to experience an increase in transactions during 2024. M&A activity is expected to encompass not only outright acquisition, but also joint venture models with other providers.

Conclusion

In 2024, healthcare M&A is expected to continue its upward trajectory, and healthcare organizations are expected to continue implementing transformative technology. The industry will likely lean on outsourcing and technology to address urgent workforce needs and satisfy consumers. Legislative challenges may continue to impact the healthcare industry, due to both stalling appropriations bills and the aversion to pushing major healthcare legislation during an election year. While challenges remain, industry experts predict the healthcare industry will experience transformative changes in 2024.