2026

HEALTHCARE PRIVATE EQUITY OUTLOOK & TRENDS

Look ahead with our take on private equity M&A trends in strategic & private equity investing.

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As we step into 2026, the healthcare private equity landscape is defined by both powerful momentum and meaningful constraints. Record levels of dry powder and a growing pipeline of high-quality assets suggest increased deal activity, while stabilizing macroeconomic conditions and the potential for interest-rate relief offer real tailwinds. Yet investors face an environment shaped by intensifying state and federal oversight, evolving reimbursement models, and disciplined pricing pressures—particularly for premium assets. At the same time, AI-driven transformation is reshaping diligence, operations, and value creation across sectors such as infusion therapy, specialty pharmacy, behavioral health, value-based care, and post-acute services. Add in tighter credit markets and the expanding role of continuation funds, and 2026 becomes a year that rewards strategic focus, regulatory fluency, and operational agility.

Read on for the trends and factors we're closely tracking that will shape healthcare investment in 2026.

1. Mixed Signals: Navigating the Crossroads Ahead in 2026

BY ANGELA HUMPHREYS & RYAN THOMAS

As we ring in the new year, the healthcare private equity (PE) industry remains a study in contradictions. While 2025 began with many predictions for robust deal activity, the number of deals during the year remained relatively flat compared to previous years. Following the 2025 JP Morgan Conference, many investors were speculating on "when the dam would break" for deal flow. As one investor recently put it, "there was no dam to break." Despite deal volume falling short of expectations, overall deal value increased significantly, particularly in the latter half of 2025, with the year being defined by several mega-deals. This activity suggests that PE investors remained more disciplined and seemed committed to not falling victim to the 2021 feeding frenzy that led to a record number of deals with all-time high multiples.

Heading into 2026, we are cautiously optimistic as the healthcare PE landscape sits at a crossroads: PE firms are sitting on a record amount of dry powder and a backlog of portfolio assets, yet they face unprecedented regulatory headwinds from federal and state regulators and uncertainties around federal healthcare program reimbursement. PE buyers are also facing tough competition for the higher-quality assets, which makes it challenging to remain price disciplined and find a "good deal" in what should otherwise be a buyers' market. Those funds that lose out either have nothing to put their capital toward or spend a lot of time hoping to find "proprietary" opportunities, which tend to evolve much more slowly and with less quality control, which can easily lead to repriced or broken deals. This has been a big contributor to the lack of volume in the past 24 months.

Several factors, however, suggest that 2026 is well-positioned for a rebound in deal volume. Most notably, PE firms are holding a historic amount (over $1 trillion) of dry powder, and pressure to deploy and return capital has reached an all-time high. This unprecedented accumulation of uncalled commitments and "long-hold" portfolio companies have become a liability for funds that are facing pressure from limited partners to find quality investment opportunities and deliver a return on their investments. As a positive indicator, we are seeing many high-quality assets now being prepped for exit or already testing the market. We are also aware of many firms actively considering "continuation funds" to generate returns while maintaining their best assets and management teams, which is a trend we expect to continue in 2026. Stabilizing macroeconomic factors also serve as an encouraging catalyst for the 2026 investment outlook. Particularly, potential interest rate cuts by the Federal Reserve will facilitate new acquisitions and make leveraged buyouts a more attractive model in 2026. These all points at least, to a more active and optimistic deal environment in 2026.

On the other hand, the industry is facing increased regulatory scrutiny and potential policy shifts, adding uncertainty to the 2026 investment environment. States continue to introduce and pass "Mini-HSR" laws, requiring prior notice for certain healthcare transactions, and in some cases, specifically targeting PE investment in healthcare (i.e., in California). These laws directly challenge the traditional roll-up investment strategy and have significantly extended deal timelines and increased deal costs. Changes to federal healthcare program reimbursement introduced by the One Big Beautiful Bill Act (OBBBA), including Medicaid funding caps, also introduce headwinds for investors, particularly those with Medicaid-dependent assets. Medicare Advantage (and ancillary) markets remain challenged as well.

Ultimately, these mixed signals suggest that while 2026 is by most objective accounts poised for a rebound in deal volume given record-high investment capacity, regulatory headwinds and pricing pressures due to intense competition for quality assets, together with a continued deliberate buy-side approach, may lead to a more modest albeit steady increase in deal volume and value in 2026 than the "flood of deals" predicted in years past. 2026 ultimately may be defined by increasing deal activity for those who pivot away from sectors with high regulatory and reimbursement risk, and toward sectors with less headwinds and clear, predictable cash flows – with the winners having to pay up to play in 2026.

For buyouts, high-margin assets with seasoned management teams will continue to command premium multiples, defining the 2026 exit environment. The other winners in 2026 could be those looking to find good deals in the disfavored markets and sectors, as history has also shown out-sized performance for investments made in such periods, given the inevitably cyclical nature of the regulated healthcare markets. Regardless, there is certainly plenty of opportunity to make 2026 a very active deal year – at least for those who are not faint of heart.

2. Steady on the Rails: Infusion Platforms Continue Their Forward Momentum

BY SHANNON WILEY

Infusion companies promise to be a continued bright spot in transactions in 2026, supported by strong market fundamentals such as robust growth in specialty and biologic therapies, an aging population, and the shift of infusion care from hospital to outpatient and home settings. While the frothiness of the last 18 months is settling for the sector as a whole, premier assets or those with synergies for the acquirer will likely gain competitive interest and pull high multiples. Strategic and financial buyers continue to show interest in omnichannel platforms, home infusion business, and AIC only models. The sale of AOM and Soleo Health in 2025 demonstrates that home infusion holds its own among infusion assets of interest. However, companies looking for valuations heavily weighted on prospective EBITDA may find the market more challenging in 2026.

Looking ahead, 2026 likely will see a handful of solid ambulatory infusion companies being traded, creating the opportunity to expand to omnichannel for existing strategics with a home infusion focus or a solid platform for PE expansion. Favorable macroeconomic conditions, as described above, are expected to benefit infusion players that can demonstrate durable reimbursement and growth prospects. Infusion assets, particularly those other than home infusion, remain fractionalized and ripe for value creation through operational integration, geographic expansion, and technology adoption. Also, given the PE infusion platform transactions in 2024 and 2025, we expect to see continued strategic roll-ups and bolt-on deals.

3. Life in the Fast Lane: AI Poised to Transform Healthcare PE in 2026

BY EMILY BURROWS & TATJANA PATERNO

The pace of artificial intelligence (AI) development and penetration accelerated dramatically throughout 2025, setting the stage for 2026 to mark a pivotal year of disruption across the healthcare sector. This technology is expected to be not merely an enhancement but a catalyst for unprecedented business transformation. Disruption of this magnitude creates vast opportunities for agile investors and companies, enabling scalable efficiencies, innovative care models, and market expansions on a scale previously unimaginable. As PE firms navigate this evolving landscape, those attuned to AI's potential will be best positioned to capitalize on emerging trends, driving higher valuations and strategic pivots in portfolio companies.

Healthcare PE investors have sharpened their focus on AI-driven value creation, a trend that is expected to intensify in 2026. For healthcare services businesses, AI applications will span multiple fronts: enhancing operational efficiency by automating routine tasks traditionally handled by humans; elevating patient experiences through personalized, data-driven engagement strategies that boost satisfaction and adherence; bolstering data analytics capabilities to generate superior enterprise value; and unlocking novel revenue streams via predictive tools and precision medicine. This momentum is likely to fuel a surge in M&A activity, particularly add-on acquisitions where larger PE-backed platforms integrate nimble AI startups focused on diagnostics, value-based care, patient engagement, and supply chain optimization, among others—areas projected to drive broader sector growth and higher exit multiples.

Regulatory scrutiny will shape how AI shows up in healthcare PE in 2026, driving tighter diligence and more adaptive deal terms. The Food and Drug Administration (FDA) oversight of AI/machine learning (ML)-enabled devices is now routine—roughly a thousand clearances and approvals were listed in the FDA's public database by mid-2025—with growing emphasis on change control, real-world performance, and mitigation of bias and data-quality risks. Agencies are also seeking public input on post-market monitoring in clinical settings and pushing greater transparency for generative tools, including in behavioral health. In M&A, expect deeper IP and data-rights audits, compliance-linked earn-outs, and careful antitrust work in already concentrated areas. From a transactional perspective, successful deals will prioritize interoperability standards and cybersecurity protocols to ensure seamless integrations and minimize post-closing liabilities.

While history is yet to be written, healthcare stands to benefit tremendously from continued adoption and strategic leverage of AI, particularly within the PE ecosystem. PE firms that can capture the promise of AI will stand to benefit the most in this rapidly evolving landscape.

4. Value-Based Care Gains Speed in 2026

BY JUSTIN BROWN

Value-based care (VBC) is set to expand in 2026, propelled by policy and payor momentum, growing provider participation, and rapid technological advances. This trajectory will likely accelerate investment not only in sophisticated VBC platforms with demonstrated performance but also among providers with emerging VBC operations and the population health enablement companies and technology developers that support them.

Policy and payor support for VBC continues to build. In just the last quarter of 2025, the Centers for Medicare & Medicaid Services (CMS) Innovation Center announced eight alternative payment models, including ACCESS (which offers new payment pathways for technology-supported chronic care management beginning July 2026), Ambulatory Specialty Model (a mandatory

model for certain specialists beginning in 2027), and LEAD (a 10-year accountable care organization (ACO) program that follows ACO REACH). Commercial payors and contracted employers are also increasing their push for VBC contracts.

This momentum is drawing more providers into VBC arrangements. The growing use of episode-based models for high-volume and high-cost procedures or conditions—which require coordination among primary care providers and specialists and across sites of care—is creating additional opportunities for specialists, home-based care providers, and post-acute care providers to participate in VBC arrangements with payors and other providers.

Technological advances in AI, data infrastructure, and actuarial analytics are improving the predictability and scalability of VBC delivery and the underwriting of financial risk, while also easing administrative burden. These advances can improve care coordinators' ability to close referral loops, support adherence, and ensure that patients are receiving the right care in the right setting at the right time.

To succeed in VBC, providers need expertise in risk-based contracting, population health management, and high-value network formation, along with capital for VBC infrastructure and bearing financial risk. As participation expands—whether by choice or mandate—many providers will seek capital and strategic partners to help them execute.

5. Caution Ahead: Debt Markets Remain Costly & Selective

BY SCOTT REID

We anticipate the market for debt finance transactions in 2026 to be driven by two central issues: the cost of borrowed money and political disruptions. Debt remains expensive (at the end of December 2025, 30-day SOFR hovered between 3.9 and 4.0, which resulted in middle-market Term Loan B facilities with applicable interest rates between 7% and 9%) and market shocks caused by changing political priorities such as reduced federal research support for biomedical research and increased tariffs, add risk to new and existing investments. These issues will affect acquisition financings, refinancings of existing debt, and distressed financings throughout 2026.

Acquisition Financings: Any deal lawyer, banker, or fund manager will say that the acquisition market surged during the second half of 2025. However, because debt remains expensive, debt finance transactions did not surge at the same rate, with buyers instead opting for larger equity investments and increased seller financing. In leveraged transactions, leverage has tended to be lower (1x-3x), as opposed to leverage greater than 4x which is more common when debt markets are more favorable. In addition, buyers have relied heavily on seller financing in the form of seller notes, earnouts, and rollover equity interests. We expect these trends to continue in 2026. Sellers will push for additional rights and protections regarding the seller financing documentation, borrowers will prioritize contingent consideration debt baskets in their credit facilities to allow for continued focus on seller financing in future acquisitions, and lenders will tighten basket thresholds in loan documents.

Refinancings: Because debt remains expensive after a period in the early 2020's with historically low debt pricing, refinancing transactions will remain slow in 2026. Notable exceptions will be (1) refinancings due to 2021 financings maturing, and (2) down-market refinancings as part of distressed debt restructurings. Borrowers who refinance maturing credit facilities in 2026 will likely focus their efforts on preserving the favorable terms they were able to obtain in 2021's borrower-friendly market, and lenders in 2026 will strive to tighten some of the most borrower-favorable baskets, such as certain investment and restricted payment baskets. Unfortunately, we also expect to continue seeing an above-average number of distressed refinancings, especially among borrowers who over-leveraged while debt was inexpensive and borrowers in industries affected by policy changes. In these distressed refinancings, we expect to see borrowers refinancing debt down-market (e.g., from regulated banks to direct lenders) or exchanging portions of debt for equity instruments such as warrants.

Distressed Finance: The policy changes in 2025 sent shock waves through industries with complex international supply chains or disfavored focuses (e.g., vaccine research). Borrowers in these, and many other, industries bounced from amendment to amendment (or forbearance agreements) during 2025 while they tried to recalibrate projections and financial covenants to reflect the structural changes in their industries. We expect borrowers in these industries to continue requiring waivers and amendments from their lenders during 2026, and the question is whether any large lenders will make institutional decisions to withdraw from industries that have become political lightning rods or face regulatory headwinds. At this point, we have not seen major lenders force borrowers to refinance as part of a lender's broader strategy to exit a disfavored industry. As long as that remains the case, 2026 will likely consist of more distressed amendments and out-of-court restructurings where existing lender groups remain involved in the restructured capital stacks of borrowers, albeit with increased equity investments, increased monitoring rights, and reduced debt amounts. We also expect to continue to see lenders "take the keys" in the most challenging cases, perhaps leaving sponsors with a small equity upside, or otherwise force a sale process. But if lenders begin exiting certain industries, we will likely see a surge in distressed refinancings and bankruptcy filings as borrowers are forced to refinance with balance sheets that have not recovered from market shocks caused by policy changes.

6. Different Signals, Same Track: Healthcare Deals Face State-Level Scrutiny

BY LAURA CARRIER, KRISTA COOPER & LARA FLATAU

We expect state-level oversight of healthcare transactions and investments to remain a legislative priority in 2026 as a growing number of states continue to adopt laws requiring pre-closing notice and, in some cases, affirmative approval prior to closing certain healthcare transactions.

These notification regimes authorize the relevant state agency, often the attorney general or health department, to review transactions that would meet statutory thresholds or involve categories of healthcare providers or entities. The requirements vary widely across states, including types of transactions covered, the timing and content of filings, and the scope and depth of agency review. Potential transactions involving PE or similar investors remain squarely in the crosshairs of these regimes. States with more robust rules often demand granular disclosures about the PE sponsor and, in some instances, its other portfolio companies.

As of January 1, 2026, 15 states have enacted healthcare transaction notice requirements, including California, Colorado, Connecticut, Hawaii, Illinois, Indiana, Massachusetts, Minnesota, Nevada, New Mexico, New York, Oregon, Rhode Island, Vermont, and Washington. While the number of states with these notification requirements did not increase in 2025, Indiana and California adopted legislation modifying their existing notification requirements. Indiana HB 1666, which was passed into law in May, modified existing notification requirements for healthcare entities by carving out practices owned by Indiana-licensed practitioners who actively practice in that entity from the notification requirement. California enacted legislation expanding notification requirements to apply to all "noticing entities," which now specifically includes management services organizations (MSOs), PE groups, hedge funds, and entities newly created for purposes of entering into an agreement or transaction with a healthcare entity or MSO, as well as entities that own, operate, or control a provider, regardless of whether the provider currently operates, provides healthcare services, or has a pending or suspended license.

Notably, California and Oregon also enacted legislation in 2025 impacting structures typically used by PE groups and other entities to avoid running afoul of the corporate practice of medicine (CPOM) prohibitions in those states. Oregon, for example, adopted legislation prohibiting mechanisms typically utilized by MSOs to provide administrative services to medical practices. California's enacted legislation codified its existing CPOM doctrine, with PE groups and hedge funds specifically prohibited from contractually or otherwise controlling professional entities.

In addition to state notification requirements related to healthcare transactions, certain states are also adopting the Uniform Antitrust Pre-Merger Notification Act (UAPNA), imposing pre-merger filing obligations for certain transactions reportable under the federal Hart-Scott-Rodino (HSR) Act. These laws impose an obligation on any party making an HSR filing to provide a copy of the HSR Form to the state's attorney general, regardless of the industry, significantly expanding existing notification requirements in these states, which had previously focused on specific industries such as healthcare. In 2025, Washington and Colorado both adopted the UAPNA. Although such laws did not pass, similar legislation was introduced in the District of Columbia, California, Hawaii, Nevada, Utah, and West Virginia.

As the prevalence of state legislation targeting both healthcare transactions, CPOM and antitrust enforcement generally continues to increase, dealmakers and investors should prepare for an increasingly complex regulatory environment, increased deal timeline, and increased transaction costs. Compliance with requirements under these state notification requirements will require a state-by-state analysis.

For more information, please visit Bass, Berry & Sims' interactive healthcare transactions map, where we actively track transaction notification and approval laws.

7. Main Line Momentum: Pharmacy Emerges as a Core PE Track

BY JEFF DAVIS, MIKE HESS & DAWN PEREZ-SLAVINSKI

The $23.7 billion take-private transaction between Walgreens Boots Alliance and Sycamore Partners is widely regarded as the deal of the year – if not the decade – in healthcare PE. This landmark acquisition highlighted one of the best potential paths forward for independent, payor-agnostic pharmacies looking for alternatives to being acquired by large pharmacy benefit managers. The deal also signals a bullish outlook for pharmacy investments: demographic trends, chronic disease prevalence, and payer-driven cost containment make pharmacy a cornerstone of healthcare delivery. For investors, this deal demonstrates the strategic value of pharmacy assets in today's healthcare ecosystem and underscores a broader trend: PE is betting on pharmacy as a resilient, cash-generating segment that will remain attractive into 2026.

In line with these trends, the specialty pharmacy market continues to outperform expectations, projected to grow extensively in the coming years. Drivers include the rise of biologics, gene therapies, and personalized medicine — all requiring specialized handling and distribution, and high-touch patient support. Investors are finding opportunities in platforms that integrate AI-driven adherence and medication management tools, creating scalable models aligned with VBC. Specialty pharmacies' high barriers to entry and recurring revenue profile make it a compelling investment target. With payer incentives favoring cost-effective specialty drug management and manufacturers seeking distribution partners, the timing for PE entry into this space could not be better.

Long-term care and mental health pharmacies are emerging as some of the most compelling investment opportunities in 2026. These specialized pharmacies serve critical populations—elderly patients in skilled nursing facilities and assisted living facilities, and individuals in community-based settings requiring complex psychiatric medication management—where demand is both growing and predictable. With aging demographics and increased prevalence of chronic mental health conditions, these pharmacies offer stable, recurring revenue streams and strong payer support. Investors are particularly drawn to platforms that integrate medication adherence programs, telehealth consultations, and home delivery services, which improve outcomes and reduce costs. As regulatory frameworks continue to favor mental health parity and community-based care, these pharmacy models are positioned for accelerated growth, making this an ideal time for PE to enter and scale these segments.

Although the sector has only gotten stronger, deal-making in the pharmacy space requires sophisticated counsel to navigate increasing regulatory scrutiny. Under the Trump administration, the Federal Trade Commission (FTC) has signaled continued enforcement of merger guidelines, particularly for vertical and cross-market healthcare consolidations. In addition, state-mandated "material transaction" and similar filings invite heightened attention to PE transactions, with regulators closely reviewing ownership structures and potential anti-competitive effects. This creates a more complex environment for PE roll-ups and large-scale acquisitions, requiring careful structuring and clear consumer benefit narratives.

As we plan for 2026, we expect several drug pricing trends and developments to continue driving market dynamics. The long-awaited Medicare Drug Negotiation Program is scheduled to go into effect on January 1, 2026, for the first 10 drugs subject to price caps. By February 1, 2026, CMS will announce the first drugs payable under Medicare Part B for inclusion in the Negotiation Program. The extension of the Negotiation Program into Part B is expected to impact the oncology market and infusion provider margins.

The Administration continues to negotiate direct discounts with drug manufacturers based on international prices, which is expected to further the trend of manufacturers providing direct-to-consumer pricing. On July 31, 2025, the White House sent letters to 17 drug manufacturers giving them a 60-day deadline to lower prices. To date, the White House has announced deals with 14 of the manufacturers and indicated that deals with the remaining manufacturers could be imminent. Under the deals, manufacturers will sell certain products at discounts tied to international prices directly to patients through the TrumpRx website. Medicaid will also access the reduced prices. GLP-1 products also continue to cause activity in the market, particularly in the direct-to-consumer space and with the use of telehealth platforms.

The pharmacy supply chain could be upended in 2026 by the implementation of a 340B Drug Rebate Pilot Program, which will permit manufactures to offer discounted prices under the 340B drug pricing program through rebates instead of upfront discounts for the 10 drugs subject to the Negotiation Program. A federal court has granted an injunction to stop implementation on January 1, as the government planned. If a 340B Rebate Pilot Program eventually goes into effect, we expect the 340B program to continue providing value to safety net providers, but program participants will face increased costs and delayed access to savings. 340B program stakeholders will also continue to look for ways to address the impact of drug manufacturer contract pharmacy restrictions, including by bringing pharmacy operations in-house and outsourcing pharmacy operations to management companies.

8. High-Traffic Zone: Mental & Behavioral Health Draws Capital & Consolidation

BY SHAYAN AHMED & DANIELLE SLOANE

About 23.4% of the U.S. adult population (over 60 million people) and 11.3% of the U.S. youth (ages 11-17) population (about 2.8 million children) experienced mental health illnesses in 2024. Yet, access to mental healthcare remains out of reach for millions of people in the U.S. who need it. In recognition of the continuing need and continued access challenges, in 2025, almost every state has considered and/or passed legislation related to behavioral health. Several states passed legislation focused on parity, while others focused on making behavioral health more accessible within the state.

Of course, where there is need and access challenges, there is bound to be investment and business expansion both in technology to support behavioral health and transactions to expand the scope of service offerings. Transactions and investments in 2025 bear this out. In September 2025, MentalHealth.com announced its acquisition of Therapy.ai, to advance AI in mental healthcare. Similarly, in October 2025, Talkspace acquired Wisdo Health, an AI-powered social health and peer support platform, underscoring the growing role of AI in the sector as investors look for an opportunity to scale.

The pediatric treatment space was a hotbed of consolidation activity in 2025, particularly with respect to autism-related care, where the need is apparent, yet the margins are relatively thin, making economies of scale important. In February 2025, two California autism treatment providers – Autism Spectrum Interventions and Quality Behavior Solutions – combined to form Alongside in early 2025, and later in the year purchased San Diego ABA, an autism services provider in San Diego. Also in February 2025, Nautic Partners acquired Proud Moments ABA, which operates in 12 states. In May 2025, Nexphase Capital acquired Behavior Frontiers, an autism therapy provider operating in 12 states. We are aware of several other potential transactions in the space as well as we cross into 2026. This activity signals a renewed interest by PE investors in the applied behavior analysis (ABA) therapy space.

The examples above are a snippet of the activity in the behavioral health space in 2025, and with significant dry powder, continued fragmentation, and increasing pressures to consolidate, 2026 should be a particularly active year for M&A for the sector. In particular, sponsors are expected to remain highly active as platforms pursue scale, technology-enabled efficiencies, integration of AI tools, and expanded geographic and clinical footprints through continued consolidation.

9. Staying on Track through Headwinds: Post-Acute Care in 2026

BY MEREDITH COLLINS & JON STANLEY

Investor interest in the post-acute and health at home ecosystem remains active heading into 2026, propelled by ongoing site-of-care migration, a year of visibility on the approach of the Trump administration to reimbursement, and expanding use of technology. At the same time, a more disciplined financing environment and a varied rate outlook are pushing buyers to favor scaled operators with proven Medicare Advantage contracting performance, rigorous revenue cycle operations, and embedded clinical quality infrastructure.

Post-acute operators with working age populations faced downward pressure on reimbursement from Medicaid due to eligibility and financing changes under the OBBA that shrank coverage and constrained state payment levers. Home health providers continue to navigate payment-rate headwinds and operational complexity under patient-driven groupings model (PDGM), with a late year favorable update from CMS on the amount decrease for 2026 home health rates. In hospice, investors are attuned to intensified program integrity initiatives, length-of-stay scrutiny, and the practical impact of the aggregate cap. Investors in personal care are closely monitoring the progress of legislatures in selected states on rate increases, as well as federal movement on the reversal of the 80/20 Medicaid Access Rule.

The investment outlook for post-acute provider organizations operating outside of the home—such as skilled nursing facilities and outpatient rehabilitation centers—remains broadly positive but nuanced. Demand is underpinned by demographic trends like an aging population and the increasing prevalence of chronic conditions, which are driving greater utilization of post-acute care services. Investors are also attracted by reimbursement reforms that incentivize VBC and care coordination, creating opportunities for providers who can demonstrate quality and efficiency. Overall, organizations that invest in technology, quality outcomes, managing the organization's participation in shared savings initiatives and integrated care pathways are well-positioned to capture growth in a transitioning healthcare landscape.

Execution risk in 2026 centers on labor, compliance, and payer mix. Sustained workforce constraints in nursing, therapy, and aide services continue to shape underwriting, with outsized value assigned to platforms that demonstrate durable recruiting pipelines and manage turnover. Compliance programs are under a brighter spotlight, with the market rewarding robust internal auditing around eligibility, documentation, marketing practices, and subcontracting arrangements. Buyers are underwriting for audit readiness and post-close remediation from day one.

For PE, the most competitive theses weave together care coordination, payer partnerships, and disciplined integration. Add-on strategies that extend geographic reach and add complementary service lines can unlock margin. Sponsors that pair operational excellence with proactive regulatory readiness are best positioned to convert the resilient demand for health at home into sustainable growth in 2026 and beyond.

10. Keep the Train Moving: Continuation Funds Gain Momentum

BY BRYAN BYLICA

Once considered a near-last resort to optimize investor outcomes by retaining profitable investments for time periods longer than traditional fund structures permit, continuation funds are now seen as a mainstream liquidity solution across PE sectors. The most commonly used structures involve the general partner of an existing fund transferring one or more of that original fund's portfolio companies to a newly formed entity to serve as the continuation fund, to be managed by the same general partner as the original fund. Limited partners of the original fund are given the option to "roll" their indirect interests in the subject portfolio companies into the continuation fund or to sell their indirect interests in the subject portfolio companies in connection with the transaction, in exchange for immediate liquidity. The cash necessary to pay out the selling limited partners is usually provided by new investors who were not invested in the original fund, but who are now acquiring interests in the continuation fund. These new investors are motivated by the ability to invest in portfolio companies with a proven track record, often with a stable management team, under the general partner's continued management. The general partner is typically required to reinvest all or a substantial majority of its carried interest into the continuation fund. Similarly, the portfolio company management team is likewise expected to retain a material portion of their equity and will be limited in the amount of liquidity they can take off the table at the closing of the continuation fund transaction. Each approach is designed to maintain proper alignment between the general partner and the portfolio company management team, on one hand, and the new investors and rolling investors from the original fund, on the other hand.

When executed well, continuation funds can provide investors with optionality unavailable in a traditional PE exit transaction, and they can replenish sponsors' capital reserves without requiring third-party exits from portfolio investments at inopportune times. The benefits of continuation funds in healthcare are particularly compelling given the sector's sustainable revenue models, defensible cash flows, and ongoing consolidation trends. Refreshing a sponsor's coffers with additional unfunded commitments can also provide fuel to pursue the roll-up or de novo strategies common in the healthcare space. However, there are certain potential risks associated with continuation fund transactions, specifically: (1) the possibility for valuation conflicts between selling and rolling limited partners (which often require the general partner to obtain a fairness or a valuation opinion, following a 2023 move by the U.S. Securities and Exchange Commission); (2) the need for certain disclosures to all parties, including surrounding conflicts of interest associated with the transaction (since the general partner is on "both sides"); and (3) the potential for confusion or misalignment regarding changes to carried interest and fee structures from the original fund to the continuation fund.

Over the past decade, continuation funds have evolved from a niche solution into a major force in PE dealmaking. In 2024, a record $162 billion was raised in connection with secondaries transactions, 48% of which were single-asset, general partner-led secondaries, typically raised as continuation vehicles. The momentum of the continuation fund model is unlikely to slow in this volatile economic environment, particularly in the healthcare sector, where the steady pace of acquisitions and the long runway for growth make the continuation fund structure a natural fit for financial sponsors looking to hold onto high-performing assets. Once viewed with some skepticism, continuation funds are now recognized as an increasingly mainstream tool for sponsors seeking to provide their investors with a liquidity option without requiring an untimely exit from any of the existing fund's portfolio investments.

11. Are You in the Middle of the Road?: What the ABA Deal Points Study Says Is "Market"

BY TATJANA PATERNO

The 2025 American Bar Association (ABA) Private Target Mergers & Acquisitions Deal Points Study was published in December 2025. The Study examines the prevalence of certain contract provisions in M&A transactions and is considered the preeminent study of M&A transaction terms. It is widely utilized by attorneys, investment bankers, corporate development teams, and other advisors to determine "what's market" for various acquisition agreement terms.

The latest biannual Study includes detailed data on various negotiated deal points in acquisition agreements. It draws on data from middle-market transactions executed or closed in 2024 or Q1 of 2025 involving privately held targets.

Transactions included in the Study range in size from $25 million to $900 million and represent a broad base of industries, with healthcare/pharma, technology, and industrial goods & services/manufacturing representing approximately 18%, 13%, and 12%, respectively, of the deals analyzed. Notably, lower, middle-market deals ($25 million to $100 million) comprised about 34% of the sample, offering particularly relevant insights for investors in this segment, where transaction dynamics often emphasize risk mitigation and value alignment.

Here are a few highlights from the Study, with a focus on trends impacting lower middle market investors:

1. **Use of Representation and Warranties Insurance (RWI) Surged.** 63% of deals in the 2025 Study referenced RWI, a significant rebound from 55% in the 2023 Study. This uptick reflects improved availability and affordability of RWI amid stabilizing markets, making it a go-to tool for de-risking transactions. For lower middle market investors, this trend means sellers may face less personal exposure post-closing, while buyers can secure broader coverage—often correlating with lower indemnity baskets and caps, facilitating smoother exits and acquisitions in the $25 million to $100 million range. As an aside, RWI underwriters are pitching new products suitable for companies who do a significant number of add-on transactions and are aimed at creating efficiency by derisking these add-ons and streamlining the roll-up legal costs and process.
2. **Prevalence of Earnouts Declined.** Use of earnouts decreased to 18% during the period covered by the 2025 Study, down from 26% in the 2023 Study. This shift likely stems from narrowing valuation gaps as economic confidence improves, reducing the need for performance-based payouts, as well as sellers increasingly displaying more leverage. In lower middle market deals, where earnouts are common to bridge buyer-seller expectations, this decline suggests a move toward simpler structures; however, when used, earnouts often tie to revenue (48%) or earnings/EBITDA (19%), providing investors with targeted upside potential in growth-oriented businesses like technology or healthcare. We do expect earnouts to remain popular valuation compromises for add-on acquisitions, however, where sellers often have less leverage and tend to nonetheless push for the "platform multiples" they read about, which is not typically realistic upfront for smaller tuck-in targets.
3. **Cybersecurity Representations Became Near-Universal.** 89% of transactions analyzed in the 2025 Study included a stand-alone cybersecurity representation, up dramatically from 55% in the 2023 Study. This indicates heightened buyer diligence on data security risks, especially in industries like healthcare and technology.

Over 50 experienced M&A attorneys from prominent law firms across the globe contributed to the Study, including Bass, Berry & Sims member Tatjana Paterno, who co-chaired the Study, as well as firm attorneys Davis Mello, David Venturella and Brad Yenter. To request a copy of the 2025 Study, or if you have questions regarding the Study, please contact us at Healthcare@bassberry.com.

Want to start your new year off right? Check out our quick checklist to see if your healthcare organization has an effective compliance program.

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About the Bass, Berry & Sims Healthcare Private Equity Team

Ranked as the #6 most active law firm in healthcare private equity transactions (PitchBook, Q3 2025), the Healthcare Private Equity Team at Bass, Berry & Sims has served as counsel in hundreds of private equity-backed deals across the healthcare industry. As the third largest healthcare law firm in the U.S. (as ranked by American Health Law Association in 2025), we have long been recognized as a premier law firm for private equity funds investing in healthcare. To learn more about our team, industry experience and value-add, visit bassberry.com/healthcarePE.

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