VALCOR ADVISORS

Q4 2025 HEALTHCARE & PHYSICIAN COMPENSATION MARKET UPDATE

A PRACTICAL ANALYSIS OF PHYSICIAN EMPLOYMENT ECONOMICS, COMPENSATION MECHANICS, REGULATORY RISK, AND HEALTHCARE SERVICES MARKET CONDITIONS.

Prepared for: Health system executives, finance leaders, and legal counsel evaluating physician employment, alignment arrangements, and related market dynamics.

CONTENTS

EXECUTIVE SUMMARY

As of Q4 2025, physician compensation is defined by a widening gap between labor costs and physician reimbursement. National benchmarks continue to show meaningful growth in compensation, yet productivity growth is modest, implying rising compensation-per-wRVU and a higher subsidy requirement for employed models. At the same time, CMS fee schedule reductions and inflation in practice inputs are compressing margins, accelerating physician movement into hospital employment, co-management, and private-equity-backed platforms. These operating pressures coincide with heightened scrutiny of commercial reasonableness and FMV documentation - particularly where compensation includes on-call coverage, medical directorships, or economic benefits connected to ancillaries (ASC, imaging, infusion). For health systems, the practical question is not whether compensation is "competitive," but whether it is sustainable, locally supportable, and defensible under Stark Law and the Anti-Kickback Statute.

KEY HIGHLIGHTS

KEY HIGHLIGHTS ENTERING Q4 2025 UNDERSCORE A MARKET THAT REWARDS ACCESS AND COVERAGE WHILE INCREASING COMPLIANCE RISK:

The margin squeeze is structural: Practice cost inflation and declining conversion factors are compressing professional margins. Health systems increasingly subsidize physician enterprise losses to preserve access, maintain service line capability, and protect downstream capacity.

Compensation is decoupling from productivity: Benchmark data show compensation rising materially faster than wRVUs, driving higher compensation-per-wRVU and pushing organizations to revisit conversion factors, productivity thresholds, and "stacked" add-on payments.

Recruitment is becoming "total rewards": Sign-on bonuses, student loan repayment, flexible scheduling, and documentation support (scribes and documentation tools) are increasingly used to compete without permanently inflating base rates.

Ancillaries complicate the W-2 model: Growth in outpatient migration (ASC/office based labs (OBL), imaging, infusion) creates multi-stream physician economics. Misalignment between W-2 comp, profit distributions, and referral behavior is a common Stark/AKS vulnerability.

FMV opinions are now an operational control: Modern enforcement focuses on commercial reasonableness and defensibility of the business rationale, not just percentile positioning. Strong governance and contemporaneous valuation support reduce risk at renewal and recruitment.

Healthcare platform activity is increasing the outside option: Specialty platforms in ambulatory surgery, infusion, home-based care, and value-based enablement continue to recruit, reinforcing the need for disciplined, locally-supported compensation models.

MARKET CONDITIONS & ECONOMICS

MACRO ENVIRONMENT AND PERFORMANCE DRIVERS

The period is characterized by a "scissor effect": rising delivery costs intersecting with contracting reimbursement. The Medicare Economic Index (MEI) is projected to increase by 3.5% in 2025, while Medicare payment updates have not kept pace over the long term, eroding real purchasing power and accelerating consolidation.

CONVERSION FACTOR PRESSURE AND SITE-OF-SERVICE DRIFT

CMS finalized another reduction in the Physician Fee Schedule (PFS) conversion factor for 2025 (approximately $32.35, -2.83%). Even modest cuts amplify the financial impact of shifts from hospital to outpatient settings, where facility fee economics, staffing models, and physician ownership incentives differ.

DECOUPLING OF COMPENSATION AND PRODUCTIVITY

Across specialties, median compensation rose about 4.9% while wRVU productivity increased roughly 1.5%-2.1%. This implies that compensation-per-wRVU is rising and that "retention premiums" are becoming a fixed cost in employed P&Ls.

RECRUITMENT AS SHADOW COMPENSATION

Rather than continuously raising wRVU conversion factors, many organizations are competing with signing bonuses, loan repayment, and non-monetary supports (call relief, flexible FTE, documentation tools). These incentives have real economic value and must be evaluated for FMV and reasonableness.

Economic indicator	2025/2026 projection/value	Operational implication
PFS conversion factor	2025: $32.35; 2026: $33.4009 (+3.26% vs 2025) (non-qualifying APM participants)	Lower $/wRVU economics; pressure on conversion factors and guarantees.
Medicare Economic Index (MEI)	+3.5%	Practice input costs rise faster than professional revenue.
Median physician compensation growth	+4.9%	Labor cost inflation increases subsidy needs for employed models.
Real Medicare payment change (inflation-adjusted)	~ -29% to -33% (2001-2025)	Long-run revenue erosion accelerates consolidation and alignment.

MARKET CONDITIONS & ECONOMICS (CONT.)

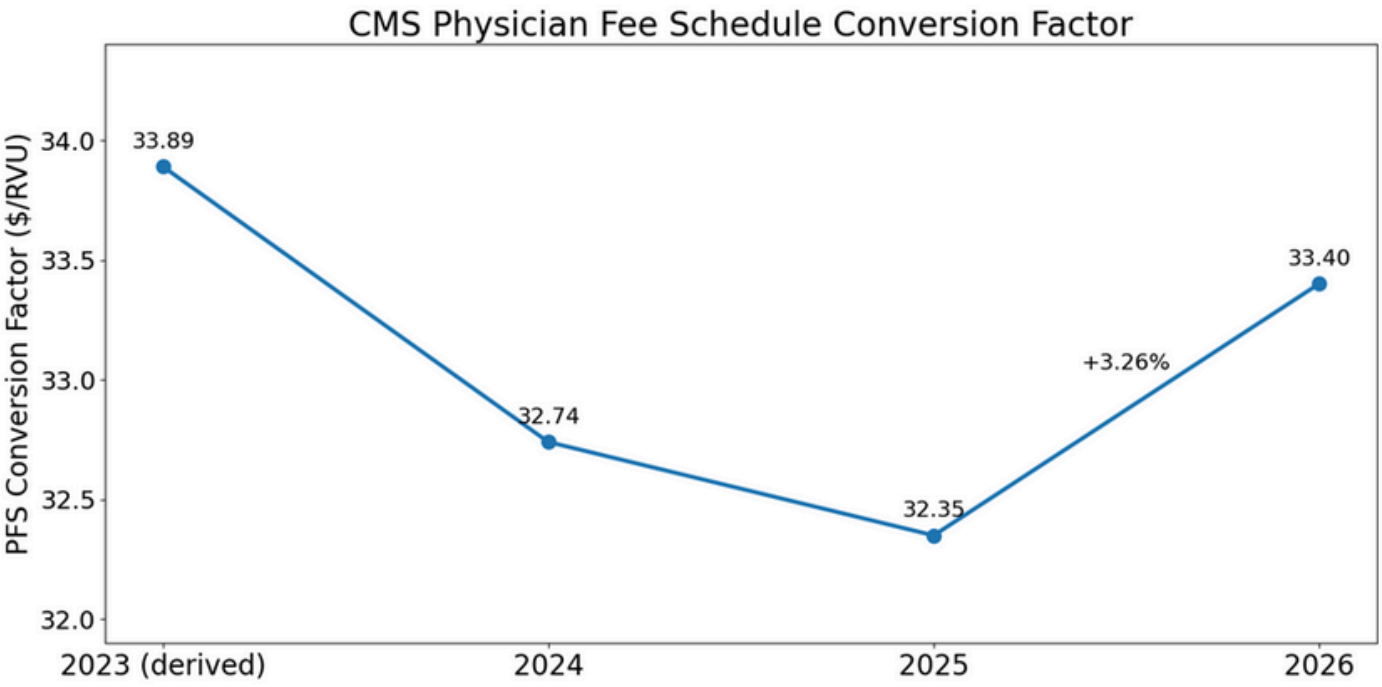


Figure: CMS PFS conversion factor trend (2023 value derived from stated 3.4% decline in 2024).

HEALTHCARE SERVICES & HEALTH TECH MARKET ACTIVITY

DEAL ACTIVITY REMAINS ACTIVE, BUT MORE SELECTIVE

Latest published data through Q3 2025 show steady deal volume and resilient valuation multiples. Entering Q4 2025, buyers emphasize reimbursement durability, staffing models, and compliance readiness.

OPERATORS ARE BEING VALUED ON MEASURABLE ROI

Labor and denial management remain core drivers of EBITDA variance. Technology spend is increasingly underwritten as a productivity investment when it improves documentation, billing capture, and throughput.

OUTPATIENT & HOME-BASED SCALE PLATFORMS CONTINUE TO CONSOLIDATE

Strategic and sponsor activity continues across ambulatory, infusion, and home-based care—settings that compete directly for physician time and ancillary economics. This expands "outside options" for high-demand specialties.

DIGITAL HEALTH FUNDING FOCUSES ON WORKFLOW PRODUCTIVITY

Venture funding is concentrating in platforms with near-term, measurable operating impact (documentation, revenue cycle, analytics). For employed models, these tools affect wRVU capture, APP workflows, and productivity attribution.

Key market indicator	Q4 2025 update (latest published: Q3 2025)
Healthcare M&A volume (LTM closed transactions)	1,056
Median transaction TEV / EBITDA (LTM)	12.77x
Median transaction TEV / Revenue (LTM)	3.54x
Healthcare services PE activity	161 deals
Digital health venture funding (latest: Q3 2025)	$3.5B across 107 deals
Digital health venture funding (YTD through Q3 2025; latest)	$9.9B across 351 deals

HEALTHCARE SERVICES & HEALTH TECH MARKET ACTIVITY (CONT.)

SELECTED PUBLIC COMPS (LATEST PUBLISHED: Q3 2025)

Segment	Company	EV/Rev	EV/EBITDA
Hospitals	HCA Healthcare	2.09x	10.29x
Hospitals	Tenet Healthcare	1.32x	6.17x
Ambulatory /ASCs	Surgery Partners	1.74x	8.53x
Home infusion	Option Care Health	1.03x	14.22x
HCIT/RCM	Waystar Holding	6.77x	19.10x
Imaging	RadNet	3.55x	30.28x

SELECTED TRANSACTIONS (ILLUSTRATIVE)

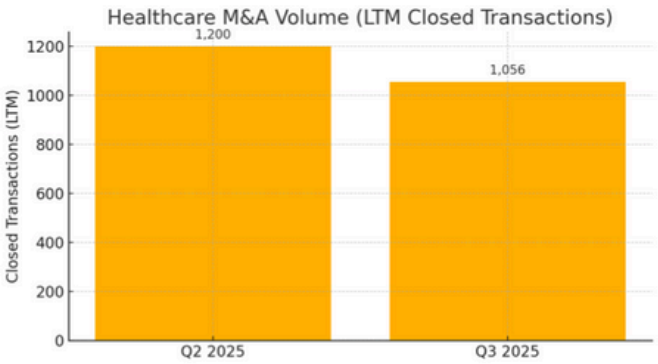
Date	Transaction
Aug 2025	Sycamore / Walgreens Boots Alliance (Up to $23.7B incl. debt)
Sep 2025	Evernorth / Shields Health Solutions ($3.5B preferred)
Aug 2025	Nautic / KabaFusion (~$2.2B reported)
Aug 2025	Optum / Amedisys ($3.3B)
Sep 2025	Privia / Evolent ACO business ($100M + earnout)

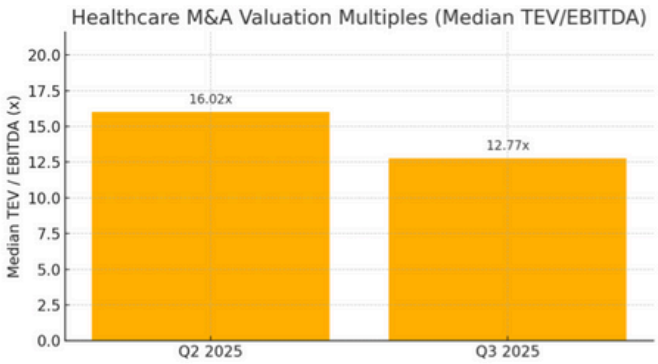
FINANCING ENVIRONMENT (ILLUSTRATIVE, Q4 2025)

Financing parameter	Indicative range	Commentary
First-lien leverage	4.0x – 6.0x	Driven by asset quality, margin profile, and reimbursement exposure.
All-in yield (private credit)	High single-digit to low double-digit	Varies with base rates and underwriting; typically includes OID/fees.
Equity contribution	35% – 50%	Higher for labor-intensive or reimbursement-sensitive models.
Covenants	Maintenance-lite to covenant-lite	More common for scaled platforms with strong sponsor support.
Documentation / diligence focus	High	Payor mix, denial rates, staffing, compliance, and tech ROI cases.

HEALTHCARE SERVICES & HEALTH TECH MARKET ACTIVITY (CONT.)

KEY MARKET INDICATORS (LTM M&A AND VALUATION MULTIPLES; THROUGH Q3 2025 DATA)



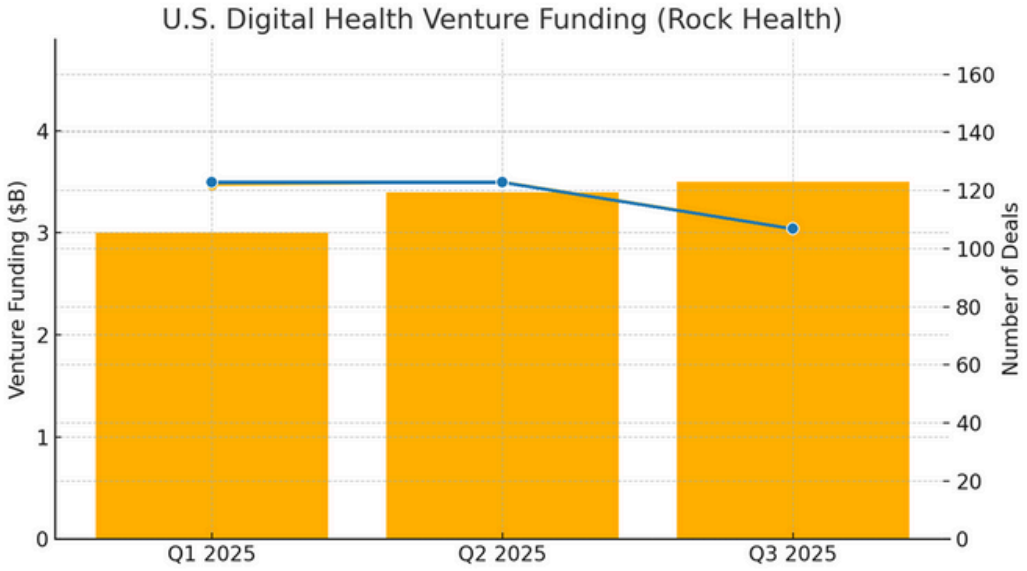


Source: PCE Investment Bankers (healthcare quarterly report; LTM closed transactions and median multiples through Q3 2025).

Implication for physician alignment: Sponsor and strategic platform activity remains selective; post-transaction compensation models increasingly emphasize standardized governance, productivity thresholds, and retention mechanics.

HEALTHCARE SERVICES & HEALTH TECH MARKET ACTIVITY (CONT.)

DIGITAL HEALTH FUNDING AND DEAL ACTIVITY (VENTURE)



Source: Rock Health (U.S. digital health venture funding; quarterly funding and deal counts through Q3 2025).

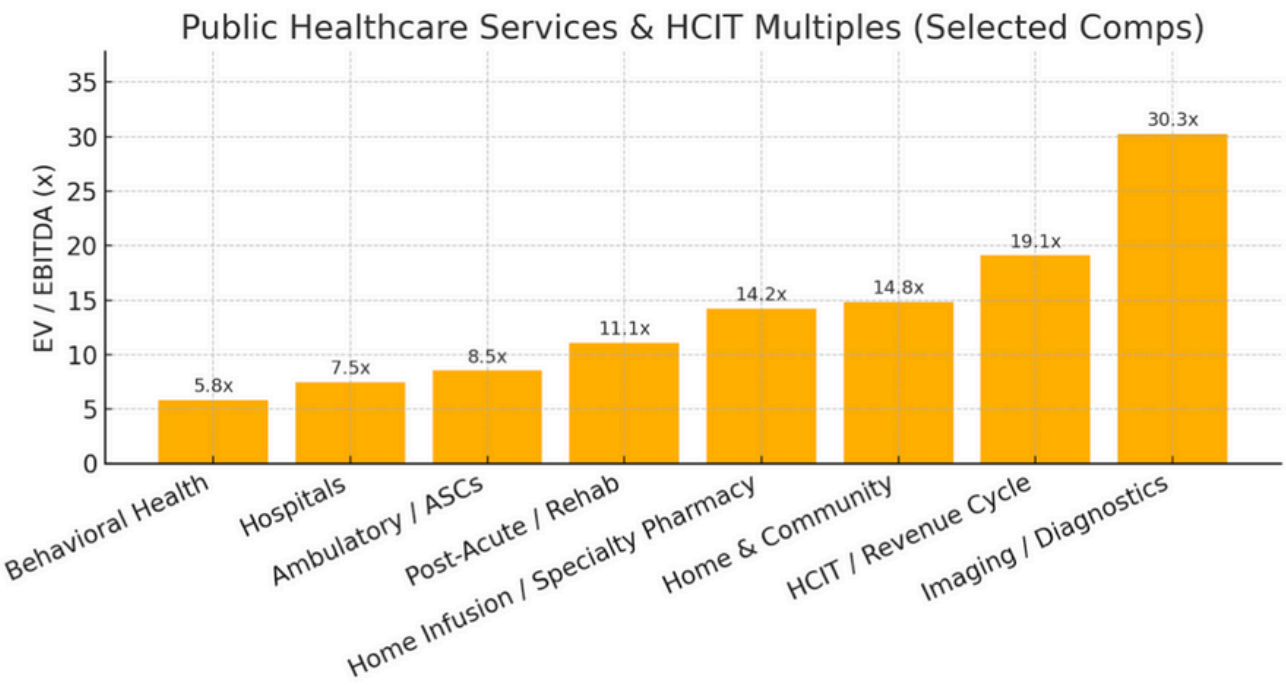
DIGITAL HEALTH MEGA-ROUNDS (LATEST PUBLISHED: Q3 2025, $100M+; SELECTED)

Company	Amount ($M)	Notes
Strive Health	550	Mix of debt + equity; kidney care
Judi Health	400	Long-term care / senior-focused platform
Ambience	243	AI clinical documentation
OpenEvidence	210	AI medical information / clinical decision support
Aidoc	150	Clinical AI / radiology & workflows
Eight Sleep	100	Sleep / wellness monitoring
Inspiren	100	AI nursing / patient safety

Implication for physician enterprise operations: Ambient documentation, coding automation, and access workflow tools are increasingly used to protect capacity and reduce leakage—supporting more accurate wRVU capture and lowering the operational friction that drives compensation pressure.

HEALTHCARE SERVICES & HEALTH TECH MARKET ACTIVITY (CONT.)

PUBLIC MARKETS & VALUATION DISPERSION (CONTEXT FOR SERVICES AND HCIT)



Source: StockAnalysis.com (company statistics pages; selected comps at time of compilation).

Implication for outpatient migration and physician competition: Higher-multiple subsectors generally reflect scalable platforms (imaging, revenue cycle, specialty pharmacy, and home-based care). These models can bid aggressively for physicians and key ancillary assets—raising the importance of defensible, operationally grounded compensation design.

HEALTHCARE SERVICES & HEALTH TECH MARKET ACTIVITY (CONT.)

REGULATORY, TECHNOLOGY, AND CAPITAL THEMES INFLUENCING PROVIDER STRATEGY

Regulatory scrutiny (including Corporate Practice of Medicine (CPOM) considerations and transaction review processes) and technology-enabled operating models continued to shape deal timelines and diligence focus in 2025. These themes increasingly intersect with physician alignment structures, ancillary participation, and compensation governance.

SELECTED STATE-LEVEL DEVELOPMENTS IMPACTING HEALTHCARE TRANSACTIONS AND PPM STRUCTURES

Jurisdiction	Policy	Summary	Effective
California	AB 1415	Expands oversight/notice requirements for certain healthcare transactions; requires advance notice to the Office of Health Care Affordability (OHCA) for PE/hedge funds/MSOs in scope transactions.	Jan 1, 2026 (per reporting)
California	SB 351	Strengthens and codifies Corporate Practice of Medicine/Dentistry restrictions; limits non-clinical entity influence over clinical decision-making and adds restrictions related to physician/dental practice arrangements.	Jan 1, 2026 (per reporting)

SELECTED STATE-LEVEL DEVELOPMENTS IMPACTING HEALTHCARE TRANSACTIONS AND PPM STRUCTURES

- AI documentation / ambient scribing: reduce clinician burnout and expand capacity without proportional labor adds.
- Revenue cycle automation: prior authorization, coding, claims editing, and denial recovery.
- Data interoperability and analytics: enable risk adjustment, care management, and value-based performance measurement.
- Cybersecurity and compliance: persistent threat environment elevates diligence and ongoing operating spend.

Capital markets context: Private credit remained an important source of acquisition financing for sponsor-backed transactions, while bank markets were more selective for highly leveraged or reimbursement-exposed models. Diligence continues to prioritize payor mix, denial rates, staffing, compliance, and documented ROI for tech-enabled workflows.

PHYSICIAN ALIGNMENT ACTIVITY

Health systems are reassessing how they deploy employment, professional services agreements (PSAs), co-management, and joint ventures to stabilize access while staying inside FMV guardrails. The most visible operational shift is a rebalancing of risk: more fixed pay and recruitment incentives, tighter governance of call coverage and directorships, and clearer definitions of what counts toward physician productivity. Outpatient migration (ASC/OBL, imaging, infusion) further complicates the picture by creating multi-stream physician economics and sharpening Stark/AKS exposure.

WHAT'S CHANGING IN CONTRACTS

- Higher base salary and larger guarantees for hard-to-recruit markets and subspecialties.
- Tiered wRVU rates and larger quality/value components to balance access and performance.
- Formal total rewards (bonuses, loan repayment, call relief) with documented terms and clawbacks.
- Explicit productivity attribution rules (split/shared, incident-to, shared E/M, supervision).

FMV WATCHLIST

- Stacked comp (base + call + director + quality) approaching outlier percentiles
- Ancillary or JV economics blended into W-2 pay without clear separation of returns
- Guarantees extended without re-baselining productivity and attribution rules
- Call pay not tied to documented burden, response expectations, or coverage scope

PHYSICIAN ALIGNMENT ACTIVITY

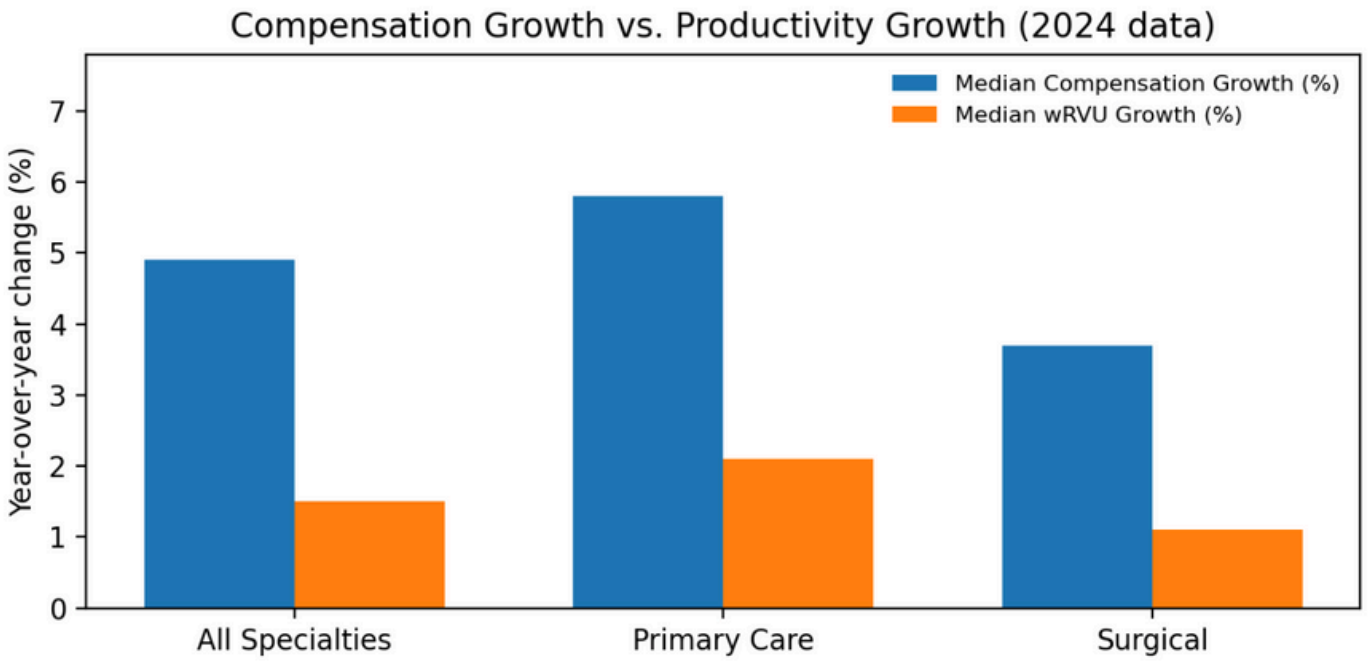


Figure: Compensation growth is outpacing wRVU growth in major benchmark datasets.

SPECIALTY SPOTLIGHT: CARDIOLOGY

TREND AND OPERATIONAL DRIVERS

Cardiology remains a premium-recruitment market, with acute demand for interventional and invasive subspecialties. Compensation growth is being driven more by supply constraints than by incremental wRVU growth, leading to upward pressure on conversion factors and guarantees.

Outpatient migration is the defining operational variable. Office-based labs (OBLs) and ambulatory surgery centers (ASCs) create a second earnings stream (facility fees and distributions) that can materially change total economics and influence site-of-service decisions.

On-call and leadership stipends are increasingly formalized: response time, coverage scope, and documented administrative hours are becoming non-negotiable components of a defensible model.

FMV TRIGGERS

- Employment plus ownership in ASC/OBL (or imaging) requiring separation of referrals and returns
- Service line co-management arrangements with incentive metrics
- Call coverage stipends at trauma centers or multiple campuses
- Medical directorships (cath lab, service line) without time logs or defined duties

Practical valuation note: In cardiology, it is increasingly important to model the entire physician stack (W-2 pay, call/director stipends, and outside ancillary distributions) to confirm combined economics remain supportable and do not create referral-driven incentives.

SPECIALTY SPOTLIGHT: ORTHOPEDICS

TREND AND OPERATIONAL DRIVERS

Orthopedics continues to be shaped by ASC competition, bundled payment pressure, and private equity consolidation. Because surgical throughput has physical constraints (OR time and staffing), productivity growth can plateau even as compensation continues to rise for retention.

Ancillary revenue (imaging, PT, DME, ASC ownership) is central to orthopedic economics and a frequent source of compliance risk when folded into employed compensation. Stark Law group practice profit distribution rules have forced many groups to redesign how Designated Health Services (DHS) profits are aggregated and distributed.

Call pay remains a significant driver at trauma-designated sites. Defensible coverage arrangements increasingly tie stipend levels to documented burden (coverage frequency, case mix, response time) and market comparables.

FMV TRIGGERS

- Post-acquisition comp redesign (base reset + productivity + equity) requiring new FMV baseline
- Gainsharing / quality bonuses tied to implants, Length of Stay (LOS), or episode cost (bundle compliance)
- Orthopedic ASC JV distributions alongside W-2 pay
- Imaging/PT buyouts and ongoing medical director roles

Practical valuation note: Orthopedic arrangements often fail not on base salary, but on add-on economics - ASC distributions, call pay, and administrative stipends that, when stacked, push total remuneration into outlier territory without a documented operational need.

SPECIALTY SPOTLIGHT: ONCOLOGY

TREND AND OPERATIONAL DRIVERS

Oncology compensation is being reshaped by drug margin compression and the gradual shift away from the traditional buy-and-bill model. As reimbursement and inventory risk dynamics change, employed models and hospital alignment can provide stability, especially where 340B pricing creates a differential.

Infusion operations are a valuation flashpoint. The clinical enterprise depends on coordinated staffing, pharmacy operations, scheduling throughput, and payer authorization workflows - and the financial outcomes can differ materially between hospital outpatient departments and community settings.

Medical oncology is increasingly compensated for cognitive work (E/M, care management) and value-based performance. Radiation oncology adds complexity due to capital intensity and DHS considerations.

FMV TRIGGERS

- Infusion center medical director stipends and pharmacy oversight roles
- Comp linked (directly or indirectly) to drug selection or drug margin
- Joint ventures for radiation, imaging, or specialty pharmacy
- Value-based bonuses with downside risk (EOM and similar programs)

Practical valuation note: Oncology requires separating professional compensation from technical and drug economics. Compensation plans that implicitly backfill lost drug margin through bonus structures can be misinterpreted without a well-documented, FMV-grounded rationale.

REGULATORY & FMV LANDSCAPE

Regulatory scrutiny of physician compensation continues to focus on two linked questions: (1) is total remuneration consistent with FMV and not determined by the volume or value of referrals; and (2) is the arrangement commercially reasonable even in the absence of referrals. In practice, documentation, governance, and operational logic matter as much as benchmark percentile positioning.

Key Q4 2025 triggers to address in contract design and valuation support:

- Stark Law group practice profit distribution: DHS profits must be aggregated at the group or a component of at least five physicians; split pooling methodologies create audit exposure.
- Commercial reasonableness: long-term, material operating losses on employed physicians require a documented non-referral rationale (access, trauma coverage, accreditation, call coverage).
- Split/shared visits and APP productivity attribution: define how wRVUs are credited and ensure documentation supports the billing practitioner.
- Local market adjustment (GPCI): benchmark-based $/wRVU assumptions should be tested against local collections and late-2025 geographic index changes.
- Ancillary ownership and joint ventures: ASC, imaging, and infusion economics must be separated from employed compensation and evaluated for independent business purpose and FMV.

Common FMV opinion triggers	Why it matters (risk/operational)
New recruits (guarantees, signing bonus, relocation, loan repayment)	These incentives can be viewed as remuneration; require supportable market need and documented terms/clawbacks.
Call coverage and availability pay	Stipends must align to call burden and service requirements; poor documentation is a frequent audit weakness.
Medical directorships / co-management fees	Must tie to defined duties, hours, and outcomes; avoid duplicative roles or vague responsibilities.
Ancillary-related economics (ASC, imaging, infusion)	Mixing W-2 pay with DHS/ancillary profits can create referral-driven incentives if not structured carefully.
Stacked comp arrangements	When multiple components are set at high percentiles independently, total compensation can exceed FMV without justification.

OUTLOOK & RECOMMENDED ACTIONS

Compensation pressure is expected to remain elevated as access needs collide with reimbursement constraints. The most defensible programs combine updated benchmarks with local market adjustments and a clear explanation of why the arrangement makes business sense without relying on downstream referrals.

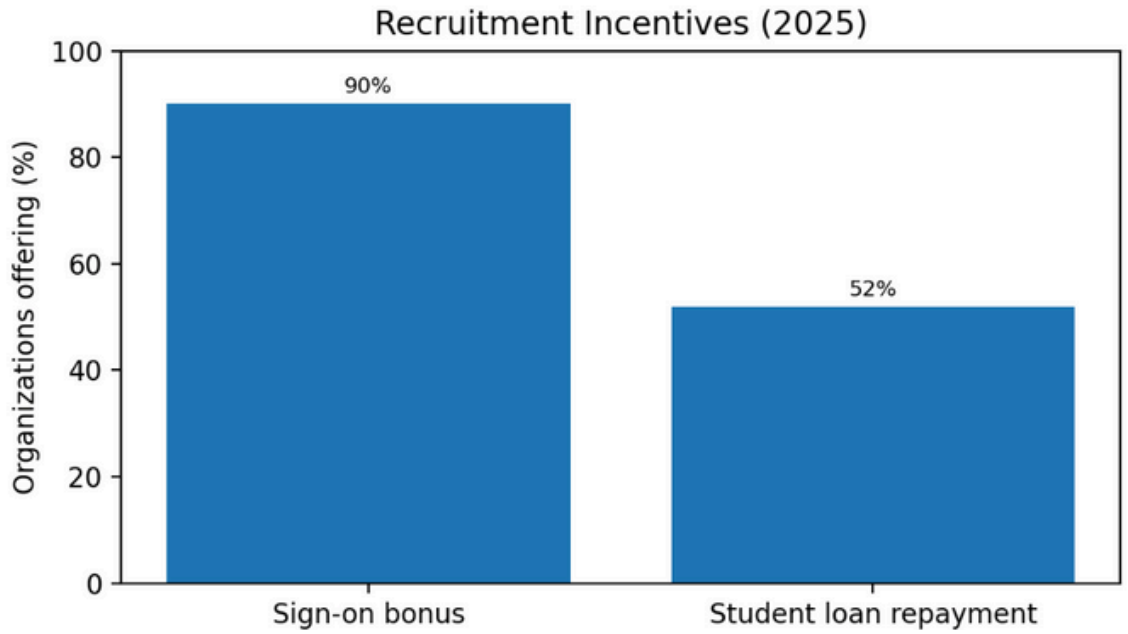


Figure: Recruitment incentives are increasingly used as total rewards levers.

Recommended actions for Q4 2025 renewals and 2026 planning:

- Re-baseline wRVU attribution rules (especially split/shared and APP workflows) and align dashboards with billing reality.
- Update compensation models for local market conditions (GPCI, payer mix, call burden, and coverage geography), not just national medians.
- Perform a stacked compensation review across salary, productivity, call, directorships, quality, and outside income streams.
- Document commercial reasonableness for outliers (service need, coverage expectations, and strategic purpose).
- Obtain contemporaneous FMV opinions before signing: recruits, renewals with material changes, and ancillary/JV structures.

DATA SOURCES & NOTES

Primary inputs reflected in the underlying research memos and benchmark summaries:

- AMGA Medical Group Compensation and Productivity Survey (2025 edition; 2024 performance year).
- MGMA guidance on appropriate use of survey benchmarks and local market adjustment.
- SullivanCotter physician compensation and recruitment trend summaries.
- CMS Physician Fee Schedule (CY 2024 and CY 2025) conversion factor updates.
- Stark Law group practice profit distribution updates (including split pooling prohibition) and related compliance commentary.
- Publicly available press releases and SEC filings for select strategic and sponsor transactions referenced.
- Selected public market valuation multiples (EV/Revenue and EV/EBITDA) compiled from StockAnalysis.com at the time of preparation.
- Rock Health U.S. digital health venture funding reports (quarterly funding and deal counts).
- PitchBook healthcare services buyout and growth deal activity summaries.
- PCE Investment Bankers healthcare M&A quarterly reports (LTM transaction volume and median multiples).

Note: This market update is for general informational purposes and is not legal advice. Compensation arrangements should be evaluated in the context of specific facts, local market conditions, and governing documents.

THANK YOU

GET IN TOUCH

Let's discuss how VALCOR can support your team and help you unlock strategic value from your assets. Feel free to get in touch with us through our website, email, or phone.

Thomas Cuccia, CFA, ASA
Senior Managing Director - Healthcare
(949) 637-1975 | tcuccia@valcormail.com

Ray Clark, CFA, ASA
Senior Managing Director
(949) 697-9223 | rclark@valcormail.com

www.valcoradvisors.com

220 Newport Center Drive
Suite 586
Newport Beach, CA 92660

230 Sunrise Ave
Suite B186
Palm Beach, FL 33480

VALUE IS AT THE CORE OF EVERY DECISION YOU MAKE.

VALCOR HELPS BUSINESSES AND INVESTORS MEASURE AND MAXIMIZE THAT VALUE.