

Pediatric Primary Care Case Study: Making Opaque Value-Based Care Earnings Bankable

Transaction Overview

Merritt Advisory advised a high-performing pediatric practice in a strategic transaction with a national pediatric platform. While Value-Based Care (VBC) incentives were a known component of earnings, the most complex and heavily discounted element of the transaction involved profit-sharing true-ups tied to downstream medical cost savings. These true-ups were subject to payer-defined actuarial methodologies and reporting lags of approximately 12–15 months.

This engagement illustrates Merritt Advisory's ability to translate opaque, delayed payer economics into defensible, underwritable EBITDA for sophisticated buyers.

The Challenge

Profit-sharing arrangements tied to population-level cost savings are among the most difficult revenue streams for buyers to value. In this transaction, profit-sharing true-ups were:

- Calculated using payer-defined actuarial methodologies
- Based on aggregated claims data not independently recalculable by the practice
- Reported 12–15 months after performance occurred
- Paid irregularly, resulting in delayed and lumpy cash receipts

At the outset, the buyer proposed excluding all profit-sharing true-ups from EBITDA, treating them as speculative upside rather than attributable operating earnings. Buyer skepticism stemmed from perceived risks related to transparency, timing, verification, and regulatory complexity. A central valuation question became:

How do you get buyers to underwrite earnings that are performance-driven but subject to delayed, payer-controlled settlement mechanics?

Merritt Advisory's Approach

Merritt Advisory reframed profit-sharing not as speculative upside, but as economically attributable performance value subject to deferred and contingent settlement mechanics.

1. Reconstructing Performance-Attributed Earnings Independent of Cash Timing

Merritt Advisory built a detailed historical reconciliation to isolate performance from payment timing:

- Mapped patient attribution periods to expected settlement windows
- Reconstructed historical earned-versus-paid deltas
- Normalized irregular cash receipts into a stabilized run-rate framework
- Developed an earned earnings curve demonstrating consistent performance patterns over time

This reframing shifted the buyer's focus from cash volatility to the durability of underlying execution.

2. Demonstrating Alignment Between Performance Drivers and Payout Outcomes

Merritt Advisory demonstrated directional alignment between controllable quality and utilization metrics and subsequent profit-sharing outcomes, consistent with payer methodologies:

- Improvements in visit compliance preceded higher profit-sharing settlements in subsequent true-up periods
- Preventive care initiatives, including vaccination adherence, aligned with reduced downstream utilization and improved savings outcomes
- Care-gap closure efforts correlated with lower avoidable medical spend across attributed populations

While the payer controlled settlement timing and methodology, the practice demonstrably controlled the drivers of value creation.

This buyer education moment proved pivotal in reshaping underwriting assumptions.

3. De-Risking EBITDA by Separating Execution from Settlement Lag

Merritt Advisory isolated true operating performance from reporting delays:

- Built timing-adjusted historical EBITDA models
- Presented a performance-only EBITDA view excluding lag distortion
- Demonstrated that variability was driven by settlement timing, not inconsistent execution

Settlement lag was framed as an accounting and reporting characteristic, not an operating risk factor.

4. Scenario Analysis to Quantify and Bound Buyer Downside

To address residual buyer concerns, Merritt Advisory developed a comprehensive scenario framework:

- Conservative, base, and upside payout curves
- Discounted future true-ups under varying settlement assumptions
- Modeled extended lag scenarios under alternative utilization profiles

Even conservative cases supported meaningful, underwritable earnings contributions, allowing the buyer to price risk without eliminating value.

5. Transaction Structuring to Capture Long-Term Value

To bridge remaining valuation gaps, Merritt Advisory structured mechanisms that aligned incentives:

- Earn-out provisions tied to future VBC and profit-sharing performance
- Rollover equity participation to capture long-term shared-savings upside
- Ongoing physician alignment with quality, utilization, and cost outcomes

Outcome

As a result of Merritt Advisory's analysis and buyer education:

- Profit-sharing true-ups were recognized as performance-attributed earnings rather than speculative upside

- Underwritten EBITDA increased on a normalized basis relative to the buyer's initial proposal
- The seller received credit for economically attributable earnings subject to delayed settlement
- Transaction terms aligned both parties around long-term value creation

Strategic Takeaway

Merritt Advisory specializes in underwriting what buyers cannot easily recalculate.

We help clients:

- Translate opaque payer economics into defensible EBITDA
- Separate execution risk from reporting and settlement lag
- Quantify and bound uncertainty through disciplined scenario analysis
- Educate buyers to close valuation gaps
- Structure transactions that capture earned-but-unsettled value

In value-based care, the inability to independently recalculate does not equal the inability to underwrite — if you know where to look.