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The Sleeper Cell Liability

How Add On Acquisitions Quietly Erode the Exit Value of Private Equity Backed Healthcare Platforms

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A Note From the Author

Every operator I have ever worked with can tell you exactly what they paid for an acquisition. Almost none of them can tell you what they inherited.

A sleeper cell is not the villain who kicks in the front door. It is already inside, indistinguishable from everything around it, dormant until something specific activates it. That is precisely how integration debt behaves inside a growing healthcare platform.

The acquisition closes. The platform looks bigger. Revenue climbs. EBITDA may look healthy. Everyone celebrates the add on, and by every metric a board reviews quarterly, the deal was a success. Underneath that surface, largely invisible to the people celebrating it, the platform has quietly accumulated credentialing inconsistencies, payer enrollment gaps, fragmented workflows, incomplete provider data, unresolved compliance exposure, and systems that were never built to talk to each other.

None of it announces itself. None of it shows up in a quarterly board deck. It simply waits.

Then the platform goes to sell, and a buyer's exit diligence team does the one thing no one inside the platform was ever asked to do: look at all of it, together, at once. That is the moment the sleeper cell activates, not because anything sudden happened, but because someone finally looked.

I spent years trained to notice exactly this kind of thing, the signal sitting quietly inside noise, indistinguishable from normal operations until you know to look for it. I wrote this report because private equity operators deserve to see the debt they are actually carrying, across every dimension it hides inside, not only the one everyone already knows to ask about. Once you can see it, you can price it, manage it, and refuse to let someone else discover it for you.

Marcus J. Frazier

Abstract

This report examines an underrecognized risk inside healthcare private equity roll up strategy: the credentialing, licensing, and payer enrollment gaps inherited with every add on acquisition, which accumulate silently across a platform's growth and surface as value destroying findings during the platform's own eventual exit.

The analysis is set against a demographic and economic backdrop that is already locked in: national health spending is projected to grow from $5.3 trillion in 2024 to nearly $9.0 trillion by 2034, rising from 18.0 percent to 20.6 percent of the United States economy, driven in significant part by the aging of the baby boomer generation into peak years of healthcare consumption. Platforms scaling through serial acquisition during this window are scaling directly into that demand, and directly into the operational exposure this report describes.

Drawing on previously published data on healthcare credentialing cycle times, denial rates, and revenue impact established in Koru Research Institute's first two reports, this report introduces the Koru Integration

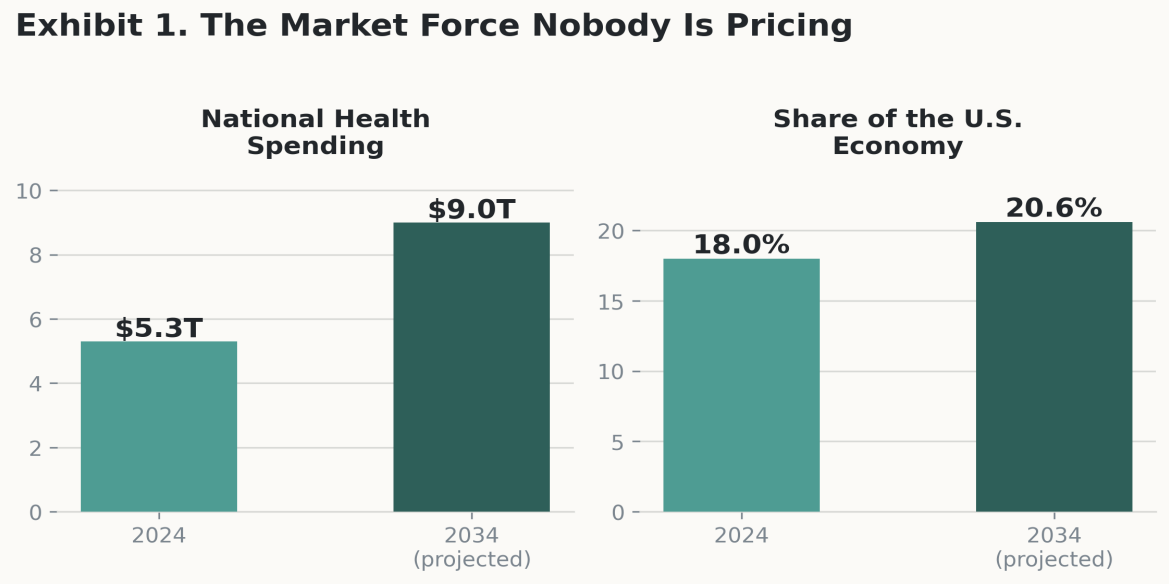
Debt Index, an original framework spanning six dimensions of operational liability, credentialing and enrollment, provider data, workflow fragmentation, compliance exposure, systems incompatibility, and governance, that accumulate across sequential acquisitions. The report illustrates how that liability varies by platform type, walks through two contrasting illustrative platform timelines, one where the exposure goes undetected until a sale process forces it into view, and one where it is priced and resolved at every close, and closes with a practical set of signals operators can check before they close their next deal. The analysis indicates that platforms completing four or more add on acquisitions without a unified remediation process across these six dimensions carry meaningfully higher diligence risk than single site organizations, exposure that standard financial and legal diligence practices are not structured to detect.

Keywords: *private equity, healthcare roll up strategy, add on acquisition, credentialing debt, mergers and acquisitions diligence, enterprise value, healthcare operations, national health expenditure*

The Market Force Nobody Is Pricing

Most operators in this market are underwriting the next five years using the last five years as their model. That is worth stopping on, because it is the kind of assumption trained to be caught before it becomes expensive: believing tomorrow looks like yesterday simply because it always has.

The Centers for Medicare and Medicaid Services project that national health spending will grow from $5.3 trillion in 2024 to nearly $9.0 trillion by 2034, rising from 18.0 percent of the American economy to 20.6 percent over the same decade. That is not a market getting modestly larger. That is roughly a fifth of the entire United States economy reorganizing itself around healthcare delivery, in real time, while a great deal of acquisition strategy is still being underwritten as though the operating environment were stable.



Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Expenditure Projections, 2025 to 2034, published via Health Affairs, 2026.

The driver behind that growth is not a mystery, and it is already locked in. CMS estimates Medicare enrollment grew from 63.6 million beneficiaries in 2022 toward a projected 76.4 million by 2031, as the baby boomer generation, the largest cohort in American history, moves fully into the years when healthcare consumption accelerates. Every platform being built through serial acquisition today is being built directly into the path of that demand, whether its investors have priced that fact or not.

> *This is not a forecast about opportunity. Growth of this scale is coming regardless of what any individual platform does. It is a forecast about exposure: the platforms that scale fastest through this window will also be the platforms carrying the most unresolved operational debt at the exact moment demand, and scrutiny, both peak.*

The Acquisition Everyone Underwrites the Same Way

Healthcare private equity has run the same playbook for a decade: acquire a platform, then grow it through a series of smaller add on acquisitions, each one adding sites, providers, and revenue without the cost of building a new practice from nothing. The strategy works. It is also, almost without exception, underwritten the same way every time: financial diligence on the target's revenue and margins, clinical diligence on quality and compliance history, legal diligence on contracts, licensure, and litigation exposure.

What standard diligence rarely examines directly is the operational condition of the target's credentialing function itself, not whether the practice is currently compliant, but how much unresolved administrative backlog is sitting inside its provider files at the moment of close. Koru Research Institute's first report established that the average healthcare organization loses $6,000 to $10,000 per provider, per month, in unbillable revenue during a credentialing delay, and that the industry estimated cycle time from hire to billable status runs 90 to 120 days. Every add on acquisition brings a fresh set of providers somewhere inside that cycle, and a platform rarely asks where.

> *We think about acquisition risk the same way we think about any other kind of debt: it does not matter that no one intended to take it on. It still has to be paid.*

The Six Faces of Integration Debt

Credentialing debt is the most measurable face of this problem, and it is the dimension with the clearest published data behind it. It is not the only face, however. Every operational function an acquired practice brings into a platform can carry the same underlying condition: functioning well enough to pass unnoticed at close, while never being fully reconciled to a single platform wide standard. This pattern is a practical extension of the ten dimension framework Koru Research Institute introduced in Report No. 002, applied specifically to the moment of acquisition rather than to ongoing operations. Koru Health's engagement experience across medical groups, behavioral health organizations, and multi site platforms points to six recurring faces of this same underlying pattern.

Exhibit 2. The Six Faces of Integration Debt

Illustrative relative severity, low 1 to high 10, informed by Koru Health engagement patterns and previously published credentialing and denial rate data. Not a statistical survey finding.

Credentialing and enrollment debt. Unresolved provider files, payer enrollment lag, and licensing gaps, the subject of Koru Research Institute Reports No. 001 and No. 002, and the dimension supported by the most direct published data.

Provider data debt. Duplicate, inconsistent, or incomplete provider records inherited from each acquired practice's own systems, quietly undermining everything downstream that depends on accurate provider data, from claims submission to quality reporting to network directories.

Workflow fragmentation debt. Scheduling, intake, and referral processes that continue operating exactly as they did before the acquisition, because unifying them was deferred in favor of closing the next deal, leaving a platform that looks consolidated on an org chart and operates as a loose federation in practice.

Compliance exposure debt. Policies, training records, and regulatory documentation that were never fully reconciled to a single platform wide standard, often discovered only when a specific incident or audit forces the question.

Systems incompatibility debt. Electronic health record, billing, and practice management systems that remain unintegrated well past close, forcing manual reconciliation between systems that were never designed to talk to each other, and creating exactly the kind of blind spot a diligence team is trained to look for.

Governance and ownership debt. Perhaps the most structural face of all: no single person or function accountable for resolving cross practice inconsistencies once a deal team moves on to the next acquisition. Every other face of integration debt compounds faster in the absence of this one.

The remainder of this report focuses primarily on credentialing and enrollment debt, since it is the dimension with the most direct published data behind it. The same mechanism, closing clean, compounding quietly, activating at exit, applies across all six.

How Debt Compounds Across a Platform

A single acquisition's credentialing backlog is a manageable problem. A platform's fifth, sixth, or seventh add on acquisition, each with its own unresolved files layered on top of the last, is a structural one. Without a unified remediation process applied at every close, backlog does not reset with each deal. It accumulates.

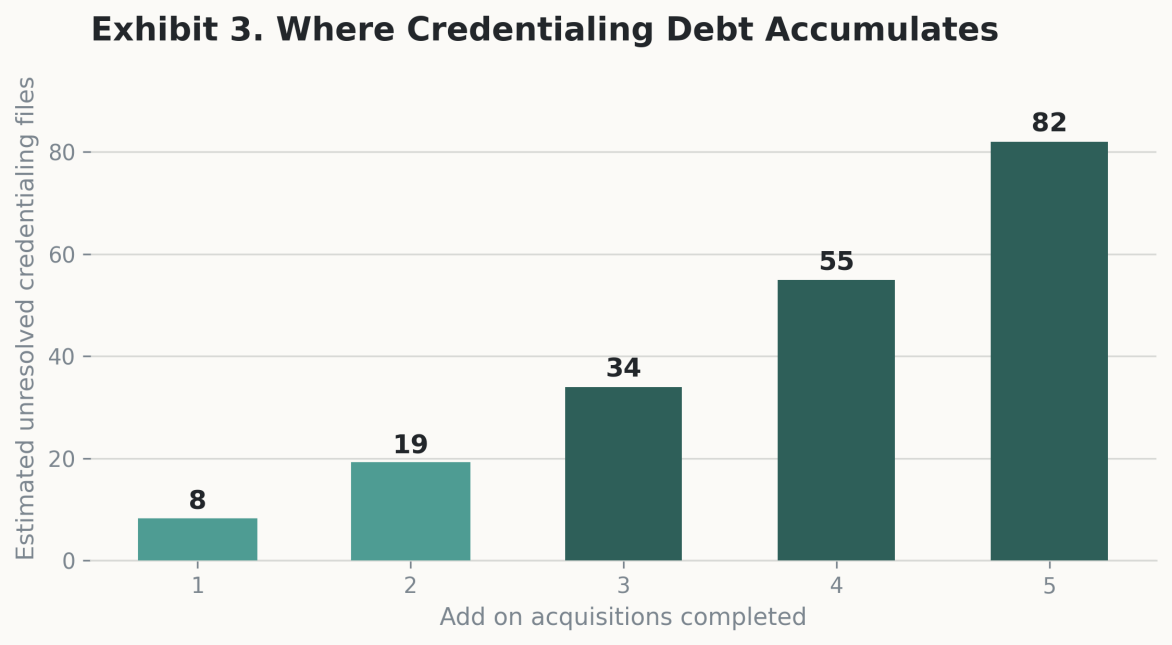


Exhibit 3. Illustrative model based on industry estimated credentialing cycle times and denial rates established in Koru Research Institute Reports No. 001 and No. 002, applied across a hypothetical sequence of add on acquisitions. Not a measurement of any individual platform or transaction.

The pattern is not unique to any single platform or specialty. It is a structural consequence of how roll up strategy is executed: growth is prioritized, integration is deferred, and credentialing is treated as an administrative function to be absorbed later rather than a liability to be priced at every close.

Debt Does Not Accumulate Evenly

Not every add on acquisition carries the same exposure. A platform's actual risk depends heavily on the operational complexity it is absorbing with each deal, and multi state, multi specialty growth compounds faster than single state, single specialty growth.

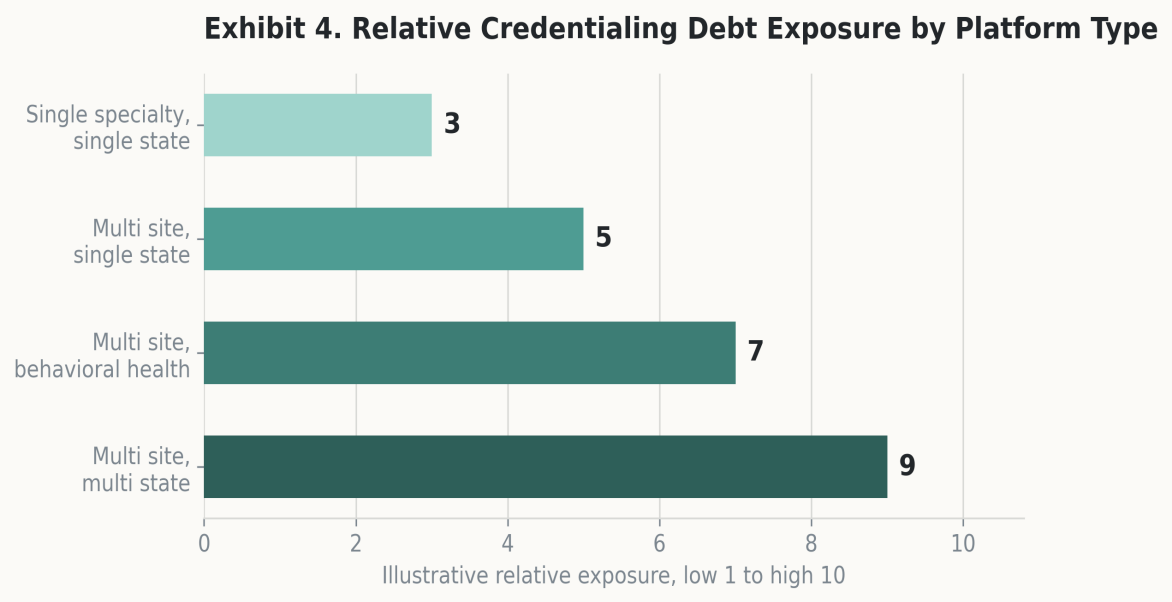


Exhibit 4. Illustrative estimate reflecting relative structural complexity across platform types, based on the licensing, payer enrollment, and specialty specific credentialing requirements each category typically involves. Not a measurement of any individual platform.

The pattern is intuitive once named: a single specialty platform operating in one state is reconciling one set of payer relationships and one licensing board. A multi state, multi site platform, the fastest growing category in today's roll up market, is reconciling all of that complexity simultaneously, across every jurisdiction it has entered, usually without a credentialing function that was built to scale at the same pace as the acquisitions themselves.

What Diligence Teams Are Not Built to Catch

Standard financial diligence is built to test whether reported revenue and margin are real. It is not built to test whether a portion of that revenue is currently at risk from claims tied to credentialing and enrollment errors. Koru Research Institute's second report found that 54 percent of practices report claims denials tied specifically to credentialing and enrollment errors, a figure that speaks to a systemic, industry wide exposure rather than an isolated operational lapse at any one organization.

When that exposure surfaces during a platform's own sale, it does not appear as a single clean finding. It moves value into the mechanisms buyers use to manage uncertainty they cannot fully quantify at close.

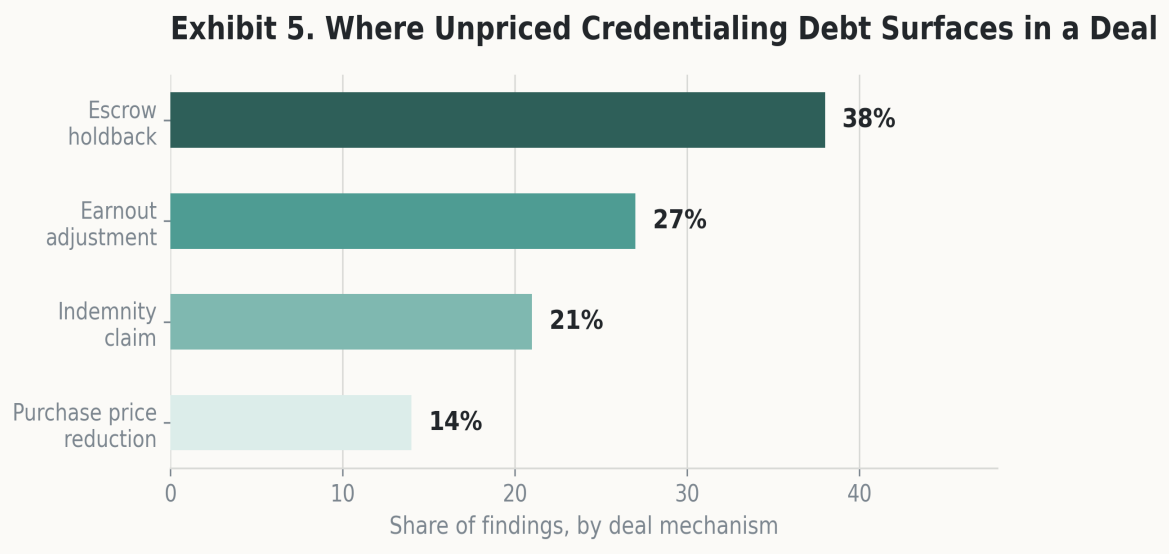


Exhibit 5. Illustrative distribution based on common diligence remediation mechanisms discussed in healthcare M&A advisory literature and Koru Research Institute Report No. 002. Not a measurement of any individual transaction.

Escrow holdbacks and earnout adjustments are the most common instruments, both of which share the same underlying effect: the seller does not lose the value outright, but does not receive it either, for months or years after close, contingent on findings that a unified credentialing process at each acquisition could have resolved well before the platform ever went to market.

Introducing the Koru Integration Debt Index

To help operators and their advisors reason about this exposure before a buyer's diligence team does, Koru Research Institute is introducing the Koru Integration Debt Index, an original framework for estimating accumulated operational liability across a platform's acquisition history. The index is not a certification or an audit finding. It is a starting framework for asking the right question earlier: how much unresolved backlog has this platform actually inherited, and at what point does that backlog become a material diligence risk.

Acquisitions Completed	Debt Tier	Typical Diligence Posture
1 to 2	Low	Backlog manageable within standard post close integration
3	Moderate	Warrants a dedicated review before the next acquisition
4 to 5	Elevated	Backlog likely material to buyer diligence at platform exit
6 or more	Structural	Requires a certified pre diligence audit before any process

The index is directional, not diagnostic. It is designed to tell an operator or a board when the conversation about credentialing debt needs to move from informal to structured, not to replace the kind of dedicated audit a platform should commission before going to market. The Koru Readiness Certification, described in full on korucm.com, applies this same underlying framework at the level of individual diligence engagements.

The First Platform's Timeline, Illustrative Only

Frameworks and exhibits describe a pattern. A timeline shows how ordinary it looks while it is happening. The following is a hypothetical, constructed to illustrate the mechanism described above. It does not describe any actual platform, transaction, or company.

Acquisition one. The target is a well run single site practice, credentialing current, files complete. Integration is straightforward, and the platform's finance team notes nothing unusual in the transition.

Acquisition two. Different, but not dramatically so. Eleven provider files are mid cycle at close, a routine consequence of timing rather than negligence. No one flags it as a decision point. It becomes background noise.

Acquisition three. The pattern is set, not by any single bad actor, but by the absence of a rule. Each new practice arrives with its own credentialing condition, its own scheduling and intake workflow, and its own version of the provider roster, and no one at the platform level owns the job of reconciling any of it before the next acquisition closes. None of it announces itself. It simply continues to exist.

Acquisition four. A multi state group joins the platform, and with it, categories of friction the platform has not previously carried: license reciprocity lag across three additional states, a billing system that does not speak to the platform's primary system, and a compliance training record that no one has yet mapped against platform wide policy. Each is manageable in isolation. Together, unmapped, they are simply more debt joining what is already there.

Acquisition five. The platform has scaled successfully by every metric a board reviews quarterly: revenue, site count, provider headcount, EBITDA. What the board has not reviewed, because no one has been asked to produce it, is a single consolidated view across all six dimensions of integration debt the platform has accumulated since acquisition one.

Eighteen months later. The platform goes to market. A buyer's exit diligence team requests provider level credentialing files, provider data reconciliation reports, a system architecture review, and compliance documentation across every acquired site, the same requests made in nearly every serious healthcare transaction today. What they find is not fraud, and it is not a crisis. It is five years of ordinary, explainable, entirely human oversight across six quiet dimensions, all compounding at once, in the one process that determines what the platform is actually worth.

A Second Platform, Same Five Acquisitions

Not every platform carries this exposure into its own exit. Consider a second hypothetical, built the same way as the first, five add on acquisitions over four years, but operating under one structural difference: a unified integration review applied at every close, not deferred until a buyer's diligence team forced the question. This is also a hypothetical, constructed for illustration. It does not describe any actual platform, transaction, or company.

Acquisition one. Arrives clean, same as before. This platform's leadership treats that cleanliness as a baseline to maintain, not a lucky start.

Acquisition two. Brings the same eleven mid cycle provider files the first platform saw. This time, a designated owner resolves them within the standard onboarding window, before the acquisition is considered fully integrated.

Acquisitions three, four, and five. Each brings its own version of the same friction, license reciprocity lag, provider data inconsistencies, systems that do not immediately talk to each other. None of it disappears simply because someone is watching for it. What changes is that each issue is resolved close by close, not allowed to compound silently across five transactions.

Eighteen months later. This platform also goes to market. Its buyer's diligence team runs the same provider level file review, the same systems check, the same compliance documentation request made of every serious healthcare transaction. What they find is a clean, current, well documented operating history, and a seller who can answer nearly every diligence question before it is fully asked.

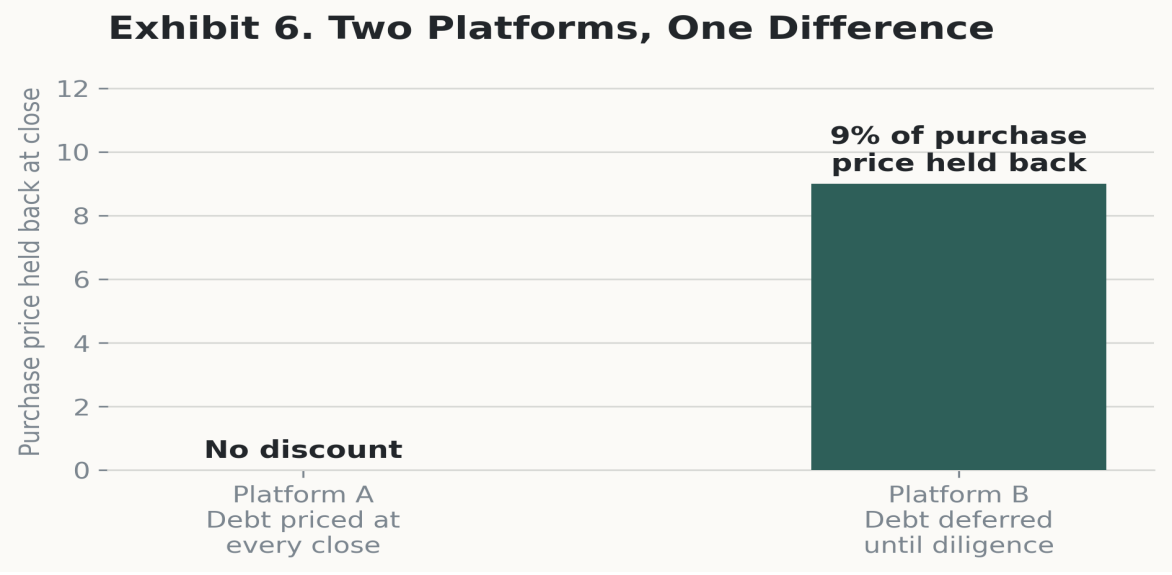


Exhibit 6. Illustrative comparison of purchase price impact based on the two hypothetical platform timelines described above. Not a measurement of any actual transaction.

The difference between these two platforms was never talent, and it was never luck. Both closed the same five acquisitions, in the same market, under the same demographic tailwind described earlier in this report. One priced its integration debt at every step. The other let it wait. Only one of them paid it on someone else's terms.

What This Means at Exit

Enterprise value is not discounted for problems buyers cannot see. It is discounted for problems buyers find. A platform that enters its own sale process with an unresolved credentialing backlog is not simply facing an operational inconvenience, it is facing a buyer who will price the uncertainty into escrow, earnout, or the purchase price itself, often at a multiple far higher than the actual cost of resolving the issue would have been a year earlier.

The operators who protect enterprise value are not the ones who avoid every operational problem. They are the ones who find their own problems first.

This is the same discipline behind the Koru Readiness Certification, a pre diligence audit built on a ten dimension operational risk framework, designed to give a platform one clear findings document before a buyer's diligence team produces one for them.

Signals to Check Before You Close

Operators evaluating their own platform, or advising one, do not need a full audit to begin asking the right questions. The following signals are observable well before a formal diligence engagement, and each one is a reasonable basis for requesting a deeper review.

- Ask how many provider files were mid cycle at the close of each of the platform's last three acquisitions, and who owned resolving them.
- Ask whether the platform tracks a single, consolidated credentialing status report across all sites, or whether that information lives separately inside each acquired practice's own systems.
- Ask how many states the platform now operates across, and whether license reciprocity timelines have been mapped for each one.
- Ask what percentage of the platform's claims denials over the past year were tied to credentialing or enrollment errors, a figure every practice's own billing system can produce if asked.

• Ask when the platform's credentialing function was last reviewed independently, rather than self reported by the team responsible for it.

• Ask whether provider records have been reconciled into a single source of truth across every acquired site, or whether each practice's roster still lives in its own system.

• Ask whether core clinical and billing systems across acquired sites are integrated, or whether staff are manually reconciling data between systems that do not communicate.

• Ask who, by name, owns resolving cross practice inconsistencies platform wide, and what happens to that responsibility the moment the deal team moves on to the next acquisition.

None of these questions require specialized tools. They require someone with the authority to ask them, and the discipline to act on what the answers reveal.

A Note on Sources and Methodology

This report combines primary source data, cycle time and revenue figures established through CAQH, the American Medical Association, and AAPPR as cited in Koru Research Institute Reports No. 001 and No. 002, and national health expenditure projections published by the Centers for Medicare and Medicaid Services Office of the Actuary, with original analysis developed specifically for this report. The Koru Integration Debt Index, the platform type exposure estimate, and the illustrative acquisition timelines, including the two platform comparison, are original models built to demonstrate a structural pattern, not empirical measurements of any named platform, transaction, or company. Any resemblance to a specific organization's actual acquisition history is coincidental.

The six faces of integration debt described in this report carry different levels of evidentiary support, and that difference is worth stating explicitly rather than blending it together. Credentialing and enrollment debt is grounded in the primary source cycle time, revenue, and denial rate data cited in Koru Research Institute Reports No. 001 and No. 002. The remaining five faces, provider data, workflow fragmentation, compliance exposure, systems incompatibility, and governance, are presented as an analytical taxonomy informed by Koru Health's engagement experience and by the logical extension of the ten dimension framework introduced in Report No. 002, not as independently measured statistics. The relative severity scores in Exhibit 2 are illustrative and directional, intended to prompt the right diligence questions, not to stand in for a completed audit.

This analysis has a specific limitation worth stating plainly. Moving these models from illustrative to empirical would require access to platform level credentialing records across a representative sample of completed roll up transactions, data that is not currently published or standardized across the industry, in part because no consistent taxonomy for measuring credentialing debt has existed before this report. Koru Research Institute intends to pursue that empirical validation in future work, in partnership with operators and diligence teams willing to share anonymized platform level data. Readers applying this framework to a specific platform should treat it as a starting point for further diligence, not as a substitute for one.

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About the Author

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Koru Health works with medical groups, behavioral health organizations, urgent care networks, Federally Qualified Health Centers, and private equity portfolio companies to diagnose and rebuild the operational systems that determine whether healthcare organizations can scale.

Koru Research Institute is the research and publishing arm of Koru Health, based in New York, NY. Its mission is to bring rigorously sourced, transparently cited analysis to questions that healthcare executives are otherwise left to answer with vendor marketing or internal anecdote.