Private Equity Firms and Physician Practices: A Rising Collaboration

Consolidation has been a frequent topic of conversation within the health care industry long before the arrival of COVID-19, as large organizations look to expand their business landscape and small practices try to keep up in a rapidly evolving industry. The widespread effects of this pandemic may increase the steadily rising consolidation numbers, as many of the smaller health care practices are struggling to survive.

In the past decade, new players – like private equity firms – have made their way into the health care consolidation game. Like most of the opportunities they pursue, private equity investors search for stable markets with possibilities of large return on investments and have zeroed in on health care organizations, like physician practices, for their newest investment ventures. According to research published in the Journal of the American Medical Association (JAMA), private equity firms acquired 355 physician practices from 2013 to 2016.

With the continual inflow of these firms and investors impacting health care organizations, it's important for independent radiology practices to understand what exactly private equity firms are, how they are impacting medical practices and other additional options your practice can consider before selling to these firms and falling victim to consolidation.

What are private equity firms?

Private equity firms are investment management groups that utilize capital – either of their own or borrowed from other investors – to acquire stakes in smaller organizations to improve overall operations scale and increase value.

Private equity investors can acquire 100% of the companies they invest in or purchase percentage stakes, usually opting to acquire at least a controlling stake. This differentiates these companies from those that are considered public. The equity firm gains private ownership of a company with their percentage stake as opposed to having stock share ownership of a public company.

Similar to how investors navigate the stock market, the goal for private equity firms is to eventually sell much higher than their original investment in hopes of gaining further capital for future ventures. After about four to six years – and once they make desired profits through management and performance fees – these firms will sell their investment stakes either to other corporations looking to buy or by offering stock options of the company to the public.

Private equity in health care.

The influx of private equity into the health care industry has been steadily increasing over the last decade. Initially, private equity firms focused on specialties of health care, such as organizations in orthopedics, dermatology, urology and others.

The radiology industry was a late arrival to consolidation while organizations in the above-mentioned specialties, along with those in emergency medicine and pathology, have been involved in this process for decades. Radiology practices have been resistant to selling to large hospitals and equity firms, whereas these specialty organizations were looking for economic survival and adopted early to consolidation.

However, private equity firms are now shifting their focus to physician practice management companies (PPMC), who are constantly looking to invest in radiology and physician practices of all sizes to expand their portfolio and value to private equity firms. Firms have begun to heavily invest in the PPMC market as it's widely considered to be a stable investment space that is expected to withstand future market downturns, such as the COVID-19 pandemic.

There are many ways firms navigate the PPMC market, but many utilize the "roll-up" model. Firms will target large physician practices with sufficient infrastructure and revenue to utilize as a "platform practice." Once acquired, the platform practice will serve as an example for all future practice investments the firm makes. Subsequently, the firm will begin to purchase stakes in nearby smaller practices to build its portfolio and expand its network across the immediate region under its platform practice. The next goal for the firm would be to then approach and acquire groups of all sizes across multiple regions, expanding its footprint and taking advantage of the various markets throughout the country.

Alternate options for those wanting to remain independent

The wide scale entry of private equity in health care may bring much needed capital to small practices trying to maneuver their financial burdens. However, there is concern amongst industry professionals that the growth of private equity in the industry will harm it instead of enhancing it.

There are alternative options, however, for practices wanting to avoid selling out to larger organizations or equity firms. One is partnering with other independent groups, like Collaborative Imaging, to obtain and utilize cutting-edge radiological resources. Collaborative Imaging offers its industry-leading workflow and revenue cycle solutions, readily available funds for capital intensive projects and 24/7 administrative support so its more than 500 radiology partners can operate at optimal efficiency while maintaining their group governance and decision-making autonomy. Access to solutions and resources of this nature can play a pivotal role in your independent practice enhancing its stature and being able to weather the turbulent industry state, while remaining autonomous.

If you’re interested in learning more about Collaborative Imaging, feel free to contact us today.