

## Physician Practice Acquisitions See 'Staggering' Spending Uptick in Q2

July 19, 2021

Investors spent almost 10 times more buying physician practices in the second quarter of 2021 compared with the prior-year period.

SOLIC Capital Advisors tallied total transaction value of \$126.1 billion in the three months ended June 30, which the firm characterized as a "staggering" increase over the \$12.9 billion announced during the same period in 2020. Huge deals in the long-term care, hospital and e-health sectors drove up spending in the recently ended quarter.

"It seems investors are trying to make up for lost time," SOLIC wrote of its findings.

Today's investors are mostly private equity firms—especially those doing roll-ups of their existing portfolio companies—and special purpose acquisition companies. That's a shift from five years ago, when buyers were mostly health systems, SOLIC said.

The hottest area for investment as of late is primary care, a surprising finding given that private equity tends to favor specialties with higher reimbursement like dermatology, ophthalmology and orthopedics. Primary care also tends to have higher proportions of Medicare and Medicaid patients than specialties that draw more commercially insured clientele.

What makes primary care so attractive right now is the aging Baby Boomer generation and the continued expansion of Medicare Advantage, SOLIC's authors wrote.

Insurance companies are particularly aggressive about building out primary care acquisitions to increase their patient influence on the front end and control costs in their own Medicare Advantage plans. For private equity investors, it's more about having more leverage in negotiations with insurers if they control some doctors in the area, said Greg Hagood, a senior managing director with SOLIC.

"The view is, I think, because they manage the care, that they can participate in any savings in the overall cost of care, whether you're the private equity investor or the insurance investor," he said.

Recent noteworthy primary care deals include Miami-based senior care provider Cano Health's acquisition of fellow South Florida provider University Health Care for \$600 million. The combined company has 143,000 members, 88 medical centers and more than 1,000 staff and affiliated providers.



Hagood also highlighted Clayton, Dubilier & Rice's reported March acquisition of Millennium Physician Group, another large Florida practice with more than 300 providers.

The trend has caught people's attention because historically primary care was a stable business but not a high margin one, Hagood said. The new theory, however, is, "as you continue to expand practices, there is efficiency in large numbers."

In terms of deal count, SOLIC tallied 542 transactions in the second quarter of 2021, a 58% uptick from the 344 deals announced in the prior-year period. The 2021 period was down 11% from the first quarter of 2021, in which there were 611 transactions announced.

The increased deals mean fewer physicians are working in independent, physician-owned practices. Almost 70% of physicians were employed by hospitals or corporations like private equity firms and health insurers as of January 2021, according an analysis by Avalere Health, which also suggested the COVID-19 pandemic sped up the trend.

The side effect is higher healthcare costs. A recent pair of Health Affairs studies found doctors employed by hospitals were more likely to order inappropriate magnetic resonance imaging tests and that overall testing volume spiked after hospitals acquired physician practices.

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