Private Equity Acquisitions of Physician Practices

NIHCM Webinar
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Jane Zhu, MD, MPP
Figure 1. Private Equity (PE) Penetration Across 6 Office-Based Specialties by Hospital Referral Region (HRR)
## Geographic Distribution and Penetration of Physician Practices

<table>
<thead>
<tr>
<th>Specialty</th>
<th>Count of physicians identified in PE-acquired practices</th>
<th>Count of physicians in office-based settings</th>
<th>Estimated PE penetration (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gastroenterology</td>
<td>845</td>
<td>6,147</td>
<td>13.7</td>
</tr>
<tr>
<td>Urology</td>
<td>492</td>
<td>4,758</td>
<td>10.3</td>
</tr>
<tr>
<td>Dermatology</td>
<td>851</td>
<td>8,565</td>
<td>9.9</td>
</tr>
<tr>
<td>Women’s Health</td>
<td>1,352</td>
<td>15,360</td>
<td>8.8</td>
</tr>
<tr>
<td>Ophthalmology</td>
<td>741</td>
<td>11,398</td>
<td>6.5</td>
</tr>
<tr>
<td>Orthopedics</td>
<td>460</td>
<td>15,588</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,738</strong></td>
<td><strong>61,752</strong></td>
<td><strong>7.7</strong></td>
</tr>
</tbody>
</table>

Empire Building by Roll-Up

MSO

“Friendly” physician

Practice retains equity

MSO purchases non-clinical assets

Management services agreement $$$

ABCDE Dermatology

Platform Practice

Economies of scale
Greater market share
Cheaper debt
Sell for higher multiples

Dr. Skin

Roll up A

Dr. Mole

Roll up B

Dr. Sun & co

Roll up C
Relative to controls, PE acquisitions increased:

- Charges: 20%
- Prices: 11%
- Aggregate volume: 16%
- Unique patients: 26%
- New patient visits: 38%
- Long (>30 min) visits: 9%
Relative to controls, PE acquisitions increased spending on high-priced injectable aflibercept by 21% □ annual increases of $250,000 per practice
“At 1.5 years after acquisition, prices paid to private equity dermatologists for routine medical visits were 3-5 percent higher than those paid to non-private equity dermatologists. There was no significant consistent impact on dermatology spending or use of biopsies, lesion destruction, or Mohs surgery.”

Additional Evidence on Private Equity Acquisitions: Anesthesia

Figure 2. Adjusted Differential Changes in Outcomes Associated With Physician Management Company (PMC) Contract With and Without Private Equity (PE) Investment

A. Allowed amount

B. Unit price

C. Probability that practitioner is OON

La Forgia A, Bond AM, Braun RT, Yao LZ, Kjaer K, Zhang M, Casalino LP. JAMA Internal Medicine. 2022
Role of Management Priorities

The Impact of Management on Clinical Performance: Evidence from Physician Practice Management Companies

Ambar La Forgia

(a)

(c)
The Future? What Happens After PE Acquisition

- ~65% of sold to other PE firms
- ~20% sold to corporate entities (e.g., Optum, CVS, Amazon)
- ~5-10% go public
Q. Compared to the following forms of ownership in the health care sector, is private equity ownership...

- **Independent physician ownership**: 6% Much better, 14% Somewhat better, 13% About the same, 24% Somewhat worse, 28% Much worse
- **Not-for-profit hospital or health system ownership**: 6% Much better, 11% Somewhat better, 20% About the same, 28% Somewhat worse, 22% Much worse
- **For profit hospital or health system ownership**: 3% Much better, 10% Somewhat better, 40% About the same, 23% Somewhat worse, 8% Much worse
- **Other corporate ownership (e.g. Optum, CVS)**: 2% Much better, 12% Somewhat better, 38% About the same, 22% Somewhat worse, 9% Much worse

*base: n=525*