Physician practices increasingly turn to private equity for capital

By **This**, www.crainsnewyork.com
April 26th, 2019

Private-equity firms are accelerating their investments into physician practices, and expanding their portfolios into new specialty areas, such as orthopedics, urology and gastroenterology.

As physician groups look to expand to serve additional patients, recruit more physicians or demand higher payment, they need funding to fuel that growth. Private equity is competing with hospital systems and large physician organizations, such as UnitedHealth Group's OptumCare, for a share of ownership.

"The fact is it's becoming more complex and burdensome to manage a physician practice," Ryan Lucero, a vice president in the Seattle office of private-equity firm Frazier Healthcare Partners, said during an event in Manhattan on Thursday hosted by the law firm Epstein Becker & Green. "Compliance and regulation is going up and reimbursement is going down."

New York providers have captured some of that money. North American Partners in Anesthesia, Schweiger Dermatology Group and CityMD are just a few of the organizations that have used private-equity money to grow their practices.

There were 45 physician practice transactions that were announced or closed in the first quarter, which is on pace to surpass the 181 deals reported last year, according to an analysis published in Bloomberg Law.

Investors have previously shown interest in acquiring practices in ophthalmology, pain management, dermatology and dental. Now firms are scouting for deals in orthopedics, urology, gastroenterology, radiology and eye care, said Gary Herschman, an attorney at Epstein Becker & Green, who co-authored the analysis for Bloomberg Law.

Private-equity firms are able to fund physician practices despite New York's prohibition on the corporate practice of medicine because they typically acquire the group's management services organization.

"They don't technically own the medical group," Herschman said of the PE firms. "The doctors are still employed by a professional corporation that's owned by doctors. The doctors do the clinical decision-making."

New York Spine & Pain, part of National Pain & Spine Centers, was acquired by a private equity firm in 2011 and then sold to a different company, Avista Capital Partners in 2017. The practice expanded from about 30 to 40 physicians in two states before accepting private-equity money in 2011 to about 100 doctors in seven states, said Dr. Jonathan Finkelstein, regional medical director at New York Spin & Pain in Babylon, Long Island.

"It's allowed us to expand and bring under the umbrella, not only more physicians, but more patients," he said. "One of the benefits of that is to collect data on what works and what doesn't and show insurance companies that we can do things better than other doctors can."

The funding appears to be available to physicians in lucrative specialties that are already profitable, while doctors needing capital because they're losing money are less likely to find a partner in private equity. Firms typically invest for a three- to seven-year period and anticipate returns of more than 20%

annually, according to a study by researchers at Weill Cornell Medicine that was published in the *Annals of Internal Medicine* in January. More research is needed to determine the impact on patients, the study said.

Taking private investment—and losing a share of ownership—doesn't make sense for all practices. Robert Glazer, CEO of Tarrytown-based ENT & Allergy Associates, said his group has invested in areas such as analytics, an electronic medical records system and a call center to service patients without taking private money. ENT & Allergy has more than 200 physicians in 42 offices around the metro area.

"We're well-positioned," Glazer said. "I don't need private equity."