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Health Update

Private equity funds and hospitals targeting more physician practices

BY CATHERINE LACKNER

After a brief—and mostly unsuccessful—debut in the 1990s, the trend of third parties (including hospitals and insurers) scooping up physician practices is back.

“That first wave collapsed,” said Kevin Fine, a director for the healthcare advisory services group at the Kaufman Rossin accounting and advisory firm. “Today’s wave is different.”

Practices have appeal for acquirers because healthcare is non-cyclical and the demand will never go away, he said. “Everyone is a patient sooner or later. The Affordable Care Act generated a lot of opportunity,” as more than 20 million in the US obtained health insurance. “And look at the age of the population: 10,000 people per day will become eligible for Medicare between now and 2029.”

“There is so much private equity money sitting on the sidelines now,” partially because interest rates are at historic lows, Mr. Fine said. “This isn’t going to end in a year or two. If there were more deals available, we’d be working 24 hours a day.”



Philipp Ludwig: vital alignments.



David Weiss: tight-knit practice.

Acquirers have also become more knowledgeable about what it takes to manage a practice and how best to leverage it, he added.

"Back in the '90s, it was the Wild West, but now they need to assess the accounting and financial side of an acquisition correctly. The average hospital loses \$100,000 each year on every physician it hires, but they gain it back downstream."

It's not just large medical groups and hospitals that want to acquire practices, he said. Insurance companies are also joining the fray. "That's a big threat, because the payor provides a direct threat to the hospitals. Now, the payors are saying they don't need hospitals."

As healthcare shifts from volume-based (fee for service) to a value-based (the best care for the lowest cost across a population) reimbursement model, "you have to reach out and manage a population to maintain market share and grow," he said. And though there are challenges in healthcare, including fluctuating reimbursement rates, "every problem is an opportunity," Mr. Fine said. "If you're not in the game right now, shame on you."

"We view these alignments as critical, as we move to a value-based approach," said Philipp N. Ludwig, corporate vice president and chief operating officer of the Baptist Health Medical Group.

The healthcare conglomerate has owned physician practices for about 15 years, he said, with the doctors being employees of a particular hospital in its chain. In 2011, the decision was made to merge the practices "under one roof, with one leader," he said. "It was our first big step to consolidate physician groups to align

with a healthcare strategy. I would argue that we had an inkling about the value-based system, which was not as prevalent then as it is now."

That model requires that clinicians coordinate patient care with allied-health professionals. "You have to have a team, with physical therapists, social workers, dieticians and the like. It's a complex challenge facing young physicians, who are usually carrying debt from their studies. It's actually a barrier to entry, so employment becomes an attractive alternative."

New protocols also have to be developed as medicine moves from a "silo" approach to one of more cooperation across disciplines.

"The physicians have to tell us how the teams should operate," Mr. Ludwig said. "It's easier in an employee system to ask physicians to divert time from patient care to develop a more population-based strategy."

The model is being used by the Baptist Health Quality Network, a provider group with about 1,400 members, about 250 of whom are physicians directly employed by Baptist. The organization functions in a model similar to a commercial health management organization.

"There's a similar level of alignment, through shared incentives,"



Marcy Hahn-Saperstein: it's more complex to run a medical practice.

he said. "The physician is the quarterback of the patient's care. As we achieve improved care and reduced cost, there's a shared benefit for provider and payer. Everybody gets a piece or the savings."

Gastroenterology Consultants and its GCPA Anesthesia Services affiliate, the largest gastroenterology practice in South Broward, merged with Miami-based Gastro Health Aug. 1.

"We're a tight-knit, small practice," said David Weiss, a physician there. "We were doing well, but we knew it was only a matter of time" until the nine-member practice would become an acquisition target. "We had to decide who best to partner with."

The practice had a long association with Memorial Healthcare, a hospital network Dr. Weiss described as "a great community partner." Memorial never made an offer for the practice, he added.

"But we knew it was one of many ways we could go," he said. Ultimately, the group decided there was more autonomy in joining a larger group — Gastro now has more than locations and has expanded outside South Florida — than in becoming hospital employees. "There's strength in numbers, and economies of scale. I'm still in control of my practice" but relieved of the time and effort it takes to manage a practice, he said.

Dr. Weiss predicts that the new wave of practice acquirers will fare better than the hospitals and large practices did in the 1990s. Then, the fee-based model made it difficult to see enough patients to be profitable while still delivering good care.

Under the value-based model, "We can prove that we can provide quality care and save money; it's not an either-or proposition," he said. "The value-based system has certain quality metrics to hit" and saves money by avoiding duplications and streamlining processes.

"The business of a medical practice is becoming far more complex than years ago," said Marcy Hahn-Saperstein, healthcare partner at Akerman LLP, via email.

"The implementation of the Medicare Access and CHIP Reauthorization Act and other Centers for Medicare & Medicaid Services requirements, and general uncertainty in the industry with regard to healthcare reform and its impact on physician practices, will likely spur renewed interest in physician practice acquisitions.

"Seeking safety in numbers, physicians want to either group together in larger numbers or become employed by hospital systems to facilitate their ability to negotiate with payors and to seek economies of scale to leverage against higher costs driven by requirements in the areas of compliance, quality and technology."