Top Physician Specialties For PE Investment

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Private equity investors discovered the opportunities in physician practice management (PPM) businesses long ago, and many firms have remained consistently interested in both forming and recapping those businesses. Investing in PPM structures requires careful regulatory analysis to ensure the structure is compliant but can be a source of significant returns. However, not all specialties lend themselves to a growth model that supports private equity returns and certain physician specialties are proving to be more attractive for private equity investors right now. These physician specialties have certain common characteristics including manageable capital investment for growth, high reimbursement, scalability (often through expanding the number of sites where services are offered) and opportunities for growth in ancillary service lines. This article discusses the top specialties for private equity investment and the reasons that these specialty areas are popular.

Private equity investments have been exceedingly popular in the following physician specialties: laboratory-based businesses; anesthesia or pain management; dermatology; urgent care; radiology; and telemedicine. All of these areas have seen tremendous investment activity, as indicated by the following examples:

Prospira PainCare formed in 2012 with the backing of three significant private equity firms — Enhanced Equity Funds, Pulse Equity Partners and Webster Capital — and subsequently acquired a number of pain centers across the country, including The Pain Management Center based in New Jersey and Neuro Pain Consultants based in Michigan. Also in 2012, Welsh Carson Anderson & Stowe formed U.S. Anesthesia Partners, an anesthesia-focused physician services organization that offers practice management services to anesthesiologists, with Greater Houston Anesthesiology PA, one of the largest single-market private practice anesthesia groups in the country. In 2010, Advanced Pain Management Holdings Inc., headquartered in Greenfield, Wisconsin, was acquired by Chicago private equity firm, Chicago Growth Partners.

In 2012, private equity firm Audax Group acquired Advanced Dermatology and Cosmetic Surgery, a dermatology-focused physician practice management company. In 2013, Candescent Partners acquired Dermatology Associates of Tyler with co-investors Eagle Private Capital and Harbert Mezzanine Partners. And just this spring, Varsity Healthcare Partners partnered with Dermatology Associates of Wisconsin/Forefront Dermatology (DAW), which operates 40 clinics in four states in the Midwest. Varsity and DAW formed Forefront Management Holdings to provide management services to DAW.

In another specialty area, emergency medicine, private equity shop Clayton, Dubilier & Rice completed the IPO of Envision Healthcare (formerly Emergency Medical Services Corp.) in August 2013. Clayton Dubilier & Rice had taken Envision Healthcare private in 2011.

Other specialties have seen less enthusiasm from private equity investors. These areas include nephrology, pediatrics, obstetrics and gynecology, and primary care and internal medicine — although even these less popular specialties still do see activity from investors. Few if any specialties are completely incompatible with a PPM model.

Commonalities in Physician Specialty Investment

What makes a particular specialty a focus of private equity investment? Most attractive practice specialties involve scalability of the platform without the relatively high costs of growing a major facility-based businesses — e.g., the cost of stamping out additional urgent care centers is much less than adding another LTAC. In addition, some specialties involve enhanced opportunities for revenue generation through ancillary service lines such as pathology, imaging and other diagnostics, or associated facility fee reimbursement from in-office and surgery center facilities.

What Should Private Equity Investors Look For?

Most successful PPM businesses begin with a common core: a well-chosen foundation practice that serves patients in a specific geographic market with a physician or nonphysician management team that has identified core avenues or revenue generation and expense management that is reproducible, is oriented toward expansion to other geographic markets through de novo growth of new clinics or acquisitions of existing clinics, but requires capital for growth. Thus, identifying the right opportunity involves evaluating both selection of the original clinic locations and its management team (the “hub” in a hub-and-spoke model), as well as the opportunities for short-term add-on clinics.

Another important feature is that the foundation practice is not overly dependent on one or two physicians for success, either in revenue generation or in management of later add-on clinics.

These key considerations are certainly not universal, but if private equity investors keep the foregoing considerations in mind as they evaluate an opportunity, we believe they will be well-poised to choose a physician group that can effectively grow its PPM business with the input of the private equity firm and enhance the likelihood of long-term success for the business.