

SwiftPath: Private equity and ASC joint replacement

Forecasts by Sg2 and others suggest 50 percent of joint replacements will be done as outpatient procedures. Medicare is set to release an outpatient code for total knee replacement in early 2018, and is likely to do the same for hip replacement. As a result, SwiftPath has been contacted by private equity investors showing keen interest in investing in orthopedic groups that are positioned to lead the transition of joint replacement into the outpatient space.

Historically, orthopedic surgeons viewed the full or partial sale of their practices as a loss of independence or control. "But with the backdrop of potential hospital employment — and utter loss of control — today's forward-thinking surgeons now see this option as an attractive alternative," says Craig McAllister, MD, president and chief medical officer of the SwiftPath program. "In fact, many now see a private equity partnership as the key to remaining independent, spending more time with patients, improving patient care and creating stable growth."

"The rise of the ASC is certainly a trend that we've been following," says Patrick Krause, principal and co-head of MHT Partners' Healthcare Services practice. Equity likes the ASC environment because practices can grow with scale, catch a better reimbursement rate and effectively manage costs, according to Mr. Krause. From an investor's perspective, that's very attractive.

There are already examples of investments in this space. Mr. Krause mentions the investment of Frazier Healthcare in the Core Institute in Phoenix. "These transactions are what we think are the tip of the spear, in terms of potential consolidation and the provision of orthopedic services by private equity," Mr. Krause says.

In meetings with investors, Dr. McAllister found most seek to partner with forward-thinking, independent orthopedic groups willing to enhance their position by combining with other groups to establish strong regional and national brands. Allied groups are more powerful and have leverage with the payer community, the local hospital system and vendors — and that creates efficiency across the platform, which is why private equity is attracted to this space, according to Taylor Curtis, a managing director at MHT Partners and co-leader of the firm's healthcare industry practice.

For this to occur, according to Dr. McAllister, today's ASCs will need to evolve into "Ambulatory Joint Replacement Centers of Excellence." They will need new infrastructure, policies and procedures, training, and integration with the preoperative and postoperative patient education and aftercare. "Joint replacement surgeons need to lead this evolution, but I think that it will be very difficult for them to do this on their own," Dr. McAllister explains.

That's why partnering with a private equity firm might make sense, according to Dr. McAllister. When quizzed by Dr. McAllister on what private equity contributes to these partnerships, Mr. Curtis explained business opportunity and the ability to make money are components of what surgeons do as a vocation, but they prefer to focus on the delivery of care. "In addition to supplying money, private equity partners supply the expertise, time and effort associated with sourcing and executing those add-on practices and services that really allow the combined entity to create the efficiencies we talk about," Mr. Curtis says.

Dr. McAllister's own experience with Proliance Surgeons serves as an excellent example of a good alternative to the hospital employment option — and is one that has been truly supportive of outpatient joint replacement. Dr. McAllister's practice is already 80 percent outpatient, and he expects more than 50 percent of all joint replacements will be done in ambulatory settings within the next five to 10 years. "When high-quality surgeons join together, hire management, develop a common mission and create a regional brand, there is really no loss of autonomy. If anything, it is liberating," Dr. McAllister says. "With more than 150 surgeons and more than 20 ASCs, I am confident that Proliance Surgeons will lead the evolution of state-of-the-art outpatient joint replacement."

According to Mr. Curtis, an orthopedic surgeon today only really has three choices. First, the surgeon can be part of a small group — and that can be anywhere from a solo practitioner to a partner group of 10 to 20 members. Second, the surgeon can become affiliated with a hospital system and become a de facto employee of that system; or third, the surgeon can join and help create one of these larger regional or national practices.

The challenge is to empower physicians so they don't feel like employees with the limitations often associated with joining an Integrated Delivery Network or other hospital-based group. "To the extent that private equity firms and orthopedic practices work together to attract talent and allow surgeons to practice effectively on an independent basis while participating in the economic upside of what is being built, I think it is an incredibly viable strategy," Mr. Curtis says.