

Industry Voices—Fertility clinics offer big potential for investors and physician practices

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Fertility clinics are an attractive investment target for private equity firms seeking to establish clinics with regional or national reach. (Blue Planet Studio)

As fertility rates have declined in a number of developed countries, more open attitudes around seeking treatment have translated into rapidly growing global demand for fertility services.

Fertility technology has improved success rates for in vitro fertilization (IVF) from 5% to 30% over the past three decades, according to the Society for Assisted Reproductive Technology; the chance of taking home a baby after each IVF try has risen to 30% from 5% over the past 30 years. Costs are dropping, too, with some clinics providing services for as low as \$8,000.

Notable developments include the FDA's 2015 approval of INVOcell, a technology that allows the egg and sperm to fertilize in a small container in the body rather than in a test tube. The treatment is less costly than traditional IVF and allows women to feel more intimately involved in the fertility process.

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These factors are combining to make fertility clinics an attractive investment target for private equity firms seeking to establish clinics with regional or national reach.

Similar to the consolidation of other physician practice specialties such as dermatology, ophthalmology and dentistry, investors are seeing another big opportunity in the fertility treatment space.

Current strategies around building platforms in the fertility market tend to fall into two camps—those who are looking for standalone fertility specialist clinics and others who are investing in integrated women’s health, of which fertility treatment is one component.

As with other specialty practices, private equity investor goals in fertility are to continue to deliver high-quality, convenient care to patients while implementing cost savings, improving processes and driving growth (in terms of treatments available and treatment locations).

This year, Morgan Stanley Capital Partners completed [an investment in Ovation Fertility](#), a California-based provider of IVF treatments and egg and embryo storage. Similarly, Prelude Fertility, which has been backed by Lee Equity since 2016, [partnered with Inception Fertility](#) to create what they say is the largest provider of comprehensive fertility treatments in the U.S.

Other investors who have entered the space include TA Associates, which invested in Colorado-based CCRM back in 2015, and NexPhase Capital, which has a strategic stake in WIN Fertility.

The relatively small number of fertility clinics in the U.S. has intensified the bidding for assets in the space and forced some PE groups to look at smaller practices than they may otherwise target to get an entry point in the fertility market.

Valuations for leading fertility clinics remain strong, with smaller clinics (\$2 million to \$5 million in EBITDA) being priced at seven or nine times EBITDA, while larger groups (north of \$10 million in EBITDA) can see strong double-digit EBITDA multiples.

When looking at fertility clinics, incumbent scale is not the only consideration. Location is an extremely important factor, given that only [16 U.S. states](#) require insurers to cover fertility treatments. Although clinics outside those states could still make for attractive investments, customers there often have to come out of pocket for costly treatments.

The most attractive clinics are likely to be found in more affluent areas with a high number of large employers. Notably, fertility clinics located in coastal areas, providing easy access to international patients, are well situated to serve couples traveling from Europe or Asia to seek treatment.

Great physical facilities and strong partnerships with other specialist clinics that are part of the fertility equation such as endocrinology, also meaningfully differentiate fertility clinics.

Finally, “brand” is a critical component of a fertility clinic. Potential mothers aren’t likely to settle for second best when it comes to pregnancy. Practices staffed by physicians with strong academic credentials tend to capture higher patient volumes.

Technological developments, social change and the potential for consolidation are all factors that are likely to keep investor interest strong in the fertility sector.

Fertility specialists can benefit from this interest, as other specialties have in the past five to 10 years. Providers who have worked to build equity in their practices have the ability to realize some liquidity from their efforts, partner with a well-capitalized group who can help drive growth and create ownership options for younger physicians in the group.

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