Private Equity Focusing On Primary Care Practices For Their Value And Social Impact

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In recent years, private equity investments in physician groups have been concentrated in specialized multi-site practices like ophthalmology, dermatology, or orthopedic care.

This trend has been driven by the high reimbursement rates for procedures performed by these medical specialties, resulting in strong operating profitability where private equity dollars drive scale through additional acquisitions and efficiency of back-office capabilities.

While auctions for specialty practices remain extraordinarily competitive, private equity firms may be well served by re-evaluating a health care niche that has been relatively overlooked to date.

Primary care physicians see the vast majority of U.S. patients and represent the first line of defense against sickness and injury. Never has this been truer as the world attempts to address grave concerns stemming from the COVID-19 pandemic.

However, primary care groups haven't been favored by PE investors because their services generate relatively lower margins and can be less differentiated than specialized physician practices.

There are a number of compelling of reasons why the primary care sector might now deserve a second look by private equity.

PE operators with significant expertise in rolling up specialty practices will have a leg up when it comes to investing in primary care practices.

As part of their roll-up playbook, many healthcare-focused PE investors have become adept at negotiating better payor contracts and building professional back-office operations that have helped to professionalize clinics' accounting, credentialing, marketing, and scheduling functions.

These capabilities, properly implemented for primary care groups, could free up physicians to see more patients and spend more time with them. That, of course, results in higher-quality care, reduced reliance on costly specialists, and improved patient satisfaction and outcomes.

Given private equity's success in specialized multi-site roll-ups, there are real opportunities for PE to invest in relatively less expensive primary care groups and to position them to extend care, lower costs, and secure dominant local or regional market roles.

Notably, there is the ability to deliver a positive social impact. Many funds are looking for opportunities where they can do well by doing good. Investing in primary care is a win-win in this sense because it draws dollars away from expensive specialty clinics and into an under-resourced segment that has the greatest ability to improve health outcomes for people.

Higher quality primary care should result in more illnesses and injuries being prevented or managed at an earlier stage. Better resourced and administered primary care could result in service expansion to health care being extended to areas of the country that are currently underserved by primary care.

Several recent deals underscore the investor interest in primary care practices. New Enterprise Associates in 2018 led a $165 million funding round for Paladina Health, a Denver-based primary care company. Paladina runs 53 primary care clinics in 10 states for employers.
NEA then acquired Paladina for approximately $100 million from DaVita DVA 0.25% Private equity firm Carlyle Group CG 6.86% invested $350 million in One Medical, a national primary care clinic operator with offices in San Francisco and New York City.

For PE investors willing to be creative and leverage the lessons from specialized practice roll-ups, opportunities abound in the primary care sector.

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