When private equity calls: 3 keys for physicians to know

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Venture capital (VC) and private equity (PE) firms represent ready cash for physicians open to selling a practice or seeking outside investors. Are these financial players the right choice for when money and medicine mix?

Physicians faced with making that decision have new resources from the AMA to find what will work best for their practice.

At a high level, private equity firms are more likely to buy and build value in hopes of profiting from a relatively quick sale, and venture capital firms are more likely to invest for a longer time horizon.

The AMA's guide, “Venture Capital and Private Equity Investments: How to Evaluate Contractual Agreements,” highlights key insights and considerations into the functioning of a VC or PE firm. Among the points raised in the resource, these three particularly stand out in terms of assessing a deal—change in physician income, day-to-day practice management, and retaining professional independence.

Expect a change in compensation

Potential profit drives VC and PE firm purchase or investment decisions. However large an offer might be—and it may be very tempting—it is based on capturing a profit a medical practice might have made by going it alone.

“VC/PE investment firms tend to offer high prices to purchase a practice, but with a catch,” cautions the guide, which points out that in the case of a practice sale, physician owners who stay on become employees. “In many cases, VC/PE firms can alter the physician payment structure, meaning physicians may receive less long-term and sustained earnings.”

Certain physicians may still find a substantial lump sum payment upfront desirable. It may provide “a potentially more consistent revenue stream insulated from changes in the market, modified payer policies, and other sources of volatility,” observes the guide, which also points out that productive physicians “may receive bonuses (among other added compensation) that may help soften the potential earnings loss.”

Be ready to surrender some control

To protect their investment, VC and PE firms will want to make sure the practice is run in a business-like manner. As with compensation, there can be positive and negative elements attached to that too.

Sometimes the firm will require the physician practice to adopt back-end industry standards to streamline office management and administration. Some practices will welcome that and see it as “one of the more valuable assets VC/ PE-backed entities bring to the table (particularly for small, independent practices).

However, physicians not accustomed to this degree of control over their practices should be cognizant of the oversight the entity may have over day-to-day operations and understand the allocation of such responsibilities.”

Retain professional independence

The guide is clear about protecting the boundary separating the professional side of the practice from the business side.

“Physicians have the ultimate authority and responsibility to engage in the professional practice of medicine, and contracts should expressly acknowledge that the other parties to the transaction (e.g. the VC/PE firm) will not interfere with the physicians’ ongoing duty to exercise their own best medical judgment,” notes the guide.

To protect the patient and reserve the physician right to practice medicine has he or she deems fit, physicians may consider adding additional language regarding his or her exercise of that authority.

A two-page snapshot from the AMA provides a basic orientation for physicians unfamiliar with venture capital and private equity investment. The AMA has also created a three-page model checklist that takes a point-by-point look at key topics, such as terms of sale for the practice, standardization techniques and economies of scale.

Learn more from the AMA on physician payment and delivery models.