Snapshot:
Venture Capital and Private Equity Investment

Venture Capital (VC) and Private Equity (PE) investors are increasingly investing in or acquiring physician practices. Physicians interested in these deals should consider the strategic implications of these transactions and be aware of their unique terms and conditions. The AMA has developed resources to help physicians navigate these opportunities and, if desirable, negotiate terms that reflect the practice's goals and preferences, including a Model Checklist and a Contractual Guide.

Topline issues to consider:

- **VC/PE Investment 101.** As compared with other health care partners (such as hospitals, clinically integrated networks, etc.), VC or PE investors or owners can bring higher value in upfront investment and less operational control, but may also bring greater uncertainty, as the investor may be unknown in the market or new to the healthcare space. There can also be a different time horizon for a VC or PE firm investment as compared with other investors; PE firm investments may be short-term with an eye toward resale, while VC firms may have more tolerance for achieving growth over time. VC/PE investment can take many forms, with some entities seeking significant control over practice operations and others providing infrastructure and other resources with relatively little control over day-to-day administration of the practice.

- **Retaining Practice Independence.** The impact of VC/PE investment on physician independence, both clinically and with respect to the overall management of the practice, should be carefully evaluated. Many VC/PE firms can offer significant resources which can be utilized to achieve clinical and operational goals, and provide more time for physicians to focus on patient care. Other terms may include new, firm-wide processes or procedures regarding quality measurement or clinical management, which may require significant adjustments to day-to-day practice. New clinician partners may also be installed, which may be helpful or disruptive to the practice ethos overall. Physicians should carefully weigh the pros and cons of partnering with a VC/PE firm in both the short and long term.

- **Compensation Modifications.** While a VC or PE-backed entity will likely offer a relatively substantial investment amount or high purchase price for a physician practice, long-term compensation may decrease or be variable. Investment from such entities may be more attractive to physicians considering retirement, due to the one-time lump sum payment in return for years of equity, while physicians further from retirement may prioritize ownership options which have the potential of greater future employment earnings. The impact to compensation over time should be considered, especially in instances where future compensation may be variable or not guaranteed.

- **Infrastructure Investment.** Private investment in a physician practice may present opportunities to improve patient experience and/or clinical workflow through infrastructure investment. Capital investments may take the form of updated practice infrastructure and technology (e.g. renovations to office space, implementation of patient scheduling or testing results online portals, funding for or access to non-clinical support staff, enhanced patient engagement tools, etc.). Physicians should carefully consider how these investments may enhance the practice, as well as any costs the investor requires to be paid by the practice under the terms of the transaction, particularly if the parties later seek to terminate the relationship.

- **Administrative and Management Services.** Often, VC or PE investors will require practices to adopt industry-standard procedures related to management and administration, such as accounting, payer contracting, recordkeeping, compliance, and coding standards. Physicians should understand the degree of oversight that the investor plans to exercise over day-to-day operations, as well as the impact that management style changes may have on the practice and its existing employees. Physicians should also be aware of options for resolving issues when future disagreements with the investor arise and, when the investment takes the form of ownership, whether the investor has the ability to terminate physician employment.