AMA
AMERICAN MEDICAL ASSOCIATION

Venture capital and private equity investment

Snapshot

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 American Medical Association has developed resources to help physicians navigate these opportunities and, if desirable, negotiate terms that reflect the practice's goals and preferences. In addition to this snapshot overview, the AMA offers a corresponding "Venture capital and private equity investments: Model checklist" and a more in-depth "How to evaluate contractual agreements".

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, new to the health care industry or pursue novel strategies for rapid growth. VC or PE investors also often have a different investment time horizon compared with other investors. PE firm investments may be shorter term with an eye toward resale. VC firms often tolerate slower growth, but still generally expect an "exit" or sale to a third party. 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 influence 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 evaluated carefully. Many VC/PE firms can offer significant resources to achieve clinical and operational goals, expand service offerings and allow physicians to focus on patient care. Investors may also implement new strategies, processes or procedures around issues like quality measurement, clinical management, practice efficiency, personnel management, compliance, revenue strategy or technology, any of which may require adjustments to day-to-day practice. They may also bring new physicians or other staff into the practice through future acquisitions, or require collaboration with other partners, which may impact overall practice dynamics. Physicians should seek as much information as possible and 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 that are more likely to maximize longer-term earnings. As part of the transaction, investors may also require modified compensation to align with strategic goals or address compliance considerations. 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, clinical workflow and practice finances. Capital investments may take the form of updated practice infrastructure and technology, such as renovations to office space, new equipment, added ancillary services, new technology (including electronic health records and other tools for quality reporting and clinical documentation), non-clinical staffing and various administrative functions (including a revenue strategy and assistance with payer negotiations). Physicians should carefully consider how these investments may affect the practice, including any associated debt as well as any costs the investor requires the practice to pay 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—to match their other practice investments. 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 if/when future disagreements with the investor arise. When the investment takes the form of ownership, they should evaluate whether or not the investor has the ability to terminate physician employment.

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