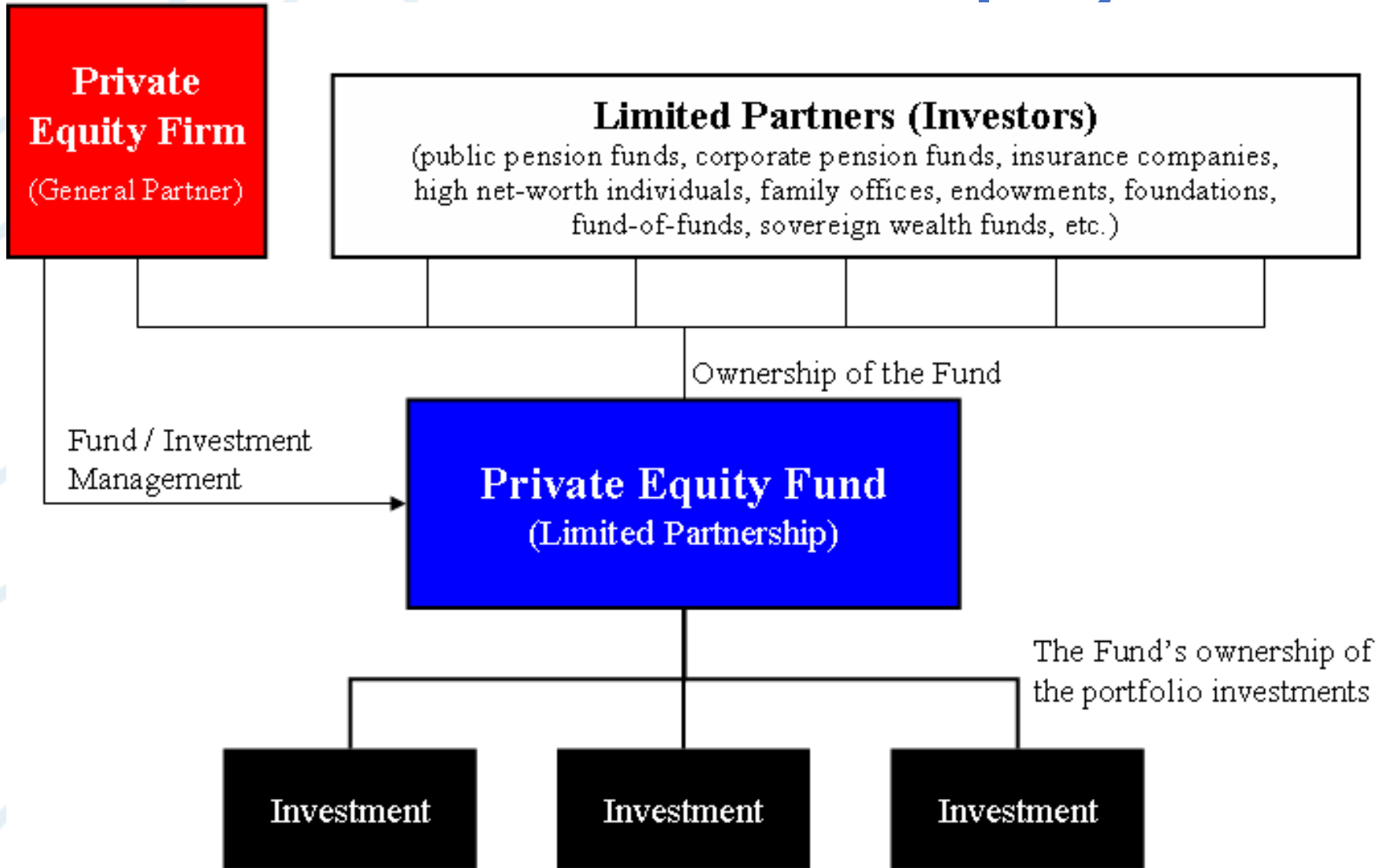




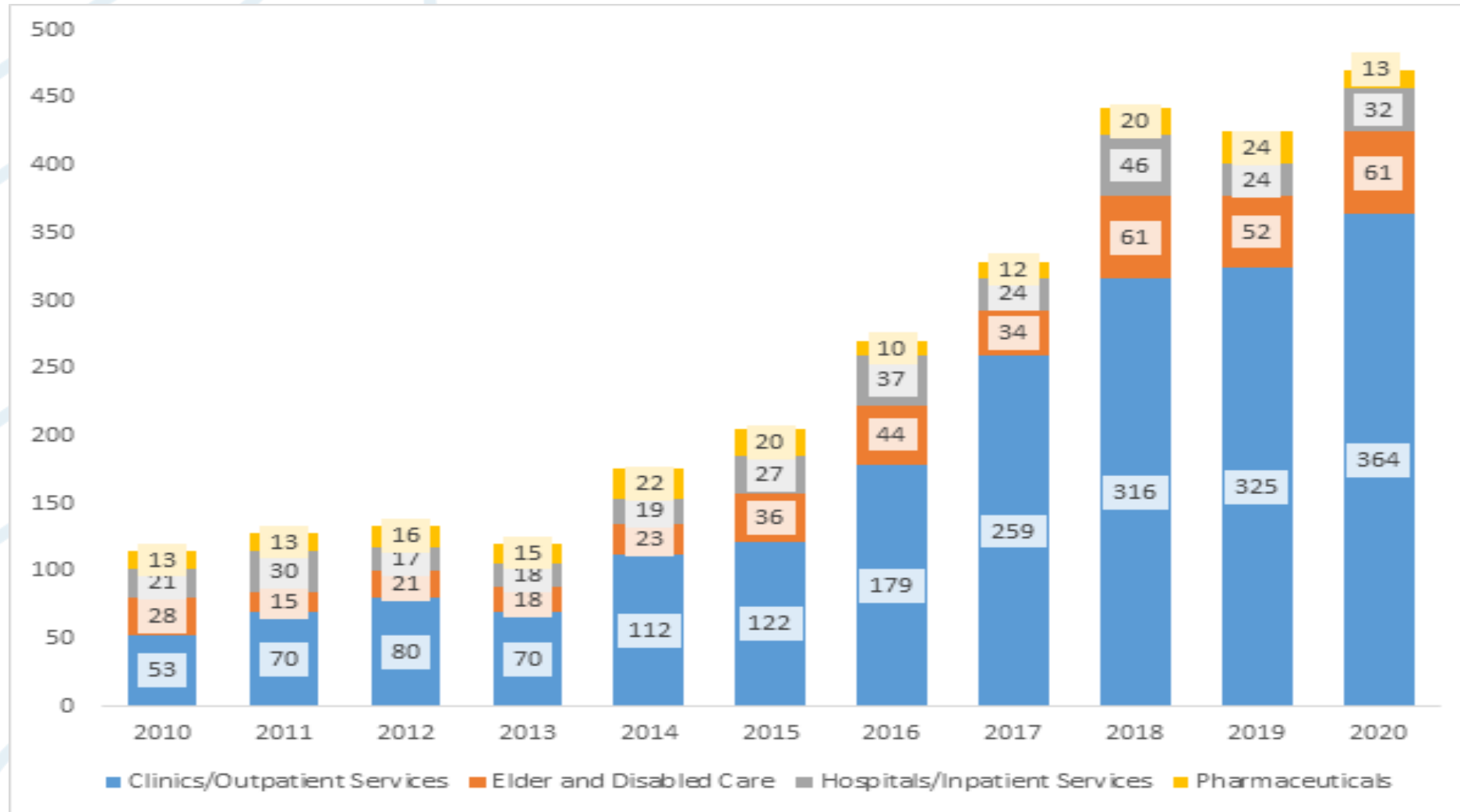
# Private Equity Acquisition of Physician Practices- *Caveat emptor*

Francis J. Crosson, M.D.

# What is Private Equity?



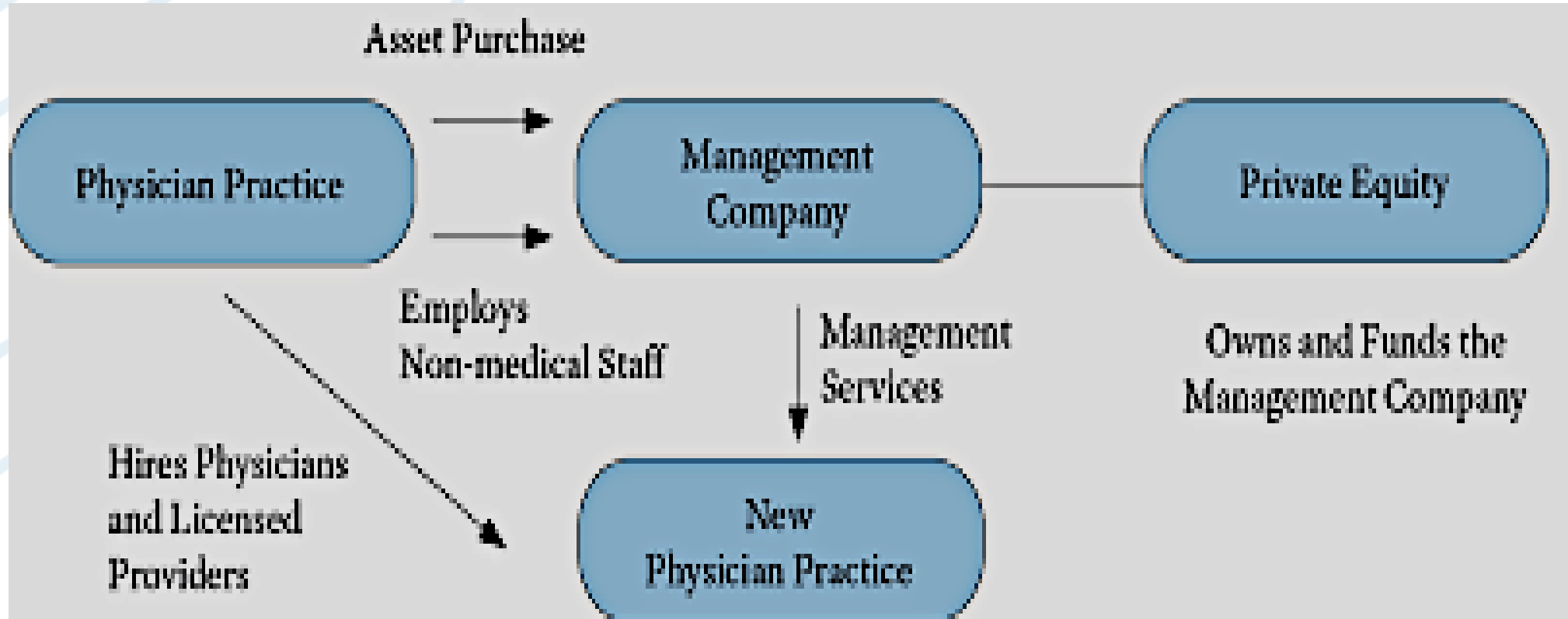
# The Growth of Private Equity in Health Care 2010-2020



# What Ever Happened to the Corporate Practice of Medicine Bar?

- It no longer exists in some states
- In most states the private equity firms work through a Physician Management Company (PMC), or Management Services Organization (MSO) which is legal.....

# Private Equity Usually Invests in Physician Practices Via Physician Management Companies



AHLA- 2020

# What Ever Happened to the Corporate Practice of Medicine Bar?

- It no longer exists in some states
- In most states the private equity firms work through a Physician Management Company (PMC), or Management Services Organization (MSO) which is legal
- Practice revenue flows to the PMC, then to the physicians, with "excess" to the PE entity
- PE entity usually appoints the practice physician "leader", who is affiliated with the PE entity

# Why are Physicians Selling to Private Equity?

- Falling practice revenue
- High malpractice costs-anesthesia, E.R.
- One time cash payments- 9-12x annual practice “profit”
- Capital for practice expansion/market consolidation
- Converting part of physician income to capital gains, via a lower “salary”
- Administrative simplification

# Potential Impact on Practice Structure, and Professional Independence

- Pressure to cut costs-staffing (an expectation going in), service and quality
- Pressure to substitute physician ancillary providers
- Pressure to do more procedures than appropriate
- Physicians are usually “locked-in” by PMC contract, known as “captive physician model”
- This is different from hospital ownership of physician practices-the time frame makes the incentives different



# Is the Model Sustainable Long Term?

- The Phycor and MedPartners PMC experience in the 1990s
- Revenue enhancement and cost cutting are finite in medicine; this is not Silicon Valley
- 5-7 year timeline for private equity exit-20-30% expected return to investors
- Who will be the “greater fool”?

# An Ethical Problem for Physicians

“You can’t serve two masters. You can’t serve patients and investors”

Dr. Michael Rains-U.S Dermatology Partners in Bloomberg Business Week-  
“How Private Equity is Ruining American Health Care”- May 20, 2020

# What Can Be Done?

- Federal Trade Commission oversight-the \$94M threshold for reporting practice acquisitions
- The “Bully Pulpit”
  - AMA communication of the issues to physicians to promote general awareness
  - A review and updating of the AMA Code of Medical Ethics with special attention to professionalism issues related to private equity practice acquisition

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- \*\* If you have a hour to spare and want to watch a discussion of how private equity works from those who help design these investments