

# A New Way to Affiliate: Health System Equity Investment in Physician Groups

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Experts already predict another record-breaking year for private equity investment in physician practices, with 45 deals announced or closed in Q1 2019 alone. As private equity interest in ophthalmology and dermatology stays hot, and as other specialties capture investors' attention and dollars, some health system leaders are offering an alternative to private equity capital by making their own equity investments in key practices.

Equity investment in physician practices is a relatively new strategy for health systems, and for some, it's an attractive middle ground between private equity ownership and hospital employment. Minority equity investments enable health systems to offer an attractive alternative to private equity ownership, allowing physician practices to align their business interests with those of the health system while preserving their independence. As minority "partners" in the practice, the health system is able to provide growth capital to help practices develop and expand in ways that support their mutual interests—often the key driver behind a private equity acquisition.



For example, in 2018, Montefiore Health System in Bronx, N.Y., invested in a large, multispecialty practice, Crystal Run, with multiple locations in a very competitive market. The organizations formed a new entity, Crystal Run Health Transformation Holdings, LLC, that is neither a merger nor an acquisition, with Montefiore purchasing a minority interest. The arrangement positions Montefiore to align with a key strategic partner in the market, expand its population health management capabilities, and enhance access to Montefiore's academic and scientific enterprise for Crystal Run physicians and patients.

But some physicians are cautious of entering into minority equity arrangements with health systems given the degree of control that must be surrendered to the health system. In making these deals, independent physicians may be required to accept compensation

adjustments in return for partial monetization and capital to support the growth of the practice and help the practice remain competitive. That's a tough adjustment, especially for specialty physicians.

## **EVALUATING YOUR OPTIONS**

What should health system leaders consider in determining whether equity investment in a physician practice is the right choice? Here are four key considerations.

**IS THE PRACTICE LARGE ENOUGH TO GIVE THE HEALTH SYSTEM A COMPETITIVE EDGE?** Practices that typically are the focus of equity investment are “large, well-managed, and reputable in their community.” They usually have one or more ancillary lines of business, such as imaging services, demonstrated performance in risk-based contracts, strong brand identity and patient loyalty, and, are experienced in managing the patients with complex care needs. Investing in the right practice will strengthen the health system's competitive position while allowing the practice to remain independent.

**WHAT IS THE EARNING POTENTIAL OF THE PHYSICIAN PRACTICE?** Specialty practices such as ophthalmology, dermatology, gastroenterology, orthopedics, radiology, urology, and OB-GYN offer strong opportunities for growth and revenue. So do specialty groups with physicians in multiple locations. Meanwhile, multispecialty practices that include primary care could help the health system elevate performance under value-based payment models.

**DOES THE PRACTICE OFFER EMBEDDED ANCILLARY SERVICES?** In-office ancillary services boost revenue opportunities while enhancing patient convenience. The percentage of physician practices that feature embedded ancillary services is increasing. For example, 73 percent of internal medicine and 84 percent of family medicine practices offer in-office electrocardiogram services, while 53 percent of internal medicine and 69 percent of family medicine practices provide laboratory services, according to a recent physician survey.

**HOW WOULD EQUITY INVESTMENT SUPPORT THE HEALTH SYSTEM'S STRATEGIC GOALS?** Would investment in the physician practice expand coverage for the health system or enable the health system to manage a larger population? Would it open access to a service line it has deemed essential to the future of its operations? Or, has a competing party, such as a private equity firm, expressed interest in the practice—and would acquisition by such a firm weaken the health system's competitive position? Make sure equity investment ties in with the health system's strategic objectives.

Careful evaluation of these four factors will help leaders determine the right approach to integration for long-term success. ●