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# Urgent Care Centers: Trends and Valuations

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Urgent care is one of the fastest-growing segments in health care, projected to grow almost 40 percent, to $18 billion, by 2017. Drivers include a projected increase in the insured population, a shortage of primary care physicians, the lower cost of urgent care compared with emergency department (ED) visits, and the potential of urgent care centers to reduce demand on chronically over-crowded EDs. Urgent care centers also appeal to consumer desire for greater convenience, through evening and weekend hours and walk-in appointments.

The urgent care industry is highly fragmented, but acquisitions are picking up. Private equity firms acquired three urgent care chains between 2010 and 2012. Hospitals and health systems have also started to make significant purchases, as illustrated by Dignity Health's acquisition of U.S. HealthWorks in 2012. Payers are recognizing the value of urgent care centers as the push towards lower-care settings increases. WellPoint, for example, has invested in Physicians Immediate Care.

With acquisition comes the need to perform valuation of these centers. This prospect poses a number of challenges. Valuation, at its core, is a matter of projecting net income. Several factors add to the complexity of doing so for urgent care centers.

### Factors affecting demand.

Valuation must take into account how demand will develop in the local market, including the impact of changes in EDs. Demand for urgent care will be strongly affected by healthcare reform and alternate payment initiatives, whose impact on the market is still a partial unknown. It is estimated that there will be an increase of 26 million nonelderly insured by 2017, while demand for primary care physicians is expected to exceed supply by 53,000. An aging population will also increase demand.

### Impact of global-fee reimbursement.

Unlike reimbursement for physician practices and hospitals, most urgent care reimbursement is covered under a flat rate that is standard for all visits. Profitability of urgent care centers is strongly affected by case-mix and acuity, and successful negotiation of global fees is critical to determination of financial success.

### Complexities of valuing start-ups.

There are special considerations in valuing entities that have started operations relatively recently. Start-up costs for urgent care centers are around $1 million per center; this debt decreases value. Projected volume ramp up must be determined—will patients be shifted from the local EDs (which could occur relatively quickly), or will the center need to build a local reputation? A good valuator will account for the differing degree of risk associated with valuing an established urgent care center versus a startup center without a track record.

**Private equity firms, hospitals and health systems, and payers are recognizing the value of urgent care centers.**

### Lack of guideline companies.

The market approach to valuation typically requires "comparables"—data from other, similar entities, referred to as guideline companies. With urgent care centers, many of which are closely held, the availability and completeness of transaction data are limited, and the data may be of questionable comparability. Information about comparable acquisition transactions also may be lacking.

In sum, although the income statement of an urgent care center may seem relatively simple, the nuances of the industry result in a more complex valuation process than one might expect.

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