

Private Equity in Medicine

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What is Private Equity (PE) ?

- PE firms raise **time-limited (under 10 years)** pools of equity capital through limited partnerships, **90% funded by large institutional investors** : large pension funds, university endowments, foundations, banks, insurance companies expecting higher returns than from other types of investments
- PE acquires existing companies. Typical financing structure is **70% debt**, 25% limited partners, 5% general partners. Deals are privately executed (not sold to the public) so not overseen by regulators. “Buy to Sell” focus.
- PE differs from Venture Capital ,which invests in early –stage companies , use primarily equity, and has longer time horizons to realize their returns.

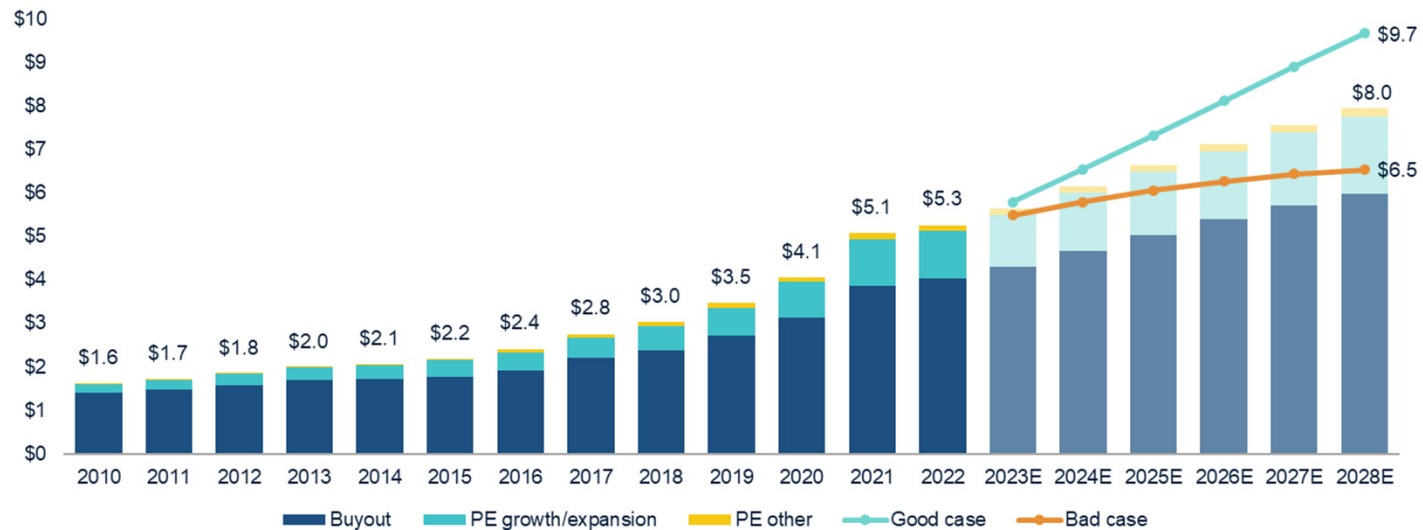
Example of PE “Exit” Strategies: Envision Healthcare

- 1972 – 1997: Emergency physician staffing company started and grown to 196M in Revenue by private owner
- 1997: Acquired by privately-owned Laidlaw (bus and ambulance co) for **\$336M**
- 2005: Acquired by PE Firm ONEX and taken public for initial valuation at **\$820M**
- 2011: Acquired by PE Firm Clayton Dubilier and Rice for **\$3 Billion**
- 2013: Taken public, initial valuation **\$4 B**
- 2018: Acquired by PE firm KKR for **\$9.9 B** (7B of which was debt)
- 2023: Filed for bankruptcy after passage of No Surprises Act

Forces Behind Growth in Private Equity Funds

- PE firms currently manage 20% of Corporate Equity (up from 4% in 2000)
- Acts passed during Great Depression (Securities Acts of 1933 and 1934) required “full and fair” disclosure by companies selling securities to the public; limited private companies to 100 investors
- National Securities Markets Improvement Act of 1996 removed the private investor limit;
- Interest rates have been low since 2000, encouraging the PE model of financing---but rising rates are problematic. Meanwhile private credit industry is booming.....

Private Equity Assets Under Management in \$ Trillions



Source: Q2 2024 Pitchbook Analysts Note

https://files.pitchbook.com/website/files/pdf/Q2_2024_PitchBook_Analyst_Note_Private_Capitals_Path_to_20_Trillion.pdf

Trends in Healthcare Investments by PE Firms

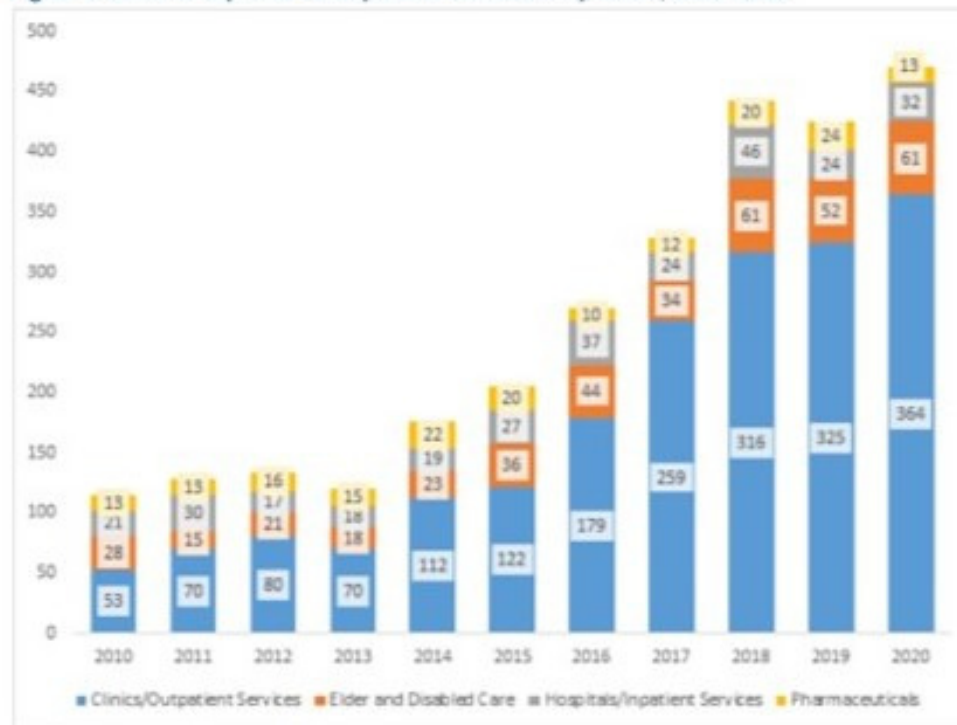
Figure 1. Total PE Deals in Healthcare* – Reported Deal Value, Estimated Deal Value, and Reported Deal Count, 2010-2020



Petris Center/AM analysis of PitchBook data.
 SOURCE: PitchBook Data, Inc. Data has not been reviewed by PitchBook analysts.
 NOTE: Data as of 3/30/2021. Valuations are reported in current dollars. Analysis conducted by PitchBook Data, Inc. and provided courtesy of Eileen Appelbaum and Rosemary Batt. The PitchBook database is dynamic and deal counts produced by the same search may vary as underlying data change over time. Deals defined according to PitchBook's "standard PE methodology," including LBOs, add-ons, growth investments and secondary buyouts. Estimated total deal value in current dollars, 2010-2020 = \$749.5 billion, estimated total deal value in Jan. 2020 CPI-adjusted dollars, 2010-2020 = \$805.9 billion.

Source: CONSOLIDATION ACCELERATED, COMPETITION UNDERMINED, AND PATIENTS AT RISK
 RICHARD M. SCHEFFLER LAURA M. ALEXANDER JAMES R. GODWIN MAY 18, 2021

Figure 3. Count of Reported PE Buyouts in Healthcare by Sector, 2010-2020



Petris Center/AAI analysis of PitchBook data.

SOURCE: PitchBook Data, Inc. Data has not been reviewed by PitchBook analysts.

Source: PRIVATE EQUITY INVESTMENT IN FEE-FOR-SERVICE HEALTH CARE:
Lower Quality at Higher Costs AHIP ISSUE BRIEF

September

Private Equity Investment in Hospitals

PE Investments in US Hospitals: approx. 460 Hospitals (source: PESP PE Hospital Tracker, January 2024)

State	# PE-Owned Hospitals	% Of all Private Hospitals in State
TX	97	18%
LA	27	14%
CA	22	6%
OK	21	18%
TN	21	16%
NC	20	19%
AZ	19	17%
OH	18	7%
NM	17	38%
KY	16	15%
IN	15	9%
FL	14	5%
PA	13	5%
AR	11	10%
CO	11	12%
6 Other States (LT 10)	50	

Types of Hospitals Owned by PE Firms

- Nonspecialty acute hospitals (35%)
- Rehabilitation hospitals (26%)
- Psychiatric hospital (23%)
- Long-term acute hospitals (17%)

- 26% serve rural populations

- Hospital Management Companies (Ovation Health manages 375 hospitals across 47 states; not yet in Hospital Tracker data)

Health Systems Owned by the Largest PE firms

(source: PESP Private Equity Hospital Tracker)

PE Firm	Owned Health Systems	# Hospitals
Apollo Global Management	Lifepoint Health, Scion Health	224
Equity Group Investments	Ardent Health (rural acute)	32
One Equity Partners	Ernest Health (Rehab and LTC)	31
Webster Equity Partners	Oceans Healthcare (Psych)	20
Bain Capital	Surgery Partners	19 (also has 145 ambulatory sites)
GoldenTree Asset Management, Davidson Kempner	Quorum Health (rural acute)	15
Patient Square Capital	Summit Behavioral Health	13
Stanton Road Capital	Pipeline Health Nobis Rehab, Reunion Rehab	12
Thoma Bravo, Resolute Capital Ptrs, WP Global Ptrs, Brown Brothers Harriman	Haven Behavioral Health	7
Ridgemont Equity Partners	Perimeter Healthcare	7
Enhanced Healthcare Ptns	NeuroPsychiatric Hospitals	7

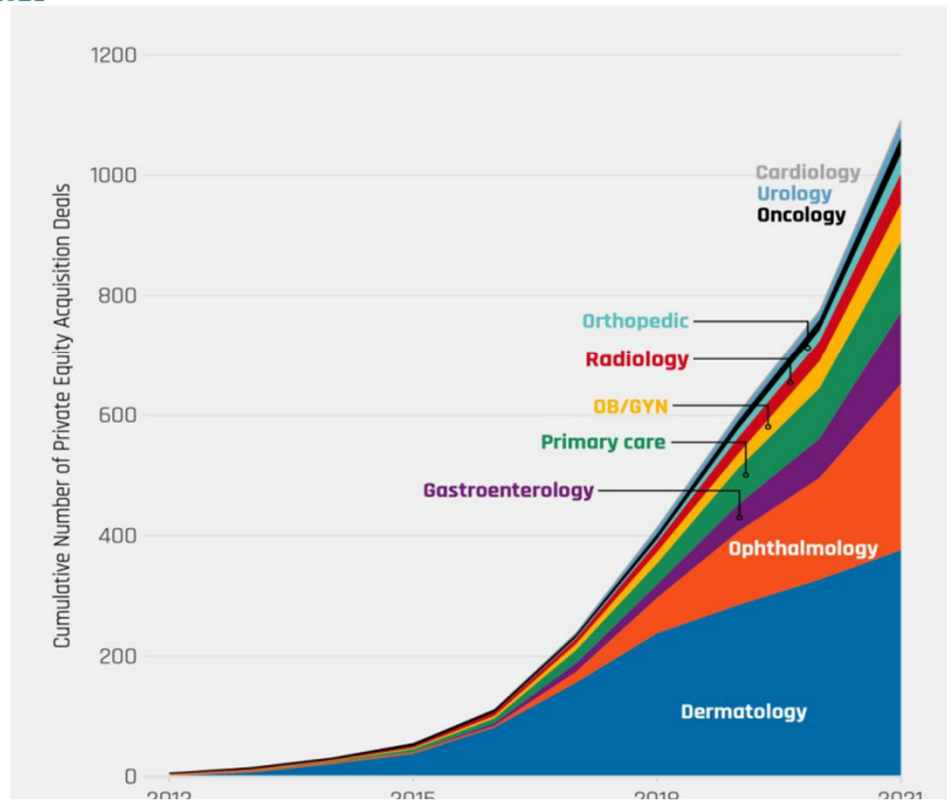
PE Impact on Hospitals

	Impacts			
	Health outcomes	Costs to patients or payers	Costs to operator	Quality
Borsa and Bruch 2022 ³⁶	Neutral			Neutral
Bos and Harrington 2017 ³⁷				Harmful
Bos et al 2020 ³⁸				Harmful
Braun et al 2021 ³⁹		Harmful		
Braun et al 2021 ⁶⁰	Harmful	Harmful		Neutral
Braun et al 2020 ⁴⁰	Harmful			Mixed
Broms et al 2023 ⁶¹				Harmful
Bruch et al 2023 ⁶²				Harmful
Bruch et al 2022 ⁶³	Neutral	Neutral		
Bruch et al 2021 ⁴¹		Neutral		Harmful
Bruch et al 2020 ⁴²		Harmful		Beneficial
Cerullo et al 2022 ⁴³			Beneficial	Harmful
Cerullo et al 2022 ⁴⁴	Beneficial	Neutral		Neutral
Cerullo et al 2021 ⁴⁵				Mixed
Creadore et al 2021 ⁴⁶				Beneficial
Gandhi et al 2020 ²²				Mixed
Gandhi et al 2020 ⁴⁷	Beneficial			Beneficial
Gupta et al 2021 ⁴⁸	Harmful	Harmful	Harmful	Harmful
Harrington et al 2012 ⁴⁹				Harmful
Huang and Bowblis 2019 ⁵⁰				Mixed
La Forgia et al 2022 ⁵¹		Harmful		
La France et al 2021 ⁵²				Harmful
Liu 2021 ⁵³	Neutral	Harmful	Beneficial	Mixed
Nie et al 2022 ⁶⁶		Harmful		Harmful
Nie et al 2022 ⁵⁴				Mixed
Offodile et al 2021 ⁵⁵		Harmful	Beneficial	Harmful
Patwardhan et al 2022 ⁶⁴				Harmful
Pradhan et al 2014 ⁵⁶				Mixed
Pradhan et al 2013 ⁵⁷			Harmful	
Singh et al 2022 ⁶⁵		Harmful		
Stevenson and Grabowski 2008 ⁵⁸				Mixed
Winblad et al 2017 ⁵⁹				Mixed

Source: *BMJ* 2023;382:e075244

Private Equity Investment in Physician Practices

Figure 2: Cumulative Number of Private Equity Acquisition Deals of Physician Practices by Specialty, 2012-2021



Source: MONETIZING MEDICINE: PRIVATE EQUITY AND COMPETITION IN PHYSICIAN PRACTICE MARKETS, Sheffler et al, 2023

Figure 5: Cumulative trend in the Number of MSAs by Specialty in which a Single Private Equity Firm Possessed More Than 30% Market Share of One or More Physician Specialties, 2012-2021

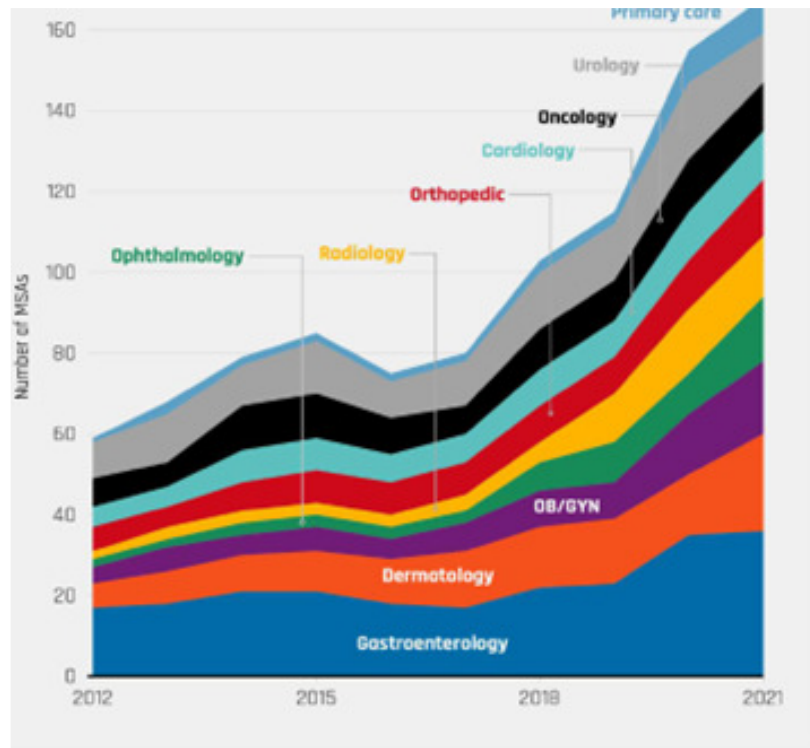


Figure is a cumulative MSA-specialty level figure. For example, in 2021 and in 108 MSAs, a single private equity firm held more than 30% market share in one or more physician specialties in an MSA, totalling 168 (larger than 108) MSAs because some of those firms had more than 30% market share in two or more specialties. Authors' analysis of PitchBook Data, Inc., as of June 15, 2022, and OneKey and SK&A Office Based Physicians Database (QVIA). PitchBook data has not been reviewed by PitchBook analysts.

There are observable differences between the MSAs where a single PE firm has a market share

Source- Monetizing Medicine op cit

Impact of PE Ownership and Market Share on Prices and Expenditures

Table 3: Relative Physician Price and Expenditures per Patient Changes of PE Acquired Practices Relative to Matched Controls

Specialty	(A) Price	(B) Price (>30% market share MSAs)	(C) Expenditures per patient	(D) Expenditures per patient (>30% market share MSAs)
Gastroenterology	14.0%	18.2%	16.4%	14.9%
Dermatology	4.0%	13.3%	4.1%	15.0%
OB/GYN	8.8%	16.3%	10.5%	18.9%
Ophthalmology	8.7%	8.5%	15.4%	6.7%
Radiology	8.2%	1.5%	-1.8%	2.0%
Orthopedics	7.1%	9.7%	4.0%	6.8%
Urology	4.2%	9.3%	8.5%	17.0%
Oncology	16.4%	11.2%	10.8%	29.7%
Cardiology	8.7%	-2.7%	13.1%	-10.7%
Primary Care	4.1%	-3.4%	6.2%	12.6%

Notes: Bold indicates statistically significant at the p=0.05 level. Only includes treated and control practices that matched using 5:1 caliper matching. The formula $(\exp(\text{coefficient}) - 1) * 100$ was used to convert the coefficients from the Sun & Abraham versions of our difference-in-differences regressions to the percentages in this table. The unit of analysis in the regressions is a practice. Source: Authors' analysis of data from HCCI Commercial Claims Research Dataset, OneKey and SK&A Office Based Physicians Database provided by IQVIA, and Area Health Resources File.

Source: Monetizing Medicine, op cit

Private Equity in Nursing Homes

Private Equity Owns Roughly 8% of All Nursing Homes in the US

- In 2004, PE owned less than 1% of facilities
- By 2012, PE owned close to 8% of facilities
- Nursing Home Acquisition Deal volume rose steadily:
 - 2004 – 2009: 50 – 75 deals per year
 - 2010 – 2015: 80 – 120 deals per year
 - 2015-2019: 120 – 150 deals per year

Outcomes at PE-Owned Nursing Homes

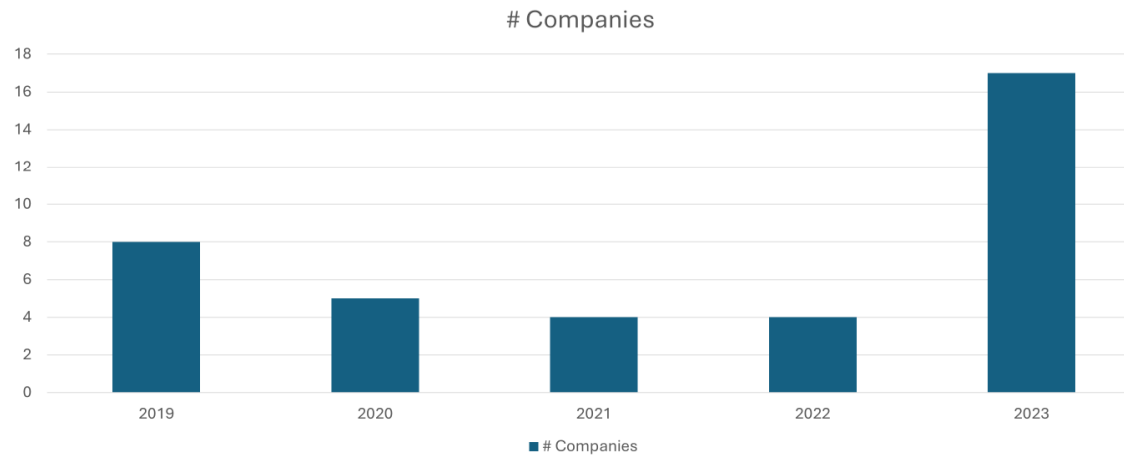
Facility and Patient Attributes	Not PE-Owned	PE-Owned
Overall Five-Star Rating	3.2	2.83
Staff hours/Day	3.6	3.38
Nurse Asst Hrs/Day	2.29	2.06
Management Fees	\$6,001	\$25,833
Building Lease	\$4,825	\$23,919
Interest Expense	\$5,588	\$140,733
Reduction in Patient Mobility	.53	.62
Mortality incl 90 days post disch	.17	.18
Amount Billed per Patient Stay	\$20,900	\$22,600

Source: Does Private Equity Investment in Healthcare Benefit Patients? Evidence from Nursing Homes, 2021 Working Paper

Nursing Home with Related Parties



38 Bankrupt PE-Owned Health Companies 2019-2023; 21% of all Health Company Bankruptcies in 2023



<https://pestakeholder.org/private-equity-healthcare-bankruptcies-are-on-the-rise/>

PE Practices Impacting Quality , Access, Cost of Health Care

- Highly leveraged acquisitions, with the debt incurred by the operating company
- Sale-leaseback of operating company real estate, with the cash from sale going to PE firm, saddling operating company with years of inflated lease payments
- Debt-financed dividend payments to PE firm owners
- Roll-ups – buy up smaller players in a market to gain market power, achieve economies of scale
- Management fees, fees to outsourced services
- Cost cutting: fewer staff, reduce unprofitable services,

Proposed Remedies

National Academy For State Health Policy Model Legislation

- Key features:
 - Extend state oversight of health care markets and transactions
 - Require transparency of ownership and control structures
 - Define elements of “comprehensive review”
 - Post transaction oversight and enforcement

NASHP Model, continued

- Transactions requiring increased state oversight:
 - “Material Changes, including corporate changes of control:
 - Corporate mergers of one or more health care entities
 - Acquisition of one or more health care entities, including insolvent entities
 - Leasing, transferring or any other manner of purchase of a material amount of the assets or operations of a health care entity
 - Any affiliation or contract that results in a change in control of a health care entity”

NASHP, Continued

- Review of Proposed Material Change Transactions:
 - Attorney General, Department of Health, Office of Health Oversight or other independent state agency
 - Require notice of proposed transaction, including identities of parties, impact on service area and employees, schedule for public hearings
 - Require comprehensive review for large transactions, those in highly consolidated markets, or likely to have material impact on cost, quality, equity or access to health care services

NASHP Model, Continued

- Monitoring and Enforcement:
 - Can oversee compliance with any conditional approval of transaction for up to five years as determined as part of approval process
 - Oversight by Attorney General or Department of Health/other state agency so designated
 - Overseeing agency may impose financial penalties for non-compliance, audit the entity, hire outside experts to review documents
 - Overseeing agency may also obtain specific relief through injunctive relief and other equitable remedies, and may rescind or deny approval for other material change transactions involving the health care entity or an affiliate

Massachusetts Law, January 8, 2025 Key Components

- Increase AFS reporting requirements for out-of-state operators, equity investors and management service organizations
- Enhance penalties for noncompliance : increased financial penalties, consideration in market and license reviews, DON applications
- Require vendors to give state 60 days notice before repossession of medical/surgical equipment
- Ban sale/leaseback of acute hospital main campus to a REIT, and disclose other lease arrangements as part of licensing
- Add ownership changes, real estate transactions to “material change notice process”(triggering in depth state review and approval/denial process), and allow 5 year monitoring period for approved transactions

Questions? Comments?