Changing Ownership Trends in Urgent Care

Against the backdrop of an ever-changing healthcare industry, urgent care is also undergoing a dramatic shift: What was once a landscape of mostly independent centers helmed by physician-owners is rapidly trending towards private equity (PE) and hospital/health system ownership, and it's a trend that doesn't appear to be slowing down anytime soon.

Urgent care began as a physician-entrepreneurial phenomenon, with independent doctors who could meet consumer demand for affordability and convenience helping to usher in a wholly new access paradigm. Within the last decade however, PE firms have been increasingly acquiring urgent care centers, and in some cases even expanding the platforms into local or regional networks of branded centers. Lately though, PE investors have been cashing out and selling their urgent care investment to hospital and health systems while realizing a tidy profit in the process.

Below we'll look at the anatomy of the burgeoning "change in ownership" trend in urgent care by briefly examining three key players: physician-owners, PE investors, and hospital/health systems.

Physicians

According to a 2013 Accenture study, the percentage of independent physicians in practice has dropped from 57% in 2000 to 36% in 2013. And as recently as 2008, the biggest slice of the urgent care ownership "pie" consisted of lone physicians and/or physician groups comprising 54.1% of the total, alongside corporations at 17.5% and hospitals at 25% according to the Urgent Care Association of America. Today, that same pie is divvied up into many more slices, with PE firms, investors, insurance companies, hospitals, and joint-ventures all grabbing ownership stakes, while the physician-owner slice continues to shrink (See Exhibit 1).

So why are independent physicians leaving urgent care? Many are looking for an "exit strategy" to get out from under increased administrative and regulatory burdens in the face of shrinking reimbursements. So, for those physicians who lack growth capital or don't have a firm handle on important financial functions like revenue cycle management, striking while the iron is hot and selling at a profit remains a viable option.

Private Equity

The private equity market is attracted to urgent care primarily due to its profitability potential via financial tools such as multiple arbitrage. Multiple arbitrage strategies work when investors buy a smaller concern at a certain multiple – say 4-5x – of that company's EBITDA, and then by rolling it into a larger entity, can then resell the same business at a much higher EBITDA multiple (10x or greater) without having added any operational value. As larger companies tend to sell at higher EBITDA multiples simply because they're larger, buying a smaller urgent care concern at a lower multiple allows for the PE investor to then quickly "arbitrage" the investment by selling to a hospital system, as the aggregate EBITDA transforms the entire network into an asset that's worth much greater than the sum of its parts.

Hospitals/Health Systems

Hospital and health systems are always looking to expand their brand catchment, grow their market share in key specialties, and increase their ability to negotiate and bargain with payers – which buying smaller practices allows them to do. Urgent care is viewed as a tremendous source of referrals to specialists, ancillary services like lab, imaging and physical therapy, and affiliated primary care providers. Additionally, it's easier to buy into an existing urgent care or partner up rather than go it alone, as having an experienced partner gives them a better chance at being successful. Hence, hospital systems generally wind up as the terminal owners at the end of the buying and selling cycle.

Conclusion

Despite the considerable financial incentive afforded to each of the major players, not everyone sees this change in ownership trend as a positive development. Groups such as the Association of Independent Doctors lament the shift, asserting that turning independent physicians into hospital employees has an overall negative impact on the industry. They claim costs increase, quality goes down, and access becomes more limited, among other shortcomings. Still, the larger trend does allow physician-owners to realize a significant profit should they desire a quick exit strategy, so we're likely to see this trend continue for the foreseeable future.

Exhibit 1: According to the Urgent Care Association of America, the percentage of physician-owned urgent care centers in its benchmarking study dropped by more than 50% between 2008 and 2015:

	2008
Corporation	17.5%
Physician or group of physicians	54.1%
Hospital	24.8%
Non-Physician Individuals	3.6%

	2015
Corporate entity (i.e. insurance company, private equity or shareholder owned)	39%
Single Physician	10%
Two or more physicians also working in the center	14%
Non-physician/provider investors	3%
Physician investors not practicing in the center	2%
Hospital-owned	15%
Joint venture with a hospital	16%

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