Transition looms for thriving urgent care industry

June 16, 2014 10:02 PM

Top independent urgent care operator monthly changes

URGENT CARE OPERATORS	UC CLINICS JAN. 1, 2014	UC CLINICS FEB. 1, 2014	CHANGE
Concentra	298	298	0
MedExpress	126	128	2
American Family Care DRX	108	111	3
Nextcare	96	96	0
FastMed	65	65	0
CareSpot	52	53	1
Doctors Care	52	52	0
Patient First	49	49	0
Texas MedClinic	32	32	0
Physicians Immediate Care	28	28	0

Source: Merchant Medicine LLC 2014 Post-Gazette

Related Media:
PG chart: Top independent urgent care operator monthly charges

By Bill Toland / Pittsburgh Post-Gazette

Should your child happen to come down with an after-hours ear infection, Mt. Lebanon is the place to be.

There are five MedExpress urgent care clinics within a short drive, one in each of the cardinal directions and another right in town. To the south, there's also a St. Clair Urgent Care clinic, as well as a Medi-Help clinic on Washington Road. To the north, in Green Tree, there's Highfield Care. They're all open late, seven days a week.

Convenient, for sure — and also illustrative of the suburban saturation of such clinics, which typically treat minor injuries and common colds.

The U.S. has around 9,500 urgent care clinics, with more opening every month thanks to under-50 patients who want on-demand care rather than a two-day wait for an appointment. Like most bricks-and-mortar commercial enterprises, urgent care clinics want to be where the customers are; to date, that's meant setting up shop in well-heeled, well-insured suburbs.

"That's where the reimbursement has been," said Alan Ayers, vice president of market development for Concentra, which is the nation's largest urgent care chain and, in Pittsburgh, a joint-venture partner with health provider UPMC.

The past 10 years have been spent rapidly building up the urgent care and convenient care industry, populating the towns that have the greatest profit potential and picking the lowest-hanging fruit, he said. But the coming decade will be a period of transition, testing new geographies, new ownership and new business models that will blur the line between old-fashioned primary care and newfangled, episodic urgent care.

Geographically, urgent care growth has mostly occurred in Midwestern and Sun Belt states and largely in suburban areas, Mr. Ayers said.

But there's room for additional growth if urgent care operators can find a way to turn a profit in underserved areas.

Top independent urgent care operator monthly changes

URGENT CARE OPERATORS	UC CLINICS JAN. 1, 2014	UC CLINICS FEB. 1, 2014	CHANGE
Concentra	298	298	0
MedExpress	126	128	2
American Family Care DRX	108	111	3
Nextcare	96	96	0
FastMed	65	65	0
CareSpot	52	53	1
Doctors Care	52	52	0
Patient First	49	49	0
Texas MedClinic	32	32	0
Physicians Immediate Care	28	28	0

Source: Merchant Medicine LLC 2014 Post-Gazette

(Click image for larger version)

Those areas tend to be at both ends of the spectrum; on one end are rural and inner-city areas where patients are more likely to rely on Medicaid or have no health insurance at all. At the opposite end are pricey urban geographies, largely in the Northeast, where hospital systems are more entrenched, clinic licensure is more strict and property acquisition costs are prohibitive.

While there's room for growth in secondary, less-profitable markets, that growth is increasingly likely to be driven by larger operators, either by way of new construction or acquisitions.

"The mom-and-pops will be bought out and brought under major brands," said Norman Winland, a Texas urgent care management consultant who most recently was the chief operating officer PrimaCare Medical Centers, an 11-location urgent care chain purchased last year by NextCare Holdings Inc., which has about 90 locations nationally.

Acquisitions like that will be more common in what is now a fragmented market with just a few major players at the top.

About half of the urgent care clinics are the so-called mom-and-pops — doctors groups or local investors that own one, two or three clinics. As they grow into regional chains, they become ripe for acquisitions by larger players.

Those larger players, historically, have been steered by private equity. MedExpress, based in West Virginia and the dominant urgent care provider in the Pittsburgh region, was purchased by General Atlantic and Sequoia Capital in 2010 (Highmark Health is a minority investor in MedExpress). Before the sale, MedExpress was mostly owned by Excellere, another private investment firm.

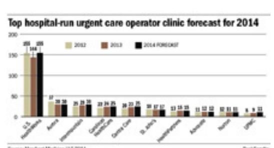
But investment firms and venture capital groups don't want to park their money for long — they are always looking for an exit strategy. That means selling when the interest, and the value, is highest.

That apex could come a few years from now, said Gordon Maner, president and head of investing banking at Allen, Mooney & Barnes in South Carolina.

For all the sector's potential as an alternative to primary care, episodic care "is heavily leveraged toward respiratory ailments and flu seasons," Mr. Maner said. Coming off of this year's mild flu season, the sector's same-store revenues in the industry have been sluggish, with most of the growth coming at new properties.

"That's a challenging environment to be a seller in," Mr. Maner said.

But if 2014 and 2015 are heavy cold and flu seasons and revenues are strong, capital will "start going toward the exits," he said.



(Click image for larger version)

At that point, the likely buyers may be those with the largest stakes in the health care enterprise — insurers and hospitals, Mr. Maner said, as well as other large companies that operate in the health care space such as hospitalist staffing companies and national pharmacy chains.

As standalone clinics and regional groups consolidate, the big chains will become more attractive to the multistate health giants. Concentra, Mr. Ayers noted, was purchased by Humana, the managed care and pharmacy giant, three years ago. Blue Cross Blue Shield of North Carolina is now an investor in FastMed Urgent Care, which has more than 70 locations in North Carolina and Arizona.

"Insurers look at this industry as an ER diversion tactic," keeping claims costs down, Mr. Maner said. Hospitals, on the other hand, want to "lock up a referral base" for future specialist and chronic care visits.

No matter the ownership model, the clinics themselves seem primed to evolve. They're shifting from episode-by-episode treatment centers to more fully integrated parts of the health care system linked to insurers, specialists and primary care doctors by way of electronic medical records and cross-country health information exchanges.

There will be a "blurring of the lines" between urgent care and primary care, Mr. Ayers said. Urgent care clinics will offer a larger suite of services and specialist; primary care and pediatric practices will be open later and offer walk-in hours.

The "stand-alone" clinic will no longer stand alone, Mr. Ayers said.

Bill Toland: btoland@post-gazette.com or 412-263-2625.