McGuireWoods

THE CORNER SERIES

Episode 97: How One Orthopedic Platform Defies Market Headwinds, With Grady Wilson

Episode Summary

"We're in the best spot from a capital standpoint since I've been with this organization," says Grady Wilson, chief development officer at Varsity-backed Orthopedic Care Partners (OCP). In this conversation with McGuireWoods partner and host Geoff Cockrell, Grady discusses how OCP's recent $185 million Brookfield investment positions it for aggressive growth despite challenging market conditions.

Drawing from his experience growing OCP to 150 physicians across five states, Grady shares insights about physician recruitment strategies, value-based care opportunities and the untapped potential in mid-sized markets. He also reveals how OCP's compensation model creates alignment at local and organization-wide levels to drive success in today's orthopedic landscape.

Transcript

Voice Over (00:00):

This is The Corner series, a McGuireWoods series exploring business and legal issues prevalent in today's private equity industry. Tune in with McGuireWoods partner Geoff Cockrell as he and specialists share real-world insight to help enhance your knowledge.

Geoff Cockrell (00:19):

Thank you for joining another episode of The Corner series. I'm your host Geoff Cockrell, a partner at McGuireWoods. Here at The Corner Series, we try to bring together deal makers and thought leaders at the intersection of healthcare and private equity investing. Today I'm joined by Grady Wilson, the Chief Development Officer at Orthopedic Care Partners, which is a Varsity-backed orthopedic platform. Grady, if you could introduce yourself and introduce Orthopedic Care Partners, that would be great.

Grady Wilson (00:45):

Thanks Geoff, and thanks for having me on. As Geoff mentioned, I'm the chief development officer for Orthopedic Care Partners. We're backed by Varsity Healthcare Partners. We were one of the original private equity backed orthopedic group starting in 2017. We've grown to five states and about 150 physicians, and so not only are we one of the longest tenured, but we're one of the largest out there as well. I'm responsible for all things growth in the organization, so M&A, physician recruiting, ancillary growth, and ASC investments, and prior to this I spent time in the private equity-backed dental world as well as the private equity-backed dermatology world as well.

Geoff Cockrell (01:24):

So Great. You alluded to a number of topics that we can hit on, but maybe starting with the M&A environment for add-on acquisitions. For what felt like a good long while, M&A activity was pretty easy and then it got pretty hard. What is the M&A environment for add-on acquisitions at the size that you're looking to transact with in the current environment from your perspective?

Grady Wilson (01:47):

Yeah Geoff, it's a great question. I think you hit the nail on the head. I think in '21, '22 and even '23, they were great years for us from an M&A standpoint. '24 seemed to tighten up a bit, but we were able to still get some deals done in the face of some headwinds. I think just in the broader macroeconomic and healthcare environment. I think '25 has started out a little bit slower than a lot of people expected. There was a lot of optimism to start the year and I think with a new administration and some changes in the economy that you have some people in wait and see mode. That said, we've been really active just in terms of trying to facilitate new conversations and get opportunities into the pipeline, and so we still remain bullish in terms of what we can accomplish this year. I still think that there's a lot of good opportunities out there. There's a lot of orthopedic groups and platforms that have built great practices that are looking for a partner for a variety reasons, and so we'll see how the rest of the year shapes out, but we're still optimistic it can be a busy year.

Geoff Cockrell (02:51):

Some of the headwinds have been buyer related, whether that is inability to pull together resources for acquisitions, running out of room on credit facilities and other things. Some of the difficulty in transacting for add-ons has been seller related as the market has changed and the cost of capital has increased and a number of things, the valuation multiples have come down, understandably. That's been a tougher pill for sellers to swallow. Have you seen the bid ask spread narrowing on pricing for some of those add-on acquisitions?

Grady Wilson (03:25):

Well, I got to laugh and I wish all doctors would hear this podcast because you're spot on. It does feel like multiples have come down certainly at the platform level, and then that's going to obviously trickle down into the add-on market. That said, I think a lot of people still get grounded in how they might've been valued back in '22 or '23 when things are high and they've got that number in their head, and so trying to reset in terms of where the market is and why things have changed, but certainly a conversation that we have to have and we are having.

(03:56):

One thing that you touched on that I did just want to briefly update on from our standpoint, we're probably in the best spot from a capital standpoint since I've been a part of this organization, it's out there in the markets. I'm not saying anything that's not out there, but we actually brought on a new strategic partner into our business, Brookfield. At the end of 2024 they made $185 million growth investment into our business, and alongside that, we were able to up size our credit facility. And so as I talked about previously, our bullishness is partly due to the capital that we have at our fingertips and the ability to put that to work and find great practices and partners that fit our values that we look for. And so I know not every organization is in that same situation, but we worked really hard in '24 to position ourselves so that we can grow in the ways that we want to in the coming years.

Geoff Cockrell (04:52):

So when you're out in the world talking to groups that you might connect with and affiliate with, the value proposition for a group like yours is probably a bit complex in the sense that some of the value proposition is in the proceeds, whether that is cash proceeds a rollover in some form, but also some of the value proposition might center on income repair, access to ancillary services growth, access to ASC opportunities, maybe access to value-based contracting opportunities. When you're talking to a smaller group, how do you weave together some of those value propositions?

Grady Wilson (05:28):

It's candidly a bit of all of it. I think first we start with quality and our goal isn't to be the largest out there, we want to be the highest quality, and so the types of practices that we want to affiliate with and partner with have to have that great brand reputation in their community. Certainly there's an economic component to this. I'd be foolish not to say that that isn't the case, and so the economics have to make sense for the sellers, but we're really trying to articulate how we stand out and differentiate as a partner, and it's the things that you mentioned. We have a track record of accelerating and driving growth and practices in a manner that's faster than they can otherwise do on their own, and ultimately that trickles down into income repair. And we've had a lot of success repairing income in our partner practices. I think having access to infrastructure and resources is also important. And we've spent the last seven plus years building that infrastructure and tweaking our organization as we've gone through and affiliated with practices so that we can do it a better way today than we did back in 2017.

(06:34):

And so all that, that stands out. I think at the end of the day, the proof is in the pudding and that goes a long way with people that we're talking to. And then I think, look, orthopedics is a little bit unique in that a lot of specialties within medicine ... And I've been in those spaces. They've had a lot of second bites so to speak, but in our world it just hasn't happened a ton. There's a couple or a few out there that have occurred and that has been a piece of the value proposition, but we always say that the deal upfront has to make sense. You have to feel good about your partner and what they can deliver to you on a go forward basis. And then I do believe that the second bites will take care of themselves as we look at in the coming years.

Geoff Cockrell (07:16):

Different people will think about the equity component in different ways. You talk about the second bite at the apple. That might be equity at a Topco level, that might be equity at a subsidiary MSO level where the provider is connected to a more local practice. The top level equity usually doesn't cash flow. Subsidiary MSO equity often does. How do you think about balancing second bite of the apple versus current compensation? Is that a feature in your structure or you more Topco driven? I see different answers to that question out in the market.

Grady Wilson (07:54):

Yeah. I think from an equity standpoint, we are Topco, so all of our physicians own equity and the parent company, and ultimately when a recap or a sale occurs, they'll be able to participate and monetize in that event. But we also want to make sure that we're aligned with our physicians at the local level within their practice. And so we've designed our compensation model so that we feel like there's that appropriate alignment at the local level, but also we feel like there's alignment with our transaction structure where they've got meaningful skin in the game in terms of building and helping grow our organization. And so we go about it in two different ways. One through the comp structure and making sure that there's alignment at the practice level, but then also making sure that our physicians are aligned and feel part of the broader organization as well.

Geoff Cockrell (08:43):

The evolution generally towards value-based care has been slow and in some degree in fits and starts when you think about healthcare broadly. When you start to look at particular sectors, different sectors have different potential to become involved in value-based contracting. Orthopedic is certainly one where there's possibility, whether that is bundled payment contracting with payers or other mechanisms. How have you guys thought about value-based contracting or other value-based opportunities and how do you implement some of those things with your providers?

Grady Wilson (09:20):

I think where we sit today ... And we look at, I mean 50 to a hundred plus probably orthopedic practices a year. The amount of value-based care that those practices are doing is probably less than 5%. And so to your point, the adoption as we sit today is low. That said, I think there's a ton of opportunity and upside for value-based care. How long it takes for that paradigm shift to occur Geoff is probably anyone's guess. But you've seen it to your point in different spaces that have adopted it and have ran up the curve faster. And so it's on our mind, it's on our radar. I think we're trying to position ourselves so that we can capture it when that paradigm shift does occur. Making sure that we have all the appropriate touch points with physicians from a care standpoint. Whether that's on the front end, the diagnostic imaging that we need, making sure that we have all the specialists that we need, and then therapy programs for non-surgical care pathways and then certainly with the shift that you've seen over the last five to 10 years from inpatient surgery to outpatient surgery. Making sure that we're aligned with our physicians and that we're going deeper into the outpatient surgery settings where we can.

(10:36):

And so that's how we're thinking about it. I think it's going to be interesting to see how it all plays out, but I think that there will be a little bit of time before it all occurs. And that's just my own perspective. But I'd love your perspective. I know you see it a lot out there as well and would be curious at least in the MSK world if you're seeing similar dynamics.

Geoff Cockrell (10:56):

Yeah. There is potential with contracting with commercial payers for bundled payments. If certain joints are always bundled payments with CMS, to the extent that an orthopedic platform can build discipline around procedures and products. There's room to start expanding the value-based contracting with commercial payers and it requires a certain scale in a market before you can approach them, which is one of the thought processes in acquisition models. But it also requires payers that are willing to do that, and I find the impediment to really expanding value-based care opportunities has more come from the payers being slow than providers being slow, but it's continuing to evolve, but it has been slower than advertised.

Grady Wilson (11:46):

Great perspective. Appreciate you sharing that.

Geoff Cockrell (11:48):

When you look at compensation structures, one of the dynamics that we're always navigating is opportunities enter into expansion with ASCs. Sometimes those are done with health systems, sometimes it's done with national chains, sometimes neither. When you're in a market, how do you think about expanding into ASC opportunities?

Grady Wilson (12:09):

It's something that we're extremely focused on and something that's going to continue to be a big strategy of ours. I think it's important to understand the local dynamics when you are moving into a new market, understanding the existing relationship that may be in place with a health system. And if you are going to go the path of an ASC, how that may impact that dynamic, especially if there's relationships that have been built with their primary care network, those sort of things. And so the short answer is we're going to partner with the health systems and our market and make sure that those relationships are strong. We see the ability for both us and the health systems to play nicely in the sand and to have a relationship that can work for all. That said, we're also looking at how we can partner with some of the third party national ASC managers as well as we look to further our way into the surgery center setting. And so it's conversations that are ongoing with both. Ultimately the local dynamics may have us choose one path versus the other, but partnership is important and it's something that we're focused on.

Geoff Cockrell (13:18):

Yeah. The choice architecture in that is a little complicated and I think it sometimes depends on the extent to which in a particular geography, the bulk of procedures are happening at the hospital or not. And certainly in geographies where there's heavy hospital utilization, there's room to do things that are ultimately driving towards moving procedures out of the hospital, which that can create some structural friction with the health systems, but it also sets up a situation where the presence of your large platform is ultimately a beneficial driver of system costs. So I think there's lots of opportunities where in particular private equity backed large platforms can contrary to the message you see in the media, private equity backed platforms can be a catalyst to reducing overall system costs and there's certainly opportunities for that.

Grady Wilson (14:10):

Yeah. I totally agree.

Geoff Cockrell (14:11):

So you all are a large practice. One of the open questions on a lot of provider consolidation is what do end games look like? The typical model, you go to a certain size and private equity fund sells to a bigger private equity fund, or you can do that a few times, but eventually you get big and from where you guys sit, what does the market look like for perhaps the next round of buyers or an ultimate forever home buyer? What does that landscape look like to you guys?

Grady Wilson (14:42):

It's a good question. And ultimately our sponsor is very astute in terms of when that time comes, determining who the right partner is for our business. That said, I think that we have a good amount of runway ahead of us just in terms of sponsor to sponsor trades, at least for our business. As I mentioned early on, consolidation within orthopedics has been going on for a lot less longer than other spaces, so to speak. And so there's fragmentation, there's the ability to grow. I know that it's been a challenging time for PPMs in general over the last couple of years, but I do think that that will settle down and we'll get back to an environment where it's probably not as challenging. And there's certainly a lot of healthcare funds that as we continue to grow as an organization, I think will be an attractive asset. And so that would be my guess based on where we sit today Geoff.

Geoff Cockrell (15:40):

One of the macro level headwinds in a lot of provider businesses has been pressures on the labor market, and there's a certain part of that that is national as labor was very tight and is loosening maybe a bit now, but is also pretty heavily focused in healthcare where there are a lot of providers that had served through the pandemic. You had a lot of retirements coming out of the back end of that, and that has been one of the headwinds in a lot of different provider services arenas. What's been your experience in the labor market for orthopedic doctors and do you see that becoming more favorable or do you think it'll continue to be tight?

Grady Wilson (16:21):

Well, it has been tight and I think having a value proposition for physicians that are going to join our practices and ones that haven't maybe participated upfront in an acquisition is important. So ultimately you have to have a great home and a great practice that they want to go work at. You've got to have a competitive compensation model, especially in an environment where it feels like hospitals are getting more and more aggressive and they have the capital to do so. And then even though I think there has been a shift from physicians maybe 15, 20 years ago that came out of fellowship and they wanted to hang their own shingle to physicians that are maybe less willing or likely to do that, they still want to have a path to partnership. And so being able to check those boxes is important.

(17:09):

Ultimately, we've been successful. We've recruited in over 50 physicians organically since our inception. I think a lot of that is due that we've got great practices that they want to go work at and great physicians that they can build and grow a career with, and we're able to solve the other pieces of the equation. But I think it's going to continue to be a tight market. I don't think the health systems or hospitals are letting up any time soon. There's certainly been a lot more activity at least since we first started with private equity backed orthopedic groups that are going to be going after talent as well. So we're going to continue to compete with both of them and ultimately I think as we're able to continue to illustrate and have great opportunities for physicians and that will continue to be attractive for them.

Geoff Cockrell (17:59):

When you think about looking across the country, one of the questions that comes up is market saturation. Some markets are more heavily consolidated. When you think of looking for green space, how consolidated do you think the major metropolitan areas are versus mid-level cities? And I talked to a lot of folks that are seeing a lot of green space opportunities in less dense environments, albeit that's a difficult pathway to go down. From where you sit, where's the green space?

Grady Wilson (18:31):

I think that's fair. I think that there's still larger groups in some of the more densely populated cities that you can go after, but your entry point is probably via acquisition. I think midsize and less dense geographies do provide an opportunity, I think for both pathways for growth, the ability to come in and to partner with an existing practice or group. But because it isn't as competitive of a market, you also have the ability to grow organically, which is exciting. And so that does fit piece of our strategy, but we're going to continue to be opportunistic as well. And a piece of it is what we just talked about, Geoff, in terms of ability to recruit. Sometimes it's much harder to recruit someone to rural Florida versus a major metropolitan area. It's just where people may want to live. But there are a lot of orthopedic surgeons out there, and so you just have to roll up your sleeves and wait until you find the right one that fits the opportunity that you have and maybe a tougher to recruit place and know that hopefully they're going there for the right reasons and there'll be a long-term solution in that market.

Geoff Cockrell (19:44):

Grady, we have covered quite a bit of ground, so I think we'll call it there. This has been a ton of fun talking to you. You have a lot of great insights and certainly think highly of your group and the folks at Varsity as well. Thanks for joining. This has been a ton of fun.

Grady Wilson (19:59):

Well, thanks so much for having me on, Geoff. It was great to talk to you and get your perspective on the space as well. I know you have a lot of great knowledge and perspective. It was fun. Thanks for having me on, and hopefully we can do it again.

Voice Over (20:14):

Thank you for joining us on this installment of The Corner Series. To learn more about today's discussion, please email host Geoff Cockrell at gcockrell@mcguirewoods.com. We look forward to hearing from you. This series was recorded and is being made available by McGuireWoods for informational purposes only. By accessing this series, you acknowledge that McGuireWoods makes no warranty, guarantee or representation as to the accuracy or sufficiency of the information featured in this installment. The views, information, or opinions expressed are solely those of the individuals involved and do not necessarily reflect those of McGuireWoods. This series should not be used as a substitute for competent legal advice from a licensed professional attorney in your state and should not be construed as an offer to make or consider any investment or course of action.