McGuireWoods

THE CORNER SERIES

# Episode 124: The Era of Physician Practice Consolidation, With Ezra Simons

## Episode Summary

Fifty years ago, the United States had 75 car companies. Today, there are fewer than five. The same consolidation dynamics are reshaping physician practice management, says Ezra Simons, partner at Physician Growth Partners, which has been on the leading edge of consolidation in provider practices nationwide. “I think what we’ll see over the next 10 years of physician practice management is mergers of equals.” Those that separate themselves and grow are those that have unique skills to offer their affiliated practices, he says.

In this conversation with McGuireWoods partner and host Geoff Cockrell, Ezra explores how the provider services M&A landscape has evolved since Physician Growth Partners launched: While dermatology was the huge piece of the market then, the activity today is in urology, orthopedics and cardiology. He looks ahead to the next evolution: philosophical alignment among sponsors and private equity groups. “I think what we’re starting to see are people trying to figure out engagement and provider alignment first and then where to translate that to.”

## 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 tried to bring together deal makers and thought leaders at the intersection of healthcare and private equity. I'm thrilled to be joined by Ezra Simons, a partner at Physician Growth Partners, a healthcare focused investment banking firm that we've done a lot of work with over the years. And we're going to kind of explore the current market of provider

services transactions, talk about some of the through lines of what areas have been active and what areas haven't been, who the buyers are, and then some areas where there's a lot of activity in. But Ezra, maybe you could introduce yourself and introduce Physician Growth Partners for our audience.

Ezra Simons (01:01):
Yeah. Awesome. Geoff, thanks so much for having me. For my part in it, I'm a Partner and Co-Founder of Physician Growth Partners. We have spent the last eight or so years advising large physician groups in transactions with private equity as a sell-side investment bank. And it's sort of been interesting. When we got started, I would say the physician practice and sort of private equity consolidation maybe was just getting going. And so we've sort of had the unique opportunity to, I like to think, be in the forefront of what has amounted to sort of significant consolidation in this space over the last six or seven years. So we've worked on a lot of stuff. Our practice is national. I think we came up, we did our end of year stuff and came up with some stat. I think we had advised over 1000 shareholders across all of our transactions and many of the states and many of the verticals. So thanks so much for having me and love to learn a little bit more about what you guys are up to here and certainly shed any light where we can.

Geoff Cockrell (01:58):
So Ezra, you all were certainly on the leading edge of this evolution of consolidation in provider practices. We are not at the leading edge now. There's a lot more headwinds. Some areas have already experienced a lot of consolidation. What are some of the areas that have slowed down and what do you think is the cause of that slowdown?

Ezra Simons (02:25):
So when we got started, it's interesting where I feel like maybe seven or eight out of 10 transactions were iCare dermatology, and that was just a huge piece of where the market was. It was a huge piece of what we're doing and candidly set us up really well for the rest of the work we've been able to do. But it's interesting where in the last maybe two years we've seen so much going on within urology, within orthopedics, within cardiology, and now starting to see an incredible amount of activity within med spas and within even dermatology platforms that are now trying to figure out how to access more of the retail consumer vis-a-vis med spa strategy and a plastic strategy where seven years ago they couldn't figure out how to touch any of that. And I think the thing that people have figured out is obviously healthcare is very acyclical, but what they're trying to do, at least in our opinion, is kind of figure out the right way to play it. Right.

(03:23):
Do you play it from a purely medical perspective? And obviously there's quite a few headwinds there, right? To play it from a medical perspective, you really have to figure out how to align with physicians, right? You've got to keep really high educated, high earning, type A professionals really happy in an engagement and partnership construct, right? And that's awesome if you can figure it out. And you've

seen some incredible wins there, right? Forefront from a dermatology perspective through the three or four private equity partners they've had have totally figured out how to align with physicians, right, and keep those guys motivated and happy. And you've seen the same thing work, like Solaris and Lee Equity got that really, really right before their exit. And so what you're starting to see is the separation, in my opinion, across all channels where you figured out how to align with and engage with the physicians. These platforms have totally separated themselves from the rest of the field, right? And I think what we're starting to see are people try and figure out engagement and provider alignment first and then kind of figure out where to translate that to.

Geoff Cockrell (04:33):
From where you sit is getting provider alignment right in the context of practices where the providers themselves are driving the business, which I think that's an important distinction contrasting some of these sectors versus others, but in sectors where the providers themselves are driving the business, do you think that provider alignment is more kind of structural in how you think about kind of economic incentives? Is it cultural? What makes the difference between getting provider alignment right versus not?

Ezra Simons (05:06):
Yeah. Well, I think you can't have one without the other, right? In other words, I think philosophical alignment's great, but it has to make its way into the structure somewhere. But I think, look, my view on these, and I'd wonder for your take just given how long you've been doing this, but as soon as you find yourself looking at the paper and trying to go back and read through the definitions of what you agreed to two years ago to go and figure out the solution to a problem, it's never a good place to be. What I think I've found over the last several years and really where I see the most evolution with sponsors and private equity groups and different acquirers is really leading with philosophical alignment. In other words, we're seeing our more groups passing on opportunities to acquire a business with no real standout characteristics just to acquire a business, right?

(05:53):
In other words, EBITDA for EBITDA sake is maybe a little bit less appetizing to folks that are the most active and successful acquirers today. I think what we find people really chasing and really willing to pay up for and get competitive in a process are when they're able to look on the other side of the table and be like, "We're partnering with really entrepreneurial physicians that have built something great. They have a model and they came from a culture of alignment, engagement and sharing a bigger pie," right, and then using the private equity opportunity as a vehicle to accelerate that versus taking... Look, there's absolutely nothing wrong with being a prolific cataract surgeon and spending every day in the OR and cranking out 12 or 1500 cataracts a year, right?

(06:40):
But if you're not of an entrepreneurial ethos, not a business builder, you don't just become one of those because you did a private equity transaction. So I think what we're seeing in our processes are people valuing the idea that they're partnering with builders versus maybe just workers and prioritizing those types of partnerships. And we see it within the documents, we see it within the structure, we see it within a lot more incentives and economic drivers for physician shareholders around growth and stabilizing new clinics and bringing on new providers versus just being a percentage of collections or simply an employee in a model.

Geoff Cockrell (07:24):
I do think that creativity around kind of the drivers of those economics is definitely the way to go, that you just don't get the kind of alignment that you would want from production-based structures, or it's difficult to get the alignment that you want from just personal production-based structures. You work a lot with physician owners that are often doing the first of what might be a series of transactions with private equity, meaning they sell, make a platform or they're selling to a platform, but that platform itself is going to change hands a few times. To what extent has the pressure from the larger end of the market kind of landed in your area as well?

(08:07):
Meaning a number of the larger platforms, let's say you get 200 million of EBITDA, the prognosis of where you go from there, who you sell to, what the upside of that transaction is to the new buyer gets a bit more complex as kind of public markets have been not very receptive to this, at least to this point. And so the larger platforms have had more difficulty transacting other than say transacting through a CV or something like that. To what extent have those pressures kind of landed in your arena as well?

Ezra Simons (08:42):
Well, look, I think you nailed it. I think a lot of these larger sponsors... Look, I think 10 years ago, there was a view that you could acquire as much EBITDA as you wanted, put some or as much of it together as you wanted, and then go do a next transaction, and sort of the universe was going to reward you for that, right? And I think for a period of time, some people were rewarded, right? That worked. But I think one of the first victims of rising rates was that narrative, right? As soon as rates went up, the deal mechanics fell apart, right, because if you couldn't pay as much, you weren't getting as many deals done and the whole cycle sort of slowed down. And so what came out of that are a lot of larger platforms that maybe tried to go to market, but really didn't have much of a growth story beyond acquiring EBITDA, right?

(09:31):
And I think we saw a lot of that stuff stall out over the last few years where the larger groups that are actually getting deals done platform to platform or otherwise are separating themselves vis-a-vis

operational excellence and actually having the appropriate case study around driving growth outside of simply acquiring EBITDA, right? But what I do think is really interesting to the point you made about some of these larger acquirers and where these things go, I think Webster is a great healthcare sponsor, but the thing that they figured out is they did the transactions with Retina Consultants of America and Cencora, right? They were really one of... And there was some stuff maybe going on in oncology a little bit earlier, but they were one of the first sponsors that got the deal done with a drug company, right, and thought through exit through that lens and synergy through that lens.

(10:30):
And then, I mean, that cascaded a huge amount of activity where SCA bought United U.S. Digestive, Cardinal via Specialty Alliance did Solaris. We've just started to see these transactions where General Atlantic did the deal in U.S. Urology, starting to see these deals where the manufacturers or the drug companies that have access to real economies of scale and the number one place in the P&L next to people start to try and look at these through a different lens of access. And so I think that's also sort of starting to create a viable alternative path versus just continuing to trade up the food chain.

(11:09):
Now, but I think what's interesting is we've obviously seen payors get involved in these as well, right? And so I think the big question is where the right landing place for these practices are, right? We know it's not public, that's never ended well, but when you start looking at it, makes a lot of sense. You build out big integrated networks, like where is the right place for those to land? And I think the next 10 years of this or five years of this will really start to answer some of those questions.

Geoff Cockrell (11:38):
I think it's going to be interesting to see how it plays out from the perspective of, yes, a pharma company might be a buyer, yes, a payor might be a buyer, but they won't be buyers for all of these platforms. And so there's going to have to evolve strategies for the rest of these platforms. Many of them are private equity owned. You can CV them to a point, but eventually there's going to need to be a more coherent strategy that's available to all of those companies or I don't know what, because there's just not that many that can be sold to a drug company. How do you think that part of the market is going to evolve and where are they going to go? Are they going to break apart? Are they going to merely have semi-distressed mergers of relative equals, which kind of kicks the can down the road a bit, but doesn't actually answer the question. Where do you think the broader market goes after you have these, I won't call them unicorn, but limited opportunity buyers?

Ezra Simons (12:43):
Yeah, there's not unlimited exits there. Right. No, I completely agree. And look, and I think that that reality drives the simple notion that, and I sort of hit on this, right? I think historically a lot of people got by just acquiring EBITDA to acquire EBITDA. The bar is much higher for exits between sponsors to

continue growing up the ladder, right? And so I think the groups that can showcase studies around recruitment, site expansion, driving new service lines, actually with a real case study that shows when they get involved with these practices, things grow organically. Those groups will continue to be rewarded through climbing the private equity ladder, and there will always be exits for great businesses, right? I think I look at it and say, okay, well, what happens to those businesses that maybe aren't great businesses? They haven't demonstrated the de novo strategy. They haven't demonstrated huge net recruitment, et cetera.

(13:38):
And I think you nailed it. 50 years ago or 60 years ago, the United States had 75 car companies, right? There's a reason that there's less than five today, right? And you might even look at it and say there's two real ones. I personally think that capitalism and the framework, like there's not supposed to be 35 national or regional consolidators of iCare. The right number is probably five to 10. And I think what we'll see over the next 10 years of sort of physician practice management is mergers of equals and some of these groups breaking up and the ones that will continue to separate themselves and continue to receive private equity liquidity and keep kind of growing in size and continue to be sustainable businesses are the ones that truly have a unique set of skills to offer their affiliated practices. And I think the ones that don't will in some form or fashion cease to exist in the next 10 years, no question.

Geoff Cockrell (14:36):
Through consolidation of large ones, that's one possibility, or they might just go away. That's another possibility. Or the learning of how to align with providers could also spread, and those don't all need to be bad outcome stories. If more of the platforms could get better about those elements of alignment, then even if there is going to be fewer of those large consolidators, that doesn't have to be a bad ultimate answer for the ones that are out there, but we'll have to see.

Ezra Simons (15:08):
Yeah, and I think that's right.

Geoff Cockrell (15:10):
Maybe turning the conversation a little bit, some of those headwinds, one of the through lines of the areas where there have still been a lot of activity, I think the through line in my mind is people being a little gun shy of having to land that provider alignment question correctly. If you can find areas of provider services where the doctors themselves are not controlling all of the business flow, then you have less pressure on alignment, which kind of takes us to some of the other areas that have been more active, whether that's allergy, concierge medicine, aesthetics type things. From where you sit, do you agree with kind of what I described as the through line of the areas that have had a lot of activity? What are some of the characteristics of those sectors that make them particularly appealing?

Ezra Simons (16:03):
Yeah, I think that's spot on. I think the way that we say it here at PGP is sponsors are trying to figure out ways to play provider services without maybe some of the things that make provider services super complicated, right? And I think by and large, we're seeing maybe two tracks. I think the first one that you alluded to, like I would take the activity that we're seeing in sort of the med spa and metastatic space in one direction and say, I don't think I've seen any category just be more active, right? We get inbounds, like multiple a week from sponsors that are trying to find their first investment there. We try and get out there and obviously get in front of as much conversation as we can. I mean, we talk to so many med spa operators that have been in business for three years, they're this size profile with this many boxes and they're ready to do the deal.

(16:57):
It is the wild west in med spa land, which I think is good and bad, right? There's no question that tapping into sort of the consumer lens, the maybe less regulated, it doesn't need to be rendered by a physician, you're using RNs and nurse injectors and things like that. You can access a lot of those healthcare tailwinds in maybe a much less restricted way, right? And I think that's driving a ton of the consolidation activity. Not just that, but coming out of COVID, I think people were, there was this thesis pre COVID, and I think this is one of the reasons that what I would say the bread and butter dermatology platform sort of stayed away from med spa pre COVID is because I think there was always this conversation, "Well, what happens when things slow down a little bit? Does that ever come back?" And of course, everything slowed down for three months and then came back faster than ever with probably the most free money anybody's ever seen.

(17:51):
And all we've seen in med spa land is demand just continue to aggregate and continue to spend money in these spas, right? And so it's interesting to me where on one hand, one of the biggest strengths of this channel is there's a low barrier to entry, right? If you are a nurse injector, you can have somebody sign your medical director thing and you can be in the med spa business in six months with a pretty, like you don't have to go do a bunch of plumbing and do a massive build out. Like your costs are whatever lasers and injectables you want to use, right? It's pretty low barriers to entry. But I think conversely, and as the sector starts maturing a little bit, I think we're starting to see sponsors look at it and say, "Oh wait, this low barrier to entry thing, yeah, that's great, but that's also kind of bad for us." Right. There's very little stopping a med spa from opening across the street, right?

(18:46):
The providers are out there, people want to do this work. I mean, it's essentially a commission sales job, right, if you're a nurse injector or otherwise. And if you figure out how to use TikTok and Instagram and figure out how to get a couple people in the community that like you, could build a busy med spa really fast, right? There's no barriers to entry. And so I think in that lens... And it's also interesting, like the quality difference that we've seen when we're talking to med spa operators.

There's definitely really good one. And I guess you could say this about anything, but there's definitely a distinction between the quality of operator and what they're doing in there. And I just think to me, there's a lot of comfort in at least knowing somebody went to med school and is rendering care, et cetera, versus there being maybe a lot less oversight into something that's ultimately messing with your body. So it's interesting from that lens and we'll see where it goes, but it is exploding right now.

Geoff Cockrell (19:47):
Yeah, for sure. And you're starting to see moats around these business starting to present in the sense of, you mentioned, like you're talking about putting things in someone's body, which state regulators are taking increasing notice of and rightfully I think wanting to have something to say about what that looks like and quality control and the location of services. All of those things are slowly raising those moats coupled with a lot of the kind of private equity backed platforms they have, as private equity often does, they're bringing capital to something that maybe didn't have capital. And so the ability to deliver a more luxury experience can, notwithstanding that there are very few barriers to entry, that also means that some of those that have been kind of popping up with very low barriers to entry are going to be challenged and that creates a lot of things to buy at relatively low prices. So the fact that there are some rising moats, I think going to be ultimately a benefit for those platforms that are getting off the ground.

Ezra Simons (20:57):
Yeah. No, and I totally agree. And just you asked about concierge, and I think it's sort of just a slightly different lens on that where we're seeing a lot of guys play or a lot of sponsors play concierge, not so much in the acquisition side of it, but a lot of the engine that's driving concierge is more of a software and marketing strategy toward PCPs that are not so interested in the fee-for-service life anymore and are attracted to the idea of, "Hey, can somebody help me build a concierge practice in a box?" Right. And so we're seeing sponsors lean into some of these, like they want to be in healthcare services, they want to be in provider services, but trying to figure out a way to play it where they're not directly employing doctors or employing care professionals and rendering care, but starting to try and play it from like a, can I be a business accelerator? Can I provide a piece of technology, et cetera, et cetera?

Geoff Cockrell (21:58):
For sure. And coming out of J.P. Morgan out in San Francisco, there were a few recurring themes. One, the wellness and longevity arena that we've been talking about was a consistent source of conversation, but there was another one that came up as well, and I want to get your thoughts on. I still think it connects to the same through line. I heard a lot of discussions around different sorts of provider services that are provided at skilled nursing facilities or LTACs. Where to me, the through line, coming back to where we started is the nature of those businesses is that the providers themselves do not control the flow of business. And so that was a recurring theme, whether that was different sorts of specialties or psychiatric services, that came up a lot. What's your take on that kind of end of the market?

Ezra Simons (22:51):
Yeah. So you look at building out, okay, how do we want to build the orthopedic business, right? We want to go build offices. We're going to build ancillaries. We're going to build the surgical hospital. I mean, that's a capital intensive operation, right? You go and look at how do you play healthcare services from an asset and working capital light position? There's a reason everybody likes healthcare staffing, right? You then go put the skilled nursing, long-term care SNF overlay on that and you're saying, "Okay, well, let's go do a SNFest primary care business. We're going to go do a business that provides wound care." Right. Wound care has been done forever, but we're going to go do wound care and skilled nursing." Great, perfect. You're a healthcare staffing company, right, with captive patient volume.

(23:39):
I mean, that's the game you're playing and you're saying, "Hey, can I use a business development marketing and maybe M&A engine to expand my reach? And then can I leverage my scale from a staffing perspective? I love that. I do. Right. It's relatively asset light. All of these facilities have a need from a compliance and accreditation perspective to have the service in house. And then you're absolutely right. You're not relying on people to generate both the supply and demand, the supply of providers and the demand of patients you have one of those solved for. You're in the staffing and revenue cycle business.

Geoff Cockrell (24:14):
With some caveat, because I'm having the same conversations with private equity funds and different forms of buyers. The caveat is that proceed with caution, that the skilled nursing facility arena can be an edgier one with edgier personalities. You've got to be very clear-eyed about regulatory constraints and kind of parse through the relationships.

Ezra Simons (24:38):
Yeah, that's a good disclaimer for the podcast.

Geoff Cockrell (24:39):
Yeah. There's a lot of ways to run into the ditch. I gave similar advice back during the craze of everyone wanting to build out lab services. The answer is always the same, like be careful. There's some very heavy regulatory overlays and you need to be careful, which in my line of work and probably yours too, some of those barriers are good for business for what we do. So definitely seeing the same kind of areas of activity that you are.

Ezra Simons (25:05):
Yeah. I mean, look, I think it comes down to people... Everything we've touched on in this conversation, I think alludes to sponsors and sort of people on the buy-side trying... There's no question that healthcare services is a good place to be, but I think as time goes on, people are trying

to figure out how to play it in a way that maybe is capital efficient and de-risk some of the components that have caused these strategies to stumble in the past, whether it is provider retention or provider alignment or getting new services off the ground.

(25:40):
I think there's always this, how do we look at this with a new lens? Can we support the providers through a concierge medicine practice in a box? Can we do a provider play but do it in long-term care so that we're not needing to build our own facilities and manage volume? So I think we'll continue to see it. I mean, there's no question investor interest in healthcare services as a staple of the GDP and spend in the country, like it's not going anywhere, but I think it's just sort of interesting to see the different places that people try and make the switches to make things more efficient than what we were doing 10 years ago, right? And that's what makes this fun.

Geoff Cockrell (26:18):
Ezra, we could talk about this for quite a while, but I think we'll end it there. I really appreciate you spending a little time. We're still relatively early in 26. It'll be interesting to see how the market and the year unfold. Should be a fun one.

Ezra Simons (26:31):
Yeah. Thanks so much for having me, and hopefully we'll get with you or across from you on a couple of these.

Geoff Cockrell (26:36):
Absolutely.

Ezra Simons (26:37):
Cool. Take care. Thanks so much.

Voice over (26:41):
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.