

The new frontier

➤ Historically, GI physicians' practices have followed a traditional model.¹ However, as the economics of healthcare increase in complexity, so do the number of business models. Beyond traditional models, gastroenterologists now have other practice options, including partnership with private equity firms and other strategic investors. These investors are interested in gastroenterology practices for numerous reasons that are likely to continue investment in this space for the foreseeable future.

Historical Practices

Gastroenterology has remained a rather fragmented field in comparison to some other medical specialties.² The medical world generally has consolidated, with many physician practices being acquired by hospitals and health systems and others merging into larger practices.

In 2018, almost 6,000 gastroenterologists were practicing in private practices.³ The benefits of a private practice include the ability to take a leadership role early in a provider's career, and the likelihood of earning more than their employed colleagues, among others.⁴ However, handling all of the administrative aspects of a medical practice, as well as the clinical work, can be more than a solo practitioner or small physician group wants to juggle.

What Is Private Equity?

While there are various options for a physician who wants to cease running an independent private practice, one intriguing option is partnering with an investor. Private equity firms "raise funds from institutions and wealthy individuals and then invest that money in buying and selling businesses."⁵ They invest in companies directly, instead of purchasing stock, and typically purchase a company with the goal of growing its value.⁶

What Are Some Other Private Equity Considerations?

When investing in healthcare, private equity firms must always keep regulatory considerations front of mind. For example, most states have corporate practice of medicine prohibitions that affect how investment in a GI practice

Is gastroenterology the next big thing for private equity and other investors?

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would be structured. Under this doctrine, non-licensed persons cannot directly own a medical practice or directly employ licensed healthcare providers. State law needs to be carefully reviewed to determine how the transaction will need to be structured to ensure compliance.

One way private equity or other non-licensed persons can participate in a gastroenterology practice involves the investors forming an administrative services company, which can be owned by non-licensed individuals. That company then contracts with the gastroenterology practice to provide non-clinical administrative support. However, any structuring decision and other relationships or service lines should be carefully reviewed for compliance with laws.

Why Are Investors Interested in Gastroenterology?

There are several reasons why gastroenterology is poised to be an area of growth and potential investment by private equity firms and other big investors, including the following:



- 1 | **A Fragmented Industry.** Many gastroenterologists practice in smaller practices. There is an ability to consolidate and centralize administrative functions.⁷
- 2 | **Aging Population.** The demand for services is likely to continue as the U.S. population ages and the need for preventative services grows.⁸
- 3 | **Related Ambulatory Surgery Centers (ASCs).** It is not uncommon for gastroenterologists to own ASCs where they can perform various GI procedures. This investment opportunity presents an additional area for cost containment and patient satisfaction.
- 4 | **Reimbursement.** Gastroenterological practices often see an advantage in terms of reimbursement, as common procedures are generally reimbursed by insurers.⁹ Further, while some reimbursement amounts have decreased over time, the volume and growth in other services is attractive to investors.¹⁰
- 5 | **Ancillary Services.** There are ancillary services that practices can expand into, such as pathology services

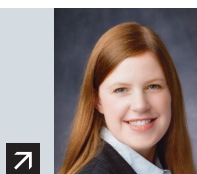
or nutrition counseling, which offer added profit lines. However, there are crucial regulatory issues to address any time a practice adds or maintains an ancillary service, including fraud and abuse considerations.

Future Opportunities

The first private equity investment in gastroenterology occurred in 2016, and additional interest has only just begun.¹¹ Further, Physicians Endoscopy just purchased its first interest in a gastroenterology physician practice in 2018, and other similar strategic investors may be considering comparable moves. Private equity and other investors' interest in gastroenterology is likely to increase, as opportunities continue to exist for investment. ^{DE}

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