Amazon's primary care splurge signals course change in M&A activity

by: Roy Edroso

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Two recent transactions in the multibillion dollar range suggest a change in direction toward more investment in primary care. While fears of consolidation grow, you may also find good news for physician practice owners who want to sell out but keep some control over the destiny of their patients.

Health care private equity deals have been on a roll of late. The big news in health care M&A recently has been a pair acquisitions by major players, Amazon and CVS. Amazon, which faltered in its attempt to roll out an expansion of its Amazon Health Services a few years back, got the green light from the Federal Trade Commission (FTC) to acquire One Medical, a large primary-care-focused company, for $3.9 billion; One Medical announced completion of the purchase on Feb. 22. Shortly before that, CVS acquired Oak Street, another primary care company, for $10.6 billion.

These blockbusters come on the heels of other deals in which relatively new entrants to the field moved into primary care. In 2021, for example, Walgreens bought the Village MD chain for $5.2 billion; in 2022, Village MD itself acquired multispecialty company Summit Health/City MD.

Lucrative market endures

Despite inflation and a rise in interest rates, private equity firm interest in health care entities, including medical groups, remains strong.

Consultancy Bain & Company reports in a year-end wrap-up that "the first half of 2022 saw a continuation of 2021's record-setting pace for healthcare private equity deal volume and deal value."

The consultancy KPMG believes health care private equity activity will stay sunny even if the general economy encounters stronger headwinds. "Companies and sectors with characteristics that help support strong performance throughout a recession will come into favor," according to its report on 2022 deals. "These include assets in highly regulated industries such as healthcare, which are inherently less sensitive or exposed to consumer activity."

Primary care takes the stage

More than the size of the Amazon and CVS deals, the focus on primary care has garnered the attention of industry analysts.

"Generally most private equity deals I am seeing in marketplace are for specialties — dermatology, aesthetic, ophthalmology, cardiology," says Ericka L. Adler, shareholder, practice group manager, health care with the Roetzel & Andress firm in Chicago. "Internal medicine-primary care is not the most popular target."

But that may be changing as new entrants in the medical practice space recognize that the value of their acquisitions depends at least as much on savings and efficiency as on revenue — and that primary care is a path to savings.

"To me this represents a broader trend toward the importance of primary care," says Andy Colbert, senior managing director with the Ziegler investment firm in New York City. "Constituents that, historically, were more focused on retail health care are recognizing that you if you want to manage overall health care spend, primary care really is the secret sauce."

Colbert notes the much-cited finding from an Oregon Patient-Centered Primary Home Care study that for every $1 spent on primary care, you get a difference of $13 in downstream savings thanks to the preventive nature of the care.

"That's why Oak Street is valued at $11 billion — that's over $60,000 per member," Colbert says. "That tells you these businesses, the Walgreens' and CVS's of the world, are putting a real premium on the value of managing cost through tighter primary care and specifically around senior populations."

Patients over the age of 65 "comprise the lion's share of [health care] spending," he notes, and Oak Street's patient population skews elderly.

Of course, the federal government has long pushed for health care providers to embrace value-based care, and Adler thinks the alignment of the federal government and the new entrants on value might accelerate that trend.

“These deals are interesting because they focus attention on the primary care and Medicare population, and they’re trying to bring that together [with private value-based models],” Adler says. “It could be a good change for health care. It’s just a matter of time to see what comes of it.”

Down the road, Colbert could even see primary care and specialty compensation rates altering as a result.

“Specialists have enjoyed a real premium position because for the most part they were paid at a premium, in relation to the primary care docs, because they were doing the procedures,” he says. “These [CVS/Amazon/et alia] transactions signal in a major way that the value of primary care is [perceived as] more critical, and we’ll see more growth in primary care compensation and share of the premium dollars.”

Could acquisitions up costs?

On the other hand, these mega-deals can also be expected to consolidate more health care in the hands of fewer owners. Alex Shteynshlyuger, M.D., CEO and director of urology at New York Urology Specialists in New York City, sees some downsides to that.

“Increased bureaucratization of health care associated with an increased size of practices, with numerous levels of middle-level management leads to higher fixed costs and higher prices,” Shteynshlyuger says.

Also, if practices choose not to roll up, Shteynshlyuger says, they could get steamrolled: “Larger organizations further marginalize the market power of small practices when it comes to insurance contracting, driving them out-of-network due to significantly inferior contracting terms compared to Optum clinics and Amazon-One Medical.”

Also, these megadeals may lead to increased anti-trust scrutiny. There was an ominous notice from the U.S. Department of Justice on Feb. 3, announcing the DOJ was withdrawing from some of its previous official statements establishing “anti-trust safety zones” with reduced oversight over some collaborative health care arrangements, including Shared Savings ACOs, joint purchasing arrangements and physician network joint ventures.

DOJ said it was doing so because “the statements are overly permissive on certain subjects, such as information sharing, and no longer serve their intended purposes of providing encompassing guidance to the public on relevant healthcare competition issues in today’s environment,” according to the notice.

“I do think we’ll start to see a little bit more focus by the regulators on the unregulated, activity in health care M&A, and the bigger companies will be the bigger targets,” Adler says. “They’ll want to know how these deals are impacting health care in this country. The private equity companies that have been buying up health care left and right don’t report to anyone from a health care regulatory standpoint. This amounts to billions of dollars every year and the transactions happen within 90 days, 120 days — so much money changing hands so quickly, and nobody really is looking to see what what’s going on, or if it’s good or bad for health care in this country and what the overall impact is on quality of care, pricing [and] access to care.”

A boon to docs who sell

Adler mentions another trend which bodes well for physicians who sell out but retain an interest in their former practice. This has been a popular gambit with private equity companies because the physicians’ licensure is needed for relaunch (*PBN 3/26/18*). But the holdover physicians are often disappointed in the direction the new business is going — and, since these arrangements usually leave them with no management power, they have little recourse.

But Adler sees that changing. “Some of the private equity models are a little bit different than they used to be, when doctors [who entered the deals] were treated like employees,” he says. “We’re now seeing more partnerships where the doctors are making more decisions that impact the quality of care and the practice.”

It may be that discontented doctors have been poisoning the private equity well, Adler suggests. “Some new doctors have become wary of signing contracts to work for PE, especially a lot of young doctors who swore they’d never work for private equity because of their reputation,” she says. Also, there have been some lawsuits, such as the Envision case in California, in which management companies are accused of overstepping into clinical decisions, in violation of state laws; PE firms may feel they can head off that kind of trouble with better physician relations.

While Adler says she can only talk about the doctors she works with, she does notice they tend to be happier with their post-PE arrangements. “I fight really hard to protect my doctors, their autonomy and their say over how patients are treated post-sale,” she says. “I like the new PE focus on partnering with doctors that I am seeing because it makes it easier for me to protect my doctors (and their patients) and keep them happier in the long term.”

Resources

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