



Corporatization in Radiology

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DISCLOSURES



- NO FINANCIAL DISCLOSURES
- CHAIR, BOARD OF CHANCELLORS, ACR
- FORMER CHAIR, ACR TASK FORCE: CORPORATIZATION IN RADIOLOGY
- CHAIR, GOVERNMENT RELATIONS COMMISSION

CORPORATE PRACTICE IN RADIOLOGY: DEFINITIONS

| | |
|-------------------------|---|
| Consolidation | Merger and acquisition of many smaller companies into a few much larger ones |
| Corporatization | For this presentation, asset acquisition of medical professional corporations by PE-backed, VC-backed, privately held, or public companies. |
| Private Equity | Firms not listed on public exchanges which typically invest in more mature companies for majority up to 100% equity positions |
| Venture Capital | Invests in high growth potential companies typically with less than 50% equity position. |
| Public Companies | Equity shares traded on public markets |
| Angel Investor | Typically solo investor providing capital to smaller start-ups. |

HEALTHCARE CONSOLIDATION: VENDOR M&A ACTIVITY

PHILIPS
wellcentive

Azalea
HEALTH

 **Ascension Living**

 **Azalea**
HEALTH

LEONARDO|MD

 **Presence**
Life Connections

PROGNOSIS
INNOVATION
HEALTHCARE

 **OPTUM**[®]

 **CVS**
Health[®]

ZIRMED[®]
INNOVATING CONNECTED HEALTHCARE

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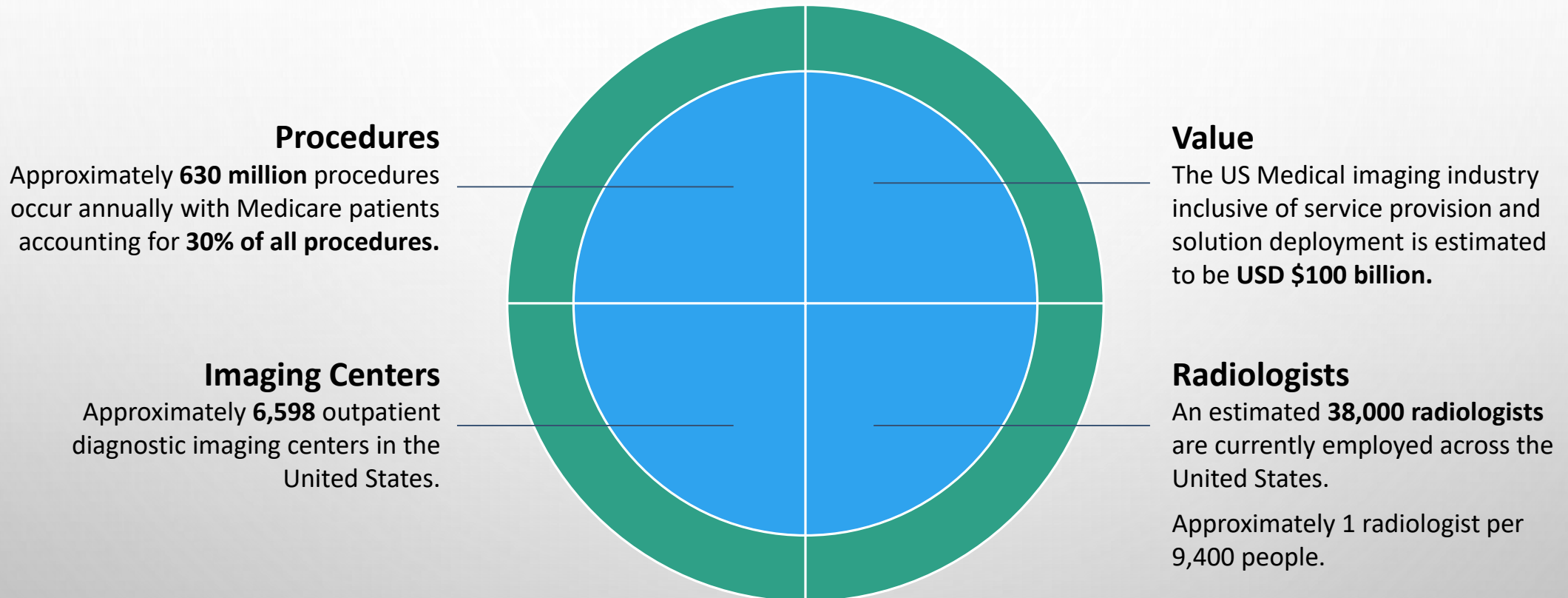
Davita[®]

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Behind every claim is a face

BERKSHIRE
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US MEDICAL IMAGING INDUSTRY—SNAPSHOT BY THE NUMBERS (2017)



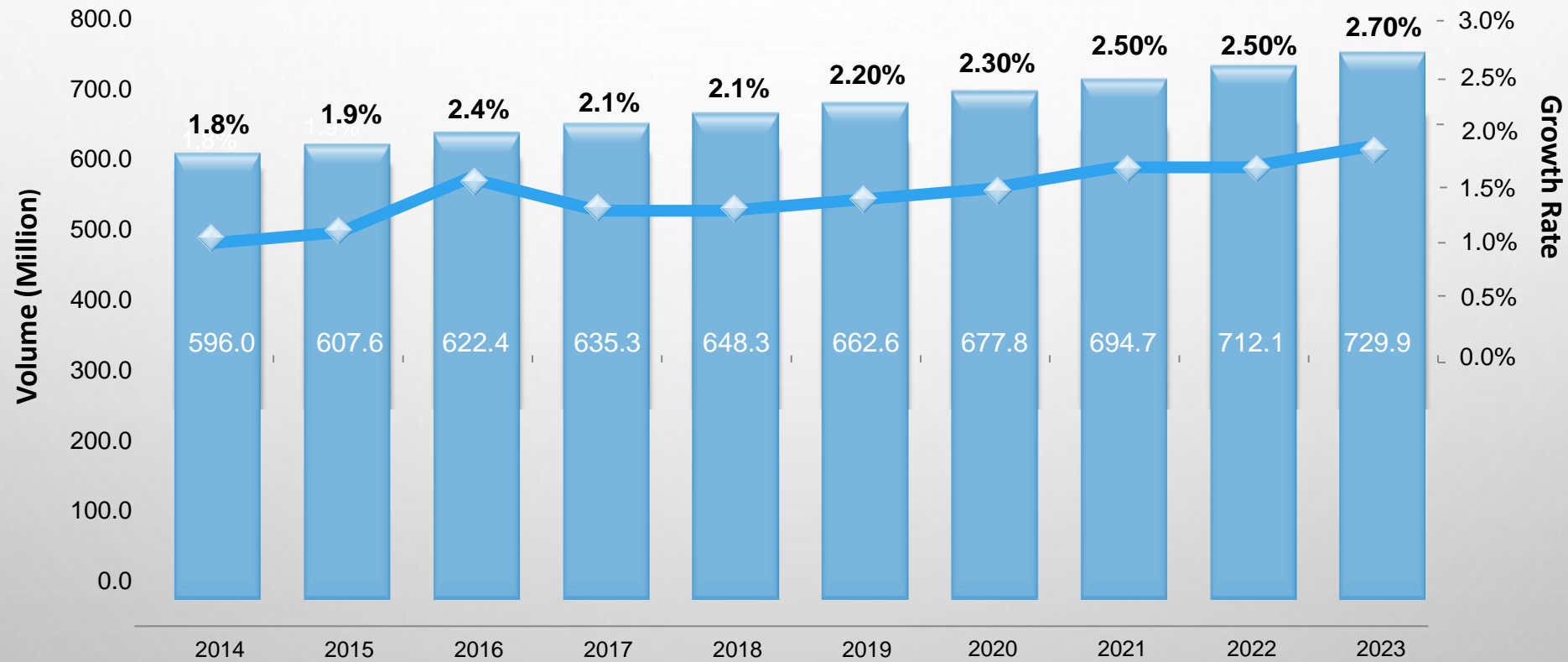
RADIOLOGY WORKFORCE IN U.S.

- **Solo practice:** Minimal
- **Single specialty practice partnership (independent private practice):** 46%
- **Multi-specialty practice partnership:** 10%
- **Employment**
 - Hospital/Health system: 12%
 - Academic (School of Medicine, University, AMC): 25%
 - Government <1%
 - Corporations: 6%



PROCEDURE VOLUMES GROWTH FORECAST

Diagnostic Imaging Procedure Volume Forecast, US, 2014–2023 CAGR = 2.3%



DEMOGRAPHIC TRENDS

Consumer



Increasing demand
for services



Information
and access

Radiology



Work/life
balance



Retirement



Expectations: ownership
versus employee



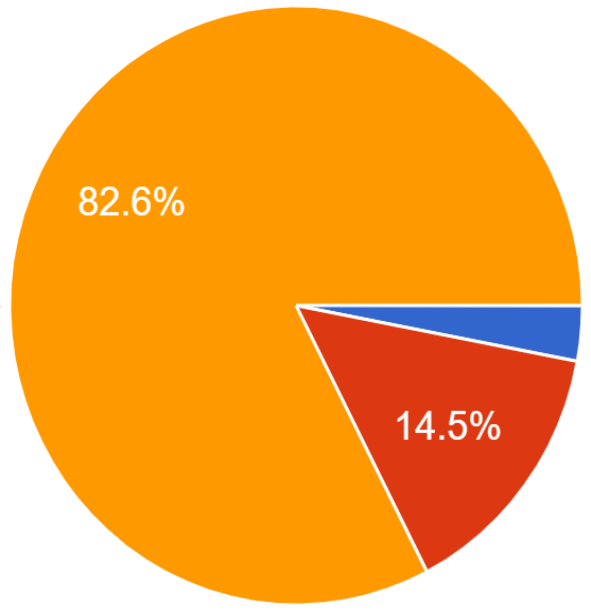
Workforce
Shortage

WHAT DO EARLY CAREER RADIOLOGISTS THINK?

When looking at potential private practice job opportunities, what best describes your actions?

602 responses

Preference for an independent practice:
83%



- I prefer to find a job in a practice affiliated with one of these private equity supported national radiology entities.
- I don't care if the practice is affiliated with one of these private equity supported national radiology entities.
- I prefer to find a job with an independent practice.

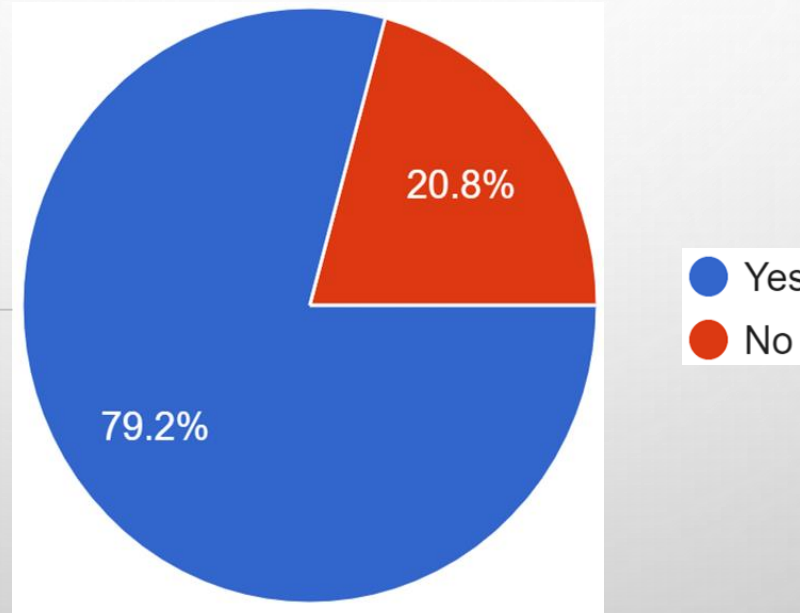
WHAT DO EARLY CAREER RADIOLOGISTS THINK?

Are you looking to actively participate in the business/leadership of your radiology practice?

602 responses

Desire to engage
in the business:

79%



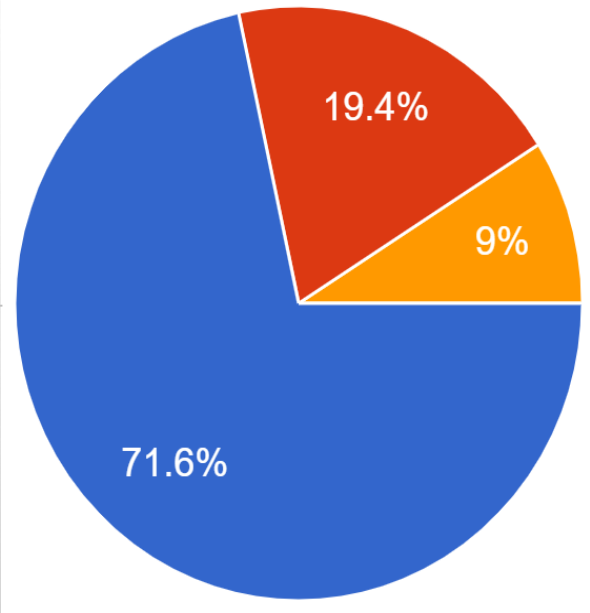
WHAT DO EARLY CAREER RADIOLOGISTS THINK?

Are you worried about the possibility of your (future) radiologist practice being sold to a private equity supported national radiology entity?

602 responses

Worry about practice being sold:

72%



- Yes
- No
- N/A, I am already in one.

CONSOLIDATION

≡ Forbes

Consolidation Among Radiology Services Providers Hitting Fevered Pitch

There has been “massive consolidation” among radiology groups, with seven of the top 20 radiology practices in the country completing a deal within the last 18 months, according to McNeill Wester, a managing director at investment bank **Coker Capital Advisers**.

A fragmented market, changing reimbursement models, hospital consolidation, increasing demand for services and coverage by health systems, and advancing technology in areas such as artificial intelligence are all contributing to M&A activity, noted Steven Aguiar, a managing director at investment bank **Provident Healthcare Partners**.

As a result, valuations for physician groups are at an all-time high, reaching well into the double digits, Aguiar said.

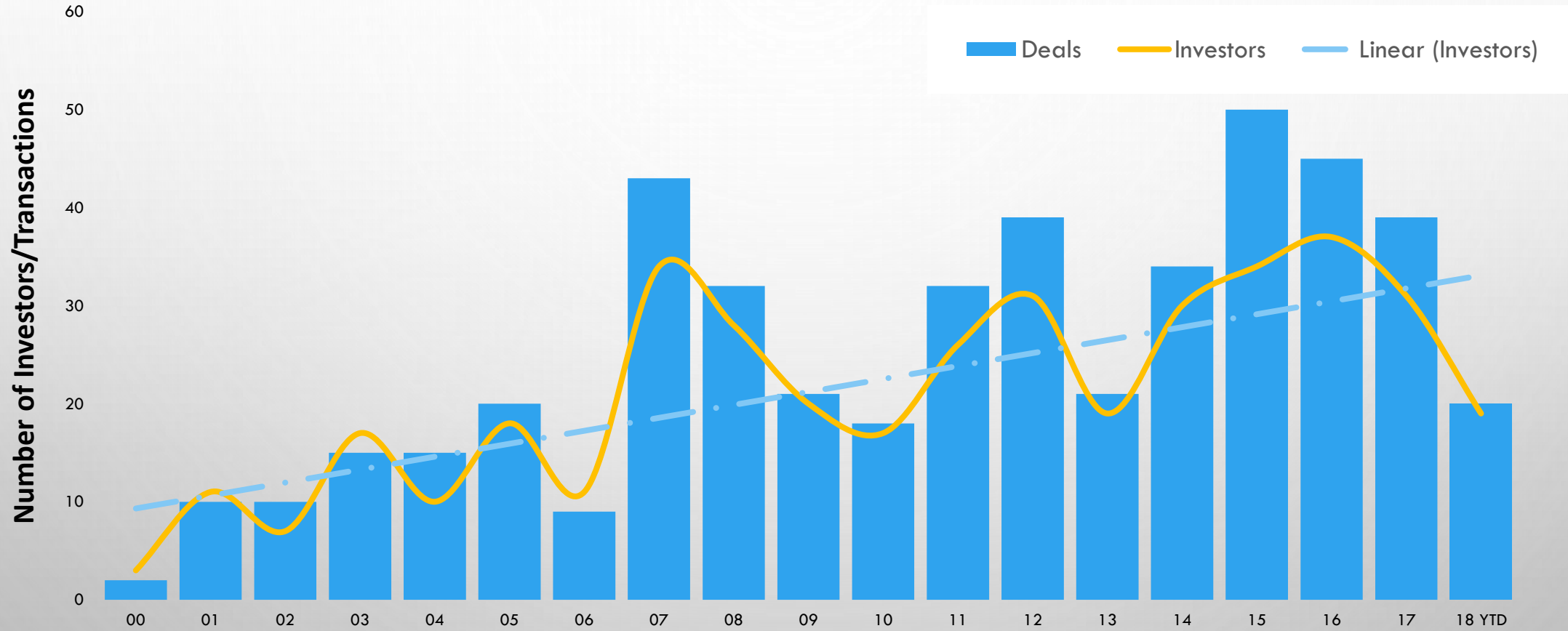
BUY AND BUILD STRATEGY



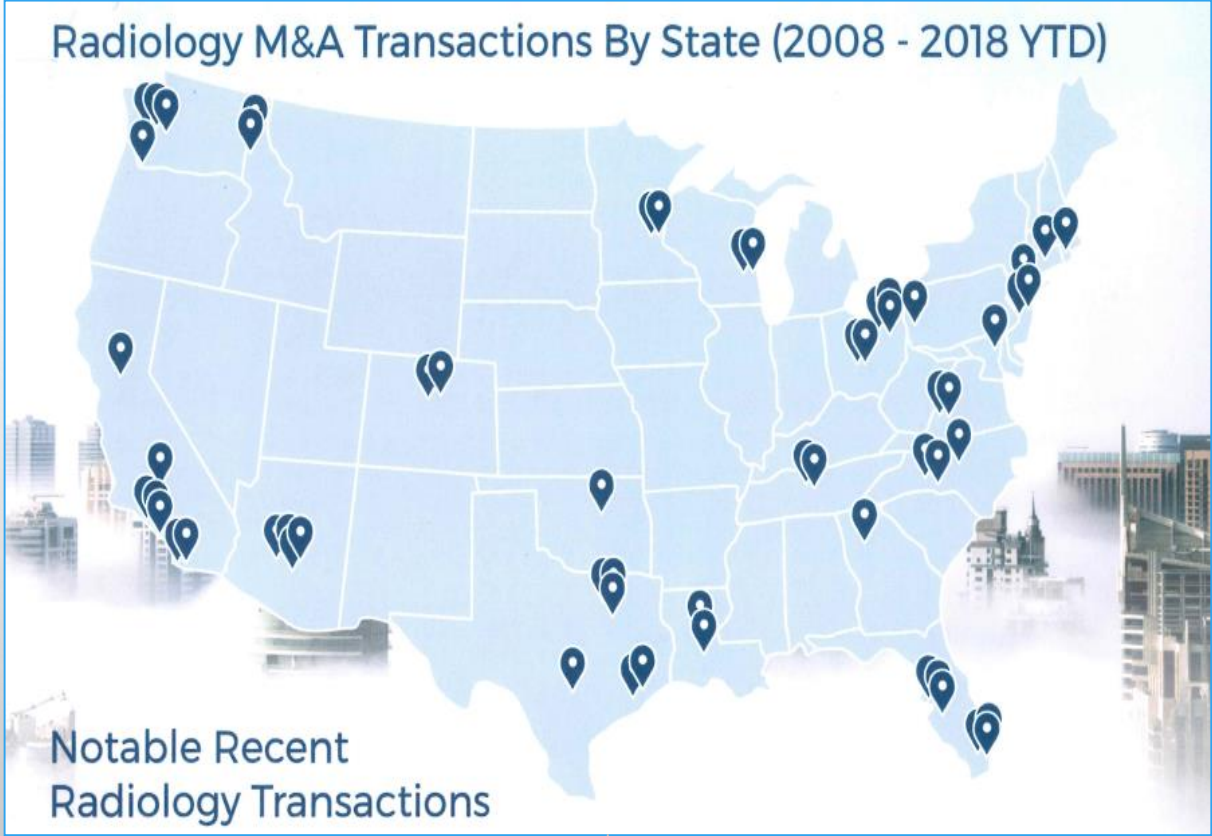
Buy and Build Strategy

Radiology is one of the most fragmented medical subspecialties, which combined with positive outsourcing trends, makes it an attractive subsector to employ a buy-and-build strategy. It is estimated that there are currently more than 3,000 radiology groups in the United States, with only the top 15 in the country having more than 65 radiologists in their practice. LucidHealth is focused on partnering within radiology service providers with a culture of compliance, best-in-class patient outcomes, and a patient-first approach clinically and operationally.

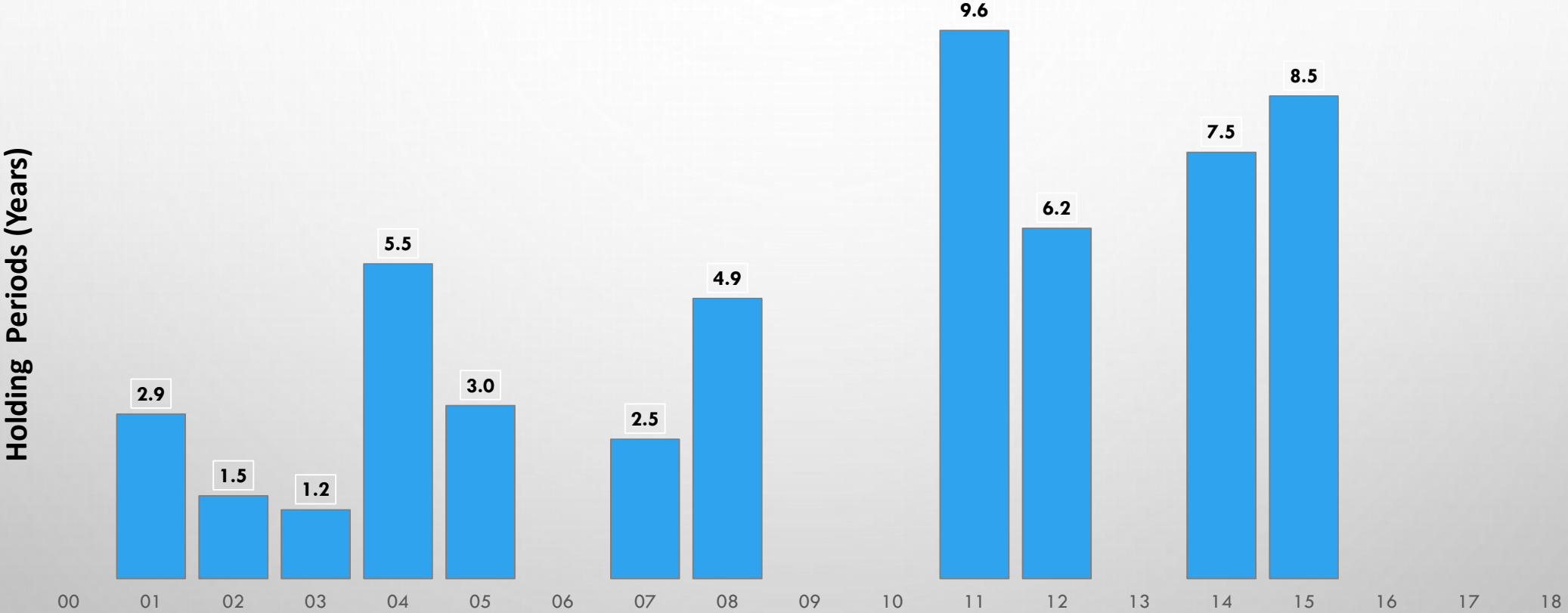
RADIOLOGY TRANSACTIONS



CORPORATIZATION IN RADIOLOGY

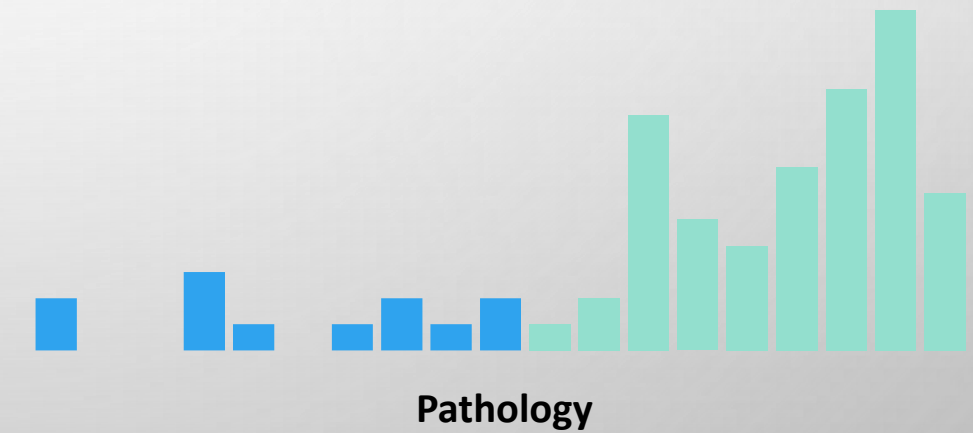
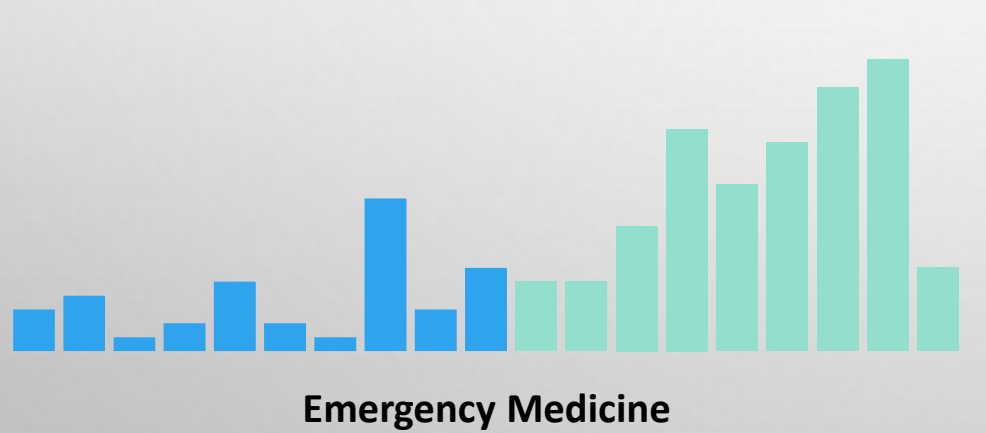
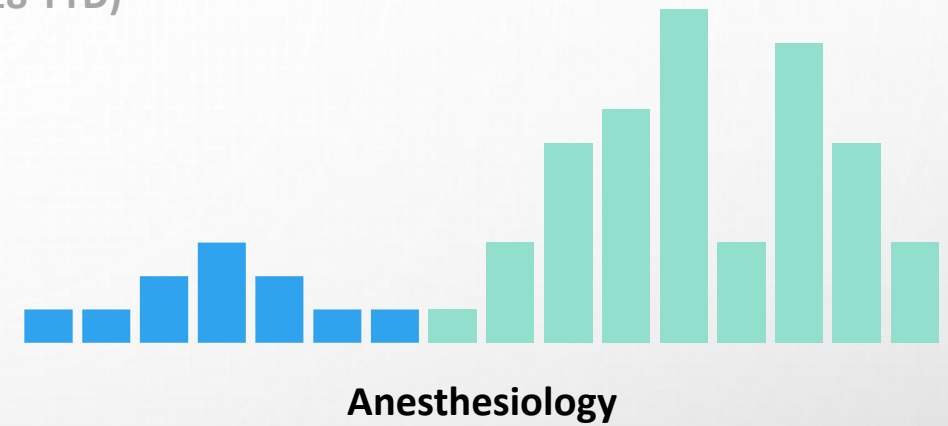
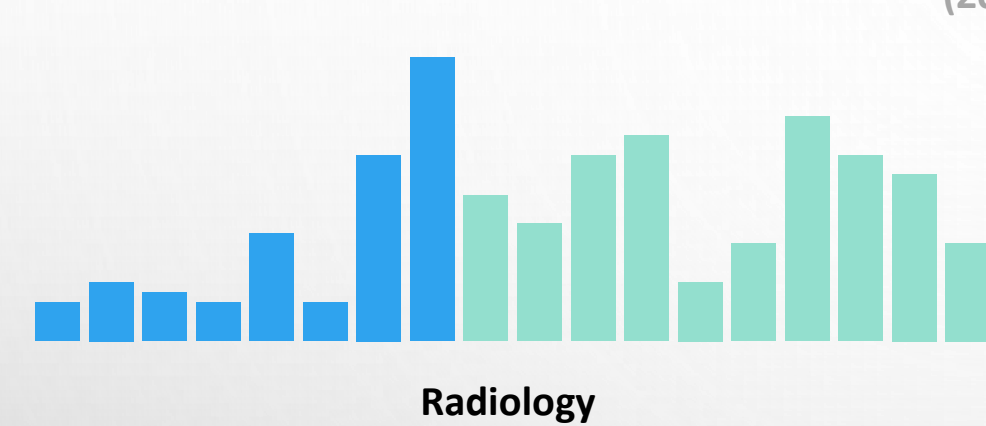


HOLDING PERIODS FOR PE-LED RADIOLOGY PRACTICES



INVESTMENT IN MEDICAL SUBSPECIALTIES

(2000-2018 YTD)



who we are



EUROPEAN COVERAGE

260
CENTRES

9200
PROFESSIONALS

16
COUNTRIES

13M
SCANS PER YEAR

3000
DOCTORS

1300
EQUIPMENT

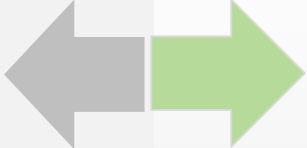
[Marty Stempniak](#) | April 29, 2021 | [Economics](#)

Investment firm acquiring majority stake in ‘leading’ private radiology practice for \$254M

Infratil Ltd. will pony up \$254.2 million (USD) to obtain 50.1% to 60% of Pacific Radiology, New Zealand’s largest private diagnostic imaging provider. The group is currently 100% owned by doc shareholders and operates 46 centers, employing 90 radiologists across the country.

Strategic Pathways for Radiologists

Employee



Stay Independent



Hospital

Public Company

Private Equity

Strategic Merge / Acquire

Form Alliances

Do Nothing

CLAIMED BENEFITS OF NATIONAL RADIOLOGY PRACTICES

- Investment in Leading Clinical Programs and Technology
- Operational Efficiency and Effectiveness from benefit of consolidation
- Strategic Growth
- Stability in the Face of Changing Healthcare Reimbursement
- Investor Equity Growth

NATIONAL RADIOLOGY PRACTICES

- Radiology Partners
 - 61% owned by private equity
 - 2,400 radiologists
 - 3,250 hospitals and other medical facilities
 - Dec. 16, 2020 completion of its acquisition of Mednax Radiology Solutions
- US Radiology
 - 280 radiologists
 - Approximately 300 imaging facilities
 - 48% owned by Welsh Carson (private equity)
 - 30% physician ownership

NATIONAL RADIOLOGY PRACTICES

- Envision Physician Services
 - Operating in 48 states
 - Multi-specialty
 - anesthesia
 - emergency medicine
 - hospital medicine
 - radiology
 - surgical services
 - women's and children's services
- RadNet
 - 300 imaging centers
 - 500 radiologists.
 - Public company
 - Regional networks in 6 states

CLAIMED ADVANTAGES OF INDEPENDENT PRACTICE

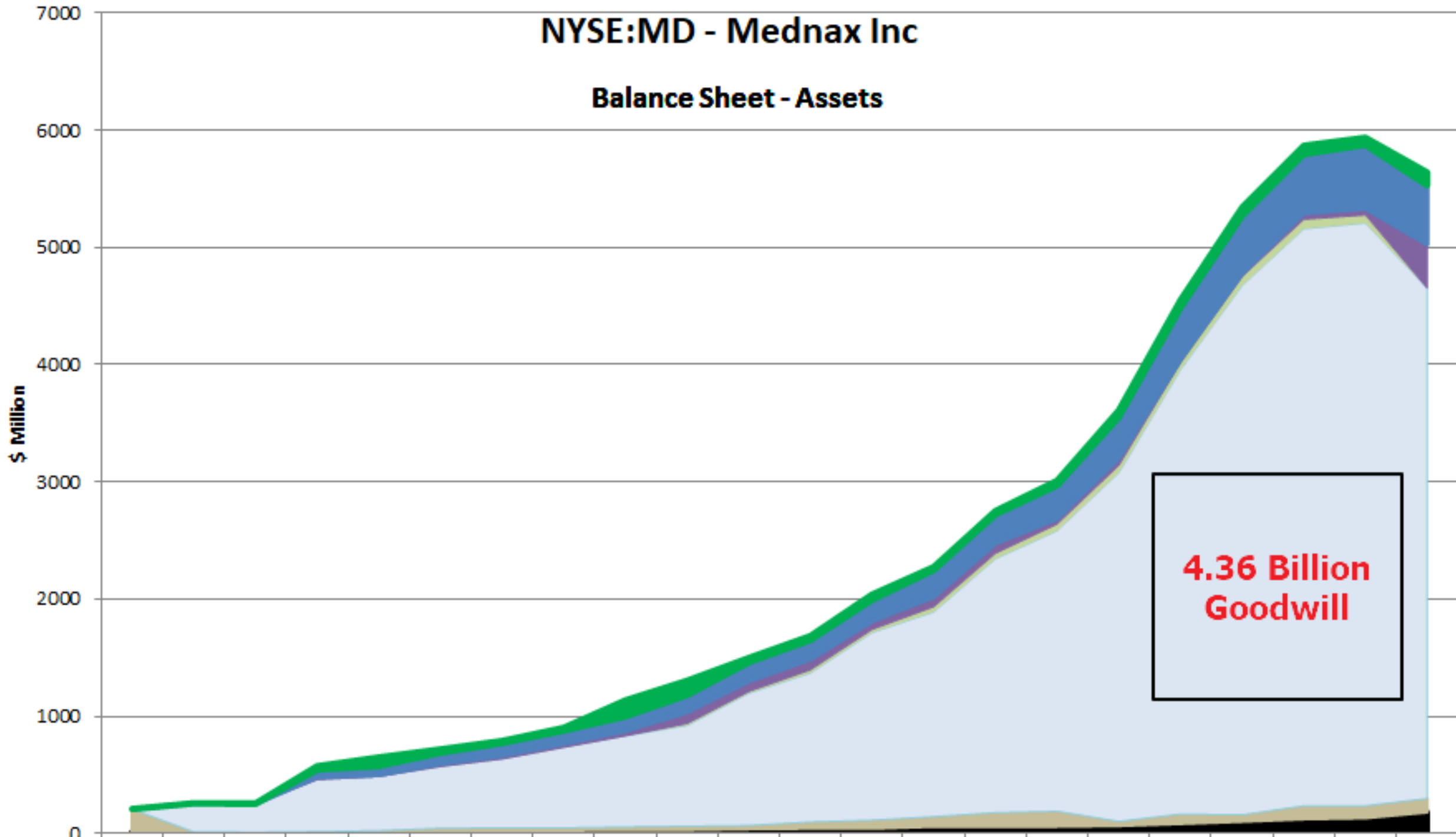
- Self determination
- Flexibility
 - React to market changes
 - Local market forces and politics
- Select best of breed vendors
 - IT
 - After hours services
 - Back office functions: HR, revenue cycle management
- Self governance
- Engagement

INDEPENDENT PRACTICE ALLIANCES

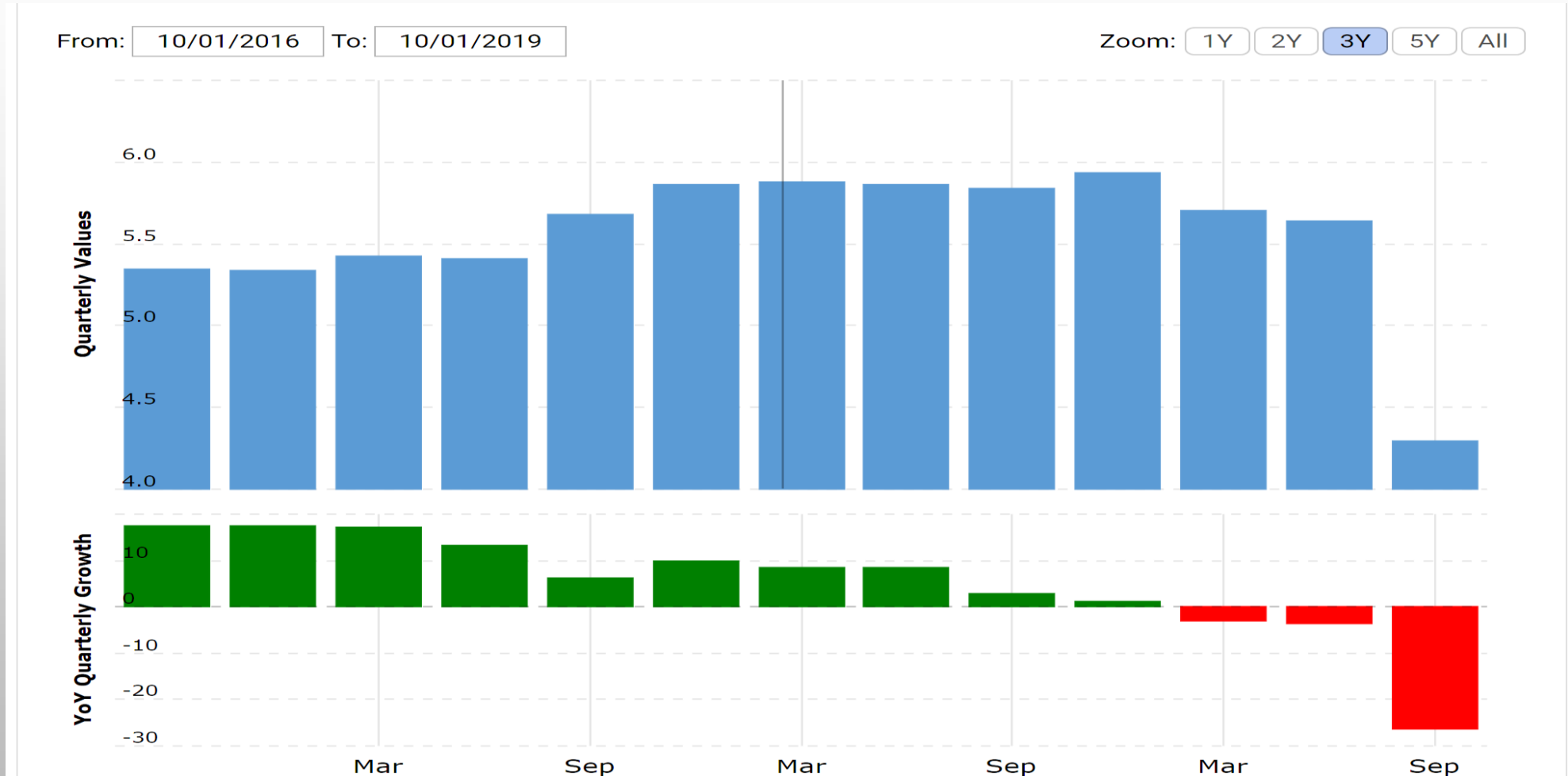
- **Strategic Radiology**
 - 30 practices
 - More than 1 300 radiologists
 - Serving more than 200 hospitals and more than 400 outpatient imaging sites
 - Operating in 35 states
- **Unified Radiology**
 - Owned by radiology practices that want to remain independent
 - Over 500 radiologists, 10 member practices
 - Operating in 12 states

NYSE:MD - Mednax Inc

Balance Sheet - Assets

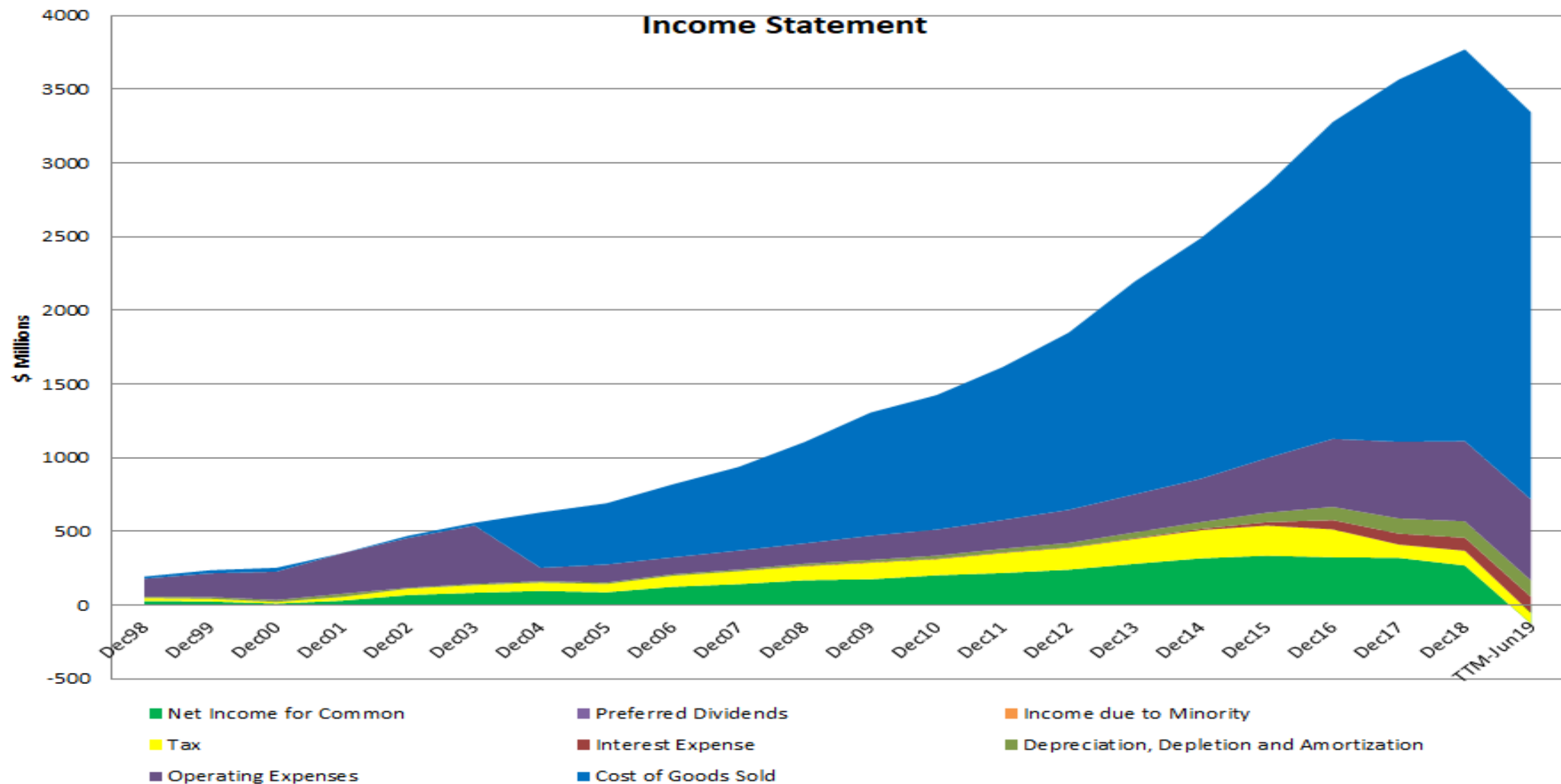


Mednax: Total Assets “Goodwill Impairment Charge”



NYSE:MD - Mednax Inc

Income Statement





RadNet to acquire 'leading' artificial intelligence firm founded by former Siemens CEO (3/20)

Investor-owned RadNet foresees future where AI potentially reads all mammograms presenting an opportunity to boost radiologist efficiency and cut costs.

(3/21)

Court rejects imaging giant RadNet's fight against union organization at handful of facilities



RAD PARTNERS

**

NEA-Founded Radiology Startup Hits \$4 Billion Valuation

Starr Investment Holdings invests \$700 million into Radiology Partners, a startup with 1,400 physicians serving 1,000 hospitals

By

THE
WALL STREET
JOURNAL

RADPARTNERS

Radiology Partners, Inc.

\$150 million senior secured first lien revolving credit facility expiring 2023 at B2 (LGD3)

\$1,165 million senior secured first lien term loan (which includes \$365 million proposed add on financing) due 2025 at B2 (LGD3)

\$282.5 million secured second lien term loan due 2026 at Caa2 (LGD6)

MOODY'S
INVESTORS SERVICE

The company's adjusted debt/EBITDA, including acquisition related pro forma adjustments, was approximately **7.2** times at September 30, 2018.

Q Search

Bloomberg

Sign I

Markets

U.S. Dermatology Defaults on \$377 Million Direct Lender Loan

By [Kelsey Butler](#) and [Heather Perlberg](#)

January 31, 2020, 2:29 PM MST

[Marty Stempniak](#) | April 19, 2021 | [Economics](#)

Private equity firm acquiring one of nation's largest outpatient imaging providers for \$600M



Consolidation continues to spread in imaging, with a New York-based private equity firm reportedly reaching a deal to buy SimonMed, one of the nation's largest outpatient radiology chains.

ACR CORPORATIZATION TASK FORCE: TIMELINE



ACR CORPORATIZATION TASK FORCE WHITE PAPER HIGHLIGHTS



- Purpose: **communicate information**
- The US radiology corporatization experience is still in a relatively **early phase** with projections of future impact prone to speculation.
- Corporate investors **may differ significantly** in terms of their business models and culture.
- Any practice environment should maintain the **independence of physicians** as the vanguards of patient safety and quality.
- Although speculative, it may be that some VC- or PE-owned groups might further support the trend of utilizing **physician extenders** in radiology.
- Any measurement of professional satisfaction for radiologists within corporate entities may be limited by **non-disparagement** contractual clauses.

ACR CORPORATIZATION TASK FORCE WHITE PAPER HIGHLIGHTS (CONT.)

- **Early Career Radiologists (ECR's)** are most vulnerable to the loss of private practice equity opportunities.
- Reduction in the number of **private practices** offering full equity partnerships may adversely impact the attractiveness of the specialty.
- Other **alternative models** such as alliances and managed service organizations are emerging.
- Private practices considering acquisition by corporations should **inform applicants and include partnership-track ECRs** in discussions.



ACR CORPORATIZATION TASK FORCE WHITE PAPER HIGHLIGHTS (CONT.)

- EARLY CAREER RADIOLOGISTS (ECR'S) ARE MOST VULNERABLE TO THE LOSS OF PRIVATE PRACTICE EQUITY OPPORTUNITIES.
- REDUCTION IN THE NUMBER OF PRIVATE PRACTICES OFFERING FULL EQUITY PARTNERSHIPS MAY ADVERSELY IMPACT THE ATTRACTIVENESS OF THE SPECIALTY.
- OTHER ALTERNATIVE MODELS SUCH AS ALLIANCES AND MANAGED SERVICE ORGANIZATIONS ARE EMERGING.
- PRIVATE PRACTICES CONSIDERING ACQUISITION BY CORPORATIONS SHOULD INFORM APPLICANTS AND INCLUDE PARTNERSHIP OFFERS FOR ECRS IN DISCUSSIONS.

Although record valuations, scale, and access to capital are opportunities, there are valid concerns about productivity demands, commoditization, and profit influencing operational and cultural decisions. As physicians, it is our responsibility to represent not only our practices but to be advocates for quality, patient-centered care, and physician practice autonomy as these models develop.

CORPORATIZATION AND DERMATOLOGY



- JAMA Dermatology study found that 17 private equity-backed dermatology management groups rolled up 184 practices from 2012 to 2018, accounting for 381 clinics in at least 30 states. More than a third of the clinics were located in Florida and Texas.
- Experts have questioned the trend, particularly because there are no published studies so far on the impact of private equity ownership on patient outcomes and healthcare spending.
- *"The whole healthcare system needs to pay attention to these trends in the subspecialties, because this does not seem to be a step in the direction of value-based, lower-cost care,"* said Dr. Joshua Sharfstein, vice dean for public health practice at Johns Hopkins University.
- **An accompanying editorial called for a halt to private equity acquisitions** of dermatology practices until data are available on how these deals affect quality of care and affordability for patients and payers.
- *"By focusing on short-term revenue opportunities, private equity acquisitions will likely add to the immense cost and stark inequality of our healthcare system."*

CMS/AMA CORPORATIZATION REPORT: RECOMMENDATIONS

(SUMMARY)

- Oppose federal legislation preempting state laws prohibiting the corporate practice of medicine
- Continue monitoring effect on patient-physician relationship, financial conflicts of interest, and patient-centered care.
- Ensure autonomy of physicians
- Inform patients of the ownership arrangement
- Physicians should retain responsibility for clinical governance, patient welfare and outcomes, clinical autonomy, and due process.
- Support transparency regarding corporate investment and prices.
- Encourage specialty societies to address the impact of corporate investor partnerships on patients and physicians.

CMS/AMA Corporatization Report: Recommendations (Summary)

Encourage physicians who are contemplating corporate investor partnerships to consider the following issues:

- Alignment of practice's long-term goals with those of the corporate investors.
- Due diligence.
- Obtain expert advise.
- Control over practice decision-making and day-to day management.
- Potential impact on physician and practice employee satisfaction and future physician recruitment.

JAMA RESEARCH: FEBRUARY 18, 2020

PRIVATE EQUITY ACQUISITIONS OF PHYSICIAN MEDICAL GROUPS ACROSS SPECIALTIES, 2013-2016

“Research is needed to understand the effect of these acquisitions and to mitigate unintended consequences,” wrote lead author Jane Zhu, MD, with the Division of General Internal Medicine and Geriatrics at Oregon Health and Science University. **“Private equity firms expect greater than 20% annual returns, and these financial incentives may conflict with the need for longer-term investments in practice stability, physician recruitment, quality and safety. There may be additional pressures to increase revenue streams, direct more referrals internally and rely on lower-cost clinicians.”**



JAMA Network™

Zhu JM, Hua LM, Polsky D. Private Equity Acquisitions of Physician Medical Groups Across Specialties, 2013-2016. *JAMA*. 2020;323(7):663–665. doi:10.1001/jama.2019.21844

RESOLUTION No. 25:

Partnership Track Associates in Practice Equity Transactions

BE IT RESOLVED: that the ACR recommend adoption of shared decision-making and transparency, and

BE IT FURTHER RESOLVED: that the ACR strongly recommends that groups inform non-partner associates of considered or pending equity transfers or transactions upon issuance of a contract, and

BE IT FURTHER RESOLVED: that the ACR strongly recommends that partnership track associates should be involved in any and all pertinent aspects of such transfers or transactions, and

BE IT FURTHER RESOLVED: that the ACR strongly recommends that any non-compete clause in an associate's contract should be terminated in event of a transfer or sale.

QUESTIONS TO ASK

- Have the benefits touted by the VCE been fulfilled?
- Have these companies brought their groups national or regional contracts to compensate for the money the practices have forfeited in overall compensation?
- Have they instituted practice efficiencies without making further productivity demands?
- Have they implemented greater management expertise?
- Have significant economies of scale been achieved?

[https://www.jacr.org/article/S1546-1440\(21\)00136-8/fulltext](https://www.jacr.org/article/S1546-1440(21)00136-8/fulltext)

The Challenge

“Private equity organizations come into an industry because they think it’s a good investment. But they also enter because they think there are opportunities for improvement. If these people are saying we need to improve, perhaps we should listen to what they have to say. They represent an outside force looking at healthcare in a different and unique and maybe creative way.

I try not to say whether I think this is good or bad, because it just is. It’s happening, and we’ve got to figure it out. And in that process, what can we learn from other industries that have gone through this? This is where an organization like RBMA (ACR) has to help lead. How can we—together as an industry—learn from other industries?”

Bob Still, Executive Director RBMA



Thank you!!

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