RECENT TRENDS IN PRIVATE EQUITY HEALTHCARE ACQUISITIONS

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PRIVATE EQUITY
STAKEHOLDER
PROJECT

Table of Contents

Overview

In light of growing investor interest in healthcare and **the risks associated with private equity ownership of healthcare companies**, the Private Equity Stakeholder Project publishes monthly blog posts that track private equity-backed healthcare acquisitions. This report looks at the 2022 private equity deals data in review, identifying and analyzing major recent investment trends in healthcare.

Click here to access a catalog of our monthly acquisitions blog posts for 2022.

KEY TAKEAWAYS:

- Private equity healthcare investments in 2022 were the second highest on record after 2021 in terms of disclosed deal value and deal count.
- A combination of factors makes healthcare an optimal space for private equity investment: a permanent demand for healthcare services, an aging population defined by a high disease burden, and the fact that many subsectors within healthcare are fragmented and therefore ripe for consolidation.
- PESP counted 125 buyouts and 503 add-on acquisitions to 364 unique platform companies in 2022. These deals involved 471 private equity firms and similar types of investors.
- The outpatient care subsector saw the most deal activity in 2022, with dental care and eye care, especially, seeing heavy deal volumes. The specialties of orthopedics and podiatry are heating up as desirable investment spaces, as well.
- Medtech, health IT, healthcare administration, contract research organizations (CROs), behavioral health, and home health and hospice made it to the top 15 categories where deal activity occurred.
- Private equity's growing presence in the health sector and propensity for consolidation of healthcare services is cause for concern. The common private equity strategy of pursuing outsized returns over relatively short periods of time can lead to cost-cutting efforts that negatively impact patients and workers. Further, private equity firms are more likely to use debt to fund their investments, leading to unwieldy debt service obligations that can divert money away from patient care and fair compensation for employees.
- In light of growing investor interest in healthcare and the risks associated with private equity ownership of healthcare companies, regulators and lawmakers should scrutinize private equity acquisitions of healthcare companies more closely and pass and implement commonsense policies to ensure access to affordable and quality healthcare for all patients in the US.

Summary of findings[1]

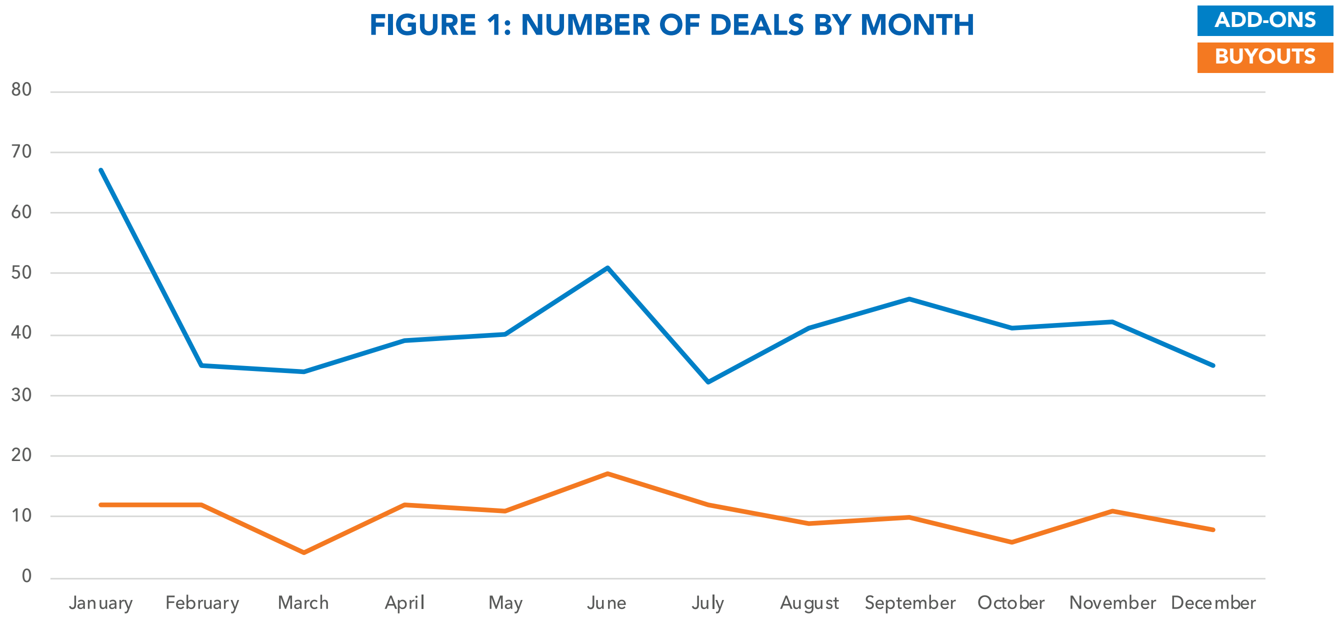
In 2022, PESP tracked 125 buyouts and 503 add-on acquisitions to 364 unique platform companies. These deals[2] involved 471 private equity firms and similar types of investors.

The 8 most active private equity firms in 2022 by number of healthcare deals were Webster Equity Partners (22 deals), New Mainstream Capital (15 deals), Linden Capital Partners (12 deals), Audax Group (12 deals), Thurston Group (11 deals), BPEA Private Equity (10 deals), Osceola Capital Management (9 deals), and Shore Capital Partners (9 deals).

TABLE 1: PRIVATE EQUITY FIRMS WITH 5 OR MORE DEALS IN 2022

FIRM	# OF HEALTHCARE DEALS	FIRM	# OF HEALTHCARE DEALS
Webster Equity Partners	22	Aquiline Capital Partners	6
New MainStream Capital	15	General Atlantic	6
Linden Capital Partners	12	GHO Capital	6
Audax Group	12	OMERS Private Equity	6
Thurston Group	11	Partners Group	6
BPEA Private Equity	10	Quad-C Management	6
Osceola Capital Management	9	Revelstoke Capital Partners	6
Shore Capital Partners	9	Ridgemont Equity Partners	6
H.I.G. Capital	8	FFL Partners	6
New Mountain Capital	8	Apollo Global Management	5
Sheridan Capital Partners	8	Ares Capital Corporation BDC	5
Vistria Group	8	Capital Southwest BDC	5
Atlantic Street Capital	7	Centre Partners	5
Avista Capital Partners	7	Golub Capital BDC	5
Leonard Green & Partners	7	KKR	5
The Carlyle Group	7	LLR Partners	5
The Riverside Company	7	TowerBrook Capital Partners	5
Patient Square Capital	6	TPG	5

FIGURE 1: NUMBER OF DEALS BY MONTH

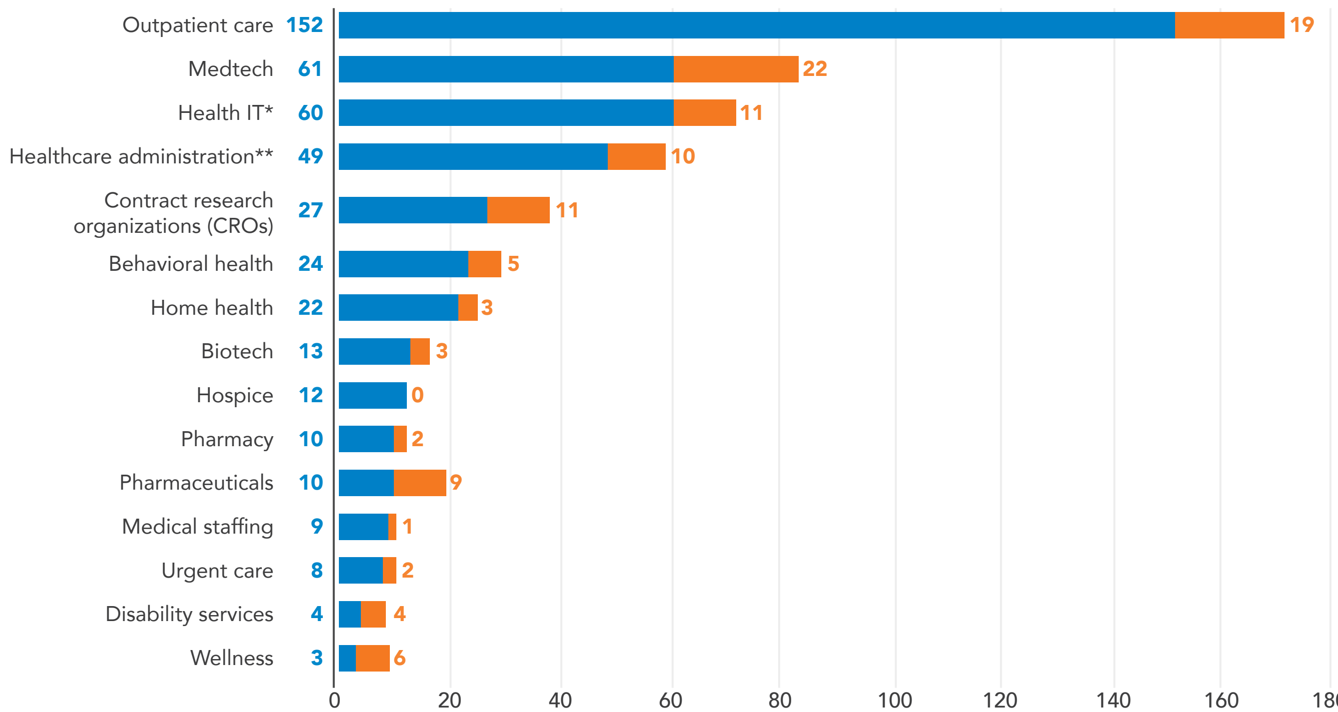


Private equity-backed healthcare acquisitions remained steady throughout the year, with the most deal activity in January, June, and September.

Some healthcare subsectors saw significantly more deal activity than others. Figure 2 shows the top fifteen categories for deal activity, with outpatient care, medtech, and health IT dominating the list.

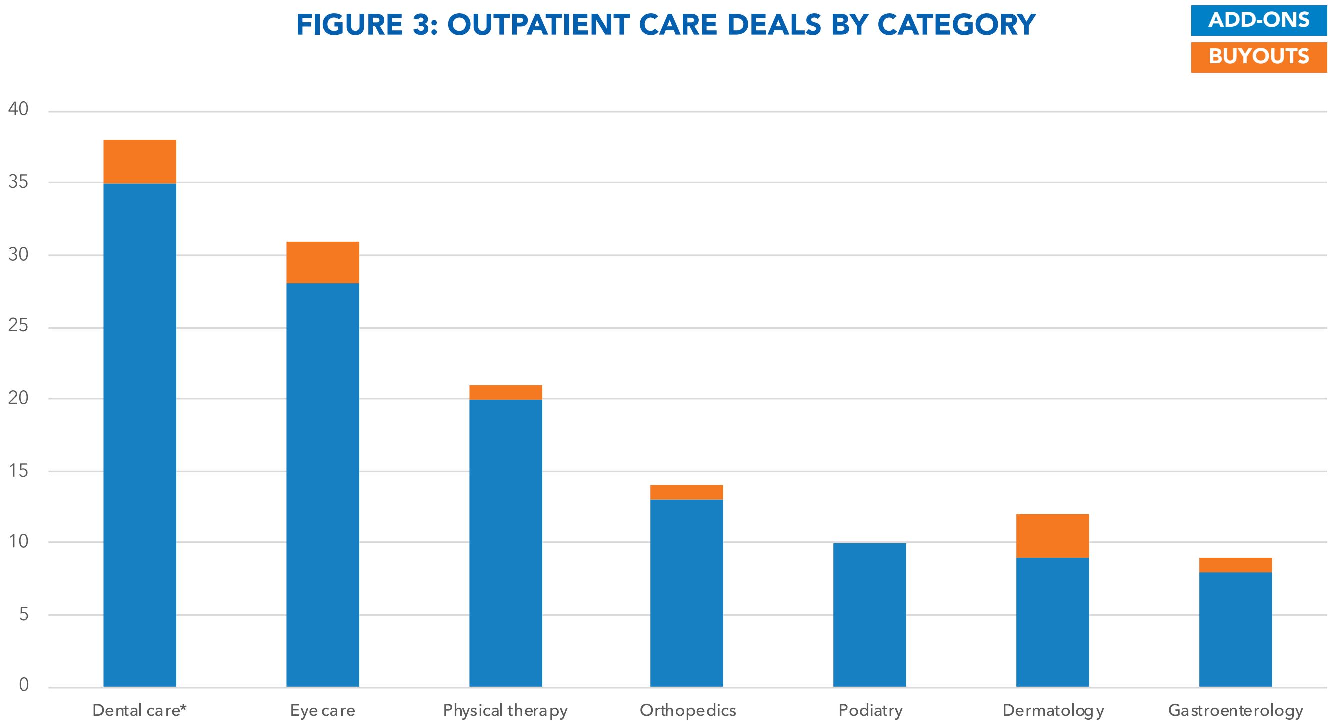
The next sections of the report analyze deal activity more closely for outpatient care, medtech, healthcare administration, contract research organizations, behavioral health, home health & hospice, medical staffing, and urgent care.

FIGURE 2: NUMBER OF DEALS BY CATEGORY



** Health IT includes companies that develop and sell software, including revenue cycle management (RCM) software.*
*** Healthcare administration includes RCM companies and certain types of consulting companies.*

Outpatient care



**Dental care includes general dentistry, orthodontics, endodontics, and other specialty forms of dental care.*

Outpatient care deals were the most active category in 2022. There were more than 20 outpatient specialties that saw deal activity, with the top seven categories being dental care*, eye care, physical therapy, orthopedics, podiatry, dermatology, and gastroenterology.

The significant number of private equity acquisitions of outpatient providers are part of a growing trend. According to a 2021 PitchBook report, "in the past five years, healthcare services deals, the majority of which are provider deals, accounted for over 70% of all US private equity healthcare buyouts and over 10% of all US private equity buyouts (including add-ons)."[3]

Private equity has descended onto the fragmented outpatient landscape with an eye towards consolidation,[4] often able to avoid antitrust scrutiny. An analysis from KHN found that 90% of private equity investments "fall below the $101 million threshold that triggers an antitrust review by the Federal Trade Commission and the U.S. Justice Department."[5]

Because private equity firms are barred from directly owning physicians' practices in most states, firms often buy or create platform companies that partner with physician-owned medical groups. These physician management companies (PMC) manage business administration of medical practices, including insurance contracting and billing.[6]

There is growing evidence demonstrating negative impacts of private equity takeovers of provider practices.

Of critical concern is private equity's impact on prices. A February 2022 study in JAMA found payments to anesthesia providers were higher for practices contracted with a PMC, particularly if the PMC was private equity-backed.[7] For patients who received anesthesia in a facility with a PMC contract, costs increased 16.5%, and unit prices standardized by procedure complexity and duration climbed by 18.7%. For private equity-owned PMCs, allowed amounts and unit prices increased by 26.0% and 25.6% respectively.[8]

Another 2022 study published in JAMA found that private equity-acquired physician practices in the fields of dermatology, ophthalmology, and gastroenterology were associated with increased health spending and utilization.[9]

These studies raise concern that private equity ownership of physician practice management companies may lead to increased prices and higher premiums for patients. In addition to tracking acquisition trends in outpatient provider services, more research is needed to better understand the impacts of private equity investments in outpatient provider services on healthcare cost and quality.

Trends in outpatient care deals

A **2020 study published in JAMA** found that private equity firms acquired 355 physician practices between 2013 and 2016, with the number of deals accelerating each year. The most represented specialties in the study were anesthesiology (19.4%), multispecialty (19.4%), emergency medicine (12.1%), family practice (11.0%), and dermatology (9.9%). There were also increases in cardiology, ophthalmology, radiology, and obstetrics/gynecology practices.[10]

Based on 2022 data, private equity's focus on specialty firms is shifting, with greater focus in areas including eye care, dental care, and physical therapy. Anesthesiology and dermatology are no longer top investment targets. 2022 included only 4 anesthesiology and 12 dermatology acquisitions.

The next sections explore private equity investments in outpatient care subsectors that dominated the list or are heating up as popular investment spaces in 2022: dental care, eye care, physical therapy, orthopedics, podiatry, and gastroenterology.

Dental care

Private equity firms have increasingly been investing in the US dental industry through Dental Services Organizations (DSOs). DSOs handle the business side of dental practices, such as administrative, marketing, bookkeeping, and financial services. As of 2021, private equity firms dominated the DSO market; 9 of the top 10 DSOs in the US were owned by private equity firms. Private equity firms owned 27 of the top 30 DSOs, accounting for 84% of practice locations affiliated with the top 30 firms.[11]

The most active private equity firm in dental care in 2022 was Quad-C Management, which made 4 add-on acquisitions to its platform company, U.S. Endodontic Partners. Five Points Capital and Thurston Group made three add-on acquisitions to their platform company, Gen4Dental Partners. Other notable private equity firms investing in dental care included New Mountain Capital (3 deals), Vistria Group (2 deals), Rock Mountain Capital (2 deals), and Serent Capital (2 deals).

Private equity-owned dental companies have been found to employ cost cutting tactics that can hurt patient care, including pushing medically unnecessary or expensive procedures and understaffing while attempting to maximize patient volume.[12] These companies also provide an avenue for private equity firms to skirt around regulations. Both the DSO and physician practice management industries appear to have been created, largely by private equity firms, to avoid regulation that prohibits investor ownership of clinical practices.[13]

See our 2021 report for more information on private equity investments in dental care: **"Deceptive Marketing, Medicaid Fraud, and Unnecessary Root Canals on Babies: Private Equity Drills into the Dental Care Industry."**

Eye care

Eye care providers saw 28 add-ons and 3 buyouts, for a total of 31 deals. Notable firms included Webster Equity Partners, with 4 add-on acquisitions to its platform, Retina Consultants of America; Monarch Alternative Capital, with 3 add-on acquisitions to Shopko Eyecare Center, and Partners Group, with 3 add-ons to Eyecare Partners.

In one of the highest profile eye care deals of the year, Olympus Partners acquired EyeSouth Partners from Shore

Capital in a leveraged buyout. The company was valued at approximately $1 billion at the time of the acquisition.[14] While the deal amount was undisclosed, some sources quoted in industry media have stated that it sold for about 13 times EBIDTDA (earnings before interest, taxes, depreciation, and amortization).[15] *PE Hub* described the sale "as a culmination of a five-year buy-and-build strategy that grew the regional ophthalmology services manager 20-fold from 13 practitioners to 270."[16]

Researchers and reporters have recently tried to unpack the impact of private equity investment in eye care. One study found increased spending and utilization for private equity-backed ophthalmology practices (as well as for gastroenterology and dermatology).[17]

In September 2022, KHN released an investigative report on private equity activity in eye care, detailing private equity's increased interest in this specialty. One expert estimated that private equity firms may now work with as much as 8% of ophthalmologists in the US. KHN's analysis suggests that private equity firms are investing in practices that are higher volume and therefore more profitable.[18]

Physical therapy

2022 saw multiple private equity acquisitions of physical therapy practices, reflecting continued interest in the sector. We tracked 20 add-ons and one buyout in this subsector.

BDT Capital Partners-owned Athletico Physical Therapy acquired four physical therapy practices in 2022, expanding its presence in Mississippi and Oklahoma. Athletico currently has approximately 8,000 employees at more than 900 locations across 25 states,[19] acquiring at least 12 practices since its PE-backing in 2014.[20] The company has more than doubled in size since that year when it had approximately 300 locations in eight states.[21] According to a 2022 report, Athletico Physical Therapy has the fourth largest market share (2.4%) of the outpatient physical therapy market.[22]

Other notable private equity firms investing in physical therapy included H.I.G. Capital, which made three add-ons to its platform company CORA Health Services; and General Atlantic and TowerBrook Capital Partners, which made three add-ons to PT Solutions.

In early 2022, analysts noted that PE firms remained bullish on physical therapy, "driven by the strong demographic trends and outstanding consolidation opportunity."[23] In 2018, there were estimated to be at least 16,000 outpatient physical therapy clinics in the US, with no provider accounting for more than 5% of total industry revenue or 10% of market share by number of clinics.[24] As of 2022, the estimated number of outpatient physical therapy clinics had more than doubled to 38,000, with still no providers exceeding 10% market share.[25]

Orthopedics

Orthopedics has become a hot new investment area for private equity firms. As with many areas in healthcare, the aging population in the U.S. is increasing demand for orthopedic care, promising lucrative returns in the coming years for savvy investors. Further, the supply of orthopedic specialists is relatively low, creating ripe conditions to generate outsized profits.[26]

Private equity first entered the orthopedics space in 2017, with the pace of deals quickening since. The typical lifespan of private equity ownership is three to five years, meaning that firms that acquired practices in 2017 and later are likely ready to sell. According to KHN, as of 2022, there were reportedly multiple private equity-backed orthopedic platform companies "on the market for resale to other investors."[27]

We counted 13 private equity-backed add-on acquisitions and 1 buyout in orthopedics in 2022. These acquisitions

involved 13 private equity firms and 8 platform companies. According to *KHN*, the states with the most concentrated private equity backed orthopedic groups are Georgia, Texas, Florida, and Colorado.[28] More research is needed to better understand how private equity acquisitions in orthopedics will impact costs and quality of patient care.

Podiatry

Like orthopedic care, podiatry is becoming an attractive investment target for private equity firms as the population ages. It has also seen increased demand from the growing incidence of obesity and diabetes. Increased demand and a fragmented market have created the ideal conditions to attract investor interest.[29] Consolidated groups can establish greater market share and negotiating power with payers, leading to greater revenues. More research is needed to determine how growing consolidation in this specialty is impacting cost for patients and payers.[30]

We tracked 10 private equity-backed add-on acquisitions in 2022, all of which were to platform company Foot & Ankle Specialists of the Mid-Atlantic and sponsored by New MainStream Capital. Foot & Ankle Specialists currently has 74 practice locations across North Carolina, Virginia, Maryland, Pennsylvania, and Washington D.C.

Gastroenterology

Private equity firms made 8 add-on acquisitions and one platform buyout of gastroenterology companies, reflecting private equity's growing interest in the broader digestive health market. According to a **2021 report** by Physician Growth Partners, nearly 10% of the 14,000 gastroenterologists in the United States were partners or employed by a private equity-owned company.[31]

Several forces appear to be driving investor interest in gastroenterology. An aging population means more people are getting colonoscopies to screen for colorectal cancer, and for patients age 65 and older these screenings are covered entirely by Medicare. In 2021 the CDC **lowered the recommended age** for colorectal cancer screening from age 50 to 45,[32] in part due to **increasing incidence** of early-onset colorectal cancer in younger adults.[33]

Read: *Kaiser Health News*, **"Betting on 'Golden Age' of Colonoscopies, Private Equity Invests in Gastro Docs"** (May 27, 2022)

These factors have increased demand for gastroenterology services, aggravating a shortage of gastroenterology providers. The Health Resources and Services Administration (HRSA) **estimated in 2016** that by 2025, the US will face a shortage of more than 1,600 gastroenterologists nationwide.[34]

Finally, the gastroenterology industry has historically been fragmented, creating opportunities for private equity firms to use platform companies to buy up and consolidate providers.[35] For example, 5 of the gastroenterology add-on acquisitions completed in 2022 were made by a single platform company Gastro Health, which is owned by OMERS Private Equity.[36]

GI Alliance, owned by Waud Capital, made two more add-on acquisitions in 2022. Since Waud acquired GI Alliance in 2018,[37] it has become the biggest private equity-owned gastroenterology platform in the US,[38] growing from having 159 affiliated gastroenterologists to over 670 operating in Texas, Arkansas, Arizona, Colorado, Florida, Illinois, Indiana, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Utah, and Washington.[39]

Medtech

Medtech had the second highest number of private equity healthcare deals. We tracked 61 add-on acquisitions and 22 buyouts. One of the biggest medtech private equity deals of the year was the public to private buyout of Hanger by Patient Square Capital for $1.2 billion. Hanger is a provider of prosthetics and orthotics.[40]

35 of the medtech deals we tracked involved companies specializing in manufacturing of medical devices, medical parts, medical equipment, or medical supplies.

Medical device outsourcing, in particular, remains a popular investment space for private equity firms.[41] According to a 2022 report by Capstone Partners, "the past two years have exposed weakness in supply chains, creating significant demand for outsourced players with multiple manufacturing operations and a lack of reliance on one supplier or geography."[42]

As private equity firms develop a larger footprint in the medtech industry, especially through vertical integration via the acquisition of upstream manufacturing companies, researchers and regulators need to interrogate any potentially monopolistic deals that could have the potential to drive up healthcare costs for hospitals, payers, and patients.

Healthcare Administration

Given the complexity of the healthcare regulatory landscape, businesses that allow private equity firms to tap into profits through administrative services, such as management services organizations, consultant groups, and revenue cycle management (RCM) companies, can be attractive investments. Within this category, we saw 52 add-ons and 12 buyouts in 2022.

RCM companies, in particular, saw significant interest from private equity, with 18 add-ons and 3 buyouts. RCM companies specialize in the collection of medical debt, a service for which cash-strapped hospitals pay to outsource.[43] They are often paid a percentage of the debt they collect for a hospital, and thus are incentivized to aggressively pursue patients using a variety of tactics, sometimes running afoul of federal laws such as the Federal Debt Collection Practices Act or the Telephone Consumer Protection Act.[44]

RCM companies advertise themselves as more efficient and advanced than in-house debt collection operations at hospitals.[45] There is evidence to support this contention, as many RCM companies have invested heavily in updating and scaling their collection services through technology.[46] This has led to a surge in demand from hospitals for RCM services, which has made this segment of the industry very profitable and attractive for investors.[47] As a result, private equity firms have invested heavily in RCM companies, and have possibly contributed to an increase in aggressive debt collection activity.[48]

Private equity-backed companies, including RCM-focused ones such as SCP Health and Gryphon Healthcare,[49] have played significant roles in the US surprise medical billing problem.[50] Researchers and policymakers should remain vigilant as to how increased investment activity in the RCM sector is impacting medical bills for patients in the US.

Contract Research Organizations (CROs)

Contract research organizations (CROs) were a noteworthy site of investment in 2022 with 3 buyouts and 27 add-on acquisitions, including **KKR's add-on of Peninsula Research Associates to their fast-growing platform company, Headlands Research, announced in June.** CROs have become an attractive investment choice for private equity firms because pharmaceutical and life sciences research and development is a fragmented industry with opportunity for consolidation, and because unlike investment in pharmaceutical companies themselves, revenues will not depend on whether a drug makes it to market or not.[51]

One common goal of consolidation is to increase efficiencies. According to Kaiser Health News, "Getting a drug to market a few months sooner and for less expense than usual can translate into millions in profit for the manufacturer."[52]

According to the American Investment Council, the primary lobbying group that represents private equity firms in the US,[53] "investors are able to dramatically improve the hundreds of service providers that play a vital role in health care innovation and patient care," and "PE Firms can help drastically reduce costs and make drug development much more efficient."[54]

These claims raise the question: for whom can private equity generate a reduction of costs and increase in efficiencies? Drugs (especially expensive biologics) and medical devices continue to drive high health care costs in the United States that ultimately fall on consumers via higher insurance premiums, hospital bills, and out-of-pocket expenses.[55]

With a focus on generating substantial profits over relatively short time horizons (4-7 years), private equity firms add another layer of profit extraction into the research and development of pharmaceutical products. Without having to incur the risks of a drug or device failing to make it to market, private equity firms that invest in CROs can profit from medical research and development even if consumers do not benefit.

In the absence of price controls for pharmaceuticals and devices, any purported cost savings that private equity firms generate for life sciences research will not necessarily reach consumers. Therefore, increasing consolidation of CROs and other companies involved in research and development (R&D) has the potential to drive up the costs of R&D if some companies gain outsized market power and can then extract higher prices for the services they provide.

Given the exorbitant costs of prescription drugs, biologics, and medical devices in the United States, private equity's growing investments in CROs is cause for concern and warrants further scrutiny from researchers and regulators.

Private equity investments in CROs also deserve scrutiny as these companies expand their reach and data capacity, giving them greater access and control of patient information.[56]

Behavioral Health

In 2022, there were 24 add-ons and 5 buyouts in the behavioral health category. Firms were particularly interested in companies specializing in substance use disorder treatment, accounting for a third of the total deals we tracked in behavioral health.

This is consistent with increasing private equity investment in behavioral health in recent years, which has capitalized on increasing demand, expanded coverage, and a fragmented market.[57]

However, private equity firms have a troubling track record in investing in behavioral health where cost-cutting tactics such as reducing staff, relying on unlicensed staff, and failing to maintain facilities have been shown to create harmful outcomes for patients.[58] See our reports on private equity in behavioral health: **The Kids Are Not Alright: How Private Equity Profits Off of Behavioral Health Services for Vulnerable and At-Risk Youth** (February 2022); Understaffed, Unlicensed, and **Untrained: Behavioral Health Under Private Equity** (September 2020).

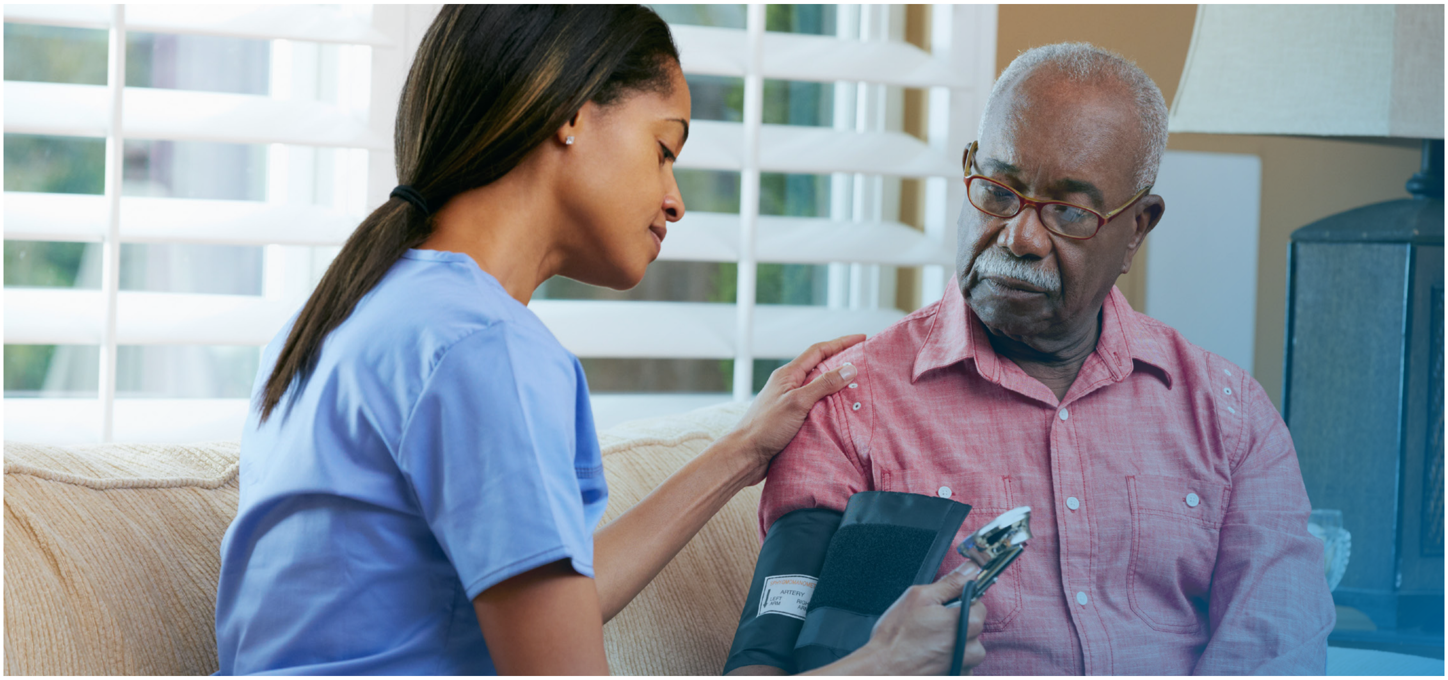
One notable deal is Apollo Global Management's acquisition of Springstone via Apollo's platform company LifePoint Health. Springstone operates 18 behavioral health hospitals and 35 outpatient locations in nine states: Arizona, Colorado, Indiana, Kansas, North Carolina, Ohio, Oklahoma, Texas, and Washington.[59]

The acquisition was a significant expansion of LifePoint's behavioral health services, which is primarily a rural hospital chain. Prior to the acquisition, LifePoint operated 30 behavioral health units in various community hospitals and three inpatient behavioral health facilities in Texas and Washington.[60]

Private equity's continued expansion into psychiatric and social services for youth with mental health and behavioral issues is also worth noting. For example, Petra Capital Partners and Harbert Credit Solutions

acquired Virginia-based Hallmark Youthcare, a psychiatric residential treatment center for youth.[61] Atar Capital-owned Pathways Health and Community Support acquired Human Resource Training, Inc. which provides foster care as well as social services for children with developmental disabilities.[62] As discussed in our February 2022 report, private equity firms have demonstrated particular interest in behavioral health and related services for children and teens, sometimes to detrimental effects.[63]

Home Health & Hospice



Private equity firms acquired several home healthcare and hospice companies in 2022 continuing a trend of substantial private equity investment in the sectors. We tracked 12 add-on acquisitions of hospice companies, and 22 add-ons and 3 buyouts in the home healthcare sector.

For example, Traditions Health, owned by private equity firm Dorilton Capital, acquired Serenity Health Management in March. As of the acquisition Traditions now operates in 18 states,[64] and has been actively acquiring smaller regional home health and hospice agencies in recent years. In 2021 it acquired Homestead Hospice, which has 26 locations across Georgia, South Carolina, Alabama, Ohio, and Arizona, as well as four other companies in in Louisiana and Oklahoma. The company completed close to a dozen acquisitions in 2019 and 2020.[65] Dorilton, which primarily invests in industrial and business services, acquired Traditions in 2011.[66]

The home health and hospice deals in 2022 align with a growing trend of private equity investment in these industries. From 2018 and 2019, private equity was involved in almost 50% of deals in the home healthcare industry, and private equity hospice transactions rose nearly 25% between 2011 to 2020.[67] As of 2019, 7.3% of hospice agencies were owned by private equity, up from 3.4% in 2011.[68]

For-profit home healthcare and hospice companies have been linked to lower standards of care compared to their non-profit counterparts.[69] Private equity firms, which often target outsized returns over short time horizons and finance many of their acquisitions with high levels of debt, may exacerbate that divide.[70]

In March 2022, Private Equity Stakeholder Project released a report on private equity's incursion into the home health and hospice industry. You can read the full report **here**.

Medical Staffing

In the medical staffing sector, we tracked 9 add-on acquisitions and 1 buyout in 2022. Although this is a substantial cooldown from the record levels of private equity activity (27 deals) we saw in medical staffing in 2021,[71] medical staffing still made it to the top 15 subsectors we tracked.

In one of the higher profile deals of 2022, Acacium Group, which is owned by private equity firm Onex Partners, acquired Favorite Healthcare Staffing.[72] Favorite is the eighth largest healthcare staffing firm in the US, according to Staffing Industry Analyst, with 27 branch offices around the country.[73]

In September 2022, PESP released a report on private equity investments in travel nursing companies, providing insight into how private equity-backed travel nursing companies are both contributing to and profiting off the nurse staffing crisis in the United States.[74] You can view the full report **here**.

Urgent Care

There were 10 private-equity-backed urgent care acquisitions in 2022. Urgent care is among the fastest-growing sectors of the US healthcare industry, and private equity firms have in recent years capitalized on that growth by investing in and consolidating providers.

The Urgent Care Association (UCA), the national lobby group for the urgent care industry, estimated in 2020 that the number of urgent care centers had reached 9,616 as of November 2019, a 9.6% jump from the previous year. The number of facilities had steadily increased each year since 2014.[75]

However, high profitability in urgent care relies on growth and expansion, and diminishing growth opportunities may contribute to a decline in investment activity. The primary way for urgent care companies to boost profit is to add locations, creating larger and more valuable companies. While urgent care has historically been fragmented and ripe for this kind of consolidation, the industry is beginning to hit a ceiling, particularly in urban markets.[76]

Looking ahead, private equity investment in urgent care may shift its focus. The private equity industry has signaled

that oversaturation in urban and suburban regions may lead firms to seek to expand into rural markets. Currently only 1% of urgent care facilities are in rural communities, according to the Urgent Care Association. By contrast, urban areas account for 86.2% of all urgent care facilities. The American Investment Council released a report in 2021 highlighting growing private equity investment in urgent care as an opportunity to increase rural healthcare access.[77]

For more on private equity in urgent care, see our report: **"Private Equity's Growing Foothold In Largely Unregulated Urgent Care Raises Red Flags"** (August 2022).

Conclusion & Policy Recommendations

Private equity firms are drawn to investing in sectors defined by fragmented markets and high demand, where they can deploy capital to consolidate small time players into powerhouse companies with outsized shares of the market.

A combination of factors makes healthcare an optimal space for private equity investment: a permanent demand for healthcare services, an aging population defined by a high disease burden, and the fact that many subsectors within healthcare are fragmented and therefore ripe for consolidation.

For these reasons, the healthcare sector has a reputation for being "recession resilient" and remains a thriving private equity investment area. It should come as no surprise that despite scares of a major economic downturn, private equity healthcare investments in 2022 were the second highest on record after 2021 in terms of disclosed deal value and deal count.[78]

Private equity's growing presence in the health sector and propensity for consolidation of healthcare services is cause for concern. The common private equity strategy of pursuing outsized returns over relatively short periods of time (e.g., 25% return over a period of 3-7 years) can lead to cost-cutting efforts that negatively impact patients and workers. Further, private equity firms are more likely to use debt to fund their investments, leading to unwieldy debt service obligations that can divert money away from patient care and fair compensation for employees.

The Private Equity Stakeholder Project has reported on the negative impacts of private equity in healthcare, including on **rural health**, **prison healthcare**, **home health and hospice**, **travel nursing**, **dental care**, **safety net hospitals**, **surprise billing**, and more.

Meanwhile, many private equity investors argue that that their investments can improve healthcare.[79] So far, research has demonstrated that any efficiencies achieved through consolidation and scaling up are not leading to reduced healthcare costs or improved quality of care.[80] In fact, quality of care and healthcare costs can worsen after private equity takeovers.[81]

In light of growing investor interest in healthcare and the risks associated with private equity ownership of healthcare companies, regulators and lawmakers should scrutinize private equity acquisitions of healthcare companies more closely and pass and implement commonsense policies to ensure access to affordable and quality healthcare for all patients in the US.

Policy Recommendations

The Federal Trade Commission (FTC) and Department of Justice (DOJ) share jurisdiction over merger and acquisition review. Transactions are assigned to one agency for review depending on which one has more expertise with the industry involved. The Hart-Scott-Rodino Act (1976) created minimum dollar thresholds ($101 million in 2022), above which all transactions must be reported for pre-merger review.[82]

The Private Equity Stakeholder Project advocates for an expansion of federal pre-merger review to include all private equity-backed merger and acquisition transactions, regardless of dollar value. Any private equity-backed healthcare acquisition would require reporting to and review by DOJ and FTC under an amended Hart-Scott-Rodino. Additionally, healthcare mergers and acquisitions review authority should be expanded to the US Department of Health and Human Services, due to impacts private equity investment may have on quality of and access to patient care.

Similar measures should be taken on the state level as well. State health departments should also be given authority to review healthcare mergers for possible effects on quality or access to care. States should consider implementing multi-agency healthcare transaction approval processes for healthcare transactions. This multi-agency process should include state attorneys general, administrative agencies, and stakeholders such as patient advocates and labor organizations.

All relevant regulatory agencies at the state and federal levels should be adequately funded to ensure they can carry out their enforcement duties.

Finally, relevant state and federal agencies should expand funding for research examining the impacts of private equity healthcare acquisitions on several measures, including cost, quality of care, and access to care. Such research can help inform patient-centered legislation and policies that ensure access to affordable and quality healthcare for all patients in the US.

Appendices

Appendix A: 2022 Monthly Acquisitions Blog Posts

For more information about last year's private equity acquisitions in healthcare, check out our 2022 monthly acquisitions blog posts:

- January 2022
- February 2022
- March 2022
- April 2022
- May 2022
- June 2022
- July 2022
- August 2022
- September 2022
- October 2022
- November 2022
- December 2022

Appendix B: Methodology

Each month, the healthcare team at PESP uses PitchBook to identify private equity-backed buyouts and add-on acquisitions[83] in the US healthcare sector. A list of add-ons and buyouts is generated, and then each reported deal is reviewed to verify accuracy and relevancy. The companies involved in the deals are then classified using categories tailored to PESP's strategic research needs. The PitchBook data is supplemented with news and internet searches.

Limitations: The data for this report should be read as an approximation of the private equity activity happening in the health sector. It is possible some deals were missed as a result of when each month's acquisitions were reviewed; some deals may not be disclosed until months later. The classification scheme was designed by PESP; note that some companies do not fall neatly into one category. Sometimes, a company is assigned two categories, or a single category is chosen to best represent the company type. As such, there is some subjectivity involved in the classification system and so the data may not align perfectly with similar datasets using different classification schemes.

Appendix C: List of 2022 Buyouts

Click here to see the full list of 2022 healthcare buyouts.

Appendix D: List of 2022 Add-on Acquisitions

Click here to see a list of 2022 healthcare add-on acquisitions.

References

1. See Appendix A: Methodology for more information on how we arrived at the reported numbers.
2. While "deals" can refer to a variety of deal types, we will use "deals" to refer to buyouts and add-on acquisitions.
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