



## Turning Point: Don't Count Out the Physician Practice Management Sector Just Yet

COVID-19 has abruptly halted the success of many in the Physician Practice Management (PPM) sector. Many blogs and webinars have forecasted a bleak assessment of near-term PPM prospects; however, some leading PPMs are well-positioned to prosper in a longer-term recession by providing smart buyers with a unique opportunity to find high-quality companies to acquire. Intrepid's Healthcare team has had a front-row seat in how to effectively shepherd provider transactions during this period of uncertainty, assisting our concierge medicine client [Paragon Health on their recent merger with Blue Sea Capital's SignatureMD](#).

Contrary to popular opinion, good PPM companies can still transact. Below we share several other noteworthy transactions that have been completed in the past 30 days; highlight many of the questions that buyers are asking right now as they evaluate new opportunities; and profile how some of the best-equipped PPM companies are preparing for strategic alternatives.

### Recent High-Profile Transactions

Healthcare buyers are still hard at work diligencing and buying certain PPM companies, even though many provider groups have seen their largely elective in-office case volume reduced to nearly zero by the COVID-19 shutdown.



- In March, Webster Equity acquired Retina Consultants of America in a \$350M enterprise value transaction funded exclusively as equity consideration by Webster and the fund's limited partners.



- In early April, Blue Shield of California's new PPM acquisition unit, Altais, acquired the 2,700 physician medical group Brown & Toland Physicians, which has a strong presence throughout Northern California.



- In mid-April, Webster also completed an \$80M recapitalization of the Tennessee-based gastroenterology platform Gastro One, marking the firm's second investment in the past 60 days.



- TPG Capital made an investment in the behavioral health therapy provider LifeStance Health to provide capital for growth while the organization is witnessing high patient volume and transition to telehealth visits. The transaction values the business at \$1.2B, with previous investors Summit Partners and Silversmith Capital Partners retaining an ownership position in the company.



- Most recently, Intrepid advised concierge medicine provider Paragon Health on its merger with one of their sector's largest platforms, SignatureMD.

Despite many private equity groups communicating that they will not look at new PPM sale processes in the near-term, multiple investors have shared that they are under LOI and close to announcing new PPM platform investments. Even though COVID-19 has altered many companies' performance and several investors are cautiously standing down, PPM deals are still happening.

## What Questions Are PPM Buyers and Investors Asking Right Now?

The unique nature and uncertain duration of the lockdown presents buyers with unprecedented questions that may create valuation stalemates between buyers and sellers. While no one will have answers for these questions today, the most sophisticated PPM groups will leverage real-time analytics when clinics re-open to help formulate answers and direct diligence towards positive leading indicators.

Some of the questions our clients are hearing include:

- Will non-essential or elective procedures recover rapidly to relieve pent-up demand?
- Will consumers, who are spending less today while stuck at home, keep their wallets closed and push off surgeries and other services that would have otherwise been completed this year?
- How will payors reimburse in this period of uncertainty, and for how long will Medicare's enhanced prospective payment system allow groups to mask drops in commercial revenue?
- With the rapid rollout of telemedicine, will providers get commercial reimbursement for non-COVID-19 encounters?
- Will state and federal payors need to reduce rates to offset their COVID-19-related expenses?
- With a wave of providers shifting their place of service, will payors be stringent in denying care for providers who are not properly credentialed?

## Successful Strategies for PPMs

Despite market uncertainties, some of the best-equipped PPM companies are still able to prosper and are preparing for a broad array of strategic alternatives.



### ***Capitated Care as a Backstop***

While many volume-based, Fee For Service (FFS) provider groups are under significant duress due to the lockdown, practices that derive a meaningful portion of their revenue from capitation, bundles or quality-based payments are generally seeing improved financial performance. Risk-bearing providers continue to receive their Per Member Per Month (PMPM) payments with lower visit-related variable costs and should do better without volume.



### ***Technology More Than Just for Survival***

Smaller FFS PPM groups are racing to incorporate telemedicine to allow for multi-channel delivery options at a time when their facilities are shut down or clinical staff cannot visit patients in person. In our recent blog "[Telemedicine's Enormous Opportunity Across Healthcare](#)," we profiled how some larger and more sophisticated provider groups are expanding their existing use of digital health technologies to drive better patient engagement, adherence and outcomes regardless of whether a patient meets face-to-face with a physician. These technology-enabled practices should position themselves to achieve greater profitability in the future.



### ***Opportunity for Well-Capitalized PPMs***

There is a unique opportunity for healthy PPM businesses to emerge from the chaos with a number of new add-on acquisition opportunities. Smaller practices that have not yet established a partnership with a financial investor may face outsized challenges navigating the current climate and become more open to partnering. As a result, even if PPM platform investments may decrease for the remainder of the year, we anticipate add-on volume increasing substantially, albeit at potentially lower valuation multiples compared to the beginning of 2020. The independent PPMs that weather this situation strongly will be highly coveted by financial sponsors coming out of the crisis.

As a result of these observations, Intrepid is recommending a "wait and see" approach to many of our PPM clients, suggesting that they wait to enter the market until they can confidently project how their businesses will perform for the next six months [the duration it takes each business to have this sense of confidence will vary dramatically by sector]. We advise each of these PPMs to carefully monitor not just volume in the first few weeks post-reopening, but also changes to the nature of their inbound calls and referrals, schedule volume and composition, payor denials and unexpected reimbursement changes, and the development of new patient preference patterns. A company can successfully navigate an M&A process, even in today's climate, if they can present visibility, stability, and growth potential.

Ultimately, COVID-19 may result in extensive earnings declines for many platform-caliber PPM groups and significantly alter the healthcare landscape, but it could lead to it being reinvigorated. The benefits of alternative payment models and rapid adoption of innovative solutions to connect with patients, could have a lasting positive effect on the delivery of medicine. Deals will still happen and the PPM groups that find ways to smartly position themselves for success during these uncertain times should have many strategic alternatives available to them going forward.



## Healthcare Team

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## About Intrepid's Healthcare Group

Intrepid's **Healthcare Group** is dedicated to providing strategic advice in capital raises and mergers and acquisitions across a broad range of healthcare sectors, including physician practice management, diagnostics and labs, revenue cycle management, behavioral health, hospitals, IT, pharmacy, post-acute care, and medical devices. Our team maintains extensive relationships with strategic buyers and institutional investors across these sectors.

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