Alternatives to Private Equity for Ophthalmology Practices

A growing number of ophthalmology practices are weighing the pros and cons of selling to a private equity firm, and the benefits may be mixed (see November's cover story, "Private Equity and Ophthalmology: Explore Your Options, Beware the Hazards" at aao.org/eyenet/archive).

Alternatives to Private Equity

Physicians who don't want to sell their practice to a private equity firm "may still see the need to consolidate as a way to compete in a changing marketplace," said Derek A. Preece, MBA, a consultant in Orem, Utah. "For these ophthalmology practices, there are some viable alternatives."

1. A merger of practices. In this model, two or more practices merge into one entity. Typically, the physicians who had been owners of the individual practices become owners of the combined group, said Mr. Preece.

Economies of scale. Gary I. Markowitz, MD, president and CEO of SuperVision Advisors, said this alternative creates a working model that early- and mid-career ophthalmologists may find preferable to private equity because the new, combined practice can:

- reduce operating costs, including those relating to human resources, such as payroll expenses;
- negotiate better purchasing prices;
- negotiate higher reimbursement from payers (where possible); and
- free up physician time for clinical work that will generate more revenue.

Must be willing to compromise. Mr. Preece cautioned that merging multiple practices can be difficult because practices operate differently and have different cultures and values. If the merger is going to be successful, some aspects of each participating practice may have to change, but the logistics of getting physicians to agree on all aspects of the merger can be "extremely arduous," said Dr. Markowitz.

Expect headaches. Mr. Preece cited a simple illustration: the merger of two practices that have different computer systems. "One of the two practices usually needs to adopt the software of the other, which can cause a lot of work and headaches for the practice that switches," said Mr. Preece. "I do know of a practice that was able to find a way to allow the different merger partners to maintain their own computer systems by installing a software bridge, but that required a significant amount of work."

It can take time for the benefits to materialize. While efficiencies eventually can be realized with the merger model, it takes time to reach this stage and usually requires a long-term strategy to physically integrate on a more comprehensive level, Dr. Markowitz added.

One example of a successful merger is Vantage EyeCare (see next page).

2. A merger, plus a third-party administrator. Multiple practices merge and hire a third-party administrator who runs the practice while the physicians retain control. "This is a model we find in the plastic surgery field," said Dr. Markowitz. "A third party sets up a turnkey operation for the newly merged entity."

3. Acquisition by another practice. "In this model, the owners of the acquired practice are often close to retirement and want to divest the practice," said Mr. Preece.

How is this different from a private equity buyout? Most private equity firms want to resell their acquired practices within three to five years. This means new owners and often new management of the company for whom the physicians are working. By contrast, if a physician-owned practice acquires your practice, there is more likely to be long-term continuity.

On the other hand, physician-owned practices "don't typically pay the high multiples of EBITDA [earnings before interest, taxes, depreciation and amortization] that a private equity firm will pay," Mr. Preece noted.

4. Acquisition by a hospital or academic group. In this model, the owner becomes an employee, said Mr. Preece. "In most cases, the hospital purchases the practice at a price that is based on the value of the equipment and other hard assets only. They don't pay for the cash flow, EBITDA, or good will. Consequently, the purchase price will be lower."

Physician wages may be based on collections or work RVUs. Dr. Markowitz added that wages paid to physicians

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in this model are sometimes based upon collections, and the collection rate may be higher than in the physician-owned practice, as hospitals often can negotiate better payment rates. In other situations, hospitals pay doctors based on the work RVUs (relative value units) they produce without regard to collections, said Mr. Preece.

Avoid the headaches of running a practice. Dr. Markowitz said this model is particularly attractive to those who seek to deliver quality medicine but may not want the responsibility that comes with running a practice.

You might like this option, but does this option like you? Interestingly, Mr. Preece added, while some ophthalmology practices have been sold to hospitals in the past five to 10 years, it is not as common as with other specialties because ophthalmologists "don't put many patients in hospital beds."

5. Acquisition by a multispecialty physician firm. Dr. Markowitz noted that a buyout by a medium- to larger-sized multispecialty group can be compared to being acquired by a hospital and has similar advantages.

"If you get into some of the smaller multispecialty entities, however, there may be the opportunity to have more control and maybe even get the opportunity to establish an equity ownership position," Dr. Markowitz said.

6. Staying independent. "If the practice is doing well financially, satisfying the needs of patients and physicians, and there isn't any imminent threat to the practice in the marketplace, the owners may decide to remain independent," said Mr. Preece.

Consider your options. Before assuming that you must sell to private equity, consider the alternatives. Whatever the decision, said Dr. Markowitz, it is crucial to "do your research." Rigorous due diligence is necessary to assess any of these alternatives.

Ms. Lee is chief executive officer of Vantage Eye Care in the Philadelphia metropolitan area. *Financial disclosures: Modernizing Medicine: C; Vantage EyeCare: E.*

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Mr. Preece is a principal and executive consultant with BSM Consulting, which is based in Orem, Utah. *Financial disclosures: BSM consulting: E.*
See disclosure key, page 8.

FURTHER READING. The AAOE curates a select list of private equity articles at aao.org/practice-management/private-equity.

Vantage EyeCare: A Physician-Owned Alternative to Private Equity

Based in the Metro Philadelphia region, Vantage EyeCare is the largest private physician-owned ophthalmology group in the country, said its CEO, Julia Lee, JD.

How it started. "In 2017, ophthalmologists from five practices came together to explore a collective sale to a private equity firm," Ms. Lee recalled. "My group, Ophthalmic Partners, was not part of the initial discussion as we had earlier decided private equity was not the optimal path for our multigenerational practice.

"At the 11th hour," she continued, "these five practices decided not to move forward with private equity as it would have changed their culture significantly."

A tight timeline. They then called a meeting with four additional groups, and the nine groups expressed a desire to integrate into a single practice—forming a steering committee in February 2017 with a very tight timeline: 11 months. In that time, the committee had to:

- select a name and logo, trademark it, and incorporate the new entity;
- draft all governing documents and approve a budget;
- establish employee benefits and a 401K program;
- get malpractice and corporate insurance policies;
- select and implement a practice management bridge;
- select and implement a payroll platform; and
- engage a credentialing company and other key vendor partners.

"We met every other Monday night to make these operational decisions," Ms. Lee said. "It was a big commitment, but we all believed in what we were doing."

Launched in January 2018. Vantage EyeCare ultimately launched with seven divisions (representing seven of the original practices) and 45 physicians. At the one-year mark, it had more than doubled in size. And it now has approximately 120 providers and 16 previously free-standing practices merged under a single Tax Identifier Number (TIN).

The secret to this successful merger? Ms. Lee thought the following factors were key to the practice's success:

- Shared beliefs created a strong foundation. Former friendly competitors came together and were able to work collaboratively and intensely toward a common goal.
- Doctors hired a CEO and chief operations officer (COO) who had run two of the larger practices that joined Vantage EyeCare, enabling efficient operationalization.
- Physicians were willing to invest time and resources.
- Physicians were willing to compromise on a variety of issues as the formation of the new group unfolded.

The practice today. "We are now at the point that we don't want to grow simply for the sake of becoming larger. Instead, we want our growth to be more strategic," said Ms. Lee. "We launched, we grew, and now we have this scale that allows us to take advantage of initiatives including formal coordination with primary care networks. Unlike private equity firms, which invest in practices because they intend to extract or liquidate value at some point, we are interested in growing value for the sake of better patient care. This is our driver. It is the common goal that will make a difference five years from now."