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Anesthesiology Acquisition Rate Still at Fevered Pace

For W. Scott Brosche, MD, a senior partner at Fredericksburg Anesthesia Associates Inc., in Virginia, passage of the Affordable Care Act in 2010 was a cause for concern. How would the small, 16-physician practice, holding contracts with just two hospitals and one ambulatory surgery center, deal with the oncoming raft of legislated health care reforms, such as bundled payments, pay-for-performance, value-based purchasing and accountable care organizations? In addition to this uncertainty, “another hospital was moving into our area with a competing anesthesia group owned by a national corporation,” Dr. Brosche said. “So we began to think about our options.”

After considerable research and no small amount of soul searching, Dr. Brosche and his partners sold their practice last year to the national medical group MEDNAX Services Inc., and became part of the company’s American Anesthesiology division. “We had seen that small practices such as ours were increasingly being ousted from hospitals even though they had provided good care for many years,” Dr. Brosche said. “There was just no security.”

Now, little more than a year after completing the transaction, Dr. Brosche and his partners are satisfied. “We have people whose full-time jobs are to look at managed care, figure out contracts and manage the collection of quality data that is used to improve outcomes,” Dr. Brosche told *Anesthesiology News*. “When you are part of a larger organization, it gives you the support you need to negotiate with insurance carriers.”

M&A on the Upswing

Although mergers and acquisitions (M&A) in health care are far from new, anesthesia as a practice has been something of a latecomer to the game—but that's been a good thing. The improved economy with its low interest rates combined with a growing demand for anesthesia services for aging baby boomers has meant that many anesthesia practices are able to demand premium valuations based on relatively high multiples of their earnings, in some cases eight, nine or even 10 times their annual cash flow. This has translated into more advantageous acquisition terms and higher purchase prices than had been the case for other medical specialties before health care reform.

"Up until 2012, we had seen only a handful of anesthesia M&A transactions," said Christopher Jahnle, managing director of Haverford Healthcare Advisors, a financial consulting firm in Paoli, Pa., which advised Fredericksburg Anesthesiology on its sale. "Now it's become a landslide. Literally for the first time in history, anesthesiologists have the opportunity to monetize their practices," Mr. Jahnle said.

Experts differ on how long this trend will continue. Richard S. Cooper, an attorney with the McDonald Hopkins LLC law firm in Cleveland, predicted the growth trend will continue. "The initial wave of practices that decided to sell gives other practices a level of comfort in considering the sale of their own practice," Mr. Cooper said. However, a sale by another group can also be viewed as a competitive threat, especially in a region where it might give the acquiring company leverage to compete for hospital contracts. "That often prompts the remaining independent practices to adopt a defensive posture and position themselves to be acquired," Mr. Cooper said in an interview.

But Mark F. Weiss, JD, an attorney specializing in physician business and legal issues, thinks the M&A market will likely contract over the next two years as the major companies round out their portfolios.

"There's already been some cooling of the market frenzy," Mr. Weiss said. "When acquirers began acquiring anesthesia practices a few years ago, they were willing to pay higher multiples to establish their platforms and get the ball rolling. But now, some of the large companies have acquired enough practices in a market or region such that filling in their portfolio does not warrant those same valuations." This is not to say that some acquirers wouldn't be willing to pay a high valuation for a strategic acquisition, for example, if a practice had some billing or information technology (IT) resources that could be applied to other members of the group. "But in my experience, the multiples are not as great as they have been," Mr. Weiss told *Anesthesiology News*.

Getting Big and Cashing Out

Typically, the main reason to sell is the ability to obtain payment for the value of the practice. Of course, this tends to be more important to senior owner-physicians who are closer to

retirement than to younger physicians or those who do not own shares of the practice. But becoming part of a larger regional or national company can also allow a small- to mid-sized practice to expand by putting it in a stronger market position, which can translate into potentially more pay for all physicians in the group.

“Many large groups are considered by insurance carriers to be top-tier providers, and their reimbursement rates can be much higher than what those in community practice could negotiate on their own,” Mr. Weiss said. In addition to more clout, other advantages in becoming part of a larger group include the ability to share best practices, have greater access to capital, maintain more robust infrastructure and operational resources, and have access to cross coverage in specialty care.

Large groups also have more resources to devote to collecting and reporting quality metrics—an increasingly important aspect to Medicare, which this year is imposing a 1.5% penalty on charges for physicians and other practitioners who failed to report on at least three quality measures during the 2013 program year (see *Anesthesiology News* December 2014, “Penalties for Poor Medicare Quality Reporting Start Now,” page 1). The Centers for Medicare & Medicaid Services (CMS) recently announced that nearly 40% of physicians and other providers who treat Medicare patients will have their payments docked this year.

“We spend close to $2 million per year on quality assurance and business intelligence reporting to our groups,” said Vincent J. Vilasi, MD, MBA, the CEO for the mid-Atlantic region of North American Partners in Anesthesia (NAPA), a large single-specialty anesthesia management company that last year acquired his anesthesiology practice, FOAA Anesthesia Services, in Fairfax, Va. “NAPA has a lot of data collection and reporting capabilities. There was just no way we could afford that kind of annual spend, even as a 200-provider group,” Dr. Vilasi told *Anesthesiology News.*

Rising Trends

Only 18 anesthesiology and pain practice acquisitions were reported during 2009 to 2011 (Figure). That number jumped to 16 in 2012, 24 in 2013, and 27 in 2014, the latter completed by 14 separate acquirers including several multibillion-dollar, publicly traded companies and numerous private equity–backed anesthesiology practice consolidators. These well-capitalized buyers spent nearly $1 billion on their practice acquisitions in 2014, Mr. Jahnle estimated.

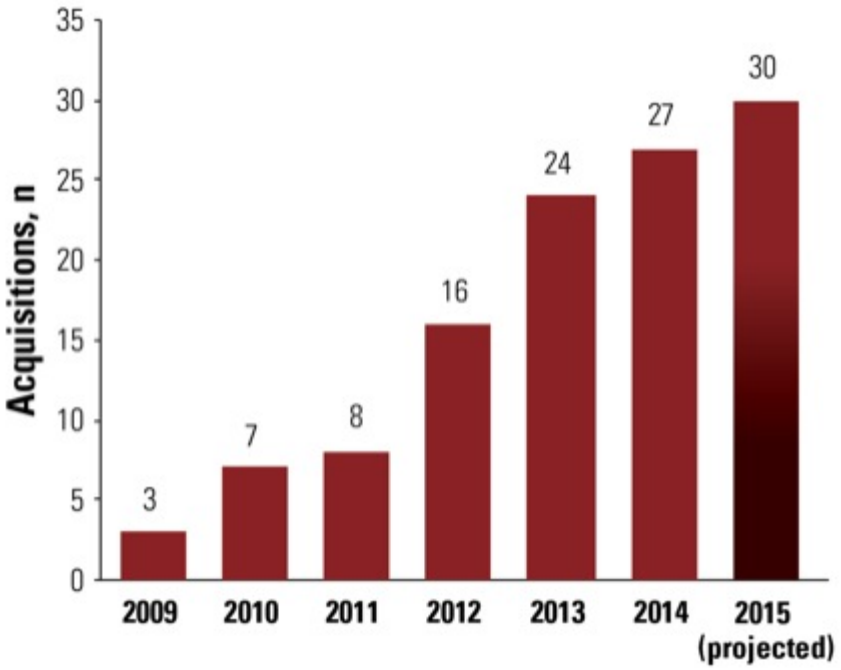

Figure. Recent anesthesiology practice acquisitions.

The pace is picking up. Nearly a dozen acquisitions were completed in just the first quarter of 2015 by some of the industry's largest players. For example, American Anesthesiology (the MEDNAX subsidiary), acquired Metropolitan Anesthesia Alliance PLLC, a group of three practices in Memphis, Tenn., with 27 anesthesiologists and 46 other providers. American Anesthesiology also acquired MEMAC Associates PC, in Warren, Mich., with 10 anesthesiologists and 18 other providers, along with Mosaic Anesthesia & Perioperative Services PC, a two-practice group in North Carolina with 15 combined anesthesiologists.

Also during the first quarter, private equity–backed U.S. Anesthesia Partners, the nation's largest anesthesia-focused, single-specialty physician services organization, acquired Greater Colorado Anesthesia, PC, in Denver, with 90 anesthesiologists and 33 other providers, as well as Excel Anesthesia PA, with nearly 70 providers at 50 hospitals and ambulatory surgery centers in the Dallas-Fort Worth area.

Mr. Jahnle predicted that 30 or more acquisitions will be completed this year at high transaction valuations—the result of more acquirers chasing a limited number of anesthesia practices. This trend is likely to continue for at least the next 12 to 18 months because fewer than 15% of anesthesia practices are affiliated with one of the large national aggregators. "It's really a seller's market. We're seeing just the tip of the iceberg," Mr. Jahnle said.

Alternatives to M&A

Potential disadvantages in being owned by a larger group include loss of autonomy and control. "When you become part of a bigger enterprise, you are subject to their governance

and operational and organizational culture," Mr. Cooper said. On top of this, physician practice compensation is often reduced to help fund the acquisition. "You need to look at this carefully because some of your key physicians, especially younger doctors who are not owners, may decide to leave. Culture fit is critical for a successful long-term relationship," he said.

There are several alternatives to M&A ("Anesthesia Group Acquisitions and Alternatives," *Anesthesiology News* June 2014, page 6). One is to become stronger, for example, by banding together with other practitioners in a particular region and forming a management services organization or other affiliation entity. This keeps the practices independent but creates a united front when negotiating with payors and hospitals. Another approach is to partner with one or more other groups in a local area or region. As practices grow in size, they gain more clout with hospitals. "Then, if you are still interested in selling, there is arguably more value, a higher multiple, in selling a larger group than a smaller group," Mr. Weiss explained.

Still another approach is to join a large national aggregator or partnership. "Our model is very attractive to hospital-based physician groups that are not interested in being taken over by investor-owned or private equity–funded groups," said Wesley A. Curry, MD, president and CEO of CEP America, an Emeryville, Calif., partnership of more than 1,700 physicians. The company focuses on anesthesiology, emergency medicine, hospitalists, intensivists, urgent care and post-acute services at 140 practice locations nationwide. The privately held partnership boasts of having no "super owners," outside investors or debt. "All income from our practices is fully deployed to recruit and retain the best providers and invested in management services to improve patient care and operational performance," Dr. Curry told *Anesthesiology News*.

In December 2014, CEP America brought anesthesia into its emergency and acute care partnership with the entry of Group Anesthesia Services (GAS), a 36-physician practice serving California's South Bay and Silicon Valley. Peter Nosé, MD, former GAS managing partner and president, said the decision to partner with CEP was based on uncertainty over changes in reimbursement models, especially those that move away from fee-for-service to pay-for-performance and coordinated care. "External forces threatened our practice model," Dr. Nosé explained. "Joining an integrated practice provided an opportunity to join a robust acute care continuum that spans emergency medicine, hospital medicine and post-acute care," he wrote in a recent blog post. As Dr. Curry put it, "Smaller hospital-based physician groups are partnering with us because we have the ability to help them help hospitals integrate their patient care—the transition to coordinated care as defined by CMS."

Acquiring the Acquirers

The private-equity firms that back privately held M&A companies generally seek to create a

financial “exit” for themselves, typically through the sale of the company to an even larger company or, less commonly, by attempting to “go public” and selling shares on the stock market. “These companies will have made their businesses large enough that they will be trying to pull in their returns from their investments,” Mr. Weiss explained. “For the private-equity firms, especially, it’s not build and hold forever, but build, hold and exit, so they return money to their investors and themselves, just as in venture capital. It’s no secret that that’s their business.”

Last year, for example, privately held Sheridan Healthcare was acquired by publicly traded AmSurg Corp., another anesthesia industry giant, for a whopping $2.35 billion in cash and stock. Sheridan Healthcare provides outsourced anesthesiology, neonatology, emergency medicine and radiology staffing to more than 350 hospitals nationwide, while AmSurg supplies more than 1,800 physicians to over 235 outpatient surgery centers.

Also last year, publicly traded TeamHealth Holdings Inc., which serves about 990 civilian and military hospitals, clinics and physician groups in 47 states, acquired private equity–backed Florida Gulf-to-Bay Anesthesiology Associates LLC, in Tampa Bay, whose more than 200 physicians and certified registered nurse anesthetists provide services to eight hospitals and 11 ambulatory surgery centers. The acquisition price was not disclosed.

Sales of large privately held platform companies can also be a financial windfall to the physician-owners of the smaller anesthesia practices within them. “A good strategy for anesthesia practices that have a tolerance for risk is to take cash as well as stock in the acquiring company,” Mr. Jahnle noted. “That way, if the buyer is itself acquired, the stock might be worth more. It’s like getting a second bite at the apple.”

Dr. Vilasi saw the pace of anesthesia mergers neither increasing rapidly nor dropping off suddenly. “A large number of the biggest anesthesia practices will be consolidated under the umbrella of a large strategic provider in the next five years or so,” he predicted. However, M&A in anesthesia will continue only as long as it makes financial sense.

“When I talk to my clients, I’m not saying you have to sell. I’m saying make an honest appraisal of the long-term viability of your practice in its current form and make a rational, informed business decision,” said Mr. Cooper. “If you decide not to sell, you may have to make other changes to remain strong in a competitive marketplace going forward.”

—Ted Agres