Modern Healthcare

Private Equity Continues to Propel Urgent-Care Growth, But Some Markets Reaching Capacity

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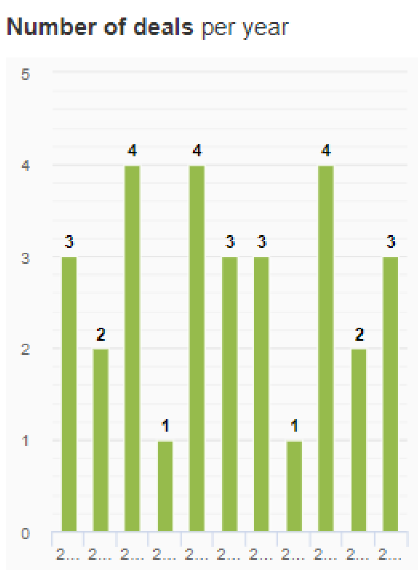
Urgent care was one of private equity's earliest healthcare fixations. Now, more than two decades later, investors may have found the ceiling in some markets.

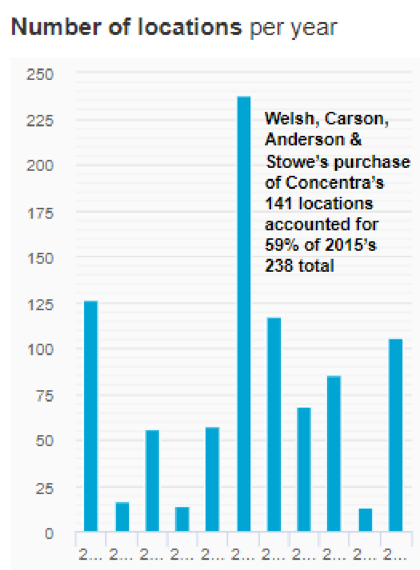
Experts following the urgent-care industry—which now stands at more than 10,400 locations—say that not only are some cities becoming oversaturated with clinics, private equity owners face a growing list of competitors who want to run them, namely health systems and health insurers. In 2019, 40% of urgent-care clinics were owned at least in part by hospitals, although that's likely higher today, and 35% by corporate entities such as insurers, according to the Urgent Care Association, a trade group that represents the sector. Just 6% were owned by investors such as private equity groups, a ratio that's also likely higher now.

Telehealth's swelling popularity also poses a looming challenge, as patients are increasingly comfortable getting their sore throats or rashes diagnosed over video in lieu of a clinic visit.

PRIVATE EQUITY'S URGENT-CARE DEALS, 2010-2020

Since 2010, there were at least 30 deals involving 896 locations. Exact counts are difficult to obtain because private equity firms aren't required to disclose transactions or key details about them, such as the price or number of locations.





Source: Irving Levin Associates; "End Users and Consolidators: The Next Possible Wave of Transactions in Urgent Care," The Journal of Urgent Care Medicine

Some private equity firms have been in their deals for more than six years, longer than the three- to five-year time frame by which they typically prefer to sell them at a profit, said Greg Hagood, senior managing director with SOLIC Capital Advisors.

"For a number of these assets, because growth is less visible, it's becoming harder to identify buyers, at least for the valuations they're looking for," he said.

FFL Partners, for example, still owns WellStreet Urgent Care, an Atlanta-based provider it acquired in 2011 with a partner. TPG Capital hasn't yet offloaded GoHealth Urgent Care, which it acquired in 2014. Welsh, Carson, Anderson & Stowe has owned Concentra since 2015. All three declined to comment, as did most private equity firms when asked to discuss their strategies.

Once urgent-care markets become saturated, private equity's next frontier will be consolidation, with firms likely to buy smaller operators and form regional and national platforms. Those deals could hit roadblocks, however, as evidenced by the scrapped merger plans between FastMed and NextCare in 2019.

Atlanta, where WellStreet operates, seems to be approaching the point of having more urgent care than demand can support, Hagood said, adding that suburban communities around the city already have more clinics than they can keep busy.

Dallas, however, is the poster child for a crammed urgent-care market. "There's urgent care on every corner," Hagood said. "That market is significantly oversaturated."

LIST OF PRIVATE EQUITY URGENT-CARE DEALS, 2010-2020

Date	Target name	Locations at time of deal	Buyer	Holding period
2010	NextCare Urgent Care	75	Enhanced Equity	8 years
2010	MedExpress	42	General Atlantic, Sequoia Capital	5 years
2010	Urgent Cares of America/FastMed	9	Comvest Partners	5 years
2011	MedSpring	4	Summit Partners	3 years
2011	WellStreet Urgent Care	12	FFL Partners	Current--10 years
2012	Urgent Team	5	SV Life Sciences	4 years
2012	MD Now Urgent Care	6	Brockway Moran & Partners	6 years
2012	Hometown Urgent Care	25	Ridgemont Equity Partners	2 years
2012	Physicians Immediate Care	20	LLR Partners, WellPoint	Current--9 years
2013	PhysicianOne Urgent Care	14	Pulse Equity Partners	Current--8 years
2014	Little Spurs Pediatric Urgent Care	9	Striker Partners	5 years
2014	CityMD	8	Summit Partners	3 years
2014	GoHealth Urgent Care	17	Texas Pacific Group	Current--7 years
2014	Zoom+care	23	Endeavour Capital	4 years
2015	Concentra	141	Welsh, Carson, Anderson & Stowe	Current--6 years
2015	FastMed Urgent Care	87	ABRY Partners	Current--6 years
2015	CRH Healthcare	10	MSouth Equity Partners	3 years
2016	Med First	13	Sverica Capital Management	Current--5 years

Date	Target name	Locations at time of deal	Buyer	Holding period
2016	Fast Pace Urgent Care	36	Revelstoke Capital Partners	Current--5 years
2016	Urgent Team	68	Crestline Investors	Current--5 years
2017	CityMD	68	Warburg Pincus	Current--4 years
2018	CRH Healthcare	38	Freeman Spogli & Co.	Current--3 years
2018	Hulin Health	6	Shore Capital Partners	Current--3 years
2018	Vybe Urgent Care	4	NewSpring Capital	Current--3 years
2018	MD Now Urgent Care	37	Brentwood Associates	Current--3 years
2019	Little Spurs Pediatric Urgent Care	12	Great Point Partners	Current--2 years
2019	AHS Walk-In Clinic	1	SouthStar Urgent Care*	Current--2 years
2020	MainStreet Family Urgent Care	16	Trinity Hunt Partners	Current--less than 1 year
2020	Urgent Care Now	3	CityMD**	Current--less than 1 year
2020	Tenet Healthcare urgent care platform	87	FastMed Urgent Care***	Current--less than 1 year

Notes
Current indicates that the target company has not yet been sold by the buyer.
* Portfolio company of Shore Capital Partners
** Portfolio company of Warburg Pincus
*** Portfolio company of ABRY Partners and BlueMountain Capital Management
Source: Irving Levin Associates; "End Users and Consolidators: The Next Possible Wave of Transactions in Urgent Care," The Journal of Urgent Care Medicine

Adding locations to boost profit

While all operators have unique business plans, experts said the main path to profit for most private equity investors in urgent care has been to simply add sites, ultimately creating a larger, more valuable company they can sell at a healthy profit.

With patients clamoring for more convenient options, adding locations mostly hasn't been a problem to date. Not only are there shortages of primary-care physicians in many areas and long waits to see them, some patients still travel long distances for care. Urgent-care clinics are more likely to staff mid-level providers like nurse practitioners or physician assistants rather than medical doctors.

"I still think this is a growing space," said Ian Goldberger, director of transaction advisory services with Kaufman Rossin. "There are so many areas where someone would have to drive 10 to 15 minutes to the closest hospital because there are no urgent cares within a few miles."

When it comes to urgent care, private equity isn't using its old playbook of removing costs and financial engineering to achieve a return, said Adam Krainson, a principal with Warburg Pincus, which found success with its acquisition of CityMD in 2017.

"There has been a lot of growth and white space in this market," he said.

Growth is also Revelstoke Capital Partners' plan for achieving a return on urgent care. Since investing in Fast Pace Health in 2016, the private equity firm has grown the provider from 36 clinics in two states to 140 clinics in five states, Simon Bachleda, Revelstoke's co-founder, wrote in an email. Almost 100 of the additions were new clinics. Revelstoke has also expanded its offerings to include orthopedics, dermatology and behavioral health.

Despite numerous private equity investments in urgent care, Bachleda said he still thinks there is room for future growth in the sector.

"The cost of services in a hospital setting remains high and the patient experience is poor, underscoring the need for an alternative site of care for urgent, acute procedures," he said.

That said, private equity owners are still looking to cut costs where possible. That often looks like staffing nurse practitioners and physician assistants instead of doctors, Goldberger said.

"There are opportunities to bring in those lower levels of clinicians and you can bill just as much," he said.

A recent Health Affairs study found private equity-owned dermatology practices tend to staff a higher ratio of advanced practitioners to dermatologists than non-private equity-owned practices. The study also found private equity-owned practices charged more for services and saw higher volumes of patients.

While there isn't direct research on how private equity runs urgent care, the mechanisms are likely to be similar, said Dr. Jane Zhu, assistant professor of general internal medicine at Oregon Health & Science University.

"We don't have definitive proof that these practices are being implemented in urgent care, but it makes sense," she said. "It's like any other healthcare sector space."

Private equity also tends to cut back-office staff and centralizes billing and collections, Goldberger said.

Operators can also cut expenses through negotiating lower prices with vendors on supplies and outsourcing information technology services. The more clinics they have, the easier that becomes.

Part of achieving profit means creating a recognizable brand where locations have the same look and feel, right down to the paint color and waiting room chairs.

COMPETING WITH NYC EDS

Private equity giant Warburg Pincus' 2017 acquisition of CityMD is widely viewed as one of the more successful deals that's taken place to date. It also might be emblematic of where the industry is headed.

Most of CityMD's locations across New York and New Jersey have emergency department-trained physicians who can handle serious concerns like chest pain. That makes the provider a strong competitor to traditional hospital EDs, which some patients—especially those in bustling New York City—prefer to avoid.

"They knew people did not want to go to the big New York City ERs because it's just a nightmare," said Greg Hagood, senior managing director with SOLIC Capital Advisors, adding that the same model might not work as well in other cities.

It's CityMD's expansions beyond urgent care, however, that are even more telling. In 2019, Warburg merged CityMD with Summit Medical Group, a New Jersey-based multispecialty practice. The joint organization, now called Summit Health, has more than 1,600 providers. Soon, CityMD will be able to send records from patients' urgent-care visits to their primary-care physicians at Summit or get referred to Summit's specialists, said Adam Krainson, a principal with Warburg Pincus. For Summit, the deal gives patients night and weekend access.

"The vision is to create this ecosystem that creates that real-time transfer of information," Krainson said. "That's what we've been up to."

Since that deal, Warburg has slowed the pace at which it adds new urgent-care clinics. The firm roughly doubled CityMD's locations between 2017 and 2019, taking the company from 68 locations when Warburg bought the chain to about 125 when it merged with Summit.

In the two years since, CityMD has grown to more than 140 clinics today. Krainson said the company plans to add 15 to 20 sites per year, both in its current markets and possibly new parts of New Jersey and New York and into Connecticut. Most of those will be new builds, as has been the case for much of CityMD's growth, he said.

CityMD became one of the first private equity owned urgent-care providers to add a telehealth component, which is expected to become an increasingly important service for those clinics to offer.

"It's almost like when you go to a McDonald's, you know that McDonald's will be the same every time," Goldberger said.

The factor that can make or break an urgent-care provider is how they interface with health systems in their region. The most successful models are those that partner with them, like CRH Healthcare's relationship with Emory Healthcare in the Atlanta metro area, Hagood said.

In that case, CRH's Peachtree Immediate Care teamed up with Emory Health Network in 2016. Peachtree had just 16 clinics at the time, a number that has since grown to almost 40 through a combination of acquisitions and new clinics. CRH CEO Bill Miller wrote in an email that his firm decides whether to partner or compete with local systems on a market-by-market basis. In Atlanta, the Emory deal made sense because of Emory's prominent stature in the region, he said. The co-branding helps especially with patients who are already getting care within the Emory system, Miller said.

An Emory spokesperson said clear objectives at the start helped make the relationship successful.

That's not to say private equity investors can't compete with health systems. A good example is CityMD, which offers a desirable alternative to New York City emergency departments.

Hagood said in general, hospitals tend to be poor urgent-care operators because they staff them like EDs, which gets expensive. They're also not adept at locating them in retail areas that are easily accessible.

Even so, health systems increasingly want to add urgent care to their menu of offerings. That's typically not because they make money on those services, but because they're a reliable source of referrals to primary and specialty care. Michigan's Trinity Health, for example, recently bought a majority stake in a privately held urgent-care operator called Premier Health.

Insurers are increasingly seeing value in urgent care, too. The biggest example is UnitedHealth Group's Optum division buying MedExpress in 2015.

Newfound attention brings scrutiny

OHSU's Zhu said she's concerned about the lack of transparency around private equity's ownership of urgent care and other areas of healthcare.

They're not required to report acquisitions, so it's not clear which clinics they own and how many. Indeed, of the roughly 10,400 urgent-care clinics operating today—up 63% from seven years ago—it's unclear how many are private equity-owned. CMS doesn't do a very good job of tracking medical practice ownership, she said. Those factors make it a difficult area to study, despite how increasingly dominant private equity has become in the industry, she said.

PREPPING FOR A PE DEAL

A recent Grant Thornton article highlighted steps middle-market companies can take to prepare for the best possible outcome in a potential private equity acquisition or partnership. The better prepared a business is for a potential deal, the better chance it will have a good outcome. Here is the firm's advice:

1. Get clarity. Make sure company leaders and all stakeholders agree that a private equity investment is the best path forward. Negotiations and due diligence will go more smoothly if everyone is on board with this particular growth strategy.
2. Keep good records. Investors will want to see a considerable amount of information about the company, most of it financial. They'll also want to know who the customers are, what the supply chain looks like and what intellectual property and facilities the business has. Consultants can help middle-market companies perform sell-side due diligence that involves getting the business ready to provide detailed, reliable information when it's needed.
3. Management is key. Private equity investors like to see a clear split of duties and responsibilities across the leadership team, with the CEO typically driving top-line growth. They'll want to see a five-year plan to spend money in a way that supports growth. Investors will also want to make sure the chief financial officer understands the company's numbers and has experience going through a transaction.
4. Get outside help. At the end of the day, management just isn't enough. Companies should assemble a team of lawyers and investment bankers to help them parse out the pros and cons of a potential deal.

"I'm honestly very worried about it as a practicing physician," she said. "I think there ought to be more transparency, monitoring and regulation. Right now, it feels like the Wild, Wild West."

Democrats in Congress are pressing for more information about how private equity ownership of nursing homes affects patient outcomes. The increased scrutiny follows the revelation that about 40% of COVID-19 deaths in the U.S. occurred in nursing homes. Congress this year will consider a proposal that would significantly increase the amount of information healthcare investors would have to report to the IRS.

Urgent-care clinics have gotten a lot of attention during the pandemic for their pivotal role in COVID-19 testing. Patients have also flocked to the facilities to avoid hospitals, where ED visits may never fully recover.

Urgent-care clinics found ways to stay open during the pandemic when a lot of others did not, said Lou Ellen Horwitz, CEO of the Urgent Care Association.

"That has brought new attention to urgent care," she said. "Not because it's such a highly profitable model, but because it's such a good one."

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