## July 31, 2023

# Increasing Fragility of Physician Management Companies Seeds Fear (and Opportunity)

*Humpty Dumpty sat on a wall,*
*Humpty Dumpty had a great fall;*
*All the king's horses and all the king's men*
*Couldn't put Humpty together again*.

- Mother Goose

. . . But could *you*?

- Mark Weiss

Rising interest rates, increasing government meddling in the market, and investor fears are among the factors contributing to the increasing fragility in the private equity healthcare space.

The latest failure, that of American Physician Partners ("APP"), once a significant leader in contracting with hospitals to staff emergency medicine, hospitalists, and critical care services highlights a very important lesson on physician practice and even physician-owned facility valuation. It also provides you a key to picking up the pieces.

APP, a company owned by investment giant Brown Brothers Harriman & Co. in concert with physicians and management, was, until very recently, a highflyer, the 6th largest in its segment, providing services at more than 150 hospitals through more than 2,500 providers. Revenues bolted upward from $249 million in 2018 to $633 million in 2021.

But then, according to reports, a $520 million debt refinancing collapsed when investors became concerned over the effects of the federal No Surprises Act.

Although then-current creditors provided a lifeline, the increasing cost of that debt, no doubt fueled by the rocket-like rise in interest rates, led the company to seek a merger partner, which it thought it had in SCP Health. But "thought it had" and "had" aren't the same – the deal fell through.

As a result, the company, once worth what must have been billions, is worth, well, practically nothing: In mid-July 2023 it announced that it is shutting down.

APP's failure comes on the heels of the May Chapter 11 Bankruptcy of Envision Healthcare and hundreds of its related entities and affiliates, including Amsurg, the ASC behemoth, and, apparently, all of the Amsurg entities that hold interests in hundreds of ASCs.

Envision/Amsurg's corporate owner, KKR, the giant private equity and investment firm, is likely set to lose its entire investment, more than $5 billion. According to the bankruptcy filing, Envision is looking to find a wholesale buyer for Amsurg – in other words, an entity to take over its entire Amsurg division with its 250 or more ambulatory surgery center affiliates. In addition to Amsurg, Envision is highly active in a number of physician specialties, including anesthesia. What will end up happening to those businesses under a restructuring is, at this point, unclear.

The valuation lesson from both APP and Envision/Amsurg is clear even though, linguistically, it can be confusing: valuation, real valuation as opposed to that to which an "expert" might opine, is, at the end of the day, only as good as what a willing buyer will actually pay to close a deal, or, in the case of a lender, will actually ascribe to the business and loan.

Physicians often have outsized notions of business valuation. The fact that someone offered 6x EBITDA three years ago is meaningless. In like manner, the fact that someone offered 6x EBITDA a month ago but didn't close the deal is meaningless as to value. So, too, is the opening bid at some imaginary, and near fraudulent, number from a PE firm working from the usual playbook of lie high and close low . . . or not close at all. All are corollaries of the fact that an investor's $5 billion becomes zero if no one wants the business and its costs are eating it alive.

The other valuable lesson centers on picking up the pieces.

As in *Humpty Dumpty*, trying, Kintsugi style, to glue an entire failed enterprise back together is a fool's errand. However, reshuffling some of the pieces, or some of their functions, into other forms is the story of economic life.

As the economist Joseph Schumpeter wrote in *Capitalism, Socialism and Democracy*, capitalism "is by nature a form or method of economic change and not only never is but never can be stationary. And this evolutionary character … incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one."

Creative destruction is taking aim at many legacy healthcare ventures, from "physician management companies" to hospitals, to many others, aided by relatively high interest rates and, in un-capitalistic fashion, government intervention. Your opportunity lies in taking part in creating, phoenix-like, more appropriate healthcare solutions for your profit.

Just as one example, the failure of large "staffing" companies such as APP or Envision opens up opportunity for both regional and small single specialty groups, and for the formation of new physician groups to emerge from the ashes.

There are many ways for physician leaders of local groups, whether or not there is an actual group as opposed to the remnants of a failed giant, to form, and finance, what the former giant was unable to pull off. In fact, in many ways, the failure was "giant induced" – your odds of success may be far greater, courtesy of the formerly smartest people in the room.

For more information or to talk about your future, contact me.


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A few days ago, a friend noticed that her auto insurance payment, which was on autopay, didn't appear on her credit card statement -- she contacted the insurance carrier. To her surprise, she was told that, following the acquisition of the insurer by another carrier, the new owner had canceled policies mid-coverage year. Exactly why was unclear, but two things were: they had neglected to give notice that the policy had been terminated approximately one month prior, and that they were happy to write her a new policy.

How sure are you that your medical group is covered? And, although it might be highly unlikely that you wouldn't receive notice of termination of your malpractice coverage, what about coverage for other risks, such as D&O coverage, employment practices coverage, cyber liability coverage, and so on?

And even if you are covered, do you know exactly what you're covered for and the extent of that coverage?

Did you negotiate coverage or just accept what your broker said the offered policy was? Did you even read it before it was issued?

Sometimes, magical things can happen if you know the secrets of negotiating coverage. And, of course, if you know how to ask.

Want help? Just let me know.

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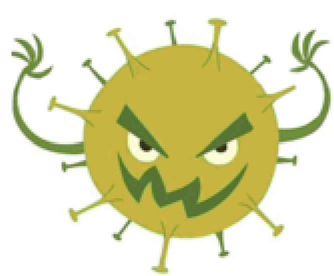

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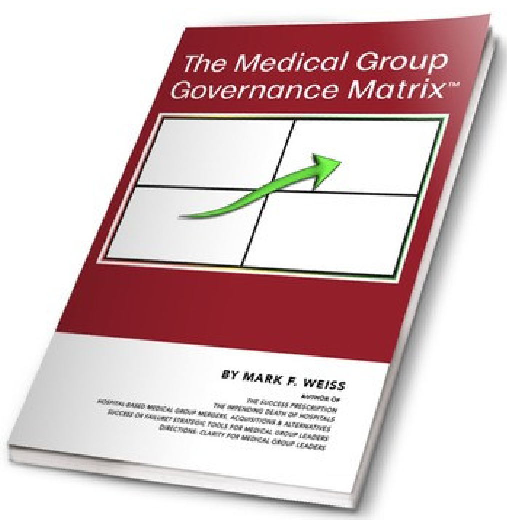
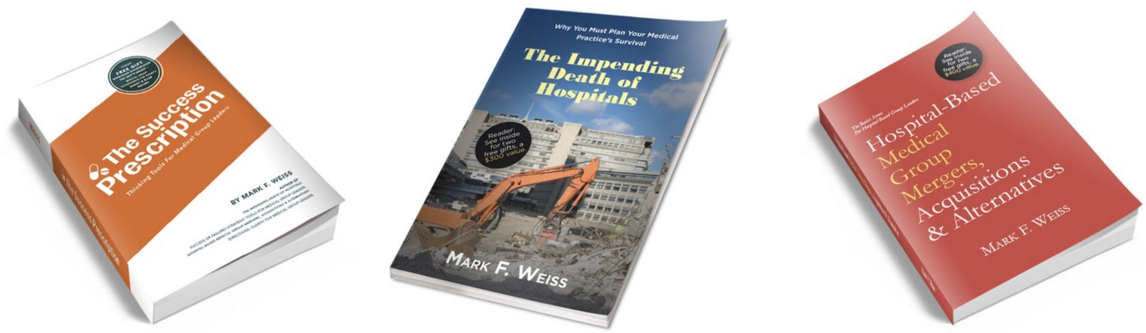



We all hear, and most of us say, that the pace of change in healthcare is quickening. That means that the pace of required decision-making is increasing, too. Unless, that is, you want to take the “default” route. That’s the one is which you let someone else make the decisions that impact you; you’re just along for the ride. Of course, playing a bit part in scripting your own future isn’t the smart route to stardom. But despite your own best intentions, perhaps it’s your medical group’s governance structure that’s holding you back. In fact, it’s very likely that the problem is systemic. The Medical Group Governance Matrix introduces a simple four-

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**3. Book me to speak to your group or organization.** I've spoken at dozens of medical group, healthcare organization, university-sponsored, and private events on many topics such as The Impending Death of Hospitals, the strategic use of OIG Advisory Opinions, medical group governance, and succeeding at negotiations. For more information about a custom presentation for you, drop us a line.

**4. If You're Not Yet a Client, Engage Me to Represent You.** If you're interested in increasing your profit and managing your risk of loss, email me to connect directly.