Private Equity Investment in Health Care in 2018: A Year in Review

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Alé Dalton (Bradley Arant Boult Cummings LLP, Nashville, TN)
Cody G. Robertson (InnovAge, Denver, CO)
Jed Roebuck (Chambliss Bahner & Stophel PC, Chattanooga, TN)

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2018 saw a remarkable volume and breadth of private equity and venture capital investment in health care, with transactions spanning the spectrum of primary care, to specialty care, to whole hospital systems, and reaching beyond the direct provision of care to ancillary services involving data management and electronic health records. The industry saw similar breadth in transaction size, ranging from single practice acquisitions to multi-billion dollar take-private transactions.

This Bulletin summarizes five notable transactions or clusters of transactions that were indicative of private equity investment in health care in 2018.

Primary Care Enters the Conversation

After years of private equity focus on specialty providers, 2018 saw significant investor interest in primary care. Two notable transactions highlight the growing investment in the primary care space: the $350 million investment in One Medical by The Carlyle Group and a $100 million Series E investment in Iora Health.

One Medical is the largest independently held primary care practice in the United States. The new funds are expected to go towards expansion efforts, which include doubling the 72 offices One Medical currently has in large metropolitan markets like Los Angeles, Chicago, New York, Boston, and Washington, DC, as well as growing its provider base. The funds also will go to growing its technology, which utilizes machine learning to help patients have a better primary care experience and allow on-the-go access to providers. *Forbes* reported Carlyle's investment in One Medical as one of the biggest venture capital investments in the health care space in 2018.[1]

One Medical's model provides a middle-of-the-road alternative between concierge care and urgent care by charging members a yearly fee of around $149 to $199 for access to on-demand telemedicine care 24/7 and same-day appointments, as well as "non-rushed appointments" that "start on time."[2] One Medical also partners with employers, including Uber and Adobe, to provide access to its network of offices, designing custom onsite wellness centers, or access to its telemedicine platform. According to TechCrunch, prior to this round of funding, One Medical was last valued at $1 billion.[3] The new funding puts the total raised by One Medical at $530 million.

Iora Health's $100 million Series E funding round involved GE Ventures, F-Prime Capital Partners, and Devonshire Investors. This round brings Iora's total funding to over $223 million. Iora Health is a Boston-based company that runs a network of primary care clinics solely focused on serving Medicare patients who are over 65 years old. The model is built around bringing value-based care to a high-risk, high-cost population, with insurers and employers paying a flat monthly fee, and patients being set up with medical "teams," which include a provider, a nurse, a health coach, and a behavioral health specialist. Aside from receiving care at Iora Health private practices, patients have access to their teams through phone calls, text messages, and emails around the clock.

Iora plans to use the funds to support its expansion plans—it doubled its number of patients during 2017 and was on track to do it again in 2018—as well as further develop its coordination software, Chirp. According to Iora Health's Vice President of Product and Technology, Andrew Schutzbank, developing and implementing a proprietary electronic health record platform like Chirp was necessary to provide this type of care, as other electronic health record systems focused too much on billing and coding, and were too structured to support a clinical team that is actively collaborating to serve each of its patients.[4]

Iora faces stiff competition from other players vying for this market, most notably large retailers with clinics that serve similar patient populations and who are envisioning ways to better serve populations with chronic conditions and help manage their health. This is further highlighted by the fact CVS hired away Iora's former Chief Medical Officer, Marc-David Munk, to serve as the head of CVS' Minute Clinic.

Nevertheless, this increased investment in the primary care space likely will continue, particularly for companies focusing on "disrupting" traditional models and those serving niche patient populations. These "disruptors" are well positioned for growth and fundraising due to shifts toward value-based care and consumers exercising extensive choices over how they prefer to receive primary care services.

Radiology Stays Strong

Radiology has been an active space for private equity investment for several years and investment activity continued in 2018, indicating that financial investors are far from finished with this specialty. For example, on October 2, 2018, California-based Radiology Partners, Inc. (RP), which is backed by New Enterprise Associates, a private equity and venture capital firm, and is the largest physician-owned radiology practice in the United States, announced its acquisition of Mori, Bean & Brooks, P.A. (MBB), a Florida-based practice serving 16 sites throughout the Jacksonville, Florida and the South Georgia area.[5] Following this most recent acquisition, RP's practice now consists of more than 1,000 radiologists.

The MBB acquisition (termed a "partnership" by RP) was one of the final announcements from RP regarding its acquisition activity in 2018, which in the second half of the calendar year yielded a crop of approximately 30 new sites across eight states, such that RP now serves over 750 hospitals, clinics, and imaging centers in a 17-state territory.

RP's partnership with MBB reflects continued movement within the radiology space, as groups react to evolving reimbursement models, proliferating hospital combinations and ventures, and emerging technological advancements to make better use of enterprise advantages and operational efficiencies available to them following consolidations, manage costs, and elevate their appeal to hospitals and payers.

Ongoing investor activity in radiology suggests that significant runway still exists in this arena, with groups such as RP, Envision Healthcare, and other private equity-backed competitors seeking avenues for consolidating an approximately $18 billion market, which is perceived to still be highly fragmented, notwithstanding the flurry of current action in this sector.

Home Health and Hospice Care Continues to Attract Interest

In July 2018, Humana Inc. announced the completion of its take-private buyout, in consortium with private equity firms Welsh, Carson, Anderson & Stowe (WCAS) and TPG Capital (TPG), of Kindred Healthcare, Inc., at a price tag of approximately $4.1 billion.[6]

Under the parties' agreement, Kindred's long-term acute care hospitals, inpatient rehabilitation facilities, and contract rehabilitation services (collectively, Kindred Healthcare) were separated from Kindred's hospice, home health, and community-care business lines (collectively, Kindred at Home). Kindred Healthcare is now operated as a separate specialty hospital company owned by WCAS and TPG, while Kindred at Home operates as a standalone entity, of which Humana owns 40% and WCAS and TPG own the remaining 60%. As part of the agreement, Humana retains the right to purchase the firms' interest in Kindred at Home over time through a put/call arrangement.

In a separate, concurrent transaction, Humana, WCAS and TPG also purchased hospice and palliative care provider, Curo Healthcare Services, for $1.4 billion.[7] Combined with Kindred at Home's hospice business line, the acquisition of Curo made the consortium the nation's largest provider of hospice services.

Humana's interests in Kindred and Curo are of a piece with a larger industry trend, whereby insurers are increasingly positioning themselves to provide more outpatient services directly to their members, particularly to seniors enrolled in their Medicare Advantage plans. As the population continues to age and the pressure on insurers to retain those customers increases, expect to see more private equity-backed transactions similar to this one in 2019 and beyond.

Moving Beyond Single-Specialty Platforms

While private equity investment in health care providers recently has been focused on single-specialty platforms, 2018 saw two significant transactions involving multi-specialty practices and whole hospital systems.

Take-Private Merger of LifePoint and RCCH

On November 16, 2018, LifePoint Health, Inc. (LifePoint) announced completion of its merger with RCCH HealthCare Partners (RCCH), via its private equity financial sponsor, Apollo Global Management, LLC (Apollo).[8] Both LifePoint and RCCH own and operate hospitals, regional health systems, physician practices, outpatient centers, and other care facilities in the United States.

Following the $5.6 billion transaction, which included an investment of $25.4 million by ATP Private Equity Partners, LifePoint's common stock was delisted on NASDAQ, and the combined privately held company, which retained the LifePoint name, now maintains its headquarters in Brentwood, Tennessee where the two separate companies were already anchored.

For Apollo, the merger represented its largest deal of 2018 and is indicative of ever-increasing private equity activity in the health care space. LifePoint shareholders received $65 in cash for each share of LifePoint's common stock they owned, without interest and less any applicable withholding taxes, which was a premium of approximately 36% to LifePoint's closing share price on July 20, 2018, the last trading day prior to the initial announcement of the merger.

Deal negotiations were not without issue. According to filings by LifePoint with the Securities and Exchange Commission, the parties first engaged in serious discussions in September 2017. Subsequent dialogue led to a period of uncertainty as to whether an agreement could be reached, which was caused in part by Apollo's revised, reduced bid of $58 to $60 per share, explained as a function of LifePoint's reduced 2018 EBITDA and unflattering long-term forecast. During this time, LifePoint also introduced an unnamed competitor as a potential buyer, which the LifePoint Board viewed as the most likely potential strategic acquirer. Ultimately, on June 18, 2018, this anonymous suitor stepped away from LifePoint, and LifePoint and Apollo reached consensus on the $65 per-share price.

Post-merger, LifePoint now operates 84 nonurban hospitals and provides a wide range of other medical and surgical services in 30 states through regional physician practices, outpatient centers, and post-acute care providers, while boasting approximately 7,000 affiliated physicians, 60,000 employees, and more than 12,000 licensed beds through its consolidated system.

"We are officially one organization dedicated to providing high quality, community-based healthcare, and I am energized by the opportunities we have ahead of us to serve non-urban communities across the country," said David Dill, who officially became CEO of LifePoint when the deal closed.[9]

KKR's $9.9 Billion Take-Private of Envision

Also in 2018, KKR completed its acquisition of Envision Healthcare Corp., a leading provider of physician services, post-acute care, and ambulatory surgery services. After working to find strategic options to maximize shareholder value, Envision's board reached out to potential buyers for all or parts of the company, with KKR's deal offering the best value. Envision's stockholders received $46 per share of common stock in cash. The deal was valued at $9.9 billion in cash and assumed debt, making it one of the largest private equity buyouts since the recession. The companies said the share price represented a 32% premium to Envision's volume-weighted average share price from the day immediately following its first announcement that it was considering strategic alternatives.

In a meeting with *Modern Healthcare*, Envision's CEO described going private as the best way to ensure the success of the company by allowing it to focus on "transformational moves" that may not result in short-term payoffs, but would allow for a "much longer view" of the company.[10]

While the Federal Trade Commission and state regulators signed off on the deal, the sale hit a temporary roadblock when shareholders filed a federal class-action, seeking to undo the sale, alleging breach of fiduciary duties and underpayment for shares. In particular, the lawsuit alleged that the shares were valued at $51 just a day after the deal with KKR was announced and that shares had been valued at $77 during the seven months prior to the deal's announcement. The case was voluntarily dismissed in November 2018.

Taking Envision private continues KKR's push to expand its health care portfolio, which also includes KKR's 2017 purchase of Envision's medical transportation unit, which merged with KKR's helicopter ambulance business, in a $2.4 billion deal, as well as raising $1.45 billion for a health care fund dedicated to growth stage companies.

Continued Interest Beyond Direct Care

Continuing a trend that has been gaining steam over the past few years, 2018 saw a handful of private equity investments in providers of ancillary services within the health care space. Although a somewhat nebulous term, ancillary services generally refers to those services that do not involve direct patient care, but support those who do provide such care.

Most notable was Veritas Capital's November 2018 announcement that it planned to take electronic health record and practice management software vendor, Athenahealth, private for the considerable sum of $5.7 billion.[11] Following the closing of that transaction, Athenahealth would be combined with another provider of ancillary services, Virence Health, a value-based care business that Veritas purchased for $1 billion from GE Healthcare earlier in 2018. Both deals were backed by Elliott Management, which holds a minority interest in the combined company through its subsidiary, Evergreen Coast Capital.

Also of interest was TPG Growth's acquisition of quality data management solutions provider, Q-Centrix, from Sterling Partners in November 2018, the terms of which were not disclosed.

There are a number of possible explanations for why ancillary services have become attractive investment opportunities for private equity. Since many of those services generally are not directly impacted by changes in reimbursement, they may be viewed as entailing less regulatory risk. The passage of the Affordable Care Act also created an increase in demand for ancillary services such as data analytics and practice management that continues to this day. As long as these market forces persist, it is likely that so too will private equity's interest in ancillary service providers.

A number of factors—the volume of available private equity, the continued technological transformation of health care, and the sheer size of the health care industry, to name a few—led to a very active health care investment market in 2018, in transactions covering the entirety of the health care ecosystem. All these factors are expected to persist in 2019, suggesting that 2019 should be another robust year for private equity investment in health care.

The views expressed in this Bulletin are of the authors alone and do not represent the views of their employers.

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1620 Eye Street NW, 6th Floor, Washington, DC 20006-4010
P. 202-833-1100 F. 202-833-1105