8 merger and acquisition trends that your practice should keep in mind

by Vanessa Caceres, Contributing Writer

Buyers, business partners eye ophthalmology's attractive demographics

An ophthalmologist may consider a merger or an acquisition by another practice for several reasons. A larger-sized practice offers economies of scale during purchasing and gives practices more ability to meet regulatory requirements such as PQRS, Meaningful Use, Value-based payment modifier, and the Merit-based Incentive Payment System (MIPS), as well as engage in larger clinical trials, said **Brenda Laigaie,** an attorney with Wade, Goldstein, Landau & Abruzzo, Berwyn, Pennsylvania. Practices also can maintain their patient base while expanding their geographical scope. Some ophthalmologists are interested in mergers and acquisitions as a vehicle for succession planning. Here are eight trends within mergers and acquisitions (M&A) in health care and ophthalmology as shared by health care M&A experts.

1. The M&A field within health care—including ophthalmology—has seen a whirlwind of activity the past several years, said **Steve Wybo,** senior managing director, Conway MacKenzie, Birmingham, Michigan. Mr. Wybo specializes in helping distressed businesses and is a certified turnaround professional.

"2015 was the biggest year ever for health care mergers and acquisitions, with $500 billion in sector investments," Mr. Wybo said, citing data from the trade magazine *Modern Healthcare*. Since the passage of the Affordable Care Act (ACA), M&A for medical practices continued to rapidly increase, with the exception of dips in 2012 and 2013 amidst further reform initiatives. The shift to newer health models, including population health and value-based reimbursements, has factored into the M&A activity, Mr. Wybo said.

Ophthalmology arrived late to the M&A table but is catching up, said **Michael Gurman,** an attorney and partner, Abrams Fensterman, Lake Success, New York. "Solo ophthalmologists are realizing it's becoming harder for them to survive due to decreased reimbursement and rising costs. Joining larger group practices has allowed them to continue their business autonomy to an extent while obtaining the benefits of a large practice," he said.

2. There is an increasing number of contractual arrangements in addition to—or instead of—mergers and acquisitions. Within the subspecialty of retina, Ms. Laigaie saw a downturn of M&A activity in 2016. "All of a sudden, we're seeing a pause in the merger and acquisition world," Ms. Laigaie said during a presentation at the 2016 American of Academy of Ophthalmology annual meeting. However, she now sees more lease arrangements, personal service arrangements, patient-centered medical homes, and even accountable care organizations interested in retina practices. "The mergers may have slowed down, but contractual affiliations are continuing," she said.

Mr. Wybo has noticed a similar trend throughout ophthalmology in general. "Ophthalmic specialists and small practices are seeing increasing costs and decreasing revenues from recent regulations, causing many to think about consolidation. This leads us to a new trend in health care involving strategic mergers, partnerships and joint ventures for the first time in a long time between hospitals and ophthalmic practices," he said.

3. Buyers consider ophthalmology more closely nowadays due to appealing demographics. The large and growing number of senior patients seen by ophthalmologists attracts the attention of health care practice buyers, Mr. Wybo said. It also helps that a number of patients are willing to pay out of pocket for premium eye services, therefore reducing the risk of a potential revenue shortfall if insurance payers continue to withhold/reduce reimbursements that fail to meet ever stringent quality and value standards.

Despite these advantages, practices will need to stay lean if they want to be considered for a merger or acquisition. "Medical practices that can stay ahead of the curve by reducing costs and implementing electronic health record systems and data analytics for quality measurements will maximize their reimbursement potential and be more attractive in the marketplace," Mr. Wybo said.

4. Ophthalmic ambulatory surgery centers (ASCs) are attractive to hospital buyers. Although hospitals once viewed ASCs as competitors, the increasing emphasis on cost cutting and providing value in less costly settings has led hospitals to recognize the benefits of ASCs, Mr. Wybo said. "This has contributed to the recent appeal of ophthalmic ASCs that have become increasingly qualified and experienced at providing safe, efficient, and high-quality care at much lower costs than hospitals," he said. Ophthalmic ASCs can benefit from hospital affiliation with better negotiating power with non-government insurance carriers and a larger pool of skilled employees; they also can leverage the hospital name for successful marketing. Mr. Wybo cited the St. Johns Providence Health System in Michigan, which recently formed a partnership ASC with ophthalmologists to form the Eye Surgery Center of Michigan.

5. Hospitals and larger practices aren't the only entities purchasing practices. Private equity involvement has made inroads in the purchase of practices, Mr. Wybo said. "Private equity interest in specialty providers is growing due to increased competition for facility-based organizations like traditional hospitals and surgical centers, which is in turn driving up prices and forcing investors to explore other opportunities," he said. Private equity firms have had a particular interest in dermatology, pain management, and dentistry due to the high reimbursement potential. In some markets, deals with private equity or corporate management companies have a purchase price more than 10 times their earnings before interest, taxes, depreciation, and amortization, Mr. Gurman said.

6. Optical sales are less valuable for ophthalmologists in acquisitions. "Those who sell these products are sometimes seen to be in competition with potential referral arrangements such as optometrists or other retail locations," Mr. Gurman said. "The referral of cataract patients and other procedures is viewed to be more valuable than the profits derived from the sale of eye glasses." Sometimes, medical practices with optical sales are less valuable for large practices to acquire, he said.

7. Disrupters may affect health care M&A. The merging of technology with health care—and just about everything else—has started to affect M&A activity, Mr. Wybo said. He explained how companies like CVS and Walgreens, technology firms like IBM Watson, and large insurers increasingly use their capital, technological expertise, and advanced databases and data analytics to "disrupt" health care and better target and retain the loyalty of health care consumers. Telemedicine is another disrupter that alerts the doctor and patient interaction, he added. This focus on big data, big capital, and big cash flow will continue to influence all of health care, including M&A trends, Mr. Wybo said. Kenneth Kaufman, chair of the Skokie, Illinois-based firm Kaufman, Hall & Associates, has done a good deal of research in this area, Mr. Wybo said.

8. Changes under the new presidency may not change current M&A trends. President Donald Trump has said he may repeal elements of the ACA, leaving it uncertain how this will affect insurance companies and health systems, Mr. Wybo said. However, analysts still predict a similar rate of M&A activity if not more than before. "New entrants in the field of ophthalmology bring innovation and technological advancements that attract strategic buyers who will acquire these competitive advantages to create growth and accumulate value," he said.

Three questions to ask during a merger or acquisition

Take the above trends into consideration if you are considering a merger or acquisition of your practice—and make sure to ask three questions before you make a commitment.

What's the end game? "Too many ophthalmologists are focused on finalizing the deal that is immediately in front of them without considering the future," Mr. Gurman said. This question is key both for buyers and sellers. "Medical practices are like custom puzzles. Each medical practice can choose how they want their puzzle to look in the end, but if they don't think about the end result, the pieces may not all fit together," he said.

Who's part of your deal dream team? For successful M&A deals, you'll want a seasoned mix of physicians, attorneys, accountants, consultants, and internal management personnel, Mr. Gurman said. If any of these roles are not properly handled, the deal may fall apart or the venture could be unsuccessful.

What sort of financial synergies, cost savings, and growth will the practice achieve through M&A? "Practices should use data obtained through due diligence and forecasts to compare projections with long-term strategic and financial objectives to make more informed business decisions," Mr. Wybo said. **OB**

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