The U.S. physician group sector includes approximately 195,000+ physician groups. These groups had combined 2018 revenues of $281 billion, up 0.9 percent from 2017. The sector has seen annualized growth of approximately 4.2 percent since 2013, as an aging population and expanded consumer access to health insurance drive increased demand. Also contributing to sector growth is an ongoing shift of procedures from inpatient settings to outpatient and alternative sites of care in which physicians have an ownership stake. Regulatory challenges and rising operational costs are tempering growth, as are lower revenues per case at lower-cost sites of care.

**Implications**

In 2018, only 31 percent of physicians identified as an owner or partner in an independent practice, down from 33 percent in 2016 and 49 percent in 2012.¹ Recent transaction activity has been concentrated in a few specialties, particularly dermatology and ophthalmology, where strong financials and growth opportunities have attracted the interest of private equity investors and other financial sponsors. Other specialties—including dental, radiology, gastrointestinal, anesthesia, and orthopedics—are also seeing increased activity. The high number of transactions in 2018 reflects many smaller transactions (e.g., groups of 5 – 10 physicians), but also occasional transactions of $200 million or more.

Partnerships with financial sponsors can be attractive options for physician groups that seek strong growth while retaining some operational control. Financial sponsors are likely to prioritize growth in new markets, and typically will have a shorter time frame for their investment (e.g., 5 – 7 years). Physician groups seeking longer-term partnerships, operational improvements, or management support services may prefer partnerships with strategic investors such as health systems or provider management companies.

**Overview of Physician Group Sector**

An already strong trend toward consolidation in the physician group sector gained momentum in 2018. The 166 physician group M&A transactions announced in 2017—the highest number in recent history—were topped by a total of 250 announced transactions in 2018.

There are several factors driving this trend. Independent physicians continue to face pressures from the rising costs and administrative burdens of providing care, and are seeking to join larger, better capitalized groups, with dedicated staff to relieve administrative burdens on physicians.

Independent groups also are finding it easier to join together and manage their practices as the number of specialized physician service providers in areas such as IT and revenue cycle management increases. As a result, practices that might have looked to health systems for management services and EHR capabilities are instead forming or joining large multispecialty practices.

Expansion of multispecialty practices is further supported by the relatively low fixed costs of setting up practices and increased demand for specialty services, which is leading to higher wages for specialty providers. As practices expand their specialty services, they also enhance their relevance to consumers in the market and can build relationships with primary care practices and payer networks to increase referrals. Large multispecialty practices are also attractive partners for health systems seeking to bring cases to their hospitals.

Private equity interest in the physician group sector remains strong, as does the interest of payer-affiliated companies, such as Optum, seeking to expand their provider network.

**Major Publicly Traded Players and Market Multiples**

**MEDNAX, Inc. (NYSE:MD)**
- National medical group and leading provider of neonatal, anesthesiology, maternal-fetal, and pediatric medical services; includes more than 1,100 neonatologists and 1,725 pediatric subspecialty physicians.

**DaVita HealthCare Partners, Inc. (NYSE:DVA)**
- Operates DaVita Medical Holdings, one of the largest medical groups and physician networks in the U.S. DaVita is in the process of divesting its medical group to Optum, a division of UnitedHealth Group.

**Surgery Partners, Inc. (NASDAQ:SGRY)**
- Operator of surgical facilities, physician practices, and other ancillary services with 180+ locations nationwide; affiliated with over 4,000 physicians.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Trailing 12 Months</th>
<th>TEV/ EBITDA</th>
<th>TEV/ EBITDA</th>
<th>Margin</th>
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<td>MEDNAX, Inc.</td>
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<td>Revenue</td>
<td>EBITDA</td>
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<td>Surgery Partners, Inc.</td>
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<td>$311</td>
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</tbody>
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Select Transaction Activity

The 250 announced M&A transactions in the physician group sector in 2018 represented a 51 percent increase from the 166 transactions announced in 2017. From 2012 through 2018, the compound annual growth rate (CAGR) in the number of announced transactions has been almost 24 percent.

In March 2018, Optum completed its acquisition of Reliant Medical Group, a 500-provider multispecialty physician group, and in December 2018, acquired the Seattle-based Polyclinic, a 200-provider multispecialty group. These acquisitions continue UnitedHealth Group’s expansion into the physician group sector.

In April 2018, Hospital Corporation of America (HCA) completed its acquisition of Austin Diagnostic Clinic, a 150+ physician group, as large health systems continue to invest heavily in established multispecialty physician groups.

The $9.9 billion acquisition of Envision Healthcare by private equity firm KKR was announced in October 2018, continuing the trend of financial sponsors’ strong interest in the sector. Other notable transactions involving financial sponsors include:

• Varsity Healthcare Partners’ recapitalization of The Orthopaedic Institute, a Florida-based orthopedic surgical care provider
• The acquisition of Florida-based Cape Coral Hospitalists group by private-equity-backed Spectrum Medical Partners
• A strategic investment by NMS Capital into Central Ohio Urology Group
• The recapitalization of Pacific Eye Institute in southern California by Waud Capital Partner’s portfolio company, Unifeye Vision Partners

For more information, please contact Kristofer Blohm or Forrest Sylvester at 847.441.8780.