

Private Equity and Health Care

Jamal Hagler, Vice President of Research, American Investment Council
jhagler@investmentcouncil.org

What is Private Equity?

Private equity is **an asset class where investors pool their resources in investment funds, which in turn purchase stakes in companies that are not publicly traded.**

Private equity firms generally invest in companies for several years or more. The goal — in every case — is to work with management to **improve the company's performance** and make it a stronger, more competitive enterprise.

What is Private Equity?

Private equity is...

- A **source of capital** for companies in need.
- A key driver of **economic growth** and **innovation**.
- A **job creator** and **employer** of millions of Americans.
- A steady **source of income** for its investors such as **public and private pension funds, university endowments, and insurance companies**.

How Private Equity Works

Private equity firms seek out underperforming, undervalued, or young companies poised for growth.

By working with these companies managers unlock significant value by:

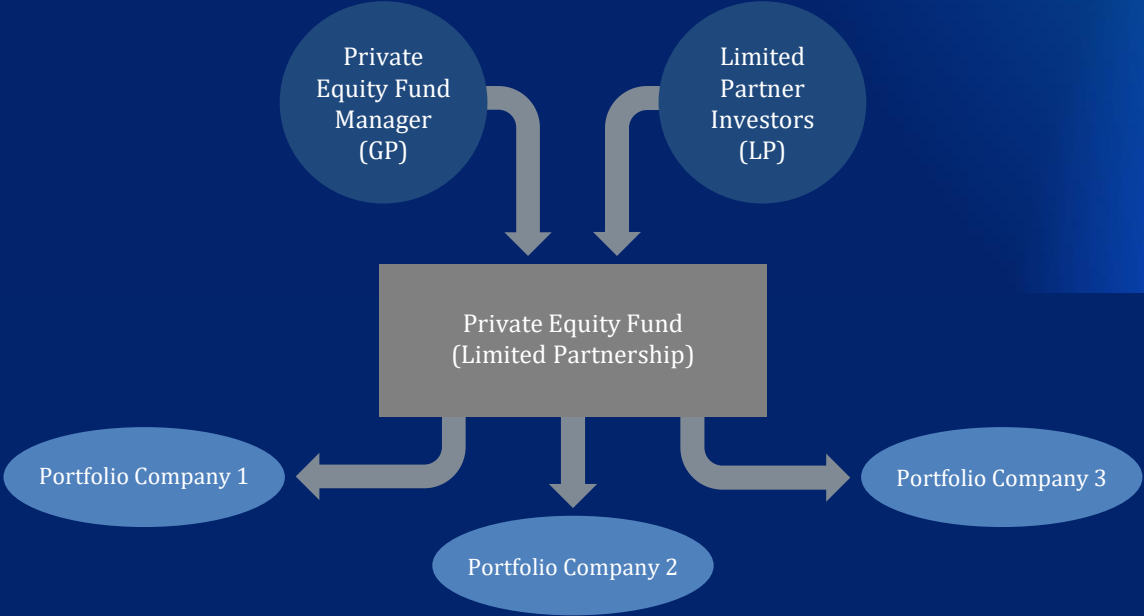
- improving business strategy
- injecting managerial expertise
- advancing production technology
- expanding distribution

Alignment of Interests

The essence of private equity is the **alignment of interests** between management and business owners. This structure supports **long-term planning** without constant pressure of delivering quarterly results to public shareholders focused on short-term results.

Together, management and business owners share one shared objective: **increasing company value**. Together, management and owners make business decisions to achieve this goal.

Private equity funds are typically structured as **partnerships**:



THE PRIVATE EQUITY MODEL

Challenges to the Health Care Industry

- Low Margins
- High Labor Costs and shortage of workers
- High Supply Costs
- Low reimbursement rates from government payors:
 - Medicare
 - Medicaid

Private Equity Investment in Health Care

Private equity's presence is smaller than you would think based on the attention it receives:

- Only 8 percent of Hospitals are PE-backed
- Only 5 percent of Nursing homes are PE-backed
- Only 4.5 percent of physicians are employed by private equity

Private Equity Investment in Health Care

- Private equity has invested considerable capital in life sciences companies that are developing new drugs and therapy's that will hopefully lower costs and improve quality of treatments.
 - \$132B invested over the last decade in nearly 1,000 companies
- Private equity investment in medical devices has the potential to create better cheaper medical devices that can relieve some of the financial pressure on medical providers.
 - \$125B invested over the last decade in over 871 medical device manufacturers

Impact of Private Equity on Health Care Organizations

Private Equity and Hospitals

Janet Gao, Associate Professor, Georgetown University, McDonough School of Business. Yongseok Kim, Doctoral Student, Indiana University – Kelley School of Business – Department of Finance. Merih Sevilir, Associate Professor, Indiana University – Kelley School of Business.
European Corporate Governance Institute

- “We find no evidence that patients at PE-acquired hospitals experience increases in mortality rates due to heart attack and heart failure, while those at non-PE-acquired hospitals do exhibit marginally higher mortality rates due to heart failure.”
- “Our findings suggest that PE-backed acquirers are associated with higher core employee ratio, higher administrative efficiency, and no deterioration in patient outcomes.”

Impact of Private Equity on Health Care Organizations

Have Private Equity Owned Nursing Homes Fared Worse Under COVID-19?

Ashvin Gandhi, PhD Candidate, UCLA Anderson School of Management. YoungJun Song, Assistant Professor, Duke University, Fuqua School of Business. Prabhava Upadrashta, Doctoral Candidate, Duke University, Fuqua School of Business.

- “In other words, our findings suggest that PE owners were more successful at preventing outbreaks at their facilities and ensuring stocks of necessary protective equipment. These results are consistent with prior research in non-healthcare settings that observe PE owners to improve product and workplace safety. Notably the estimated effects of PE ownership are relative to other for-profit and chain facilities, suggesting that PE owners had unique managerial aptitude or resources not shared by other for-profit chains.”
- “Our study cautions against a presumption that PE ownership is necessarily bad for patients and providers. Rather, it suggests that policymakers, researchers, and the media should take an evidence-driven approach in assessing the impact of private equity in the healthcare industry.”

Impact of Private Equity on Health Care Organizations

Association Between Hospital Private Equity Acquisition and Outcomes of Acute Medical Conditions Among Medicare Beneficiaries

Marcelo Cerullo, MD, MPH, Department of Surgery, Duke University and National Clinician Scholars Program, jointly administered through Duke University and Durham Veterans Affairs Medical Center. Kelly Yang, MA, PhD Candidate, Department of Economics, Duke University. Karen E. Joynt Maddox, MD, MPH, Associate Professor, Center for Health Economics and Policy, Institute for Public Health, Washington University in St. Louis. Ryan C. McDevitt, PhD, Professor, Fuqua School of Business, Duke University, and the National Bureau of Economic Research. Anaeze C. Offodile, MD, MPH, Physician, Department of Plastic and Reconstructive Surgery, MD Anderson Cancer Center, the Baker Institute for Public Policy at Rice University and the Department of Health Services Research, MD Anderson Cancer Center.

- Among patients with AMI (acute myocardial infarction), a greater decrease in in-hospital mortality was observed in PE-acquired hospitals. In addition, a greater decrease in 30-day mortality was found at acquired vs non-acquired hospitals. For the other 4 conditions examined (acute stroke, COPD, congestive heart failure (CHF) and pneumonia) there were no differences in in-hospital mortality or 30-day mortality after PE-acquisition.”
- “The study’s findings were inconsistent with the prevailing concerns surrounding PE acquisitions of health care systems, perhaps highlighting the need for nuanced investigations into the role of for-profit investments in healthcare.”

The logo for the American Investment Council is centered on a blue gradient background. It consists of three horizontal white bars stacked vertically, followed by the text "AMERICAN INVESTMENT COUNCIL" in a bold, white, sans-serif font. The text is aligned to the right of the bars.

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