Discussion of

Outside equity and healthcare firm behavior

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Why this study is important

- Significant national debate about role of PE in healthcare services
- PE Basics
  - PE provides an infusion of capital in exchange for ownership stake; goal is short-term exit (<10 years) and high returns
  - PE investment has accelerated, e.g. $100b and 800 deals in 2018
  - PE firms “roll up” multiple practices and facilities, leverage (where possible), then sell
- Concerns
  - Money is being made – but where is it coming from?

Clinicians have concerns

"Private equity investment is a double-edged sword….On one side, it can provide **much-needed capital investment and financial stability** into an ASC; on the other, it can create a profit-hungry bureaucracy, which can **detract from the clinical autonomy**, which comes from a traditional physician-owner model. The future of current private equity and venture capital investment trends will depend on which side is sharper.“

-- Craig Gold, Virginia Center for Eye Surgery

Source: *Becker’s ASC Review*, “The Issue dividing ASC owners,” Feb. 7, 2022

Payers/public have concerns too

- PE firms have consolidated small, fragmented markets (e.g., ophthalmology, dermatology)
- PE firms have invested in specialties with high rates of surprise billing (i.e. exploiting loopholes and market failures)
- Many loopholes – impacting commercial & public payers not fully exploited
- Regulators & enforcement agencies are worried, too

Lina Khan vows 'muscular' US antitrust approach on private equity deals

This study contributes to a growing literature (1/2)

Author (year; venue)	Study design	Data	Effect on price/charge	Effect on quantities	Effect on quality
Physician practices					
Singh et al (2022; JAMA Health Forum)	Event study (578 acquisitions)	Commercial claims for acquired and control practices, 2016-2020	↑ Price ↑ Charges	↑ New patients ↑ Visits for existing patients	
Braun et al (2021; Health Affairs)	Event study (64 acquisitions)	Commercial claims for acquired and control practices, 2012-2017	↑ Price of routine visits	↑ Patients per MD	
ASCs					
Bruch et al (2022, Health Affairs)	Event study (91 PE acquisitions)	Medicare FFS claims for PE-acquired and other- acquired ASCs, 2009-2017	• No change in Medicare costs per encounter	• No change in volume	• No change in unplanned hospital visits

5 Sources: Author's summary of selected studies. Any errors are unintentional.

This study contributes to a growing literature (2/2)

Author (year; venue)	Study design	Data	Effect on price/charge	Effect on quantities	Effect on quality
		Nursing homes			
Braun et al (2021, JAMA Health Forum)	Cohort study (302 PE-owned homes acquired 2013-2017)	Medicare claims and Minimum Data Assessments for PE and other for-profit homes, 2012-2018	↑ Medicare costs	↓ Number of beds ↓ Occup rate	↑ ED visits & hospitalizations for ambulatory-care sensitive conditions
Gandhi et al (2020, SSRN)	Event study (69 PE acquisitions of 1,455 homes, acquired 1994-2016	Facility-year level panel of CMS-certified skilled nursing facilities, 1993-2017			↑ Staffing in more compet markets, ↓ Staffing in less compet markets
Gupta et al (2021, NBER Working Paper)	Event study (128 PE acquisitions acquiored 2004-2015	CMS facility-level data, 2000—2017 Medicare claims data, 2004-2016	↑ Taxpayer spending		↑ Short-term mortality ↓ Nursing staff

Sources: Author's summary of selected studies. Any errors are unintentional.

What this study does

- Two empirical analyses to assess effect of PE investment on ASCs
  - ASCs: small facilities that perform outpatient procedures and surgeries, like colonoscopies, cataract surgeries; >5k nationwide; compete with hospital outpatient departments; >90% have physician ownership stakes

- Analysis 1: differences-in-differences event study of 24 individual ASCs taking on first PE investment; long post period, including divestment to another private owner

- Analysis 2: difference-in-differences analysis of 2 events occurring to a large ASC chain – PE acquisition and then IPO

What this study finds (1/2)

- PE investment in individual ASCs (Analysis 1)
  - No change in volume or case complexity
  - ↓ No. of procedures per case, especially for Medicare patients
  - ↑ Avg charges per case
  - ↓ in privately insured patient share
  - ↑ physician ownership

What this study finds (2/2)

- PE acquisition of ASC chain, followed by IPO (Analysis 2)
  - Post-acquisition: no change in volume, case complexity, procedures per case, or avg charges, but immediate ↓ in privately insured patient share
  - Around/post-IPO: ↑ Avg charges per case (espec for "all other" insurance), ↑ volume, and liquidation of physician owner stakes in leadup to IPO

Empirical comments – Analysis 1

- Sample limited to acquisitions of individual ASCs; how common and why of "most general interest"?
- Treatment ASCs are very different from control ASCs
  - Possible to find controls from other states, and do propensity score matching?
  - Would be valuable to see trends for both treatment and control, explore market-level trends for each
- Examine heterogeneity of effects
  - By investor characteristics (own ASCs already?; have high share in any market?)
  - By type of treatment (does owner then acquire more facilities and when?)
  - By market structure of target ASC

Empirical comments – Analysis 2

- Same comment on control group
  - Treatment ASCs have charges *double* that of control
- Explore heterogeneity of effects
  - By specialty – maybe reveals something about charge surge for those with "all other" insurance
- Explore effect on debt
  - Payoff to PE investors higher with more leverage
- For both analyses: *where are the regression results?*

What do the results mean? (1/2)

- "Taken together, our findings show that **PE involvement** in the ASC industry **seems to focus on financial engineering**, rather than altering physician agency and related clinical activity." (Authors, p.7)

- Unanswered question 1: what enables "financial engineering" by PE investors to *increase price*?
  - Increases in quality?
  - Different negotiating tactics (going OON?) or increases in market power?
  - Note cost efficiencies, if present, should theoretically place downward pressure on price

What do the results mean? (2/2)

- Unanswered question 2: What are the long-term effects of the transition from standalone facility to public company?
  - *On labor:* after initial owners get their payoff, will future employees accept same wages or will labor costs go up?
  - *On prices:* can private insurers avoid PE-backed facilities or keep them OON indefinitely?
  - *On competition:* incentives to grow through acquisition are strong, before and after IPO (both same-market and cross-market motives)...and efficiencies not manifesting in price