PRACTICE MANAGEMENT: THE ROAD AHEAD

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Trends in Consolidation of Gastroenterology Practices

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Consolidation is occurring in all aspects of health care and significantly affecting private practice. Commonly cited reasons include reduced reimbursement, heightened negotiation power required against large insurers and hospital systems, escalating complexity in practice management caused by the impending retirement of senior partners who oversee practices, challenges in physician and support staff recruitment, increased costs post-COVID-19, and physician/staff burnout. Consolidation aims to distribute fixed costs among multiple stakeholders and simplify administrative tasks, enabling consolidated groups to remain independent and negotiate with other increasingly consolidated entities, such as hospital systems, insurers, or pharmacy systems/pharmacy benefits managers. In the 1980s, 76% of physicians owned their practice, in the early 2000s, around 61%, by 2012, 53.2%, and as of 2022, the number had dropped to just 44% according to a 2023 AMA report.[1] From 2012 to 2022, the share of physicians who work in private practices dropped 13 percentage points, from 60.1% to 46.7%. Furthermore, ownership among physicians younger than 45 dropped more than 12 percentage points from 2012 to 2022, from 44.3% to 31.7%.

Gastroenterology (GI) practices are experiencing this consolidation trend. Griffin et al[2] observed an increase in GI providers from approximately 12,766 to 13,934 between 2012 and 2020, whereas the number of GI practices decreased from 4517 to 3865. Acquiring a GI practice requires significant capital, often provided by private equity (PE) groups. Estimates suggest that around 10% of all GI practices in America have some association with PE. Details regarding how PE collaborates with GI groups to establish a Management Services Organization (MSO), wherein the PE group manages nonclinical responsibilities, are discussed elsewhere.[3] The potential advantages of consolidation include achieving economies of scale, increasing choices for patients beyond large hospital-based systems of care, enhancing the infrastructure to support high-quality value-based independent practices that can be responsive to the local needs of their community, and maintaining autonomy, whereas drawbacks, such as diminished authority, are addressed elsewhere.[4–6]

To identify where consolidation was occurring, who were the primary drivers of consolidation, how PE was involved, and under what deal terms, we complied the US-based acquisition deals of GI practices from January 1, 2016 to November 1, 2022 through 3 business databases: LevinPro HC, Pitchbook, and CBInsights.[7–9] The search resulted in 119 deals and a trend toward increasing acquisitions each year (Supplementary Figure 1). Most deals were in the years 2021 and 2022, with 37 and 25 deals, respectively. Throughout all the years, consolidation was driven primarily by the 5 largest PE-backed GI groups, which were responsible for most (61%) of the deals, with the share of deals increasing over time.

Geographical Trends

The location and frequency of practice buyers are depicted in Figure 1*A*. Two of the largest PE-backed GI groups were heavily responsible for driving the states with the highest buyers. There were 32 deals in Florida (31 by Gastrohealth) and 29 in Texas (24 by GI Alliance), collectively representing 50.4% of all deals. The following 3 states with the highest numbers of buyers were also locations of large PE-backed GI groups. Pennsylvania had 12 deals (7 by US Digestive), Tennessee had 10 deals (7 by One GI), and Georgia had 7 deals (all 7 by United Digestive). Together with Florida and Texas, these 5 states resulted in the locations for 74.8% of all deals. Figure 1*B* illustrates the location and frequency of practice sellers. The most prevalent seller locations were Florida (23), Pennsylvania (13), Texas (12), Virginia (8), and Ohio (8), comprising 53% of all deals. Except for Washington (2), no acquisition deals were recorded on the West Coast. Most acquisitions (69) were made by entities outside the seller' state, compared with those

Abbreviations used in this paper: **GI, gastroenterology; MSO, Management Services Organization; PE, private equity.**

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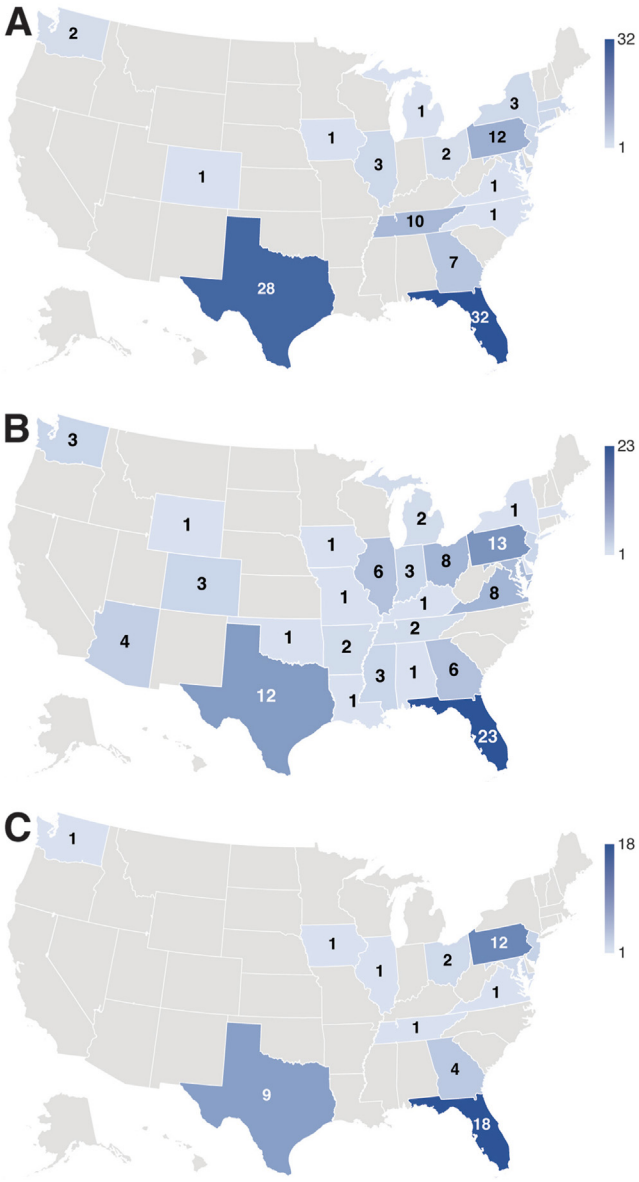

Figure 1. Most buyers (*A*), sellers (*B*), and intrastate deals (*C*) were located in states where the largest GI groups are based.

within the same state (50). Fifty deals occurred within the same state (Figure 1*C*), with 54.0% (n = 27) of all intrastate deals being conducted by the top 2 buyers, Florida (18) and Texas (9). Eighty-eight percent (n = 44) of all intrastate deals were conducted by the top 5 buyers: Florida, Texas, Pennsylvania (12), Tennessee (1), and Georgia (7).

The influence of the top 5 buyers on consolidation heavily impacted the locations of acquired practices. Initially, consolidation was concentrated near the bases of the largest GI groups, but a trend is emerging toward expansion beyond state boundaries. Intrastate expansion typically leverages familiarity with local opportunities and challenges, facilitating resource optimization. For example, groups lacking certain specific capabilities, such as hepatology care or infusion centers, may expand within the same state to offer these services locally. In contrast, interstate expansion aims to establish bases in new areas, often followed by further intrastate expansion within the new latest state to optimize resources. Interstate expansion yields benefits, such as national recognition and enhanced negotiating power with insurance companies, hospital systems, and vendors (endoscopy equipment, medications, and so forth).

Analysis Subgrouped by 5 Most Common Buyers

Large PE-backed GI groups were the majority acquirers of GI practices. Gastrohealth led as the buyer with the highest number of deals (31), followed by GI Alliance (24 deals). Subsequently, the 3 most prominent groups (US Digestive Health, US Digestive, and One GI) completed 7 deals each. There is a discernible trend toward decreasing intrastate deals and interstate deals by the top 5 buyers per year (Supplementary Figure 2). When analyzing the top 5 buyers collectively, 35 deals were interstate, whereas 41 were intrastate. Between 2016 and 2018, the top 5 buyers were responsible for only 35.7% of deals, whereas between 2019 and 2022, they accounted for 62.3% of deals , indicating a trend toward increased involvement of the top 5 buyers over time (Supplementary Figure 3).

Joining a large group offers benefits, such as increased upfront buy-out capital and access to established economies of scale for revenue growth. Drawbacks of joining a large group can include decreased individual/local autonomy, productivity expectations, and differing practice philosophies. Notably, all the 5 most common buyers were part of an MSO, which further brings inherent benefits and drawbacks.

Deal Characteristics

Most sellers were group practices with multiple locations (76), followed by single-center group practices (36), solo practices (5), and free-standing GI ambulatory surgical centers (2). Twenty-five deals had at least 1 endoscopy center mentioned in the deal terms. Only 4 acquisitions disclosed deal terms: $785M, $130M, $80M, and $3.5M (mean, $250M). Only 87 deals listed the number of providers associated with the practice sold. There were 43 practices sold with 0–10 providers, 25

with 11–25, 12 with 26–50, and 7 practices with 50 or more providers. Fifty-seven percent of deals practices sold had less than 25 providers. Eighty-one percent of the buyers were multiple location group practices, 13% non–health care groups, and 5% by hospital systems. The 2 most frequent buyers were responsible for 46.2% of all deals, and the 5 most frequent buyers (31, 24, 7, 7, and 7) were responsible for 61.3%.

Analyzing deal terms presents challenges because of their confidential nature. We were able to report 4 different deal prices with significant variations, likely stemming from differing earnings before interest, taxes, and depreciation across deals, reflecting the unique value of each GI practice. Many deal specifics, notably price and earnings before interest, taxes, and depreciation multiples, are proprietary, so data are limited. Moreover, the financial landscape for small GI practices is becoming increasingly unfavorable as consolidated entities, such as hospitals, payors, and drug companies, raise prices. Consequently, the trend of larger GI groups absorbing smaller ones is expected to persist, because our data indicate that most practice sellers comprised fewer than 25 providers, consistent with prior research by Griffin et al.[2] Lastly, only 5% of deals involved hospital systems, indicating a preference for merging with private practice groups over joining hospital systems. We speculate that option is favored in terms of preserving the most autonomy particularly if philosophy/principles of practice are aligned.

Private Equity

Eighty-nine percent of deals were partially backed by PE (106). Of all the deals, the PE groups were listed in 85 of the deals (Supplementary Figure 4). Most of the deals were made by Waud Capital Partners (23), with Audax Private Equity (17) and Omers Private Equity (13) following. Waud Capital Partners backed 27.1% of deals, and 50% deals were backed by 1 of the 3 most frequent PE groups (Supplementary Figure 5). Audax Private Equity completed 72.7% (8/11) within the first 3 years. In the next 4 years, they were involved in only 12.2% (9/74) with most of the deals being completed by novel PE groups.

All top 5 buyers operated with an MSO, and 90% of all transactions involved some form of PE backing. Although the first PE deal occurred in March 2016, the prevalence of PE-backed deals has since surged. As consolidation in GI practices intensifies, PE is poised to remain a driving force in facilitating consolidation. Our data suggest that emerging GI groups, outside the top 5 buyers and often backed by PE, are initiating acquisitions, potentially bridging gaps left by the top 5 and emerging as future competitors. Similarly, although Audax PE was responsible for most of the early deals, other PE groups, such as Waud Capital, which was responsible for most deals, have started investing in the field. As consolidation progresses, new PE entities will probably continue to invest, particularly as initial PE groups, such as Audax Private Equity (initially associated with GastroHealth) and Waud Capital (initially associated with GI Alliance), who underwent their first divestments to Omers Private Equity and Apollo Global Management, respectively.

Broader Implications

Consolidation within GI is rapidly accelerating, seemingly driven by broader consolidation trends across various health care sectors, notably pharmaceutical companies, insurance providers, and hospital groups. Consolidation was driven primarily by the top 5 buyers, which were shown to be the largest, most extensive private practice GI groups, responsible for most of the deals. Although there was a noticeable trend for an increasing number of deals per year (Supplementary Figure 1), the slight decrease in deals recorded for 2022 may be attributed to the retrospective nature of our data collection, which often relies on media reports that may surface years later. However a review of only the large MSO-backed GI groups shows 33 deals in 2022 with an additional 16 in 2023.

The actual number of deals completed in 2022 likely surpasses our current findings; and on review of graciously shared privately owned data on deals by the large MSO-backed GI groups, there has been at least 33 in 2022, 15 deals in 2023, and 3 deals (including novel states like Rhode Island) in 2024 already.[10]

Despite the seemingly inevitable trend of consolidation in GI and all of health care, the long-term implications for individual practices, physicians (especially new hires), and patient care remain uncertain. Independent private practice owners, GI fellows preparing to enter the job market, and academic centers should stay informed about these consolidation trends. Additionally, GI fellows seeking employment and established gastroenterologists considering joining an MSO should recognize that not all PE groups are alike in terms of values. Furthermore, the terms of deals to create the MSO, particularly regarding ownership of a controlling portion of equity for decision-making, may vary greatly. When contemplating joining an MSO, consideration should be given to the group's core values and leadership structure (physician-owned

or physician-partnered). Ultimately, trust is paramount in navigating these choices and understanding who has authority for decision-making in all aspects of the practice, including patient care, quality metrics, hiring, firing, compensation, call, benefits, and support staff. Finally, amid this wave of consolidation, it is critical to note that large local groups, although significant in their area, are tiny in comparison with limited bargaining power compared with the large hospital systems and payors/insurers dominating consolidation. Large PE-backed groups provide resources to help independent practices stay independent maintaining choice in health care delivery options for patients and physicians. Future research focusing on assessing the direct impacts of consolidation on patient care (access, quality, and cost) and physician autonomy/satisfaction and burnout within the field of GI is essential for gaining a deeper understanding of these effects.

Supplementary Material

Note: To access the supplementary material accompanying this article, visit the online version of *Clinical Gastroenterology and Hepatology* at www.cghjournal.org, and at http://doi.org/10.1016/j.cgh.2024.06.006.

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Conflicts of interest
This author discloses the following: Scott Fraser is a Pinnacle GI Board Member (HIG Growth) November 2020–Present; Senior Healthcare Advisor (HIG) April 2019–January 2022; Equity owner of Fraser Healthcare; and consultant to Amsurg (KKR owned until May 2023) and Covenant Physician Partners (KKR- current). Since the original submission, the group that Samir A. Shah is employed by joined GI Alliance. The remaining authors disclose no conflicts.

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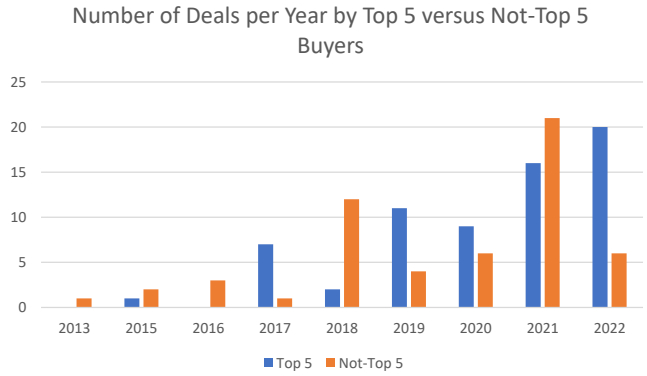
Supplementary Figure 1. The number of deals per year is increasing over time.



Supplementary Figure 3. Both groups (Top 5 vs Not-Top 5) had an increase of deals over the years, although there was a trend toward more deals performed by the Top 5 Buyers.

Supplementary Figure 2. Deals started intrastate in the early years but became more interstate over time.

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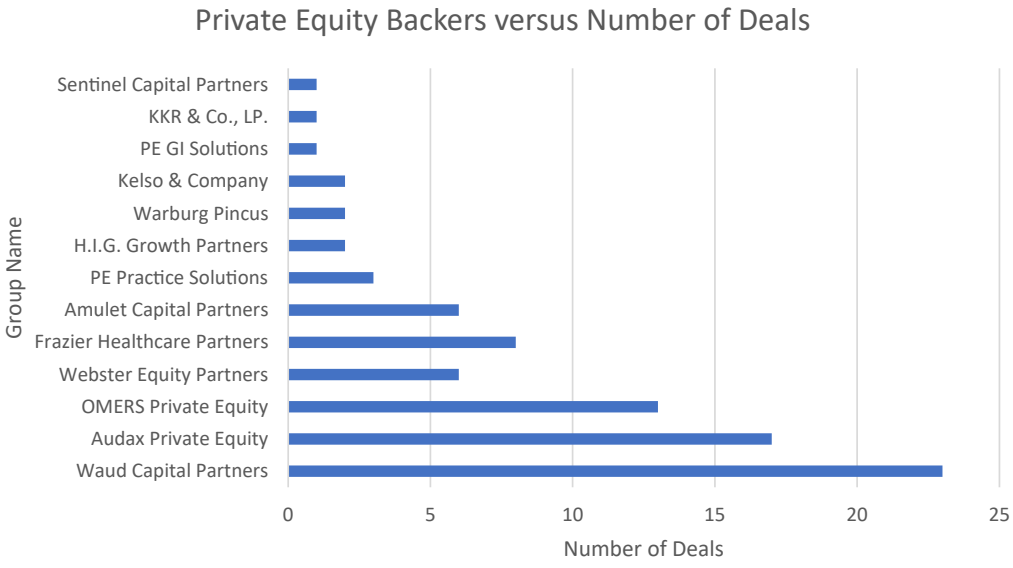
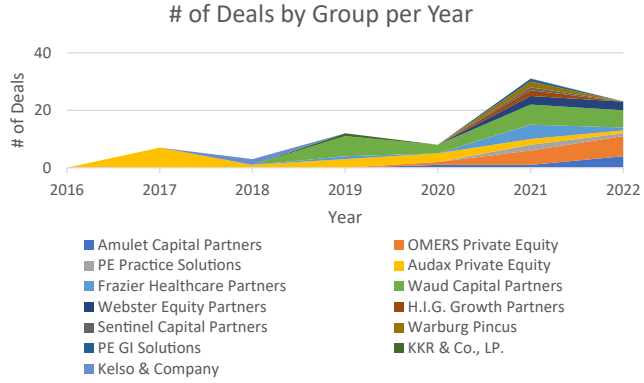


Supplementary Figure 4. Frequency table of private equity backers.



Supplementary Figure 5. Most of the early deals were by a few PE groups; however, over time there has been many other groups entering the space.