Mergermarket
An Acuris company

September 9, 2019

Private equity prepared to pour money into urology
by Claire Rychlewski and Deborah Balshem

Sponsor funds are set to flow into the urology space, which is seen as the next physician specialty du jour, industry sources said.

With a stable reimbursement environment and steady demand for services as the population ages, urology is a logical entry point in a rapidly consolidating physician practice management landscape, they agreed.

Unlike in maturing sectors like dermatology, gastroenterology and ophthalmology, competition for quality assets in this segment is still fairly light, according to Jeanne Proia of Cross Keys Capital. There are a number of independent urology groups of scale with good management teams and back-office infrastructure, she said.

"You can get a true platform, which is very hard in the physician space," noted Proia, whose firm is advising urology practice Integrated Medical Professionals (IMP) in a sale process.

This news service reported in July that private equity firm Lee Equity had been in talks to acquire IMP as well as The Urology Group, and merge the two entities. Proia did not comment beyond confirming the IMP sale mandate.

A massive shortage of providers is also driving activity, according to U.S. Urology Partners CEO Mark Cherney. U.S. Urology was formed by New MainStream (NMS) Capital and Central Ohio Urology Group (COUG) in December 2018.

COUG had the same patient volume last year, but with 25% fewer physicians, Cherney said.

"The good news is as long as men walk the earth, we don't have to worry about marketing to patients. Instead, the focus is on recruiting providers," he said.

Urologists specialize in diseases of the urinary tract and the male reproductive system. A urologist can help treat conditions related to the bladder, urethra, ureters, kidneys, and adrenal glands. The specialty also deals with prostate cancer and erectile dysfunction.

In the meantime, many practices are turning to mid-level providers, such as nurse practitioners and physician assistants, to help carry the load, Cherney said.

With fewer and fewer urologists coming out of residency, succession has also become an issue in the specialty, added Minnesota Urology CEO Dave Carpenter.

"Short of combining with other similar size groups where there is no transfer of assets, some groups may have to consider private equity," Carpenter said.

Amid increasing regulations and hospital system consolidation, there is “no question” that physician groups will have to expand to survive, said Richard Gerald Harris, MD, founding member and CEO of Chicago-based UroPartners and president of LUGPA (Large Urology Group Practice Association).

At its upcoming annual meeting in November, LUGPA will be devoting a significant amount of time to addressing the pros and cons of private equity, Harris said.

“A lot of groups are talking about it but are not sure if they are ready to pull the trigger yet,” he added.

Private equity poised to dive in

As urology groups contemplate their prospects, the sponsor community is ready to invest, several sources said.

“It takes one or two big transactions for everyone to sit up,” said Proia of Cross Keys Capital.

Private equity firm Audax Group bought Chesapeake Urology in 2016 for an undisclosed price, and in 2018 , Prospect Hill Growth acquired New Jersey Urology, which significantly stirred private equity interest, Proia said.

Like other physician specialties, urology has several sources of ancillary revenue that make it attractive to PE, including lab services, ambulatory surgery centers, radiation oncology for prostate cancer, and pathology services, the sources said.

Hector Torres, an M&A advisor at ECG Management Consultants, noted lithotripsy procedures as another cash-rich ancillary. Lithotripsy, which uses shock waves to break up stones in the kidney, bladder or urethra, was previously seen as experimental 15 years ago, but has become the standard-of-care and is “very profitable,” Torres said.

Torres and another industry banker estimated average margins for urology practices at about 10%. A platform investment can expect to fetch a 10x to 12x EBITDA multiple, they said. Cherney added that urologists are among the highest paid specialists and bring in enough take-home pay to carve out a decent amount of EBITDA for a sale process.

Urology vs other specialties

A second industry banker cautioned that urology’s ancillaries might not be as powerful as those in ophthalmology and orthopedics, adding that urology tends to generate a lot of clinic-based revenue. The banker also noted that most referrals are generated from primary care physicians, which are getting acquired or going out of business.

Torres noted the market for bolt-on acquisitions in urology is “absolutely ripe”, but noted that similar to other physician specialties, multiples for bolt-on acquisitions are beginning to creep upwards to a point of unsustainability.

“We’re at the apex of the high in terms of valuation trends," though Torres said he expects it will begin to ease in the next six to 12 months.
