PRIVATE EQUITY'S UNCERTAIN ARC IN OPHTHALMOLOGY

Unexpected challenges have disrupted the game plan.

BY TONY STERRETT

Several years ago, private equity (PE) firms aggressively entered the medical field. They acquired ophthalmology and other practices with the goal of optimizing operations and ultimately flipping the businesses for a substantial profit. Several unexpected challenges, however, have disrupted this strategy and left some PE-owned practices in a precarious situation.

> "ORIGINAL OWNERS MAY HAVE THE CHANCE TO RECLAIM AND REBUILD THEIR PRACTICES."

THE PE PLAYBOOK: HIGH HOPES AND HARD REALITIES

PE firms typically approach practice acquisitions with a clear game plan: purchase the practice, streamline operations to improve profitability, and sell the enhanced entity at a significant markup. The prospect was appealing to many individuals; PE firms would bring in capital and share their business expertise, and practice owners would receive a lucrative buyout. In many instances, however, the reality has been more complex.

Interest Rates

Rising business loan interest rates have made borrowing more expensive, squeezed profit margins, and made it harder for PE firms to finance their ambitious expansion plans. In some cases, the financial strain has been exacerbated by the cost-cutting measures that PE firms typically implement, as detailed in the next section.

Patient Satisfaction

PE firms often reduce a practice's workforce to lower operational costs. In an ophthalmology practice and in the medical field in general, however, this tactic can reduce the quality of customer service. Patients accustomed to a certain level of care may become frustrated by longer wait times and less personalized attention, potentially driving them to other providers. Decreased patient satisfaction directly impacts the bottom line, reducing the profitability and attractiveness of the practice.

A Limited Exit Strategy

If profitability falters, PE firms face another significant hurdle: finding buyers. With the initial promise of high returns now in question, the author has observed that fewer buyers are willing to invest in struggling practices. This situation has left many PE firms stuck with practices that are not performing as expected, leading to financial losses and forcing them to reconsider their options.

AN OPPORTUNITY FOR ORIGINAL PRACTICE OWNERS

The situation described in this article presents an opportunity for some ophthalmologists who sold their practices to a PE firm. If the firm is eager to off-load underperforming assets, the physicians may be able to buy back their practice at a significant discount. This transaction can be a win-win: the PE firm gets an exit, albeit not the high-profit one initially envisioned, and the original owners regain control of their practice at a reduced price.

Buying back their practice offers the original practice owners the chance to rebuild and restore the personalized, high-quality care that might have been compromised under PE management. By leveraging their intimate knowledge of the practice's patient base and operational intricacies, owners can address any issues that arose under PE management and work to reestablish the practice's reputation and financial health.

CONCLUSION

Rising interest rates and workforce cuts have disrupted PE firms' ability to resell some ophthalmology practices. This does not have to be the end of the story. Original owners may have the chance to reclaim and rebuild their practices. ■

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