

TRENDS IN PRIVATE EQUITY INVESTMENTS IN MASSACHUSETTS HEALTH CARE, 2013–2023

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INTRODUCTION

Private equity investments in health care have grown significantly in the U.S. A growing body of research shows that such transactions tend to result in higher prices and are often associated with higher utilization and worse quality of care.

Private equity firms typically aim to sell the acquired company and earn a profit in three to seven years. To achieve such quick turnarounds and profits, private equity firms pursue unique financial strategies that can be anticompetitive and destabilizing to the health care market, including the “leveraged buyout,” in which a firm relies heavily on debt to finance an acquisition and uses the acquired company as collateral. In addition, private equity firms often operate with limited scrutiny and accountability due to the private nature of their investment activities.

OBJECTIVES

Private equity has expanded into nearly every corner of the health care provider market. While literature has characterized private equity investments in the health care system overall and by sector at the national level, trends in private equity investment in health care in Massachusetts have not been documented previously.

STUDY DESIGN

The Massachusetts Health Policy Committee (HPC) combined three datasets to identify mergers and acquisitions among Massachusetts health care providers from 2013 to 2023, including those that involve private equity and those that do not. The HPC used two proprietary datasets that track health care transactions (FactSet and LevinPro HC) and Material Change Notices (MCN) submitted to the HPC. Massachusetts law requires that certain providers and provider organizations must submit notice to the HPC for any proposed “material changes”, which includes mergers and acquisitions. Extensive validation of transactions through online search was performed using publicly available information, such as press releases and news articles.

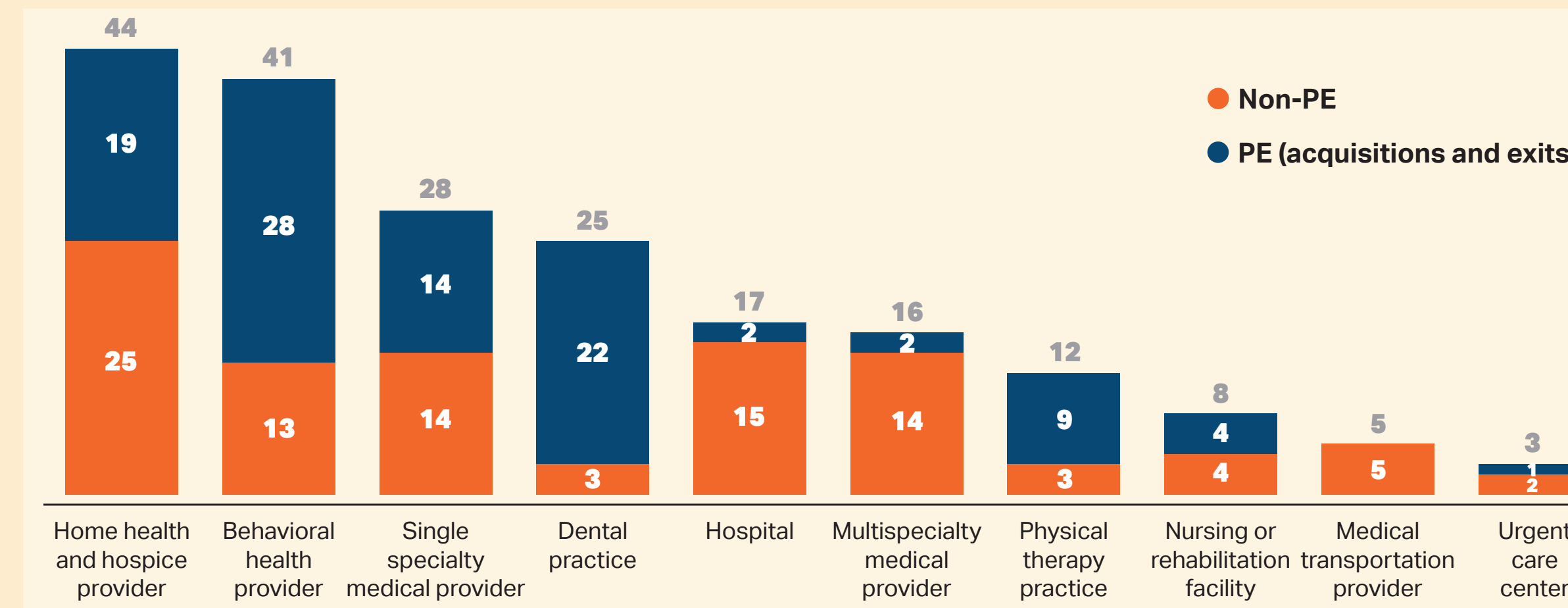
The HPC included transactions in which the acquired provider was based in Massachusetts or had locations in Massachusetts at the time of the transaction, regardless of the location of the acquirer. Private equity firms were defined broadly as those that collect capital from individuals or entities and purchase ownership stakes in a provider. The HPC examined private equity acquisitions as well as exits.

Private equity acquisitions include when a private equity firm directly purchases ownership stakes (including controlling or non-controlling investments) in a company and when a subsidiary of a private equity firm (e.g. an initial acquisition or platform company) makes acquisitions.

Acquisitions of multiple entities announced together or which occurred on the same day were counted as one transaction.

RESULTS

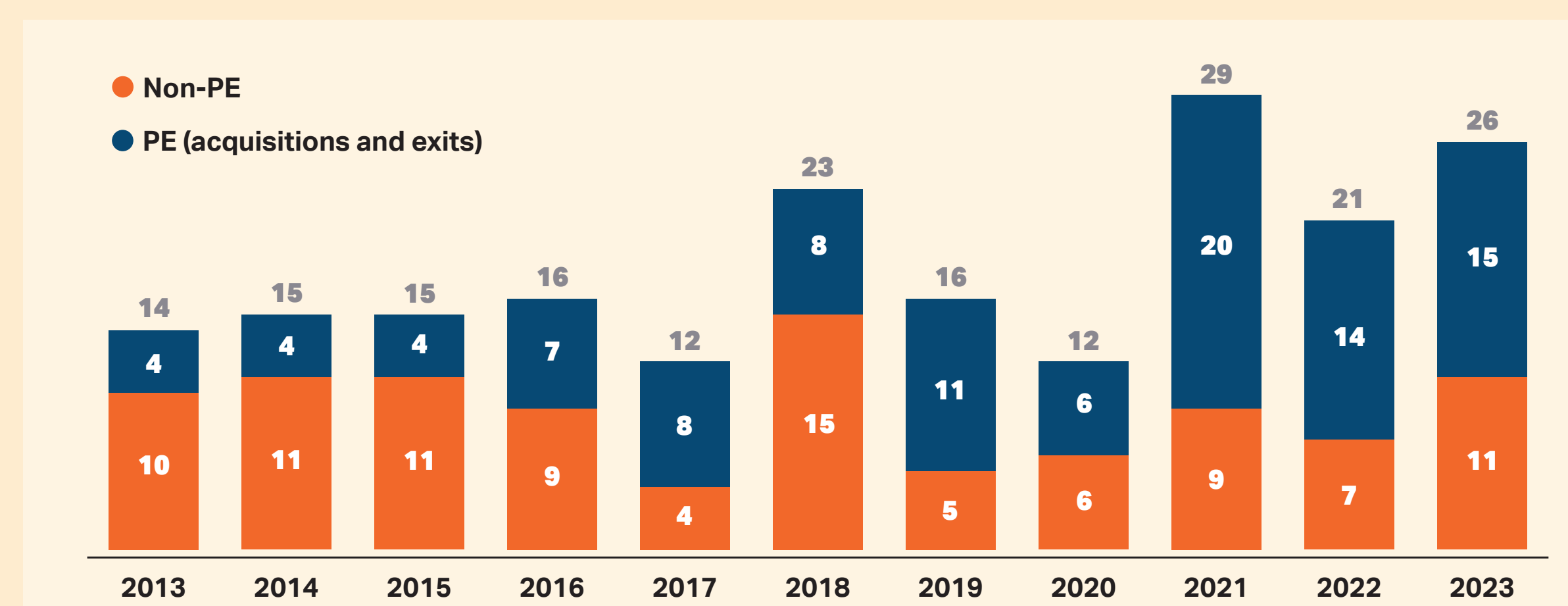
EXHIBIT 1. Number of provider transactions by health care sector in Massachusetts, 2013–2023



Notes: Of transactions that involved private equity, 97 were private equity acquisitions, 4 were private equity exits, and 12 were acquisitions and exits. One exit occurred in the behavioral health sector and in the home health sector; 2 exits were rehabilitation facilities.

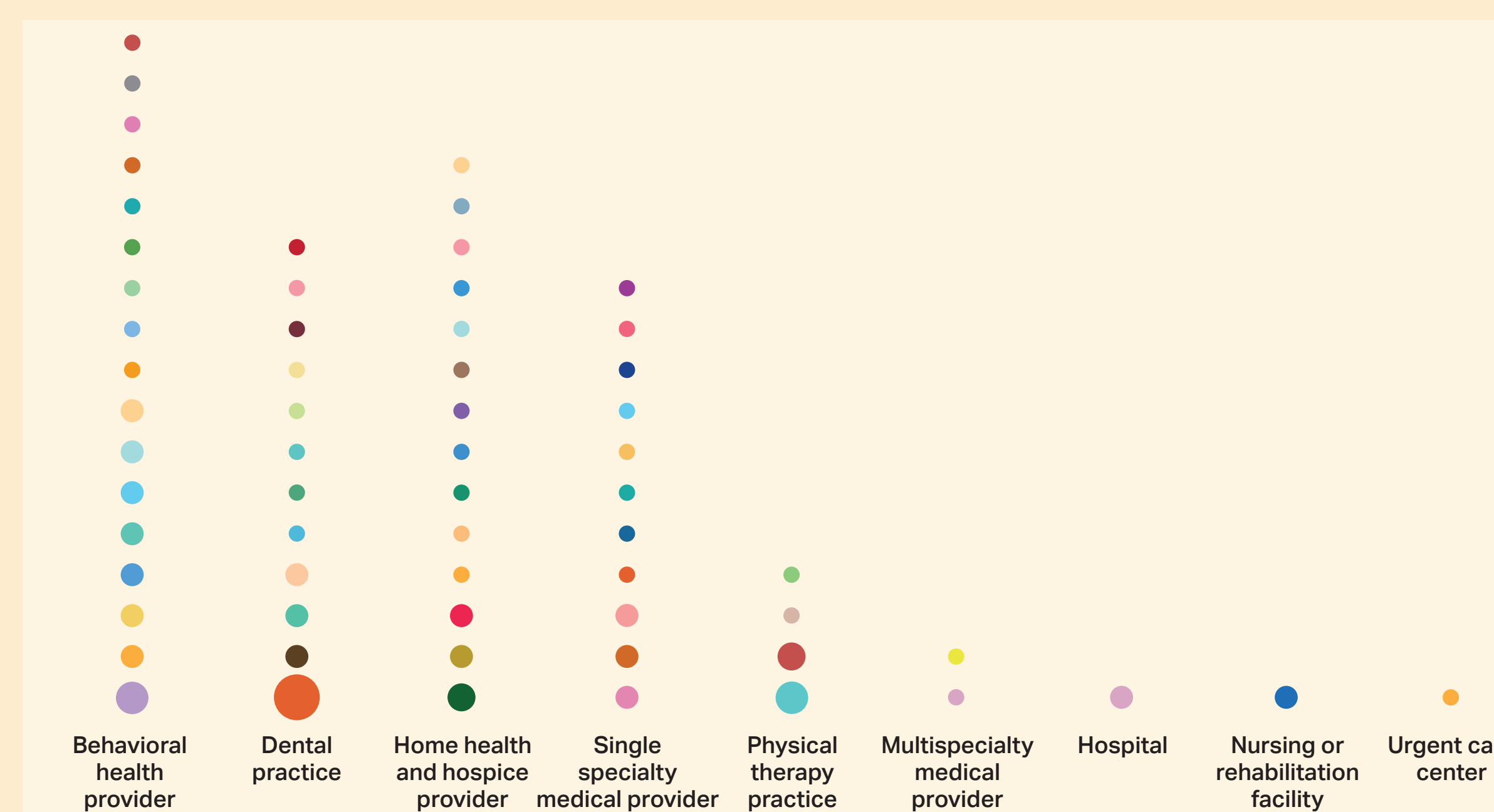
Sources: HPC analysis of FactSet financial data and analytics; HPC Material Change Notice filings; LevinPro HC, Levin Associates, May 2024, levinassociates.com; and other publicly available information.

EXHIBIT 2. Number of provider transactions by year in Massachusetts, 2013–2023



Sources: HPC analysis of FactSet financial data and analytics; HPC Material Change Notice filings; LevinPro HC, Levin Associates, May 2024, levinassociates.com; and other publicly available information.

EXHIBIT 3. Private equity acquisitions by health care sector and acquiring private equity firm in Massachusetts, 2013–2023



Notes: Each bubble represents a private equity firm that made acquisitions in a given sector. Bubble size is proportional to the number of acquisitions per private equity firm. Bubble color represents a distinct firm or distinct group of firms. Sources: HPC analysis of FactSet financial data and analytics; HPC Material Change Notice filings; LevinPro HC, Levin Associates, May 2024, levinassociates.com; and other publicly available information.

A total of 199 health care provider mergers and acquisitions were identified from 2013 to 2023 in Massachusetts (Exhibit 1). The largest number of transactions occurred in the home health and hospice sector (44 transactions) and the behavioral health sector (41).

Of the 199 transactions, 101 (51%) involved private equity firms: 97 were private equity acquisitions, 4 were private equity exits, and 12 were acquisitions and exits (i.e., one private equity firm selling to another private equity firm). Both the number of private equity investments in Massachusetts and their share of all transactions accelerated over the last decade (Exhibit 2): from 2013 to 2016, 32% of transactions (19 of 60) involved private equity, compared to 52% from 2017 to 2020 (33 of 63) and 64% from 2021 to 2023 (49 of 76).

By sector (Exhibit 1), private equity investments have been most active among behavioral health providers, home health and hospice providers, and certain specialty providers (e.g., dentistry, physical therapy). Twenty-three private equity transactions occurred in behavioral health, the largest number among all sectors. Of note, 11 private equity transactions within this sector were acquisitions of pediatric behavioral and developmental disorder (e.g., autism) providers. The largest share of transactions that involved private equity was in the dental sector, where 88% of all transactions (22 out of 25) were private equity acquisitions.

Lastly, the HPC identified the private equity firms involved in each transaction and examined the patterns of their investments. Many private equity acquisitions in Massachusetts have been one-offs, although there are also instances of individual private equity firms acquiring multiple practices in the same sector (Exhibit 3). For example, in dentistry, one private equity firm completed eight transactions, while 11 other private equity firms acquired only one or two practices each.

CONCLUSIONS

Private equity investments have accelerated in Massachusetts in recent years and are especially active in behavioral health, home health and hospice, dentistry, and physical therapy. These sectors share a common characteristic of being relatively fragmented and may present attractive targets for consolidation. The Massachusetts hospital and physician markets are already highly concentrated, which may explain the relatively small number of private equity transactions in these sectors. These results suggest that private equity firms appear to be highly attuned to local market conditions and trends in the health care market, and their investment activities will likely continue to evolve. For instance, researchers at Center for Economic and Policy Research have noted that private equity’s investment in autism service providers occurred after states began mandating insurance coverage of autism therapies in the mid-2010s (with no age or dollar limits on billing in some states, such as Massachusetts), creating significant and continuous sources of revenue.¹ As private equity ownership can affect health care spending, quality, and access, continued tracking of private equity ownership in health care is important and urgent.

¹ Batt R, Applebaum E, Nguyen QT. Pocketing money meant for kids: private equity in autism services. Center for Economic and Policy Research. Jun 21, 2023. Available at: <https://www.cepr.net/press-release/pocketing-money-meant-for-kids-private-equity-in-autism-services/>

POLICY IMPLICATIONS

Identifying private equity-backed health care entities is difficult given the lack of transparency in private investments, the complexity of corporate structures, and the relatively rapid turnover of acquired companies. While policy efforts to increase transparency are ultimately needed, researchers can apply these methods as a starting point to identify private equity in health care. With greater insight into market trends, policymakers can strengthen oversight to minimize potential harms of private equity.

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