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End Users and Consolidators: The Next Possible Wave of Transactions in Urgent Care

Urgent message: The idea of a "typical" urgent care operation buyer is evolving along with the industry. While private equity has been an essential player in market growth, healthcare organizations with longer-term vision are now more commonly involved in acquisitions.

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It's no secret private equity (PE) has a played a paramount role in the design, development, and growth of the urgent care industry. Collectively, these firms have invested billions of dollars to create the level of awareness, acceptance, and reliability that is enjoyed by patients across the country.

In the industry's pioneer period, urgent care chain transactions among private equity companies were commonplace. Since PE firms typically operate under 3- to 6-year investment time horizons, it is inevitable that many of these urgent care chains have and will continue to be sold. Today, we find evidence that urgent care chains are increasingly acquired by health systems, managed care organizations, and existing PE-backed portfolio companies (ie, market consolidators). These new buyers are expected to have possibly longer investment horizons and varying transaction motivations.

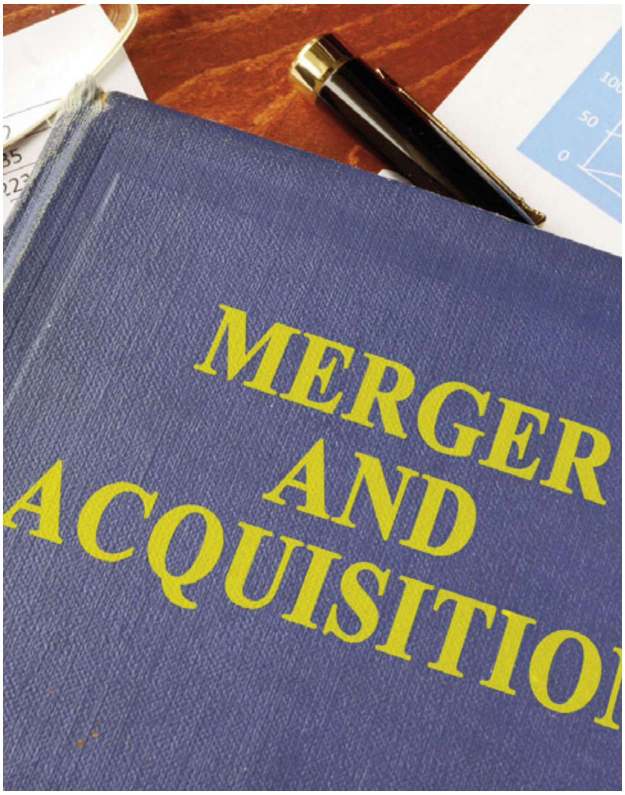

Table 1 illustrates the evolving nature of urgent care transactions. Earlier in the decade, PE firms generally held their investments for 3-6 years and sought 20%–30% annual investment returns that were largely achieved by expanding the size, scale, and penetration of their urgent care chain. While not all-inclusive, there are currently seven urgent care chains held by a PE firm that could be for sale in the short-term based on this average historical hold period.

As the industry matures, achieving above-average investment gains by opening new clinics can be difficult. Already some markets are highly competitive and appear to be oversaturated with urgent care centers. In these areas, market participants have complained that de novo (ie, new clinic) volumes are not ramping up as expected, and volumes in established clinics are declining. One market participant in a large city recently com-

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Table 1. The Evolving Nature of Urgent Care Chain Investments, 2010–Present[1-4]

Year	Target	Locations	Buyer	Holding period
2010	NextCare Urgent Care	75	Enhanced Equity	8.5 years
2010	MedExpress	42	General Atlantic	4.5 years
2010	Urgent Cares of America/FastMed	9	Comvest Partners	4.5 years
2011	MedSpring	4	Summit Partners	3.5 years
2011	WellStreet Urgent Care	12	FFL Partners	Current—7+ years
2012	Urgent Team	5	SV Life Sciences	5.2 years
2012	MD Now	6	Brockway Moran & Partners	6.3 years
2012	Hometown	25	Ridgemont Equity Partners	2.2 years
2012	Physicians Immediate Care	20	LLR Partners/WellPoint	Current—6+ years
2013	PhysicianOne Urgent Care	14	Pulse Equity	Current—5+ years
2014	Little Spurs Pediatric Urgent Care	9	Striker Partners	Current—4+ years
2014	CityMD	8	Summit Partners	3.3 years
2014	GoHealth Urgent Care	17	Texas Pacific Group	Current—4+ years
2014	Zoom+Care	23	Endeavor Capital	4.5 years
2015	Concentra	141	Welsh Anderson Carson Stowe	Current—3.5+ years
2015	FastMed	14	ABRY Partners	Current—3.5+ years
2015	CRH Healthcare, LLC	10	MSouth Equity Partners	Current—3+ years
2016	Med First Immediate Care	13	Sverica Capital Management	Current—2+ years
2016	Fast Pace Urgent Care	14	Revelstoke Capital Partners	Current—2+ years
2017	Urgent Team	68	Crestline Investors	Current—1.5+ years
2017	CityMD	216	Warburg Pincus	Current—<1.5+ year
2018	Hulin Health	4	Shore Capital Partners	Current—<1 year
2018	vybe Urgent Care	32	NewSpring Capital	Current—<1 year
2018	MD Now	27	Brentwood Associates	Current—<1 year

Sources: Irving Levin Associates – Quarterly Healthcare Merger & Acquisition Reports; Capital IQ announcements; VMG proprietary research through involvement in the transaction; company press releases.

mented, "This market is at a shake-out point." This has led some PE firms to shift their investment strategy, whereby more reliance is placed on acquisitions or consolidations to expand an existing footprint. **Table 2** outlines major transactions where urgent care chains were acquired by existing PE-backed urgent care chains.

The introduction of payers and providers as a new buyer class ("end users") accelerated in the latter half of the decade. Previously, payers and providers were monitoring the industry to determine whether urgent care would prove to be a viable new care delivery model. Many health systems started to recognize urgent care as an important access point for patients and a way to gain more integrated exposure to the market. The number of transactions involving this group increased from three major transactions prior to 2014 to eight major transactions after 2014.

Figure 1 summarizes urgent care chain transactions by buyer type. While PE buyers are expected to remain active in the market, clearly there has been a shift toward market consolidators, health systems, and payers.

Of particular note to current owners of urgent care operators, the introduction of a new emerging buyer class (namely, payer/providers and market consolidators) may have valuation implications. When there is significant growth opportunity, valuations are direction-

Table 2. Expansion of Current Footprint or Consolidation: 2010–Present[1-4]

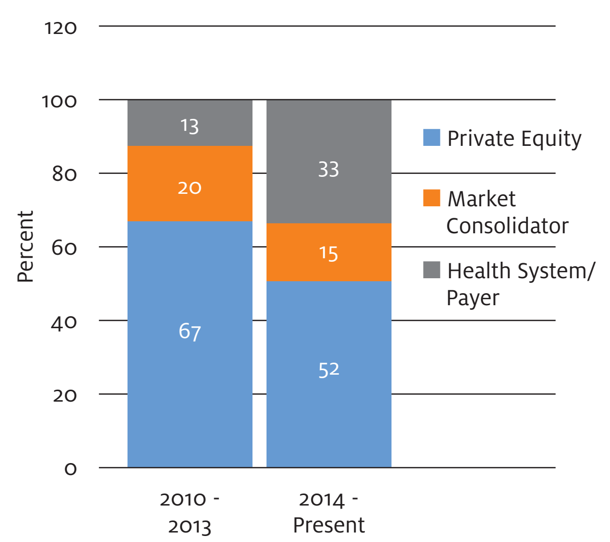
Year	Target	Locations	Buyer	Holding period
2012	Doctors Express	49	The Ensign Group – Immediate Clinic	1.1 year holding period
2013	Doctors Express	49	American Family Care	Platform expansion
2013	PrimaCare	11	NextCare Urgent Care	Platform expansion
2017	U.S. HealthWorks	172	Concentra	Current holding—1+ year (JV)
2018	STAT Health	8	CityMD	Platform expansion
2018	MEDcare Urgent Care	7	Urgent Care Group	Platform expansion
2018	NextCare Urgent Care	251	FastMed Urgent Care	Platform expansion

Sources: Irving Levin Associates – Quarterly Healthcare Merger & Acquisition Reports; Capital IQ announcements; VMG proprietary research through involvement in the transaction; company press releases.

Table 3. Typical Motivations by Buyer Type

Market Developer Considerations	End-User Considerations
• Prospective growth/ability to expand footprint • Potential level of earnings tomorrow • Focused on future possible "exit" value of business • Self-contained operations • "Buy" then expand	• Current existing footprint • Current level of earnings today • Focused on cash flow into perpetuity • Integration with rest of system • "Build" vs "buy" decision

Figure 1. Percentage of Urgent Care Chain Transactions by Buyer Type[1-4]



Sources: Irving Levin Associates – Quarterly Healthcare Merger & Acquisition Reports; Capital IQ announcements; VMG proprietary research through involvement in the transaction; company press releases.

ally higher; the buyer is less concerned with how the operations look today (ie, less focus on current profits or operating risks) and more concerned with what the company could become (ie, the ability to leverage the existing platform to achieve growth). If an investment horizon approaches before expected profits are realized, the seller seeks another growth-focused buyer who will appreciate and continue to invest in the company's growth story. This has historically been the "market developer" or PE-to-PE transaction narrative.

Alternatively, when there is less perceived opportunity for growth, valuations are directionally lower. The buyer becomes more concerned with what the organization looks like today (ie, current profits, operating risks, and integration) and less concerned with the ability to leverage the existing platform. End users typically match this buyer profile.

Real differences between urgent care chains and investment strategies are starting to emerge, where some chains have noticeably better prospects than others. As the urgent care industry matures, competition and market saturation may limit the opportunity for de novo growth to fuel expansion. Existing portfolio chains may be pursuing expansion via consolidation or acquisition in certain markets. At the same time, health systems and payers that have been behind the curve are becoming a more represented buyer at auction. Substantially different offers for the same urgent care chains have already been observed, depending on the buyer. For these reasons, the next possible wave of urgent care transactions will likely be diverse mix of buyers with different motivations and outlooks for the same enterprises. ■