



ENT & Allergy 2024 Update: Conservative Pace Continues

By Eric Yetter

Summary

Private equity-backed Physician Practice Management (“PPM”) companies in the ENT & Allergy space continued a conservative growth trajectory during Q1 2024. Most platforms are seeking acquisitions in their home regions and are especially interested in larger, more diversified practices. Many are willing to enter entirely new areas of the country, but only with a significant partnership.

Introduction

Private equity groups began investing in the ear, nose, and throat and allergy space in 2018. We consider Prairie Capital’s investment in Family Allergy & Asthma and Candescant Partners’ creation of ENT Partners to be the first, counting 13 total PPMs in the space. These investments came a few years after PE groups developed a similar investing style around dermatology and ophthalmology practices.

Interestingly, a few of these 13 PPMs are focused on allergy services while most target partnerships with more surgically oriented ENT groups (who may also offer allergy, hearing, and other services). All PPM organizations, including those in ENT & allergy, are designed to acquire, operate, and grow medical practices. The goal was to make these PPM organizations “investable”, meaning:

1. The PPM organizations are stable – collections are steady, employees (especially providers) stay with the practice or can be replaced.
2. The billing and collections process is well-run, and the practice is in-network with most insurance providers in its market.
3. Physicians feel that they have clinical autonomy, and that they are not micromanaged. A PPM partnership should release physicians from some of their day-to-day responsibilities instead of adding more restrictions on their time.

4. Management can effectively identify and execute growth opportunities, especially at the individual practice level (vs. growing solely through acquisitions). For example,
- a. Adding physicians and other providers.
 - b. Adding new offerings (for example, adding allergy or audiology services to a general ENT practice, or adding cosmetic services).
 - c. Moving operations to a more efficient site of care (for example, moving surgical cases from a hospital operating room to a more efficient ambulatory surgery center or in-office surgery suite).
 - d. Leveraging scale and knowing how to negotiate better rates with payors.
 - e. Decreasing costs (for example, negotiating lower prices on hearing aids, drugs for allergy management, and other items through the purchasing power of a larger organization).
 - f. Making day-to-day operations more efficient. For example, optimizing the practice's scheduling system or EMR to allow providers to see more patients with less administrative burden.
 - g. Increasing patient volumes through various marketing channels.

ENT & allergy PPMs who execute the above “levers” effectively will be the most highly valued in the marketplace. They will also be popular partners for physicians, creating additional momentum, growth, and value in a cycle that is beneficial for all parties.

Current Landscape

Nearly all PPM organizations in ENT & allergy are small or midsize with 5-20 partner practices. The largest headcounts are on the allergy-only side, where some very large practices were acquired. The eastern half of the United States has seen much more significant PPM activity than the mountain or western regions, though allergy PPMs do have a presence there. The more ENT-focused groups we've talked with say they need a larger platform in the mountains or west to serve as a beachhead for further acquisitions. We believe this is a matter of timing, and that activity will begin to spread westward soon (especially with more visibility around interest rates).

The Deal Environment in 2024

Transaction volumes in 2023 and 2024 have remained typical for the ENT & allergy space, with less than ten new partnership transactions per year. The exception was 2021, a very robust year for dealmaking generally, when we counted fifteen transactions. Our observations this year include:

1. “Platform Creation” transactions are very rare. This is both due to ENT & allergy being a smaller specialty than ophthalmology or dermatology, where there are around 35 PPM organizations. All the other PPM specialties have around 10-20 private equity-backed organizations today. However, there is still a large amount of white space in the ENT market, especially in the western United States. We expect a mix of current platform expansion and a few new private equity players entering the market. We do not expect that new platforms will be established until at least 2025.
2. “Exits” – where private equity firms sell a PPM company from their portfolio – have also been very limited. ENT & allergy is still a young area of PPM, and most organizations are less than five years old. That gives their private equity sponsors a few more years to exit before reaching the end of a typical 5 to 7-year hold period. Sponsors who may be ready to exit are likely on hold due to the interest rate environment, which is in line with private equity and larger transactions across the marketplace. The reasoning is simply that, with lower interest rates, a buyer will be able to pay more for the PPM asset as their cost of capital is lower and lending requirements are more flexible. Importantly, interest rates seem to affect these larger transactions (\$100M+) much more than transactions for individual practices. The impact on individual practice transactions has been minimal.
3. “Add on” transactions (where an existing PPM company buys another ENT or allergy practice) continued at their historic pace. Established PPM organizations are eager to acquire high-quality practices, and 2024 remains a very attractive time for individual ENT & allergy practices to explore a transaction with private equity.

Conclusion

We expect continued yet conservative growth in the ENT & allergy space. The existing PPM platforms will continue a steady pace of add-on acquisitions. Some of these will be larger transactions in new markets. We also expect a small number of new ENT & Allergy PPM platforms will be created over the next few years, and for private activity to move into the western United States.

Overall, investors continue to view ENT & allergy practices as attractive investments. High quality practices are very stable and most have potential to add ancillaries, providers, and new lines of service. Those factors provide sufficient opportunity for PE sponsors to add organic value to each investment, which has become increasingly important as the PPM space has matured.

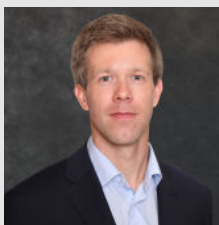
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<p>This announcement appears as a matter of record only</p>  <p>Michigan ENT has been acquired by</p>  <p>PARALLEL The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Michigan ENT.</p> 	<p>This announcement appears as a matter of record only</p>  <p>VELMED Inc. has been acquired by</p>  <p>chs a portfolio company of FLEXPOINT FORD The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Velmel, Inc.</p> 	<p>This announcement appears as a matter of record only</p>  <p>Lee SURGERY CENTER has been acquired by</p>  <p>MIDWEST VISION The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Lee Surgery Center.</p> 	<p>This announcement appears as a matter of record only</p>  <p>Lee EYE CENTER has been acquired by</p>  <p>MIDWEST VISION The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Lee Eye Center.</p> 	<p>This announcement appears as a matter of record only</p>  <p>VISTA EYE SPECIALISTS has been acquired by</p>  <p>ATLANTIC a portfolio company of SHERIDAN The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Vista Eye Specialists.</p> 	<p>This announcement appears as a matter of record only</p>  <p>EAST COAST RETINA, PA has been acquired by</p>  <p>RETINA The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to East Coast Retina, PA.</p> 
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