

Private Equity's Piqued Interest in Physics

The private equity (PE) space is breaking records as the world continues to emerge from the COVID-19 pandemic. PE fundraising surged almost 20 percent in 2021 as firms looked to jump back in after the uncertain financial climate created by the pandemic. When looking to deploy this capital, PE firms have continued to take an interest in the healthcare industry. (1) Recently within this industry, PE firms made investments in the \$4.47 billion medical physics industry that has maintained a 5.9 percent CAGR from 2013 through 2021. There are numerous reasons why PE firms have increasingly targeted the medical physics industry, such as the current industry composition along with the growth in the need and use of the specialty. (2) These characteristics set medical physics apart as a particularly interesting area for future investment.

Industry Landscape

Medical physics is a healthcare specialization focused on the application of physics to the treatment and diagnosis of disease. Most often, medical physics is seen in the form of nuclear medicine, diagnostic imaging, and radiation oncology. The medical physics industry is made up of numerous small-scale providers that operate in localized geographical areas. Only a handful of substantially sized enterprises operate in the medical physics space, resulting in a highly fragmented industry ripe for acquisitions and roll-ups into large-scale platforms. The fragmentation of the industry provides ample opportunities for PE to enter and expand its foothold in the medical physics industry. (3)

In addition to the extreme fragmentation, the demand for medical physics is expected to grow significantly over the next six years. Experts predict the medical physics market will grow at a healthy 6.2 percent CAGR through 2028, exceeding a \$6 billion market valuation. This growth is driven by the increasing adoption and widening horizons of nuclear medicine across the healthcare landscape. (2) Additional growth is expected as hospital consolidation continues to increase the use of outsourced medical services. Even medical tourism is expected to contribute to industry growth as revenue comes in from those traveling to seek specialized medical care from countries like China, Brazil, or India. (4) This multisource growth is an appealing attribute for PE capital looking for favorable returns.

Lastly, significant barriers to entry exist for new medical physics operations, including high capital requirements for expensive machinery, increasing regulation required for the specialty, and most notably, the shortage of skilled providers in the medical physics space. In 2014 a mandatory residency was implemented to better prepare new medical physicists for the complex field. While the new program has produced well-prepared providers, it has also created a bottleneck that has put a strain on the industry's ability to create new operations. (5) This shortage places established operators with experience at a significant advantage, setting them up as a prime target for PE investment.

Investment Considerations

PE firms can be beneficial collaborators and partners to medical physics practices. As PE interest in the healthcare industry continues to increase, modern PE firms have gained the expertise to be effective partners to healthcare practices. One of the most effective ways PE firms can enhance a medical physics practice is through economies of scale. PE firms allow businesses to take advantage of efficiencies created through economies of scale. By improving and centralizing back-office business operations and providing greater access to technology, medical data, reporting and tracking systems, consolidated

purchasing power, and marketing, private equity partners can create a more efficient business structure and free up providers to focus on patient care.

Similarly, continued hospital consolidation may require other providers within their spheres of influence to meet the greater demands and specialization needed in the industry. Some of these demands include the growing regulation required of medical physics practices. (6) Increasing regulatory demands may put monetary and staffing pressure on smaller operations. The resources offered by PE investment could help alleviate some of these pressures. (7) Furthermore, these resources could potentially improve the negotiating power of businesses, resulting in better commercial payor rates and increased earnings.

Finally, PE investors could provide exit opportunities for retirement-age providers. PE investment offers an exit strategy that enables these providers to monetize the business they have built while also allowing the business to remain as an employer and provider of needed care in its respective community. Based on an examination of the industry, as well as discussions with industry professionals, sellers of a medical physics practice may be able to expect a middle single-digit multiple on a given transaction. (4) For platform transactions, high single-digit or low double-digit multiples may be warranted in the market.

Major Players and Recent Activity

As PE groups increase their interest in the medical physics industry, there have already been several notable deals. Below is a summary of a few recent acquisitions, partnerships, and platforms:



- **Investor** Blue Sea Capital
- **Operator** Apex Physics Partners

Blue Sea Capital, a PE firm based in Florida with over \$750 million in assets, partnered with mid-Atlantic firm Krueger-Gilbert Health Physics, LLC in April 2019 to form the platform company Apex Physics Partners. Soon after, Apex entered partnerships with Ohio Medical Physics Consulting, National Physics Consultants, Radiological Physics, and ZapIT! QA to enter the Ohio, Texas, and New Mexico markets. (8) In 2021 Apex added several new partnerships including Texas-based D. Harris Consulting, Indiana-based Advance Medical Physics, Indiana-based INphysics, and Pacific Island-based Gamma Corporation to its partnerships as the firm continued its expansion into new markets. (10, 11, 12, 13, 14)



- **Investor** L2 Capital
- **Operator** Aspekt Solutions

L2 Capital, a PE firm based in Pennsylvania with over \$100 million under management, acquired Associates in Medical Physics, LLC and Radiation Management Associates, LLC in May of 2017. L2 combined the medical physics service companies to create the platform company Aspekt Solutions in April of 2021. In May of 2021, Aspekt Solutions acquired Nordic Medical Physics to expand its geographical reach. (15, 16, 17)



- **Investor** LNC Partners
- **Operator** West Physics Consulting

LNC Partners, a PE firm with \$500 million under management, completed a recapitalization of West Physics Consulting, LLC in May 2018. West Physics has since acquired Phoenix Technology Corporation and Radiological Physics Consultants, Inc. to become the largest diagnostic medical physics practice in the US. (18) West Physics operates in all 50 US states, its federal territories, the Caribbean, and the Middle East. (19, 20)



- **Investor** Fortive Corporation
- **Operator** Landauer, Inc.

Fortive Corporation is a publicly traded, diversified industrial technology conglomerate company. Landauer provides outsourced medical physics services worldwide. Previously involved with Gilead Capital and T. Rowe Price Associates, Landauer was acquired by Fortive Corporation in October 2017. (21)

The Future of Investment in the Medical Physics Industry

The medical physics industry is increasingly becoming a hot target of PE investment. Although a few major players are emerging and consolidation is increasing, there are plenty of opportunities for PE partnerships to gain size and industry leverage due to the sheer number of small operators in the medical physics space. The benefits and resources brought by PE firms may be increasingly enticing to medical physics operators as the healthcare industry evolves. (6) The spread of usage, science, treatment, and understanding of the industry will continue to increase the demand for the care that these medical physics specialists provide.

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