

The Vertical Consolidation of Tech-Enabled Primary Care Practices

Since the beginning of 2022, the healthcare industry has seen the fast-paced consolidation of tech-enabled primary care practices reach new heights as market participants prepare for a potential shift in the way payments are made for healthcare services. There are a multitude of players seeking to capitalize on the shift from the fee-for-service payment structure to the value-based care (VBC) structure. The fee-for-service payment structure focuses more on the volume of care provided to a risk-bearing, but in the VBC structure, the provider's services are compensated based on the quality of the care. The current players in the VBC space span a wide range of verticals including payers, health systems, retailers (CVS Pharmacy, Amazon.com, etc.), Medicare Advantage-focused primary care providers (CareMax, Cano Health, etc.), and investors (private equity groups). In this article, VMG Health highlights three transactions we believe illustrate the current state of the VBC space and where it is headed.

Optum Health, a subsidiary of UnitedHealth Group, is considered the market leader in the shift to the VBC payment structure. Optum currently employs over 60,000 physicians at over 2,000 locations. As Optum has expanded its service capabilities, it has focused on data as the key to its success. To that end, in January 2021 UnitedHealth announced the potential acquisition of Change Healthcare for which they would pay approximately \$13 billion for the business.

Although the Department of Justice filed an antitrust lawsuit against the acquisition, a Washington federal judge denied the DOJ's attempt to block the deal in September. As a result, Change Healthcare will join OptumInsight, the data and analytics division of Optum Health, to provide software and data analytics, technology-enabled services, and research, advisory and revenue-cycle management offerings (1). The combined entity will bring together the two largest electronic data clearinghouses which will provide Optum Health with crucial data on how to optimize their patient care service (2). Though the current deal is under review by the DOJ for anti-trust reasons, the investment by Optum Health maintains the intentions of the market leader in VBC by investing big in its data and analytics arm.

Per the president of UnitedHealth Group and the CEO of Optum Health, "Together (Optum Health and Change Healthcare) we will help streamline and inform the vital clinical, administrative, and payment processes on which healthcare providers and payers depend to serve patients." (1)

To maximize the value-based care payment model, the players in the space have realized the importance of patient data to enhance patient care and lower the cost of managing a patient population. In addition, UHC's acquisition of Change Healthcare is another example of payers looking to diversify their capabilities to capture the entire flow of the premium dollar (3).

Another monumental value-based care deal in 2022 was CareMax acquiring Steward Health Care System's Medicare Advantage business. As part of the deal with Steward Health, CareMax became the exclusive management service organization for Steward's Medicare value-based care business which includes 171,000 lives (50,000 MA lives, 112,000 MSSP lives, and 9,000 direct contracting lives) across eight states in the Southeast of the U.S. (4).

CareMax, another organization that understands the value of data and analytics, is a leading technology-enabled provider of value-based care to seniors. CareMax, Cano Health, Oak Street Health, and other full-risk primary care clinics are partnering with payors to ensure the patient's care is provided in the correct setting, focuses on preventative medicine, and ultimately, lowers the mortality rates (especially among older populations) (5). CareMax's focus on whole person health through a unique blend of targeted technology and comprehensive, high-touch care has resulted in improved clinical outcomes compared to peers and traditional Medicare benchmarks. CareMax has achieved a five-star quality rating, the highest possible rating, across its locations overall (6). The CareMax/Steward Health deal shows the continued growth trajectory of the tech-enabled PCP

business model and how providers with the proper insights are willing to bear additional risk on behalf of their patient population.

Lastly, in July Amazon made its entry into the primary care and the VBC space through its \$3.9 billion acquisition of One Medical, a membership-based, tech-enabled provider of primary care. Back in June 2021, One Medical announced a \$2.1 billion deal with Iora Health, a VBC care PCP clinic focused on Medicare and Medicare Advantage patients. This deal expanded One Medical's patient population from solely commercially insured patients to include Medicare patients and introduce risk-based care models. One Medical's strong clinical growth, with a 180+ current clinic footprint, and new VBC models require large capital spending. Due to this, One Medical had an operating loss of \$255 million in 2021 (7).

Questions remain regarding Amazon's plans with One Medical, but one thing is for certain: Amazon has the analytical capability, customer base, and capital needs to turn One Medical into a cash flow machine. Additionally, Amazon has the capacity to take on enormous amounts of risk which is needed to successfully run Medicare and Medicare Advantage risk-based care models as a part of One Medical's Iora segment. Amazon can transform the delivery of healthcare services by making it more accessible and affordable for the millions of customers they reach. There are many opportunities for integration with existing Amazon services, including Amazon Care and the Amazon Prime subscription service, which could expand One Medical's current capabilities. This transaction, along with many others, might be the beginning of Big Tech in the VBC space.

The rapid vertical consolidation of tech-enabled primary care organizations is representative of the opportunities noticed by existing and new players. It is an opportunity to transform the primary care delivery into risk-bearing, population-specific models focused on lowering healthcare costs of the patient population while tailoring offerings specific to patient needs.

Providers should be prepared to transform their care delivery for the potential evolution to the VBC payment structure by retooling financial and clinical strategies, and by converting patient population data into actionable information. Data and analytics are the key for providers to achieve high value care for all stakeholders. To ensure that your primary care clinic is set up for success under the VBC delivery of care model you need to have a contracted network of specialists and medical centers, the proper assortment of non-physician practitioners to treat patients, and an electronic health record system in place that can more seamlessly facilitate care coordination and the flow of patient information across clinical sites.

Key Takeaways:

1. Competing on value and population-based risk (through COVID-based learnings) has renewed interest among traditional channels (providers and payers) in addition to other newer entrants (Optum, Amazon, etc.).
2. Market entrants are moving aggressively on a different strategic course. In turn, risk-bearing entities (outside of traditional health system players) will take on more directed roles in acquiring patient lives with traditional provider organizations losing premium dollar market share.
3. Traditional provider organizations (hospitals and health systems) require a different strategic lens to view stratified patient populations if they want to compete in the risk-based sector.
4. Data continues to suggest patients have higher overall affinity to their doctor and supporting hospital versus payers or payer-related services. However, with significant, generalized inflationary pressures consumerism will further push patients and consumers to evaluate non-traditional programs and plan types.
5. Technology platforms are being built to large scale and at a faster rate than any local healthcare provider can do alone. Providers may need to consider joining with a technological partner to compete more aggressively when considering acceptance of insurance risk.

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This article was published by VMG Health's
Valuation & Transaction Advisory Division



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