The Emergence of “Supergroups”
Composed of Medical, Dental and Other Clinicians

Models for the ownership, organization, delivery and payment of health care services in the United States are being remade. These changes are fueled by consumer and payor demands for greater value, and supported by technological and other innovations.

Among the new models are “supergroups,” involving combinations of physicians, dentists, vision-care specialists or other individually licensed health care providers to participate in the current and future health care marketplace. Today’s supergroup models are utilized, to various degrees, to achieve a handful of intended goals in line with the following themes and outcomes defining the future of health care:

- Capitalizing on changing payment systems;
- Aligning services and performance across the continuum of care;
- Driving innovation through technology;
- Meeting changing consumer preferences and demands;
- Accessing capital;
- Obtaining specialized expertise to support operations; and
- Meeting marketplace needs for alternative practice models.

Many of these principal themes and outcomes were originally identified in the white paper published by Polsinelli’s Health Care M+A Practice during October 2018 entitled, “Health Care ‘Prime’ – The Shaping of Health Care in America Through M+A and Innovation.”1 That writing focused on the use of the conceptual framework of ownership, organization, delivery and payment to explain the future state envisioned by those shaping health care.

In this paper, we examine the emergence of so-called “supergroup” models through this same lens and principal themes. We view the emergence of supergroups as one such trend that will continue to disrupt how the practices of individual providers are owned, organized and supported to deliver services and generate profits in the current and future health care ecosystem.

---

Today’s formation and operation of supergroups occurs in the context of broader consolidation trends in health care. Historically, the organizational model of physicians, dentists, vision-care specialists or other individually licensed health care “clinicians” involved highly decentralized, independent, solo or small group practices. In recent years, however, various pressures have led many clinicians to consolidate into larger groups and have driven physicians, in particular, into employed relationships with hospitals, health systems and payors. The pressures include decreasing fee for service (FFS) reimbursement coupled with a movement to “value-based” payment systems, capital demands to fund practice growth, technology and infrastructure, increasing practice operating costs, changing physician goals and preferences and others. Yet many individual physicians and other clinicians desire to remain independent of consolidation and employment models; hence the emergence of supergroups and their unique approach to addressing payment, ownership, organization and delivery related to clinician practices in the health care industry.

**Capitalizing on Changing Payment Systems**

One key driver of supergroup formation is the change related to the payment for health care services, i.e., declining FFS reimbursement and the expansion of value-based payment systems. FFS reimbursement, under which clinicians are compensated per unit of service, has remained stagnant over time, even falling below inflation rates. As a result, declining financial return under the FFS reimbursement model has driven traditional clinician practice models to both perform more procedures to capture returns, and work to access additional revenue sources. Supergroups can help bring an increasing range of services under the supergroup’s ownership and control as means to maximize revenues and profitability.

Many clinician specialties have used the power of mergers and acquisitions to both increase FFS revenue and the type of FFS revenue sources or services under the supergroup’s control. For example, recently, U.S. Dermatology Partners, a dermatology-focused practice management organization, acquired Trinity Dermatology in Texas (gaining five new dermatologists) and Apex Dermatology Group in Colorado in 2018, resulting in one of the largest physician-owned dermatology practices in the country. U.S. Dermatology Partners currently operates in more than 80 locations in the United States and provides general medicine, surgical and cosmetic skin treatment through its coordinated care network.

By combining ownership of these smaller practices into larger organizations, supergroups can enhance contracting with payors due, in part, to their scale, and also have a larger patient base to support the expansion of service offerings.

**Aligning Services and Performance Across the Continuum of Care**

Clinicians are also coming together to engage in value-based payment systems that reduce the cost of care, improve care quality and assume risk. Value-based payment models build on traditional FFS reimbursement systems, but profits are generated by controlling the cost and quality of care across a more integrated continuum of care. By having greater influence (or control) over a broader range of care and services, the supergroup can profit through overall cost reductions coupled with increased market share for the supergroup’s range of services.

---

1 Carol K. Kane, PhD, “Updated Data on Physician Practice Arrangements: For the First Time, Fewer Physicians are Owners Than Employees,” American Medical Association, 2019.
2 Ibid.
6 Ibid.
Aligning Services and Performance Across the Continuum of Care — continued

In a value-based environment, supergroups may also generate profits through the assumption of performance-based and financial risk. For example, through “bundled payment” services a supergroup may receive a fixed payment for each surgical “episode of care,” which includes pre-surgery tests and services, professional and surgical facility services and post-surgery services furnished within a 90-day period following the surgery. To capture the largest return, the supergroup’s surgeons are incentivized to perform the surgery in the lowest cost facility in which the procedure can be performed safely (such as, an ambulatory surgery center rather than an acute care hospital), and to use appropriate and effective post-surgery measures.

In 2016, Stryker, a medical device manufacturer specializing in orthopedics, recognized these bundled payment opportunities and launched a program to capitalize on CMS payments granted to its consumer hospitals tied to patient outcomes. Through its operating division, the company initially worked with hospitals via consultation in order to meet requirements of the Comprehensive Care for Joint Replacement Payment Model established by CMS and in some cases, even took on risk sharing deals. That work has expanded to include leading participation in the CMS Bundled Payments for Care Improvement Advanced mode through relationships with orthopedic practices and other organizations. Supergroups can make profits from similar bundles and the performance of high quality, cost-effective care.

Given the changes in health care payment system, the question then becomes how can clinicians deliver services while optimizing revenues, managing expenses and engaging in the innovation required to succeed in FFS and value-based payment systems.

Driving Innovation Through Technology

The advent and deployment of useful technology can be combined with new ownership, organizational and relationship models to excel in traditional FFS and emerging value based arrangements. Supergroups commonly deploy technology, management and other systems and processes that are critical to succeed in the changing environment. Today, technology plays an integral role in both the actual delivery of health care to patients, and in supporting health care delivery and decision-making by helping clinicians work “smarter” in furnishing care.

Technology is particularly critical to success under value-based payment systems. Many providers lost money on “at-risk” arrangements during the 1990s because they did not have the technology-enabled systems and processes to effectively understand and manage care quality, cost, risk and other variables. Presently, however, information garnered through the use of electronic health record systems, coupled with the analysis of claims, cost and quality data through the use of emerging technology and data analysis techniques places supergroups in a better position to succeed under all traditional and new payment models.

For example, in 2018, Advance Dermatology and Cosmetic Surgery (ADCS), one of the largest dermatology practices in the United States, with over 180 clinics and 385 dermatologists, partnered with Modernizing Medicine, Inc., a health IT company, to use Modernizing Medicine’s electronic health record system and data analytics services. Through this partnership, ADCS also gained access to Modernizing Medicine’s pathology module and lab services and its streamlined ePrescription feature. This example illustrates the consolidation of multiple entities to decrease costs, efficiently streamline services and innovate through technology.

---

8 Ibid.
12 Ibid.
**Meeting Changing Consumer Preferences and Demands**

The use of mergers and acquisitions has also increased the type of revenue sources and services under supergroup control, and, by combining multiple services, addresses consumers’ preferences for convenience. This is particularly important today when a growing technology market allows consumers to access more “one-stop shops” like Amazon for traditional consumer products. Similarly, consumers are developing greater preferences for such “one-stop shops” for their health care needs.

Supergroup organizations frequently share common ancillary services, branding and marketing to address consumer demands. Some of the best examples of this accumulation of services and branding is seen in the vision care industry. For example, Capital Vision Services, LP (CVS) specializes in the acquisition and management of optometry practices under the brand name MyEyeDr.\(^{13}\) CVS began reforming the eye care experience so that consumers could obtain all of their optometry and optical retail needs in a single location during a single appointment.\(^{14}\) Using this model and unified branding, CVS was able to secure long-term investments from two large private equity firms in 2015,\(^{15}\) and rapidly grew the MyEyeDr. group from 165 practices in seven states to 575 practices in 18 states by the end of 2019.\(^{16}\) The success of the supergroup attracted the merchant-banking division of Goldman Sachs Group Inc., which just purchased CVS from its previous equity owners in an expected $2.7 billion dollar deal, a value which far surpassed the $775 million dollar purchase price in 2015.\(^{17}\)

Likewise, Acuity Eyecare Group, a portfolio company of Riata Capital Group, has rapidly expanded its group. Beginning in 2019, the group now owns nearly 90 locations across eight states under 10 different local brands, and a large, full-service digital lab operation located outside of St. Louis.\(^{18}\) The company expects to continue to increase its number of locations in 2019 based on other eye care groups under letter of intent and its pipeline of prospects.\(^{19}\) In both examples, health care consumers find supergroup clinicians desirable due to their consistent branding and ability to provide “one-stop” service models for a variety of consumer-demanded services.

---

**OWNERSHIP**

Supergroups involve combinations of individual health care clinicians and their practices into large organizations that may be local, regional or national in their scope and activities. Despite this consolidation through a merger, acquisition or other form of combination transaction, health care is still generally delivered locally, and the supergroup’s participant clinicians and business activities are subject to various laws and restrictions in the jurisdictions in which they practice and conduct business. These restrictions include state-specific restrictions on the “corporate practice of medicine” or other applicable profession, licensure, fee-splitting and other prohibitions which restrict who may employ, own or control the practices of licensed clinicians. Despite these restrictions, supergroup operating models can permit the use of new ownership and investment models to accomplish two primary goals: accessing capital and obtaining specialized expertise to support operations.
Accessing Capital

Successful operation of a clinical practice is neither easy nor cheap, and costs and capital demands increase when the practice seeks to grow or access technology and other infrastructure. Many clinicians are unable or unwilling to accomplish this with their own funds. To this end, third parties ranging from private equity funded management companies, to technology vendors and analytics firms, are emerging to support the supergroup’s formation and performance. The support can be through various means ranging from serving as a vendor via a service contract, holding a partial or full equity interest in the supergroup itself or an affiliated management services organization (MSO) entity, or through models in which the third-party and the supergroup partner through a joint venture entity that holds or supports FFS or value-based contracts and performance.

The most active owners in the supergroup space are private equity funds who have focused on investing in specialty clinician practices and are expected to increase their overall activity and broaden the scope of specialty practices from dermatology, dental and ophthalmology to include other specialties like gastroenterology, behavioral health, orthopedics, radiology and urology.\(^{22}\) Some examples include Texas Digestive Disease Consultants, a large Texas-based gastroenterology group, partnership with Waud Capital Partners to form The GI Alliance group in 2018,\(^{21}\) and Varsity Healthcare Partners’ investment and recapitalization with The Orthopaedic Institute, one of Florida’s largest clinical and surgical orthopedic treatment groups, which was consummated in 2017.\(^{22}\)

Another common private equity support or ownership model is through MSOs that are expected to improve administrative and other support services for supergroup clinical practices. In some cases, MSOs can even invest in one another, as is the case with Smile Brands, a dental services organization (DSO) which provides business support services to over 400 dental clinics across 17 states. Smile Brands invested in DecisionOne Dental Partners, a DSO with approximately 30 affiliated dental practices in the Chicago area, to help fund DecisionOne’s continued growth and acquisitions throughout the Chicago area and neighboring states.\(^{23}\) This shows that supergroups promote different kinds of ownership opportunities for all types of investors.

Obtaining Specialized Expertise to Support Operations

Private equity owners will frequently deploy specialized management and administrative expertise which allows supergroup clinicians to focus on clinical care and less on practice management. Moreover, capital from third-party investors such as private equity funds can help to rapidly scale the delivery system, operating structures, technology, data analysis and other systems to help drive innovation and future success.

However, not all supergroups require private equity investment. For clinicians desiring to maintain a traditional ownership model, supergroups can still thrive through clinician-owned or driven models that allow clinicians to access management expertise, technology, supplies and other resources without altering the ownership of the clinical entities. For example, Pacific Dental Partners is a privately-owned dental organization with more than 600 practices in 20 states.\(^{24}\) Pacific Dental Partners contracts with suppliers and vendors, such as Dentsply Sirona, the world’s largest manufacturer of dental products and technologies, Nobel Biocare, a provider of dental implantology and aesthetic dental solutions, Posca Brothers, a dental laboratory, and Care Credit, a third-party financing entity for its patients, to provide technology advancement and in-house specialists. These arrangements and the Pacific Dental Partners DSO management model help dental clinicians remain competitive in the current environment.\(^{25}\)

Likewise, in 2018, CarePoint Healthcare of Greenwood Village, Colorado and Emergency Physicians Integrated Care of Salt Lake City, Utah merged two independently owned and operated physician group management companies, resulting in one of the largest privately owned physician practices in the United States with over 600 clinicians. The merged practice management entity, CarePoint Health, offers greater clinical integration through its now merged multiple clinical specialties, including neurology, neurosurgery, hospital medicine and other specialties. As a result of the merger, CarePoint Health was able to expand and combine data analytics and resources, and capitalize on new technology and service delivery models, including telehealth.\(^{26}\)

---


\(^{22}\) “Strategic Partners,” Pacific Dental Services, https://www.pacificdentalservices.com/about/.


\(^{29}\) “Strategic Partners,” Pacific Dental Services, https://www.pacificdentalservices.com/about/.


Meeting Marketplace Needs for Alternative Practice Models

For many clinicians, involvement in a supergroup is viewed as desirable because it provides a vehicle to participate in the changing payment system while preserving professional practice models that are independent of hospitals, health systems and payors. Engagement in a supergroup can meet clinician desires to receive a return on the investment they have made in their practice, while also preserving some level of practice independence. Likewise, many third-party payors find supergroups desirable because they involve relationships with clinicians who are independent of health systems with significant market share and negotiating leverage as a result of their own M&A activities. There are generally two alternative organizational models for supergroups: fully integrated models and partially integrated models.

Fully Integrated Models

Today’s supergroups are typically organized and third-party investment or ownership is facilitated through the use of linkages to one or more entities in which the supergroup brings together the total assets and revenue base of multiple clinical practices under the supergroup’s control. Under these models, the supergroup “fully integrates” the revenues, expenses and operations of multiple practices under a single supergroup umbrella. Depending on the supergroup’s size, composition and geographic spread, these fully integrated organizational structures will typically be comprised of multiple separate legal entities that are tied together and supported through a common MSO.

In some jurisdictions without strict corporate practice of medicine or similar laws, private equity and other third-party investors may directly own and operate clinical practice entities that are used to employ clinicians to deliver professional and other services. In other jurisdictions, however, restrictions on ownership of professional practice entities will require bifurcated organizational structures comprised of separate professional service and MSO legal entities. For private equity and other investors, the MSO provides the vehicle for the deployment of centralized management systems and expertise and the aggregation of profits (net of practice operating expenses including clinician compensation).

An example of a fully integrated model is Forefront Dermatology (Forefront). In 2016, OMERS Private Equity acquired Forefront, which provides practice management services to dermatology practices. At that time, Forefront provided management services only to Dermatology Associates of Wisconsin, a large specialty group practice, operating across 11 states. Over the past few years, Forefront has expanded and acquired many more dermatology practices and laboratories throughout the United States and continues to provide management services to such practices through its post-acquisition integration efforts.

Fully integrated practice supergroup models can provide significant value to their clinician participants by providing access to capital to fund technology, expertise, expansion and other strategies that are commonly difficult, if not impossible to undertake in smaller organizational settings using the clinician’s own resources. That capital can address both operational and expansion needs, while also providing a return on the clinician’s original investment and “sweat-equity” in establishing a professional practice. While the fully integrated model may impact clinician autonomy at least to a degree, that impact is commonly different from what may occur in other arrangements such as those involving employment by hospitals, health systems or other institutional providers. Supergroup models hold the potential to have greater “alignment” between clinicians over shared goals and objectives related to the practice and its future state.

---

**Partially Integrated Models**

Some supergroup organizations involve more strategic, less integrated relationships between the clinicians and third parties. In these models, some, but not all of, the revenues of the participating practices flow through or come under a single supergroup's control. These models will frequently involve the use of a MSO structure that functions as or supports a “clinically integrated network” (CIN) of otherwise independent clinicians and their practices. The MSO or CIN provides necessary infrastructure and support to the practices in support of value-based payment arrangements, while permitting the practices to remain independent.

To comply with antitrust requirements, the creation and operation of the partially integrated model supergroup must result in a provider enterprise that engages in activities beyond simply negotiating contracts with payors on behalf of the clinicians in the network. The partially integrated supergroup and its participating clinicians must still invest human and financial capital, implement data analysis systems and other infrastructure, develop a collective governance and evidence-based clinical practice culture that supports value-based care and undertakes a host of other activities.28

Because of their organizational structure and operational practices, partially integrated model supergroups typically involve less intrusion into the day-to-day practices of individual clinicians. To participate, clinicians must provide the supergroup with data, apply evidence-based protocols in their clinical practice and undertake other activities that will affect how they furnish clinical care. But, the partially integrated supergroup’s organizational model will typically not impact their practice’s ownership, relationships or core operations. These supergroups access and operate infrastructure that augments that in the participating practice itself.

Examples of supergroups involving partially integrated models include those supported by the previously referenced Stryker Performance Solutions, and by Remedy Partners, a technology company engaged in arrangements with payors and health care providers to furnish care under episode-based payment models. Remedy creates software and services designed to enable payors, employers and at-risk health care providers to organize and finance health care delivery around a patient’s episode of care. Remedy has created relationships with over 1000 health care organizations and thousands of physicians who initiate episodes of care that are paid for under public and private sector value-based payment programs, including BPCI Advanced, Medicare Advantage and other programs.29 In contrast to fully integrated supergroup models, Remedy’s model is strategically focused on supporting episodes of care delivered by otherwise independent clinicians through technology, services and network relationships.
CONCLUSION

Changes in the health care delivery environment are leading physicians, dentists, vision-care specialists and other clinicians to move to new practice models including supergroup model practice organizations. Through the creation of relationships with private equity and other third parties, supergroups seek to capitalize and profit from traditional FFS payment systems through growth, revenue generation, expense management, payor contracting and other means; and to move boldly into and succeed under value-based payment arrangements involving financial and performance-based risk.

By accessing and aggregating capital from private equity and other investors or suppliers, clinicians delivering services through supergroup models are able to furnish new services, deploy and use new technologies, access specialized expertise, engage in innovation and take other steps to develop and deliver health care services that are patient-centric and meet changing consumer preferences and payor demands.

For private equity and other third-party investors, the development and operation of supergroups can lead to business growth and profit generation. As the health care environment continues to evolve, we anticipate that increasingly sophisticated supergroup structures that are owned, organized, operated and supported by private equity and other third parties will play an increasingly important role in the health care delivery ecosystem.

Bruce A. Johnson
Shareholder
brucejohnson@polsinelli.com

Jacob A. Krysiak
Associate
jkrysiak@polsinelli.com

Kelly L. McGinnis
Associate
kmcginnis@polsinelli.com

Polsinelli provides this material for informational purposes only. The material provided herein is general and is not intended to be legal advice. Nothing herein should be relied upon or used without consulting a lawyer to consider your specific circumstances, possible changes to applicable laws, rules and regulations and other legal issues. Receipt of this material does not establish an attorney-client relationship.

Polsinelli is very proud of the results we obtain for our clients, but you should know that past results do not guarantee future results; that every case is different and must be judged on its own merits; and that the choice of a lawyer is an important decision and should not be based solely upon advertisements. Polsinelli PC. Polsinelli LLP in California. Polsinelli PC (Inc) in Florida.