[Music by C. Ezra Lange]

David Burda: Welcome to the 4sight Health Roundup podcast, 4sight Health's podcast series for healthcare revolutionaries, outcomes matter customers count and value rules. Hello again, everyone. This is Dave Burda, news editor at 4sight Health. It is Thursday, September 28th. October is just around the corner. Did you know that there's an October Lover's Club at the University of Illinois in Urbana Champagne? Well, there is, and it has more than 5,000 members.

Their calendar of events includes a bonfire, apple picking, a barn dance, a bake sale, and a corn maze, and now you know where your tuition money goes. What you may not know is where your copayments and deductibles go. When you see your doctor, do they go to the doctor or to a private equity company? I don't know. That's what we're going to talk about on today's show. Courtesy of the Federal Trade Commission's lawsuit against a private equity owned specialty practice in Texas, and a commentary in health affairs on ownership, transparency in healthcare to tell us what it all means we're healthcare and healthcare Consumers are Dave Johnson, founder and c e o of 4sight Health, and Julie Murchinson, partner at Transformation Capital. Hi Dave. Hi Julie. How are you guys doing this morning, Dave?

David Johnson: Well, I'm in DC for the HF a's Annual Thought Leadership Conference. And now that I've said that out loud, thought leadership in Washington DC, I think I've just uttered an oxymoron. Anyway, we're diving into the whole issue of trust in healthcare or Lack thereof of trust in US healthcare. And trust me, it's going to be a great conference.

David Burda:

See what you can do about that government shutdown. Would you, while you're there. Julia, how are you?

Julie Murchinson:

Well, I am home in Seattle for what will not be a lot of time this fall, but we are squarely back in rainy season, and it's actually kind of refreshing, I got to say it forces you to just chill a little bit, so that's great. That's right. Now, before we talk about what the FTC did and what the commentary says, let me ask you about how you feel about October. Dave, if you went to the U of I, would you join the October Lovers Club?

David W. Johnson:

Well, Dave, since we're discussing transparency on today's podcast, I think we need to dig into the sinister origins of this October Lovers Club. You know that Illinois is the leading grower of pumpkins in the United States, and I'm convinced that this club is the creation of the state's pumpkin cartel and the U of I students are just pawns in their grand scheme to inflate pumpkin prices. Now, having gotten that off my chest, I do love October and I love pumpkins, but I really don't love pumpkin pie.

So you're saying the club's a front, so that wouldn't surprise me. Julie, how about you? Would you be a member of the October Lovers Club?

Julie Murchinson:

Well, I do love pumpkin pie, but it's funny that I just talked about how much the rainy season is feeling cozy when I actually think I would love the July Lovers Club or maybe even the May Lovers Club. There's something about October that it gets a little bit dark and dreary, but I don't know. My dog agrees, by the way.

David Burda:

Thanks. I would join it if only for the free Macintosh apples. To me, they're the best apple, and it seems like the only time you can get them is in October. So you guys can keep your honey crisps, your gala, and your Fuji, sign me up.

Signing up. Anesthesia Practices seems to be at the heart of this FTC lawsuit against us Anesthesia Partners and Walsh Carson, the big New York based private equity firm that owns Anesthesia Partners. The FTC sued Anesthesia Partners and Walsh Carson last week claiming the two violated federal antitrust laws. They allegedly did so by engaging in a multi-part plan to consolidate and monopolize anesthesiology market in Texas. That plan included acquiring nearly every large anesthesiology practice in Texas, entering into price setting agreements with remaining independent anesthesiology practices and cutting a deal with a competitor to stay out of Anesthesia Partners market. The FTC said the actions arbitrarily raised prices for anesthesia services to consumers by tens of millions of dollars. Now related to private equity, ownership of specialty practices, a commentary in health error by Ya. Sweeney Singh from Brown University and Aaron fss Brown from Georgia State University discussed the need for ownership transparency in healthcare. They said ownership transparency is a tool to help lower healthcare costs and ownership. Transparency is essential in understanding the changing corporate healthcare market landscape. They advocated for mandatory collection and public reporting of ownership data.

Dave, I'm going to ask you about this health affairs piece. Do you agree with the author's arguments and the benefits of ownership, transparency Now, why or why not? And if you were the nation's healthcare czar from a policy perspective, how would you go about making it most beneficial to consumers?

I don't know whether to call these authors misguided, naive, socialist or all of the above. They clearly have a bias against private equity as an ownership vehicle, at least when they don't like the outcomes. It's almost like we've handed them a knife, these authors, we've handed them a knife, and they're surprised that it's sharp. They seem to be shocked, absolutely shocked that there's gambling in the healthcare casino.

Let's get back to Private Equity 101 first.

What are they? They're heat seeking missiles for profit. If they see profit, opportunity and value creating companies they're in with both feet. If they see profit, opportunity and value depleting companies, they're in with both feet as a sector.

there is an amoral aspect to PEs investing behavior. They want profits and they really don't care where they come from. So that's lesson number one for these authors. Lesson number two is that not all private equity firms are cut from the same cloth. They have different areas of focus, expertise and capital investment philosophies. They have different investment strategies, attitudes toward debt and exit strategies. PE gets a bad wrap for wanting to get out of their investments in a relatively short five to seven years with a big return. But here's the rub. They can't generate that return unless they create value.

They have to find buyers for the companies that they invest in. So that's lesson number two. Lesson number three is that private equity is risk-taking capital, and that's really beneficial to an economy like cars. Nobody cries when private equity loses money. Moreover, risk-based capital has the power to change, disrupt and improve industries. Just talk to the taxi industry if you want to lessen in that or the hotel industry. And no industry needs disruption more than healthcare.

So what are my conclusions from my simple three point private equity lecture here? Don't throw the baby out with the bathwater without private equity. There'd be no Oak Street and their enhanced primary care delivery platform and a whole host of other companies like that.

It's important to get the financial incentives. So if we've got the right financial incentives, private equity, we'll try to find opportunities for profit by exploiting them. That's a good thing. So at the same time, you got to keep our eyes open and there are bad actors and so on. So private equity is a double-edged sword. If we get the incentives right, the policing aspect of this gets much easier.

But one final point, consumers don't give a rip about ownership. They care about outcomes and customer experience.

o as it regards this concept of ownership transparency, and I'm going to do my best Brooklyn accent here. Forget about it.

David Burda:

Thanks Dave. Julie, any questions for Dave?

David W. Johnson:

This ownership transparency thing feels like a total setup given the deep seated opinions you just articulated. So I was really pondering where is this coming from? Are there other industries that have successfully used ownership transparency as a mechanism like this?

I can't think of one with the possible exception of the FBI and the mob. It turns out that when the mob owns things, that generally is not a good thing. So having transparency about mob ownership and gaming and garbage collection and other industries of that ilk is probably a good thing.

When you get to healthcare, we've got this just massive web of perverse incentives that really make it complicated to know who's a good guy and who's a bad guy.

And quite honestly, a lot of the people that we think are good guys, or at least the marketplace thinks not the marketplace, but these healthcare economists think are good guys. Nonprofit health systems are just as likely to be guilty of the type of perverse exploiting perverse incentive behavior that they're accusing private equity of. So the cure here is to change the payment model so that rewards good outcomes. And if we can do that, the market will take care of the rest.

I don't think the mob's going to file annual reports with the F B I on what they own. That would go into a publicly available database to look at. So I would agree with you there, Dave. Thanks, Julian. Let me ask you about this FTC lawsuit. Without commenting on the case specifically, what does it say about the business model of private equity in healthcare? Do you think it will dampen PE deals in healthcare? And do you think it will dampen venture capital investment in healthcare generally?

Julie Murchinson:

Well, I had the good portion of seeing Leah Khan speak in Chicago last week, and I agree with Y Winnie Singh that held the Congress from Brown when she said that the FTC is not messing around. So I do think this is the beginning of something big, and here's why. Normally the FTC soothes just the company that it believes has violated antitrust. But this lawsuit is pretty novel in going after Welsh Carson, the private equity firm, because the FTC believes that they were instrumental in hatching this scheme. So I do think it's a shot over the bow to other private equity firms that have flooded healthcare certainly in this last wave of economic growth. So it could be the tip of the spear, there's no doubt, especially because many think that the FTC has really just been avoiding private equity for the last few decades.

So it's maybe Lena feels like the time has come. And when you look at the business model for this lawsuit, this is a roll-up. Roll-ups are very common in private equity strategy, particularly in healthcare. And the FTC previously went after a roll-up in the veterinary care space. Of course, that was settled, never litigated. But these roll-ups are a big deal. And if the FTC is successful on this case, it could create a blueprint for future action against private equity and the companies themselves.

So for PE and healthcare, I would anticipate more FTC trouble for sure. Anesthesia is one of the first specialties that attracted pe, and there's already action in spaces like radiology and emergency medicine.

But not all investors are created equal. Some use scale and price to make money perhaps in this situation. And some look for cost synergies, which is also really typical in a PE deal. But some really look to create value to drive the change in the way that healthcare is practiced, redesign innovation. And I'm not sure that the examples that we're discussing today with this case are looking to create value for the system. To Dave's point, they're looking to make money, and I believe that capitalism and investment and the entrepreneurship here can create a little healthy competition. And that's sort of just what the doctor ordered for healthcare for our country

So let's not put PE as a label on all investors.

Thanks, Julie. Dave, any questions for Julie?

David W. Johnson:

how do we get market players in the healthcare space to do the right thing more consistently rather than just the expedient thing? Can we regulate our way to better behavior, or do we have to have something of a moral reckoning with this industry because there is so much bad behavior out there?

regulations certainly has its place. We need it. Every society needs some sort of governing and monitoring and all of that, but not to be a broken record, but we pay for what we want. And today when we're going to pay for fee for service, we're going to get what we pay for. And private market entrepreneurship, financial interests are going to go after where the money is. The issue with something like anesthesia is it's not as easy to develop a value-based model on anesthesia as it might be in other specialties. So not all specialties are created equal. And we have to actually ask ourselves, what are the right reimbursement slash payment models for certain specialties? And what might be interesting regulatory vehicles for certain specialties if we can't come up with the right way to pay?

You make a good point because how do they cut costs? Like, okay, we're just going to put you under for half the surgery to save a little money, right?

Julie Murchinson:

Yeah. I'm not sure you wake up, you don't. You die. You don't. I mean, what's the value? I'm not sure.

David W. Johnson:

Well, come on. We don't need full-fledged anesthesiologists to put people under for colonoscopies. A nurse anesthetist can do that perfectly well. Right? So there are some things that we can do with bundled pricing and so on to kind of force

Julie Murchinson:

And drive costs down. That's right. That's right. Yeah.

David Burda :

Got it. All right, great. Thanks David. Thanks, Julie. Great discussion. Now let's briefly talk about other news that happened this week. It wasn't all bad, was it Julie? Anything else we should mention?

Julie Murchinson:

I still feel like we are seeing a lot of pain out there. Centene laid off 3% of its workforce this week, which isn't surprising given what's happening in Medicaid and redetermination and the like, but big important company industry shedding a little bit. But the one that actually hurt the most for me was seeing that Biogen closed the doors on its digital health group and stopped its study with Apple, all part of cost control. And this is painful because I think life science has a lot of potential to use technology to do what it does better and faster and cheaper. So when I see life science move away from its digital efforts, it's concerning.

David Burda:

Yeah, I did read the Common Spirit laid off 2000 people. So I think you're right on with that. Dave, what else caught your eye this week?

I'm going to be glass half full. And we've been talking about perverse incentives and bad market behavior. Well, there were a couple of things this week that I think were just fantastic. One was Costco coming out with the $29 virtual patient visit, talk about a value creating mechanism. Every health system in the country is trying to get paid for a virtual visit the same way they get paid for an in-person visit. And here's Costco throwing raspberries on all that. So good for them. And then the other one was the announcement by transparent that they've added 10 large health systems, big names Baylor Scott and White Mass General Intermountain Corwell advocate among others to their network for contracted fixed price surgeries. And I'm beginning to think this scarcity, this lack of funding is really starting to push this industry finally into thinking about how do we make healthcare costs more cost effective? So at the end of the day, Dave, maybe prices do matter, maybe outcomes do matter.

God, I just hope Costco brings back their sheet cake.

David W. Johnson:

That'll certainly add more virtual medical visits.

Julie Murchinson:

Absolutely.

David Burda:

Thanks Dave, and thank you, Julie. That is all the time we have for today.

If you'd like to learn more about the topics we discussed on today's show please visit our website at 4sighthealth.com. And don't forget to tell a friend about the 4sight Health Roundup podcast. Subscribe now and don't miss another segment of the best 20 minutes in healthcare. Thanks for listening. I'm Dave Burda for 4sight Health.