

BUSINESS IN PRACTICE

Corporate healthcare

CORPORATISATION Lou Panaccio, previous Chair of Health Networks Australia, talks to Skye Mitchell about the business of corporate partners in private practice.



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Lou Panaccio is a successful healthcare businessman with extensive experience progressing companies from concept to commercialisation. He possesses more than 30 years' executive leadership experience in healthcare services and life sciences, including approximately 25 years' at a board level.

Lou is director of a number of public companies and has quite a bit of exposure to, and knowledge in, the investment community. 'Investors like to invest in healthcare businesses, and by this, I'm not talking so much about individuals, I'm talking more about institutions. The sorts of institutions that people's superannuation money might be in,' he says.

The roll-up of allied health

In Australia, there has been several attempts to corporatise physiotherapy practices over the years, with Health Networks Australia (HNA) being one of the first. In 2000, LifeCare and Sports Medicine Centres of Victoria joined and became the largest network of physiotherapy and allied health private practices in Australia at that time. Six years later, HNA bought Lifecare. Operating together, the group grew to over 300 allied health professionals and more than 30 practices across Australia.

Lou says 'there has been a number of attempts to invest, or create the roll-up of allied health.' HNA/LifeCare was acquired by a publicly owned company, Zenitas Healthcare Limited, in December 2016 and listed on the ASX. 'Zenitas bought the business that we [HNA] had built up and I know at the moment there are at least two or three groups that I'm aware of that are looking to create group practices of physiotherapy in Australia.' Zenitas Healthcare Limited have been increasing their investments in

private practice and today owns LifeCare, Ontrac, Backfocus, Peninsula Sports Medicine Group, Dimple and Beleura Health Solutions across the allied health sector. 'There is no one else specifically focusing on the allied health sector and that's where companies like Zenitas are growing. If you can create a new investment class, logic suggests that if you run it properly, investor money will actually invest in that sector,' Lou says.

Pathology is a good example of a corporatised healthcare industry in Australia. In the past, pathology partnerships were operating pathology practices around Australia. Today, there are essentially three large corporates that dominate the sector, and very few are privately owned practices.

'Investors generally like healthcare because demographics such as, ageing populations, people living longer, and advances in technology provide a regular income stream.' However, Lou believes that the physiotherapy private practice industry will not go down the same path as pathology. 'I do not think every physiotherapist wants to necessarily sell their practice, or invite a corporate partner...but some will.'

According to the Australian Bureau of Statistics, physiotherapy is a \$1.2 billion industry; therefore, there is plenty of scope for investment opportunities in the sector. Lou says that 'because of this, there is a demand for an investment in allied health.' In a profession where the goodwill is very personal to the clinician, and it is very hard, if not impossible, for a corporate to own a person's goodwill, the best investment model is one where the key clinicians retain equity in their own business. 'I tend to favour

an investment model where the corporate will own some percentage of the business and the balance of that equity is actually held by the key physiotherapists. That way you ensure an alignment of the interest between the investor and the clinicians,' Lou says.

The federated partnership model

US Physical Therapy (USPh) is the largest US based publicly traded operator of outpatient physical and occupational therapy clinics, with over 500 clinics in 42 states. USPh believe that private practice owners should keep equity in their business and run the day-to-day operations, but they can also benefit from bringing in a financial partner.

'I call that a federated partnership model, where you have groups of practices with a common owner, but also having key equity in individual practices owned by the key clinicians,' Lou says. 'I am describing a model where the investor is the financial partner—it is really a partnership between a provider of finance and the clinicians. So what are the benefits to the clinicians in that model? Well the benefit is, it allows them to realise equity value...they build up their business. Typically, the way people sell their equity is to sell it to some of their incoming partners. Usually a corporate can pay more than they otherwise would, so they get the benefit of someone willing to buy that equity, and they'll also potentially get a better price.

'Smaller practices might have some borrowing, they might have a lease...they might actually have some debt that they incurred buying the practice in the first place. Sometimes that debt requires them to provide personal guarantees or mortgages over their other properties to secure the debt. Typically, if you bring in a corporate partner, you can usually re-finance that debt so the owners of the practice no longer have to provide their personal guarantees. Therefore, bringing in a partner can remove one of the financial risks of having their own business and that can be of great value to some owners,' he says.

A fragmented industry

Physiotherapy private practice is still quite a fragmented industry, which means there are still many small practices operating and apart from Zenitas, there are no major players in Australia; however, this does not mean the industry is small. Because of this fragmentation, Lou believes the physiotherapy industry will not change that much. 'The sector is big enough to actually accommodate, in my opinion, a variety of ownership models. The corporate practices, the corporate partnerships, and the privately owned.

'I think what is driving change in the healthcare system now is consumer or patient demands and knowledge. You are dealing with a much more

informed client base these days. People will have their own views about what sort of treatment they should have or what their options are, so you need to be able to engage better with your potential clients. I think what people are looking for are larger practices with better facilities, and in a perfect world, you'd like to have some sort of multidisciplinary medical centre.'

Because of the fragmentation of the industry, large scale corporatisation of physiotherapy practices may not occur. In Lou's experience in the healthcare system, 'if you are a good clinician and you focus on quality and excellence in care first, then good financial results should follow,' he says. 'I am unaware of a really successful healthcare company that has achieved financial success by not putting the patient and quality of service first. If you focus quality of service, excellent care for your patients, looking after your staff then you should end up with good financial results.'

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