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Sponsor-backed urgent-care platforms seeking exits could get stuck in waiting room

- Competition, payment pressures shrinking buyer pool
- Health systems contributing to the squeeze
- Niche markets, vertical integration keys to success

Sponsors looking to offload their urgent-care assets may be scrambling for buyers amid industry pressures, industry bankers said.

“It’s very competitive,” one healthcare banker said. “You have urgent-care providers on every corner. Big health systems are opening a bunch up and you’ve got doctors slapping an urgent-care sign on their door and calling it urgent care.”

Both a saturated marketplace and increased payment pressures may impact exit options for the 20-odd large private equity-backed urgent-care roll-ups nearing the end of their investment cycle, said Pat Clifford, managing director of healthcare M&A advisory firm The Braff Group. These providers are due to transact in order to propel the next wave of M&A activity in the space, Clifford added.

As urgent-care platforms grow larger, the potential buyer universe is shrinking. The large providers often have overlap with the health systems—while financial sponsors, who once proliferated the buyer landscape, are seeing competitive pressures cut into profitability.

“Health systems look at this product as a loss leader,” a second healthcare banker said, adding that large health systems are looking at potential for referral generation, rather than financials, when it comes to assessing an attractive urgent-care target.

“The health system doesn’t care if they make money,” this banker noted. “They’re building [urgent-care centers] to generate referrals for the health system.”

Additionally, when choosing between a health system urgent-care center and an independent one, health systems are often perceived as preferred providers, Clifford said. There is concern that some independent urgent-care providers may falter, he added.

“You’ve got a barbell in this space,” the first banker said. “You’ve got the haves and the have-nots. There are great businesses like MedExpress, CityMD, CRH Healthcare and MD Now—successful businesses with replicable models and very tightly-run.”

Both MedExpress and CityMD have cornered their respective markets well, several sources agreed. Morgantown, West Virginia-based MedExpress, acquired by UnitedHealth-owned Optum in 2015 for an undisclosed price, has penetrated rural areas with little-to-no competition in recent years, the first banker said. Warburg Pincus-backed CityMD, meanwhile, is the largest urgent care company in the New York metro area.

These strategies have paid off for both companies. But looking ahead, “pure access-based urgent care is going to be tested unless you have a specialty like PM Pediatrics, or you’re focused on rural markets,” a third healthcare banker cautioned.

“A model like CityMD is interesting, but it’s hard when you try to replicate it in the suburbs,” this banker continued. “The way the industry is going to evolve is via an integrated and convenient model that can drive referrals in a timely manner—that minimizes work for patients.”

Treat ‘em and street ‘em

Bruce Irwin, sole owner and CEO of American Family Care (AFC), agreed. “Right now, the bulk of patients are just being diverted from the emergency room, with urgent-care providers taking a “treat ‘em and street ‘em’ attitude,” Irwin said. AFC, however, operates more of a primary-care management model, also helping to manage people with chronic diseases such as diabetes.

“To really thrive, urgent-care providers will need to do a little more work and accept more responsibility for the public health, rather than maintaining an episodic-based, revolving door philosophy,” Irwin said. “Vertical integration is key.”

Business is brisk for AFC, which has more than 200 clinics in 26 states. AFC is opening, on average, one clinic every 10 days, Irwin said.

Urgent-care providers typically need roughly 25-30 visits daily to break even and 40-50 to become profitable, according to Clifford. If they are regularly seeing the latter amount, EBITDA margins should be in the mid-teens, he said. However, these days, many urgent-care providers are struggling to break-even given market saturation.

Many roll-ups may have initially acquired a 20-location group for 15x EBITDA then made several tuck-ins for between 6x and 8x EBITDA, giving them a blended acquisition cost of around 10x EBITDA, Clifford explained. However, valuation multiples, which at their peak could top 15x EBITDA, have dropped significantly in some cases. Today, it can be challenging to get a 10x to 12x ETBIDA multiple, Clifford said.

There has already been a hint of trouble for some sponsor-backed providers looking to exit. Last month, ABRY Partners-backed FastMed and Enhanced Healthcare Partners-backed NextCare terminated a pending merger agreement after pushback from local competitors and payors in the Arizona market, this news service reported. The halted merger was the second failed attempt at a transaction between the two urgent-care providers, and the latest stop in Enhanced’s on-and-off shopping of NextCare over the last five years.

Urgent-care assets that have been under sponsor ownership for three years or more include Revelstoke Capital-backed Fast Pace Urgent Care; River Cities Capital-backed Urgent Team; Seacoast Capital-backed Righttime Medical Care; MJ Acquisition Corp-backed Concentra; and FFL-backed Wellstreet Urgent Care.

Also on that list are LLR Partners-backed Physicians Immediate Care, which this news service reported was on the block through Cain Brothers last year, and Greenridge Investment-backed AppleCare Doctors, which Mergermarket reported was nearing a sale to Capital Alignment Partners and Harbert Management Corporation-backed Urgent Care Group in December 2018.

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