HEALTHCARE SECTOR: BEYOND 2021

The growth of aggregated specialist practices

New synergies for specialists in aggregated models

Perhaps no sector has been more dynamic than healthcare in recent times.

Even before COVID-19 put healthcare on the frontline of a once-in-a-century global emergency, the industry was already being profoundly reshaped by digital disruption and the emergence of an array of new technologies.

Simultaneously, the healthcare sector is confronting massive growth in demand for services to meet the needs of Australia's inexorably ageing population. Add to these, the pressures of rising healthcare costs, both for patients and practitioners and, like a perfect storm, the confluence of these trends is prompting many progressive providers to actively explore new operating models.

A standout is the concept of aggregated practice – formerly the province of GPs and allied health groups – which is now being embraced by growing numbers of specialist practitioners across the country.

The emergence of smaller, specialist-led, private short-stay hospitals, in particular, is redefining how specialist modalities can work together to deliver better patient outcomes and more efficient use of healthcare resources.

In this report, 'Reset for growth: What's the prognosis for aggregated specialist practices?', Westpac Commercial Bank takes a close look at the evolution of this trend and its drivers, from increased competition in some specialisations to its potential to power up tech innovation – allowing specialists to share costs for leading-edge equipment, better data analysis and to meet patients' post-pandemic expectations for telehealth, for instance.

Like a perfect storm, a confluence of trends is prompting progressive providers to actively explore new operating models.

Aggregated groups inevitably look to economies of scale. But funding these capital-intensive projects is complex as individual investors, private equity, banks and doctors themselves seek certainty of returns from the wide range of models now emerging.

These are exciting times. Despite the shocks and diversions of the past 12 months, 2021 is widely touted as a major opportunity for a rethink across all sectors, and Westpac is delighted to be working with many specialists to support their aspirations for moving into private practices, building private day surgeries and short-stay hospitals.

Our special thanks to the healthcare commentators and Westpac customers who have shared their compelling insights on the pages that follow.

I hope you enjoy reading the report and look forward to your feedback.

Louise McCann
National Head of Healthcare
Westpac Commercial Bank

Reimagining the medical practice

Why the collective approach to healthcare is gaining momentum.

The global pandemic has created an unprecedented public health emergency and placed additional pressure on a system already under strain from an ageing population, an increasing incidence of chronic disease and growing customer expectations for more personalised, digital, integrated care experiences.

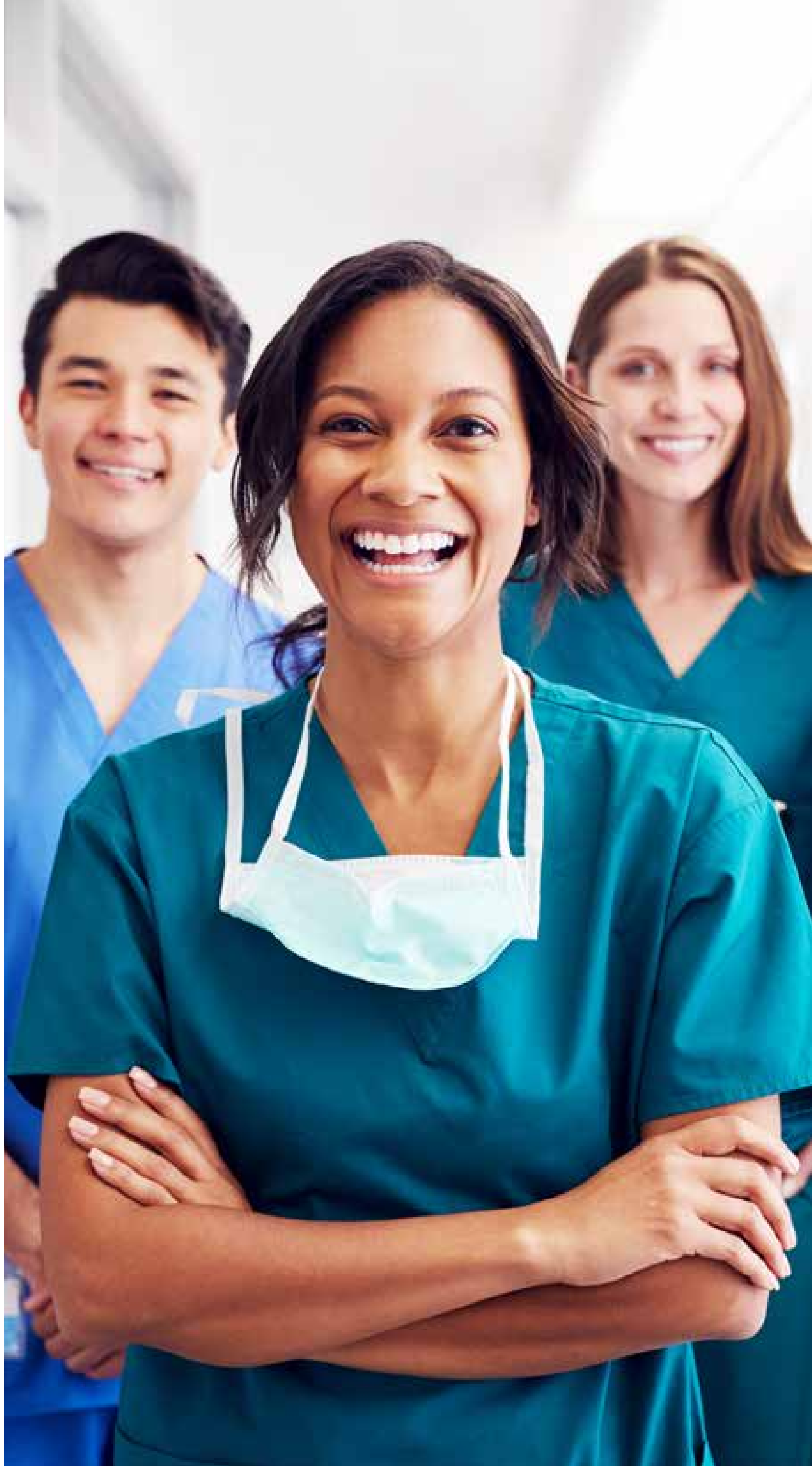
Some of these challenges have exposed weaknesses in traditional models of operation and, like a number of other industries this year, many healthcare specialists are reassessing their business approach. The consolidation of private medical practices, via group investment, acquisition of smaller practices, or acquisition by corporates, may present a smart model for the future. Aggregation may alleviate high costs for sole practitioners, while facilitating the provision of high-tech equipment, services and systems to deliver better health outcomes and more efficient practice management.

Carl Adams, Managing Director of SMS Healthcare and Industry Advisor in Mergers and Acquisitions for Australian healthcare, says that while aggregation is more advanced in the US market, new opportunities are emerging in Australia.

The consolidation of private medical practices ... may present a smart model for the future.

"It is becoming increasingly attractive for good clinicians to engage on this basis due to unneccessary duplication of technology, increasing subspecialisation, to encourage cross referrals and the multidisciplinary approach to disease management. Health insurance is also offering greater incentives to specialists to minimise patient gaps where clinicians take responsibility for the total episode of care, " Adams says.

This report examines the drivers, advantages and challenges of the specialist aggregation model and includes case studies of healthcare professionals who have successfully come together to deliver integrated specialist care to the benefit of their patients and their businesses.



Promoting greater efficiency and better outcomes

The trend that gained traction for GPs is now being adopted by specialists.

Aggregation of healthcare is a well-established business model in countries like the US.

The trend accelerated in 2010 with the introduction of the nation's Affordable Care Act (ACA), widely known as Obamacare, which created incentives for providers to coordinate care and adjusted Medicare payments to make mergers a smart financial option.

In 2018, analytics company Definitive Healthcare tracked 803 healthcare mergers and acquisitions and 858 affiliation and partnership announcements across the US.

In Australia, the aggregation trend has been led by general practitioners taking advantage of opportunities to share overhead costs, invest in new technologies at scale and provide optimal healthcare within an evolving, digitally-enabled work environment. Now, the model appears to be gaining momentum among specialists.

"We're seeing more aggregation of specialists, particularly in areas like ophthalmology, radiology and psychiatry, where practices or practitioners are coming together with the same goal to create consistent clinical care with greater efficiency and shared services," says Louise McCann, National Head of Healthcare, Westpac Commercial Banking.

"One of the strongest drivers is an oversupply in certain specialities, which causes more specialty groups to merge and probably more corporate ownership to come into play."

Carl Adams, Managing Director, SMS Healthcare and Industry Advisor in Mergers and Acquisitions in Australian healthcare

Joining the competition

Australia has more doctors than the OECD average and Adams says high competition is a driving interest in consolidation.

"One of the strongest drivers is an oversupply in certain specialities, which causes more specialty groups to merge and probably more corporate

ownership to come into play," he says. "There's also the drive to reduce overheads – it's not so much about increasing revenue."

Adams expects the combination of short-stay facilities with specialist group roll-ups to be "the model that will fly".

"It reduces the personal excursion, provides a better exit mechanism for the specialist, and a greater throughput within the short-stay hospitals, with the doctors being associated as owners and part of the corporate structure," he says.

Benefits and pitfalls

Aggregated practices can leverage their size to implement wide-scale, quality improvement measures, such as electronic medical record systems, to enhance coordination of care. This presents benefits for practitioners and patients. However, the model also has potential downsides.

"Approaches to surgery may be very different among practitioners, which can cause conflict," says Adams. "Owners may also be competing with each other, despite the collegiate environment."

Professor Anthony Scott, who leads the Health and Healthcare theme at the

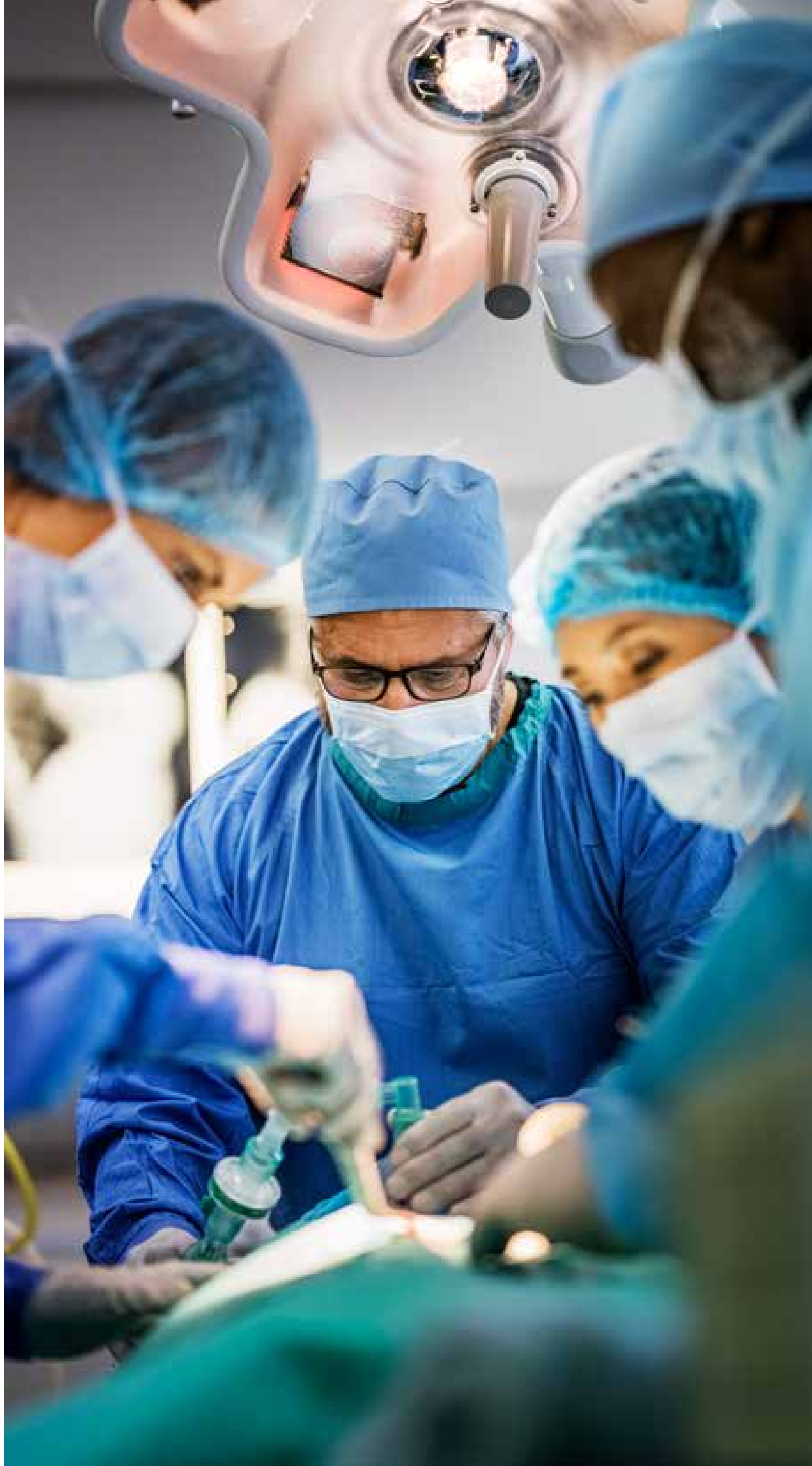
Aggregated practices can leverage their size to implement wide-scale, quality improvement measures, such as electronic medical record systems to enhance coordination of care.

Melbourne Institute: Applied Economic and Social Research at the University of Melbourne, notes that a potential drawback for patients is higher fees charged by aggregated groups.

"We are currently doing some research into the drivers of fees charged by specialists and we're finding that specialists who are a part of a company, rather than another business arrangement, are more likely to charge higher prices."

Despite potential drawbacks, Adams notes that, when executed well, aggregation can serve the interests of medical practitioners, allied healthcare specialists and patients, alike.

"It's very early days in Australia, but I think it will gain momentum more and more."



Case study: The Toowoomba Clinic

How a team effort in Queensland is delivering treatment and driving down costs.

The Toowoomba Clinic is a 27-bed mental health facility formed by Richard Lavack and a team of mental health specialists.

It opened in October 2020 and, in addition to hospital beds, it has consulting rooms, which can be leased to other practitioners.

Lavack and his wife, Dr Andrea Boros-Lavack, were running private practices in Toowoomba and Caloundra and struggled to get patients into local hospitals due to a shortage of beds.

"Many patients were having to go to Brisbane, Caloundra or the Gold Coast to get into hospital and we could see a need here," he says.

"We had to get a group of investors together to have a certain percentage of the bill before a bank could approve the loan. We had trouble finding a bank who would fund us, but eventually we came to Westpac and that's how we got it to happen."

The business comprises three entities: a self-managed superannuation fund called Heal All Pty Ltd; Heal All Service Industries, which leases consulting rooms; and The Toowoomba Clinic.

"Depending on how much each investor put in, they received a percentage of shares in Heal All Pty Ltd and they are the same shares that they have in The Toowoomba Clinic," says Lavack. "The Toowoomba Clinic creates the revenue to pay off the mortgage."

"Many patients were having to go to Brisbane, Caloundra or the Gold Coast to get into hospital and we could see a need here."

Richard Lavack, Director, The Toowoomba Clinic

Lavack adds that The Toowoomba Clinic gives patients easier access to care. "For patients who can't afford to see a psychiatrist in person, or to travel long distances for an appointment, our psychiatrists use telehealth, which is bulk billed. If a patient requires referral to hospital, our practice has mental health nurses that monitor and care for them until their hospital admission, with no additional cost."

Image: supplied

The future in practice

How aggregation powers up technology innovation.

The COVID-19 pandemic has accelerated the uptake of digital health technologies across Australia.

Electronic prescriptions have been fast-tracked and attitudes toward data-sharing are evolving as digital health records become more ubiquitous.

More than 90 per cent of Australian public hospitals and 53 per cent of private hospitals with inpatient facilities were using the My Health Record system as of 30 June 2020.

The greatest game-changer for digital health in Australia, however, has been the uptake of telehealth in response to the pandemic. In June, 2020 4.7 million telehealth consultations were conducted across the country, with just over 28 per cent of them listed under the Australian Medicare Benefits Schedule.

Australian Medical Association Vice President, Dr Chris Moy says that further uptake of digital health may encourage interoperability of clinical systems between different providers.

"This will enable them to talk with each other and would make communication easier and increase time for actual care of the patients in front of us, rather than messing around with clunky systems or work-arounds that we now use to communicate."

Innovation on the horizon

In 2018, the global digital health market was valued at around US$86.4 billion. By 2025, it is estimated to increase to US$505.4 billion.

> **"We are seeing aggregated practices lean into these models where there is enough scale for them to spend money on interoperability and save money on resources."**
>
> **Nick Therkelsen-Terry,** CEO, Max Kelsen

Nick Therkelsen-Terry, CEO of Max Kelsen, an Australian artificial intelligence and machine-learning solutions company, says aggregation of specialist groups provides the scale to invest in innovative technologies.

TELEHEALTH BY NUMBERS, OCTOBER 2020[1]

16.4 million
Total number of reported medicare benefits schedule (MBS) consultations.

4.1 million
Total number of reported telehealth consultations:

92% by phone | **8%** by video

36.3 million
Total number of telehealth consultations since COVID-19 (March–October 2020).

IN OCTOBER 2020 THERE WERE:

11.8m General practitioner consultations.	**2.4m** Specialist consultations.	**1.0m** Mental health consultations.
28% by telehealth.	**18%** by telehealth.	**32%** by telehealth.

SOURCE: 1. Snoswell, C.L., Caffery, L.J., Hobson, G., Taylor, M.L., Haydon, H.M., Thomas, E., Smith, A.C. Centre for Online Health, The University of Queensland. *Telehealth and coronavirus: Medicare Benefits Schedule (MBS) activity in Australia.* Published May 19, 2020.

"If you're a company looking to bring new products to market, you've typically got to ask a clinician to put their hand in their pocket to pay for it, or convince the health minister to add it to the PBS," he says. "But the economies of scale with aggregated groups make investment much more attractive."

"Smart medical practices will be making decisions based on data."

Katrina Otto, Managing Director, Train IT Medical

Katrina Otto, Managing Director and Owner of medical software training company Train IT Medical, says innovations in data analytics look set to transform practice management.

"It's the way of the future," she says. "Data analytics dashboards can analyse ratios in doctor's waiting rooms, waiting times, cost per patient per day. Smart medical practices will be making decisions based on data."

Meanwhile, data sharing between medical providers is in its infancy, but Therkelsen-Terry says that signs of growth are starting to appear, with the emergence of platform players who are connecting more of the parties in the critical care path of patients. "But, it only makes sense if the person entering the information at the front desk isn't a fixed cost for you," he says.

"Where we are seeing people leaning into these models is in aggregated practices, private hospitals and pathology providers where there's enough scale for them to spend money on interoperability and save money on resources."

Case study: East Sydney Private Hospital

Short-stay may deliver better outcomes for all.

Peter Kalish, an ear, nose and throat (ENT) surgeon, built East Sydney Private Hospital with a group of private investors in 2014.

In August of 2020, Medibank Private took a 49 per cent minority shareholding and provided an initial investment of AUD 8.8 million to fund the capital investment and operational costs required for the hospital to scale its new short-stay model of care.

"The objective of Medibank Private is to try and reduce the costs to members, as well as to the health system in general," he says.

Kalish explains that the short-stay program utilises the Early Rehabilitation After Surgery (ERAS) program, so patients may be up and moving within hours of surgery and sent home the following day, with in-home support and no need to spend time in a rehabilitation facility.

"Medibank Private has signed an agreement with the participating surgeons and anaesthetists that they will not charge the patient an out-of-pocket fee," explains Kalish. "And, because of the much shorter stay and no need to pay for rehab, it is prepared to pay the surgeon and anaesthetist a little more to compensate them for not charging an out-of-pocket cost. So, it works well for everyone concerned."

"The objective of Medibank Private is to try and reduce the costs to members, as well as to the health system in general."

Peter Kalish, founder, East Sydney Private Hospital

The hospital has five theatres, 32 beds and a close observation unit. It specialises in orthopaedics, spinal surgery, plastic surgery, ophthalmology, eye surgery and ENT. "Normally, we do just under 500 procedures in a month, and we hope to increase that by at least 10 per cent," says Kalish.

"Our objective is to take another level of the building and Medibank Private is very keen to support this. We're looking at going into cardiology and urology, which would have been difficult for me on my own, or certainly even with private investors."

Image: supplied

Taking advice on practicalities

Successful operations are created with foresight and support.

Approaches to aggregation vary. Planning and set up require advice from experts including accountants, banks, lawyers, specialist advisers and practice management consultants.

"Aggregation models can be difficult to execute, largely because specialists are a referred network and being part of a group doesn't necessarily mean an increase in referrals or economies of scale sufficient enough to justify groups to be formed," says Carl Adams.

Assessment of integration risks and cultural alignment are important in partnerships. Corporate structures may be more attractive for specialists who wish to control a broader healthcare value chain, says Mac Stark, Relationship Director, Health and Social Services, Commercial Banking Queensland at Westpac.

"A patient could potentially interact with the same business on various fronts throughout one treatment plan, including through allied health components and diagnostics, so there can be an incentive for specialists to control and own that value chain," he says.

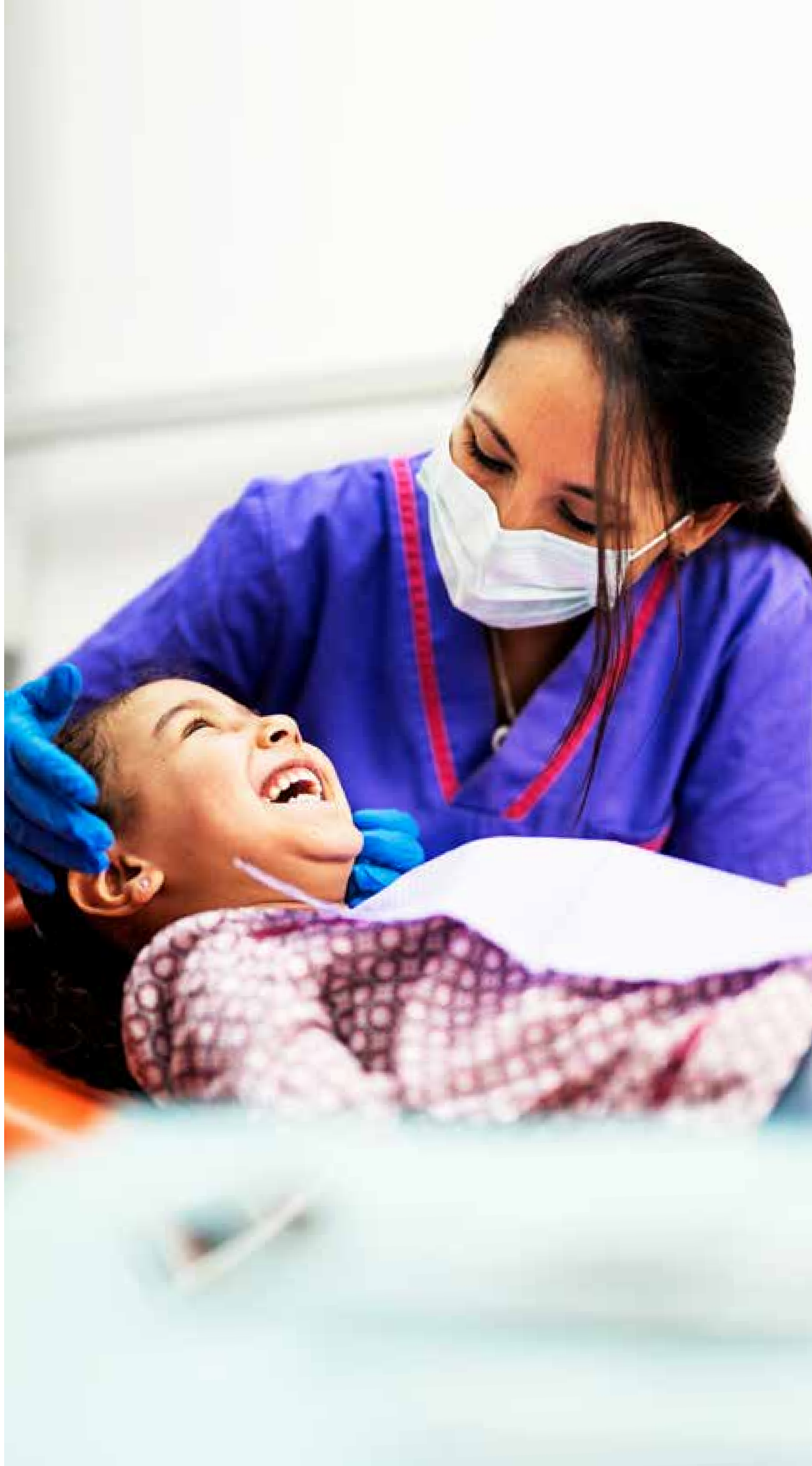
Funding options

The right balance of debt and equity is vital, especially in the current economic environment.

"What COVID is teaching us is that businesses that are overburdened by too much debt are really struggling, whereas those with strong cashflow who have been more conservative on debt are doing much better," says McCann.

"Aggregated groups often want to release some of their equity for further investment, but that's got to be replaced by something, and it's either private equity or its debt," adds McCann. "If you add too much debt, problems arise when there are income shocks."

While healthcare may be of interest to private equity, Stark observes it is often focused on singular modalities – such as general practice, dental or diagnostics – rather than on the integration of value chains, where multiple types of practitioners come together to create opportunities for shared infrastructure and for greater scale.



Is aggregation the right way forward?

Why now may be the time to explore a new business model.

Healthcare has been the defining theme of 2020 globally and the pandemic has highlighted weaknesses in professional practice business models.

Amid the many challenges, these extraordinary times have provided opportunities and accelerated processes.

The lessons from a crisis are not to be wasted, so now is the time to strategise and make plans towards successful business operations in 2021, and beyond.

If aggregation is the way ahead, practitioners must carefully assess integration risks, invest in sound practice management and bring sufficient leverage to the structure to avoid over-gearing.

"At Westpac, we're interested in supporting aggregated ventures with a commercial justification and a patient-first approach," says Stark. "This balance is vital, because the patient outcome is what gives a business longevity, sustainability and, ultimately, demand."

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> **Mac Stark**, Relationship Director, Health and Social Services, Westpac Commercial Banking Queensland

Need to know more?

This information is general in nature and has been prepared without taking your objectives, needs and overall financial situation into account. For this reason, you should consider the appropriateness of the information to your own circumstances and, if necessary, seek appropriate professional advice.

If you have any questions or would like to know more about the information contained in this report, please contact the author:

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