

The Private Equity Playbook: Strategies Used to Influence Orthopaedic Practices to Sell Despite the Negative Press

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INTRODUCTION:

Over the past decade, private equity (PE) investment in health care has increased over 250% between 2010 and 2020. The number of PE firms invested in orthopaedics has more than doubled from eight in 2020 to twenty in 2024. The initial wave of PE interest was incited by numerous favorable market trends such as revenue potential from ancillaries, growing elderly population, and increasing demand for outpatient surgery. Surgeon interest was spurred by factors such as a financial payout, administrative relief, and benefits from economies of scale when negotiating with insurers. However, recent findings have highlighted the numerous drawbacks that are inherent in these transactions such as the misalignment in core values between surgeons and PE firms, loss of surgeon autonomy, the decrease in quality of patient care and a rise in the cost of care. Despite these drawbacks, PE acquisitions of orthopaedic practices have persisted. This study aims to highlight the strategies employed by private equity firms to engage and persuade surgeons to participate in these transactions, notwithstanding the potential disadvantages.

METHODS:

Twenty orthopaedic surgeons were contacted and surveyed regarding their experience with the process of undergoing a private equity driven sale of their practice. A 26-item survey was administered and divided into three sections related to a private equity practice acquisition: Section 1 "Initiation of the Deal", Section 2 "During the Negotiation Process" and Section 3 "After Closing the Deal". Questions assessed surgeons' perceptions of the deal process and what tactics PE firms utilized to compel surgeons to move forward despite their reservations.

RESULTS:

Section 1 "Initiation of the Deal", 20/20 (100%) of surgeons were interested in the promise of an initial payout. However, 16/20 (80%) surgeons also admitted that they felt compelled to continue with the process because the PE firms courted senior surgeons who then influenced the rest of the partners to proceed with the deal. Section 2 "During the Negotiation Process", 20/20 (100%) of the surgeons were compelled to proceed with the sale by the promise of a "second bite" transaction despite decreases in the initial purchase price. In addition, 15/20 (75%) of surgeons continued with the process because of unrecoverable expenses (legal and accounting) that led to deal fatigue. Section 3 "After Closing the Deal", 20/20 (100%) of unhappy surgeons were initially deterred from leaving due to financial penalties, threats of litigation and non-compete provisions.

DISCUSSION AND CONCLUSION: The results of the study illustrate the various tactics utilized by private equity firms to acquire and retain orthopaedic surgeons. Surgeons should be aware of these strategies to avoid the pitfalls when engaging with PE firms.