The rise of private equity investment in Australian health care

Martin Hensher

Private equity firms are an increasingly important feature of the global investment and business ownership landscapes. Privately owned private equity firms raise funds from institutional investors (eg, superannuation funds, sovereign wealth funds), people of high net worth, and borrowing that they use to buy majority stakes in firms not listed on share markets. Private equity funds typically take a very active role in the management of their acquisitions, focusing on rapidly increasing their value before selling them again within a few years, often also increasing their debt and charging the firms for "management services".[1,2] In Australia, private health care providers have become important targets for private equity firms, as an ageing population makes for-profit health care an attractive and recession-proof defensive growth asset.[3] However, concerns have been raised in the United States about the negative impact of private equity buyouts on health care quality, access, and costs.[2,4]

In this issue of the *MJA*, Victoria Berquist reports her analysis of the recent involvement of private equity firms in Australian private health care.[5] She used a commercial database on mergers and acquisitions to identify private equity purchases of Australian companies that provide hospital services, clinics, and imaging and in vitro fertilisation services. She found that private equity activity in health care has grown over the past fifteen years, to $4.5 billion of acquisitions during 2022. Most clinic sales between 2017 and 2022 involved general practices (sixteen firms or chains, and 256 clinics), but private equity acquisitions also included ophthalmology, oncology, radiology, and cardio-respiratory clinics. Berquist estimates that almost 3% of all Australian general practices had been purchased by or changed hands between private equity owners since 2017.[5]

Berquist's article provides a unique and original analysis of the scale and scope of private equity involvement in Australian health care. Its primary limitation is that it probably underestimates the scale of private equity health care activity: 48% of transactions listed in the database consulted did not disclose the value of the deals, while many other smaller private equity acquisitions are not publicised, and were therefore not included in this open source database.[5]

Berquist's analysis does not attempt to explore the consequences of private equity ownership for health care providers. A recent scoping review of overseas evidence (mainly from the United States) found both negative and beneficial impacts on health outcomes, staffing, and costs, but no evidence of "consistently positive effects of private equity in healthcare".[2] A recent scoping review that focused on Australia and New Zealand found no evidence regarding the effect of private equity ownership on private health care providers.[6] Both reviews suggested that investigating the health outcomes and system consequences of private equity ownership should be a priority.

Beyond US concerns that private equity ownership can harm outcomes and access, there are other reasons for policymakers to heed Berquist's findings. Concern has grown in many countries that the increasing financialisation of health care, and its identification as a rich target for profit and rent extraction, allows the leakage of scarce health care funds to non-productive purposes.[7] Rising private equity ownership of Australian health care inherently drives increasing levels of foreign ownership. This increases the exposure of Australian health policy makers to claims from foreign (but not domestic) owners and shareholders for reflective losses — potentially lost income and profits linked with policy reforms — under international investor state dispute settlement mechanisms included in many international trade agreements.[8] Badly needed reforms could be stifled by the chilling effect of this threat of potential litigation.

Berquist's analysis further highlights the rapidly changing ownership structure of Australian general practices in particular, including the longstanding shift from practitioner ownership to ever more corporatised structures,[9] and now financial sector ownership. This challenges the validity of the traditional view of general practices as independent small businesses; meanwhile, private equity owners may be strongly motivated to influence critically needed payment reforms to the Medicare Benefits Schedule in ways that benefit large corporate interests more than smaller, local health care owners.

Finally, Berquist notes that GPs and other specialists need to understand private equity, as they are now much more likely to encounter it in their professional lives. Experience in the United States suggests that physicians who sell their practices to private equity firms receive capital payments, but often see their subsequent income as an employee fall over time.[10] For doctors who wish to be employees and not practice owners, working for a private equity owner is indeed an option. However, many other non-profit and social benefit ownership or medical employment forms are alternatives to both private equity and other large corporate models (perhaps learning from the experiences and strengths of Aboriginal Community Controlled Health Organisations), while direct public employment may become more important in years to come. Australian doctors should be equipped to make informed choices about whom they wish to work for or sell their most critical professional asset to.

Acknowledgements: I gratefully acknowledge the advice of Anja Hilkemeijer (University of Tasmania) regarding the risks of private equity and investor state dispute settlement mechanisms.

Competing interests: No relevant disclosures.

Provenance: Commissioned; not externally peer reviewed. ■

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Menzies Institute for Medical Research, University of Tasmania, Hobart, TAS. m.c.hensher@utas.edu.au • doi: 10.5694/mja2.52271 ■ See Research (Berquist)

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