



Global Healthcare Advisors, LLC

Building Leading Healthcare Companies

Gee I See Opportunity in Gastroenterology

Vertical: Gastroenterology, July 2016

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Executive Summary

Market Analysis: Healthcare spending on GI diseases is estimated to reach \$142B on an annual basis. Care settings singularly focused on the gastroenterology space can be more efficiently run than multispecialty practices but are completely exposed to tenuous reimbursement schedules. The competitive landscape for GI centers is very fragmented with few major consolidators or PE-backed platforms—the lack of which presents a tremendous opportunity to capture a first mover advantage. Those in the sector compete on the bases of physician retention, accessibility to patients, referral systems, relevant technology availability, and reliability of services.

Opportunities: The aging of the US population, specifically reflecting an increase in the number of those between ages 50 and 75, the drop in the uninsured rate from the ACA, and private insurers' promotion of free standing centers increase demand for this sector.

Threats: The tenuous nature of reimbursement schedules presents a real threat to providers that have to bear the high investments required to successfully compete as a GI Practice. These two risk factors contribute to a focus on increasing patient and procedure volume while maintaining costs to incrementally increase profit margins.

Reimbursement: GI centers have faced some of the largest reimbursement cuts, up to 19% for some codes, and the ACA failed to address the significant out-of-pocket costs for procedures other than screening colonoscopies. In addition, gastro ASCs are faced with lower productivity adjustments to reimbursement schedules from the previous years.

Acquisition Environment: Pure play companies in the GI space have participated in 12 transactions in the last 12 months, resulting in a 140% YoY growth. Strategic transactions are occurring to hedge against risky reimbursement schedules, spread high fixed costs, diversify offerings, access relationships, and unlock operational efficiencies.