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Jessica L. Bailey-Wheaton, Esq., Editor
Todd A. Zigrang MBA, MHA, CVA, ASA, FACHE, Publisher

Healthcare *"Disrupters"* Continue to Attract Capital

On January 30, 2020, *1Life Healthcare, Inc*. (*One Medical)*[1] went public, opening at $14 per share, and closing at $22.07 per share.[2] The innovative San Francisco-based direct primary care organization more closely resembles a technology start-up than a traditional healthcare organization.[3] The membership model service provides "*seamless access*" to primary care services at "*calming offices*," 24/7 virtual care, and 21st century technology (e.g., a mobile application that allows patients to schedule appointments and message their provider).[4] One Medical's initial public offering (IPO) may be indicative of a trend of capital gravitating toward industry disruptors instead of the "*old guard*." The successful IPO (during which One Medical sold 17.5 million shares, raising $245 million) values One Medical at $2.7 billion,[5] and is well above the $1.5 billion valuation in the last round of funding (less than six months) prior to going public.[6]

Anything but Typical

Unlike many organizations in the healthcare industry, One Medical is backed by major high profile investors. One such investor is the private equity Carlyle Group, which invested $350 million in 2018.[7] The Carlyle Group is known for its high-profile investments in exceedingly successful brands such as Dunkin' Brands.[8] Other prominent investors of One Medical include J.P. Morgan, GV (formerly known as Google Ventures), Maverick Ventures, Benchmark, and DAG Ventures.[9] These investors are known for identifying disruptive companies that recreate entire industry segments. One Medical's IPO more than repays its investors, especially early investors.[10] For example, based upon the results of the recent IPO, the value of the Carlyle Group's equity position has doubled in value since its summer 2019 investment.[11] Notably, the strong IPO comes on the heels of broader market headwinds, such as, concerns over the impact of a global pandemic related to the coronavirus, instability in international trade arising from trade wars, and political uncertainties resulting from the upcoming U.S. Presidential Election, and the impeachment of Donald Trump, among other factors.[12]

One Medical's revenue grew by 29% to $200 million in the first nine months of last year.[13] However, losses also grew by nearly 27%, with net income declining to -$33 million over the nine-month period.[14] The loss increase is expected for an early-stage company in the rapid growth phase, and losses have deepened for the company as it has been aggressively pursuing new patients.[15]

New Approach

Tom Lee, MD, a Harvard-trained internist, founded One Medical in 2007, seeking to change the way medical care was delivered, and make it more convenient for patients.[16] Lee served as an executive at UnitedHealth Group and CEO of Stanford Health Care before ultimately founding One Medical and serving as CEO until 2017.[17]

As noted above, One Medical operates as a direct primary care provider organization,[18] which model aims to address both physician and patient concerns related to primary care delivery.[19] The company charges an annual fee of $199 and bills the patient's insurance company for the provided healthcare services.[20] The membership allows patients to text their providers, schedule same-day appointments, and utilize the company's patient portal.[21] One Medical intentionally targeted the lucrative demographic of employer-sponsored insured, working-age urban adults in cities such as New York and San Francisco.[22] More than 95% of One Medical's patients have commercial insurance.[23] Importantly, as One Medical has grown, the targeting of employees has become more strategic. One Medical has started to operate on-site clinics at some employers, such as Alphabet Inc. (d/b/a Google);[24] in fact, 10% of One Medical's net revenue in 2018 was generated from Alphabet's on-site clinics.[25] Currently, One Medical has over 6,000 enterprise clients.[26] The company asserts that employers using One Medical as an enterprise solution have seen 41% reductions in emergency room visits and total employer cost savings of over 8%.[27]

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One Medical has maintained customer-centric focus in the delivery of its healthcare services. The company opens clinics in convenient locations such as close to patients' work or home instead of on hospital campuses.[28] Often, the offices are small and furnished in a "*contemporary interior design*" more typical of an upscale living room than a physician's office.[29]

One Medical's use of technology is prolific. The company uses technology to allow patients to access care 24/7 using the One Medical mobile phone application.[30] A patient can use the application for a video visit or to message a provider.[31] Members can also rate their providers after the conclusion of a video visit.[32] The company also proactively reaches out to patients regarding health situations utilizing the mobile phone application.[33] One Medical reports that 47% of its members interact with the mobile application monthly.[34]

As noted above, One Medical's model aims to address physician burnout concerns by allowing flexible work schedules and paying providers on a salary basis with no connection to the fees collected or their productivity.[35] One Medical hopes that this compensation structure encourages providers to focus on providing medical care and prevent burnout.[36] One Medical claims to have reduced the administrative burden on providers significantly (it claims that its providers perform 44% fewer electronic health records (EHR) tasks compared to the rest of the healthcare industry) by simplifying the EHR system for its providers.[37] The company also asserts that the support from virtual medical teams, along with the salaried compensation structure, reduces any effect of financial incentives on clinical decision-making.[38]

One Medical has received a number of awards for its approach to providing primary care services. Its EHR won the *EHR Innovation Award* from *MedTech Breakthrough*, an organization that recognizes the top companies in healthcare.[39] The award is telling of the company's Silicon Valley roots and technology focus. The patient-centric approach is evidenced by One Medical's recent accolades, such as being named the #1 *Most Customer Centric Company in Healthcare* by Forbes[40] and the *Most Innovative Health Company* in 2019 by Fast Company.[41] The hype around One Medical's IPO was likely partially induced from the selection of the company for placement on the *CB Insights* (a prominent machine intelligence platform of start-ups) *2019 Digital Health Unicorn Startups* list.[42] In addition to these (relatively subjective) accolades, One Medical provides empirically high-quality care; it is in the 90th percentile rankings on key primary care *Healthcare Effectiveness Data and Information Set* (HEDIS) quality metrics.[43]

According to the January 2020 registration filing, One Medical has over 397,000 members and 77 locations nationwide.[44] It predicts that it could more than double its market footprint by expanding from its nine current markets to the 50 largest metropolitan markets.[45]

Capital Flowing to Primary Care

The U.S. has not traditionally prioritized primary care services, which makes up only 5% to 7% of the $3.6 trillion in total healthcare spending, as it has focused more healthcare spending on high-cost fee-for-service specialty care services.[46] The lack of spending is contrasted with other *Organisation for Economic Co-operation and Development* (OECD) countries, which spend, on average, 14%.[47] Over the past decade, the federal government implemented regulatory and reimbursement policies to shift the focus toward primary care services to keep utilization rates of more expensive care settings, such as emergency rooms or hospital outpatient departments, lower. On average, for every $1 spent on primary care, an estimated $13 is saved on costs in other parts of the healthcare delivery system.[48]

Healthcare capital investments are looking to invest in primary care practices,[49] as many investors and large companies believe there is room for cost-cutting in primary care, as the specialty has not yet been optimized. Major insurers and pharmacies are also starting to open primary care service clinics.[50] CVS Health, Humana, and Walgreens all now operate hundreds of primary care clinics.[51] Humana has over 230 primary care centers or joint ventures.[52] CVS Health operates 50 HealthHubs that provide primary care services nationwide.[53] Anthem has discussed buying or operating primary care clinics.[54] Even Walmart operates a full-service clinic in Georgia.[55] Other prominent start-up primary care clinics such as Iora Health seek to redefine primary care by reorienting the payment and care delivery system, and are attracting the capital, recently closing on a $126 million funding round.[56]

The distrust of healthcare's "*old guard*" is not only felt by investors, but by patients, 81% of whom have reported dissatisfaction with their healthcare experience.[57] Many patients may welcome the new entrants into a primary care industry that has, for years, been dominated by traditional healthcare organizations acquiring independent physician offices. Significantly, the new entrants may prove that primary care clinics do not have to be "*loss leaders*," as traditionally believed by many in the healthcare industry. These less traditional strategies may suggest that the healthcare industry is ripe for changes to the primary care delivery system.

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Todd A. Zigrang, MBA, MHA, CVA, ASA, FACHE, is the President of **HEALTH CAPITAL CONSULTANTS** (HCC), where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 25 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 2,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of "*The Adviser's Guide to Healthcare – 2nd Edition*" [2015 – AICPA], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Accountant's Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies; Business Appraisal Practice*; and, *NACVA QuickRead*. In addition to his contributions as an author, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); American Health Lawyers Associate (AHLA); the American Bar Association (ABA); the National Association of Certified Valuators and Analysts (NACVA); Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.

Jessica L. Bailey-Wheaton, Esq., is Senior Vice President & General Counsel of HCC, where she focuses on project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions, and research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. She has presented before associations such as the American Bar Association and NACVA.

John R. Chwarzinski, MSF, MAE, is Senior Vice President of HCC, where he focuses on the areas of valuation and financial analysis of healthcare enterprises, assets and services. Mr. Chwarzinski holds a Master's Degree in Economics from the University of Missouri – St. Louis, as well as, a Master's of Science in Finance Degree from the John M. Olin School of Business at Washington University in St. Louis. He has presented before associations such as the National Association of Certified Valuators and Analysts; the Virginia Medical Group Management Association; and, the Missouri Society of CPAs. Mr. Chwarzinski's areas of expertise include advanced statistical analysis, econometric modeling, and economic and quantitative financial analysis.

Daniel J. Chen, MSF, CVA, focuses on developing Fair Market Value and Commercial Reasonableness opinions related to healthcare enterprises, assets, and services. In addition he prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams. Mr. Chen holds the Certified Valuation Analyst (CVA) designation from NACVA.

Paul M. Doelling, MHA, FACMPE, has over 25 years of healthcare valuation and operational management experience and he has previously served as an administrator for a number of mid to large-sized independent and hospital-owned physician practice groups. During that time, he has participated in numerous physician integration and affiliation initiatives. Paul has authored peer-reviewed and industry articles, as well as served as faculty before professional associations such as the Medical Group Management Association (MGMA) and the Healthcare Financial Management Association (HFMA). He is a member of MGMA, as well as HFMA where he previously served as President of the Greater St. Louis Chapter.