Transcript
Private Equity's Impact on Hospice Care, The Good, the Bad, and the Ugly of Private Equity

Melody King: 0:02
Welcome to TCN Talks. The goal of our podcast is to provide concise and relevant information for busy hospice and palliative care leaders and staff. We understand your busy schedules and believe that brevity signals respect. And now here's our host, Chris Como.
Chris Comeaux: 0:24
Hello and welcome to TCN alks. I'm excited. Today Our guest is Laura Katz Olson. She's a professor of political science at Lehigh University. Laura, welcome, it's so good to have you. Oh, it's my pleasure to be here. I want you to tell the audience what they need to know about you. But I just want to first say this book is incredible. So Laura wrote this book. Ethically Challenged A good friend of mine, kent Anderson, at Ohio's Hospice. We were at a conference together. He goes you've got to read this book. I, literally before we got up from the table, had it ordered on Amazon. I got home, I think on a Thursday, and I picked it up on the Friday night and by Saturday afternoon and this is a thick book. I had this book finished and Laura.
Laura Katz Olson: 1:08
With
Chris Comeaux: 1:10
a lot of thick arguments, but thank you for writing this and we're going to jump into this in just a second. But what would be good for our audience to know about you, Laura?
Laura Katz Olson: 1:20
Well, I teach at Lehigh University and I just celebrated my 50th year there, which is pretty exciting. I have spent my entire career studying aging, elder care, nursing homes and things like that nursing homes and things like that. But then I started seeing things rise little kind of hidden things about private equity, and I said I wonder what that is. And one day I said you know, I really need to look and see what is this private equity that keeps popping up for health care, aging and all of this? And what I discovered is that private equity has what they call a penchant for privacy. It's like this curtain over them that nobody can know very much about them, and that, of course, given my personality, that intrigued me even more. Okay, let's see if I can find out what's going on there.
Laura Katz Olson: 2:32
And what I discovered is that private equity doesn't have to report to the SEC, and the little that they do have to report is not public knowledge. So you get big companies. If you get, let's say, a big hospice company, they have to report everything to the SEC. Private equity doesn't. I also interviewed a lot of people who sold their practices to private equity

practices to private equity, and what I discovered is that they have to sign non-disparaging clauses, non-compete clauses, so that also keeps what's going on very private.
Laura Katz Olson: 3:17
Many of them I shouldn't say many, nearly all of them refused to talk to me, but the few that did were very cautious in terms of what they said. So private equity is really hidden behind these black curtains and I was able to not go into it, not find out everything, but I was able to find out much more through the use of pitch book data, which is extraordinarily expensive, and I had to beg, steal and borrow from my university to get the money to buy it and they gave me a discount because I was a professor, but it was still extraordinarily expensive. And what I mean is that the average person can't go delve into some of this stuff. And then there's another source of data I think it's called PERC or PERIC or I'm sorry, I forget the name and I just found out that private equity bought them. So that's kind of interesting.
Chris Comeaux: 4:26
Well, let me back up just for a second, Laura, because you're really taking it to the heart already. There's so many reasons why this book was incredible. And so, first off, I've got about 30 years now and I call it the hospice movement really try to stay away from the word industry, because this is sacred work that we do. When I got in the mid nineties it was about 30% for profit, 70% nonprofit, and I've worked in nonprofit all of all of those almost 30 years now. Now here we find ourselves in 2024 and it is completely flip-flopped and so so, seeing that phenomenon, but not really knowing like why is that occurring? Like at a macro level, the way I've described it to people.
Chris Comeaux: 5:07
My godfather is a dear, sweet person, but he has been a serial entrepreneurial and we went to dinner I hadn't seen him forever in Austin and catching up and telling him what I do now, and he sat there and he's like there's a lot of people dying and that's a great business, and I'm thinking, no, no, that's exactly what's wrong is that they just do the entrepreneurial calculation and so, but then, seeing this, how you just unpack, especially your first three chapters of your book the introduction, chapter one, chapter two, who this is the title. Who even are they? Private equity, from soup to nuts. And then the emergence of the alternative asset class. I really felt like it was a master class. I felt like this is what I was looking for and so, whatever, it's okay, let me kind of I'll take my attempt of what I think I read and then if you can take it from there. But here's my interpretation.
Chris Comeaux: 5:57
And, by the way, I'm a history nut.
Chris Comeaux: 5:58
I love how you went back through history, because I remember when Michael Milken and leverage buyouts and junk bonds, and so the idea of a leverage buyout, which is okay, I get capital, I'm going to buy this company, but then I'm going to load that company with debt.
Chris Comeaux: 6:14
Then, very smartly, I start paying myself via management fees and then dividends. So let's say I'll make simple numbers I took $100,000 of capital, I purchased the business for 100,000, which won't happen, but just for sake of simplicity but then I get all of it back via management fee and dividends. I now got my money back and then, if I do that two or three times, stitch those companies together and then use very aggressive, almost unethical

sales practices to jack up the revenue and then maybe even flip the company. Now I made a profit from it and that's almost that's my interpretation, or at least simplistically, of like generally their playbook. And then you're also alluding to the fact that they are able to kind of do this beyond a veil of secrecy. Can you take it from there and probably explain it much better than I just did?

Laura Katz Olson: 7:02

Well, let's start with the fact that and I think this is one of the most important issues in private equity they do not care what they're investing in. It could be hospice or it could be rota ruta. I mean, they just don't care. So they're really looking for an industry and you don't want to call it an industry, but it has become an industry hospice. They're looking for an industry that's going to bring back a lot of money, and the retail industries the Toys R Us which they, of course, went bankrupt under private equity those opportunities are far less. So they've turned to health care as a way that they can bring in what I would call not me, but everyone calls outsized profits and, as the book says, if they don't get outsized profits, they're going to lose all of their investors, because the investors will go to a place that's less risky if they're not getting outsized profits.

Chris Comeaux: 8:23

And outsized just being like what beating the market by some big factor. Laura.

Laura Katz Olson: 8:27

Well, right now they're having a problem beating the market, but they need to beat the market commensurate with the risk that their investors are taking.

Chris Comeaux: 8:39

Okay, that's a key point.

Laura Katz Olson: 8:43

That's a key point, so they have to. The second, I think most important part and how it relates to hospice as well, but it's for health care in general is they really don't care about the long-term growth of the company and that's because the playbook in the private equity playbook they must sell the company within six years, so they have to really flip it. Unfortunately for them, they're having trouble in this high valuation, high interest rate market selling, so they're kind of stuck. They're also they sell to well, let me just go back. They also get most of their money not all, but most of the money from state and local pension funds.

Chris Comeaux: 9:38

Oh, that's where their investment cash comes from.

Laura Katz Olson: 9:41

Most of it, most of it. Another, I think, key point is that the private equity only puts in. They buy all of their companies through leveraged buyouts, which means debt, the private equity company themselves. And this is the beauty of it. They only put in 2%, sometimes 3%, but mostly 2% of the buying price, their investors, the state and local pension funds. They put in about 40% and the rest of it is debt. And, of course, the most key to the private equity playbook is that the debt is put on the company themselves. So in the case of hospice, they now have a huge debt that they never had before and they've got to service that debt, install, service the business.

Laura Katz Olson: 10:45

And they've got to service that debt and still service the business. So right, they have to service that debt and they have to service the business. And, of course, the trick is that private equity needs to sell quickly and right now. For example, one of the places they can sell is to produce an IPO. There are very few IPOs right now. A second thing that they can do is sell to another private company or a division of a private company, but, more importantly, what they're doing today is selling to themselves.

Chris Comeaux: 11:25

What does that mean?

Laura Katz Olson: 11:26

They're selling. One private equity company buys a hospice, for example, and then, within that six-year period, will sell to another private equity company in a secondary LBO leveraged buyout, which means more debt, of course. Then they'll sell to yet another private equity. When I wrote the book, they were mostly in their first buyout. Many were in the second buyout Since 2022, since I wrote the book. Some of them are in their third buyout.

Laura Katz Olson: 12:04

Wow Look some of them are in their third buyout, wow, and right now they're having such trouble selling their health care entities that they're very ingenious with what they do. They put together what is called continuation funds.

Chris Comeaux: 12:23

What does that mean?

Laura Katz Olson: 12:24

And that means they have another fund. They put another fund and they take the old company and put it in the new continuation fund, which means that the private equity company gains on both ends of the deal the selling and the buying. But I've been reading that the pension fund, the limited partners, are getting really angry about that.

Chris Comeaux: 12:55

Oh, wow, I was going to ask you about that Because obviously, on one hand, you know anyone. If you've got your 403B, your 401K, you want it to appreciate in value. So these pension funds, they just want those funds to grow to be able to these state employees or whomever. So are they getting more of a clue of where those funds are being invested?

Laura Katz Olson: 13:19

They're really because of the as I said earlier, the secrecy of the private equity. It's really unclear where the money is invested and they don't really tell the people who control the pension funds. I guess could find out, but it's very challenging to find out.

Chris Comeaux: 13:42

Just think of how challenging where you started the conversation. But it's very challenging to find out. Just think of how challenging you were where you started the conversation. One thing I just want to add in real quick, lord, because part of the aha for me and I don't know if it's this thing misery loves company. But I had no clue that what we were seeing in hospice was also happening with autism spectrum disorders, air ambulance, dentistry. Of course I did know about the primary care practices being purchased, substance abuse. I was just clueless about these other fields. How did you do your detective work, and are there other fields that you're seeing that they're going to as well?

Laura Katz Olson: 14:20
Well, as I was studying I'm not a finance major and this was all very new for me it took me nearly a year just to understand the finances of private equity. So as I'm looking at these financial shenanigans or what they call financial I forget the word now, but playing around with the money and how they do these issues things kept cropping up like opium centers and autism. So then I just started studying each one of those as they came up. I did not study nursing homes, because it's much more complicated.
Chris Comeaux: 15:08
And just maybe let's chase that rabbit for a second when you and I were doing show prep. So you're writing a new book about nursing homes.
Laura Katz Olson: 15:17
You want to just say just a little bit about that. Well, I've studied nursing homes my whole career and the one thing about nursing homes that makes it much more complicated is that a lot of the bad stuff, the low quality care, is regardless of whether they have private equity or not. And it's a much more complicated issue because private equity has made it worse and, on top of everything else and this is true of a lot of places private equity doesn't get its money from the operations of a nursing home. It gets its money mostly by selling the land, the real estate under the nursing homes.
Laura Katz Olson: 16:07
The nursing homes are very complicated. You can't really sell the land under a hospice.
Chris Comeaux: 16:13
Right, yeah, so it makes it much different. Well, we'll be looking for that book when it comes out One of the things that occurred to me, laura. So I don't care if you were running an ice cream stand, a hospice or a dentist office the general expectation to serve the customer is to provide a good quality product, to do it with good service. There's a timeliness element. None of us like to wait for. Whatever it is we want to get. That's why Amazon has built a business model.
Chris Comeaux: 16:45
There's a cost equation, so people want to get, so always working to get a good value, so you have costs. If you actually wrote an equation, it's service quality plus timeliness, divided by cost, equals value. And what occurs to me when I was reading the book is that they're not working on that. It's almost like trying to create a vending machine for cash and they're not working on the real problem which? And when you start talking about caring for the dying, or a primary care practice, or hospitals, for that matter, or air ambulance, that, to me, is the like that's. That's the part that's wrong. I don't know if you want to comment on that well, I think it's more than wrong.
Laura Katz Olson: 17:28
uh, if you look at, as I started this uh discussion, if you go under the premise that the sole goal of a private equity firm is to make outside profits, they don't care if it's you know people dying, or they don't care if it's autistic children, they just go where the money is, like Willie Sutton. You have to be of a certain age to know who Willie Sutton is. Of course, when he was asked why he robbed banks, he said well, that's because that's where the money is.
Laura Katz Olson: 18:05

And that's how private equity works. And second, as I said earlier, they are not there for the long term. Right. If you're there for the long term, then your equation would work, because they care about the quality of services and people won't come back, but they're not there for the long term. You know, and in health care until recently, they've been dumping their purchases. In three years, yeah, that's.

Chris Comeaux: 18:32

you know, that's such a key point. We so. I'm the CEO of a network of just nonprofit hospice and palliative care programs and we had a good discussion early on because sometimes as nonprofits we kind of wrap ourselves in this cloak of holiness and say for profit bad, us nonprofit good. But what does that mean? We need to unpack that. What makes us? Why do we think we have maybe a better opportunity to serve the patient and family?

Chris Comeaux: 18:57

And one of the things we struck upon is we said we don't have a shareholder and if you have a shareholder, there's some exit that is contemplated. As a nonprofit, your contract is with the community and there is no contemplation that you should ever break that contract, which means we are here for the long term to make good decisions and serve patients and families today, tomorrow and the next day. I don't know if you want to make a comment to that, but that's something we struck upon instead of just, you know, almost having an arrogance. Well, we're better as nonprofit. In fact, if anything, we have a larger responsibility because of that kind of social contract as a nonprofit.

Laura Katz Olson: 19:37

And I think you're absolutely right. But I think there's more to it. I think people like you go into hospice or into autism services because they really care about the dying patient or they care about the autistic child. Now they have to make a profit. Even nonprofits make a profit. You can't go into it and lose money or you'll just close down. So there's a lot of balancing to do, but the ultimate goal is to provide quality services, and this is not even close to a playbook. They really do not care and I say this absolutely about the quality of their services. It's just not even an issue.

Chris Comeaux: 20:35

I love in the book that. So my, my godfather, I alluded to work for Nabisco, and so I am forgetting the book the Barbarians of the Gate and you had you cited that book as that whole kind of corporate raider mentality, which was exactly what you're poking on. This wasn't really about trying to make the business better and you really kind of wove that well into the book. I don't know if you want to speak to that. It's almost like what is old is new. It's just a different version of that icky thing that was cataloged in that book, the Barbarians at the Gate.

Laura Katz Olson: 21:07

Yeah, but if you think about it, one of the consequences of putting this incredible debt on businesses giving themselves dividends whenever they feel like it, underselling the real estate on which something sits One of the consequences of that is bankruptcy. Yeah.

Laura Katz Olson: 21:38

And there have been multiple, multiple Bumblebee Tuna I don't know if you know that David's Bridal. I mean I can go through a list of many, many retails that went under because of the playbook of private equity. The question is can we afford to do this in health care?

Yeah, it's almost like my daughter was very unhappy when we lost the toy Toys R Us. But what happens when a cancer patient loses their cancer therapy or or their hospital or yeah, that we can't afford to do this.

Laura Katz Olson: 22:15

And when I wrote the book, I predicted and this is not to you know, give myself a halo, but because of the playbook I predicted that there would be a lot of bankruptcies in healthcare. Go full force into health care. I would say 2015, 2016, which didn't give them enough time to have all these bankruptcies.

Laura Katz Olson: 22:44

There were some. What was the? I forget now. Where the health care? One of the early health care bankruptcies. But now you're seeing bankruptcy after bankruptcy of cancer institutes, of radiology, of the most famous one, of course, right now is Stewart Healthcare. That was good insight, yeah, but that's just one of many Prospect Hospital in Philadelphia went under, mostly because they sold the real estate, mostly because they sold the real estate.

Laura Katz Olson: 23:22

And when you seal the real estate the hospital then has to pay a very expensive rent. Yeah, on top of the dividends and on top of everything. And the question is can we afford to do this in health care? And for me it's a resounding no yeah, I agree.

Chris Comeaux: 23:35

Um, Laura, I would like to take it too, because we really could just keep unpacking this. Um, what can we do, like as our listeners? I mean, it almost rises like an anger, but being angry is not a good thing, and so what can we do? What do you think we can do?

Laura Katz Olson: 23:53

Well, there's a lot of things we can do. I mean, I will say something now that is pretty outrageous, but I would outlaw private equity in health care period In total. But I would outlaw private equity in health care period In total. But barring that, which is not going to happen, you have some congressmen now, women, men, who are putting out various laws.

Chris Comeaux: 24:25

One of my favorite people is the head of the Federal Trade trade commission. Are you looking for that, Laura? Um, one of the books. I did some research this summer because I was starting to think about the, the foundation, right. So how is health care structured in america? Have you ever bumped into tr reed's book, the healing of america? And he went and researched every health care system in the world and then he kind of stratified them in terms of like the very best and like cause it's so intellectually lazy, the the healthcare debate, cause you got to almost go down in healthcare, of how it's structured, to its funding. And then how do you kind of fix cause if you don't fix that cause? If you do fix that, maybe there is a way then to say, well, maybe only private equity in the emerging R and D space, which is more the future, future but the current that's been defined like hospitals, Hospices, maybe there shouldn't be any private equity there. I don't know if you have any thoughts or if you know about that book.

Laura Katz Olson: 25:15

No, I don't. But I would say that there are some efforts now to not allow non-compete clauses. There's some effort now by various congressmen to cut down on what's allowed.

One of the problems you get is that the money that private equity gets from selling their company is taxed at the corporate rate, not the individual rate. So you know, this excites them and there's been an attempt to cut back on that. That, not so much to keep them from making as much money but to make private equity not as profitable and therefore maybe people will pull out. There's been, you know, like Elizabeth Warren has put out two pieces of very comprehensive legislation but of course it doesn't go anywhere. And, by the way, I won't go into this, but I would argue just from what I've studied, that the reason it doesn't go anywhere is because congressmen make money, have a stake in private equity.
Chris Comeaux: 26:48
So it's very hard to vote against your own interests.
Laura Katz Olson: 26:50
It's a revolving door Some of them. When they leave, they get hired at very, very high salaries. There's been shown to be serious interlinking between Democrats and Republicans. This is not a partisan thing actually.
Chris Comeaux: 27:13
When you look at your crystal ball, where do you see this going Like? What do you see happening over the next five to seven years? Is it going to be more bankruptcies? Which kind of your prediction there?
Laura Katz Olson: 27:23
I think there's going to be more and more purchases. If you want to look at hospice, for example, hospice is extremely hot and they're going to be buying up the nonprofits as fast as they can. For a lot of reasons, home health care is also hot not as hot as hospice because Medicare is pulling back on home health.
Chris Comeaux: 27:52
Yeah, they're much more regulated. They've cut the rates more on the home health side.
Laura Katz Olson: 27:57
There's a lot of money being put into IT, health, healthcare, IT. But if you look beyond healthcare which I kind of look beyond healthcare there's a lot of money. Money is being put into student loans. They're buying out the student loan industry. They're buying out as much as they can sports.
Chris Comeaux: 28:24
Like sports teams Football, basketball, sports sports teams, basketball Sports teams you mean?
Laura Katz Olson: 28:27
Yeah.
Chris Comeaux: 28:28
Wow.
Laura Katz Olson: 28:30
There's a limit to how much they could buy, because the sports teams have put limits, but they're doing as much as they can. They're buying out the data, as I said to you earlier. They're buying out the data for private equity. They're just everywhere and, as I said, they go where the money is. Wow.
Laura Katz Olson: 28:53

So they are definitely going to go into health care. Opioids is a big one. They're really going full force on opioid treatment centers. So wherever there's outsized possibility for money, that's where they're going to go. And one of the more important things, I wrote down the exact amount. They have $2.59 trillion right now. In private equity Trillion dollars right now In private equity, in what they call cash that they have to put somewhere. Oh wow, they call it dry powder, gotcha.
Chris Comeaux: 29:34
Yeah, it's on the sidelines and they want to put it to work, wow.
Laura Katz Olson: 29:37
So if you have $2.59 billion that have to be put to work, they're going to keep buying things.
Chris Comeaux: 29:45
You said 2. Was it trillion or was it billion?
Laura Katz Olson: 29:49
I'm sorry. Trillion, $2.59 trillion that has been promised. Dry powder is money that has been promised to them if they buy something.
Chris Comeaux: 30:00
Right. Wow.
Laura Katz Olson: 30:02
And so you know, with hospice, for example, I think, I think hospice is like they make something like a 20 percent profit on hospice.
Chris Comeaux: 30:09
Yeah, which is that's part of. The problem is, like you know, typical nonprofit makes two percent and then typically 18 to 20 percent on the for profit side. And the argument is well, obviously we're superior at running the business. Well, 70 percent of the costs are people costs, because those are the people you're putting by the bedside. Yes, that doesn't mean that that's always the case, but the sophistication of the care we're providing, that should be a level playing field. The difference is, as a nonprofit, you don't have to pay a shareholder, so you should be able to plow it back into the mission. So investing in your people to provide high quality of care, and so, yeah, it's pretty icky.
Laura Katz Olson: 30:52
Well, final thoughts for our listeners, because I want to be respectful of your time. Oh, I think that people have to really understand that the playbook of private equity inevitably has to undercut the quality of care. It has to. So whenever you put rules and regulations for example, you must have an RN in hospice care Whenever you put something like that, they're going to cut back on something else or else just get out of the business of a particular niche. But they have because they have to make oversized profits. Inevitably, unless they're magicians and I've seen this, you have to it's going to affect quality of care.
Laura Katz Olson: 31:45
And any argument that I have heard in favor of private equity and I'll just give you one argument is that they put in agencies, that there's a need for more agencies, more need for, let's say, hospice care, or there's more need for autism centers. And yes, they do. They put in de novo agencies and there is more availability. But the question is the availability of these centers is so low quality that it's detrimental to the patients. So are you really looking

for more agencies that have low quality care? And I think people should think about that if they have a need.
Chris Comeaux: 32:37
Yeah, that's a great kind of argument, Laura. Well, we need more car dealerships, but if they're selling I don't know if you remember Yugo's they're selling Yugo's that break down, down, break down and leave on the side of the road. That's not a very good argument. Well, Laura, I want to thank you because, again, I mean you had to do a ton of research. I mean this was this was not an easy lift, but cataloging it and pulling the veil back on this playbook, I felt like it put words to, I know, many of my peers in this hospice movement. We were sensing it, but we couldn't put words like what exactly is happening here, and I think you really did kind of pull the veil back. And so I just want to thank you and definitely be looking for your book on nursing homes. When do you think that book will be out?
Laura Katz Olson: 33:19
Oh, this is in the early, early, early stages.
Chris Comeaux: 33:22
So probably 25, maybe 26, somewhere in that ballpark, more like 27. 27. Okay, that's fair, because how many years of research did ethically challenge?
Laura Katz Olson: 33:33
How many years of research, I guess that's I would say on and off, steady. Not on and off, but steady five years.
Chris Comeaux: 33:46
Wow, that's incredible. Well, again, thank you for the work that you do. And, um, I just want to thank our listeners. We always leave with a thought-provoking quote, and I asked laura, and so there are a couple. I ran by her and she said she left it up to me, found one by albert einstein, and his word was unrestrained capitalism. And I'll just say, um, icky capitalism. However words you but bad.
Chris Comeaux: 34:06
Capitalism produces great disparities in wealth, cycles of boom and depression and festering levels of unemployment. And again, this is Albert Einstein wrote this years ago that type of system encourages selfishness instead of cooperation and acquiring wealth rather than serving others. And to me, this is the punchline. People were educated for careers rather than a love for the work and the creativity of the work, and I know the people that I love and do this work in hospice. That's our common ground, is that love for the actual work, and I think that's really what Laura's calling out is. It's a playbook. That's not actually about that. It's just literally trying to create a vending machine of cash. And then this final quote this is from Margaret Mead Never believe a few caring people cannot change the world, for indeed, that's all who ever have. Thanks for listening to TCNt alks. Thank you.