

Hot Collaboration Considerations: Healthcare Joint Ventures in 2025 and Beyond – AHLA Annual Meeting

Authored by Jennifer C. Hutchens and Thomas Spellman

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Cast of Characters

- **The “Practice”** – CardioDocs – A highly esteemed practice of two dozen physicians in San Diego, specializing in cardiology, but also providing cardiology-related specialists like endocrinology. The Practice is also well-known for conducting, on behalf of sponsors and universities, research into cardiology-related pharmaceuticals and techniques.
- **The “Hospital”** – Sacred Heart Hospital – A community hospital serving the needs of the metro San Diego area.
- **The “Fund”** – Healthcare Investors LP – A mid-sized private equity fund that focuses on investments in healthcare providers.

The Proposed Transaction

In late 2024, senior leadership at the Practice discussed that, while the Practice has been very successful, it was having trouble retaining junior physicians for economic and professional development reasons. The Practice has decided to explore expanding into new business ventures beyond its current office-based practice. The Practice has an excellent relationship with the Hospital, as many of its physicians perform surgeries and other services at the Hospital, and often serve as the on-call physicians.

The Hospital has also been considering its current financial performance and footprint not only in the San Diego metro area, but also its national and international reputation. The Hospital, like many others, suffered numerous challenges during and after COVID, and is looking to expand into more lucrative outpatient services and pursue opportunities that might increase its prominence in the healthcare community.

The Fund is a relatively new investment platform, though its leadership has decades of experience and success in healthcare investment. The Fund is looking to make an investment, or series of investments, which will not only perform well financially, but will also give the Fund recognition in the broader healthcare community. Some of the principals of the Fund have relationships with Hospital leadership from prior business transactions.

Both the Fund and the Practice separately reached out to the Hospital to explore possible transaction opportunities and partnership opportunities.

Possible Joint Venture Transaction

The parties think that there are several business opportunities that could result in financial and operational improvements:

- Build and develop an outpatient surgery center for cardiovascular and related procedures. The Practice would then have an equity stake in many of the procedures its physicians perform; the Hospital could

outsource certain surgeries from its main campus (where cost of care is higher); surgery centers are expensive, and the Fund could utilize its financial reserves to assist in the build-out.

- Some considerations to assess would be: “who would serve as landlord?”; “who would manage the site?”; “would non-cardiology activities in the space be appropriate, and does that raise concerns for the physicians?”
 - Contribute the Practice’s ongoing and future research opportunities to a stand-alone research business. The Practice could use the Hospital’s and the Fund’s contacts and knowledge to expand to additional research opportunities. The Hospital would have an even larger opportunity to advance important research, and attach its name and brand to such research. The Fund would have an opportunity to expand even further into the healthcare space through research-related contracts (which would be expected to include large pharmaceutical companies and major research institutes).
- One main consideration would be how to value the current research operations contributed to the joint venture, as well as figuring out compensation for the physicians responsible for the research (as a principal investigator).
 - Have the Practice contribute (or outsource management) of its current operations to the joint venture. This would be a significantly larger transaction than the two contemplated above, and would be a fundamental shift in how the Practice currently operates, and operates in the future. It would be an expensive endeavor for the Hospital and the Fund, but it could provide additional financial opportunities for individual physicians in the Practice, ensure succession planning, and possibly provide the funding to grow the Practice beyond its current footprint.

Forming a joint venture to operate a practice raises a host of challenges, some of which are legal and regulatory. Given the scope of the project, the parties may want to test the waters on a partnership under the first two bullet points while outsourcing some of the Practice’s back office tasks, before undergoing a full contribution of the Practice.

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