

TYPES NOT MAPPED YET August 05, 2022 | TTR not mapped yet | Nathan O. Viehl

# Five takeaways from the Amazon/One Medical transaction

On July 21, 2022, the most high-profile acquisition in the health care space in recent memory was announced, when Amazon publicized the acquisition of One Medical, a primary care organization, for \$3.9 billion. Amazon's interest in the massive US health care industry has been no secret in recent years, but this is undoubtedly their biggest bet to date. One Medical's core business is a subscription based digital platform offering telehealth services, but it has also made inroads in developing in-person brick and mortar clinics as well. One Medical also offers its own proprietary EMR system as employer-oriented offerings (with Google known to be a major client).

Given Amazon's massive scale and ambition, participants in the space will no doubt be watching this transaction closely and here are five areas we will be paying attention to:

### 1. Primary care is an attractive target.

As many commentators have noted, in order to bring down costs and increase the quality of patient care, innovators need a large population to collect data and spread risk. Amazon tried this once already with its infamous joint venture, Haven. Between Amazon, Berkshire Hathaway and JPMorgan Chase, Haven had 1.2 million U.S. employees in its system, but because these employees were in widely dispersed geographies, it lacked sufficient market power to bring down the costs of health care services for its employees. Similarly, health care providers had little incentive to retrain their focus from providing (expensive) episodic care to focusing on overall health care outcomes based upon value.

Unlike the Haven joint venture, the One Medical acquisition represents an investment in value-based primary care which offers some distinct benefits. Whereas many private equity investments focus on fee-for service and outpatient specialties, garnering a return on such an investment often involves developing additional revenue streams by adding ancillary products and services. On the other hand, primary care providers are generally well-positioned to direct and manage the care of their patients due to the duration and frequency of contact with them. Coupled with advanced data analytics to improve care management and deliver evidence-based care, many in the health care industry believe that primary care has the potential to revolutionize care delivery in the United States, shifting away from expensive, procedure-based care to patient-centered care led by physicians. Finally and perhaps most critically, One Medical's existing attributable Medicare lives offer an opportunity for Amazon to break into the value-based Medicare model at a scale that would be impossible with its own employees.

### 2. Health systems - be wary.

The One Medical acquisition has repercussions beyond the participants to the transaction. Direct Primary Care has seen an explosion of interest in recent years, and One Medical does not position itself as a competitor to health systems. However, if One Medical is able to improve the quality and access to care and better manage quality of care, it is likely to reduce the need for the episodic care provided by hospitals and other more expensive actors.

### 3. Innovations in employer offerings.

While this acquisition can be seen in many ways as a departure from Amazon's previous forays into health care, it's important to note the most valuable thing Amazon brings to this transaction is still its massive employee base. If Amazon started with their employee base in the Haven joint venture, here they are starting with a proven primary care model and plugging their employee base into that.

Even beyond that, however, Amazon now has a tremendous opportunity to innovate with respect to the employer's role in the delivery of health care services without the pressure of that being the core of the business. New opportunities in this space include the addition of localized clinics being placed next to major workplaces (think

Amazon warehouses). If Amazon can create its own market strategically, they could drastically make inroads in one of the biggest opportunities in the health care space - the roughly one quarter of American who don't have a primary care doctor.

#### **4. Innovations in data and delivery.**

Many physician practices, either as stand alone entities or when operated by hospitals or health care systems, suffer from lack of resources to develop and innovate in information systems, data management, and development of clinical protocols, particularly because, as noted above, there is usually a strong focus on providing more lucrative episodic care to the detriment of preventive medicine. We have no doubts that Amazon will further One Medical's data analytics capabilities in a way that will enable it to manage health care and cost data across the health care continuum. Similarly, we anticipate that One Medical will continue to provide (and even expand) its offerings of telehealth and other services that are cost effective, convenient, and enable the prompt management of patient health to minimize subsequent, costly interventions.

#### **5. Attractive to physicians.**

The One Medical practice model is likely to appear attractive to many primary care physicians because it places them at the center of health care decision-making for their patients. It is widely documented that the number of physicians in independent practice is decreasing. At the same time, many primary care physicians are leery of becoming employed by health systems because so much health system revenue is dependent on hospital services - meaning that the physicians are in a secondary position with respect to their ability to command financial and management resources. Amazon and One Medical are positioned to take advantage of these dynamics. With One Medical's existing infrastructure and Amazon's market penetration and presence across the United States, they should be enabled to attract patients while at the same time relieving physicians of administrative burdens that overwhelm many health care providers.

#### **authorsTest**

**nathan**

Nathan O. Viehl