Shot in Arm For Plaintiffs

FINANCE: Key Health picks up medical tab in exchange for potential lawsuit payout.

By STEPHANIE HENKEL *Staff Reporter*

If you have an injury from an accident that's significant enough to form the basis of a lawsuit, you probably can't wait to visit a doctor until the case settles.

You might need expensive care immediately, even if you don't have money to pay. That's where **Key Health Medical Solutions Inc.** comes in.

The Westlake Village firm is one of the largest health care financing companies in the nation, employing approximately 65 employees and processing about $100 million in medical claims annually. The company did not disclose its revenue.

Typically, an injured person has a lawyer handling the case for a contingency fee that is collected once the case is settled. Meanwhile, if the injured person needs diagnostic procedures or tests to build the case, or even surgeries to treat the injuries, Key Health steps in to negotiate a price with the medical provider and then pays that amount on behalf of the lawyer and client.

Technically, it's called medical lien funding or medical lien factoring. Key Health purchases the account receivable from the medical provider at a discounted price in exchange for bearing the risk associated with the time it takes to settle the claim. When the case is settled, the bill is paid and the difference between that and the discounted price is Key Health's payday.

"To get a view of the company from the 30,000 foot level, most medical providers don't like to carry litigated receivables, because it could take anywhere from a year to five years to settle," said **Jeff Trigilio**, chief executive of Key Health. "We have to manage those cases until they settle, and then we get paid."

After the case is resolved, Key Health is reimbursed at a profit if the settlement terms are favorable. If that's not the case, the company may stand to make no money at all – yet the patient is still responsible for the medical bill. The loans Key Health invests in are relatively high risk, but the returns are also high – when they pan out.

As part of the process, companies such as Key Health consolidate multiple medical bills from providers. An injured person might see specialists, spend time in a hospital and run up bills at a pharmacy, but despite the different providers, there's just one payer – Key Health. That can simplify the process for lawyers, for example.

"When Key Health holds the majority of the liens for our clients' various medical bills, it makes it very simple for our staff," said **Gerry Marcus**, senior counsel at his eponymous Calabasas law firm. "Instead of negotiating with many different providers, we can negotiate with Key Health on all of the bills."

Solvency questions

As arbitragers of risk, medical lien companies are by nature risky ventures. Trigilio said it's a fragmented industry, with a lot of smaller players coming in strong and then fading quickly. He attributes this to companies overestimating their cash flow and eventually tapping out resources.

"It's not unusual for us to go into the market and see somebody make a big splash and then disappear," he said. "Having been in business for 20 years, people look at us as a stable company that's here to stay. They don't have to worry about whether we are going to pay them or whether we're solvent or not."

Key Health processes about 50,000 claims a year, purchasing the majority of its accounts from imaging centers, physical therapy providers, outpatient surgery centers and hospitals.

Currently, the company operates in 43 different states, doing the majority of its business in the southern half of the nation in states such as California, Arizona, Texas, Georgia and Florida.

Accessing capital is a key challenge in lien factoring. Trigilio said it's difficult to get adequate money to start this type of business, because most of the assets are considered long-term receivables. This makes it hard to obtain funding from banks and conventional lenders because of the long wait for return on investment. That forces many companies to begin with their own money.

PHOTO BY DAVID SPRAGUE

Financier: Jeff Trigilio amid collectors' cubicles at Key Health offices in Westlake Village.

Founded in 1996, Key Health started with venture capital and for the first few years funded most of the business with private equity. At the time, the company had an additional workers compensation business that was sold off after five years. In 2011, **Blackford Capital**, a private equity firm in Grand Rapids, Mich., acquired Key Health and became the company's financial sponsor.

Growth factors

Key Health has doubled its business in the last four years without having to incur any additional overhead, which Trigilio attributes to the efficiency of its operating software. Key Health spent more than $3 million to develop the software, which tracks thousands of claims at any time.

However, the changing political climate surrounding health care has had some effect on Key Health and the industry as a whole.

"Obamacare has not directly addressed factoring but there have been indirect consequences," said **Harry Nelson**, founding partner at **Nelson Hardiman**, a boutique health care law firm in Los Angeles. "Obamacare accelerated a long-term migration of physicians out of smaller private practices into large managed-care, hospital-affiliated physician organizations."

The shift has forced smaller practices to become more entrepreneurial to respond to the financial pressures of having less cash flow than bigger competitors. That has drummed up interest in what Hardiman described as "off the traditional fee-for-service" payment system. As a result, physicians have explored other financing models, including factoring, to sustain their businesses.

With health reform, a growing economy and a new software system, Trigilio believes he can quintuple the assets of his company in the near term.

"Our goal is, within three to five years, to be purchasing in the neighborhood of $500 million in claims a year," he said.

To accomplish this, Key Health plans on taking a two-pronged approach: consolidate the industry by buying up smaller competitors, and recruit new customers by way of its national sales force.

"The market has looked at litigation financing and now sees it as a real opportunity that is here to stay," said Trigilio. "We will see more and more people get into the business but it takes a lot of systems, processes and funding to really make the business scale."