Health-Care Transactions Update: January

Health-care transactions announced in January show a few hot trends—growth in behavioral health deals, movement in the post-acute care space and acquisitions of health insurance companies by providers, according to professionals who counsel health-care industry players on mergers and acquisitions.

After reviewing a list of transactions announced in January, financial advisers told Bloomberg BNA the sheer volume and diversity of the highlighted health-care deals is encouraging, even though the stock market has been in a slowdown.

Large companies are continuing with large acquisitions, as well as buying smaller companies that engage in basically the same type of business, Greg Wappett, a director with Provident Healthcare Partners LLC, Boston, told Bloomberg BNA. Additionally, “private equity groups continue to invest in both new platforms and add-ons, and the variety of subsectors is encouraging as well.”

Wappett said there also is “great deal of excitement and interest for the middle market,” usually defined as transactions involving less than $500 million. However, he said, “there is no doubt that difficulties are popping up in terms of the public equity and credit markets.” There already are “some initial signs that conditions are going to get a bit tighter, although certainly not deal-prohibitive,” Wappett said.

Hot, Hot Hot! One of the hottest areas for growth is behavioral health. Deals bearing out this trend include:

- Advanced Recovery Systems’s acquisition of Blue Horizon Eating Disorder Services, a Florida-based company specializing in the treatment of anorexia, bulimia, binge eating and related disorders;
- Private equity firm North Castle Partners LLC’s strategic investment in Turning Point, which treats drug and alcohol addiction in young men; and
- Birmingham-based healthcare real estate investment trust and development firm The Sanders Trust’s $13.5 million acquisition of San Antonio-based Nix Behavioral Health Center, which provides in-patient behavioral health services for children and adults.

The growth in behavioral health is being driven, in part, by several recent developments, Gary W. Herschman, of Epstein, Becker & Green PC, Newark, N.J., told Bloomberg BNA, without commenting on any specific deals.

The U.S. Preventative Services Task Force issued in late January and early February recommendations on screening for depression in children, adolescents and adults. It’s probable, then, that some type of screening will become a common practice among providers—and that likely will lead to more demand for behavioral services that will spur transactional activity designed to take advantage of the growing need for behavioral health providers, he said.

Herschman’s partner, Paul A. Gomez, of Epstein, Becker & Green PC, Los Angeles, agreed, telling Bloomberg BNA that he expects to see “a higher level of investment” in the behavioral health space by both providers and private equity investors. There is “a greater awareness of the impact that behavioral health care will have on overall health-care quality, outcomes and treatment costs, he said.

“A higher level of investment” in the behavioral health space by both providers and private equity investors is likely.

PAUL A. GOMEZ, EPSTEIN, BECKER & GREEN PC, LOS ANGELES

Legislative developments, such as the Mental Health Parity Act and the Addiction Equity Act, which are aimed at ensuring that insurance coverage for behavioral health care is equivalent to that for medical care, have created the “potential for greater access to behavioral health-care services.” This, in turn, will “drive increased merger and acquisition activity in this sector,” Gomez said.

Expansion Seen in Post-Acute Care Sector. Several transactions in post-acute care involving long-term care, skilled nursing facilities, assisted living facilities, rehabilitation facilities and home health-care services appeared on the January list, indicating lots of movement in this sector as well.

Representative transactions include three high-dollar deals by American Realty Capital Healthcare Trust:

- the $55 million acquisition of an independent and assisted living facility in Oregon;
Private Takeover of Public Entities. Deals between public entities and private investors may gain momentum in the coming year, and due to budget pressures, state and local entities may see selling facilities to private firms or entering into public-private partnerships as attractive options. Already, Monmouth County, N.J., has completed a $32.4 million sale of its nursing homes to Allaire Healthcare Group and Preferred Care Holdings. The county said it sold the facilities because they were operating at a loss.

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Mike Tierney, Hammond Hanlon Camp LLC, Chicago

On the other side of the country, Kaiser Permanente Hawaii signed an agreement to take control of the Hawaii-owned hospitals on Maui and Lanai. This is the first ever private acquisition of a state hospital in Hawaii, Kaiser said. The private firm pledged to spend at least $20 million to upgrade the facilities over the next five years. A union’s attempt to derail the deal recently was rejected by a federal trial court (see related story).

There is no doubt that operating health-care facilities has become more challenging for state and local entities, given their constricted budgets, Herschman told Bloomberg BNA. Widespread implementation of the Affordable Care Act and greater competition among providers is causing "another wave of privatization transactions," the first wave having taken place in the 1990s, he said.

Victoria Poindexter, of Hammond Hanlon Camp LLC in Chicago, also has noticed an increase in privatization activity, largely "as a result of the weak economy and the heightened risk for health-care providers." Financially strapped government entities can't afford the risks involved in operating health-care facilities, she said.

Mike Tierney, also with Hammond Hanlon Camp LLC in Chicago, told Bloomberg BNA the trend is likely to continue. "For years, those without access to insurance would use the government-owned hospital for health-care delivery," he said. After the ACA’s passage, more people have insurance and "have the opportunity to go to hospitals with better reputations and quality outcomes."

In that environment, "privatizing government owned hospitals only makes sense," Tierney said. He added that there is a "general sense" from private equity firms "that they believe they can run health-care enterprises more efficiently" than government operators.

International Deals. Included in the January list is a U.S. entity’s intended acquisition of a behavioral health-care provider based in the United Kingdom. Acadia Healthcare, which operates a global network of inpatient and outpatient behavioral health facilities, said it plans to buy Priory Group for terms valued at $1.887 billion. The deal would expand Acadia’s presence in the U.K.

Poindexter told Bloomberg BNA that such international transactions may be rare but are becoming more popular. One reason, according to Wappett, is that larger U.S.-based companies looking to expand in big ways may not be able to readily identify domestic targets. As for Acadia, Wappett said it likely saw in Priory Group a business model very similar to its own, in which its operating capabilities could be utilized effectively.

The deal also enables Acadia to "expand first across the U.K. and perhaps more into mainland Europe as well," Wappett said.

Tierney told Bloomberg BNA that the Acadia transaction may be "more of an outlier," but two other large health-care systems, Christus Health and Ascension Health, also recently expanded their health-care delivery services outside the U.S. "Health-care is generally local, and economies of scale don’t always translate across states and borders," making such transactions rare, Tierney said.

Donning New Hats. Health-care providers’ acquisition of health insurance companies—which has been an ongoing trend, especially with small local insurers—continued in January, according to the list.

According to Gomez, many providers are “donning the health-care payer hat” in an attempt to better manage health-care outcomes while balancing financial risk and overall health costs. They are doing so either through acquiring existing insurers or by developing their own payer divisions. This “is a vital component of a complete health care system,” and the “trend is widely expected to continue,” Gomez told Bloomberg BNA.

For example, Fairview Health Services in Minneapolis, which operates hospitals, specialty clinics and urgent care clinics throughout Minnesota, acquired PreferredOne Insurance Co. Based in Golden Valley, Minn., PreferredOne provides health benefit services in the upper midwest and offers individual health insurance, family medical plans and group health insurance. Fairview said it believes the deal will allow it to “deepen
its capabilities and offer health-care services that are critical to survive in the current environment.”

Wappett said that he wouldn’t be surprised to see similar deals elsewhere, “especially in logical geographic layouts.”

“At the highest levels, the buyer universe for these plans is basically frozen,” given that the large companies, including Anthem, Humana, Aetna, Cigna, Centene and Health Net, are involved in high-profile mergers, Wappett said. As an alternative, health-systems may be looking to acquire “more localized insurance players or local health systems, which can help to create more of a local, statewide or regional health maintenance organization feeling.”

“As the exchanges have proven to be a tough place to do business in some areas,” and “more and more providers are trying to go at-risk with their payers, aligning of interests makes a lot of sense and also removes some risk from both locally dominant systems and payers,” Wappett told Bloomberg BNA.

Tierney explained that Fairview had an existing relationship with PreferredOne and decided to buy the rest. “This is certainly something that is on the rise,” he told Bloomberg BNA. “More and more systems follow the ‘Kaiser Model,’ where they try to own as much of the health-care dollar as possible,” he said.

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The list of select transactions involving health-care providers, managed care and services companies for January 2016 was compiled by health-care investment bankers using publicly available information, including articles, websites and press releases. The list is at http://src.bna.com/cE1.

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