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Mergers and Acquisitions

Health-Care Deal Growth Spurs Optimism for 2018

BNA Snapshot

- February 2018 health-care deals increased substantially over same month in 2017
- Growth in home-care market expected, though long-term care deals remain strong
- Hospitals and health-care systems are seeking partners in different geographic markets

By Mary Anne Pazanowski

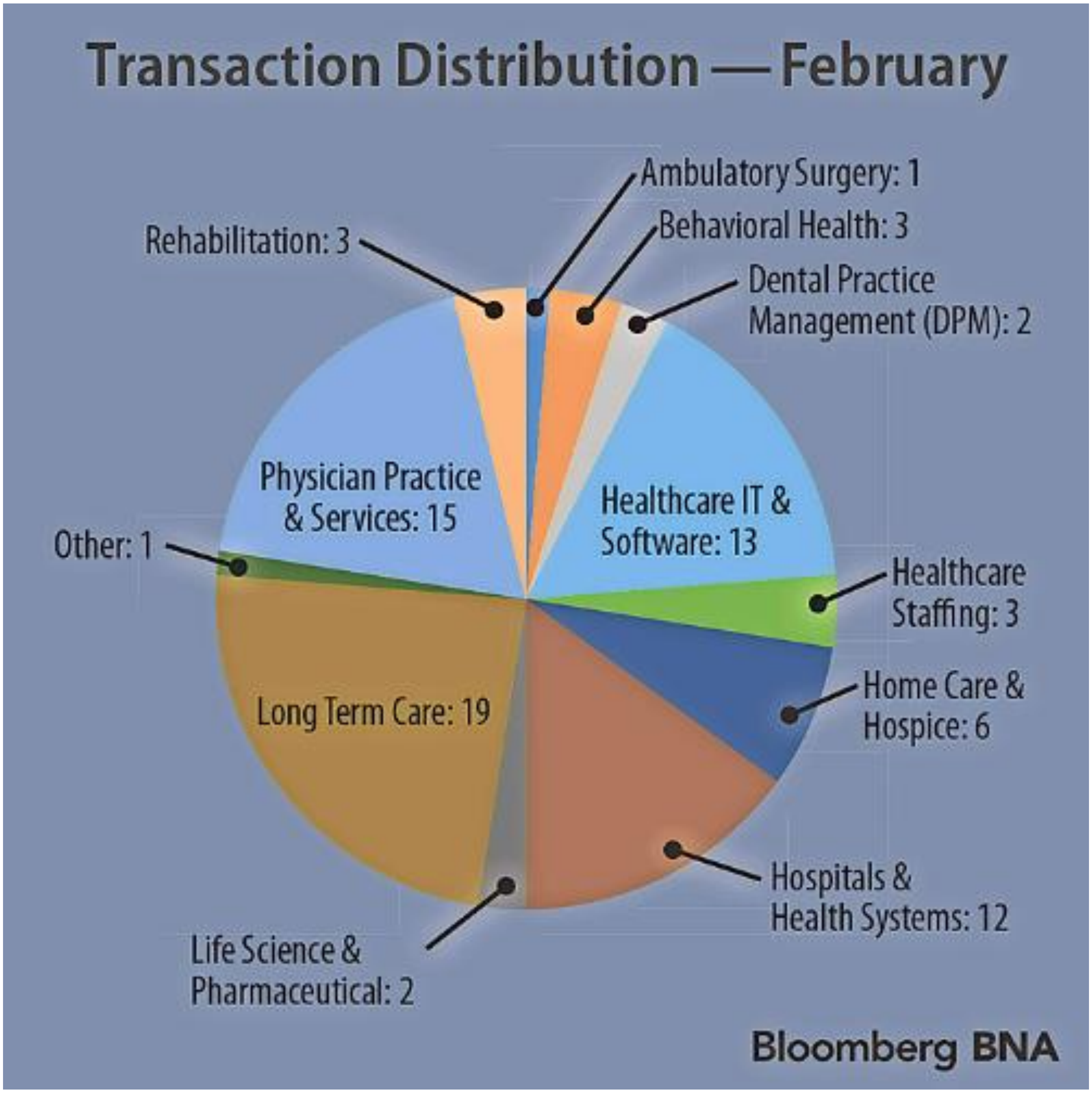
Health-care transactions in 2018 so far are on track to exceed the prior year, a sign of continued growth and confidence in an industry that generates more than $3 trillion in spending per year.

The number of deals announced and closed in February 2018 increased substantially over the same month a year ago—80, compared with about 60 deals the previous year—according to a curated list prepared for Bloomberg Law. The growth suggests dealmakers have recovered from whatever jitters the Trump administration takeover caused in early 2017.

Although February didn't see any big surprises along the lines of the Amazon-Berkshire Hathaway-JP Morgan health-care partnership announced in late January, optimism that the boom deal years will last well into the future is rampant.

Moreover, a proposed deal involving Cigna Health Insurance and pharmacy benefits manager Express Scripts Inc.—announced in early March and, therefore, not on the February list—reflects the new reality that deals designed to profit from changing the way health care is provided and paid for may be the new normal.

Still, the February list demonstrates that private equity and large corporate group practices are upping their investments in physician practices, while hospital and health-care services providers added a dozen transactions to this month's total. Those same trends are reflected on the year-to-date list.



Long-Term Care vs. Home Care

With nearly 20 deals, the long-term health-care sector led February's list, but the number may be deceiving. The real growth in the future may come in the home health-care sector.

As defined for purposes of this report, long-term care includes both assisted living facilities and skilled nursing facilities. “Many of these organizations have faced financial pressures recently due to decreased demand stemming from seniors’ changing preferences and a shift toward value-based reimbursements,” Michael Mahoney, of the investment banking firm Provident Healthcare Partners LLC, told Bloomberg Law.

The changing preferences and value-based payment shift “are causing seniors to remain in their own residences longer, at the expense of long-term care facilities,” Mahoney said. He is in the firm's Los Angeles office.

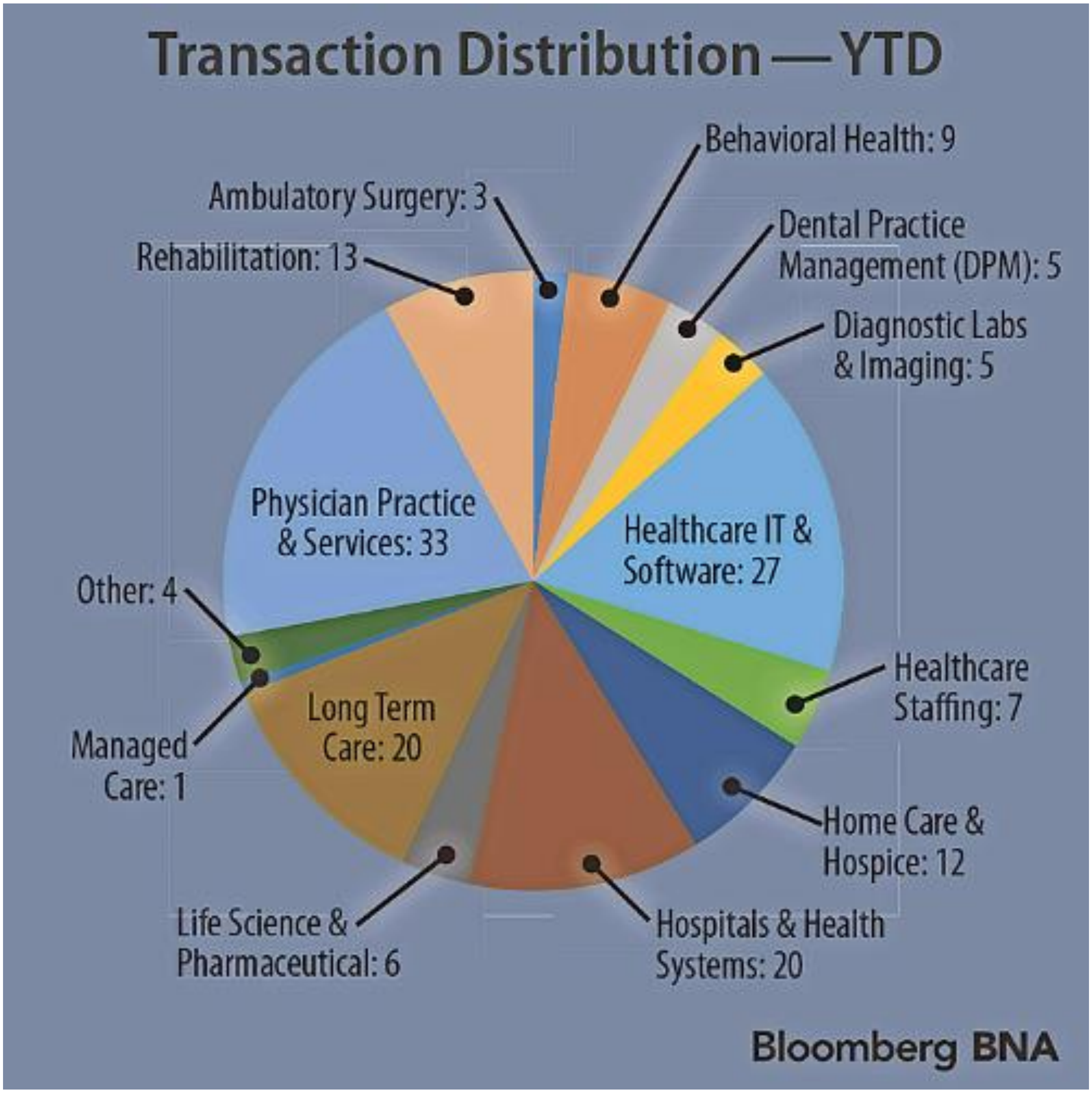
As a result, “demand for in-home care services has risen dramatically in recent years, and mergers and acquisitions activity has surged as investors seek to enter the home health-care sector and large consolidators utilize acquisitions to expand market share,” he said.

“The large publicly traded home health-care companies have been focused on targeting sizable, multi-regional home care companies with pre-established brand recognition and scale,” Mahoney said, pointing to Addus HomeCare Inc.'s $40 million acquisition of New Mexico-based Ambercare Corp. as an example.

Regional Hospital Deals

The dozen hospital and health system deals on the February list demonstrate that “many of the large system mergers this year, and in the future, likely will involve systems in disparate geographic regions,” Gary W. Herschman, a transactions attorney with Epstein, Becker & Green in Newark, N.J., told Bloomberg Law.

The reason? Avoiding antitrust scrutiny. “As reflected in recent Department of Justice and Federal Trade Commission actions, systems with substantial overlapping markets seeking to merge may encounter challenges at the federal level—and maybe at the state level as well,” Herschman said.



Without commenting on the transaction, Herschman gave as an example the deal announced Feb. 21 by Mercy Health and Bon Secours Health System. Mercy has 26 hospitals and 23 post-acute care facilities in Ohio and Kentucky. Bon Secours operates facilities in Florida, Kentucky, Maryland, New York, South Carolina, and Virginia. The resulting system is expected to have $8 billion in net operating revenue.

'Courting' Hospitals

At least two of the hospital deals announced in February involve affiliation agreements, rather than mergers or acquisitions. Michigan Medicine Feb. 15 signed an affiliation agreement with the Trinity Health-owned St. Joseph Mercy Health System to operate St. Joseph Mercy Chelsea Hospital. The University of Pittsburgh Medical Center and Western Maryland Health Feb. 12 reached an agreement for a clinical affiliation between the two systems.

Herschman termed these affiliation agreements "courtships." The deals may "lead to a merger or deeper partnership or consolidation in the future," he said.

Physician Practice Deals 'Robust'

Physician practice and services deals "remain robust," Herschman said. Deals involving dermatology, eye care, radiology, orthopedics, gastroenterology, and multispecialty practices especially "will continue to trend upward for the remainder of 2018 and into 2019," he predicted.

Mahoney noted there was a major deal in the eye care sector in February. "Ophthalmology consolidator Unifeye Vision Partners' acquisition of Pacific Eye Partnership marked the first add-on acquisition for UVP, which partnered with private equity firm Waud Capital Partners in January 2017," he said. The deal "represents the organization's expansion to the West Coast," he said.

The UVP deal "also exemplifies a scenario that is very common for new private equity platforms, in which the company doesn't complete its first add-on acquisition for 12 to 18 months following the initial partnership," Mahoney said. "During this initial period as a new platform, private equity firms typically invest heavily in information technology and administrative infrastructure in order to ensure that future growth is well-supported and strategically stable," he said.

A continued uptick in deals involving companies in the behavioral health and health-care information technology sectors also was seen in February, Herschman said.

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For More Information

The list of select transactions involving health-care providers, managed care and services companies for January 2018 was compiled by health-care investment bankers using publicly available information, including articles, websites, and press releases.
The February list is at http://src.bna.com/xeD.
The list of transactions year-to-date is at http://src.bna.com/xeF.
Bloomberg Law would like to thank its Health Care Transactions Editorial Committee for their guidance: Gary W. Herschman, of Epstein, Becker & Green PC, Newark (gherschman@ebglaw.com); Kevin J. Ryan, of Epstein, Becker & Green PC, Chicago (kryan@ebglaw.com); Robert April, of Provident Healthcare Partners LLC, Boston (raprill@providenthp.com); and Michael Mahoney, of Provident Healthcare Partners, Los Angeles (mmahoney@providenthp.com).
Epstein, Becker & Green PC did not comment on any particular transaction or party discussed or listed in this article.