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Healthcare Transactions Trends and Analysis: Fall 2015

Bloomberg BNA's Health Law Reporter is introducing a new feature this month. We have joined with investment bankers who track the health-care industry to report on select transactions involving health-care providers, managed care and services companies. The list was compiled using publicly available information, including articles, websites and press releases. The initial report covers August, September and October, 2015, and includes an analysis of health-care transaction trends for the three-month period. Subsequent monthly reports are planned, along with a quarterly extended analysis. We hope that this feature proves to be an informative and useful resource for our subscribers.

BY VICTORIA POINDEXTER AND GREG WAPPETT

By all accounts, 2015 has been a very strong year for healthcare merger and acquisition activity, and the last three months have shown little signs of this pace slowing, as shown by select transactions reviewed for this article.

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Tailwinds from the Affordable Care Act (ACA) continue to have a great deal of influence over a number of verticals and have driven a number of healthcare industry sectors to be populated by fewer and larger players.

The mergers of some of the biggest names in the payor and provider worlds poignantly speaks to this trend; while these deals have yet to be approved, their influence has rippled into further activity throughout the healthcare industry, for example, among physician service groups (i.e. TeamHealth acquiring IPC Healthcare), pharmacy services (CVS acquiring Omnicare), and acute care providers (Baptist Health entering into a joint venture with Tenet).

Outsourced Physician Services

Outsourcing of former in-house facility-based services continues to proliferate throughout healthcare. Service providers in fields such as anesthesia, hospitalist medicine, nursing, and radiology increasingly have become outsourced contractors, as opposed to a full time fixed cost of a facility.

Given continued downward pressure on hospitals to reduce costs, as well as the rapid growth and success of national strategic groups like TeamHealth, Sheridan, Envision, and MEDNAX, the sector has continued to attract the interest of private equity groups seeking physician practice investment opportunities.

Before any of the aforementioned groups either went public or were acquired by a larger public entity, they were driven by both the funding and strategic assistance of private equity groups. As part of their collective growth plan, their sponsors helped them navigate aggressive roll-up strategies, providing an additional acquisition option to physician groups.

While many of these larger groups have become major national players, there still remains significant opportunity among these sectors that is attracting continued investment. The recent investment by Onex Corporation in The Schumacher Group is another example of the middle market serving as a place for private equity investors and strong, expanding physician groups to partner together and keep pace with the increasing requirements of the dynamic and complex industry environment.

While the last three months continued to see a number of small tuck-in acquisitions by a variety of strategic players throughout the outsourced physician service verticals, it continues to be deals such as TeamHealth's acquisition of IPC Healthcare that kindle the investment thesis from the private equity communities given the sheer rationale that, after a successful investment time period, there remain a number of exit strategies available to them.

Provider Systems

In addition to the wave of consolidation being seen in the physician services vertical, hospital systems and other providers have proven to be a fertile ground for consolidation activity as well.

Mergers and acquisition interest has primarily been spurred by access to capital, need for scale, rising valuations, reimbursement pressures (e.g., movement away from fee-for-service payment models and toward value-based payment models), and a desire to achieve greater geographic range as well as concurrent payor consolidation. Given macroeconomic factors such as exceptionally low-interest rates, hospitals have been eager to expand their reach.

The level of acquisition interest has translated into a position of power for hospital sellers that, in the most common acquisition structures, have been able to leverage competition to increase valuations through advisor-driven competitive processes. For some non-profit hospitals, acquirers also increasingly have been open to negotiating deal structures that allow the selling organization to maintain reserve powers that otherwise were unavailable in the past.

Moreover, a significant number of hospitals, health systems and other providers are entering into strategic affiliations or other partnerships that facilitate collaboration between the partners with regard to certain populations or service lines, but in which the parties continue to maintain their respective independence.

In such strategic affiliations there often is a shared governance committee or other similar governance structure devoted to governing and managing the particular agreed upon areas of collaboration between the parties, but the parties often concurrently maintain their respective traditional identities, missions and separate governance structures. This targeted, strategic affiliation trend is expected to continue.

Payors

Payor consolidation has continued to strengthen the position of the largest incumbents. The consolidated payor landscape continues to force providers to find lower cost delivery methods and build geographic indispensability in the regions they serve.

The need for scale to better address changing dynamics such as accountable care, population health management and value-based payments, and managing costs related to same, is a factor driving payor acquisitions and consolidation as well.

While Department of Justice approval still hangs in the balance, the momentum toward payor and other consolidation appears strong.

Conclusions

There is little evidence of consolidation trends slowing, at least in the near term, and the remainder of the year will likely be a continuation of the same trends as discussed above. Industries always ebb and flow, and outside influences most certainly can have immediate and dramatic impact on the M&A environments.

As the healthcare world continues to evolve, the changes will continue to be propelled by multiple factors, including, but not limited to, consolidation, changing payment models, downward reimbursement pressure, and outside investment.

The list of select transactions is at http://src.bna.com/8Q.

Bloomberg BNA would like to thank its Health Care Transactions Editorial Committee for their guidance and editorial oversight: Paul A. Gomez, Esq., of Epstein, Becker & Green PC, Los Angeles (pgomez@ebglaw.com); Gary W. Herschman, Esq., of Epstein, Becker & Green PC, Newark (gherschman@ebglaw.com); Victoria Poindexter, of Hammond Hanlon Camp LLC, Chicago (vpoindexter@h2c.com); and Greg Wappett, of Provident Healthcare Partners LLC, Boston (gwappett@providenthp.com).

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