



BNA's Health Law Reporter™

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Mergers and Acquisitions

Health-Care Transactions Update: Health IT Dominates Fall

BNA Snapshot

- Twenty percent of health-care sector October deals involved health information technology
- CVS-Aetna deal rumors could spur more deals



By [Mary Anne Pazanowski](#)

Deals involving the health information technology sector dominated the health-care transactions announced or closed in October, which saw a slight drop overall from the previous month.

About 20 percent of the [October's deals](#) took place in the HIT and software sector, putting it second—behind only long-term care deals—in the [year-to-date list](#). Technological developments that enable the provision of quality and cost-effective care are “moving quickly,” so it's no surprise industry players are trying to step up their holdings in this sector, Gary Herschman, of Epstein Becker & Green PC, Newark, N.J., told Bloomberg Law.

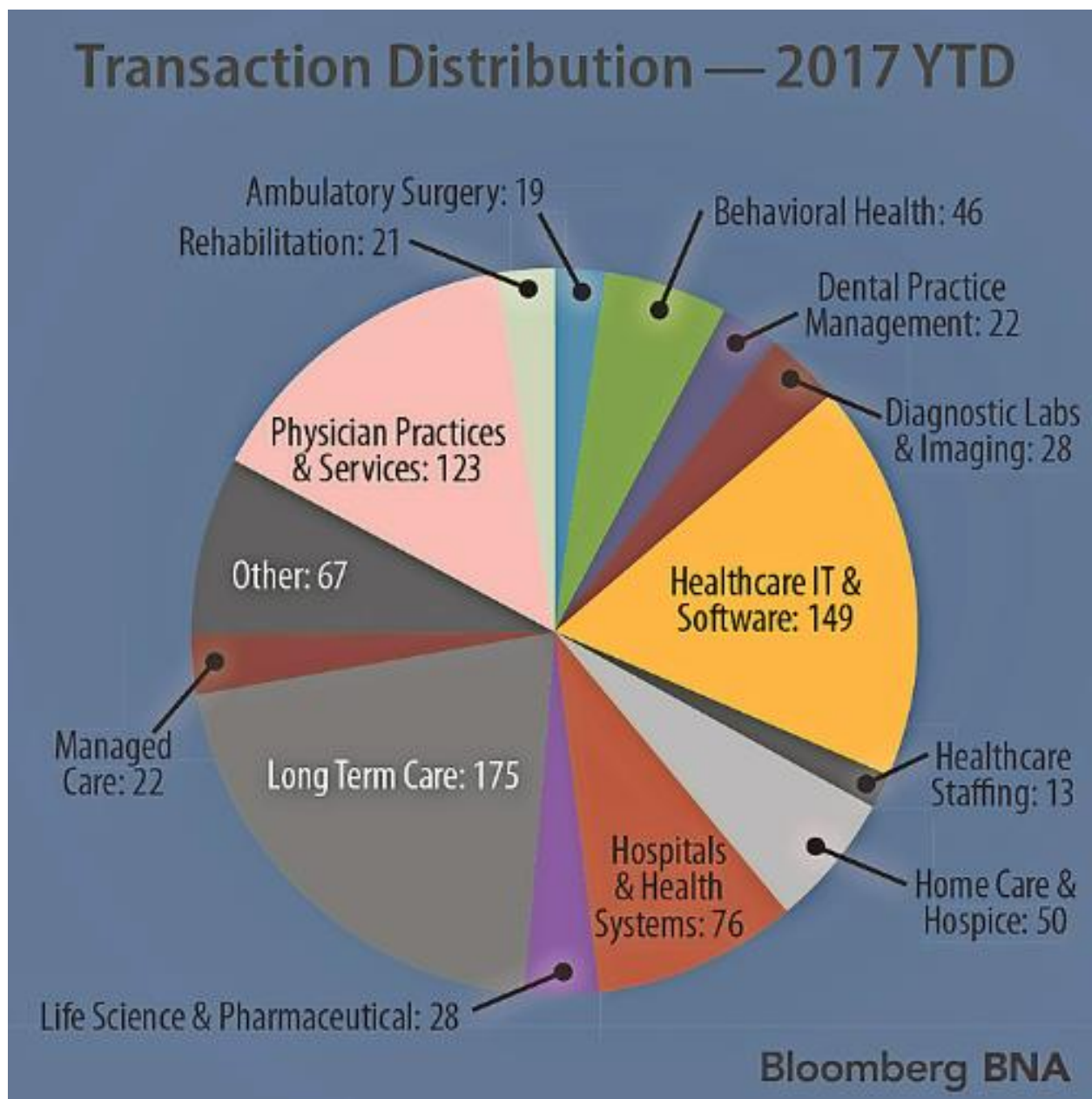
Herschman, a Bloomberg Law advisory board member, said October's slight lull in deal activity wasn't uncommon for this time of year. Dealmakers often will wait to close a transaction until either at the end of the year or after January 1 of the following year in order to delay the tax consequences, he said.

Overall, dealmaking in the health-care industry is strong and likely will remain so through 2018, health-care transactions advisory board members said.

Physician Practice Sector

The physician practice sector has the third-highest number of deals year-to-date. With deals numbering in the double-digits for the fourth consecutive month, the sector “matched a similar streak in the highly pursued health-care HIT sector,” Herschman said.

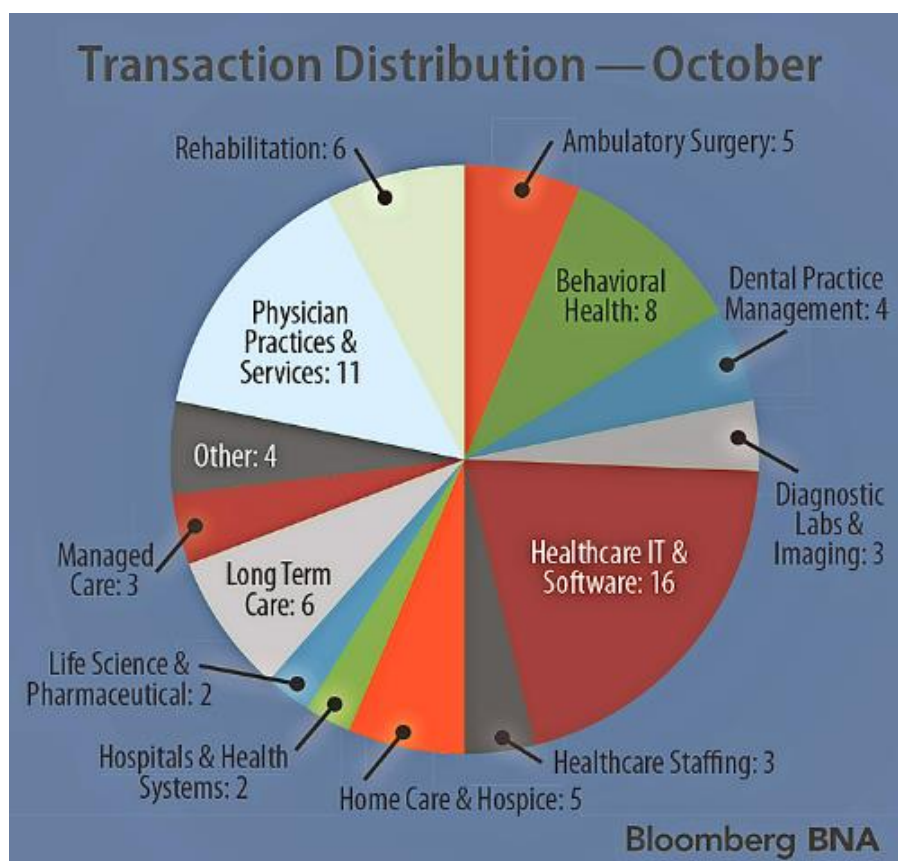
“Notably, the October deals show continued interest in several previously sought after specialties—such as dermatology, pain, women's care and fertility practices—and also ongoing interest in the relatively ‘newer’ hot specialties of urology, gastroenterology, and orthopedic groups,” Herschman said.



October, also saw the continuation of a trend toward consolidation in practices specializing in radiology, according to Michael Mahoney, an analyst with Provident Healthcare Partners in Los Angeles.

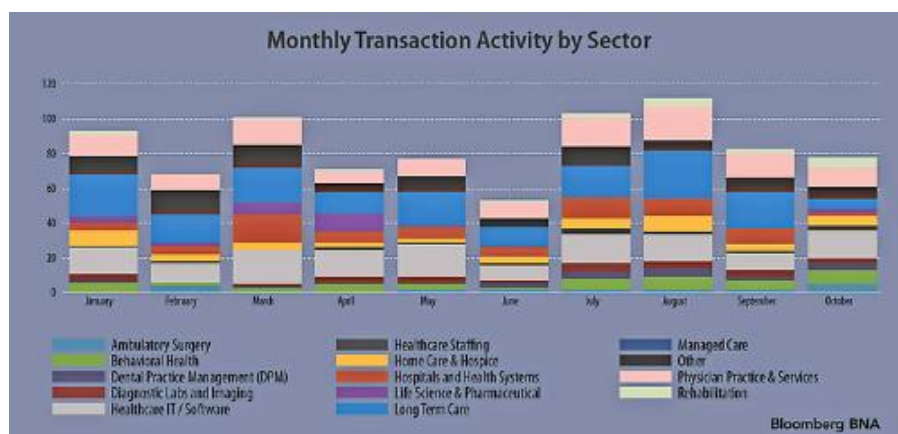
"Publicly traded MEDNAX (NYSE: MD) completed their fourth major deal of 2017 when the company acquired Houston-based Synergy Radiology Associates," Mahoney told Bloomberg Law. "Traditionally a provider of outsourced anesthesia and neonatal services to hospitals, MEDNAX announced the official launch of their radiology division" in January 2017.

MEDNAX "subsequently completed four sizable acquisitions in Tennessee, Florida, Connecticut and now Texas," quickly making it "a meaningful competitor of other large hospital-based radiology providers Envision Healthcare (NYSE: EVHC) and New Enterprise Associates-backed Radiology Partners," he said. MEDNAX's activity also "has increased competition on deals within the sector," Mahoney added.



Long-Term, Behavioral Care

The long-term care sector also saw a lot of activity in October. When combined with home health and hospice care, there were 11 deals in this group, tying it with the physician practice sector for the second-highest number of transactions.



Behavioral health sector deals also finished strong with eight in October. The number of deals was consistent with what industry observers have seen and anticipated, Victoria Poindexter, of Hammond Hanlon Camp LLC, an investment banking firm in Chicago, told Bloomberg Law.

Michael Tierney, also with Hammond Hanlon Camp LLC, said the behavioral health sector is becoming more attractive because it has strong growth prospects and reimbursement is improving in recognition of the extent of the need for behavioral health services in the U.S.

Poindexter and Tierney noted that Meridian Behavioral Health, which has been described as one of the fastest-growing behavioral health-care providers in the U.S., closed a deal Oct. 25 to acquire behavioral health-care provider New Beginnings Minnesota, which is based in Waverly, Minn. Meridian's transactional activity shows there is increasing consolidation in a fragmented health-care sector, Poindexter said.



A lag in hospital and health system deals—there were only two reported on the list—may be attributable to the fact that there already has been a lot of consolidation in this sector, leading to the creation of mega-systems, Herschman said.

Poindexter said the small number of hospital deals was unusual but doesn't mean anything. There may be more affiliations and partnership deals among hospitals that don't rise to the level of an acquisition or merger, she said.

Rumor Mill

The most exciting deal news in October doesn't appear on the list compiled by Bloomberg Law's transactions advisory board because it hasn't been announced officially. In late October, rumors began to swirl that CVS Health Corp. is planning to buy Aetna Inc. for \$66 billion.

CVS operates CVS Caremark, one of the nation's largest pharmacy benefits managers, as well as retail and mail-order pharmacies. Aetna is the fourth-largest health insurance company in the U.S.

The U.S. Department of Justice blocked Aetna's planned merger with Humana Inc., the third-largest health insurer in the U.S., but antitrust lawyers have told Bloomberg Law they wouldn't expect a CVS-Aetna deal to run into the same problems, as it involves primarily vertical integration—that is, a combination of services in different health industry sectors.

Herschman said the rumored deal took a lot of people by surprise. It was unexpected, not unlike AOL's now-failed takeover of Time Warner in 2000. Poindexter agreed, calling the deal “unique and somewhat surprising.”

The provider-payer deal, however, makes a lot of sense, Herschman said. Many pharmacy sales already have been diverted to big box retailers like Wal-Mart and Target. Reports that Amazon.com Inc. intends to enter the mail-order pharmaceutical market also has made health-industry players nervous, he said.

Vertical integration has been a winner for CVS in the past, Herschman said, pointing to the company's acquisition of the Caremark PBM. The Aetna deal would be “the next step up vertically.”

A CVS-Aetna deal, in which a provider would be purchasing a payer, would be the reverse of UnitedHealth Group affiliate Optum's recent acquisition spree, Herschman said. Optum, a payer, purchased providers like ambulatory surgical centers, as well as several physician practices, he said.

The potential deal demonstrates that “the lines between payers and providers are blurring even more,” Herschman said. It's a “symbol of a changing health-care environment,” he added.

Herschman also predicted the CVS-Aetna rumors will spur even more deal activity in the health-care sector. “Health-care companies of all sizes—large, medium, and small—are starting to feel that they need to be part of huge, mega-players,” he said.

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The purported CVS-Aetna deal “will be interesting to watch, but at this point it’s all speculation,” Poindexter said, as neither company has confirmed or denied they are in talks.

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For More Information

The lists of select transactions involving health-care providers, managed care and services companies for October 2017 and for 2017 year-to-date were compiled by health-care investment bankers using publicly available information, including articles, websites and press releases.

The October deal list is at <http://src.bna.com/t3P> .

The year-to-date list is at <http://src.bna.com/t3Q> .

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Epstein, Becker & Green PC did not comment on any particular transaction or party discussed or listed in this article.

