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81%
of respondents say they will either explore additional M&A opportunities and/or complete deals underway in the next 12 to 18 months.

INTELLIGENCE REPORT

SEPTEMBER 2024

HEALTHCARE LEADERS ARE LOOKING TO M&A TO INCREASE MARKET SHARE AND USE THAT NEWFOUND SIZE FOR LEVERAGE WHEN NEGOTIATING WITH PAYERS.

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PERSPECTIVE

M&A ACTIVITY ACCELERATING AS HEALTH CARE SECTOR SLOWLY RECOVERS

Healthcare M&A Activity has rationally accelerated as providers slowly recover from the unprecedented labor expense pressure observed in the previous two years. While provider profitability has generally improved in 2024 from the historically weak levels of 2022-23, many balance sheets remain stressed. With ever-declining levels of commercial and managed care reimbursement, acute Medicare Advantage stress for many, never-ending cyber-attacks and threats, stubbornly high insurance claim denials, and persistent and growing physician affiliate losses for most, providers face many challenging headwinds even as the acute pressure of labor expense growth moderates. Healthcare providers should be commended for implementing well-crafted and creative solutions to mitigate growth in their largest operating expense component including standing up internal staffing agencies, successfully recruiting from new talent pools and more efficiently staffing to volume fluctuations.

Nonetheless, earnings remain muted versus historical averages with very high multiples observed for many strategic healthcare transactions amid growing M&A volume as both acquirers and targets conclude they require significantly more negotiating leverage with payers whether for fee for service or value-based reimbursement arrangements. It's clear that providers across different healthcare sub-sectors are struggling to pass on the full cost of inflationary expense pressure to their respective payers while dealing with the other headwinds noted above and are willing to 'pay up' for enhanced negotiating leverage and scale.

Mike Quinn
Head of Healthcare Strategic Advisory Services,
Managing Director,
Bank of America

Amid the backdrop of this persistently difficult operating environment, the survey results are understandable:

> **74% of respondents strongly or slightly agree that economic uncertainty is driving M&A plans.**

> **The three leading financial objectives of current M&A activity are: 1. increased market share (55%) 2. Reduce margin pressure (44%) 3. Improve leverage with payers (38%).**

Alarmingly, however, with many providers lacking the requisite leverage to pass on the cost of historically high expense growth to their insurance payers-the largest of which remain significantly larger than the largest providers, **the regulatory environment remains considerably challenging:**

> **67% of respondents believe state and federal regulations are affecting their respective M&A plans.**

As providers slowly exit the stubborn inflationary environment and deal with multiple ongoing structural challenges to operating profitability, **M&A volume should accelerate with multiples remaining above historical averages.** While unique joint ventures, JOAs and asset monetizations including real estate and energy as a service will be observed, many of the near-term strategic transactions will be **traditional mergers and acquisitions designed to maximize pricing power** and pass on as much of the cumulative inflationary expense that providers endured over the last three years onto payers and patients. These transactions are likely to encounter **significant anti-trust pushback from state and federal regulators.**

WHERE DOES M&A STAND IN 2024?

The complexity of the nation's ever-evolving $4.5 trillion healthcare system would make Rube Goldberg proud. And it's not getting any simpler.

Even though we're still recovering from the disruption created by COVID-19 challenges, opportunities and transitions continue to emerge within healthcare at a head-spinning pace.

John Commins
Research Editor
HealthLeaders

On any given day, healthcare news-making headlines include: price transparency, surprise billing, Medicare/Medicaid, hospital at home, telehealth, fraud, drug prices, prior authorization, 340B fights, staff shortages, patient safety, healthcare-acquired infections, nurse autonomy, physician unions, social determinants of health, private equity, primary care "disruptors" and, of course, AI.

Arguably though, the biggest development changing the fabric of healthcare delivery is consolidation.

The pace of mergers and acquisitions of hospitals, health systems, physician groups, and payers, is accelerating and—given the uneven efforts federal and state regulators and uncertainty in the overall economy—there is no indication that this trend will slow anytime soon.

Healthcare M&As are accelerating despite the dozens of studies that have shown that healthcare consolidations ultimately result in reduced services, lower care quality, and higher cost for patients.

A study published this spring by researchers at Harvard, Yale, and the University of Wisconsin-Madison tracked 1,164 mergers of acute-care hospitals between 2000 and 2020 and found that the FTC challenged only 13 (1%) of them. Another study by Penn LDI researchers found that hospital M&As have resulted in the shuttering of more than 2,000 hospitals since the turn of the century.

At the same time, other researchers have found that the FTC failed to use available screening tools that could have flagged 238 mergers that resulted in reduced competition and increased prices by roughly 5%.

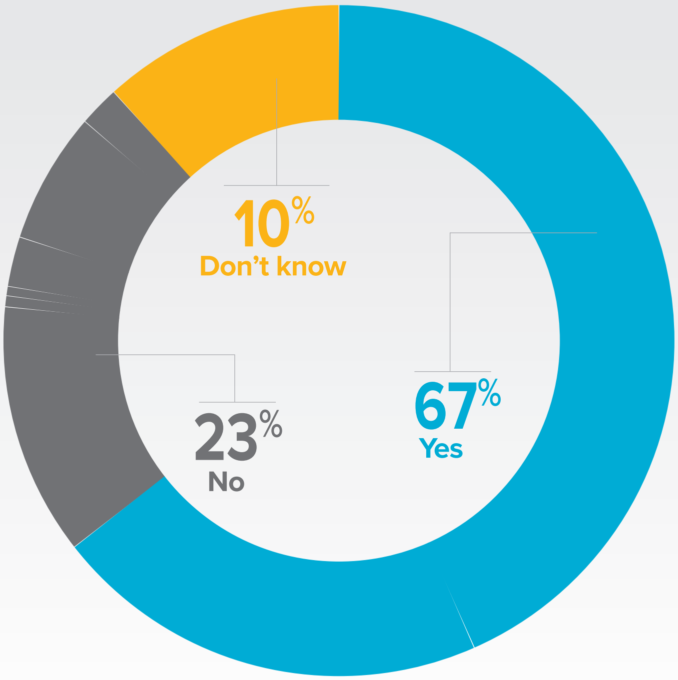
While Antitrust regulation has increased at the FTC and the Department of Justice under the Biden administration, many states feel the need to take up regulation of healthcare consolidations to identify antitrust threats and the ramifications for patients.

All this to say—M&As continue to push forward and change the landscape of the healthcare market. Why and how are they happening? We found out.

In our latest ***HealthLeaders Mergers, Acquisitions, & Partnership survey***, 100 healthcare executives were asked what healthcare M&As deliver. In years past, the respondents would have talked about greater efficiencies that reduce redundancies and ultimately reduced costs for patients.

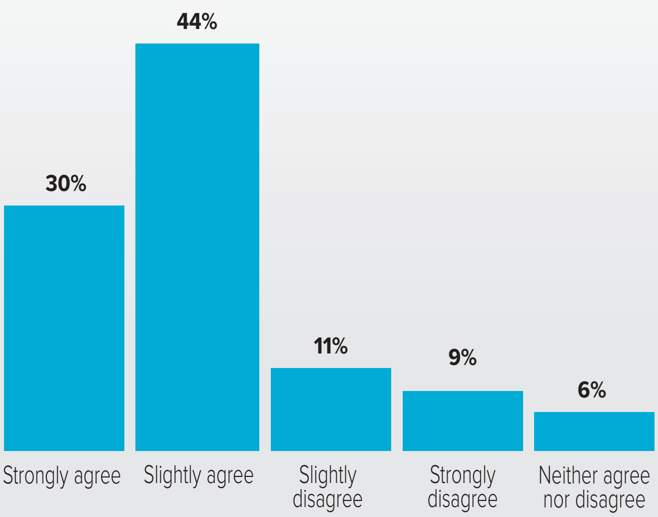
That reasoning has not withstood scrutiny, and now respondents in this year's survey acknowledge that the top issues driving M&A include increasing scale to improve negotiating power with payers (51%) and improving margins (38%).

Figure 2 | **Given the regulatory climate, are state and federal regulations affecting your M&A plans?**



Base = 100

Figure 1 | **The uncertainty of the economy is affecting our organization's M&A plans.**



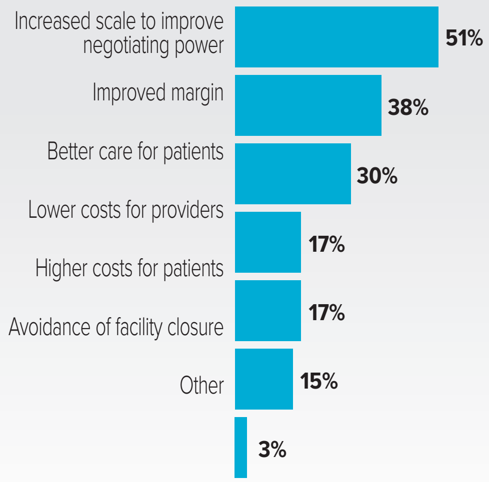
Base = 100

Despite some of the studies cited above, 30% of execs insist that M&As improve care quality, while 17% concede that consolidations result in higher costs for patients.

Only 15% of respondents say that fear of closure is a financial driver of healthcare M&As, despite evidence that most M&As involve a wealthier system gobbling up a financially distressed, smaller provider.

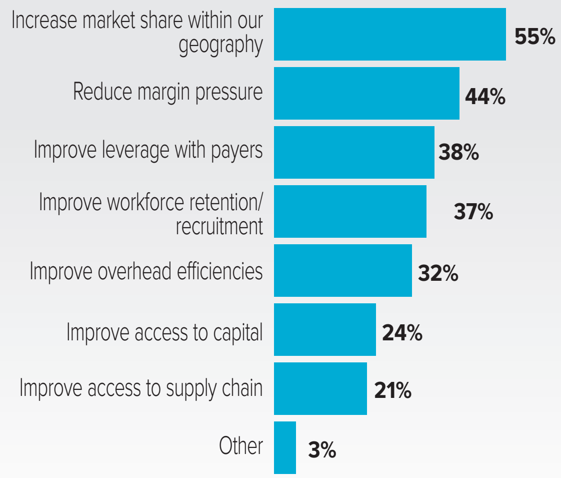
Perhaps another reason for the growth of healthcare M&As is the potential payoff for top executives. A study from Rice University's Baker Institute for Public Policy found that the average salary for CEOs of independent

Figure 3 | **What result(s) do healthcare M&As deliver?**



Base = 100, Multi-response

Figure 4 | **What are the financial objectives of your M&A?**



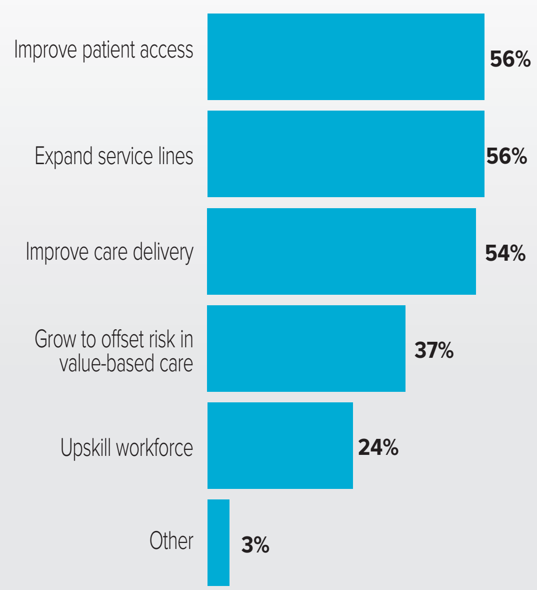
Base = 100, Multi-response

hospitals was $996,000 (adjusted for inflation) in 2012 before climbing 30% to approximately $1.3 million by 2019. For systems with more than 500 beds, however, CEOs saw their pay rise from 144% to 170% more than their peers at smaller hospitals with fewer than 100 beds.

"Our findings suggest that CEOs may be incentivized to consolidate healthcare systems in order to reap the financial rewards of leading a larger, more profitable healthcare system," says Derek Jenkins, lead author of the Baker Institute study.

Amid growing wariness by regulators, the media and the public, acquired hospitals are increasingly pursuing M&As to stabilize their finances. Oftentimes, these smaller, cash-strapped hospitals have few alternatives to keep the doors open. The consulting firm Kaufman Hall reports

Figure 5 | **What are the care delivery objectives of your M&A?**

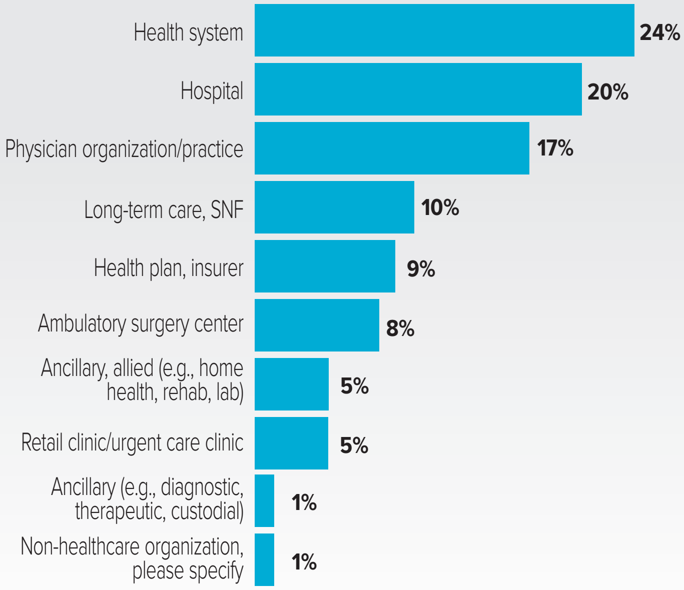


Base = 110, Multi-response

that 28% of hospital mergers in 2023 involved a financially distressed partner, which was nearly double the amount in 2022 (15%) and the highest percentage since the data started being tracked.

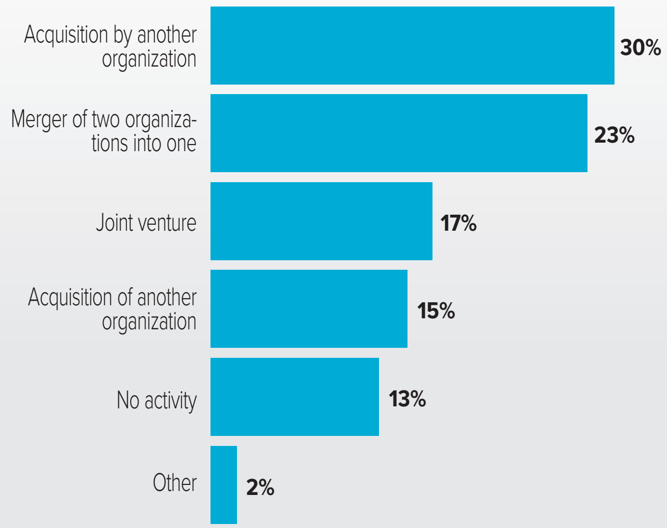
Otherwise, the financial motivations behind M&As are clear. When asked about the financial objectives of their M&A (Question 4), most respondents (55%) say they want to increase market share in their service area and use that newfound size for leverage when negotiating with payers (38%). Forty-four percent of respondents want to thicken margins; 37% want to improve recruiting and retention; 32% want to reduce overhead; 24% want easy access to capital; and 21% want supply chain discounts.

Figure 7 | **What entity was involved in your M&A?**



Base = 87, of respondents reporting M&A activity

Figure 6 | **Describe the nature of your most recent M&A.**



Base = 100

As for the patient care objectives of their M&A (Question 5), more than half of respondents say they want to improve patient access (56%), improve care delivery (56%), and expand service lines (54%). Unfortunately, studies have shown that healthcare M&As rarely, if ever, meet those objectives.

For the most part, survey respondents say their M&A provided a solid return on investment (Question 8). More than one-third (39%) say they say an increase in net patient revenues and operating margins (38%), while those benchmarks remained the same for 36% and 31% of providers, respectively. Only 14% saw a decrease in patient revenues, and 16% saw a decrease in margins.

These responses further debunk the claim that healthcare M&As result in reduced costs for patients.

Figure 8 | **Describe how your M&A affected revenue and margins.**

	Increased	Remained the same	Decreased	Don't know
Net patient revenue	39%	36%	14%	11%
Operating margins	38%	31%	16%	15%

Base = 87, Of those involved in M&A activity

Figure 9 | **How were care costs affected in each setting after your M&A?**

	Increased	Remained the same	Decreased	Don't know
Inpatient	24%	28%	34%	14%
Outpatient/ambulatory	25%	28%	30%	17%
Virtual care	15%	31%	24%	30%

Base = 87, Of respondents reporting M&A activity

As for care costs (Question 9), more than half respondents (51%) say that their M&A resulted in either higher or unaffected costs in inpatient (52%) and outpatient (53%) venues, and 46% for telehealth. On the flip side, a significant minority of respondents say care costs decreased for inpatient (34%), outpatient (30%) and virtual (24%) care venues.

Looking ahead (Question 11), an overwhelming majority (81%) of respondents say they will either explore additional M&A opportunities (39%), complete deals underway (20%), or both (22%) during the next 12 to 18 months. Only 19% of respondents say they have no such plans.

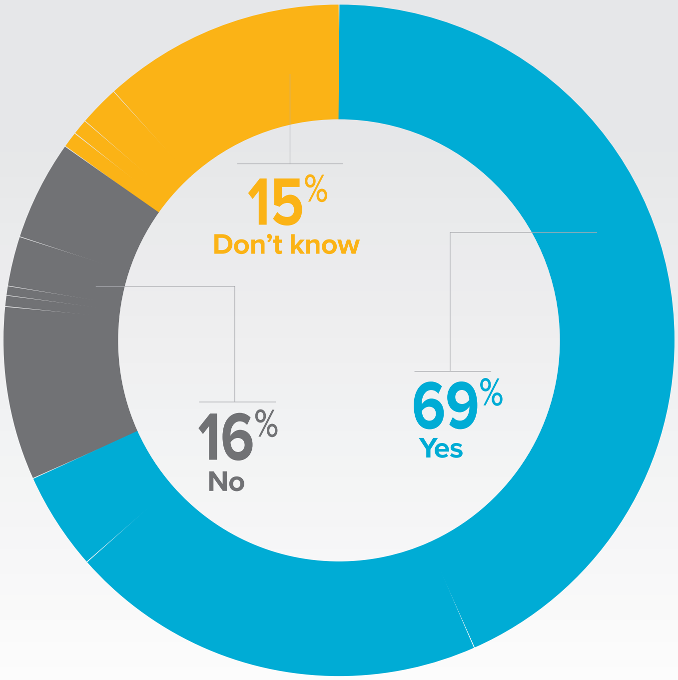
Likewise, nearly half (43%) of respondents say they anticipate increasing their M&A activities over the next three years (Question 13) while 26% say they'll maintain their status quo, while only 21% say they'll back away from M&As.

Moving forward, the primary targets for M&As will be physician groups (30%). However, that number is down significantly from HealthLeaders' 2023 M&A survey, which found that physician groups were the target of 54% of acquisitions. The drop could suggest that enthusiasm for employing physician is cooling, or that private equity and other disruptors are buying them, or that there just aren't that many independent physician groups.

Health systems have taken the brunt of the criticism for acquiring physician practices, which has raised the cost of care for Medicare and patients. However, a 2023 study commissioned by the American Hospital Association found that, since 2019, private equity gobbled up 65% of physicians, followed by physician groups at 14%, insurers at 11%, and hospitals and health systems at 6%.

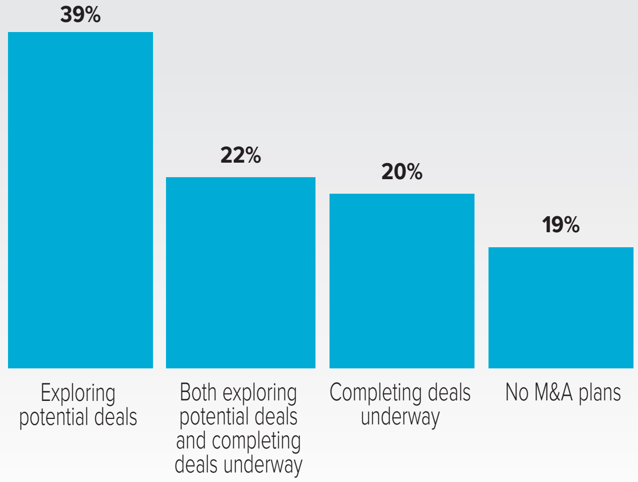
Along with physician practices, providers are also targeting acquisitions of health systems (23%), ambulatory surgery centers (21%) and hospitals (20%), all of which support the notion that providers want to increase their leverage,

Figure 10 | **Looking back, would you participate in M&A again?**



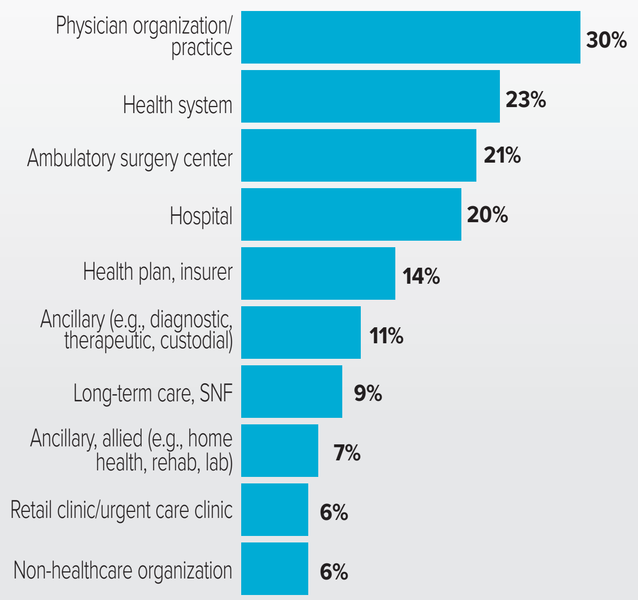
Base = 87, Of respondents reporting M&A activity

Figure 11 | **Describe your M&A plans for the next 12–18 months.**



Base = 100

Figure 12 | **What entities will you pursue through M&A within the next year?**



Base = 81 | Of respondents with M&A plans, Multi-response

patient referrals, and opportunities to cash in on lucrative surgical procedures by employing more docs.

Health systems have taken the brunt of the criticism for acquiring physician practices, which has raised the cost of care for Medicare and patients. However, a 2023 study commissioned by the American Hospital Association found that, since 2019, private equity gobbled up 65% of physicians, followed by physician groups at 14%, insurers at 11%, and hospitals and health systems at 6%.

The focus on acquiring physician groups jibes with the dollar value of respondents' expected M&As over the next three years (Question 14), with 29% of executives anticipating that their next deal with cost between $10 million and $50 million.

Looking back on their M&A experience, more than two-thirds of responding executives (69%) say they'd do it again (Question 10), down from 80% last year, while 16% regret the experience, compared with 7% in 2023.

Does this mean we could see an overall cooling of the healthcare M&A market? Probably not. Ultimately, it's about money. As long as there are financially wobbly providers threatening to shutter and looking for a white knight, as long as there are wealthier systems looking to grow their market share, then we can expect healthcare consolidation to continue, regardless of the effects on care quality and cost.

John Commins is a research editor for HealthLeaders. He can be contacted at jcommins@healthleadersmedia.com.

Figure 13 | **Within the next three years, do you expect your M&A to:**

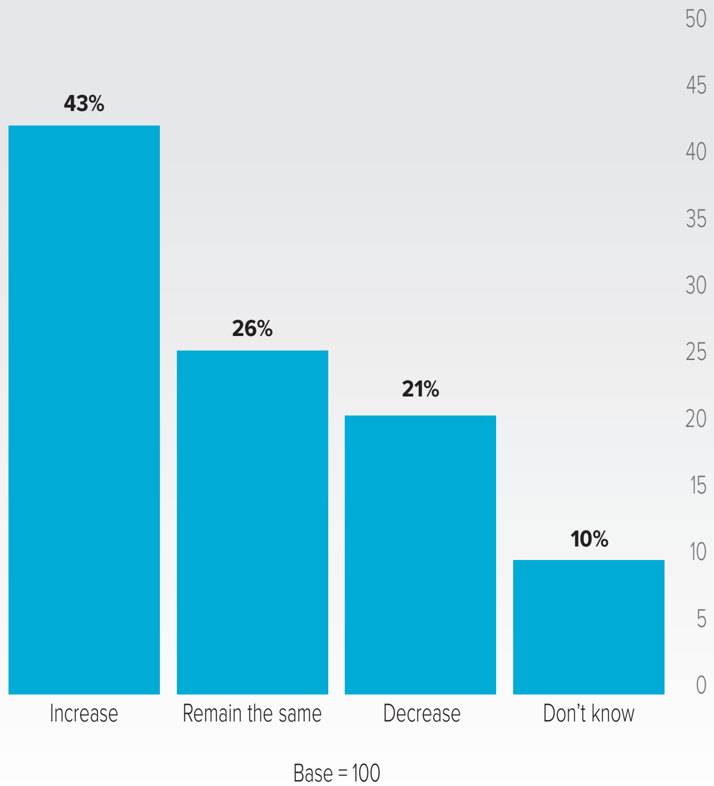
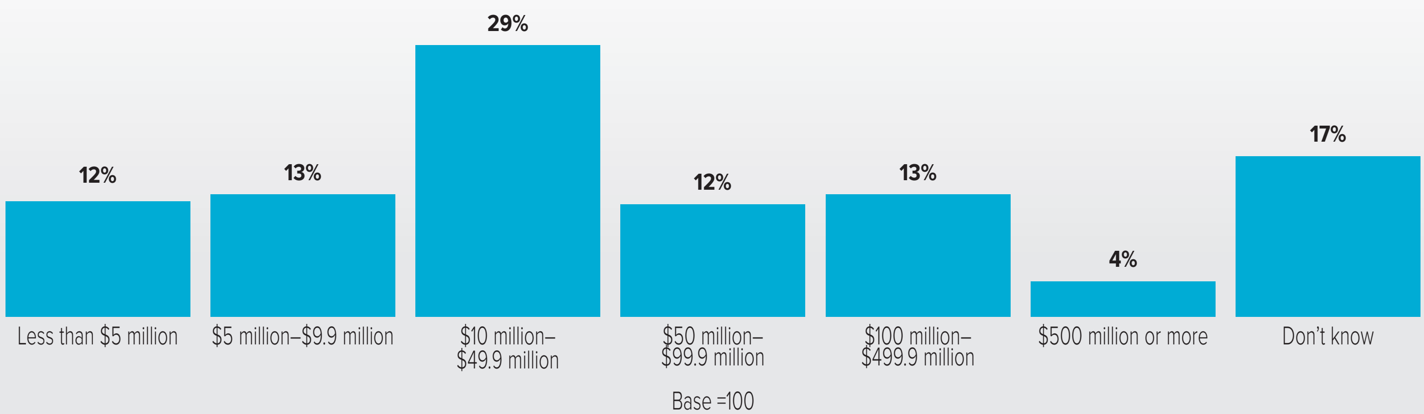


Figure 14 | **Estimate the total dollar value of the M&A that you will explore within the next three years.**



METHODOLOGY

TThe HealthLeaders 2024 Mergers, Acquisitions, & Partnerships Survey was conducted by the HealthLeaders Intelligence Unit, powered by the HealthLeaders Council. It is part of a series of thought leadership studies. In June 2024, an online survey was sent to the HealthLeaders Council and select members of the HealthLeaders audience at healthcare provider organizations. A total of 110 completed surveys are included in the analysis. The margin of error for a base of 100 is +/- 9.8% at the 95% confidence interval. Survey results do not always add to 100% due to rounding.

What Healthcare Leaders Are Saying

Here are selected comments from leaders on how they will demonstrate lower consumer costs with M&A.

"The best way to reduce M&A costs here is to begin thinking about integration as soon as due diligence begins. Understanding which aspects will be difficult to integrate as soon as possible reduces the chances that you'll need to bring in consultants to advise on the process."

"Overall experience shows that through M&A we can expand the access to ambulatory and urgent care, reduce ER visits and reduce PMPY (per member per year) expenditure."

"Reducing M&A costs is a matter of deciding what's absolutely necessary (wining and dining) and what's not (a five-star hotel for your team) and accounting for the expenses accordingly."

"One way to show a seller that your approach is in good faith is to compensate them for the disruption caused by due diligence (for example, paying for management and legal counsel to take days out of their routine)."

About the HealthLeaders Intelligence Unit

The HealthLeaders Intelligence Unit, a division of HealthLeaders, is the premier source for executive healthcare business research. It provides analysis and forecasts through digital platforms, print publications, custom reports, white papers, conferences, roundtables, peer networking opportunities, and presentations for senior management.

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RESPONDENT PROFILE

TITLE

Base = 110

Operations leadership	Clinical leadership	CEO, president	Financial leadership	Marketing leadership	IT leadership
35%	23%	22%	13%	3%	2%

CEO, PRESIDENT
- CEO, President
- Chief Executive Administrator
- Chief Administrative Officer
- Board Member
- Executive Director
- Managing Director
- Partner

OPERATIONS LEADERSHIP
- Chief Operations Officer
- Chief Strategy Officer
- Chief Compliance Officer
- Chief Purchasing Officer
- VP/Director Operations Administration
- VP/Director of Compliance
- Chief Human Resources Officer
- VP/Director HR/People
- VP/Director Supply Chain/Purchasing

FINANCIAL LEADERSHIP
- Chief Financial Officer
- VP/Director Finance
- VP/Director Patient Financial Services
- VP/Director Revenue Cycle
- VP/Director Managed Care
- VP/Director Reimbursement
- VP/Director HIM

CLINICAL LEADERSHIP
- Chief Medical Officer
- Chief Nursing Officer
- Chief of Medical Specialty or Service Line
- VP/Director of Medical Specialty or Service Line
- VP/Director of Nursing
- Chief Population Health Officer
- Chief Quality Officer
- Medical Director
- VP/Director Ambulatory Services
- VP/Director Clinical Services
- VP/Director Quality
- VP/Director Patient Safety
- VP/Director Postacute Services
- VP/Director Behavioral Services
- VP/Director Medical Affairs/ Physician Management
- VP/Director Population Health
- VP/Director Case Management
- VP/Director Patient Engagement, Experience

MARKETING LEADERSHIP
- Chief Marketing Officer
- VP/Director Marketing
- VP/Director Business Development/Sales

IT LEADERSHIP
- Chief Information Technology Officer
- Chief Information Officer
- Chief Technology Officer
- Chief Medical Information Officer
- Chief Nursing Information Officer
- VP/Director IT/Technology
- VP/Director Informatics/Analytics
- VP/Director Data Security

TYPE OF ORGANIZATION

TYPE OF ORGANIZATION	Base = 100
Hospital	20%
Health system (IDN/IDS)	24%
Physician organization/practice	17%
Ambulatory surgical center	8%
Health plan, insurer	9%
Long-term care, SNF	10%
Ancillary services provider (diagnostic/therapeutic/custodial)	1%
Ancillary, allied (e.g., home health, rehab, lab)	5%
Retail clinic/urgent care clinic	5%
Non-healthcare organization	1%

NUMBER OF PHYSICIANS

NUMBER OF PHYSICIANS	Base = 100
1–9	8%
10–49	24%
50+	64%

NUMBER OF BEDS

NUMBER OF BEDS	Base = 100
1–199	30%
200–499	20%
500+	36%
Do not have a standard number of beds	14%

PROFIT STATUS

PROFIT STATUS	Base = 100
Nonprofit	32%
For-profit	68%

NET PATIENT REVENUE

NET PATIENT REVENUE	Base = 100
$1 billion or more (large)	34%
$250 million–$999.99 million (medium)	20%
$249.9 million or less (small)	46%

RURAL STATUS

RURAL STATUS	Base = 100
Yes	39%
No	61%

RESPONDENT REGIONS