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# HEALTHCARE TRANSACTIONS: YEAR IN REVIEW

JANUARY 2020

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## Overview

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2019 saw continued robust healthcare merger and acquisition (M&A) activity, significantly outpacing last year. The increase in healthcare deal volume in 2019 was not confined to any one sector or type of service. Rather, deal volume proliferated across several different sectors.

Hospital and health systems activity was highlighted by a significant number of mergers and joint ventures. Many of these transactions represented regional alliances or consolidations. Notable among them was the announcement of a proposed strategic combination between Atrium Health and Wake Forest Baptist Health in April. For-profit divestitures of assets that did not fit within the owner's core strategy also represented a significant amount of hospital and health systems transactions, continuing a recent trend.

In the post-acute space, CMS' introduction of a new Medicare reimbursement model for home health agencies, the Patient-Driven Groupings Model (PDGM), which went into effect January 1, 2020, had a chilling effect on home health activity in 2019 as stakeholders anticipate a 6.42% Medicare base rate reduction for home health and lost revenues of up to \$1 billion for home health providers in 2020 alone. However, the slowdown in home health M&A activity diverted more investment toward hospice, including from strategic buyers. Amedisys Inc. (Nasdaq: AMED) closed its \$340 million acquisition of Compassionate Care Hospice in 2019, making it the third largest U.S. hospice provider. It was reported in October that a joint venture between Ascension Health and private equity (PE) firm Towerbrook Capital Partners had agreed to buy Compassus Health for \$1 billion. As for private investors, studies indicate that hospice multiples and PE interest in hospice are at all-time highs.

PE firms continue to inject capital into the healthcare industry. This is a mutually beneficial endeavor, it seems, as industry inefficiencies, political uncertainty, and an overall demand for cost reduction, as well as the ongoing shift toward value-based payment models, has made PE support an attractive option for healthcare businesses with aggressive growth strategies, and has generated attractive returns on investment for the PE firms.

### **Below we've outlined M&A activity and drivers in the following hot sectors:**

- ◆ Hospitals
- ◆ Post-Acute Care – Home Health & Hospice and Personal Care Services
- ◆ Ambulatory Surgery Centers (ASCs)
- ◆ Physician Practice Management
- ◆ Behavioral Health
- ◆ Managed Care and Pharmacy
- ◆ Health Information Technology



## Hospitals

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M&A activity in the hospital and health systems sector continued strong through 2019, with more mergers and acquisitions than in 2018; however, acquisition targets have been, for the most part, smaller. Even further, divestitures comprised a large portion of hospital transactions for the year. Continuing steady activity in hospital systems is in part the result of industry changes such as value-based reimbursement and a means to respond to industry-wide disruption, such as technological innovation and other non-traditional efforts to reduce costs and increase efficiencies. Parties to many of 2019's notable hospital M&A activity cited a desire to increase efficiency and reduce costs as main drivers for their transactions. Hospital systems continue to use mergers and acquisitions as a tool to better coordinate care, expand the scope of services to patients, and reduce challenging administrative burdens that act as barriers to access.

2019 hospital deals were characterized in large part by divestitures. Community Health Systems Inc. (CHS) (NYSE: CYH) continued its hospital sell-off by selling several hospitals throughout Florida, New Jersey, South Carolina and West Virginia; and in August completed its sale of Tenna Healthcare-Lebanon to Vanderbilt University Medical Center. In October, CHS entered into a definitive agreement to sell three Virginia hospitals to Bon Secours Mercy Health Inc. Similarly, Quorum Health Corporation (NYSE: QHC) announced in October that it completed its sale of Watsonville Community Hospital in Watsonville, California, for approximately \$39 million to Halsen Healthcare; and California-based Verity Health also sold two of its California hospitals out of Chapter 11 bankruptcy to Santa Clara County for \$235 million after receiving court approval in December.

Not all notable transactions in the hospital sector took the form of divestitures, however. In April, HealthQuest Systems Inc. and Western Connecticut Health Network also partnered to create a new health system called Nuvance Health. The new system will create a network of 2,600 physicians that serve over 1.5 million patients, and the projected combined revenues of the system are \$2.4 billion.

HCA Healthcare (NYSE: HCA) announced in February that it completed its acquisition of Mission Health for \$1.5 billion. Mission Health operates six hospitals in Asheville and western North Carolina. As part of the transaction, HCA will build a 120-bed inpatient behavioral health hospital and the new Mission Hospital for Advanced Medicine in Asheville, and a new hospital to replace Angel Medical Center in Franklin, North Carolina. Through the transaction, the companies hope to bring long-term, sustainable, high-quality care to western North Carolina's rural communities.

In April, Atrium Health announced that it will partner with Wake Forest Baptist Health and Wake Forest University in a "strategic combination" to create a state-of-the-art academic healthcare system. Included in the parties' plans are the expansion of the Wake Forest School of Medicine to a second campus in Charlotte, North Carolina, as well as a new tower at Wake Forest Baptist Medical Center for emergency services, critical care, and surgery. Financial terms of the combination have not been disclosed as of the date of this publication.

Given the healthcare industry's continued focus on cutting costs and increasing quality of care, we predict that hospital systems will continue to use mergers and acquisitions and other affiliations to facilitate innovation and efficiency in the face of changing industry demands.



## Post-Acute Care - Home Health & Hospice and Personal Care Services

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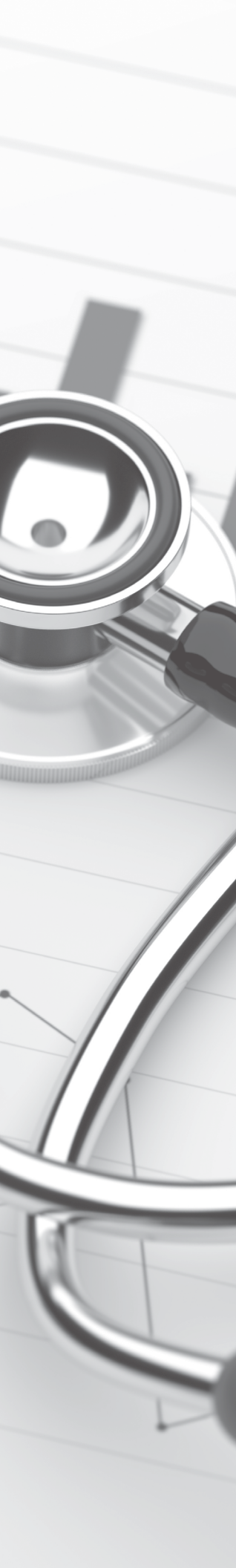
When the final numbers are in, it is expected that 2019 deals in the home health and hospice space will equal or surpass the 85 total deals in 2018. Moreover, although hospice deals historically have accounted for a small percentage of all home health and hospice M&A activity, 2019 saw an increase in the number of hospice deals relative to home health. This increase is the result of, among other things, (1) uncertainty over PDGM, and (2) the announcement that beginning in 2021, Medicare Advantage would be expanded to “carve-in” hospice benefits for those Medicare Advantage organizations participating in the Medicare Advantage Value-Based Insurance Design (VBID) Model. The foregoing factors, coupled with a continually aging population, make the hospice sector ripe for investment.

Amedisys was perhaps the largest hospice acquisitions player in 2019, following up its acquisition of Compassionate Care Hospice by acquiring Tulsa, Oklahoma-based RoseRock Healthcare, a specialized hospice care provider serving northeastern Oklahoma, and, more recently, by entering into a definitive agreement to acquire Asana Hospice—a hospice care provider with locations in Pennsylvania, Ohio, Missouri, Kansas and Texas—which closed effective January 1, 2020. After closing its purchase of Asana Hospice, Amedisys now has 146 hospice care centers spanning 33 states (this in addition to its 4.8% market share of the U.S. home health industry).

In an important development for the space, Addus HomeCare Corporation (Nasdaq: ADUS), the country’s largest personal care services company, made its first significant foray into hospice with the purchase of Hospice Partners of America, LLC, a multi-state provider of hospice services, for \$130 million.

Encompass Health Corporation (NYSE: EHC) and LHC Group Inc. (Nasdaq: LHCG) also bolstered their hospice portfolios this past year. In July, Encompass added 23 hospice locations to go along with 23 new home health locations by completing its acquisition of privately owned, Birmingham, Alabama-based Alacare Home Health & Hospice for a reported \$217 million. In so doing, Encompass furthered its stated goal of scaling up its hospice business—and, indeed, cracked the top 10 list of hospice providers in the United States. LHC, meanwhile, entered into joint venture agreements with Geisinger Home Health and Hospice and a Geisinger-affiliate, AtlantiCare, to take majority ownership and management control over Geisinger’s home health and hospice operations in Pennsylvania and New Jersey, and also partnered with Capital Region Medical Center in Jefferson City, Missouri, to purchase from SSM Health the assets of two home health agencies and one hospice agency. As hospice becomes a more attractive investment, these providers—and others—are naturally looking to build-out the hospice segments of their business.

As large providers continue to expand their footprint, PE interest in hospice also continues to grow due to the same reimbursement and demographic tailwinds driving the provider expansion. For example, in addition to the \$1 billion acquisition of Compassus Health noted above, in April, Salt Lake City-based Webster Equity Partners announced its \$20 million purchase of Comfort Hospice & Palliative Care in Portland, Oregon, through its platform company, Bristol Hospice. As the M&A market for hospice heats up, multiples—which, as of late 2018, were already in the range of 16 to 19 times EBITDA—are reportedly seeing record-highs.



The gold rush to hospice is not likely to slow down any time soon, as CMS is updating the payment rates for hospices by 2.6% for fiscal year 2020, which CMS estimates will result in additional payments to hospices of up to \$520 million compared to fiscal year 2019.

Moreover, although the home health market may have temporarily cooled, commentators expect a spike in transactions once the PDGM dust settles. In particular, large providers believe good opportunities for buyers are ahead as smaller agencies may struggle to stay afloat under the new payment model leaving a quick sale (at an attractive price for buyers) as sellers' best option.

Personal care services, which consist of assistance with activities of daily living in the home, continue to grow as states look to opportunities for elderly populations to remain in the cost-effective and preferred setting of the home rather than moving to institutional care. Key factors that should drive further personal care consolidation include (1) a continuing trend by states toward Medicaid managed care arrangements; (2) increasingly complex technology and regulatory requirements, such as electronic visit verification; and (3) the approval by CMS in 2019 of personal care as a benefit that can be offered by Medicare Advantage insurers. Addus completed three personal care acquisitions and raised an additional \$183 million in a third quarter secondary offering, with the stated intention of making additional acquisitions in these sectors. The personal care space remains highly fragmented, but the ongoing consolidation by Addus and the significant acquisition by LHC of Almost Family in 2018 point to increased activity in this area.

## Ambulatory Surgery Centers (ASCs)

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Small transactions characterized the ASC sector in 2019, with an estimated 49 transactions through the end of Q3 2019.

Despite the absence of any major deals, such as the 2018 acquisition of AmSurg by PE firm KKR & Co. Inc. (NYSE: KKR) as part of its larger \$9.9 billion acquisition of Envision Healthcare Corporation (NYSE: EVHC), several of 2018's other themes spilled into 2019. PE investors continued their foray into ASCs. Most notably, in August, Talomon Capital, a London-based investment firm, bought 2.6 million shares of Brentwood, Tennessee-based Surgery Partners (Nasdaq: SGRY). Moreover, commentators seem to agree that ASCs remain an attractive sector for investment, both now and in the long-run. Increasingly, outpatient surgical procedures are being performed in ASCs due to, among other factors, lower costs in the ASC setting. At the same time, CMS continues to increase reimbursement rates—under the ASC payment final rule for CY 2020, CMS is increasing the payment rates under the ASC Payment System by a factor of 2.6%, which CMS estimates will increase total payments to ASC providers by \$230 million compared with CY 2019—and expand the list of services payable in the ASC setting. One of the additions to the ASC Covered Procedures List in CY 2020 is the total knee arthroplasty (more commonly referred to as a knee replacement). CMS' decision to begin covering knee replacements in the ASC setting, coupled with an aging population increasingly looking to ASCs for surgical needs, potentially presents a strong business opportunity for surgery centers and interested investors.



## Physician Practice Management

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The physician practice management space showed continued robust M&A activity in 2019 following several headline grabbing deals in 2018, including the \$9.9 billion acquisition of Envision Healthcare Corporation by KKR. PE firms dominated M&A activity within the physician practice management space in 2019. PE capital proliferates in physician management due to a number of factors, including (1) the advantages of having a centralized management presence; (2) the ability to implement advancing technologies to further increase efficiency; and (3) the stability of joining a larger platform with financial backing. Furthermore, PE assists physician practices in their increasing desire to expand their range of ancillary services, such as lab, therapy and infusion services. Taking into account these factors, together with overall pressures to simultaneously reduce costs and remain profitable, PE firms are likely to continue accelerating their healthcare investment strategies in the immediate future. In 2019, PE dollars flowed through all specialties, but investment was focused on office-based specialties, including certain “hot” specialties such as ophthalmology, dermatology and dental practices.

Notable in the ophthalmology space was the acquisition by Goldman Sachs’ (NYSE: GS) PE firm West Street Capital Partners VII of Capital Vision Services from Altas Partners. The acquisition, completed in August, had an estimated value of \$2.7 billion. Capital Vision Services provides management services to its affiliated vision care practices known as “MyEyeDr.” PE firm Altas Partners had previously acquired Capital Vision Services for an estimated \$775 million. Additionally, in December, San Francisco-based PE firm FFL Partners announced that it would sell its portfolio company, EyeCare Partners, LLC, which operates a network of ophthalmology and optometry practices across the United States, to Partners Group, another PE firm. Under FFL, EyeCare Partners’ revenue grew 65% and expanded from 63 to 450 sites. The companies expect that Partners Group’s leadership will help expand a network of independent primary care practices, which has at its center patient-focused physicians and EyeCare Partners’ comprehensive array of services.

Activity also continued in gastroenterology and orthopedics. Following investments by Waud Capital in The GI Alliance and Frazier Healthcare Partners in United Digestive in 2018, Amulet Capital invested \$130 million in May 2019 to merge three groups and create a new platform, US Digestive Health. And in the orthopedics space, after a flurry of investments in 2017 and 2018 by the likes of Varsity Healthcare Partners (The Orthopedic Institute), Frazier (The CORE Institute), and Atlantic Street Capital (OrthoBethesda), investment continued in 2019 with transactions including the acquisition of Beacon Orthopaedics by Revelstoke Capital Partners and the acquisition of Orthopaedic & Neurosurgery Specialists by Kohlberg & Company.

It didn’t stop there. Separate and apart from the creation of new, stand-alone platforms, we continued to see robust activity in add-on acquisitions by existing platforms as investors sought to leverage down all-time high multiples. We expect to see that trend continuing into 2020. And as more physician practices continue to see the benefits of accepting private investment—namely, the ability to focus on the clinical aspects of care while allowing a separate managerial entity to focus on growth and efficiency—there is no doubt that investment in the physician practice management space will continue across all sectors in the near term.



## Behavioral Health

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Although behavioral health M&A activity slowed in 2019 compared to 2018, companies providing autism spectrum disorder services continued to see interest from buyers. PE firms and their portfolio companies were the primary buyers, as they continued to build regional platforms. For example, in the first half of the year, both Audax Group (Proud Moments) and Arsenal Capital (Hopebridge) launched platforms. And, in the latter half of the year, Golden Gate Capital acquired Invo HealthCare, and Thomas H. Lee Partners acquired Centria Healthcare—one of the nation’s largest providers of applied behavior analysis therapy for children with autism—for \$415 million.

We expect that, following a slower 2019, the pace of transactions in the behavioral health space will increase in 2020, with interest in autism spectrum disorder services continuing.

## Managed Care and Pharmacy

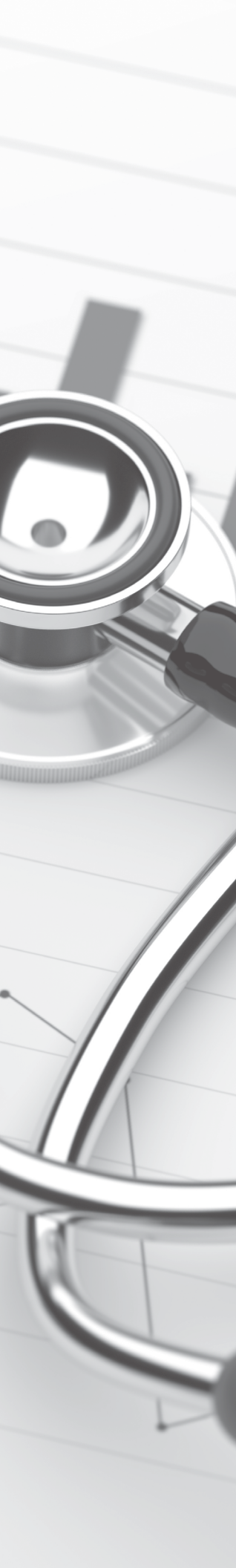
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In 2018, several health plans reached across sector lines to form strategic alliances—a trend best exemplified by the CVS-Aetna merger which brought Aetna together with CVS’ walk-in clinics, retail pharmacies and pharmacy benefit manager enterprise. These vertical integrations and strategic alliances continued in 2019.

UnitedHealth Group, Inc. (NYSE: UNH) announced on December 9 that it would be spending \$300 million (and assuming another \$560 million in debt) to acquire specialty pharmacy and infusion therapy provider Diplomat Pharmacy, Inc. (NYSE: DPLO) to expand its OptumRx pharmacy benefits service line. Commentators have remarked that while UnitedHealth continues to be the nation’s largest health insurance company, its growth is being driven primarily through pharmacy and provider acquisitions, like the acquisition of Diplomat and the acquisitions in 2018 of pharmacies Genoa Healthcare and Avella Specialty Pharmacy.

Anthem, Inc. (NYSE: ANTM) is similarly using innovative acquisitions to drive growth. On June 6, Anthem announced its plans to acquire Beacon Health Options, the largest independently held behavioral health organization in the country, from PE firms Bain Capital Private Equity and Diamond Castle Holdings for an undisclosed amount. Beacon contracts with different payors to help manage mental and behavioral health for its beneficiaries. Beacon services more than 36 million individuals across all 50 states. By adding Beacon to its portfolio, Anthem will be adding a national network of behavioral health services and combining Beacon’s network with Anthem’s existing networks to scale up its behavioral health services offerings. Commentators suggest this is a necessary move, as consumers are increasingly looking to insurers’ ability to provide coverage for behavioral and mental health services in addition to coverage for traditional, physical care. The purchase of Beacon was expected to close Q4 2019 but has not been announced as of this publication.

Anthem’s impending deal demonstrates that payors are increasingly looking to invest and gain a foothold in the behavioral health space and increase their presence and offerings through partnerships with providers, management groups, and even healthcare technology firms. In the same month that Anthem announced its planned acquisition of Beacon, UnitedHealth’s OptumRx announced a partnership with telemental health application Talkspace—a subscription-based app offering unlimited messaging with one of Talkspace’s 5,000 behavioral health professionals—making access to the app available to OptumRx’s 2 million customers.



2019 also saw examples of health plans seeking to bolster their existing businesses. In March, Centene Corporation (NYSE: CNC), the largest provider of individual coverages sold on government exchanges created as a result of the Patient Protection and Affordable Care Act, announced its plans to acquire WellCare Health Plans, Inc. (NYSE: WCG) for a proposed \$17.3 billion, a move that would, by some estimates, position it as the third-largest publicly traded managed care provider, potentially even surpassing Humana, Inc. (NYSE: HUM) from a revenue perspective. According to Centene, the acquisition would give the combined company 22 million members in all 50 states, including 12.3 million Medicaid members (making the company the top Medicaid provider) and almost \$100 billion in annual revenues. The deal is expected to be completed in the first half of 2020.

Another health plan merger is in the works in New England—with Tufts Health Plan and Harvard Pilgrim Health Care, two of Massachusetts' largest insurers, announcing in August that the two companies would join forces to serve approximately 2.4 million New Englanders spanning Massachusetts, Maine, Connecticut, New Hampshire and Rhode Island. The combined company, which will become one of the largest nonprofit health services organizations in the region, will offer a range of both commercial and government-sponsored plans.

On July 31, Welsh Carson Anderson & Stowe and Walgreens Co. announced an equity investment in Shields Health Solutions, a manager of hospital-owned specialty pharmacies (HSPs). The investment was likely motivated by the rapid growth of HSPs—which, for nonprofit hospitals, is largely attributed to the discounted drug prices offered under the 340B drug pricing program—and, in turn, the increasing demand for managers and regulatory compliance experts to assist hospitals with the creation and maintenance of these highly regulated business lines.

## Healthcare Information Technology


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It is undoubtedly an exciting time for healthcare information technology, as companies increasingly seek out strategic partnerships to implement innovative technologies that will increase efficiency and bring down costs to both consumers and healthcare service providers. Additionally, M&A activity in the healthcare information technology space continue to disrupt traditional healthcare service models. This trend is exemplified by companies that are not historically healthcare industry players making acquisitions in the healthcare space. Because opportunities for advancement and disruption are inherent in technological innovation, the healthcare information technology sector is ripe for mergers and acquisitions that cross traditional industry lines.

In October, French 3-D and product lifecycle management specialist Dassault Systemes acquired Medidata Solutions (Nasdaq: MDSO) for a purchase price of \$5.8 billion. Medidata Solutions provides cloud-based services that help develop therapeutic innovations for pharmaceutical companies and biotechnology firms, research organizations, and medical centers. Medidata seeks to streamline the clinical trial process and lower the total cost of clinical development by implementing software that analyzes pharmaceutical trials for large drug makers. Together, the companies hope to provide opportunities for their customers and for patients by advancing the digital transformation of life sciences.

In December, HMS Holdings Corp. (Nasdaq: HMSY) completed its acquisition of Accent, a payment accuracy and cost containment business, from Intrado Corporation for approximately \$155 million. Accent offers comprehensive claims accuracy solutions, which





include cost avoidance and overpayment recovery services. The acquisition will expand HMS' market coverage and provide further growth opportunities. Additionally, the companies expect that the acquisition will broaden HMS' claims accuracy services for both commercial and Medicare Advantage health plans.

One company that continues to cross industry lines into the healthcare space is Best Buy (NYSE: BBY), which acquired Michigan-based Critical Signals Technologies for approximately \$125 million in May. Critical Signals provides remote patient monitoring services that assist seniors and disabled individuals to live more independently while avoiding unnecessary hospitalization. Critical Signals' services include wellness coaching, medication management, telehealth services, and in-home vital sign monitoring. This transaction adds to Best Buy's purchase of GreatCall in 2018 for \$800 million. Great Call provides health products and personal emergency response services to seniors. Together, these transactions reflect Best Buy's focus on providing technology services and solutions to an aging population.

Another well-known cross industry company is Amazon (Nasdaq: AMZN), which, in October, acquired Health Navigator, a start-up that provides technology services to digital health companies. Although deal terms were not disclosed, Amazon confirmed that Health Navigator will join its new service, Amazon Care. Launched in September, Amazon Care serves as a medical benefit for its employees and provides virtual care and home visits when additional care is needed. The acquisition of Health Navigator is Amazon's second acquisition of a healthcare company, after its acquisition of online pharmacy Pillpack in 2018 for \$753 million, and indicates that the employee rollout by Amazon may be a testing ground for a future widespread telehealth offering.

Given the dynamic nature of the information technology space and the demand for innovative healthcare solutions, we expect to see a continuation of strategic acquisitions in the healthcare information technology sector that have a focus on innovation, cost reduction, and quality improvement in the coming year. We also expect to see the presence of traditionally non-healthcare companies breaking into the industry with solutions that disrupt traditional industry practices.

## Conclusion

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As predicted, 2019 was another year of innovation, expansion and continued PE investment in healthcare. 2020 surely will be more of the same—and likely another growth year in all of these areas. Things to watch in 2020: Are there new mega merger transactions to be had with hospitals and health systems? What additional physician specialties will see an uptick in M&A activity and when will the onslaught of platform exits begin? How will M&A activity in the post-acute space play out and will the interest in home health pick up again? Will transaction activity as a whole cool in the wake of an election and concern over an inevitable downturn in the economy after a record run? In any event, 2020 is poised to be another year of interesting dynamics, and perhaps some surprises, in the healthcare sector. Stay tuned.

**If you have questions about any of the information presented in this review, please contact the authors on the following page or any member of our [healthcare team](#).**

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