



# HEALTHCARE TRANSACTIONS:

Year in Review

JANUARY 2017

**BASS BERRY  SIMS**

CENTERED TO DELIVER.

NASHVILLE KNOXVILLE MEMPHIS WASHINGTON DC [bassberry.com](http://bassberry.com)

## OVERVIEW

Healthcare transactional activity continued unabated throughout 2016, continuing a years-long trend of sustained growth. This activity is due to a number of factors: innovative technology, pharmaceuticals, and services that expand healthcare options in the market; an aging population that requires an increasing number of services; and the implementation of value-based reimbursement, which presents a seismic shift in how healthcare providers are paid for their services. All these factors have driven providers to consolidate in an effort to expand access to services and products while taking advantage of increased capital and economies of scale. We are pleased that Bass, Berry & Sims attorneys have advised on many of these notable transactions in 2016.

### Physician Services

While all providers struggle to remain profitable with the shift to value-based reimbursement, it is not surprising that the physician services sector has produced some of the biggest deals of 2016. As in the past several years, physician organizations are increasingly consolidating to better prepare for the new world of value-based reimbursement and respond to the needs of their customers.

The physician services sector had two of the highest-value deals of the year. In June, AmSurg Corp. and Envision Healthcare Holdings, Inc. announced a merger to create one of the largest provider organizations in the nation. The approximately \$15 billion transaction closed in December.

Another leading physician services organization, TeamHealth Holdings, Inc., announced in October that it would be acquired by Blackstone, a global asset manager, in a transaction valued at approximately \$6.1 billion. The acquisition comes almost a year after TeamHealth rebuffed AmSurg's acquisition offers.

Although blockbuster physician services deals dominated 2016, expect physician-groups of all sizes to consider consolidation in 2017. With the release of the final rule implementing the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) in October, CMS has radically changed the ways that physicians will be compensated and how they will report claims for reimbursement in an effort to move away from the traditional fee-for-service system. Such a dramatic change will drive physicians and physician groups to larger organizations, feeding the consolidation trend.

### Behavioral Health

Key changes in the regulatory regime also have driven increased activity in the behavioral health sector. Access to behavioral health services has expanded thanks to the Mental Health Parity Act and the Addiction Equity Act, the Medicaid Certified Match Substance Abuse Program, and the recent U.S. Preventative Service Task Force recommendation on screening for depression. As insurance coverage increases, the demand for behavioral healthcare services increases as well, driving transactional activity.

The behavioral health sector started 2016 with a couple of major transactions. In January, Acadia Healthcare Company, Inc. announced that it had signed an agreement to acquire Priory Group, a provider of behavioral healthcare services in the United Kingdom, for \$1.887 billion. After receiving approval from regulators in the United Kingdom, Acadia completed the acquisition in November. In May, Kohlberg & Company, L.L.C., a private equity firm specializing in middle-market investing, acquired Meadows Behavioral Healthcare, a provider of addiction and psychological trauma treatment service, for approximately \$180 million.

While high-value deals may have dominated the press, most of the behavioral health deals of 2016 involved smaller transactions as providers seek to strategically strengthen their network. Though small in size, these strategic acquisitions are large in number, illustrating that the behavioral health sector is poised to become a major source of transactions due to the increasing demand for and expanding access to services.

## Post-Acute Care

The post-acute sector experienced some of the most frenetic transaction activity in 2016. With an aging U.S. population, demand for services will continue to grow even as the shift to value-based reimbursement will put pressure to consolidate on post-acute care providers. This pressure will be keenly felt by home health providers and hospice providers, both with highly fragmented markets ripe for consolidation, as well as smaller operators of skilled nursing facilities. All of these factors favor larger players who can navigate the shift to value-based reimbursement, a trend reflected in Diversicare Healthcare Services, Inc.'s and Amedisys, Inc.'s respective multi-million dollar acquisitions. In addition, buyers including Kindred Healthcare, Inc., Epic Health Services, Inc., and Almost Family, Inc. each announced multiple acquisitions during 2016. Interest in post-acute service providers will continue to grow because they are cost-effective providers serving an expanding demographic in a fragmented market.

## Specialty Pharmacy

There is no doubt that the specialty pharmacy sector is set to experience explosive growth in the next few years; projections estimate the \$75.8 billion sector could grow as much as 25% per year. With so much potential, specialty pharmacy transactions are likely to increase as entities and private equity invest in this lucrative sector. For example, in February, McKesson Corporation announced that it had agreed to purchase Vantage Oncology, LLC and Biologics, Inc., an oncology pharmacy services company.

Currently, many specialty pharmacies are privately-held and operate in limited geographic areas. Consolidation within the specialty pharmacy sector will allow these entities to expand into new geographic areas and reach more consumers by taking advantage of economies of scale. For example, both McKesson Corporation and The Kroger Co. completed acquisitions of specialty pharmacies that will allow them to expand into new geographic areas while offering a greater variety of specialty pharmaceuticals. Investments like these allow the specialty pharmacies to offer additional value-added services that enhance patient care services, which is in line with the increasing focus on value-based reimbursement.

## Hospitals

Even as investor interests shift to fragmented markets, hospital transactions have and will remain one of the most important sectors to watch. Regulatory pressures continued to favor consolidation of hospitals, demonstrated by two high-value hospital mergers. In May, Capella Healthcare, Inc. and RegionalCare Hospital Partners, Inc. merged under the name RCCH HealthCare Partners, creating a company that has 18 hospital campuses in 12 states. In October, Ardent Health Services and LHP Hospital Group, Inc. announced plans to merge, which will create the second-largest private, for-profit hospital operator in the United States, with 19 hospitals in six states.

As an alternative to consolidation, some hospitals are exploring the benefits of participating in affiliations to encourage growth and cost reductions. For example, the affiliation between Baylor Scott & White Health and Tenet Healthcare Corporation creates greater patient access to services and facilitates coordination among hospitals while still allowing each entity to retain its independence. This tactic may become more popular given the Federal Trade Commission's recent challenges to hospital mergers.

In addition to mergers and affiliations, expect hospitals to continue to acquire physician groups in 2017. As MACRA's reimbursement changes take effect, both hospitals and physician groups will face pressure to contain costs while improving healthcare quality, and one of the most effective ways to manage these pressures is to consolidate—a popular trend after the passage of the Affordable Care Act in 2010, and one likely to reemerge in the future as hospitals and physician groups grapple with the challenges of value-based reimbursement.

## Managed Care

As the Anthem-Cigna and Aetna-Humana mergers face antitrust challenges, activity in the managed care sector slowed compared to recent years. Notably, however, Molina Healthcare, Inc. struck a deal to acquire proposed divestitures resulting from the Aetna-Human merger depending on the outcome of the pending antitrust litigation. And, in November, WellCare Health Plans, Inc. announced plans to acquire Universal American Corp. in all-cash deal valued at approximately \$800 million. The transaction is expected to close in the second quarter of 2017.

## Healthcare IT

Innovative products, a desire to improve clinical outcomes through technological solutions, and federal incentives have compelled healthcare providers to adopt healthcare IT. The high price of such IT solutions has remained an impediment to many providers across all sectors—but with the consolidation trend, providers can invest in healthcare IT using the increased capital and economies of scale available. Many of the transactions in the healthcare IT sector were spurred by the possibility of transforming the provision of healthcare services using technology to lower healthcare costs, expand patient access, and improve patient outcomes.

As in other sectors, companies that can navigate the transition to value-based care are the most attractive targets. Evolent Health, Inc.'s acquisition of Valence Health, a provider of value-based administration, population health, and advisory services is just one example. Similarly, McKesson Technology Solutions and Change Healthcare Holdings, Inc. announced in June the creation of a new healthcare information technology company intended to transform the provision of healthcare services using technology to lower costs, expand access, and improve patient outcomes. Following the closing of the transaction, which is expected to occur in the first half of 2017, McKesson and Change Healthcare plan to launch an initial public offering.

## WRAP UP

This is a dynamic, transformative time in the healthcare industry. Even with the uncertainty surrounding the continuing viability of the Affordable Care Act after the recent presidential election, key regulatory changes, increased access to services, and a fundamental shift in reimbursement will continue to drive increased interest in consolidation across all healthcare sectors as providers, payors, and investors figure out how to handle these changes.

If you have questions about this document, please contact the authors of this overview or any member of our Healthcare team.

## AUTHORS



**Angela Humphreys**  
*Chair, Healthcare Practice*

615-742-7852  
ahumphreys@bassberry.com



**J. James Jenkins, Jr.**  
*Member*

615-742-6236  
jjenkins@bassberry.com



**Courtney Ginn**  
*Associate*

615-742-7741  
cginn@bassberry.com

**BASS BERRY  SIMS**

CENTERED TO DELIVER.

NASHVILLE KNOXVILLE MEMPHIS WASHINGTON DC

[bassberry.com](http://bassberry.com)