M&A Quarterly Activity Report: Q2 2022

Transactions Between Hospitals and Health Systems

M&A activity between hospitals and health systems in the second quarter of 2022 returned to both trendlines we have been tracking since the pandemic began. First, the number of announced transactions, 13, remained below what we saw in the years leading up to 2020 but was consistent with numbers for Q2 2021, when 14 transactions were announced. Second, we again saw the small number of transactions offset by a high percentage of “mega” transactions, in which the smaller party or seller has annual revenues in excess of $1 billion (an exception to this trend was Q1 of this year, when no mega transactions were announced and 10 of the 12 announced transactions had smaller parties with less than $500 million in annual revenue). Indeed, the average size of the smaller party reached a record-setting $1.5 billion this quarter.

In addition to the two mega transactions this quarter, two other announced transactions involved a smaller party with annual revenues in excess of $500 million. These transactions included:

- Advocate Aurora Health/Atrium Health (smaller party revenue of $12.9 billion)
- MercyOne/Trinity Health (smaller party revenue of $3.0 billion)
- Bellin Health System/Gundersen Health System (smaller party revenue of $800 million)
- George Washington University Hospital/Universal Health Services (smaller party revenue of $600 million)
Overview of Q2 Activity

As noted above, the 13 announced transactions in Q2 2022 were consistent with what we have seen since the pandemic began, with the number of transactions running below historical, pre-pandemic levels (Figure 1).

**Figure 1:** Number of Q2 Announced Transactions by Year, 2016 – 2022

![Figure 1: Number of Q2 Announced Transactions by Year, 2016 – 2022](chart.png)

Source: Kaufman, Hall & Associates, LLC

The size of the Q2 announced transactions—particularly the planned merger of Advocate Aurora Health and Atrium Health—generated an average smaller party size that was more than double 2021’s recording-setting year-end average size of $619 million. For Q2 2022, average size of the smaller party approached $1.5 billion (Figure 2).

**Figure 2:** Average Smaller Party Size ($s in millions), Q2 2022 Compared with Year-End Averages, 2016 – 2021

![Figure 2: Average Smaller Party Size ($s in millions), Q2 2022 Compared with Year-End Averages, 2016 – 2021](chart2.png)

Source: Kaufman, Hall & Associates, LLC
Total transacted revenue also reached an historic high of $19.2 billion this quarter. This more than doubles the total transacted revenue of $8.5 billion in Q2 2021, which had a similar number of announced transactions.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue ($s in Billions)</th>
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<tbody>
<tr>
<td>2015</td>
<td>$7.9</td>
</tr>
<tr>
<td>2016</td>
<td>$5.0</td>
</tr>
<tr>
<td>2017</td>
<td>$12.6</td>
</tr>
<tr>
<td>2018</td>
<td>$3.0</td>
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<tr>
<td>2019</td>
<td>$11.3</td>
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<tr>
<td>2020</td>
<td>$12.0</td>
</tr>
<tr>
<td>2021</td>
<td>$8.8</td>
</tr>
<tr>
<td>2022</td>
<td>$19.2</td>
</tr>
</tbody>
</table>

Source: Kaufman, Hall & Associates, LLC

In three of the 13 announced Q2 transactions, the acquirer was a for-profit health system. In one transaction, there was an academic/university-affiliated acquirer and there was a religiously affiliated acquirer in one transaction. Other not-for-profit health systems were the acquirer in the remaining eight transactions.

Spotlight on Skilled Nursing and Long-Term Care Partnerships

In our 2021 year-end report, we described a new phase of healthcare partnerships that extend beyond traditional horizontal partnerships between hospitals and health systems to include partnerships that can offer consumers access to new services or enhance the delivery of services that require specialized skillsets. We promised to look for opportunities to highlight transactions that illustrate this new phase of healthcare partnerships. In recent months, new partnerships around the provision of skilled nursing and long-term care provide an example.

A high-performing skilled nursing facility (SNF) is a critical ally for health systems, particularly those that are focused on performance in value-based care arrangements or looking to enable
earlier discharge from inpatient care to the lower-cost SNF setting and help to reduce hospital readmissions. Yet, SNFs face an evolving and increasingly challenging environment:

- Effective October 1, 2019, the Centers for Medicare & Medicaid Services (CMS) began using a new Patient Driven Payment Model (PDPM) for SNFs that ties payment to the acuity of the patient instead of the volume of therapy provided.
- COVID-19 and infection prevention measures had a particularly dramatic impact on SNFs, posing unique threats to both patients and their caregivers and requiring reconfiguration of facilities to reduce infection risks.
- Consumer preferences (likely accelerated by the pandemic) are pushing a broader transition to post-acute home-based care, including home health services, hospital-at-home, and other care-at-home models.
- Like all other healthcare organizations, SNFs are struggling with staffing shortages and wage inflation that could permanently reset their cost structure.

These changing dynamics—together with SNFs’ unique operational profile—are prompting health systems to reassess strategic options for providing post-acute skilled care. These options could include: sale or monetization of their current SNF assets; partnership (joint ventures, management services agreements, etc.) with specialized SNF operators; or a “doubling down” strategy focused on increased investment in next-generation SNFs (sometimes called “super SNFs”) that can accommodate higher acuity patients in a more comfortable and appropriate care environment (Figure 4).

**Figure 4: SNF Strategic Options**

<table>
<thead>
<tr>
<th>INVESTMENT REQUIRED</th>
<th>More</th>
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<tbody>
<tr>
<td>Sale/Monetization</td>
<td></td>
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<tr>
<td>Partnership (JV/MSA)</td>
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<tr>
<td>“Doubling Down”</td>
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<table>
<thead>
<tr>
<th>OPERATIONAL CONTROL</th>
<th>More</th>
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<tr>
<td>Less</td>
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Source: Kaufman, Hall & Associates, LLC
Two recent transactions illustrate options for sale of and partnership on a health system’s SNF assets. In late March 2022, Hackensack Meridian Health announced that the majority of its long-term care facilities would be acquired by Complete Care.¹ In April, Virtua Health announced the sale of its two SNFs to Tryko Partners, which will continue to operate the facilities with the support of Marquis Health Consulting Services (Kaufman Hall served as advisor to Virtua Health in this transaction).²

Changes in the long-term care industry and the desire to reinvest in core services were cited as drivers of these transactions. Hackensack Meridian Health’s press release announcing the deal observed that “the long-term care industry has experienced major changes over the last few years as a result of the COVID-19 pandemic, and this decision was made in line with industry trends and best practices.” Virtua Health President and CEO Dennis W. Pullin noted that “by divesting in the realm of skilled nursing, we are better equipped to reinvest in areas where we can truly make an impact.”³

In both cases, an ongoing partnership with the new owners will ensure that patients retain access to high-quality skilled nursing and long-term care services.

Looking Forward

The full return this quarter to the trend of fewer but larger hospital and health system transactions signals what may be a long-term shift in hospital and health system transactions. We expect continued activity in this space, but believe that the emphasis on transformative combinations, strategic rationale, and heightened selectivity will only grow. At the same time, as noted in our 2021 year-end report, “we anticipate a greater willingness to engage with specialty providers to complement the traditional inpatient/outpatient services that have been the core offering of hospitals and health systems.”

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