

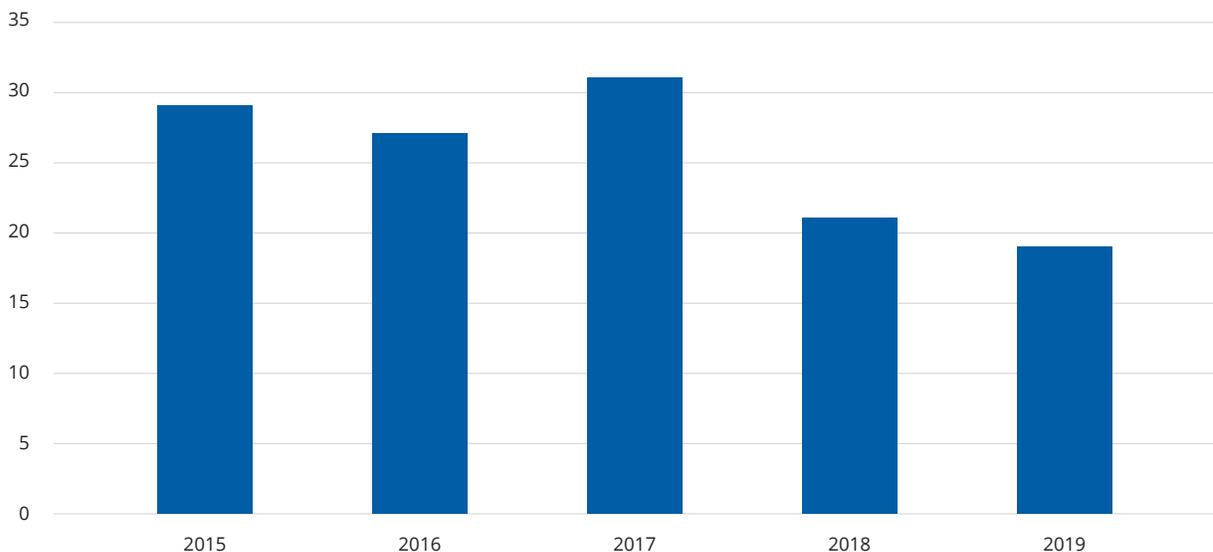
## M&A Quarterly Activity Report: Q2 2019

*Although the overall number of transactions moderated in the second quarter, a number of significant transactions kept the quarter on pace with recent growth trends in total transacted revenue and average seller size by annual revenue.*

### Overview

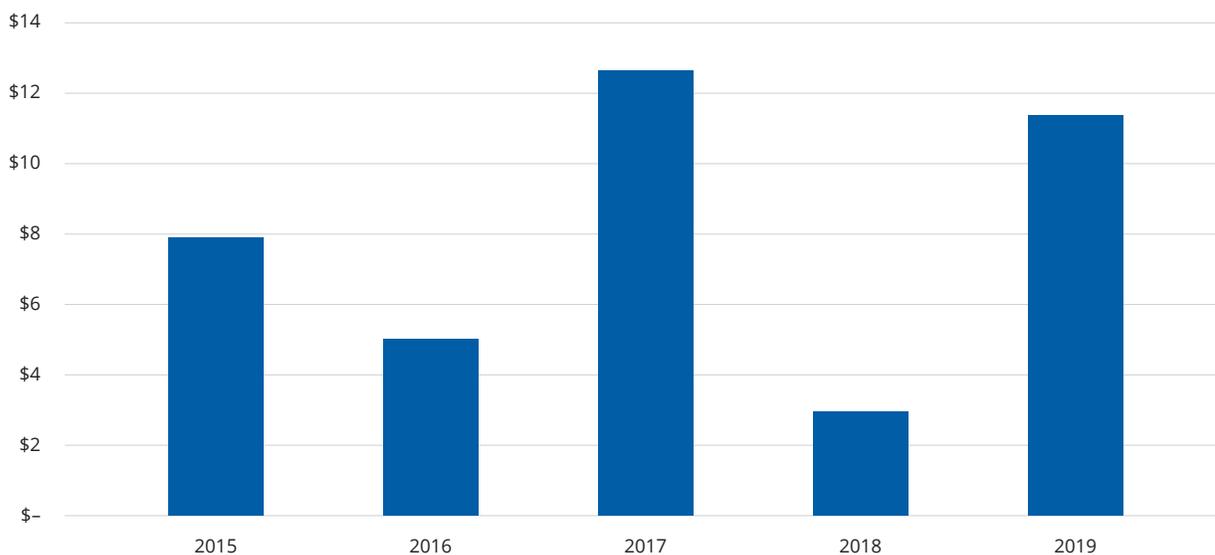
Activity in Q2, with 19 announced transactions, was behind the 27 transactions announced in Q1 2019. But activity was in line with historical trends, including the 21 transactions announced in Q2 of 2018. Year to date, with 46 announced transactions, activity in 2019 is closely tracking 2018, when there were 50 announced transactions in the first half of the year.

**Figure 1.** Number of Q2 Announced Transactions, by Year



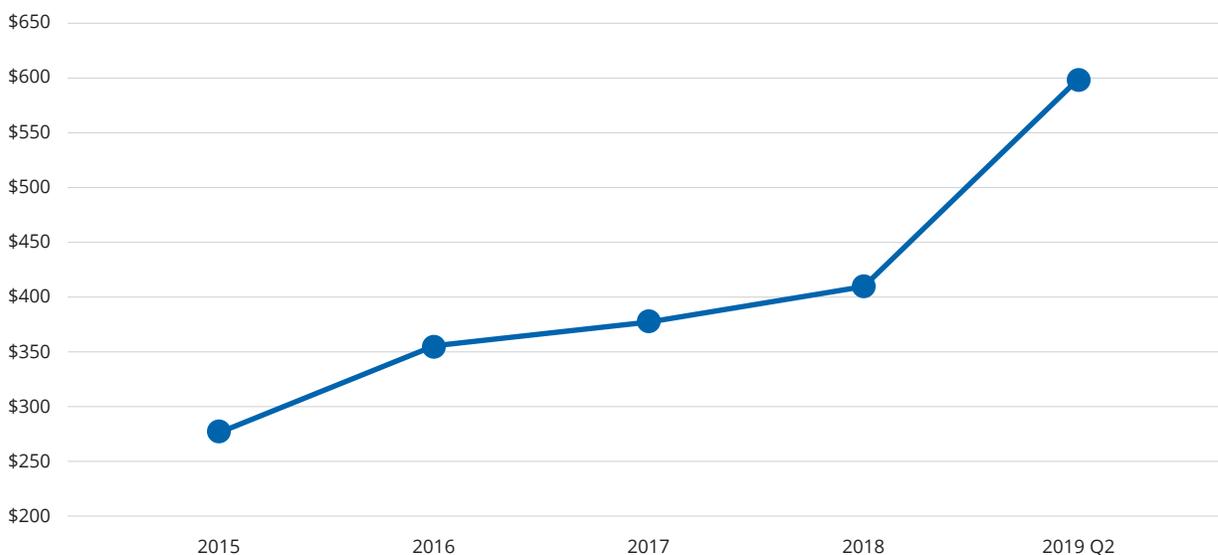
Total transacted revenue for Q2 2019 was \$11.3 billion. This is significantly above the norm for quarterly transacted revenue, and trails only 2017's historically high figure of \$12.6 billion for Q2.

**Figure 2.** Total Q2 Transacted Revenue (\$ in Billions), by Year



The average size of seller (by revenue) grew from \$196 million in Q1 to approximately \$597 million in Q2. This reflects the impact of three large announced transactions—the Atrium Health/Wake Forest Baptist Health, Gundersen Health System/Marshfield Clinic Health System, and Sanford Health/UnityPoint Health mergers—on a smaller overall number of transactions for the quarter. Growth in the number of mega mergers (transactions in which the seller has \$1 billion or more in annual revenue) has steadily pushed the average size of seller upward in recent years. This figure reached a record high of \$409 million for the year as a whole in 2018, as described in [Kaufman Hall's year-end report](#).

**Figure 3.** Average Seller Size by Revenue (\$ in Millions), Q2 2019 Compared with 2015-2018 Year-end Averages



A significant number of transactions announced in Q2 were divestitures, defined as the sale of one or more hospitals from one health system or hospital operator to another (including the sale of minority interests). Divestitures represented approximately 40 percent of Q2 transactions. The majority of divestitures were made by for-profit health systems or hospital operators, which were sellers in 5 of the 7 divestiture transactions.

## Significant Transactions

### **Atrium Health and Wake Forest Baptist Health (North Carolina)**

[Announced in April](#), this transaction will add an academic medical center to Atrium Health's growing regional health system, which expanded from the Carolinas into Georgia with last year's acquisition of Navicent Health. Wake Forest Baptist's seven hospitals will join Atrium Health's 42 existing hospitals, creating a health system with combined annual operating revenue in excess of \$9 billion.

[Plans for the combined system](#) include expansion of the Wake Forest School of Medicine to a second campus in Charlotte, N.C., construction of a research and population health center in Winston-Salem, N.C., and opportunities to pair Atrium's clinical programs with Wake Forest's research in areas including Alzheimer's disease, diabetes, cardiovascular disease, and oncology.

### **Gundersen Health System and Marshfield Clinic Health System (Wisconsin)**

This transaction, [announced in May](#), will bring together two health systems that are geographically contiguous, but have little overlap in their existing markets. Both are integrated delivery systems that own interests in health plans: Marshfield Clinic's Security Health Plan, and Quartz Health Solutions, Inc., which is co-owned by Gundersen, UW Health, and UnityPoint Health-Meriter. Combined, the system will stretch from southwestern to north central Wisconsin, with additional locations in northeastern Iowa and southeastern Minnesota. With a focus on the needs of rural residents (both systems are hosts for students in the University of Wisconsin School of Medicine and Public Health's Wisconsin Academy for Rural Medicine program), the systems view the merger as an opportunity "to become the preeminent rural healthcare organization in the country."

### **Sanford Health and UnityPoint Health (South Dakota and Iowa)**

In June, the [two systems announced](#) they had signed a letter of intent to explore a merger. Combined, the systems would have more than \$11 billion in annual operating revenue and would rank among the 15 largest not-for-profit health systems in the country. The two systems' hospitals are located primarily in North and South Dakota, Iowa, Minnesota, Wisconsin, and Illinois, but Sanford's acquisition of Evangelical Lutheran Good Samaritan Society, closed in January 2019, gives it a presence in 26 states. The announced transaction is an example of the trend in growth of regional health systems described in the [Kaufman Hall year-end report](#).

## Spotlight: System Rationalization

The relatively high percentage of divestitures in recent quarters demonstrates both “sell-side” and “buy-side” strategies for health systems, depending on their strategic priorities and portfolio composition. Health systems may choose to sell hospitals without geographic synergies, typically those outside the system’s main markets. In these cases, it can be difficult to leverage advantages of “systemness” and scale that can enhance consumer access, form care networks attractive to employers or health insurers, or drive cost efficiencies. Hospitals may also be located in markets that are over-bedded or are experiencing population declines, making it difficult to grow market share.

On the buy side, an acquisition can fill gaps in capabilities or market coverage or, through partnership with an organization that has complementary capabilities, expand proven care models into new geographies. For example, in the first quarter of 2019, the Medical University of South Carolina (MUSC) closed on a transaction that used the divestiture of non-core assets owned by Community Health Systems to pursue a broader regional strategy (Kaufman Hall advised MUSC on this transaction).

System rationalization strategies extend beyond divestitures. Among transactions announced this quarter, Marshfield Clinic and Gundersen Health plan to bring shared rural health and health plan expertise together in an integrated delivery system that now will stretch across much of rural Wisconsin. Atrium Health plans to add academic medical center capabilities with the acquisition of Wake Forest Baptist, while providing clinical sites for diffusion of Wake Forest Baptist’s research and innovation, and capital for expansion of Wake Forest Baptist’s education mission.

From both the sell-side and buy-side perspectives, health systems are demonstrating an increased awareness and sophistication in identifying what they need to achieve strategic growth, and what assets they can monetize to strengthen the system as a whole.

## Activity Breakdown by Sector

Academic medical centers were acquirers in 3 of the 19 transactions announced in the second quarter.

Religiously-affiliated health systems were acquirers in 3 of the 19 announced transactions. Two of the sellers in these transactions were non-affiliated for-profit hospital operators, and one was a religiously-affiliated health system.

For-profit systems were acquirers in 2 of the 19 announced transactions.

## Featured Kaufman Hall Transactions

Among recently announced or closed transactions, Kaufman Hall advised:

- Virtua in its acquisition of Lourdes Health System (N.J.) from Trinity Health
- Reid Health in its acquisition of a substantial portion of the assets of Fayette Regional Health System (Ind.)
- AdventHealth in its acquisition of Florida Regional Medical Center and Lake Wales Medical Center (both Fla.) from Community Health System

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