

M&A Quarterly Activity Report: Q3 2019

Overview

The pace of activity for hospital and health system transactions in 2019 remained steady in Q3, with 25 announced transactions. This compares with 19 transactions announced in Q2 and 27 announced in Q1. Year over year, Q3 2019 ran ahead of Q3 2018, when 18 transactions were announced (Figure 1). For the year as a whole, with 71 announced transactions through Q3, 2019 is running slightly ahead of 2018, which had 68 announced transactions through Q3.

Although the number of transactions announced in Q3 2019 exceeded the number announced in Q2, total transacted revenue for the quarter was lower, at \$8.14 billion, compared with a near-record high of \$11.3 billion in Q2. Year over year, transacted revenue for Q3 2019 was below Q3 2018, which also had a high total of \$10.7 billion. Q3 2019 transacted revenue exceeded the totals for both Q3 2017 and Q3 2016 (Figure 2).

Figure 1. Number of Q3 Announced Transactions, by Year

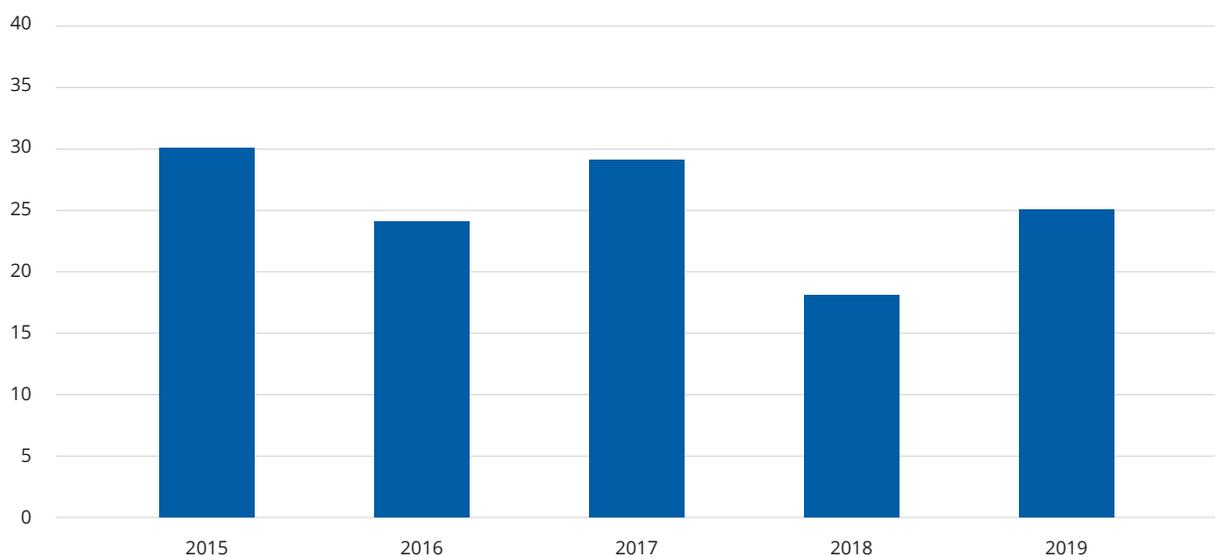
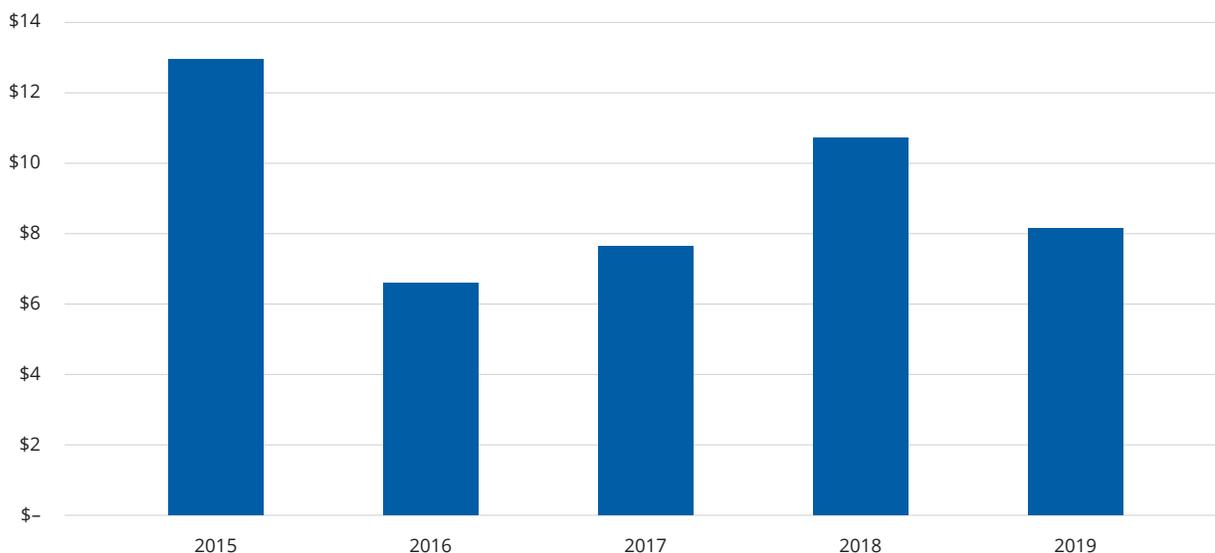
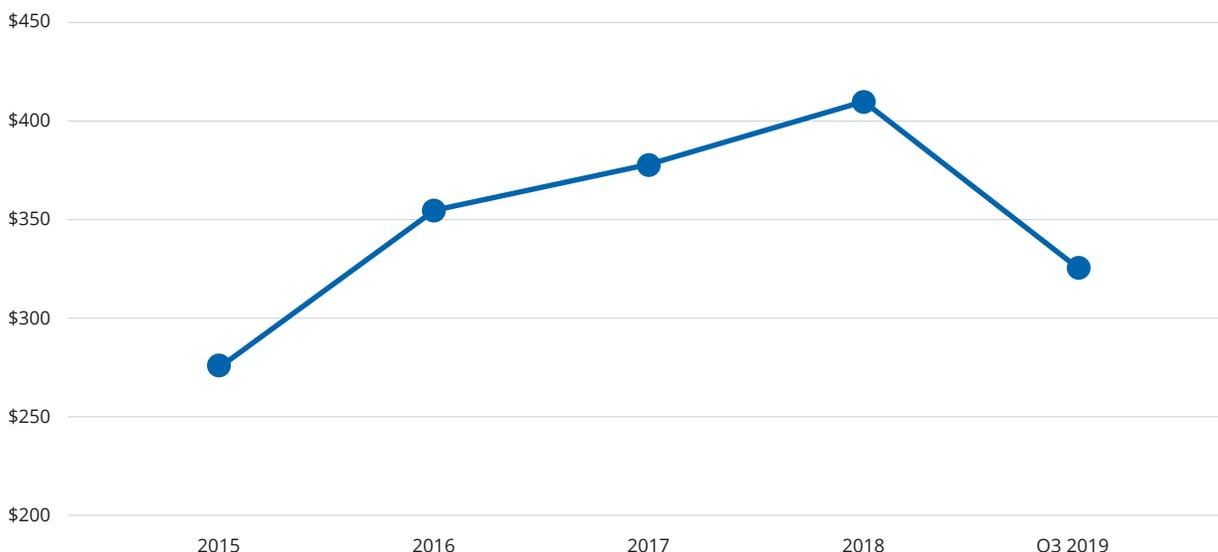


Figure 2. Total Q3 Transacted Revenue (\$ in Billions), by Year



The average size of seller (by revenue) was also down from approximately \$597 million in Q2 2019 to \$326 million in Q3. Q2 saw the impact of three significant announced transactions (transactions in which the seller has \$1 billion or more in annual revenue) on a smaller number of transactions for the quarter. In Q3, there were only two significant transactions announced, the impact of which was diluted by a slightly higher total number of transactions announced in the quarter. Average size of seller for Q3 was above the \$196 million average for Q1 2019 but running behind recent year-end averages (Figure 3). Year to date, the average size of seller by revenue is \$337 million for 2019.

Figure 3. Average Seller Size by Revenue (\$ in Millions), Q3 2019 Compared with 2015-2018 Year-end Averages



Significant Transactions

Beaumont Health and Summa Health (Michigan and Ohio)

In July, Ohio-based Summa Health, represented by Kaufman Hall, announced its intent to join Michigan-based Beaumont Health, which will result in a system with combined annual revenues of approximately \$6.1 billion. The transaction is representative of the growth in regional systems that cross state lines, described in Kaufman Hall's 2018 [year-end report](#).

A unique characteristic of the transaction is Summa Health's insurance company, SummaCare. SummaCare currently has approximately 46,000 members, including 18,000 members with self-insured employers and 23,000 Medicare Advantage members. SummaCare's health plan expertise and claims processing capabilities may provide a growth opportunity and are expected to support Beaumont's efforts in direct contracting with Michigan employers.¹

Prospect Medical Holdings, Inc., and Medical Properties Trust, Inc. (Multi-state)

Also in July, Prospect Medical Holdings announced a \$1.55 billion investment by Medical Properties Trust through a sale-leaseback of Prospect's real estate assets in California, Connecticut, and Pennsylvania. The investment will be used to retire Prospect's existing long-term debt.²

Spotlight: Payer-Provider Partnerships

This quarter's spotlight looks beyond transactions between hospitals and health systems to an emerging trend in partnerships between health plans and provider organizations. Several examples of such partnerships have been announced in the first three quarters of 2019, including:

- A joint venture between HCSC Ventures, the venture capital arm of Health Care Service Corp. (HCSC), and Sanitas, a multinational advanced primary care provider, to open 10 advanced primary care medical centers in the Dallas and Houston markets. HCSC owns Blue Cross Blue Shield (BCBS) of Texas, as well as BCBS plans in Illinois, Montana, New Mexico, and Oklahoma. The joint venture will contract with Sanitas to operate the medical centers, which will offer primary care, urgent care, and lab and diagnostic imaging services.³
- A partnership between Optum, the health technology and service arm of Minnesota-based UnitedHealth Group, and California-based John Muir Health. Optum will manage nonclinical administrative functions for John Muir and support ambulatory care coordination and utilization management for John Muir Health's Physician Network.⁴
- A joint venture between BCBS of Minnesota and North Memorial Health. The joint venture will assume ownership of North Memorial's 20 primary and specialty care clinics in the Minneapolis-St. Paul market.⁵

While these transactions have unique attributes, structures, and drivers, they share a consistent theme of payers and providers looking to collaborate within their markets. There is a clear focus on creating efficiencies for the consumer: reducing total cost of care through better care

coordination, providing one-stop convenience by offering a range of services at a single site, and reducing or eliminating administrative hassles between payer and provider.

In many instances, these partnerships involve the creation of new companies with independent leadership and governance structures. Their independent structure frees them to experiment with new care models which, if successful, could be sold back as services to the legacy companies that created the partnerships, as well as to other payer and provider organizations in the market. We anticipate significant growth in these partnerships.

Activity Breakdown by Sector

Academic medical centers were acquirers in 2 of the 25 announced transactions.

Religiously affiliated health systems were acquirers in 4 of the 25 announced transactions.

For-profit systems were acquirers in 3 of the 25 announced transactions.

Featured Kaufman Hall Transactions

In addition to its representation of Summa Health in its merger with Beaumont Health, Kaufman Hall advised JourneyCare on its acquisition of home health and hospice business units from Northwestern Medicine.

References

- 1 Greene, J.: "Beaumont Makes Deal to Acquire Ohio's Summa Health." *Modern Healthcare*. July 9, 2019. <https://www.modernhealthcare.com/mergers-acquisitions/beauumont-makes-deal-acquire-ohios-summa-health>
- 2 "Prospect to Receive \$1.55 Billion Investment from Medical Properties Trust, Inc." *BusinessWire*. July 15, 2019. <https://www.businesswire.com/news/home/20190715005786/en/Prospect-Receive-1.55-Billion-Investment-Medical-Properties>
- 3 Japsen, B.: "Big Blue Cross Plans to Open Primary Care Clinics in Texas and Beyond." *Forbes*. April 8, 2019. <https://www.forbes.com/sites/brucejapsen/2019/04/08/big-blue-cross-plans-to-open-primary-care-clinics-in-texas-and-beyond/#6109c9d26292>
- 4 Optum: "John Muir Health and Optum Launch New, Comprehensive Relationship to Advance Quality Care and Experiences for Patients in Bay Area." Press release. July 17, 2019. <https://www.optum.com/about/news/john-muir-health-optum-new-relationship-bay-area.html#>
- 5 North Memorial Health: "Blue Cross and Blue Shield of Minnesota and North Memorial Health Join Forces to Transform Healthcare in Minnesota." Press release. June 24, 2019. <https://northmemorial.com/news/blue-cross-and-north-memorial-health/>

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