

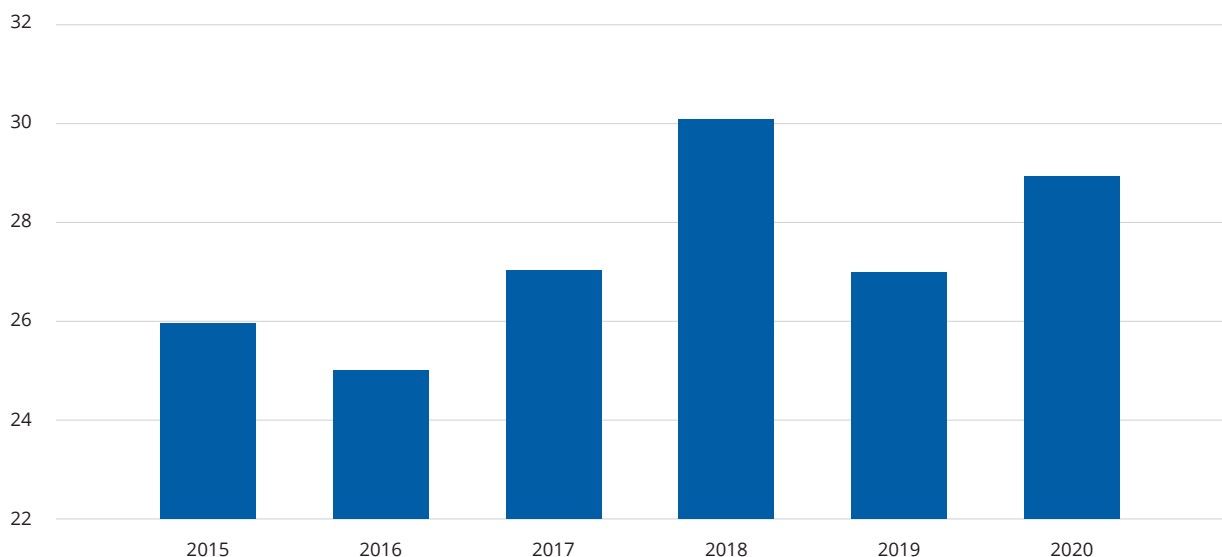
M&A Quarterly Activity Report: Q1 2020

Toward the end of the first quarter of 2020, the nation was struck with an unprecedented set of events triggered by the COVID-19 pandemic. As our collective attention shifts towards understanding, managing, and addressing the pandemic, this report will be brief with regard to the statistics for the quarter and will provide some preliminary expectations for the year. Finally, we wish to express our gratitude for frontline caregivers and other employees of health systems for their heroism during these times.

Overview of Q1 Activity

With 29 announced transactions, Q1 2020 was consistent with the recent historical range of activity, falling between the 30 transactions announced in Q1 2018 and the 27 announced in Q1 2019. Given the disruptions caused by COVID-19, however, Q1 performance will be an uncertain predictor of activity for the remainder of 2020.

Figure 1. Number of Q1 Announced Transactions, by Year



There were very few large-scale transactions announced in the quarter, with no transactions that involved a seller (the smaller party in the transaction) with more than \$1 billion in annual revenue. The largest transaction was Huntington Hospital’s affiliation with Cedars-Sinai Health system, [announced on March 9, 2020](#).¹ Average seller size by revenue for Q1 2020 was below recent year-end averages at \$172 million. Total transacted revenue for the quarter was slightly below historical averages at \$4.99 billion.

Figure 2. Average Seller Size by Revenue (\$ in Millions), Q1 2020 Compared with 2015-2019 Year-end Averages

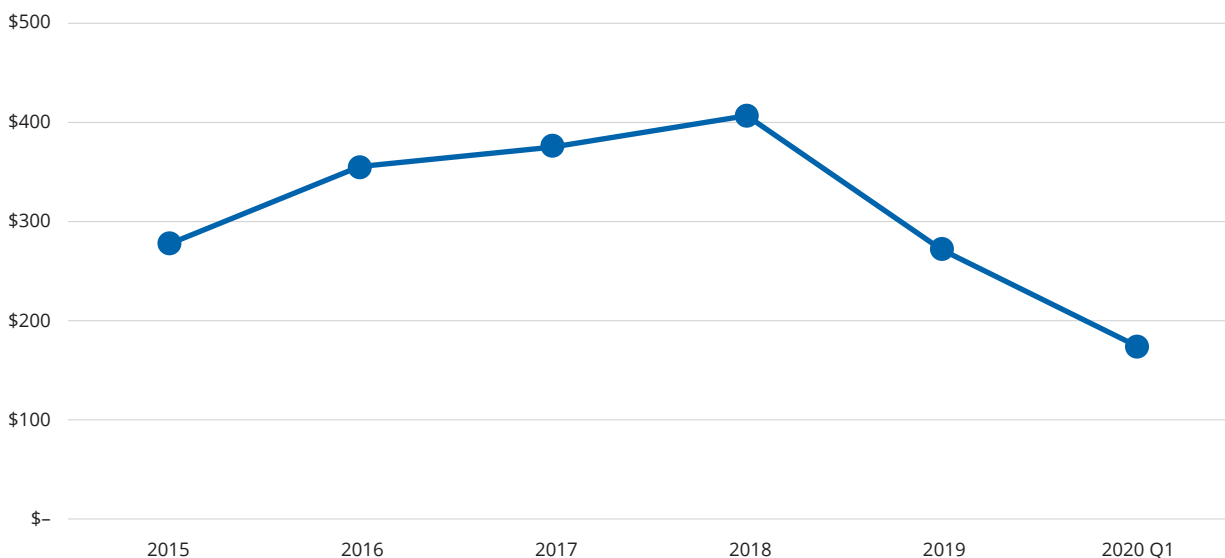
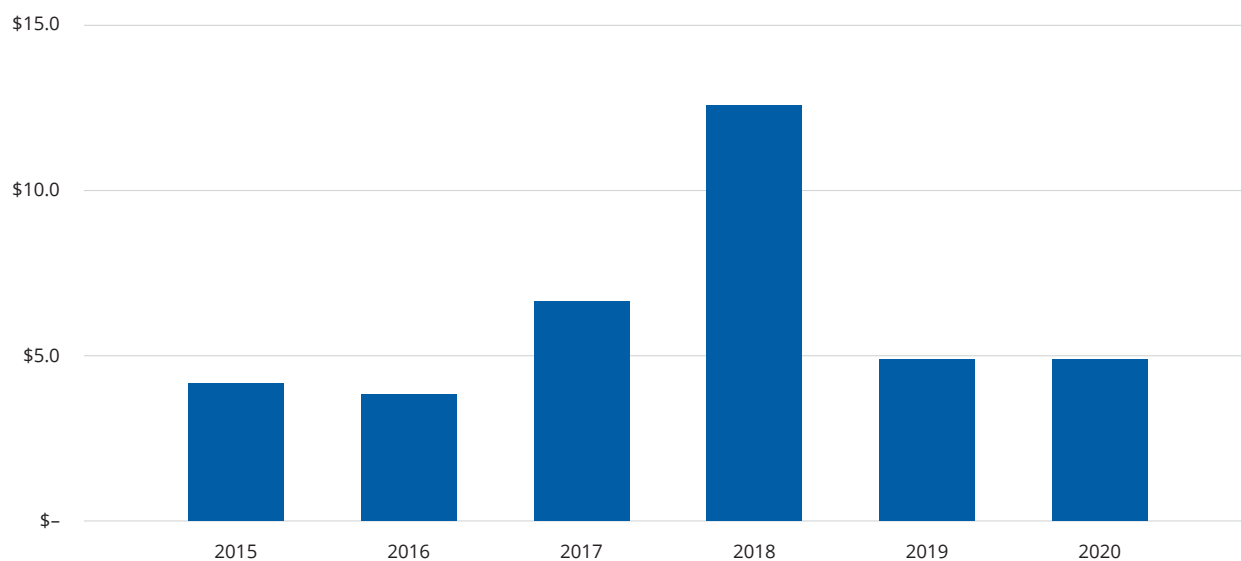


Figure 3. Total Q1 Transacted Revenue (\$ in Billions), by Year



Academic medical centers were the acquirer in six of the 29 announced transactions within the quarter. For-profit organizations were the acquirer in five transactions, and religiously-affiliated organizations were the acquirer in two. These figures are generally in line with historical activity, with the number of academic acquirers slightly above average, and the number of religiously-affiliated acquirers slightly below average.

One transaction of note was the announcement that four hospitals in South Chicago [planned to evolve into a newly formed single system](#)² with one leadership team, over time. Backed by a \$1.1 billion investment funded by private donations and government funding, the newly formed system would build at least one new hospital and open up to six community health centers to expand access to preventive services and address social determinants of health.

The impact of the COVID-19 crisis on M&A activity became apparent in mid-March. Although the volume of announcements until this point was similar to recent years, transaction activity appears to have tapered after March 12. At this moment, management teams are actively redeploying resources and investing time in activities necessary to manage the COVID-19 crisis. We anticipate a reduced pace of announced transactions in Q2 of 2020.

Short-Term M&A Implications of COVID-19

As organizations assess transaction processes that were being planned, that recently commenced, or that are actively in progress, we expect the following to be top of mind for the participants:

- **Importance of strategic rationale.** In cases where the strategic rationale is strong, the expectation is these initiatives will continue, but may experience a slight pause while the impacts of the pandemic are addressed.
- **Flexible timelines.** Our observations to date are that certain transactions are at points where the timelines are being *accelerated* in order to get to a “plateau point,” such as exclusivity, due diligence, or transaction closing. Other situations merit a pause to get the collective attention required to move to or beyond these critical points.
- **Greater evaluation of risks and alternatives.** In instances where the outcome of the transaction is more severely impacted by the pandemic, the various risk considerations of each of the parties to the transaction will merit closer evaluation. Similarly, as other third parties that had a critical role in completing the transaction reassess their commitments, the need to consider alternative approaches or solutions may be required.

Longer-Term Impacts of COVID-19

In the longer term, the COVID-19 pandemic may prove to be an unexpected, externally-driven catalyst of future healthcare M&A activity. Before the pandemic, we continually expressed the benefits that larger health systems have in their ability to dedicate resources, invest in new models of care, or pursue new network or other population health models. The impact of the pandemic is revealing a new set of positive attributes for larger systems. The importance of intellectual capital, deployable and re-assignable resources, and a large base of clinical staff and supporting human capital are allowing larger systems to “pivot” to address the current state. A broader base of cash and capital access also helps provide larger systems with the resources that can act as a shock absorber for the unexpected and immediate changes in status quo operations that the pandemic has caused. As a result, we expect the historically high level of M&A activity to recommence and possibly accelerate within this calendar year.

Looking Forward

We believe that M&A activity will be a leading indicator that hospitals and health systems are moving beyond the immediate impacts of the crisis and are able to again focus on longer-term strategic initiatives. We expect activity to be slower initially, but will be watching closely for signs of an expected and demonstrative uptick in activity soon.

References

- 1 Huntington Hospital: “Huntington Hospital Signs Letter of Intent to Join Cedars-Sinai Health System.” Press release, March 9, 2020. Kaufman Hall served as an advisor in this transaction.
- 2 Goldberg, S.: “Four Chicago Hospitals to Merge.” *Modern Healthcare*, Jan. 23, 2020. Kaufman Hall served as an advisor in this transaction.

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