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Mergers and Acquisitions

Health-Care Transactions Update: July

BNA Snapshot

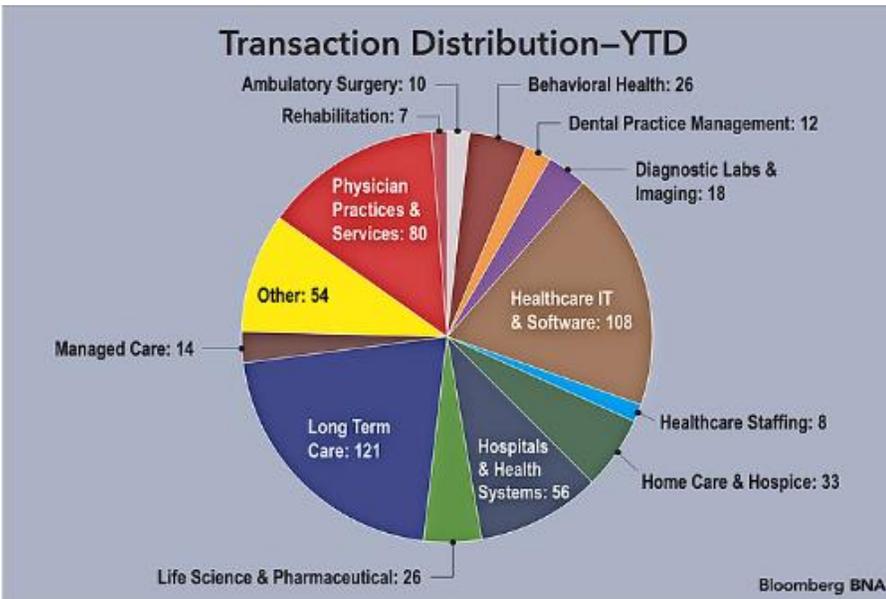
- Transactions volume ticked up in July
- Long-term care transactions led July's transactions



By [Mary Anne Pazanowski](#)

An uptick in the number of health-care industry transactions reported in July, led by a number of deals in the long-term care space, was to be expected, attorneys and analysts who counsel industry stakeholders told Bloomberg BNA.

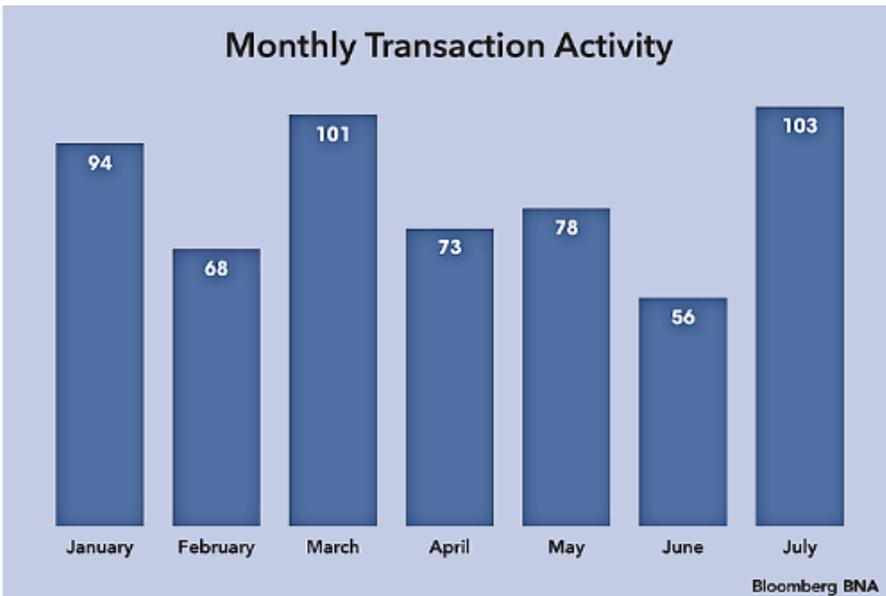
The slight drop-off in May and June, reflected on the [list of health-care transactions year-to-date](#), wasn't unusual, Kevin J. Ryan, of Epstein Becker & Green's Chicago office said, as business often slows down when school gets out and people head off for summer vacations. Now, as August gets underway, the number of transactions likely will increase and should continue growing through the last four months of 2017, he said.



“As we anticipated, the robust health-care mergers and acquisition trend is continuing unabated,” Gary Herschman, of Epstein Becker & Green's Newark, N.J., office told Bloomberg BNA. The trend is driven by several factors, including population health management initiatives, value-based payment incentives, and the demand for advanced information technology systems.

Train Has Left Station

“The population health ‘freight train’ left the station a few years ago and continues moving forward at a slow but consistent pace,” Herschman said. Under this approach, providers are trying to find ways to improve the population’s health as a whole, as opposed to focusing solely on individual patients. The idea is that certain chronic conditions may be avoided through education and early intervention, thereby eliminating or reducing treatment costs overall.



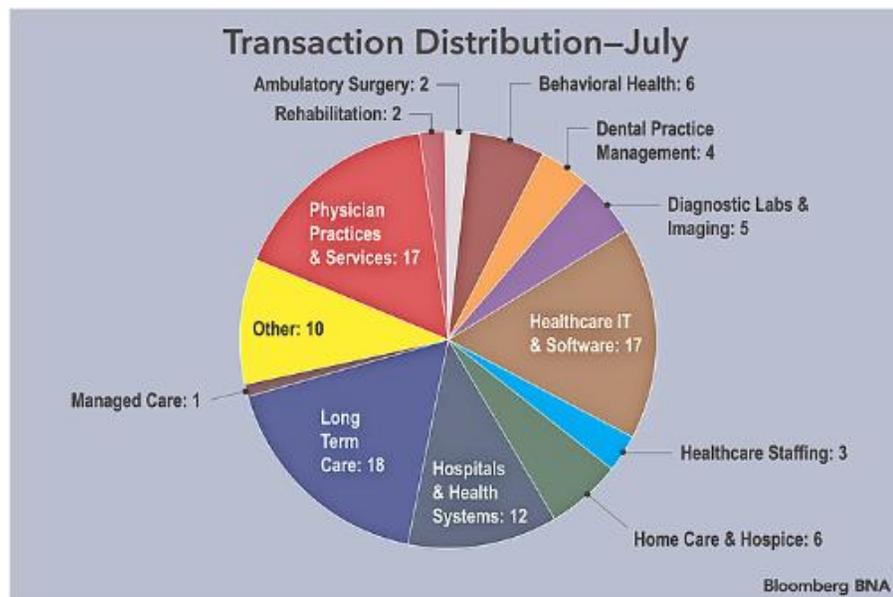
Value-based payment initiatives also are moving forward, as “industry executives and investors realize that going back to the unsustainable past system is not an option,” Herschman said. These executives are exploring approaches to maximizing payments, such as “growing the scale of service lines, which will allow realization of efficiencies and enhanced expertise, as well as substantial investment needed for advanced IT systems and care management staff and protocols,” he said.

These efforts are “needed to succeed in the changing marketplace, which rewards quality and cost-effective care,” he said.

Certain health-care sectors are seeing more consolidation than others, Herschman and Ryan observed.

Behavioral Health Space Growing

The [July transactions list](#) shows a small, but growing interest in the behavioral health space, Ryan observed. He told Bloomberg BNA he believes the number of transactions in this industry sector—and especially in the addiction treatment subsector—will increase.



President Donald J. Trump recently declared a state-of-emergency over the nationwide opioid addiction problem, Ryan noted. The president's statement may open up more funding for treatment and could lead providers to consider opening or funding more treatment centers, he said.

Long-Term Care

Long-term care deals led the list in July, and there were over 20 deals in July that involved the combined long term, home, and hospice care sectors, Herschman said. “As the baby boomers move into their 60s and 70s, investment continues in the long-term care sector, which expects a corresponding growth in demand for services in the near future.”

The population health management drive, additionally, is focusing “on keeping this growing elderly population healthy and cared for in the most cost-effective, outpatient, and home-based settings,” he said.

There also is a growing emphasis on providing a “continuum of care,” with home-based care being the least intensive level for patients, Herschman said. People begin with home care because they don't want to be institutionalized, but providers want to be ready to provide more intensive care as it is needed, he added.

Private equity's interest in home care also is a growing trend, according to Michael Mahoney, an analyst with Provident Healthcare Partners LLC in Beverly Hills, Calif. Mahoney told Bloomberg BNA “the primary investment thesis revolves around market fragmentation, favorable demand trends, and added benefits of infrastructure that funds can help install.”

July saw “private equity recapitalizations in the Medicaid personal care subdivision of home care with Boyne Capital Partners' acquisition of AmeriBest Home Care, Inc., and also in private pay home care franchising with The Riverside Co.'s acquisition of ComForCare Health Care Holdings, LLC,” Mahoney said.

At the beginning of Trump's term last January, there was some "trepidation around Medicaid in general," Mahoney said. As the year has gone on, deals involving Medicaid providers have shown that it isn't as much of a concern as feared.

Outpatient Care

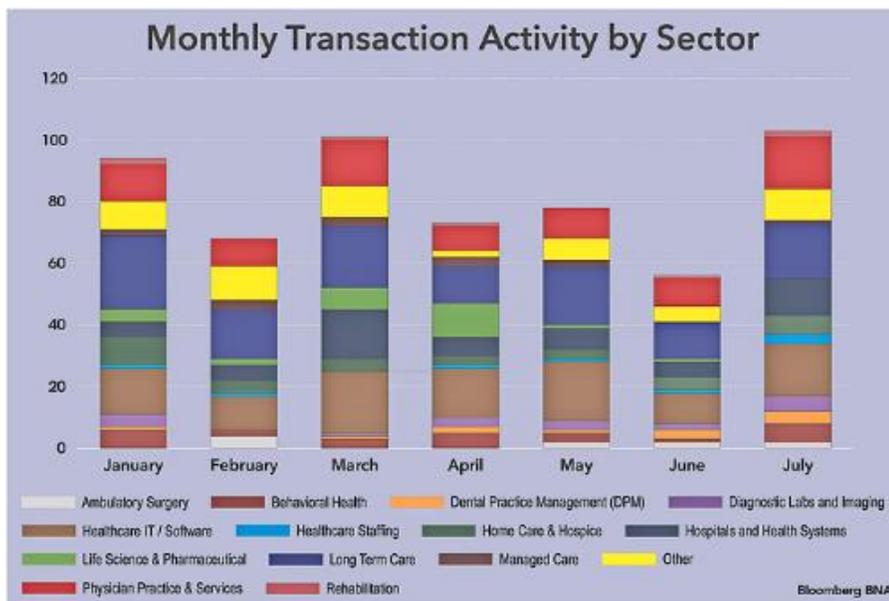
The expansion of the home health care market highlights another trend in health-care industry transactions, Herschman said—namely that "outpatient care is the wave of the future." Stakeholders are investing more in ways to increase options for caring for people outside the hospital setting. Herschman noted that several transactions over the past eight months have involved providers that bought—or private equity has invested in—ambulatory surgical centers. For example, in March, UnitedHealthcare's health services division, Optum, bought Surgical Care Affiliates. Herschman didn't comment on the transaction.

Physician Practices

Deals involving physician practices aren't leading the list in terms of numbers, but they remain steady. Still, not all physician practices "are created equal," Ryan said. He noted that certain practices are seeing more deal-making activity than others, particularly vision services and dermatology.

Vision service practices are highly profitable, Ryan said. They can provide the continuum of care patients are seeking because they offer a range of eye care through the services of opticians, optometrists, and ophthalmologists.

Dermatology is profitable because improving technology has made it possible for dermatologists to perform in the office many procedures that previously could be performed only in hospitals or ambulatory surgical centers, Ryan said. Dermatology also has a "good payer mix," with many patients covered by private insurers or paying on a cash basis, he said.



Herschman said "this sector remains highly fragmented," but "specialty platforms, especially those with ancillary services, such as outpatient surgery, therapy, imaging, and laboratory services," provide substantial opportunities for investors.

Hospitals and Health Systems

Transactions involving hospital and health system acquisitions of other hospitals remain steady, the attorneys said. "Smaller and mid-size hospital systems continue to grow into the \$5-\$10 billion range to take advantage of economies of scale in connection with major capital investments in IT and care coordination capabilities," Herschman said.

Herschman said he believes “straggler hospitals”—those that have struggled to remain independent—will keep the mergers and acquisitions trend going in this space. He added, however, that he thinks the real story is in “mega mergers”—big systems growing even bigger by adding more hospitals and independent providers.

Nonprofit multistate systems may appear within the next three to five years, he said. The industry likely could see affiliations—though possibly not full-blown mergers and acquisition—among hospitals outside of their geographic areas, he said.

Hospitals in different states could come together for purposes of developing joint purchasing agreements, joint electronic medical records systems, and joint population health strategies, he said.

Health-Care Staffing

“Another sector that appears to be picking up momentum is health-care staffing,” Mahoney said. “Three more transactions were closed in July by notable consolidators: Cross Country Healthcare, Mitsui & Co, and Aya Healthcare,” he said.

“This is also a subsector of healthcare that has increasingly caught the attention of private equity investors due to ease of scalability”—that is, opportunities for growth—as well as “opportunities for bundling services,” Mahoney said. Staffing companies bundle services when they enter into contracts with hospitals to cover all of their temporary staffing requirements, from physicians to travel nurses.

“Global private equity firm TPG Growth closed on its acquisition of leading health-care staffing company Medical Solutions in June,” Mahoney said. “Provident’s expectations are that several more private equity investments into the sector will close before year-end.”

HIT—one of the leading areas for transactional activity in 2017 to date—is driving consolidation within all these sectors, Herschman added.

To contact the reporter on this story: Mary Anne Pazanowski in Washington at mpazanowski@bna.com

To contact the editor responsible for this story: Peyton M. Sturges at PSturges@bna.com

For More Information

The lists of select transactions involving health-care providers, managed care and services companies for July 2017 and for 2017 year-to-date were compiled by health-care investment bankers using publicly available information, including articles, websites and press releases.

The July list is at <http://src.bna.com/rLK>.

The year-to-date list is at <http://src.bna.com/rLL>.

Bloomberg BNA would like to thank its Health Care Transactions Editorial Committee for their guidance: Gary W. Herschman, of Epstein, Becker & Green PC, Newark (gherschman@ebglaw.com); Kevin J. Ryan, of Epstein, Becker & Green PC, Chicago (kyan@ebglaw.com); Victoria Poindexter, of Hammond Hanlon Camp LLC, Chicago (vpindexter@h2c.com); Mike Tierney, of Hammond Hanlon Camp LLC, Chicago (mtierney@h2c.com), Michael Mahoney, of Provident Healthcare Partners LLC, Beverly Hills (mmahoney@providenthp.com), and Robert Aprill, of Provident Healthcare Partners LLC, Boston (raprill@providenthp.com).

Epstein, Becker & Green PC did not comment on any particular transaction or party discussed or listed in this article.

