

Hospital and Health System Deals Mark Busy March, Health Law Reporter (BNA), Gary W. Herschman, Epstein Becker & Green PC, Kevin J. Ryan, Epstein Becker & Green, Robert Aprill, Michael Mahoney, Provident Healthcare Partners LLC, Hector M. Torres, Aaron Newman, ECG Management Consultants



## BNA's Health Law Reporter™

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## Hospital and Health System Deals Mark Busy March



By Gary W. Herschman, Kevin J. Ryan, Robert Aprill, Michael Mahoney, Hector M. Torres, and Aaron T. Newman

March was a very active [month](#) for health-care industry transactions, demonstrating a healthy ramp-up from the [beginning of 2018](#), and confirming that 2018 will be a banner year for health-care M&A activity.

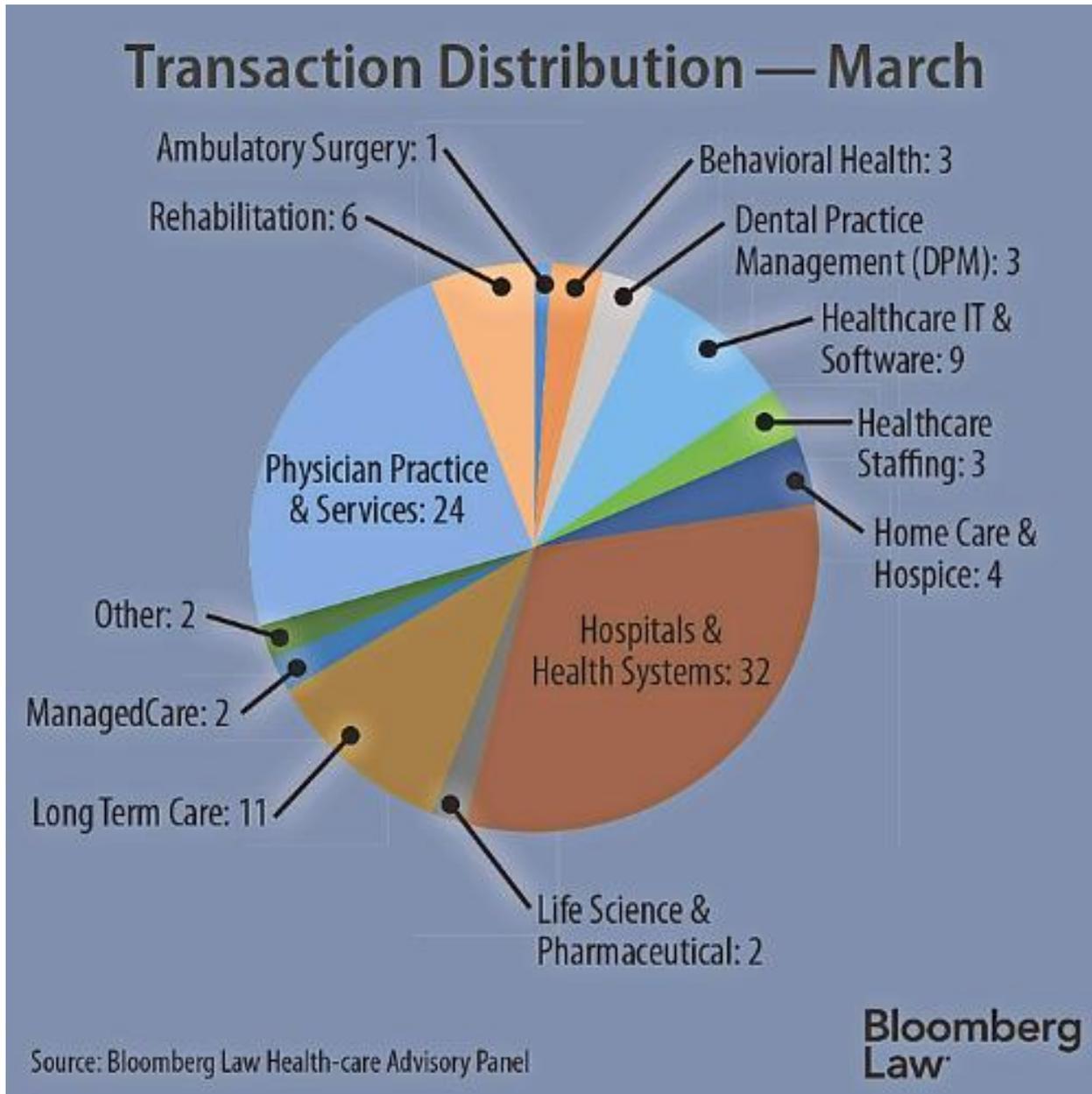
This consolidation frenzy is no surprise, as mega-players continue to make major announcements showing their hands, and how they view the future of the industry—including Amazon, CVS, Walmart, etc.—and as [United/Optum continues to bulk up](#) across the outpatient sector (with ASCs, urgent care, and dozens of large multidisciplinary physician groups).

While Health-Care IT and Long-Term care saw a slight dip from previous months in 2018, the hospital and physician sectors saw increases from February transactions. This was particularly true in the Hospital sector. There is no doubt that already large hospital systems will get bigger as they navigate antitrust barriers—through cross-border mergers and affiliations and adding some smaller players that have remained independent thus far.

M&A activity in the hospital and health system market saw the largest number of transactions of any sector in March. On the heels of a strong start to the year, over 30 deals were either announced or closed in March 2018, compared to 16 deals in March 2017, an increase of 69 percent year-over-year. These deals included acquisitions, strategic affiliations and dispositions. The continued strong volume in the hospital sector M&A market has the potential to result in another record year in deal activity, with 46 deals announced or closed YTD March 2018 compared to 34 YTD March 2017, an increase of 35 percent year-over-year.

While there were no new “mega-merger” deals announced in the month of March, the closing of the Advocate Healthcare-Aurora Healthcare super-merger created a newly-combined, fully-integrated health system that will be the tenth largest nonprofit health-care provider in the country. Regional systems are taking note of the drivers of the Advocate-Aurora deal, as demonstrated by increasing volume of nonprofit hospital regional

consolidation in major markets. The drivers for these transactions are the need for increased scale, creating greater regional presence, increasing access of quality care, and service line expansion within the system's network of providers.

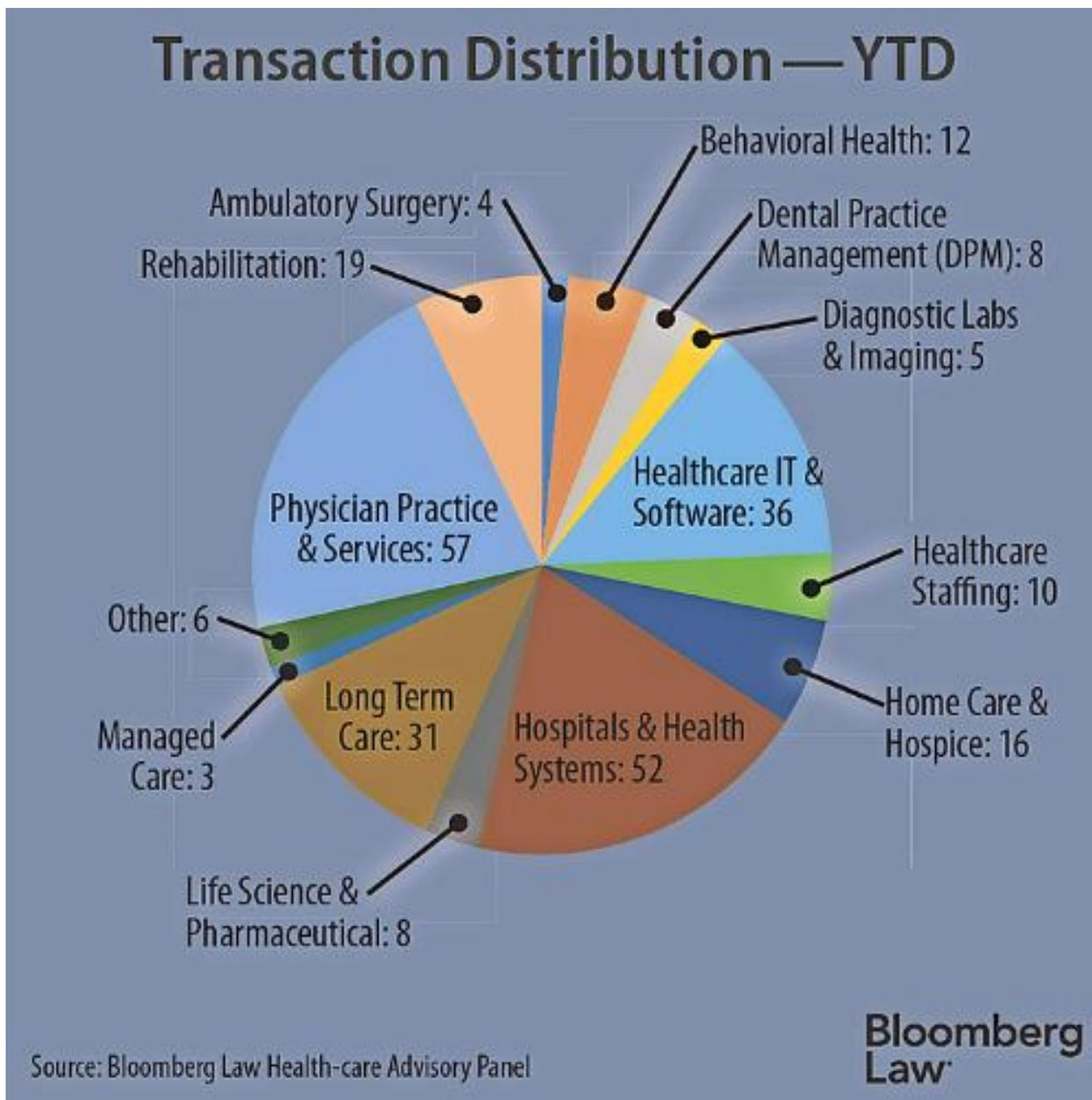


March saw several examples of M&A activity drivers impacting hospital and health system players at the regional level. These included the announced merger of Einstein Healthcare-Jefferson Health in the Philadelphia market; HealthQuest-Western Connecticut Health Network in the Hudson River Valley/Western Connecticut markets; Columbus Regional-Piedmont Healthcare in the Greater Atlanta Market; and Eastern Niagara-Kaleida Health in the Western New York/Buffalo region.

Another notable deal announced in March was Community Health System's (CHS) divestiture of non-core assets with its sale of three Tennessee hospitals to Western Tennessee Health, a nonprofit provider. This follows CHS's 2017 divestitures of nine non-core hospitals to a variety of for-profit (5 deals) and nonprofit (4 deals) acquirers.

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In addition to all of the announced mergers, there was also an announcement that a previously announced merger was not proceeding. The Wall Street Journal reported that the Ascension merger with Providence St. Joseph Health was being put on hold while Ascension concentrates on its restructuring. The Ascension/Providence merger would have created “the largest pure operator of hospitals in the nation.”



If March is any indication of what is to come in the remainder of 2018 from a hospital and health system M&A activity perspective, 2018 could very much be yet another landmark year for sector partnership and affiliation transactions.

The two dozen physician sector deals in March also confirm that this is a super-hot focus of strategic and financial investors—including national/public companies, private equity platforms and also hospitals, which are jumping back into physician deals as a defensive move against this activity, focused on key groups in their catchment areas in an effort to maintain greater control.

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Leading the March physician sector deals were dermatology practices, followed by eye care groups—both of which are targets due to their many ancillaries, and the continued increase in demand due to baby boomers aging into retirement and beyond. The eye care sector is the latest to demonstrate the rapid pace at which consolidation occurs once private equity enters a physician specialty, as prior to January 2017 there were less than five private equity-backed eye care platform investments. Over the past sixteen months, that figure has risen to fifteen. These platforms have driven overall M&A activity by embarking on roll-up acquisition strategies of their own in an attempt to diversify services and payer mix through combining medically-focused and retail-focused practices.

Primary care and women's health practices continue to be sought after, and this trend is not expected to cool off any time soon. Oncology may be a new target in the physician services sector, but whether this becomes a major growing trend is still unknown. Even though not announced in March, other very hot physician specialty groups expected to be acquired in significant numbers through the balance of this year include gastroenterology, orthopedics, and urology.

It is clear from the M&A activity in the first quarter of 2018, that transactions in IT, Hospitals, Long-Term Care and Physician Services continue at a steady pace.

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*Gary W. Herschman is a member of Epstein Becker & Green in its Newark, N.J., office. He can be reached at [gherschman@ebglaw.com](mailto:gherschman@ebglaw.com). Kevin J. Ryan is a member of Epstein Becker & Green PC in its Chicago office. He can be reached at [kryan@ebglaw.com](mailto:kryan@ebglaw.com). Robert Aprill is an analyst with Provident Healthcare Partners LLC, a leading middle market investment bank, in Boston. He can be reached at [raprill@providenthp.com](mailto:raprill@providenthp.com). Michael Mahoney is an analyst with Provident Healthcare Partners in Los Angeles. He can be reached at [mmahoney@providenthp.com](mailto:mmahoney@providenthp.com). Hector M. Torres is a principal with ECG Management Consultants in Chicago. He can be reached at [hmtorres@ecgmc.com](mailto:hmtorres@ecgmc.com). Aaron T. Newman is a manager with ECG Management Consultants in Chicago. He can be reached at [atnewman@ecgmc.com](mailto:atnewman@ecgmc.com).*

#### **For More Information**

The lists of select transactions involving health-care providers, managed care and services companies for March 2018 and for 2018 year-to-date were compiled by health-care investment bankers using publicly available information, including articles, websites, and press releases.

The March list is at <http://src.bna.com/x5b>.

The year-to-date list is at <http://src.bna.com/x5d>.

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](mailto:gherschman@ebglaw.com)); Kevin J. Ryan, of Epstein, Becker & Green PC, Chicago ([kryan@ebglaw.com](mailto:kryan@ebglaw.com)); Robert Aprill, of Provident Healthcare Partners LLC, Boston ([raprill@providenthp.com](mailto:raprill@providenthp.com)); Michael Mahoney, of Provident Healthcare Partners, Los Angeles ([mmahoney@providenthp.com](mailto:mmahoney@providenthp.com)); Hector Torres, of ECG Management Consultants, Chicago ([hmtorres@ecgmc.com](mailto:hmtorres@ecgmc.com)); and Aaron Newman, of ECG Management Consultants, Chicago ([atnewman@ecgmc.com](mailto:atnewman@ecgmc.com)).

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