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Health-Care Deals Open 2022 at Slower Pace Than Last Year

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The volume of health-care deals in the first quarter of 2022 was slightly lower than the robust activity that ended 2021 due to growing economic uncertainty, according to Epstein Becker Green attorneys and health industry financial and investment analysts at KPMG and FocalPoint Partners. They predict the next quarter may indicate whether inflation and recession fears are overstated.

After a hot start to the year on the heels of a booming end to 2021, the volume of announced and closed deals in the health-care and life science markets has notched a little lower in the first quarter of the 2022 (634), down around 10% from the same period in 2021 (723).

The slowdown in deal activity across the industry during the first quarter of 2022 could be due to several reasons.

First, it could reflect a breather from the unprecedented hefty deal volume at the end of 2021 and into January.

Second, it could also be due to economic headwinds, including the highest inflation rate in over 40 years, looming interest rate increases not seen in more than 20 years, labor shortages, and world-wide supply chain issues, along with additional uncertainty driven by the continuing Russian invasion of Ukraine (with no end in sight).

Third, the recent extension of the Covid-19 public health emergency declaration and an uptick in Covid-19 case rates, driven by the rapid spread of the BA.2 and BA.2.12.1 variants, suggest that the pandemic may not be ending as quickly as some investors and the American public may have hoped.

Health-Care Deals Year-to-Date Lag

Next quarter will show if inflation, recession fears are real



Total: 634

Source: Bloomberg Law Health-Care Advisory Panel

Bloomberg Law

Life Science and Pharmaceuticals

Despite the minor slowdown in the overall health-care deal market this quarter, life science and pharmaceutical deal volume continues to be relatively strong, leading the industry with 39 announced/closed deals in March, the highest deal volume across the health-care industry in the first quarter (120) and roughly on par with deal volume in Q1 2021 (125 deals).

Although the life sciences and pharmaceuticals sector is not immune to economic and market headwinds, the sector continues to show remarkable resiliency in terms of deal volumes. A robust pipeline and continued focus on life sciences innovation and investment in next-generation pharmaceutical therapies, along with an abundance of “dry powder” for investment could continue to drive strong deal volume in life science companies, despite the economic challenges impacting other segments of the industry.

Health-Care IT and Software

Health-care IT deal volume in March (28) and Q1 in 2022 (95) is down a little over 10% from deal volume in Q1 2021 (109). Like the life sciences and pharmaceuticals sector, investment in health-care IT and software reached record levels in 2021, raising the specter that the downward trend from the beginning of the year could reflect a lull from last year's potent activity, or possibly a harbinger of a continuing downturn in the next quarter.

But, shifts in how care is being delivered in various non-inpatient settings could result in continued growth in overall investment interest in this subsector, as conventional wisdom reflects ongoing transition to virtual care for certain illnesses.

More clarity on telehealth policies and reimbursement, along with the continuing drive to health-care interoperability and the regulatory shift in emphasis from protection to sharing of health-care data, should attract sustained investor interest in digital health care solutions and tools, and other IT innovation over the longer term.

Health-Care Deals in March Slowed Inflation, recession fears have impact



Total: 174

Source: Bloomberg Law Health-Care Advisory Panel

Bloomberg Law

Physician Practices & Services

Deal volume for physician practices and services in the first quarter of 2022 (86) is down from Q1 2021 (113), but again, this could very likely be a pause after the crush of deal activity toward the end of 2021 as investors integrate the slew of newly acquired practices. Despite the downturn in deal volume, deal activity for this subsector is currently third highest in terms of the number of closed/announced deals year-to-date.

Investor interest in physician practices is expected to remain steady at a minimum, and possibly spike again during the remainder of 2022, as multiple specialty groups continue to consolidate and more and more physician groups are seeing their peers (both locally and across the country) entering into very lucrative and strategically beneficial transactions, causing major "FOMO."

Ear, nose, and throat (ENT) practices were active in March with three deals closed or announced. Elevate ENT Partners, a leading ENT platform based in Florida, acquired Boca Raton Otolaryngology, expanding the platform's footprint in South Florida and bringing the total office count to over 60 for Elevate. Also of note in the month is the formation of ENT Care Centers, formed by the combination of Kentuckiana ENT, ENT Associates, Community ENT, and Louisville Family ENT. The combined platform has 12 physicians across 14 locations in the Louisville area.

In the fertility sub-sector, Webster Equity Partners portfolio company Pinnacle Fertility acquired California Fertility Partners. California Fertility is highly respected in the reproductive endocrinology and infertility field, having brought the first U.S. baby born from a frozen embryo transfer into the world in 1986. The transaction follows the acquisition of Santa Monica Fertility last year, further solidifying the platform's presence in the Southern California, and is part of Pinnacle's overall national expansion initiative.

We are also seeing increased transaction activity in the orthopedic sector, and continued investor interest in the urology, eyecare and primary care sectors, and a newer trend of cardiology group deals.

Home Care and Hospice

Home care and hospice totaled eight transactions in March, with 27 transactions in total for the quarter, up from 22 in Q1 2021.

The largest deal in the sector during the month is Optum's announced acquisition of LHC Group, a national in-home health care services provider. Optum will add LHC Group's 30,000 employees, including high-quality frontline care providers and administrative and support personnel performing more than 12 million in-home patient-focused interventions annually, and will have LHC Group's leadership team continue to serve as part of Optum Health. The deal is expected to close during the second half of 2022.

Medical Device and Supplies

Medical device and supplies had 20 announced/closed deals in March, and 81 deals through the first quarter of the year, down a little from 98 in Q1 of 2021, suggesting that the subsector may be experiencing the impacts of the broader downward trend in investment activity along with economic pressures on hospital purchasing and supply chain issues.

That being said, the resurgence of the pandemic could result in increased investment in this sector for the same reasons mentioned above with respect to the life sciences and pharmaceuticals sector.

Outlook for the Rest of 2022

Growing economic headwinds, along with uncertainty in the health-care system associated with the government transition away from the public health emergency, are likely to continue to impact overall health-care investment interest and activity in the coming months.

The next quarter of the year may provide insight about whether inflation has “peaked” and whether the fear of recession is overstated.

Meanwhile, we are cautiously optimistic that deal volume in some subsectors, such as life science and pharmaceuticals, medical device and supplies, physician practices and services, home health and hospice, and health-care IT, will continue to be relatively steady or even grow, despite some macro-economic headwinds, while deal volume in other subsectors may remain steady or slightly decline.

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