

## THE ACADEMY H2C STRATEGIC SURVEY - Q4 2017 CONSOLIDATION & STRATEGIC PARTNERSHIPS

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### Key Findings

- Less than one-third (29%) of responding health systems participated in an acquisition in Q3 2017, all of which acquired a physician practice/medical group.
- Only 29% of responding health systems entered into a strategic partnership over Q2 – Q3 2017; however, 71% plan to form a partnership over Q4 2017 – Q1 2018.
- Large health systems are primarily engaging in strategic partnerships to grow, diversify, and gain expertise around areas such as consumer reach, service line expansion, population health delivery, resource efficiency, and/or cost reduction.

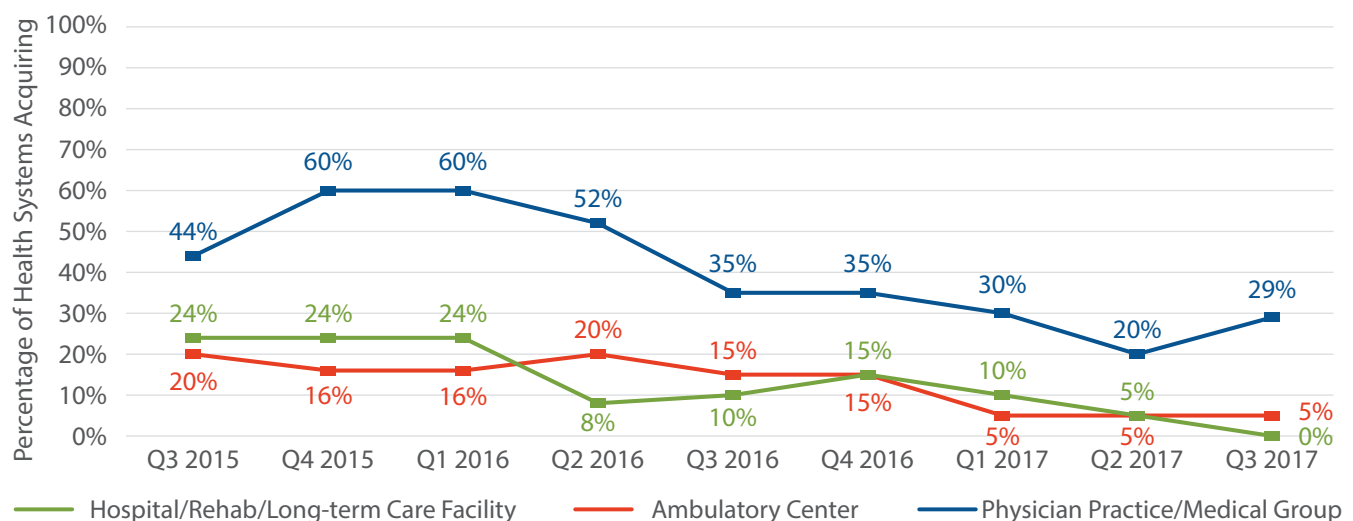
### M&A Activity Slows but Physician Practice Acquisition Remains Steady

In the third quarter of 2017, US healthcare merger and acquisition (M&A) activity decreased significantly, with deal volume down 6% from Q2 2017 and down 11% from the same period in 2016. The value of these deals also decreased 65% from Q2 2017 and 16% from the same period in 2016 (1).

In accordance with these trends, health system acquisitions continued to decrease through Q3 2017, with only 29% of

responding health systems participating in a transaction, all of which acquired a physician practice or medical group (Figure 1). Among responding health systems, 5% indicated that they had acquired an ambulatory center along with the physician practice/medical group. Reflective of hospital and rehabilitation facility deal volume decreasing 21% nationally year over year, no participating health systems reported an acquisition of a hospital/rehab/long-term care facility in Q3 2017 (1).

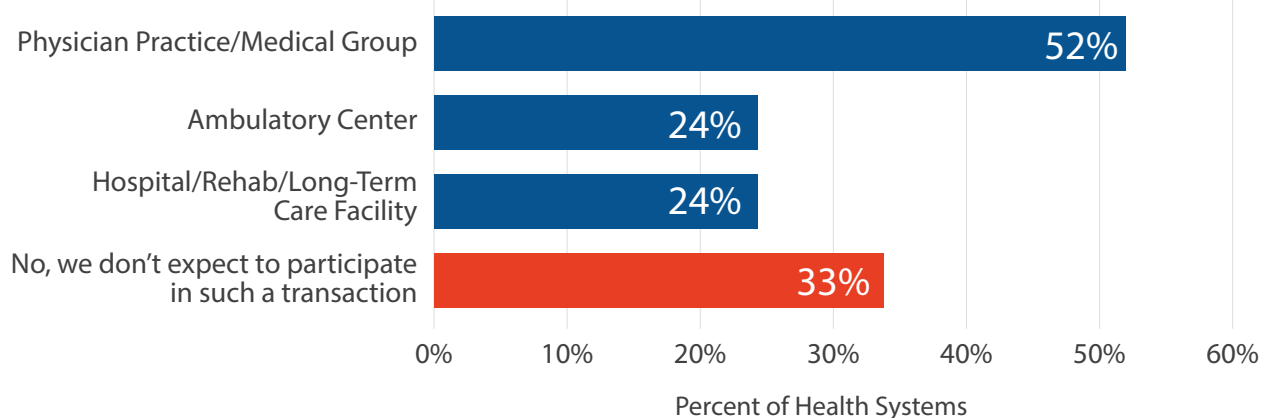
Figure 1. Over the last quarter, did your health system acquire any of the following?



Health systems predict an increase in their M&A activity in the last quarter of 2017 and into 2018, with the majority of responding health systems (67%) reporting that they

anticipate at least one transaction in Q4 2017-Q1 2018, more than doubling the 29% completed in Q3 2017.

**Figure 2. Do you expect to acquire one of the following in Q4 2017-Q1 2018?**



Mirroring the first three quarters of 2017, health systems plan to focus on physician practice acquisitions, with over half (52%) of responding health systems

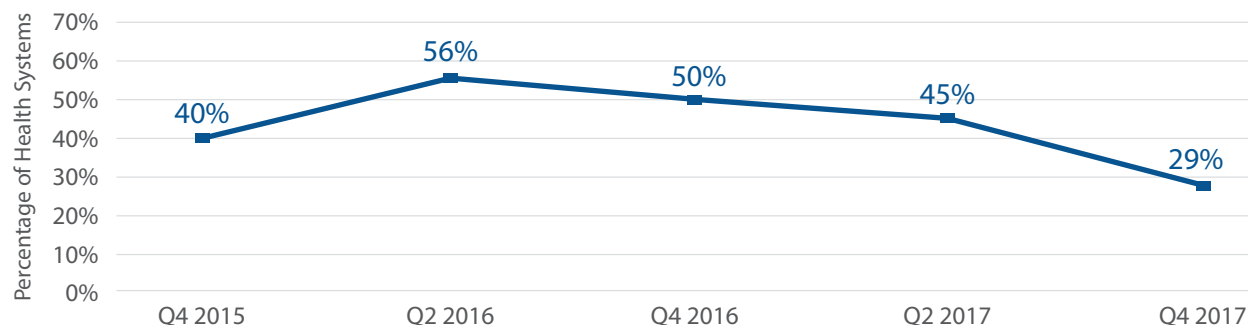
expecting to acquire a physician practice or medical group in Q4 2017-Q1 2018 (Figure 2).

## Growth in Strategic Partnerships Expected in 2018

As health systems continue to engage in fewer acquisitions, focus on strategic partnerships has remained steady over the past two years. However, only 29% percent of responding health systems reported forming a strategic partnership in Q2 – Q3

2017 (Figure 3), largely due to health systems waiting for regulatory developments before making final partnership decisions or working towards finalizing deals that will be signed in Q4 2017 – Q1 2018.

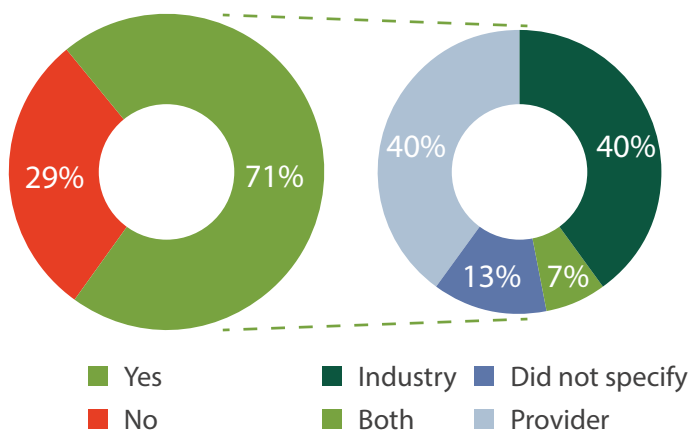
**Figure 3. Did your health system form a strategic partnership over the last 6 months?**



Though only 29% of systems entered into a strategic partnership in Q2 – Q3 2017, 71% plan to form one during the last quarter of 2017 or the first quarter of 2018 (Figure 4).

Of those systems who plan to form a strategic partnership, 40% plan to do so with other provider organizations in areas such as service line expansion, telehealth, inpatient/outpatient surgery centers, and/or imaging; while 40% are planning partnerships with outside industry vendors around areas including medical devices, revenue cycle, IT, health plans, supply chain, and/or retail clinics.

**Figure 4. Does your health system plan to form a strategic partnership in Q4 2017 - Q1 2018?**



## Factors Driving Partnership Strategies

Responding health systems executives indicated multiple factors driving their partnership strategies, highlighting that to address these factors and achieve their desired outcomes, many systems must grow, diversify, and/or gain content expertise (Figure 5). Overall, health system partnerships strategies are driven by their desires to increase scale and consumer reach, expand service lines, improve population health delivery, maximize current resources, and reduce costs.

Commonly, health system executives cited a need to expand clinical services and close current continuum gaps, while increasing the geographic footprint of their organizations to reach a larger segment of their populations.

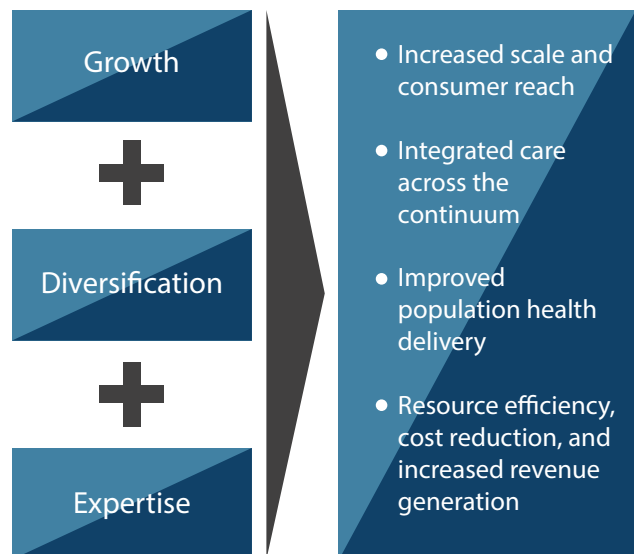
**“[Partnerships] with providers enhance our reach to the consumer, broaden our footprint, and expand our continuum of services. New types of partnerships are those with industry partners, which could be used to unlock value in existing operations through a higher degree of business intelligence.” (COO)**

Many executives also reported that their commitment to population health and the shift towards value-based care is driving their partnership activity. Health systems are looking to partner with organizations that can help drive value and align incentives.

**“We will benefit from collaboration with like-minded organizations, while we also have a desire to create scale as it relates to our strategy commitments around population health.” (CSO)**

Cost reduction remains a strategic priority across health systems and is a top factor driving systems’ partnership strategies. Many partnerships are also driven by the desire to reduce costs, improve efficiency and standardization, and increase revenue generation.

**Figure 5. What are the top factors driving your health system’s partnership strategy?**

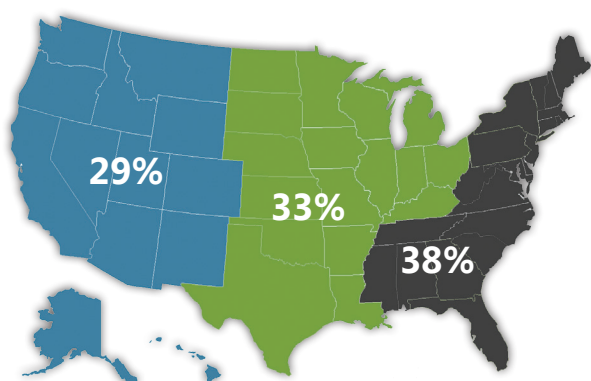


## References

1. Donkar N. US Health Services Deals Insights Q3 2017. PwC. <https://www.pwc.com/us/en/health-industries/publications/pdf/pwc-health-services-deals-insights-q3-2017>.

# Profile of Participating Health Systems

Representative of the various regions of the U.S.



Average Net Patient Revenue

**\$3.88** BILLION

Own or operate 281 hospitals with 50,742 beds

**57%**  
Have a Provider-Owned Health Plan

**67%**  
Single-State Systems

**33%**  
Multi-State Systems

## Participating Health Systems

Advocate Health Care

Aurora Health Care

Avera

Banner Health

BayCare Health System

CONE HEALTH  
The Network for Exceptional Care

Duke University Health System

FAIRVIEW

HAWAII PACIFIC HEALTH  
Kapiolani • Pali Momi • Straub • Wilcox

Indiana University Health

Intermountain Healthcare

KAISER PERMANENTE

Lehigh Valley Health Network

Northwell Health

Ochsner Health System

Piedmont HEALTHCARE

PRESBYTERIAN

SPECTRUM HEALTH

UnityPoint Health

Virtua

Yale New Haven Health

## Methodology

In December 2017, The Academy conducted the thirteenth round of its quarterly strategic survey among 21 senior health system executives, including: CEOs, COOs, CFOs, CMOs, CNOs, and CSOs. The survey for the interview consisted of: (1) a tracking section that provides insight into trends around primary strategic areas; (2) a special topic area that allows for an in-depth look into a timely, developing issue. Innovation, consumer engagement, ambulatory and real estate strategies, physician alignment, bundling, data analytics, telehealth, pharmacy strategies, branding, health policy, and cost reduction were topics of previous surveys.

## The Health Management Academy, "The Academy"

The Health Management Academy (The Academy) is a membership organization exclusively for executives from the country's Top-100 Health Systems and most innovative healthcare companies. The Academy is the definitive trusted source for peer-to-peer learning in healthcare delivery with a material record of research and policy analysis. Offerings include C-suite executive peer forums, issues-based collaboratives, leadership development programs, research, advisory, and media services. The Academy is an accredited CE provider. More information is available at [www.academy.net](http://www.academy.net).

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Hammond Hanlon Camp LLC ("H2C") is an independent strategic advisory and investment banking firm committed to providing superior advice as a trusted advisor to healthcare organizations throughout the United States. The company traces its heritage back almost 30 years through its predecessor organizations, including Shattuck Hammond Partners.