

THE ACADEMY LUMERIS STRATEGIC SURVEY – Q1 2018

STRATEGIC PRIORITIES, CONSOLIDATION, & MARKET SHARE

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KEY FINDINGS

- Leading Health Systems continue to prioritize cost reduction and revenue generation to ultimately improve patient experience, and plan to invest in Information Technology (IT), innovation, and clinical developments in 2018.
- The majority (56%) of health systems participated in an acquisition in Q4 2017, with half (50%) of responding systems acquiring a physician practice or medical group and 11% acquiring a hospital or rehab/long-term care facility.
- Health systems are operating in relatively consolidated markets, with the largest two health systems controlling two-thirds (67%) of the market share in their largest market, and most (56%) expect to see this share increase in 2018.

LEADING HEALTH SYSTEMS INCREASINGLY PRIORITIZE PATIENT EXPERIENCE, AND INVEST IN INFORMATION TECHNOLOGY (IT), INNOVATION AND CLINICAL DEVELOPMENTS

In 2018, the strategic priorities of Leading Health Systems are primarily focused around improving the patient experience (Figure 1).

“We want to ensure a great human interaction at every exchange. We want to maximize the use of our intelligence to drive personalized care, enhance relationships with our patients and families, and improve patient satisfaction overall.” (CMO)

In 2018, Leading Health Systems will also continue to focus on reducing costs, which can in turn drive investment into all of their clinical priorities.

“We hope to cut costs as we continue to integrate further, reduce variation, engage physicians, and work toward one standard of care. This is good for the consumer and for us.” (CFO)

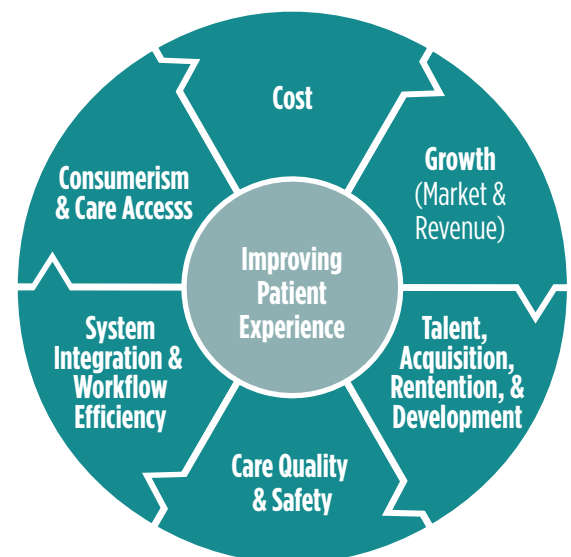
Similarly, Leading Health Systems continue to focus on growth, both to expand their market, and to diversify their revenue streams to increase their income and further drive investment into their operational and clinical areas.

“We continue to grow and evaluate our strategic affiliations, especially on the health plan side. We are actively working on this and methods we can use to see the implications.” (CSO)

Responding health systems reported the largest 2018 budget increases in the areas of information technology (IT), innovation, and clinical investments. Reported areas of clinical investments include clinical workforce alignment/engagement, employee retention and development, and pharmacy.

“Information Technology has seen our largest increases over the last several years and that continues in 2018. Significant increases are targeted around data and system security.” (CMO)

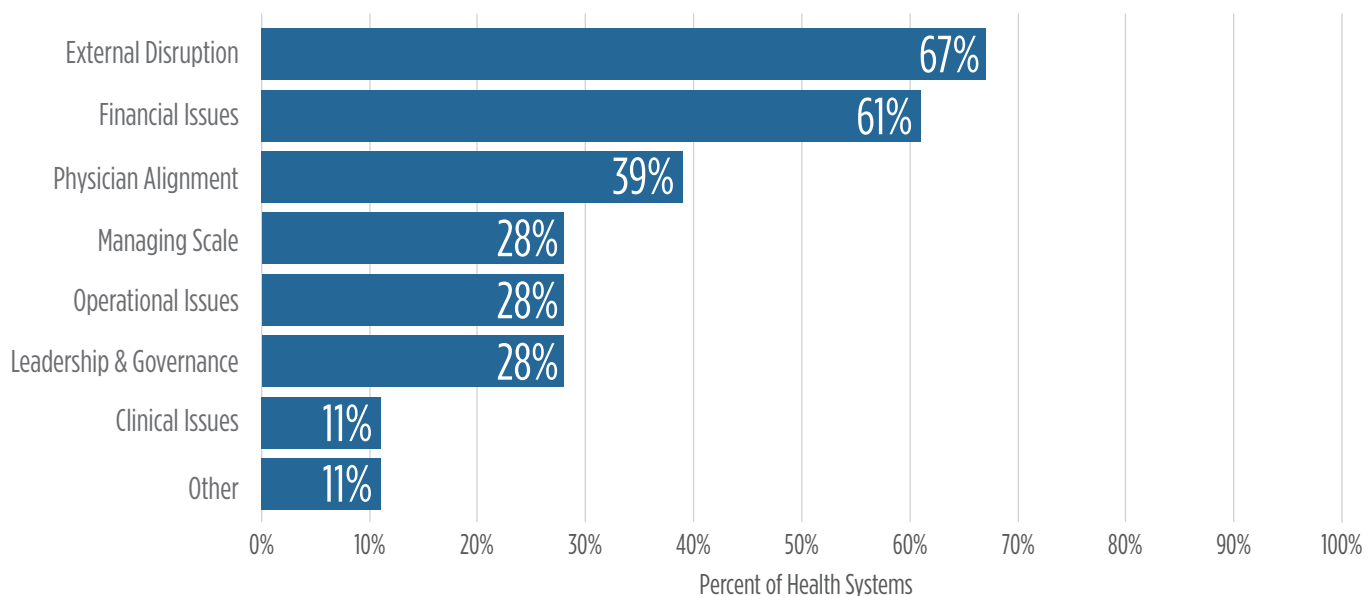
FIGURE 1. WHAT ARE YOUR HEALTH SYSTEM'S TOP THREE PRIORITIES FOR 2018?



Leading Health systems have also focused on investing in innovation, which ranges from forming new partnerships and investing in digital health to updating existing consumer-facing platforms.

Over two-thirds of Leading Health Systems report that one of their top enterprise risk in 2018 will be external disruption (67%) such as payment/delivery model transformation, governmental policy and regulatory changes, and/or payor mix and payment changes (Figure 2).

FIGURE 2. WHAT ARE YOUR HEALTH SYSTEM'S TOP THREE ENTERPRISE RISKS IN 2018?



“External disruption is a huge risk, especially in our state. Not only are we worried about the payors, but some of the new innovative partnerships we are seeing. This will create a lot of competition.” (CFO)

Reflective of Leading Health System’s focus on cost reduction, a majority of respondents (61%) also rated financial issues (e.g., cost structure, price, margin pressure) as a top enterprise risk in 2018.

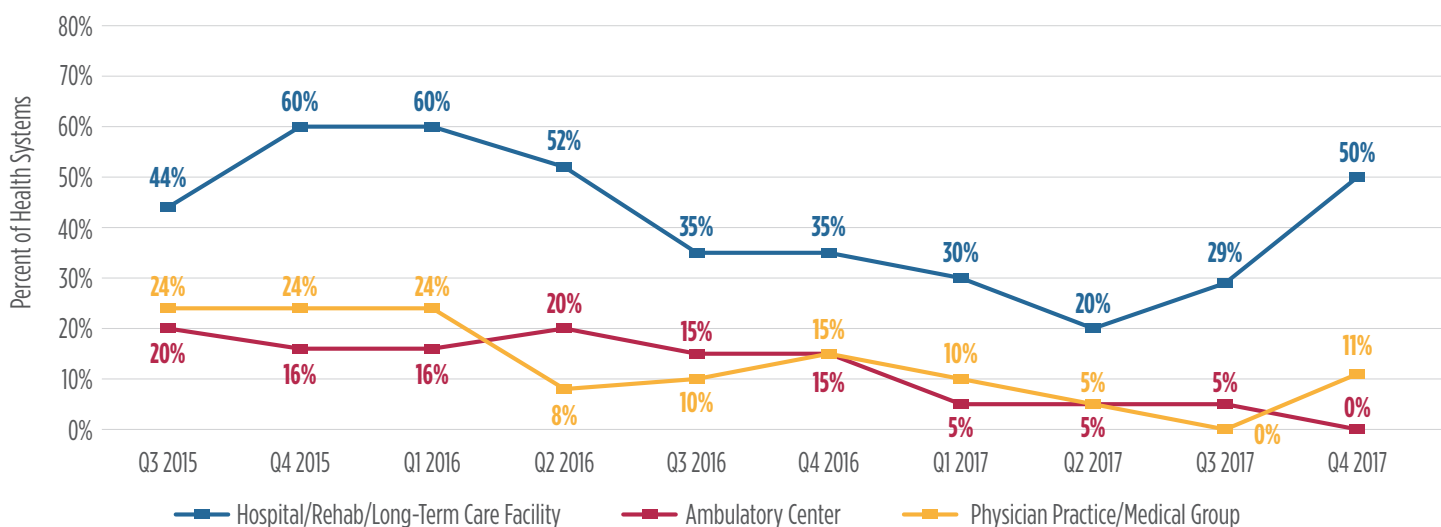
“Failure to control costs is our greatest risk. Reimbursement is low and cost increases are coming at us aggressively. Additionally, everybody else’s labor costs are going up and that’s going to hurt our cost reduction strategy.” (COO)

M&A ACTIVITY INCREASES IN THE FORM OF HIGH-VALUE DEALS

In the fourth quarter of 2017, the volume of US healthcare deals decreased, though the value of these deals increased significantly, up 468% from Q3 2017 and 424% in a year over year comparison. Overall, deal value increased 146% from 2016 to 2017, while deal volume slightly decreased¹. These data suggest that deals are happening among the largest and most profitable healthcare organizations, and the number of deals is decreasing as those large organizations acquire a larger share of their markets.

In accordance with these trends, acquisitions increased through Q4 2017 among Leading Health Systems, with 56% of responding health systems participating in a transaction, almost all of which acquired a physician practice, medical group, or hospital or rehab/long-term care facility (50%) (Figure 3).

FIGURE 3. OVER Q4 2017, DID YOUR HEALTH SYSTEM ACQUIRE ANY OF THE FOLLOWING?



Health systems predict an increase in their M&A activity in the first two quarters of 2018, with the majority of responding health systems (67%) reporting that they anticipate a transaction in Q1-Q2 2018, increasing twelve percentage points from the 56% in Q4 2017.

Aligning with 2017 trends, health systems also plan to focus on acquiring physician practices into the future, with a plurality (44%) of responding health systems expecting to acquire a physician practice or medical group in Q1-Q2 2018 (Figure 4).

HEALTH SYSTEMS MARKETS CONTINUE TO CONSOLIDATE

The market in which responding health systems operate is relatively consolidated, with the largest two systems controlling two-thirds (67%) of the market (Figure 5).

Executives from responding health systems reported an average inpatient market share of 40%, with their largest competitor owning an average of 27%.

Among nearly a third (30%) of responding health systems, the health system controls 50% or more of the market share.

FIGURE 4. DO YOU EXPECT TO ACQUIRE ONE OF THE FOLLOWING DURING Q1-Q2 OF 2018?

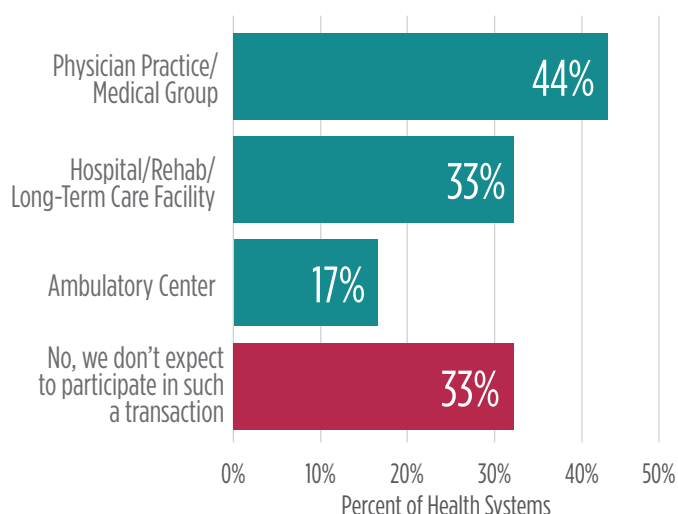
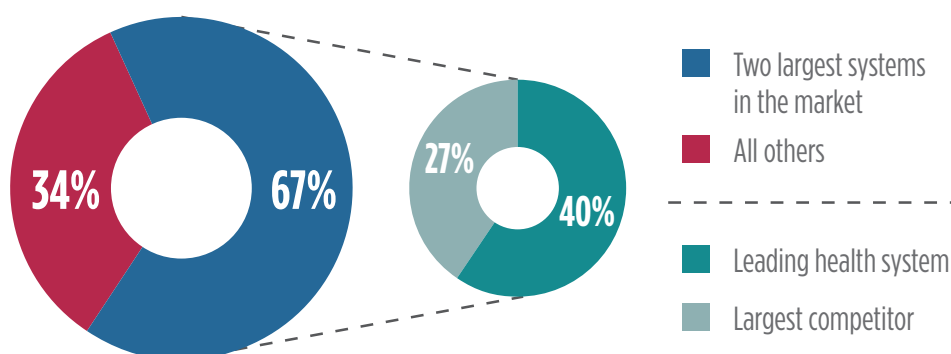


FIGURE 5. CURRENTLY, WHAT IS YOUR HEALTH SYSTEM'S INPATIENT MARKET SHARE IN YOUR LARGEST MARKET? WHAT IS YOUR LARGEST-COMPETITOR'S MARKET SHARE?



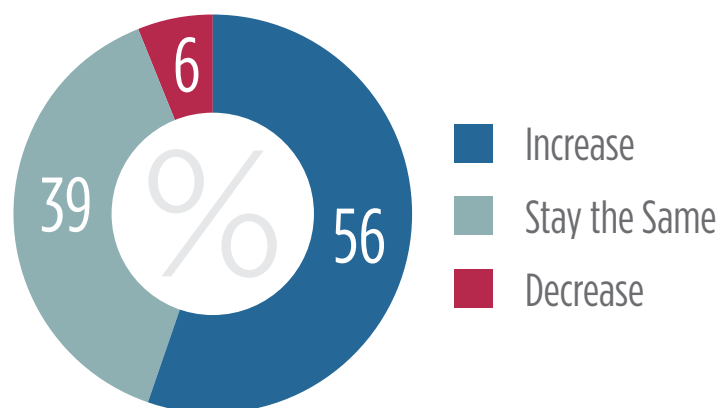
Many health systems expect to see their market share continue to increase, with over half (56%) expecting an increase in market share over the next 12 months (Figure 6).

“We expect to see a bullish increase in market share as we continue to make clinical investments and align all of our physicians.” (CFO)

Fewer executives (39%) expect market share to remain the same. These systems report that they exist in stable markets, where they own a comfortable plurality or majority of the market share, and intend to focus more on alignment and integration than growth.

“I would anticipate our share to remain stable or increase slightly. We are a stable market, but not growing at the current time.” (CMO)

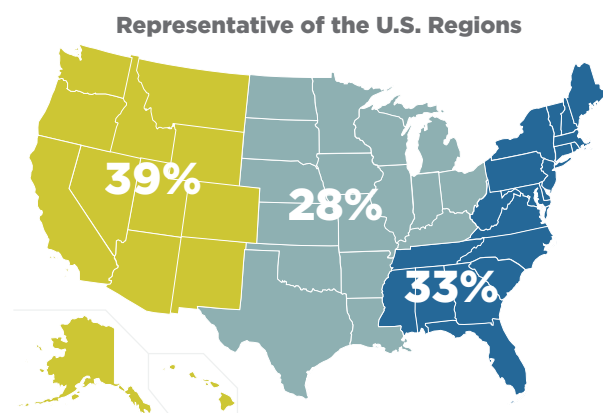
FIGURE 6. DO YOU EXPECT YOUR MARKET SHARE WILL INCREASE, DECREASE, OR STAY THE SAME IN THE NEXT 12 MONTHS?



REFERENCES

1. Donkar N. US Health Services Deals Insights Q4 2017. PwC. <https://www.pwc.com/us/en/health-industries/publications/pdf/pwc-health-services-deals-insights-q4-2017>.

PROFILE OF PARTICIPATING HEALTH SYSTEMS



**AVERAGE NET
PATIENT REVENUE**
\$4.75
BILLION

OWN OR OPERATE **296 HOSPITALS**
WITH **54,026 BEDS**

PROVIDER OWNED
HEALTH PLAN: **56%**

SINGLE-STATE SYSTEMS: **56%**

MULTI-STATE SYSTEMS: **44%**

PARTICIPATING HEALTH SYSTEMS



METHODOLOGY

In March 2018, The Academy conducted the fourteenth round of phone interviews for its quarterly strategic survey among 18 senior Leading 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’s learning model identifies top priorities of health system leaders; develops rich content based on those priorities; and addresses them by convening members to exchange ideas, best practices, and information. 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.academynet.com.

LUMERIS

Lumeris serves as a long-term operating partner for organizations that are committed to the transition from volume-to value-based care and delivering extraordinary clinical and financial outcomes. We guide health systems and providers through seamless transitions from volume to value, enabling them to deliver improved and more affordable care across populations—with better outcomes. And, we work collaboratively with payers to align contracts and engage physicians in programs that drive high-quality, cost-effective care with satisfied consumers—and engaged physicians.

An industry recognized leader, Lumeris won the 2018 Best in KLAS award for value-based care managed services for helping clients deliver improved clinical and financial outcomes. This was the third year it received this distinguished award. For the past seven years, Essence Healthcare, Lumeris’ inaugural client with more than 65,000 members in Missouri and Illinois, has received 4.5 to 5 Stars from the Centers for Medicare and Medicaid Services. Lumeris is committed to delivering these same results with its multi-payer/multi-population clients to meet their goals and missions.

The Health Management Academy extends its appreciation to Lumeris for the financial support for this project.

