

THE ACADEMY LUMERIS STRATEGIC TRACKING SURVEY

Q2 2018 TRACKING: CONSOLIDATION &
STRATEGIC PARTNERSHIPS

JULY 2018

TRACKING CONSOLIDATION AND PARTNERSHIP STRATEGIES

INTRODUCTION

Over the past few years, health system consolidation has been on the rise, raising questions across the industry regarding how to best achieve scale as a provider organization and how significant growth can affect and enhance overall care delivery.

Since Q3 2015, The Health Management Academy (The Academy) has been tracking consolidation and partnership activity across the nation's largest health systems. In this report, The Academy continues to track these trends and assess how these transactions may affect leading health systems and impact their organizational strategies moving forward.

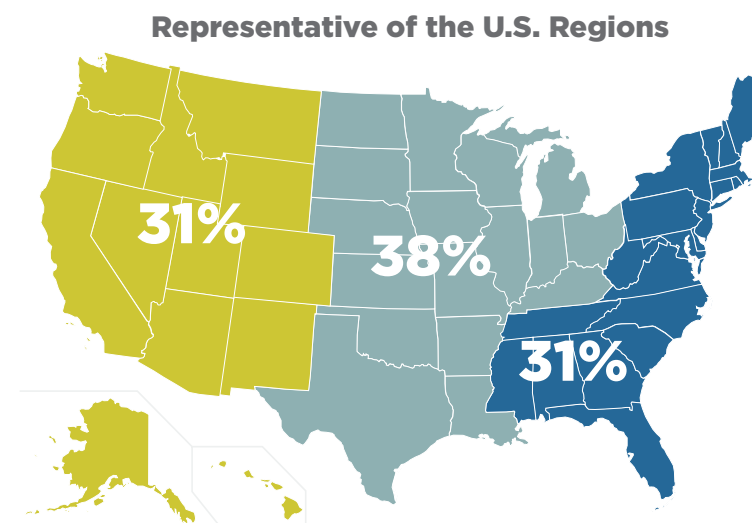
METHODOLOGY

In June 2018, The Health Management Academy (The Academy) conducted the fifteenth round of phone interviews for its quarterly strategic survey among 16 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; and
2. A special topic area that allows for an in-depth look into a timely, developing issue.

PROFILE OF PARTICIPATING HEALTH SYSTEMS



**MEDIAN
REVENUE**
\$5.0
BILLION

OWN OR OPERATE
238 HOSPITALS
WITH **43,249 BEDS**

SINGLE-STATE SYSTEMS: **50%**
MULTI-STATE SYSTEMS: **50%**

KEY FINDINGS

1. Half (50%) of responding health systems completed an acquisition in Q1 2018 with a strong focus on acquiring physician practices and/or medical groups.
2. The majority (63%) of responding health systems entered into a strategic partnership between Q4 2017 – Q1 2018, while 69% intend to form a new partnership during Q2 – Q3 of 2018.
3. As health systems look to expand their capabilities and focus on integration, executives expect future partnerships to focus on provider services, insurance, and pharmacy.

HEALTH SYSTEMS CONTINUE TO FOCUS ON PHYSICIAN GROUP ACQUISITIONS

In the first quarter of 2018, US healthcare merger and acquisition (M&A) activity decreased slightly, with deal volume down 4.6% from Q4 2017. Overall, deal volume has decreased in the past year, though deal value has increased 734% since Q1 2017¹. These trends indicate that activity among the largest healthcare organizations remains steady.

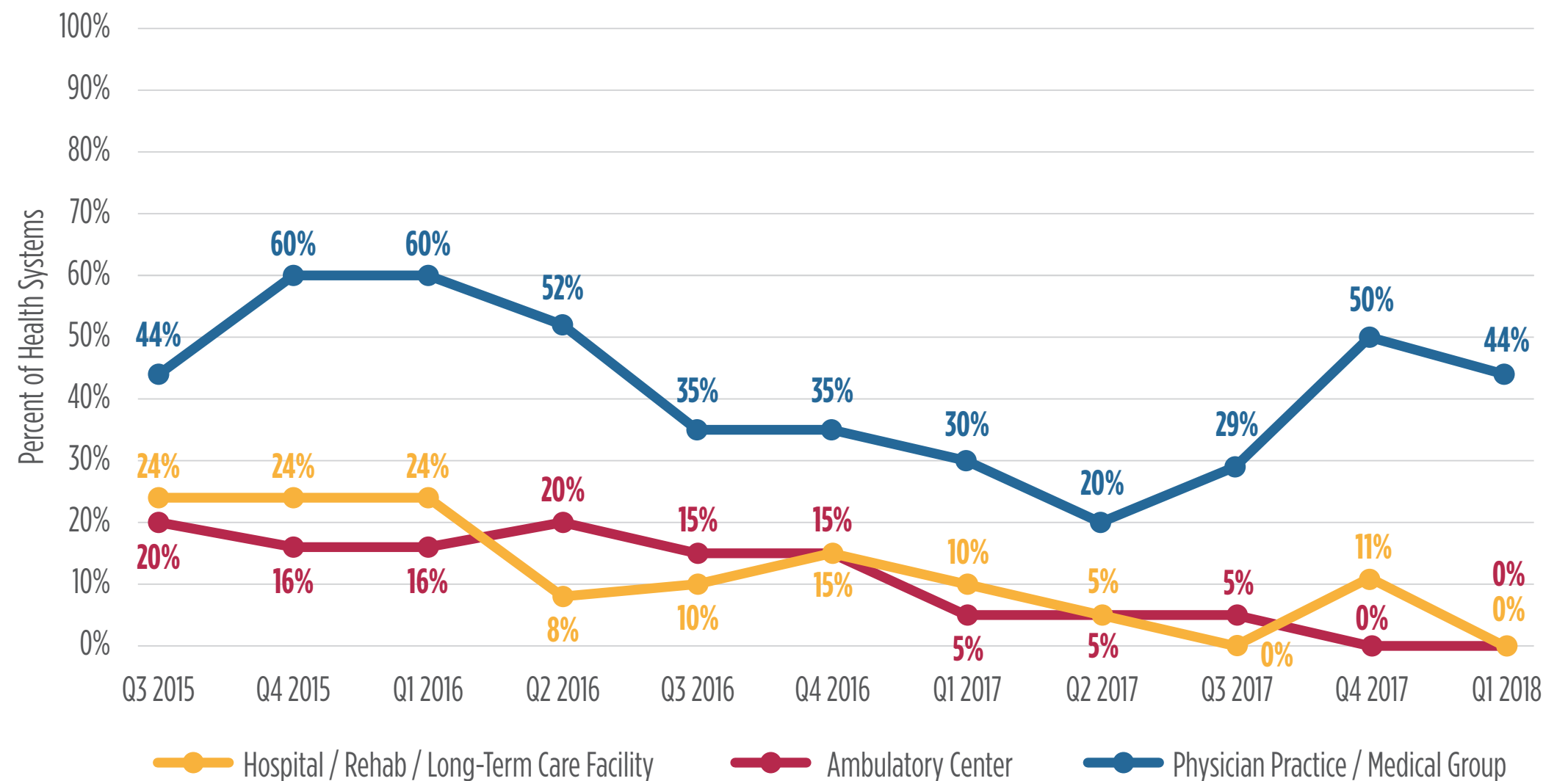
Reflective of these national trends, in **Q1 2018**:

- 50% of responding health systems participated in a transaction, 88% of which acquired a physician practice or medical group
- No health systems acquired a hospital/rehab/long-term care facility or ambulatory center in Q1 2018

During **Q2-Q3 2018**, the majority (62%) of health systems plan to participate in a transaction, intending to acquire a physician practice/medical group (50%), an ambulatory center (31%), and/or a hospital/rehab/long-term care facility (25%).

¹ Donkar N. US Health Services Deals Insights Q1 2018. PwC. <https://www.pwc.com/us/en/healthindustries/publications/pdf/pwc-health-services-deals-insights-q1-2018>.

DID YOUR HEALTH SYSTEM ACQUIRE ANY OF THE FOLLOWING?



STRATEGIC PARTNERSHIPS GROW AS EXPECTED IN 2018

Health systems are increasingly focused on expanding their capabilities in order to operate as fully integrated networks. Strategic partnerships – business arrangements that are long-term, outcome-oriented, and seek to align interests and go beyond transactions – allow health systems to capitalize on the expertise of other organizations to build out new capabilities.

During **Q4 2017-Q1 2018**, the majority (63%) of health systems formed a strategic partnership:

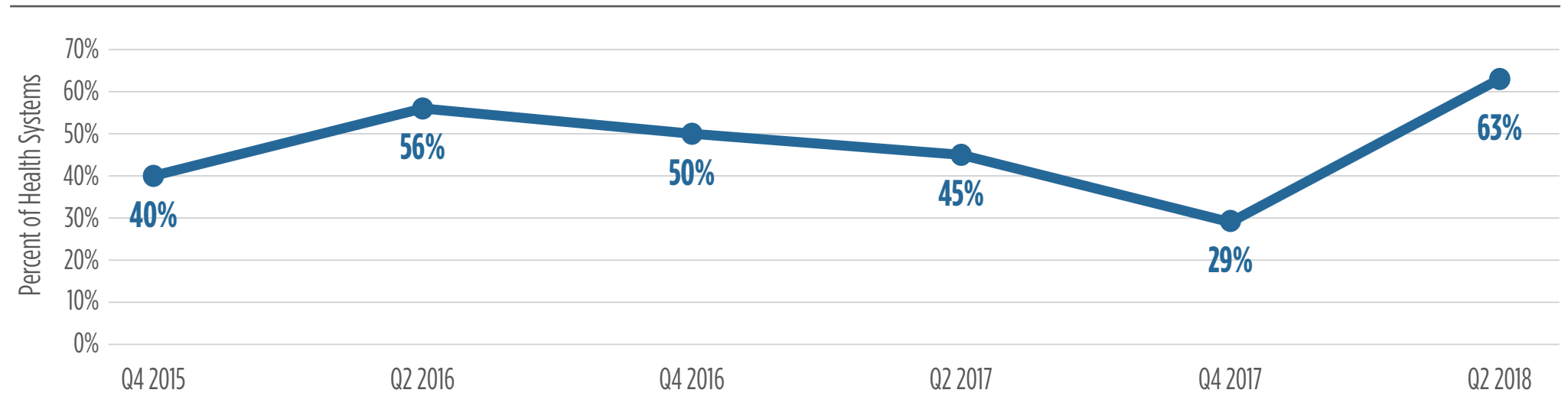
- 50% with an industry organization
- 40% with a provider organization
- 10% with both

Partnership activity has increased, up from Q2-Q3 2017, in which 29% of health systems formed a strategic partnership.

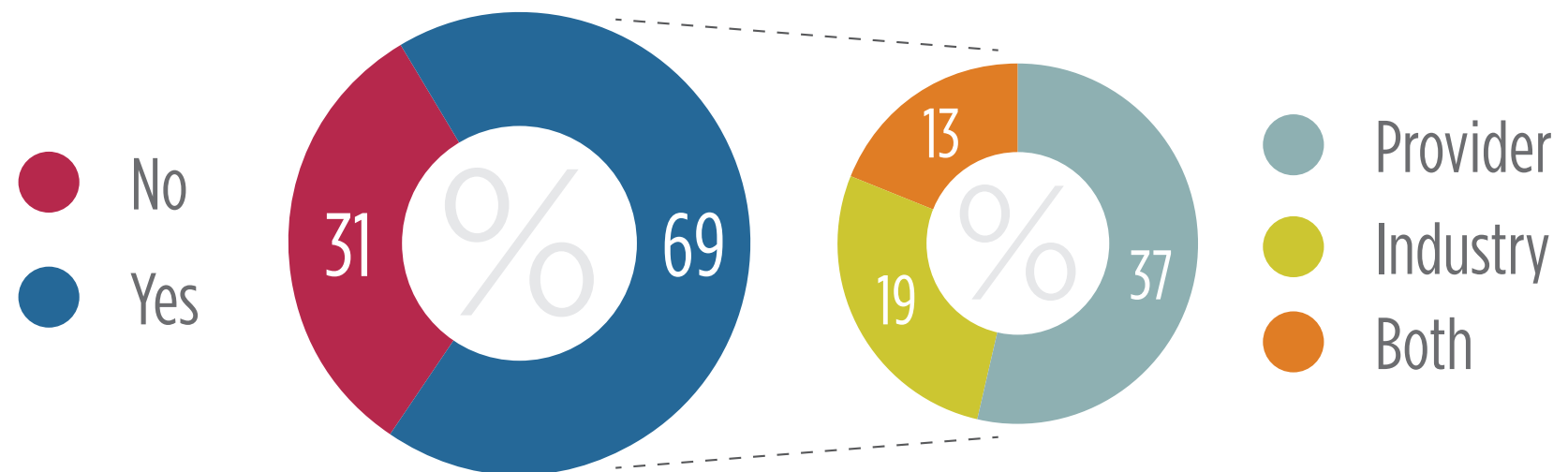
Partnerships were focused around population health, pharmacy, lab services, post acute care, revenue cycle, and technological innovation.

Over **Q2-Q3 2018** the majority (69%) of health systems anticipate forming a new strategic partnership. The majority of anticipated partnerships are those involving clinical services and research, insurance, and pharmacy.

DID YOUR HEALTH SYSTEM FORM A STRATEGIC PARTNERSHIP OVER THE LAST 6 MONTHS?



DOES YOUR HEALTH SYSTEM PLAN TO FORM A STRATEGIC PARTNERSHIP OVER Q2 - Q3 2018?



ABOUT 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.



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ABOUT 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.**

