

## **The Academy Lumeris Strategic Tracking Survey**

# Strategic Survey Q4 2018: Consolidation, Strategic Partnerships, and Margins

**December 2018**

# Consolidation, Strategic Partnerships, and Margins

## Introduction

Consolidation has emerged as a persistent industry trend for Leading Health Systems since the advent of HMOs in the 1990s. Recent health system consolidation has primarily been driven by regulatory changes affecting nearly every aspect of system organization, financing, and delivery. As reimbursement models shift toward value-based payment, health systems are pursuing a range of vertical and horizontal consolidation strategies in addition to strategic partnerships to enhance the quality and decrease the cost of care.

In this report, The Health Management Academy (The Academy) comments on ongoing consolidation and partnership activity across the largest health systems.

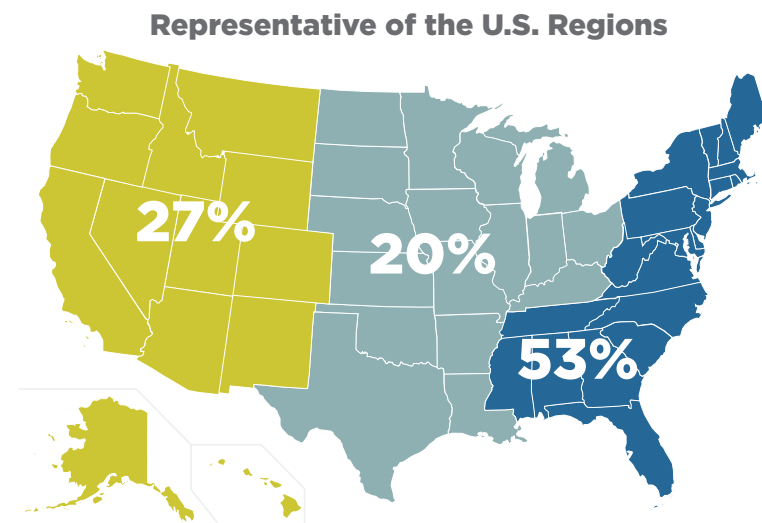
## Methodology

In November 2018, The Academy conducted the seventeenth round of phone interviews for its quarterly strategic survey among 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**  
**\$3.8**  
**BILLION**

OWN OR OPERATE  
**172 HOSPITALS**  
WITH **34,250 BEDS**

SINGLE-STATE SYSTEMS: **67%**  
MULTI-STATE SYSTEMS: **33%**

# Key Findings

1. The majority (67%) of Leading Health Systems completed an acquisition in Q3 2018, and 67% expect to complete an additional transaction in the next 6 months (Q4 2018-Q1 2019).
2. Between Q4 2018-Q1 2019, 70% of providers intend to form a strategic partnership, up slightly from 56% in Q2-Q3 2018.
3. Health systems report an average operating margin of 4.4% in 2018, with most health systems (75%) projecting margins will stay the same or decrease in 2019.

# Consolidation Expected to Continue in 2019

Health system merger and acquisition activity continues at a steady pace in Q4 2018, with the majority (58%) of organizations reporting a transaction over the last quarter. Similar to previous quarters, health systems were primarily focused on acquisitions of physician practices/medical groups (42%) rather than hospitals/rehab/long-term care facilities (8%).

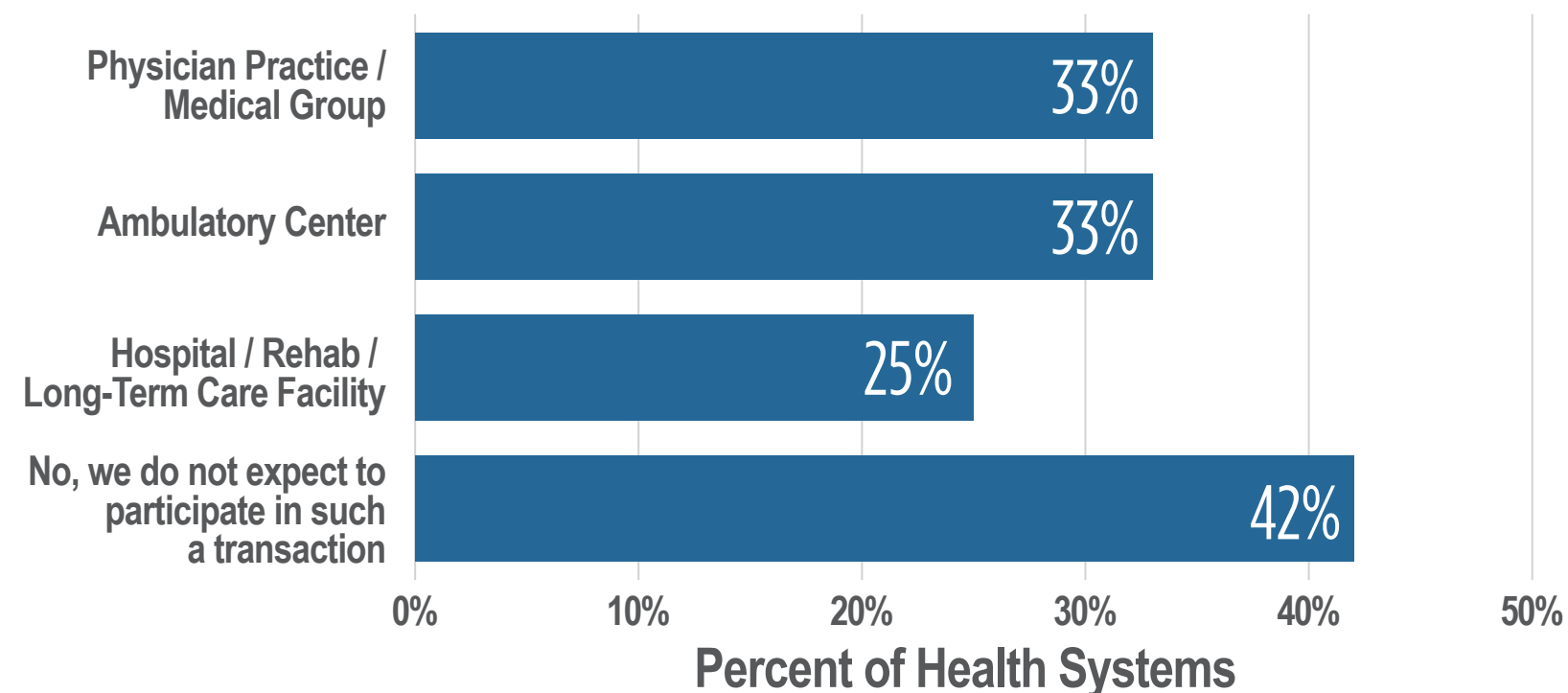
Health systems expect to continue acquisition activity over the next six months (Q4 2018 – Q1 2019), with 58% of health systems intending to complete a new acquisition during that timeframe.

Looking toward 2019, most health systems expect the pace of consolidation to remain steady or increase in their markets over the next year. Executives anticipate seeing continued M&A activity around physician practices, ambulatory practices, and urgent care. Commonly, executives expect to see provider to provider consolidation in which larger provider organizations absorb smaller provider practices. Additionally, some executives cite greater involvement of nontraditional players, such as private equity, that will drive greater M&A activity.

However, some health systems are beginning to experience pressure around additional consolidation activity as markets have become highly consolidated in recent years. These health systems expect a slower pace of consolidation and are looking toward alternative growth opportunities.

“We expect to see the same level, if not greater, of M&A activity across all areas as the competitive landscape continues to intensify” (COO)

DO YOU EXPECT TO ACQUIRE ANY OF THE FOLLOWING OVER Q4 2018 – Q1 2019?



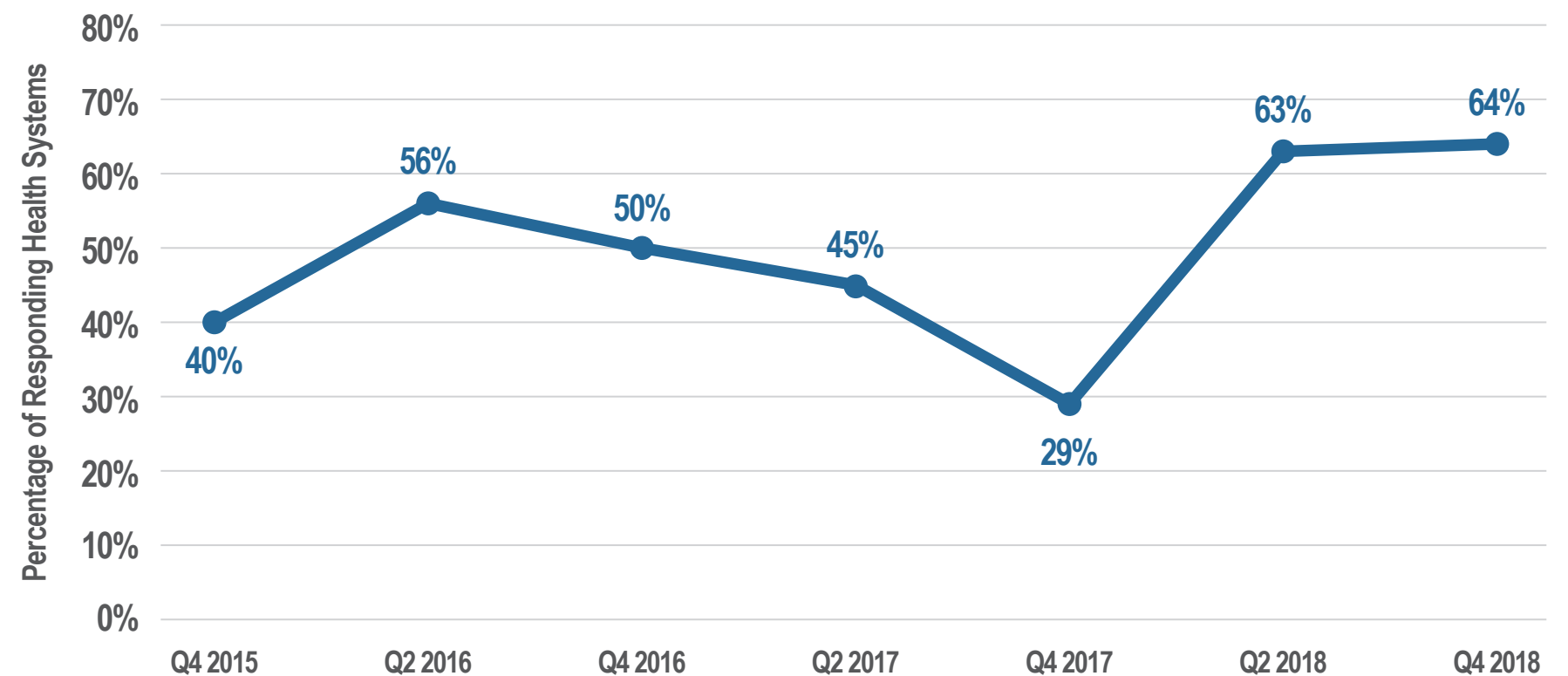
# Strategic Partnerships are a Focus

As consolidation continues across most health system markets, providers continue to form strategic partnerships to grow and expand their capabilities. Reflective of this trend, in Q2 and Q3 2018, 67% of health systems formed a strategic partnership. Partnerships involved both industry and other provider organizations, and focused on areas including home health, retail clinics, revenue cycle, IT, and physician networks.

Health systems expect partnership activity to continue, with 64% of organizations intending to form a new strategic partnership in the next six months (Q4 2018 – Q1 2019).

Executives reported prioritizing partnerships when developing services or competencies outside of the core business of the health system (e.g., IT, retail), which was commonly defined as clinical care delivery. Health systems value leveraging the expertise of external organizations through partnerships, as well as the ability to implement and scale solutions more rapidly than building from scratch. However, for objectives that fall within the scope of clinical care, health systems err toward building capabilities in-house.

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



“Our definition of our core businesses is the hospital and the physician. If it’s something outside of that scope we typically look to partner before adding to our core business from scratch.” (CFO)

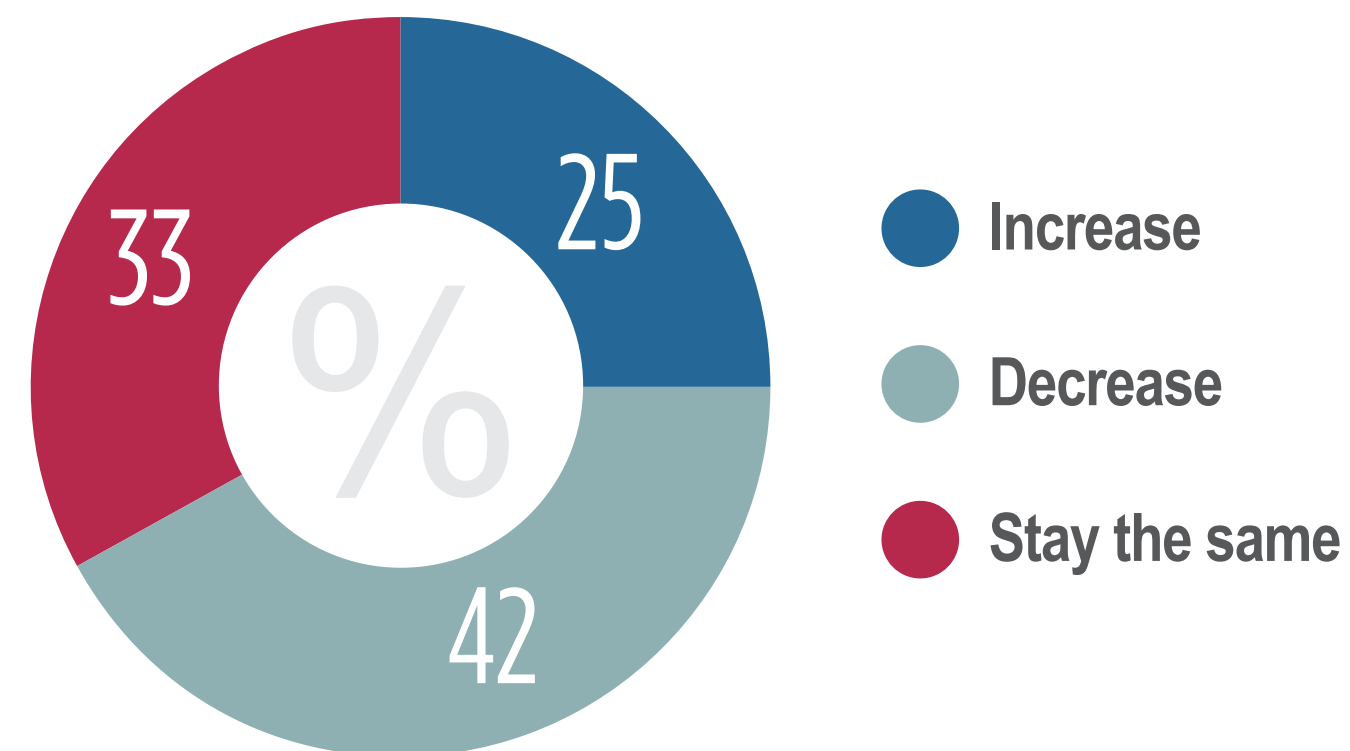
# Cost Reduction Remains High Priority

Due to rising costs and decreasing reimbursement levels, the largest health systems are experiencing increasing financial pressure. Health systems reported an average operating margin of 4.4% in 2018 (range: 0.7% - 10.5%), and most organizations (75%) anticipate operating margins will stay the same (33%) or decrease (42%) in 2019.

Reflective of this financial pressure, cost reduction and control remains a priority for Leading Health Systems. A majority of health systems (58%) report that cost reduction and control was a top priority in 2018, and will remain a top priority in 2019. Additionally, 25% of health systems are including cost reduction as a higher priority in their 2019 strategic plan compared to 2018.

“Cost reduction is an ongoing priority for us everyday, and will continue to be in 2019.” (CEO)

DO YOU EXPECT YOUR OPERATING MARGIN TO INCREASE, DECREASE, OR STAY THE SAME IN 2019?





# 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](http://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.**

