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2022 healthcare partnership trends signal shifts in composition and needs

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<https://www.chartis.com/insights/2022-healthcare-partnership-trends-signal-shifts-composition-and-needs>

The Buzz This Week:

Activity around healthcare mergers, acquisitions, and partnerships has shifted over the past year. The number of industry-wide healthcare mergers and acquisitions (M&A) overall* has increased substantially compared to 2021. In the first 3 quarters of 2022, an average of 750 deals were announced per quarter, up from 520 on average for each of the first 3 quarters of 2021. The composition of the deals has been different in the past year, with more focus on physician groups and non-acute care services. Specifically:

- Per the Q3 Quarterly Report from Irving Levin, more than half the number of deals in the last quarter were targeting 3 sectors: physician groups, long-term care, and “other services” (see definition below). As the Irving Levin report states, “Interest in skilled nursing and buyers making bets that the industry will keep benefiting from a positive reimbursement environment are driving long-term care numbers to historic highs. Small physician groups are still hot targets for private equity firms, which are rapidly building out regional and national platforms.”
- Announced hospital acquisitions were down slightly in the first 3 quarters of 2022—at 43, compared to 47 announced in the first 3 quarters of 2021.
- Not-for-profit hospitals and health systems are indicating that they are looking to diversify their assets and services, extending into other areas of the care continuum. Hospitals have been pursuing acquisitions of physician groups, continuing care and post-acute care entities, and other ancillary services. Bobby Guy, a healthcare M&A attorney quoted in another recent Irving Levin report stated, “Hospitals for years have been buying other hospitals and building hospital networks. What’s changed in the last few years is that they are now buying much more diversified groups of assets.”
- Private companies are playing a substantial role in the healthcare M&A space. Private equity firms accounted for half of the announced healthcare M&A deals in the third quarter of this year. They have trended toward investments in physician groups and ambulatory surgery centers.

- Large public companies, often referred to as “healthcare disruptors,” have continued to build their health services capabilities through acquisitions. The most recent notable deal is Amazon’s acquisition of One Medical, a network of innovative primary care clinics, acquired for \$3.9 billion, announced in July 2022. CVS Health, Microsoft, Walgreens, and Walmart have all made similar acquisitions in the healthcare provider services space in recent years.

However, larger hospital and health system “suitors,” which historically have been the primary acquirers of distressed acute care facilities, may not be in a position to do so at this time. Health system financials continue to be strained, impeding their ability to make large strategic capital investments, including merging or acquiring a hospital or health system. This may leave smaller, financially distressed hospitals and health systems in a precarious position with limited strategic options.

Why It Matters:

Surrounding the recent healthcare deal activities are complex market dynamics.

Smaller hospitals and health systems may be looking for a partner to help get through financially difficult and potentially unsustainable times. From the Irving Levin report, “We’re seeing hospitals go away in the United States at a rate of somewhere between 15 and 30 shutting down a year.” Rural hospitals are at an even greater risk.

Independent physician groups have experienced severe volatility in patient volume and staffing shortages throughout the pandemic, threatening financial sustainability. Unlike the past, turning to health systems for employment or a form of partnership isn’t a viable option for many.

Waiting in the wings are private equity firms and other for-profit actors, such as Amazon, Walgreens, and CVS—all of which have been making numerous investments into the healthcare services space. Despite the negative trajectory of the U.S. economy, these entities have deep pockets and can often usurp deals by offering to pay in cash, boxing out health systems that would have otherwise sought those deals but cannot do so at present with such limited capital. Kevin Moyer at Sax Capital Advisors commented on the interest in healthcare services from private equity firms: “It is shocking to me that the dry powder is still growing, still scaling.... You have a finite supply of providers that are able to survive diligence and go to the point of acquisition.”

For several years, healthcare M&A activity has consolidated the healthcare services landscape—with healthcare providers acquiring similar provider entities. That trend may continue but will likely be constrained by the financial stress provider entities are currently experiencing. This is already driving and will likely continue to drive partnerships to alternative models and different types of players. As was discussed in Jarrard’s recent Healthcare Predictions for 2023 report, hospital transactions are still taking place moving into 2023, but there are also a wider variety of joint ventures and other arrangements in ambulatory access, digital health, high-reliability care, health equity, and payer/health plan products. Many hospitals and health systems are making substantial investments in partnerships that strengthen their ambulatory presence near their hospitals.

A potential headwind in hospitals' and health system's ambulatory growth endeavors is the market entry of other well-capitalized players, such as Optum and private equity firms. They can disrupt the traditional market dynamics through the acquisition of physician groups, ambulatory surgery centers, and other ancillary service providers—increasingly competing with hospitals that are striving to tighten relationships with those entities.

If the U.S. continues to move toward value-based payment models, it will be critical for health systems to own or be closely aligned with providers and services to enable collaboration and care management across the entire care continuum. With the entry of well-capitalized, non-traditional healthcare players in many markets, health systems may need to reexamine their strategic growth plans given these new dynamics. They may also need to consider potential partnerships with non-traditional entities to retain and grow market position.

**This includes behavioral health care, home health & hospice, hospitals, laboratories/MRI & dialysis, long-term care, managed care, physician groups, rehabilitation, and other services (including various ancillary businesses, health clinics, infusion services, and medical documentation services).*

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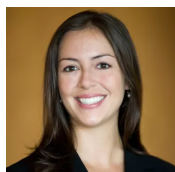
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Alexandra Schumm

Partner and Vice President of Research