

ARTICLE

Hospital and oncology physician alignment

Why hospitals should prioritize cancer physician partnership

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Horizontal integration has been a persistent trend in medical oncology, with hospitals and health systems recognizing that alignment can deliver market advantage and financial gain. At least 925 medical oncology practices have been acquired in the last 12 years, according to the Community Oncology Alliance (COA), a nonprofit group that tracks this integration activity. Importantly, the rate of acquisition has continued to accelerate, with acquisitions from hospitals up 10 percent and larger practices/corporate entities up 21 percent from 2018 to 2020.¹ Recent activity indicates that COVID-19 did not slow the trend but served as an accelerant as independent oncologists searched for paths to sustainability.

In this briefing, we highlight the imperatives for oncology partnership, and proven strategies for successful transaction and integration.

Case of Consolidation

The frenetic pace of oncology transactions is the byproduct of simple market forces:



DEMAND

Demographics and cancer incidence have produced a growth market for medical oncology and its logarithmically increasing buy-and-bill drug prices.² That pharmaceutical spend is attractive to would-be aggregators like OneOncology, drug distributors like McKesson US Oncology, and those with purchasing advantages like PPS-exempt cancer hospitals and disproportionate share hospitals.



MARGIN ATTRACTIVENESS

Hospitals are generally reimbursed more than independent practices by payors and can often buy cancer drugs at a 20-30 percent discount through the 340B program. More than 80 percent of COA-reported acquisitions have been by 340B hospitals, many of which leverage these savings toward reinvestment in cancer assets and services.³ These drug savings, combined with even modest commercial reimbursement advantages, typically produce \$1.0-2.0 million of contribution margin per full-time equivalent oncologist in a hospital-based program. Further, aligned oncologists tend to provide indirect lift to other parts of the oncology service line, which accounts for 25-40 percent of the total margin in many health systems.



COMPETITION

As cancer programs seek to differentiate in increasingly crowded markets, many are pursuing integration to create competitive advantage. Oncologists are the cornerstone of integrated cancer care, providing not just initial treatment but the bulk of longitudinal surveillance and management of patients in survivorship. Bringing these specialists into the hospital's care model, medical record circuitry, and physical cancer space can produce profound shifts in patient experience and market preference.



SUPPLY

The American Society of Clinical Oncology expects a shortage of more than 2,200 oncologists by 2025 as demand outstrips supply by some 20 percent.⁴ This scarcity is propelling intense competition in the labor pool for oncologists, driving up compensation and compelling cancer programs to build integrated cancer care through practice acquisition.

Competition from Corporate Entities

Corporate activity continues to gain pace, with much of the activity attributed to OneOncology, a management company with \$200 million in private equity backing from General Atlantic. Like its precursor, McKesson's US Oncology Network, the OneOncology team is busy acquiring practices across the country to bring drug purchasing scale, advanced analytic capabilities, and innovation to business models and care delivery platforms.

OneOncology continued its accretive activity through COVID-19, integrating Ft. Worth's Center for Cancer and Blood Disorders, Los Angeles Cancer Network, Tennessee Oncology, New York Cancer and Blood Specialists, and Astera Cancer Care in Central New Jersey. With 175 sites and 583 cancer providers, OneOncology shows no signs of slowing — it is reporting an expected increase of \$650 million in revenue in 2021.^[5] Similar activity occurred with 21st Century Oncology as it leveraged a \$300 million investment from GenesisCare to establish joint ventures in Texas, Arkansas, Oklahoma, and Missouri.^[6]

The practice roll-up strategy of corporate entities is likely to continue, so hospitals and health systems seeking to attract independent practices will need to refine their value proposition and be able to compete on dimensions other than short-term financial upside, including the enhanced agency and strategic influence offered to practices by corporate alternatives.

Transaction Speed and Know-How Are Essential to Partnership Success

In markets with independent oncology, the acquisitive value is obvious to many buyers, and it is therefore critical to engage quickly, support integration, and leverage expertise.



ENGAGE QUICKLY

Hospitals seeking alignment should leverage their relationships and understanding of physician goals to engage in quick and meaningful discussions. Transactions often meander through multi-month exploration, non-binding term sheets, and capital approvals, but for a hospital to be competitive with other buyers, it needs to mobilize quickly and empower an agile team to speed the process of deal evaluation and execution.



SUPPORT THE INTEGRATION

Rapidity will be essential not just to transaction close but to the end point of integrating oncologists into the programmatic and financial fabric of the enterprise. Integration success ultimately depends on the willingness of both parties to collaborate. It is our experience that planning for integration needs to occur on a parallel path with deal negotiation, ensuring the transaction terms are reflective of the appropriate operating and governance model that will guide implementation.



LEVERAGE EXPERTISE

Oncology bears little resemblance to other types of practice acquisition and often stymies hospitals with otherwise mature transactional competency. Its economics are complicated at the intersection of clinic and chemotherapy, and its employment and contractual models are nuanced for that reason. Moreover, the oncology practice often comes with its own horizontally integrated ecosystem, requiring hospitals to transact on radiation therapy, diagnostic imaging, and retail pharmacy as part of the deal structure. Modeling the value of these services is no simple exercise, given byzantine site neutrality regulation and appraisal complexity. We recommend speeding the due diligence curve by engaging knowledgeable brokers to advance partnership design, legal counsel with transactional expertise, and valuation professionals fluent in oncology.

The pursuit of oncology partnership remains a critical path for hospitals seeking to build comprehensive cancer programs. If the organization is attuned to the opportunity and quick to action, the product can be vision-enabling, financially rewarding, and edifying to cancer patient experience and quality — a worthwhile venture in a still challenging time.

Sources

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3 “Community Oncology practices turn to mergers, private equity to avoid hospital acquisition” Healthcare Dive. Online. <https://www.healthcaredive.com/news/community-oncology-practices-turn-to-mergers-private-equity-to-avoid-hospi/576722/>

4 Yang, Wena, et al. “Projected Supply of and Demand for Oncologists and Radiation Oncologists Through 2025: An Aging, Better-Insured Population Will Result in Shortage.” DOI: 10.1200/JOP.2013.001319 Journal of Oncology Practice. September 21, 2016.

5 OneOncology. 2020 Annual Report. https://www.oneoncology.com/assets/pdf/OO_AnnualReport2020_Digital_R2.pdf

6 “21st Century Oncology collaborates with Landmark Cancer Center to expand patient access in Texas, Arkansas, Oklahoma and Missouri.” <https://www.prnewswire.com/news-releases/21st-century-oncology-collaborates-with-landmark-cancer-center-to-expand-patient-access-in-texas-arkansas-oklahoma-and-missouri-301056054.html>

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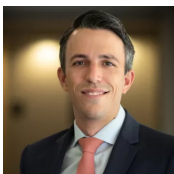
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