30th Edition | 2024

Health Care Services **Acquisition Report**

Published by Levin Associates

LevinPro HC

THE HEALTH CARE SERVICES ACQUISITION REPORT

30th Edition, 2024

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Publications

The Health Care Services Acquisition Report
The Senior Care Acquisition Report

The Health Care Services Acquisition Report
30th Edition, 2024
ISSN 1536-7428
ISBN 978-1-970078-44-2
Published by:
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The Health Care Services **Acquisition Report**

Content

PREFACE

This is the 30th edition of *The Health Care Services Acquisition Report*, which deals with all major aspects of mergers and acquisitions in the healthcare services industry. This year's coverage is changed from previous years, based on the growing popularity of certain services sectors. The Hospital sector is still the primary focus of this report, but special emphasis is given to Behavioral Health Care, Home Health & Hospice, Physician Medical Groups, eHealth and the Outpatient Care market, the latter two being new additions. We have decided to include eHealth and the Outpatient Care market as part of our reporting because of their importance to healthcare services. Investors and players in the market are now acutely aware of all these different verticals.

Long-Term Care is not part of this annual report, as it is covered yearly in our companion publication, *The Senior Care Acquisition Report*. We also exclude the other three healthcare technology segments that we track on the data platform LevinPro HC.: Biotechnology, Medical Devices and Pharmaceuticals.

Most transactions were first reported in the monthly newsletter *Health Care M&A News* and its companion publications, the weekly *Health Care Deal News* and the quarterly *Health Care M&A Quarterly Report*. Transactions are recorded based on the date of the announcement rather than the closing date. The announcement date usually receives the most media attention and, more importantly, reflects terms available in the market at the time.

In preparing this report, we have updated the previously reported deals based on deal details obtained from the media, SEC documents and interviews to provide the most accurate information. Transactions canceled after the announcement are removed, and transactions announced in corporate earnings reports and elsewhere are added to the data.

We hope that the information in this report helps you make profitable business and investment decisions. We have tried to obtain as much financial information as possible about each transaction, such as its price, revenue and EBITDA multiples, but for many of the smaller deals these figures are not available. Other factors influence the data, such as mergers between two not-for-profits that do not, by definition, have a purchase price.

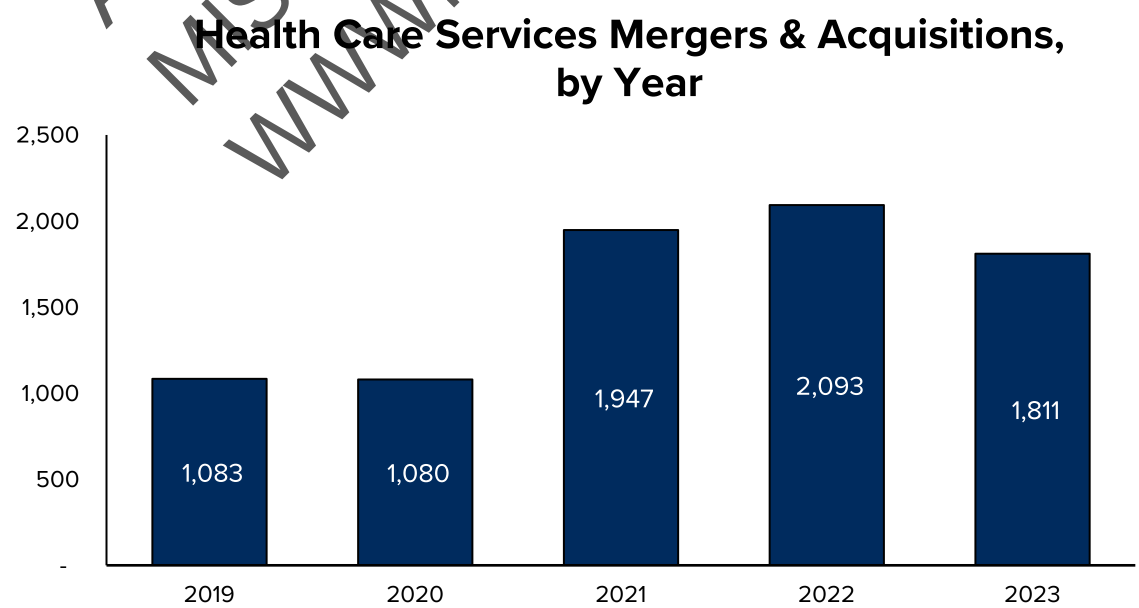
Dylan Sammut	Kate Humphrey	Avery Swett
Editor	Editorial Analyst	Editorial Analyst

INTRODUCTION

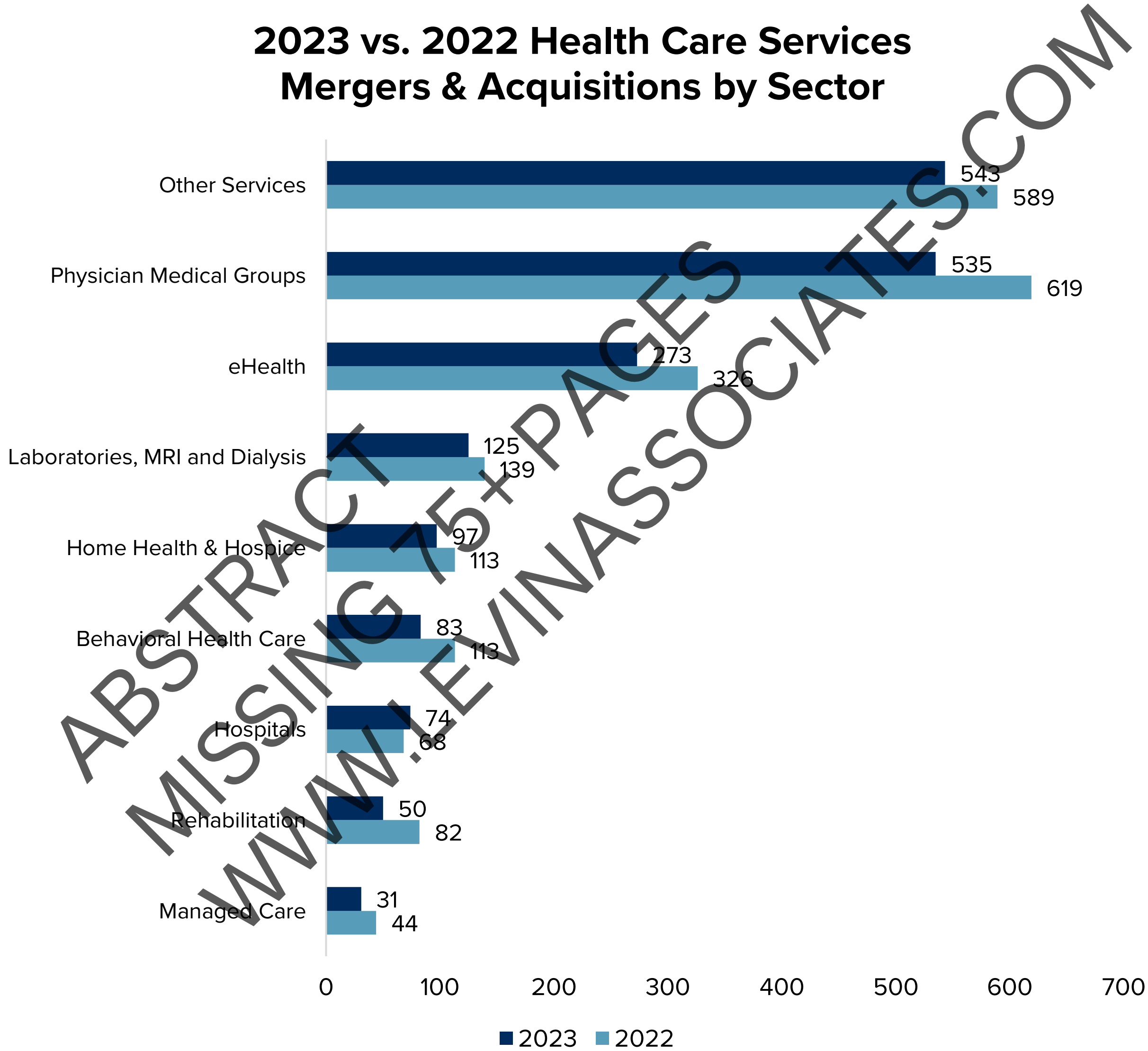
There was no shortage of headwinds facing the 2023 healthcare M&A market. Although the COVID-19 pandemic was officially declared over in May 2023 (globally and in the United States), lingering effects took a toll on the industry. Organizations looking to grow organically or expand through M&A also faced high-interest rates due to inflation. Labor issues exacerbated by the pandemic continued to surface in 2023, especially at large health systems. Despite these challenges, however, M&A activity remained high, historically speaking at least. Compared with 2022, which had the highest volume of healthcare M&A activity on record, deal announcements declined. But compared with five years ago, the market has exploded.

Despite the headwinds, new opportunities in the market sparked M&A activity, too. Small physician groups saw the benefit of joining a larger health system or a private equity-backed platform. The tragic rise of mental health struggles brought on by the COVID-19 pandemic and substance use disorders created a surge of demand for counseling services and providers. There is also the shift to value-based care and outpatient services, which gives rise to primary care operators that excel in those models, further driving M&A in that space.

Compared with deal volume in 2023, the services sectors (and eHealth) experienced a 13% decrease in activity in 2023. Considering the amount of pressure and the upheaval in the capital markets, the decline is far less than expected. If we include every sector covered on the LevinPro HC platform, deal volume sits at 2,181, which is an 11% decline from the total 2,449 deals in 2022.



Source: *LevinPro HC, February 2024*



Source*: LevinPro HC, February 2024*

Although none of the declines were sharp, deal activity dropped across nearly every sector in 2023. Activity in the Physician Medical Group sector decreased by 14% after reaching an historic high of 619 in 2022, an annual record for any individual sector tracked by LevinPro, including Long-Term Care. For most markets, there was an record-breaking level of activity in 2022, and in 2023, it seemed to be a “cooling-off” period rather than a lack of interest. Not to mention the troubles with headwinds and high interest rates led to lower prices and less buyer interest.

The only market to see an increase in M&A activity was the Hospital sector. Mergers between large health systems across the country drove up deal volume, as those organizations sought scale and market penetration to remain competitive in the industry. Hospitals were once the center of our healthcare system, but as demographics and reimbursement models shift, health systems can no longer rely on inpatient, facility-based care as the main source of revenue. An organization needs to have a foot in each vertical, from home health to urgent care.

PRIVATE EQUITY IN HEALTH CARE SERVICES

Private equity (PE) firms have been active in health care services for years, and their participation began to increase dramatically starting in 2017. Investment activity surged in 2022, reaching 921 deals, or 44% of all deal activity. However, in 2023, PE firms slowed down their M&A strategies, with only 713 deal announcements, or 39% of all deals, the lowest we've seen since 2016. The increase in interest rates has made it difficult and more costly for some to take on more debt and keep expanding in the market.

Even if PE firms have slowed down, they still command 39% of the healthcare M&A market, building regional and national platforms at a rapid pace. According to a report by PwC, PE firms in the United States are equipped with $1.1 trillion in dry powder and capital. But their aggressive push into the industry has caught the eye of regulators. They're examining roll-up transactions, which are very popular amongst PE and their sponsored platforms in healthcare. In September 2023, the Federal Trade Commission filed an antitrust lawsuit against U.S. Anesthesia Partners and Welsh, Carson, Anderson & Stowe, its private equity investor.

Private Equity Firms* M&A Activity Health Care Services, by Year					
Year	**2019**	**2020**	**2021**	**2022**	**2023**
PE deals	484	441	844	921	713
PE % of total	45%	41%	43%	44%	39%
PE $ (in billions)	$36.03	$25.68	$50.34	$15.63	$23.11
PE % total $	36%	26%	16%	12%	32%

** = PE firms and their portfolio companies.* Source: *LevinPro HC, February 2024*

Announced spending by these firms and their portfolio companies is less consistent year over year, primarily because financial terms aren't disclosed in most of the transactions. A high was reached in 2021 when approximately $50.3 billion was reported.

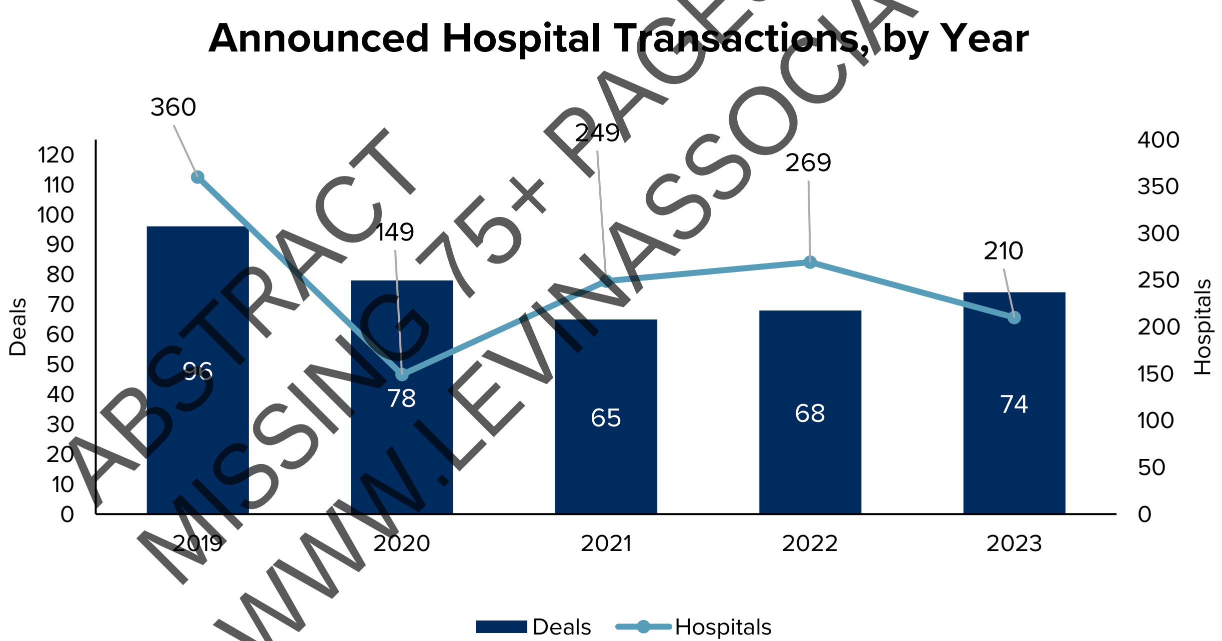
Some sectors are more attractive than others, particularly the less capital-intensive Home Health & Hospice. In 2023, only one of the 74 hospital deals were announced by PE-backed acquirers. On the other end of the spectrum, 63% of the 535 deals announced in the Physician Medical Group sector were carried out by PE firms or their sponsored companies. Both the Rehabilitation (52%) and Behavioral Health Care (49%) sectors were similarly inundated by these firms.

Private Equity* Deals by Sector, 2023		
Sector	**Deals**	**PE Share of total**
Behavioral Health Care	41	49%
Home Health & Hospice	38	39%
Hospitals	1	>1%
Labs, MRI & Dialysis	31	25%
Managed Care	7	23%
Physician Medical Groups	338	63%
Rehabilitation	26	52%
Other Services	132	24%
eHealth	41	49%

** = private equity firms and their portfolio companies.* Source: *LevinPro HC, February 2024*

Merger & Acquisition Trends

In 2023, 74 deals reached the final or definitive agreement stage, and 58 of those deals involved 111 U.S. hospitals. The largest deal for a U.S.-based hospital was Novant Health System's acquisition of three hospitals in South Carolina from Tenet Healthcare for $2.4 billion. The transaction includes Hilton Head Hospital in Beaufort County, Coastal Carolina Hospital in Jasper County, and East Cooper Medical Center in Charleston County, as well as associated physician practices and other related hospital operations.



Source: *LevinPro HC, February 2024*

In 2023, there were several mergers between major health systems. In 2023, there were 18 mergers closed between health systems, with each deal carrying an average size of 583 beds and at least seven hospitals. The average target revenue of acquired health systems was approximately $1.2 billion.

One of the largest mergers in 2023 was Kaiser Permanente's acquisition of Geisinger Health, which comprises 10 hospitals, a health plan with more than half a million members, 25,000 employees, more than 1,700 physicians and 133 primary care and specialty clinic sites. Geisinger Health generated approximately $6.43 billion in revenue and $289.4 million in EBITDA in 2021. Under the terms, Geisinger would operate independently under a new subsidiary of Kaiser's hospital unit after the deal closes, which is expected early in 2024.

Regulatory roadblocks did suppress M&A numbers, delaying or blocking mergers altogether. In February, the State University of New York Upstate Medical University and Crouse Health System called off plans to merge, which they had been negotiating since April 2022. The Federal Trade Commission voiced opposition to the deal, claiming it would leave the Syracuse market with only two hospital systems. In an 88-page report, the FTC claimed that the combined entity would control a 67% share of commercially insured inpatient services in Onondaga County.

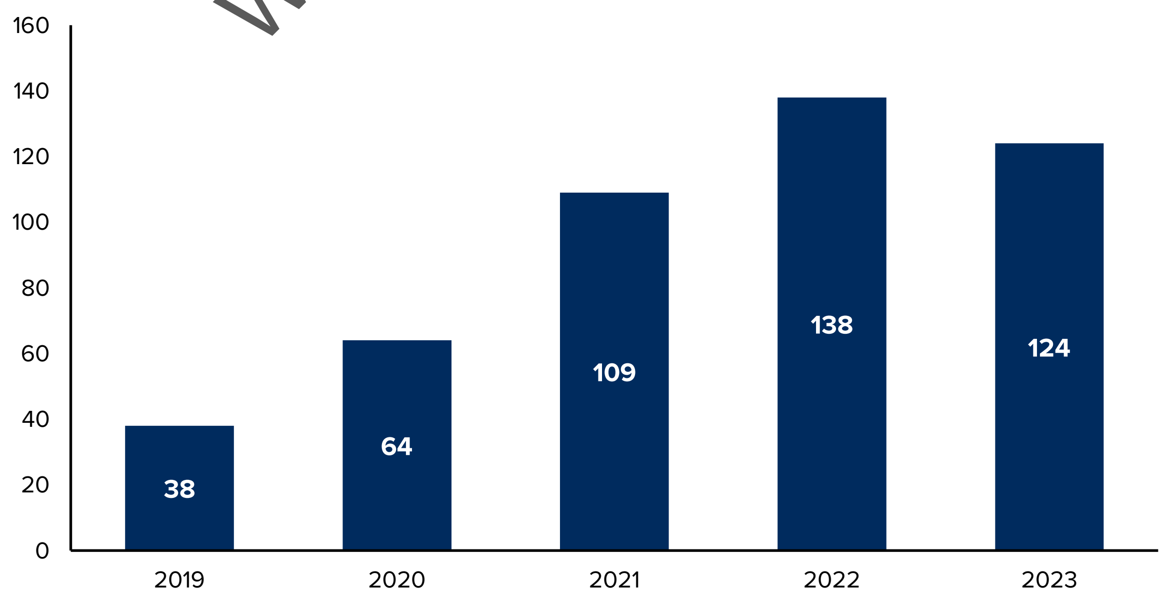
OUTPATIENT CARE

Arguably, the biggest shift in the industry over the past 20 years has been the introduction of value-based care reimbursement models. To answer the cost and quality-of-care of those models, providers have moved patient care to lower-cost outpatient settings, such as primary care clinics, community health centers, urgent care clinics and ambulatory surgery centers (ASCs). It also benefits the patient: no more overnight stays in the hospital, and there's a reduced risk of hospital-acquired conditions or healthcare-associated infections.

And as patients become more aware and critical of the cost of the healthcare, outpatient settings can help there too. According to Debt.org, receiving treatment for a non-life-threatening condition in the emergency room can cost up to 5x more than compared with treatment at an urgent care clinic. In a blog post from BlueCross BlueShield, it stated that planned knee and hip outpatient procedures are 30% to 40% less expensive on average than inpatient procedures. These differences are making outpatient care options the main preference for many patients.

All these changes have caught the attention of investors, both strategic and financial. Health systems can no longer rely on just increasing hospital and bed count. Private equity, REITs, real estate investment firms and major corporations are all staking a claim in the market, and that is driving deal activity. Deal volume was more than 3x higher in 2023 compared with 2019, reaching a five-year peak in 2022 with 138 deals. Most deals in 2023 were for ASCs and freestanding emergency rooms, but we also saw demand for health clinics and urgent care facilities.

Outpatient Care Mergers & Acquisitions, by Year



Source: *LevinPro HC, February 2024*

LevinPro HC Insights

Throughout 2023, the editorial team at LevinPro HC published a series of insights covering a wide range of topics and trends in the healthcare M&A market and the broader industry. We have included some of the top articles published on our platform, with updated numbers and statistics to reflect the full year of M&A activity.

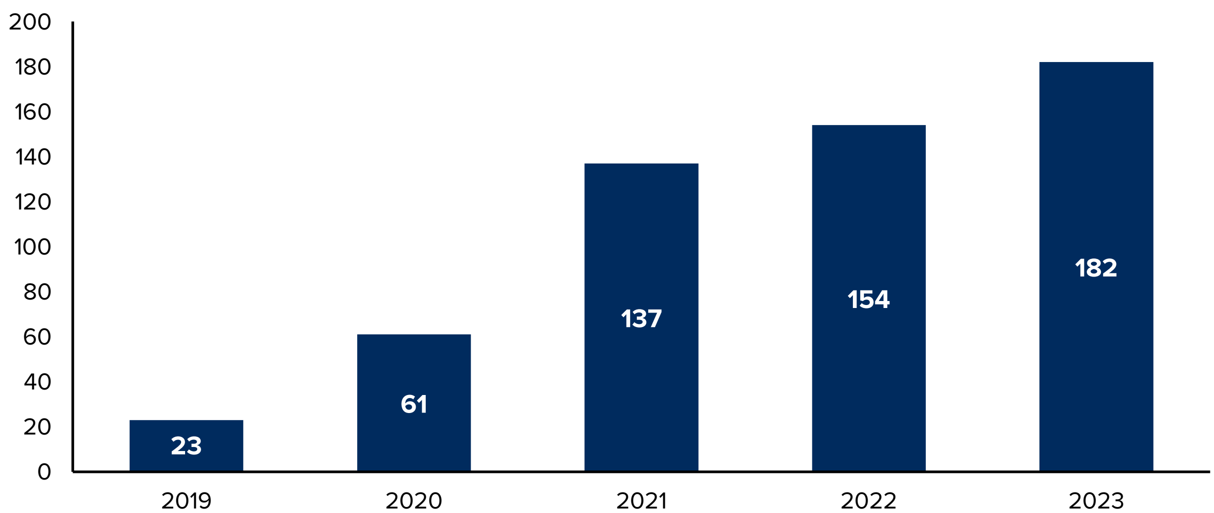
The Changing Healthcare Real Estate Lending Market

Written by Dylan Sammut

The healthcare real estate lending market has been on an upswing in recent years. The COVID-19 pandemic accelerated the shift from hospital inpatient care to patients receiving most of their treatment in outpatient clinics, such as ambulatory care settings, urgent care centers and medical office buildings housed by physician groups. Demographic tailwinds and emerging value-based care reimbursement models have also pushed the industry to outpatient settings.

In JLL's 2022 Healthcare and Medical Office Perspective research report, the firm wrote that "the fundamentals of population demand for healthcare services, even in times of economic uncertainty, translate into steady real estate demand and investor interest in medical office properties." Simply put, providing services in a medical office building or outpatient clinic is much cheaper than in a hospital, and the M&A numbers underscore these trends. The healthcare real estate market was one of the key verticals in 2022 that pushed annual healthcare deal volume to a record high of more than 2,400 transactions.

Healthcare Real Estate Transactions, by Year



Source: *LevinPro HC, February 2024*

It's Not Just a Private Equity Game – Traditional Health Systems Are Consolidating, Too

Written by Erin Laviola

Levin Associates attended AHLA's Health Care Transactions Conference on April 17-19, 2023, and the insights shared below are from panel discussions our writer observed in person.

Healthcare investments among private equity firms have attracted a lot of attention in recent years but they're far from the only players looking to consolidate the market. Traditional not-for-profit health systems are pursuing mergers and acquisitions too, with an emphasis on cross-market deals.

Health systems are facing financial threats

Traditional health systems are looking to develop stronger economies of scale because right now, there is a revenue problem. Hospitals are facing serious financial constraints, as laid out in the presentation by Ben Wilson, a Partner at Ropes & Gray LLP, Thomas Donohoe, SVP and General Counsel for Centura Health, and Larry Kraemer, EVP and General Counsel for Northwell Health.

Wilson explained that higher costs due to increased labor expenses and rising interest rates, coupled with "soft volume," have contributed to "razor-thin margins" for health systems.

The panel noted that in 2022, the median operating margin for hospitals was 0.9%, down from 3.8% in 2019. More than half of hospitals (53%) were projected to have negative operating margins in 2022, up from 34% of hospitals in 2019.

For comparison, the panelists cited median operating margins for other healthcare entities based on company earnings reports from the fourth quarter of 2022:

- Pharmaceutical companies like Pfizer and Merck: 25%+
- Medical device companies like Abbott and Stryker: 10%-20%
- Medical supply distributors like Cardinal Health and Amerisourcebergen: 5%-9%
- Insurance companies like Cigna and United Healthcare: At least 3% and higher

"2022 was a real nail-biter from a financial perspective," Wilson recalled. "We had hospitals and health systems defaulting on their bond covenants and I was quite surprised at how many didn't default in some ways."

"When my four daughters were young, they used to love to watch a show about a character who had a no good, very bad, horrible day," Kraemer shared, "and 2022 was a no good, very bad, horrible year for hospital operations."