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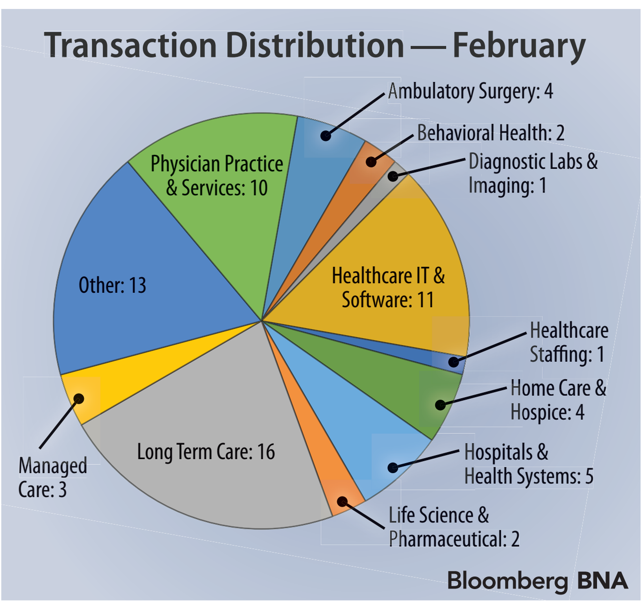
Health-Care Transactions Update: February

February's select list of health-care transactions has fewer deals than January's list, but that doesn't mean dealmaking in this hot industry is necessarily slowing down, attorneys and investment bankers who counsel health-care stakeholders on deals told Bloomberg BNA.

The lower numbers were to be expected and don't mean there has been a downturn, Gary Herschman, of Epstein, Becker & Green PC in Newark, N.J., said. February is a short month, and several of the transactions on January's list had been teed up for a while and were expected to close or be announced in the first month of the year. Transactions volume also may have been higher in January based on an expectation that they would receive more favorable tax treatment under the new Trump administration.

There is no evidence so far that optimism was misplaced. It will take three to six months to determine whether transactions activity in the health-care sector has slowed down, Herschman said. No one on Bloomberg BNA's transactions editorial advisory board believes that is going to happen.

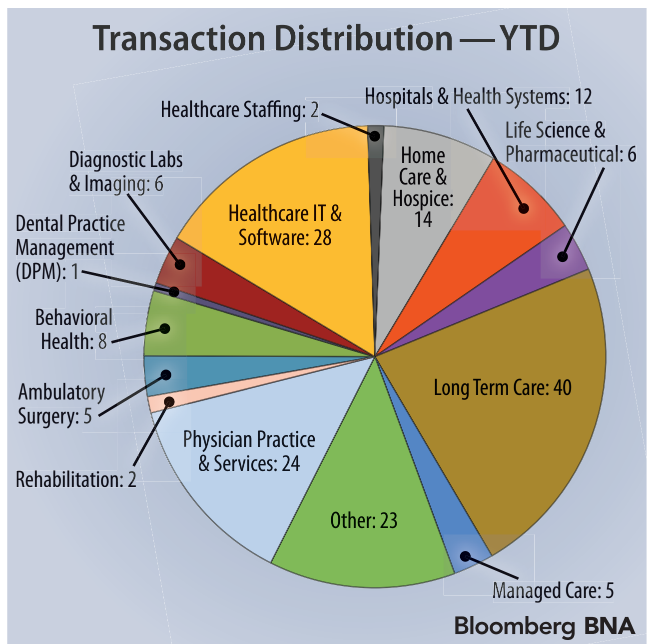


Deals involving health information technology companies and the long-term care sector as usual lead the list in the number of transactions, but there have been other interesting developments, such as an uptick in deals in the multispecialty physician practice space, rising investment in specialty physician practices—as certain specialties become popular among dealmakers—and growth in ambulatory surgical center (ASC) transactions.

ASC Investments. ASCs are, and will continue to be, a major source for investment expansion, Kevin J. Ryan, of Epstein, Becker & Green PC in Chicago, told Bloomberg BNA. Many types of procedures are performed at these centers, ranging from eye surgery to joint replacements.

They are a good investment because ASCs are more efficient and less costly than hospitals, Ryan said. ASCs can offer bundled pricing, and their operators aren't required to provide the same type of services as hospitals, such as emergency care.

ASCs must obtain certificates of need in some states, including Ryan's home state of Illinois, but the process for existing centers often is truncated. A physician group or management company purchasing an existing ASC in such a state would have an easier time than a group trying to open a new facility.



Several different types of investors are buying ASCs, Ryan added. For-profit health-care managers may partner with physicians in a joint venture to operate an ASC, or a group of unaffiliated physicians may join together to take advantage of economies of scale. National provider groups are getting into the ASC game, and hospitals have been buying ASCs from physicians, he said.

Outpatient Care Trend. ASCs are part of the ''huge trend'' towards outpatient care, Herschman said. Treating people in an outpatient setting is less expensive than in a hospital, he noted, and most people prefer to avoid hospitals if they can. Outpatient care deals remain hot in light of the focus on wellness initiatives, as well.

Herschman sees growth in the outpatient space continuing through 2017 and into 2018, regardless of what happens with the Affordable Care Act or its proposed Republican replacement, the American Health Care Act.

Transactions involving urgent care centers, which also offer outpatient care outside of a hospital, are hot as well, Herschman said. He predicted more growth in this health-care sector over the next six to twelve months.

Multispecialty Groups. There have been a number of big deals creating groups of providers who practice in several different fields, beginning with primary care and incorporating specialists, giving patients the option of one-stop shopping. This trend can be seen most clearly in the deal discussed last month in which Optum Inc. acquired Surgical Care Affiliates for $2.35 billion (25 HLR 388, 3/24/16, 25 HLR 247, 2/25/16).

Multispecialty groups are good at providing integrated care, Ryan said. Care can be coordinated among multiple specialty providers in one organization, he said, adding that centralized scheduling and billing systems create more efficiency. ''More parameters,'' including costs, can be controlled in a multispecialty setting than in a system in which a patient is required to see numerous unaffiliated providers, Ryan said.

Payer involvement, as in the Optum deal, cuts down on the sometimes antagonistic relationship between payers and providers, Ryan added. Lowering costs while improving quality becomes the goal of everyone involved in the multispecialty practice group.

''As health care moves towards risk-based payment models, multispecialty is one of the fastest consolidating sectors in the industry,'' Robert Aprill, an analyst at Provident Healthcare Partners in Boston, told Bloomberg BNA. ''February alone saw four multispecialty transactions, most notably DaVita Healthcare's acquisition of Mountain View Medical Group,'' he said.

Aprill noted that DaVita in particular has been aggressively growing its multispecialty practice. This was ''DaVita's second platform acquisition in the last three months,'' he said.

Specialty Practices. February also saw movement among particular specialties. Aprill pointed to ''a heightened interest in the eye care space,'' noting Sterling Partners' acquisition of Grand Rapids Ophthalmology and Flexpoint Ford's acquisition of SouthEast Eye Specialists. Both transactions involved private equity and ''represent private equity's heightened interest in finding investable platforms in the space,'' he said.

Ryan also sees vision care as a growing area for investment. There are lots of small ''mom-and-pop'' vision care centers that are ripe for investment or acquisition by companies that can provide consolidated management, he said. Herschman sees activity growing among small- to medium-size practices consisting of five to twenty doctors.

Ten years ago, it was common for younger doctors in a practice to buy out older doctors as they retired. Today, the younger doctors see more of need to be a part of a bigger group, so they can take advantage of economies of scale, while older doctors may believe they will do better financially by selling their practice stake to a national management corporation than by selling to other doctors, Herschman said.

Ryan suggested that any investor targeting this sector be aware of regulatory issues, like licensing requirements and corporate practice bans, that could restrict their actions. Vision care can be complicated because there are three subsectors, optical, optometry and ophthalmology, which in most states are governed by three different licensing boards, he said.

Additionally, some states have corporate practice doctrines governing vision care that, like corporate practice of medicine doctrines, limit who can own or set policies for vision care practices, Ryan said. These regulations aren't consistent throughout the U.S., so investment advisers need to be aware of them when examining proposed deals, he said.

Investors targeting the vision care sector should be aware of state regulatory issues, like licensing requirements and corporate practice bans.

Kevin J. Ryan, Epstein, Becker & Green, Chicago

Still, an aging population, with its need for more vision-related procedures, like cataract surgery, is likely to drive investment in this space, Ryan said.

Other medical specialties that are ripe for investment include dermatology, once again because an aging population is demanding more care, Herschman said. Pain management also is still a good investment area, he said. Both subspecialties often require surgery, which ties back in to the trend toward the use of ASCs.

Ryan also told Bloomberg BNA there may be more growth in hospice care. There aren't a lot of national companies in this space—they tend to be more regional—so there is room for expansion in this area, he said.

Behavioral health may be hit hard if the Republican ACA repeal and replacement efforts make less money available to cover treatment, but Ryan doesn't believe transactions involving behavioral health providers will slow down. There may be changes in reimbursement for behavioral health treatment on the federal level, but he doesn't expect most states to follow suit. State programs and private payers could fill the gap, he said.

Additionally, behavioral health providers are being rolled into multispecialty practices, as industry players are recognizing that maintaining mental health is an element of ensuring overall health, he said. Telebehavioral health also is a growing field and increasingly is being offered by third-party payers, private payers and self-insured employers, Ryan said.

   ISSN 1064-2137

Ongoing Favorites. Health IT, long-term care and hospital consolidation deals remained, as expected, at the top of February's list in terms of numbers.

Technology-related developments, however, aren't limited to purveyors of patient management software and electronic health record systems. HIT is increasingly focused on wellness applications, Herschman said. Companies developing technology-oriented solutions to monitoring patients and helping them stay healthy ''will be very valuable'' in the next year, he said.

Long-term care also is branching out, and investors no longer are exclusively targeting nursing homes, Herschman said. Investors are keen on companies that provide a continuum of care. For example, companies that offer active senior housing along with step-up care consisting of everything from home care to skilled nursing and memory care, are becoming more popular investment targets.

Consolidations by and among hospitals will continue, with big systems becoming even bigger and some small holdouts realizing they have a better chance of surviving if they join a larger system. Herschman predicted that in coming years, major markets will have only three to five large hospital systems. More medium-size systems are merging to create mega-systems, he said.

Payer-provider lines also are blurring, he said, as more hospitals take on risk. And more doctors are joining hospitals and health systems as they are finding it more difficult to compete for patients. Hospitals, moreover, have taken a ''the more the merrier'' attitude when it comes to physicians, because physicians often control where patients go for hospital services, Herschman said.

Herschman is a Bloomberg BNA health care advisory board member.

By Mary Anne Pazanowski

To contact the reporter on this story: Mary Anne Pazanowski in Washington at mpazanowski@bna.com

To contact the editor responsible for this story: Peyton M. Sturges at PSturges@bna.com

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The lists of select transactions involving health-care providers, managed care and services companies for February 2017 and year-to-date were compiled by health-care investment bankers using publicly available information, including articles, websites and press releases.

The February list is at http://src.bna.com/mY1.The list of deals year to date is at http://src.bna.com/mY3.

Bloomberg BNA would like to thank its Health Care Transactions Editorial Committee for their guidance: Gary W. Herschman, of Epstein, Becker & Green PC, Newark (gherschman@ebglaw.com); Kevin J. Ryan, of Epstein, Becker & Green PC, Chicago (kyan@ebglaw.com); Victoria Poindexter, of Hammond Hanlon Camp LLC, Chicago (vpoindexter@h2c.com); Mike Tierney, of Hammond Hanlon Camp LLC, Chicago (mtierney@h2c.com) and Robert Aprill, of Provident Healthcare Partners LLC, Boston (raprill@providenthp.com).

Epstein, Becker & Green PC did not comment on any particular transaction or party discussed or listed in this article.