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Health-Care Transactions Update: May

The deals listed in May's transaction report reflect the variety of sectors that make up the health-care industry, with one of the largest segments being designated as "other."

These "other" deals involved such diverse types of businesses as correctional health providers, staffing management services and medical device and pharmaceutical companies.

In more traditional segments, acquisitions of physician practices are holding steady. When deals involving dentists and dermatologists are added in, there were an even dozen physician practice transactions announced and/or closed during May.

This wasn't unexpected by Bloomberg BNA's expert panel. "Generally speaking," payers are actively seeking out deals involving physician practices in order "to gain more control over caregivers" and achieve the Affordable Care Act's "goals of providing quality care in the most cost-efficient manner," Gary W. Herschman, of Epstein Becker Green in Newark, N.J. told Bloomberg BNA.

Herschman observed that long-term care deals also remain "hot." Adding home health and hospice deals, which are considered to be part of the "long-term care continuum," to the transactions designated as involving long-term care, there were 15 deals in this area in May.

Paul A. Gomez, of Epstein Becker Green's Los Angeles office, agreed with Herschman. He pointed out that "deal activity pertaining to physician practices seems to have experienced an uptick in May as compared with April."

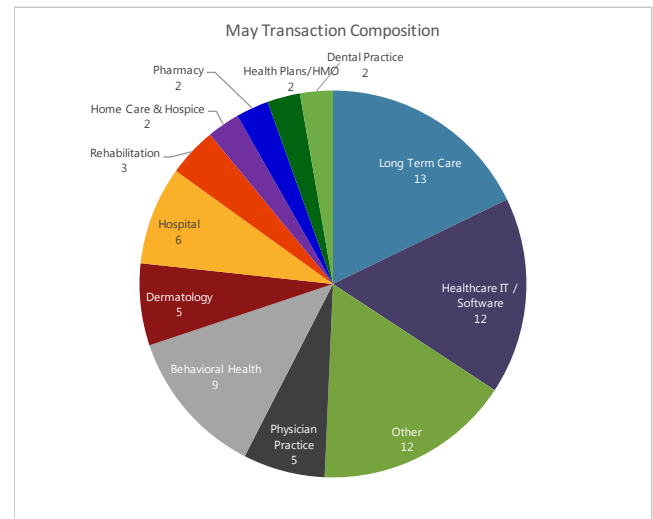
The attorneys "forecast at the beginning of the year that transactional activity in the physician practice sector would remain substantial with regard to both large primary care and multi-specialty groups by both providers and private equity." To date, the evidence "seems to bear that out," Gomez said.

"The ongoing movement toward value-based payments," together with developments like the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) and the Merit-Based Incentive Payment System (MIPS) "continue to further alter the financial risk that physicians and certain other clinicians bear and the quality metrics that they are or will be evaluated upon," Gomez added.

"It may be comparatively easier for larger and more integrated medical groups to successfully adjust to and perform under these changing conditions, standards and requirements," he said. The types of developments

and factors likely will "continue to drive investment and consolidation."

IT Continues Strong Showing. Investments in software and intellectual property and long-term care also remain strong, Gomez said. "Similar to April, approximately half of the deals listed for the month of May are again comprised of activity in either the post-acute care or health IT and software sectors," he said.



"Among other things, the continued move toward greater prevalence of value-based payment methodologies and the related additional financial risk for patient care allocated to providers are likely to continue to drive these trends for some time to come," Gomez said.

The number of deals involving behavioral health just about doubled from April to May, Gomez observed. These "developments have promoted a greater focus on population health management and the 'Triple Aim' of (i) improving patient care, (ii) improving the health of patient populations and (iii) lowering the per capita costs of health care," he said.

"As awareness continues to grow about the relationship of appropriate access to behavioral health care to successfully addressing other health care patient needs, greater attention is being paid to better integrating behavioral health care into a comprehensive health care system," Gomez noted. "Such steps and related transactional activity have potential to both improve overall patient care and lower overall patient care costs."

Financial Experts Tout Hospital Activity. On the financial side, Michael Tierney, a vice president at Hammond Hanlon Camp LLC in Chicago, told Bloomberg BNA that “hospitals and insurers are putting a lot of focus on developing and investing in post-acute strategies, and that space is becoming very attractive.”

Tierney also highlighted the merger of RegionalCare Hospital Partners Inc. and Capella Healthcare Inc. “The combination of the two for-profit hospital companies creates a stronger, more diversified company,” he said.

“The hospital market is incredibly challenging for buyers,” Tierney said, adding that he thinks that atmosphere “helped drive both companies to come together.”

Tierney also observed that the hospital “market is filled with buyers.” He noted that “there are at least 12 very active for-profit buyers that are actively looking for assets.

“Hospitals in good financial positions have a lot of leverage in negotiations,” Tierney said.

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

The list of select transactions involving health-care providers, managed care and services companies for May 2016 was compiled by health-care investment bankers using publicly available information, including articles, websites and press releases. The list is at <http://src.bna.com/FTX>.

Bloomberg BNA would like to thank its Health Care Transactions Editorial Committee for their guidance: Paul A. Gomez, of Epstein, Becker & Green PC, Los Angeles (pgomez@ebglaw.com); Gary W. Herschman, of Epstein, Becker & Green PC, Newark (gherschman@ebglaw.com); Victoria Poindexter, of Hammond Hanlon Camp LLC, Chicago (vpindexter@h2c.com); and Greg Wappett, of Provident Healthcare Partners LLC, Boston (gwappett@providenthp.com). Epstein, Becker & Green PC did not comment on any particular transaction or party discussed or listed in this article.