

July 18, 2022

# Cain Brothers Health Systems Insights



Hospital and Health System M&A: Q2 2022 Review

# Key Takeaways for Hospital and Health System M&A in Q2 2022

In the second quarter of 2022, announced hospital and health system transaction volume was flat as compared to the past two quarters. Financial headwinds, particularly as it pertains to staffing and personnel costs, monopolized most of the healthcare headlines during the second quarter. Yet, health system M&A activity persisted at a steady clip. The announced transactions continued recent trends that we have been tracking over prior quarters, including: “super-regional” mergers consisting of both community hospitals affiliating with larger, regionally-focused systems and even larger headline deals with national implications, such as the proposed merger of Advocate Aurora and Atrium, against a backdrop of increasing antitrust scrutiny and ancillary business line deals. As affiliations become more complicated, pressure on management and boards increases, and antitrust regulators become more active, it becomes more important to seek guidance from experienced advisors early in the evaluation of strategic alternatives. Below is an overview of this quarter’s activity.

Figure 1. Historic Announced Transaction Volume

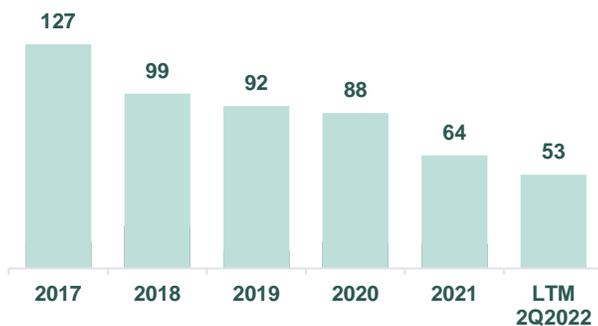
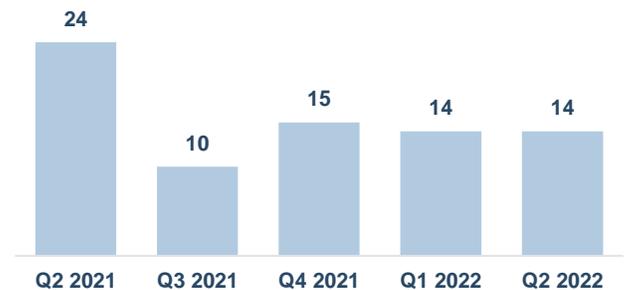


Figure 2. Announced Transaction Volume by Quarter



## Themes driving hospital and health system M&A in 2022:

### “Super-Regional” Merger Discussions are Accelerating

Two notable themes characterize 2Q2022 M&A activity signaling large-scale health systems are continuing to seek merger and acquisition strategies to bolster regional market presence by adding new locations and service lines while simultaneously evaluating their existing portfolios to ensure strategic fit. The merger of Advocate Aurora Health and Atrium Health represents the largest transaction of the quarter, and the past four years, with considerable implications to the broader health system merger and acquisition universe. This deal is an example of two large and leading regional systems looking to broaden their footprints nationally through an affiliation structure that empowers critical regional and localized decision making.



**Multi-State health systems continue to look for scale.** Illinois and Wisconsin-based **Advocate Aurora Health** and North Carolina-based **Atrium Health** are merging to create the sixth largest U.S. health system with 67 hospitals, \$27 billion in revenue, and nearly 150,000 employees across Illinois, Wisconsin, North Carolina, South Carolina, Georgia, and Alabama. The systems have

referenced headwinds such as workforce shortages and capital investment in data analytics as problems that will be easier to solve by leveraging a national footprint.



Although it was announced in 2021, Utah-based **Intermountain Healthcare** and Colorado-based **SCL Health** have completed their merger to form a \$14 billion organization that operates 33 hospitals across seven states. Leadership teams from both systems have stressed cost efficiencies, best practices, and digital capabilities as a few of the benefits that are expected to arise as a result of this merger.



Michigan-based **Trinity Health** has acquired the remaining 50% equity interest in Iowa-based **MercyOne** from its joint venture partner CommonSpirit Health. While Trinity previously operated the MercyOne assets through a joint operating company with CommonSpirit, Trinity believes transitioning MercyOne under its sole membership will allow Trinity to operate MercyOne in a more integrated and cohesive manner.



***Community hospitals and health systems continue to seek affiliations with bigger systems.***

In Central New York, **Crouse Helath** has agreed to become part of **SUNY Upstate Medical University** to create a 13,000-employee 1,200-bed system with more than 70 specialties. This affiliation is the culmination of a history of collaboartion between the two systems to better serve the Central New York region. This transaction is subject to Certificate of Need and regulatory approvals, which are expected to take several months.



**Geary Community Health**, which operates the Junction City, Kansas-based 49-bed Geary Community Hospital and its related rural health clinics, has agreed to become managed by **Stormont Vail Health**, a non-profit Topeka, Kansas-based regional health care system. Under the agreement Storomont Vail will manage Geary Community Health through the end of 2022 to stabilize operations and install an EMR. Stormont's efforts represent an investment of nearly \$7.5 million during the management period. If certain conditions are met, Stormont Vail will assume control of the Geary beginning in January of 2023.



**Heywood Healthcare**, an independent community healthcare system in north central Massachusetts and southern New Hampshire comprised of the 134-bed Heywood Hospital, 25-bed critical access Athol Hospital, Heywood Medical Group and The Quabbin Retreat medtal health and substance abuse facility, has signed a letter of intent to explore an affiliaiton with **UMass Memorial Health**, the largest non-profit health care system in central Massachusetts. This

agreement and potential affiliation are an expansion upon the existing collaborative relationship between the two systems on a variety of programs with the goal of strengthening care for patients in Central Massachusetts.



**Appalachian Regional Healthcare System**, the leading healthcare system in the High Country of North Carolina comprised of the 95-bed Watuga Medical Center, 21-bed Cannon Memorial Hospital, Appalachian Regional Behavioral Healthcare hospital, 12 medical offices, and 22 outpatient services, has approved a comprehensive, long-term management services agreement whereby **UNC Health**, a state entity affiliated with the University of North Carolina system with 12 hospitals, 18 hospital campuses and more than 500 clinics, will manage the system going forward. As part of the agreement, Epic will be implemented at Appalachian Regional Healthcare System and the system will have access to the resources of the UNC Health system (e.g., purchasing and contracting).



After unwinding its prior affiliation with Virginia Mason, **Yakima Valley Memorial** has signed a letter of intent to explore an affiliation with **MultiCare Health System**. The organizations have a shared goal of ensuring that high-quality health care remains locally accessible and believe an affiliation will allow Yakima to better invest in its programs, implement a state-of-the-art integrated EMR, and provide a sustainable path for Yakima to remain the leading healthcare hub in Central Washington.



In Western Pennsylvania, **Butler Health System** and **Excelsa Health** have announced that they are exploring a merger to better serve the region. The hope is that the new 5-hospital system will provide the necessary scale to appropriately compete in the competitive marketplace and improve access to care.



In Wisconsin, **Gundersen Health System** and **Bellin Health** have announced that they signed a letter of intent to explore a merger. The systems believe the new, merged system will offer access to more resources and a broader network of services to improve care for their patients.

Regional affiliations can make a great deal of sense as standalone hospitals and smaller health systems seek forward-looking stability. Establishing the right partnership goals and determining the optimal governance structure are critical pieces that should be considered before signing up for an affiliation.

## Increasing Antitrust Activity

Antitrust challenges have continued into the second quarter causing the parties in at least two major deals to terminate their merger agreements:



Although **RWJBarnabas Health's** proposed acquisition of **Saint Peter's Healthcare System** had initially received approval from the New Jersey regulators in May, the Federal Trade Commission (FTC) moved to block the transaction in June and the two systems mutually agreed to end the proposed transaction. In public statements the FTC expressed concern for rising healthcare costs resulting from a merger that would bring together two hospitals approximately one mile apart that would hold approximately fifty percent of the inpatient market share in Middlesex County, NJ.



A second proposed transaction where **HCA Healthcare** (NYSE: HCA) sought to acquire 5 Utah hospitals from **Steward Health Care** was also terminated in June. The two parties decided to end their proposed transaction after the FTC moved to block the proposed transaction noting that it would combine the second and fourth largest providers in an area of Utah that houses eighty percent of the state's population. Among other concerns, the FTC noted that in several of the sub-markets tied to this transaction there would be a reduction of competition from three competitors to two.

Recent legal rulings, ongoing litigation, and new filings continue to highlight the active role the current administration is taking with respect to healthcare antitrust matters. We see this trend continuing and advise early and extensive antitrust assessment should be factored into merger discussions.

## Ancillary Business Line Expansion

As market forces continue to put pressure on margins, health systems are increasingly encouraged to find ways to diversify their revenue base in a mission-consistent manner. Ancillary business lines such as home health, urgent care, clinical labs and, to a certain extent, managed care assets, sit at the nexus of many health systems' missions and revenue diversification. When not approached correctly, ancillary business may become non-core assets and, in some instances, can present a monetization opportunity, and in other instances, can present the health system with an opportunity to bring in an operating partner to help grow the business.



**Novant Health** and **Cone Health** have signed a letter of intent allowing Novant to make an investment in **HealthTeam Advantage**, a Medicare Advantage plan owned by Cone that provides coverage to 15,000 Medicare beneficiaries throughout North Carolina. Cone Health will maintain a majority ownership in HealthTeam.



**Steward Health Care** has agreed to sell its Medicare value-based care business to **CareMax** (Nasdaq: CMAX) for cash and stock valued at approximately \$135 million. The deal includes Steward's network of approximately 171,000 senior patients across 8 states. CareMax expressed to its investors that it also sees opportunity to transition a portion of Steward's 387,000 fee-for-service Medicare Advantage and 482,000 traditional fee-for-service Medicare patients into value-based contract arrangements as part of this transaction. At close Steward will own 21% of

CareMax's common stock with an opportunity to increase its ownership to 41% should CareMax convert 100,000 of Steward's fee-for-service membership and maintain a medical expense ratio below 85% for two consecutive quarters.



**HCA Healthcare** has agreed to acquire 12 **BetterMed Urgent Care** centers located throughout the greater Richmond, Virginia area. This acquisition expands HCA's national network of urgent cares to 240 centers.



Through its investment arm, Advocate Aurora Enterprises, **Advocate Aurora Health** has acquired **MobileHelp**, a maker of remote medical alert systems. This represents the fourth acquisition of Advocate Aurora Enterprises, which targets investments in aging, parenthood, and personal performance improvement.

---

We believe that large regional M&A activity will continue as scale becomes increasingly important and health systems seek transformative growth from M&A activity to better serve their patient base. Contact the Cain Brothers' Health System team to discuss any of these transactions, recent announcements, industry trends or other creative ideas (*see page 9 for contact information*).

## Q1 2022 Announced Hospital and Health Systems M&A Transactions

<b>Seller Name</b>	<b>Seller Status</b>	<b>Buyer</b>	<b>Buyer Status</b>	<b>Announced</b>
Jennersville Hospital (Tower)	Non-Profit	ChristianaCare	Non-Profit	6/15/2022
Pleasant Valley Hospital	Non-Profit	Cabell Huntington Hospital	Non-Profit	6/2/2022
Bellin Health	Non-Profit	Gundersen Health System	Non-Profit	6/1/2022
Butler Health System	Non-Profit	Excela Health	Non-Profit	6/1/2022
George Washington University Hospital	JV	Universal Health Services	For Profit	5/31/2022
Advocate Aurora Health	Non-Profit	Atrium Health	Non-Profit	5/11/2022
Yakima Valley Memorial	Non-Profit	MultiCare Health System	Non-Profit	5/9/2022
Appalachian Regional Healthcare System	Non-Profit	UNC Health	Non-Profit	5/3/2022
Heywood Healthcare	Non-Profit	UMass Memorial Health	Non-Profit	5/3/2022
Thomas Health	Non-Profit	West Virginia University Health System	Non-Profit	4/24/2022
Geary Community Hospital	Non-Profit	Stormont Vail Health	Non-Profit	4/19/2022
MercyOne	Non-Profit	Trinity Health	Non-Profit	4/19/2022
Abrazo Mesa Hospital	For Profit	Steward Health Care	For Profit	4/19/2022
Crouse Health	Non-Profit	SUNY Upstate Medical University	Non-Profit	4/14/2022

# Cain Brothers: Q2 2022 Health Systems M&A Transaction Spotlight



## Financial advisor to Fred Hutchinson Research Cancer Center

- Cain Brothers assisted Fred Hutch on the merger with SCCA, and formation of a clinically integrated oncology program and financial affiliation with UW Medicine
- Fred Hutchinson Cancer Research Center is a world-renowned cancer research institution, home to the nation's first National Cancer Institute-funded cancer prevention research program
- UW Medicine is one of the top-rated clinical, research, and learning academic medical centers in the United States
- Seattle Cancer Care Alliance (SCCA) is a unique coordinated oncology clinical and research effort between Fred Hutch, Seattle Children's and UW Medicine

## Senior Bankers

**Jim Moloney**  
Managing Director  
(415) 962-2961  
jmoloney@cainbrothers.com

**Ted Kaehler**  
Vice President  
(415) 962-2924  
tkaehler@cainbrothers.com



## Sell-side financial advisor to ProMedica & Paramount Advantage

- Paramount Advantage is a Medicaid managed care health plan that provides health care services to eligible Ohio residents and is backed by the clinical expertise of ProMedica – a national, not-for-profit health and well-being organization serving communities in 28 states
- Paramount sold its Ohio Medicaid Contract to Anthem Blue Cross
- Anthem Blue Cross and Blue Shield is the trade name of Community Insurance Company, an independent licensee of the Blue Cross Blue Shield Association. Anthem Inc. serves more than 117 million people, including more than 45 million within its family of health plans.

## Senior Bankers

**David Morlock**  
Managing Director  
(312) 604-0575  
dmorlock@cainbrothers.com

**Mike Elizondo**  
Director  
(415) 962-2951  
melizondo@cainbrothers.com



## Buy-side financial advisor to MultiCare Health System

- MultiCare is a not-for-profit health care organization currently operating 11 hospitals in both the greater Puget Sound and Inland Northwest Regions of Washington.
- Capital Medical Center is a 107-bed community hospital that opened in 1985 and serves communities in Olympia, as well as Thurston, Mason, Lewis, and Grays Harbor counties.
- Medical Properties Trust, Inc. is a self-advised real estate investment trust formed in 2003 to acquire and develop net-leased hospital facilities. Today it is one of the world's largest owners of hospitals with 444 facilities and roughly 47,000 licensed beds in nine countries.

## Senior Bankers

**Carsten Beith**  
Managing Director  
(312) 604-0500  
cbeith@cainbrothers.com

**Jim Moloney**  
Managing Director  
(415) 962-2961  
jmoloney@cainbrothers.com



## Buy-side financial advisor to Jefferson Health

- Cain Brothers advised Jefferson Health on its acquisition of Temple's ownership interest of Health Partners Plans, a not-for-profit health maintenance organization headquartered in Southeastern Pennsylvania
- HPP was previously owned by a consortium of hospitals, including Einstein Health Network and Temple Health. Temple agreed to sell its 50% ownership interest stake to Jefferson in 2019; the agreement was ratified November 1 with a total transaction value of \$305 million
- Jefferson and HPP will be the first companies in the region to create an aligned payer-provider partnership

## Senior Bankers

**Carsten Beith**  
Managing Director  
(312) 604-0500  
cbeith@cainbrothers.com

**Ted Kaehler**  
Vice President  
(415) 962-2924  
tkaehler@cainbrothers.com

*Cain Brothers' HSMA team is comprised of investment bankers devoted exclusively to healthcare, specializing in hospital and health system M&A*



**David Morlock**  
 Managing Director  
 Head Health Systems M&A Group  
 (312) 604-0575  
 dmorlock@cainbrothers.com



**Jim Moloney**  
 Managing Director  
 Co-Head Health Systems M&A Group  
 (415) 962-2961  
 jmoloney@cainbrothers.com



**Zachary Kau**  
 Managing Director  
 Co-Head of Healthcare Public Finance  
 (415) 486-3422  
 Zach.kau@key.com



**Bart Plank**  
 Managing Director  
 Co-Head of Healthcare Public Finance  
 (212) 981-6985  
 bplank@cainbrothers.com



**Carsten Beith**  
 Managing Director  
 Vice Chairman  
 (312) 604-0500 | cbeith@cainbrothers.com



**Jim Cain**  
 Managing Director  
 Co-Founder  
 (212) 981-6955 | jcain@cainbrothers.com



**Matt Goldreich**  
 Managing Director  
 (212) 981-6946  
 mgoldreich@cainbrothers.com



**Bill Pomeranz**  
 Managing Director  
 (415) 962-2954  
 bpomeranz@cainbrothers.com



**Andy Labovitz**  
 Director  
 (212) 981-6940  
 alabovitz@cainbrothers.com



**David Levine**  
 Director  
 (212) 981-6941  
 dlevine@cainbrothers.com



**Ted Kaehler**  
 Vice President  
 (415) 962-2924  
 tkaehler@cainbrothers.com



**Garrett Colgan**  
 Vice President  
 (212) 869-5603  
 gcolgan@cainbrothers.com



**Dan Gold**  
 Vice President  
 (312) 730-2722  
 dgold@cainbrothers.com



**Aaron Newman**  
 Vice President  
 (773) 206-2110  
 anewman@cainbrothers.com



**Casey Wade**  
 Vice President  
 (415) 962-2930  
 cwade@cainbrothers.com



**Nick Davis**  
 Associate  
 (312) 730-2712  
 ndavis@cainbrothers.com



**Dan Gorulko**  
 Associate  
 (212) 297-2758  
 dgorulko@cainbrothers.com



**Andrew Ralph**  
 Associate  
 (312) 730-2764  
 aralph@cainbrothers.com

The information contained in this report was obtained from various sources, including third parties, that we believe to be reliable, but neither we nor such third parties guarantee its accuracy or completeness. Additional information is available upon request. The information and opinions contained in this report speak only as of the date of this report and are subject to change without notice. This report has been prepared and circulated for general information only and presents the authors' views of general market and economic conditions and specific industries and/or sectors. This report is not intended to and does not provide a recommendation with respect to any security. Cain Brothers, a division of KeyBanc Capital Markets ("Cain Brothers"), as well as any third-party information providers, expressly disclaim any and all liability in connection with any use of this report or the information contained therein. Any discussion of topics is not meant to be comprehensive and may be subject to change.

This report does not take into account the financial position or particular needs or investment objectives of any individual or entity. The investment strategies, if any, discussed in this report may not be suitable for all investors. This report does not constitute an offer, or a solicitation of an offer to buy or sell any securities or other financial instruments, including any securities mentioned in this report. Nothing in this report constitutes or should be construed to be accounting, tax, investment or legal advice. Neither this report, nor any portions thereof, may be reproduced or redistributed by any person for any purpose without the written consent of Cain Brothers and, if applicable, the written consent of any third-party information provider.

"Cain Brothers, a division of KeyBanc Capital Markets" is a trade name of KeyBanc Capital Markets Inc. Member FINRA/SIPC.

KeyBanc Capital Markets Inc. and KeyBank National Association are separate but affiliated companies. Securities products and services are offered by KeyBanc Capital Markets Inc. and its licensed securities representatives. Banking products and services are offered by KeyBank National Association. Credit products are subject to credit approval. Copyright © 2020 KeyCorp.