

THE HEALTH SYSTEM GROWTH IMPERATIVE

CHARTING OPPORTUNITIES
DURING THE PANDEMIC
AND BEYOND

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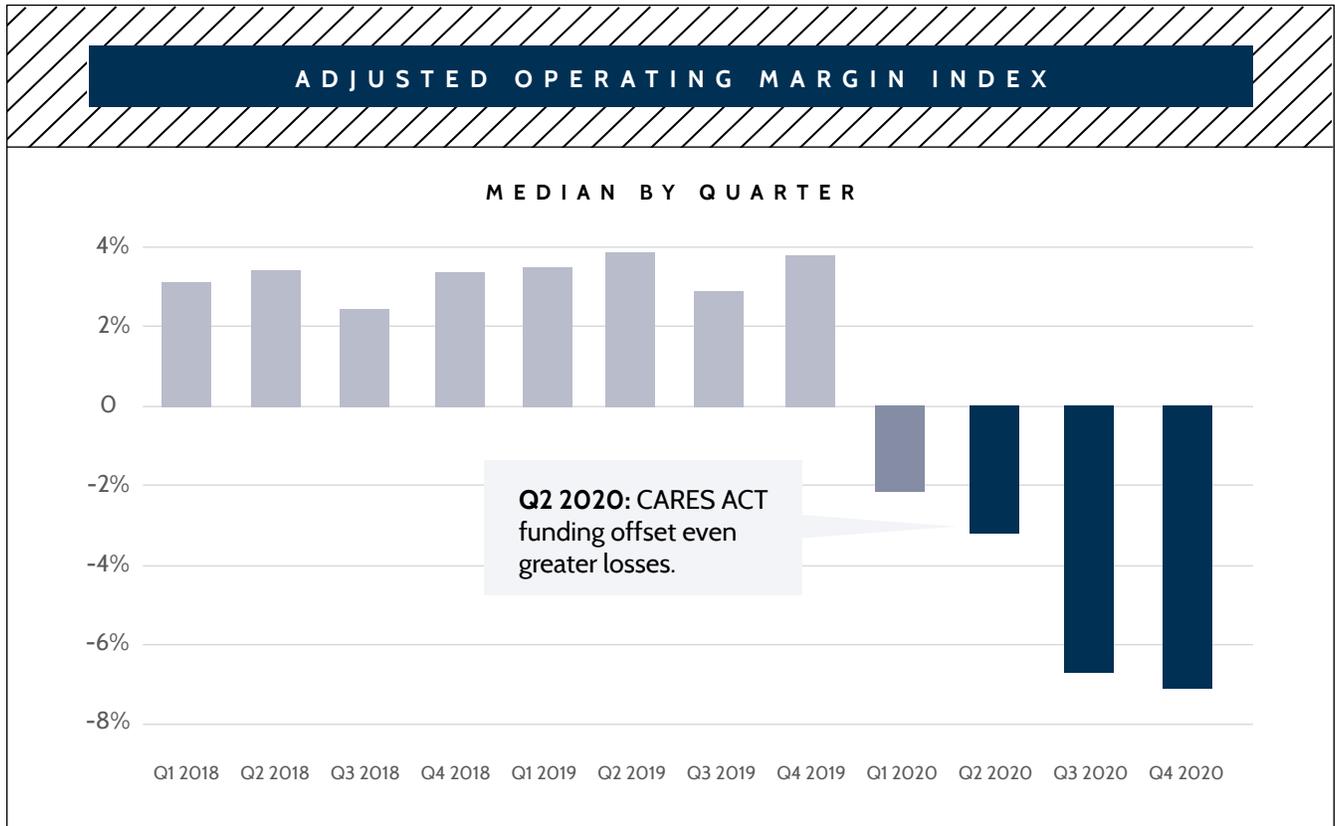
COVID-19 has upended the U.S. healthcare system

IN UNPRECEDENTED WAYS

The COVID-19 pandemic has caused significant economic downturn across the country, and the healthcare sector has been hit particularly hard, with nearly 40% of hospitals seeing their revenues reduced by 50% or more.¹ It has presented significant challenges to smaller, less capitalized and otherwise distressed healthcare providers. In terms of operating performance, half of our country's hospitals reported negative margins as of the First Quarter of 2020.² Reductions in commercially covered elective procedures and COVID-19 preparation and response, including the purchase of personal protective equipment (PPE) with the concomitant price increases, have created intense operating challenges for providers.

However, the pandemic also has revealed that certain health systems are well-positioned for growth. Those that saw industry transformation taking shape over the last several years had begun

to reposition their service lines, optimized existing core operations and collaborated to extend and improve approaches to care delivery. Many have evolved to address changing consumer expectations in the pursuit of mobile and tele-health initiatives. We see ample evidence that many health systems have responded well and have managed to remain positioned for strategic growth. The pandemic has revealed that access to capital, scale, vertically-integrated services, and adaptability are crucial factors in achieving long-term strategic growth in today's healthcare industry. Health systems must ultimately decide how to respond to these factors in order to not only emerge from the current crisis, but also to position the organization to thrive in the future healthcare landscape.



Source: *The Effect of COVID-19 on Hospital Financial Health*, Kaufman Hall

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Why are larger health systems better positioned for growth?

ACCESS TO CAPITAL IS KING

Access to capital has proven critical throughout the various industry cycles and changes, but may be most clearly demonstrated during the pandemic. The pandemic has drastically reduced hospital revenue and liquidity, while continuing to gear up to face the growing number of cases. Driven largely by significant reductions in lucrative commercially covered elective procedures, by June 15, 2020, 26.5% of hospital systems had depleted more than 50% of their reserves due to the pandemic and another 41.1% of hospital systems had expended between 21% and 50% of their reserves.³ Further, estimates for hospital performance in Q3 and Q4 2020 indicate declines in operating margins by as much as 11%.⁴ While government relief programs have helped to soften this blow, they may not provide a reliable and sustainable lifeline for hospitals; in fact, 91% of funds received by hospital systems through Congress's third CARES Act package amounted to less than two weeks of revenues.⁵ Additionally, uncertainty around whether and how much government relief funds need to be repaid, and how quickly, rendered government relief as ill-suited for some vulnerable health systems.

Naturally, it has been larger hospital systems that have been best able to access the debt markets due to their greater borrowing capacity. Larger systems' higher revenues to support borrowing and access to assets to pledge as collateral have allowed them to obtain debt financing in greater amounts and on more favorable terms than their smaller counterparts. This borrowing capacity has enabled them to meet their working capital requirements during the pandemic, as well as to continue to invest in strategic initiatives notwithstanding the liquidity challenges hospital systems face today. Many systems took advantage of their strength and had the foresight to secure access to credit lines to draw on, as needed. According to one report released at the outset of the pandemic, nearly \$1.3 billion of new credit draws by hospitals were made, as of April 13th.⁶

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SCALE IS A CRITICAL FACTOR

The COVID-19 pandemic has revealed that, in addition to their ability to better immediately address liquidity needs, larger hospital systems are also better positioned for strategic growth than their smaller counterparts because of their increased purchasing power, operational expertise, broader and deeper set of human resources/intellectual capital and greater resources and the ability to fully integrate the delivery of healthcare services.

While increased purchasing power has always been advantageous, this has been particularly true during the pandemic as the availability of PPE decreased and its price increased. Larger hospital systems have leveraged their purchasing power and access to group purchasing organizations to acquire these materials on commercially reasonable terms. Moreover, in some cases, larger organizations have had the resources and reach to pursue alternative channels to secure PPE, other than traditional supply chain lines.

The size of the system not only reduces supply and vendor service costs, but also works to optimize revenues through collaboration with payors for plans that reward efficiency and quality care delivery, which further insulates the system from expense increases. The larger systems' capacity to optimize payor models for appropriate network and plan design offer increased protection against

any negative impacts on their patient payor mix as a result of the pandemic. The crisis has changed the caseload shift from private pay to government pay in many hospitals. As nearly 30 million Americans lost their jobs during the pandemic,⁷

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many of those people also lost their access to commercial health insurance while those hospitalized with COVID-19 have been disproportionately older Medicare recipients.⁸ When these factors are combined with the delay or cancellation of lucrative and commercially-covered elective procedures, the shift in payor mixes during the pandemic has been significant. Because larger hospital systems are better equipped to manage the revenue shift and reduce costs through increased purchasing power and

economies of scale, they haven't faced the same existential risks as smaller systems relating to high volumes of Medicare patients.

Larger scale hospital systems have the additional benefit of broader operational experience across a number of hospitals in different, often diverse, markets. That expertise can be applied across the entire system to create standardization, thereby achieving better outcomes and efficiencies as a result of best practices being applied on a large scale. The ability to learn from operational successes and challenges in one market and apply those lessons to operations system-wide can be useful in anticipating and preparing for future challenges.

Analysts have estimated that the delay of elective surgeries could reduce hospital system revenues by 40% to 60%.⁹ Although this has created a backlog of demand that would theoretically permit a swift recovery once elective procedures are no longer restricted, capacity constraints and consumer wariness of accessing the healthcare system make a rapid influx of these procedures over the next few months unlikely.

Many of the hospital systems that are best positioned for strategic growth are those that are able to continue to operate outside the four walls of the hospital. The COVID-19 pandemic has revealed that hospital systems that are able to deliver services in

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Additionally, the consolidation of data across dozens of hospitals can have the benefit of taking a data-driven approach to best practices at any particular hospital, thereby producing better health outcomes.

Scale has the further benefit of allowing for fully-integrated healthcare and the diversification of risk associated with such healthcare. Larger systems are not tied to the dynamics of a single market and therefore have the benefit of being able to spread risk across multiple geographic areas and across a much larger patient population.

post-acute settings and through telemedicine, home health agencies, and other outside services are better positioned. This sort of vertical integration enables hospital systems to diversify risk, as well as create significant efficiencies and cost savings. Increasingly, health systems are pursuing ventures or collaborations with either clinical, technological or content specialists allowing for a complementary base of intellectual capital that is beyond what each party to the relationship could offer to the market alone.

CONSUMER EXPECTATIONS HAVE INCREASED

Meeting consumer expectations and providing transparency in the delivery and pricing of healthcare remains as important as ever. Healthcare consumers have increased their expectations as a result of the expediency and transparency being applied to other industries. The Trump Administration has responded to this public demand by introducing regulations that

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require hospitals to disclose their negotiated rates with insurers in 2021. Though the American Hospital Association has filed a legal appeal against the regulations in federal court, which may or may not halt or slow down implementation, the reality is that price transparency for hospital services is going to increase. Discussions with patients

regarding risks, pricing, treatment alternatives and other matters are critical to delivering high-quality care. Additionally, when patients have an understanding of what their out-of-pocket costs will be before undergoing a procedure, they're more likely to pay.¹⁰ The pressure for clarity is also driven by the increase of High Deductible Health Plans and the impending expectation of future generations to have visibility to cost, choice and value when making healthcare decisions. Hospital systems must increasingly view patients as consumers who will need to evaluate options before having a procedure performed and decide whether to undergo the procedure at all. Providing sufficient information to enable those choices is a crucial component in meeting consumer expectations.

Employers' relationships to healthcare networks are also changing, and employers wield increasing influence in determining how healthcare is delivered. In addition to employers increasingly negotiating their own health plans and, in some places, acting as the risk-bearer, they are taking a more critical eye to actions of health systems that may increase their costs. As the availability of data increases, many employers are apt to make plans and network tiering decisions based on a new and emerging factor – empirical data. Accordingly, it is important to keep in mind the expectations of employers in crafting strategies for growth.

What does M&A activity look like today?

The COVID-19 pandemic has reduced M&A transaction volume as the focus of many hospital systems shifts from strategic growth to managing the financial and operational challenges of the pandemic. Although some transactions, such as the partnership between New Hanover Regional Medical Center, Novant Health and UNC Health, Northwest Community Healthcare's decision to join NorthShore University HealthSystem in suburban Chicago, the merger between Sentara and Cone Health continue to move forward, many other transactions were placed on hold or have been canceled altogether. As hospitals emerge from this period and move into 2021, any pent-up activity will very likely result in a surge of hospital M&A activity. This uptick is likely to be amplified by the additional stress the pandemic already has placed on distressed hospital systems as those systems seek modes of survival. Rural hospitals in particular are likely to pursue 'hurry-up mergers' to enable them to address supply and staffing shortages, as well as fund increased expenses, during the pandemic.¹¹ Although timing is unclear, a lack of liquidity is likely to push struggling health systems to enter into strategic transactions over the course of six to 18 months.¹²

Notwithstanding the inevitable return of M&A activity, the healthcare industry is still facing a period of great uncertainty. The United States continues to consistently report new COVID-19 cases daily. The uncertain future of the pandemic

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is further exacerbated by the unknown outcome of the November election cycle that may or may not shift the federal and state response to the pandemic, access to care, reimbursements and overall healthcare industry regulation.

Additionally, although larger hospital systems are better suited to withstand the liquidity challenges of the pandemic than smaller and rural systems,

This financial pressure is likely to reduce the number of potential buyers in the market, even as many smaller systems seek out strategic transactions.

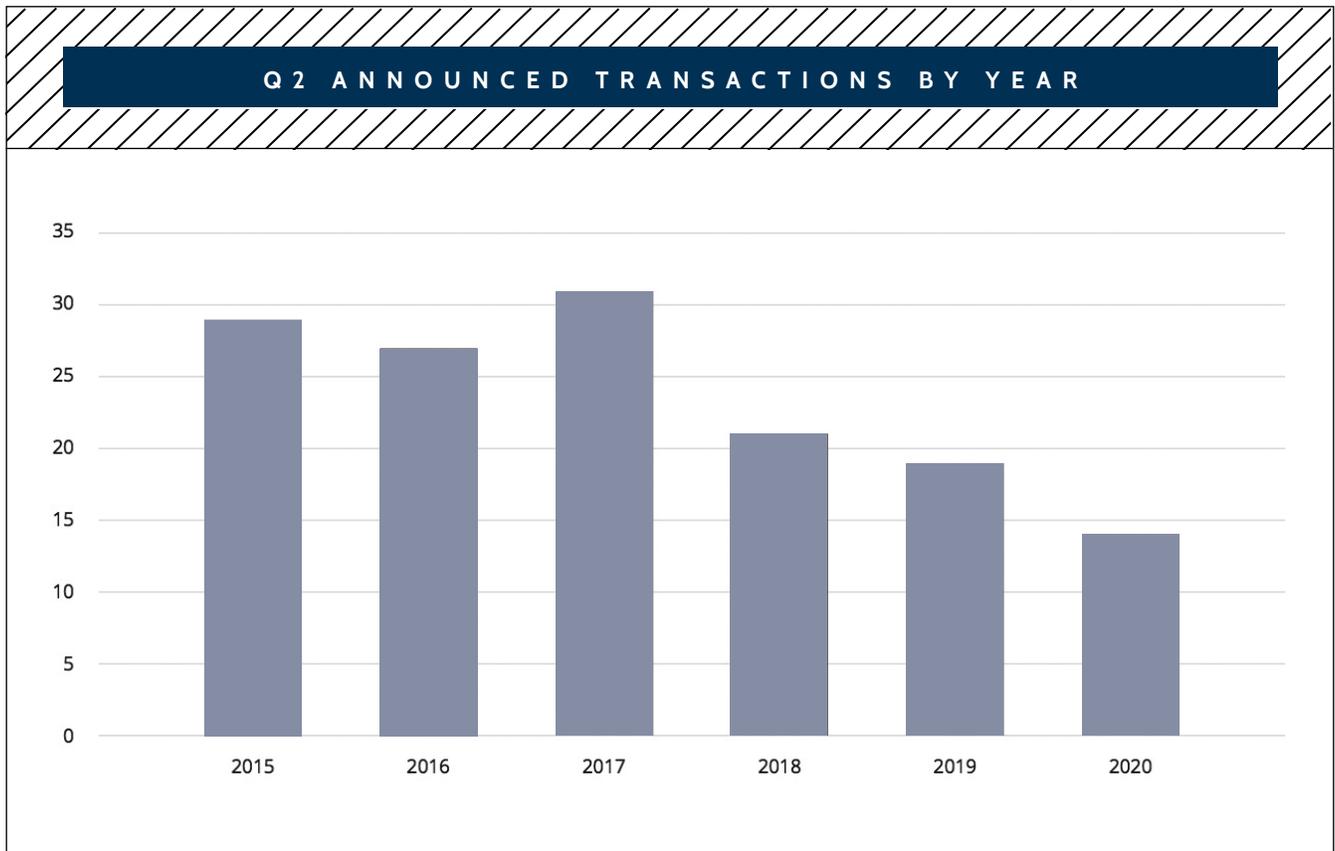
they too are facing strains on their liquidity. This financial pressure is likely to reduce the number of potential buyers in the market, even as many smaller systems seek out strategic transactions. This is expected to result in far more sellers in the market than buyers where some assets will be less attractive, and in some cases, have limited to no prospective acquirers, unless more aggressive pursuits to operationally or financially restructure are undertaken. Looking at the uncertainty over the next year to two years, combined with the disparity between the number of buyers and sellers, it is highly likely that certain transactions entered into in 2021 will be on buyer-friendly terms.

In other situations, the continuation of equally strong systems citing complementary capabilities as the underlying rationale for more of a 'merger'

model will continue beyond the pandemic's course and could even accelerate. For those, the case of growth is made by better preparation and more solid foundation for the next set of industry challenges to come. We also expect increasing opportunities for non-traditional entrants in healthcare M&A, often cited as disruptors or innovators. Payors are well-positioned to be active, because of the delay and cancellation of commercially covered elective procedures has been lucrative for the payors. It is possible that the healthcare M&A market will see an increasing volume of transactions involving non-traditional bedfellows, such as CVS's acquisition of Aetna in 2018, as commercial payors seek further vertical integration by making acquisitions with their excess cash.

As M&A volume increases, both independent community hospitals and larger hospital systems will need to be thoughtful about the purposes for entering into the transaction and how best to manage the uncertainty in the months and years to come. As has been the case since the beginning of

the industrial revolution and remains true today – a well-developed strategic plan that is rigorously created to outline key objectives and challenges of an organization to inform its strategic options is tantamount.



Source: M&A Quarterly Activity Report: Q2 2020, Kaufman Hall

What's next? Key considerations and recommendations.

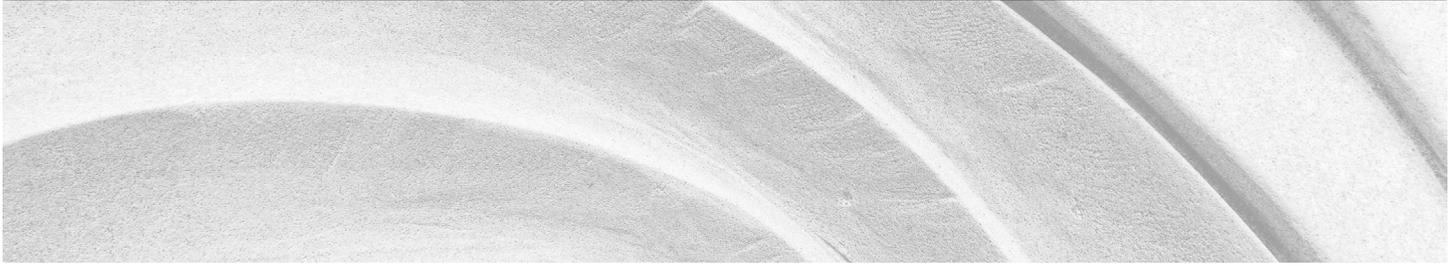
Given the lessons learned from health systems that performed best during the pandemic as well as evaluating the characteristics of health systems that perform optimally regardless of a pandemic, we turn now to recommendations for independent hospitals and larger health systems to consider as they evaluate strategic opportunities in this new environment.

Executive leadership teams are generally charged with implementing the strategic plans of independent hospitals and small hospital systems. Unfortunately, however, these teams have been strained by the relentless demands of COVID-19 and have in many cases put their strategic plans on the back burner until they are on the other side of the COVID-19 storm.

Additionally, unlike larger health systems, independent hospitals generally do not have the resources of a development team to push forward strategic growth initiatives during a crisis like COVID-19. By not focusing on their strategic objectives during critical times, independent hospitals are putting their systems at risk. First, in some cases they may have been operating on razor

thin margins prior to COVID-19, but now are bleeding into the red. Finding a strategic partner may be imperative, and failure to engage in a thorough analysis of strategic alternatives now may come at the risk of losing potential partners down the road. Second, some systems consider the current environment ripe for opportunistic acquisitions or partnerships, and failure to engage in the dialogue now could be a missed opportunity for independent hospitals.

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How can independent hospitals execute on their vision?

Boards of trustees and executive leadership teams should always be mindful of their fiduciary duties to act in the hospital's or health system's best interest, and this includes ensuring that such hospitals or health systems are positioned best for the future. In connection with this duty, trustees and leadership team members need to make sure that they have an accurate picture of the health of their hospitals or health systems. This is a critical time for independent hospitals. While there may have been times historically when trustees and management teams evaluated their hospitals through rose colored lenses, today the pandemic and financial environment require that such hospitals take a hard look at their real operational and financial performance. What is without any dispute is that historical keys to success of an organization are not likely to be the same factors of future success. Instead, a careful study of the competitive arena: market, participants, current performance and existing/ future strategic position are critical to evaluate. Independent hospitals also should be thinking of what strategic initiatives are going to advance their position in relation to their competitors in the future.

Independent hospitals should undertake a thorough and accurate assessment of their current operational and financial state. Typical tools could include the development of baseline projections and considering model sensitivities, scenarios and alternatives to develop a holistic sense of performance thresholds and associated risks. This analysis can be helpful in identifying where there are weaknesses or room for improvement to satisfy specific goals. It also can be the catalyst for making necessary changes, and in some cases, consider alternative courses of action.

For some hospitals that have been struggling, their board members may need to make difficult decisions to preserve the viability of their hospital. They may have to look at a number of actions: (1) reduction or elimination of certain service lines where there is not adequate patient demand to warrant continuation of service lines; (2) implementation of reductions in force; (3) make even more drastic cuts in expenses; and (4) cut capital investments in plant and equipment, among other actions. For nearly every organization, some element or facet of the 'core business' is changing and the failure to diagnose

PRACTICAL TACTICS FOR INDEPENDENT HOSPITALS

The impact of COVID-19 and the economic downturn has pressured independent hospitals in particular. Below are practical tactics and recommendations for charting your future course.

1. Remember that there is a future beyond the immediacy of the pandemic. **Prioritize your organization's strategic planning.** This can often be done in the form of a special retreat or a series of education sessions that convenes the Board and members of the C-Suite for a focused, holistic and honest discussion on the organization's future.
2. **Engage outside experts to guide you through this education.** Outside advisors can provide critical perspective on macro trends, competitor dynamics and issues that are specific to your unique market. They can also provide an independent view of the future state of the organization. Consider both business and legal issues so that you can be prepared for potential unforeseen risks down the road.
3. **Define your goals and assess your organization's ability to meet (and exceed) these goals.** Consultants can guide you through this process, which can often involve a baseline projection and model analysis and other similar internal assessments. Remind your Board that this level of understanding is a vital aspect of their fiduciary duties.
4. **Critically assess the existing and expected market conditions.** The need to understand the national, regional and local context by which decisions will be made and paths of execution will be pursued is critical to appreciate the new and emerging market reality, by which success or failure may result.
5. **Take your analysis out of the theoretical.** A full options assessment, in which you approach the market and see what potential partners might be willing to do for you, can be a low-risk way of determining whether organizational shortcomings can be addressed by forming partnerships outside of the system.
6. **Throw out old assumptions.** The pandemic has shifted markets fundamentally, and talking to other parties does not have to mean a loss of control for your organization. Explore new modes of collaboration, which could include partnerships that blend ownership through joint ventures and other creative models.
7. **Recommit to your community.** Be bold. The pandemic is a reminder that an independent hospital's #1 priority is the healthcare of the community. Leverage these challenging times to create lasting change for your community, ensuring high-quality, low-cost healthcare for generations to come.

and act with purpose to this fact may be the first step in a downward cycle of performance. For some, the distress will be hard to reverse and boards may have to bring in the expertise of restructuring consultants to consider some form of bankruptcy or restructuring. It is important for boards in particular to apply pressure to management teams to make sure that they are getting full transparency and are engaging in real time analysis and

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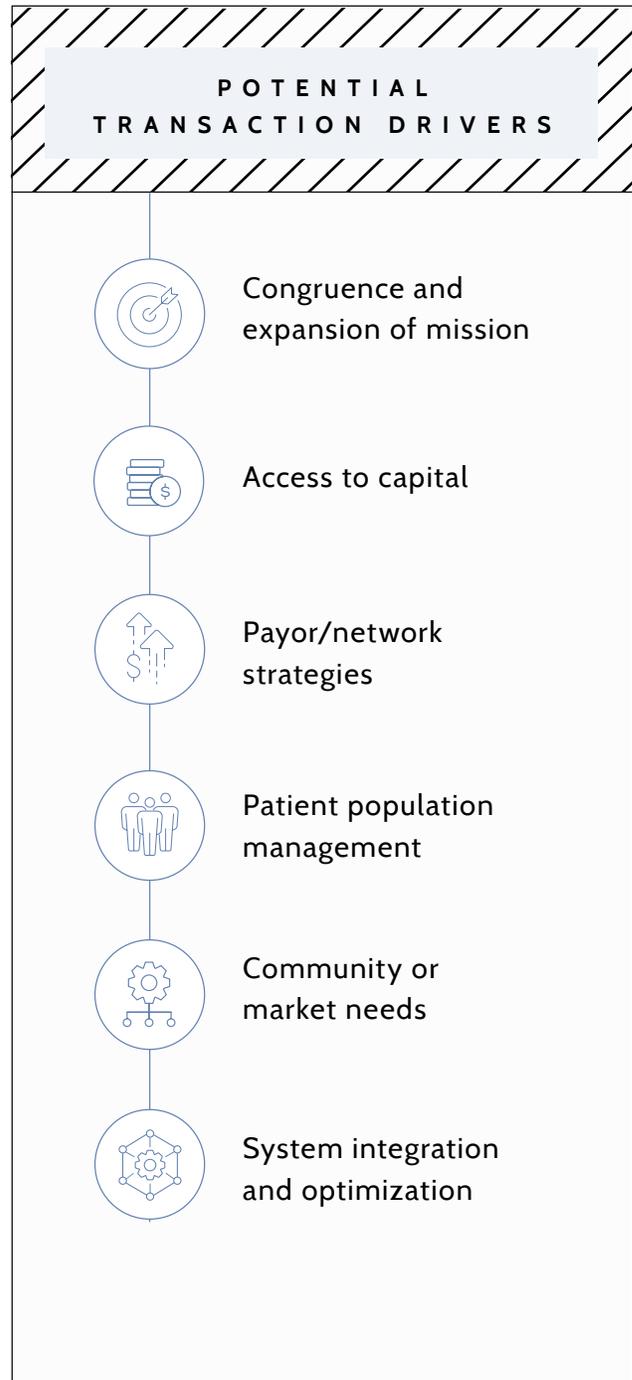
assessment of the hospital's condition. By being aware of the state of the hospital's operational and financial condition, boards and management teams can implement actions that have the potential of significantly improving the condition of the hospital and placing the hospital in a better position for a potential partnership with or acquisition by another hospital or health system.

In addition, while some hospitals have remained independent from inception, boards and management teams may be faced with the reality that continued independence comes at the cost of diminished quality of care, services and expertise, or in some cases, closure. Boards need to be having tough discussions of whether independence is worth such costs. For those with ample current resources, difficult rhetorical questions of whether now or soon is the time to find the partner of the future is the right move, today. Smaller health systems should consider whether independence is overriding other fundamental duties and goals of the organization. While the desire to remain independent is understandably important to many community hospital boards, in the current environment that independence may not be realistic to further the ultimate goals of the health system. Also, certain transaction structures, such as joint ventures and affiliations, may allow the health system to retain governance rights and a degree of control over key decisions made by the health system while obtaining the benefits of a strategic transaction, such as access to capital and increase in scale.

Independent hospitals or smaller health systems that are performing strong operationally and financially despite the pandemic, should be actively pursuing their strategic objectives during this time. They should be engaging with other systems to determine how they may mutually benefit one another through partnership. It could be as

simple as identifying opportunities for clinical affiliations of key service lines to enhance and broaden their service lines or developing clinically integrated networks that could provide a broader network of services while increasing the quality and access of care. Or, a partnership could be considered that is more fully integrated and transformational in nature, such as a membership substitution or joint venture. If the strategic goals of the organization lead to the exploration of a potential partnership, the parties should strongly consider engaging the appropriate advisors with the experience and depth to handle sophisticated hospital transactions.

Board members in particular will want to ensure that they have satisfied their duty of care when making such decisions and executing partnerships. That means engaging M&A advisors, strategic and financial consultants to ensure the hospital or health system is receiving fair value for its assets or investment in the partnership and guide the transaction process on an efficient and effective track. These experts have the ability to inform where the market is and when appropriate, solicit interest and give hospitals and health systems tangible information of what a potential partner could mean for them. In addition, it means hiring legal counsel that will undertake the requisite (pre- and post-deal) legal due diligence, provide a meaningful risk assessment of the transaction and the referral source arrangements of the partnership and negotiate strong governance



rights and reserve powers for the hospital or health system as it enters into the partnership, among others. This level of commitment to transparency and due diligence will become critical when it comes time for the health system to seek the requisite approvals from the appropriate regulatory agencies, which are necessary to consummate a transaction.

As boards of trustees and management teams consider a strategic transaction, they should have a clear vision of their goals in connection with the transaction. In addition, they should make a list of the key drivers for the transaction and rank the importance of each factor. For example, such drivers could include: (1) congruence and expansion of mission; (2) access to capital; (3) potential payor rate lift; (4) expansion of patient population and service lines; and (5) greater integration for a fully integrated health system. In some cases, expansion of mission may be the primary goal but of near equal importance could be the need to secure access to capital and ensure that commitments are made to invest in the hospitals' facilities and service line expansion. For other systems, being number one or two in key identified service lines and patient population expansion could be the most important drivers followed closely by the benefits of increased scale (such as greater purchasing leverage to lower costs, create stronger operational expertise and efficiencies, etc.). The baseline projection and model analysis can be a useful tool exercise as hospitals

and smaller health systems consider their goals and their tactics for achieving such goals.

By identifying the desired goals and objectives of the hospital, the board and management team will be better positioned to make decisions regarding the right type of partnership and ultimately identify the right partner to ensure long-term success. It also provides a blueprint as to how to make the case with its various constituents and stakeholders. In addition, in the event that the hospital has engaged an experienced and reputable advisor, the hospital will have the benefit of experience in hospital-specific information to identify potential partners and then solicit information from each of the prospective partners to see how their responses align with the goals and objectives of the hospital. In many instances, these advisors may have a wealth of firsthand knowledge of potential bidders, including publicly (and some privately) available information, who the board members and management team members are, the financial health of the bidder, the pro forma potential value of a combined organization and other insightful information. They also will be able to obtain information through the process to hone in on which partner can deliver the most value in areas where the hospital or health system may have weaknesses or gaps.



What growth opportunities are available to larger hospital systems?

During the pandemic, larger health systems have been actively evaluating strategic transactions, positioning themselves to advance their strategic imperatives, even during this period. Unlike independent hospitals and smaller health systems, the larger health systems have individuals who lead their development efforts while others focus on the demanding operational issues of COVID-19. For example, many larger systems have used this period to reach out to other providers to see ways in which they can be a resource, whether it be a partnership for obtaining and sharing PPE, advancing alternative technologies to deliver care or sharing key information/data regarding COVID-19 cases. They have used this dialogue as a way to springboard into larger discussion regarding ways they can work closely with one another in the future to create mutually beneficial partnerships.

Larger systems also have used this time to reconnect with other health systems that they reached out to previously, but perhaps there was no strong catalyst to engage in a serious exploration of partnership opportunities. Also, in other cases, health systems may have seen the benefits of an

existing relationship, such as a clinical affiliation for a certain service line or a clinically integrated network, but now the parties are interested in partnering in a more fully integrated manner, such as a member substitution or joint venture. The point is that many larger health systems recognize that this is a unique time to capitalize on the environment to help drive strong strategic transactions, and prospective partners are in a position where they are much more likely to listen, and more importantly, seriously consider such partnerships. Leading large health systems will find ways to use COVID-19 to open the door to discussions with those both inside and outside their current competitive landscape for ways in which they can be helpful to one another and serve as a stepping stone to a more serious conversation regarding how they can create partnerships that advance their long-term strategic objectives.

Much like the independent hospitals, larger health systems should undertake a baseline projection and model analysis in connection with their review of their goals and objectives. As with the independent hospitals, it is important for larger

health systems to undertake such analyses to identify ways in which a prospective partner can advance their own strategic plan or growth objectives. For example, many large health systems are looking for opportunities of vertical integration to help them with their goal of forming a fully integrated health system. Areas such as telehealth, behavioral health, home health and long-term care, among others, are on the wish list of many large health systems seeking to provide a broader

continuum of care while reducing the rate of readmissions in their hospitals. In addition, there are several large health systems that are aligned in mission or religious affiliation and have complimentary and largely non-overlapping footprints that could have the benefit of further expanding the reach and depth of their mission, while also leveraging the benefits of scale to reduce costs, increase operational and clinical expertise and potentially increase payor reimbursement.

WILL INCREASED REGULATION IMPACT DEALS?

The Federal Trade Commission has signaled that in 2020 its scrutiny of regional mega-mergers is likely to increase. At a conference in January, FTC Commissioner Christine Wilson said that the FTC would be monitoring potential hospital mergers more closely in an effort to improve competitiveness in the healthcare industry.¹³ As part of that effort, the FTC will be evaluating past mergers with an eye toward whether they actually reduced costs for consumers. As a further indication of the heightened sensitivity to potential M&A activity during the pandemic, the Pacific Business Group on Health, whose members include many large employers, has asked Congress to restrict M&A transactions involving healthcare providers that received federal relief funds.¹⁴

As the number of COVID-19 cases in the United States continues to rise, so too will the level of scrutiny of healthcare M&A transactions. This again indicates the critical importance of a solid strategic plan to be developed in advance of the pursuit of the transaction. This includes the codification of the aims of the pursuit (before it begins), the articulation of organizational challenges, a careful screening of potential suitors against the objectives, and a Board-involved, management-led and stakeholder-influenced process that supports the desired outcome.

For the investor-owned health systems, this will be a time to get off the bench and deploy capital bases that have been waiting for opportunities.

We also see large not-for-profit health systems and academic medical centers are active in partnership discussions. The academic medical centers have the strong clinical expertise, research arms and labs, and pipelines of future physicians, nurses and staff, while the not-for-profit health systems may have access to capital, stronger balance sheets and significant scale. Simply put, this is a time for health systems to use the aforementioned analyses to lay out their strategic objectives for the future and actively work on the execution of their objectives.

For the investor-owned health systems, this will be a time to get off the bench and deploy capital bases that have been waiting for opportunities. Although investor-owned health systems have in recent history been less acquisitive due to the difficult headwinds that have faced hospitals and health systems, we anticipate that this will be a time in which the stronger investor-owned health systems become more acquisitive. For many years,

investor-owned health systems have had significant challenges getting in front of not-for-profit health systems and academic medical centers, let alone consummating a transaction. Today, however, with the enormous challenges facing independent hospitals and smaller health systems, the investor-owned health systems may be seen as invaluable partners simply too good to pass up. Strong investor-owned health systems can offer access to capital, operational expertise and scale, and full integration. In addition, they have shown an ability to create successful partnerships with not-for-profit health systems and academic medical centers. Strong investor-owned health systems also are very invested in forecasting the future of healthcare and pivoting to ensure that they are out front. We also expect newly formed investor owned operators to initiate acquisitions in the coming months.

Well-capitalized health systems of scale, regardless of their ownership status, face a unique opportunity as a result of COVID-19 and the subsequent economic

PRACTICAL TACTICS FOR LARGER HOSPITAL SYSTEMS

While the pandemic and subsequent economic downturn are creating unprecedented challenges for health systems across the country, new opportunities for collaboration remain as strong as they have been pre-COVID. Below are practical tactics and recommendations for charting your future course.

- 1. Double down on your strategic plan.** You have been reaping the benefits of scale for years, but now is your chance to shine. The pandemic is upending the delivery of healthcare in America, and this is the chance to take your growth strategy to the next level. Whether your strategy is to seek new geographies or deepen integration within your existing footprint, it's time to position for the future.
- 2. Hone your message.** The world has changed, but have you updated your message to potential partners? Focus on the value you have always brought to outside partners, but recognize that dynamics have shifted, so the message must now shift too. Remember that how you are selling your system is just as important as what you are selling.
- 3. Talk to everyone; partner with those aligned.** Throw out all prior assumptions about who may or may not want to talk to you. The pandemic has placed a premium on collaboration, even amongst former rivals. So carry your newly honed message to the streets and take advantage of the universal desire to band together, both during the pandemic and beyond. Do not relax the standards for 'fit' of collaborations, but an open mind will serve you well.
- 4. Innovate.** The pandemic has shown that care delivery must continue to evolve in order to be effective and affordable. Explore new modes of delivery like telemedicine, and invest in new technologies that take care outside of the four walls of the hospital.
- 5. Continue to lead.** With great power comes great responsibility. While the pandemic has placed you in the driver's seat, recognize that as you grow your organization, even more communities will become dependent on the strategy that you seek to execute across your system. Be decisive and broad in your vision, but also humble. The moves you make today will in some ways determine what the future looks like for the industry as a whole.

downturn. Existential pressures for independent hospitals and the underlying benefits of scale have been brought to the surface as these systems battle the pandemic itself while also struggling to find a sustainable economic footing that will allow the organization to thrive long into the future. Unfortunately, the tremendous pressures of the

growth open in markets where they may have previously been shut out. This shift in the market dynamic could also market valuations themselves as sellers struggle to maintain profitability and face an increasing volume of other hospitals that are also vying for the same acquirers. We are confident, however, that certain sellers will be

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pandemic are being felt most acutely by hospitals that are not part of a larger system. We foresee an increase in the number of independent hospitals and smaller systems that will need to explore partnerships in order to ensure the continued delivery of quality healthcare to the organizations' communities. This may result in an imbalance of sellers to acquirers, shifting the bargaining leverage to the acquirers as numerous options for

immune from these valuation trends, as these hospitals represent a strategic asset to acquirers and will remain attractive to the acquirers regardless of the macro-economic pressures impacting the market. Acquirers would be well advised to reconsider whether top-tier strategic targets might be newly in play due to the drastic shifts taking place in markets across the country.

Charting the future for health systems.

There is no doubt that the ongoing COVID-19 pandemic and resulting economic downturn are a major inflection point for health systems across our country. Health systems that were already managing a delicate balance between rising costs and diminishing reimbursements are being dealt a critical blow as they address a health crisis that is unprecedented in our lifetime. Despite these headwinds, health systems large and small are displaying an admirable level of focus, perseverance and dedication to their communities. A spirit of collaboration, even amongst parties that were

formerly fierce competitors, has emerged as health systems have been reminded that all are committed to the common goal of keeping their communities safe and healthy. If one positive is to emerge from the pandemic, it is perhaps this banding together, both within and between health systems. Collaboration will be key as we continue to battle the pandemic and other challenges that undoubtedly lie ahead for providers. Health system leaders are well-advised to keep this spirit alive, even after we make it to the other side of the pandemic itself.



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