

Mergers and acquisitions among regional hospitals are on the rise

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Hospital merger and acquisition activity is rebounding as systems pursue regional combinations, according to a new report.

The total revenue among hospitals that announced deals in the first half of 2021 was \$17.2 billion, which was the second-highest tally since 2015, Kaufman Hall [data](#) show.

There were only 27 transactions announced through the second quarter of this year—down from between 40 to 60 deals over the same span since 2015—signaling that larger health systems aim to join forces. The average size of the smaller hospital involved in the transaction was \$638.6 million, which doubled the trailing five-year average.

Regional mergers could strengthen and expand service lines and referral networks, boost access to clinical- and business-oriented intellectual property and diversify revenue streams, said Anu Singh, managing director of Kaufman Hall and author of the report.

"These deals demonstrate complementary capabilities across diverse geographies," he said. "I continue to see the viewpoint of not just growing existing footprints, but adding whole new hubs of care that collectively represent a pretty sound network of care delivery."

Beaumont Health has [sought out a third merger partner](#) in two years, with the Southfield, Mich.-based health systems looking to form a \$12 billion system with its fellow not-for-profit Michigan-based system Spectrum Health.

Piedmont Healthcare looks to add [seven Atlanta-area hospitals](#) to its current 11-hospital footprint, courtesy of HCA Healthcare and University Health.

Rush Health Systems, based in Meridian, Miss., [plans](#) to join New Orleans-based Ochsner Health. Ochsner and Lafayette General Health [formed](#) the Gulf South's largest health system when their deal closed in October.

Most M&A experts projected deal volume and size to rebound in 2021 and 2022 after transactions were [delayed or called off](#) during the COVID-19 pandemic. Buyers have [fewer independent hospitals](#) to target, and have turned to similarly sized systems to create regional hubs.

Whether it's a certain service line, a favorable payer mix or additional access points, health systems have pinpointed certain regions to grow, picking up where national players have struggled to manage costs and realize a return. In theory, hospitals can maximize their bargaining leverage with insurers via regional footprints versus far-flung networks.

Negotiating power with payers, accountable care organizations, service line enhancements and cost savings related to purchasing discounts and administrative functions can motivate regional health system tie ups, said Juan Morado Jr., partner at Benesch.

"The guiding strategy is scale. By merging with regional systems versus independent hospitals, you are able to obtain larger service areas and with it a larger patient population," he said. "As healthcare continues to incorporate value-based care, the ability to spread risk under value-based payment programs across a wider populous of patients is attractive."

But even if the regional systems aren't direct competitors, mergers could inhibit competition and inflate prices, [research](#) shows.

Prices increased by 7% to 10% when hospitals 30 minutes to 90 minutes apart merged, a 2018 [study](#) by Harvard University and Columbia University researchers found. While there were no significant price changes resulting from cross-state mergers, market power may arise from combinations over broad geographic areas due to a common customer base, often large employers looking to cover their employees in different regions. This can reduce competition and lead to price increases, according to the study.

Meanwhile, many large systems [made more money](#) in the second half of 2020 as they treated sicker patients who were often commercially insured. They are expected to direct that capital, in part, toward mergers and acquisitions.

The Federal Trade Commission has [committed to cracking down](#) on mergers across industries and increasing competition in one-sided markets. They are homing in on hospital mergers and hospital acquisitions of physician practices as well as consolidation among drug companies and pharmacy benefit managers.

In addition, state attorneys general have imposed [more stringent conditions](#) on hospital transactions to thwart potential anticompetitive impacts.

Still, dealmaking isn't expected to slow, Singh said.

"The level and pace of partnership activity within health systems and hospitals or involving health systems and hospitals will not only continue, but probably accelerate," he said.