

Hospital M&A Research:

Healthcare Financial Management Association (HFMA) &
Deloitte Center for Health Solutions (DCHS)

HFMA-Deloitte Hospital M&A Research Findings



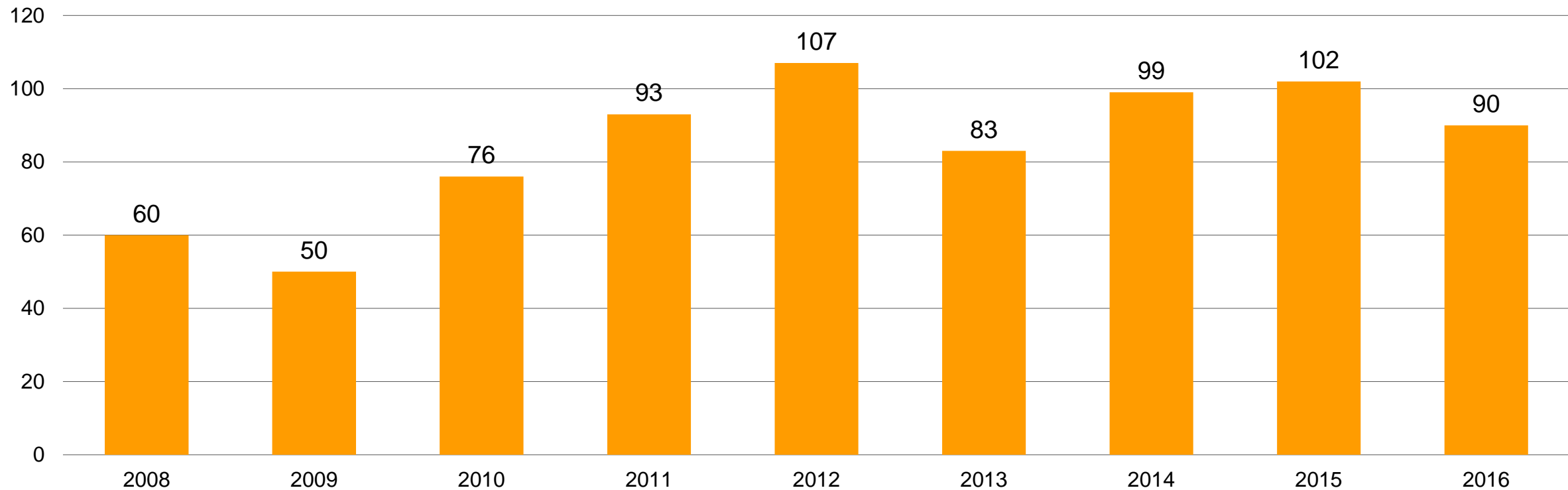
About This Presentation

HFMA and the Deloitte Center for Health Solutions partnered on quantitative and qualitative research to understand the impact of M&A activity on acquired hospitals.

This presentation is a summary of the findings from the project. The full report, which will provide additional detail on both the findings and attributes of successful M&A transactions is available here: www.hfma.org/mergers

Hospital consolidation trends

Mergers and acquisitions have been increasing since 2009 as the industry seeks scale.



Sources: Irving Levin Associates Health Care M&A News

With so many deals happening, what are the outcomes of the deals?

Deloitte and HFMA jointly conducted research on hospital M&A to answer the following:

- Does M&A impact an acquired hospital's performance?
- Which characteristics are associated with better performance?
- How were deals structured and approached to maximize performance?



Quantitative analysis findings



Regression analysis

To understand the impact of acquisition on financial, operating, and quality performance of acquired hospitals

Analysis of 759 hospitals

Acquired between 2008 and 2014, representing 398 transactions.

Control variables

To account for their potential influence on hospital performance, the analysis controlled for hospital characteristics, payer mix, case mix, and market characteristics (insurance coverage changes, economy).

Dependent variables

Multiple financial, operating, and quality variables were analyzed to understand performance of acquired hospitals. Focused on variables that were true to performance changes, and not reflective of “accounting changes” after a deal.

Independent variables

Time effect of the acquisition was analyzed to understand average performance before and after the deal as well as performance in the year of the deal, one year after the deal, and two years after the deal.

M&A transactions were classified by deal type

DEAL TYPE	Number of acquired hospitals with this deal type	Number of transactions with this deal type
For-profit acquisition of a non-profit	164	78
For-profit mega-deal	137	3
For-profit single acquisition from another for-profit	31	31
Non-profit merger of equals	73	17
Non-profit with single acquisition	234	234
Non-profit with system acquisition	120	35
TOTAL	759	398

What did organizations get from their acquisition or merger?

Results from the regression analysis, based upon Medicare Cost Report and HCAHPS data, acquired hospitals, on average, showed:

- Financial and operational improvements were elusive for some
- Quality of care was unchanged for most
- Patient satisfaction declined slightly for top rated hospitals



Financial improvement can take time

Regression results: Financial performance of acquired hospitals

Variable	Acquisition impact	DEAL TYPE					
		All acquired hospitals (n=759)	For-profit acquisition of a non-profit (n=164)	For-profit mega-deal (n=137)	For-profit single acquisition from another for profit (n=31)	Non-profit merger of equals (n=73)	Non-profit with single acquisition (n=234)
Operating Margin	Overall	↓			↓		
	Year of the deal	↓					↓
	1 year after the deal	↓					
	2 years after the deal					↑	
Operating Expense per Adjusted Admission	Overall	↓	↑		↓		
	Year of the deal	↓	↑				
	1 year after the deal	↓		↓	↓	↑	
	2 years after the deal		↑			↑	

N= the number of acquired hospitals across the deals
Acquisition impact overall= Average performance before and after the deal

Arrow direction= Statistically significant, positive or negative correlation
Arrow color= red is unfavorable, green is favorable

- Despite operating margin declining on average for acquired hospitals, the impact lasts two years post-deal. Two years post-deal, there was no longer a significant decline in operating margin for acquired hospitals.
- Expenses decreased for some acquired hospitals.

Staffing can increase at acquired hospitals

Regression results: Financial performance of acquired hospitals

Variable	Acquisition impact	DEAL TYPE						
		All acquired hospitals (n=759)	For-profit acquisition of a non-profit (n=164)	For-profit mega-deal (n=137)	For-profit single acquisition from another for-profit (n=31)	Non-profit merger of equals (n=73)	Non-profit with single acquisition (n=234)	Non-profit with system acquisition (n=120)
	Overall	↑					↑	↑
FTE per 100	Year of the deal	↑				↑	↑	↑
Adjusted Admissions	1 year after the deal	↑					↑	↑
	2 years after the deal			↓				

• On average, acquired hospitals had staffing increase post-acquisition.

N= the number of acquired hospitals across the deals
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Quality remains unchanged for most metrics

28 quality metrics were analyzed (process of care, satisfaction, vaccinations, etc.)

20 quality metrics had results indicating that performance, on average, was unchanged after the deal

Quality performance has some exceptions

Regression results: Quality performance of acquired hospitals

Variable	Acquisition impact	DEAL TYPE					
		All acquired hospitals (n=759)	For-profit acquisition of a non-profit (n=164)	For-profit mega-deal (n=137)	For-profit single acquisition from another for profit (n=31)	Non-profit merger of equals (n=73)	Non-profit with single acquisition (n=234)
Patients given beta blockers	Overall	↑		↓		↑	↑
	Year of the deal	↑		↓		↑	↑
	1 year after the deal			↓		↑	↑
	2 years after the deal			↓		↑	↑
30-day readmissions— Hip or Knee Replacement	Overall			↓			↓
	Year of the deal			↓			↓
	1 year after the deal			↓			↓
	2 years after the deal	↓		↓			↓
Patients who gave their hospital a rating of 9 or 10	Overall	↓		↓	↓		↓
	Year of the deal	↓					
	1 year after the deal	↓		↓			↓
	2 years after the deal	↓		↓			
ED—Median Time from ED Arrival to ED Departure for Admitted ED Patients	Overall				↑	↓	↓
	Year of the deal					↓	↓
	1 year after the deal				↑	↓	↓
	2 years after the deal					↓	↓

N= the number of acquired hospitals across the deals
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Qualitative research findings



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Qualitative research

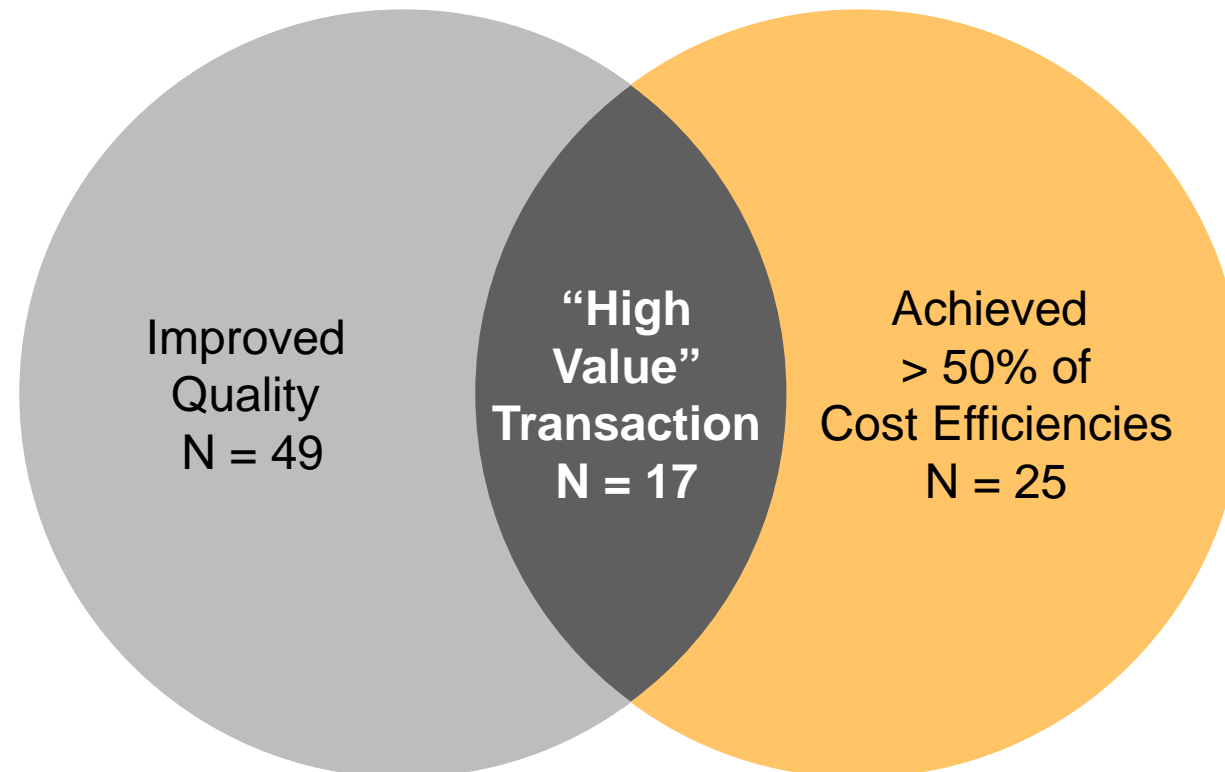
To understand performance, approach, successes, and challenges from executives involved in deals

- **90 executives surveyed:**
Mix of non-profits, for-profits, acquirers, acquired, and hospital sizes. 10-minute online survey conducted in spring 2017.
- **13 phone interviews:**
Additional depth. Hour-long interviews conducted in spring 2017.



HFMA identified a cohort of “high value” transactions through its survey

“High value” defined as deals where the respondents indicated the deal both achieved cost efficiencies and improved quality



Sources: HFMA Member Survey/Interview

What do they do differently?

Across all phases of the transaction process, high-value deals typically have three common elements

In high-value deals, the acquirer:

1

Has a clearly defined rationale for the transaction that enables the organization to achieve strategic goals

2

Understands the cultural fit between organizations and communicates clearly throughout the transaction process

3

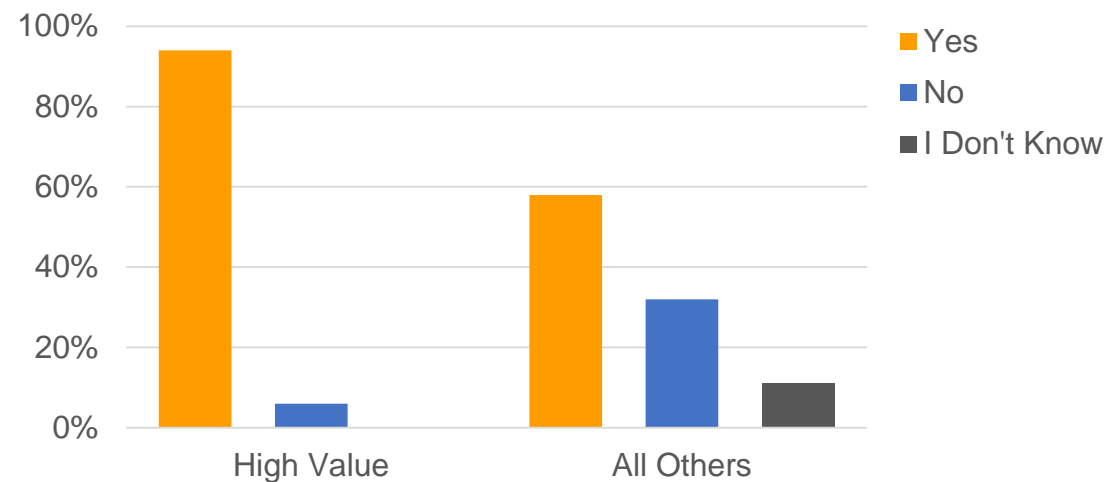
Has a detailed integration plan focusing on the deal's core value drivers

Sources: HFMA Member Survey/Interview

High-value deals often have a defined strategic vision

Acquirers in high-value transactions were more likely to have a clearly defined operating model for the acquired facility

Was there a clearly defined operating model?



Sources: HFMA Member Survey/Interview

A clearly defined operating model can include:

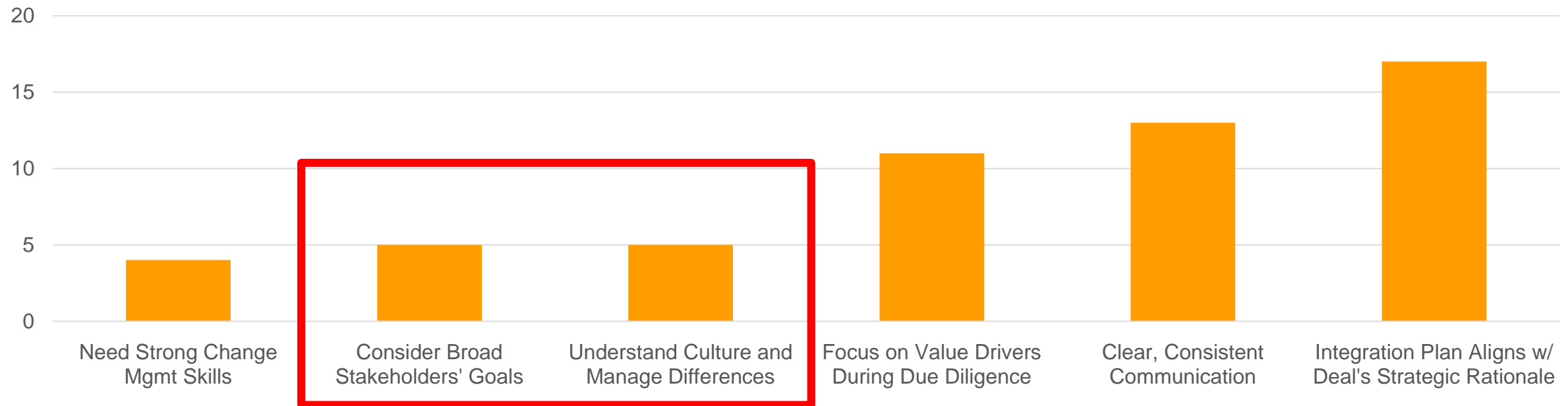
- Statement of strategic vision for the combined entity
- Identified/validated areas for value capture from the transaction
- A plan to realize revenue growth and cost reduction opportunities
- Understanding of key enablers

Culture should support strategy

Commonly cited “lessons learned” by respondents imply the need to understand culture and the goals of a broad set of stakeholders

Frequency of themes mentioned in response to the question:

What did the organization learn during this deal that will be used to improve the results of future mergers or acquisitions?

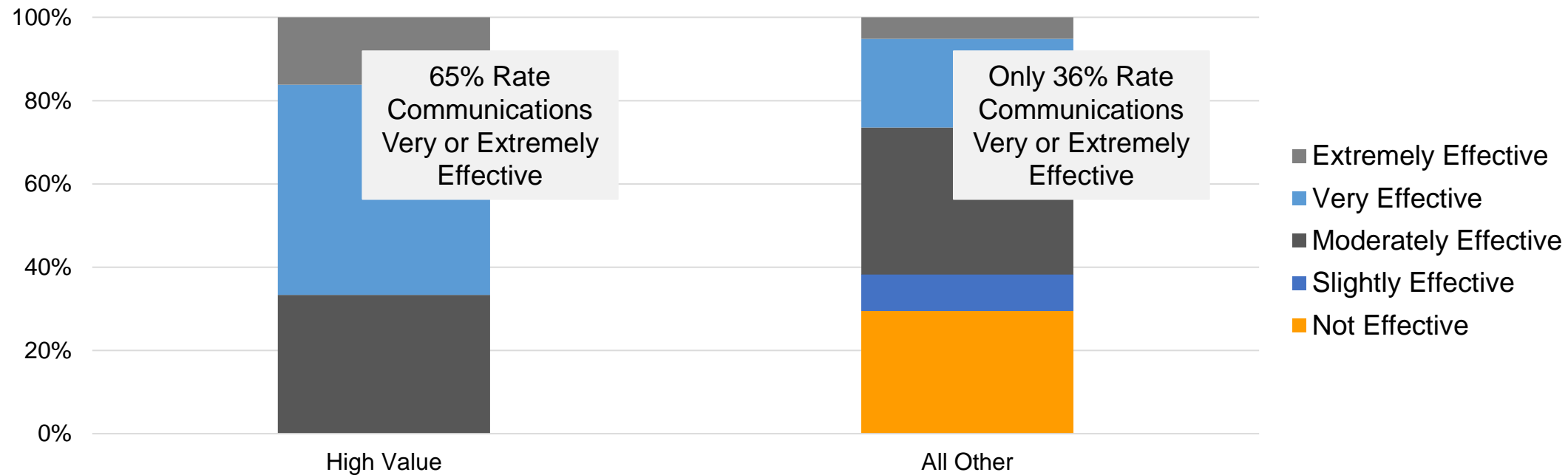


Sources: HFMA Member Survey/Interview

Communication matters

Those in high-value transactions were more likely to rate communications throughout the transaction process as “very effective” or “extremely effective”

How effective were communications to key stakeholders involved with the deal?

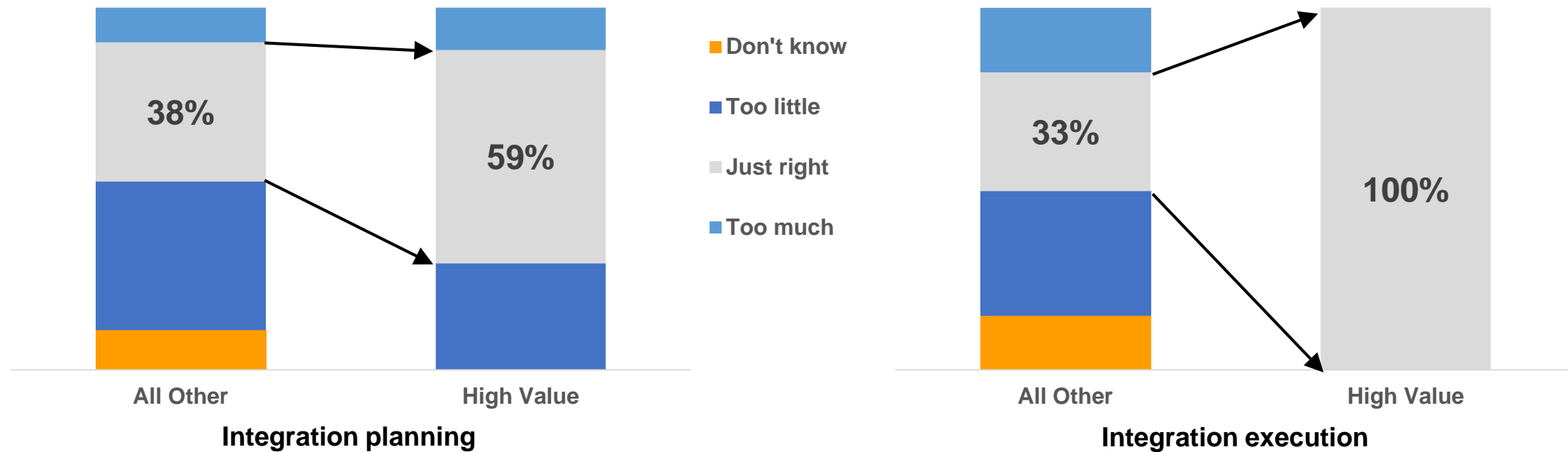


Sources: HFMA Member Survey/Interview

Planning and execution had much attention

Participants in high-value transactions were more likely to report spending the “just right” amount of time on integration planning and execution

Please indicate whether the amount of time spent on each phase of the deal was:



Sources: HFMA Member Survey/Interview

Questions?

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