Provider M&A & IDNs

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Integrated Physician Practice Section

American Medical Association

June 6, 2021

BIG MED

MEGAPROVIDERS AND THE HIGH COST OF HEALTH CARE IN AMERICA

DAVID DRANOVE • LAWTON R. BURNS

BIG MED = Big Deal

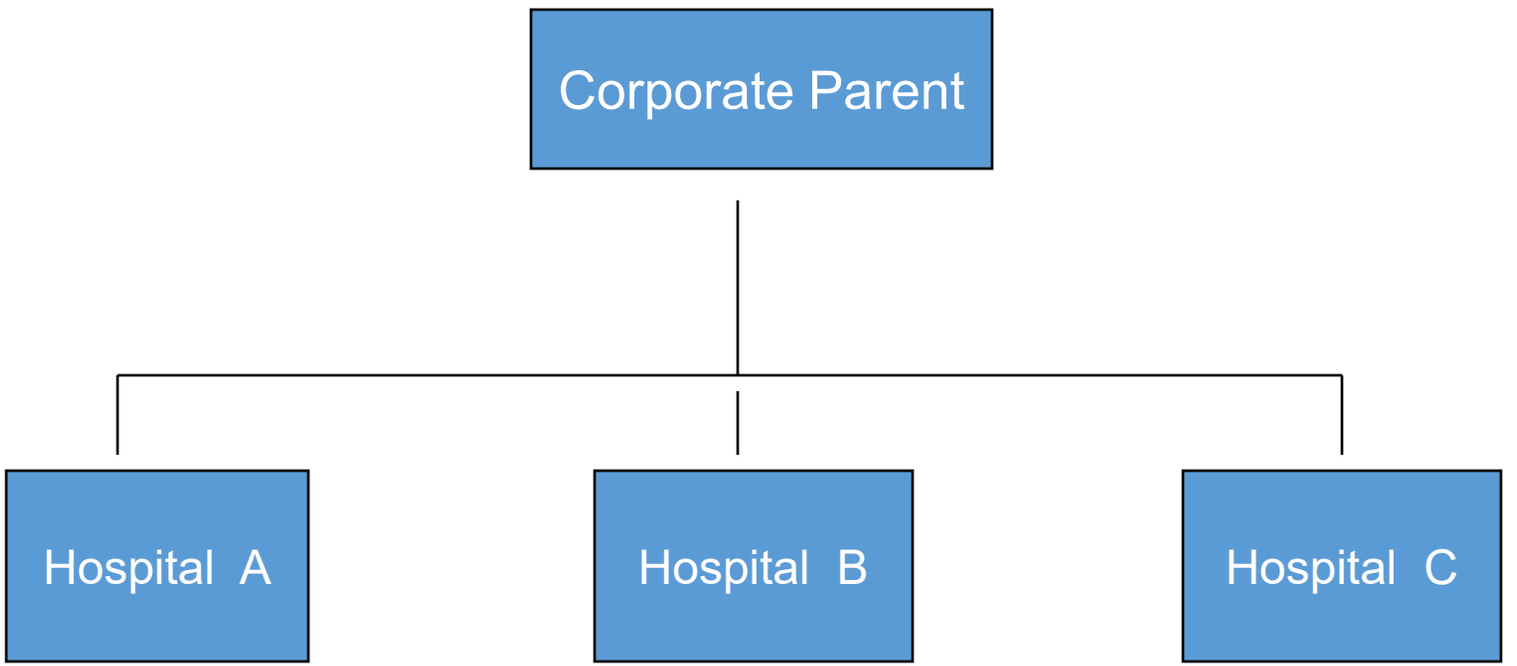
Table I.1. The nation's largest megaproviders, as of 2017

System	Location	Revenue	Comparable
UPMC	Western Pennsylvania	$16b	Whole Foods
Partners	Eastern Massachusetts	$13.4b	Gucci
Sutter	Northern California	$12b	Tesla
Northwell Health	Long Island	$9.0b	Adobe Systems
Cleveland Clinic	Northeast Ohio	$8.4b	National Basketball Association
Intermountain	Mountain states	$7.6b	Jet Blue
Advocate Health	Northern Illinois	$6.2b	Spotify
NY Presbyterian	New York City	$5.6b	Regeneron
Sentara Health	Southeast Virginia	$5.3b	Yahoo
Baylor, Scott, and White	Dallas, Texas	$4.8b	Chipotle
Total		$88.8b	Boeing
			Hyundai Motor
			IBM
			Johnson & Johnson

Big Med Addresses “Two Topics” in Provider M&A

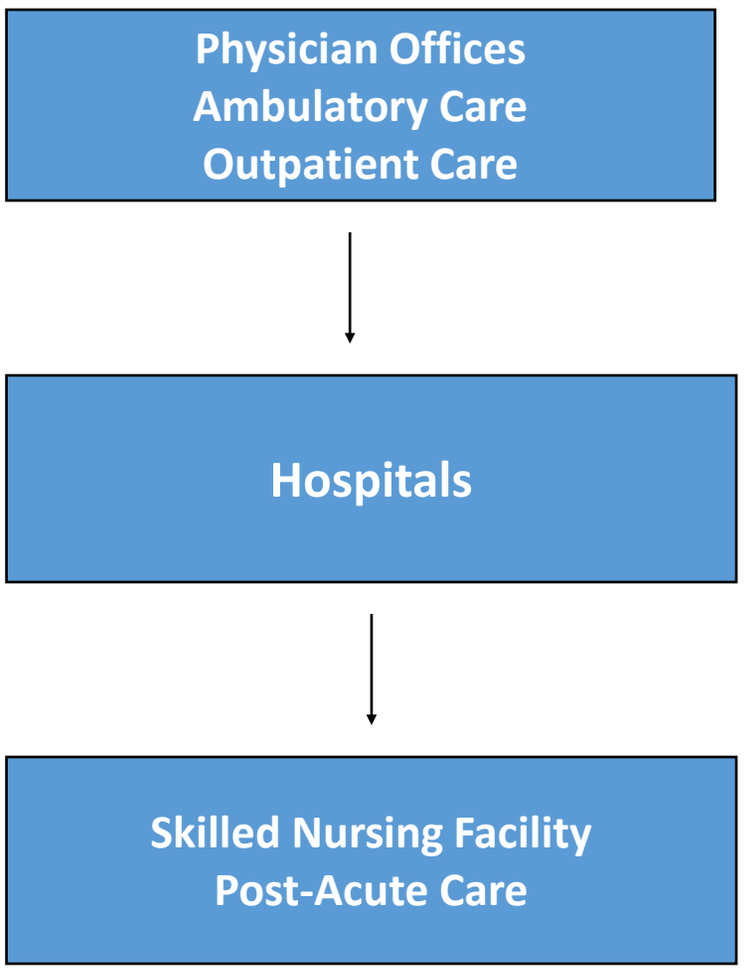
1. Horizontal integration of hospitals
2. Vertical integration of hospitals and physicians

Horizontal Integration : Hospital Systems



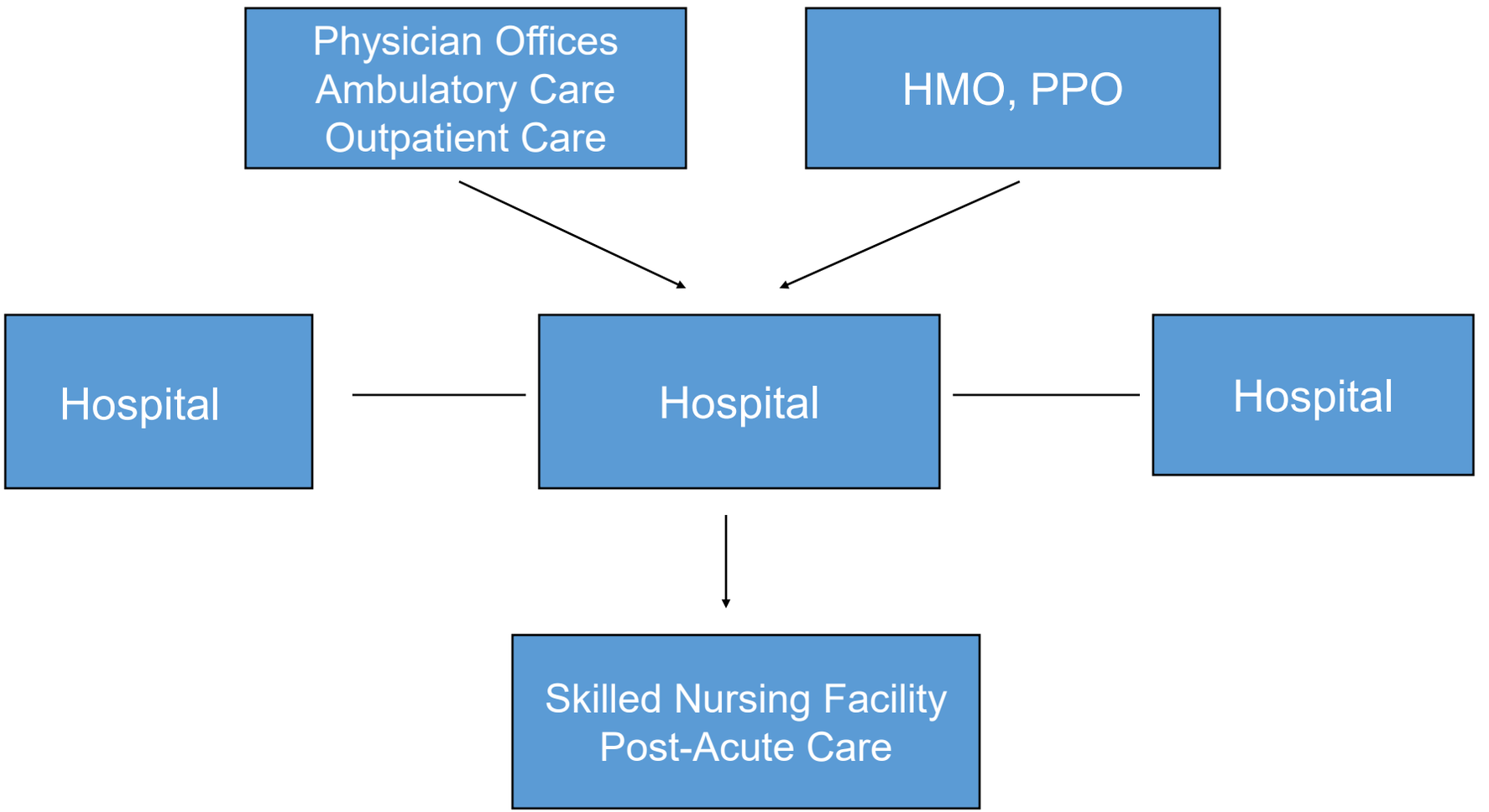
Vertical Integration
Physician and Hospital Linkages

Input Markets



Output Markets

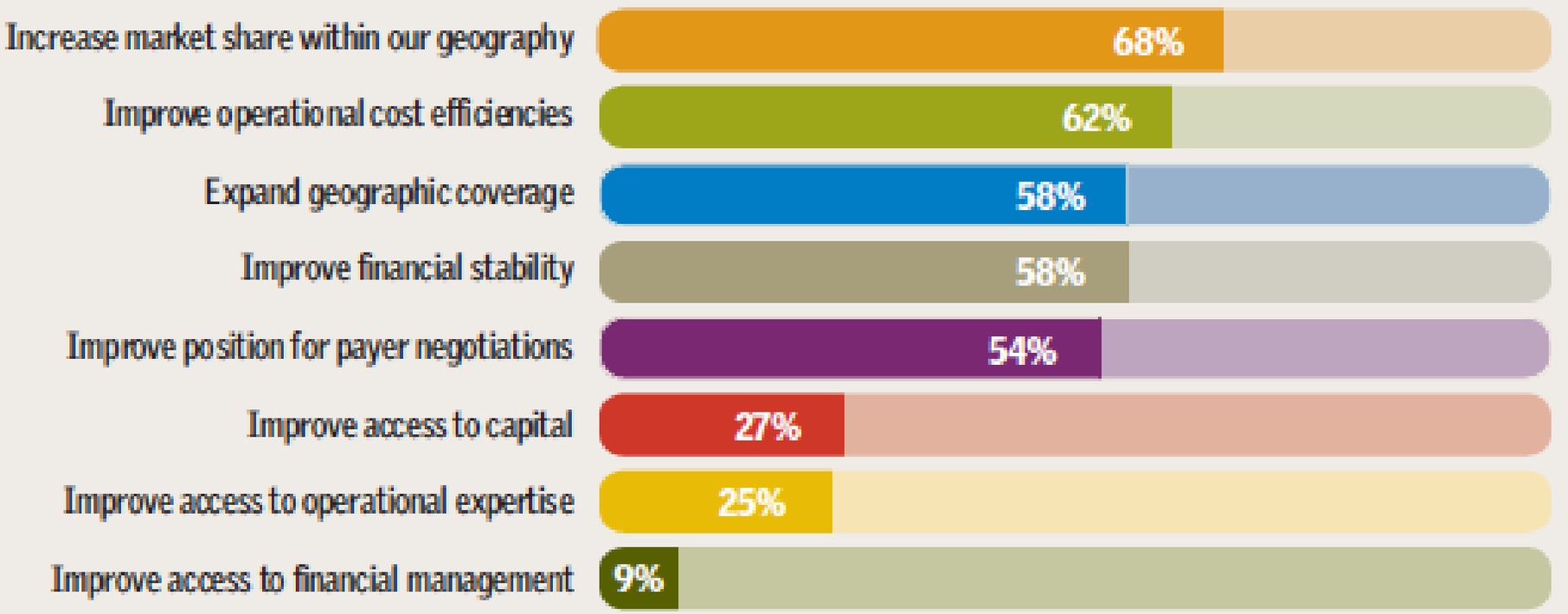
Mega-Providers Do Both



Two Rationales for Two Topics

FINANCIAL OBJECTIVES

Which of the following are among the financial objectives of your overall merger, acquisition, and/or partnership planning or activity?



Multi-response

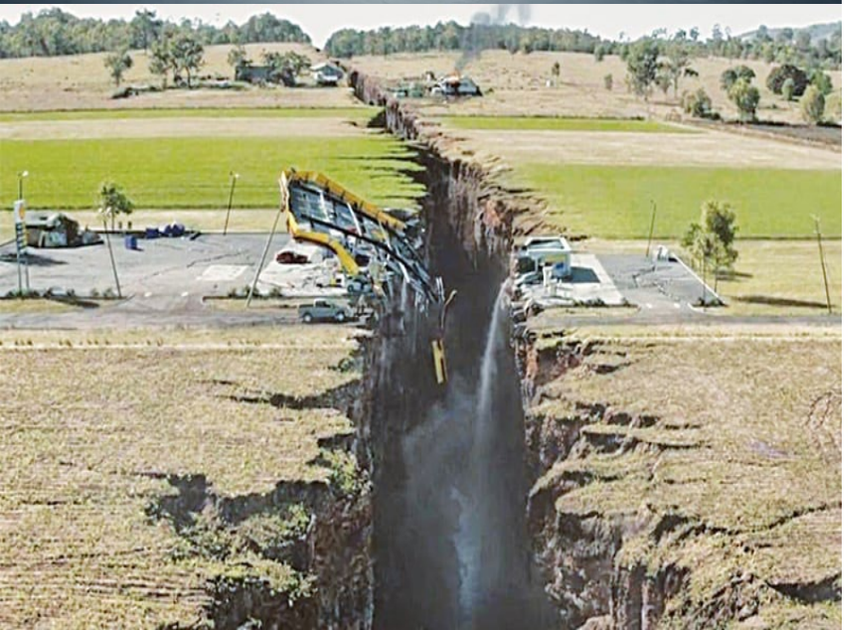
SOURCE: HealthLeaders Media Intelligence Report, *The M&A and Partnership Mega-Trend: Deals for Growth and Survival*, February 2015; hlm.tc/1zHAJc1.

Possible Upsides of BIG MED

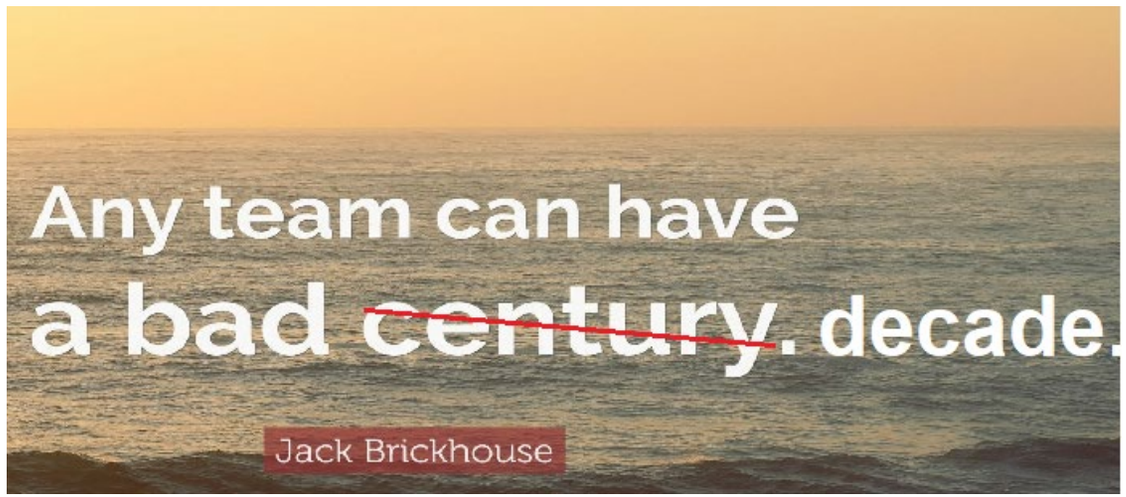
- Lower cost of capital
- Greater capital investment by parent system
- Improved survival

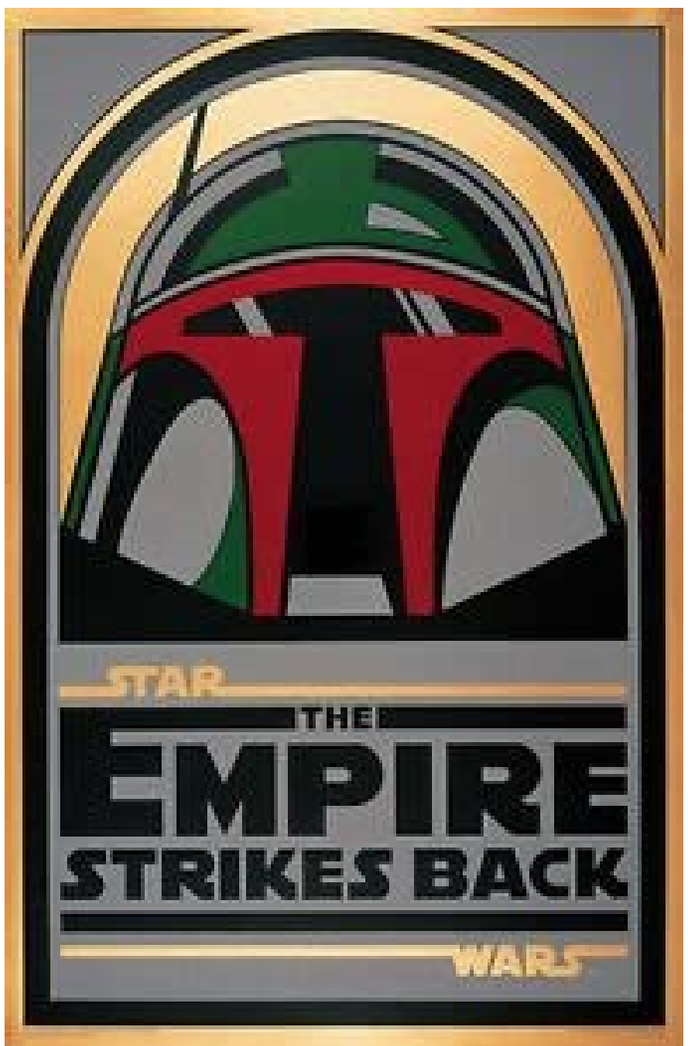
≠

Possible Downsides of BIG MED = Six (Ugly) Realities



Possible Risk of Leverage: Antitrust





UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION

In the matter of	)	
	)	
Evanston Northwestern Healthcare Corporation, a corporation, and	)	Docket No. 9315
	)	
ENH Medical Group, Inc., a corporation.	)	
	)	

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, and by virtue of the authority vested in it by said Act, the Federal Trade Commission, having reason to believe that respondent Evanston Northwestern Healthcare Corporation ("ENH") has violated and is violating Section 7 of the Clayton Act, and that respondent ENH Medical Group, Inc. ("ENH Medical Group"), has violated and is violating Section 5 of the Federal Trade Commission Act, and it appearing to the Commission that a proceeding by it in respect thereof would be in the public interest, hereby issues its complaint stating its charges in that respect as follows:

Damage Already Done

Table 4.1. The emergence of hospital systems: numbers of hospitals, by year

System	Home	1990	2000	2019
Advocate	Chicago	DNE*	8	12
Allina	Twin Cities	DNE	11	13
Atrium**	Charlotte	DNE	9	10
Aurora	Wisconsin	2	11	15
Banner	Phoenix	DNE	8	15
BJC	St. Louis	DNE	11	14
Cleveland Clinic	Cleveland	DNE	10	11
Inova	Northern Virginia	DNE	4	6
Memorial Hermann	Houston	DNE	9	17
Northwell***	Long Island	DNE	6	19
NY Presbyterian	New York City	DNE	11	12
Orlando Regional	Orlando	2	6	9
Partners	Boston	DNE	9	11
RWJBarnabas	New Jersey	DNE	10	15
Sentara	Southeast Virginia	3	5	12
Sutter	Northern California	6	23	25
UPMC	Pittsburgh	DNE	12	40

* DNE = Did not exist

New Concerns

- Illegal Conduct
  - All or nothing contracts
  - Anti-tiering restrictions
  - Gag rules

- Agencies have systems in their crosshairs

SUPERIOR COURT OF THE STATE OF CALIFORNIA

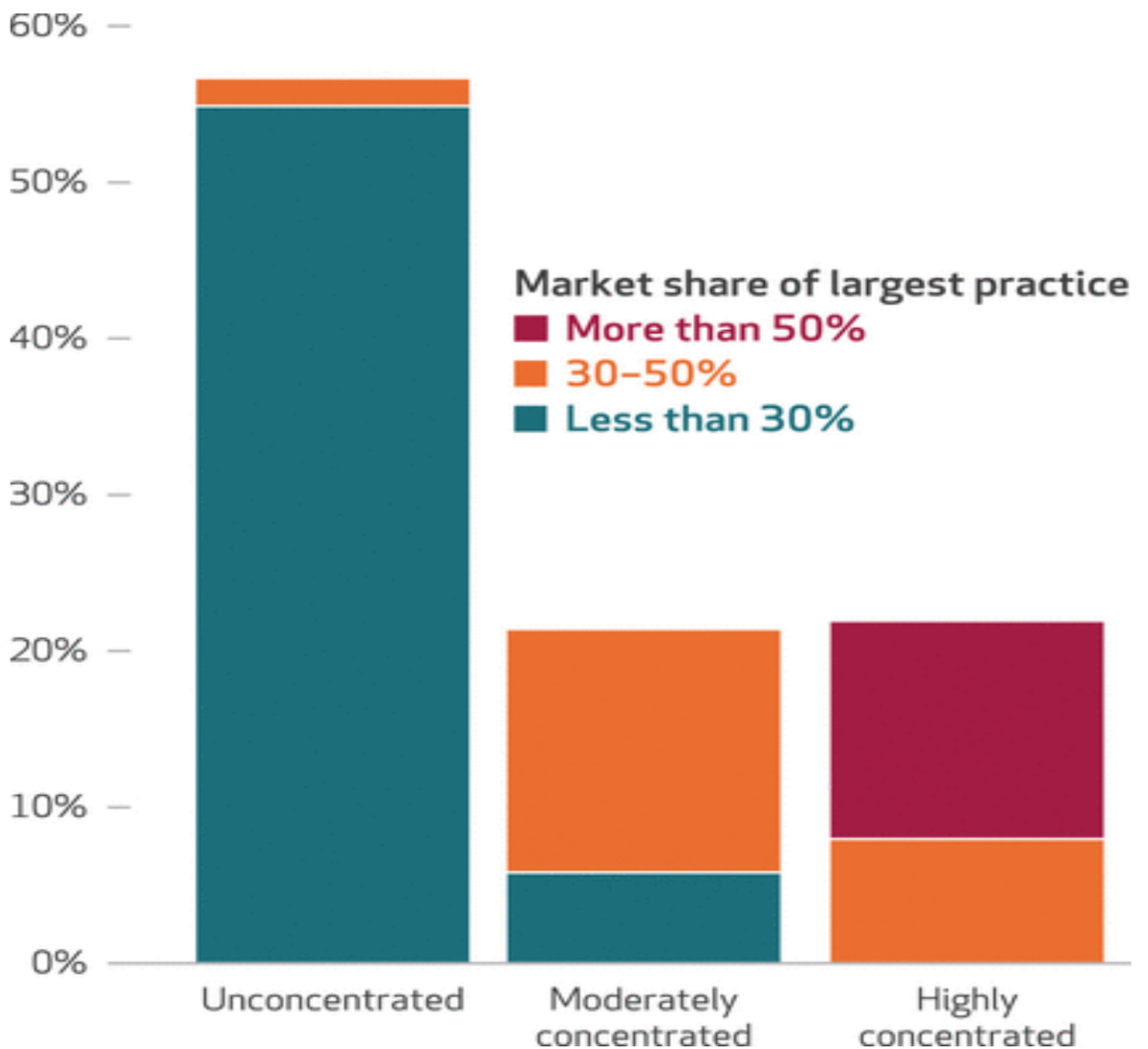
FOR THE CITY AND COUNTY OF SAN FRANCISCO

CGC-18-565398

PEOPLE OF THE STATE OF CALIFORNIA EX REL. XAVIER BECERRA, **Plaintiff,** **v.** **SUTTER HEALTH,** **Defendant.**	**COMPLAINT FOR VIOLATIONS OF THE CARTWRIGHT ACT (BUS. & PROF. CODE § 16720 *et seq.*)**

California Attorney General Xavier Becerra brings this civil antitrust action on behalf of the People of the State of California, in his law enforcement capacity, to enjoin defendant Sutter Health and its affiliates **("Sutter")** from unlawful conduct in violation of California's Cartwright Act, for disgorgement of overcharges, and to restore competition in healthcare markets in California. The People of the State of California, ex rel. Xavier Becerra, Attorney General **("the People")** allege the following:

Antitrust and Physician Consolidation



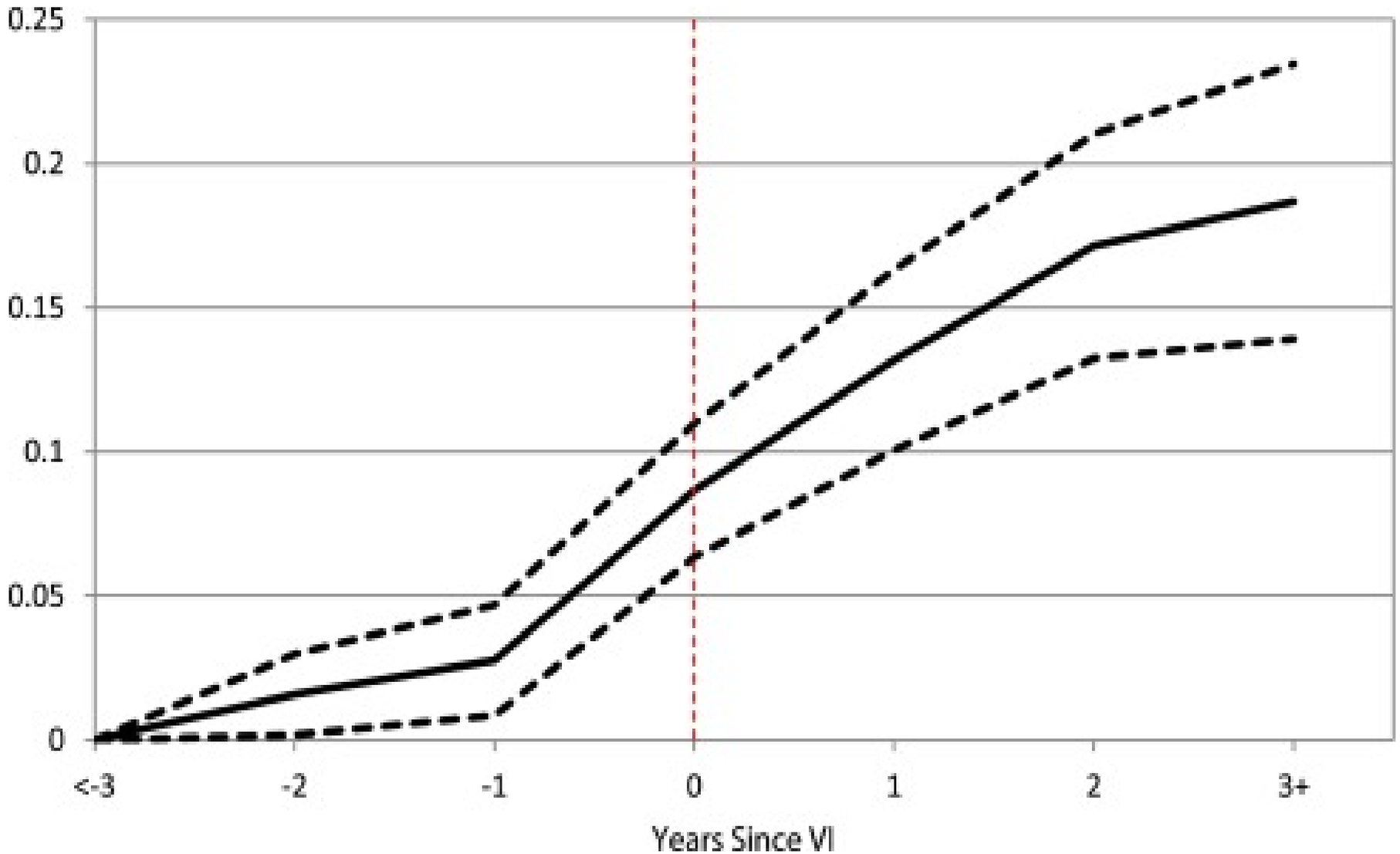
Antitrust Meets Vertical Integration : The St. Luke's Case

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF IDAHO

FEDERAL TRADE COMMISSION	)	
	)	
and	)	
	)	
STATE OF IDAHO	)	
	)	
Plaintiffs,	)	
v.	)	No. 13 -cv- 116-BLW
	)	
ST. LUKE'S HEALTH SYSTEM, LTD	)	
	)	
and	)	
	)	
SALTZER MEDICAL GROUP, P.A.	)	
	)	
Defendants.	)	

COMPLAINT FOR PERMANENT INJUNCTION

Academic Research Confirms the St. Luke's Message



What to do?

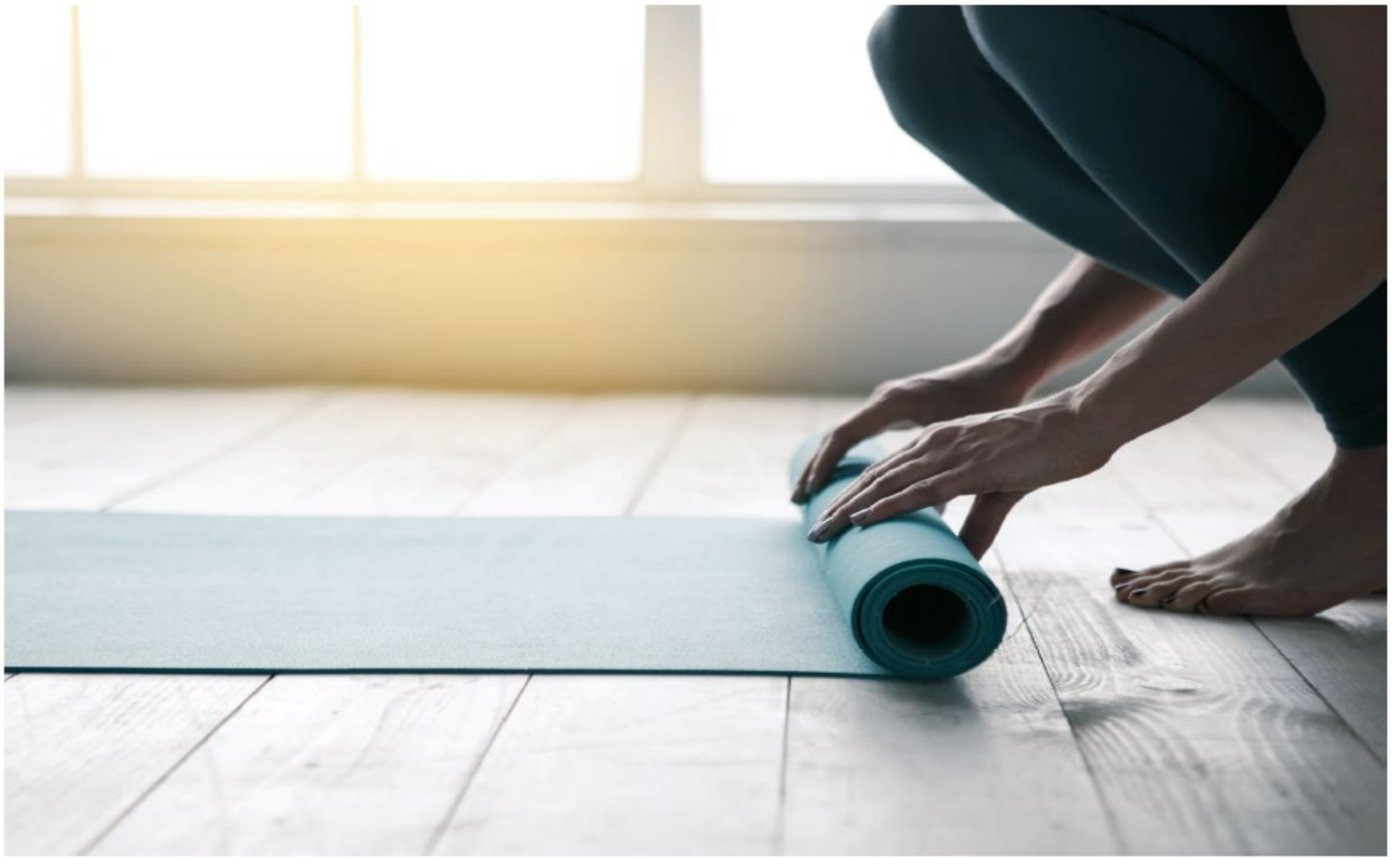
- Take antitrust seriously
  - Perform due diligence *with care*
  - Analyze before announcing

- Be as skeptical as the agencies
  - Are scale economies real?
  - Are employed physicians more productive?
  - Countervailing power is not an antitrust defense

New (?) Kids on the Block

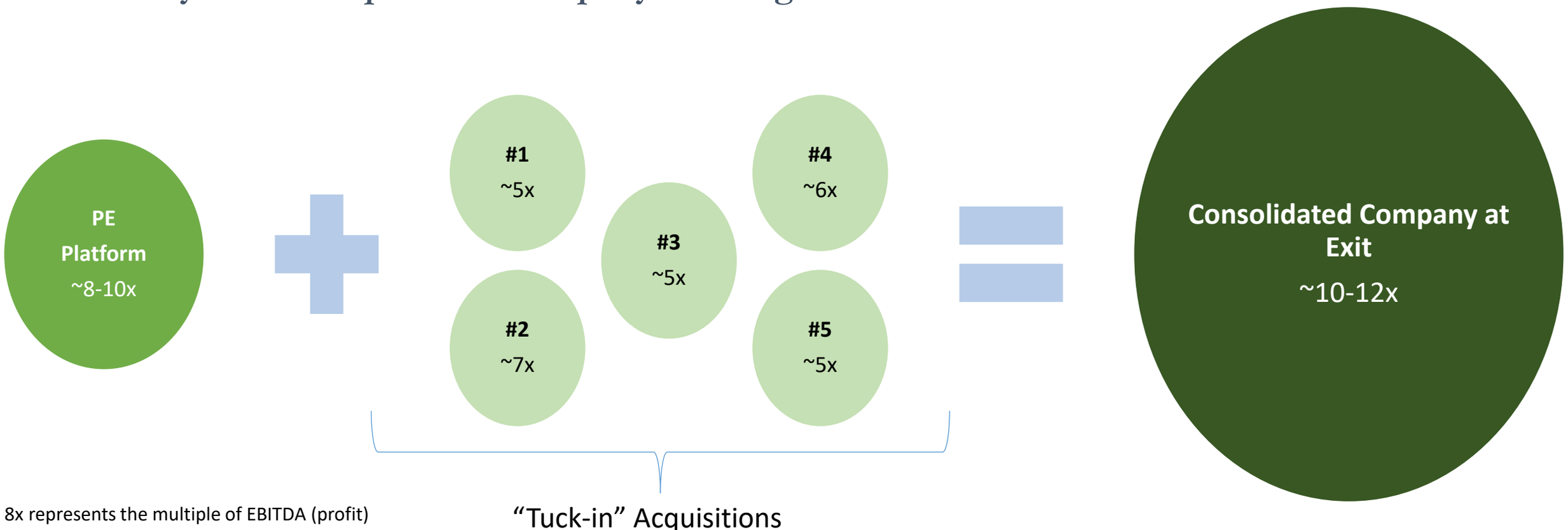
Dental	Aspen Dental · Heartland Dental · Western Dental
Physical Therapy	ATI Physical Therapy · Athletico Physical Therapy · Professional Physical Therapy
Dermatology	Advanced Dermatology and Cosmetic Surgery · Riverchase Dermatology and Cosmetic Surgery · U.S. Dermatology Partners
Anesthesia	NAPA North American Partners in Anesthesia · US Anesthesia Partners · NorthStar Anesthesia
Pain	National Spine & Pain Centers · Advanced Pain Management · Pain Doctor We Change Lives Here
Ophthalmology	Southwestern Eye Center An American Vision Partner · Barnet·Dulaney·Perkins Eye Center · Unifeye Vision Partners
Behavioral Health	Behavioral Health Works · hopebridge · BlueSprig

Private Equity Strategy



Private Equity Roll-Up Strategy = Physician Consolidation

The PE firm typically leads the diligence and execution of the deal, while the integration is usually left to the portfolio company's management team



8x represents the multiple of EBITDA (profit) at which a company is valued

REPORTS

Study Finds Private Equity Investment Accelerates Concentration and Undermines a Stable, Competitive Healthcare Industry

May 18, 2021 | Laura Alexander , Dr. Richard Scheffler
Health & Pharmaceuticals, Competition Policy

A decade's worth of evidence supports troubling findings that private equity business practices have a negative impact on competition in healthcare and on patients. A new white paper, produced by experts at the American Antitrust Institute (AAI) and UC Berkeley, calls for immediate attention to the role that private equity investment plays in harming patients and impairing the functioning of the healthcare industry. In this groundbreaking new white paper, *Soaring Private Equity Investment in the Healthcare Sector: Consolidation Accelerated, Competition Undermined, and Patients at Risk*, AAI's Laura Alexander and Professor Richard Scheffler of The Nicholas C. Petris Center on Health Care Markets and Consumer Welfare in the School of Public Health at UC Berkeley detail the emerging threat posed by private equity investment in healthcare markets.

"The report documents the astronomical growth of private equity's investment in healthcare, which focuses on short-term profits and not the wellbeing of patients, and its consequences" says UC Berkeley School of Public Health Professor and Petris Center Director Richard Scheffler.

The paper's major conclusions include:

1. Private equity investment in healthcare has grown dramatically—to nearly $750 billion in the last decade—and is poised to increase even further due to the COVID-19 pandemic's impact on the healthcare sector and its projected growth.
2. The private equity business model is fundamentally incompatible with a stable, competitive healthcare system that serves patients and promotes the health and wellbeing of the population.
3. Private equity's focus on short-term revenue generation and consolidation undermines competition and destabilizes healthcare markets.
4. Private equity acts as an anticompetitive catalyst in healthcare markets, amplifying and accelerating concentration and anticompetitive practices.
5. Private equity funds operate under the public and regulatory "radar," leaving the vast majority of private equity deals in healthcare unreported, unreviewed, and unregulated.
6. Urgent action is needed to oversee, investigate, and understand the impact of private equity on patients and healthcare markets, including changes to antitrust reporting requirements, withdrawal of the Department of Justice's guidance on remedies, and study of additional oversight of healthcare mergers by the Department of Health and Human Services.

"A fascinating study . . . an insightful and crisply written book, one that offers wisely chosen and well-narrated case studies but also good advice."
—*THE WALL STREET JOURNAL*

What You Can Learn from the Most Inexcusable Business Failures of the Last 25 Years

BILLION DOLLAR LESSONS

UPDATED, WITH A NEW FOREWORD

Paul B. Carroll
Author of *Big Blues*

Chunka Mui
Coauthor of *Unleashing the Killer App*

Dead Kid on the Block (?)

By Lawton R. Burns and Mark V. Pauly

DOI: 10.1377/hlthaff.2011.0675
HEALTH AFFAIRS 31,
NO. 11 (2012): 2407–2416

ANALYSIS & COMMENTARY

Accountable Care Organizations May Have Difficulty Avoiding The Failures Of Integrated Delivery Networks Of The 1990s

ABSTRACT Accountable care organizations are intended to improve the quality and lower the cost of health care through several mechanisms, such as disease management programs, care coordination, and aligning financial incentives for hospitals and physicians. Providers employed several of these mechanisms in forming the integrated delivery networks of the 1990s. The networks failed, however, because of heavy financial losses stemming from hospitals' purchase of physician practices and their inability to align incentives, garner capitated contracts, and develop the infrastructure to manage risk. Although the current mechanisms underlying accountable care organizations continue to evolve, whether and how they will have an impact on quality and costs remains open to question. Care coordination and information technology are proving more complicated and expensive to implement than anticipated, providers may lack the ability to implement these mechanisms, and primary care providers are in short supply. As in the 1990s, success depends on targeting specific populations, such as people with multiple chronic conditions who need and may benefit from coordinated care.

Lawton R. Burns (burnsL@wharton.upenn.edu) is chair of the Health Care Management Department at the Wharton School of the University of Pennsylvania, in Philadelphia.

Mark V. Pauly is a professor of health care management and of business and public policy, both at the Wharton School.

No Extension for Next Generation ACO Model After This Year

The Next Generation ACO Model will come to an end on Dec. 31, 2021, as planned after CMS found no net savings to Medicare during the model's run.

Source: Getty Images

By Jacqueline LaPointe

May 24, 2021 - The Next Generation Accountable Care Organization (ACO) Model will come to an end at the end of this year as planned despite several calls for an extension, according to an email to model participants.

The email obtained by *RevCycleIntelligence* stated that CMS doesn't expect to "extend or expand" the model since the model has "net-spending increase of $117.5 Million and no net savings for CMS."

Although, the Next Generation ACO Model team did acknowledge in the email that participating ACOs have reduced gross beneficiary spending, maintained quality of care, and developed strategies for implementing benefit enhancements and engagement incentives all while paving the way for high-risk alternative payment models.

The news comes as a blow to Next Generation ACOs and other industry groups who have been calling on the Biden administration to extend the risk-heavy ACO model beyond 2021.

Opportunity for Physician Executives of Mega-providers (1)

- Search for and experiment with better ways to shape clinician behavior

- From vertical ➔ horizontal approaches

  reduce friction in physician decision-making

  choice architecture in the EMR

  use clinician-guided behavioral economics to frame their decisions

  peer education & normative pressure (leverage social influence of peers in local networks)

  focus = communication among physicians (“relational care coordination”)

- From financial metrics ➔ nonfinancial motivations

  involve professionals in all clinical issues, financial issues, and corporate governance

  greater clinical autonomy on the front line of care - - work environment, data reporting

  reduce emphasis on “financial integration”

Opportunity for Physician Executives of Mega-providers (2)

- Better use of clinical expertise and well-developed human capital
  - physicians = most highly-trained human resource
  - investments in physician leadership development
  - consider lengthening the tenure of physician leaders (continuity)
- Recognize that different clinical areas (specialties) require different solutions
  - Clinical context drives the solution to reducing cost and LOS
  - Requires local clinician leadership and room for initiative
  - Lots of “pick and shovel” work to do
- May need to consider this : integrate on the inside (medical staff) before you integrate on the outside

Guiding Principles for Physician Executives

- Focus your efforts at integration, coordination, cost-cutting
- Process rather than structure or technology … structure is NOT integration
- Unobtrusive controls rather than obtrusive structures & metrics
- Small scale change rather than disruption or silver bullet
- Reward physicians for their system contribution
  - bigger amounts, harder to earn
  - capital and staff investments in their clinical areas
- Bottom-up change
- Selective employment

Thank you for listening

How to “raise hand”

Newer versions of Zoom

- Visit the tool bar at the bottom of your screen
- click “reactions”
- select "raise hand"

Older versions of Zoom

- Click on the “participants” button
- hover over your name and click “more”
- then “raise hand”