

# *Q3 2015 US health services deals insights*

*November 2015*

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PwC's Deals Practice*



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*The heart of the matter*

# Q3 2015 US health services deals insights

The third quarter of 2015 presented continued increases in deal volume across the vast majority of sectors when compared to the second quarter of 2015. In the Hospital sector, deal volume increased approximately 38% between Q2 2015 and Q3 2015, which was impacted favorably by the prevalence of smaller hospitals joining larger entities. However, the announced \$900 million acquisition of Capella Healthcare, Inc. by Medical Properties Trust, Inc. and the \$540 million acquisition of West Jefferson Medical Center by LCMC Health buoyed the sector's quarterly deal value as compared to the second quarter.

Similar to the trend in Q2 2015, the Managed Care sector's deal activity continued as the most significant in terms of impact. During the first week of July, Aetna's pending acquisition of Humana, Inc., along with Centene Corp.'s pending acquisition of Health Net, Inc., served as potential contributors toward consolidation in the payer sector. This consolidation movement was further advanced in

late July 2015 with the announcement of the Anthem, Inc. acquisition of Cigna Corp. for approximately \$54.2 billion. Overall deal volume for this sector experienced a 61% increase for the first nine months of 2015 versus 2014.

Deal volume in the Long Term Care sector exhibited a marginal uptick when comparing volume with the three and nine months ended September 2015 versus similar periods in 2014. It appears the deal volume for this sector is being driven by smaller targets, as there were only two deals during Q3 2015 which were over \$500 million. The Home Health and Rehabilitation sector has experienced a 40% decline in deal volume year-to-date 2015 versus the nine month period in 2014, as 2014 represented the highest deal volume for this sector during the previous 10 years.

The Physician Practice sector had relatively consistent deal volume in the third quarter of 2015 compared to the second quarter (15 vs 14 deals announced respectively). To continue on the trend of large

physician practice management companies acquiring complementary groups (i.e. MEDNAX's closed acquisition of Virtual Radiologic Corp. earlier in 2015), the one notable transaction in this sector is the announced \$1.6 billion acquisition of IPC Healthcare by TeamHealth Holdings.

For our Spotlight Article this quarter, we provide our insights into the revolutionary changes in the delivery, financing and management of healthcare. Specifically, we ask the question "Do you want to be a goldminer or a bartender" with the ever expanding availability of patient data and consumer options, a vast array of consumer product companies and mobile technology firms are staking their claim. We expand on two principal business models, *Goldminers*, who dig deep in one major area, and *Bartenders*, who offer customized options to address routine needs, and how both of these will likely impact the healthcare landscape.

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*An in-depth discussion*

# Deal activity in Q3 2015

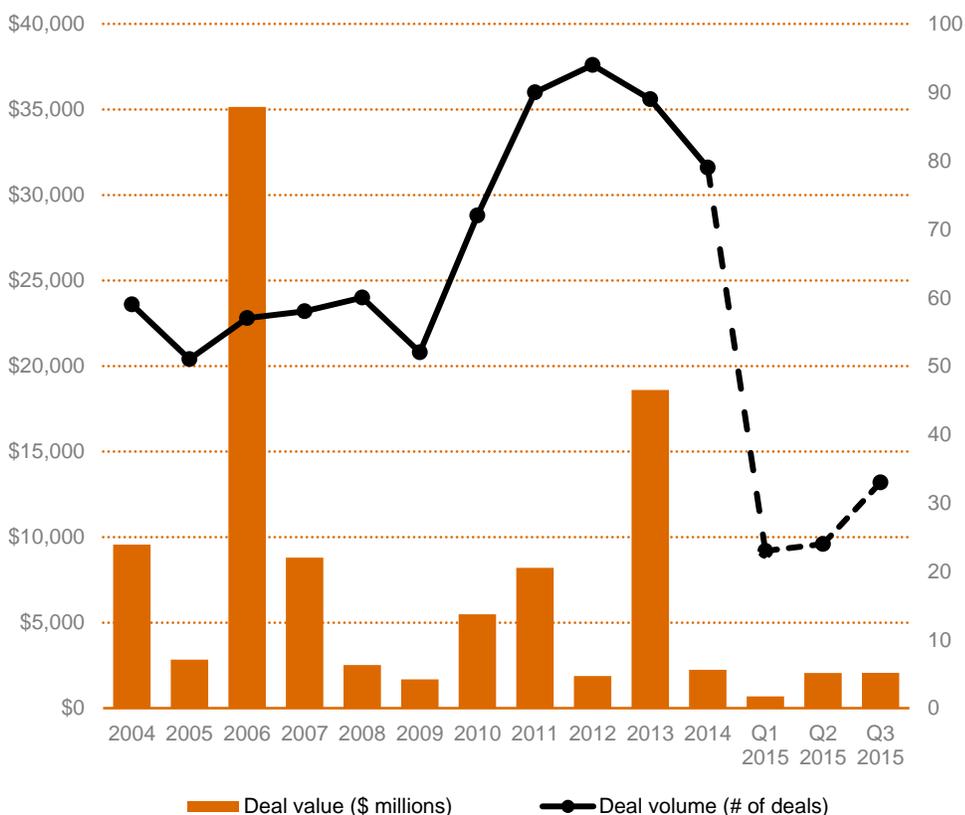
## Sector synopses: Hospitals

Both Q3 2015 deal volume and value were up significantly as compared to Q3 2014. With 33 deals announced in the third quarter, deal volume was up nearly 74% from the 19 announced in Q3 2014 and 38% higher than Q2 2015. This is particularly significant considering hospital transactions are only recorded when the definitive agreement is signed, due diligence is completed, and all parties are in agreement.

Deal value was nearly \$2.1 billion, which was a marked increase compared to the \$970 million reported in Q3 2014, and right in line with the \$2.1 billion reported last quarter, which included Ventas, Inc.'s \$1.75 billion bid for Ardent Health Services. Of the \$2.1 billion in Q3 2015, three deals represented nearly 93% of the total value, one of which was the anticipated transfer of the majority of Ardent Health Services' hospital operations to Equity Group Investments for \$475 million.

Also of note in 2015 is the prevalence of smaller hospitals joining larger entities. Of the deals involving US hospitals or health systems announced through Q3 2015, 52% of the targets were hospitals with 100 or fewer beds. This trend is attributed to the Affordable Care Act, as small community and rural hospitals are being squeezed by the ongoing effects of the Act and are looking to merge, partner, or affiliate with a larger health system or hospital.

Figure 1: Hospitals



Source: *The Health Care M&A Information Source*, [www.healthcareMandA.com](http://www.healthcareMandA.com)

## Q3 2015 selected deals

Table A

Announcement Date	Target	Acquirer	Deal value \$ (million)
7-Jul-15	Ardent Health hospital operations	Equity Group Investments, LLC	475
27-Jul-15	Capella Healthcare, Inc.	Medical Properties Trust, Inc.	900
30-Sep-15	West Jefferson Medical Center	LCMC Health	540

Source: *The Health Care M&A Information Source*, [www.healthcareMandA.com](http://www.healthcareMandA.com)

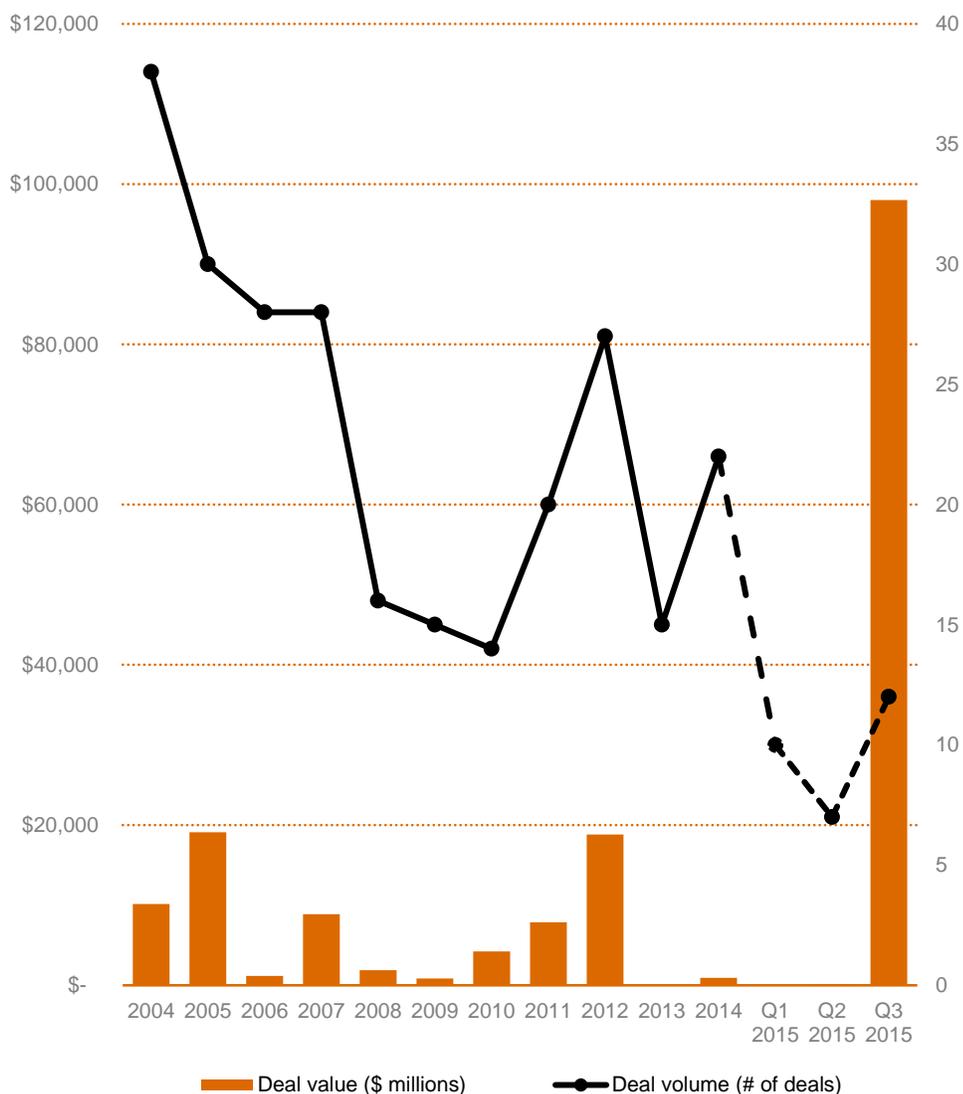
## Managed care

Q3 2015 demonstrated increasing consolidation in the Managed Care sector. Within Q3 2015 alone, 12 deals were announced compared to 5 deals during Q3 2014. The increasing number of transactions is also reflective with year-to-date deal volumes relative to the prior year. While the first nine months of 2014 had 18 announced deals, the first nine months of 2015 had 29 deals announced, a 61% increase.

Q3 2015 also began with three mega-deals being announced. These deals are indicative of the wave of consolidation being experienced by the sector. The deals were Anthem, Inc.'s announcement to acquire Cigna Corp. for \$54.2 billion, Aetna's announced acquisition of Humana, Inc. for \$37.0 billion and Centene Corp.'s announced acquisition of Health Net, Inc. for \$6.8 billion. Completion of these deals is subject to regulatory approval.

The overall value of announced deals in the first nine months of 2015 and in prior periods is not clear given the level of private acquisition activity with no disclosed deal value. However, the value of the three aforementioned deals announced was \$98.0 billion in aggregate and involved four of the five largest publicly traded health insurance firms (as ranked by total 2014 reported revenue).

Figure 2: Managed care



Source: The Health Care M&A Information Source, [www.healthcareMandA.com](http://www.healthcareMandA.com)

## Q3 2015 selected deals

Table B

Announcement date	Target	Acquirer	Deal value \$ (million)
2-July-15	Health Net, Inc.	Centene Corp.	6,800
3-July-15	Humana, Inc.	Aetna	37,000
24-July-15	Cigna Corp.	Anthem, Inc.	54,200

## Post-acute care

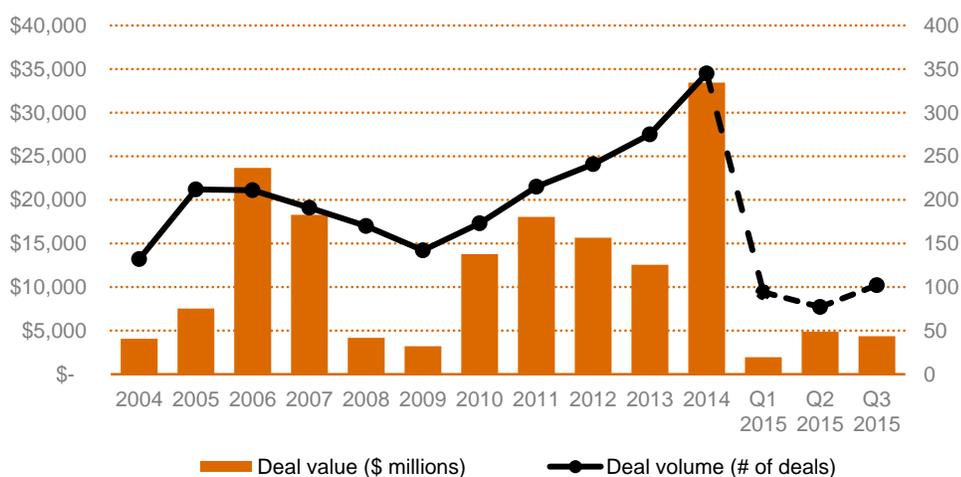
**Long-term care:** The three and nine months ending September 2015 demonstrated a slight uptick in deal volume over the prior year of 2% and 5%, respectively. However, published deal value declined significantly for the same periods. Total published deal values for Q3 2015 and nine months ending September 2015 were \$4.1 billion and \$10.0 billion, respectively, representing a decrease of 58% and 51%, respectively. There were two "large" deals announced in Q3 2015 over \$500 million, indicating the majority of the volume growth is from smaller targets. Q3 2015 brought the first \$1.0 billion plus deal in 2015, whereas four were announced in the nine months ending September 2014. Griffin-American Healthcare REIT III, Inc. entered into a joint venture with NorthStar Healthcare Income, Inc. to acquire Trilogy Healthcare Services, LLC for \$1.125 billion in September 2015. Trilogy includes 96 skilled nursing facilities and assisted living properties across a four state area. The other notable deal in Q3 2015 was BayBridge Seniors Housing acquisition of Amica Mature Lifestyles ("Amica") in September 2015 for \$804 million. Amica is a company listed on the Toronto Stock Exchange and represents 26 luxury senior residences in Ontario, British Columbia and Alberta.

**Home health:** Home health and rehabilitation: While the announced deal volume for Q3 2015 and nine months ending September 2015 of 8 and 30, respectively, has declined 47% and 40%, respectively, from the prior year, it should be noted that 2014 volume was the highest in over ten years. There have been very few deals with published value this year. The largest acquisition in Q3 2015 was by HealthSouth Corp., a publically traded company.

HealthSouth continued its streak of acquisitions and announced the acquisition of the home health agency operations of CareSouth Health System, Inc. for \$170 million. The target

includes 45 home health locations in 7 states and will be run by Encompass Home Health, an entity that was acquired in late 2014.

**Figure 3: Post-acute care**



Source: *The Health Care M&A Information Source*, [www.healthcareMandA.com](http://www.healthcareMandA.com)

## Q3 2015 selected deals

**Table C**

Announcement date	Target	Acquirer	Deal value \$ (million)
6-Aug-15	5 senior living communities	CNL Healthcare Properties, Inc.	195
1-Sep-15	9 senior care properties	Care Capital Properties	190
2-Sep-15	Amica Mature Lifestyles	BayBridge Seniors Housing	804
15-Sep-15	Trilogy Health Services, LLC	Griffin- American Healthcare	1,125
Other			1,795
Long-term care			4,109
# of deals			87
31-Aug-15	CareSouth Health System, Inc.	HealthSouth Corp.	170
Home health care & hospice			242
# of deals			8
Rehabilitation			4
# of deals			7
Total post-acute			4,355
# of deals			102

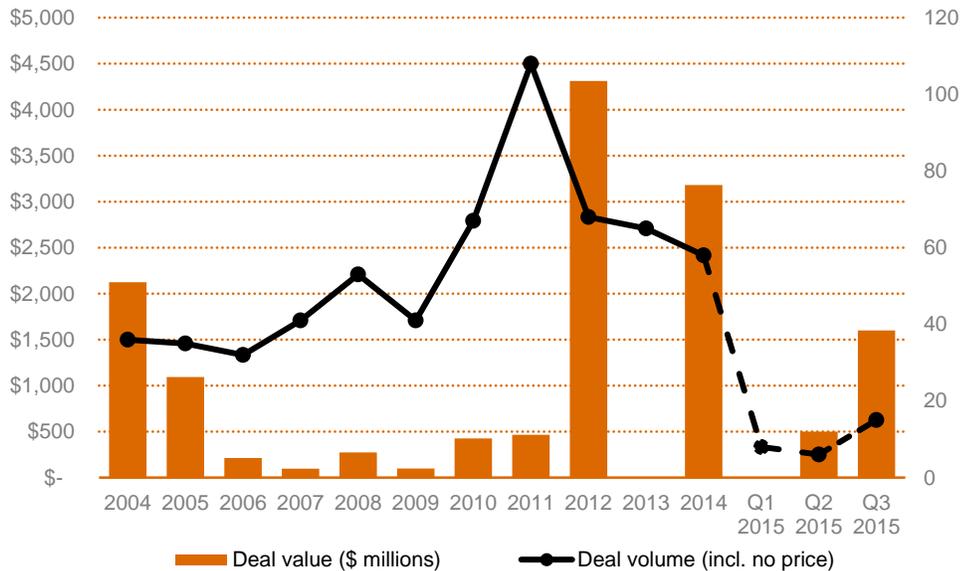
Source: *The Health Care M&A Information Source*, [www.healthcareMandA.com](http://www.healthcareMandA.com)

## Physician practices

Announced deal volume of 15 deals in Q3 2015 was up from the 14 deals reported in Q3 2014. The one notable transaction in Q3 2015 was TeamHealth Holdings \$1.6 billion announced acquisition of IPC Healthcare. This deal gives TeamHealth increased opportunity to effectively manage CMS's value-based bundled payment, with the combined organization managing more than \$2.0 billion in Medicare revenues.

The recent transaction by TeamHealth Holdings highlights a recent trend of large physician practice management companies acquiring complementary physician groups, similar to the MEDNAX's closed acquisition of Virtual Radiologic Corp. in Q2 2015. As these companies continue to attempt to gain scale and create more touchpoints with their existing customer base, and position themselves to manage the move to value based reimbursement, look for this trend to continue, especially within non-referral based specialties.

Figure 4: Physician medical group



Source: *The Health Care M&A Information Source*, [www.healthcareMandA.com](http://www.healthcareMandA.com)

## Private equity

In Q3 2015, private equity activity was stable with notable funds making investments across the provider and services space. While this quarter lacked megadeals, the acquisitions were indicative of continued private equity appetite in the health care space.

Deals in the dental space were popular this quarter highlighted by ABRY Partners recapitalization of North American Dental Group (“NADG”). NADG is a dental practice management company that provides comprehensive management and administrative services across 70 offices in the US. The Riverside Company is also participated as a minority investor in the transaction. Also in the dental space, Berkshire Partners acquired a majority interest in Affordable Care, Inc., which is a dental support organization for affiliated dental practices that focus exclusively on tooth replacement services.

Elsewhere, Welsh Carson Anderson and Stowe announced an investment in Emerus Holdings. Emerus partners with health systems nationally to fill access gaps and provide inpatient and diagnostic care expanding their partners’ branded clinical services. Thomas H. Lee Partners added to the list of transactions this quarter announcing its investment in Healthcare Staffing Services which provides rapid response nurse staffing services to healthcare facilities that have urgent needs for qualified nurses.

This quarter illustrates that the PE healthcare pipeline remains robust and there is growing diversification across the various healthcare subsectors. We are likely to see continued investment in middle

market providers of various niche services as the PE megacap market continues to face off against strategic investors.

## Other services

In Q3 2015, there were 31 transactions with an announced deal value of \$444 million which compares to 28 transactions with an announced deal value of \$478 million in the third quarter of 2014.

Highlighting third quarter activity is Hepalink USA’s announced acquisition of Cytovance Biologics for \$207 million. Cytovance is a contract development manufacturing company that operates from facilities at the Oklahoma University Research Park in Oklahoma City, OK. Hepalink USA, and its parent company Shenzhen

Hepalink Pharmaceutical, adds Cytovance to its existing US portfolio which also includes Wisconsin-based Scientific Protein Laboratories.

Other highlights this quarter included Inovalon Holdings acquisition of Avalere Health for \$140 million. Avalere is a provider of data-drive advisory services and business intelligence solutions to the pharmaceutical and life sciences industry. Inovalon is a similar technology company that uses data analytics to provide insight and impact in clinical outcomes, utilization and financial performance across the healthcare landscape. The acquisition supports Inovalon’s strategic expansion into the pharma / life sciences market.

## Q3 2015 selected deals

Table D – Other Services

Announcement Date	Target	Acquiror	Deal value \$ (million)
2-Jul-15	Referral Solutions Group, LLC	AAC Holdings, Inc.	60.0
2-Jul-15	Manatee Surgical Center	Caddis Health Care RE	5.5
10-Aug-15	BioScripts PBM business	ProCare Pharmacy Benefit	25.0
24-Aug-15	Avalere Health, Inc.	Inovalon Holdings, Inc.	140.0
24-Aug-15	Cytovance Biologics, Inc.	Hepalink USA, Inc.	207.0
15-Sep-15	The First String Healthcare	AMN Healthcare Services	6.5
Total value			444.0
Others			N/A
# of deals			31

Source: The Health Care M&A Information Source, [www.healthcareMandA.com](http://www.healthcareMandA.com)

## Spotlight article

# Staking Your Claim in the Healthcare Gold Rush

*Revolutionary changes in the delivery, financing, and management of healthcare present a choice: Do you want to be a gold miner or a bartender?*

In a few years, the idea of receiving medical treatment exclusively at a doctor's office or hospital will seem quaint. Wearable technologies, implanted devices, and smartphone apps allow continuous monitoring and create a ubiquitous, 24/7, digitized picture of your health that can be accessed and analyzed in real-time, anywhere. Data gathering isn't the only force moving treatment out of the doctor's office; telemedicine, home diagnostics, and retail clinics increasingly treat patients where they live and work. In the next decade, these trends will create a veritable gold rush in patient data and consumer options.

With incremental revenue, cost savings, and customer loyalty all up for grabs, a range of players—from consumer product companies to digital and mobile technology firms—are already fiercely staking their claim. As with the original Gold Rush of the 1840s, we believe two principal business models will emerge: *Goldminers*, who dig deep in one major area, and *Bartenders*, who offer customized and convenient options to address routine needs.

The Goldminer strategy will typically involve vertically integrated players (large institutions like insurers, hospitals, and physicians' groups) creating medical value by better managing the health of the heaviest users of healthcare: the 30% of patients with complex conditions that comprise 75% to 80% of all medical spending. By coordinating care more effectively and offering daily support—

through mobile communication and remote monitoring—along with community outreach, these companies can help shift care to more timely, home-based, and less costly interventions.

There is clear potential in this approach, yet it is a logical, tech-enabled extension of the traditional approach to healthcare. Providers still make the bulk of the decisions, and patients dutifully follow instructions.

The Bartender strategy represents a much more dramatic transformation. In this approach, new entrant companies (often players from outside healthcare—retail, software, electronics, and apparel) focus on empowering and creating a better experience for consumers by providing detailed, personalized health information and advice. This approach is profoundly disruptive, in that it circumvents the doctor-patient relationship and gives people far greater choice and control over where they receive care, how, and from whom. [As Eric Topol of Scripps Health put it](#), “The digitization of human beings will make a parody out of ‘doctor knows best.’”

For example, consider a woman with random heart palpitations. In the Goldminer approach, she would be enrolled in a preventive care program, the centerpiece of which could be an app for her phone that continually tracks cardiac activity, with the bulk of decisions centrally controlled through a clinical care team.

By contrast, a Bartender approach would be to sell the patient an ECG and lifestyle app for her

smartphone and let her retain control over the data. The patient records her daily activity through the app's intuitive interface and decides whether to send the data to her doctor, to a vendor's experts, or to a computer for continuous monitoring and interpretation. The app also tracks lifestyle behaviors such as exercise, diet, sleep, and medications. As data accumulates, patterns start to emerge, such as a correlation between certain medications and the severity and frequency of her palpitations. The app can suggest a range of interventions, from text-alert reminders of her medication schedule to automatically notifying a designated contact in an emergency. Every choice represents a potential revenue stream that is up for grabs between incumbents and new players.

One could even imagine the OnStar of healthcare—a subscription service via an implanted device that can detect if a heart attack is imminent, alert the patient to take action, or even send a message to 911 to send an ambulance if necessary. Throughout, the patient retains control over decisions and is continuously empowered by data.

These scenarios are already in play today. Mobile health company Alivecor [sells a device](#) that tracks ECGs via smartphone and provides consumers options for sharing and interpreting the data with third-party vendors and doctors. Device and analytic firms such as [WellDoc](#) and [BlueStar](#) use mobile self-management programs to monitor blood sugar

## Exhibit: Ways to Play

The new frontier of healthcare is encouraging innovation in business models. Here are some ways gold miners and bartenders are approaching the market.

	WAY TO PLAY	DESCRIPTION	EXAMPLES
GOLD MINERS	ACO/Value-Based Contract Enabler	Engages in or provides solutions that track health outcomes and motivate population management and shared savings	Banner Health Network, Aetna
	Population Health Enabler	Services and technology platforms for providers and employers to manage population health and wellness	Conifer, Truven
	Integrated Delivery System	Delivers primary and secondary care through owned and integrated assets	Kaiser Permanente, Geisinger
	Primary-Care Clinic-Based Delivery	Delivers primary care through owned or highly integrated clinics or other facilities	CareMore
	Bundled Care	Offers care payment or delivery model to encourage reduced costs and increase quality outcomes for discrete bundles	Cleveland Clinic
	Care Optimizer/Standardizer	Provides solutions that standardize and optimize clinical practice using research and analytics	XG Health Solutions
BARTENDERS	Customer Targeting	Uses insights about consumer preferences to design and optimize health and wellness outreach and programs	Silverlink, Redbrick Health
	Wearables/Health Apps	Collects consumer health data for apps and programs that assess health and inform changes in behavior or care	Sentrian, MyFitnessPal, Fitbit, Apple Watch
	Mobile/Personal Dx	Low-cost diagnostics and smartphone-enabled tools that empower consumers to be more involved in their diagnosis	CellScope, Therasol
	Patient Community	Digital forums that connect patients, allowing an exchange of experiences, insights, and support	PatientsLikeMe, Smart Patient
	Retail Solutions	Care (e.g., retail clinics) and coverage (e.g., in-store agents) services offered in retail settings	Walmart, Walgreens, emerging urgent care chains
	Telemedicine	Remote medical care delivered through mobile devices by text, email, or video call	Teladoc, American Well

and offer coaching to diabetic patients. Sentrian [feeds data from biohealth sensors](#) into IBM's artificial intelligence engine, Watson, to identify when an intervention may prevent a hospital admission. Apple's iWatch and Health app opens enormous possibilities for further innovation in wellness through continuous monitoring, particularly given that it comes through a brand that consumers are already passionate about. Technological advances based on the Bartender model will also push the boundaries of healthcare into new retail frontiers. Walgreens, for example, [has partnered with Therasol Technology](#), a company that can conduct lab tests with a pinprick sample, to expand the diagnostics available in its walk-in care locations.

Consumers who subscribe to such offerings will force traditional

providers to demonstrate value in new ways. With patients now owning and interpreting their health data, they will enter every medical encounter armed with meaningful, personalized expertise (not just a few pages printed from the internet). They may even choose to crowdsource their diagnosis in a forum like [CrowdMed](#). When expertise becomes tailored to the individual and broadly accessible, providers must add greater value through relationship-building and a deeper understanding of patient needs.

The new companies applying the bartender approach are by no means fringe players. They will fundamentally restructure the flow of money in healthcare—and create enormous medical value in the process. A forthcoming Strategy& study of profit pools in the future US healthcare value chain found that applying the Bartender model could reduce healthcare spending by \$400 billion a year by 2025. That is nearly

three times the reduction we saw in a scenario in which Goldminers dominated.

The Goldminer approach represents progress. But it is incremental progress within the current healthcare model. Bartenders, by contrast, will accelerate the transformation of the industry by profoundly challenging the industry's current "one-size-fits-all" standard of care and centralized clinical authority.

*Written by Sundar Subramanian, Carl Dumont, and Christoph Dankert of Strategy&, part of the PwC network, and Audris Wong, an independent consultant and editor specializing in technology-enabled transformation strategies and intellectual capital development. Article originally appeared in the Harvard Business Review and a version also appeared in the Autumn 2015 issue of strategy + business.*

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