

How Hospital Mergers and Acquisitions Benefit Communities

Updated Study by the Center for Healthcare Economics and Policy



Much that has been written and said about hospital mergers and acquisitions is misleading. What the facts show is that over the past six years, hospitals have responded to private sector and government incentives to provide higher quality and more efficient health care by, among other strategies, partnering with others. Sometimes those partnerships involved mergers with or acquisitions of other hospitals.

The overwhelming majority of those transactions are procompetitive and fully support the twin goals of higher quality and more affordable health care.

Facts: Nearly all hospital transactions have to be reported to the Federal Trade Commission and the Department of Justice's Antitrust Division (DOJ) for scrutiny. Even for those that do not have to be reported, typically because they are smaller transactions, FTC, DOJ and the state Attorneys General have the opportunity to (and often do) investigate if they believe the transaction raises competitive concerns.

Facts: Hospital markets are local. Determining the potential competitive impact of any transaction begins by looking for other hospitals in the area.

The Center for Healthcare Economics and Policy (Center) undertook a comprehensive study to determine just how many hospital transactions there have been since 2007 and how many hospitals remained in a local area following those transactions to provide options for patients in need of hospital care.

The Center measured the impact of these transactions by Metropolitan Statistical Area, which is a geographical region with a relatively high population density at its core and close economic ties throughout the area.

Facts: Between 2007 and June 2013, only a fraction of the hospital field, 607 hospitals or about 12% of community hospitals, have even been involved in a transaction (merger or acquisition).

- The transactions themselves have been modest: the average number of hospital acquired in a transaction was between 1-2.
- Of those hospitals that have been involved in a transaction, ***all but 22 have occurred in areas where there were more than 5 independent hospitals.*** That means there were plenty of hospitals left following the transaction to maintain a competitive marketplace.
- Looking more closely at hospitals included within this group of 22, the stories about how the transaction benefitted the community are compelling:
 - 9 of the transactions involved small hospitals with 50 or fewer beds; the type of hospitals that often struggle without a larger partner to supply essential capital or specialized expertise.



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Continued



- One of these hospitals (25 beds) was in bankruptcy when it was acquired,
 - For another, (25 beds) the acquisition promised construction of a replacement hospital and new services, such as a birthing center,
 - For another, (25 beds) the hospital's new partner immediately committed \$9.3 million to improve cash flow and develop new services for the county, including a new information system,
 - For another, (34 beds) its new partner committed \$10 million of new investment over 10 years,
 - For another, (50 beds) it was struggling with excess capacity when it was acquired,
 - For another, (12 beds) changed federal regulations made it difficult to grow or expand and the hospital likely would not have been able to stay open; plus the transaction was reviewed by the state attorney general.
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- For a slightly larger rural hospital (85 beds), the city approved the transaction to “ensure the long-term viability of the community’s acute care hospital, long-term care facility and independent living apartments for seniors.” Officials noted the challenging regulatory environment facing rural hospitals.
 - For a larger hospital, (120 beds) that was struggling financially, the acquisition allowed it to be transformed into a regional Children’s Hospital, with improved access and services. The transaction was closely reviewed and cleared, in writing, by FTC.
 - For another larger hospital, (99 beds) the transaction resulted in new access to technology and expanded services and a \$25 million commitment to a new Wellness Foundation.
 - For a larger hospital, (181 beds) it was losing money and had laid off 91 employees the year before it was acquired.
 - For another larger hospital, (200 beds) the transaction was reviewed and approved by the state Attorney General: a spokesman reported there were no “antitrust or charitable trust concerns” with the transaction.
 - For a rural hospital system the transaction funded replacement facilities for its health department, mental health and employee wellness programs. Prior to the transaction, the parties had a long term lease that the transaction replaced. The county manager described it as a “win-win” for the county.
 - For a transaction that involved two different hospitals being acquired at the same time (and was cleared by FTC), one of those hospitals was owned by a corporation that went out of business shortly after the acquisition and the other was suffering from a deteriorating facility, decreased patient volumes and various financial challenges.

The numbers of and the stories behind the transactions demonstrate that mergers and acquisitions are supporting the changing landscape of health in a positive way.



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Hospital Mergers and Acquisitions: 2007- June 2013

September 18, 2013

Overview

The Center for Healthcare Economics and Policy (“Center”), a separate business unit in the Economics Practice of FTI Consulting, Inc.,* was commissioned by the American Hospital Association to conduct a study of mergers and acquisitions over the 6 year period of 2007-2012 (“How Hospital Mergers and Acquisitions Benefit Communities”), and to update the study for the first half of 2013 (June 2013). The study uses information from:

- Irving Levin Associates, Inc., including *The Hospital Acquisition Report 2012-2013*
- Modern Healthcare, *Hospital Mergers and Acquisitions Reports*, 2007-2012
- American Hospital Association, *Healthcare QuickDisc*, 2008, 2010, 2011
- American Hospital Association, *Annual Survey Database*, 2012
- Center for Healthcare Economics and Policy, proprietary research

Update: The updated study was conducted using the same methodology and data sources as the 2007-2012 study. In the first half of 2013, there were 31 transactions involving 55 acquired hospitals. 22 of these transactions involved a single acquired hospital. There were 19 transactions that did not involve an overlap MSA. Of those with an overlap MSA (12 transactions), only 2 were in MSAs with 5 or fewer competitors at the time of the transaction.

*This updated study was conducted by Margaret E. Guerin-Calvert, President and Senior Managing Director, Senior Consultant, Eliot Davila, and Consultants Russell Keathley and Benjamin Spulber.

Number of Transactions and Hospitals Involved in Them Per Year 2007-June 2013

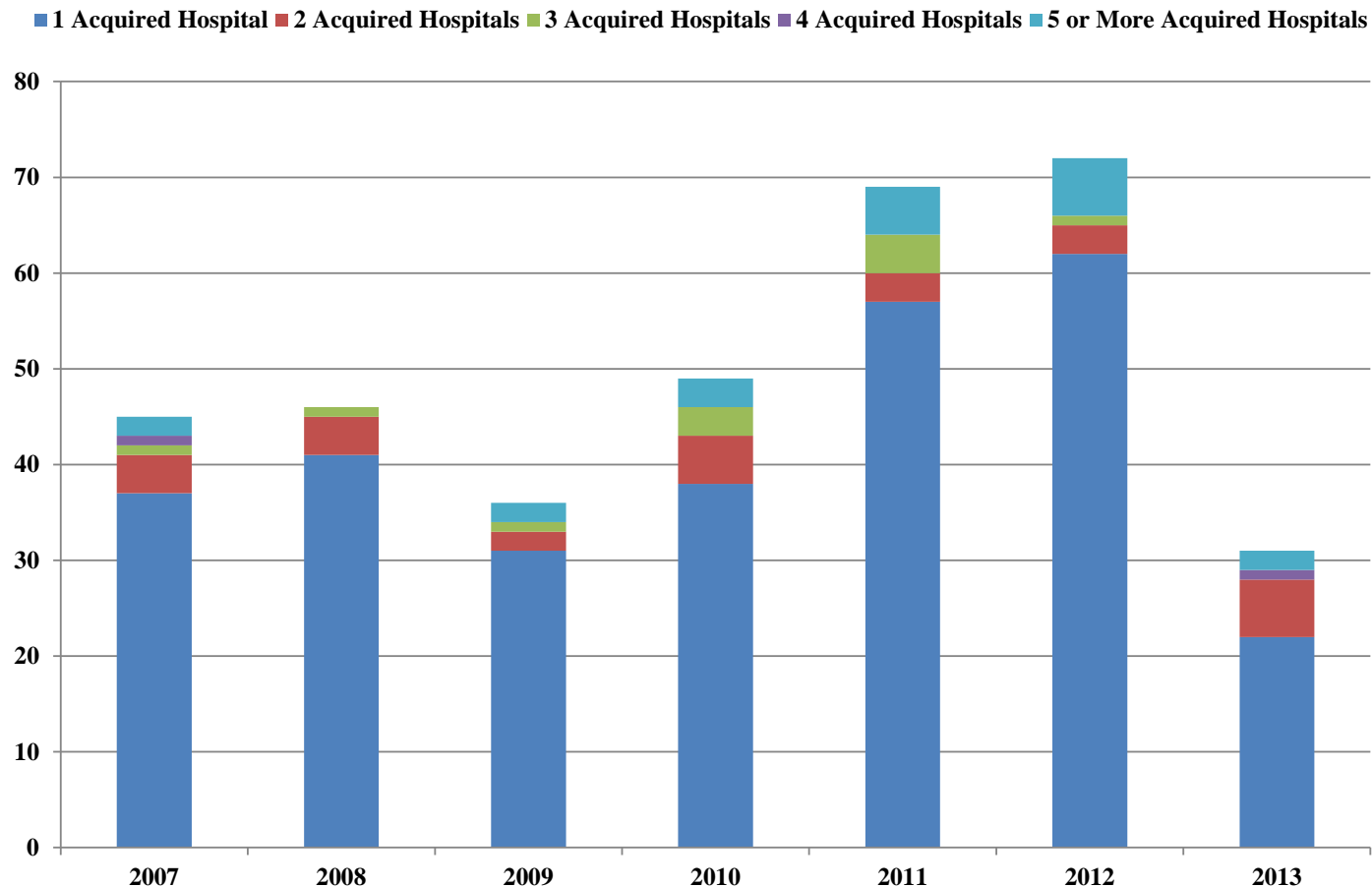
Year	Number of Transactions	Acquired Hospitals	
		Total Hospitals	Average Number of Hospitals Per Transaction
Total	348	607	1.7
2007	45	111	2.5
2008	46	52	1.1
2009	36	61	1.7
2010	49	90	1.8
2011	69	107	1.6
2012	72	131	1.8
2013	31	55	1.8

- From 2007 to 2012, there were 317 transactions,* with an additional 31 transactions in the first half of 2013, for a total of 348 transactions involving 607 acquired hospitals
- The average number of acquired hospitals per transaction was between 1 and 2

*One additional transaction is included for 2012 in this update.

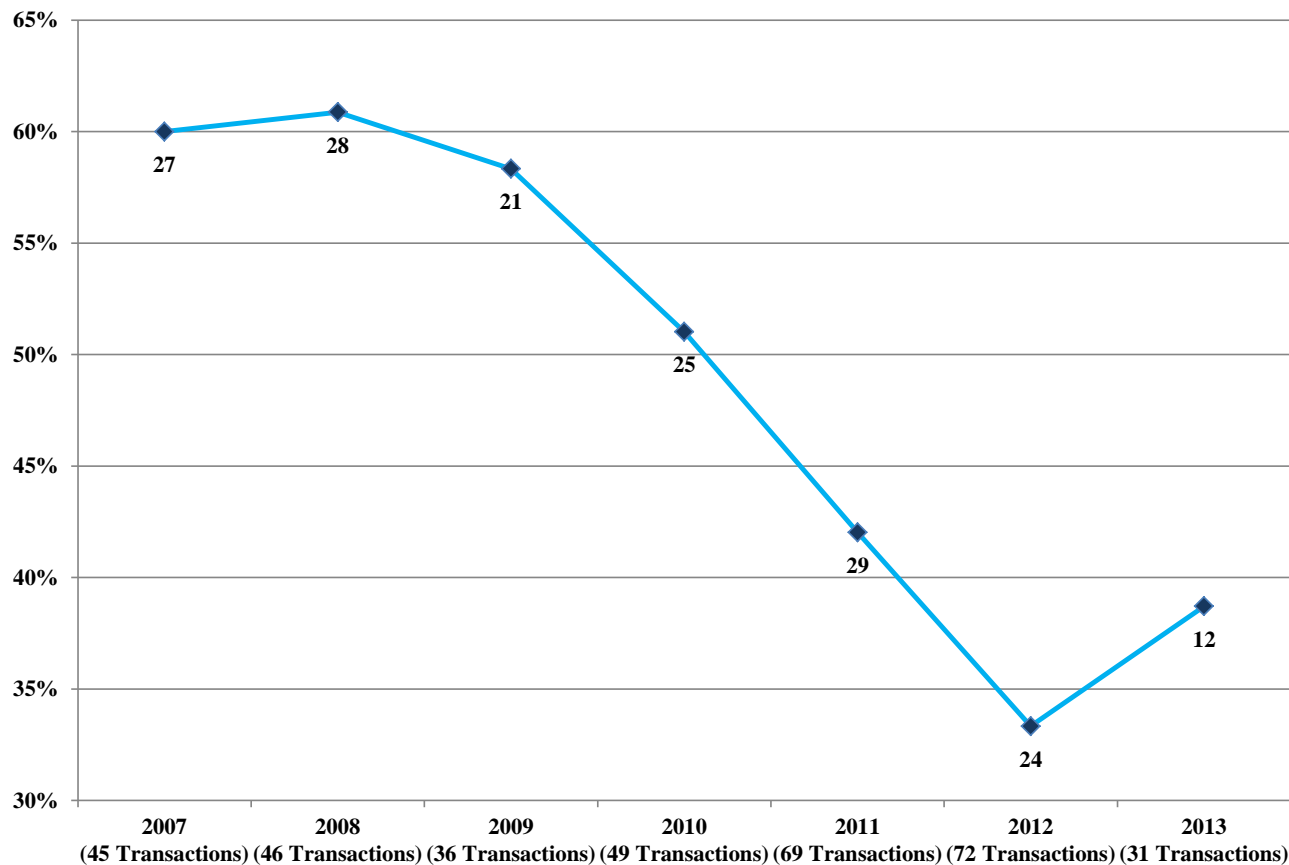
Note: Reported transactions exclude acquisitions by private equity firms or physician groups, vertical transactions, abandoned transactions and other non-hospital-to-hospital transactions. Pending transactions are included.

Frequency of Transactions by Number of Acquired Hospitals 2007-June 2013



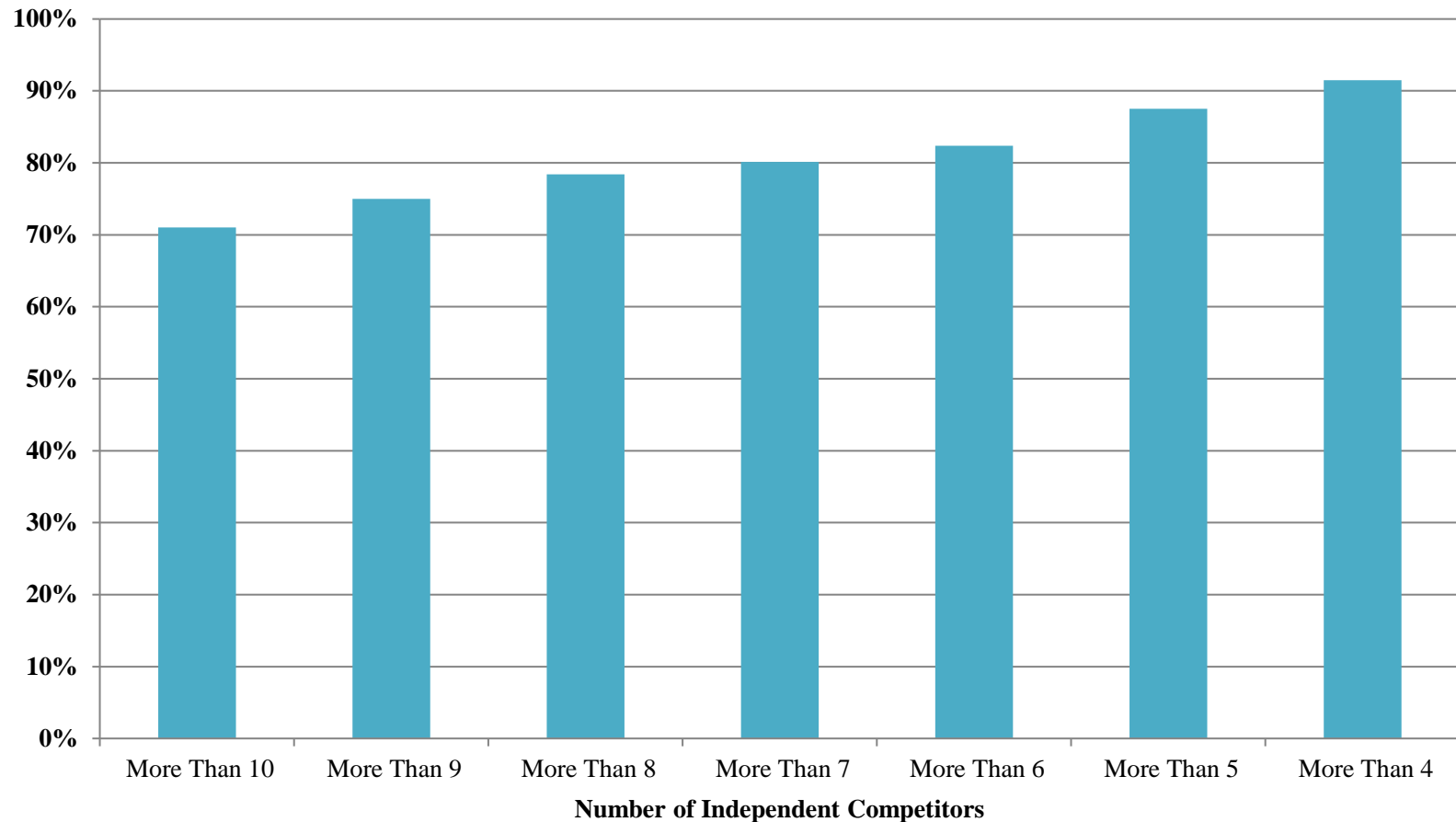
➤ *The majority of transactions between 2007 and 2013 involved a single acquired hospital*

Proportion of All Transactions with an Overlap in One or More MSA*; 2007-June 2013



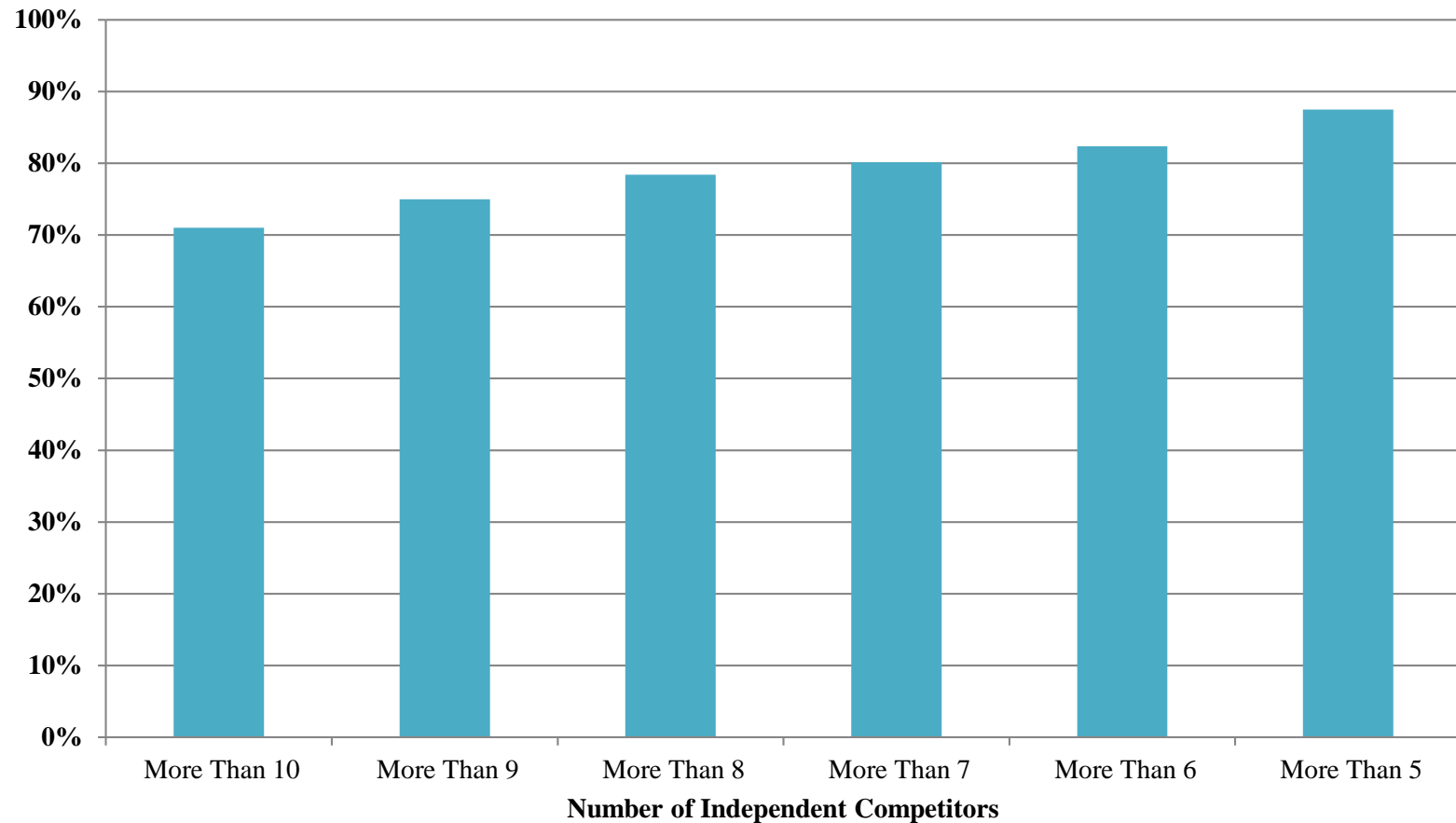
- *An MSA overlap occurs when both parties in a transaction operate a hospital in the same MSA*
- *The proportion of transactions that resulted in at least 1 MSA overlap fell from approximately 60% in 2007 and 2008 to less than 40% in both 2012 and the first half of 2013*

Percentage of MSA* Overlaps Occurring in MSAs with More than 4 Competitors (176 MSA Overlaps in 166 Transactions); 2007-June 2013



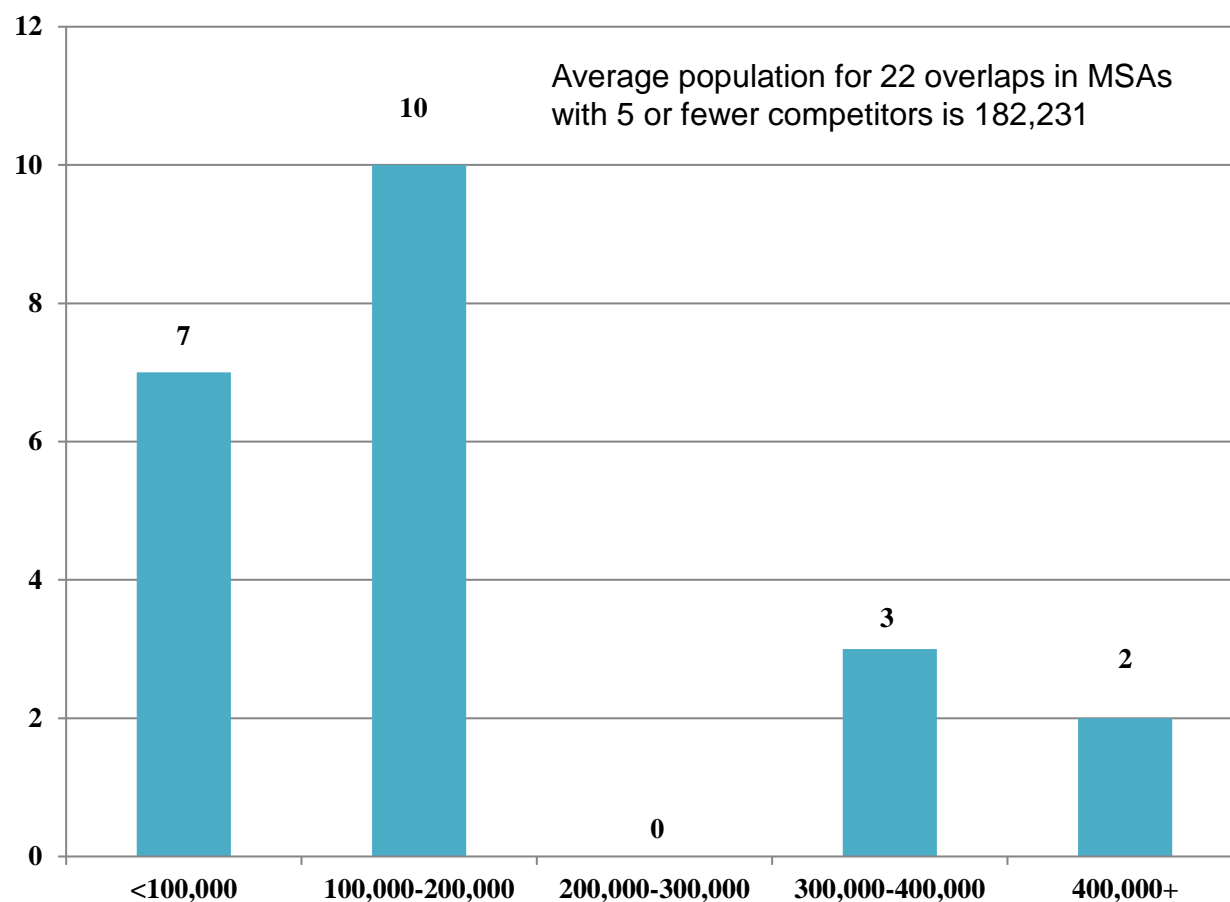
➤ *More than 91% of the overlaps were in MSAs with more than 4 competitors*

Percentage of MSA* Overlaps Occurring in MSAs with More than 5 Competitors (176 MSA Overlaps in 166 Transactions); 2007-June 2013



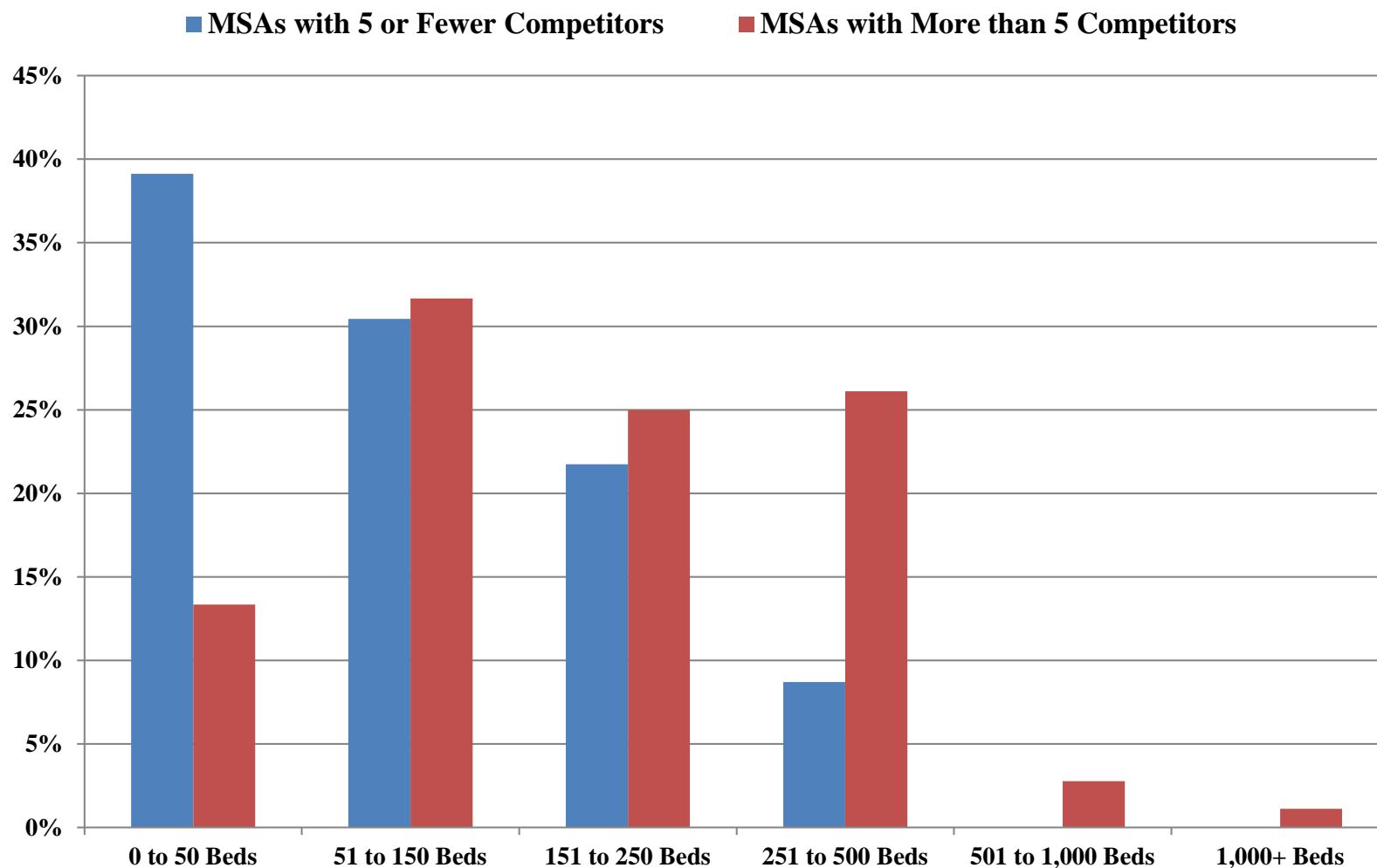
➤ *Almost 90% of the overlaps were in MSAs with more than 5 competitors*

Overlap MSAs* with 5 or Fewer Competitors (22 MSAs): MSA Population and Count of Overlaps; 2007-June 2013



- 22 MSA overlaps occurred in MSAs with 5 or fewer competitors
- 17 of these 22 MSAs had populations of less than 200,000

Distribution of Acquired Hospital Size in the 22 Overlap MSAs;* 2007-June 2013



Distribution of 22 MSA Overlaps by State and Year

State	Year	Acquired Hospital bed Size
California	2013	354
Georgia	2011	41
Louisiana	2008	171
Michigan	2007	181
	2008	99
	2010	34
Minnesota	2011	85
	2012	134
New Mexico	2011	12
New York	2009	199
North Carolina	2008	25
	2013	381
Ohio	2010	25
Oklahoma	2012	45
Pennsylvania	2007	200
South Carolina	2007	41
Tennessee	2012	118
Texas	2007	50
	2009	120
Virginia	2008	135
West Virginia	2010	194
Wisconsin	2011	25