

PUBLICATION SNAPSHOT

# HEALTH SYSTEM CONSOLIDATION

Navigating the New Wave  
of Mergers and Acquisitions

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## Navigating the New Wave of Mergers and Acquisitions

Health systems around the country are entering into new relationships at a frenetic pace. From small community hospitals to large systems, the mania for mergers and acquisitions (M&A) has become so widespread that some executives are predicting the demise of the independent hospital. Soon, the thinking goes, all hospitals and health systems will be swallowed up, leaving only a handful of national “mega-systems.” This leaves many leaders wondering if they also must get into a deal before it’s too late.

At the same time, many organizations do not recognize the value a partnership can bring until the wolves are at the door. At that stage, a hospital’s ability to negotiate an ownership deal that will ensure its ability to thrive in the future can be seriously compromised.

Not every independent hospital or health system needs to be part of a traditional merger or acquisition to be successful in the future. But whether or not to partner is one of the most critical judgments health care systems will make. And once a system has decided to consider a deal, determining the right timing, the right partner and the right transaction structure can literally mean the difference between a smooth integration that leads to success and a very bumpy ride.

*Health System Consolidation: Navigating the New Wave of Mergers and Acquisitions* is designed to help executives steer their organizations through the turbulent currents of rapid market consolidation.

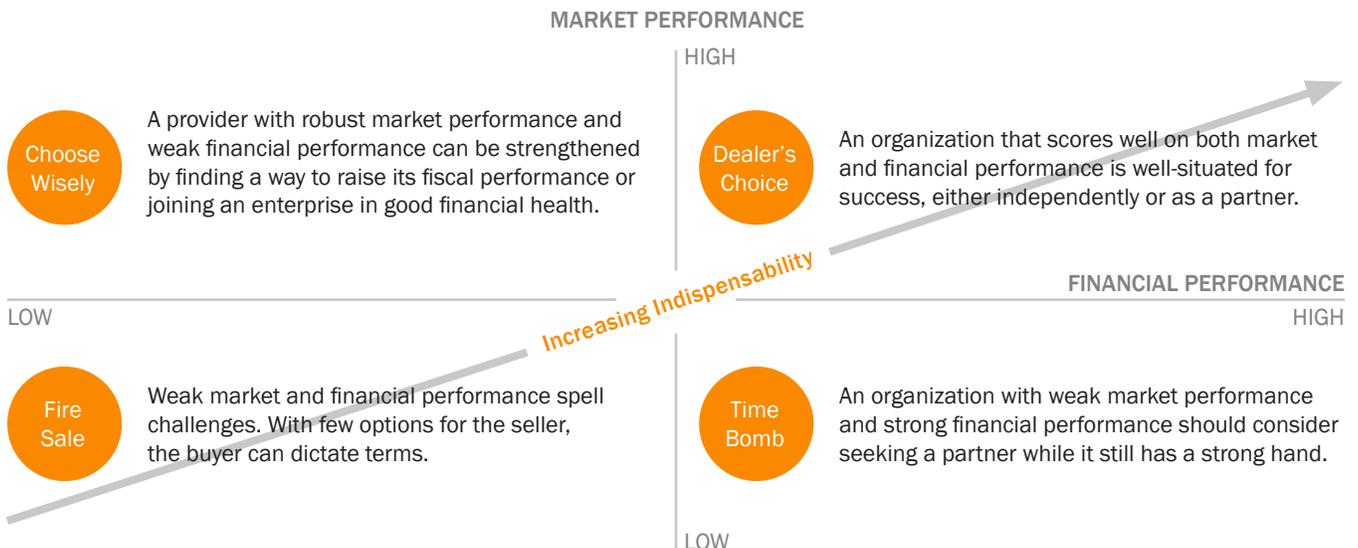
To request a copy of the full report, contact [membercenter@Sg2.com](mailto:membercenter@Sg2.com).

### Organizational Strategy Should Drive Consolidation Strategy, Not Vice Versa

#### Weigh Options Based on the Sg2 Indispensability Assessment

Despite the sense of urgency in the marketplace, partnership determinations should be methodical and proactive, and focused from start to finish on advancing the organization’s strategic objectives. They should be based on a quantitative evaluation of the system’s strengths and challenges. The Sg2 Indispensability Assessment allows health systems to evaluate their status in the partnership market and gauge either their ability to succeed as an independent entity or their strength of hand in deal making. Such work should be guided by legal counsel in light of the regulatory environment.

#### Sg2 Indispensability Assessment



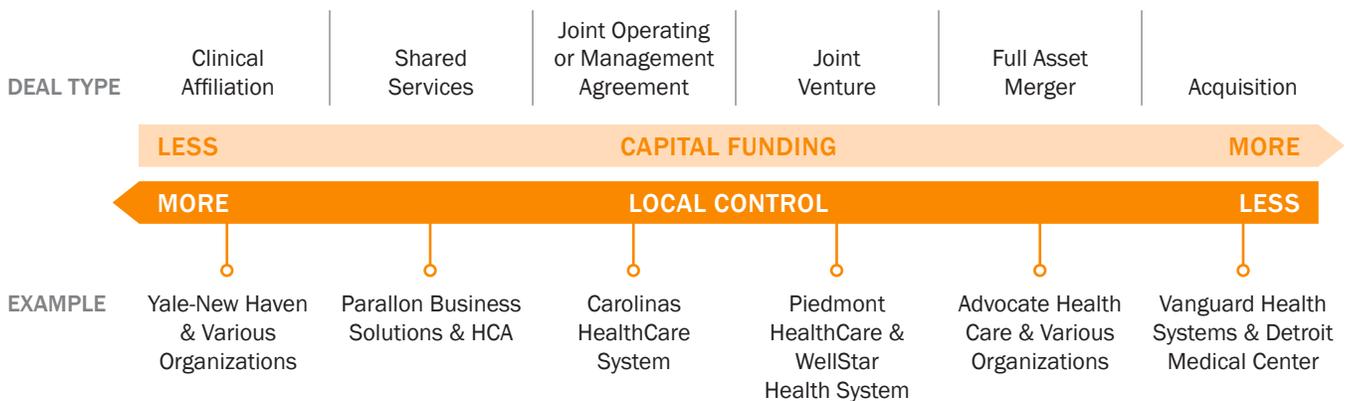
## Six Deal Types Dominate the Current M&A Landscape

- 1 **THE HOUSE IS ON FIRE.** Perhaps the most common type of transaction occurs when an organization is financially distressed and reaches the brink. The result is a “fire sale.”
- 2 **MY FORMER ENEMY IS MY NEW BEST FRIEND.** In this type of deal, which is almost always local, longtime competitors recognize their combined value is greater than the sum of their parts.
- 3 **ADJACENT MARKETS COME TOGETHER.** Two strong regional players with adjacent markets come together to manage costs and expand population health capabilities.
- 4 **BOLT ONTO A BIGGER CHASSIS.** Many recent partnerships involve either large facility-related capital commitments or deals between a not-for-profit independent hospital and an investor-owned chain.
- 5 **THE BIG FOUR ACQUIRE MORE.** The four largest Catholic health systems—Ascension Health, Catholic Health Initiatives, Dignity Health and Trinity Health—continue to acquire hospitals nationally.
- 6 **AMCs BECOME ACADEMIC MEDICAL SYSTEMS.** To solidify referral streams and build out their Systems of CARE, some academic medical centers are acquiring community hospitals.

## Strategy Also Determines the Optimal Transaction Structure

Strategic goals involving capital availability and local control generally dictate transaction type. But options abound, and partners can be creative in structuring the best deal to meet strategic needs.

### One Size Does Not Fit All: Organizational Needs Drive Transaction Structure



## ● Anticipate the Impact of Change

Sg2 is the health care industry's premier provider of market data and information. Our analytics and expertise help hospitals and health systems understand market dynamics and capitalize on opportunities for growth.

5250 Old Orchard Road  
Skokie, Illinois 60077

847.779.5300

**Sg2.com**

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