



JUNIPER ADVISORY

Post-Pandemic Provider Re-Alignment – Navigating an Uncertain Market

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Strategic Implications of COVID-19



“Thanks, Captain Obvious”



“ Covid-19 will change the face of the U.S. healthcare (provider) industry.

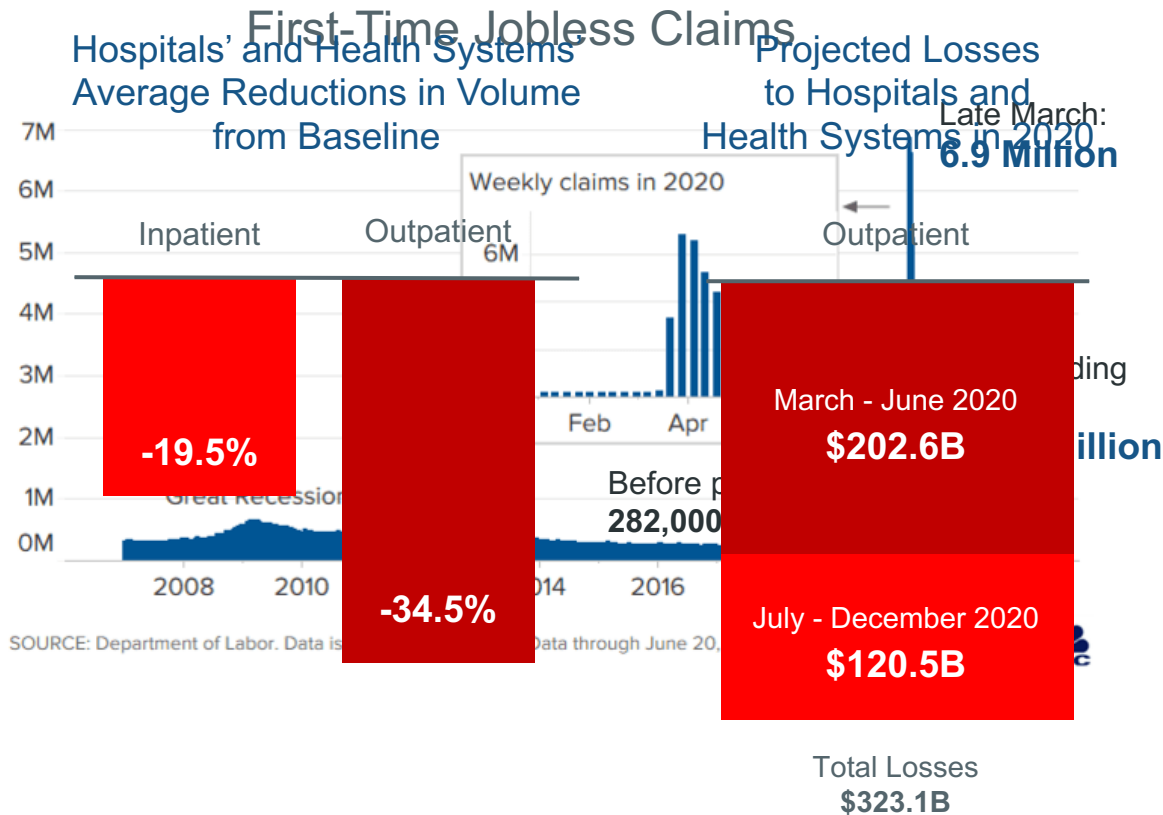
– Anonymous U.S. healthcare consultant(s)

Source: <https://www.investopedia.com/terms/e/economic-shock.asp>.

The Past Two Quarters Have Delivered Unprecedented Pain...



US HEALTHCARE INDUSTRY



Government Enacted Stimulus Laws

40% decrease

Phase 1
 Coronavirus Preparedness and Response Supplemental Appropriations Act (March 6th)
 \$8.3 Billion

114% increase

Phase 2
 Families First Coronavirus Response Act (March 18th)
 \$104 Billion

48% of respondents

Phase 3
 CARES Act (March 27th)
 \$2.2 Trillion
 said they or a family member had skipped or postponed medical care in the last three months

Phase 4
 Paycheck Protection Program and Health Care Enhancement Act (April 24th)
 \$484 Billion

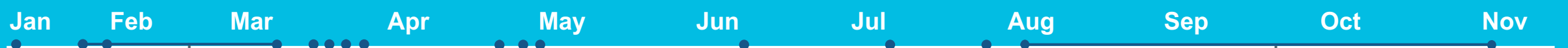
26% of respondents

Phase 4
 Heroes Act
 were willing to wait four months or more to seek previously forgone care
 \$1 - 3 Trillion??

Total \$3.8 - \$5.8 Trillion

CNBA. Total of those receiving unemployment benefits falls below 20 million, Jun 2020; Govtrack. H.R. 6201: Families First coronavirus Response Act, May 2020

...and Still Portend an Uncertain Future



- 12/31/2019:** China reports novel coronavirus to World Health Organization
- 1/31/20:** US declares Public Health Emergency
- 1/23/19-3/7/20:** Hubei Province (China) lockdown
- 3/15/20:** CDC issues guidance recommending postponement of elective procedures
- 3/19/20:** US social distancing (e.g., local/State stay-at-home/school closing orders) begins
- 3/26/20:** US posts record high jobless claims (3.3M)
- 3/27/20:** \$2.3T CARES Act passes Congress and signed into law
- 4/21/20:** US renews Public Health Emergency
- 4/28/20:** US cases reach 1 million
- 4/30/20:** US States begin to lift shelter-in-place orders
- 6/10/20:** US cases reach 2 million
- 7/8/20:** US cases reach 3 million
- 7/23/20:** US cases reach 4 million

- Unknowns:**
- Even further economic stimulus?
 - Long-term State budget implications
 - Community health status implications
 - Public health resourcing
 - Supply chain certainty

Sources: <https://www.axios.com/coronavirus-timeline-trump-administration-testing-c0858c03-5679-410b-baa4-dba048956bbf.html>, <https://www.nytimes.com/article/coronavirus-timeline.html>, <https://www.reuters.com/article/us-health-coronavirus-usa-surgery/u-s-hospitals-patients-cancel-elective-surgery-as-coronavirus-spreads-idUSKBN2133SK>, <https://www.bloomberg.com/news/articles/2020-03-26/u-s-jobless-claims-surged-to-record-3-28-million-last-week>.

Post-pandemic Re-alignment Expectations: Three Phases



1 Turbulent Restart

Remainder of 2020

- Organizations recalibrate market positions and revisit strategies
- Flood of relief funding skews outlooks
- At-risk providers begin to seek shelter
- Select, well-capitalized buyers move aggressively to improve positions

2 Industry Shake-Out

1-2 years

- Material uptick in M&A activity
- Significant activity among strong regional systems, insurers and private equity-backed disruptors
- More discerning buyers; higher due diligence thresholds
- Successful buyers able to demonstrate quality and efficiency

3 Rise of the Titans

3+ years

- Continued M&A wave; select national and/or regional mega-systems emerge
- Traditional delivery vs. financing distinctions recede with the emergence of payer-backed ambulatory-centric networks competing with traditional providers
- Organizations able to deliver on population health achieve growth and stability

Implications of COVID-19 on provider re-alignment



Early Indicators of Provider Re-alignment



Distressed Hospitals

- 42 hospital bankruptcy filings through June 30 (vs. 30 in all of calendar year 2019)
- Medicare Advance Payment recoupment just beginning
- Non-essential services re-closures occurring regionally
- AHA projecting median operating margins to drop from 3.5% down to -7%

Weary Majority of Hospital Systems

- Many systems, notably HCA, are reporting that a combination of cost cutting and federal grants have fully offset Covid losses to date
- Volumes are recovering, but regional and service area discrepancies are large
- Reluctance to pursue materially dilutive transactions, but strong systems still combining

Blurring Lines of Demarcation

- Blue Shield of California acquiring 2,700 physician Brown & Toland practice
- United's Optum subsidiary on track for >\$130B in revenue for 2020 and growing at ~16% year-over-year; nation's largest physician employer
- Boulder Community Hospital outsources revenue cycle to Optum

Sources: American Hospital Association; Strata; Kaufman Hall; Becker's Hospital Review; Business Insider Intelligence

Drivers of Provider Re-alignment in a COVID-19 Environment



- While financial impact was widespread, it was not uniform
 - Strength of balance sheet at start of pandemic
 - Incidence of physician employment
 - Range of service offerings
 - Participation in alternative revenue models
- Buoyed by federal grants, many escaped first wave of crisis relatively unscathed, but pressure continues
 - Medicare Advance Payments make balance sheets appear stronger than reality
 - Deteriorating payer mix driven by rising unemployment
 - Potential for follow-on non-essential services moratoriums without corresponding federal support
- Small, but significant, number of hospitals will pursue distressed sales or bankruptcy
 - Negative margins and low liquidity going into pandemic
 - “Missed” targeted CARES grants (mid-sized, semi-rural and mid-market, mid-payer mix)
 - Employed physician model with limited ability to adjust

Setting re-alignment expectations



Post-pandemic Re-alignment Expectations: Hospitals



Turbulent Restart <i>6–9 months</i>	<ul style="list-style-type: none">• “Have vs. have not” phenomenon is exacerbated• The financially distressed seek lifelines• Well-capitalized regional systems pursue opportunistic growth• Turnaround-focused, private, for-profit operators enter aggressively• Publicly traded health systems pursue only the most attractive scale opportunities
Industry Shake-Out <i>1–2 years</i>	<ul style="list-style-type: none">• Distressed sellers, especially rural, close as they continue to experience margin and liquidity pressures• Strong sellers seek partners with high quality and operational depth• Regional systems aggressively seek scale consolidation opportunities
Rise of the Titans <i>3+ years</i>	<ul style="list-style-type: none">• Declining governmental and commercial reimbursement• Large systems leverage scale for clinical and operational advantage and aggressively move to assume insurance risk• A select few integrated national mega-systems (~\$75B+ in net revenue) emerge

Source: Fuller, B. and Shields, J. June 2020. Provider Realignment Post-Pandemic. BoardRoom Press, June 2020.

Post-pandemic Re-alignment Expectations: Physicians



Turbulent Restart <i>6–9 months</i>	<ul style="list-style-type: none">• Practices reopen; pace of activity ramp-up highly variable• Hospitals and insurance companies that weathered the crisis with capital develop opportunistic physician growth strategies• Private equity active, but at lower multiples; some opportunities lost to strategic buyers
Industry Shake-Out <i>1–2 years</i>	<ul style="list-style-type: none">• Pre-crisis “physician land rush” escalates, beyond previous levels• Fierce competition for physician services across health systems, insurers, and private equity investors; primary care and procedural subspecialists represent hottest commodities
Rise of the Titans <i>3+ years</i>	<ul style="list-style-type: none">• Over three-quarters of physicians employed by large group practices, management companies, insurance companies, or hospitals• Private equity investments shift from practice consolidation towards innovation to support operational and clinical efficiencies• Integrated physician enterprises lead health systems toward displacing acute care’s traditional position at center of delivery industry

Source: Fuller, B. and Shields, J. June 2020. Provider Realignment Post-Pandemic. BoardRoom Press, June 2020.

Post-pandemic Re-alignment Expectations: Non-Acute



Turbulent Restart *6–9 months*

- Post-acute sector hit hard given fewer hospital discharges
- Pressure on senior living as move-ins slow
- Relatively quiet rebuilding period as businesses stabilize
- Some activity with select investor-backed and healthy system buyers

Industry Shake-Out *1–2 years*

- Increasing divide of “have” and “have not” segments within sectors
- Sellers will look first for buyers within their sub-industry, then to integrated systems and large insurers; troubled entities will close
- Ongoing shift from facility-based providers to lower cost settings

Rise of the Titans *3+ years*

- Increasingly, integrated mega-systems and insurers will add non-acute business lines and compete within these sectors
- Organizations that remain siloed will seek the scale needed to sign single-source service contracts with regional and national providers and payers
- Select private equity-driven sector roll-ups will achieve scale and be taken public

Source: Fuller, B. and Shields, J. June 2020. Provider Realignment Post-Pandemic. BoardRoom Press, June 2020.

Takeaways – Providers Need to Answer Tough Questions



1. Is your organization financially able to weather outsized uncertainty for another six, nine, 18 months?
2. An even longer recovery period (think 2022-2023)?
3. Post-crisis and recovery, will your organization be sufficiently capitalized to move forward with your growth strategy over the long-term?
4. If the answer to any of the above is “no,” what are your organization’s strategic objectives and what are the required vehicles to help you achieve your vision?

Question & Answer

