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8 Key Considerations in the Sale of Hospitals



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1. Industry Trends

1. Changes in Transaction Structure
2. Increase in Hospital Systemization (65% in 2016 versus 55% in 2008)

Table 3: Hospital System Development*

| | 1995 | 2000 | 2005 | 2008 | 2013 | 2016 |
|---|-------|-------|-------|-------|-------|-------|
| Total hospitals | 5,031 | 4,680 | 4,582 | 4,541 | 4,388 | 4,330 |
| Total hospital systems | 253 | 266 | 314 | 330 | 362 | 386 |
| Hospitals in systems | 2,040 | 2,291 | 2,387 | 2,488 | 2,482 | 2,825 |
| Hospitals per system | 8.1 | 8.6 | 7.6 | 7.5 | 6.9 | 7.3 |
| Proportion of hospitals in systems | 41% | 49% | 52% | 55% | 57% | 65% |
| Independent hospitals— not in a system | 2,991 | 2,389 | 2,195 | 2,053 | 1,906 | 1,505 |
| Proportion of hospitals not in systems | 59% | 51% | 48% | 45% | 43% | 35% |

Sources: American Hospital Association, *Modern Healthcare*, Definitive Healthcare, Juniper estimates.

3. Increase in Nonprofit Buyers
4. Consolidation of Health Systems and the Health Care Industry as a Whole
5. Entry into Clinically Integrated Networks

* James Burgdorfer, *Hospital Industry Structure: Considering the Impact of the Affordable Care Act*, Juniper Advisory (Feb. 2017).

2. Contemplating a Transaction

1. Pre-Transaction Diligence

- Key considerations include: (i) physician financial relationships; (ii) billing and coding concerns; (iii) payor relationships; (iv) licenses, permits, and accreditations

2. Government Approvals and Disclosures

3. Conducting Audits

4. Identifying Other Key Liabilities

- Examples include: (i) unfunded pension or benefit liabilities; (ii) unions/collective bargaining agreements; (iii) real estate leases; and (iv) restrictions on assets

3. Key Advisors

Select a few key advisors to assist you from the beginning of the transaction and add others into the process as it develops. These individuals include:

1. Accountants
2. Attorneys
 - General Counsel and M&A Counsel
3. Investment Bankers
4. Real Estate Advisors
5. Hospital Board of Trustees (Special Committee)

4. Antitrust Issues

Central Concern: Will the transaction substantially lessen competition?

- Market Share Analysis
- Relevant Geographic Area
- Product Market

Recent Activity:

- NorthShore/Advocate
- Penn State / Pinnacle

5. Transaction Structures

1. Asset Purchase
 - Typical structure for a transaction involving a for-profit entity purchasing a nonprofit entity
2. Membership Interest Substitution (Stock Deal)
 - Typical structure for a transaction involving a nonprofit entity purchasing another nonprofit entity
3. Joint Venture
4. Management Agreement
5. Lease Arrangement

6. Transaction Consideration

1. Purchase Price
2. Assumption or Guarantee of Liabilities
3. Capital Commitments
4. Investments in Medical Staff
5. Charitable Foundations

7. Stakeholder Outreach

1. Design a transaction process that anticipates community concerns and that proactively and transparently addresses those concerns
2. Secure investments in the community (both economic and non-economic)
3. Continue/recognize the seller entity's charitable mission (if applicable)
4. Communicate the Board's fiduciary duties with regard to the transaction
5. Focus on medical staff relations

8. Looking Forward

1. Physician owned hospitals
2. FTC/DOJ changes
3. ACA and repeal
4. Rural hospitals

Questions or Comments?

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