

July 31, 2024

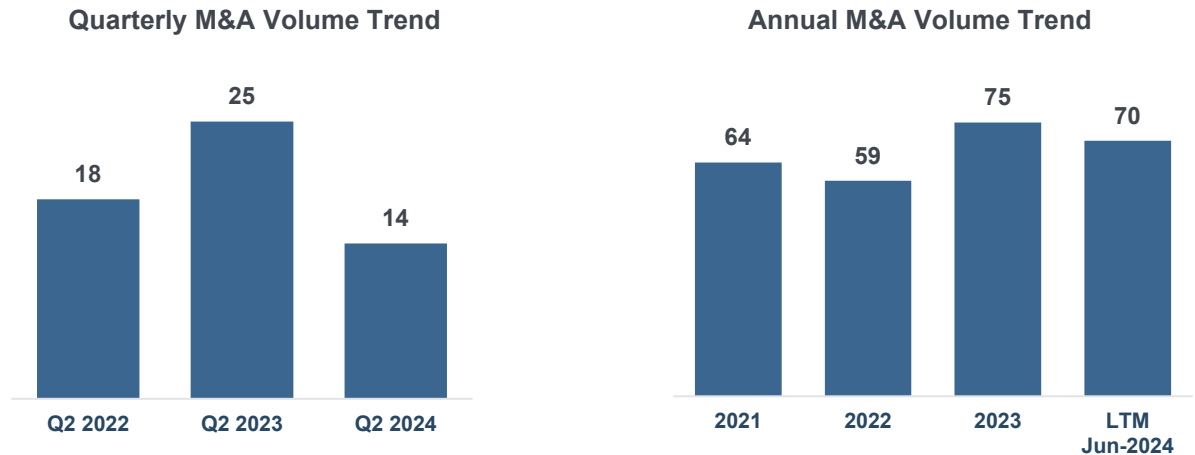
Cain Brothers Health Systems Insights



Hospital and Health System M&A: Q2 2024 Review

M&A Volume Lighter, but Certain Noteworthy Deals

While the hospital and health system M&A volume in the second quarter of 2024 was lower than prior quarters, there were a few noteworthy transactions that have widespread industry implications. There were 14 M&A deals announced in the second quarter of 2024 with \$9.2 billion in revenues for targets vs. 25 deals in Q2 2023 with \$18 billion in revenues for targets. The 70 deals announced in the last 12 months is consistent with the prior year averages. With financial challenges across many systems, in particular with large multi-market systems seeking to divest, we expect the number of hospital and health system mergers, acquisitions, and divestitures to greatly increase.



There were some significant industry headlines that made waves in Q2, including newly formed Risant Health's acquisition of Cone Health. This quarter saw the continuation of a challenging operating environment as financial pressures for systems deepened. At the same time, a difficult regulatory environment continues to prove to be a barrier to finalizing transactions.



Risant Health, a non-profit subsidiary of **Kaiser Permanente**, announced it had signed a definitive agreement to acquire **Cone Health**, a Greensboro, NC health system. The announcement comes after Risant had completed its acquisition of Pennsylvania's **Geisinger Health** earlier this year. When Risant was formed in 2023, Kaiser announced the newly formed health system would act as Kaiser's vehicle to acquire other non-profit health systems with targets to include sizeable health systems that integrate care delivery models with health plans. With its second acquisition in less than a year, we are seeing Kaiser's strategy play out in real time.

Cone Health operates four acute-care hospitals, three ambulatory surgery centers, and over 100 physician practices employing over 700 physicians in the greater Greensboro area. Cone is also a majority owner in HealthTeam Advantage, a Medicare Advantage plan with approximately 17,000 lives in North Carolina. While the transaction with Risant is subject to regulatory review and approval, the intent will be for Cone Health to maintain its brand, board, and leadership team. Risant will provide technology, back office, and revenue cycle support with the goal to reduce cost of clinical care.

Financial challenges affecting health systems were a consistent theme this quarter, with major headlines putting the spotlight on certain health systems in particular. In early May, Dallas-based **Steward Healthcare** filed for Chapter 11 Bankruptcy. The filing came after months of reports that the system was enduring severe financial challenges and would be looking for a partner to acquire a number of its hospital locations. Steward operates 33 hospitals in seven states as well as Stewardship Health, the system's physician group that it also plans to sell.



Also in New England, **Yale New Haven Health** filed a lawsuit against **Prospect Medical Holdings** in May, in an attempt to cancel its agreement to acquire three Prospect hospitals in Connecticut. In 2022, Yale New Haven Health executed an agreement to acquire Waterbury Hospital, Manchester Memorial Hospital, Rockville General Hospital from Prospect for \$435 million. Yale alleges the hospitals were in worse financial condition than previously disclosed, driven partially by poor financial management during the period between deal execution and close. Yale argues that closing conditions have not been met and is therefore not obligated to complete the transaction. The dispute continued in early June with Prospect filing a countersuit against Yale, demanding Yale complete the transaction or pay \$435 million in damages. The cases currently sit under review in Connecticut Superior Court.



On the hospital real estate front, Desert Regional Health District in Palm Springs, CA renewed a 30-year lease with Tenet Healthcare to operate Desert Regional Medical Center through May 2057, which would also provide Tenet the option to purchase the hospital at the end of the lease. Under the terms of the lease, Tenet would commit to paying the Desert Healthcare District, which owns the hospital, \$650 million over 30 years and provide the necessary funding to upgrade the facility to California seismic standards.



On the regulatory front, in June, North Carolina-based **Novant Health** announced it was calling off its proposed acquisition of two **CHS** hospitals in the Lake Norman area north of Charlotte. Announced in February 2023, the deal faced almost immediate antitrust scrutiny from regulators. Earlier this year, the FTC filed a lawsuit in the U.S. District Court for the Western District of North Carolina citing the deal would give Novant 64% of the market share in the Eastern Lake Norman Area. A Federal Judge ruled in Novant's favor and rejected the FTC's request for a preliminary injunction to block the transaction. Taken to the Fourth Circuit Court of Appeals, the Court granted the FTC's request for an emergency injunction blocking the sale. The latest legal attempt in the appeals court was the primary motivating factor for Novant calling off the deal. With an election looming later this year, it will be interesting to see if other regulatory challenges present themselves, particularly with the transactions announced in the first six months of 2024.



Although financial and regulatory pressures continued in the second quarter, there were a few notable regional transactions that were announced or finalized, as systems aim to grow and enter new geographies. **MultiCare Health System** announced its intent to acquire **Overlake Medical Center**, a 349-bed hospital in Bellevue, Washington. MultiCare has had a recent history of acquisitive growth in the state, with its acquisition of Rockwood Health System in the Spokane area in 2017, Capital Medical Center in Olympia in 2021, and Yakima Valley Memorial Hospital in Central Washington in 2023. Overlake is situated in a growing part of the Seattle area thanks to many tech jobs and satellite offices of companies such as Amazon, Microsoft, and Salesforce. The Overlake acquisition expands MultiCare’s presence into the North Puget Sound area, and both organizations hope to expand value-based care programs and offer a greater array of clinical services to the communities of King and Snohomish counties.



Two large health system mergers were finalized this quarter, following a trend of super regional system affiliations across markets. **Lehigh Valley Health Network** and **Jefferson Health** finalized their merger, creating an integrated health care delivery system that include 30 hospitals, primary care sites, and ambulatory and post-acute services across Pennsylvania and New Jersey. Also finalized this quarter was **Legacy Health’s** merger with **Oregon Health & Science University** (“OHSU”), forming a 10-hospital system in Oregon. OHSU, is a state affiliate Academic Medical Center (“AMC”), with affiliations in the Portland area formed with Tuality Healthcare and Adventist Health in 2016 and 2017, respectively. Both transactions demonstrate that despite increased regulatory scrutiny, transactions can get done if the business case is sufficient enough to prove that the integration of systems is better off for the hospitals, patients, and communities.



There were also a number of transactions ranging from health system expansion opportunities to single hospital acquisitions. Below are highlights of a few other notable transactions announced this quarter:

In late June, **BayCare** announced it had completed its restructuring with **Trinity Health**, replacing the joint operating agreement (“JOA”) that had existed between the organizations for over 25 years. The new structure allows BayCare to operate as an independent health system, serving patients in the Gulf Coast of Florida, which include lives under its Medicare Advantage plan, BayCare Plus.



In **The University of Alabama Health System** (“UAB Health”) announced its plans to acquire **Ascension St. Vincent’s Health System** from **Ascension** for \$450 million. The transaction will add five Ascension hospitals in the greater Birmingham area to UAB Health’s 17 hospital network in the state. The transaction comes on the heels of several recent Ascension hospital sales, including five announced since early 2023.

UAB HEALTH SYSTEM



Also in June, CommonSpirit signed a Letter of Intent to divest its Devils Lake Hospital in North Dakota to Altru Health System. Devils Lake Hospital is a 25-bed Critical Access Hospital in Devils Lake, situated west of Grand Forks, ND. Altru Health System was the first affiliate member of the Mayo Clinic Care Network and employs 3,500 medical professionals while serving 230,000 of Northeast North Dakota. The deal is expected to be finalized by the end of 2024.



In May, **OSF Healthcare** announced it had signed an agreement to acquire **Katherine Shaw Bethea Hospital** in Dixon, Illinois. Under the terms of the deal, OSF will commit to \$40 million in capital spending at the hospital, as the hospital joins OSF's network of 16 hospitals across Illinois and Michigan. The two organizations are finalizing the details of the acquisition before it proceeds into regulatory review later this year.



In April, **The University of Kentucky Health System** ("UK HealthCare") received approval from the University's Board of Trustees to acquire **St. Claire Healthcare**. The proposed acquisition would add the 139-bed St. Clare Regional Medical Center in Eastern Kentucky to UK Healthcare's four hospital portfolio. The organizations are working through the regulatory review process and the deal is expected to be finalized in July.



Following a period of divestitures, **Community Health Systems** ("CHS") announced it plans to sell **Tennova Healthcare** to **Hamilton Healthcare System** in April. Tennova operates a 351-bed hospital and ancillary care locations in and around Cleveland, Tennessee. Hamilton Healthcare System, which operates Hamilton Medical Center in Dalton, Georgia, agreed to pay CHS \$160 million for Tennova. The transaction is expected to close in the third quarter of 2024.




Key themes of financial distress amid the navigation of uncertain regulatory waters will continue to be a theme as we enter the second half of the year. Larger systems will continue to rationalize their portfolios while smaller systems and standalone hospitals will continue to revisit their long-term strategies as strong regional systems with scale look to take advantage of strategic acquisition opportunities. The industry has been bifurcating between the haves and the have nots. This bifurcation will likely accelerate. Sellers with strong market positions will demand a premium, but it will be a challenging M&A market for many other hospitals. An already tenuous operating environment will be holding its breath with political uncertainty on the horizon with the forthcoming Presidential Election. Contact the Cain Brothers Health Systems investment banking team to help your organization think through complex deal structure, hear our views of the current healthcare climate, or discuss any of these recent announcements or industry trends (*see last page for contact information*).

Q2 2024 Announced Hospital and Health Systems M&A Transactions

Seller Name	State	Seller Status	Revenue (\$MM)	Buyer	Buyer Status	Revenue (\$MM)	Announced
Trinity Health / BayCare	FL	Non-Profit	\$4,883	BayCare	Non-Profit	\$4,883	6/30/2024
Devils Lake Hospital (CommonSpirit)	ND	Non-Profit	\$28	Altru Health System	Non-Profit	\$580	6/28/2024
Ascension St. Vincent's Health System	AL	Non-Profit	\$862	UAB Health System	Non-Profit	\$2,759	6/25/2024
Cone Health	NC	Non-Profit	\$1,560	Kaiser Permanente / Risant Health	Non-Profit	\$100,847	6/24/2024
Scott County Community Hospital, Inc. (DBA Big South Fork Medical)	TN	For Profit	N.R.	FOXO Technologies Inc.	For Profit	N.R.	6/14/2024
Jackson Hospital	AL	Non-Profit	\$323	HumanityCorp	For Profit	N.R.	6/6/2024
River Crest Hospital (UHS)	TX	For Profit	N.R.	Shannon Health	Non-Profit	\$726	6/5/2024
Trinity Health Livingston	MI	Non-Profit	\$206	Catholic Healthcare International (CHI)	Non-Profit	N.R.	6/3/2024
Logan Memorial Hospital	KY	Non-Profit	\$22	Med Center Health	Non-Profit	\$588	5/29/2024
Santiam Hospitals and Clinics	OR	Non-Profit	\$96	Samaritan Health Services	Non-Profit	\$1,195	5/22/2024
Overlake Medical Center & Clinics	WA	Non-Profit	\$737	MultiCare Health System	Non-Profit	\$4,738	5/21/2024
Katherine Shaw Bethea Hospital	IL	Non-Profit	\$139	OSF HealthCare	Non-Profit	\$3,775	5/10/2024
St. Claire HealthCare	KY	Non-Profit	\$212	The University of Kentucky Health System	Non-Profit	\$3,930	4/29/2024
Tennova Healthcare – Cleveland (CHS)	TN	For Profit	\$173	Hamilton Health Care System, Inc.	Non-Profit	\$350	4/18/2024

Cain Brothers: Recent Health Systems M&A Transaction Spotlight

May 2024

MultiCare 

has entered into an affiliation agreement with

OVERLAKE (MEDICAL CENTER & CLINICS)

Buy-Side Advisor

Buy-side financial advisor to MultiCare

- Retained by MultiCare as exclusive buy-side advisor on the acquisition of Overlake Medical Center & Clinics
- This affiliation will help achieve MultiCare and OMCC's shared goal of retaining and expanding local access to health care while maintaining their long-term commitment to deliver the highest quality, most advanced health care to communities across Washington
- Overlake Medical Center & Clinics is a nonprofit regional health care system based in Bellevue, WA. The health system includes a 349-bed hospital and a growing network of primary, urgent and specialty care clinics.
- MultiCare is the largest, not-for-profit, community-based, locally-owned health system in the State of Washington. With more than 23,000 team members, its network of care includes 12 hospitals and 240+ clinics in both the Puget Sound and Inland Northwest regions.

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October 2023

USA HEALTH

has acquired

Providence Health System
from

Ascension

Buy-Side Advisor

Buy-side financial advisor to USA Health

- Retained by University of South Alabama Health Care Authority ("USA Health") as its exclusive buy-side advisor on its acquisition of Providence Health System from Ascension.
- The transaction expands USA Health's footprint in the greater Mobile market, ensuring that the community has access to sustainable, quality healthcare long into the future.
- USA Health is located in Mobile, AL, and stands as the only academic health system along the upper Gulf Coast. The system is comprised of nearly 30 care delivery locations, including the USA Health University Hospital.
- Providence Health System is a full-service 349-bed hospital with 24/7 emergency care and is a Level III trauma center.

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March 2023

Starling Physicians
Healthcare the way it should be

has agreed to be acquired by

VillageMD

Sell-Side Advisor

Sell-side financial advisor to Starling Physician Group

- Engaged to serve as Starling's exclusive financial advisor based on its deep expertise and experience in the multi-specialty physician group space. The transaction builds on VillageMD's expansion into both the Northeast region and multi-specialty care services
- Starling Physicians is Connecticut's physician led multispecialty group, delivering the highest quality medical care to people of all ages
- VillageMD serves millions of patients throughout their lives, wherever and whenever they need care. Its dedicated workforce of more than 20,000 operates from 680 practice locations in 26 markets.
- VillageMD operates through Village Medical, Village Medical at Home, Summit Health, CityMD and other practices

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March 2023

HCM HILL COUNTRY MEMORIAL

has been acquired by

Methodist Healthcare
a division of

HCA Healthcare

Sell-Side Advisor

Sell-side financial advisor to Hill Country Memorial Hospital

- Engaged by Hill Country Memorial as its exclusive sell-side advisor to assist HCM through the sale process and negotiations
- Hill Country Memorial is a non-profit, non-tax-supported health care network supporting the Hill Country region of Texas and includes an 84-licensed bed general Acute Care Community Hospital and 8 clinics
- Methodist Healthcare, a 50-50 co-ownership between Methodist Healthcare Ministries of South Texas, Inc., and HCA Healthcare, is recognized as a leading healthcare provider in South Texas
- Nashville-based HCA Healthcare is one of the nation's leading providers of healthcare services comprising 182 hospitals and approximately 2,300 ambulatory sites of care
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Cain Brothers' Health Systems team is comprised of investment bankers specializing in hospital and health system M&A and financing



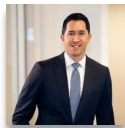
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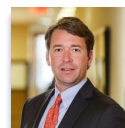
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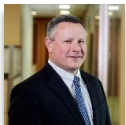
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