



Cain Brothers Insights

Hospital and Health System M&A

Q3 2024 Review

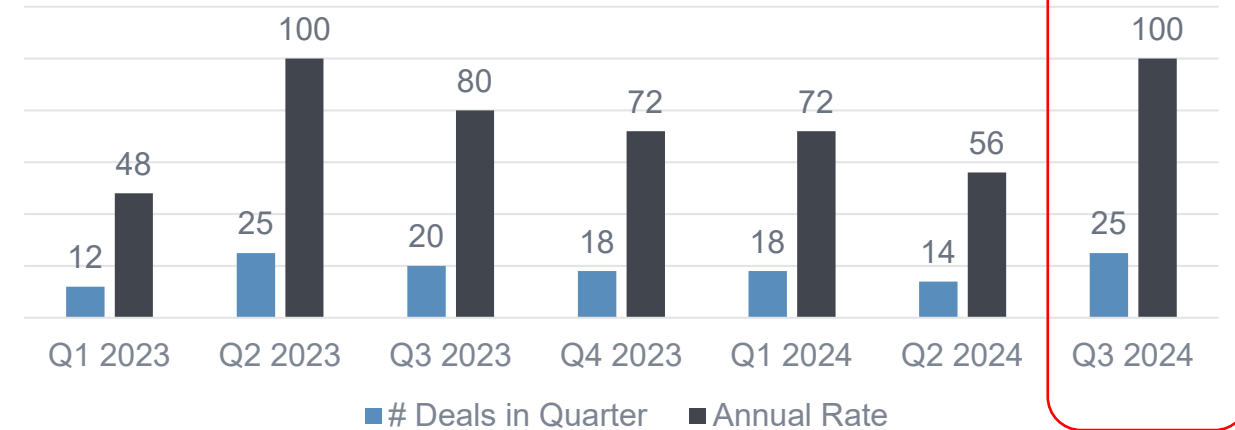
Third Quarter 2024 Overview

Significant increase in transaction volume this quarter

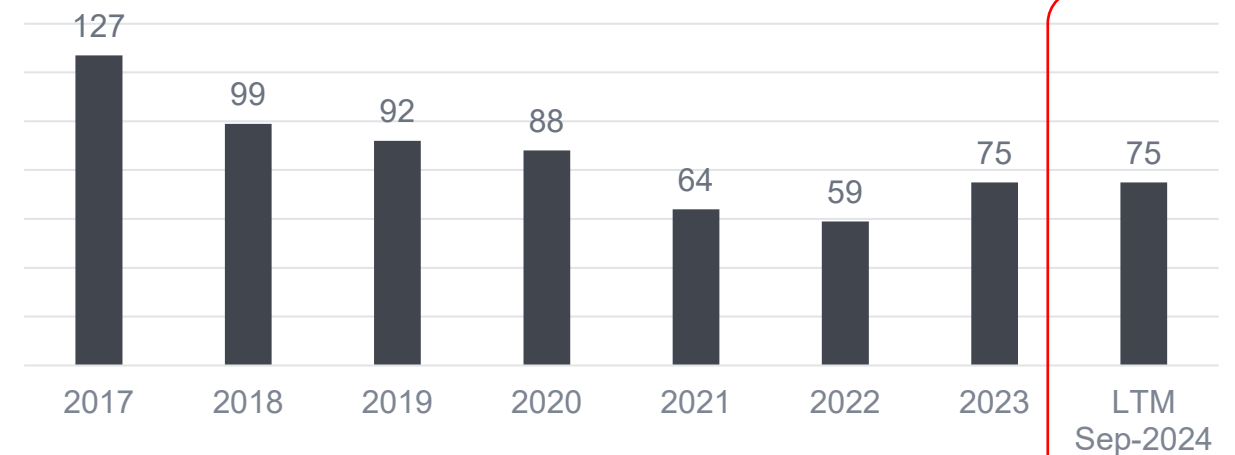
Report Summary

- 25 M&A deals announced in the third quarter of 2024
 - Number of deals up 79% from Q2 2024
 - Number of deals up 25% from Q3 2023
- 75 M&A deals announced in the LTM Period Ending September 2024
 - Number of deals flat vs. 2023
- 2024 is trending in line with the high volume we saw in 2023
- Themes observed:
 - As financial challenges persist, we expect the number of hospital and health system mergers, acquisitions, and divestitures to continue into 2025 at an increasing rate
 - Significant number of for-profit conversions to not-for-profit (e.g., divestitures by Steward and Tenet)
 - Divestitures by national systems to regional health systems
 - Standalone hospitals seeking partnerships with larger systems in exchange for capital investments and access to integrated care networks

Quarterly M&A Volume (# of Deals)



Annual M&A Volume (# of Deals)

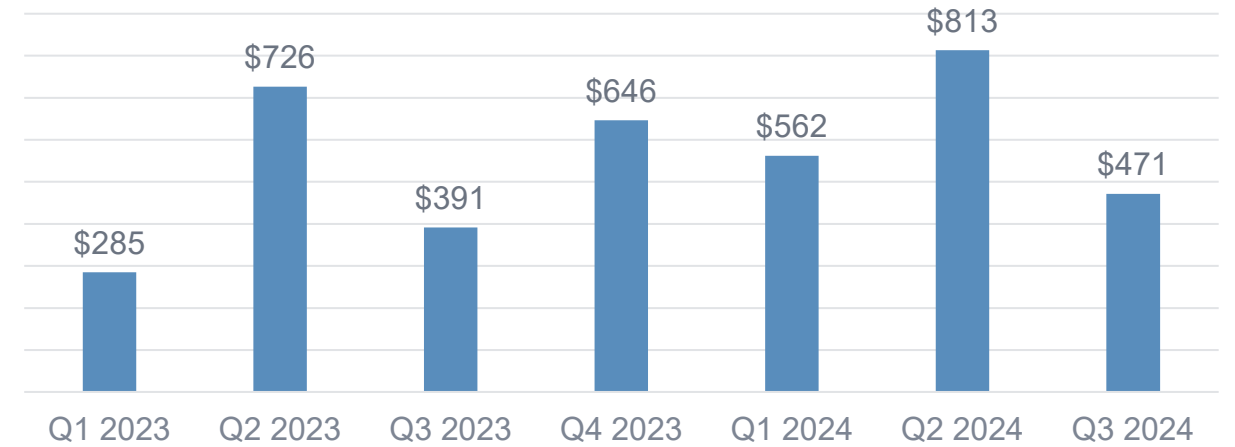


Aggregate revenues for M&A activity in line with prior quarters; average target significantly smaller this quarter versus Q2

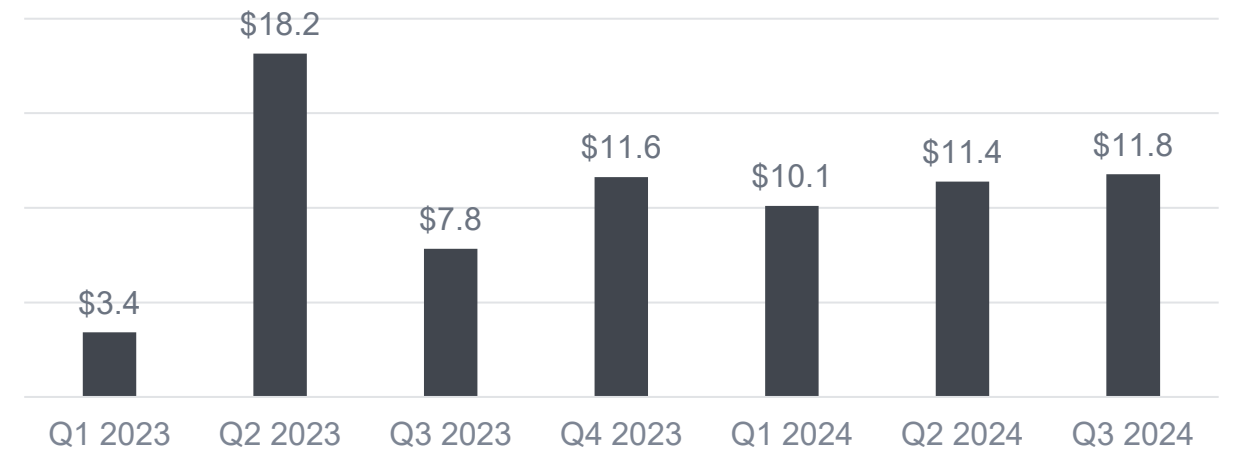
Report Summary

- Aggregate revenues for the 25 announced M&A targets was of \$11.8 billion in the third quarter of 2024
 - Aggregate revenues up 3% from Q2 2024 and up 50% from Q3 2023
- Average revenues for 25 announced deals was \$471 million
 - Down from \$813 million the prior quarter
- Primary catalysts include:
 - Financial leverage of the seller parent company
 - Improving market relevance for the buyer
 - Desire for revenue and geographic diversification and economies of scale & capabilities
 - Decreasing EBITDA margins
 - IT capex needs like Epic
 - Reimbursement % increases below historical real rates
 - Regulatory changes; Medicaid expansion and / or CON changes in some states
 - Construction costs per new bed have increased dramatically making the case for buy vs. build

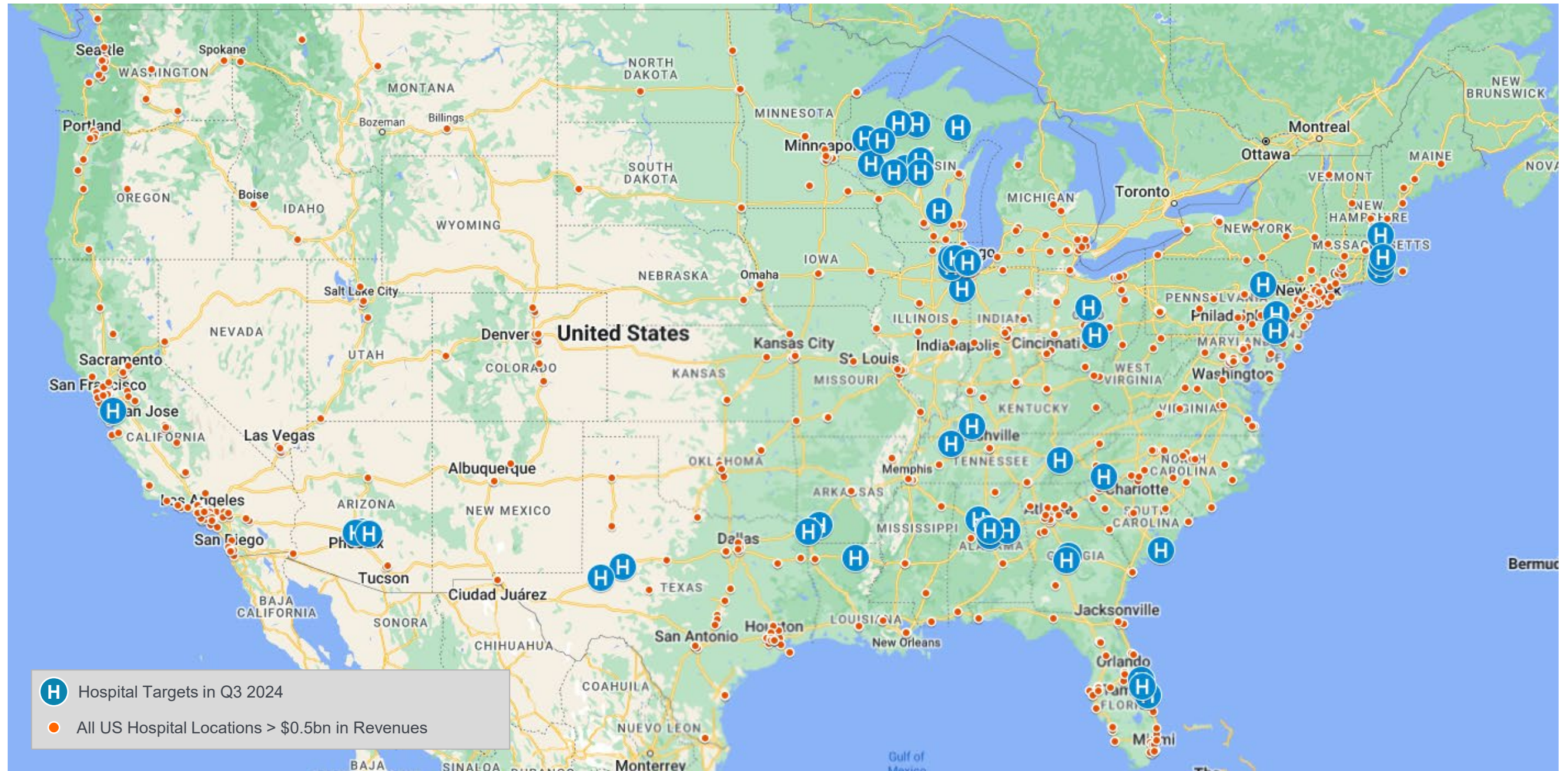
Quarterly M&A Scale (Average Target Revenues in \$m)



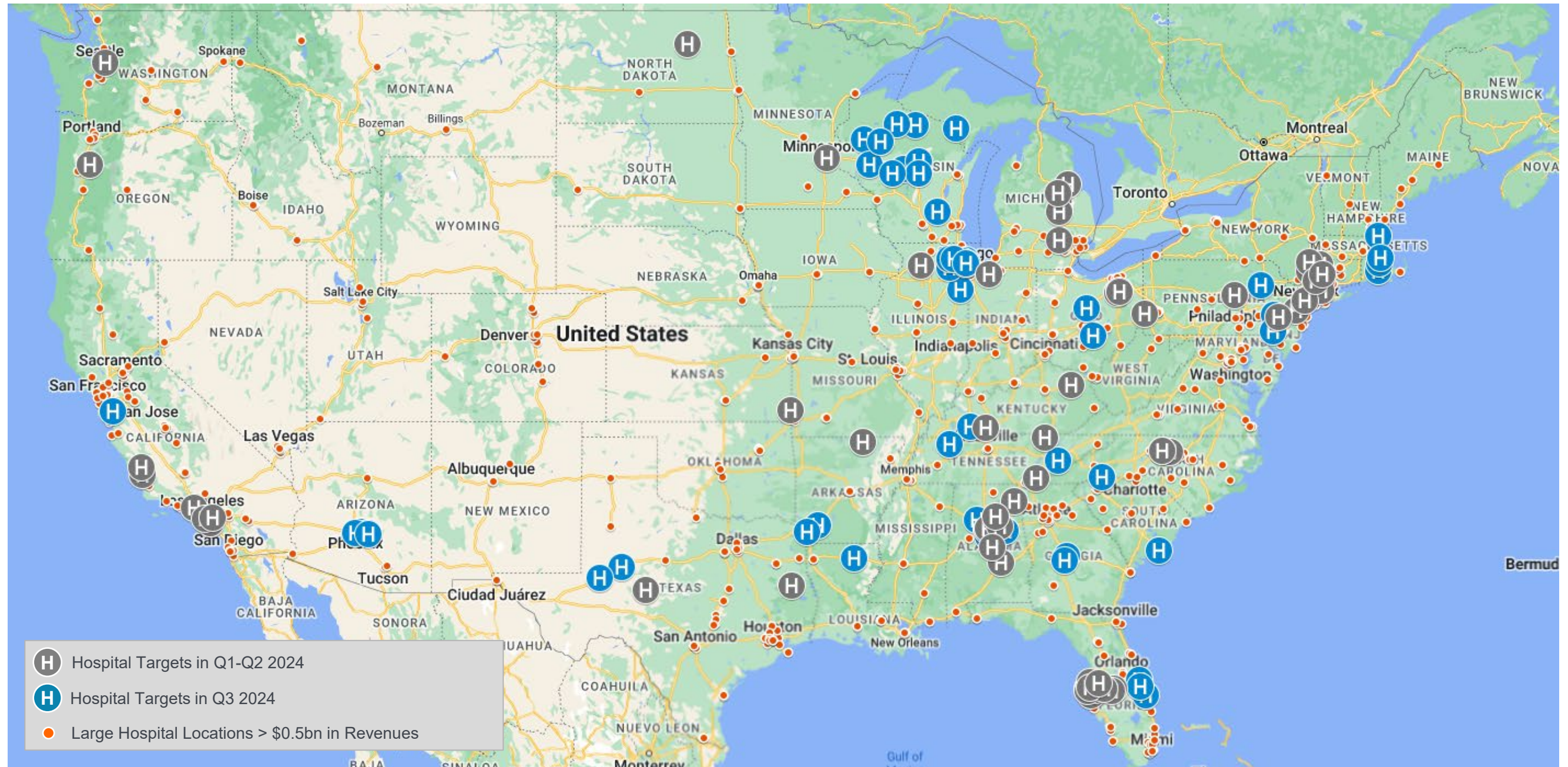
Quarterly M&A Scale (Combined Target Revenues in \$bn)



Q3 2024 Hospital M&A Targets: Primary Hospital Locations



Q3 2024 vs. 1H 2024





Steward Divestitures: MPT , MA and AZ

- Following its bankruptcy filing in May, Steward Healthcare, announced the sale of many of its assets, including its physician group, Stewardship Health this quarter. Earlier this year and in conjunction with the Chapter 11 filing, the organization reported that the system was enduring severe financial challenges and would be looking for a partner to acquire a number of its hospital locations and physician group.
- For Steward's Massachusetts's hospitals, US Bankruptcy Court Judge Christopher Lopez on September 30th approved the sale of Saint Anne's Hospital and Morton Hospital to Lifespan. Boston Medical Center will take over operations of Good Samaritan Medical Center and St. Elizabeth's Hospital. In the northern Boston-Metro area, Lawrence General Hospital will acquire Holy Family in Methuen and Haverhill. In addition to the financial consideration provided through these acquisitions, the Commonwealth of Massachusetts has already pledged almost \$500 million to assist Steward in maintaining operations of the hospitals through the finalization of the acquisition process.
- Earlier in September, the same Bankruptcy Court authorized an interim settlement agreement between Steward and its landlord, Medical Properties Trust ("MPT") whereby Steward will transition its remaining hospitals to MPT or other operators. As terms to the agreement, Steward will continue to operate the hospitals while MPT works to finalize agreements with potential buyers. In exchange, the agreement will alleviate Steward of its significant lease obligations and will allow the consideration from sales of hospitals to be distributed to lenders and creditors. In Arizona, Steward announced that HonorHealth will be managing operations of three of its Phoenix-area hospitals. On September 11th, HonorHealth assumed operations of Mountain Vista Medical Center in Mesa, St. Luke's Hospital in Tempe, and Florence Hospital in Florence, AZ. These three new locations add to HonorHealth's six hospitals in the Phoenix-Scottsdale area.

Steward Divestitures: TX and Stewardship

- In Texas, Steward announced the assumption of operations for its East Texas hospitals. Odessa Regional Medical Center and Scenic Mountain Medical Center will be operated by Quorum Health, a Tennessee-based health system with a network of 10 hospitals nine states. In other regions, Orlando Health will take over operations of Melbourne Regional Medical Center, Rockledge Medical Center, and Sebastian River Medical Center, while American Healthcare Systems will operate Coral Gables Hospital, Florida Medical Center, Miami-based North Shore Medical Center, and Palmetto General Hospital in Hialeah, FL. American Healthcare Systems also announced its acquisition of Steward's only Louisiana Hospital, Glenwood Regional Medical Center. In Arkansas, Pafford Health Systems has finalized its transaction with Steward to acquire Wadley Regional Medical Center at Hope.
- In August, Steward Health entered into a definitive agreement to divest its primary care group, Stewardship Health to Rural Healthcare Group ("RHG"). RHG is a portfolio company of Kinderhook Industries. Kinderhook, a private equity firm with several investments in the healthcare provider sector. Stewardship is one of the largest primary care organizations in the nation, with approximately 5,000 employed and affiliated providers across nine states. Stewardship manages over 400,000 attributed lives across its value-based care platform for Medicaid and Commercial populations.
- The sale and interim management agreements for many of Steward's hospitals and primary care group come after months of media attention surrounding the bankruptcy and sale process. In late September, Steward Health CEO Ralph de la Torre announced he would be stepping down from his role in the midst of a US Senate investigation into Steward's bankruptcy. Of the transition of Steward hospital operations and ownership to MPT and successor buyers, Judge Lopez commented that the settlements are "in the best interest" for Steward Health and its creditors to seeking a viable path for its Chapter 11 plan.



Ascension Divestitures in IL and Sanford to enter WI/MI

- Ontario, CA-based Prime Healthcare signed an asset purchase agreement to acquire Ascension's nine hospitals in Illinois in July. Prime a for-profit system, which operates 44 hospitals across 14 states will acquire the Ascension hospitals through its non-profit 501c3 public charity the Prime Healthcare Foundation. This acquisition will be Prime Healthcare Foundation's largest transaction, and Prime has announced its commitment to invest \$250 million in facility upgrades and other capital improvements. With hospital networks in the New York / New Jersey metro as well as the Los Angeles area, the deal will add the third-largest metro area to its existing geographic portfolio.
- After previous attempted merger attempts, South Dakota-based Sanford Health announced its intent to merge with Marshfield Clinic Health system, a health system serving Wisconsin and the Upper Peninsula of Michigan. Following Sanford's merger discussions with Fairview Health and Intermountain Health and Marshfield's called off merger with Essentia Health, this new deal will combine each organizations 56 hospitals, 56,000 employees, 4,300 providers across the Midwest. Importantly, it will also bring together each system's integrated health plan. Subject to regulatory processes and closing conditions, the merger is expected to close in late 2024.
- There were also a number of transactions this quarter that include larger regional systems acquiring standalone hospitals, to the recurring theme of strategic divestiture of certain for-profit hospitals. Below are highlights of a few other notable transactions announced this quarter:
- Bethlehem, PA-based St. Luke's University Health Network entered into a letter of intent to acquire Grand View Health in September. Located in Bucks County, Grand View is a single hospital system and Penn Medicine clinical affiliate. Grand View will join St Luke's system o 15 hospitals and 300 care sites across eastern Pennsylvania. The transaction follows on the footsteps of a number of Pennsylvania deals announced this year, including Penn Medicine's acquisition of Doylestown Health.

HCA and Tenet Divestitures

- In Early September OhioHealth announced its intent to acquire Fairfield Medical Center, an independent hospital in Lancaster, OH. Based in Columbus, OhioHealth is a network of 15 hospitals and 200 ambulatory care sites throughout the state. "Affiliating with a larger system often helps independent hospitals successfully plan for the future", Fairfield Medical Center wrote in a press release.
- In California, HCA announced it has entered into a definitive agreement with Santa Clara County to sell its one of its Silicon Valley hospitals to the County's health system, Santa Clara Valley Healthcare, for \$175 million. The facility, Regional Medical Center ("RMC") of San Jose is located in the east part of Santa Clara County. The acquisition comes after HCA had announced its intent to downgrade the hospital from a level I to a level II trauma center. Siting the county's interest in preserving RMC's status, covering nearly a quarter of all trauma admissions in the county, the health system acknowledged that RMC will be a critical part of the county's mission of providing access to affordable healthcare to all patients in the greater San Jose area.
- In Alabama, Orlando Health announced it would be acquiring a 70% ownership interest in five hospitals from Tenet Healthcare. Tenet will be selling its interest in Birmingham-based Brookwood Baptist Health, and includes Brookwood Baptist Medical Center, Princeton Baptist Medical Center, Walker Baptist Medical Center, Shelby Baptist Medical Center and Citizens Baptist Medical Center. The deal also includes Tenet affiliated physicians and other providers. The \$910 deal cash deal will mark Orlando Health's first entry into the Alabama market. At closing, the system will be renamed as Baptist Health.



CHS Divestitures in PA

- Also in Pennsylvania, Woodbridge Healthcare, the non-profit division of StoneBridge Health, signed a definitive agreement to acquire three Pennsylvania hospitals from CHS. Under the terms of the deal, Barre General Hospital, Moses Taylor Hospital, and Regional Hospital of Scranton will join Woodbridge as their first acute care facilities. In exchange, Woodbridge will pay \$120 million to CHS via debt and bond financing.
- Prisma Health entered in a letter of intent to acquire Blount Memorial Hospital, a 304-bed community hospital in Marysville, TN. Prisma, a Greenville, SC system, is the largest non-profit health system in the state, with 12 hospitals including its flagship hospital in Greenville. Prisma's first hospital in Tennessee, Blount Memorial will receive a \$364 million investment from Prisma for capital and operational upgrades. The deal is expected to close in late 2024.

Closing Remarks

- Financial headwinds continue to impact health systems, and we expect smaller hospitals to seek partners with the potential for a wave of higher M&A activity to round out 2024.
- A challenging regulatory environment will continue to impact how health systems look to partner, and we will likely see creative merger opportunities increase, similar to Sanford and Marshfield Clinic's merger announced this quarter. Non-for-profit systems are not the only providers facing pressure. For-profit systems have been and will continue to carefully rationalize their portfolios, and there will be lessons learned from the aftermath of the Steward Health bankruptcy. With a looming Presidential Election, the future of healthcare M&A in America is all but certain. In the face of these headwinds, it is important to have carefully executed long-term strategy.
- Contact the Cain Brothers Health Systems investment banking team to help your organization think through M&A strategy, complex deal structures, hear our views of the current healthcare climate, or discuss any of these recent announcements or industry trends (see last page for contact information).

Announced Transactions: Q3 2024

Target/Seller	State	Seller Status	Revenue (\$MM)	Buyer	Buyer Status	Revenue (\$MM)	Announced
2024-Q3							
Jennie Stuart Health	KY	Non-Profit	\$173	Deaconess Health System	Non-Profit	\$1,827	9/24/2024
Wadley Regional Medical Center (Steward)	TX	For Profit	\$98	CHRISTUS Health	Non-Profit	\$7,815	9/20/2024
Grand View Health	PA	Non-Profit	\$254	St. Luke's University Health Network	Non-Profit	\$3,124	9/17/2024
Odessa Regional Medical Center / Scenic Mountain Medical Center (Steward)	TX	For Profit	\$197	Quorum Health	For Profit	\$998	9/12/2024
Mountain Vista Hospital / Tempe St. Lukes Hospital / Florence Hospital (Steward)	AZ	For Profit	\$326	HonorHealth	Non-Profit	\$2,903	9/12/2024
Fairfield Medical Center	OH	Non-Profit	\$325	OhioHealth	Non-Profit	\$5,703	9/6/2024
Holy Family Hospital (Steward)	MA	For Profit	\$287	Lawrence General Hospital	Non-Profit	\$335	8/29/2024
St. Anne's Hospital / Morton Hospital (Steward)	MA	For Profit	\$503	Lifespan	Non-Profit	\$3,010	8/29/2024
Good Samaritan Hospital (Steward)	MA	For Profit	\$321	Boston Medical Center	Non-Profit	\$5,708	8/29/2024
Regional Medical Center of San Jose (HCA)	CA	For Profit	\$377	Santa Clara Valley Healthcare	Non-Profit	\$3,863	8/22/2024
Houston Healthcare	GA	Non-Profit	\$325	Emory Healthcare	Non-Profit	\$5,332	8/22/2024
St. Luke's Hospital	NC	Non-Profit	\$50	AdventHealth	Non-Profit	\$16,584	8/19/2024
Steward Health Northern Florida (Steward)	FL	For Profit	\$434	Orlando Health	Non-Profit	\$5,727	8/14/2024
Roper Hospital (BSMH)	SC	Non-Profit	\$417	Medical University of South Carolina	Non-Profit	\$3,579	8/10/2024
Crozer Health (Prospect)	PA	For Profit	\$511	CHA Partners	For Profit	N.R.	8/8/2024
Brookwood Baptist Health-5 hospitals in AL (70% owned by Tenet)	AL	For Profit	\$846	Orlando Health	Non-Profit	\$5,727	8/5/2024
Henry County Medical Center	TN	Non-Profit	\$87	West Tennessee Healthcare	Non-Profit	\$1,021	8/2/2024
Wilkes-Barre General Hospital / Moses Taylor Hospital / Regional Hospital of Scranton (CHS)	PA	For Profit	\$629	WoodBridge Healthcare	Non-Profit	N.R.	7/30/2024
Ascension Illinois (9 Hospitals)	IL	Non-Profit	\$1,804	Prime Healthcare	For Profit	\$4,963	7/25/2024
Arizona General Hospital / 7 Freestanding ERs (MPT)	AZ	Non-Profit	\$216	CommonSpirit	Non-Profit	\$37,483	7/24/2024
Morrow County Hospital	OH	Non-Profit	\$27	OhioHealth	Non-Profit	\$5,703	7/24/2024
Glenwood Regional Medical Center (Steward)	LA	For Profit	\$192	AHS South	Non-Profit	\$396	7/21/2024
Wadley Regional Medical Center (Steward)	AR	For Profit	\$13	Pafford Health System	Non-Profit	N.R.	7/21/2024
Blount Memorial Hospital	TN	Non-Profit	\$361	Prisma Health	Non-Profit	\$6,018	7/18/2024
Marshfield Clinic Health System	WI/MI	Non-Profit	\$3,007	Sanford Health	Non-Profit	\$7,189	7/10/2024

Announced Transactions: Q2 2024

Target/Seller	State	Seller Status	Revenue (\$MM)	Buyer	Buyer Status	Revenue (\$MM)	Announced
2024-Q2							
Devil's 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	\$2,675	Kaiser Permanente / Risant Health	Non-Profit	\$100,847	6/24/2024
Scott County Community Hospital, Inc. (DBA Big South Fork Medical)	TN	For Profit	\$19	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	\$14	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
BayCare (50.4% owned by Trinity JOA)	FL	Non-Profit	\$5,877	BayCare	Non-Profit	\$5,877	5/24/2024
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
Tenova Healthcare – Cleveland (CHS)	TN	For Profit	\$173	Hamilton Health Care System, Inc.	Non-Profit	\$350	4/18/2024

Announced Transactions: Q1 2024

Target/Seller	State	Seller Status	Revenue (\$MM)	Buyer	Buyer Status	Revenue (\$MM)	Announced
2024-Q1							
Weirton Medical Center	WV	Non-Profit	\$192	WVU Health System	Non-Profit	\$4,524	3/29/2024
Three Ascension Michigan Hospitals	MI	Non-Profit	\$360	MyMichigan Health	Non-Profit	\$1,240	3/26/2024
Nacogdoches Memorial Health System	TX	For Profit	\$76	Nacogdoches County Hospital District	For Profit	N/R	2/29/2024
Fulton County Hospital	AR	Non-Profit	\$11	Baxter Health	Non-Profit	\$286	2/29/2024
Central Coast-2 hospitals (Tenet)	CA	For Profit	\$307	Adventist Health-West	Non-Profit	\$4,765	2/29/2024
Nuvance Health	NY / CT	Non-Profit	\$2,631	Northwell Health	Non-Profit	\$16,699	2/28/2024
Evangelical Community Hospital	PA	Non-Profit	\$249	WellSpan Health	Non-Profit	\$3,698	2/26/2024
Via Christi Hospital (Ascension)	KS	Non-Profit	\$100	Mercy-MO	Non-Profit	\$7,987	2/15/2024
Helena Regional Medical Center (Quorum)	AR	For Profit	\$13	Progressive Health Systems	For Profit	N/R	2/12/2024
M Health Fairview University of Minnesota Medical Center	MN	Non-Profit	\$1,878	University of Minnesota	Non-Profit	N/R	2/9/2024
Pacific Coast Network-4 hospitals (Tenet)	CA	For Profit	\$1,000	UC Health-CA (UCI)	Non-Profit	\$19,270	2/1/2024
Saint Peter's Healthcare	NJ	Non-Profit	\$583	Atlantic Health	Non-Profit	\$3,660	1/31/2024
West Hills Hospital & Medical Center (HCA)	CA	For Profit	\$225	UC Health-CA (UCLA)	Non-Profit	\$19,270	1/26/2024
LaPorte Hospital	IN	Non-Profit	\$8	Franciscan Alliance	Non-Profit	\$3,216	1/24/2024

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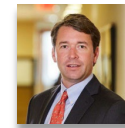
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