

Making the Business Case for Healthcare M&A: Top 5 Reasons

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Seventy percent of healthcare executives expect more mergers and acquisitions across healthcare sectors in 2022, a [KPMG survey](#) found, while 30 percent of healthcare investors plan to [increase deal activity by 10 percent or more](#). For hospital and health system leaders, it's a good time to consider: What's your business case for M&A?

We've seen shifts in M&A activity in recent years, with 2021 marked by fewer-but-larger deals in the hospital and health system space. Legacy organizations are taking their time in finding the right partner—and many are looking for capital commitments before inking a deal. Even among organizations in distress, there is a desire to secure commitments that enhance access to care, expand services for the local community and modernize aging infrastructure.

Now, with the pace of healthcare M&A projected to rise amid COVID-related financial pressures, hospital and health system leaders would be wise to create a decision tree for deal-making that can help them think strategically about opportunities in 2022—even if they don't anticipate making a move this year.

The top five reasons for pursuing hospital M&A include:

- 1. Position for value-based reimbursement.** M&A gives organizations an edge in value-based reimbursement in three ways:
 - **Lives:** Merging with another system or acquiring large primary care groups enables the organization to amass more lives and move meaningfully into the risk space.
 - **Capabilities:** M&A can be a means to assimilating new or stronger capabilities, including in the area of population health and risk contracting.



- **Data:** Acquiring a health system or a large group brings another element that is key for value-based payment success: patient data.
- 2. **Deepen geographic coverage.** As leaders map out their service area, they want to ensure they have as many sites to serve their population as possible, with a strong mix of inpatient, outpatient and in-office care. They also need high-quality physicians across specialties who are associated with the hospital or system in some way, whether through employment or affiliation, to provide the level of care and service consumers seek. The right combination of locations, physicians and services—along with high-quality care and service—helps optimize market share.
- 3. **Provide greater depth or breadth in clinical programming.** For example, is there a growing need for orthopedic services, given an aging population? If so, the organization may wish to acquire orthopedic practices or facilities that strengthen their ability to provide outpatient diagnostic or treatment services. Further, as demand for orthopedic services increases, so might the need for rehabilitative services. Bringing these services into the system—or deepening existing offerings—enables organizations to control the quality of care provided throughout the patient care journey. It also gives organizations a basis for delivering a more seamless care experience.
- 4. **Achieve Scale.** The right strategic targets can put organizations in a position of strength in discussions with healthcare purchasers and vendors. They also enable organizations to flex their clinical, operational and financial muscle and tap into the benefits of economies of scale. The more leaders can take advantage of the infrastructure and corporate team they have put together through M&A, the more they can bring their expertise, knowledge and capabilities to play for the communities they serve. From there, it becomes easier to bolt on smaller entities to the larger enterprise.
- 5. **Access to capital.** Access to capital is a major motivation for partnering, and that is especially true now, in light of the financial state of hospitals and health systems. From [massive growth in expenses](#) to decreased patient volumes and revenue, access to capital is a challenge for hospitals of all sizes and types, but especially small and rural hospitals.

POSITIONING FOR THE NOW—AND FOR THE FUTURE

Healthcare leaders have become more precise in determining what makes sense for healthcare M&A in a quickly evolving, increasingly disruptive marketplace. That's an approach we expect to continue to see, even as deal activity increases. By laying out the organization's M&A philosophy and developing a decision tree for assessing potential opportunities before discussions begin, leaders can ensure their organization takes the right approach to acquired growth in 2022 and beyond. ●