Mega-Mergers with Hospital Systems

B. Scott Segal, MD, MHCM
Roy G. Soto, MD
James P. Rathmell, MD

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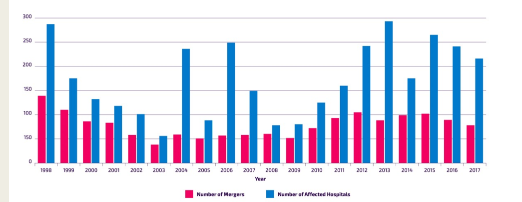
Hospital megamergers: a growing trend

Figure 1: Number of Hospital Mergers, 1998–2017



Source: American Hospital Association, 2018

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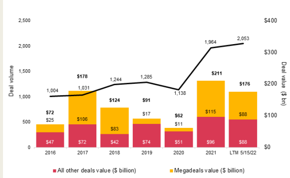
Number, value of deals increasing

Health services deal value ($ billions) and volume, 2016—LTM 5/15/22



> $5 Billion

Source: LevinPro HC and LevinPro LTC, www.levinassociates.com
LTM 5/15/22 refers to the 12 months through May 15, 2022. Megadeals are those valued at $5 billion or greater. Totals may appear not to sum due to rounding.

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Hospital systems increasingly concentrated

$$HHI = s_1^2 + s_2^2 + s_3^2 + \ldots s_n^2$$

- Herfindahl-Hirschman Index >2500 is "highly concentrated"
- 80% of hospital markets highly concentrated (Gaynor 2020)
- Average HHI for hospital markets 5,092
- Top 10 systems control 24% of total healthcare market (Deloitte 2020)

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AMCs and mega-mergers

- 36% of CEOs at AMCs said M&A would be main engine of growth (2016 survey)
- Hospital systems financially stressed—likely more coming!
- Today's panel will discuss 3 examples

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The Wake Forest-Atrium Health Deal

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A “strategic combination” is announced

- April 2019 announced; regulatory oversight, board approvals
- October 9, 2020 deal completed
- Initially 42 hospitals, 1500 healthcare locations
- North Carolina, South Carolina, Georgia and Virginia
- 70,000 teammates
- 15 M patient interactions

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Initial features

- Based in Charlotte, NC
  - CEO Gene Woods, in Charlotte is Enterprise CEO
  - Legacy Wake CEO Julie Freischlag, MD remains CEO in Winston-Salem, Dean and CAO for School of Medicine and Enterprise
- Largest US city without a medical school
- Initial terms included
  - Build 2nd campus of WFSOM in Charlotte
  - Large capital infusion (3.4B) into Wake region
- Approximately $14 B, one of top 5 largest academic systems

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More consolidation

- Acquired Floyd Health in Georgia in July 2021
- Announced merger with Advocate-Aurora May 2022
- When complete (under FTC review)
  - Headquartered in Charlotte, called Advocate Health (keep local brands)
  - Co-CEOs for 18 months, then Woods sole CEO
  - 150,000 teammates
  - 67 more hospitals
  - Combined revenue of $27 B
  - One of top 5 largest healthcare systems of any type

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Integration

- Variety of clinical entities in CLT
  - Large private practices
  - Enterprise-employed departments
  - “Hybrid” leaders with both affiliations (chief surgical officer)
  - Some residencies, rotating medical students, CRNA school
  - Institutes: larger than individual departments (e.g., cardiovascular, cancer, musculoskeletal, neuroscience)
- Integration efforts divided into waves

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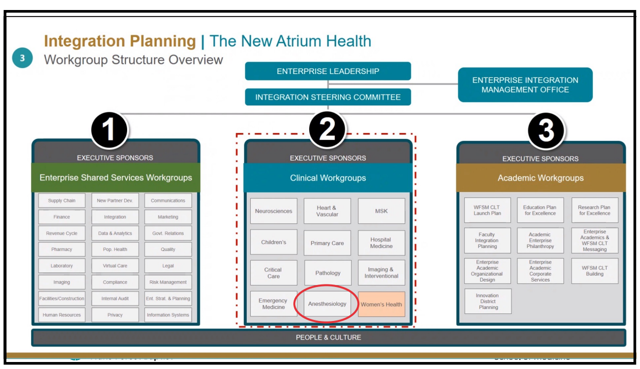

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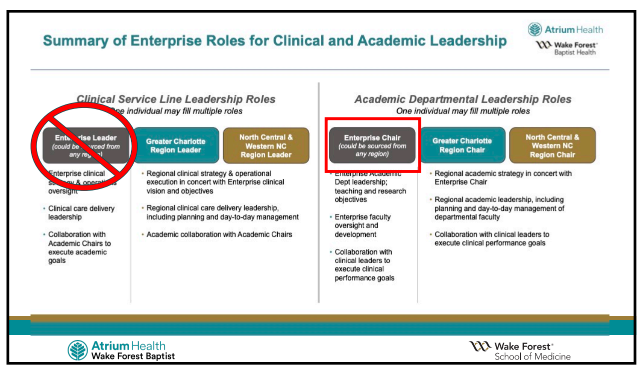

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Capital infusion is *great news*

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Academic integration

- Adjunct faculty appointments in CLT
- Medical student rotations
- Beginning of collaborative research
- Enterprise seems committed to academic LHS

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Clinical integration

- Epic “harmonization”
  - Q1 2024 completion target
- Shared quality goals
  - MPOG
  - Resisted OR efficiency metrics
- Shared OR safety program (“Wake Wings”)
- No talk of combining entities

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Cultural integration

- Clearly different cultures
  - Private anesthesia practice vs. hybrid academic department
  - Very ”corporate” feel from Atrium Health
  - Much less tradition of academics in some services
- Will academic identity continue?
  - Ever smaller fraction of Enterprise
  - Effect of Charlotte campus
  - No plans for residency in Charlotte at present
- As CLT feels more academic, $ differences will be ↑ important
- Upper management consolidation

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