

Q2 2022 Announced Hospital M&A Activity – Continuing low levels of announced hospital transaction volume marked by several notable major mergers and reorganizations

Number of Announced Hospital Change of Control Transactions
2009 – Q2 2022



Date Announced	Target	State	Target Tax Status	Acquirer	Acquirer Tax Status	Target Beds	Total Revenue (\$ MM)
04/01/22	Jennings American Legion Hospital	LA	NFP	Ochsner Health System	NFP	49	45
04/04/22	AMITA Health (19 hospitals in Illinois)	IL	NFP	Ascension Health (14 hospitals), AdventHealth (5 hospitals)	NFP	2,810	3,600
04/14/22	Crouse Hospital	NY	NFP	SUNY Upstate	NFP	465	393
04/19/22	MercyOne Health System (CSH/Trinity JOA)	IA	NFP	Trinity Health	NFP	3,572	2,574
04/19/22	Abrazo Mesa Hospital	AZ	FP	Steward Health Care	FP	8	N/A
04/25/22	Mon Health	WV	NFP	CAMCare	NFP	284	407
04/27/22	Miami Medical Center (closed, Nicklaus Children's Health System)	FL	NFP	Steward Health Care	FP	69	N/A
05/11/22	Advocate Aurora, Atrium Health	GA, IL, NC, WI	NFP	Advocate	NFP	12,722	27,000
05/31/22	George Washington University Hospital (remaining minority stake)	DC	FP	UHS	FP	385	547
06/15/22	Jennersville Hospital (closed, Tower Health)	PA	NFP	ChristianaCare Health System	NFP	52	N/A
06/28/22	Garrett Regional Medical Center	MD	NFP	WVU Health System	NFP	26	62
06/30/22	Exeter Health Resources	NH	NFP	Beth Israel Lahey Health	NFP	100	279

	2014	2015	2016	2017	2018	2019	2020	2021	Q1 2022	Q2 2022
Total Number of Announced Transactions	93	112	88	118	117	86	79	71	14	12
Target Revenue (\$MMs)	Median	110	110	83	103	110	80	136	102	130
	Average	264	323	288	530	445	227	272	483	260
Target Bed Count	Median	189	145	96	123	125	100	167	150	118
	Average	305	303	290	395	412	230	288	343	202
% of For-Profit Acquirer	28%	32%	24%	26%	18%	21%	25%	22%	14%	25%
# FP acq. of NFP	20	18	8	13	6	10	7	6	0	1
# of Publicly traded FP-system acq. of NFP	9	8	3	6	1	3	2	0	0	0

Ponder records transactions upon announcement of a definitive agreement, or letter of intent if the transaction involves a for-profit system. If no announcement was made prior to closing of the transaction, the effective date is recorded.

Quarterly Announced Transaction Volume Decreases From Previous Quarter and Year-over-Year Period

Q2 2022 recorded 12 announced transactions, a decrease of 14% from Q1 2022's total of 14 and a decrease of 40% from Q2 2021's total of 20. This reduced volume in Q2 2022 represents the fourth consecutive quarter that has trailed the corresponding year-over-year quarterly volume total. This has led to a trailing twelve-month period of 55 total transactions which represents the lowest level of recorded activity since 2009 in which 58 transactions were announced.

Contrasting with the prior quarter's volume that was predominantly comprised of hospitals with annual revenues less than \$250 million, more than one-half of Q2 2022 announced volume involved targets with more than \$250 million in revenue. Although transaction volume was light in the quarter, there were three megamergers. These included a megamerger of two multi-state health systems and the unwinding of two joint operating companies each with several billion dollars of revenue.

Profile of Select Transactions

- *Merger of Atrium Health and Advocate Aurora Health* – announced in May, the merged system will be the fifth largest in the nation, spanning four states and including 67 hospitals and more than 1,000 outpatient locations
- *Unwinding of AMITA Health* – effective in April, the unwinding of the JOA between Ascension and AdventHealth was first announced in October of 2021. The joint operating company was initially founded in 2015 and added ten Presence Health hospitals in 2018
- *MercyOne Health System consolidation* – Trinity Health announced a definitive agreement to acquire all MercyOne assets, including 38 hospitals in Iowa and Nebraska, from the JOC formed in 1998 by Trinity and Catholic Health Initiatives
- *Mon Health and Charleston Area Medical Center* – two West Virginia health systems announced an LOI to merge in March and filed a CON application in April to create a new health system, Vandalia Health
- *UHS Consolidates Position in George Washington University Hospital* – expanding upon an agreement in 2020 with the District of Columbia government to create the first new hospital in the district in 20 years, UHS bought out George Washington University's stake in the joint ventured hospital in May

Regulatory and Legislative Activity

Several mergers that had been announced in prior quarters were challenged by state and federal regulators, with several of the transactions being abandoned in Q2 following regulator objections:

- In April, Hackensack Meridian Health and Englewood Health notified the FTC that they were abandoning their merger process following an Appellate Court decision upholding the preliminary injunction. The merger was first announced in Q4 2019
- In May, GraniteOne Health and Dartmouth-Hitchcock Health ended their merger process following opposition by the New Hampshire Attorney General. The merger was first announced in Q3 2019
- In May, the Connecticut Office of Health Strategy issued a request for information with regard to the Day Kimball Healthcare acquisition by Covenant Health. The transaction was first announced in Q4 2021
- In June, the FTC intervened to block the merger of RWJBarnabas Health and Saint Peter's Healthcare System's proposed merger. The merger had received approval by state regulators in May. Subsequently, the two health systems agreed to abandon the transaction

- In June, the FTC issued an injunction in June preventing HCA's transaction with Steward Health Care from closing following the results of a hearing schedule in December; the parties subsequently abandoned their transaction

Since 2020, only the Jefferson-Einstein transaction has successfully withstood FTC intervention.

Other Affiliation Activity in Q2 2022

Beyond the activity recorded in the volume figures above, there continues to be a healthy pursuit of other creative alignments and forms of partnership represented by the following announcements

Announced Letters of Intent

- Bellin Health and Gundersen Health System announced an LOI to create a ten-hospital system in Wisconsin
- Butler Health System and Excelsa Health announced an LOI to create a health system with \$1 billion in revenue in western Pennsylvania
- Alice L. Walton Foundation and Washington Regional Medical System (Fayetteville, AR) announced an LOI to form partnership to create a transformative health care system in northwest Arkansas
- Billings Clinic entered into an LOI with the Riverton Medical District (Casper, WY) to operate a new, locally governed hospital
- Geary Community Hospital (Junction City, KS) entered into an LOI towards a long-term lease with Stormont Vail Health
- Heywood Hospital (Gardner, MA) announced an LOI to join UMass Memorial Healthcare
- Yakima (WA) Valley Memorial Hospital entered into an LOI to join MultiCare Health System, expanding on an oncology partnership that began in 2021
- Pleasant Valley Hospital (Point Pleasant, WV) announced an LOI to join Cabell Huntington's Mountain Health Network, building on an MSA from 2013
- The city council of Port St. Lucie, FL, approved a contract with Tenet Health to operate a new hospital that may open in 2024
- Santa Cruz Valley Regional Hospital (Green Valley, AZ) executed an LOI to join TMC Health in May before subsequently ending discussions in June
- Jupiter (FL) Medical Center entered into an LOI towards an affiliation with UF Health
- Our Lady of the Lake Children's (Baton Rouge, LA) and LCMC Children's Hospital (New Orleans, LA) entered into an LOI towards affiliation

Announced Partnership Searches

- Redeemer Health (Meadowbrook, PA) issued an RFP to find a strategic partner in May
- SoutheastHEALTH (Cape Girardeau, MO) announced a partnership search in May
- Singing River Medical Center (Gulfport, MS) announced a strategic partnership search process in June

Other Affiliations

- Appalachian Regional Healthcare (Boone, NC) entered into an MSA with UNC Health
- Thomas Health (S. Charleston, WV) began a management agreement with WVU Health System

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- The Medical University of South Carolina is examining the possibility of formally partnering with The Regional Medical Center of Orangeburg and Calhoun (SC)
 - Tufts Medicine announced a joint venture with Acadia Healthcare to open a 144-bed behavioral health hospital on the former Malden (MA) Hospital campus
 - Mercy Health – Youngstown (OH), part of Bon Secours Mercy Health, created a joint venture with Kindred Rehabilitation Services, a division of LifePoint Health, to build and operate a 60-bed inpatient rehabilitation hospital
 - Inova announced a JV with Select Medical to open a 32-bed specialty hospital within Inova Mount Vernon Hospital (Alexandria, VA)
 - Greenwood (MS) Leflore Hospital announced it was in the early stages of an affiliation with the University of Mississippi Medical Center
 - Carroll County (KY) Memorial Hospital announced a partnership with U of L Health physicians to provide services in CCMH's in-hospital specialty clinic
 - Scion Health announced the acquisition of Cornerstone Healthcare Group, a system of 18 LTAC facilities and specialty hospitals
 - The State of Maryland transferred Spring Grove Hospital, a state-administered behavioral health facility, to University of Maryland-Baltimore County under a long-term lease for \$1; the 375-bed site has been slated to close in the next decade

Final Perspectives on the Quarter

Q2 2022 transaction volume was clearly light as compared to the same quarter in past years. However, as reflected in the other affiliation activity highlighted above, there are a range of strategic discussions underway. Also, the focus on non-acute opportunities remains high, especially in the rehabilitation, behavioral and ASC sub sectors. The hospital activity for the quarter included the unwinding of long-standing JV's/JOA's, two acquisitions of closed hospitals and Steward as the primary for-profit buyer. Excluding the UHS buyout of George Washington University Hospital's stake in their joint venture and LifePoint's failed joint venture with Yuma Regional, the publicly traded hospital operators have gone six quarters without an announced acquisition of a not-for-profit health system.

Transaction activity has clearly been impacted by the following factors:

- Residual effects of the pandemic in terms of lag in volume rebound for certain services
- Labor shortages and contract labor
- Inflation pressures and impact on expenses
- Determination of cash flow run rate of the seller in light of these factors
- Buyer's delaying in acquisition decisions due to own challenging results in the first half of 2022
- High degree of regulatory scrutiny

However, in the end, health systems need to generate additional revenue growth to withstand cost increases and coming reimbursement pressures and must also fortify their regional relevance. So despite the headwinds outlined, M&A and strategic options will be a key consideration for virtually all health systems in 2022 and 2023.