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# Healthcare Services, Industry in Transformation

**California Society of Municipal Analysts**

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# Healthcare Transformation Is Real and Is Policy Agnostic



Employer and Insurer Market Evolution

Emergence of the Healthcare Consumer

Shift to Value Based Care

Redefined Access and Delivery

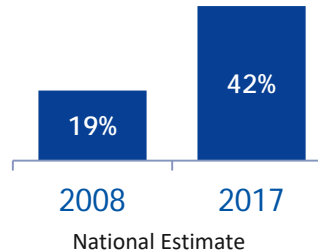
Disruptive Innovation and Competition

*Current and Future Reform*

# The Traditional Provider Business Model Is Under Attack

## Shifting Costs to Consumers

Commercially insured in HDHPs trending up



## Changing Culture and Escalating Expectations



For Me, Right Now



amazon.com  
Prime



Millennial cohort now larger than Boomers... they think and act differently



Teladoc<sup>+</sup>



amazon  
echo

## Changing Demographics

## Changing Consumer Technology

# INCREMENTAL CHANGE IS NOT ENOUGH

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# Transformation Is The Source of A New Partnership Era

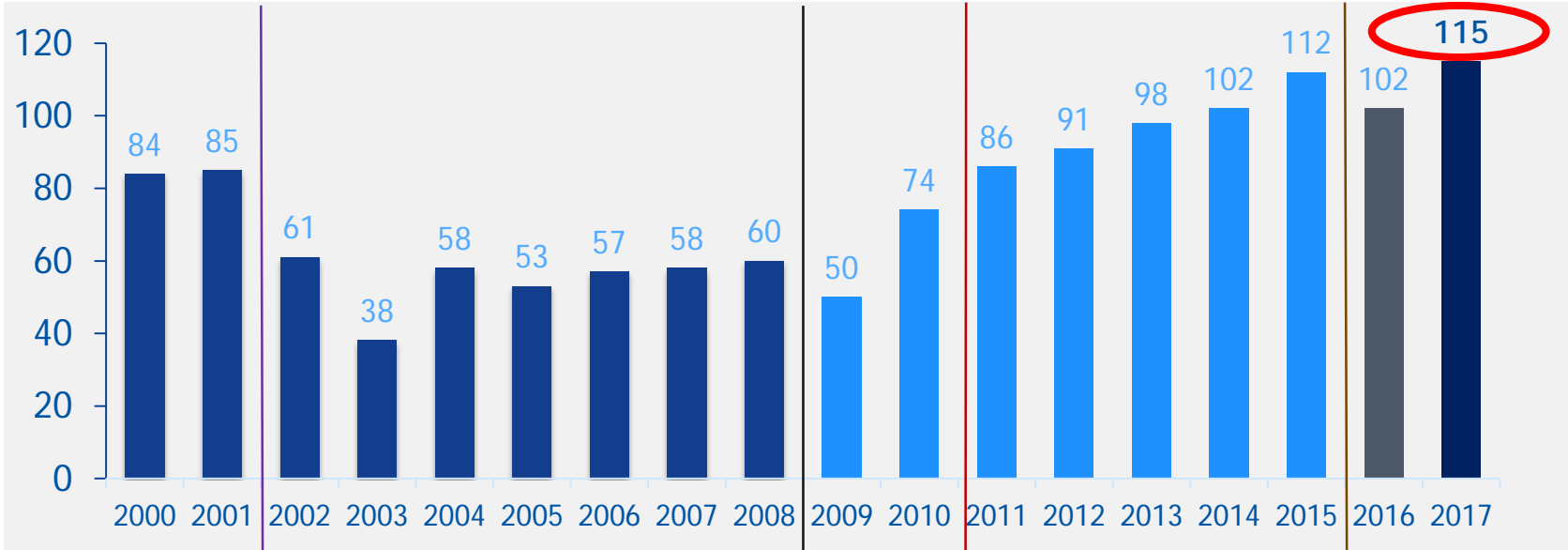


The old business model of economies of scale and synergies still matters, but accessing and capitalizing on intangible asset investments and reducing susceptibility to commoditization have brought “an entirely new echelon of leading-edge partnerships.”

# Consolidation Is Accelerating

The number of transactions nearly doubled between 2007-2017

## Hospital and Health System M&A Transactions, 2000-2017



*The New York Times*  
*Auctions Yield*  
*Chaos for Bonds*



*King v. Burwell*

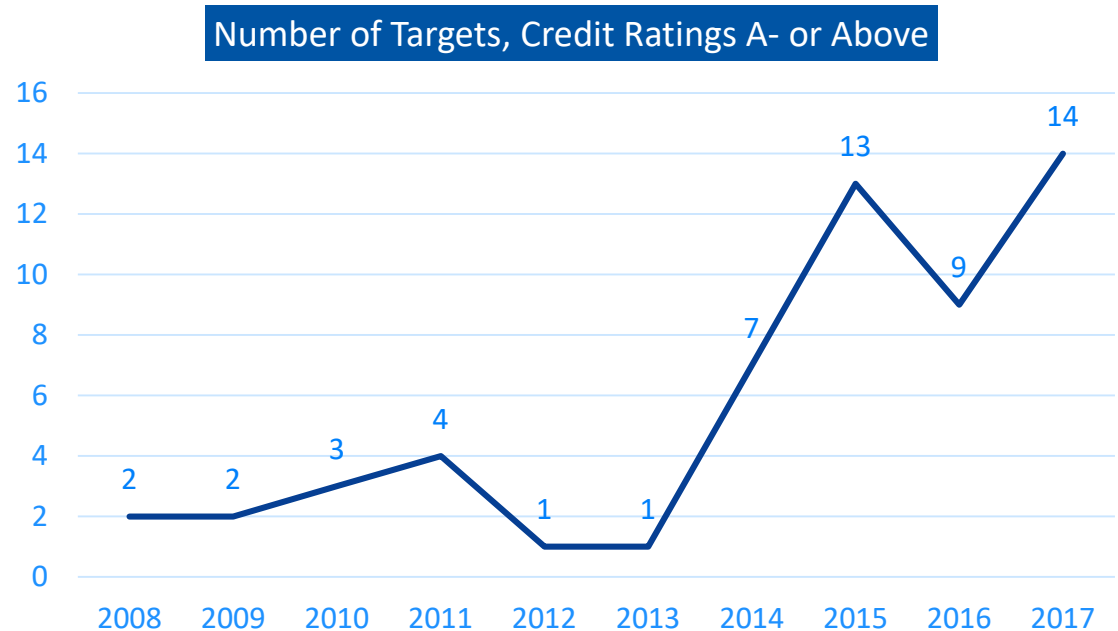


Sources: Kaufman Hall Transactions Data, S&P Median Credit Rating Reports, Moody's Median Credit Rating Reports, Moody's Credit Rating Changes Reports.



# The Participants Are Increasingly Including Market Leaders

Year	Transacted Revenue (\$B)	Number of Transactions
2017	\$63,186	115
2016	\$31,288	102
2015	\$32,028	112
2014	\$23,098	102
2013	\$31,328	98



Note: For cases in which two parties merged, smaller party labeled as “Target”; Size determined based on target revenue.

Sources: Kaufman Hall Transactions Data, S&P Median Credit Rating Reports, Moody's Median Credit Rating Reports, Moody's Credit Rating Changes Reports.



# For-Profits Are Exiting Certain Markets



10 transactions involving  
23 hospitals



6 transactions involving  
8 hospitals



3 transactions involving  
7 hospitals

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# For-Profit/Not-for-Profit Dynamics Are Changing

- 32% of 2017 sale transactions involved for-profit divestitures
- More transactions involved not-for-profits purchasing for-profit assets

## 2017 Not-for-Profit and For-Profit Hospital/Health System Deals (as % of total)

Not-for-Profit Acquiring Not-for-Profit	57%
Not-for-Profit Acquiring For-Profit	16%
For-Profit Acquiring Not-for-Profit	11%
For-Profit Acquiring For-Profit	16%





# New Entrants Are Launching a New Strategic Attack



- **Scale:** \$185 billion
- **Strategic attack:** Control ecosystem of payment, outpatient care, analytics, and pharmacy—marginalize hospitals



- **Scale:** \$216 billion
- **Strategic attack:** Control ecosystem of retail care, chronic care management, pharmacy, and insurance—marginalize hospitals

# What It Takes to Be a Successful Health System in the Future

- Financial resources to invest in new capabilities, particularly for digital health and population health management
- Market presence across a sufficiently broad geography
- Capital and resources for innovation, and research and development
- Internal talent and ability to attract external talent, especially in the digital space
- Ability to attract innovative partners and a strategy to maximize value of those partnerships
- Financial wherewithal to allow time and flexibility to develop the necessary capabilities and test new strategies

Capital Providers Should Ensure Borrowers Are  
Moving to the New Business Model



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Anu Singh, a Managing Director of Kaufman Hall, provides financial advisory services to healthcare organizations and companies nationwide. Mr. Singh leads the evaluation, structuring, negotiation, and execution of mergers, acquisitions, partnerships, joint ventures, and other forms of transactions. He also leads projects involving the assessment of strategic options, growth strategies and business unit/segment viability. His clients include national and large multi-regional health systems, academic medical centers, community hospitals, large physician practices and groups, health insurers, non-acute care providers, and capital providers to healthcare entities. Mr. Singh has advised on or evaluated more than 100 healthcare transaction-related engagements.

Prior to joining Kaufman Hall, Mr. Singh was a Director at Huron Consulting Group, within its Corporate Advisory Services practice. His previous experience includes the execution of turnaround and restructuring plans, and advising on mergers, acquisitions, and other transactions. Mr. Singh also has

raised capital for a variety of clients, ranging from underperforming or distressed companies to well-capitalized, investment-grade companies across multiple industries. He has extensive overseas work experience, particularly on behalf of aid agencies, Central Banks, and other parties involved in major financial markets.

Mr. Singh has presented at various industry and professional events and seminars, including those sponsored by The Governance Institute, Healthcare Financial Management Association, Voluntary Hospital Association, *Becker's Hospital Review*, National Federation of Municipal Analysts, and the Turnaround Management Association. He also has authored articles and been quoted in a number of industry publications.

Mr. Singh has an M.B.A. from Northwestern University's Kellogg School of Management and a B.S. in Finance from the University of Illinois at Urbana-Champaign. He also holds CPA, CFA, CTP, CIRA, and CDBV certifications.



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