

INSIGHT DRIVEN HEALTH

Healthcare M&A: Mastering the 3D chessboard

Think like a portfolio manager or
leave money on the table

A large, stylized blue chevron graphic pointing to the right, partially overlapping the text "High performance. Delivered."

High performance. Delivered.

Record levels of mergers and acquisitions (M&A) are fundamentally reshaping the US healthcare landscape. But if healthcare providers don't oversee these transactions with an investment portfolio manager mindset, Accenture estimates they could leave at least 10 percent of anticipated costs saving on the table.

Healthcare M&A in the US reached \$241B by May 2015, the highest year-to-date volume ever recorded. Healthcare providers are making these acquisitions to gain economies of scale; shift from volume-based to value-based care; address local market characteristics to remain competitive; better appeal to consumer wants and needs; and expand their digital health and ehealth capabilities.

While this new tidal wave of M&A expands the set of strategic options available to healthcare providers, it also creates management complexity comparable to a game of three-dimensional chess: In the current environment, providers must view opportunities and threats from both horizontal and vertical perspectives, as well as a rapidly emerging digital health dimension. The game can only be won by viewing

the strategic growth opportunities holistically—all three dimensions simultaneously—as investment portfolio managers would. Doing so successfully means getting the most out of M&A transactions. Failure to do so means leaving money on the table.

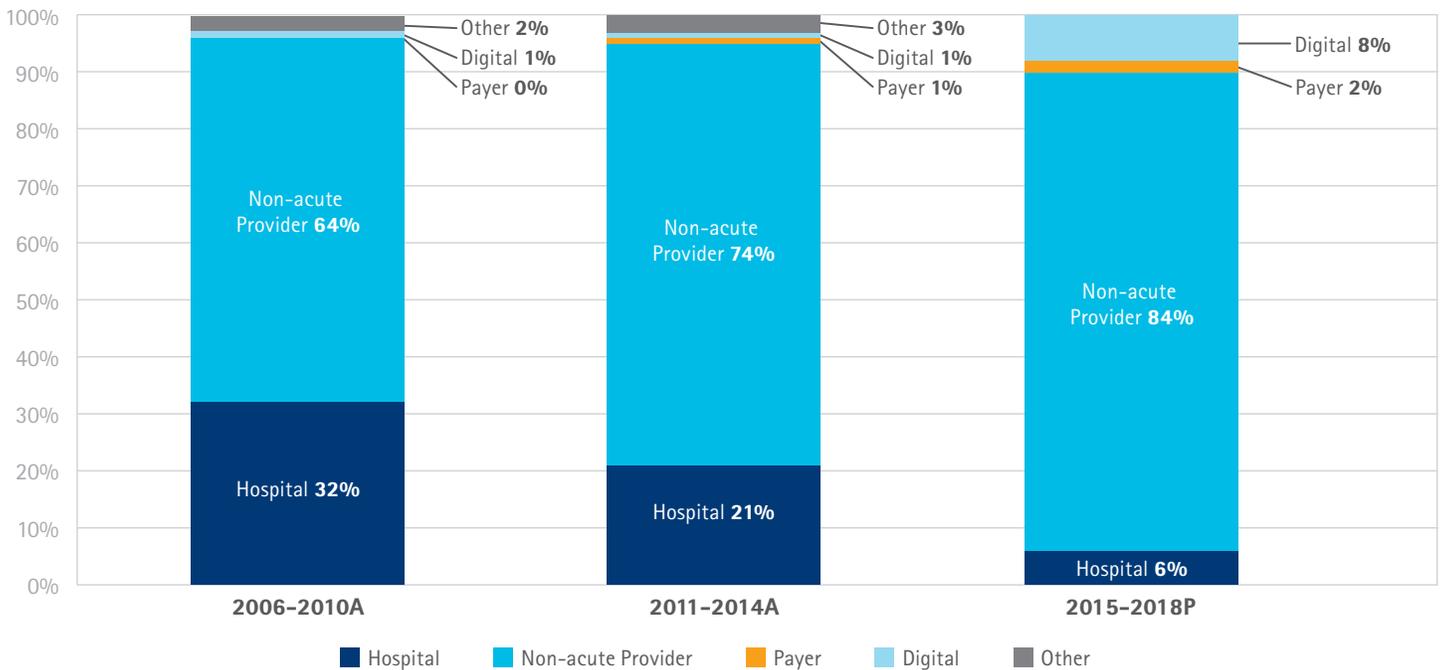
From horizontal to vertical and digital

Horizontal M&A represents the traditional 'land grab' of hospitals buying other hospitals to create an ever-expanding footprint. However, horizontal acquisitions have generally failed to generate the desired synergies, and some have actually resulted in diminished operating performance of the combined entities. The desire to realize the perceived scale benefits

quickly often means that horizontal deals are closed quickly, without rigorous planning to achieve benefits in both the near- and long-term. As a result, substantial value is lost: Accenture estimates that in traditional horizontal M&A by healthcare providers, at least 10 percent of the anticipated cost savings are left on the table.



Figure 1: As traditional hospital acquisitions shrink, non-acute and digital acquisitions are on the rise



Sources: Accenture Analysis and S&P Capital IQ

On the other hand, **vertical M&A**—when a hospital acquires a payer or a non-acute care provider (e.g., retail clinic or physician practice)—has significantly increased. Vertical M&A is driven by changes in payment models and consumer expectations, and is evidenced by the large share of patient volumes increasingly shifting to non-acute settings. According to Accenture analysis, the share of non-acute acquisitions as a portion of total provider acquisition volume increased from 64 percent in 2006-2010 to 74 percent in 2011-2014, while horizontal acquisitions decreased from 32 percent to 21 percent in the same timeframes (Figure 1).

Given the promise of digital health to reinvent healthcare, providers are also looking for **digital M&A** and investment opportunities, which are flourishing given the **growing funding being made available to digital health start-ups**. Acquisition targets are typically small or midsize companies providing health-related products or services in ehealth, telemedicine, population health management, health analytics, remote monitoring, wearable technology and other areas. But, digital business acquisitions are likely to transform and disrupt the business model altogether. So while making digital investments is essential to a provider long-term, it is daunting nonetheless.

The shift toward vertical and digital M&A in healthcare will continue to gain momentum, as market forces cause providers to seek diversification and differentiation (Figure 2). Accenture predicts that acquisitions of non-acute providers will reach 84 percent of the total provider acquisition volume by 2018 while purchases of payers will double. Digital health acquisitions will expand by a multiple of 8 – from 1 percent of overall acquisition volume in 2014 to 8 percent by 2018. Meanwhile, the share of traditional horizontal acquisitions is expected to shrink from 21 percent in 2014 to 6 percent by 2018 (Figure 1).

Figure 2: The top 2 reasons to pursue vertical and digital deals

Diversification: Providers can mitigate business risk by creating a broader investment portfolio that brings in revenue that is not necessarily tied to traditional hospital-related reimbursement limits.

Differentiation: Providers can establish new categories of services to increase their competitive advantage.

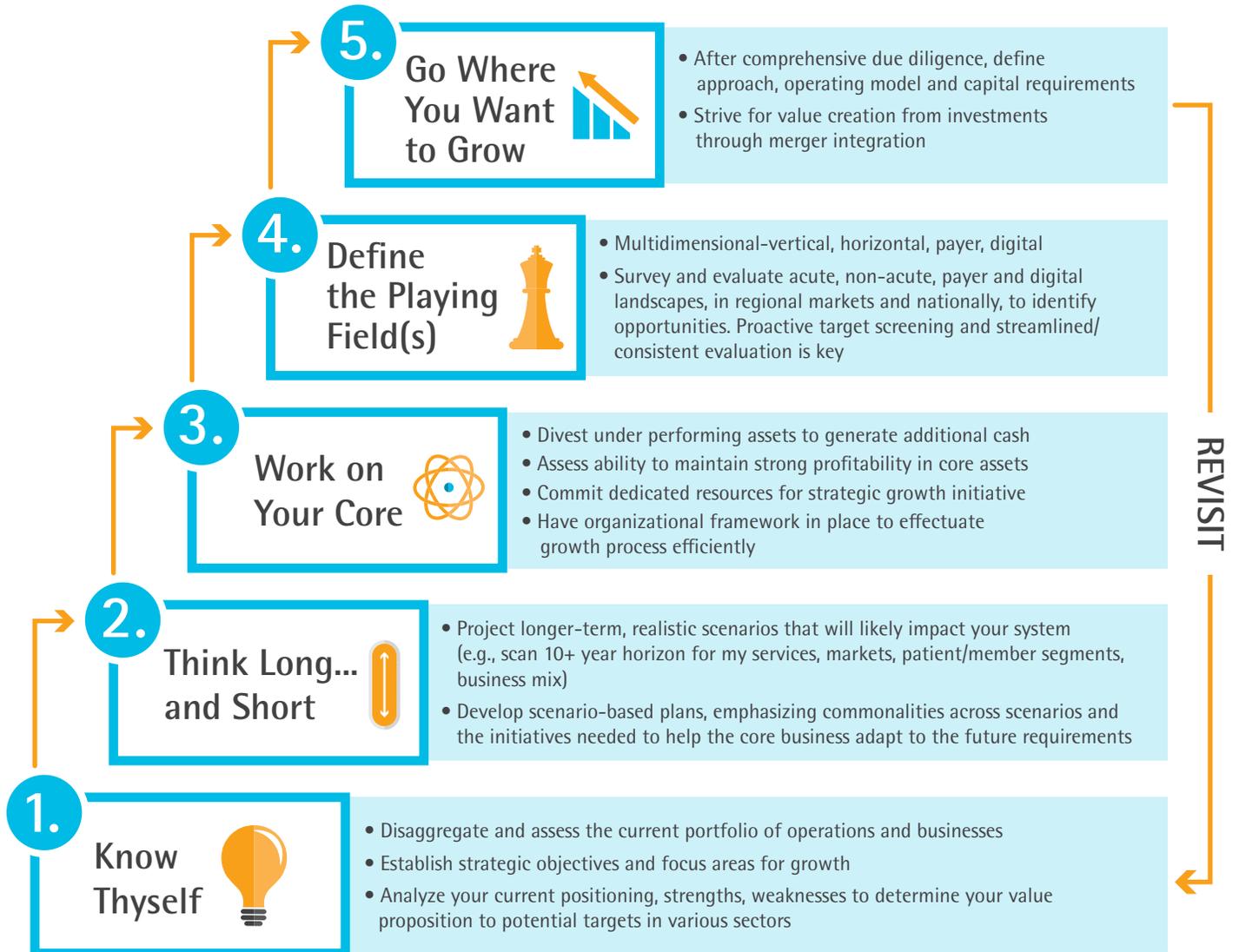
Think like a portfolio manager to make the most of acquisition strategies

In this era of healthcare M&A, provider executives must avoid the trap of viewing

deals as one-off opportunities to create a new revenue stream or add market share. The best prepared executives will systematically and rigorously manage M&A opportunities as a portfolio, and evaluate how a potential deal will influence the whole (Figure 3). According to [the Aberdeen Group](#), an effective portfolio

management program can increase ROI and enable companies to achieve up to 25 percent more revenue from new products when compared with less successful competitors. "Best in class" organizations typically improve project ROI by as much as 28 percent.⁶

Figure 3: 5 steps provider executives need to take to become effective managers of a diverse healthcare portfolio



Source: Accenture

Ensuring that a given transaction is a good fit with a healthcare provider's strategy requires executives to step back and view it in light of other potential targets on the market and current business lines within a health system. Given the significance of these financial and

operational commitments, a deal must also meet long-term strategic goals in a shifting health landscape. Every level of analysis and decision making should be rigorous – using all available data, stress testing multiple scenarios and developing clear plans of implementation.

There are, of course, no guarantees of success, and individual acquisitions may still go wrong. However, a portfolio approach will improve the chances that the broader business survives and grows and a transaction generates the value that was intended.

Methodology

Accenture analyzed healthcare provider acquisition data from S&P Capital IQ from 2006-2014. Data from more than 1,500 acquisitions were analyzed and categorized by type of provider organization acquired (i.e., hospital, non-acute provider, payer, digital company or other). Accenture performed historical and trend analysis to determine 2015-2018 forecast.

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