

# What's Driving the Current Wave of Healthcare M&A and Investment?

July 2021 | Nathan Ray, Kate Festle, Carlyne Kama, and Cortnaye Swan

We've experienced unbelievable change over the past year in the way we think about and consume healthcare. We witnessed the quickest vaccine delivery in history. Many of us likely had our first virtual health encounter. And along the way, payers, providers, tech companies, and life sciences organizations collaborated to integrate a range of new patient-centric technologies—increasing engagement, improving value-based care, and contributing to better outcomes.

It's no wonder, then, that when surveyed earlier this year, nearly half of healthcare CFOs said the pandemic will drive an increase in partnerships across the healthcare ecosystem. Following a stall in deal volume with the onset of COVID-19, deal volume rebounded with renewed interest in 2020, culminating in a high-velocity fourth quarter with deal volume 3% higher than in 2019's record-setting year.

The momentum hasn't slowed in 2021, particularly as special purpose acquisition companies (SPACs) and private equity firms—which had a staggering \$2.9 trillion in capital by the end of 2020—continue to fuel dealmaking.

Whether you're a strategic or financial investor—or a healthcare business leader—understanding what's driving M&A and investment is critical to developing strategies that meet the needs of today's consumers. We'll discuss the trends and drivers for three vital segments of the healthcare deal landscape: providers, payers, and life sciences.

## CONSOLIDATION CONTINUES FOR PROVIDERS AS PATIENT NEEDS AND CARE DELIVERY ECONOMICS SHIFT

A number of system-wide trends are driving consolidation in the provider space, including a growing demand for:

- Virtual and remote patient access
- Quality or value-centric reimbursement models
- Omnichannel patient experience
- Lower-cost care settings
- Geographic expansion
- Early intervention care and serving aging populations

Through consolidation, providers can achieve the economies of scale and market expansion they need to succeed in this shifting landscape. This entails bringing together services that widen their spectrum of care, venturing into areas such as personal, ambulatory, inpatient and acute, post-acute, and community and home care.

Four emerging and rapidly changing areas for providers, however, are virtual care, primary care, behavioral health and ambulatory surgical centers (ASCs).



## Virtual Care

COVID-19 necessitated a widespread shift to virtual care, prompting consolidation of digital health platforms. In a survey held last September, we found that 82% of U.S. residents were extremely or somewhat open to using telemedicine as an alternative to in-person appointments.

Meanwhile, nearly one in five Americans relocated during the pandemic—with more than half citing moving as a reason to change providers—incentivizing physicians to offer geographically flexible care options.

### Key trends

- Provider-agnostic platforms, which are popular among people who prioritize on-demand access to care—despite not necessarily knowing who the provider is. Notable deals in this space include Teladoc merging with Livongo and Google's \$100 million investment into Amwell.
- Provider-specific platforms, which are popular among people who relocated during the pandemic but wanted to maintain their preferred provider. Numerous providers are now licensing telehealth software to enable these virtual visits.

- Investments in residential and facility-based remote monitoring platforms to supplement staff and increase their clients' independence.

## Primary Care

Increased competition from new market entrants—like employer-based healthcare and value-based provider groups—has sharpened the focus on differentiating primary care models.

While there will be a short-term increase in demand for fee-for-service care (based on non-use in 2020), primary care providers will look to expand into upside or fully capitated models down the line. Medicare Advantage (MA) populations, for instance, can open the door for providers to expand into such arrangements, but only if providers can manage this aging population across the continuum. That requires enhanced technology such as improved preventative care analytics and patient experience platforms.

### Key trends

- Ongoing primary care roll-ups, especially in markets with a large population of Medicare Advantage-eligible patients.

- Investment in healthcare analytics and patient experience platforms to accommodate an increase in outcomes-oriented and concierge service.
- Disruption by value-based provider groups as well as ongoing shifts to employer-based offerings, such as those offered by Marathon Health and Quantum.
- Incremental replacement of outdated administrative tools with SaaS-based technologies to enable efficient, scalable operations.

## Behavioral Health

The stress wrought by the pandemic underscored the need for accessible behavioral health support. At the same time, there's been a growing push for early intervention screenings (e.g., for autism) as well as a heightened demand for substance abuse treatment amid the opioid crisis.

This focus on behavioral health is part of a broader provider shift away from acute care toward holistic and preventative health and wellness services. These drivers appear permanent, and we expect the volume of behavioral health deals and investments to remain above pre-COVID levels in the long-term.

### Key trends

- Behavioral health provider roll-ups, particularly for autism therapy and addiction services—for instance, BlueSprig's merger with Fusion Autism Center.
- Strategic co-location or add-ons with primary care physicians (PCPs) to leverage consolidated affiliate partnerships/referral sources and avoid an overlap in PCPs that can lead to loss of such partnerships in a fragmented market.
- Investment and consolidation in telehealth platforms to facilitate virtual care delivery such as the partnership of LifeStance Health with TPG Capital, Summit Partners, and Silversmith Capital, announced in April 2020.

## Ambulatory surgical centers

Patients looking to minimize their time in the hospital during the pandemic began gravitating to ASCs for elective procedures—if they chose to go through with them at all. As we emerge from the pandemic, that shift—combined with a healthy backlog for elective procedures and a move towards value-based contracts that require lower-cost care settings—are pushing continued interest in ASCs from PE groups and large health systems.

### Key trends

- Large health systems seeking to acquire ASCs to expand their geographic footprint and broaden service offerings. For instance, Tenet Health acquired multiple ASCs and now has five times more ASCs than hospitals.
- Expansion of regional specialty and broad-purpose outpatient networks like ValueHealth's joint venture with University Hospitals, which will develop larger value-based surgical networks.
- An uptick in PE-backed ASC consolidation, particularly involving regional GI platforms, such as OMERS' purchase of Gastro Health.
- Investment or partnership in ambulatory-specific technology solutions to support value-based care initiatives.

## PAYERS BUNDLING BENEFITS AND ENHANCING CARE MODELS IN PURSUIT OF MARKET DIFFERENTIATION

Payers are increasingly leveraging ancillary benefits to differentiate themselves in a crowded marketplace. The portion of health insurers offering dental and other ancillary insurances has grown substantially, from 68% in 2018 to 80% in 2020.

The competitive advantages of offering and bundling these benefits are particularly significant in the budding Medicare Advantage space, where ancillary benefits give payers the opportunity to drive lead generation. The number of such plans offering specialty benefits has increased 64% year-over-year, while a recent survey indicated that 62% of MA members cited dental benefits as their reason to enroll.

For members—especially among MA's aging populations—it's also become increasingly important to meet patients in their homes. Advancements in technology and analytics, increasing healthcare costs, and the shift to at-risk and delegated care models only add to this push—and software companies and tech-enabled providers are looking to capitalize.

### Key trends

- Ancillary payers offering specialty benefits like vision, dental, behavioral health, and consumer directed health plans are being bought by big payers. For instance, UnitedHealth Group, which has acquisitively connected health systems, payers, telehealth, and a wide range of ancillary providers, reported an estimated revenue of \$246 billion last year.
- Strong focus on behavioral health—65% of employers now emphasize emotional wellbeing in benefits packages.
- Payers seeking to reduce overall cost of care by delegating utilization management and steerage for high-cost populations and driving more care to the home.
- Electronic medical record (EMR) vendors building or acquiring to bolster population health management, discharge/referral management, and analytics capabilities.
- Software upstarts building a minimum viable product, refining with one or two payer partners to demonstrate value proposition, and seeking additional investment.
- Provider organizations building proprietary analytics tools to manage complex, polychronic at-risk populations.

## LIFE SCIENCES DEALS FOCUSED ON CLINICAL TRIAL TRANSFORMATION AND DIGITAL INNOVATION

We saw the number of deals in the life sciences industry hold steady last year, but the total value dropped by half compared with 2019. This makes sense given that COVID-19's unpredictability meant fewer mega-mergers, while other factors spurred numerous technology-related small-to-midsized transactions.

Looking ahead, the disruption of in-person patient encounters, expedited FDA approval for vaccines, bipartisan support for lower drug prices, and the increasing adoption of artificial intelligence and machine learning will drive deals aimed at transforming clinical trials, as well as drug/therapy development and administration.



## Patient identification for rare diseases

Orphan drug sales will constitute one-fifth of all prescription sales in 2024—and with the increasing availability of genetic testing, more opportunities have opened up to identify patients with the rare diseases those drugs treat.

### Key trends

- Pharma-diagnostic company partnerships offering sponsored genetic testing programs to identify patients with rare conditions due to limited insurance coverage for genetic testing.
- Acquisitions related to the exploration of patient medical records for association of medical symptoms and conditions leading to patient identification.

## Transformation of clinical trials

The pandemic completely halted clinical trials because of the disruption to patient encounters and access, further igniting the need for decentralized trial features. It also called attention to inefficiencies in the drug development cycle, as we saw COVID-19 vaccines produced and approved in months rather than years.

At the same time, bipartisan scrutiny of U.S. drug prices – which are, on average, four times higher than in similar countries – has catalyzed the need for tech-enabled processes that can help lower costs.

### Key trends

- Further development and adoption of decentralized trial features to lower costs, expand geographic footprint and patient diversity, and mitigate future disruption. For instance, Signant Health acquired VirTrial, a platform for managing decentralized and virtual clinical trials, to help meet these needs.
- Platform integration across clinical trial management solution (CTMS), electronic data capture, electronic trial master file, quality management systems, and regulatory submission – with the goal of improving patient experience and compliance, while shortening time to market and reducing costs.
- Becoming more patient-centric by engaging with patients at regular points during the drug life cycle – helping to understand patient needs and preferences, and incorporating them into drug development, access, and adherence. For example, CoreVitas, which offers syndicated registry data and analysis services, recently acquired HealthUnlocked – the world’s largest virtual patient community – to bolster its patient engagement capabilities.

## Administration of new devices, therapies, and drugs

There are pressing and unmet needs for effective rare disease treatments, as well as other therapeutic areas requiring precision medicine. New technologies can help. For instance, advancing artificial intelligence and machine learning are accelerating drug discovery and better identifying patient recruitment parameters – while the ever-growing adoption of mobile apps, remote-monitoring devices, and wearables will continue to improve disease management.

### Key trends

- Acceleration of drug discovery, development, and clinical trials enabled by new technologies.
- Increasing adoption of medical device applications for remote clinical trial monitoring, long-term disease management, and drug delivery.
- Availability of genetic testing and sequencing, as well as tailoring of individualized drug regimes.

## PATIENT-CENTRIC TECHNOLOGY TO DRIVE M&A AND INVESTMENT IN 2021 AND BEYOND

As Roy Jakobs, Chief Business Leader for the Connected Care business of Royal Philips, put it last summer: “Healthcare is an industry that usually moves slower. But the COVID-19 outbreak has forced health systems and innovators to pivot and adapt quickly. We’ve made 10 years of progress in three months.”

That progress carries significant consequences for every aspect of the healthcare deal landscape, driving consolidation and new collaborations to offer the latest technologies, broaden the spectrum of care, lower costs, and cater to patients’ evolving needs.

With rapid change continuing to hover along the horizon, it’s an exciting time for healthcare dealmakers and business leaders. By forming new partnerships, they have the power to create a brighter future for our healthcare system and the patients it serves.

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