

Healthcare M&A Transactions See Large Decline from Q1 to Q2

The drop in activity is especially pronounced year-over-year, with physician medical groups among the hardest hit.

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The second quarter of 2020 is now in the books, and it's clear that mergers and acquisitions in healthcare have declined precipitously since Q1, dropping 20%, with 322 transactions, according to preliminary figures from Irving Levin Associates and compiled by SOLIC Capital Advisors.

When comparing the second quarter of this year to Q2 2019, which saw 486 transactions, it's clear that the drop in M&A activity is even more pronounced -- a 34% dip, to be exact.

What's The Impact

The long-term care and physician medical group sectors were among the hardest hit, declining 40% and 50% in M&A transaction volume, respectively, compared to Q1 2020. Year-over-year, long-term care M&A transactions declined 50% compared with Q2 2019, while physician medical groups fell 63% over that same time frame.

Among all sectors, eHealth was probably the strongest, representing 50 M&A transactions, which is good for 15% of all transactions during the quarter.

As a response to widespread stay-at-home orders enacted due to the COVID-19 pandemic, the Centers for Medicare and Medicaid Services loosened its regulations regarding telehealth visits, which caused usage of the remote care platform to spike significantly. Buyers looked toward remote patient monitoring and patient engagement firms, which are uniquely well-suited to help healthcare providers deliver virtual care.

In late April, CMS announced new reimbursement rules whereby clinicians can be reimbursed for RPM services to treat patients with both acute and chronic conditions, whereas RPM reimbursement was previously limited to only those with chronic conditions.

M&A in the senior care space fell to a seven-year low during the quarter. The economic ramifications from social distancing and quarantine measures took a toll on the sector, which saw just 59 publicly announced transactions in Q2 after a record 2019 saw 450 total transactions in the senior care arena.

Notable Transactions

Among the biggest transactions involving hospital providers were Prime Healthcare Services' \$262 million acquisition of St. Francis Medical Center, a 384-bed regional hospital, and Chan Soon-Shiong Foundation's \$135 million acquisition of St. Vincent Medical Center, a 473-bed community teaching hospital and 76-bed inpatient psychiatric facility.

The single largest transaction in terms of dollar amount came in the managed care sector, with TPG Capital's \$1.2 billion acquisition of Lifestance Health Providers, a provider of outpatient behavioral health services based in Bellevue, Washington. The second-largest transaction occurred in the diagnostic services sector, with Invitae Corporation's \$888.3 million acquisition of ArcherDX, which offers genomic sequencing and testing in oncology.

In the long-term care/senior living sector, Kayne Anderson nabbed seven senior housing communities comprising of more than 2,000 units in various parts of Florida for \$500 million. At the same time, a joint venture acquired six senior living communities formerly owned by Welltower for \$300 million. Another notable transaction was Amedisys' \$203 million acquisition of AseraCare Hospice in Fort Worth, Texas.

In the healthcare IT space, Change Healthcare acquired PDX, a developer of pharmacy management software and services.

The Larger Trend

Not only are deal volumes down, but the total value of M&A in the second quarter is down significantly compared to Q1. The aggregate transaction value was \$12.6 billion compared to \$29.31 billion in Q1, and \$137.29 billion in Q2 2019. Up to June 30, the value of global healthcare M&A was \$37.68 billion for 903 deals.

There were only 393 deals in Q2 this year, which is the fewest number over the past five years, according to data from S&P Global Market Intelligence.

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