

## Rockford-Mercy Tie-up Portends More Hospital M&A

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Mercy Health System and Rockford Health System may have just revealed their merger, but the Midwestern nonprofits already are looking at other regional hospitals in northern Illinois, southern Indiana and Wisconsin as they race to compete in an already-consolidated regional market.

**"There have been some discussions that the system would look to pursue some other acquisitions or partnerships," said Matthew Caine, managing director of SOLIC Capital Advisors LLC, who worked with Rockford during its two year-long search for a partner.**

**The process culminated Tuesday, Oct. 28, when Rockford, a two-hospital nonprofit system in Rockford, Ill., announced it would merge with Mercy Health, its nonprofit neighbor in Janesville, Wis., to create a five-hospital system with about \$1 billion in net revenue.**

**Caine added: "There is a strategic plan that has been outlined, and we will continue to work with the system to bring that plan forward. It is still a work in progress."**

**He wouldn't say exactly which hospitals or health systems were in the newly formed network's sights, but Caine said deals likely would occur in the northern suburbs of Chicago, in Indiana and in southern Wisconsin.**

According to Lancaster Pollard managing director Steve Kennedy, the hospital market in the region is already highly consolidated. He noted, however, that despite the recently announced merger of Illinois' two largest nonprofit systems — Advocate Health Care of Downers Grove, Ill., and NorthShore University HealthSystem, an Evanston, Ill.-based hospital chain in the North Shore suburbs of Chicago — there still are a number of standalone systems that Mercy-Rockford could look to acquire.

"Although the new system is a pretty sizable system, there are more benefits to further expansion," Kennedy said. "In the current healthcare climate, margins are thin and there is limited revenue upside; if you can grow via acquisitions, it is a good way to spread any future risks there may be for a system."

Kennedy said it was hard to name potential targets for Mercy-Rockford.

Nevertheless, freestanding hospitals in the region include KishHealth System in DeKalb, Ill.; FHN Memorial Hospital in Freeport, Ill.; and Beloit Health System in Beloit, Wis. UnityPoint Health of West Des Moines, Iowa, which has a presence in Illinois, Iowa and Wisconsin, is more of a like-size peer to Mercy-Rockford but could also be a logical fit, according to sources.

Calls to the various health systems weren't returned.

**Any acquisitions, however, would not come until the merger is completed, which could be as soon as December, Caine said.**

For Rockford, the merger came about after nearly two years of deliberations, due diligence and negotiations with a wide range of suitors.

**"In going through the process, we were looking at multiple levels of interest by multiple parties," Caine said. "The geographic proximity and [Mercy's] scale, particularly with physicians and how Rockford could mix with Mercy to aggregate the benefits of a regional health system," attracted Rockford to the merger.**

Cadence Health, a Winfield, Ill., nonprofit, most recently looked into merging with Rockford, but the agreement was called off in January. Before that, Advocate Health Care, the largest hospital system in Illinois, was interested in adding Rockford Health to its system in 2008, though those talks ended soon after.

**"[Mercy] was very interested in partnering with Rockford early on. Once we got up and running in our process, it was clear that their strategy was to go at it as a merger of equals," said Caine, adding that Rockford received inquiries from both for- and nonprofit entities as well as faith-based organizations. "Some of the other groups we were talking with had some capital commitments, but [they wouldn't have given Rockford as] many ... seats at the final table. At the end of the day, Mercy and Rockford are looking at a shared governance model."**

The merged system will include five hospitals, more than 550 physicians and 80 outpatient clinics in Illinois and Wisconsin. Rockford Health System has a 396-bed hospital and a 61-bed rehab center. Mercy has hospitals in Janesville and Lake Geneva, Wis., and a 65-bed facility in Harvard, Ill.

Rockford received legal advice from Monte Dube at Proskauer Rose LLP.

Robert W. McCann of Drinker Biddle & Reath LLP provided legal advice to Mercy, while Trey Crabb of Ziegler Capital Markets provided financial advice to Mercy on the deal.

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