

## **Strong Community Hospitals Seek Out Partners: The Strategic Value and Significance of 3 Hospital Deals**

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In August, Evanston, Ill.-based SOLIC Capital Advisors announced the closure of three hospital affiliation agreements that the financial advisory firm helped close.

Although the three transactions differed in structure, they all illustrate a wider industry trend of "very successful independent community hospitals" that decided they needed to align themselves with larger organizations to survive in the changing healthcare industry, particularly considering value-based reimbursement and population health management, according to Greg Hagood, senior managing director and president of SOLIC. "What we're seeing in community after community is the same trend: A community hospital needs to be part of a larger system to continue to provide the services it's always provided," he says.

Here's how each of the three recent transactions benefits the community hospitals involved and prepares them for a value-based, population health-focused world, according to Mr. Hagood.

**1. Winchester (Mass.) Hospital's affiliation with Burlington, Mass.-based Lahey Health.** In Massachusetts, Boston-based Partners HealthCare's controversial acquisition of numerous community hospitals has left the remaining independent facilities feeling vulnerable, as well as locked out of managed care networks and with a limited ability to negotiate with payers, Mr. Hagood says. In order to be successful and attract the patients and physicians they were seeking, leaders at Winchester Hospital felt it was necessary to affiliate with a larger organization with tertiary and quaternary care capabilities.

Lahey fit the bill, and the two organizations worked out an affiliation deal involving a shared governance structure and a collaborative culture. "It starts to create a very strong network of hospitals in northeast Boston that begins to have economies of scale with managed care contracting, purchasing and back office centralization that allow them to be more cost-effective," Mr. Hagood says.

**2. South Hill, Va.-based Community Memorial Healthcenter's affiliation with Virginia Commonwealth University Health System in Richmond.** Historically, Community Memorial has maintained a strong presence in the rural region it serves. However, an increasing number of commercial patients have decided to travel to larger cities for care, and Medicare and Medicaid subsequently account for a growing amount of the hospital's payer mix. That shift made the hospital less profitable and limited its ability to reinvest in its programs, according to Mr. Hagood. Additionally, many of the other hospitals in surrounding communities had already found partners. "Community Memorial was in danger of being left behind if they didn't find a strategic partner that would invest in their facilities and their clinical programs," he says.

So, the hospital decided to affiliate with VCU. Community Memorial and the health system had a pre-existing relationship, collaborating on oncology and some other services. Under the more extensive affiliation agreement, VCU committed to building a new, state-of-the-art hospital facility for Community Memorial. VCU is also poised

to provide plenty of physician support to the hospital to keep care local, according to Mr. Hagood, who calls the agreement a "win-win."

"The selection as a partner here was based on their ability to provide the clinical resources and the capital," he says. "And VCU develops a strong referral source for their secondary and tertiary services back in Richmond."

**3. Sioux City, Iowa-based Mercy Medical Center's partnership with United Surgical Partners International to acquire a majority interest in Dakota Dunes, S.D.-based Siouxland Surgery Center.** In order to keep up with the demands of healthcare reform, such as the implementation of an EHR system, and achieve long-term success, Siouxland leaders decided they needed to be part of a larger system, Mr. Hagood says.

Rather than pursuing a two-way arrangement, the deal involved a third-party, USPI, which also bought a stake in the hospital. Together, USPI and Mercy now own more than 51 percent of the surgery center. The new investment will reportedly lead to more than \$100 million in improvements for nearby facilities, such as a streamlined information technology system, chronic disease registry and community health program support.

The partnership will hopefully benefit Mercy, USPI and Siouxland Surgery alike, although "the proof will be in the pudding" as time passes, according to Mr. Hagood. Like the Winchester Hospital and Community Memorial deals, the partnership illustrates a broader trend in smaller hospitals' responses to the shifting healthcare industry. "All of these represent community hospitals that were responding to the changing reimbursement and healthcare delivery environment," he says.

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