

# ANALYSIS

## Provider Realignment Post-pandemic

By Brian Fuller, Principal, PYA, P.C. and Jordan Shields,  
Managing Director, Juniper Advisory



**COVID-19 delivered a shock to the U.S. healthcare system that will change it forever.**

The array of disruptions has been staggering, including:

- Non-essential procedure suspensions
- Global medical supply-chain disruptions
- Local, regional, and national equipment shortages
- Market-specific patient-volume surges
- An overnight switch to telehealth care delivery

As a result, the U.S. healthcare economy ground to a halt. It is important to understand how the effects of the shock—or rather, shocks—will impact what was already a changing healthcare-industry structure, and the potential implications for merger and acquisition activity in the provider sector.

### EXAMINING SHOCKS: WHY COVID-19 IS SO DISRUPTIVE TO THE HEALTHCARE INDUSTRY

Shocks like these are not unusual in modern economies. But most often being driven by unforeseen, overlapping macroeconomic factors, they can reverberate globally, impacting multiple industries for varying durations. Conversely, they can be regional/national, and impact single industry sectors.

**EXHIBIT 1: FOUR ECONOMIC SHOCKS RESULTING FROM COVID-19**

Type of Shock	Defining Characteristics	Historic Example	COVID-19 Example
Supply	Inputs becoming scarce and expensive Supply-chain disruption	OPEC oil embargo	PPE price spikes and scarcity
	Supply-chain disruption		Hot-spot clinical-staff shortages
Demand	Sudden drops in consumer or business spending	Great Depression	Elective-procedures suspension
			Fewer patients seeking care
Financial	Lack of liquidity; frozen credit markets	2008–2009 global financial crisis	50–70 percent revenue drops; resultant provider balance-sheet impairment and capital access challenges
	Falling financial-asset values		
Policy	Unforeseen governmental policy shifts	1997 Asian currency crisis	Shelter-in-place measures
	Often tied to central banks		CARES Act (and others)

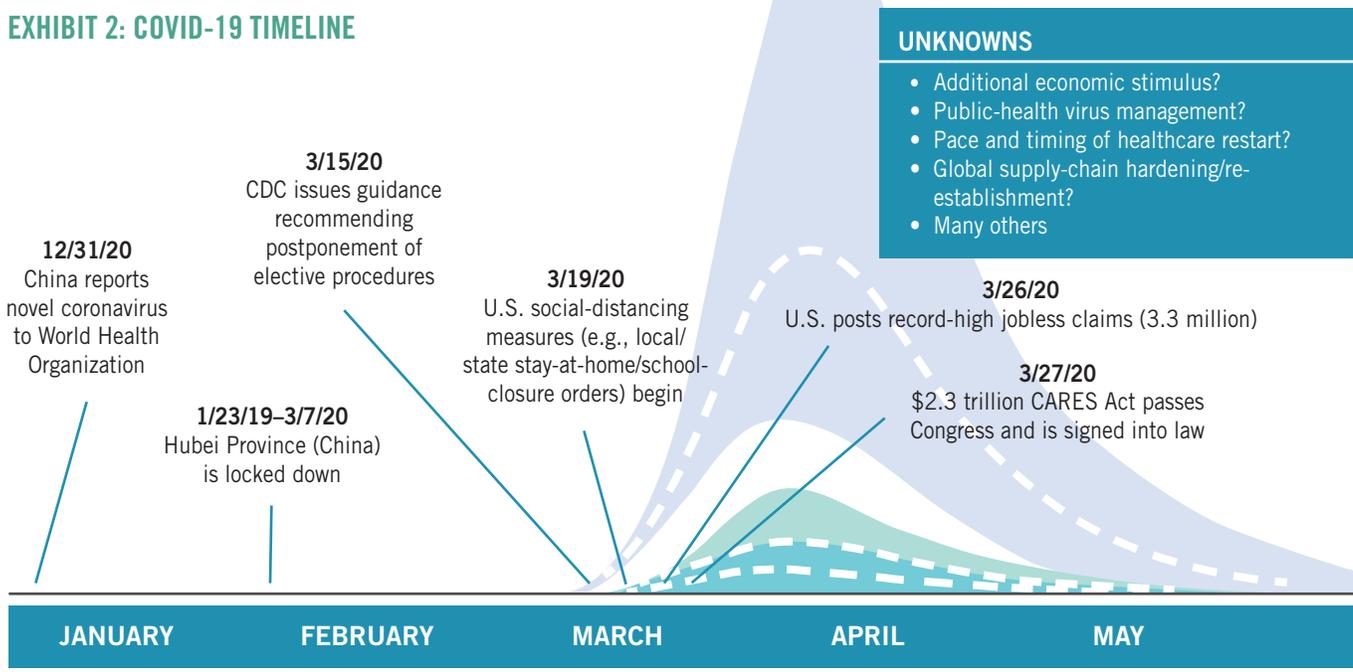
As shown in Exhibit 1, the COVID-19 pandemic triggered four economic shocks (supply, demand, financial, and policy) and evolved over an abbreviated timeline, which intensified its impact (see Exhibit 2). The timeline indicates the predicted peak in cases and overlays the shocks and various events. At this point, the prospect of a quick recovery remains uncertain.

### POST-PANDEMIC PROVIDER REALIGNMENT

The crisis has exposed the high “cost of fragmentation” within the healthcare industry and, we believe, will serve as the seminal event that ushers in an era of greater provider integration and concentration. We anticipate three phases in the industry’s path forward:



**EXHIBIT 2: COVID-19 TIMELINE**



1. A turbulent restart will occupy the remainder of 2020, marked by initially sluggish M&A activity as at-risk providers seeking shelter are courted by cautious buyers assessing their positions and plotting strategies.
2. In the ensuing two years, a shake-out will occur, characterized by some of the surviving providers and hospitals—their risk tolerances battered—seeking safety and security. Strong regional systems, insurers, and private equity-backed disruptors will seize the opportunity and be hyperactive in pursuing scale during this phase.
3. In a final phase, the rise of the titans, national mega-systems, possessing regional market essentiality, may emerge to dwarf today's largest systems. These behemoths will compete directly with scaled, non-traditional, ambulatory-centric networks (e.g., integrated insurance

companies) in a marketplace that no longer adheres to traditional delivery vs. financing distinctions. These organizations will vie to deliver on the promise of population health and achieve growth and stability through quality and efficiency.

**HOSPITALS**

Hospitals had already experienced a decade of disruptive change pre-pandemic. Post-pandemic circumstances will act as a catalyst to advance the most stubborn of the changes yet to be widely adopted, and will drastically accelerate the pace of many others.

Turbulent Restart/6–9 months	Industry Shake-Out/1–2 years	Rise of the Titans/3+ years
“Have vs. have not” phenomenon is exacerbated	Some, perhaps many, distressed sellers (especially rural ones) close, unable to find geographically proximate buyers	Declining governmental and commercial reimbursement
The financially distressed seek lifelines		Large systems leverage scale for clinical and operational advantage and aggressively move to assume insurance risk
Well-capitalized regional systems pursue opportunistic growth	Strong sellers seek partners with high quality and operational depth	
Turnaround-focused, private, for-profit operators enter aggressively	Regional systems aggressively seek scale-consolidation opportunities	
Publicly traded health systems pursue only the most attractive scale opportunities		

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(Provider Realignment, continued from page 25)

### PHYSICIANS

COVID-19 underscored the inherent risks in small independent and group practice amid economic crises. With a high fixed overhead and limited, if any, reserves or credit, some groups failed only days after elective procedures were suspended and well-care visits dried up.

Turbulent Restart/6–9 months	Industry Shake-Out/1–2 years	Rise of the Titans/3+ years
Practices reopen; pace of activity ramp-up is highly variable	Pre-crisis “physician land rush” escalates beyond previous levels	Over three-quarters of physicians are employed by large group practices, management companies, insurance companies, or hospitals
Hospitals and insurance companies that weathered the crisis with capital develop opportunistic physician-growth strategies	Fierce competition for physician services arises across health systems, insurers, and private-equity investors; primary-care and procedural subspecialists represent the hottest commodities	Private-equity investments shift from practice consolidation toward innovation to support operational and clinical efficiencies
Private equity remains active, but at lower multiples; some opportunities are lost to strategic buyers	The shift from facility-based providers to lower cost settings continues	Integrated physician enterprises lead health systems toward displacing acute care’s traditional position at the center of the delivery industry

### NON-ACUTE PROVIDERS (SENIOR LIVING, HOME HEALTH, BEHAVIORAL, OTHER)

Each non-acute sector has faced unique COVID-19 challenges, but their paths out of the pandemic will share similarities shaped by industry forces. Market consolidators will hedge against the cost of fragmentation by building comprehensive networks for well care, sick care, and recovery care, while private equity continues to consolidate holdings to eventually exit or, in rare and high-growth situations, take public.

Turbulent Restart/6–9 months	Industry Shake-Out/1–2 years	Rise of the Titans/3+ years
Post-acute sector is hit hard, given fewer hospital discharges	Divide between “have” and “have not” segments within sectors increases	Increasingly, integrated mega-systems and insurers add non-acute business lines and compete within these sectors
There is a relatively quiet rebuilding period as businesses stabilize	Sellers look first for buyers within their sub-industry, then to integrated systems and large insurers; troubled entities close	Large systems leverage scale for clinical and operational advantage and aggressively move to assume insurance risk
There is some activity among select investor-backed and healthy system buyers	The shift from facility-based providers to lower cost settings continues	A select few integrated national mega-systems (~\$75B+ in net revenue) emerge

### THE ROAD AHEAD

The COVID-19 crisis laid bare the fragility of U.S. healthcare. We paid a heavy price for fragmentation. Looking forward, boards and executive teams will need to take several actions to keep their organizations relevant and healthy:

1. Evaluate the degree to which local markets are integrating to compete on quality and efficiency
2. Identify COVID-19-era competitive differentiators, and re-visit strategic plans to incorporate
3. Identify partnerships and structures that will leverage differentiation and support the organization’s long-term success

There will be no going back to the industry as it existed, only a going through to a stronger, more hardened, and—in some cases and geographies—a materially scaled healthcare system. Successfully approaching and navigating such an uncertain future will require healthcare leaders to ask a number of existential questions, including:

- Do we have the financial wherewithal to survive the crisis and a potentially slow recovery?
- Can we articulate a credible path to future practice or system growth?
- Can we continue to successfully compete in a marketplace that prizes integration and scale?

Different organizations will answer these questions differently—but all should proceed based on their answers to them, and to other questions that may be dictated by their particular markets.

# EDUCATION



## Key Takeaways

COVID-19 will accelerate U.S. healthcare's movement toward a future characterized by the blurring of traditional lines between care delivery and financing. Integrated, scaled regional and national organizations that compete aggressively on quality and cost will lead. Increased merger and acquisition activity will be a hallmark of the transition.

To help their organizations navigate these changes, healthcare leaders should:

- Conduct a forthright evaluation of their organization's go-forward strategic and financial position
- Revisit growth plans to determine their continued validity
- Create a scenario plan to identify key assumptions or market events that could materially impair organizational performance
- Chart a course forward that reflects the realities of operating in a post-COVID-19 world, including partnership models of all kinds

For more information about the impact of the COVID-19 pandemic on provider alignment, please contact:

**Brian Fuller**, Principal, PYA, P.C.  
(312) 451-6319, [bfuller@pyapc.com](mailto:bfuller@pyapc.com)  
**Jordan Shields**, Managing Director,  
Juniper Advisory, (312) 506-3005  
[jshields@juniperadvisory.com](mailto:jshields@juniperadvisory.com)

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### MODULAR PRIMER

#### Introduction to Telehealth (0.75)

Source: Oregon Health and Science University (OHSU)

This modular, telehealth primer is relevant to the Pacific Northwest area and includes statistics from OHSU's telehealth program implementation. By the end of this lesson, viewers should be able to:

- Describe the spectrum of telehealth modalities, including synchronous vs. asynchronous care platforms
- Define "websites" manners and employ them to conduct a more effective patient encounter
- Identify limitations of digital visits and strategies to mitigate them.
- Follow current rules and regulations pertinent to telehealth
- Understand the "digital divide" and use an inclusive and critical mindset in the practice of telehealth

<https://bit.ly/2FWUKMv>

### WEBINAR

#### Getting Online with Telehealth: Practical Guidance for Physician Practices

Source: PYA

PYA's panel of experts provides guidance that physician practices can use to roll out, or further tap into, the telehealth opportunity as presenters discuss technology options and speed-to-implementation, solutions to process challenges, and patient engagement.

<https://bit.ly/3ctJKIW>

### PI COURSES

#### Courses: Telehealth

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