



MHA 2020
HEALTH SUMMIT

THANK YOU FOR PARTICIPATING!


For session handouts and recordings, please visit the below website:

<https://mha.org/education/mha-health-summit/resources/>




Healthcare Consulting | Tax | Audit | Valuation | Strategy & Integration | Real Estate


Ever slept with one of these in your room?



**It's the little things...
that can wreak havoc if unnoticed**

For nearly 40 years, PYA has helped the nation's leading healthcare organizations avoid the sting of costly oversights, no matter how small they may seem.

ATLANTA | KANSAS CITY | KNOXVILLE | NASHVILLE | TAMPA PYA.COM 




Post-Pandemic Provider Re-Alignment

Montana Hospital Association Spring Summit

April 30, 2020

© 2020 PYA, P.C.
WE ARE AN INDEPENDENT MEMBER OF AIA—THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Discussion Agenda



1. Important notes, introductions & objectives
2. Econ 101 + Covid-19 = an economic shock for the ages
3. Post-pandemic provider re-alignment

1. Important notes, introductions & objectives



An Important Note



This presentation addresses economic and potential structural implications of the Covid-19 pandemic and ensuing crisis on the U.S. provider industry.

In doing so, it in no way attempts to minimize the public health and/or other social issues associated with the ongoing pandemic and its aftermath.

Introductions



Brian P. Fuller
Principal - Strategy
Fuller@pyapc.com



pyapc.com
800.270.9629

ATLANTA | KANSAS CITY | KNOXVILLE | NASHVILLE | TAMPA

Discussion Objectives

- Introduce the concept of economic shocks and their historic effects on economies, industries and businesses
- Describe the impact of Covid-19 through the lens of an economic shock
- Discuss likely industry "inflection points" that will be driven or accelerated by the Covid-19 crisis
- Understand potential implications of the Covid-19 crisis on provider alignment

Prepared for Montana Hospital Association Page 7

2. Econ 101 + Covid-19



Prepared for Montana Hospital Association Page 8

Defining "Economic Shock"



Any **change to fundamental macroeconomic variables** or relationships that has a **substantial effect on macroeconomic outcomes** and measures of economic performance, such as unemployment, consumption, and inflation.

Shocks are often **unpredictable** and are usually the result of events thought to be **beyond the scope of normal economic transactions**.

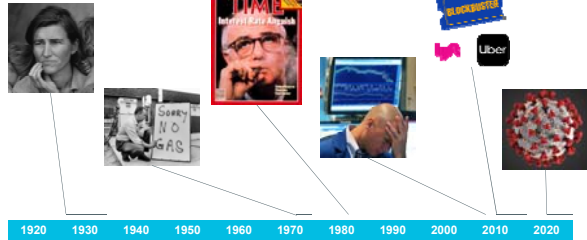
Economic shocks have **widespread and lasting effects** on the economy, and are the **root cause of recessions and economic cycles**.

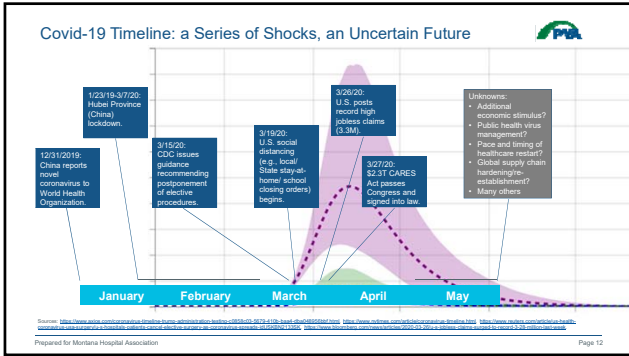
Economic Shock Origins

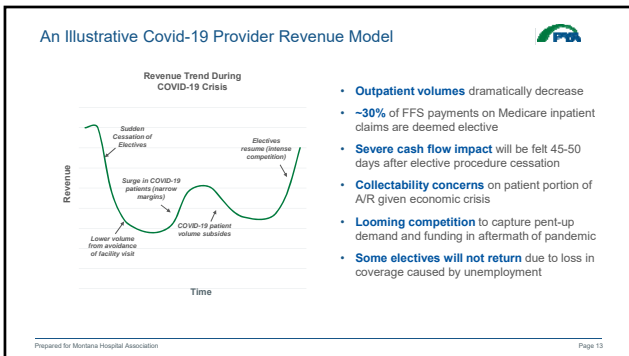


Economic Shock	Driver
Supply	An event that makes economic production more difficult, costly or impossible
Demand	Sudden and material shift in spending patterns, either among private consumers or businesses
Finance	Sudden impairment of capital and liquidity flows required to fund economic activity (i.e., operations, payrolls)
Policy	Changes in government policy that have profound economic effect
Technology	Technological developments that affect economic, social, political or other outcomes

Economic Shocks are (and Will Remain) a Part of Our World







Perspectives on a Post-Pandemic Future

Five years from now, what differences from today's healthcare system will you confidently assert were driven by the Covid-19 pandemic and crisis?

Would've Got There Eventually...	Covid-19 Accelerated...	Maybe...
<ul style="list-style-type: none"> • Increased influence of "consumer" demands (e.g., telehealth capabilities as provider selection criteria) • Global IT system interoperability • Wave of smaller providers seeking security 	<ul style="list-style-type: none"> • Universal adoption of telehealth care delivery (incl. system ops "rethink") • Serious re-visitation of public option debate • "Hardening" of public health system/supply chain • Material number of rural hospital closures 	<ul style="list-style-type: none"> • Universal Medicaid expansion by end of 2021 • Aggressive provider pursuit of risk-based payment • Lasting power of remote work model

Prepared for Montana Hospital Association Page 14

3. Implications of Covid-19 on provider re-alignment



Drivers of Provider Re-alignment in a Post-Covid-19 Environment



- Organizational
 - Pre-crisis financial position
 - Changing risk tolerances
 - Access to capital
- Market
 - Crisis duration & pace of recovery
 - Post-pandemic sector attractiveness

Post-pandemic Re-alignment Expectations: Physicians



Post-Pandemic Market Realities – Physicians

- Practices, up to and including medium-sized (50-100 providers) multispecialty clinics, exposed as having **fragile pre-crisis financial position**
- Physician practice risk tolerance has taken a **beating**, across the size/scale spectrum
 - Telehealth investment and volume projections skyrocketed, but at a cost to practice economics



Sector Re-Alignment Expectations

- Physician sector will experience the **greatest degree of post-crisis re-alignment** (e.g., practice mergers, health system acquisition, private equity investments)
- **Significant interest in building “in market” and regional/national scale**, from insurers and investors
- **Regional/national health systems will build cross-continuum scale**, driving demand for primary care
- **Procedural subspecialties will be held in especially high regard**, given post-crisis demand expectations

Post-pandemic Re-alignment Expectations: Hospitals/
Health Systems



Post-Pandemic Market Realities – Hospitals/Health Systems

- Growing, pre-crisis divide between “haves and have nots” exacerbated
- Narrow operating margins exposed as unsustainable
- Typical hedges against reimbursement pressure (e.g., investments) took a beating from the pandemic
- High fixed cost structures/crisis-induced capital constraints weighing down the ability to react
- Reality of limited ability affect revenue and expense (payer and supplier dependent, respectively)



Sector Re-Alignment Expectations

- Moderate-to-significant increase hospital/health system consolidation, as a buyer’s market takes hold
- Investment thresholds will increase; some sellers will not find markets
- Absent governmental support, rural and critical access hospitals will be particularly hard hit
- Challenges competing for physician services given capital constraints
- Increasing weight of target cost structures (% high fixed) as acquisition criteria
- More aggressive pursuit of full-risk alternative payment models

Post-pandemic Re-alignment Expectations: Investors



Post-Pandemic Market Realities – Investors

- Private equity shown to have vulnerability to macro-economic shocks
- Crisis largely affirmed investor “just add capital and tech” business model (e.g., move to telehealth, search for technology solutions to enable industry re-start)
- Battered physician risk tolerance(s) likely to drive increased, short-term openness to private equity relief
- Pre-crisis funds likely at an advantage, given challenges raising new funds in short-term, uncertain futures



Sector Re-Alignment Expectations

- Significant increased private equity interest, especially in physician sector
- Deal flow may be sluggish initially, as investors re-evaluate business models/ become more selective/intensify due diligence
- Likely depressed valuations will require sellers to evaluate current offers against pre-crisis expectations

Strategic Questions Providers Need to be Asking



1. Is our organization financially able to weather the crisis (t plus 30-60 days)?
2. Is our organization able to weather a slow recovery (t plus 90 days...180 days)?
3. Does the degree of governmental or other relief available to our organization increase the confidence of our answers to questions 1 and 2?
4. Post-crisis and recovery, will our organization be sufficiently capitalized to move forward with our growth strategy over the long-term?

Discussion

