



# Is deal making ready to rebound?

M&A trends in healthcare

Q2'23

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## Introduction

# Looking for seeds of growth in healthcare M&A

The forces transforming healthcare continue to shape M&A in this sector. The consolidation of health systems and physician practices, the shift of clinical services to nonhospital settings, the move toward value-based payments, and payer and patient preferences for telehealth and healthcare at home all helped influence deal making during the second quarter. Yet during the past five quarters, M&A has remained in a narrow range, well below the high volume of deal making that we saw in 2021. The total of 245 deals in Q2'23 was 7 percent below deal volume in Q2'22 and 41 percent short of Q2'21 levels. Significantly, strategic buyers accounted for more than 70 percent of M&A volume in the quarter, accelerating a shift away from financial buyers that began in Q4'22.

Ongoing pressures could keep second-half M&A near first-half levels. Additional interest rate hikes amid an economic slowdown, political divisions in advance of a presidential election year, and uncertainty about the valuations of potential acquisition targets may combine to postpone a rebound in deal making. But we expect at least some of those headwinds to

moderate toward the end of the year and that could begin to release pent-up demand. As valuations continue to contract and companies look to divest noncore assets, interest from both strategic and financial buyers is likely to pick up, particularly as we move into the first half of 2024.

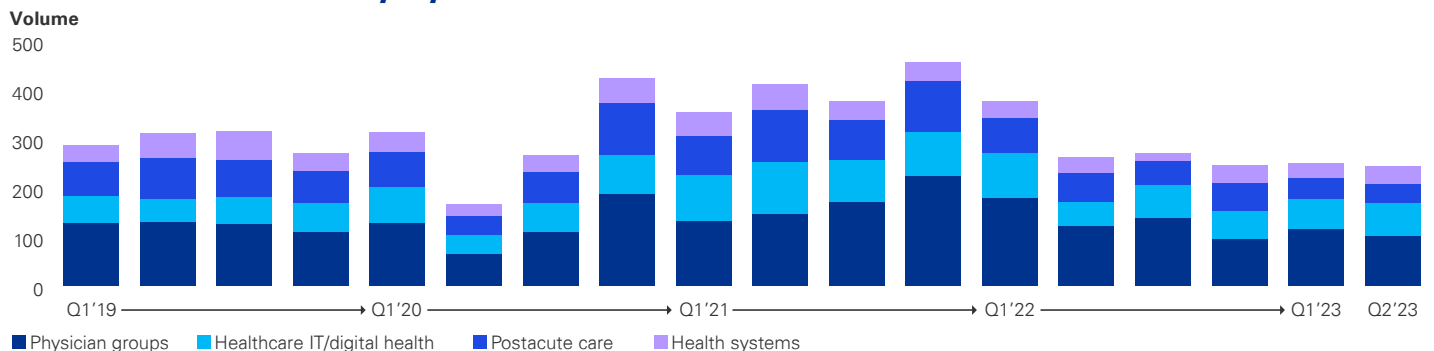
In this paper, we review healthcare deal making in Q2'23. This includes sector-by-sector transaction volumes as well as the trends in strategic and financial investing. Then we provide a deep dive into the geographic variability behind the shift of clinical services and procedures to outside the traditional hospital setting, based on a thorough KPMG analysis of claims data. Finally, we share our outlook for the next several quarters and offer three recommendations for industry leaders to consider now.



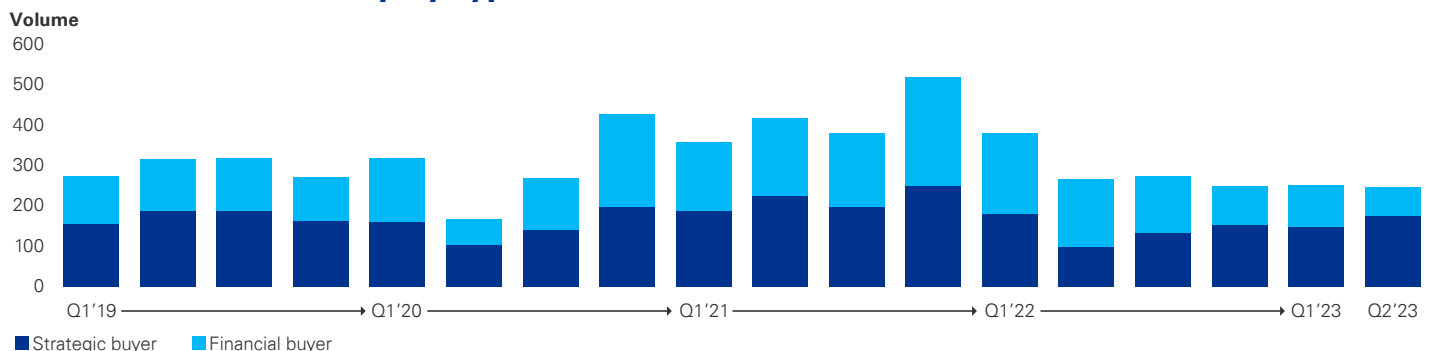
**Kristin Pothier**

*Global and US Healthcare and Life Sciences  
Leader, Deal Advisory & Strategy*

## Healthcare deal activity by sector



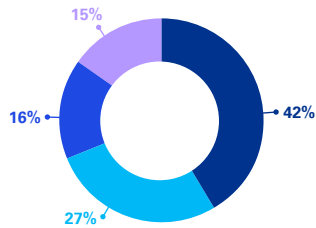
## Healthcare deal activity by type



## Q2'23 deal mix

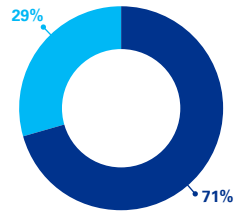
M&A deal volume

### Sector mix



■ Physician groups ■ Healthcare IT/digital health  
■ Postacute care ■ Health systems

### Strategic/financial mix



■ Strategic ■ Financial

## Significant healthcare deals

Acquirer	Target	Rationale	Status	Value (billions)
CVS Health	Oak Street Health	Broaden primary care platform and value-based care offerings	Closed	\$10.6
Optum	Amedisys	Continued growth	Announced	\$3.3
TPG, AmerisourceBergen	OneOncology	Latest clinical pathways, research, and technology; economies of scale	Announced	\$2.1
Molina Healthcare	Brand New Day, Central Health Plan of California (Bright Health Assets)	Growth in California to complement expanded Medi-Cal contract	Announced	\$0.5
Froedtert Health	ThedaCare	Merger to launch a combined health system	Announced	Not disclosed
Kaiser Foundation Hospitals	Geisinger Health	Formation of a new platform (Risant Health) to expand value-based care models to not-for-profit and community-based hospitals	Announced	Not disclosed

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2 2023 covers all U.S. deals announced from April 1, 2023 to June 10, 2023 and select mega (>US\$1 billion) deals from June 11, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

“ A robust number of sell-side processes show preparations for the carve-out of assets, pointing to a higher level of activity in H2'23 and H1'24.”

—Ross Nelson, KPMG US Healthcare Strategy Leader

“ More large health systems may explore expansion opportunities to position themselves to excel in value-based care.”

—Jeffry Whitcomb, KPMG US Healthcare Strategy Managing Director





## A few major deals but lower volume overall

The volume of M&A in the U.S. healthcare sector remained relatively restrained during the second quarter of 2023, at about the level we have seen during the past several quarters. Yet each healthcare subsector recorded at least one significant deal, and the largest, CVS Health's \$10.6 billion acquisition of Oak Street Health, was the latest step in CVS's continued expansion into clinical services. The acquisition adds 600 primary care providers to the company's growing roster of physicians, and CVS Health also gets Oak Street's 169 clinics and a technology platform for delivering value-based care.<sup>1</sup>

In postacute care, UnitedHealth subsidiary Optum in June topped Option Care Health's earlier bid for home-health provider Amedisys, a \$3.3 billion acquisition that reflects rising interest in home-health and hospice care.<sup>2</sup>

Another acquisition of physician practices, the \$2.1 billion purchase by TPG Capital and AmerisourceBergen of

OneOncology, a network of cancer care providers,<sup>3</sup> was notable for the involvement of private equity. The deal also creates value for minority partner AmerisourceBergen, which will supply chemotherapy and other drugs as well as practice management services to the OneOncology network.

Overall, financial buyers saw their share of healthcare M&A fall during the second quarter to just 29 percent of all deals, down from 42 percent in the first quarter. A year earlier, financial buyers accounted for a majority of M&A, with strategic buyers accounting for only 98 of a total of 264 transactions. A continuing gap between current valuations and the expectations of would-be sellers has helped depress activity by financial buyers, although we expect that gap to narrow as economic headwinds in the second half of the year force some healthcare companies to seek new capital.



<sup>1</sup> Source: "Oak Street Health, newly acquired by CVS, will expand into four new states," ALM Benefits Pro, June 5, 2023

<sup>2</sup> Source: "UnitedHealth outbids Option Care for home-health provider Amedisys at \$101 a share," Bloomberg, June 26, 2023

<sup>3</sup> Source: "TPG, Amerisource Bergen to buy OneOncology in \$2.1 billion deal," Reuters, April 20, 2023



## As patient care leaves hospitals, investor opportunities depend on how far the trend has progressed

The well-established trend of clinical procedures and services moving out of the hospital continues to have major implications on healthcare M&A. But there is a wide divergence between markets in which most care is already delivered in nonhospital settings and those where the shift in site of service is at much earlier stages. Those differences are likely to affect deal strategies, targets, and potential risks. For companies pursuing strategic or financial investments, it is important to be able to understand and quantify the changes.

KPMG recently conducted a thorough analysis of its claims data sets to evaluate the procedures and services that are shifting from the hospital to ambulatory surgery centers (ASCs) or physician-office settings. We then segmented this data by geography to identify “mature” versus “immature” markets based on how extensively site of service has migrated.

In Austin, Las Vegas, Memphis, and other mature markets, up to 75 percent of the procedures identified for this study are now done in ASCs and doctors’ offices. In those areas, physician assets could be very attractive, particularly as short-term investments. Target companies in mature markets will likely have ambulatory assets and conduct significant volumes at nonhospital sites of care. These providers will be well positioned to increase the number of services performed outside the hospital and to enter into value-based care arrangements.

Possible investor strategies in mature markets include:

- Pursue assets with value-based care potential in specialties such as primary care, cardiology, women’s health, and nephrology.
- Shift assets to risk-bearing arrangements to capture “percentage of premium” or shared savings awarded for reducing the total cost of care.
- Partner with payers to identify other services that can be shifted from the hospital and to secure favorable professional rates for performing these services in office or ASC settings.

Immature markets identified in this study include Cleveland, Madison, and New Orleans, where less than 30 percent of studied procedures were performed outside the hospital. In those markets, there is significant opportunity for investors to shift services outside of the hospital setting, where independent physician organizations will earn more in fees and also receive facility revenue if they own ambulatory assets. At the same time, immature markets pose potential risks from provider concentration that could increase the challenge of shifting services by disrupting referral relationships with health systems.

Possible investor strategies in immature markets include:

- Pursue assets in fee-for-service specialties such as ophthalmology, orthopedics, and urology in which procedure volume is expected to be high.
- Partner with payers to shift services out of the hospital.
- Invest in technology and equipment to give physician assets the capabilities to perform procedures and diagnostics in an office setting.



**Ross Nelson, MD**  
*HC Leader,  
Strategy*



**Jeffry Whitcomb**  
*HC Managing Director,  
Strategy*

## Outlook

# Fed holds key to unlocking deal making

### Economic outlook

For a healthcare sector searching for a deal-making catalyst, the Federal Reserve's midyear pause in interest rate hikes seemed a likely candidate.<sup>4</sup> The sustained push toward higher rates, begun in March 2022, coincided with a decline in M&A, as strategic and financial buyers faced not only increased borrowing costs but also uncertainty about just how high rates might climb. A decision to hold rates steady, perhaps to be followed by rate cuts, promised some clarity and stability to buyers dependent on debt markets and appeared likely to unleash pent-up demand for M&A in the sector.

But that hopeful scenario may be delayed. Although inflation has come down more quickly than expected, it remains well above the Fed's 2 percent target.<sup>5</sup> KPMG Economics now expects the pause in rate to be followed by two additional rate increases by year-end. Rate cuts could begin in the first half of next year.

In the current environment, private equity seems disinclined to sell and instead is focused on creating value in portfolio companies through cost and operational efficiencies.

Operating margins for health systems continue to be under pressure and, in many cases, have declined from 2022 levels. Those challenges could ease somewhat during the coming months, thanks to commercial rate increases as contracts are renewed.

Deal multiples, although still high, have begun to contract. This is leading to ramped-up activity by corporate players seeking to augment capabilities, diversify revenues, and shape asset portfolios. Limited competition from financial buyers has helped spur some strategic deals. However, attractive targets remain scarce, with sellers taking assets to market only when they need capital.

Following several major health system mergers early in 2023, companies may continue to look for opportunities to expand and fill capacity gaps, perhaps by acquiring assets that are struggling in the postpandemic environment. But rather than featuring system-to-system mergers, deal making could involve health system partnerships with other multisite providers or with other health systems for individual service lines. Large systems may seek strategic acquisitions that can help them achieve the size needed to excel at delivering value-based

care. To avoid heightened FTC scrutiny, transactions that span multiple geographic areas are likely to remain attractive. Smaller community hospitals continue to be under pressure and may be prime acquisition targets.

Looking ahead, the recent focus on artificial intelligence (AI) and machine learning (ML) may ultimately help drive deal activity, as companies look to this technology to help mitigate labor shortages and costs. Longer term, AI and ML could move beyond administrative functions to help optimize clinical decision-making and patient safety.

## Key considerations

Pursuing M&A amid today's uncertainties, healthcare deal makers should consider the following:

### 1 Beware of troubled assets

that could depress the performance of the acquirer at a time when the cost of capital remains high and labor challenges and other operational headwinds may suppress profitability.

### 2 Value creation

by potential acquisition targets could be crucial. Examine whether a company has undergone performance improvement and whether it would have sufficient liquidity to continue without a deal. What is the likelihood that a transaction will create cost, revenue, and other synergies?

### 3 Carve-out divestitures

which provide welcome capital for corporate sellers, are continuing to emerge as market opportunities and are beginning to draw interest from financial buyers. Rapid divestiture readiness, including perimeter analysis, entanglement analysis, and standalone-cost assessment will help determine the complexity of the potential transaction and what resources will need to be deployed.

<sup>4</sup> Source: "[Hawkish pause, July hike all but guaranteed](#)," KPMG LLP, June 2023

<sup>5</sup> Source: "[Inflation cools but not enough](#)," KPMG LLP, May 2023



## How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value, using its depth of knowledge in the healthcare industry, data-supported and tools-led insights, and full M&A capabilities across the deal lifecycle.

With a healthcare specialization, our teams bring both transactional and operational experience, delivering meaningful results and creating value.

# Authors

**Kristin Pothier**

*Global and US Healthcare and Life Sciences Leader, Deal Advisory & Strategy*  
617-549-2779  
[kpothier@kpmg.com](mailto:kpothier@kpmg.com)

**Ross Nelson, MD**

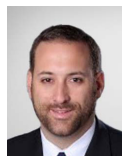
*US Healthcare Leader, Strategy*  
630-207-7728  
[rossnelson@kpmg.com](mailto:rossnelson@kpmg.com)

**Brett Glover**

*US Healthcare and Life Sciences Leader, Deal Advisory*  
214-840-8579  
[bglover@kpmg.com](mailto:bglover@kpmg.com)

**Brett Bell**

*Healthcare Partner, Deal Advisory*  
617-988-1403  
[bgbell@kpmg.com](mailto:bgbell@kpmg.com)

**Jeffrey Whitcomb**

*Healthcare Managing Director, Strategy*  
813-301-2121  
[jwhitcomb@kpmg.com](mailto:jwhitcomb@kpmg.com)

**Andrew Sadowski**

*Healthcare Managing Director, Deal Advisory*  
404-614-8708  
[asadowski@kpmg.com](mailto:asadowski@kpmg.com)

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