



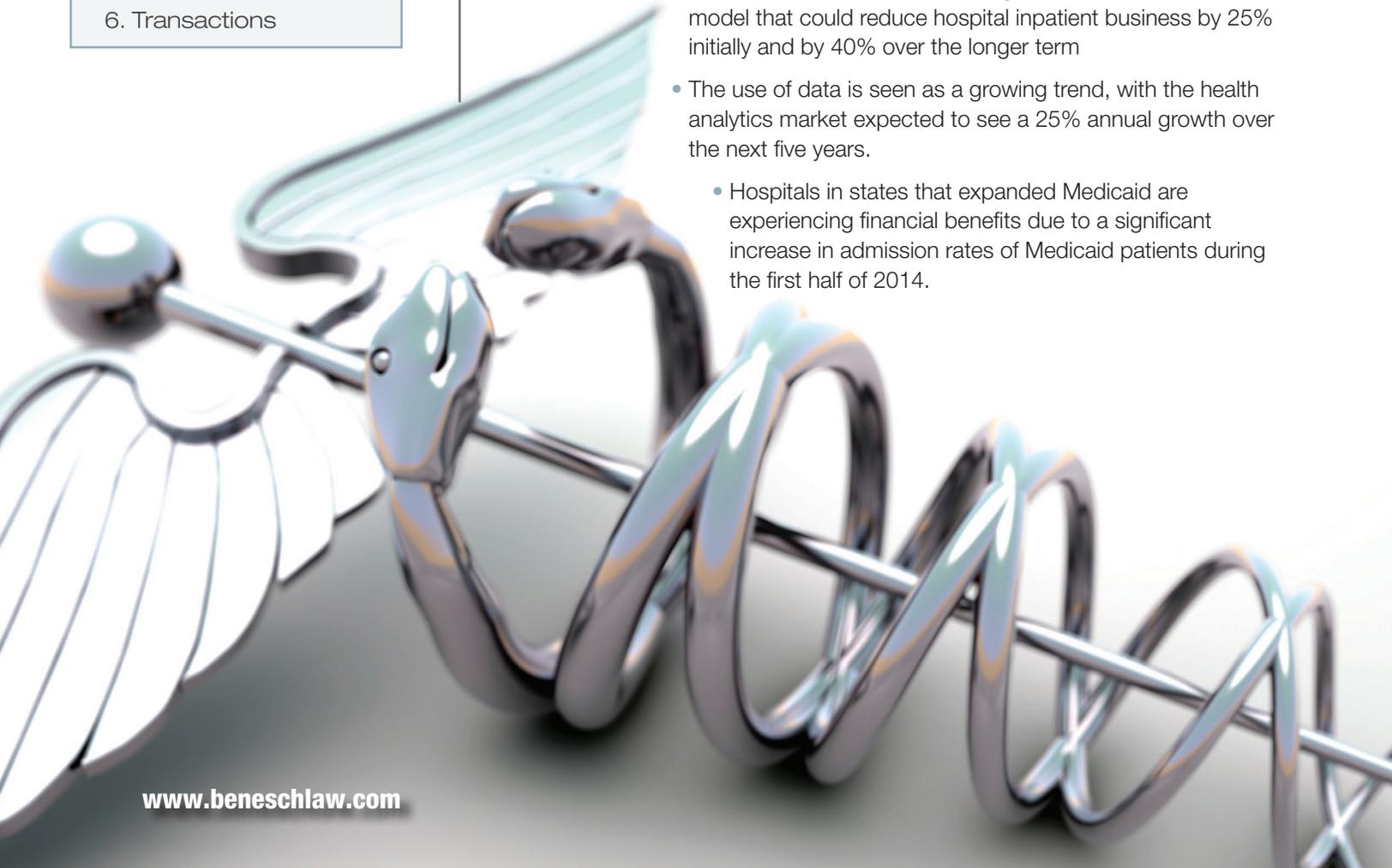
Benesch Health Care Market Intelligence

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1. Key Findings

- Healthcare reforms and the Affordable Care Act have put the private equity sector into a period of transition, as it seeks new investment targets and healthcare providers reorganize their operations.
- Hospitals and physician practices are facing a rise of insured patients as a result of the expansion of Medicaid.
- Strategic alliances between hospitals are now more popular than mergers in a post-ACA landscape.
- The healthcare market is evolving into a consumer-driven model that could reduce hospital inpatient business by 25% initially and by 40% over the longer term
- The use of data is seen as a growing trend, with the health analytics market expected to see a 25% annual growth over the next five years.
- Hospitals in states that expanded Medicaid are experiencing financial benefits due to a significant increase in admission rates of Medicaid patients during the first half of 2014.



2. Industry Trends – Hospitals

- **Strategic alliances** between hospitals are now [more popular](#) than mergers in a post-ACA landscape. For example, California's Dignity Health, which includes about 40 hospitals, agreed to an Arizona-based joint venture with Tenet and Ascension Health in one of several "non-merger-mergers." The FTC scrutiny may be one reason for the increase in partnerships that don't involve the legal implications of shared ownership.
- A PwC [analysis](#) found that hospitals in states that **expanded Medicaid** are experiencing significant financial benefits. Those hospitals experienced a significant decline in admission rates of uninsured patients and a significant increase in admission rates of Medicaid patients during the first half of 2014 compared with the first half of 2013.
- The FTC is using the [Clayton Antitrust Act of 1914](#) to challenge some **hospitals' acquisitions of physician practices**. It has had success in recent cases, arguing that mergers tend to reduce competition. The FTC won in three litigated hospital mergers in the last two years—in Albany, Ga.; Toledo, Ohio; and Rockford, Ill.—and it won its first-ever litigated case challenging a health system's acquisition of a physician group in Idaho.
- The healthcare market is evolving into a **consumer-driven model** that could [reduce hospital inpatient business](#) by 25% initially and by 40% over the longer term, according to a new report by Oliver Wyman.
- Switching from **non-profit to for-profit** status appears to boost hospitals' financial health, but [doesn't lower the quality of care](#) they provide or reduce the proportion of poor or minority patients receiving care. Hospitals switching to for-profit status improved their financial health, but their outcomes for patients did not change, while quality of care and mortality rates didn't show any noticeable change compared with control hospitals that did not switch.
- After a series of partnership announcements in the state, **Blue Cross and Blue Shield of Illinois** [decided hospitals](#) and health systems that have affiliated but not fully merged cannot jointly negotiate payment rates. The state's dominant health insurer will negotiate rates only with healthcare organizations under common ownership, a move that would have significant effects in other states should other BCBS plans in other states follow suit.
- The use of data is seen as a growing trend as an IQ4I [report](#) predicts the **health analytics** market will see 25% annual growth over the next five years.
- With hospitals using **big data** to increase the efficiency of drug delivery, reduce inventory costs and meet regulatory requirements, they are challenged with ensuring what's collected is usable, timely, actionable and accurate. Training staff is [identified](#) as a challenge with the use of big data in the industry.
- A [survey](#) by the HHS' Office of Civil Rights found 75% of respondents are **concerned about privacy**, while 69% worry about security related to their medical records. The survey shows concerns aren't related to the medium used to store data as they showed equal concern regarding paper medical records and electronic ones.
- In a [survey](#) of C-suite hospital executives in 32 states, nearly half (49%) stated that their facilities' largest capital investment over the next year would be given to **health IT**.

3. Industry Trends – Physician Practices

- The first five months of 2014 haven't brought more patients into doctors' offices, despite a large increase in sign-ups during the open enrollment for health insurance exchanges, according to a [report](#) from the Robert Wood Johnson Foundation and athenahealth. In fact, there was a slight drop in percentage of total visits with new patients compared to the same period last year. The report said the lack of change in patient volume might be caused by newly insured patients who are still unfamiliar with the healthcare system.
- A [study](#) found that doctors using electronic health record systems spend more time on administrative burdens than colleagues using paper records. Researchers found that physicians using EHRs reported spending about 17% of their working hours on administrative tasks, compared to 15.5% of those who used paper records.
- Hospitals' acquisitions of physician practices usually result in [higher hospital prices](#) and more spending by privately insured patients. However, a study found that prices were less likely to go up when hospitals formed looser contractual relationships with physicians. The authors said the FTC may need to place physician acquisitions under greater scrutiny, but the American Hospital Association said the study didn't consider the impact on physician prices or spending, only those of the hospitals.
- Although 430,942 of Ohio's 2.8 million Medicaid beneficiaries recently became eligible for coverage beginning Jan. 1, some doctors are [hesitant to accept](#) them as patients. The physicians are concerned about reimbursement from the Ohio Medicaid managed-care plans offered by the Buckeye Health Plan, Caresource, Molina Healthcare, Paramount Advantage and the United Healthcare Community Plan, which some say is unreliable. Differences in reimbursement have some doctors wondering if insurance companies are trying to save money and reduce healthcare costs by denying claims, making it difficult for Medicaid patients to receive the same level of diagnostic services.
- Pharma marketing reps are [increasingly directing sales efforts](#) toward mid-level healthcare professionals such as nurse practitioners as recent regulations make it difficult to woo physicians directly, according to Pratap Khedkar of ZS Associates. These professionals play an integral role in physician prescribing behavior, but their names don't appear in prescription data that pharmaceutical companies use to develop targeted sales pitches. This shift in sales efforts is driven in part by a growing need for training on how to use novel treatments such as biologics—services that drug companies can provide to afford themselves more sales leverage.

4. Government/Regulatory – Ohio

- Ohio **Gov. John Kasich's** [budget proposal](#) in 2015 will seek the continuation of Medicaid expansion, although it's unclear whether Republicans in the legislature will approve funding. Administration officials say the benefits include fewer uninsured Ohioans, “financial stability” for hospitals, and help for those with health issues that prevent them from working.
- The **Ohio House** [passed a bill](#) that would change laws regulating the licensing of **physician assistants** and give them the ability to write prescriptions. Under the measure, physician assistants would need at least a master's degree or have had prescriptive authority while practicing in the military in order to dispense prescriptions, and would also require a prescriber number by the state medical board. The bill would also allow a physician to supervise up to three assistants at once, rather than the current two. The bill will now face the Senate's consideration.
- A Policy Matters Ohio [report](#) showed that several hospitals are treating **fewer uninsured patients** and paying less for charity care, due largely to the increase in Medicaid enrollees due to expansion of the low-income healthcare program through the Affordable Care Act. More than 367,000 previously ineligible Ohioans have enrolled in Medicaid.

5. Government/Regulatory – National/U.S.

- The government is levying a [record number of fines](#) against 2,610 hospitals for **readmitting too many Medicare patients**. Medicare estimates the hospitals will lose a total of \$428 million in payments over the next year.
- The **U.S. Supreme Court** will hear [King v. Burwell](#), a case that could gut the Affordable Care Act. While the decision won't come until spring 2015, that waiting period could throw Obamacare in a state of uncertainty ahead of its second full year of implementation. Without subsidies, the law could be so damaged that it ceases to function.
- **HHS** and the **Department of Treasury** released a [notice](#) clarifying that large employers with health plans must offer “substantial coverage for inpatient hospitalization services” to comply with the Affordable Care Act's minimum coverage standards.
- The **increase in hospital and emergency room usage** due to the ACA may only be temporary, according to a UCLA [study](#). The surge in hospital use did not last long once people received coverage. Findings suggest that investments in infrastructure and in improving the process of care delivery can effectively address the pent-up demand for healthcare services of previously uninsured people.

6. Transactions

- **The Cleveland Clinic** [acquired minority ownership](#) of the **Akron General Health System** in a \$100-million, six-year agreement. The deal also gives the clinic the option to take control of the hospital in a year.
- **The Cleveland Clinic** and Cleveland-based **Case Western Reserve University** [expanded their health education collaboration](#) and unified campus to include dental and nursing students. Design plans were previously submitted for a 485,000-square-foot medical education building, however the revised plans will add approximately 300,000 square feet. Case Western Reserve's dental medicine and nursing programs currently have more than 1,500 students enrolled, while the medical school has nearly 1,000.
- Ohio-based **Premier Health** [formed a collaborative agreement](#) with **CVS Health** that will add CVS to Premier's provider network under the new insurance plans the hospital system is launching in 2015.
- Dayton-based **Kettering Health Network** [acquired](#) the **Ross Medical Center** in Ross Township, in the Cincinnati area, for \$10.6 million. The deal adds six family doctors to the network.
- **University Hospitals** and **Aetna** [launched an ACO](#) in Cleveland that covers 22,000 Aetna members currently receiving care from UH physicians—UH's sixth ACO in the state and Aetna's fifth. UH now has 200,000 patients in its pediatric, employee, commercial and Medicare ACOs and attributes more than \$1 billion in revenue to the relationships.
- **Aetna** and **Mercy Health** formed an accountable care organization, Aetna's first commercial ACO in the Cincinnati area, the companies [announced](#). They also introduced Aetna Whole Health, a collection of benefits plans for Aetna members, giving access to coordinated care from 350 primary care physicians and 2,400 specialists in the Cincinnati area.
- The Ohio State University **Wexner Medical Center** in Columbus and **Ohio Valley Health Services and Education** [formed an affiliation](#) aimed at improving the quality and cost-effectiveness of healthcare services in the Ohio Valley region. Ohio Valley Health Services and Education is the parent company of Wheeling, W.Va.-based Ohio Valley Medical Center and the Ohio Regional Hospital in Martins Ferry, Ohio.
- Englewood, Colo.-based **Catholic Health Initiatives** [acquired](#) Toledo-based **Sylvania Franciscan Health**, a seven-hospital system. Sylvania Franciscan includes Trinity Health System in Steubenville, Ohio, while CHI operates 89 acute-care hospitals.