



2022 M&A in Review: Indications for 2023

After a record year in 2021 transactional activity, where healthcare mergers and acquisitions (M&A) were up by 56%, the market continued to thrive in 2022.¹ Preliminary results revealed that 2022 M&A deals hit a record high of 2,409 deals, 150 transactions over what was observed in 2021.² Despite economic challenges (e.g., rising interest rates and borrowing costs, inflation, and labor costs), the healthcare transactional market has remained active.³ This Health Capital Topics article will review the U.S. healthcare industry's M&A activity in 2022, and discuss what these trends may mean for 2023.

While the healthcare sector has not been immune to the fears of an economic downturn, deal volumes have remained resilient despite these headwinds.⁴ Health services deal volumes increased in comparison to 2021 levels, although activity cooled in the fourth quarter of 2022. The year-over-year deal volumes have increased progressively, but only 251 deals were announced in the fourth quarter of 2022, compared to 307 deals in the fourth quarter of 2021.⁵ Specifically, physician market transactions remained strong, with over 600 transactions reported.⁶ Specialties such as dermatology and eye care remained a strong target for potential investors, with rising demand for practices specializing in cardiology, podiatry, and women's health.⁷ In contrast, the transactional market for hospitals hit a decade low in 2022, with only 55 hospital mergers and acquisitions reaching definitive agreements; however, 2022 deal value nearly doubled from the previous record set.⁸ While the number of hospital deals for 2023 are expected to rebound, they are not expected to return to the levels observed in 2017 and 2018.⁹

Although deal volumes continued to increase from 2021 levels, the value of those deals declined in 2022 from the 2021 peak.¹⁰ Industry-wide enterprise value (EV) to earnings before interest, tax, income, depreciation, and amortization (EBITDA) multiples declined from the high levels seen toward the end of 2021.¹¹ As of November 15, 2022, health services EBITDA multiples were down to 14.4x, comparatively lower than in both 2021 (15.9x) and 2020 (14.9x).¹² Hospice and home health continued to be a health services sub-sector that drove transaction values in 2022, serving as one of two sub-sectors that saw deal volume and deal value increase from 2021 levels.¹³ There were 114 hospice and home health deals in the twelve months that ended November 15, 2022, contributing to a 74% increase in deal value from 2021.¹⁴ Two megadeals

within this sub-sector were largely responsible for the growth – CVS's acquisition of Signify Health for \$8.0 billion and United Health/Optum's acquisition of LHC Group for \$6.0 billion.¹⁵

In total, the value of all transactions reached \$250.8 billion, a considerable decline from the 2021 transaction value of \$476.6 billion.¹⁶ The largest transaction by price was the purchase of Horizon Therapeutics by Amgen Inc. for \$27.8 billion, followed by the other significant deals listed below.¹⁷ Certain sectors cooled off in 2022, with activity in Behavioral Health, Home Health, and Hospice & Rehabilitation falling in comparison to the rates observed in 2021. Transaction values were driven by Home Health & Hospice, however in this health services subsector, the activity waned. The decline in certain sectors does not represent waning interest in the market, but more of a "cooling off."¹⁸

Nearly half of the deal values announced through November 15, 2022, were megadeals that remained consistent from the values seen in 2021.¹⁹ There were seven major megadeals within this twelve month period, including the CVS/Signify and United Health/LHC Group transactions, as well as:

- A merger between two healthcare real estate investment trusts, valued at \$18.0 billion;
- An acquisition of Summit Health City MD (primary, specialty, and urgent care providers) by Village MD (a Walgreens subsidiary), worth \$8.9 billion;
- Quidel Corporation's (diagnostic healthcare product manufacturer) acquisition of Ortho Clinical Diagnostics (blood testing diagnostics manufacturer) for \$8.0 billion;
- Mediclinic International's (private hospital group) acquisition by an investor consortium for \$7.4 billion; and
- Chubb's (insurance firm) acquisition of Cigna's life, accidental, and supplemental benefits businesses, worth \$5.4 billion.²⁰

While the total number of transactions in 2022 remained below the pre-pandemic levels, there is clear evidence that M&A activity is beginning to regain momentum, which is expected to continue into 2023.²¹ This expectation is driven by the following factors:

- The Need to Transform Healthcare: Ken Kaufman of Kaufman Hall notes that “this is a transformative period in American healthcare,” where organizations will be forced to reinvent themselves from a clinical and financial standpoint;
- Moving Forward from the Pandemic: While COVID-19 still remains, the worst of the pandemic seems to be behind the U.S. This will likely restart strategic discussions among healthcare organizations regarding the intellectual and capital capabilities of the healthcare marketplace essential to remaining competitive, which were largely put on pause during the pandemic; and
- Financial Pressure: The past year has been extremely challenging for health systems and hospitals across the U.S. Organizations with

strong balance sheets were able to cushion the financial pressure, but the resources used to offset operating losses will not hold out for most healthcare organizations much longer. Smaller organizations that did not have strong balance sheets may have to seek out alternatives, such as stronger partners that can help stabilize them financially.²² Further, an increase in divestitures across the health services sector is anticipated for 2023, “based on a variety of economic, regulatory, and overall strategic repositioning.”²³

While significant uncertainty looms in the greater U.S. economic at the start of 2023, it is not anticipated to slow down healthcare industry M&A. Reset in valuations, availability of capital, and increased corporate competitiveness should provide openings for healthcare dealmakers in 2023.²⁴

1 “Health Services: Deals 2022 Outlook” DealFlow’s Healthcare Services Investment News, April 7, 2022, <https://healthcareservicesinvestmentnews.com/2022/04/07/health-services-deals-2022-outlook/> (Accessed 1/20/23).

2 “Healthcare M&A Activity Hit Record High in 2022: A Look at the Deals and Market Trends” Levin Associates, LevinProHC, January 3, 2023, <https://prohc.levinassociates.com/share/index?id=518D6EF01FDE9AE2F4E8A13DC3F4576F27ADAD134510C5145C36C35141845B6F7E9F869F386CCA3E18594F714DBE058BC2FBC751A82946DA6083B75EF6356D5F> (Accessed 1/13/23).

3 *Ibid.*

4 “Health services: US Deals 2023 outlook” PwC, December 07, 2022, <https://www.pwc.com/us/en/industries/health-industries/library/health-services-deals-insights.html> (Accessed 1/13/23).

5 *Ibid.*

6 Levin Associates, LevinProHC, January 3, 2023.

7 *Ibid.*

8 “Hospital M&A volume reaches decade-plus low” Modern Healthcare, January 18, 2023, https://www.modernhealthcare.com/mergers-acquisitions/hospital-ma-2022-ponder-atrium-health-deaconess-health?adobe_mc=MC MID%3D4874509356961529845389560

2616889648613%7CMCORGID%3D138FFF2554E6E7220A4C98C6%2540AdobeOrg%7CTS%3D1674242205&CSAuthResp=1%3A%3A205772%3A7461%3A24%3Asuccess%3AE0F7B634408F87A13009CFFA98F6B3F6 (Accessed 1/20/23).

9 *Ibid.*

10 PwC, December 07, 2022

11 *Ibid.*

12 *Ibid.*

13 *Ibid.*

14 *Ibid.*

15 *Ibid.*

16 Levin Associates, LevinProHC, January 3, 2023.

17 *Ibid.*

18 *Ibid.*

19 PwC, December 07, 2022.

20 Modern Healthcare, January 18, 2023.

21 “2022 M&A in Review: Regaining Momentum” Kaufman Hall, January 12, 2023, <https://www.kaufmanhall.com/insights/research-report/2022-ma-review-regaining-momentum> (Accessed 1/13/23).

22 *Ibid.*

23 PwC, December 07, 2022.

24 *Ibid.*



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