Health Capital Topics
Volume 16
Issue 5
May 2023
Jessica L. Bailey-Wheaton, Esq., Editor
Todd A. Zigrang, MBA, MHA, FACHE, CVA, ASA, ABV, Publisher

Kaiser Permanente Acquires Geisinger Health

On April 26, 2023, the California-based healthcare giant Kaiser Permanente announced a $5 billion "mega deal" to acquire Pennsylvania health system Geisinger Health.[1] Kaiser also announced the formation of a new nonprofit health system, to be called Risant Health.[2] Geisinger Health will be the first health system under the umbrella of Risant Health, although Kaiser aims to add approximately five more systems to the entity.[3] This Health Capital Topics article will review this mega deal and discuss what this transaction may mean for hospitals and health systems.

While Geisinger has maintained a strong market share in central and northeastern Pennsylvania, it has been slow to gain any traction outside of its normal service areas.[4] In 2022, Geisinger reported $239 million in operating losses, as its expense growth increased at twice the rate of their revenue gains.[5] Kaiser – a $95 billion health system with locations in eight states and Washington, D.C. – may be able to help reduce Geisinger's operating costs post-acquisition, including in supply chain management, purchasing agreements, and other administrative expenses.[6] Geisinger, which has its own insurance operation, may also benefit from Kaiser's 12.6 million member health plan, as well as its capacity for data analytics. This acquisition will result in a healthcare "behemoth," with annual revenue in excess of $100 billion, nearly 50 hospitals, and over 25,000 physicians.[7]

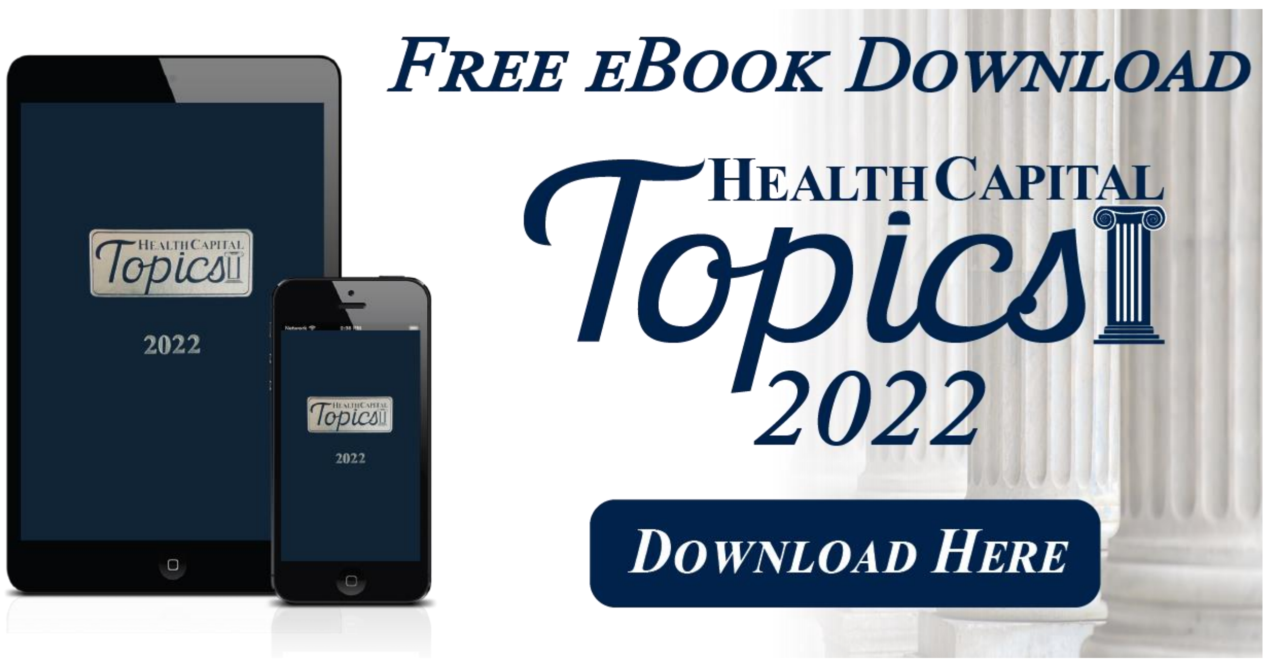
When this transaction will close is to be determined, as regulatory agencies have yet to announce whether they will allow the deal to move forward.[8] In general, health systems have been pursuing mergers and acquisitions more carefully (highlighted by the number of hospital transactions decreasing each year since 2019[9]), stemming from the Federal Trade Commission (FTC) and their increased scrutiny of hospital transactions.[10] For example, in June 2022, the FTC filed a lawsuit to block a proposed transaction by HCA Healthcare to acquire five Utah hospitals in the Steward Health Care System, resulting in HCA Healthcare calling off the acquisition.[11] The FTC asserted that the HCA-Steward transaction would have reduced the number of health systems that offer acute services from three to two and increased HCA's bargaining power with insurers, resulting in higher prices for consumers in the form of increased premiums, deductibles, and out-of-pocket expenses.[12] The same week that HCA scrapped its acquisition plans, New Jersey-based RWJBarnabas Health announced its decision to abandon its acquisition of St. Peter's Healthcare System in New Brunswick, NJ.[13] The parties originally announced their plans in September 2020,[14] and the FTC unanimously voted to file suit opposing the acquisition on June 2, 2022 (the same day that it voted to file suit in the HCA/Steward case), arguing that combined, the entity would have approximately 50% market share for general acute care services in Middlesex County, which is sufficient to result in a presumption of harm under federal antitrust laws.[15] These two scrapped transactions are certainly not the only ones, with a greater number of hospital transactions being abandoned after pushback from federal and state authorities.[16] However, the Kaiser-Geisinger deal is dissimilar from these deals in the sense that the two health systems are geographically separate; former Department of Justice healthcare antitrust attorney and health law professor Thomas Greaney believes that the deal could be pro-competitive, as currently "only four major insurers are handling national accounts."[17]

If the merger between Kaiser and Geisinger is allowed, and Geisinger is able to reduce its overhead, it could allow for more resource allocations to service expansion and care improvement needs.[18] The potential threat of such a merger may place pressure on other health systems within Pennsylvania (and even across the mid-Atlantic and Northeast), such as the University of Pittsburgh Medical Center (UPMC), to expand through mergers, acquisitions, or other affiliations, in order to remain competitive.[19] It may also create a "new category of health services organization" – geographically disparate health systems that have centralized resources and capabilities.[20]

The launch of Risant marks the beginning of a new era for value-based care, where providers are incentivized to offer lower cost, high quality care, with pay dependent on the health outcomes of patients.[21] While much of the healthcare industry continues to operate on a fee-for-service model, value-based care will allow organizations like Risant that control much of the healthcare supply chain, from the coverage of care to the delivery of it (often referred to as "payviders") to incentivize their providers to focus on preventative healthcare and population health.[22] Kaiser's strategy may spur health systems to think about expansion in more creative ways and motivate health systems and hospitals to think outside the box when considering growth.

(Continued on next page)

1 “Kaiser Permanente Acquires Geisinger Health in $5 Billion Mega-Deal” By Janet Rae-Dupree, Medscape, May 4, 2023, https://www.medscape.com/viewarticle/991610?icd=login_success_email_match_norm (Accessed 5/24/23).
2 “Kaiser, Geisinger and Risant Health: The story so far” By Nick Thomas, Becker’s Hospital Review, May 12, 2023, https://www.beckershospitalreview.com/hospital-transactions-and-valuation/kaiser-geisinger-and-risant-health-the-story-so-far.html (Accessed 5/17/23).
3 *Ibid.*
4 “Kaiser, Geisinger deal may speed up hospital consolidation” By Alex Kacik, Modern Healthcare, May 15, 2023, https://www.modernhealthcare.com/mergers-acquisitions/kaiser-permanente-geisinger-health-deal-consolidation-risant-health (Accessed 5/17/23).
5 *Ibid.*
6 *Ibid.*
7 Rae-Dupree, Medscape, May 4, 2023.
8 Kacik, Modern Healthcare, May 15, 2023.
9 “2022 M&A in Review: Regaining Momentum” By Anu Singh, KaufmanHall, January 12, 2023, https://www.kaufmanhall.com/insights/research-report/2022-ma-review-regaining-momentum (Accessed 5/18/23).
10 Kacik, Modern Healthcare, May 15, 2023.
11 “FTC opposition ends another hospital deal” By Alex Kacik, Modern Healthcare, June 17, 2022, https://www.modernhealthcare.com/mergers-acquisitions/ftc-opposition-ends-another-hospital-deal (Accessed 5/17/23).
12 *Ibid.*
13 “RWJBarnabas scraps deal to acquire St. Peter's” By Maya Kaufman, Modern Healthcare, June 14, 2022, https://www.modernhealthcare.com/mergers-acquisitions/rwjbarnabas-health-calls-deal-acquire-st-peters-healthcare-system (Accessed 6/20/22).
14 *Ibid.*
15 Kacik, Modern Healthcare, June 17, 2022, https://www.modernhealthcare.com/mergers-acquisitions/ftc-opposition-ends-another-hospital-deal (Accessed 6/20/22).
16 *Ibid.*
17 Rae-Dupree, Medscape, May 4, 2023.
18 Kacik, Modern Healthcare, May 15, 2023.
19 *Ibid*; Rae-Dupree, Medscape, May 4, 2023.
20 Rae-Dupree, Medscape, May 4, 2023.
21 “Kaiser, Geisinger Risant strategy in spotlight as executives tout value-based care” By Caroline Hudson, Modern Healthcare, April 28, 2023, https://www.modernhealthcare.com/mergers-acquisitions/kaiser-foundation-geisinger-health-value-based-care-risant-health (Accessed 5/18/23).
22 *Ibid.*



(Continued on next page)

HCC
HEALTH CAPITAL CONSULTANTS

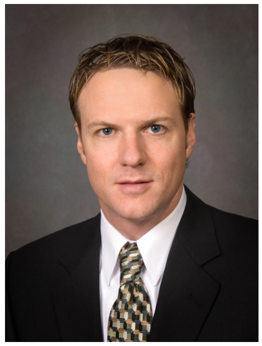
(800) FYI -VALU

Providing Solutions in an Era of Healthcare Reform

- Firm Profile
- HCC Services
- HCC Leadership
- Clients & Projects
- HCC News
- Upcoming Events
- Contact Us
- Email Us

- Valuation Consulting
- Commercial Reasonableness Opinions
- Commercial Payor Reimbursement Benchmarking
- Litigation Support & Expert Witness
- Financial Feasibility Analysis & Modeling
- Intermediary Services
- Certificate of Need
- ACO Value Metrics & Capital Formation
- Strategic Planning
- Industry Research

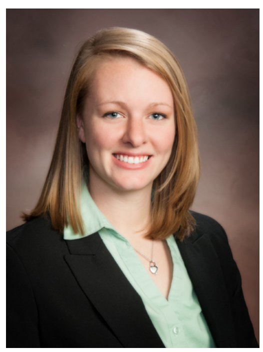
LEADERSHIP



Todd A. Zigrang, MBA, MHA, FACHE, CVA, ASA, ABV, is the President of **HEALTH CAPITAL CONSULTANTS** (HCC), where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 25 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 2,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of "*The Adviser's Guide to Healthcare - 2nd Edition*" [AICPA - 2015], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Guide to Valuing Physician Compensation and Healthcare Service Arrangements* (BVR/AHLA); *The Accountant's Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies; Business Appraisal Practice*; and, *NACVA QuickRead*. Additionally, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); the National Association of Certified Valuators and Analysts (NACVA); the American Health Lawyers Association (AHLA); the American Bar Association (ABA); the Association of International Certified Professional Accountants (AICPA); the Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.

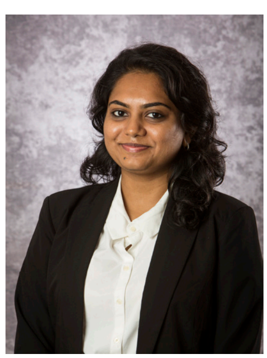
Mr. Zigrang holds a Master of Science in Health Administration (MHA) and a Master of Business Administration (MBA) from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives (FACHE) and holds the Certified Valuation Analyst (CVA) designation from NACVA. Mr. Zigrang also holds the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, where he has served as President of the St. Louis Chapter. He is also a member of the America Association of Provider Compensation Professionals (AAPCP), AHLA, AICPA, NACVA, NSCHBC, and, the Society of OMS Administrators (SOMSA).



Jessica L. Bailey-Wheaton, Esq., is Senior Vice President and General Counsel of HCC. Her work focuses on the areas of Certificate of Need (CON) preparation and consulting, as well as project management and consulting services related to the impact of both federal and state regulations on healthcare transactions. In that role, Ms. Bailey-Wheaton provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services.

Additionally, Ms. Bailey-Wheaton heads HCC's CON and regulatory consulting service line. In this role, she prepares CON applications, including providing services such as: health planning; researching, developing, documenting, and reporting the market utilization demand and "need" for the proposed services in the subject market service area(s); researching and assisting legal counsel in meeting regulatory requirements relating to licensing and CON application development; and, providing any requested support services required in litigation challenging rules or decisions promulgated by a state agency. Ms. Bailey-Wheaton has also been engaged by both state government agencies and CON applicants to conduct an independent review of one or more CON applications and provide opinions on a variety of areas related to healthcare planning. She has been certified as an expert in healthcare planning in the State of Alabama.

Ms. Bailey-Wheaton is the co-author of numerous peer-reviewed and industry articles in publications such as: The Health Lawyer; Physician Leadership Journal; The Journal of Vascular Surgery; St. Louis Metropolitan Medicine; Chicago Medicine; The Value Examiner; and QuickRead. She has previously presented before the ABA, the NACVA, and the NSCHBC. She serves on the editorial boards of NACVA's QuickRead and AHLA's Journal of Health & Life Sciences Law.



Janvi R. Shah, MBA, MSF, serves as Senior Financial Analyst of HCC. Mrs. Shah holds a M.S. in Finance from Washington University Saint Louis. She develops fair market value and commercial reasonableness opinions related to healthcare enterprises, assets, and services. In addition she prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams.

For more information please visit: www.healthcapital.com