

A woman with long brown hair, wearing a white lab coat over a light blue button-down shirt, is shown from the chest up. She has a stethoscope around her neck and is looking out of a window to her right with a slight smile. The background is bright and out of focus, suggesting a hospital or clinical setting.

DUFF & PHELPS

Protect, Restore and Maximize Value

Hospitalist M&A Landscape

WINTER 2018-2019



Introduction

Hospitals are increasingly using hospitalist programs to manage the ongoing shift to value-based care, along with operating costs and the challenges of managing, recruiting and retaining high-quality physicians. When utilized effectively, hospitalist programs can reduce lengths of stay, the cost of hospitalization and readmission rates—improving patient outcomes and hospitals' economics.

As introduced in the *New England Journal of Medicine* in 1996, a hospitalist is defined as: a physician whose primary professional focus is the general medical care of hospitalized patients. Hospitalists perform several functions in hospitals:

- **Hospitalists:** hospital-based physicians who provide internal medicine to patients admitted to hospitals as their attending physician
- **Intensivists:** physicians who provide specialty care for critically ill patients in intensive care units
- **House physicians:** specialty physicians (OB/GYN, gastroenterology, etc.) who round within hospitals and treat patients who cannot immediately be seen by their attending physician

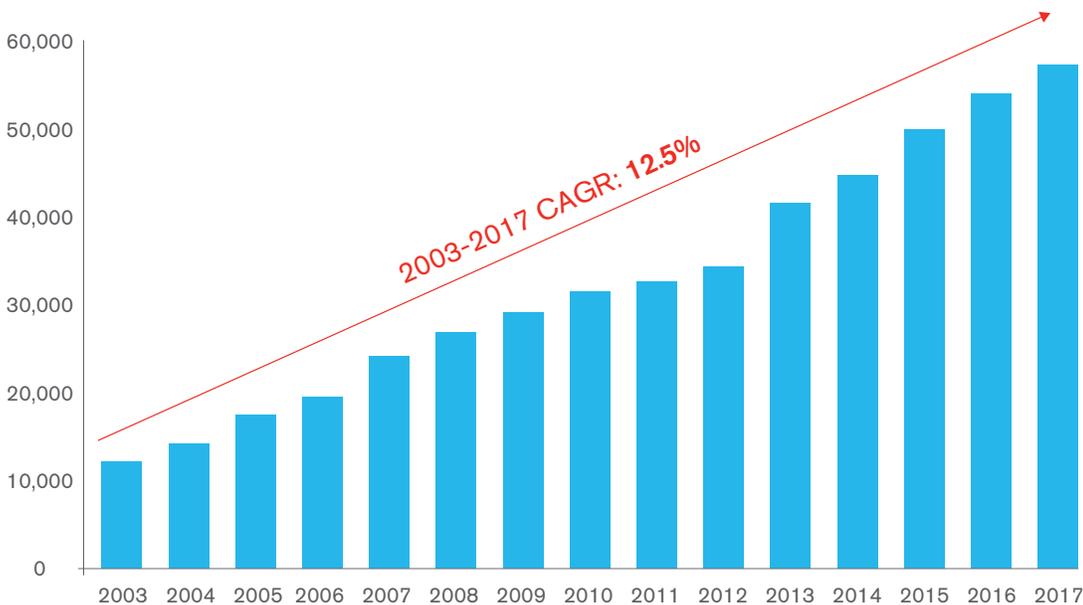
In addition, as hospitals are increasingly accountable for patients throughout the continuum of care following discharge, the hospitalist model is being deployed in the post-acute environment. This has led to the rise of Skilled Nursing Facility Physicians (SNFists), primary care specialists at post-acute care facilities, who typically specialize in geriatric care.

Hospitalists drive high-quality, cost-effective patient care, which increases medical staff satisfaction, reduces insurance denials, and increases reimbursement related to quality measures while also providing care for unassigned patients. Additionally, hospitalist programs free admitting physicians from frequent rounding in the hospital, allowing more time for office-based patient visits. Hospitalist programs can also be closely aligned with emergency department physician programs.

Growth of Hospitalist Programs

The use of hospitalists in the U.S. has grown significantly with approximately 75% of hospitals utilizing some type of hospitalist among their specialties.¹ As a result, the hospitalist industry has grown to approximately \$12 bn in annual revenue and is the third largest specialty, behind general internal medicine and family medicine.^{2,3} Hospitalist medicine has become so widely used that last year the Centers for Medicare and Medicaid Services (CMS) created a separate billing code specifically for the 57,000 providers that identify as hospitalists. The C6 code, introduced in April 2017, enables hospitalist physicians to differentiate their services from those of internal medicine physicians and general practitioners.

NUMBER OF U.S. HOSPITALISTS



Source: American Hospital Association and Society of Hospital Medicine

The need for hospitalist programs has grown as the U.S. has undergone a significant demographic shift. Simultaneously, there has been a rising shortage of qualified physicians and hospitals themselves are not always proficient at running their own programs. Large outsourced hospitalist providers that demonstrate the ability to recruit and retain top physician talent are well positioned to meet the growing needs of hospitals. With an older population increasingly burdened by chronic conditions coupled with an increase in average life expectancy, the demand by hospital systems for quality physicians to manage their patients continues to rise. According to a 2018 report by the Association of American Medical Colleges,⁴ for the third year in a row, physician demand is expected to far outpace supply, leading to a projected shortfall of between 42,600 and 121,300 physicians by 2030. Further exacerbating this problem is the rising demand for subspecialty hospitalists with focus on areas such as surgery, OB/GYN or gastroenterology. An aging workforce and a dearth of new professionals from medical school with these skills is increasing demand for subspecialty practitioners.

1. The New England Journal of Medicine
 2. Team Health Holdings Inc. 8-K, January 6, 2017
 3. Schumacher Clinical Partners Providers, January 12, 2017
 4. "The Complexities of Physician Supply and Demand: Projections from 2016 to 2030, 2018 Update," Association of American Medical Colleges, March 2018

Benefits of Hospitalist Programs

Hospitalist programs provide greater continuity for hospitals and create a more seamless and effective care environment. In a typical hospital without a hospitalist program, it is common for a patient to have minimal daily contact with an attending physician or to experience lengthy wait times for care decisions made by an off-site attending physician. This creates an inefficient system that leads to longer hospital stays for patients and a discontinuity of care. With a hospitalist model, physicians can provide care immediately, order tests and procedures and adjust medical care in real time. By working solely in a hospital, the hospitalist is more familiar with a hospital's standard procedures, information systems and personnel, ensuring that all policies and procedures of the hospital are consistently followed and quality metrics and goals are achieved.

Hospitalist programs also benefit practicing physicians. Hospitalist physicians have a much higher degree of control over their schedules and typically do not have patient responsibility outside of the hospital. Hospitalists are not subject to practice management issues, allowing them to focus completely on patient care.

Focus on Metrics and Value

Healthcare payers, both commercial and government, are shifting reimbursement to quality, outcomes and value of care metrics rather than fee-for-service. According to a report from the Health Care Payment Learning and Action Network, 34% of U.S. healthcare payments in 2017 were tied to a value-based care reimbursement model, up from 23% in 2015, with the percentage expected to continue to grow. As bundled payments become more common, there is a shift in focus to the continuum of care with a growing emphasis on care coordination, creating a challenge for hospitals facing shrinking profit margins. Hospitals must drive efficiencies and focus on patient satisfaction by reducing average length of stay and readmissions while improving Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) scores.

Current fee-for-service models reward the delivery of more care rather than the effectiveness of the care delivered. Value-based models align incentives between providers and patients, and require quality and accountability. This shift in focus provides a compelling value proposition for providers that can efficiently coordinate better patient care in the hospital setting. Hospitalists effectively work within the performance metrics set by the hospital, thereby supporting hospitals in their shift to value-based reimbursement.

Hospitalists by function experience a variety of cases and are required to manage a multitude of medical scenarios. Given the nature of the hospital setting, they are required to be effective at prompt patient management. As hospitalists are involved in patient care at the onset of admission to the hospital, they are often the most efficient decision makers, able to reduce overutilization and overtreatment during an individual patient stay, thereby decreasing costs and improving healthcare quality and outcomes for patients.

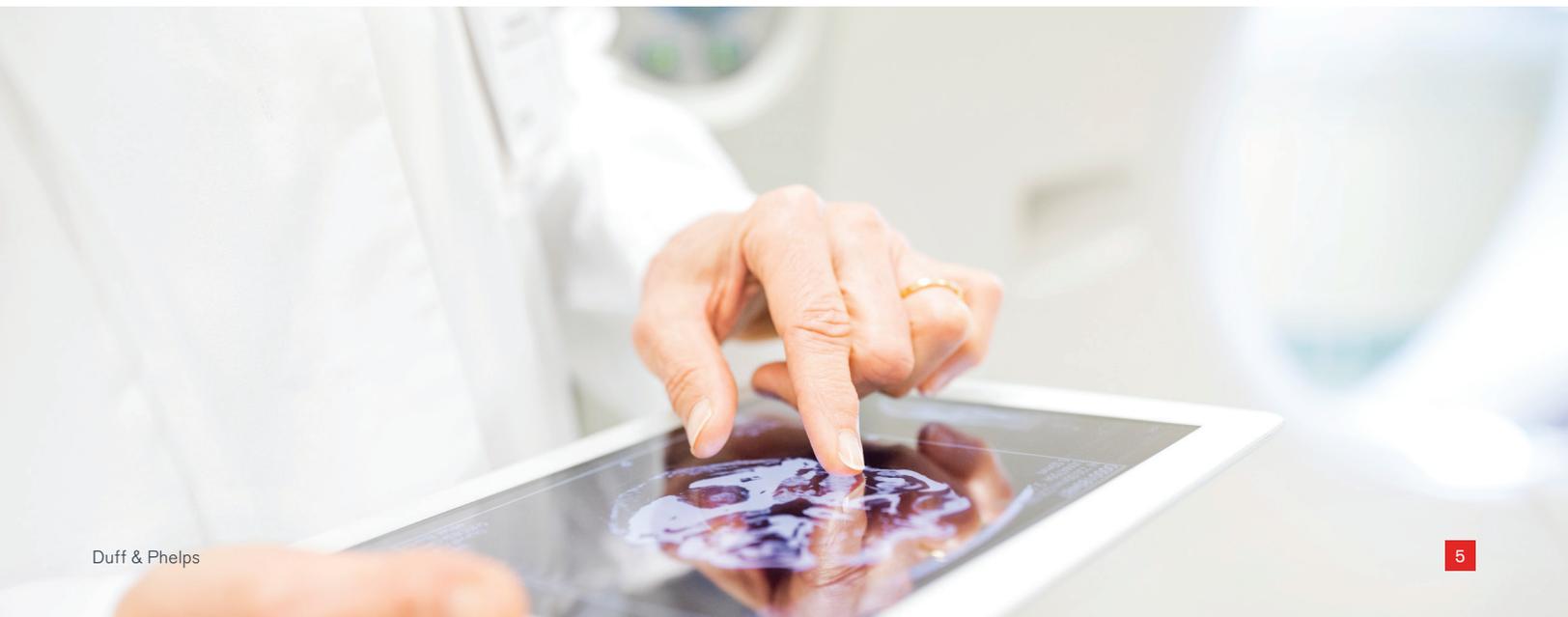
Benefits of Outsourced Hospitalist Programs to Hospital-Managed Programs

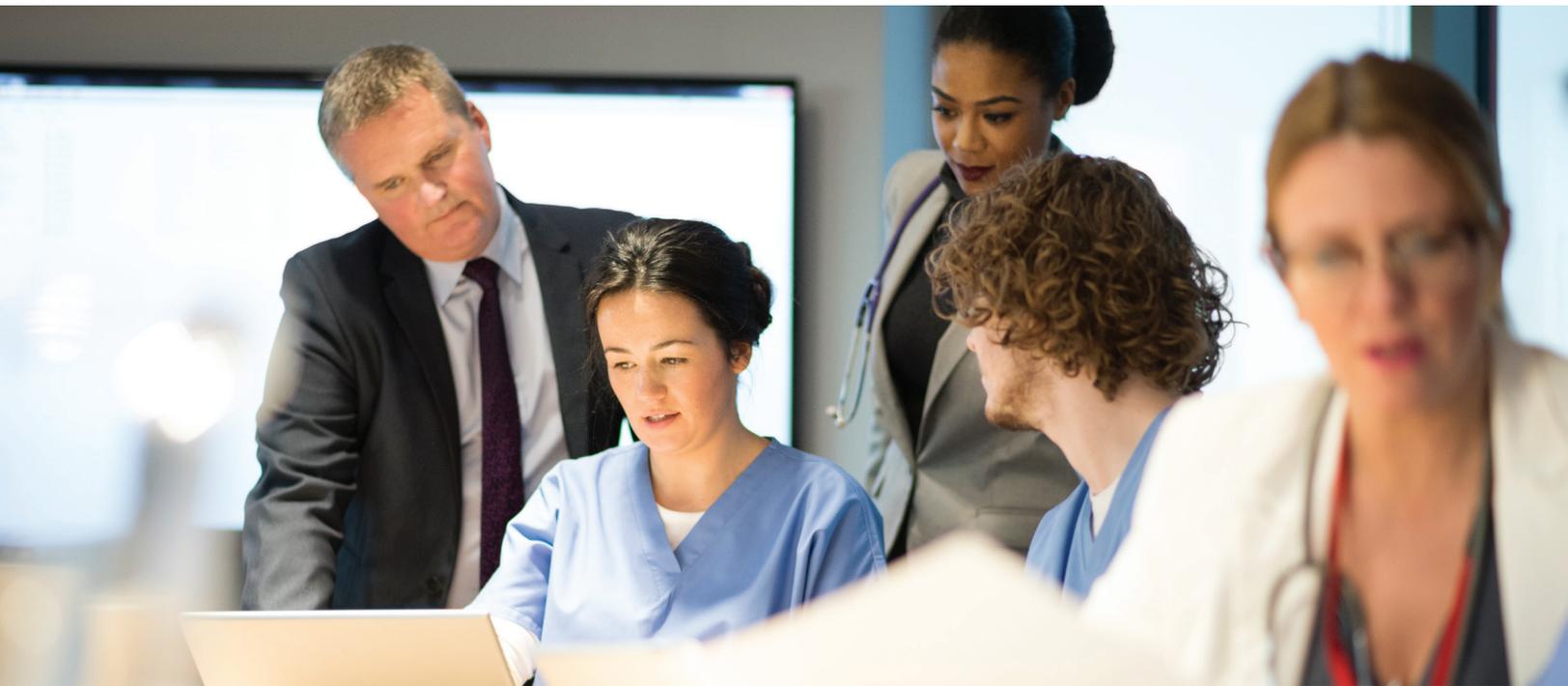
Hospitalist programs are either outsourced to a third-party hospitalist company or managed internally by the hospital. According to the Society of Hospital Medicine, about 30% of hospitalists work for hospitalist companies. A hospital may find it challenging to manage its own hospitalist program given the recruiting, hiring and program design required by a complex hospitalist program. Alternatively, outsourced providers are expert recruiters with the resources to provide high-quality candidates from different geographies, while responding quickly to changes in hospitalist demand.

Outsourced providers that offer services beyond the core hospitalist program, including billing, scheduling, credentialing and cross-credentialing at multiple facilities, may offer even further value to hospitals. Given their expertise, many outsourced providers have developed proprietary software solutions to integrate with the hospital's electronic medical records (EMR) platform. This provides a competitive advantage to outsourced companies that can offer a multi-faceted solution that can drive better charge capture, improved data quality and more advanced analytics, potentially leading to improved operational and financial outcomes.

Hospitals may realize cost savings from outsourcing. According to data from the Medical Group Management Association (MGMA), the median financial support for an outsourced hospitalist full-time is equivalent to 15% less than for a hospital-employed hospitalist. Furthermore, MGMA data shows that outsourced hospitalists see an average of 19% more patients than their hospital-employed counterparts. Hospitals that outsource are increasingly tying income to clinical outcomes to keep incentives aligned between the outsourced provider and the hospital. Some outsourced hospitalist programs also provide hospital medical directors and other clinical leadership to further align priorities, delivering even more value to a hospital.

As the trend towards outsourcing becomes more popular, hospitalist providers are expanding well beyond the hospitalist arena to focus on other specialties, such as integrating with emergency medicine and moving into post-acute care.





On-Going Debate Regarding Hospitalist Program Efficacy

While experts agree that hospitalists add value to the healthcare system by reducing costs and streamlining administrative processes, there is no consensus as to whether hospitalists contribute to the overall improvement in outcomes. The hospitalist model places the focus on systems (procedural, informational, financial) and not on relationships, which many medical research experts argue is the core of good medical care.⁵ Given the relatively recent growth of hospitalists, the impact on the overall health status and well-being of patients is undetermined—the mere increase of the number of hospitalists cannot be taken as conclusive evidence of the benefit of hospitalist programs.

Hospitalists are by nature transitory providers, likely seeing the patient for the first time upon admission. This lack of familiarity and medical history between the hospitalist and patient could lead to miscommunication. Along with this lack of familiarity, the care delivered by hospitalists is acute and short-term focused. Many patients admitted to a hospital may require a physician who is focused on follow-up and long-term care. According to a Harvard Medical School study that analyzed Medicare claims data on 600,000 hospital admissions in 2013, almost 11% of patients cared for by a hospitalist died within 30 days of leaving the hospital, compared with just under 9% of primary care patients. Findings such as this question the efficacy of hospitalist programs.⁶

5. "The Rise of the Hospitalists," Richard Gunderman, August 2013

6. "Is Your Own MD Best in the Hospital? Study Eyes Hospitalists," The Associated Press, November 2017

Challenges to Hospitalist Programs

While hospitalists can provide efficiencies such as shorter inpatient wait times, more personalized care and reduced readmission rates, the hospitalist model also faces several challenges, including recruitment, scheduling and resourcing. Hospitalist providers that can deliver programs that efficiently recruit skilled physicians, maintain proper scheduling and lead to quality metrics are desirable.

As the shortage of qualified physicians continues to rise, hospitalist programs are challenged to accommodate short-term demand, often requiring the use of locums due to limited resources. Hospitalist providers must work closely and effectively with hospitals to forecast appropriate staffing levels to meet patient demand. Hospitalist programs that provide the benefit of a group of physicians with affiliation at multiple facilities or cross-credentialing can be more effective at alleviating demand burdens.

Further challenging the imbalances of physician demand are the scheduling requirements of hospitalist programs, which often require night and weekend coverage. Nocturnists, who are dedicated to overnight responsibilities, typically generate less revenue given lower patient encounters.

Conclusion

While the hospitalist model will continue to be scrutinized by those who advocate for more traditional methods of care, it is likely here to stay. As hospitals adjust to the shift to value-based care, demand for hospitalists will continue to grow as they are effective at providing a seamless and efficient care environment. Hospitalist programs that successfully manage the care of hospital patients by meeting key performance metrics and delivering quality of care will continue to be a coveted asset within the walls of the hospital and minds of hospital administrators.

Industry Landscape⁷

The hospitalist industry has evolved over the last several years through mergers and acquisitions. The table below presents the largest outsourced hospitalist providers.



Ownership	Frazier Healthcare Partners and New Mountain Capital	Envision Healthcare Corporation (NYSE:EVHC)	Private Equity Consortium led by Bison Capital	Onex Corporation	Summit Partners	The Blackstone Group (NYSE:BX)	Welsh, Carson, Anderson & Stowe (minority)	Private
Years of Operation	47+	25+	9+	24+	17+	30+	26+	47+
Headquarters	The Woodlands, TX	Dallas, TX	Austin, TX	Lafayette, LA	Tacoma, WA	Knoxville, TN	Canton, OH	Emeryville, CA
Geographic Footprint	16 states	40+ states	12 states	30+ states	N/A	47 states	22 states	14 states
Services	Hospitalists, ED, Intensivists, Telemedicine, House Staffing, Locum Staffing	Hospitalists, ED, House Staffing, PAC, Locum Staffing	Practice Management, Hospitalists, Intensivists, House Physicians, PAC	Hospitalists, ED, Intensivists, PAC	Hospitalists, ED, Intensivists, PAC, Locum Staffing	Hospitalists, ED, Intensivists, PAC, House Staffing, Locum Staffing	Hospitalists, ED, PAC, House Staffing, Locum Staffing	Hospitalists, ED, PAC, House Staffing, Locum Staffing
Estimated Number of Clinicians	1,700+	16,000+	700+	7,500+	3,000+	19,000+	N/A	3,000+

7. Source: Data from Alteon Health, EmCare, HNI Healthcare, Schumacher Clinical Partners, Sound Physicians, TeamHealth, US Acute Care Solutions, and Vituity company websites

TRANSACTION SPOTLIGHT

Martin Healthcare Group Acquired by HNI Healthcare Inc.

On November 2, 2018, Martin Healthcare Group Inc. (“MHG”), a leading independent provider of hospitalist, intensivist and skilled nursing facility programs, was acquired by HNI Healthcare Inc., a portfolio company of Bison Capital Partners (“Bison Capital”).

Duff & Phelps served as the exclusive financial advisor to MHG.

John Martin III, CEO of Martin Healthcare Group, said, “We are excited about this transaction as it allows us to leverage the depth and skill sets of both organizations—providing industry-leading technology, staffing and expanded services for our clients.”

About Martin Healthcare Group

Martin Healthcare Group is a leading independent provider of hospitalist, intensivist, skilled nursing facility physicians and house physician programs to hospitals and post-acute care facilities in Northeastern Ohio, the Chicago metropolitan area and Central Florida. Founded in 1975, MHG develops deep, long-term relationships with its clients and its physicians. It is expert at recruiting highly skilled physicians, providing physician leadership, managing medical staff and providing practice management support for its clients while providing privileging, credentialing and billing services for its physicians. The Company is headquartered in Cleveland, Ohio.

About HNI Healthcare

HNI Healthcare is a technology-enabled physician practice management company focused on the delivery of full-service facility-based physician programs to improve the quality of patient care. Its physicians, processes and technologies enable hospitals to improve key quality and performance metrics through a more clinically integrated care model. HNI Healthcare is based in Austin, Texas.

About Bison Capital Partners

Bison Capital is a Los Angeles and New York-based firm that makes growth capital investments in middle-market companies, public or private, for expansion, acquisitions and balance sheet recapitalizations. The firm’s primary investment focus is partnering with entrepreneurs and management teams seeking capital to grow their businesses.

<p>SELL SIDE ADVISOR</p> <p>Duff & Phelps Advised Martin Healthcare in its Sale to HNI Healthcare</p>	<p>MHG MARTIN HEALTHCARE GROUP</p> <hr/> <p>was acquired by</p> <hr/> <p> HNI healthcare™</p> <p>a portfolio company of</p> <p> BISON CAPITAL</p>
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Additional Selected Hospitalist and Outsourced Physician Transactions⁸

On June 28, 2018, Sound Physicians was jointly acquired by Optum, UnitedHealth Group's health service business and Summit Partners. The total transaction value was \$2.15 bn with an Implied Enterprise Value/LTM EBIT multiple of 19.5x. Sound Physicians is a physician organization providing services across the acute episode of care—through emergency medicine, critical care, hospital medicine, transitional care and advisory services to improve quality outcomes for patients and help improve the performance of healthcare systems. Optum provides health management services such as healthcare coverage, healthcare and children's health insurance program, and other related tools enabling people to live healthier lives. Summit Partners is a private equity and venture capital firm which focuses on investing in companies operating in the healthcare sector. With this deal, Optum expanded its OptumHealth portfolio as well as continued its focus on care delivery. Sound Physicians will enhance its service lines, expand into new geographies and cope with the highly competitive market.

On February 6, 2017, Team Health Holdings, Inc. was acquired by The Blackstone Group. The total transaction value was \$6.1 bn with an Implied Enterprise Value/LTM EBITDA multiple of 15.0x. Team Health Holdings provides physician services such as outsourced emergency medicine, critical care, anesthesiology, orthopedic hospitalists, acute care surgery, obstetrics and gynecology hospitalists, ambulatory care, post-acute care and medical call center services for hospitals in the U.S. The Blackstone Group is an investment firm with multiple investment vehicles including: private equity, real estate, public debt and equity and real assets and secondary funds. "We are pleased to reach this significant milestone at TeamHealth," said Leif Murphy, president and CEO of TeamHealth. "We are committed to delivering the highest quality of patient care and supporting our affiliated clinicians and hospital and post-acute partners. With Blackstone's support, we look forward to continuing to leverage our national scale and functional expertise to drive high-quality patient care, operational efficiencies and clinician satisfaction in hospital-based and post-acute settings."

On December 1, 2016, AmSurg was acquired by Envision Healthcare. The total transaction value was approximately \$15 bn with an Implied Enterprise Value/LTM EBITDA multiple of 12.6x. AmSurg provides ambulatory surgery center management services. Envision Healthcare provides physician-led emergency medical services to its patients. The combination of Envision and AmSurg brings together two leading, complementary healthcare companies to form one of the nation's largest provider organizations, well positioned to help shape the future of healthcare delivery. Together, the companies manage a broad continuum of clinical network solutions, including outsourced physician services in the following specialties: emergency, hospitalist, anesthesia, radiology and children's services. "This merger will create a national platform with a highly differentiated suite of solutions. It will significantly increase our ability to empower physicians and expand our client relationships. Within a highly fragmented marketplace, we will have the critical first mover advantage to capitalize on the greenfield and cross-selling opportunities across our various offerings, and generate significant value for our shareholders," said Chris Holden, executive chairman of the board for Envision.

On August 4, 2015, IPC Healthcare was acquired by TeamHealth. The total transaction value was approximately

Source: S&P Global Market Intelligence, Mergermarket, company press releases and various news sources

\$1.6 bn with an Implied Enterprise Value/LTM EBITDA multiple of 23.3x. IPC Healthcare offers management and administrative services such as billing and collections, recruitment, marketing, training and education. TeamHealth is a provider of healthcare administrative services. TeamHealth acquired IPC to capitalize on trends towards value-based and post-acute care and services, according to the release. The two companies have 15,000 healthcare professionals nationwide. "Through this combination, TeamHealth will be better positioned to capitalize on key trends as the U.S. healthcare industry moves toward value-based reimbursement with an increased focus on post-acute care and services. Together with IPC Healthcare, we will create an industry leader in the hospital-based and post-acute settings, with an expanded network of services and solutions," TeamHealth President and CEO Mike Snow, said in the company's press release.

On July 31, 2015, Schumacher Clinical Partners was acquired by Onex Corporation. The total transaction value was approximately \$335 mn. Schumacher Clinical Partners focuses on delivering high-quality patient care by managing processes, improving care practices and advocating for emergency and hospital medicines and critical care advancements. Onex Corporation is a private equity firm which focuses on investing in companies operating in the healthcare sector. Onex completed the transaction to partner with a skilled management team and is quickly-growing company that operates in 28 states, treating more than four million patients annually. "Dr. Schumacher founded the company with a focus on delivering consistently good clinical outcomes and improving service quality, which has driven its success over the last two decades," said Joshua Hausman, a managing director with Onex. Schumacher CEO Rich D'Amaro further remarked: "We see tremendous growth possibilities for the company and are excited to have Onex as our partner. We believe that Onex's resources, strategic guidance and experience in working with companies like ours will allow Schumacher to accelerate its growth."

On June 30, 2015, US Acute Care Solutions (USACS) was acquired jointly by Emergency Medicine Physicians (EMP) and Welsh, Carson, Anderson & Stowe. No financial terms were disclosed for the transaction. USACS provides emergency medicine careers, emergency medicine recruitment, emergency medicine staffing and management services. EMP offers emergency physicians staffing services. Welsh, Carson, Anderson & Stowe is a private equity firm that prefers to invest in the healthcare and information technology sectors. USACS will be majority-owned by physicians and is focused on building a national leader in emergency medicine and hospitalist services. EMP's Medical Group and practice management operations will become the foundation for USACS. "The creation of US Acute Care Solutions puts physician ownership front and center in a unique partnership with strong operational capabilities and an experienced capital partner in WCAS," said Dominic Bagnoli, MD, chief executive officer, EMP and USACS.

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About Duff & Phelps

Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, investigations, disputes, cyber security, compliance and regulatory matters, and other governance-related issues. We work with clients across diverse sectors, mitigating risk to assets, operations and people. With Kroll, a division of Duff & Phelps since 2018, our firm has nearly 3,500 professionals in 28 countries around the world. For more information, visit www.duffandphelps.com.

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