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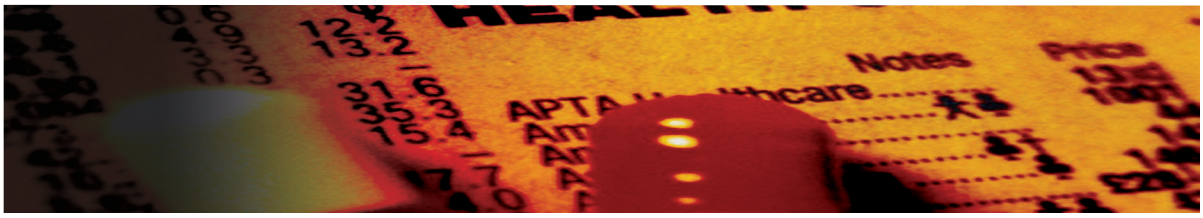
Issue 3



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IN THIS ISSUE

The paper "Private Equity Investments in Health Care: An Overview of Hospital and Health System Leveraged Buyouts, 2003–17," co-authored by Anaeze C. Offodile II, M.D., Marcelo Cerullo, M.D., and Vivian Ho, Ph.D., et al., was published in *Health Affairs* in May 2021. Offodile is a Baker Institute nonresident scholar, assistant professor in the Departments of Plastic Surgery and Health Services Research, and executive director of Clinical Transformation at MD Anderson Cancer Center. Cerullo is a resident in the general surgery residency program at Duke University Hospital. Ho is the James A. Baker III Chair in Health Economics at the Baker Institute, a professor of economics at Rice University, and a professor of medicine at Baylor College of Medicine.

An electronic version of this newsletter may be downloaded at bit.ly/HPR-16-3.

Baylor College of Medicine

RICE UNIVERSITY'S BAKER INSTITUTE FOR PUBLIC POLICY

HEALTH POLICY research
Rice University's Baker Institute for Public Policy-Baylor College of Medicine
Joint Program in Health Policy Research

Do private equity firms target struggling hospitals for acquisition?

No, says Anaeze C. Offodile II, M.D., MPH., assistant professor of plastic and reconstructive surgery at the University of Texas MD Anderson Cancer Center and nonresident scholar at the Baker Institute. "The biggest themes are that these acquisitions, based on unadjusted analyses, involve hospitals and health systems that have more beds, more full-time staff positions, better financial health as denoted by operating margins, and are geographically concentrated in the Southeastern U.S."

Private equity (PE) investments in health care have come to the forefront of national consciousness as the evolving COVID-19 pandemic has highlighted the limits of hospitals' financial solvency. PE firms typically gain financial and operational control of assets through a process known as a leveraged buyout (LBO), in which they use funds from "limited partners," together with borrowed capital (termed "leverage") to acquire highly valued mature businesses. Ultimately, PE firms sell these acquisitions within three to seven years, usually after restructuring them to have lower costs, higher revenues, or both. This "exit" generates returns for their limited partners and pays off debts to their creditors. These two features make PE unlike other for-profit actors.

A team led by Vivian Ho, Ph.D., the James A. Baker III Chair in Health Economics, examined each of the deals in which a short-term acute care U.S. hospital or health system was acquired over a 15-year period. Then, the team described the structural features of the hospitals and their corresponding markets. Given that this was the first exploratory analysis in this area, the findings were illuminating.

Between 2003 and 2017, over 282 unique hospitals were acquired (some more than once) via leveraged buyouts. These hospitals tended to be concentrated in the South and Southeastern regions, in more populous counties, and even prior to acquisition, tended to have higher margins (i.e., better financially positioned). Hospitals with a history of PE ownership in this period accounted for 11% of all discharges from short-term acute care hospitals in 2017. When the researchers examined the bookend years (i.e., 2003 and 2017), they found slower growth in labor costs (measured in both nursing and all-staff full-time equivalents) and slower growth in overall costs among hospitals that were PE-acquired.

Intended to be descriptive, these results point to more questions than answers. What is the impact of PE acquisition on patient access, health care spending, and care quality? With respect to other more robust markers of a hospital's financial health (e.g., capitalization, liquidity), what is the relationship between PE ownership and variation in financial performance. Does PE acquisition trigger a shift in the mix of services (e.g., cardiology, psychiatry, trauma) offered by a hospital?

"The issue of how private equity impacts the organization and delivery of health services in the U.S. is an empirical one, ideally guided by a solid understanding of the footprint of PE deals and trends in activity," co-author and lead investigator Marcelo Cerullo adds.

HEALTH POLICY research presents a summary of findings on current health policy issues. It is provided by Vivian Ho, Ph.D., James A. Baker III Institute Chair in Health Economics and director of the Center for Health and Biosciences at Rice University's Baker Institute for Public Policy, in collaboration with Laura Petersen, M.D., MPH, chief of the Section of Health Services Research in the Department of Medicine at Baylor College of Medicine.

This publication aims to make research results accessible to regional and national health policymakers. The views expressed herein are those of the study authors and do not necessarily represent those of the Baker Institute or of Baylor College of Medicine.

The Baker Institute and Baylor College of Medicine's Section of Health Services Research work with scholars from across Rice University and Baylor College of Medicine to address issues of health care — access, financing, organization, delivery and outcomes. Special emphasis is given to issues of health care quality and cost.

Rice University MS-40
Center for Health and Biosciences
P.O. Box 1892
Houston, Texas 77251-1892

For further information about the program, please contact:

Rice University MS-40
Center for Health and Biosciences
P.O. Box 1892
Houston, Texas 77251-1892
phone: 713.348.2735
email: bakerchb@rice.edu

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