Across the public hospital sector, M&A activity has increased significantly over the past decade. Given the current COVID-19 landscape, many are taking a hard look at their operations to garner a better understanding of what needs to be done to regain level footing during a tough financial time, while also focusing on a need to uphold their community’s best interest. Broadly speaking, many public hospitals are the sole provider in their communities, so making the right M&A choice is vital – not only for them, but those they serve. Here we will discuss the pressures of public hospitals financially, the trends driving M&A and what external pressures are impacting these hospital’s decisions. For a deeper dive into the issues discussed here, listen to our podcast, Dealmaking in the Sunlight: Navigating Public Hospital M&A.

Financial Pressures

Standalone entities, like many public hospitals, often lack economies of scale and do not have the benefit of spreading risk across a larger organization to soften the economic blows impacting hospitals today. However, these struggles do not go unnoticed, as there are regulatory and legal frameworks in place to help public hospitals perform differently or better when needed. Certain government or municipal hospitals have immunity to antitrust laws, which allows them to partner with organizations within their market (“cross town competitors”).
M&A’s Potential Effect on Public Hospitals

M&A amongst hospitals and healthcare systems has been found to increase revenue, improve debt position, and attract resources to the community. Given that information, M&A sounds like an easy choice. Yet public hospitals have more to think about, as many are the sole provider for their community and are governed by local political bodies. M&A may be the best way for a public hospital to continue to serve the healthcare needs of the community.

External Pressures

Sunshine laws governing public hospitals require them to be governed and operate transparently, especially as the board creates a strategy for the future. This level of openness presents unique considerations that may be viewed as a challenge. Partners looking to pursue M&A with public hospitals must be aware that public hospitals must approach change at different pace than their privately held counterparts, including providing consistent updates to stakeholders and members of the community.

Navigating M&A as a public hospital requires a unified front by leadership and a deep understanding of the financial and regulatory considerations they face.

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