

Industry Consolidation: The Nuts & Bolts

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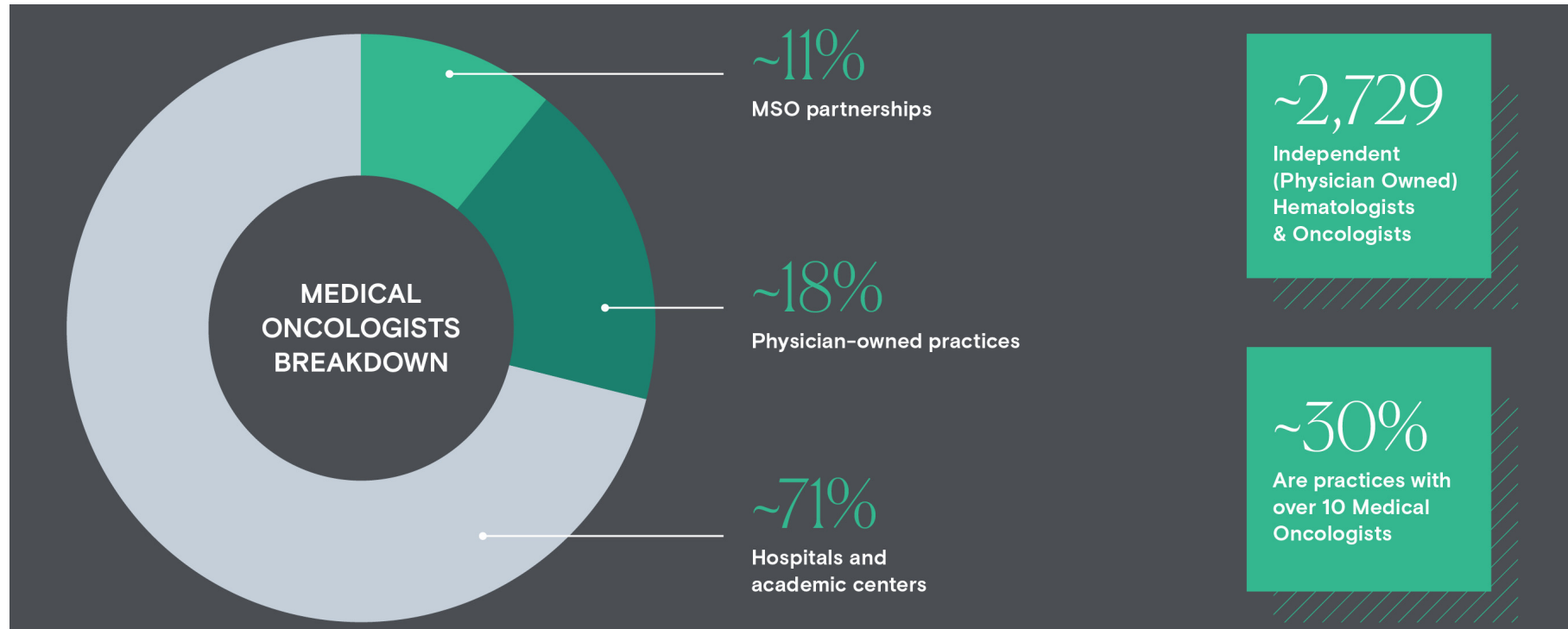
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Current State of Community Oncology Market

Most Medical Oncologists (**~70%**) are aligned with hospitals and academic centers, and the rest of the market is consolidated via MSO partnership (**~11%**) or physician owned practices (**18%**).



Community Oncology Market Trends Over The Past 10 Years

Increased Consolidation & Hospital Pressure	Rising cost of care	Increasing aging population → increasing demand for oncology	Projected shortage of oncologists
Community oncology clinics and/or practices have closed, been acquired by hospitals, merged, or reported financial struggles since 2008 ¹	Cancer care represents 12% of all costs for Medicare populations, is increasing annually at 8%-10%; with that, the cost of cancer care alone is projected to reach \$240 billion by 2023 ²	With the aging population, the demand for cancer treatment is expected to grow by 40% over the next six years, which in turn contributes to the rising cost ³	The American Society of Clinical Oncology is projecting a shortage of more than 2,200 oncologists by 2025 ³

Loss of community providers directly leads to increasing costs for patients, payors and employers.

These increasing costs are becoming unsustainable and cost-bearing entities are becoming increasingly dissatisfied, leading to a real shift and concerted investments in value-based care.



Shifting Landscape

Increasing number of value-based-focused independent groups entering markets

Oak Street Health, Cano Health, Iora Health, VillageMD, Agilon Health

Increasing demand from patients to be seen in community setting

- Growing healthcare consumerism; patients prefer care in community setting
- CMS 2021 price transparency ruling will naturally begin to shift patients from hospital to community

Growing demand from employers to find lower cost options for specialty care

- Increasing number of employer-facing service providers, providing comprehensive offerings around analytics, care navigation, etc.
- Grand Rounds Health + Dr. On Demand, Castlight + Vera

Growing regulatory scrutiny and awareness around drug pricing

Drug pricing legislation developed across two different administrations (e.g. MFN, Build Back Better Act)

The shifting healthcare landscape, led by entities trying to drive down cost, is creating increased momentum around value-based care

The timing is right, and the market is ready to shift care out of the hospitals and back into the community

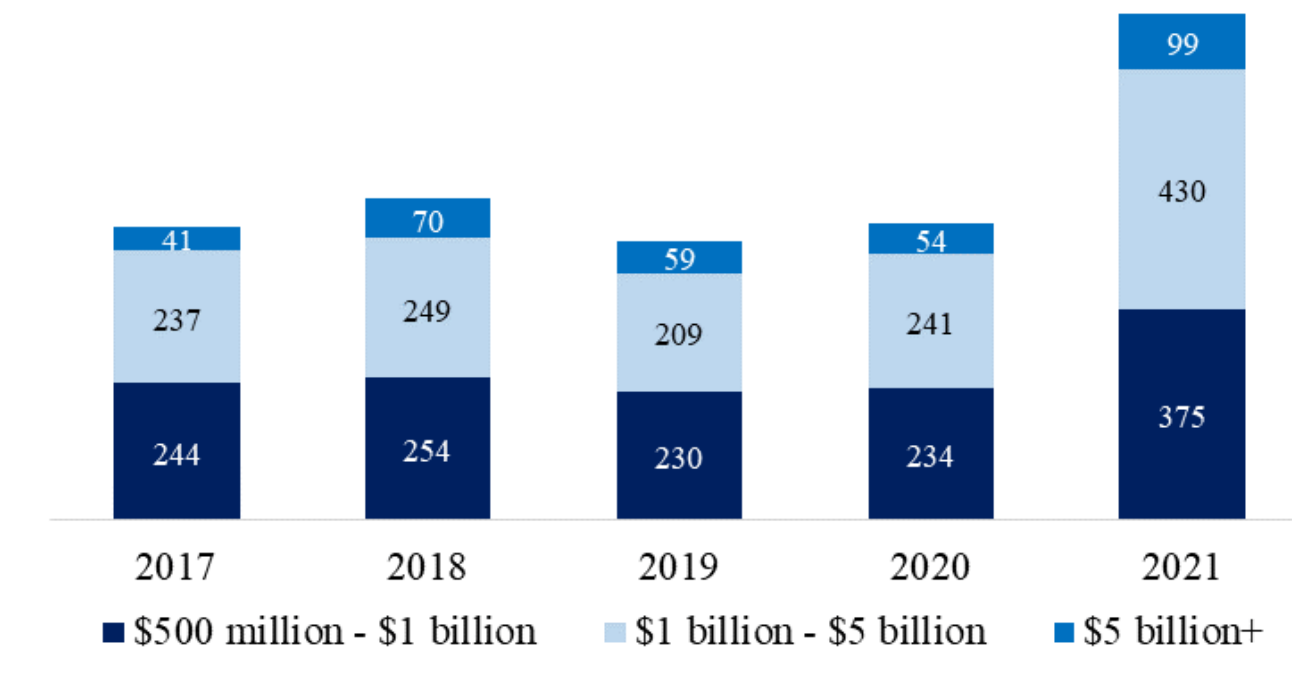


What does this mean for community oncology?

- Opportunity for MSOs to drive high value partnerships with employer-focused solutions, healthcare navigation companies, risk-bearing providers and payers to expedite shift of high-cost patients from hospital to the community setting, ultimately creating lower-cost care ecosystems that drive value to the patient as a consumer as well
- Value based care initiatives can be leveraged as a mechanism to shift market from historical hospital consolidation to new wave of MSO consolidation
- MSO consolidation is still good for physicians, and enables physicians to stay independent from high-cost settings like hospitals, and keeps physicians autonomous and focused on clinical efforts versus having to run a business in an ever-changing complex healthcare system (e.g. OneOncology model)



Healthcare M&A Deals, 2017-November 15, 2021



Health Capital Topics (Vol. 15, No. 2, Feb. 2022), available at:
https://www.healthcapital.com/hcc/newsletter/02_22/HTML/MA/convert_2021-healthcare-ma-hc-topics.php

Deal Trends and Legal/Regulatory Drivers

➤ Reimbursement Matters

- ❖ *2021 Physician Fee Schedule modifiers adjusted – resulted in increases for oncology*
- ❖ *2021 Stark/AKS flexibilities for value based care initiatives introduced*
- ❖ *2022 No Surprises Act became effective*
- ❖ *2022 Conditions of Payment updates to shared/split E/M*
- ❖ *2022 Second extension of COVID-19 Public Health Emergency (“PHE”)*
- ❖ *Delays in implementation of Oncology Care First, mandatory Radiation Oncology Bundle*
- ❖ *Continuation of Site Neutrality & 340B reimbursement pressure*

➤ Antitrust/ Considerations/ Unfair Competition

- ❖ *Ongoing scrutiny by state and federal antitrust regulators*

➤ Telemedicine and Telehealth

- ❖ *Increased adoption Expanded Medicare coverage*



Key Legal/Regulatory Drivers

➤ Fraud and Abuse:

- ✓ Stark Law
- ✓ Anti-Kickback Statute
- ✓ False Claims Act and Civil Monetary Penalties
- ✓ State Fraud and Abuse (incl. fee-splitting/referral prohibitions)

➤ Tax Exemption Considerations

➤ Corporate Practice of Medicine

➤ Reimbursement:

- ✓ Provider-based requirements and 340B
- ✓ Conditions of Participation
- ✓ Oncology Care Model/Oncology Care First, Radiation Oncology Model (will not be implemented before Jan 2023), Value-Based Care and other Alternative Care Models

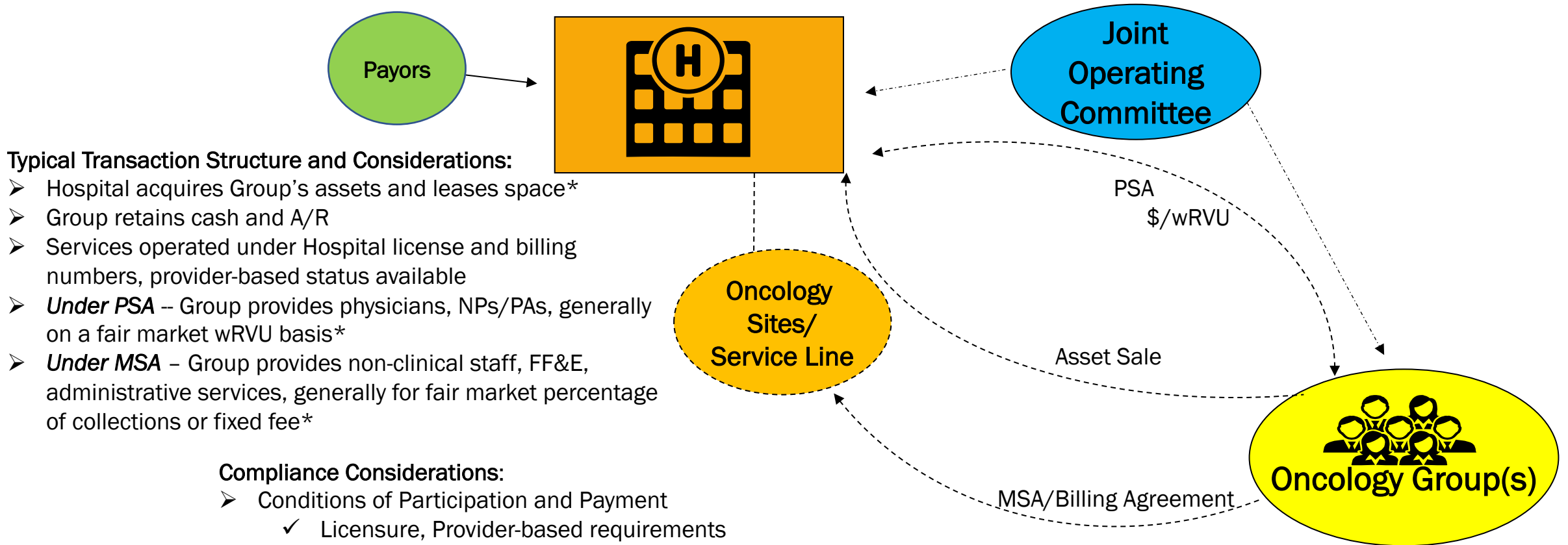
➤ Antitrust/ Considerations/ Unfair Competition

➤ Licensure, Certificate/Determination of Need

➤ Privacy and Security (HIPAA)



Hospital/Oncology Group Alignment



Typical Transaction Structure and Considerations:

- Hospital acquires Group's assets and leases space*
- Group retains cash and A/R
- Services operated under Hospital license and billing numbers, provider-based status available
- **Under PSA** – Group provides physicians, NPs/PAs, generally on a fair market wRVU basis*
- **Under MSA** – Group provides non-clinical staff, FF&E, administrative services, generally for fair market percentage of collections or fixed fee*

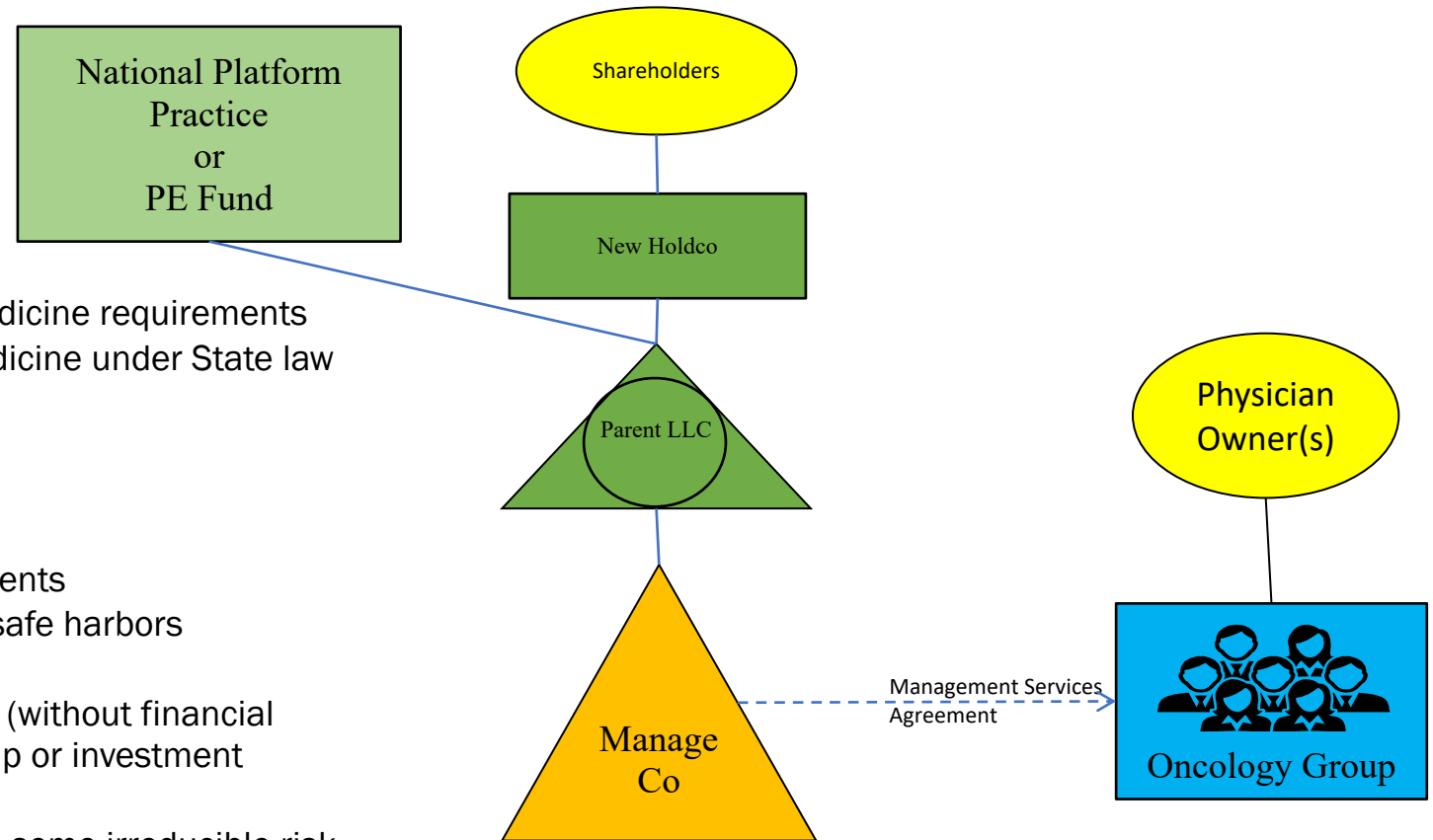
Compliance Considerations:

- Conditions of Participation and Payment
 - ✓ Licensure, Provider-based requirements
- Fraud and Abuse:
 - ✓ Asset Sale – One-Time Transaction
 - ✓ Professional services/management contract safe harbors
 - *Fair Market Value Recommended*
 - ✓ In Office Ancillary Services (IAOS) and “physician group practice” requirements
 - ✓ Under 2021 Stark revisions, definition of indirect compensation updated – implications for NP/PA reimbursement?
 - ✓ Avoid “under arrangements” - Hospital may acquire asserts, real property (lease)

Platform Management Company/PE Affiliation Model

Typical Transaction Structure and Considerations:

- Structured to comply with relevant corporate practice of medicine requirements
 - ✓ Business entity may not be qualified to practice medicine under State law
 - ✓ ManageCo is not a provider
 - ✓ Financial, tax consolidation may be available
- Fraud and Abuse Considerations:
 - ✓ **Oncology Group** –
 - IAOS and “physician group practice” requirements
 - professional services/management contract safe harbors
 - ✓ **ManageCo** –
 - Under 2021 Stark revisions, titular ownership (without financial component) is no longer deemed an ownership or investment interest
 - No AKS safe harbor for investment interests – some irreducible risk
 - ✓ **FMV or FMV cap**, commercially reasonable fees – valuation recommended



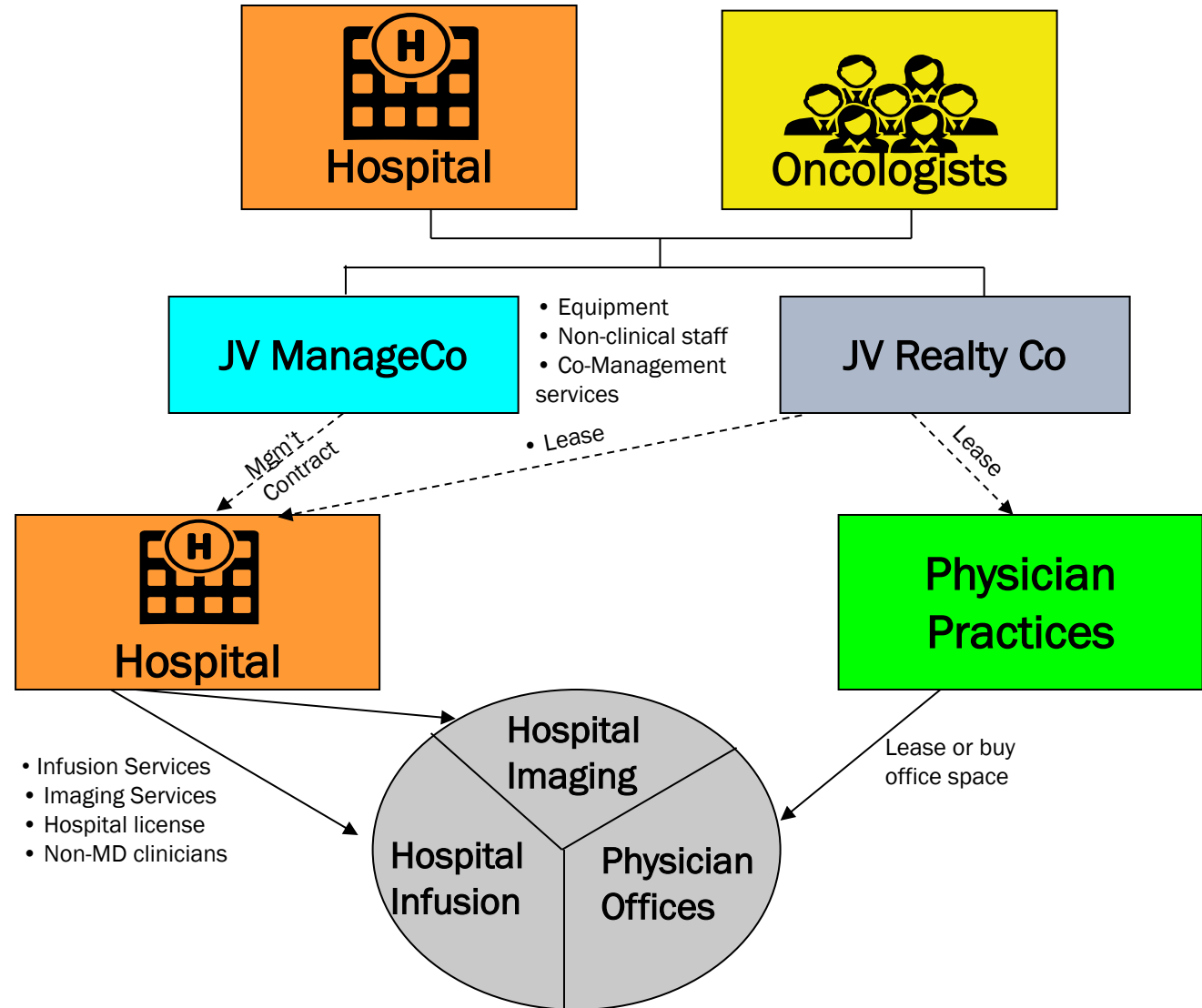
Joint Venture Cancer Center

Typical Transaction Structure and Considerations:

- Joint venture opportunities for management, real estate
- Centralized oversight and administration of Center
 - ✓ Hospital oversight/accountability for licensed space
 - ✓ Physicians maintain independent group practices and participate in management through JVs
 - ✓ JVs provide all non-clinical personnel, FF&E to support cancer center services
- JV Owners participate in ManageCo revenues and rent, *pro rata* based on ownership

Compliance Considerations:

- ✓ JV ManageCo is not a provider (management and technical support services only)
- ✓ IAOS and “physician group practice” requirements
- ✓ professional services/management contract safe harbors



Key Consolidation Considerations

- Deal opportunities
 - Hospital/physician affiliations – employment, professional services arrangements, co-management
 - Private equity
 - Academic medical center affiliations
 - Practice mergers
- Due diligence
 - Quality of earnings
 - Revenue integrity
 - Operational compliance
 - “Black box” analysis



Key Consolidation Considerations (continued)

- Hospital /physician affiliations
 - Productivity based models
 - Advanced practice provider utilization/supervision, infusion supervision, telemedicine compensation
 - Administrative arrangements
 - Value-based compensation
- Private equity
 - Management services arrangements
- Academic medical centers
 - Brand value
- Independent practices
 - Group practice – profits from DHS

