How Traditional Health Systems Can Better Compete in the M&A Race

By pairing private equity-style strategy with long-term stability, traditional health systems can win in a competitive M&A market

*By **Erin Laviola** of LevinPro HC*



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www.levinassociates.com · 51 Locust Ave Suite 202 New Canaan, CT 06840 · (203) 846-6800

Introduction

In the healthcare industry, private equity has played a prevalent role in the mergers and acquisitions landscape. LevinPro HC's M&A database shows that since January 2020, private equity firms and their portfolio companies have announced more than 3,600 acquisitions in the United States. By comparison, traditional health systems, including private, public and not-for-profit hospitals, are listed as the acquirer in fewer than 450 deals over the same time period.

However, we could be in the early stages of seeing this imbalance begin to shift. There are two primary reasons for this.

First: Health organizations are facing increased administrative burdens, an aging population requiring more care, and pressure to implement new technologies powered by artificial intelligence. Larger economies of scale will better enable them to keep up.

"They need to grow the top line to combat expense inflation and leverage infrastructure to create margin," says Nick Bidwell, a managing director at **Kaufman Hall** and a member of the firm's M&A practice.

Second: Traditional health systems may have more of an opening for M&A deals than they did in the past.

"While private equity has had a pivotal role in helping independent medical groups grow and gain scale, the pace of investment activity has slowed since the rise of interest rates in 2022 and 2023," says Andrew Colbert, senior managing director of the Healthcare Investment Banking practice at **Ziegler**.

"When I speak with leadership at large independent physician groups, many are interested in understanding the full spectrum of strategic alternatives, even beyond private equity," Colbert continues. "Hospitals can learn from the private equity playbook by providing capital, but also by bringing value-added resources and capabilities in a way that, in certain situations, could be as equally attractive as private equity."

Which sectors should health systems target?

Outpatient procedures

One of the smartest long-term strategies is for health systems to target physician practices offering outpatient procedures, Colbert emphasizes, like colonoscopies and prostate procedures. He cites gastroenterology, urology and orthopedics as strategic investments with "relatively high-margin service lines."

According to **JAMA**, the most frequent outpatient procedures among older adults (aged 50 to 80 years) include:

- Joint surgery, such as hip or knee replacement
- Eye surgery, such as cataract surgery to improve vision
- Abdominal surgery, such as hernia repair, gallbladder removal or a hysterectomy
- Foot or leg surgeries, such as bunion and hammer toe correction and total ankle replacement

"These are great lines of business for hospitals to form relationships with," Colbert says, "particularly given that these types of outpatient procedures tend to be covered by commercial insurance."

That's important given that commercial insurers pay higher prices for medical services compared to Medicare, per a Congressional Budget Office analysis. Data also shows that as of 2025, private insurance accounts for 70.5% of revenue at short-term acute care hospitals.

Why is growth vital for traditional health systems?

- *Hospitals have tight operating margins. The median operating margin in March 2025 was 3.3%, according to Kaufman Hall's National Hospital Flash Report.*
- *In 2024, hospital expenses grew 5.1% while inflation rose 2.9%. The American Hospital Association (AHA) warns "persistent expense growth threatens hospitals' solvency and their ability to sustain comprehensive services in the communities they serve."*
- *The AHA also reports that administrative costs account for more than 40% of an average hospital's operating expenses.*
- *Upfront costs of healthcare AI implementation include hardware, software, staff training, workflow adaptation, and data cleaning and infrastructure. The initial investment could range anywhere from $50,000 to several million dollars, estimates AI platform Callin.io.*

Small practices, especially in new geographic areas

Acquiring even the smallest physician practices can ultimately benefit the bottom line. Bidwell says this strategy allows traditional health systems to expand their geographic footprint and tap into new markets.

"These practices are so embedded locally that by picking up the smaller organization, you become part of that community," says Bidwell. "Plus, the health system can capture more referrals this way."

Examples of these smaller-scale mergers listed on LevinPro HC's database include:

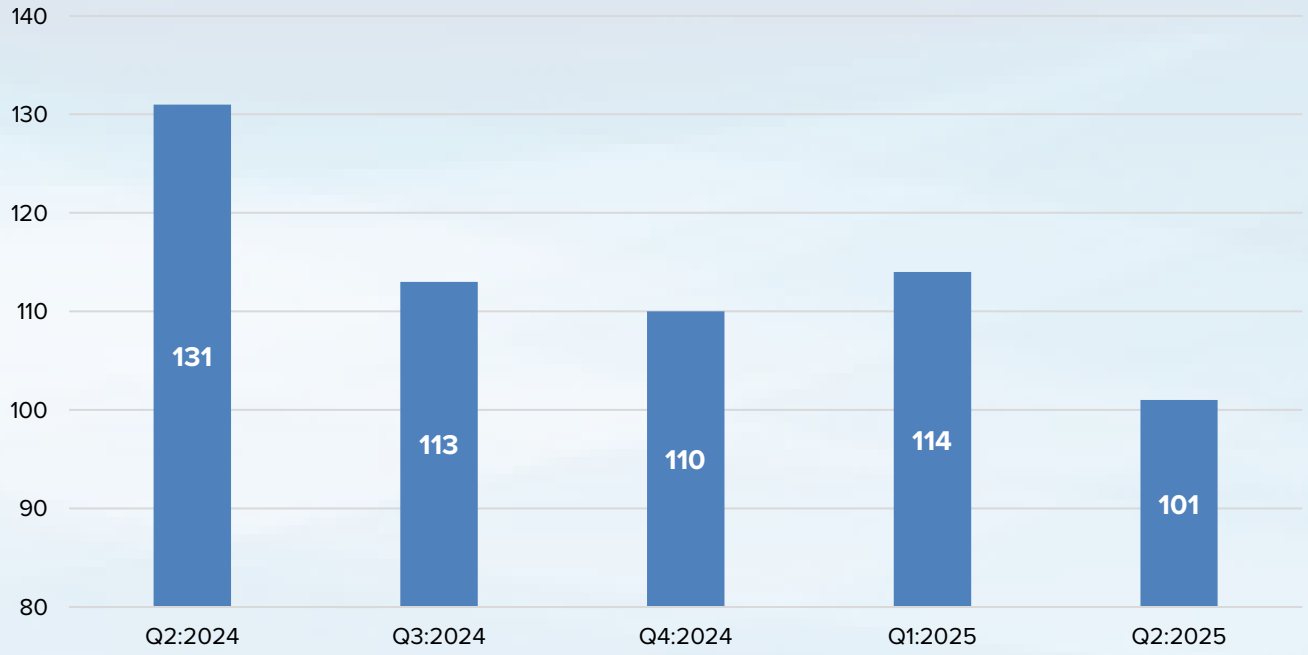
- **WVU Medicine Princeton Community Hospital** (PCH) acquired **Rainbow Pediatrics**, a local practice with just one provider, in a deal announced in December 2024. As explained on the LevinPro HC platform, "Rainbow Pediatrics will become PCH's second pediatric clinic and its first clinic in Raleigh County."

- **SSM Health** in Missouri announced in May 2025 that it would acquire **Hinton Healthcare Group PC**, a private primary care practice with one location and nine providers. SSM Health explained in a press release that "patients will receive the same trusted care they know and rely on, now with the added strength of a comprehensive health system behind them."

- **Novant Health**, an integrated system of more than 850 locations and $10.2 billion in revenue in 2024, announced in April 2025 that it would acquire **Spine & Scoliosis Specialists**. The private orthopedic practice has three physicians.

- Also in April 2025, **Samaritan Health Services** in Oregon announced a deal with **Mid-Valley Gastroenterology**, a private clinic with three physicians. The announcement noted that the "clinic's location and contact information remain unchanged, ensuring continuity of care for patients," and that the smaller practice would obtain access to Samaritan's enhanced digital tools through MyChart.

Quarterly M&A Activity, Physician Medical Groups



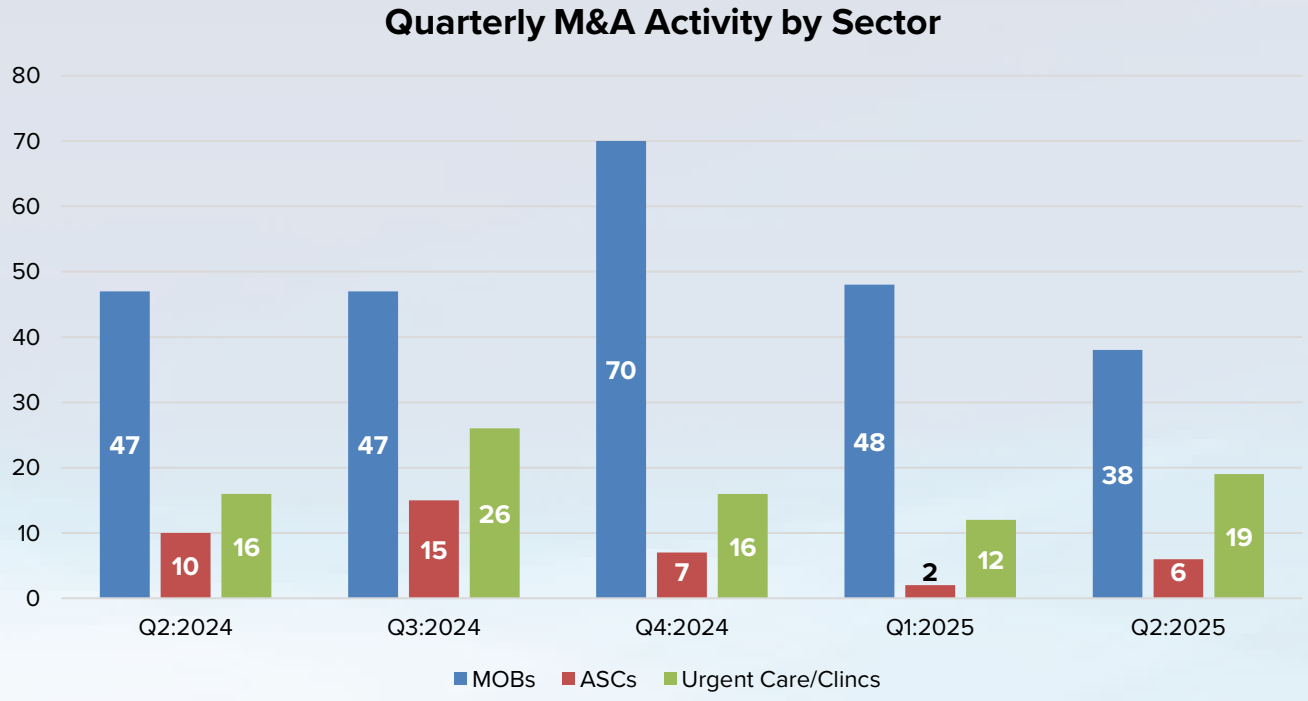
Source: *LevinPro HC, June 2025*

Ambulatory surgical centers

Another vital strategy is for health systems to partner with independent ambulatory surgical centers (ASCs). Procedures that used to be offered solely in hospitals – such as pacemaker implants and other cardiology interventions – can now be performed in these outpatient care settings. Common offerings, including colonoscopies, upper endoscopies, joint replacements, cataract surgery, administration of intravenous antibiotics and pain management services, can also take place in ASCs.

Since ASCs tend to be smaller and are more specialized, their operating costs are lower compared to traditional health systems. Profit margins may also be substantially higher at ASCs. **Becker's ASC Review** reports that top ASCs make more than 40% in profits.

In addition, the ASC market is expected to grow substantially by the end of the decade. **Grand View Research** projects that the U.S. market size will grow from $303.8 billion in value in 2024 to more than $417 billion by 2030.



Source: *LevinPro HC, June 2025*

Why is consolidation important for health systems?

"I think health systems will get more aggressive about expanding outside their four walls because they recognize that patients like getting services outside the hospital," Colbert explains.

"Much of the procedural volume, where health systems drive a lot of their profits, are surgical and procedural type services that are moving to outpatient settings. Health systems should be proactive about

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opening joint ventures with ambulatory sites of service with local physician groups to preserve their share of these lines of business."

Colbert also points out that private ASCs can be especially attractive to physicians because of the opportunities for greater clinical independence and profit-sharing – things they don't necessarily get as an employee at a traditional health center. He urges health systems to keep these factors in mind moving forward.

"If more specialists decide to move to independent ASCs, hospitals will be faced with a decision," Colbert continues, "Do [health systems] just watch doctors walk out the door and lose out on those revenues? Or do they structure some sort of joint venture or profit share with these providers?"

Bidwell further cautions that traditional health systems could face serious business consequences if they don't pursue more outpatient settings and/or joint ventures with ASCs. Hospitals need to maintain the more profitable service lines to balance the costs associated with treating the sickest, most urgent cases.

"Within the broader healthcare ecosystem, there is a risk that hospitals are forced into only offering the high cost services like emergency surgery," Bidwell says. "There's also the risk that private equity continues to capture more of the commercial business, which otherwise subsidizes the governmental business. And if you lose your essentiality in that marketplace, that is a major risk for organizations."

> *"Do [health systems] just watch doctors walk out the door and lose out on those revenues? Or do they structure some sort of joint venture or profit share with these providers?"*
>
> *-Andy Colbert,* ***Ziegler***

Consolidation also ensures traditional health systems can continue to deliver on their community-driven missions. "They inherently need to think about growth to sustain and maintain their programs," Bidwell adds. "To have these high-end tertiary and quaternary services, health organizations need to have enough population capture to where the incident rates make sense."

How can health systems better compete with private equity?

Lean into the differences

Private equity deals can be an especially attractive option for physician practices because they typically involve a major influx of capital and resources. Bidwell says traditional health systems can stand out as a viable competitor by leaning into what sets them apart from private equity firms.

"Private equity has an inherent time horizon and a duty to create value for their investors," Bidwell says,

alluding to the fact that firms will eventually look to sell the practices they acquire. "But not-for-profit health systems are thinking in decades, not years, and they're not seeking that future monetization event. They should recognize and underscore that they have different skills and objectives."

Bidwell also stresses that highlighting the organization's existing community relationships, and emphasizing that the health system can bring the tools and resources to enhance daily operations, can be selling factors. "That's a pretty compelling proposition for physician organizations that are facing increasing headwinds out there, because it's much harder to run the administrative side of the business," Bidwell says.

Adopt the private equity playbook

What is another key strategy to help traditional health systems better compete with private equity? Colbert recommends learning from private equity's successes and taking a page from the same playbook: Bring capital and value-added resources to the table, while allowing the affiliated practices to maintain greater clinical autonomy. He says the goal is to form a board to operate the practice independently.

"Health systems have seen the excitement around the private equity model," Colbert says. "I'm seeing traditional organizations get more creative with their willingness to do joint ventures and structures that preserve the physician autonomy, and ultimately mimic the PE-type partnership where they effectively jointly invest into the practice with the physicians."

Colbert says this can be a highly attractive option for smaller practices because established health systems bring resources such as their managed care contracts, their IT and electronic medical record systems and greater administrative and back-office capabilities. "You're enabling the provider group to do more services and spread their ancillaries without having to pay what it would cost if they had to build it for themselves."

As an example, Colbert cites the deal between **Atlantic Health System** (one of the largest non-profit health care systems in New Jersey) and **Premier Health Associates**, a multi-specialty physician group with 36 providers. Ziegler was the exclusive financial advisor for Premier Health during that deal, which was announced in July 2024. As noted on LevinPro HC's database (see right for sample deal sheet), the terms included that Atlantic Health would be the majority owner of a new joint venture. Premier Health retained its name and continued to lead the entity's operations and clinical decision-making.


Premier Health Associates, LLC

Deal Summary

Target

Acquirer

Deal Terms

"The majority of proposals we received were private equity-type models. "We eventually went back to At-

lantic and essentially asked them to mirror the private
equity model," Colbert explains. "Atlantic created a model that had similar cash infusion like a private equity buyout. While at the same time, the health system actually brought strategic capabilities and strong local synergies."

Two other recent examples of acquisitions by traditional health systems, listed on the LevinPro HC database, include:

- The South Carolina-based nonprofit **Prisma Health** acquired **Blount Memorial Hospital** in Maryville, Tennessee. Blount Memorial reported net revenue of more than $325 million in 2023. The deal expands Prisma Health's geographic footprint with its first hospital outside of South Carolina.

- **Duke Health** acquired **Lake Norman Regional Medical Center** for $284 million. The deal closed in April 2025. The medical center will be renamed Duke Health Lake Norman Hospital.

No matter how a traditional health system chooses to pursue growth and expansion, Colbert and Bidwell both underscore the importance of having a defined strategic plan in place.

Part of that is ensuring the organization has the staffing – including administrative teams and medical support from advanced practice providers – to manage the growth. "Patient acquisition is the easy part because the demand is there," Colbert says. "The bigger risk is growing too soon or too quickly without the provider capacity, because that can lead to a loss of consumer confidence."

Bidwell adds that "growing for growth's sake, just to get to a bigger revenue number, doesn't work. Think about your specific objectives, and how M&As can help advance those goals."

Erin Laviola is a writer for Levin Associates.

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