

Use of Hospitalists Moving Beyond the Four Walls of the Hospital

1. The growth and expanding reach of hospital medicine programs.
2. Hospitalists moving down the acuity chain.
3. At-risk reimbursement is incentivizing hospitalist practice management groups to move beyond the hospital setting.

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The Hospitalist Practice Management Industry

Splash 4 Partners, LLC (“S4P”) was engaged by a client to evaluate the attractiveness of the hospitalist practice management industry. The following pages provide a high level summary of S4P’s findings.

S4P welcomes your questions and comments. Connect with our team members to see how we can develop tailored solutions to fit your organization’s unique business planning, investing, and decision making needs.



The Outsourced Healthcare Staffing Industry is Large & Growing

As the number of covered lives increased due to the passage of the Affordable Care Act (“ACA”), baby boomers continue to age and on average grow less healthy, and the points of care delivery multiply, the demand for healthcare staffing has risen. The healthcare staffing industry is anticipated to grow at nearly 4% annually over the next several years.

- While the focus of this report is hospital medicine, outsourced staffing groups like those listed below commonly cover other specialties, such as emergency medicine, anesthesia, radiology, and obstetrics/gynecology.

Temp Staffing

Temp staffing includes traveling and per diem nurses who are hired on a temporary basis to fill in gaps in scheduling.

Locum Tenens

Locum tenens providers are assigned shifts, such as weekends or nights, on an ongoing basis with a healthcare system.

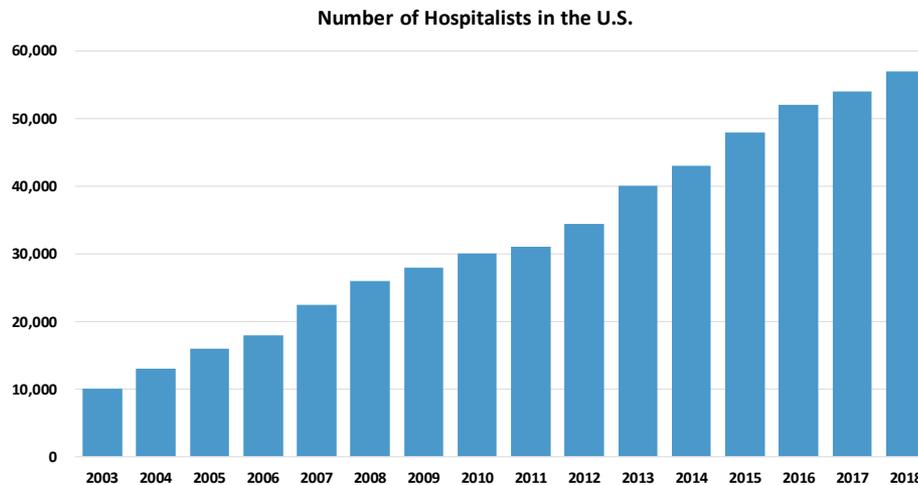
Practice Management

Sometimes called a “turnkey” solution, a practice management group takes over most or all of a specialist program from a hospital.

Full Time Placement

Full Time Placement groups are firms that place providers in a permanent position in a healthcare system.

Hospital Medicine is Growing as Healthcare Delivery Focuses on Efficiency

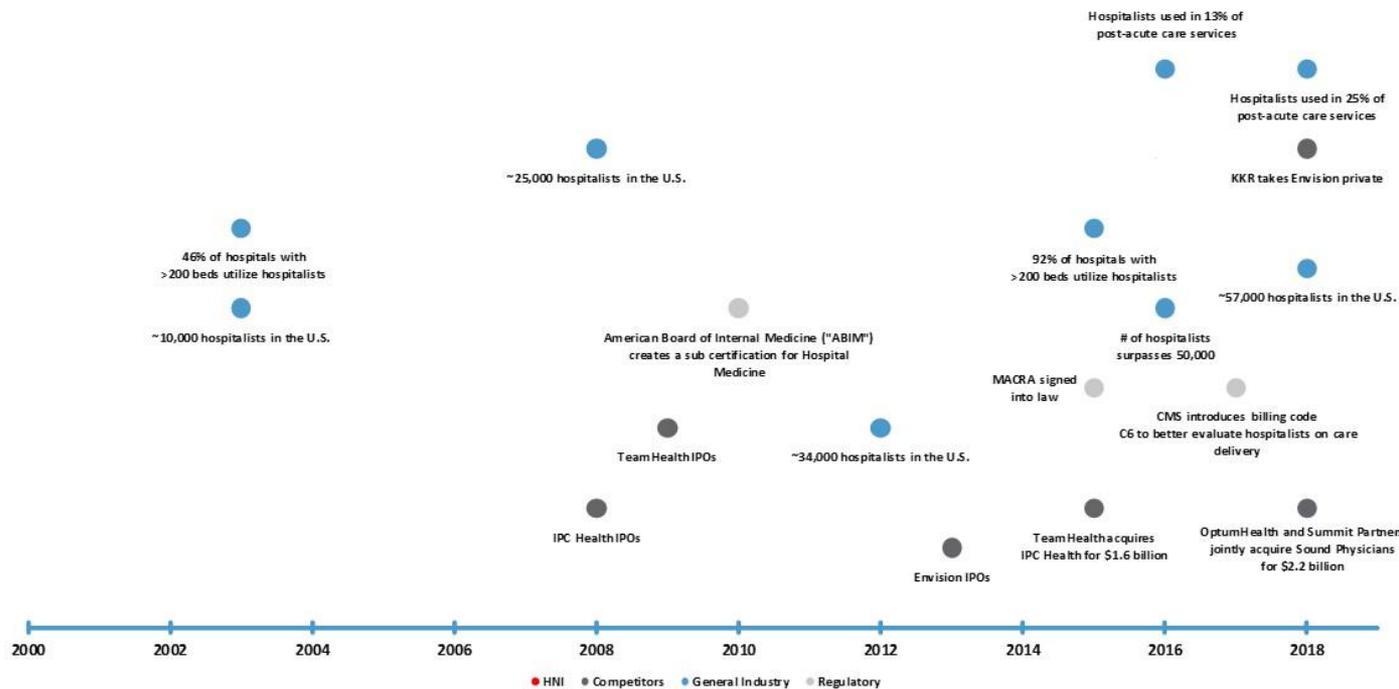


Source: The American Association of Medical Colleges; Merritt Hawkins 2016 Review; New England Journal of Medicine; Society of Hospital Medicine; S4P research and analysis.

- As of 2016, the U.S. faced a physician shortage of ~20,000 physicians. By 2030, this figure is expected to rise between 2x and 6x. A conservative midpoint estimate places the physician shortfall at ~82,000 by 2030.
 - Over one-third of the shortfall falls within primary care physicians (“PCPs”).
- PCPs, due to shortages and a growing focus on driving efficiency within their practice, rarely round on hospital admitted patients. Hospitalists help fill the void by managing the care of patients within the hospital setting.
- Between 2012 and 2016, hospitalist medicine remained the fourth most requested specialty in Merritt Hawkins search assignments, after family medicine, internal medicine, and psychiatry.
 - In 2017, hospitalists fell to sixth place, displaced by searches for nurse practitioners and specialists in obstetrics and gynecology.
- Hospitalists regularly admit, observe, and discharge patients, freeing up specialists to manage a greater patient census.

Prevalence of Hospitalists Continues to Grow

Hospital medicine, as its own specialty, has existed for only ~25 years but has grown to be a significant force in hospital care delivery and operations.



Source: Centers for Medicare and Medicaid Services; Healthcare Finance News; New England Journal of Medicine; Society of Hospital Medicine; S4P interviews, research, and analysis.

Hospital Medicine by the Numbers

With 75% of all hospitals and >90% of those with 200 or more beds operating a hospital medicine program, the hospital medicine staffing industry remains a healthy market.

75%

Percentage of all U.S. hospitals operating a hospitalist program

57%

Percentage of hospitalists employed directly by a hospital

11%

Percentage of hospital medicine groups serving four or more hospitals

5.7x

Increase in the number of hospitalists in the last 15 years

~88%

Percentage of hospitalists caring for adults only

44%

Percentage of industry that utilizes locum tenens physicians to meet hospitalist staffing needs

Emphasis on Patient Throughput Opening Demand for Hospitalists Beyond Hospitals

Acute Care Hospital



Post-Acute Facilities



- General Rounding
- ED
- ICU
- Surgery

- LTAC
- Inpatient Rehab
- SNF
- Palliative Care

Common Hospital Goals for Hospital Medicine Program

- Increased patient throughput
- Decreased length of stay
- Decreased geometric length of stay
- Improved ability to track outcomes data
- Better clinical documentation to drive higher reimbursements
- Capture enhanced economics / reimbursements for hospitals participating in value-based care models



Impact on Post-Acute Inpatient Settings

- Higher acuity patients in post-acute care settings
- Added emphasis on treatment in the outpatient facility
- Decreased readmission rates
- Help referring hospital meet quality standards by limiting readmissions

Avenues to Meet Patient Care Coordination Goals

- Hospitalists (MDs)
- PCPs Rounding
- Hospitalist Extenders
- Telemedicine

Growing Demand For Hospitalists Beyond Hospital Walls

Hospital medicine clinicians providing services in post-acute care facilities increased 12,000 bps between 2016 and 2018. This increase indicates a growing need to manage higher acuity patients in what traditionally have been lower acuity care settings. For hospitals operating an ACO model, finding post-acute care partners to help keep readmissions low is increasingly important.

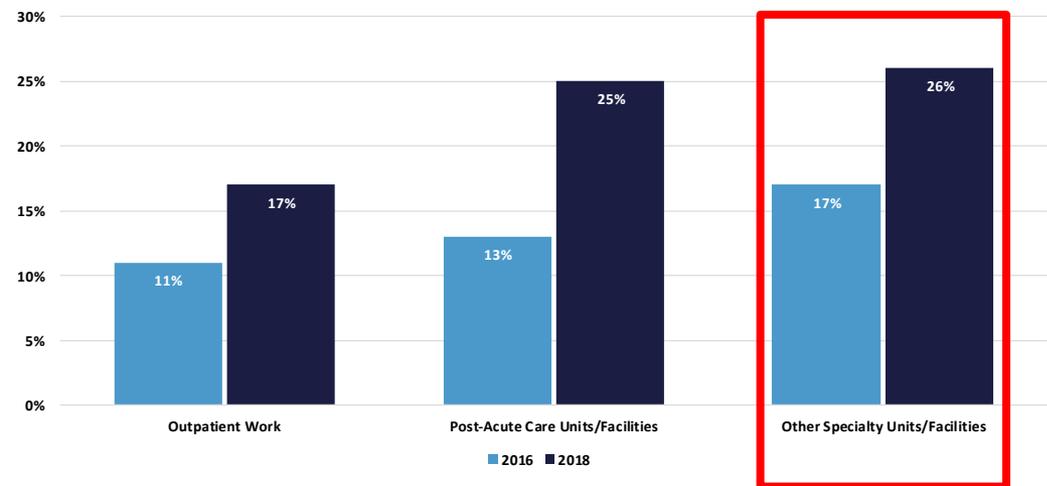
As of Q1 2018, there are a total of 1,011 ACOs in the U.S., up from 168 in Q1 2012.

- Of that group, 561 of these ACOs participated in the Medicare Shared Savings Program in Q1 2018, up from 480 in Q1 2012.

Growth in the number of ACOs is estimated to be 10% over the next two years.

- The total number of ACOs has grown at a compounded annual rate of 35% over the past six years, with the largest increase occurring between 2012 and 2014 (growing from 168 ACOs to 613 ACOs). Growth has leveled off since 2016, with a compounded annual growth rate of 10%.
- Similarly, the total number of ACOs participating in the Medicare Shared Savings Program has grown at an annual rate of 30% over the past 5 years. Growth has leveled off in the past two years, with a compounded annual growth rate of 13%.

Percentage of Services Performed By Hospitalists Outside of Hospital



At-Risk Reimbursement: SNFs and PAMA

- The Protecting Access to Medicare Act of 2014 (“PAMA”) incentivizes SNFs to administer a high standard of quality care. As a mandatory program, all SNFs in a defined geography are measured for quality and rehospitalization rates among their patients. SNFs that are high performers among their peers are rewarded on their Medicare Part A revenue, while low performers are penalized.
- PAMA is a mandatory program for Medicare participating SNFs with more than 25 beds.
- SNFs are benchmarked by a combination of year-over-year improvements and to a national baseline on preventable, unplanned readmissions.
 - Unplanned readmissions include cases such as contracting the flu or pneumonia or patients suffering from complications of care.
 - Planned readmissions include cases such as patients being admitted for surgery, transplant, or inpatient drug therapies such as chemotherapy.
- SNFs that rank higher than their peers receive a 1% increase in their Medicare Part A reimbursement. Those who do not receive a 2% penalty to their Medicare Part A reimbursements.
- As a result, SNFs increasingly utilize hospitalists and their mid-level extenders to increase quality of care for multiple reasons:
 - Hospitalists can bridge communication and care coordination, reducing unplanned complications and readmissions of patients.
 - Hospitals are increasing throughput and freeing up beds by pushing higher acuity patients into lower acuity settings like SNFs, necessitating SNFs to utilize hospitalist physicians and mid-levels to care for these patients.
 - A quality SNF can maintain relationships with the local hospitals, receiving the patient volume that drives revenue.
 - ~85% of patients inside SNFs are over the age of 65, putting a larger portion of a SNF’s revenue at-risk due to PAMA.

Source: American Hospital Association; Centers for Medicare and Medicaid Services; Society for Hospital Medicine, S4P research and analysis.

Other Topics and Questions Investigated

1. Market size and penetration rates of the hospitalist staffing industry.
2. What drives vendor selection by hospital administrators in selecting hospitalist practice management groups?
3. How is software being used to manage hospitalist programs and improve patient outcomes?
4. Who are the key competitors in the space? What services do they offer? Where do they provide services?
5. What is the M&A outlook for hospitalist practice management groups?



About Splash 4 Partners

Splash 4 Partners is a consulting firm assisting clients with transaction due diligence support, industry and competitive analysis, business plan development, and growth strategy execution. Our team partners with executives, founders, private equity firms, and lenders to deliver the insights, council, and the bench strength needed to:

- Develop executable growth strategies.
- Make informed investment decisions.
- Prepare and organize a business's data and management team for a capital raise, sale, or similar transformational process.
- Identify technology solutions and vendors to support growth.

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