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| REFERENCE-BASED PRICING NEWSLETTER |

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Practice Group Consolidation

Ever wonder how practice group mergers and acquisitions by hospitals affect prices? An article in the February 1, 2018 edition of KelloggInsight based on the research of Cory Capps (Bates White Economic Consulting), David Dranove (Kellogg Professor of Strategy) and Christopher Ody (Research Assistant Professor of Strategy) concludes, "prices have climbed as more and more healthcare providers have gained market power through mergers and acquisitions. And not much can be done about this."

"While the consolidations create powerful healthcare conglomerates in many communities, the piecemeal nature of individual acquisition deals makes them unlikely to attract the attention of antitrust regulators, the research finds. It is only after multiple deals are done that the impact on pricing is felt—and by then, regulators are unlikely to step in."

The researchers used insurance claims data for approximately 12% of the U.S. population for the basis of their analysis. "The researchers found that from 2007 to 2013, almost 10 percent of physician practices in the data were acquired by a hospital. Once acquired, prices for the services provided by those physicians rose an average of 14 percent."

Intermountain's Generic Drug Company

In an interview conducted on February 1, 2018 from the World Economic Forum in Davos, Intermountain President and CEO, Marc Harrison, M.D., discussed Intermountain's plan to create a new manufacturing company for generic pharmaceuticals. Harrison said it was not their ambition to create such a company, but is facing a need to address market forces. "I would say it's probably non-competitive activity that has led to the position we're in where people have engaged in becoming a sole supplier for a drug, and then driving the prices way up, and then sometimes abruptly exiting that production to go find another targeted opportunity, leaving enormous shortages in their wake. It's not how a good market works, and what we aim to do is to create something akin to a public utility that is going to put public good first, and we think we're going to be successful because we don't have an inordinate profit motive. We need to make enough margin for this business to be sustainable and to reinvest in it, but we don't have shareholders, and no money's going back to the systems."

Harrison said "we expect to go dark for about a year as we're getting things set up, and you will [probably] hear from us in the first quarter of 2019 as we get rolling."

Professor Dranove cited two factors. First, insurers often enter into contracts that permit hospitals to charge more for a procedure than an independent physician group. Second, "when a hospital owns a physician practice, they gain market power." Dranove further noted that this situation has attracted the attention of Medicare which is taking steps to prevent hospital-owned physician groups which are not on the hospital campus from billing at the same rates as the hospital.

The researchers further studied the antitrust implications of practice group consolidation in a separate study. "The government considers physician markets uncompetitive if they have a high level of concentration, meaning a small number of healthcare providers delivers a large share of the healthcare in a specific community. But regulators only scrutinize consolidation when a single proposed merger is seen as large enough to attract attention based on how consolidated the market will become if it goes through. That means that a number of mergers and acquisitions, which are small enough not to attract government attention, can eventually create a healthcare behemoth that makes a market uncompetitive."

The researchers "found that a full 22 percent of markets meet federal guidelines for [being deemed] uncompetitive. But only 28 percent of these high-concentration markets had an individual acquisition that would have been viewed as anticompetitive by federal authorities."