

# Mission First: Mission Health's Surprising Sale to HCA

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## MISSION FIRST: MISSION HEALTH'S SURPRISING SALE TO HCA

On March 22nd, Mission Health in Asheville, North Carolina announced its intention to sell its seven-hospital not-for-profit (NFP) health system to HCA Healthcare, the nation's largest for-profit healthcare system. The parties expect to sign definitive sale agreements by mid-summer and finalize the transaction by year-end.<sup>1</sup>

This is a landmark transaction. For the first time in recent history, a strong NFP health system is choosing to sell to a for-profit system to achieve scale rather than acquire or merge with another NFP health system.

Reaching the decision to sell required Mission Health's board to redefine its organizational mission. As such, Mission Health's sale to HCA raises profound questions regarding how NFP health systems define and deliver their charitable benefits to the communities they serve.

As health systems nationwide consolidate to maintain competitiveness in the post-reform marketplace, expect other NFP health systems to follow Mission's lead by converting to for-profit status and redirecting charitable assets to address targeted community health needs.

## MISSION AND VISION



Founded 130 years ago, Mission Health has annual revenues approaching \$2 billion and is the region's largest employer. The System accounts for almost a tenth of jobs in its core service area, consisting of Buncombe and Madison counties. Mission generates \$1.75 billion in economic activity for the broader 18-county region it serves in Western North Carolina.

Mission consistently receives accolades for its high-quality operations. Truven Health Analytics has recognized Mission as a top-15 health system 5 of the last 6 years. Business North Carolina recognized Mission Hospital as the state's #1 best hospital in 2017 and 2018.<sup>2</sup>

Given its size, reach and history, Mission Health is an essential, powerful and deeply-respected organization to its Western North Carolina communities. Perhaps for these reasons, news of its pending sale has shocked the Asheville community. In an editorial following the announcement, the Asheville Citizen Times expressed its shock.

*To say that Wednesday's announcement... was a surprise would be an understatement. There has not been the slightest hint anything was afoot until Mission announced that its board had approved the deal unanimously."*

Overall, the Citizen Times exhibits a neutral-to-negative opinion of the transaction. It questions whether HCA profits would detract from local healthcare delivery while opining that they would “feel better” if Mission remained under local control.<sup>3</sup>

Whether justified or not, public opinion questions whether profit motives should influence healthcare delivery. The mission/profit debate related to HCA’s acquisition of Mission will intensify as the parties undertake due diligence, finalize transaction terms and seek regulatory approval from North Carolina Attorney General.

Focusing primarily on profits and ownership transfer obscures whether NFP health system conversions advance community health and wellness. Transaction approval should hinge on the merger’s overall community benefit to Asheville’s citizens, including HCA’s ability to deliver appropriate and cost-effective healthcare services.

In Mission’s case, there is more to the transaction than the ownership transfer to HCA. Residual proceeds from the sale

will flow into an independent, non-profit foundation. This new foundation will be among North Carolina’s largest with assets, in all likelihood, exceeding \$1 billion. It will invest tens of \$millions annually to improve health in Western North Carolina. Mission Health describes this new foundation as “transformational.”

As a for-profit company, HCA also must pay sales, property, income, excise and other applicable state and local taxes. Early estimates suggest new property taxes will add roughly \$7 million to the city of Asheville’s coffers. This represents a substantial 11% increase, the equivalent of adding 8,000 new homes valued at \$200,000 apiece.<sup>4</sup>

As part of the agreement, HCA and Mission will each invest \$25 million to create an Asheville-based healthcare innovation fund. The new fund will support promising healthcare companies.

Mission’s Board weighed all these factors in approving the Mission Health’s sale to HCA. Regulators should be equally expansive in judging whether this specific transaction optimizes the community benefit associated with Mission Health’s assets.

## HEALTH SYSTEM DISRUPTION



HCA’s acquisition of Mission Health is part of a broader, disruptive trend confronting established health companies as they position to compete in a post-reform marketplace that emphasizes transparency, outcomes, efficiency, consumerism and growth.

Striving to be both “bigger” and “better” are hallmarks of multiple proposed mega-transactions. These include CVS’s acquisition of Aetna, the Advocate-Aurora merger, the proposed Amazon / Berkshire Hathaway/ JP Morgan health company, and Walmart’s potential acquisition of Humana.

In describing the timing and reasons for the proposed sale to HCA, Mission Health’s CEO Ron Paulus made the following observations.

- Until this year, he believed remaining independent was Mission Health’s best alternative. Payment pressure and the “chaos in Washington” changed his mind.
- Given this reality, now is the best time to shift ownership control to a larger, more stable operating platform – before the system experiences severe financial hardship.
- HCA’s scale and operating efficiency make it “one of the lowest, if not the, lowest-cost operators in the country.” For example, HCA makes a small margin on Medicare patients while Mission loses 4%-5% on the Medicare patients it serves.
- While there is naturally “grieving” for lost independence, he and the senior staff believe that current circumstances required a “radical” rather than an “incremental” solution.

Paulus' observations echo those made by Ascension CEO Tony Tersigni on March 16, 2018 in a video broadcast to the company's 165,000 employees. Citing the same cost and competitive pressures, Tersigni signaled that the nation's largest NFP health system would transition from a hospital-oriented provider to one more focused on outpatient care and telemedicine.<sup>5</sup>

Tersigni described Ascension's new strategic direction as a "dual transformation" with the following goals:

- Transform current healthcare delivery operations to meet the challenges presented by the rapidly changing environment;
- Safeguard a sustainable presence in its communities that responds to how people are accessing care; and

- Create new, transformational care-delivery models for the future to extend the reach of our national health ministry.

In large measure, health systems operate today largely the way they have for the last 50 years: hospital-oriented; physician-centric; treatment-focused; and reimbursement-driven. This business model is not sustainable.

Change is difficult in any industry in disruption, but it is particularly hard for health systems given their operating complexity and defensive strategic orientation. For NFP health systems accustomed to local control, current market pressures challenge organizational identity and mission.

## REDEFINING MISSION

Like Mission Health, market dynamics may force many NFP health systems to consider relinquishing local control and/or for-profit conversion. Ultimately, ownership and tax status are tactical decisions that do not define, in and of themselves, organizational mission. True measures of health system performance and community benefit relate to care access, care quality, operational efficiency, customer experience and health status.

On these measures, a reconstituted Mission Health delivers. Selling to HCA will enable Mission Health to contribute millions in local tax revenues, invest more in community health, operate nimbly and innovate strategically. By selling to HCA, Mission Health is truly putting its community health mission first and sustaining it for the future.

Mission Health's Board Chair, Dr. John R. Ball, made this point persuasively in describing the Board's decision-making process during an interview with the Citizen Times' editorial board after the sale announcement.

***"The basic measure was what our mission is, which is to improve the health of people in Western North Carolina and the surrounding regions. That was the measure. Does any deal do that and do it better than we could independently down the line?"***<sup>6</sup>

Mission Health's Board was unanimous in voting to sell its system to HCA. In reaching this conclusion, the Board evaluated the relative merits of remaining independent versus selling. They decided that Mission Health could "improve the health of people of Western North Carolina" more by selling to HCA and creating a non-profit foundation than by remaining independent. It is both a courageous and logical decision.



Healthcare works best when efficient organizations provide the greatest value to the most people. Health systems create value by delivering the right care at the right time in the right place at the right price. Whether for-profit or not-for-profit, transactions that advance holistic care delivery and community health should proceed. That's the American way.

## SOURCES

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## ABOUT THE AUTHOR



**David Johnson** is the CEO of 4sight Health, a boutique healthcare advisory and investment firm. Dave wakes up every morning trying to fix America's broken healthcare system. He is a frequent writer and speaker on market-driven healthcare reform. His expertise encompasses health policy, academic medicine, economics, statistics, behavioral finance, disruptive innovation, organizational change and complexity theory. Dave's book, **Market vs. Medicine: America's Epic Fight for Better, Affordable Healthcare**, is available for purchase on [www.4sighthealth.com](http://www.4sighthealth.com).