

Intelligence: Result Details

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Change Healthcare/UNH: Independent pharmacy group to outline concerns to DoJ

- Group's letter will detail competitive harm in multiple markets
- Firewalls or divestitures would be impractical, ineffectual, group believes
- Optum says combined company will better serve patients

A group of independent pharmacists plans to raise concerns over **UnitedHealth Group's** [NYSE:UNH] planned acquisition of **Change Healthcare** [NASDAQ:CHNG] with the Department of Justice, said M. Scott Newman, president of Pharmacists United for Truth and Transparency (PUTT).

PUTT, a nonprofit industry watchdog group that specifically advocates around what it believes are harmful practices by pharmacy benefit managers, plans to send a letter to the agency outlining how the merger between UnitedHealth's software and analytics business OptumInsight and health care technology company Change is likely to cause harmful anticompetitive effects for rivals, consumers and firms in adjacent markets, Newman said. These include the small and independent community pharmacies in PUTT's membership and the patients they serve, he said.

Other groups and possibly state pharmacist associations are expected to help develop and co-sign the letter, Newman added.

There is widespread industry concern that the deal would further entrench the market dominance of UnitedHealth, one of the largest vertically integrated managed care and insurance conglomerates, Newman said. The merger would likely restrain other firms' ability to compete in multiple healthcare sectors and potentially reduce UnitedHealth's incentives to protect private patient data, he said.

OptumInsight is part of UnitedHealth's pharmacy benefit manager and care services division Optum. In a statement to this news service, Optum said the combined company's "distinct and complementary capabilities" will "help health care providers and payers better serve patients by more effectively connecting and simplifying key clinical, administrative and payment processes to the benefit of the health system and the people we serve."

Last January, Optum announced its proposed acquisition of Change for USD 13bn including debt. According to the merger agreement, the parties are committed to divesting assets that account for up to USD 650m in annual revenues from the past 12-month period in order to obtain antitrust approvals. The deal is expected to close in 2H21, though its termination date can be extended to 5 April 2022. The parties, which pulled and refiled their premerger notification in February, received a second request for more information from the DoJ on 24 March, according to SEC filings.

In their deal announcement, the companies said the addition of Change Healthcare's solutions for payment and revenue management, along with its clinical and administrative information exchange technologies, will accelerate innovation and efficiencies.

Both companies also offer services for Medicaid and state employee health plans. The *Wall Street Journal* reported earlier this month that multiple states are investigating possible overpayments to UnitedHealth's PBM business. Change Healthcare provides claims administration/processing and healthcare management services to state Medicaid programs so the acquisition would potentially port those contracts into OptumInsight's business while PBM services are provided to those same customers with OptumRx.

Two industry analysts told this news service that the combined company would also have a significant presence in healthcare clearinghouses, which act as intermediaries between providers and insurers. Both agreed that the deal could legitimately threaten the degree of competition in this space, given that the market is "somewhat esoteric" with very few big players.

The companies' combined market share in the clearinghouse sector would exceed 50%, one of the analysts said, citing Bellevue, Washington-based **Edifecs**, as an independent competitor. Change Healthcare's current clearinghouse capability was established through its combination with certain assets of **McKesson** [NYSE:MCK] in a deal that closed in 2017, he said.

PUTT's concerns echo issues recently raised in letters to the DoJ from the **American Hospital Association (AHA)** and **American Antitrust Institute (AAI)** in March and May, respectively, as evidence for the need for the agency to conduct a thorough antitrust review. PUTT agrees with the doubts raised by these groups that the DoJ could address the transaction's competitive harms by imposing behavioral remedies or ordering divestitures, Newman said.

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Newman, AHA and AAI argue that the removal of Change Healthcare as a head-to-head competitor with OptumInsight's data analytics and information exchange solutions raises horizontal competition concerns.

The second healthcare analyst agreed, adding that many physicians rely on one of these two platforms for their artificial intelligence and clinical decision-making support capabilities. These are sophisticated businesses without an overwhelming number of competitors, the analyst said. While Change Healthcare and UnitedHealth are two of the largest providers, other existing data analytics solutions providers include **Experian** [LON:EXPN], **Health Catalyst** [NASDAQ:HCAT], **AllScripts Healthcare Solutions** [NASDAQ:MDRX] and **Ingenius Med**, he said.

There are also vertical competition issues, according to Newman, AHA and AAI. For example, with the addition of Change Healthcare's data and data analytics capabilities, Optum would likely be equipped and incentivized to advantage UnitedHealth over rival insurers, as the aggregation of private patient data further entrenches the company's dominance across the markets in which it operates.

An independent healthcare provider speaking to this news service expressed concerns that the deal could potentially provide UnitedHealth access to other types of data – fee scheduling and pricing information from other payors – which could be used anticompetitively, to inform its health insurance reimbursement rates.

Newman said commitments to anonymize that data or keep it appropriately siloed with firewalls to prevent its misuse are difficult to enforce, especially considering how strong the incentives are for the companies to find a workaround. AHA and AAI made similar arguments.

UnitedHealth's dominance over the interconnected healthcare markets it serves, even without the acquisition, warrants a breakup of the company's businesses, so a divestiture remedy for this merger would likely fall short of what would be necessary to restore competition, Newman said.

In recent years, UnitedHealth has become one of the industry's most active consolidators in various verticals. Deals include UnitedHealth's acquisition of **Surgical Care Affiliates** in 2017, which expanded its ambulatory surgery center provider services, its purchase of **Advisory Board's** healthcare division the same year, and its acquisition of **DaVita Medical Group** in 2019, which expanded its physician network.

Some of UnitedHealth's previous transactions have received complaints from third parties but all were eventually approved, in some cases with conditions.

The DoJ declined to comment. Change Healthcare did not respond to a request for comment.

by Christopher Kane in Washington, DC and Yiqin Shen in New York

Source Dealreporter

For support, contact help@dealreporter.com

Americas +1 212 686 5417

EMEA +44 (0)20 3741 1122

Asia-Pacific +852 3110 6514

UAE +971 44390501

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