

Walgreens targets urgent care in rumored healthcare merger

Article

The news: Walgreens-backed VillageMD is in talks to acquire medical group Summit Health in a deal that would value the combined companies at between **\$5 billion and \$10 billion**, according to a Bloomberg report.

Breaking down the players: Both organizations have accelerated their healthcare businesses.

- **Walgreens** more than doubled its ownership stake in VillageMD last year—from **30% to 63%**—with a **\$5.2 billion** investment. Walgreens said at the time it planned to open **1,000 VillageMD clinics by 2027**.
- Per the retailer's Q4 earnings call, there are 150 co-located clinics now open, with a goal of getting to 200 by the end of 2022. VillageMD also operates a few hundred clinics without Walgreens.
- Summit Health was created in 2019 after **Summit Medical Group** merged with **CityMD**, one of the largest US urgent care providers. The combined entity employs more than 2,800 providers and has more than 370 urgent care and clinic locations throughout some Northeast states and Oregon.

Why the merger makes sense for Walgreens: We see the CityMD urgent care arm of Summit Health as being particularly attractive, given how much care is shifting toward outpatient settings. This trend is being driven by consumers seeking convenient and affordable care.

- US **urgent care volumes** were up **31% from Q1 2019 to Q1 2022**, driven by COVID-19 testing and treatment. Meanwhile, ER visits remain **30% below pre-pandemic levels**, per Trilliant Health's 2022 Trends Shaping the Health Economy report.
- **Urgent care centers aren't cheaper than retail health clinics, but they're far less expensive than a hospital visit.** An average **urgent care visit** costs **\$171**—nearly **10x less** than the average ER visit, which costs **\$1,646**, per an April 2021 study published in Health Affairs. And previous research has estimated that **up to 27% of ER visits** could be shifted to an **alternative setting** like a retail health or urgent care clinic.

Walgreens' big-picture healthcare play: Hospitals, insurers, and provider groups are looking to capitalize on the shift to outpatient care through M&As.

Retail health clinics, primary care practices, and urgent care centers all fill the demand for accessible care, and each in their own way serves as a first step into the healthcare system. If the deal with Summit Health does go through, Walgreens would have all bases covered—including **home health**, as it now has full ownership of **CareCentrix**.

It wouldn't surprise us to see Walgreens parlay these moves into a virtual health acquisition. The company acknowledged in its last two quarters' earnings calls that it could soon strike a deal for a health tech-enablement asset.

Locations for Routine Care Delivery According to US Healthcare Leaders, 2021 & 2024

% of respondents

Out-of-hospital procedural environments (e.g., ambulatory surgical centers, office-based labs, etc.)



Ambulatory primary care centers (e.g., urgent care, walk-in clinics, etc.)



Community centers



Long-term care/rehabilitation facilities (e.g., nursing homes, etc.)



Home



Pharmacies and other retail locations



None of the above



■ 2021

■ 2024

Note: n=200

Source: Phillips and iResearch Services, "Future Health Index 2021," May 5, 2021

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