203. Capitalizing on Industry Consolidation Trends – How to Find the Best Fit Merger Partner
Session 203:
Capitalizing on Industry Consolidation Trends – How to Find the Best Fit Merger Partner

Continuing Education

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- Nurse attendees may earn a maximum of 15.5 contact hours
- Accountant attendees can earn up to 18.9 CPEs

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Commercial Support provided by Brightree, Excel Health Group, Healthcare Provider Solutions, and Simione Healthcare Consultants.
Learning Objectives

• Gain an understanding of the current merger environment.
• Define the different forms of mergers and how to determine what is in the best interest of your organization.
• Determine how to find the “best fit” merger partner.
• Review the process of merging multiple agencies.

Defining Relationship Types

• Acquisition - Two companies together are more valuable than two separate companies
  • Value does not necessarily mean financial value.
  • One company takes over as the new owner.
• Merger - When two companies, often of similar size, agree to go forward as a single company
  • “Merger of Equals”.
• Joint Venture - Legal partnership between two or more companies where they both make a third entity for competitive advantage. (does not have to be a new company formed).
• Strategic Alliance - is a kind of partnership between two companies, in which they take advantage of each others core strengths
  • Not a legal partnership.
Understand the Current Merger & Acquisition Environment

• According to HealthCareMandA.com, there were a record number of deals in 2018.
• The trend of Joint Ventures between not-for-profit health systems and for-profit operators continues to grow.
• M&A activity continues to be:
  • Private Equity Firms-industry rollups.
  • Public Companies trying to increase market share.
  • Private companies seeking competitive advantages.
• Private Equity Investment in 2018 among the highest it has been in 10 years.
• Private Duty/Non-Skilled largest percentage increase in deal volume.
• Hospice the most sought-after service line.
• According to Bloomberg, Home Health and Hospice deals will reach a record number in 2019.
• Valuations continue to rise, although they are size specific.

Understand the Current Merger & Acquisition Environment

• Standards of Value
  • **Fair Market Value** - Is defined by the Internal Revenue Service (IRS) in its Revenue Ruling 59-60 as “the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge or relevant facts”.
  • **Investment Value** - The measure of business value used to determine what a business is worth to a particular investor or business owner.
  • **Intrinsic Value** - The measure of business value that reflects an investor’s in-depth understanding of the company’s true economic potential.
Understand the Current Merger & Acquisition Environment

- Difficult to find data on joint ventures not completed by public traded companies.
- Joint Venture & Merger activity is equal to or outpacing straight acquisitions.

TARGET SEARCH

- Define your own agency goal.
- Use publicly available data to find a target.
- Network with surrounding providers.
TARGET SEARCH

- Management
- Platform
- Board of Directors
- KPI
- Culture

Determine How to Find the “Best Fit” Merger Partner
Determine How to Find the “Best Fit” Merger Partner

• Management
  • Does management from merging entities buy into the purposed transaction?
  • Is there need for particular management?
  • Is there a surviving entity or Newco?

• Platform
  • Does merging partner have the same EMR
    • If not, which is the surviving EMR?
    • Cost to transition to new EMR...including staff retention and productivity changes.
    • Timing of transition.
  • Other IT issues
    • General Ledger.
    • Payroll
    • Networking
Determine How to Find the “Best Fit” Merger Partner

• Board of Directors
  • How will merged entities board be determined?
    • Valuation?
  • Are there endowments?
  • Do both boards agree on surviving entity?

Determine How to Find the “Best Fit” Merger Partner

• KPI
  • Benchmark Analysis.
  • Gross Margin.
  • Payor Mix.
  • Administrative Cost.
# KPI – Home Health

## Gross Profit/Net Income

<table>
<thead>
<tr>
<th>KPI</th>
<th>Agency One</th>
<th>Agency Two</th>
<th>Benchmark</th>
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<tbody>
<tr>
<td>Gross Profit</td>
<td>50.0%</td>
<td>45.0%</td>
<td>59.1%</td>
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<tr>
<td>Net Income</td>
<td>10.8%</td>
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## Visits/Episode

<table>
<thead>
<tr>
<th>Discipline</th>
<th>Agency One</th>
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<td>0.5</td>
<td>0.5</td>
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<tr>
<td>ST</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
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<tr>
<td>MSW</td>
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<td>0.3</td>
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<tr>
<td>HHA</td>
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<tr>
<td>Total</td>
<td>16.5</td>
<td>17.8</td>
<td>13.8</td>
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</table>

# KPI – Home Health

## Medicare Statistics

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<th>Benchmark</th>
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<tbody>
<tr>
<td>LUPA %</td>
<td>5.4%</td>
<td>6.5%</td>
<td>4.4%</td>
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<tr>
<td>Outlier %</td>
<td>0.2%</td>
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<td>Episodes/Patient</td>
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## Cost/Visit

<table>
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<td>PT</td>
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<td>OT</td>
<td>142.40</td>
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<td>HHA</td>
<td>52.26</td>
<td>57.49</td>
<td>56.94</td>
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</table>
KPI – Home Health

• Direct Cost/Visit

<table>
<thead>
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<th>Direct Cost per Visit</th>
<th>Agency One</th>
<th>Agency Two</th>
<th>Benchmark</th>
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<td>MSW</td>
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<td>HHA</td>
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<td>37.19</td>
<td>28.83</td>
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</table>

• Other Data Points:
  • Productivity
  • Case Loads
  • Referrals by Referral Source
  • DSO

Determine How to Find the “Best Fit” Merger Partner

• Culture
  • The hardest, yet most important factor in finding a merger partner!!!!
Game Day (M&A) Process

• Pre-Game – Pre-Acquisition Review.
• 1\textsuperscript{st} Quarter – Select Merger Partner.
• 2\textsuperscript{nd} Quarter – Due Diligence.
• 3\textsuperscript{rd} Quarter – Negotiation with Target.
• 4\textsuperscript{th} Quarter – Integration and Execution.
• End Game.

Pre-Game

• Pre-game – Pre-Acquisition Review
  • Assess own status.
  • Development of M&A Team and acquisition strategy and plan
    • Include representation from all key functional areas.
    • Establish core responsibilities.
    • Establish performance criteria of target organizations.
    • Determine Data collection strategies.
  • Select Merger Partner.
Selecting Merger Partners

Everyone is a potential merger partner
• Find alignment with similar long-term objectives as your organization.
• Identify compatibility and shared values.
• Know what's best for the business from all perspectives.
• Don’t make decision alone.

1st Quarter: Select Target
• Compile Target List.
• Complete Phase 1 Due Diligence to finalize Target(s) to pursue
  • Key points of consideration:
    • Culture
      • Good strategic fit
      • Motivators
    • People
      • Expertise level
      • Leadership team and Team interactions
      • Reporting structure
    • Platforms
      • Aspects which can be used
      • Aspects which must be rebuilt
    • Processes
      • Level of sophistication
      • Key Performance Indicators (KPI)
      • Core Competencies
      • Market Share
      • Opportunity for Diversification
2nd Quarter: Intensive Due Diligence

Goal: Identification and Confirmation of synergies and efficiencies to be realized with target.
Areas of Focus:
• Clinical
• Financial
• Operational Review.

Keep eye on winning the game - Begin transition planning immediately.

3rd Quarter: Negotiation with Target

Key considerations:
• Potential for resistance from Target.
• Benefits of M&A for Target.
• Bidding/Valuation strategies.
4th Quarter: Integration

- Speed and Control - Keys to Implementation Planning.
- Key areas of focus:
  - Service Mix.
  - Operations
  - Personnel
- Goal is successful integration = cost savings and improved efficiencies.

Integration

- Project Management
  - Hire/Assign FT Project Manager.
  - Establish Steering Committee.
  - Finalize and Approve Project Charter.
Project Manager

Role:
• Responsible for the overall direction, coordination, execution, control and completion of the project, ensuring consistency with the project’s strategy, commitments and goals.

Responsibilities:
• Develops the overall Project Plan and facilitates the definition of project scope, goals and deliverables.
• Manages the Steering Committee.
• Monitors project tasks and resource requirements and allocation.
• Monitors and ensures project timelines and deliverables.
• Provides direction and support to Project Teams.
• Monitors and reports on project progress to the Steering Committee and presents reports defining project progress, problems and solutions.
• Implements and manages changes and interventions to achieve project deliverables.
• Escalates as needed to Co-Executive Sponsors.
• Evaluates project results.

Steering Committee

Role:
Decision-making body within the project governance structure who provide, review and monitor the strategic and tactical direction of the project.

Responsibilities:
Assign, oversee and guide their respective Project Teams, provide change leadership, recommendations, participate in project planning and implementation, and manage risks and issues encountered during the planning and execution of a project.

Reach:
Decisions directly impact the scope, assumptions, timeline, risks, budget and resources.

Goal:
Provide support to Project Manager and individual teams.
Project Charter

CO-EXECUTIVE SPONSORS: TBD

PROJECT MANAGER: TBD

STEERING COMMITTEE: TBD

BUSINESS GOAL:

PROJECT SCOPE:
Establish integrated and coordinated home health and hospice services throughout the service area in order to deliver high quality, cost-effective home health and hospice services to communities served. Provide a platform to fulfill the mission of providing individuals and families with seamless access to innovative, high-quality, personalized home health and hospice services.

PROJECT TIMELINE (start and end dates, including closure): June 30, 2019 through December 31, 2019.

METHODOLOGY:
The project will be approached using the following sequence:
• Executive Sponsors will approve the Project Charter
• Deliverable(s) will be determined
• Project plan will be developed and approved
• Project teams will be notified and engaged
• Project plan will be executed

MEASUREMENT OF SUCCESS: Timely and successful regulatory approvals; patient and employee migration.

APPROVAL

Integration

• For each of the areas on the following slides, a working document should be developed to include the following:
  • Responsible Steering Committee Member.
  • Start Date
  • End Date
  • Dependency
  • Updates
Integration

- Legal/Regulatory/Board of Directors
  - Complete/Submit 855A’s.
  - Department of Health Licensure Changes.
  - Develop Board Resolutions.
  - Other Activities.

Integration

- Human Resources
  - Establish Employee Crosswalk
    - Tenure
    - Benefits
    - Retention
    - Severance Packages.
  - Payroll Build.
  - Develop Employee Migration Plan.
  - Other Activities.
Integration

• Communication/Marketing/Rebrand
  • Establish Communication/Marketing Plan.
  • Patients (Choice Letter).
  • Employees
  • Referral Partners.
  • Community
  • Rollout Rebrand.

Integration

• Patient and Staff Migration
  • Close intake.
  • Centralize Intake.
  • Establish Service Area Teams.
  • Plot patients for transfer dates.
  • Develop/Implement onboarding schedule per patient migration plan.

• IT Infrastructure and Telecom
  • Inventory Hardware.
  • Obtain new Hardware as needed.
  • Establish legacy contract with old EMR.
Integration

• Other Areas
  • IT Conversation.
  • Back Office Integration.
  • Payer Contracting.
  • Banks/Cash.
  • Fundraising
  • Leases

End Game: Common Issues

• Incomplete and Inadequate Due Diligence.
• Poor strategic fit.
• Cultural and Social differences leading to an inability to achieve expected synergies.
• Too much diversification.
• Poorly managed and executed integration.
• Lack of employee buy-in.
• Too large.
• Need for restructuring.
End Game: Integration Success Defined

• Effective Due Diligence process and comprehensive Transition Plan.
• Complementary assets/resources.
• Realized operational and service synergies and efficiencies.
• Friendly acquisitions results in better integration and employee buy-in.
• Acquirer/Buyer able to manage change well and is flexible and adaptable.