



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

FINANCIAL MANAGEMENT CONFERENCE & EXPO



Session 203:

Capitalizing on Industry Consolidation Trends – How to Find the Best Fit Merger Partner

Continuing Education

The planners and presenters of this activity disclose **no relevant relationships** with any commercial entity **pertaining to the content.**

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

Accreditation Statement

NAHC is accredited as a provider of continuing nursing education by the American Nurses Credentialing Center's Commission on Accreditation.

NAHC is [also] approved by the California Board of Registered Nursing, provider #10810.

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.

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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.

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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.

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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.

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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.

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TARGET SEARCH

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

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TARGET SEARCH

City	Provider Number	Provider Name	Net Revenues	Medicare Revenues	Medicare %	PPS Revenue	PDGM Revenue	Change	%
			\$ 1,155,215	\$ 142,009	12.29%	\$99,417	\$88,031	(\$11,386)	-11.5%
			\$ 1,155,215	\$ 142,009	12.29%	\$99,417	\$88,031	(\$11,386)	-11.5%
			\$ 697,916	\$ 202,559	29.02%	\$206,728	\$197,858	(\$8,870)	-4.3%
			\$ 697,916	\$ 202,559	29.02%	\$206,728	\$197,858	(\$8,870)	-4.3%
			\$ 2,572,786	\$ 761,888	29.61%	\$711,347	\$786,538	\$75,191	10.6%
			\$ 5,610,355	\$ 1,210,915	21.58%	\$1,227,842	\$1,313,873	\$86,031	7.0%
			\$ 5,610,355	\$ 1,210,915	21.58%	\$1,227,842	\$1,313,873	\$86,031	7.0%
			\$ 2,096,804	\$ 1,575,556	75.14%	\$1,599,127	\$1,392,105	(\$207,022)	-12.9%
			\$ 2,096,804	\$ 1,575,556	75.14%	\$1,599,127	\$1,392,105	(\$207,022)	-12.9%
			\$ 4,933,954	\$ 2,317,259	46.97%	\$2,258,989	\$2,099,602	(\$159,387)	-7.1%
			\$ 4,933,954	\$ 2,317,259	46.97%	\$2,258,989	\$2,099,602	(\$159,387)	-7.1%
			\$ 6,204,868	\$ 2,602,424	41.94%	\$2,499,353	\$2,308,491	(\$190,862)	-7.6%
			\$ 6,204,868	\$ 2,602,424	41.94%	\$2,499,353	\$2,308,491	(\$190,862)	-7.6%
			\$ 11,236,379	\$ 3,661,548	32.59%	\$2,485,194	\$2,921,949	\$436,755	17.6%
			\$ 11,236,379	\$ 3,661,548	32.59%	\$2,485,194	\$2,921,949	\$436,755	17.6%
			\$ 6,441,369	\$ 3,715,396	57.68%	\$3,679,604	\$3,518,015	(\$161,590)	-4.4%
			\$ 6,441,369	\$ 3,715,396	57.68%	\$3,679,604	\$3,518,015	(\$161,590)	-4.4%
			\$ 12,779,547	\$ 4,329,032	33.87%	\$3,642,789	\$3,522,348	(\$120,441)	-3.3%
			\$ 12,779,547	\$ 4,329,032	33.87%	\$3,642,789	\$3,522,348	(\$120,441)	-3.3%
			\$ 9,618,407	\$ 4,399,230	45.74%	\$4,324,583	\$4,129,169	(\$195,415)	-4.5%
			\$ 9,618,407	\$ 4,399,230	45.74%	\$4,324,583	\$4,129,169	(\$195,415)	-4.5%
			\$ 8,395,285	\$ 6,128,412	73.00%	\$5,848,006	\$5,326,030	(\$521,976)	-8.9%
			\$ 49,941,079	\$ 18,588,263	37.22%	\$15,356,992	\$17,068,079	\$1,711,086	11.1%
			\$ 49,941,079	\$ 18,588,263	37.22%	\$15,356,992	\$17,068,079	\$1,711,086	11.1%

Determine How to Find the “Best Fit” Merger Partner

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

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?

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Determine How to Find the “Best Fit” Merger Partner

- 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

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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?

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Determine How to Find the “Best Fit” Merger Partner

- KPI
 - Benchmark Analysis.
 - Gross Margin.
 - Payor Mix.
 - Administrative Cost.

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KPI – Home Health

- Gross Profit/Net Income

	Agency One	Agency Two	Benchmark
Gross Profit	50.0%	45.0%	59.1%
Net Income	10.8%	4.5%	2.5%

- Visits/Episode

Discipline	Agency One	Agency Two	Benchmark
SN	9.1	8.2	8.0
PT	4.9	6.1	4.4
OT	0.5	0.5	0.5
ST	0.1	0.2	0.1
MSW	0.1	0.3	0.0
HHA	1.9	2.5	0.8
Total	16.5	17.8	13.8

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KPI – Home Health

- Medicare Statistics

	Agency One	Agency Two	Benchmark
LUPA %	5.4%	6.5%	4.4%
Outlier %	0.2%	2.5%	1.4%
Episodes/Patient	2.79	1.30	2.02

- Cost/Visit

Cost per Visit	Agency One	Agency Two	Benchmark
SN	146.60	152.52	135.48
PT	144.26	158.69	161.48
OT	142.40	156.64	160.03
ST	163.91	180.30	170.00
MSW	188.94	207.83	187.50
HHA	52.26	57.49	56.94

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KPI – Home Health

- Direct Cost/Visit

Direct Cost per Visit	Agency One	Agency Two	Benchmark
SN	94.85	104.34	69.67
PT	93.33	102.66	86.00
OT	92.13	101.34	85.04
ST	106.04	116.64	91.40
MSW	122.25	134.48	93.39
HHA	33.81	37.19	28.83

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

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Determine How to Find the “Best Fit” Merger Partner

- Culture
 - The hardest, yet most important factor in finding a merger partner!!!!

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Game Day (M&A) Process

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

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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.

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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.

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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

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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.

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3rd Quarter: Negotiation with Target

Key considerations:

- Potential for resistance from Target.
- Benefits of M&A for Target.
- Bidding/Valuation strategies.

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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.

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Integration

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

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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.

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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.

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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

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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

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Integration

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

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Integration

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

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Integration

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

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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 Telecomm
 - Inventory Hardware.
 - Obtain new Hardware as needed.
 - Establish legacy contract with old EMR.

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Integration

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

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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.

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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.

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Driving Results-

David J. Berman, Principal dberman@simione.com 800.949.0388

800.949.0388 | Simione.com

Corporate Headquarters

4130 Whitney Avenue
Hamden, CT 06518

California Office

50 Professional Center Drive, Suite 200
Rohnert Park, CA 94928

Massachusetts Office

54 Main Street, Unit 3
Sturbridge, MA 01566