Surviving M&A: Due Diligence, Risk Management, and Lessons Learned

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- The US spends more on healthcare than other industrialized countries
- Healthcare spending has grown much faster than the rest of the economy
- Healthcare spending is expected to double in the next decade
Change is coming...
But healthcare reform is not going to fix all the problems hospitals are facing.
Smart healthcare leaders want to get out in front
If you haven’t been involved in a merger or acquisition yet...

Chances are, you will be
Mergers & Acquisitions in Healthcare

Consolidation in the Industry

“The new mandate driving the next heat wave of hospital consolidation is sheer survival. In the new economy, the case for hospital consolidation has shifted from the revenue side of the equation to improved efficiency and reduction of expenses. As hospital consolidation continues, healthcare providers need to assess the pressures associated with remaining independent and whether a sale, merger or other partnership will help it better deliver on its patient care mission and remain successful.”

- See more at: http://www.navigant.com/insights/hot-topics/mergers-and-acquisitions/#sthash.qvQ5jpUj.dpuf
What's Driving Healthcare Mergers and Acquisitions?

Hospitals continue to team up with other facilities, insurers and for-profit companies, although the cause of the bump in M&A activity varies. While some hospitals cite financial problems, others join forces because of collaboration mandated under the Affordable Care Act and changing reimbursement models,

Q3 2013 Healthcare Merger and Acquisition Activity Up 20%

- Healthcare merger and acquisition activity increased by almost 20 percent in the third quarter of 2013 compared with the same quarter a year ago, according to a Health Care M&A News report.
- There were 267 deals announced during the third quarter, up from 223 deals in the same quarter of 2012, according to the report. It was also a 15.6 percent increase from 231 deals in the second quarter of this year.
- Deal value dropped 4.2 percent from $53 billion in the second quarter of 2013 to $50.8 billion in the third. However, value was up year-over-year by 35.1 percent from $37.6 billion in 2012.
We’ve decided to merge (or acquire, or be acquired)

Now what....?
Due Diligence
Due Diligence – Say What?

- Due Diligence: An investigational process in which the target’s assets and liabilities are evaluated before the official ownership changes take place.
- Basically it is an open book process in which any information can be requested.
- The information requested is overwhelming! Be prepared. Be well organized.
Due Diligence Database

**Challenges**

- Centralized coordination of information being requested & released.
- Similar information requested from all directions.
- Tracking what you have released; to whom and when.
- IT limitations.
Who will be your quarterback?
Pre & Post Transition Punch List

<table>
<thead>
<tr>
<th>ITEM CATEGORY</th>
<th>TOPIC</th>
<th>ISSUE/STATUS</th>
<th>ACCOUNTABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>LICENSES and PERMITS</td>
<td>Governmental Licenses/Approvals</td>
<td>Submitted. Approval pending</td>
<td>Jones</td>
</tr>
<tr>
<td>Medicare</td>
<td>Submitted. Approval pending</td>
<td>Submitted. Approval pending</td>
<td>Jones</td>
</tr>
<tr>
<td>Medicare Companion Program</td>
<td>Research. History/existence in question</td>
<td>Research. History/existence in question</td>
<td>Smith</td>
</tr>
<tr>
<td>Inpatient Rehab Facility</td>
<td>CMS 437 Form Required. New Medicare # to be issued</td>
<td>CMS 437 Form Required. New Medicare # to be issued</td>
<td>Jones</td>
</tr>
<tr>
<td>Others: by exception</td>
<td>Accreditation Body Certificates</td>
<td>Accreditation Body Certificates</td>
<td>Doe</td>
</tr>
<tr>
<td>Trauma Designation</td>
<td>Applying for waiver of provision of providing direct inpatient care on premises - hospital rule vs. trauma designation.</td>
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<td>Smith</td>
</tr>
</tbody>
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Transition Management Approach

- **Leadership Team** - ensure that all tenants of the lease and schedules are met.

- **Legal Team**: create the document depository, electronic scanning, management of all documents; consultation with various legal firms.

- **Marketing and Communication Team**: internal communication regarding process; media interface on progress.

- **Facilities Team**: Facilities condition reports, inventories, life safety issue assessments, assist in meeting licensure needs.
Transition Specialty Teams

- **Payor Contracting Team**: interface and negotiation with commercial insurers and self-funded payors to transfer legal entity names, reduce claims processing errors, reduce patient financial exposure if new entity not recognized by claims system. Amend all contracts.

- **Contract Assumption Team**: Contract assignment process for existing contracts: med staff, supply chain, physician panel, information services, commercial insurance contracts, clinical affiliations, laboratory, services, real estate/leases.
Transition Specialty Teams

- **Finance and Business Operations Team**: revenue cycle transfer, bond defeasance, net working capital calculations, assets, debt, accounts receivable, etc. Acquisition and/or transfers of tax identification numbers, NPIs, Medicare and Medicaid billing interfaces, banking transfers.

- **Human Resources Team**: Transfer of existing employees to new corporation, new benefit packages, early retirement offerings and reduction in force agreements.

- **Permits/Licenses Team**: transfer of all Federal, State, local and certifying agency licenses, permits and certifications for all clinical and facility operations.
Transition Specialty Teams

Risk Management Team:

- Insurance schedules
- Historical policy management
- Transfer of insurance policices
- Tail and/or extended reporting endorsements
- Premium refunds
- Tail premium invoicing & payment
- Management/oversight of open litigation cases
Transition Specialty Teams

Risk Management Team:

Tips:

- A master insurance schedule is a must
- All insurance policies must be in an electronic format
- Set up a master loss run e-folder
- Have a master list of your employed physicians, hire dates, PL policies, retro dates
- Put your insurance broker on speed dial
- Make legal counsel your new best friend
- Conduct open claims discussion in person
Anticipating and Recognizing New Risks
Types of Risks

- New service lines
- Different or incompatible systems
- New processes
- Differences in process
- Operational challenges
- Culture clashes
Risks Inherent to a Merger or Acquisition

- Focus diverted from operations and patients
- Market share erosion
- Physician relations and morale
- Strategic planning frozen
- Increased preventable medical errors?
Identifying Risks

Tools and Techniques

- Policy review
- Process audit
- Interviews with key employees
Evaluate Cultural Differences

- Academic vs. tertiary care
- Outpatient vs. inpatient
- Physicians vs. administration
- For-profit vs. not for profit
- Religious vs. secular
Risk Mitigation

- Understand differences in risk appetite and tolerance
- Anticipate issues and have a plan
Surviving a Merger with Your Sanity and Job Intact
Why the Merger?

- Rescue to the current company?

- Hostile takeover?
What’s the Time Table?

- You want Due Diligence completed when!!!
Keeping Your Sanity

- The merger is inevitable – accept and embrace the change
- Keep your head while all others are losing theirs
- Assign a Project Manager
- Avoid duplication – central repository for information
Keeping Your Sanity

- Expect an “elusive” closing date
- Effective communication to all stakeholders at regular intervals ("town meetings")
- Maintain regular business responsibilities and practices during Due Diligence
- Accept that things will not remain the same
Keeping Your Job Intact

- Research the company that is acquiring/merging with yours
- Identify key players/potential direct reports
- Brush up your resume
  - What are your major accomplishments?
  - What is your current job description?
What Do You Do?

- HIPAA Compliance
- Provider Education
- Risk Review
- Clinical Resource
- JC training
- Litigation Coordination

What don’t I do?
Keeping Your Job Intact

- Follow up communication
  - Emulate positive outlook
  - Suggest potential projects
  - Volunteer for additional roles/responsibilities

- Finally, should I stay or should I go?
Questions?