

Partnering in Pandemic Times



A Governance Institute Webinar

Moderated by

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HEALTH

Today's Presenters



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Learning Objectives

After viewing this Webinar, participants will be able to:



The COVID-19 Effect

Describe why and how the COVID-19 pandemic is driving the urgency for healthcare organizations to find partners.



Stakeholder Alignment

Define critical aspects of stakeholder alignment throughout a major partnership transaction, including strategic communications strategies for managing community perception, physician and employee engagement, elected and regulatory stakeholders, and more.



Partnership Options

List the variety of partnership options in today's environment, along with the new challenges presented to closing transactions.



Risk Factors

Identify the risks of pursuing vs. not pursuing partnership opportunities.

Continuing Education

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Program level: Overview · No advanced preparation required

Field of study: Business Management and Organization

Delivery method: Group Internet based

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Agenda

- Factors driving urgency to partner
- Critical aspects of stakeholder management
- Doing deals in public health emergency: transaction structures and challenges
- Takeaways
- Closing comments
- Questions

Setting the Stage



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Topic

PRACTICE MANAGEMENT NEWS

Hospital Merger and Acquisition Activity Withstands COVID-19 Slump

COVID-19 had a less dramatic decline in hospital merger and acquisition activity, with two major deals announced in June, Kaufman Hall reports.

June 6, 2020



RAMA ON HEALTHCARE

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COVID-19 Has Execs Seeing Healthcare M&A Plans with Fresh Eyes

RevCycle Intelligence June 15, 2020
Jacqueline LaPointe



KHN

Prognosis for Rural Hospitals Worsens With Pandemic

By Sarah Jane Tribble • AUGUST 26, 2020
REPUBLISH THIS STORY



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Brief

Preparing for a Post-Pandemic Boom in Healthcare Consolidation

Strained finances are set to accelerate mergers and acquisitions in the wake of Covid-19.

By Michael Brookshire, Joshua Weisbrod and Erin Ney, MD
September 15, 2020 • 5 min read

Polling Question #1

What has the COVID pandemic revealed to you about your organization's ability to sustain in its current state?

- A. We are well positioned and going on the offensive to target strategic assets that have not fared well during the pandemic.
- B. It wasn't pleasant, but our organization is in as strong a position now as prior to the pandemic; no affiliations are being pursued in the short term.
- C. The pandemic emphasized the need to reevaluate our strategic direction and possibly consider alignment options with a strategic partner.
- D. We have already put out the "FOR SALE" sign.
- E. Not applicable.

Factors Driving Urgency to Find Partners



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COVID Transaction Impacts: Buy Side



Competition for Top Strategic Targets

- Integrated delivery systems
- Investment bankers seeking prime physician and ambulatory targets to market
- Private equity investments



Shift from Defense to Offense

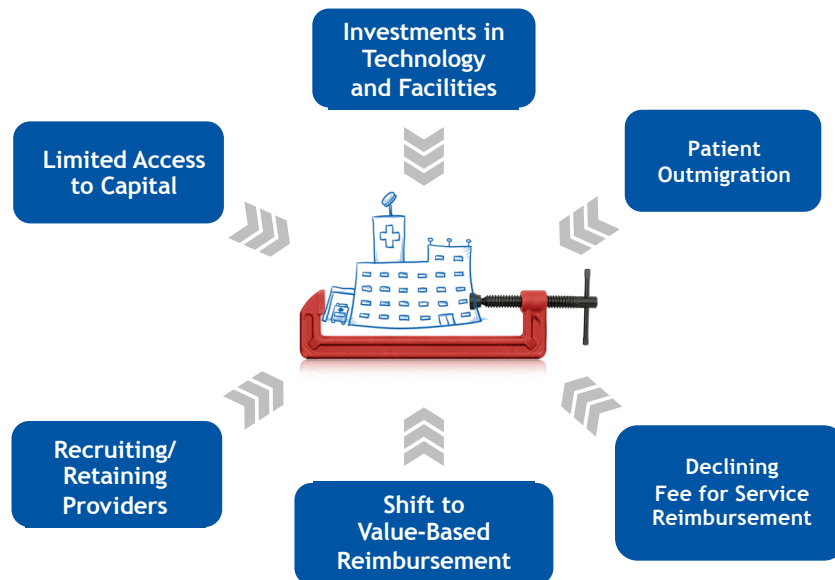
- Opportunistic pursuits
- Well-positioned entities

Interesting, hospital M&A deal volume was steady in 2Q'20 compared to the prior year.

Source: Irving Levin & Associates reported 19 deals in each of 2Q'19 and 2Q'20.

COVID Transaction Impacts: Sell Side (Acute Care)


For some acute-care providers, COVID has exacerbated pre-existing perpetual challenges



Other Considerations

 Debt covenant compliance

 Rating agency perceptions

 Perception that bigger is safer

- Access to capital
- Lower purchasing costs
- Economies of scale

CARES Act Creating False Sense of Security?

The Provider Relief Fund (PRF) sent significant targeted distributions to some of the most vulnerable acute-care operators:

- Rural hospitals
- Safety net hospitals
- Standalone children's hospitals

Impact of recently released HHS reporting requirements???

Provider Relief Fund Targeted Distributions

	Targeted Distributions	Number of Recipients	Average
Rural Providers*	\$11.3B	4,500	\$2.5M
Safety Net Hospitals**	\$14.4B	1,039	\$13.9M

*Includes rural acute care general hospitals, critical access hospitals (CAHs), rural health clinics (RHCs), community health centers located in rural areas, HHS specialty rural hospitals, urban hospitals with certain rural Medicare designations, and hospitals in small metropolitan areas.

**Includes safety net hospitals and children's hospitals.

Source: www.hhs.gov

COVID Transaction Impacts: Sell Side (Physicians)

For some independent physician groups, COVID has fueled further exploration of hospital-physician alignment and private equity investment options

Considerations



Management challenges for physician owners

- Compensation reductions
- Employee furloughs/layoffs



Challenges accessing capital



Risk tolerance levels breached

Most impacted groups



Limited telehealth capabilities



No capitated income



High percentage of elective procedures



>500 employees

Looking Ahead



Will distressed hospital deal volume increase as the effects of government stimulus funding fade?



Will acute-care deals trend more toward mergers of mega-systems or individual strategic acquisitions?



Will we see a flood of physician groups on the market in the coming quarter?



Will valuations reflect more of a buyer's market from the competitive seller's market of the last few years?



Is telehealth really here to stay and how does that affect investment strategies?

Polling Question #2

Do you think hospital deal volume over the next six months will:

- A. Increase
- B. Decrease
- C. Remain the same
- D. Do not know

Critical Aspects of Stakeholder Management



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Current Deal Landscape

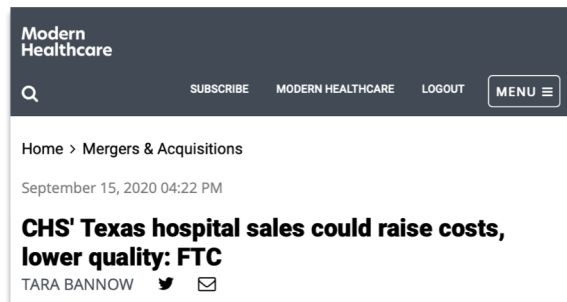


Star Tribune

BREAKING TOP STORY

Wyoming Medical Center signs letter of intent with Banner Health, setting stage for possible affiliation

Seth Klamann Jan 28, 2020 Updated Sep 2, 2020



Modern Healthcare

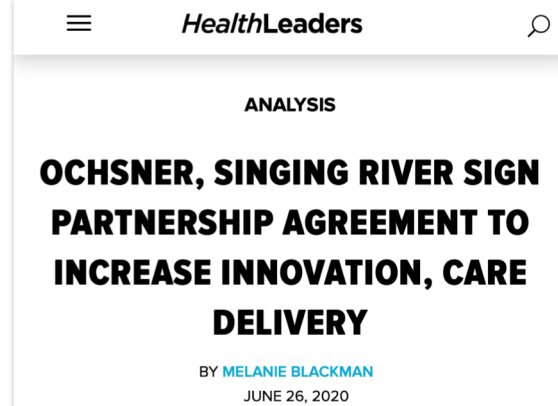
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September 15, 2020 04:22 PM

CHS' Texas hospital sales could raise costs, lower quality: FTC

TARA BANNOW



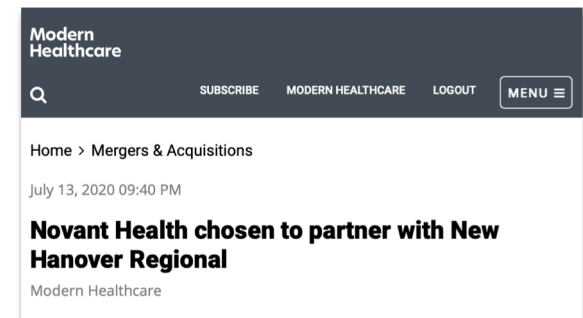
HealthLeaders

ANALYSIS

OCHSNER, SINGING RIVER SIGN PARTNERSHIP AGREEMENT TO INCREASE INNOVATION, CARE DELIVERY

BY MELANIE BLACKMAN

JUNE 26, 2020



Modern Healthcare

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July 13, 2020 09:40 PM

Novant Health chosen to partner with New Hanover Regional

Modern Healthcare



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BRIEF

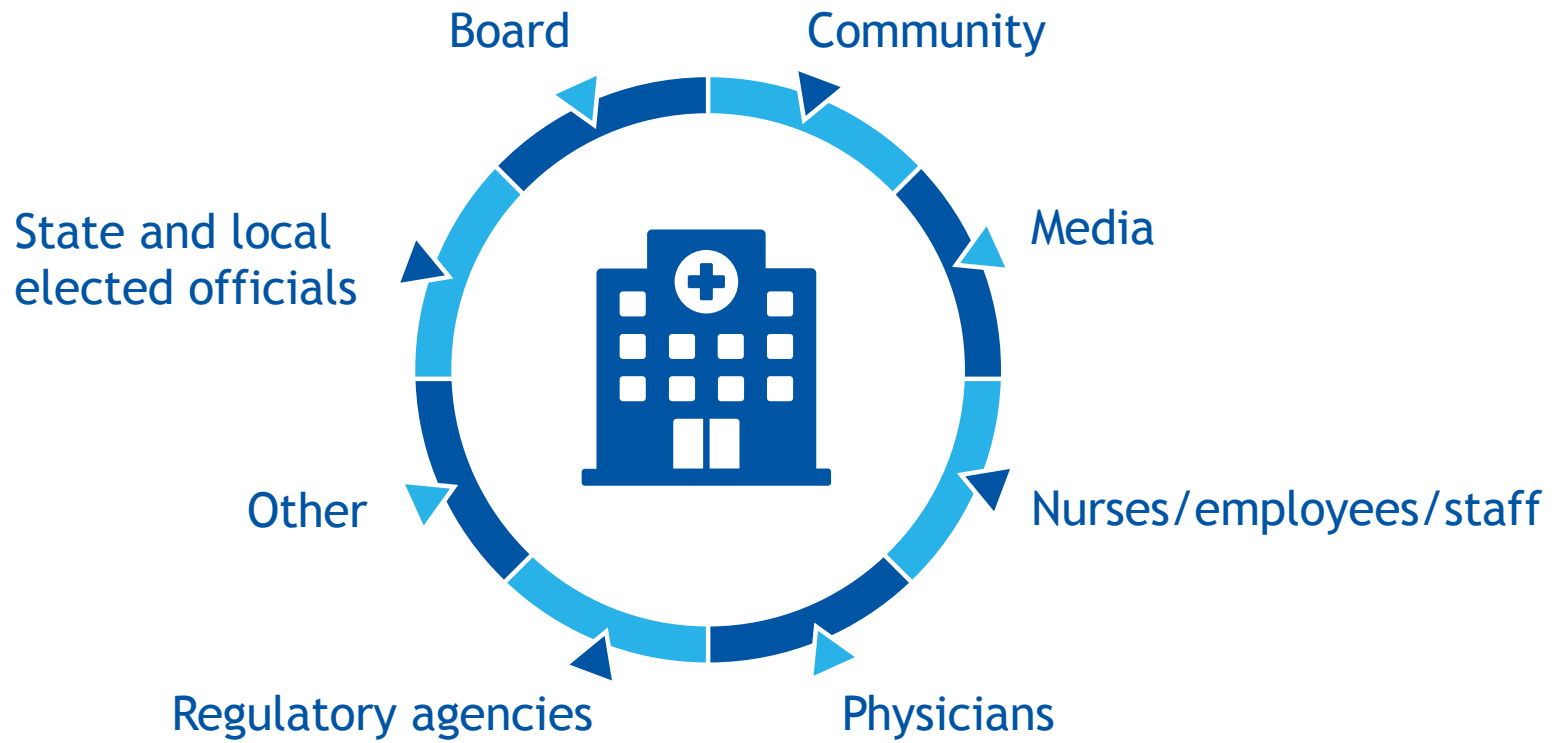
Beaumont slows Advocate Aurora tie-up amid doctor pushback

Polling Question #3

Which stakeholder group do you consider the most important during a deal?

- A. Board
- B. Community
- C. Media
- D. Nurses and other employees/staff
- E. Physicians
- F. Regulatory agencies
- G. State and local elected officials
- H. Other

Stakeholders



Polling Question #4

Excluding financial considerations, what is the top operational reason deals fail to close?

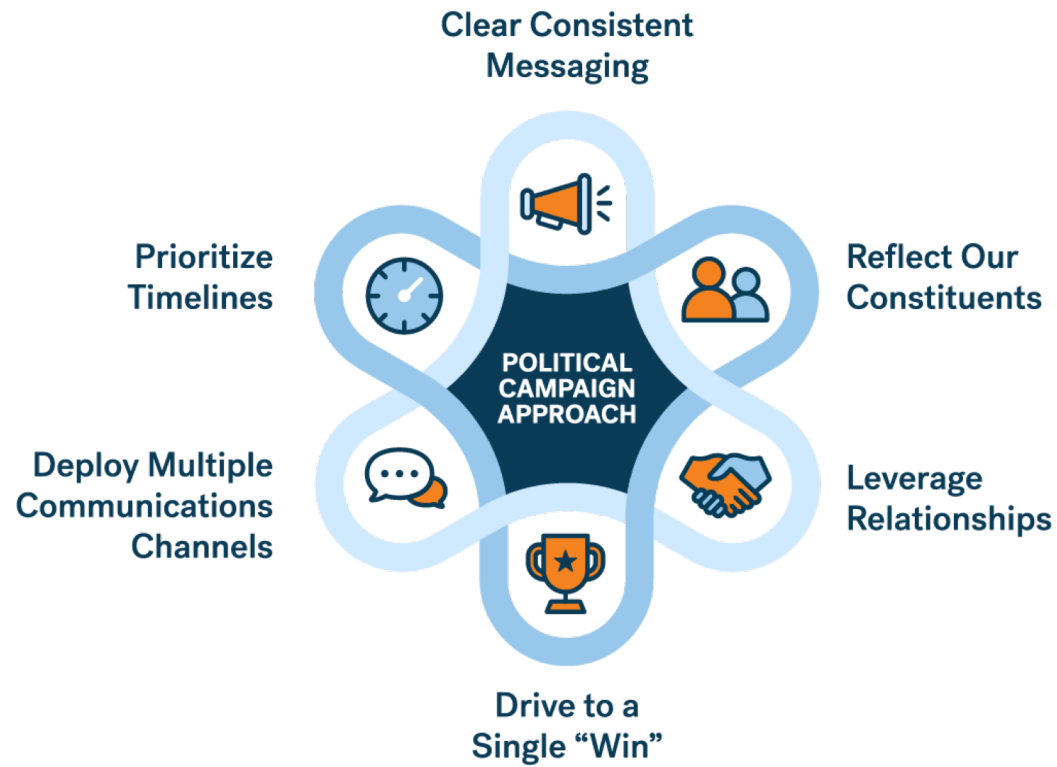
- A. Lack of community support
- B. Incompatible cultures
- C. Concern about fate of organization's mission
- D. Mistrust between parties
- E. Concern about governance
- F. Concern about operations transition plan
- G. Other party's decision, for reasons I don't know
- H. Other

It's (Still) All About the Politics of a Deal...



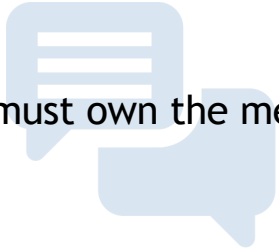
Source: *HealthLeaders Intelligence Report: Navigation The M&A Landscape: Achieving Clinical and Financial Objectives - April 2019*

The Value of Strategic Communications

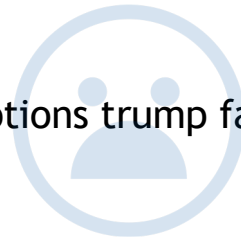


Ground Rules

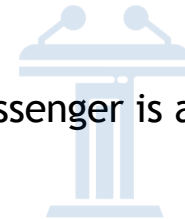
1. You must own the message.



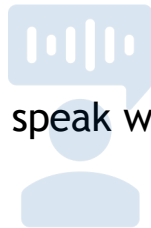
2. Emotions trump facts.



3. The messenger is a message.



4. You must speak with one voice.



5. Start internally and build outward.

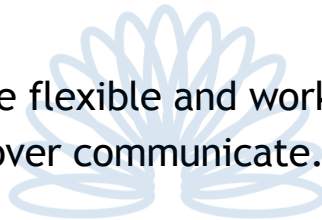


Ground Rules

6. Meet people where they are.



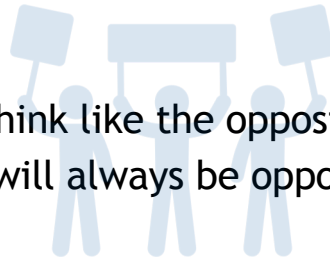
7. Be flexible and work to over communicate.



8. Be responsibly transparent.



9. Think like the opposition
(there will always be opposition).



10. Don't dance to someone else's music.

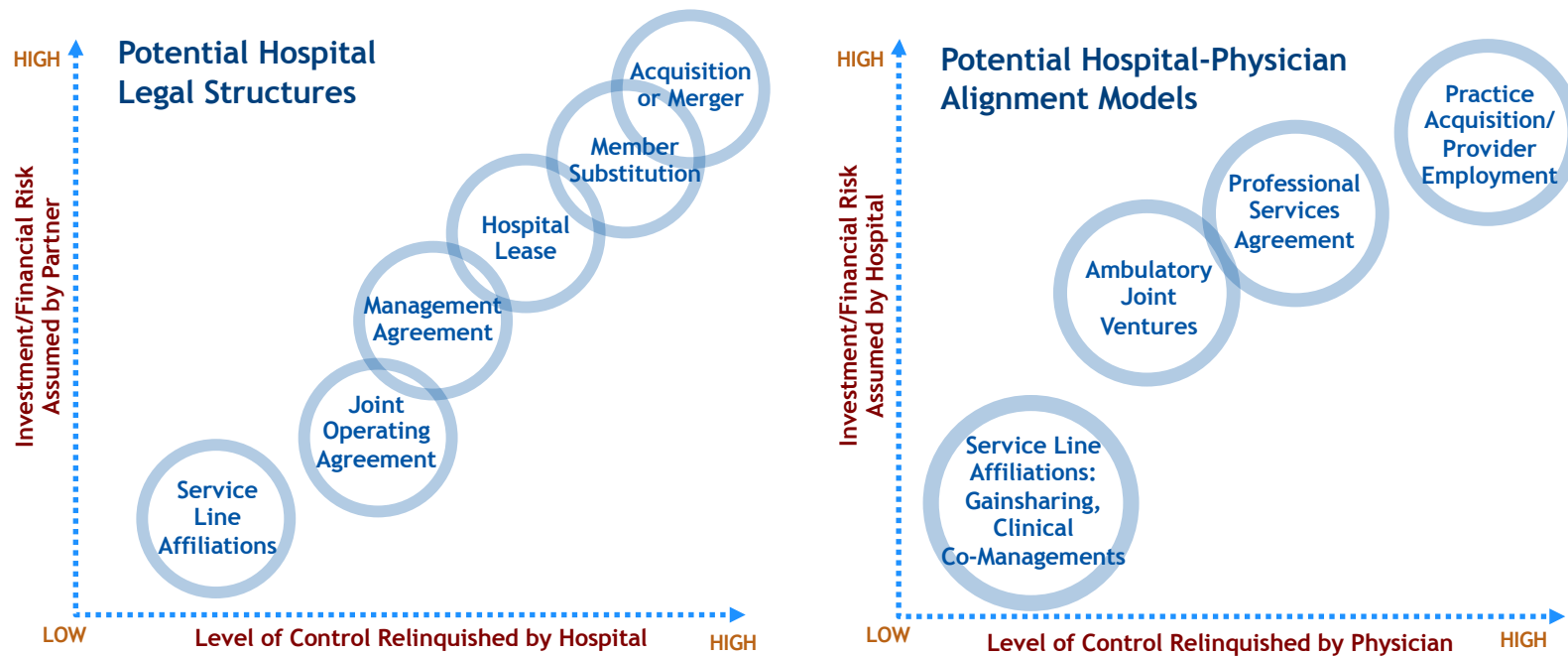




Doing Deals in Public Health Emergency: Transaction Structures and Challenges

Prevalent Affiliation Structures

The typical affiliation structures remain constant for health system and hospital-physician alignment. However, this event has resulted in changes to deal terms and the transaction process



Pandemic Impact on Deals



Higher prevalence of escrowed transaction proceeds to ensure performance sustainability



Retained equity/seller financing



Call options



Focus on reps and warranties



Additional operational, financial, and compliance due diligence

- Accounting for CARES Act funding
- Debt covenant considerations



Lengthened time to close

Takeaways



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Closing Comments



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Questions?



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Thank you! How to contact us...



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