

The Governance Institute presents

# Stakeholder Management during the Partnership Process

March 30, 2023 | 2:00–3:00 p.m. Eastern

*Presented by*

**Rex Burgdorfer**, Partner, Juniper Advisory

**Doug Cropper**, CEO, Genesis Health



**The Governance Institute**<sup>®</sup>

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HEALTH

# Today's Presenters



**Rex Burgdorfer**  
Partner  
*Juniper Advisory*

Rex has over two decades of investment banking and strategic financial advisory services experience. He has advised all forms of non-profit hospital systems on M&A transactions, including academic, community 501(c)3, faith-based, and local government entities. Rex was previously with Morgan Stanley and holds an M.B.A. from the Kellogg School of Management at Northwestern University. Rex sits on the faculty of The Governance Institute, the investment committee of Purple Arch Ventures, and has guest lectured at Kellogg on microeconomic auction theory and pricing strategies in change-of-control transactions.



**Doug Cropper**  
Chief Executive Officer  
*Genesis Health*

Doug Cropper directs all operational and strategic plans for Genesis Health and its entities. Cropper strives to advance the organization's mission "to provide compassionate, quality health services to all those in need," while ensuring quality, profitability, service excellence, and growth. Cropper grew up in Salt Lake City, Utah, where his father was a dentist and volunteered at the local children's hospital. It made enough of an impression on him that he decided to pursue his own career in healthcare. His first job was an operating room orderly. Now, with more than 40 years of healthcare experience, he has fulfilled a life-long career goal to lead a health system. With a focus on safety and quality, Cropper has guided Genesis to national recognition for its patient care quality and safety.

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**WEBINAR OVERVIEW** *learning objectives*

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**STRATEGIC FOUNDATION** *years-long board effort*

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**PROCESS ORGANIZATION** *organization*

4

**COMMUNICATIONS** *concurrent with controlled competitive process*

5

**DISCUSSION** *questions & answers*

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# 1. WEBINAR OVERVIEW *learning objectives*

# Stakeholder Management during the Partnership Process

## WEBINAR OVERVIEW

This Webinar will present a case study of Genesis Health System's decision-making process as they evaluated strategic partnership opportunities.

While maintaining fiduciary control of the timeline, events, and interactions with the market, the board sought input and observations from two advisory councils composed of clinicians and employees. Those councils participated in all site visits in the Quad Cities and reverse due diligence trips to visit the finalist partners.

This program will review the board's strong leadership and governance actions to navigate the transaction while aligning hundreds of clinicians and stakeholders.

## LEARNING OBJECTIVES

After participating in this Webinar, attendees will be able to:

- ❖ Describe the roles of the board and senior leadership in a well-organized partnership process.
- ❖ Define the benefits of proactive communications and the merits of including valued stakeholders in the decision-making.
- ❖ Navigate the balance between fiduciary control and constituent inclusion.





## 2. STRATEGIC FOUNDATION *years-long board effort*



# Genesis Health System *Davenport, IA*

## Overview

- Five hospital, \$750m revenue system in IL & IA
- Medically aspirational: quality and safety paramount
- Growth oriented: ↑ acuity of services, ↑ specialties provided, ↑ # of physicians and FTEs, ↓ outmigration

## Background

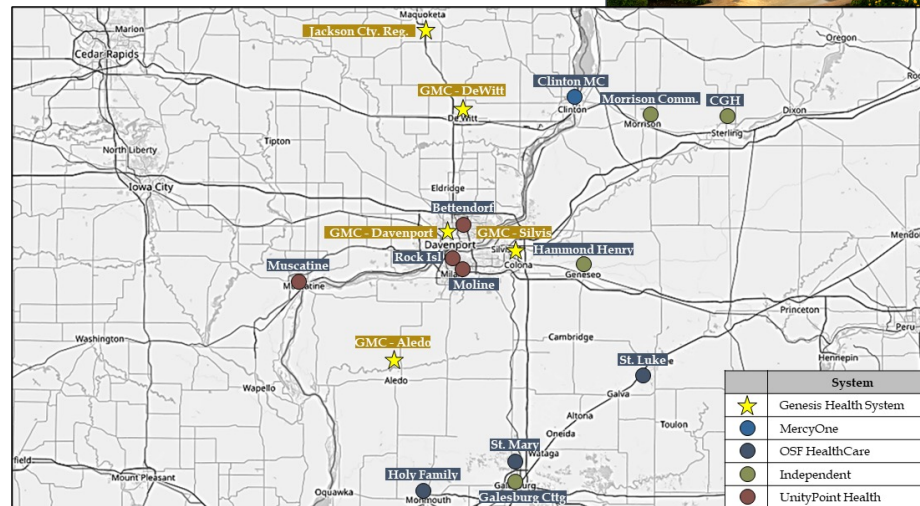
- 12-year effort to assess various strategic options
- Concluded to seek a larger partner in 2021
- Designed and implemented first rigorous controlled competitive process in IA

## Process

- 40 approached: 30 NDAs, 12 offers, 5 finalists
- 5 finalists: site visits, reverse due diligence
- 7-month decision making effort

## Communications

- Public announcement upon approaching partners
- Elicited input of four advisory councils – physician, nurse, employee, leadership
- 150 applicants for 40 advisory council positions



# Genesis Health System *High-Level Objectives*

## KEY STRENGTHS

1. Significant market share footprint
2. Large, employed provider base
3. National recognition for excellence in quality, patient safety, and employee safety
4. State Baldrige award winner and working to earn the national Baldrige award
5. Significant strategic success in ambulatory care investments
6. Success with structuring and operating JVs
7. Strong, stable, experienced executive team
8. Strong, experienced governance
9. Strong balance sheet
10. Operational agility

## OPPORTUNITIES FOR GROWTH

1. Grow market share through enhanced clinical capabilities in oncology, cardiovascular services, neurosciences and pediatric specialties
2. Improving further physician integration
3. Continue the development of graduate residency, nursing and allied health programs
4. Strengthen and expand regional presence
5. Accelerate population health strategies and move toward risk-based contracts
6. Pursue additional M&A activity
7. Deepen relationships with area employers
8. Develop additional ambulatory care centers
9. Additional scale in information technology
10. Access to virtual specialty services, especially in rural markets

## National Healthcare Market *Environmental Factors*

**#1 Federal Deficit Spending:** slowed revenue growth as deficit-funded federal spending faces pressures

**#2 Healthcare Inflation:** impact of current labor and debt markets on hospital inflation can be expected to accelerate already exceptional spending growth

**#3 Fragmented Industry:** the lack of any “large” hospital systems, as measured by national market share, has left thousands of small hospital systems misaligned against powerful insurance companies and private-equity backed new entrants

**#4 Fixed Costs Make Hospitals Vulnerable:** the need to support the exceptionally high-cost inpatient chassis challenges innovation

**#5 Scale Drives Benefits:** while critics of hospital consolidation focus on hospital “prices” without consideration for how increased margins are reinvested in these not-for-profit businesses, a range of studies show measurable benefits in cost, quality and access

**#6 Industry Response:** not-for-profit governance partially responsible for slow pace of change, but the industry is moving towards larger, more rationale, systems of care

**#7 Integration:** movement toward developing systems with local, regional, and national footprints to harness both horizontal and vertical synergies

## Partnership Process Communication [Video Link](#)

**CEO Doug Cropper Answers Questions Regarding Partnership Exploration**

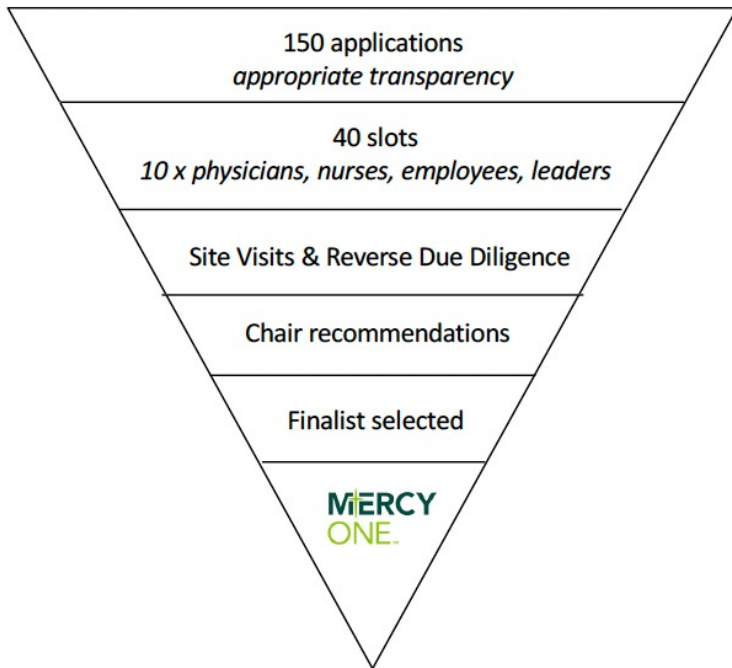


**GHS Explores Potential Partnership Opportunities**

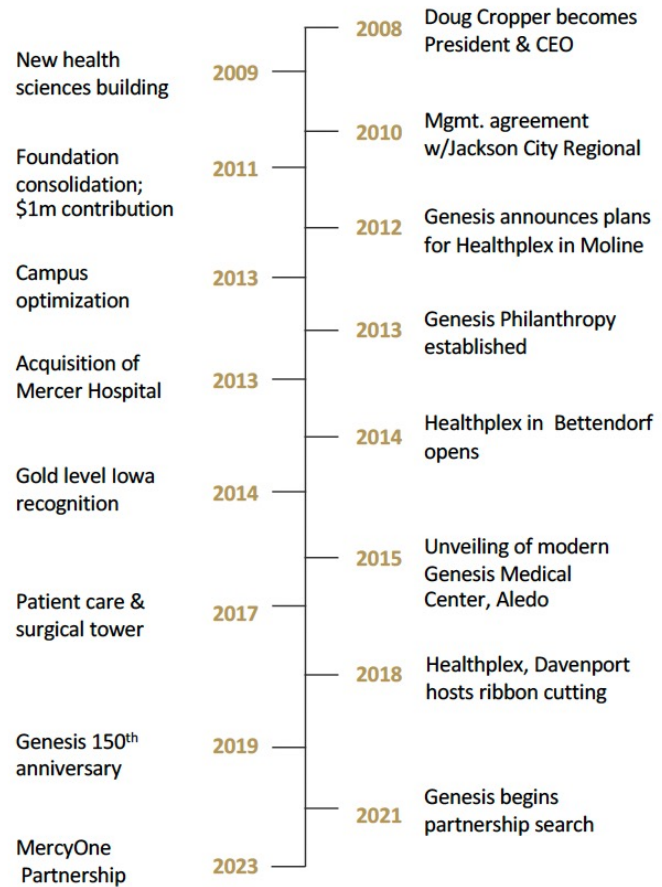
Wednesday, December 1, 2022

# Genesis Growth & Development

## FORMATION OF ADVISORY COUNCILS



## TIMELINE



### **3. PROCESS ORGANIZATION** *organization*



# Controlled Competitive Process

## 1. Pre-Marketing

- ❖ Focus on governing board understanding the need for a partner
- ❖ Management-led discussion of changing industry
- ❖ Environmental scan of competitor consolidation
- ❖ Consideration of clinical benefits of scale

## 2. Communication roll-out

- ❖ Appropriate internal and external stakeholder transparency
- ❖ Set expectations of decision-making timeline
- ❖ Involve institutional leaders in consideration of alternatives, while not ceding control
- ❖ Appropriate communication to all employees during the selection process

## 3. Competitive process

- ❖ Include four councils in site visits and reverse due diligence visits
- ❖ Medical leadership observation of finalist presentations
- ❖ Meetings with finalists regarding commitment to system and market

## Purpose Behind Structured Process *Defending the Decision*

### EXTERNAL CRITICS WILL ASK

#### *Community, employees, unions, competitors, politicians*

- ❖ Reasons for evaluating change-of-ownership option
- ❖ Why a particular partner and structure were selected
- ❖ Market clearing process achieved fair market value
  - TransUnion duty of care
  - Revlon standard in non-profit M&A
- ❖ Assurance that actions were at arms-length
- ❖ Board considered a range of alternatives to form a basis for comparison
- ❖ All regional partners were afforded fair and ample opportunity

### DEFENSE AND APPROVALS

#### *Successfully navigating oversight*

- ❖ Careful development of business rationale leading to consideration of a change-of-ownership transaction
- ❖ Documentation of needs and objectives
- ❖ The extent to which the Board and their advisors conducted a competitive process
- ❖ The comprehensiveness and rigor of the market-clearing process: number and nature of potential partners approached and ownership forms considered
- ❖ The fairness and openness of the process as viewed by regulators and other stakeholders (e.g., competitors, lenders, payers)
- ❖ The extent to which a detailed comparative analysis of the proposals was reviewed by the board
- ❖ Forums held to elicit views of community leaders, hospital, and staff

# Coordinating Roles

## BOARD COMMITTEE

### *Purpose*

Evaluate, on behalf of the board, business proposals proactively and outside the normal board agenda

### *Role and use*

Streamline governance workflow into a more flexible construct (i.e., “role up sleeves to do heavy lifting”)

### *Membership*

Subcommittee of existing board members that might include officers, those with adequate time, and a senior physician

### *Goal*

Efforts of the committee should facilitate the board’s ability to make informed judgments of strategic actions in competitive timeframe

### *Committee Functions*

- Detailed analysis of proposals
- Reverse due diligence travel
- Detailed analysis of refined proposals
- Preserve and protect management
- Interface with community leaders

## COMMUNICATIONS

- ❖ Detailed internal and external communications plan
- ❖ Proactive, transparent, increasingly common
- ❖ Plan depends upon internal factors and relationship with community and press

## COUNSEL

- ❖ Review information materials
- ❖ Review Stark Law compliance
- ❖ Review phase 1 data room

## 4. COMMUNICATIONS *concurrent with controlled competitive process*

# Timeline *Transaction*

## GHS Internal Timeline – Partnership Exploration

	Activity	Date	Responsible for preparing materials	Responsible for scheduling, food, etc.	Who attends	Where
1.	Select members of internal employee/leader advisory committee	1/14	Cropper	Cropper/Schlorf	N/A	N/A
2.	Select members of internal clinical advisory committee	1/14	Andersen	Andersen/Mitchell	N/A	N/A
3.	Communicate to those chosen/not chosen for advisory committees	1/14	Cropper/Andersen	N/A	N/A	N/A
4.	Initial meeting with advisory committees	Week of 1/17	Cropper/Andersen	Schlorf/Mitchell	Advisory committee members	TBD
5.	Initial proposals received – Juniper to place raw material in data room for M to review. Juniper will develop comparison of partners and proposals.	2/18	Juniper	N/A	N/A	N/A
6.	Meeting to review proposals – prep for 3/2 board executive committee meeting	2/28	Juniper	Cropper/Schlorf	J, L, M	WEST Admin Conf Room – Zoom
7.	Board Executive Committee Meeting – recommend finalists	3/2 Half day	Juniper	Gillaspie	E, J, L, M	WEST Admin Conf Room

B = Board  
 C = Advisory committees  
 E = Executive committee  
 J = Juniper  
 L = Lawyers  
 M = Management

## Timeline *Transaction*

	Activity	Date	Responsible for preparing materials	Responsible for scheduling, food, etc.	Who attends	Where
8.	Board Meeting – select finalists based upon board Executive Committee recommendation	3/3 In executive session – 2 hours	Juniper	Gillaspie	B, J, L, M	EAST Adler Aud Phone
9.	Inform finalists	¾	Juniper	N/A	N/A	N/A
10.	2 <sup>nd</sup> meeting with advisory committees	Week of 3/7 or 3/14	Cropper/Andersen	Schlorf/Mitchell	Advisor committee members	TBD
11.	Finalist instruction letter 2 – information about next steps, agenda, bios, scorecard, etc. – Partners and Juniper responsible for making their own transportation for QC site visits	3/21	Juniper, GHS	N/A	N/A	N/A
12.	Meeting to review schedule/content for site visits during the week of 3/28	3/21	Juniper, GHS	Cropper/Schlorf Use weekly 3/21	J, L, M	Zoom
13.	Finalize schedule, content for finalist's site visits to the QC	Week of 3/21	GHS	Cropper/Schlorf	J, L, M, Partner	EAST Boardroom

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# Timeline *Transaction*

	Activity	Date	Responsible for preparing materials	Responsible for scheduling, food, etc.	Who attends	Where
14a	QC Site Visits with Finalists M, T, W, TH, F 10am-12pm <b>GHC Presentation to Partner</b>	Week of 3/28	GHS	Cropper/Schlorf	J, L, M, Partner	EAST Boardroom
	QC Site Visits with Finalists M, T, W, Th, F 12-12:30 <b>Lunch</b>	Week of 3/28	N/A	Cropper/Schlorf	J, L, M, Partner	EAST Boardroom
14b	QC Site Visits with Finalists M, T, W, Th, F 12:30-2:00pm <b>tour</b>	Week of 3/28	N/A	Cropper/Schlorf	J, L, M, Partner Possible 3 groups: 1 led by CEO with CEO 1 led by CMO with CMO 1 led by CNO with CNO Possible 1 led by Facilities with Facilities	EAST Campus Tour
	QC Site Visits with Finalists M, T, W, TH, F 2:00-2:30pm <b>Break</b>	Week of 3/28	N/A	Cropper/Schlorf	M, Partner	EAST Adler

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## Timeline *Transaction*

	Activity	Date	Responsible for preparing materials	Responsible for scheduling, food, etc.	Who attends	Where
14c	QC Site Visits with Finalists M, T, W, TH, F 2:30-4:00pm <b>Partner presentations to advisory committees</b>	Week of 3/28	Juniper, Partner	Cropper/Schlorf	C, J, L, M, Partner	EAST Adler Aud
14d	QC Site Visits with Finalists M, T, W, TH, F 4:00-5:30pm <b>Partner presentations to EOC</b>	Week of 3/28	Juniper, Partner	Cropper/Schlorf	J, L, EOC, Partner	EAST Adler Aud
14e	QC Site Visits with Finalists M, T, W, TH, F 5:30-7:00pm <b>Partner presentations to Board + Dinner</b>	Week of 3/28	Juniper, Partner	Cropper/Gillaspie	B, J, L, M, Partner	EAST Adler Aud
15.	Meeting to review schedule/content for reverse due diligence visits and prep for 4/6 board Executive Committee meeting	4/5	Juniper	Cropper/Schlorf Use weekly meeting – 2 hours	J, L, M	WEST Admin Conf Room; Zoom
16.	Board Executive Committee Meeting	4/6 Half Day	Juniper	Gillaspie	E, J, L, M	WEST Admin Conf Room
17.	Board Meeting – update board on process	4/7	Juniper	Gillaspie	B, J, L, M	EAST Adler Aud
18.	GHS and Juniper responsible for making their own transportation for reverse due diligence meetings	Before 4/11	N/A	N/A	N/A	N/A

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## Timeline *Transaction*

	Activity	Date	Responsible for preparing materials	Responsible for scheduling, food, etc.	Who attends	Where
19.	Reverse due diligence with finalists; participation needs to be consistent, same groups for all activity; possible dinner at last location with C, E, J, M	4/11-4/22	Juniper	??	C, E, J, M	??
20.	Finalists' proposals: develop comparisons of proposals and partners. Juniper to place raw material in data room for M to review.	After 4/22	Juniper	N/A	N/A	N/A
21.	3 <sup>rd</sup> meeting with advisory committees	Week of 4/25	Cropper/Andersen	Schlorf/Mitchell	C, M	TBD
22.	Meeting to review finalists' proposals – prep for 5/4 board Executive Committee meeting	5/3	Juniper	Cropper/Schlorf	J, L, M	WEST Admin Conf Room; Zoom
23.	Board Executive Committee Meeting – final partner recommendation	5/4 Half day	Juniper	Gillaspie	E, J, L, M	WEST Admin Conf Room
24.	Board Meeting – final partner selection	5/5 in Executive Session 2 hours	Juniper	Gillaspie	B, J, L, M	EAST Adler Aud

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## 6. Discussion *questions & answers*

## Contact Us...



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