Some of the brightest minds in publicly funded healthcare. Working for you.
AGENDA

- Trends in Consolidation
- Rising Cost of Doing Business
- Discussion of market and growth strategies
- Partnership strategies and discussions
- Pre-Merger
- During Merger
- Post-Merger
- Lessons Learned from Real Life Examples
- Further Questions and Answers/Discussion
GROWTH IN FOR PROFIT BH MERGERS AND ACQUISITIONS

Source: Behavioral Healthcare Services Q32016. Capstone Partners.
*Data projected from mergers as of 7/31/16.
Announced Hospital Mergers and Acquisitions

CHANGE IN OWNERSHIP OF BH PROVIDERS

2003

Private Non-Profit: 61%
Private For-Profit: 25%
Local Govt: 7%
State Govt: 5%
Federal Govt: 2%
Other: 3%

2013

Private Non-Profit: 55%
Private For-Profit: 32%
Local Govt: 3%
State Govt: 5%
Federal Govt: 3%
Other: 2%


HEALTH MANAGEMENT ASSOCIATES
MCO CONSOLIDATION

HEALTH MANAGEMENT ASSOCIATES
Increase in merger activity

Mergers across the aisle: with medical providers

Privatization

Leadership deficit
WHY GROW?

- Coordinated care for your clients
- Efficiencies and revenue maximization
- Take on risk
- Expand services and populations served
- Human resources
- Competitive position
WHAT SERVICES NEED TO BE IN THE SPECIALTY BH PORTFOLIO?

- 24x7 Crisis Services
- Patient-Centered Planning and CM
- Medical Screening and Monitoring
- Screening, Assessment and Diagnosis
- Psych Rehab: Supported Employment
- Psych Rehab: Supported Ed
- Peer and Family Support
- MH Tx
- SUD Tx
THE RISING COST OF DOING BUSINESS: INFRASTRUCTURE

- Accounting
- Accounts receivable
- Benefits administration
- Compliance
- Consumer affairs
- Contracting
- Credentialing
- Data analytics
- Development
- Executive leadership
- Facility management
- Grant management
- Grant writing
- Informatics
- Information technology
- Insurance administration
- Internal audit
- Legal
- Marketing
- Medical records
- Payroll
- Prospective financial modeling
- Public relations
- Purchasing
- Quality Improvement
- Recruitment
- Research
- Risk management
- Strategic planning
- Training
Provider Financial Risk

Performance-Based
Incentive Payments
Pay for Performance (P4P)

Episodic
Bundled Payments
Shared Savings

Accountable Care
Full Capitation
Partial Capitation
Shared Risk

Provider Integration and Accountability

Cost-based Contract
Fee For Service
NECESSARY ANALYSES

+ Organizational Priority and Culture Analysis
+ Market Analysis and Value Proposition Development
  - Community Needs Assessment
  - Provider sector
  - Competitor analysis
  - Value Propositions
+ Financial Analysis and Projections
  - Unit Cost
  - Total Cost of Care
  - Evaluation of Growth Opportunities
+ Workforce Development and Training
+ Infrastructure Gap Analysis
+ Compliance and Risk Assessments
STRATEGIC PARTNERSHIP OPTIONS

- Strategic Partnership
- Alliance/Affiliation
- Joint Venture
- Merger

Level of Collaboration
- Low
- High

Level of Autonomy
- Low
- High

Level of Disruption to Existing Operations
- Low
- High

- Co-sponsored program(s)
- Back office collaboration/Joint purchase of MSO services
- Federation/Consortium
- Management Services Agreement
- Independent Practice Association
- Accountable Care Organization
- Parent/Subsidiary
- Merger
OPTIONS FOR BH PROVIDERS

Get big

Vertical integration and expansion is necessary either directly through growth or acquisition or partnership
CONSOLIDATION

Merging into a larger entity will enable behavioral health providers to access the size, scope, services and administrative infrastructure of the larger entity.
# PROS AND CONS OF JOINING A LARGER BH AGENCY

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
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<tbody>
<tr>
<td>Consistency of mission</td>
<td>Mergers are costly, time consuming, emotionally challenging and difficult</td>
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<tr>
<td>Enhancement of the service continuum for your clients</td>
<td>Loss of control</td>
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<tr>
<td>Access to a much larger and mature infrastructure</td>
<td>Loss of organizational identity</td>
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<tr>
<td>Straightforward decision-making and governance process</td>
<td>May generate acrimony among your staff because of a feeling of having been ‘acquired’</td>
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<td>Programmatic economies of scale</td>
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OPTIONS FOR PROVIDERS

+- Become unavoidable
  + BH providers can establish partnerships that corner the market and increase leverage for negotiations
## PROS AND CONS OF MERGER WITH A SIMILAR AGENCY

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<td>Consistency of mission and culture</td>
<td>Mergers are costly, time consuming, emotionally challenging and difficult</td>
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<td>Programmatic economies of scale</td>
<td>No significant enhancement to the existing continuum of care for your clients</td>
</tr>
<tr>
<td>Less likely to generate acrimony among the staff because no agency has been ‘acquired’</td>
<td>Because your agencies are so small, one merger may be insufficient to generate critical mass</td>
</tr>
<tr>
<td>Straightforward decision-making and governance process</td>
<td></td>
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<tr>
<td>Doubles the resources available for infrastructure</td>
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**OPTIONS FOR PROVIDERS**

- Become the BH piece of a medical organization
- The medical system is coming to understand the importance and complexity of the people you serve, so it may make sense to join them
## Pros and Cons of Becoming the BH Component of a Healthcare Provider

<table>
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<td>Substantial enhancement of the service continuum for your clients</td>
<td>Mergers are costly, time consuming, emotionally challenging and difficult</td>
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<td>Access to a much larger and mature infrastructure</td>
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<td>Creates negotiating leverage</td>
<td>Inconsistency of mission</td>
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<tr>
<td>Potential access to attribution in a VBP environment</td>
<td>No significant programmatic economies of scale</td>
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MAIN EVENTS/TOPICS

Pre-Merger
- Internal Analysis
- Partner Selection

Merger
- Governance
- Legal (Due Diligence)
- When to walk away

Post-Merger
- Cultural Alignment
- Leadership
- Workforce
WHEN CONSIDERING IF MERGER IS A GOOD OPTION

- Long-term strategic goals
- Culture to inform partner selection
- Information gathering
MERGER PLANNING CHECKLIST: PRE-MERGER: WHEN CONSIDERING IF A MERGER IS A GOOD OPTION

- Horizontal v. vertical integration
- Potential partner programmatic compatibility
- Potential partner interest
When considering if merger is a good option

- Carefully evaluate prospective organizations
- Be thoughtful about why
PHASE I OF THE MERGER: “GETTING SERIOUS”

Get an NDA into place

Look under the hood...and show them what’s under yours

Site visits

Communication plan
PHASE I OF THE MERGER: “GETTING SERIOUS”

Establish a merger committee

Careful documentation of decisions reached and communication
PHASE II OF THE MERGER: “THIS IS SERIOUS”

- Merger Plan
- Pro forma budgets
- Oversight/regulator approval
- Due diligence
- Post-merger operations plan and calendar
- Merger agreement and Board resolutions
- Communication plan
- Swag
- Board approval (on the way and at the end)
POST-MERGER

- Execute operations plan
- Leadership development training
- Workforce assessment
- Implementation committee
- Feedback loop
- Ongoing communications plan
- Cultural integration
- New strategic planning process
**WORKFORCE**

*Expect Attrition:* Some may need to leave, usually self-select out. Intervene early to avoid problems.

Identify who is indispensable and who can be shifted to a new role. Make changes pre-emptively.

Watch for threats from emerging players able to pay more and in need of experienced work force.
MOVING FORWARD

- Pre-contemplation
- Strategic analysis of options
- Market assessment
- Partnership analysis
- Step-by-step merger checklist
- Template for synergy analysis
Q&A

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