Learning Objectives

1. The participants shall understand the various types of healthcare mergers and will be able to discuss the pros and cons of the various levels and types of organizational partnering.
2. The participant shall understand the phases of healthcare mergers and integration.
3. The participants shall understand the key components in the identification and assessment of potential partnering targets.
4. The participants shall understand the financial indicators and benchmarks in assessing potential partnerships and post merger integration.
5. The participant shall have a understanding of the steps in merger integration
   1. Components of the pre-close activities
   2. Developing the 100 day plan
   3. Developing the long term strategic
LEVELS AND TYPES OF MERGERS IN HEALTHCARE
Creating “Vision Statement” to validate the rationale to merge

**Performance Improvement**
- Increased margins, achieve critical mass to support program development

**Physician**
- Attract and consolidate Physician staff

**Patient/Healthcare Consumer**
- Provide for better patient experiences, clinical outcomes for the future

**Financial Stability and Market Growth**
- Increase Operating margins, improved access to capital
Organizations considering mergers often focus on the financial or market benefits of a transaction but fail to understand the details of each organization’s culture and how the two cultures are compatible or incompatible.

Key assessment components and indicators

- Mission Statement
  What is the foundation belief of each organization?
- Core Values
  What are the basic concepts and beliefs
- Communication Styles
  How do the organizations communicate?
- Decision Making Styles
  How are decisions made and who participates?
- Incentives and Accountability
  How are staff held accountable and rewarded?
PHASES OF THE MERGER AND INTEGRATION PROCESS
**PHASES OF THE MERGER AND INTEGRATION PROCESS**

**III. A&M Approach**

**Business Case**
- Market Analysis
- Organization Analysis
- Key Integration Opportunities
- Business Plan Projections

**Due Diligence**
- Financial Due Diligence
- Operational Due Diligence
- Compliance and Risk Management

**Pre - Integration**
- Regulatory Support
- Deal Structure
- Human Capital
- Governance and Leadership
- Clinical, Medical & Academic Integration
- Infrastructure & Shared Services
  - Information Technology
  - Purchasing / Supply Contracts
  - Real Estate / Facilities
  - Human Resources, Marketing, Public Relations, Strategic Planning, Finance & Accounting
  - Environmental Services, Nutrition, Radiology, Laboratory & Pharmacy
- Finance & Treasury
  - Cash, Revenue, Accounting, Reporting and Controls
- Communication & Implementation
  - Planning and legacy issues

**Integration**
- Short Term
  - Clinical Integration
  - Ancillary Services
  - Administration
- Long Term
The key factors to successfully building a business plan are thoroughly vetted assumptions on current state and projected growth based upon market trends and internal conditions within the organization.
INTEGRATION STRATEGY

Financial Due Diligence

- Review Audited and Internal Financial Statements to:
  - Assess historical period earnings quality using summary metrics and key indicators
  - Analyze non-recurring and out of period revenue and expenses and determine if EBITDA adjustments required.
  - Identify significant and/or unusual accounting policies
  - Identify changes in accounting methods, principals, and policies
  - Identify changes in business processes, policies and procedures
  - Identify transactions with related parties or represent “soft” income
  - Correlate earnings to historical period free cash flows; consider changes in working capital and capital expenditures
  - Determine quality of Revenue through analysis of contractual allowances, bad debt model, and actual cash collection methodologies
  - Understand impact of cost reports and other retroactive adjustments on historical financial statements
  - Review hospital financial risk areas including: Third Party Liabilities, Pension, Malpractice and other self insurances, and Accounts Receivable
  - Perform an analysis of intercompany activity to ensure proper eliminations
  - Understand cash management activities of target
  - Inquire as to unrecorded liabilities and balance sheet accruals
  - Assess risk related to exposure to known or pending compliance investigations conducted by the OIG, DOJ or other federal and state agencies
  - Assess contingent liabilities which are not reflected on the target’s balance sheet
  - Assist acquirer with determining what specific assets and liabilities to be included in working capital contemplated in transaction
- Review Budgeted income statement, management initiatives, and projected cash flows to:
  - Gain understanding of near term financial outlook by management
  - Understand near term market dynamics
  - Provide insight to acquirer in building the bridge between actual and projected financial results
  - Using benchmarks, assess likelihood of pent up capital expenditures
  - Provide road map for synergy development with pre-integration planning
Operational Due Diligence

- Validate current and projected volume
- Conduct high-level assessment of care delivery model and support operations – access, throughput, turnaround, quality, compliance, patient and physician satisfaction
- Conduct high-level assessment of the physical facilities, equipment and other capital expense items
- Assess strength, qualifications and identify gaps in key management and physician leadership
- Assess nursing model and identify strengths, weaknesses and gaps
- Assess medical staff/physician enterprise – strengths, weaknesses and gaps (clinical, teaching, research, financial performance, ability to recruit/retain, ability to effectively bill/collect)
- Review organizational structure, staffing models and levels and test labor productivity metrics
- Identify any barriers to cultural integration

Compliance and Risk Management Assessment

- Review and evaluate effectiveness of current health care regulatory compliance program, including adherence to OIG standards
- Review procedures for physician compensation and employment arrangements
- Evaluate Medicare and Medicaid billing compliance practices
- Analyze risk management and case management functions for medical liability and general liability claims and associated costs
The pre-integration planning focuses on defining a leadership structure and addressing the three key areas of integration planning, while simultaneously ensuring that system-wide hospital and clinic operations are uninterrupted.

**Regulatory Support**
- Development of Regulatory-Risk Sharing Provisions
- Identification of potential divestiture obligations
- Preparation of Notifications to DOJ and FTC
- Preparation of Hart-Scott-Rodino (HSR) Application
- Compilation of expanded information request by FTC (if necessary)
- Assist in preparation of information for State regulatory reviews (i.e. State AG, DOH)

**Deal Structure**
- Transaction planning and valuation of potential target entities
- Deal structuring and development of Letter of Intent (LOI)
- Identification of key elements of transaction including businesses, assets and liabilities to be included/excluded
- Assess target debt and capital structure compatibility with Acquirer
- Conduct negotiations between target and acquirer
- Develop and finalize definitive agreement between buyer and seller
- Provide financing alternatives
- Develop alternative deal structure scenarios
- Provide assistance in developing post merger governance structure
- Assist in closing process
Human Capital

- Coordinate with counsel for renegotiation/assumption of labor contracts and transfer of employees to new entity’s terms of employment, benefit and severance and plan for conversion and/or termination of employees
- Plan conversion of employees (not covered by collective bargaining agreement) onto new entity’s payroll and HR administration in accordance with JCAHO standards, State and Federal laws
- Determine wage and salary plan, health and welfare benefits, retirement benefits for employees not covered under collective bargaining agreements; prepare for conversion

Human Capital – Staffing

- Propose revised organization charts
- Consider staffing requirements and financial impact of program/service consolidation/elimination
- Assess staffing levels to benchmarks to ensure appropriate staffing levels to projected volumes/platform of services
- Model potential labor reduction actions resulting from consolidation, elimination of functions/departments
- Identify resource/talent gap analysis
- Identify positions for elimination and/or key hires required

Governance and Leadership

- Prepare documents, revisions to bylaws, etc for adoption by governing boards and committees, as required
- Plan for any changes in leadership, management and/or other key positions/roles and timing of implementation
The thoughtful planning of clinical and medical staff integration is crucial to the success of the merger.
Detailed information technology plans in the pre-close phase are crucial to ensure infrastructure to support communication, billing and medical records is functional on Day 1.

Information Technology

- For all clinical and non-clinical technology applications, platforms, servers, hardware, network, telecommunications and end-user equipment
  - Inventory organizational structure, technologies, assets, contracts, budgets and existing contracts and agreements pertaining to continued delivery of services
  - Prioritize and manage key readiness requirements and risks
  - Establish transition plan, including vendor, timelines and responsibilities, project management and governance structure, initial operating budget and capital budget estimates for required transition
  - Develop long-range recommendations for adoption of parent organization’s systems

Purchasing / Supply

- For all seller contracts for direct materials and supplies used for clinical care and indirect materials and supplies
  - Inventory contracts, agreements and budgets pertaining to continued delivery of services
  - Develop short-term and longer-term recommendations to integrate parent organization purchasing/procurement function for leverage and scale

Real Estate / Facilities

- For all asset management and maintenance of all real-estate assets, including hospital and ambulatory care buildings, office space and residences
  - Inventory ownership structure, assets, contracts, budgets and agreements pertaining to continued delivery of maintenance and management services
  - Develop short-term and longer-term recommendations to integrate into parent organization’s portfolio
Efficiencies are often identified through consolidation of overhead functions and adoption of standardized operating policies, procedures and metrics of the parent organization.

**Overhead Functions**

Human Resources, Marketing/Communications & Public Relations, Strategic Planning, Finance and Accounting, Revenue Cycle
- Develop immediate and long-term plans and timeline for potential consolidation of function in centralized and/or decentralized models
  - Develop functional service matrix for each department
  - Determine what functions will be centralized vs. decentralized
- Prepare facility level staffing plan and quantify cost reduction opportunity
- Inventory organizational structure, technologies, assets, contracts, budgets and existing contracts and agreements pertaining to continued delivery of services
- Review current performance against productivity metrics
- Assess quality and effectiveness of existing facility level management talent

**Ancillary and Support**

Environmental Services, Food & Nutrition Services, Radiology, Laboratory and Pharmacy
- Identify opportunities for centralization of services among other in-market facilities
- Determine outsourcing opportunities and identify potential outsourcing partners and quantify financial benefit opportunity
- Develop immediate and long-term plans and timeline for potential consolidation of function in centralized and/or decentralized models and consideration of outsourcing and in-sourcing
- Review effectiveness and quality of local management talent
- Inventory organizational structure, technologies, assets, contracts, budgets and existing contracts and agreements pertaining to continued delivery of services
- Review current performance against productivity metrics
The parent organization should ensure successful control of revenue cycle functions, as well as financial and cash management on Day 1.

**Cash**
- Build or monitor cash flow activity and unit-volume (particularly receipts)
- Create and regularly refresh pre- and post-closing 13- and 52-week cash flow projection to update cash requirements and adequacy of working capital

**Revenue**
- Plan with Revenue Cycle, Managed Care Contracting, Legal and IT procedures to generate patient service revenue invoices from the closing forward under the correct rates
- Determine impact, if any, on existing Managed Care contracts

**Accounting, Reporting and Controls**
- Develop reporting controls and processes that ensure consistent reporting with other parent facilities
- Implementation of productivity management reporting system
- Adopt Authorization Matrix and other authority leveling procedures
- Ensure adequacy and consistency of financial policies and procedures as to key areas including A/P
- Ensure adequacy of financial and operating reporting
- Coordination and oversight of purchasing and IT functions

**Post-closing Procedures**
- Establish procedures to track accounts receivable received by former entity
- Plan for AR proceeds for patients in-house as of the closing (“transition patients”)
- Establish procedures to track and then periodically settle post-closing adjustments to purchase consideration and remittances.
Communication to key stakeholders is a critical part of our process.

Communication and Implementation Planning
- Work with client communications and key leadership to draft initial communications plan for key stakeholders (internal, external, medical staff, public, press)
- Develop detailed implementation plan to address First 100 days Integration and longer term
- Define retention objectives, strategy and plans
- Identify key employees for retention
- Communicate with key employees; offer incentives as appropriate

Legacy Issues
- Assist local management, parent organization leadership and Board to address and plan for legacy issues
- Pension obligations
- Cost report liabilities
- Medical Malpractice
The success of the first 100 days of execution of the integration plan is heavily dependent on the planning process that precedes it.

**Human Capital**

- Integration of HR and Payroll policies, procedures and technology
- Consolidation and standardization of H/W benefits and retirement plans
- On-boarding of employees (those covered by collective bargaining agreement and those not covered) including payroll conversion and benefit plan enrollment
- Standardization of job descriptions, profiles, job titles and compensation structures Files and records created in HRIS including position control
- Prepare and execute separation agreements
- Meetings with employees to be terminated
- Implement new policies and procedures for time & attendance reporting
- Distribute benefit plans materials
- Preparation of first draft of consolidated and standardized Employee Handbook
- Review training and organizational development initiatives
- Evaluate organizational structure for redundancies, opportunities for further consolidation of positions/functions, and create plan for implementation
- Communications and change management support
- Development of standardized recruitment process and cross entity internal posting process
- Transition of banking information for all HR related functions

**Governance and**

- Conduct executive alignment assessment
- Establish/refine reporting structures, span of control, etc.
- Draft and execute new bylaws
- Execute changes in board structure, members, etc.
- Execute changes in other committees, members, etc.
The success of the first 100 days of execution of the integration plan is heavily dependent on the planning process that precedes it.

**Finance & Cash Flow**
- Obtain operational control of Cash, Purchasing and Payroll functions at Day 1
- Evaluate performance of current Finance and Business Office functions and/or begin integration and consolidation activities
- Review reimbursement issues
- Begin consolidation of general ledger/chart of accounts
- Begin consolidation of charge description master
- Implement new cash management policies and procedures
- Review charity policies and procedures
- Identify functional and system consolidation opportunities
- Begin centralizing accounting functions
- Filing for Medicare & Medicaid provider number
- Renegotiation or execution of third party payer contracts
- Single patient bill and regulatory compliance (72 hours)
- Implementation of charity care policies
- Coordinate and centralize Cash management functions

**Information Technology**
- Begin migration to parent organization IT infrastructure platform with systems and support adequate back-up, security and reporting capabilities
- Begin installation of applications required at each workstation
- Review current IT strategic plans
- Evaluate current projects
- Ensure security procedures
- Review IT staffing and conduct IT skills assessment
  - Conduct IT skills assessment
The success of the first 100 days of execution of the integration plan is heavily dependent on the planning process that precedes it.

**Clinical Integration**
- Draft implementation plans for expansion, consolidation and/or exit of service lines and/or execute
- Perform gap analysis to identify talent and resources required for entry to new or growing existing service lines

**Medical Staff**
- Retention strategies implemented for key physicians and physician leaders
- Begin implementation of any changes to structure of medical staff – roles & responsibilities, Med Exec committee structure and by-laws, salaried vs. non-salaried, etc.
- Begin consolidation medical staff office function – credentialing and other functions
- Identify incentive model disparities in compensation program
- Assess the size and effectiveness of residency program
  - Align with overall strategy
- Assess current IPA & PO/PHO initiatives and integration objectives
- Develop viable integration options, including status quo

**Teaching & Research**
- Development and execution of residency program transition plans
- Administrative transition; accrediting body notifications and approvals
- Development and execution of affiliation agreements required to support GME and UME activities
- Assessment and transition of current research awards
- Integration of research infrastructure
The success of the first 100 days of execution of the integration plan is heavily dependent on the planning process that precedes it.

**Shared Services**

- Begin consolidation of Finance, Business Office, Human Resources, Marketing/Communications and other administration departments that could be potentially provided on shared services basis.
- Begin outsourcing of any contractors to vendors to manage or supply support services (Environmental Services, Food & Nutrition Services, Facilities & Maintenance).
- Begin the consolidation of purchasing and materials management functions.
  - Implement new policies and procedures for purchasing, supply chain.
  - Renegotiate contracts with vendors for supplies, equipment and all materials.

**Legacy Issues**

- Divest Real Estate, Affiliated Entities, and Non-Core Assets.
- Capital Structure issue.
- Medical Malpractice.
- Cost report liabilities.
- Retirement plans.
In order to be successful, the merged organization needs to have a clearly articulated and understood long term strategy.

### Long Term Strategy

- Define, plan and resource long term integration/optimization projects
- Refine key integration milestones and overall roadmap
- Manage transition of resources and reporting to “business as usual” structure
- Optimize key policies, procedures, processes and systems
- Implement leading practices for key processes and information systems that were not amenable to change during the initial integration effort
- Eliminate remaining redundancies in processes and systems
- Develop platforms to scale for future growth
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