

# MERGERS & ACQUISITIONS

**Presented By:**  
Josh Rubin, MPP

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# PRESENTER



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# AGENDA

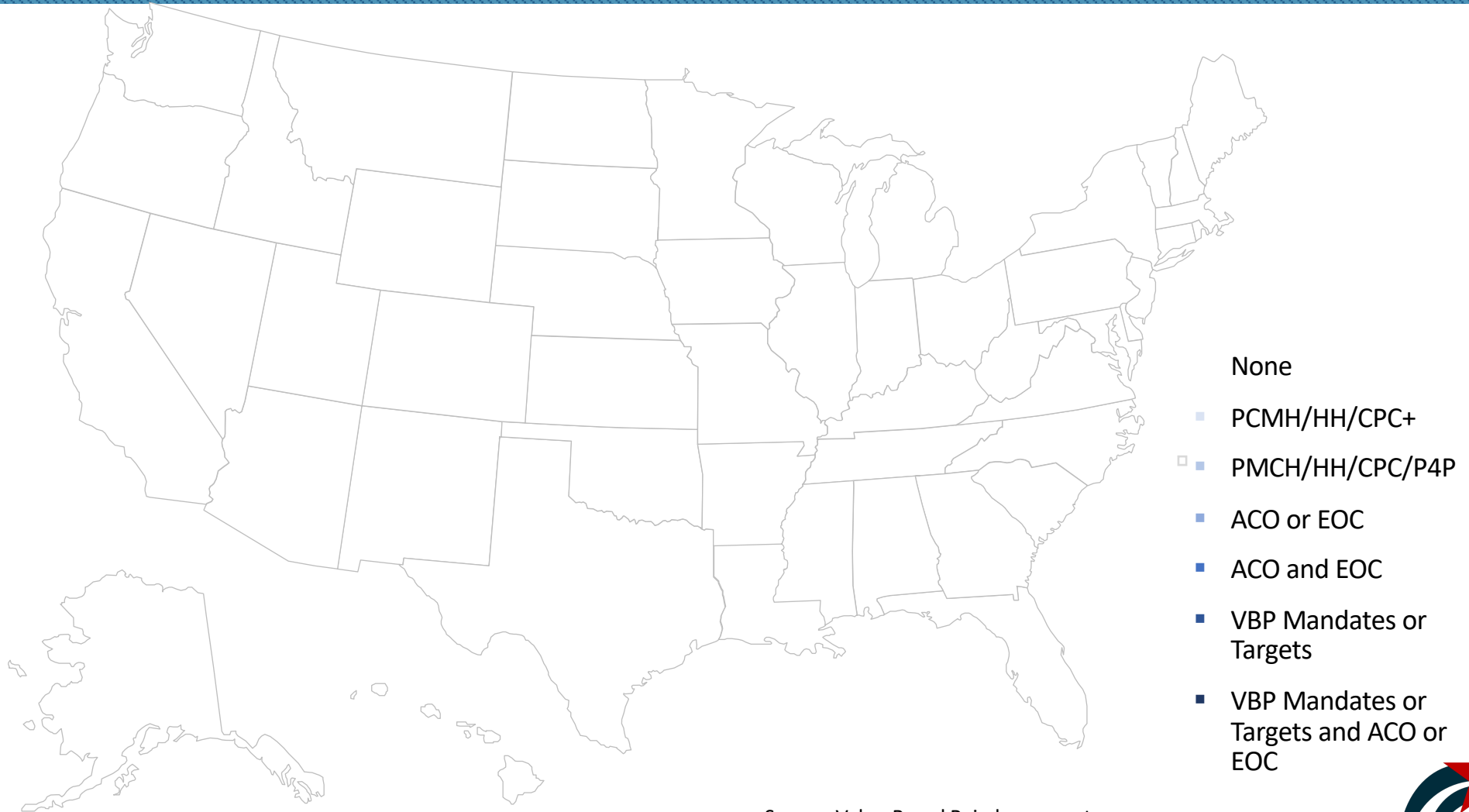
- I. Value-based payments
- II. The three necessary integrations
- III. A consolidating industry
- IV. The affiliation process: what to expect

## Learning Objectives

1. Understand the forces driving the growth in mergers and other strategic affiliations among BH providers
2. Understand how BH providers will be part of integrated delivery systems
3. Understand the strategic affiliation process

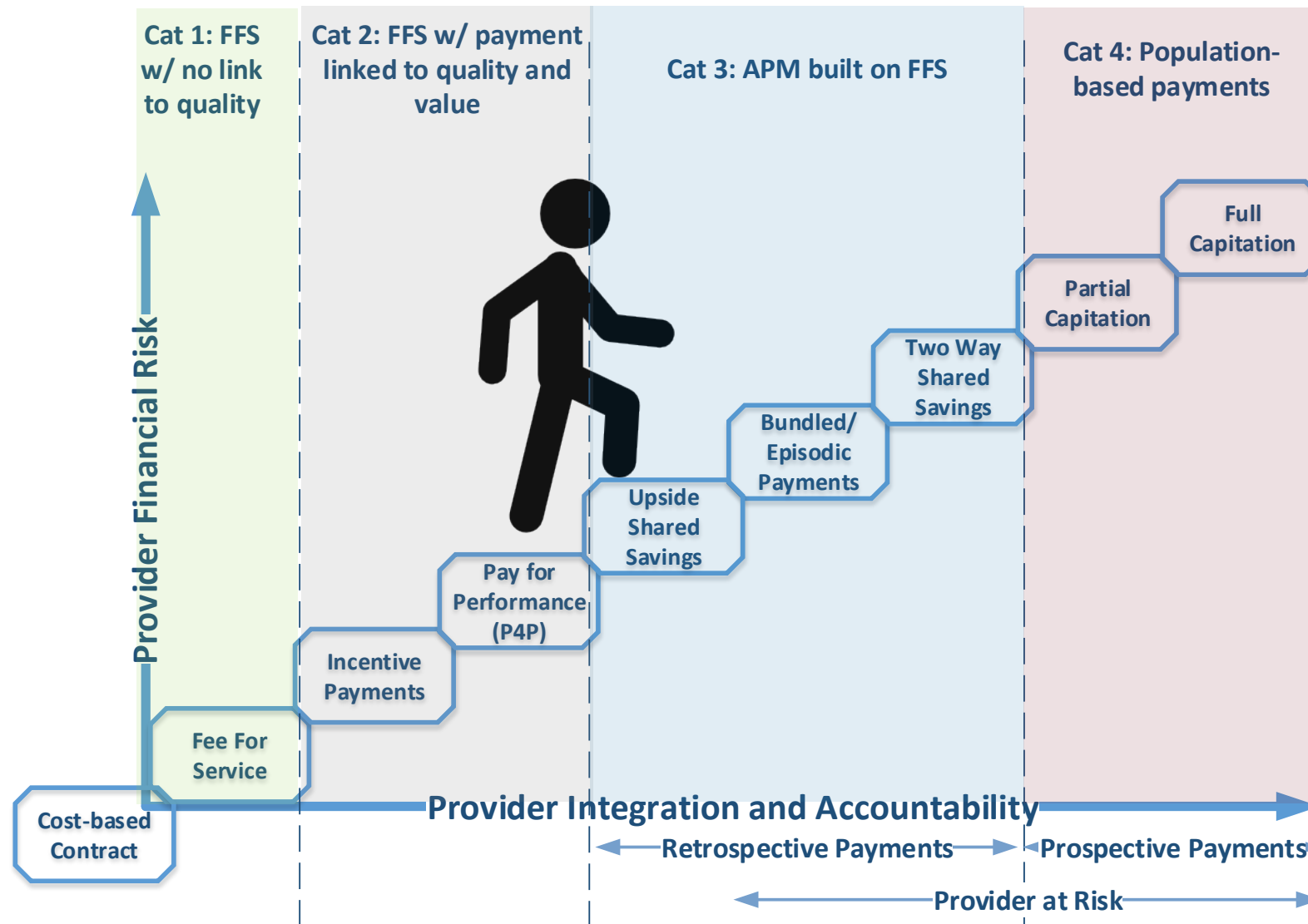
# VALUE-BASED PAYMENTS

# VBP SPREAD



Source: Value-Based Reimbursement  
State-By-State: A 50-State Matrix Review  
of Value-Based Payment Innovation.  
Change Healthcare, 2018.

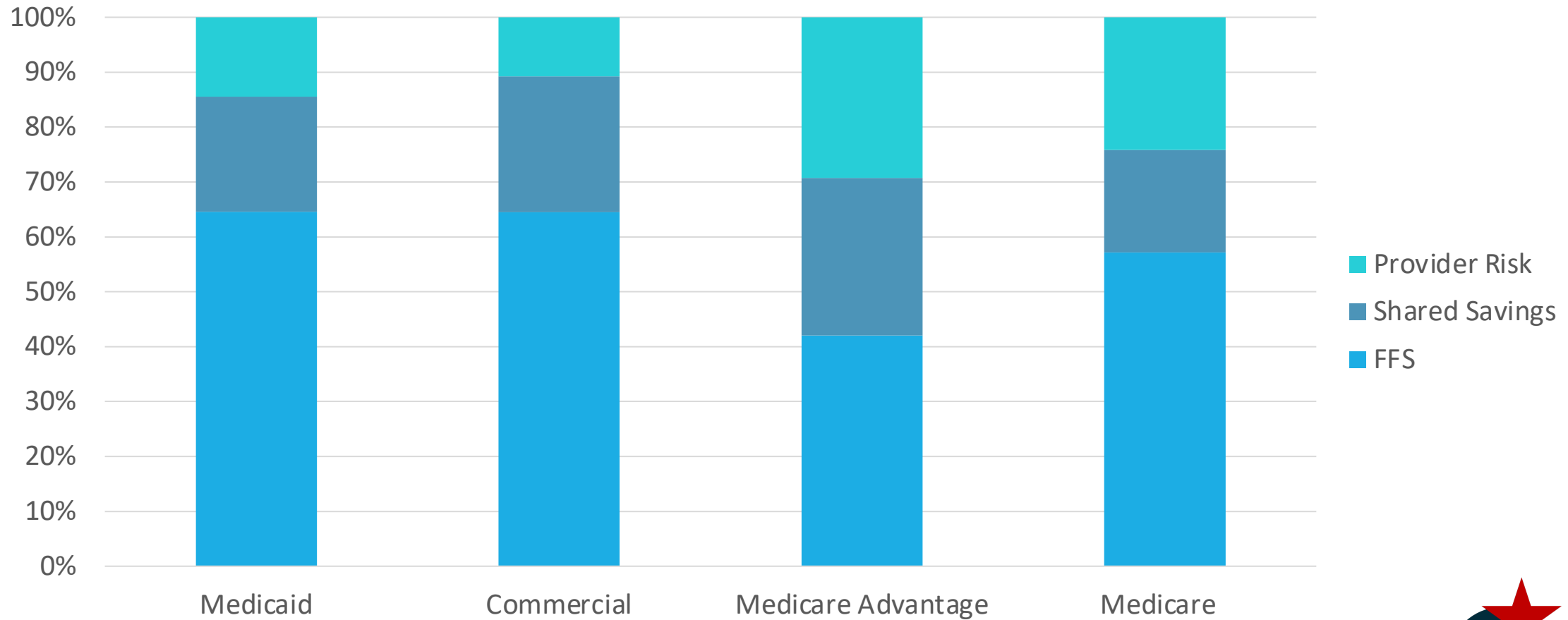
# ACCOUNTABILITY, INTEGRATION, AND RISK GO TOGETHER



Source: The MITRE Corporation. (2017). *Alternative payment model (APM) framework - HCPLAN*. Health Care Payment Learning & Action Network. Retrieved May 5, 2023, from <https://hcp-lan.org/workproducts/apm-whitepaper.pdf>

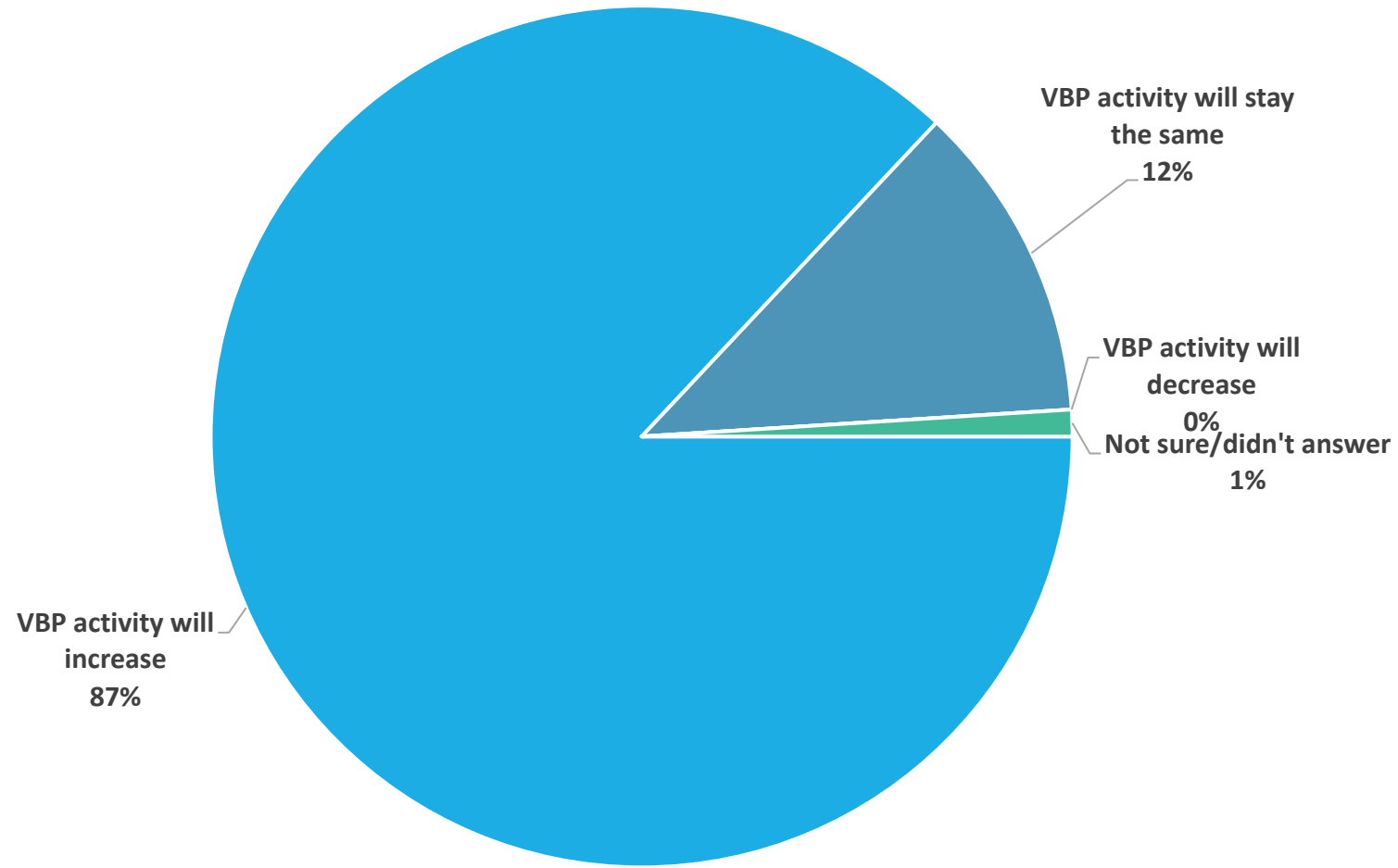
# VBP PENETRATION IS INCREASING, ESPECIALLY IN MEDICAID

Alternative Payment Methodologies, 2020



Source: <https://hcp-lan.org/apm-measurement-effort/2020-2021-apm/2021-infographic/>

# PAYORS' PERCEPTIONS OF VBP'S FUTURE



Source: <https://hcp-lan.org/apm-measurement-effort/2020-2021-apm/2021-infographic/>



# VBP ARE COMPLICATED

The  
Challenges  
are varied



## SERVICE DELIVERY TRANSFORMATION

Population health management



## DEFINING QUALITY

What are the metrics unique to us?



## INFRASTRUCTURE

Significantly more complex than  
historically necessary



## SIZE MATTERS

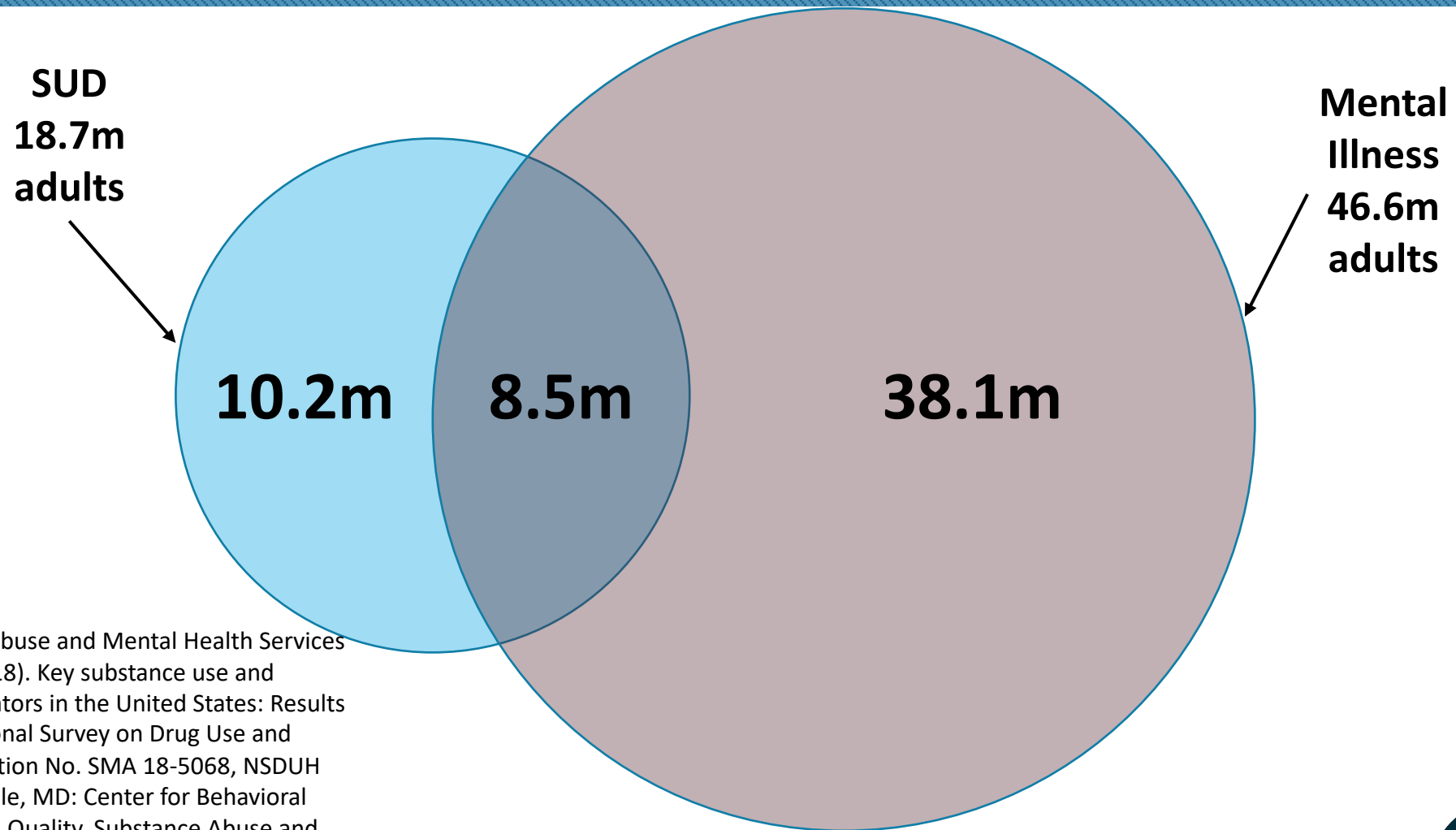
Leverage and cash reserves are  
critical to success

# VBP ADVANTAGES PROVIDERS WITH CERTAIN CHARACTERISTICS



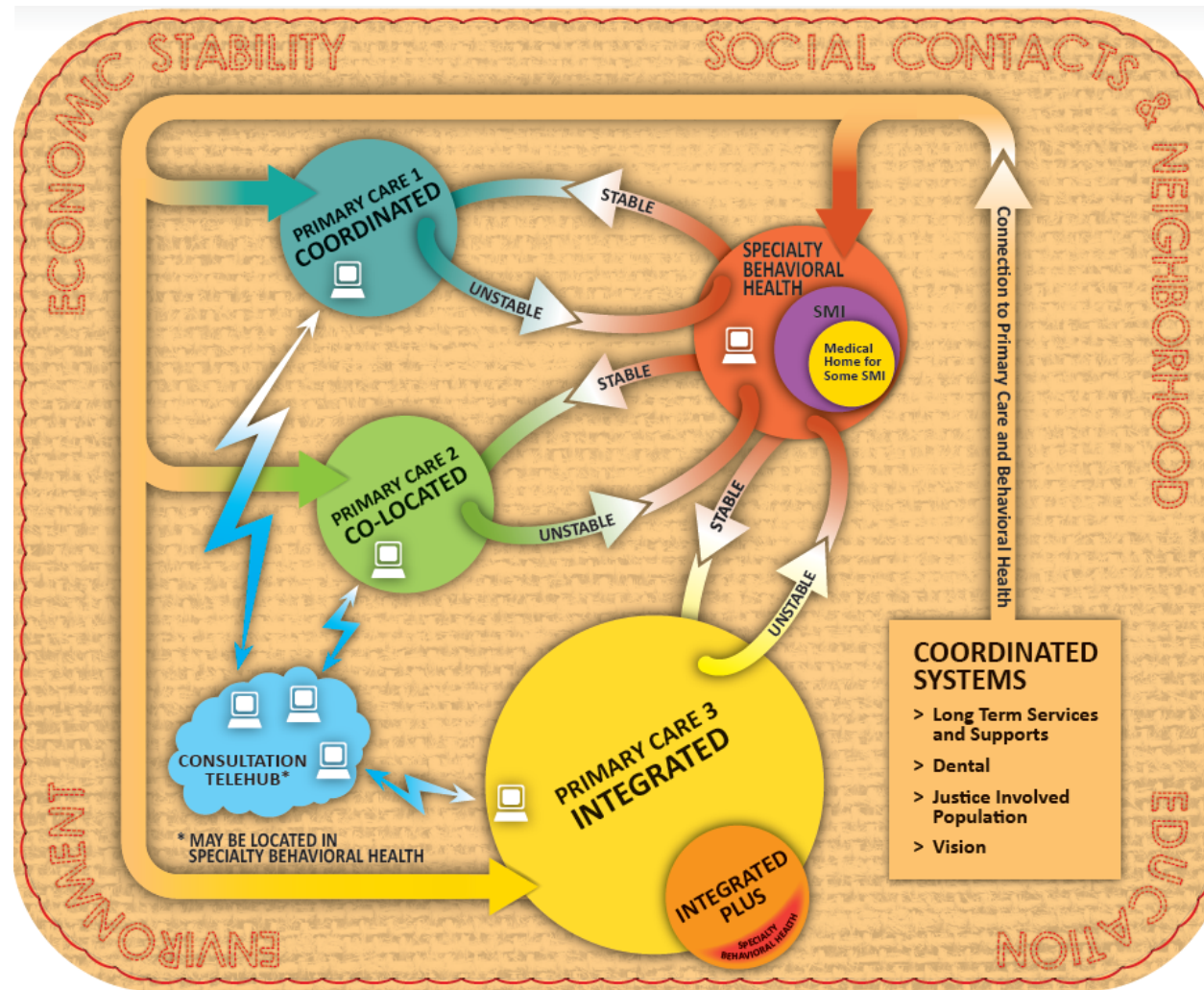
# THE THREE NECESSARY INTEGRATIONS

# INTEGRATING MH AND SUD TREATMENT



Source: Substance Abuse and Mental Health Services Administration. (2018). Key substance use and mental health indicators in the United States: Results from the 2017 National Survey on Drug Use and Health (HHS Publication No. SMA 18-5068, NSDUH Series H-53). Rockville, MD: Center for Behavioral Health Statistics and Quality, Substance Abuse and Mental Health Services Administration

# INTEGRATING MEDICAL AND BEHAVIORAL HEALTHCARE



Source: Raney, Lasky, and Scott (2017). *Integrated Care: A guide to effective implementation*.

# INTEGRATING MEDICAL AND SOCIAL SERVICES

## Social service integration:

18% reduction in emergency department visits among members  
80% enrollment of members into primary care medical homes

## Housing First:

\$9,000 per person per year to nearly \$30,000 per person per year

## Housing and social service integration:

55% decrease in total monthly Medicaid costs for every \$1 spent compared to year prior, \$2 savings the following year, and \$6 savings in subsequent years

## Nutritional Assistance:

Every \$25 increase in home-delivered meals per older adult would be associated with a 1% decline in nursing home admissions

## Asthma:

For every \$1 invested, \$1.33 was saved

Source: Taylor LA, Coyle CE, Ndumele E, Rogan E, Canavan M, Curry L, Bradley EH. (2015). Leveraging the social determinants of health: what works? Prepared for the Blue Cross Blue Shield of Massachusetts Foundation by the Yale Global Health Leadership Institute.

## A BOLD(ISH) PREDICTION

Someday all of your agencies will be a part of an accountable provider-led entity

- » Therefore, the question is not if, the question is how
- » These PLEs will need to have a comprehensive package of medical (primary, secondary, tertiary, quaternary), behavioral, LTSS, and social services
  - How these different services agglomerate will differ from PLE to PLE based on a range of factors



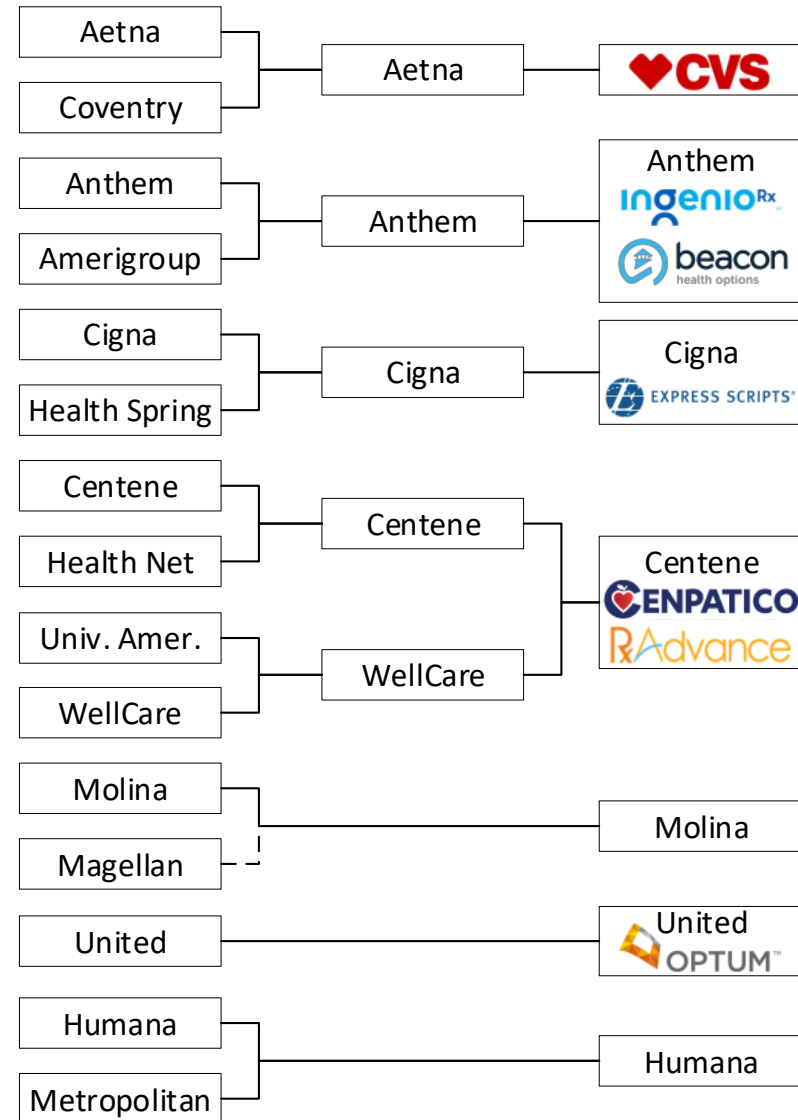
# AN IMPERFECT ANALOGY





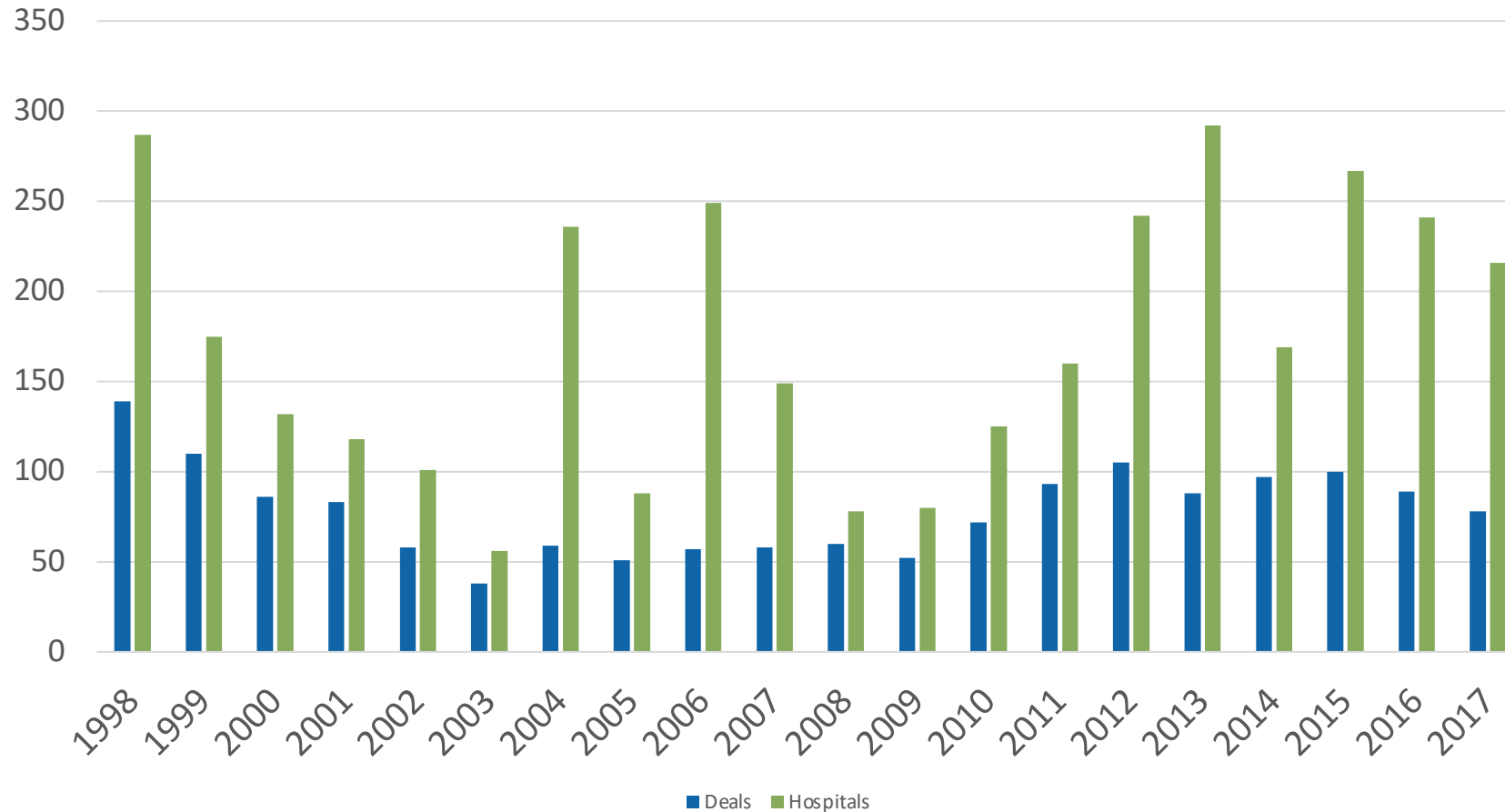
# A CONSOLIDATING INDUSTRY

# MCO CONSOLIDATION



# HOSPITALS ARE CONSOLIDATING

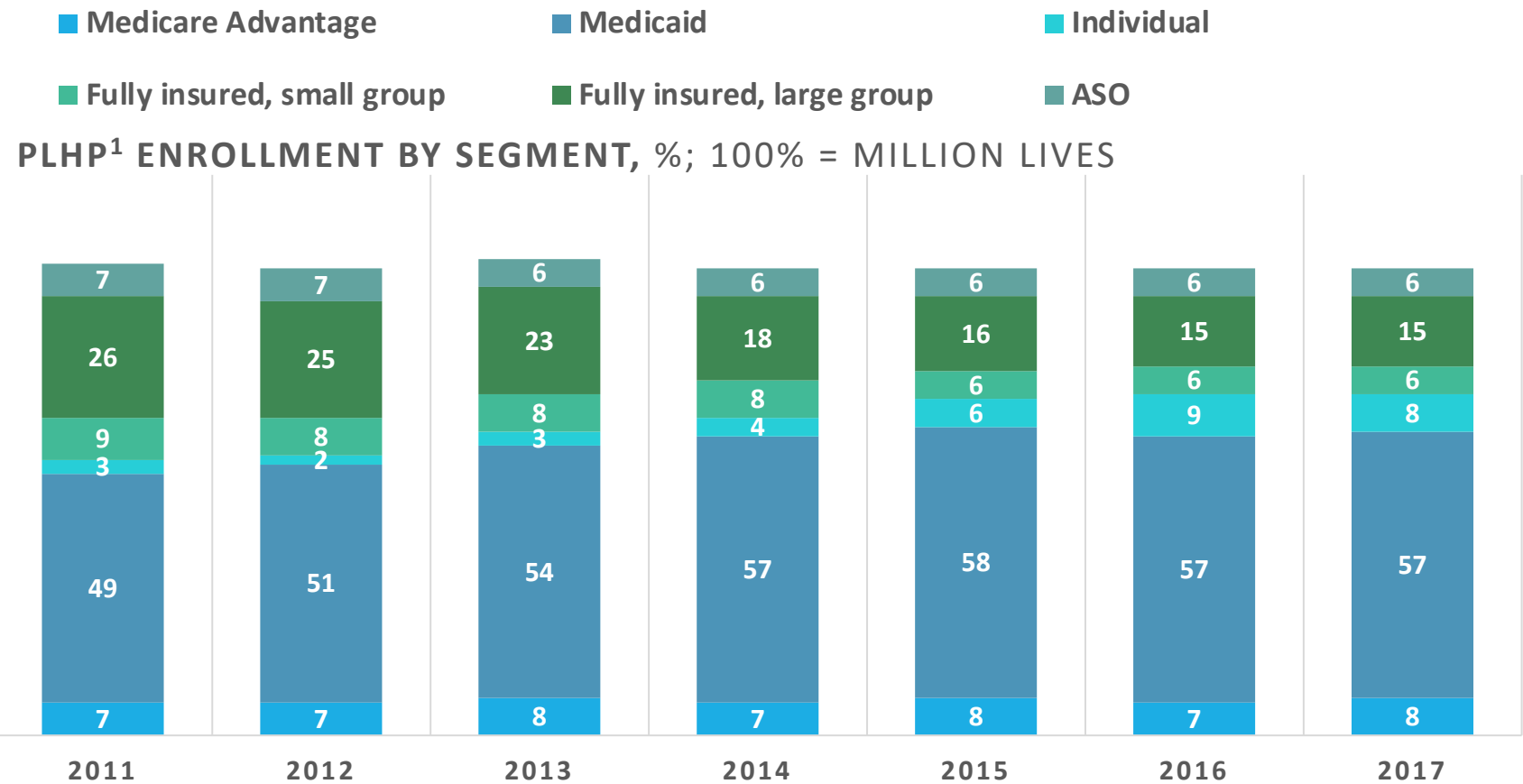
## Announced Hospital Mergers and Acquisitions



Source: TrendWatch 2018: Trends Affecting Hospitals and Health Systems, American Hospital Association, and TrendWatch 2016: Trends Affecting Hospitals and Health Systems, American Hospital Association.

# THE GROWTH OF PROVIDER-LED HEALTH PLANS

PLHP enrollment is growing faster than any other carrier types driven by segment mix.



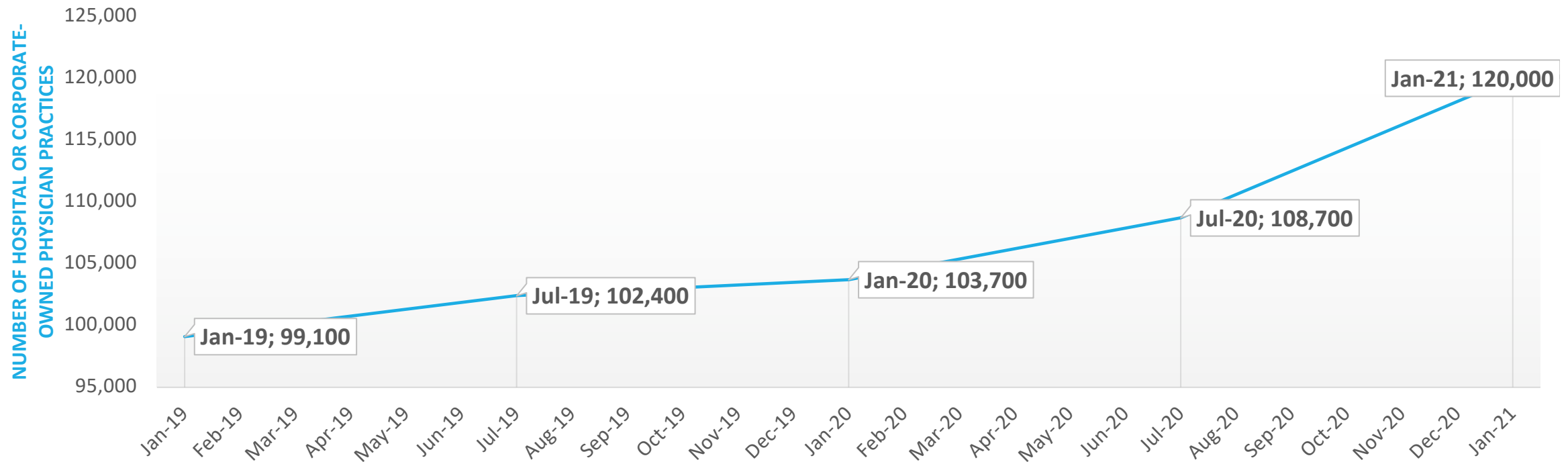
CAGR (2011-2017), %	
PLHP <sup>1</sup>	Market
4.8	2
-3.4	-0.8
0.7	-5.8
22.9	4.3
8.6	9.8
9.3	8.3
6.0	2.7

1: Excluding Kaiser Permanente



# GROWTH IN HOSPITAL OWNERSHIP OF PHYSICIAN PRACTICES

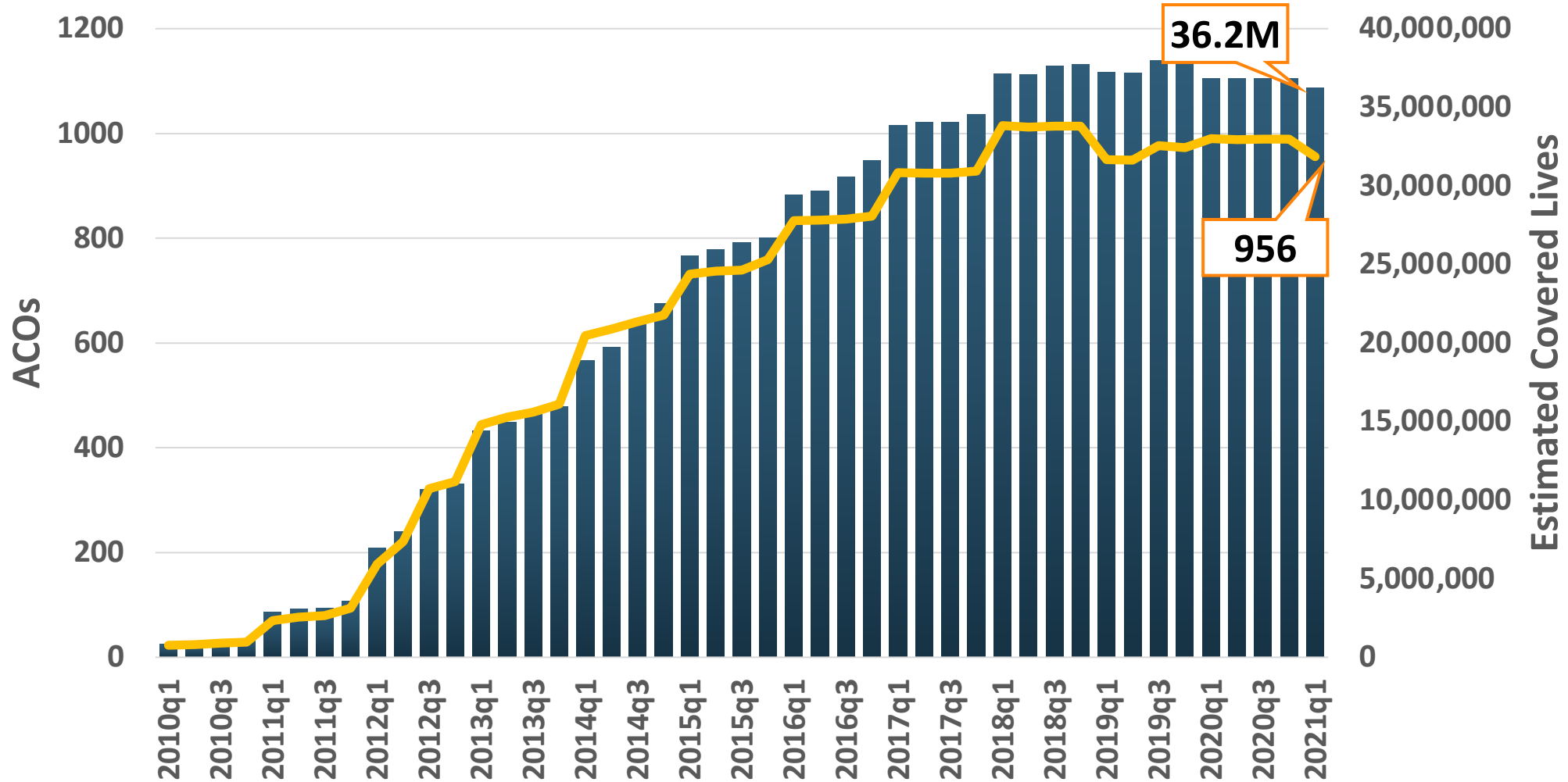
## Number of U.S. Hospital or Corporate-Owned Physician Practices in 2019-2020



- + Hospitals and corporate entities acquired 20,900 physician practices in 2019 and 2020
- + During this period, the overall number of physician practices owned by hospitals or corporate entities **grew by 21%**

Source: [Physician's Advocacy Institute: 'COVID-19's Impact On Acquisitions of Physician Practices and Physician Employment 2019-2020,' June 2021.](#)

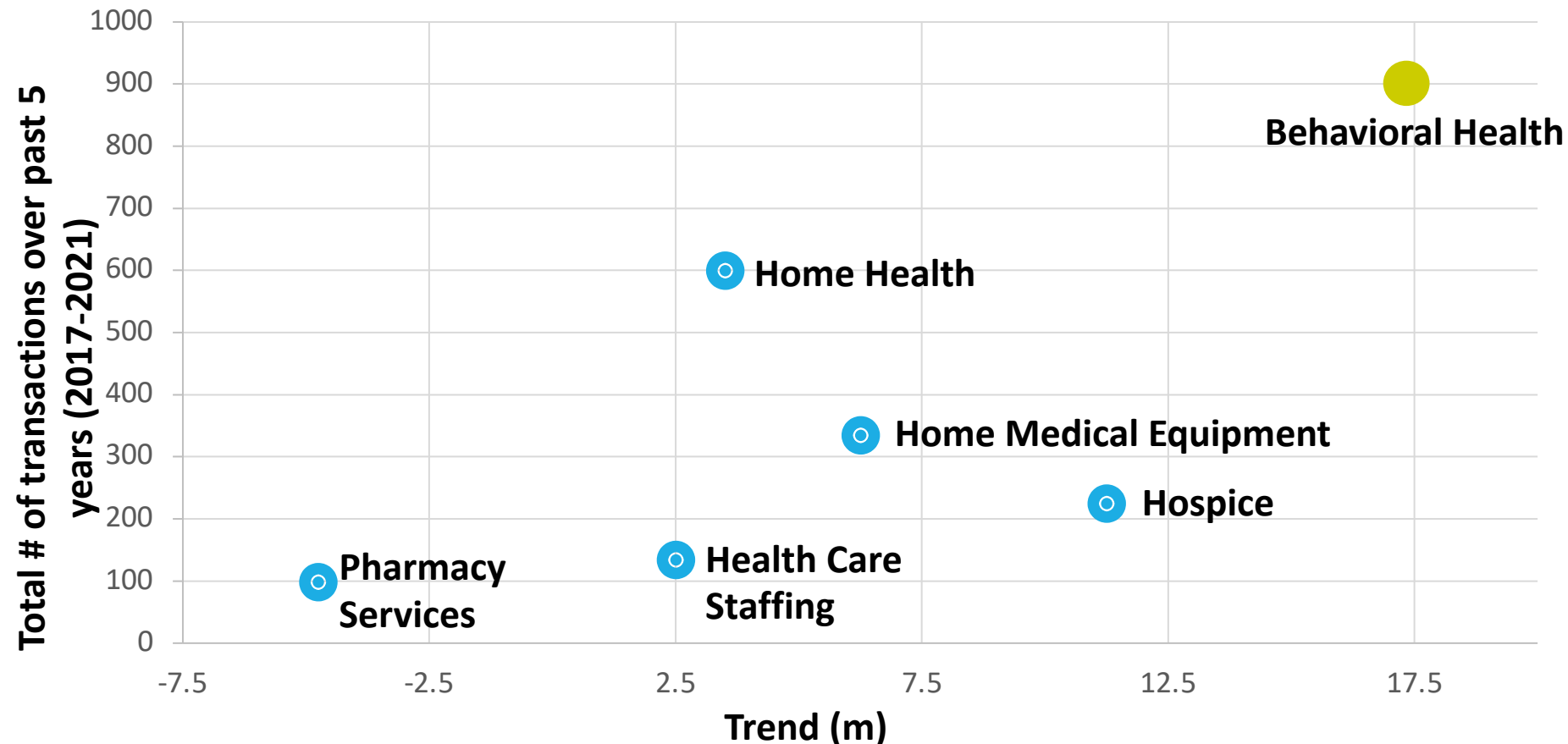
# GROWTH IN ACCOUNTABLE CARE ORGANIZATIONS



Source: Milliman Torch Insight, 2021

# GROWTH IN FOR PROFIT BH MERGERS AND ACQUISITIONS

- + The outsized interest in behavioral health is clear. Not only has the sector accounted for the greatest number of deals over the past five years (including annualized results for 2021), it also has exhibited the greatest amount of annual growth in deal flow.



Source: <https://thebraffgroup.com/wp-content/uploads/2022/02/Behavioral-Health-MA-Year-in-Review.pdf>

# SHOULD THE BH INDUSTRY CONSOLIDATE?

The numbers tell a compelling story

- » 11,400 Mental Health facilities in the US<sup>1</sup>
- » 15,722 SUD facilities in the US<sup>2</sup>
- » 275 Medicaid Managed Care Organizations<sup>3</sup>
- » 1,833 non-government Health Systems<sup>4</sup>
- » 31,400 group medical practices<sup>5</sup>

1: SAMHSA, Center for Behavioral Health Statistics and Quality. (August 7, 2014). The N-MHSS Report: Highlights of the National Mental Health Services Survey, 2010. Rockville, MD

2: SAMHSA, Drug and Alcohol Services Information System. (November 21, 2017). 2017 National Survey of Substance Abuse Treatment Services (N-SSATS). Rockville, MD

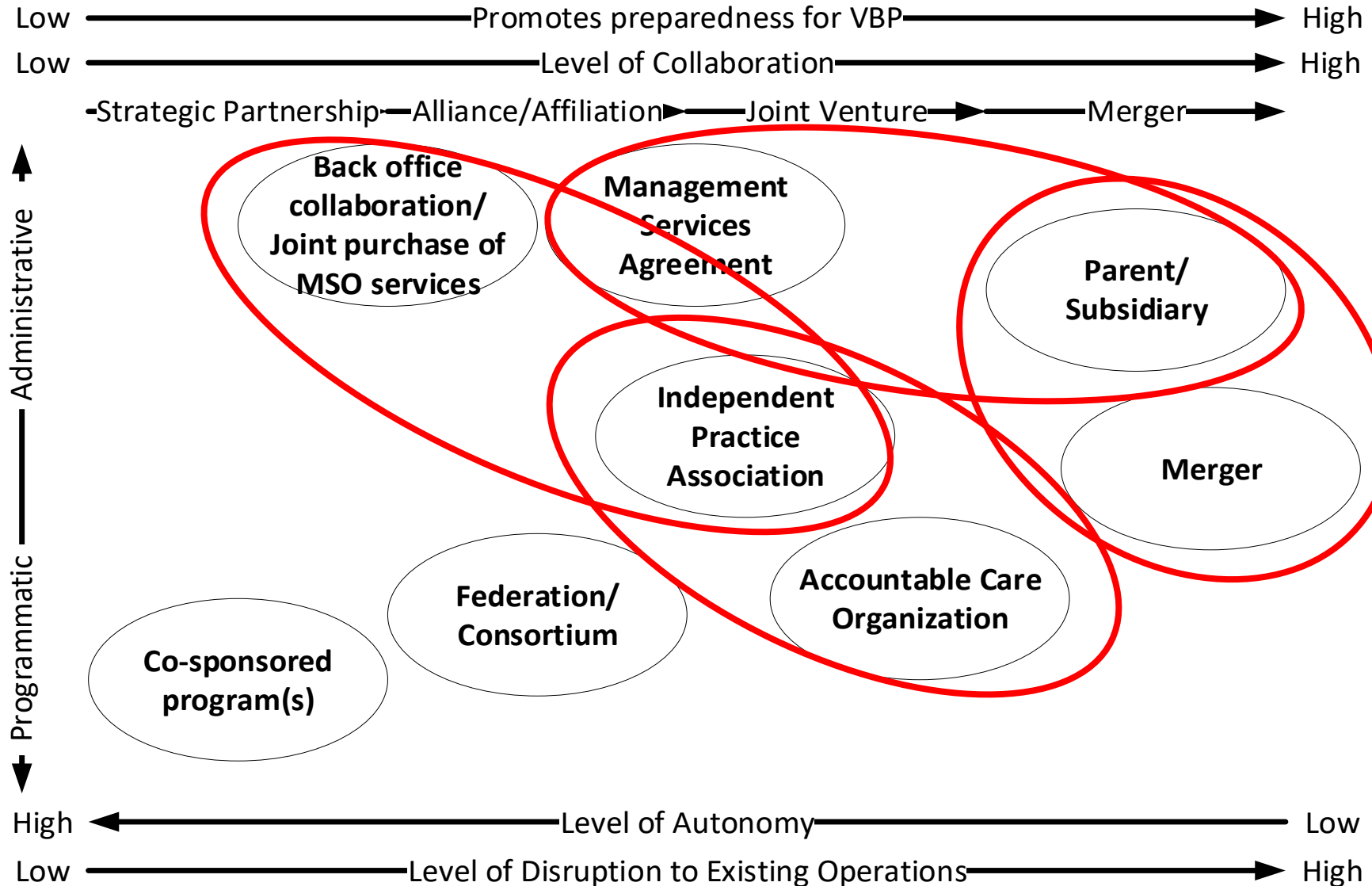
3: Kaiser Family Foundation. Medicaid Managed Care Market Tracker, March 2017.

4: The great consolidation: The potential for rapid consolidation of health systems. Deloitte Center for Health Solutions, 2014.

5: Hing E, et al. Office-based Medical Practices: Methods and Estimates from the National Ambulatory Medical Care Survey. CDC, March 12, 2007.



# STRATEGIC PARTNERSHIP OPTIONS



# THE AFFILIATION PROCESS: WHAT TO EXPECT

# HIGH LEVEL OVERVIEW OF THE MERGER PROCESS

I think of affiliations as a seven-step process. The Boards weigh in at several check points along the way.

- » Step 1: Why?
- » Step 2: With whom?
- » Step 3: What's in it for them?
- » Step 4: Who's interested?
- » Step 5: Is this serious?
- » Step 6: Are we really going to do this?
- » Step 7: We really did it

## QUESTIONS TO ANSWER IN STEP 1

- » What are we looking for that we don't have?
- » What capabilities do we need in a partner?
- » What are the gaps in our service continuum we're trying to fill?
- » Will a merger lead us to greater impact and/or better organizational stability?
- » Is a merger consistent with our long-term strategic direction and goals?

## STEP 2: ENVISION YOUR IDEAL MERGER PARTNER

Before reaching out to potential partners, decide what you're looking for

- » Horizontal or vertical integration?
- » Service package
- » What size makes sense?
- » What geography do we want?
- » Prepare questions for your potential partners
  - What do we want to know about their infrastructure?
  - What do we need to know about their program quality?
  - What do we need to know about their financial health?
- » Be prepared to answer all those questions about yourself

## STEP 3: HONE YOUR PITCH

You need to be able to make the case to potential partners about the advantages of partnering with your agency

What do we have to offer prospective partners?

What data can we use to demonstrate our capabilities and our quality?

What weaknesses do they have that we can help them mitigate?

What problems do we have that we want to hang a lantern on because they'll discover them during due diligence anyway?

## STEP 4: CHOOSE YOUR PARTNER CAREFULLY

When looking at potential partners, you should be sure to keep your criteria in mind.

**Focus on the initial criteria you developed**

Which interested agency fits our strategic criteria most closely?

**People and personalities matter**

Your leadership (both professional and volunteer) should 'click' with their leadership.

**Do they want what we want?**

Are they interested in a relationship similar to the one we want?

**Board authorization**

Have you signed a non-binding Merger Exploration Agreement?

## THESE SIX DOCUMENTS WILL BE CREATED

- » Affiliation Exploration Agreement: Initial non-binding agreement to exclusively pursue merger conversations
- » Non-Disclosure Agreement: Legally binding agreement not to share information learned during the merger exploration process
  - Often part of the Affiliation Exploration Agreement
- » Affiliation Plan: Captures the decisions made by the Workgroup (and in some instances, the rationale behind them)
- » Letter of Intent (term sheet): Basic business terms, a planned closing date, conditions that need to be met in the due diligence process, and a termination clause
- » Affiliation Agreement: Legally binding agreement to affiliate. Crafted by Counsel and authorized by specific resolutions passed by both Boards of Directors
- » Board Resolutions: Resolutions passed contemporaneously (or as close to it as possible) by both Boards authorizing the CEOs to sign the Merger Agreement



# STEP 5: THIS IS WHERE THE RUBBER HITS THE ROAD

## Sign a non-binding Affiliation Exploration Agreement

- Non-disclosure agreement
- Clear statement of purpose
- Promise of good-faith efforts
- Statement of exclusivity
- Agreement on how jointly incurred expenses will be shared

## Once the NDA is signed, you can share more detailed information (warts and all)

- + Financial details
- + Quality data
- + HR data
  - + Pension/retirement plans
  - + Salary structures
  - + PTO rules
  - + Seniority rules
  - + Union relationships
- + Details re systems and infrastructure
- + Information about Board makeup and membership requirements
- + Visit each other's programs and administrative sites

## Establish an affiliation workgroup

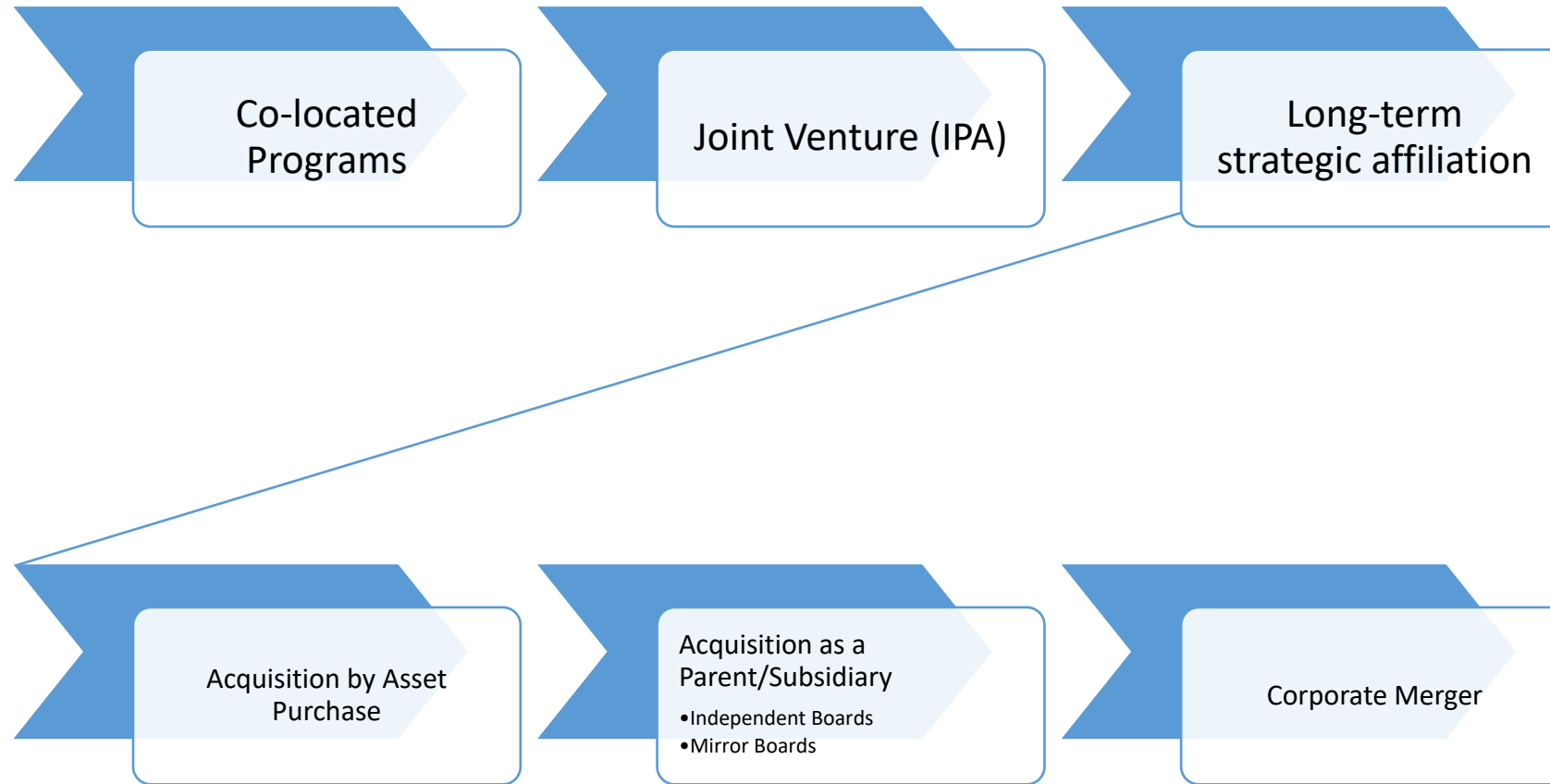
We recommend three Board members and two professional leaders from each side.

# THE AFFILIATION WORKGROUP PROCESS

The workgroup goes through an iterative process with an increasing level of detail with frequent opportunities for both Boards to review and approve along the way

- » Start by getting to know each other better: CEO presentations and exchange of core documents (corporate, financial, fundraising, personnel, etc.)
- » Determine why and what
  - Goals
  - Corporate structure
  - Branding
  - Board structure
  - Executive team membership
  - Target date for future steps
  - New organization's mission and vision

# OPTIONS SPECTRUM



# AFFILIATION WORKGROUP PHASE 2: GET INTO THE DETAILS

Once agreement has been reached about why and what, attention turns to how

- » How will staff benefits be handled?
- » Will there be any additional staff needed in the new org? Will there be layoffs?
- » Who will have authority over what decisions in the post-merger organization?
- » How would technology and other infrastructure (accounting systems, HR systems, etc.) be handled?
- » Where will the new org's HQ be?
- » How many joint funders/donors are there? Will they maintain their support if we merge?
- » How will this all be communicated?
- » How will we do the due diligence?
- » Develop and refine (again, and again, and again) a budget pro forma with financial projections for three years

## AFFILIATION WORKGROUP PHASE 3: CAPTURE THE DECISIONS IN TWO DOCUMENTS

- » The **Merger Plan** captures the decisions made by the Workgroup (and in some instances, the rationale behind them).
- » The **Letter of Intent** lays out the basic business terms (as captured in the merger plan), a planned closing date, conditions that need to be met in the due diligence process, and a termination clause.

## AFFILIATION WORKGROUP PHASE 4: YOU'RE ON TO STEP 6 OF THE PROCESS

- » Now that the Letter of Intent is signed, there are some critical final steps
- » Outreach to necessary regulators
- » Outreach to any joint funders to ensure maintenance of support
- » Due diligence process
  - VERY different from a corporate due diligence process
    - Not about valuation, about making sure there are no surprises
  - Property managers visit each other's sites
  - Review recent payor, regulatory, accreditation and audit findings
- » Develop a post-merger calendar
- » Counsel prepares the final merger agreement and the necessary Board resolutions

## BOARD REVIEW AND APPROVAL NUMBER

- » Prior to the vote of the Board authorizing both CEOs to sign the Final Merger Agreement (which consummates the transaction legally), the Board has an opportunity to review and approve

## STEP 7: MAKE IT OFFICIAL

By this point, both Boards have had the chance to voice their support of the merger. Now you need to make it official.

- » Each Board passes a resolution drafted by Counsel authorizing the CEOs to sign the merger agreement
- » Both CEOs sign the agreement
- » Both organizations come together to pass out new swag, open a bottle of champagne and celebrate the new organization and new possibilities





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