



Lessons Learned: Academic Medical Centers Acquiring Community Hospitals

Dr. Eugene Hong, *Chief Physician Executive, MUSC Health*

Anthony Powell, *Managing Director, Knowledge Capital Group*



Today's Objectives

- Level set on the issues facing health systems and associated M&A trends and predictions
- Review how you might design an organizational governance model to oversee an integration
- Gain a sense of the considerations and components of integration management
- Hear firsthand some of the issues providers face after consolidation
- Walk away with some real-world lessons learned about what we may have done differently

Healthcare Environment and M&A Trends

Healthcare Landscape

THE WALL STREET JOURNAL.

HEALTH

CVS Reaches \$10.6 Billion Deal to Buy Clinic Owner Oak Street Health

BECKER'S
ASC REVIEW

How value-based care is squeezing its way into every corner of the industry

FIERCE
Healthcare

REGULATORY

FTC floats changes to merger process that could slow deal-approval timelines

THE WALL STREET JOURNAL.

TECH

Amazon Closes Health Clinic Deal in Bet on Physicians for Healthcare Growth

Modern
Healthcare

June 29, 2023 05:00 AM

Healthcare is expected to grow 7% next year, D&A

Hospital Transactions & Valuation Issues



Medical as CV

health Life, But Better Fitness Food Sleep Mindfulness Relationships

Concern grows around US health-care workforce shortage: 'We don't have enough doctors'

FORBES > INNOVATION > HEALTHCARE

Risant Health's Value-Based Platform: A Signal Of Future Health System M&A?

CNBC

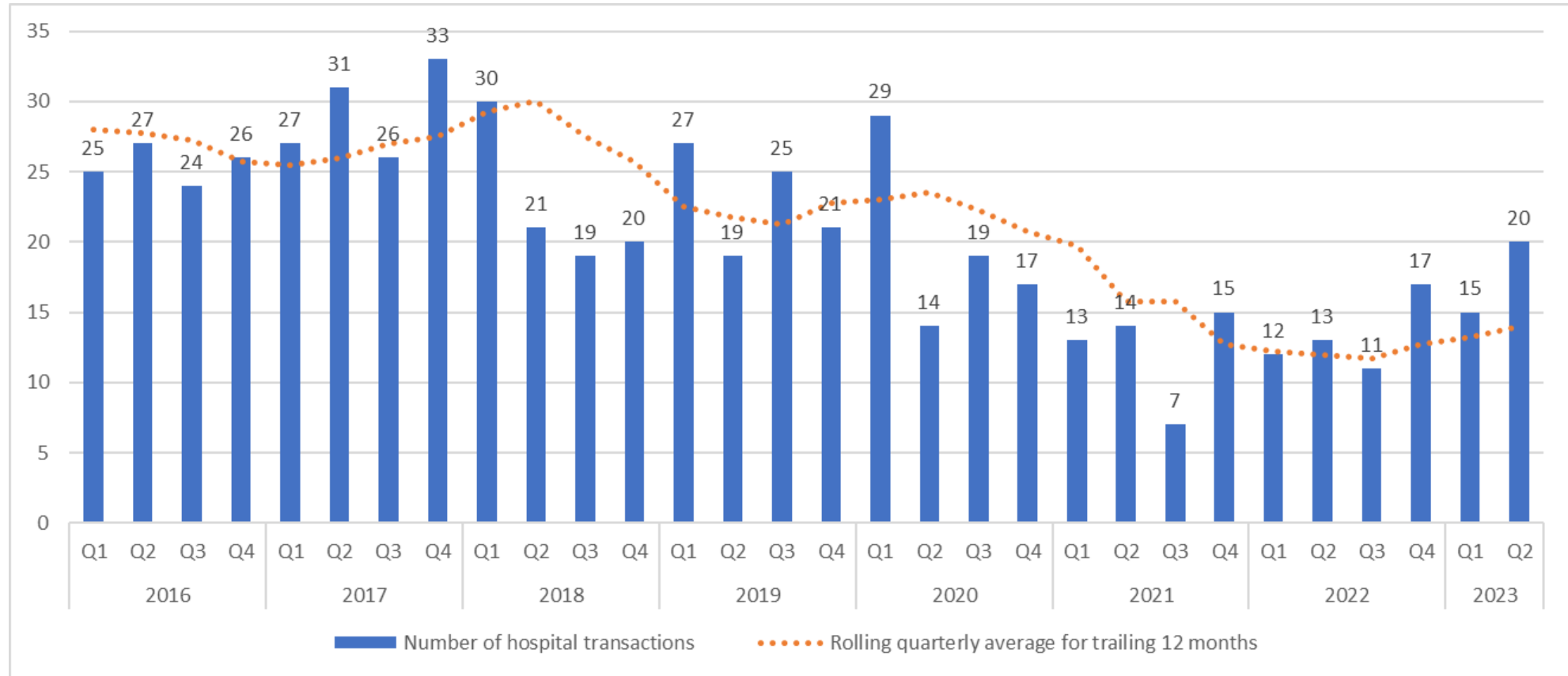
MG Health | info@vmghealth.com | 214.369.4888

TECH

Amazon rolls out its virtual health clinic nationwide

PUBLISHED TUE, AUG 1 2023•6:01 AM EDT | UPDATED TUE, AUG 1 2023•4:02 PM EDT

Change of Control Transactions 2016 – Q2 2023



Annual Transactions

102

117

90

92

79

49

53

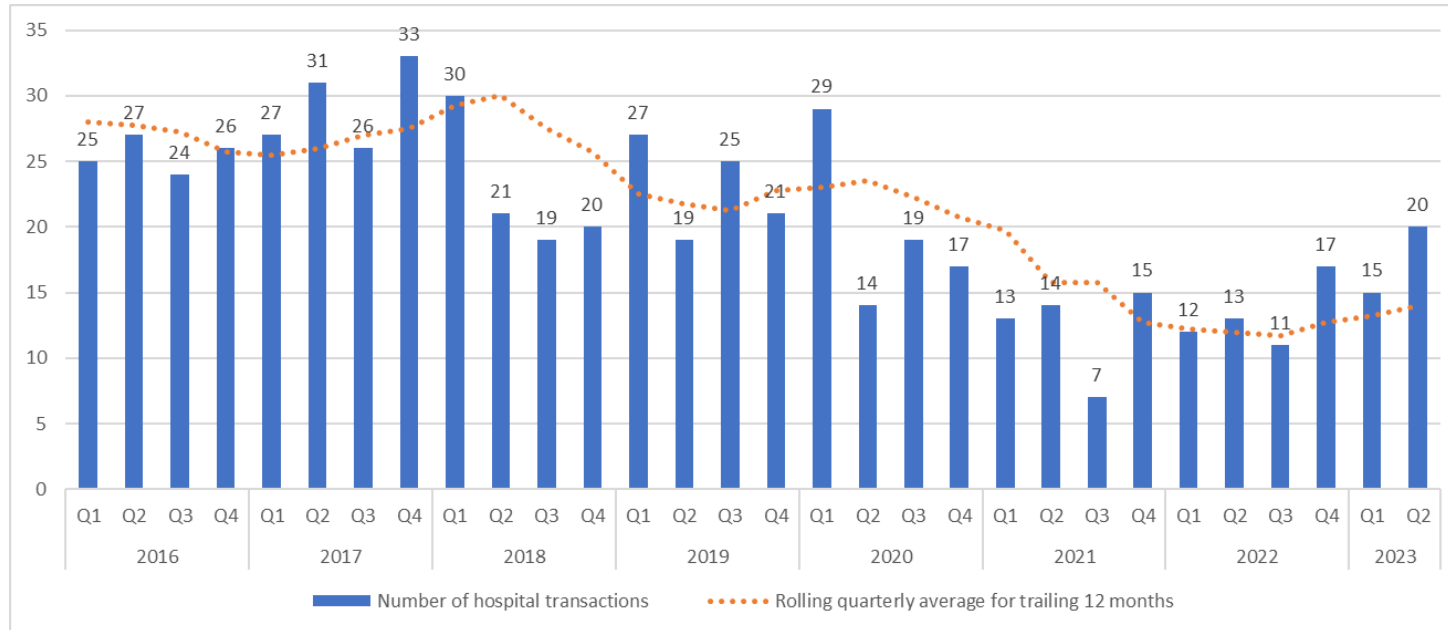
35*

Figure excludes affiliations & joint ventures

*Data is January – June 2023

Change of Control Transactions 2016 – Q2 2023

Number of Change of Control Transactions



2022-2023 Takeaways

- Continued M&A activity
- Persistent consolidation drivers
- Megamerger disruption continues
- Growing Private Equity [PE] Involvement

2024 Predictions

- Accelerated AMC activity
- BOD focus on M&A ROI
- Continued growth of non-traditional healthcare entities
- Community hospitals focus on financial resilience strategies



Case Study – MUSC Health

Case Study Framework



DEAL PRESENTATION & DUE DILLIGENCE

The deal is reviewed, performance assumptions made, and the ultimate go / no go decision is cast.



PLANNING & READINESS

Lots of work to be done – assumptions vetted, processes planned, contingencies made, and a structure put in place that can handle all of it.



INTEGRATION & OPERATIONALIZATION

Day 1 launch occurs, the integration plans begin to get tested, and now we must operate and integrate.

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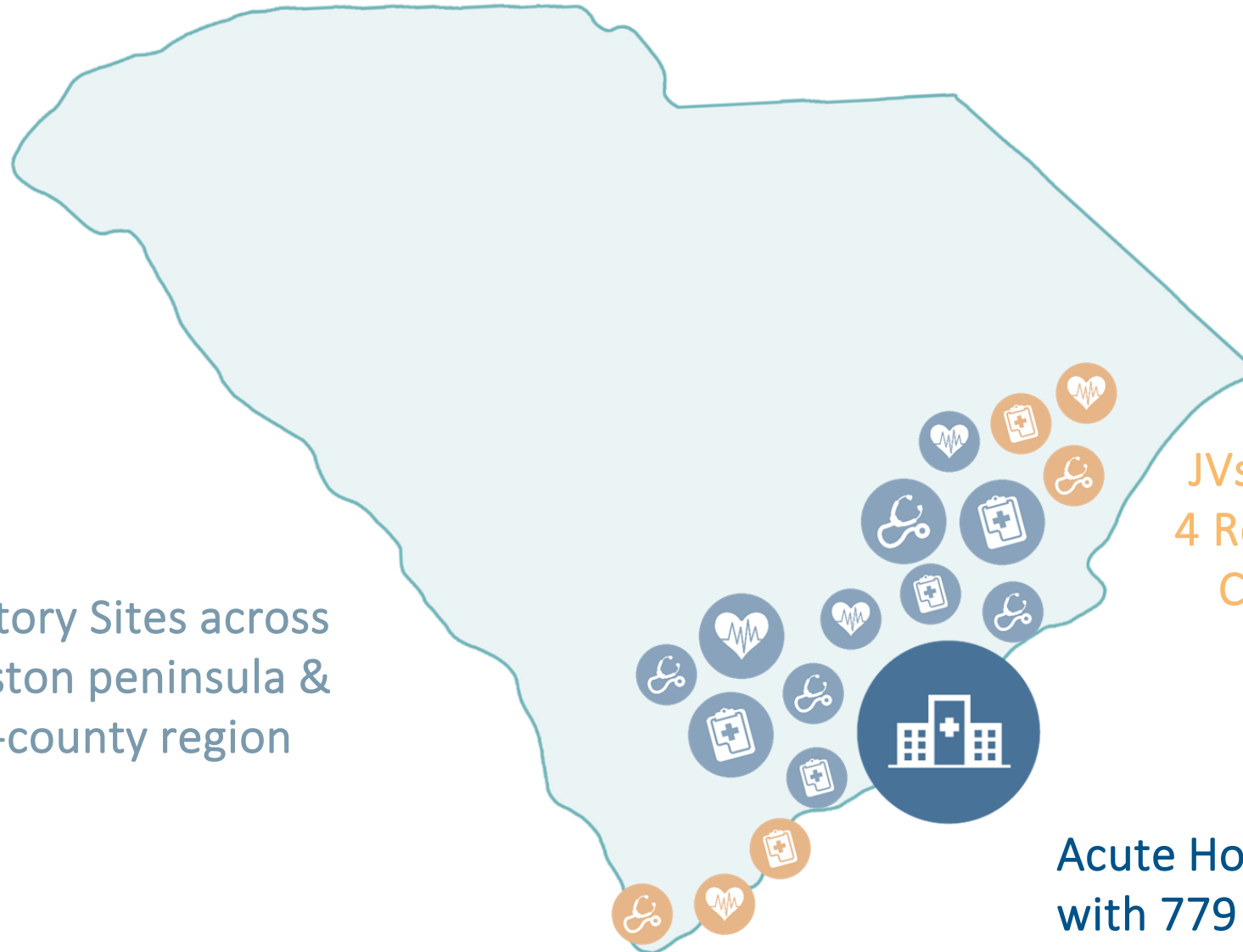
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Overview – MUSC Health [pre-acquisition]



86 Ambulatory Sites across the Charleston peninsula & greater Tri-county region



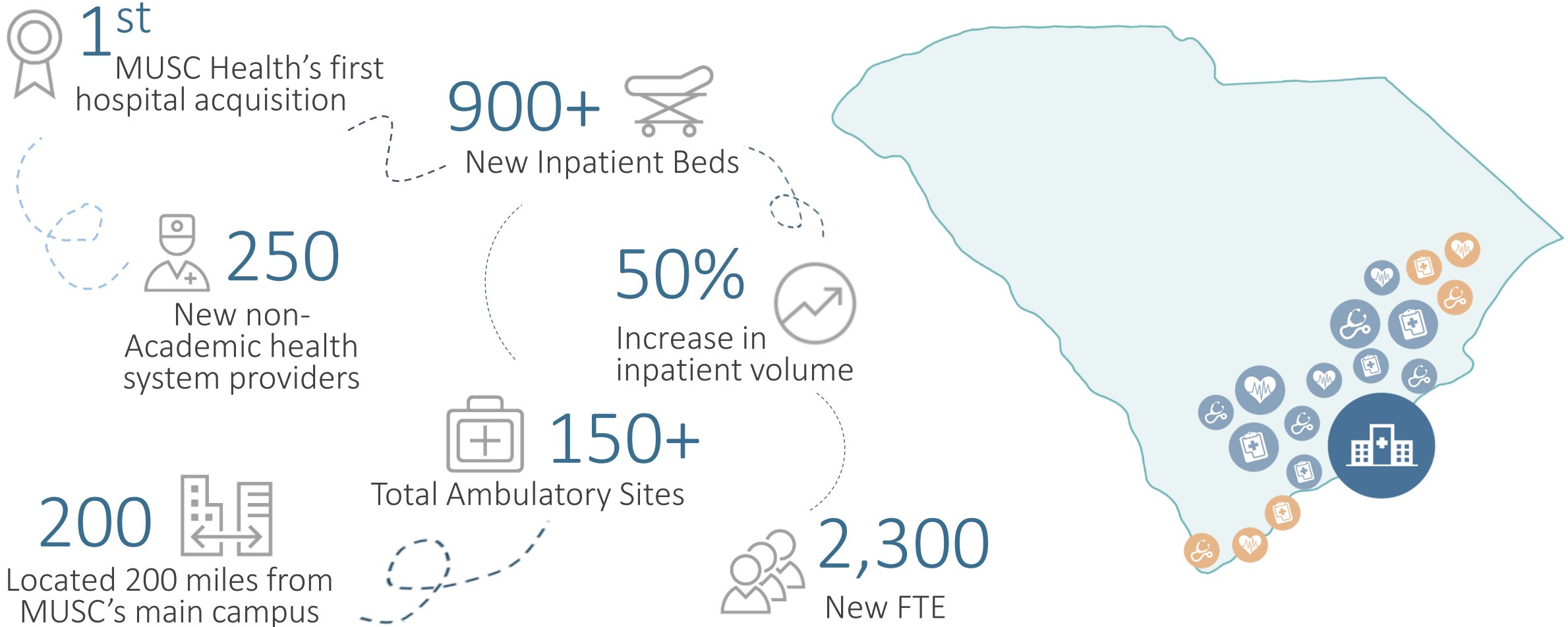
JVs & Affiliations with 4 Regional Hospitals & Community Systems

Acute Hospital Campus with 779 Inpatient Beds

Overview – CHS Acquisition Opportunity



MUSC Health was presented with the *opportunity to acquire 4 CHS hospitals*, nearly doubling total inpatient beds and number of ambulatory sites



Due Diligence Process



- CHS presents the confidential opportunity – only a few senior leaders are in the know
- Leadership believes it aligns with strategy and feels it is a good idea...the why

The “Why” – MUSC Health Acquisition



Prevent market disruption of a new competitor & associated *impacts to financial/clinical performance*

Presented *strong EBITDA margin & cash flow* to meet MUSC Health’s strategic financial goals

Control physician recruitment pipeline and help with *physician staffing* via telehealth capabilities

Protect and grow patients from *outside of MUSC Health’s primary catchment area*

Encourage learners to *stay in the local community* long term and *enhance the medical work force*

Total covered lives, access points & footprint are key to a *sustainable financial plan for population health*



Remain competitive in attracting the best applicants by *expanding clinical sites* for students & GME

Due Diligence Process [Continued]



- CHS presents the confidential opportunity – only a few senior leaders are in the know
- Leadership believes it aligns with strategy and feels it is a good idea...the why
- LOI gets executed, and due-diligence time clock starts
- Checklists are available however many are too generic or too nascent to drive the process
- Experts are engaged to help assess financials, FTC, infrastructure, etc.
- Numerous data requests are made of CHS and experts build models/scenarios
- Deadline approaches – Go or No Go.....
- Never doing this before, there is really no decision-making framework in place
- MUSC decides GO....Board of Directors executes Definitive Agreement

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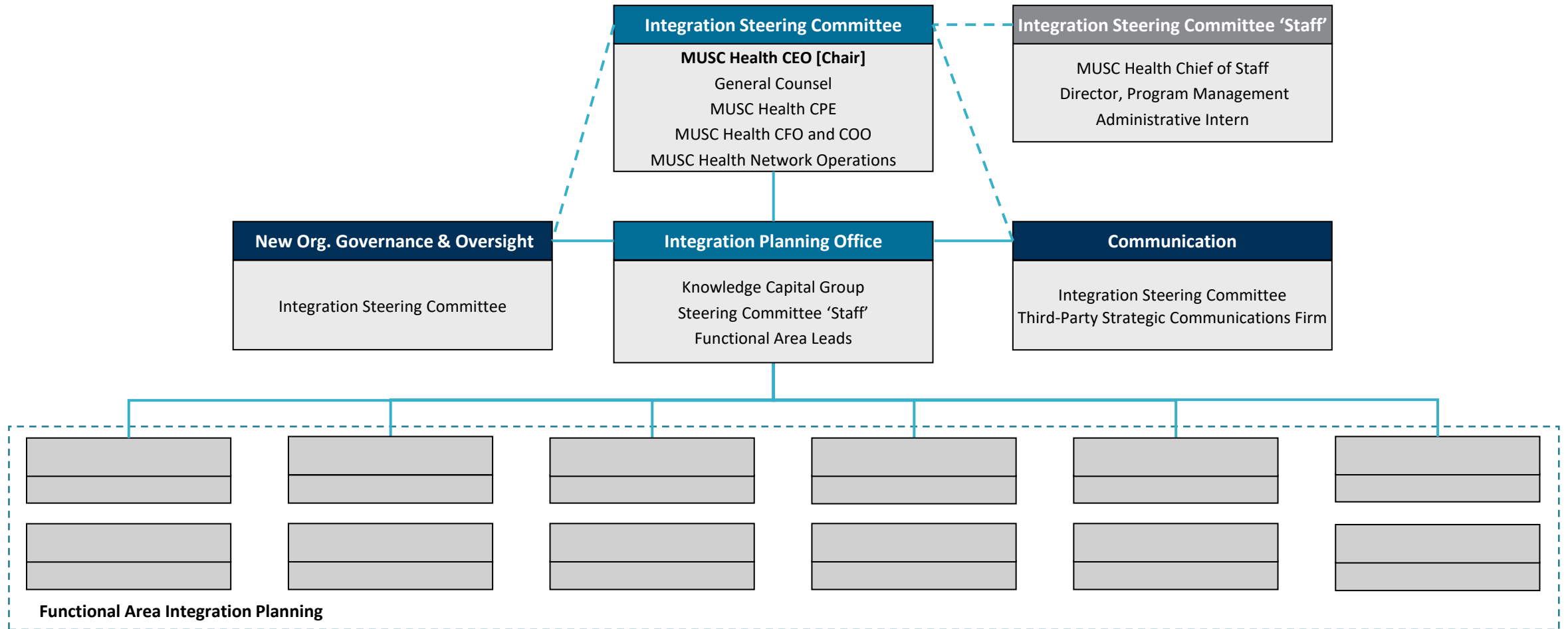
Day 1 launch occurs, the integration plans begin to get tested, and now we must operate and integrate.

The Integration Planning Clock Starts



- DA signed – [closing set to occur in 90 days](#)
- Must begin to engage a broader group of stakeholders – **all who have questions and opinions**
- Stakeholders generate an initial integration planning **timeline of six months** – Leadership says you **have 90 days**....and there are a few major holidays in the mix
- Budget models are aggressive, teams asking for more resources....**assumptions proving to be 'off'**
- Priority conflicts and 'noise' abounds as all internal resources are **being asked to do two jobs**

Project Governance

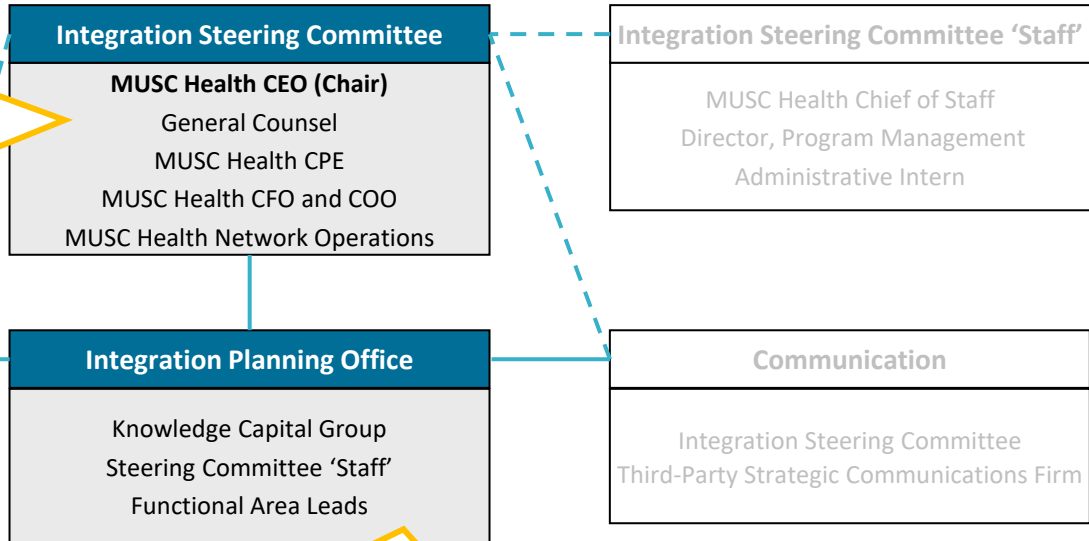


Project Governance



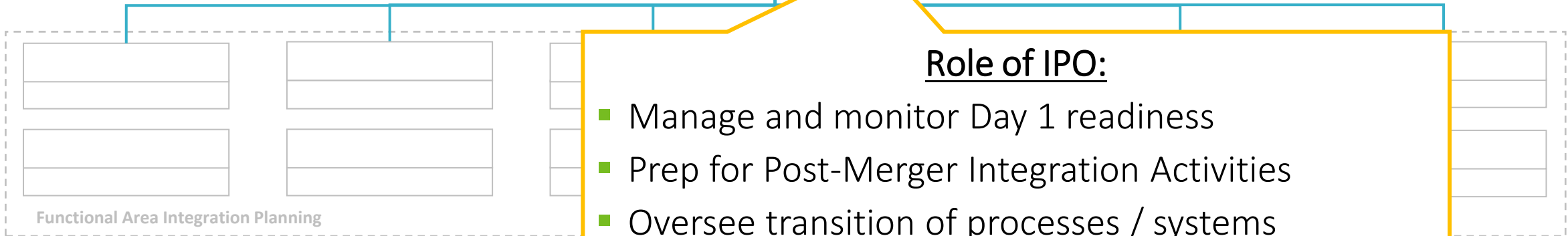
Role of ISC:

- Review & approve Day 1 Plans
- Review & approve budget requests
- Provide guidance in planning the transition of processes / systems
- Interaction with acquired corporate entity



Role of IPO:

- Manage and monitor Day 1 readiness
- Prep for Post-Merger Integration Activities
- Oversee transition of processes / systems
- Interaction with acquired corporate entity and ISC
- Escalate risks / issues



Functional Area Identification

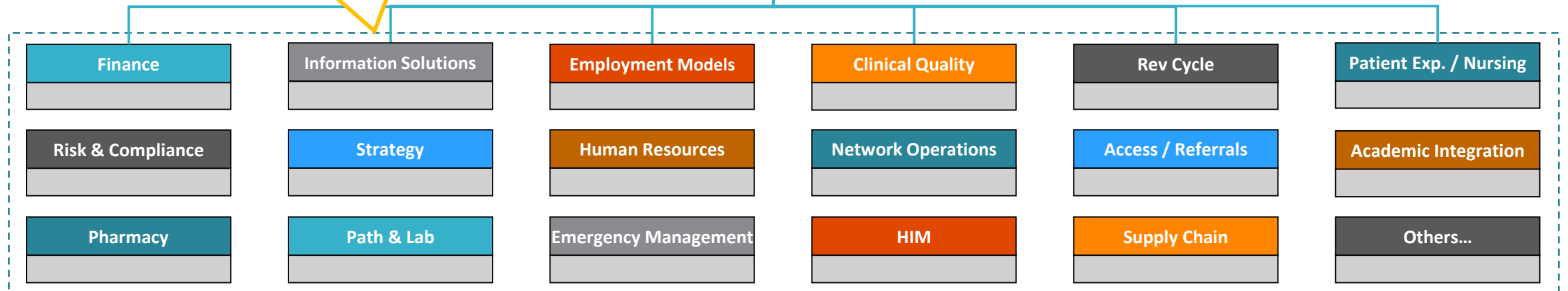


Role of Functional Areas:

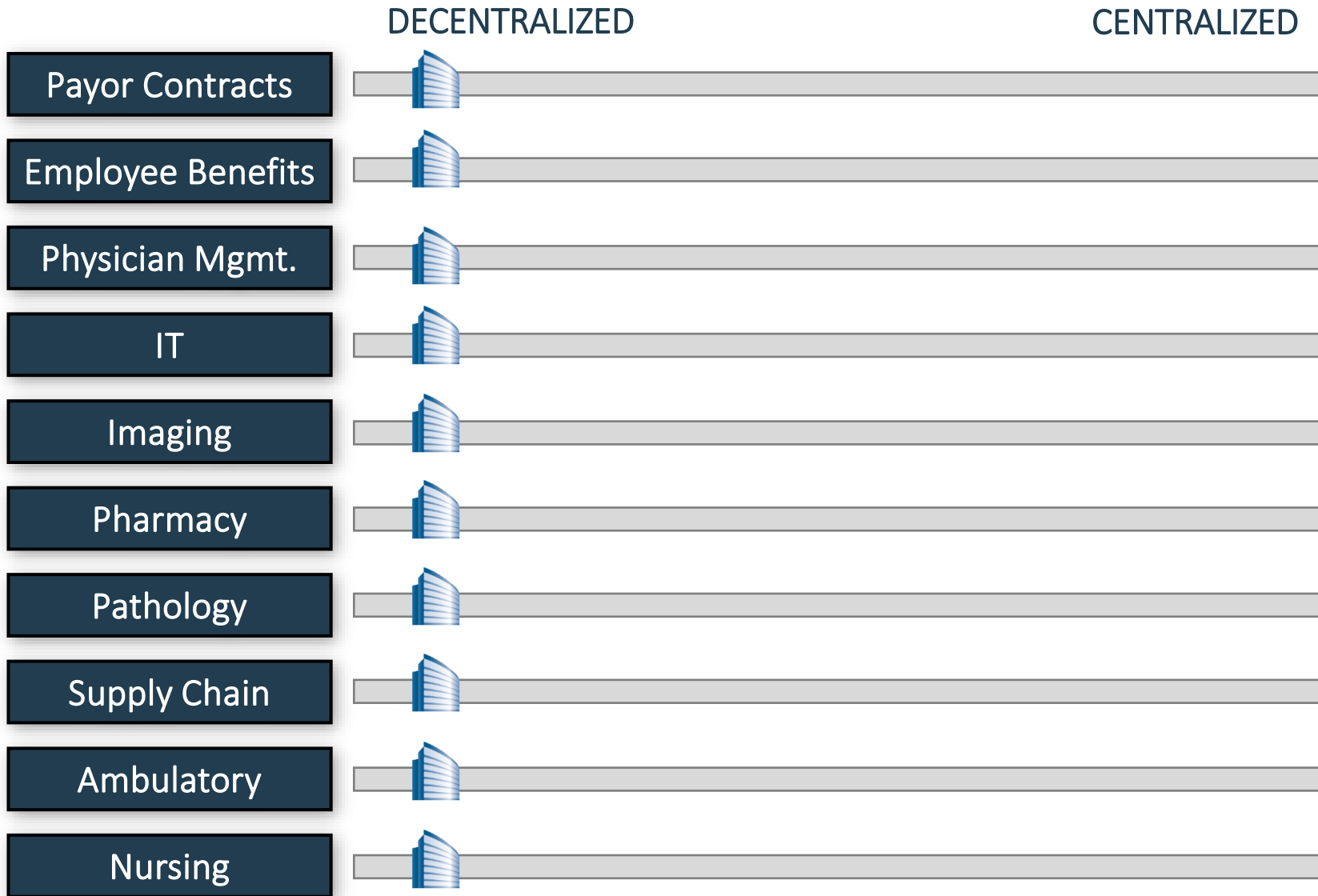
- Execute tactical logistics of Day 1 objectives
- Participate in status updates and readouts to the ISC and IPO
- Work with counterparts at acquired hospitals

Integration Steering Committee 'Staff'

Communication

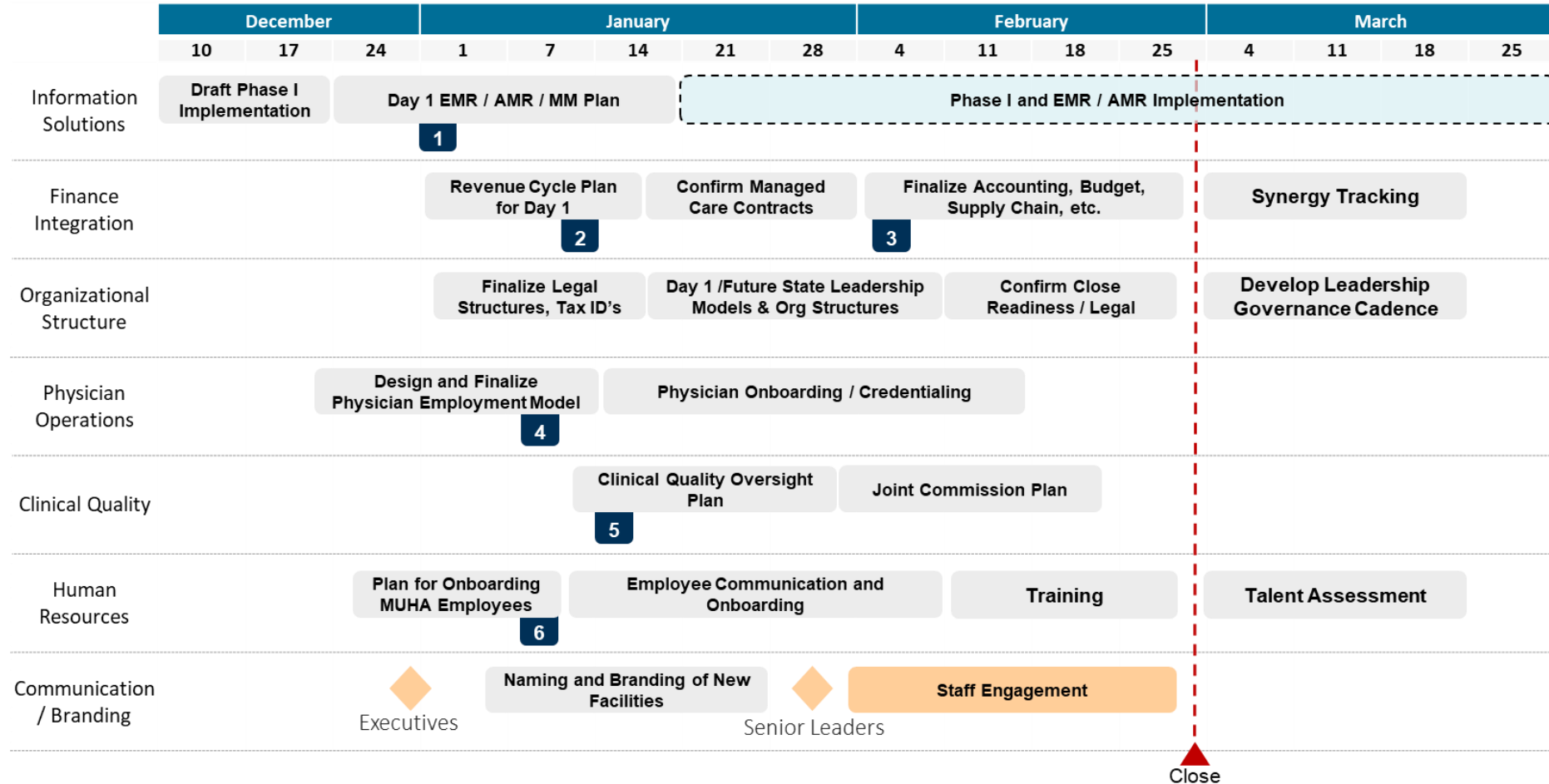


Degree of Integration



- Integration Drivers**
- Capacity / Capability
 - Compliance / Regulatory
 - Distance / Geography
 - Budget / Cost savings
 - Technology Limitations
 - Impact to Quality
 - Timing / Resources
 - Others...

Critical Path & Key Decisions



Close

1 Key Decision Deadline

◆ On-Site Communication Event

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Day 1 Celebrations



The Situation



- Deal is closed; operationalization has begun
- CHS utilizes a strong, central command and control.....MUSC is very matrixed
- CHS had 3 EHRs, MUSC is an Epic shop
- The new providers were made part of the Faculty Practice.... part of the COM as adjunct faculty
- The hospitals are run by MUHA.....but the ambulatory clinics by the Faculty Practice
- Nursing is managed at each hospital – quality is centralized
- CHS hospitals have agreements with local schools for clinical training rotations – MUSC University wants those to stop so they can send their students [RN, OA, CMA, etc]
- MUSC had non-competitive affiliate arrangements....now the newly acquired hospitals compete

Day 1 and Beyond...



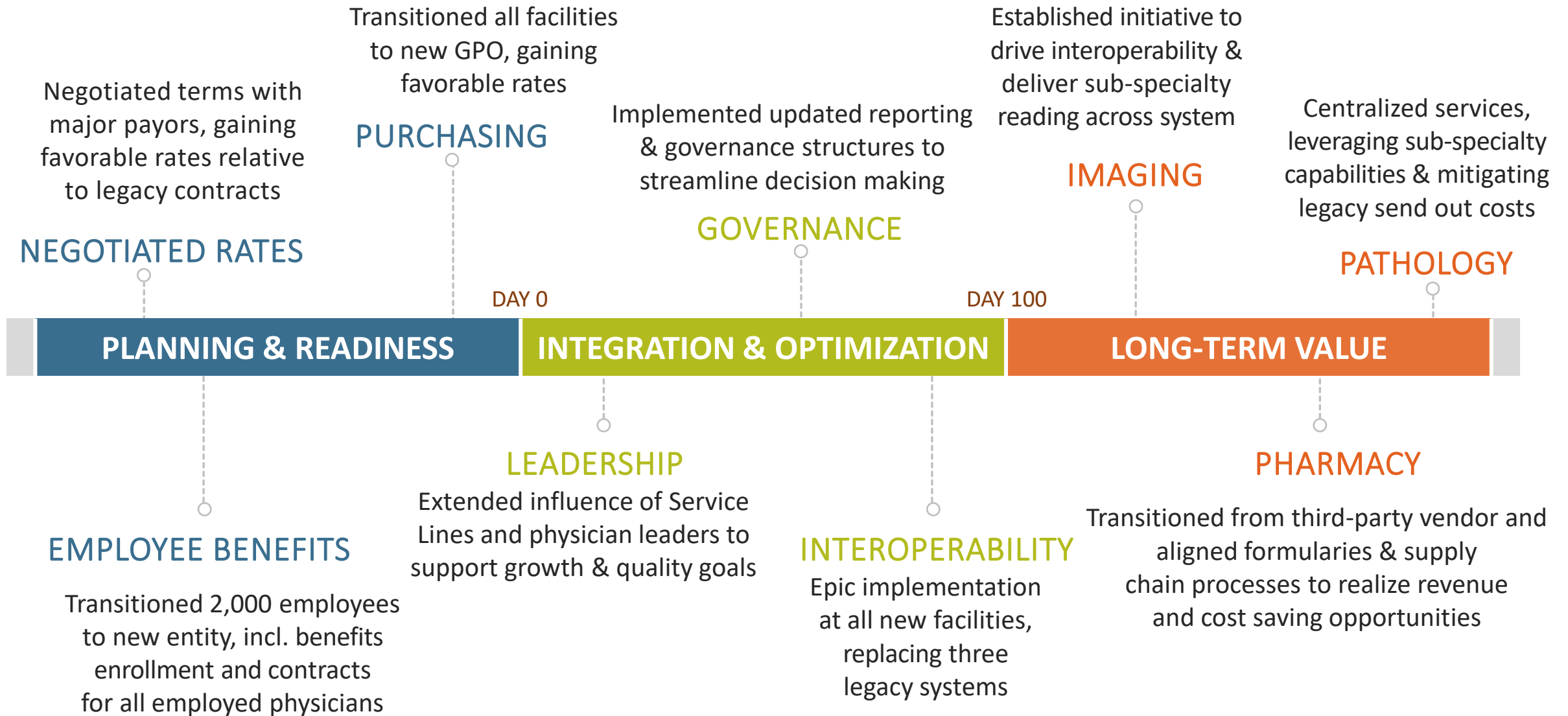
- **IT** – Conversion to Epic. Providers need at-the-elbow support.
- **HR** – Employed providers and staff need support from two different HR groups of MUSC Health
- **Revenue cycle** – Initially billing was on paper for the first 2-3 months. Difficult transition period
- **Compliance** – Training for all folks within first few months. MUSC Health has more compliance training requirements than previous employer.
- **Hospital based operations** [e.g. supply chain] – have some challenges but are worked through
- **Providers** – Continued management of physician operations. Still RVU based compensation with new contracts negotiated prior to Day 1. Adjustment from prior systems to new MUSC system requires a few key considerations...

Considerations for Onboarding Providers



- How will the providers be employed?
- Will the providers receive academic appointments?
- Have the community providers been engaged, and what are the gaps if any in understanding and support?
- Have the academic physician leaders been engaged, and what are the gaps if any in understanding and support?
- What is the plan with the payors?

Integration 'Wins'



Closing Remarks

Lessons Learned – Due Diligence



Remember “...really successful people say no to almost everything”
-Warren Buffett

Create formal due-diligence checklists with emphasis on leadership and systems

Document the “the why” and have a solid talk track and be ready to cascade

Get comfortable with making assumptions...but watch the tendency to be too optimistic

Utilize a formal ‘go / no go’ decision matrix and stick to it

Lessons Learned – Planning & Readiness



Be thoughtful about when, how, and for what you include leaders from the 'acquired' entities

Ensure all stakeholders are on the same page regarding "the why" as well as who owns what

[Hospital, University, Practice Plan, Affiliates, etc.]

Know yourself. Areas that you are not as strong in [pre-expansion] should be addressed in the expansion

Appreciate the differences in for-profit vs non-profit academic health systems

Communicate, communicate, communicate...set up an internal planning group that meets frequently

Lessons Learned – Operationalization



Understand how this work
may impact your team –
they all have day jobs

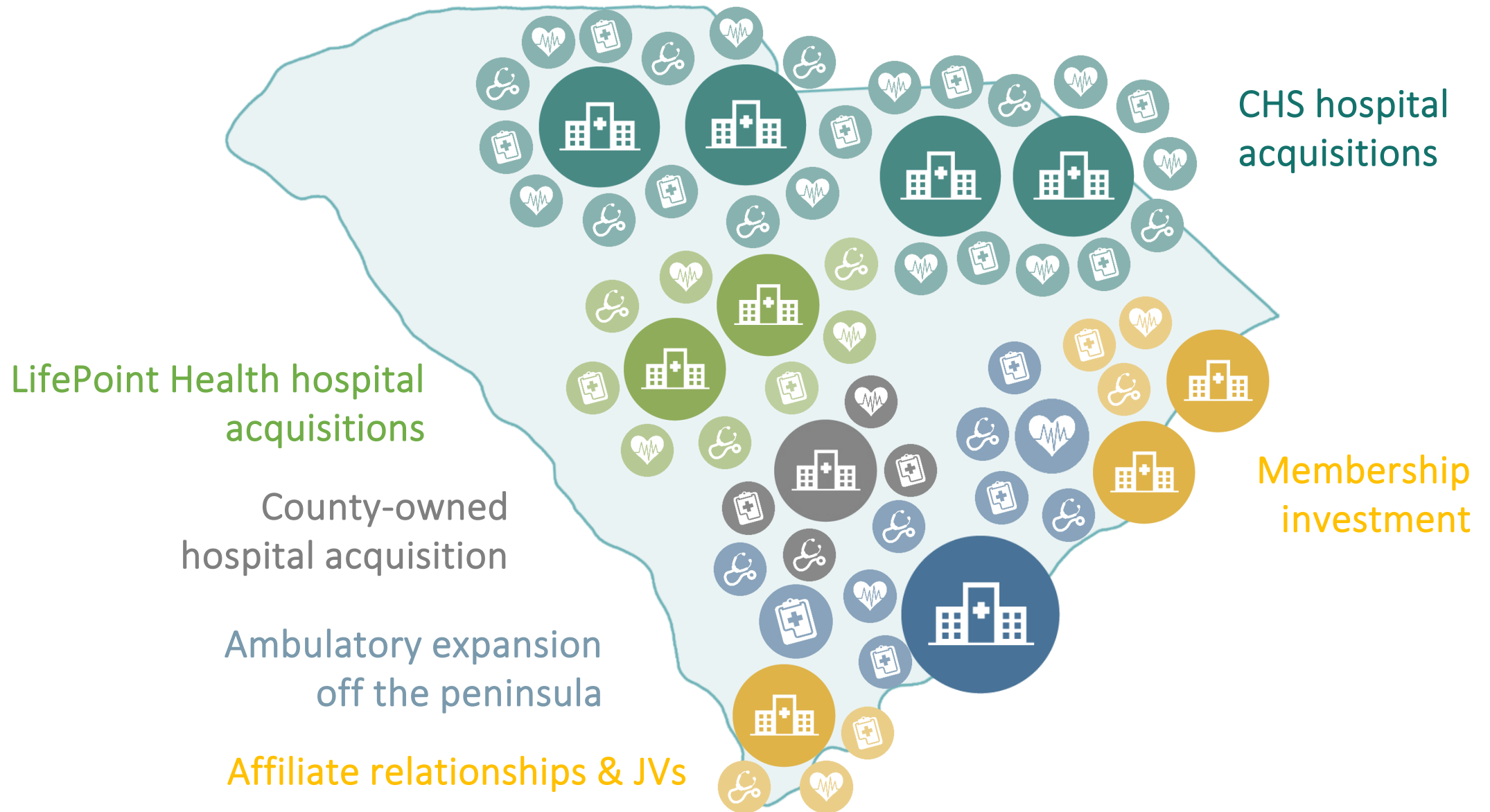
The value of 'at the elbow'
EMR support for providers
cannot be underestimated

Getting revenue cycle up
and running and fully
functioning helps mitigate
unforeseen financial risks

Be comfortable that
mistakes are going to be
made

And always
remember..."culture eats
strategy for breakfast"
-Peter Drucker

Epilogue – Our M&A Journey Continues



MUSC Health Today

\$5.1B



Annual Budget



#1

Hospital in SC for 9th
consecutive year

1.6M+



Patient Encounters



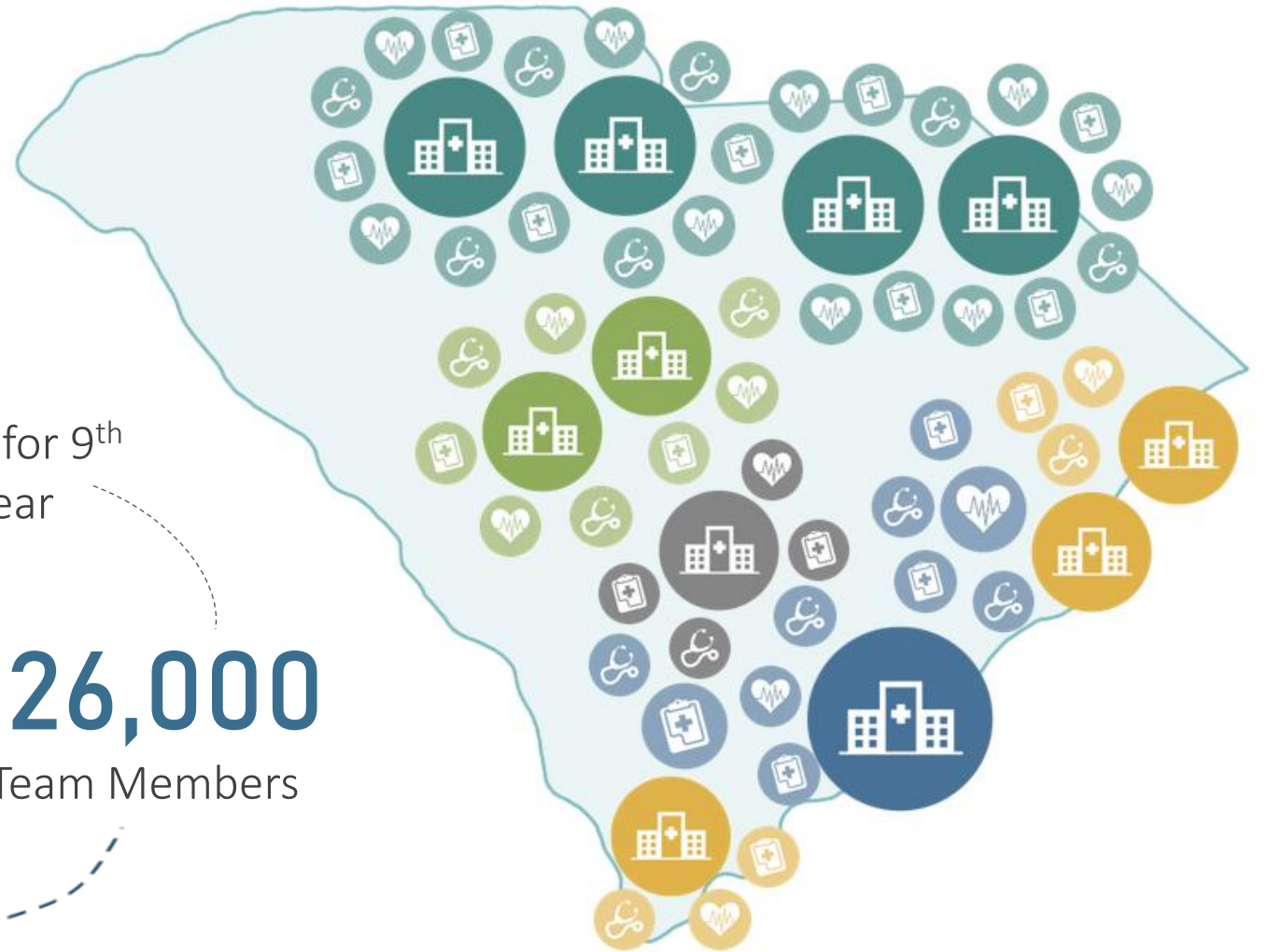
26,000

Care Team Members



2,700

Beds



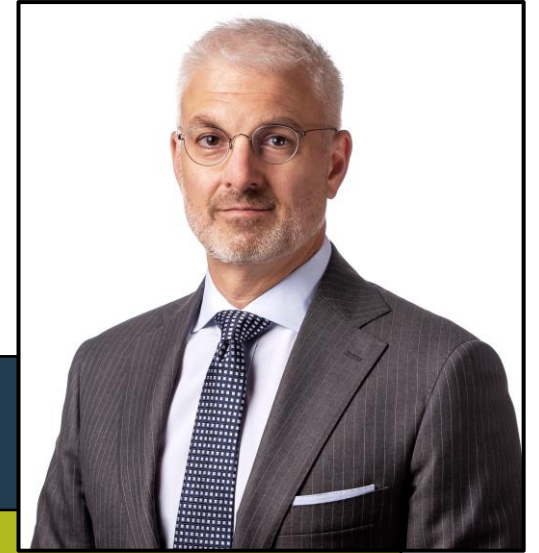
Questions?



Dr. Gene Hong
Chief Physician Executive
MUSC Health

www.muschealth.org

Hong@musc.edu



Tony Powell
Managing Director
Knowledge Capital Group

www.knowledgecapitalgroup.com

APowell@knowledgecapitalgroup.com