



# Strategies & Guiding Principles For Considering Consolidation

A Briefing For The Members Of  
The Coalition For Behavioral Health

November 2, 2021

# What Is Driving Strategy In The Health & Human Service Landscape?

Customer preference for integrated care – medical, behavioral, social

Digital health adoption in Medicaid and Medicare populations

Increasing dominance of health plans in health care delivery system

Movement toward value-based and risk-based reimbursement arrangements to align incentives

“Backward integration” of health plans, increasing their owned service delivery capacity

Acceptance of and preference for virtual primary care

Outsized investment in new companies serving the “complex consumer” market

The creation of new digital behavioral health companies

Entrance of out-of-industry mega-companies in the health and human service space

# What We Know...

## The Future Is Integrated, Hybrid & Value-Based

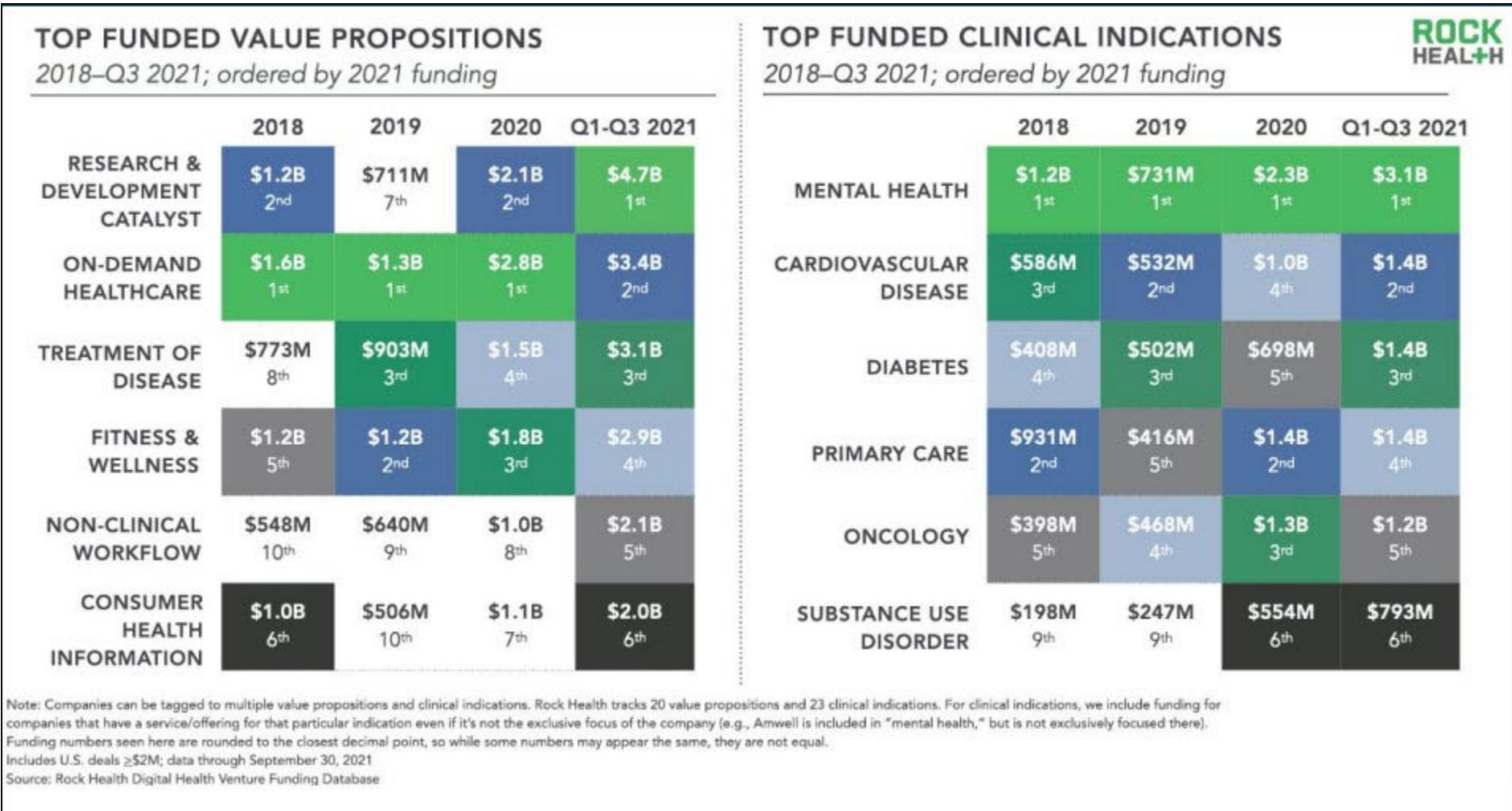
### The 'Next Normal' Landscape

1. "Integrated" care coordination models preferred
2. Virtual therapies become the norm and 'hybrid' models become dominant:
  - What can be done by telehealth or by new technologies? What needs to be done "face to face"? In clinic? In home?
  - The rise of hybrid service bundles
  - Home-based/virtual primary care model
3. Facility-based services transition to 'hybrid' and bundled:
  - Home-based/virtual addiction treatment
  - Home-based/virtual long-term care
  - Hospital at home and SNF at home
4. New competition from existing (and new) health and human service organizations – both traditional and virtual
5. New competition with health plans as "payviders"
6. Price sensitivity + risk-based reimbursement

### Emerging Opportunities

1. Programs to manage the care of consumers with complex needs – integrated "whole person" care coordination (medical, behavioral, social), risk-based, leverage new technologies
2. Primary care services for consumers with complex needs
3. Home-based services
4. Targeted social supports programs
5. "In lieu of" services offering alternatives to traditional residential and inpatient care

# Very Few Sectors Of Health & Human Services Unaffected By Recent Years Of Investments



# Private Equity Investor Focus

Private equity investors are interested in the market space serving complex consumers for many reasons:

- The reduction of stigma driving demand
- The integration of care delivery increasing complexity
- The medical cost/offset accepted
- The fragmented delivery system

Private equity impact:

- More capital for innovation
- More capital for market development
- More capital for technology infrastructure
- Financial cushion to make longer-term investments in service line development and scale without the pressure on immediate profitability



### Market Drivers

- Rising rate of "disability" in the U.S.
- Health plan dominance
- Customer preference for integrated care
- Health plans increasing owned service delivery capacity
- New digital behavioral health companies
- Outsized market investments
- Out-of-industry mega-competitors
- Virtual primary care acceptance
- Digital health adoption in Medicaid and Medicare populations



### Business Opportunities

Integrated 'whole person' care coordination

Primary care for complex consumers

Home-based services

Targeted social supports programs

'In lieu of' services

### Resilience

- Market intel
- Performance data
- Market-responsive strategy, portfolio, processes
- Diversified revenue
- Financial stability
- Collaborative culture

### Efficiency

- Metrics-driven
- Productivity-focused
- Tech optimization
- Process controls
- Specialization and top of skillset work
- Growth for economies of scale

# Leadership In A Competitive Post-Pandemic Landscape

# Planning For The “Next Normal”

What is your ‘vision’ for the market position of your organization’s service lines in the post-crisis period?

What services will be the anchor of margins and sustainability in the new market landscape?

What services do you need to add?

What services do you need to terminate?

What is required to assure competitive positioning – merger, technology, contracts, new service model, etc.?

Can your organization maintain financial stability in the ‘next normal’ at its current scale?

Does your organization’s mission need to change?

How do you compete for the talent to succeed in the ‘next normal’? Clinical team, leadership team, board members?

# The Performance-Strategy Link

**Organizational Performance,  
Competitor Performance,  
& Customer Expectations**

Payer/health plan contract  
performance

Access measures — price, time to  
appointment, convenience, etc.

Consumer experience

Clinical and service performance

Revenue, margins, and financial  
sustainability

**Strategy**

**Organizational  
Performance Management**

**Culture  
Change**

## **Strategic Initiatives**

- Development of integrated care approaches and programs
- Improved managed care functionality with optimized revenue cycle management
- Improved consumer access and engagement
- Service line development, diversification, and new revenue streams
- New technology investments
- Contracts and systems for value-based reimbursement
- Margin improvement with operational process reengineering and unit cost management



# Planning A “Transformational” Service Line For Future Margins & Sustainability

1. Out-of-the-box thinking to create ‘the next big thing’ – remaking the consumer experience
2. Business planning for ‘next big thing’ – feasibility analysis, service line development plan, capital requirements
3. Securing capital to compete



# Current Thinking About Sustainability & Growth Strategy

1. 44% of chief financial officers (CFOs) of health care organizations said they expect to see an increase in partnerships:
  - 28% plan to merge with another organization
  - 24% enter into a joint venture
  - 20% plan to sell to another organization
  - 17% acquire another organization
2. MA&A is used as a strategy to diversify services, with 77% of health care organizations saying they plan to “reset their areas of focus and specialties”
  - 77% of organizations surveyed plan to invest in primary care
  - 50% want to invest in behavioral health



# Five Options For Non-profit Executive Teams To Consider When Funding Their “Next Big Thing”

1. Capital campaigns
2. Borrowing against real estate
3. Private foundation grants
4. Setting up a for-profit subsidiary that can be capitalized externally
5. Merging with a capital positive organization providing scale and resources for growth



# Many Possible Models Of Collaboration

**Merger – Two Similar  
Non-Profit Specialty  
Provider  
Organizations**

**Merger – Non-Profit  
Specialty & Primary  
Care Providers**

**Acquisition – Non-  
Profit By For-Profit  
Provider**

**Acquisition – For-  
Profit By Non-Profit  
Provider**

**Acquisition –  
Specialty Provider  
Organization By Non-  
Profit Health System**

**Acquisition –  
Specialty Provider  
Organization By  
Health Plan/Care  
Management  
Organizations**

**Joint Venture Newco  
– Two or More Non-  
Profit Providers**

**Joint Operating  
Agreement/Shared  
Administrative  
Operations**

**Administrative  
Service Organization  
– Multiple Providers**



# The *OPEN MINDS* 10 Guiding Principles For Successful Collaborations

## 1. Planning comes first

- Start with a plan to create strategic advantage and don't waste resources due to lack of purpose and focus.

## 2. Be systematic and have a process

- Lay out the process and decision criteria in advance so you aren't distracted as issues arise.

## 3. Use experienced talent

- Most organizations need additional knowledge and expertise to make sound decisions – market intelligence, legal, finance, political ramifications

## 4. Be deliberate in partner selection

- Have a planned, deliberate (not necessarily slow) process for finding potential partners

## 5. Be sure the priorities of all parties are in sync

- Make sure goals of all partners line up early in the process

## 6. Expect to give and get full disclosure

- Due diligence involves investigation and assessment and requires complete openness by all partners.

## 7. Allow decision making to evolve

- Strategic plans need to be flexible as realities change – be willing to do things differently and better

## 8. Build in time for a competitive process

- Having multiple partner choices enhances to the quality of the final partner selection decision

## 9. Design an implementation plan

- Ensure that there is an implementation plan that includes tactics, assigned responsibilities, and a budget

## 10. Prepare for stakeholder questions

- Develop a communication plan to address questions and concerns from consumers, customers, referral sources, payers, regulators



# Two Typical Approaches – Planned & Organic

## The Planned Merger/Acquisition Process

- Formal process of defining the criteria for the merger partner and then seeking out providers that fit that criteria.
- It is a very active process of seeking potential partners, vetting them, and proceeding with the merger/acquisition process.

## The ‘Organic’ Merger/Acquisition Process

- Responding to opportunities that present themselves, not the result of a formal search process.
  - Other providers seeking to be acquired contacting your organization.
  - “Failing” providers who may not be able to continue to operate services.
  - CEO retirements leading the board of directors to consider mergers.
- While the opportunity may be organic, rather than a formal search process, the vetting and due diligence process should be the same.

# Keys To Collaboration Success

## The Pre-Collaboration Checklist

1. Objectives (they must be measurable).
2. The business plan—including revenue projections, expense projections, capitalization, and any in-kind contributions.
3. Go-forward role - what the collaborating organizations will no longer do individually (answering the question of how and when can collaborators can compete with their creation).
4. Who is in charge and how decisions will be made.
5. A plan if the financial projections are “off” and more capital is needed.
6. A “prenup” that defines when and on what terms collaborating organizations will no longer collaborate.

With this, an executive team can conduct a cost/benefit analysis – whether the time and money involved is a good investment for achieving better competitive advantage.

# Steps In The Merger & Acquisition Process

## Step #1: Identify Candidate Organizations

- What is the profile of an ideal provider for consideration for a merger?:
  - For-profit or not-for-profit
  - Size in terms of revenues
  - Geographic location(s)
  - Service lines
  - Clinical specialties and expertise
  - Key contracts, provider numbers, licenses, etc.
- Identify provider organizations that meet the target criteria.
- Determine how to approach and contact target organizations.

# Steps In The Merger & Acquisition Process

## Step #2: Initiate Discussions with Target Organizations ('Dating Phase')

- Non-disclosure agreements are usually signed.
- May have agreement of “exclusivity” for a specific time period during this dating phase.
- Key objective is to determine if the merger is a reasonable possibility for both organizations.

*This Dating Phase should not go on forever. The parties should be able to determine whether there is a likely fit within months, not years.*

# Steps In The Merger & Acquisition Process

## Step #3: Signing The Letter Of Intent To Merge (“Engagement Phase”)

- At this point, the executives and board of directors have agreed to a merger pending the due diligence process.
- The Letter of Intent usually includes key areas of agreement and a specific time frame to complete the due diligence and make a final decision to execute the merger.



# Steps In The Merger & Acquisition Process

## Step #4: Conducting Due Diligence (‘Investigation Phase’)

- This is the phase where a thorough due diligence is conducted and documented.
- There are two key goals here:
  - Ascertain that there are no problem areas that would make the merger/acquisition a bad idea.
  - Determine financial feasibility of the merger/acquisition.
- Typically, this due diligence process can be completed in 60 to 90 days.
- The complete findings of the due diligence process should be presented to the executives and boards of directors so a final decision can be made about where to proceed with the merger/acquisition.

# Steps In The Merger & Acquisition Process

## Step #5: Develop & Execute The M&A Agreement ('Pre-Nuptial Phase')

- This is the legal phase of the process.
- It may also involve getting approval for the merger/acquisition from appropriate parties.

# Steps In The Merger & Acquisition Process

## Step #6: Implement The Merger/Acquisition ('Marriage Phase')

- The final steps are to complete the merger/acquisition and move on to all steps of the integration plan.

1. CEO of the merged organization
2. Employment guarantees for other team members
3. Name of the merged organization
4. Governance and organizational structure of the merged organization
5. Board members of the merged organization – and representation from each participating organizations
6. Board chair of the merged organization
7. “Protection” of continued operation of selected service lines or service locations

## Common Issues That Prevent Mergers & Acquisitions From Happening

# Factors That Contribute To Collaboration Failure

1. Failing to get “buy-in” from key stakeholders – board, executive team, management team, donors, community partners
2. The organizational cultures are not aligned
3. Significant organizational risks and challenges are missed during the due diligence process
4. Talent needed to execute post-merger activities and achieve potential synergies for success in the new organization is missing
5. Poor timing/messaging of announcement to key team members and key customers





# The Due Diligence Checklist

# Due Diligence Checklist

This Acquisition Due Diligence Checklist is divided into the following key sections:

1. Organizational Information
2. Financial Information
3. Administrative Operations - Finance
4. Administrative Operations – Human Resources
5. Administrative Operations – Quality & Compliance
6. Administrative Operations - Technology
7. Administrative Operations – Marketing & Business Development
8. Clinical Operations

# I. Organizational Information

- 1) Review Articles of Incorporation, Bylaws, including all amendments, and other corporation documentation.
- 2) Review complete Chart of Organization, including salaried FTE's and independent contractors.
- 3) List of all staff positions, titles, compensation, benefits, and years of service
- 4) Annual reports filed with the state Secretary of State (most recent)
- 5) List of states where organization is doing business or raising funds or owns property.
- 6) Review Balance Sheet to identify key assets and liabilities.  
Review documentation on key assets.  
Review documentation on key liabilities, including loans.
- 7) Review bank accounts and bank statements for previous twelve months.
- 8) Review documentation regarding any business relationships, joint ventures, or other contracts.
- 9) Review leases for property and equipment.
- 10) Schedule of all real property owned or leased.
- 11) Surveys, zoning approvals, variances, and use permits
- 12) Environmental reviews, including list of hazardous wastes and disposal methods used
- 13) UCC filings
- 14) Review and investigate any pending, threatened, or completed litigation that has occurred in the past five years.
- 15) Review any consent decrees, judgments, other decrees or orders, settlement agreements and other agreements to which the organization is bound.
- 16) Review all payer contracts.
- 17) Review a listing of all officers, directors, or other key employees and related resumes and employment history with company, including any key employees who have left the company in the past two years.
- 18) Copies of all board and committee meeting minutes
- 19) List of current board members, including terms, skills/expertise, tripartite sectors represented (if applicable)
- 20) Other board policies and procedures (e.g., code of ethics, democratic selection procedures or other board selection procedures)
- 21) Review the details for any intellectual property, including any patents, trademarks, copyrights, etc.
- 22) Review a list of insurance coverages in force (e.g., business interruption, directors and officers, fire or casualty, extended coverage, general liability, motor vehicle, professional liability, unemployment compensation, etc.), including names of carriers, brokers, description of coverage, amounts of coverage, amounts of premiums, expiration dates and significant conditions and benefits. Review details of any major claims or losses in past five years.
- 23) Review all information and correspondence regarding compliance with federal, state, or local environmental laws and regulations (including permits, permit applications, notices of violation, etc.)
- 24) Review any business, operational, or strategic plans.
- 25) Review charitable contributions

# II. Financial Information

- 1) Review monthly P & L statements for the past two years, including comparison of budget to actual data.
- 2) Audited financial statements (last 3 years)
- 3) Auditor's Management Letter (last 3 years)
- 4) Analyze revenues and profit/loss by service line for the past two years.
- 5) Review most recently prepared budget.
- 6) A breakdown of revenues and expenses for each of the organization's programs
- 7) Review M & A overhead expense percentages for the past two years as well as process for allocating overhead expenses to programs.
- 8) Review a list of all payers as well as the top ten payers in terms of total net revenues for the past two years.
- 9) IRS tax exemption determination letter
- 10) Review all federal, state, and local tax returns for the past five years.
- 11) Review any pending or previous tax issues that have occurred in the past five years (such as audits, extensions, penalties, tax liens, etc.)
- 12) Information related to sources of unrelated business income (last 3 years)
- 13) Property tax exemptions
- 14) Employment tax filings (last 3 years)
- 15) Review summary aged trial balance of the accounts receivables.
- 16) Review or calculate cash flow budget for the next 12 months.
- 17) Review inventory of all equipment and other assets.
- 18) Review current accounts payable listing.
- 19) Review process for accruing liabilities, including process for calculating bad debt reserve for the accounts receivable.
- 20) Review a listing of all capital expenditures made in the past two years.
- 21) Review all outstanding debts and terms.
- 22) Review documents of title for any property owned. (Security agreements, mortgages, indentures, and collateral pledges)
- 23) Recast financial statements for the past two years, if needed, to adjust for any corrections or other changes to more accurately reflect profit/loss, based upon due diligence findings or other issues.
- 24) List of all liabilities
- 25) Grant agreements and award terms and conditions (last 5 years)
- 26) Restricted gift agreements (other than grant agreements)
- 27) Subaward and delegate agency agreements
- 28) Merger, shared services, partnership, joint venture, and other affiliation agreements



# III. Administrative Operations - Finance

- 1) Review any policies and procedures for all key areas of finance:
  - Accounting and audit
  - Billing
  - Purchasing
  - Accounts payable
  - Payroll
- 2) Review process for tracking, reporting, and billing services.
- 3) Review billing and collection processes and staffing.
- 4) Review private pay policies and processes, including any sliding fee schedules.
- 5) Review accounts payable vendor listing, including total amounts paid to all vendors over the past two years. This should include a review of total payments in the past two years to any independent contractors.
- 6) Review payroll listing, including total amounts paid to all employees for the past two years.
- 7) Review information about any tax advisors or accountants and any related professional services agreements.
- 8) Review reports from any independent audits conducted in the past five years.



# IV. Administrative Operations – Human Resources

- 1) Review any policies and procedures related to human resources.
- 2) Review employee manuals or handbooks.
- 3) Review all HR related forms and documentation for:  
Hiring employees  
Evaluating employees  
Disciplining employees  
Terminating employees
- 4) Review any employee agreements, collective bargaining agreements, severance agreements, compensation agreements, or other similar contracts.
- 5) Letters of intent, memoranda of understanding
- 6) Employment and consultant agreements (including severance and incentive compensation agreements)
- 7) Resumes (for key employees)
- 8) Conflict of interest policy
- 9) Review all job descriptions.
- 10) Whistleblower policy
- 11) Review history of any employee or labor complaints or grievances for past two years, including all pending legislation
- 12) Review history of worker's compensation claims paid out in the past two years.
- 13) Review staff turnover rates by position for the past two years.
- 14) Description of significant employee problems, including alleged wrongful termination, harassment, and discrimination.
- 15) Collective bargaining agreements (if applicable)
- 16) Review details about any bonus or compensation plans and payment amounts for the past two years.
- 17) Collective bargaining agreements (if applicable)
- 18) Retirement plan documents (qualified and nonqualified)
- 19) Review any confidentiality or non-compete agreements.
- 20) Review any loan agreement with employees.
- 21) Investment policy (if any)
- 22) Review benefits packages, including detailed review of insurance plans and contracts, retirement plans and contracts, profit sharing or stock option contracts, etc.
- 23) Document retention/destruction policy

# V. Administrative Operations – Quality & Compliance

- 1) Review any quality management plans and processes. (corrective action plans(5 yrs)
- 2) Review corporate compliance plans and processes.
- 3) Comprehensive risk assessment of the organization (last completed)
- 4) Review policies and procedures for technical and quality audits of consumer medical records.
- 5) Review findings and action plans from quality and compliance audits from the past two years.
- 6) Review details of any critical or unusual incidents for consumers served in the past two years.
- 7) Description of any currently threatened or pending litigation.
- 8) Description of any currently threatened or pending government investigations.
- 9) Settlement agreements (last 5 years)
- 10) Injunctions, court orders, consent decrees (last 5 years)
- 11) Unsatisfied judgments
- 12) Insurance policies (general comprehensive, automobile, Employment Practices Liability, Directors & Officers Liability, child abuse/molestation liability, etc.)

## VI. Administrative Operations – Technology

- 1) Review listing of all technology assets owned or leased, including personal computers, servers, mobile devices, telephones, etc.
- 2) Review list of key software applications in use.
- 3) Review technology infrastructure.
- 4) Review any technology equipment, software, or service contracts.
- 5) Review all technology related policies and procedures, including those related to ensuring privacy and confidentiality.
- 6) Schedule of significant IP, including trade secrets (e.g., donor lists, fundraising plans).
- 7) Registrations and applications for copyrights, trademarks, and patents.
- 8) Software licenses

# VII. Administrative Operations – Marketing & Business Development

- 1) Review trademarks and copyright
- 2) Review marketing plan
- 3) Review current customer contracts
- 4) Review of web site and social media performance statistics
- 5) Listing of all technology assets owned or leased, including personal computers, servers, mobile devices, telephones, etc.
- 6) Internet domain names, website linking, content provider and other e-commerce agreements

## VIII. Clinical Operations

- 1) Review policies and procedures related to medical records.
- 2) Review all medical record forms, including all assessment, treatment planning, service documentation, and discharge forms.
- 3) Review processes for accessing psychiatric and medication services.
- 4) Interview clinical leadership to discuss treatment philosophy.
- 5) Conduct a select audit of medical records to assess the clinical and documentation quality.

# Turning Market Intelligence Into Business Advantage

*OPEN MINDS* market intelligence and technical assistance helps over 550,000+ industry executives tackle business challenges, improve decision-making, and maximize organizational performance every day.

