

NOT-FOR-PROFIT MERGERS
2019 CHHSM 81ST ANNUAL GATHERING
ABBREIAL “ABBY” DRANE, CPA, MBA
REGIONAL CEO KENTUCKY



CENTERSTONE

STRATEGIC UNIONS



- Mergers of for profits are much like buying a home. You get the best price and terms and seller departs with money and buyer has new house and debt.
- Mergers of not-for-profits don't work that way. They are more like a marriage in that there is no buyer or seller, no one walks away with cash, the merged organization has no acquisition debt. Both parties bring all assets and liabilities into a common and permanent union...David C. Guth, Jr.



STRATEGIC PLANNING



- Where is the industry going?
- What capabilities will my organization need in order to be optimally competitive in the emerging landscape?
- What scale does my organization need in order to support those capacities?





SOME UNDERLYING ASSUMPTIONS

- Increased Competition from national not-for-profits and for-profits
- Market forces will drive considerable consolidation around profitable service lines.
- Current service footprint
- Much like hospitals, national service line expertise must be married to regional executive and board accountability.
- Many shared service efficiencies are optimized at \$400 to \$500mm and a regional US footprint

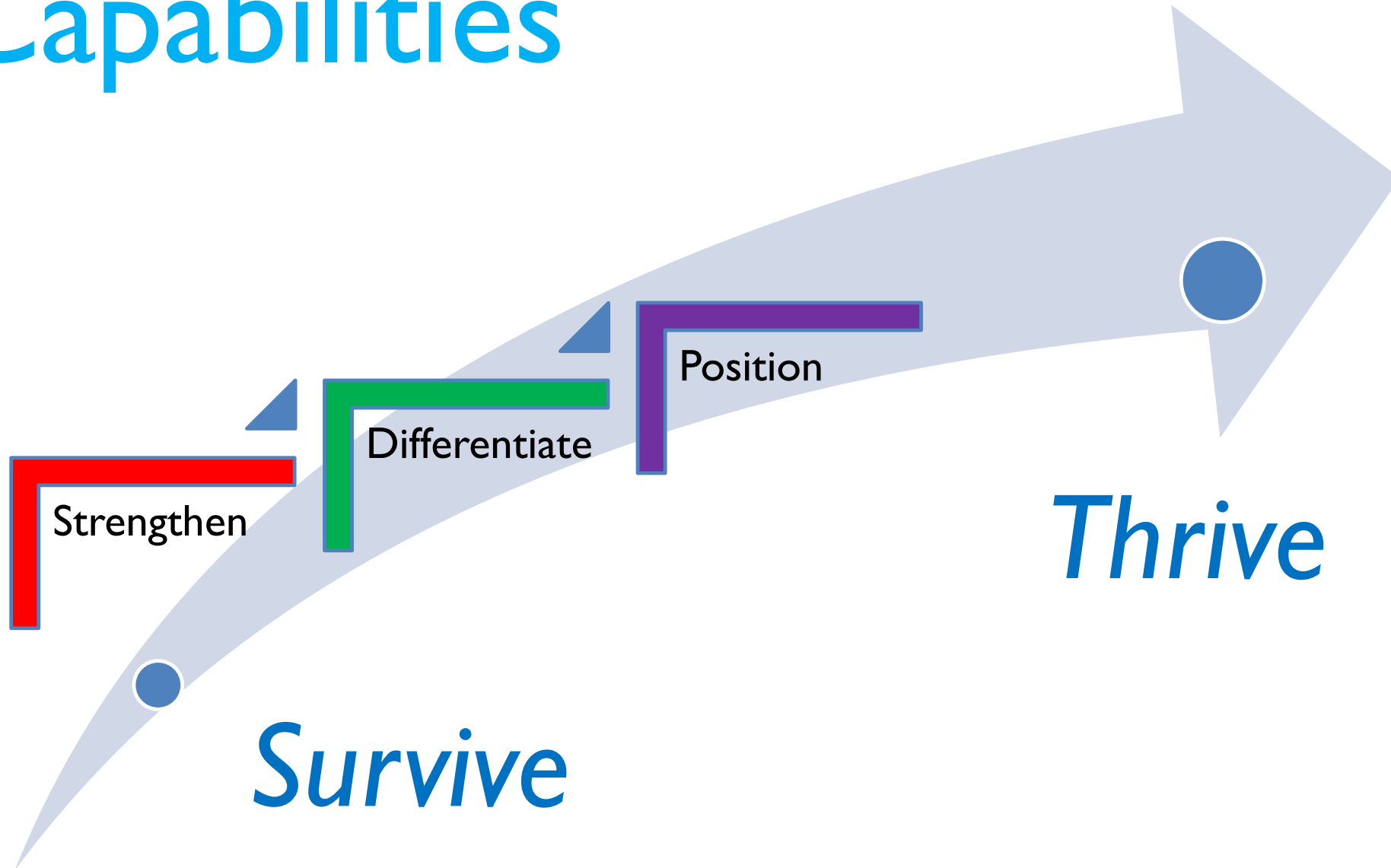


Market Level Opportunities

Opportunity Ceiling

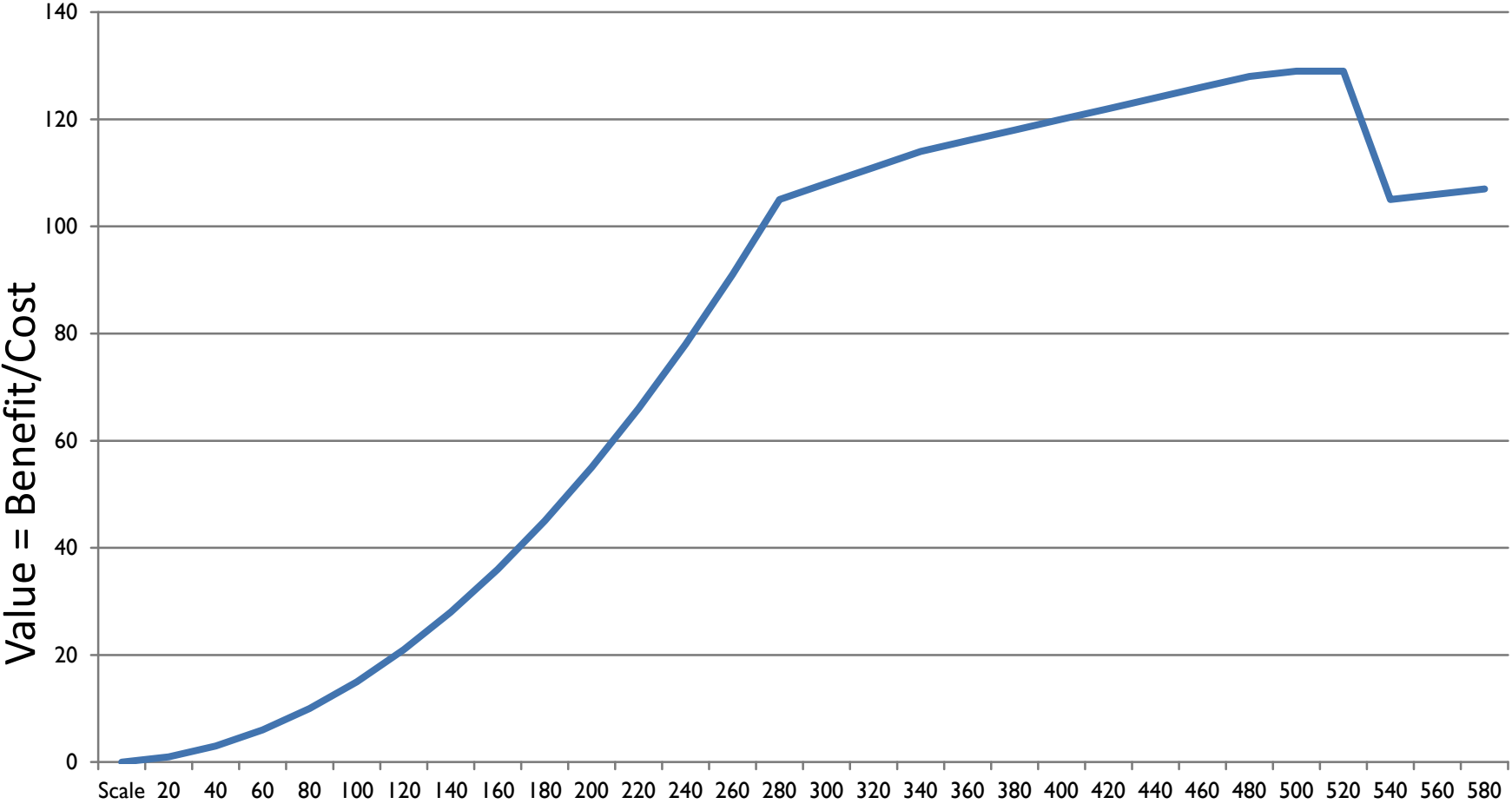
Capabilities

Capabilities



INFRASTRUCTURE VALUE CURVE ©

- 1. Efficiencies, value added capabilities, and resiliency are achieved as organizations move to optimal scale
- 2. Exceeding optimal scale adds cost and complexity without commensurate benefit.
- 3. Infrastructure value does not follow the same scale curve across all functions.



Annual Revenues (\$millions) Values are for illustrative purposes only.

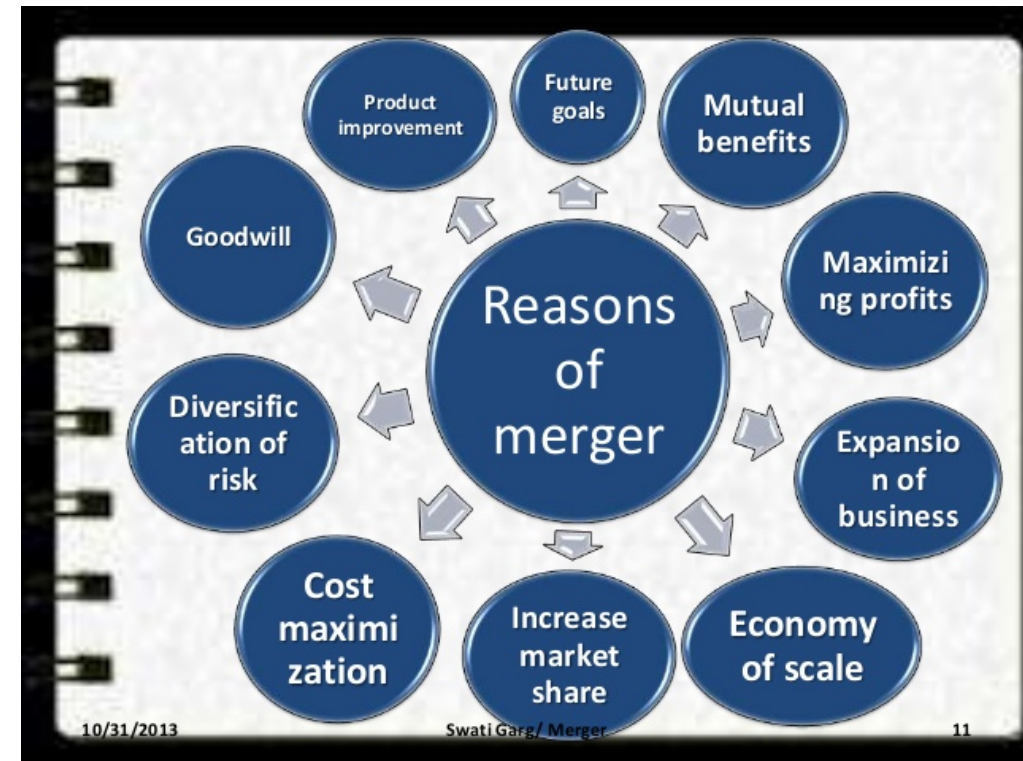
WHAT ARE YOU COMMITTED TO?

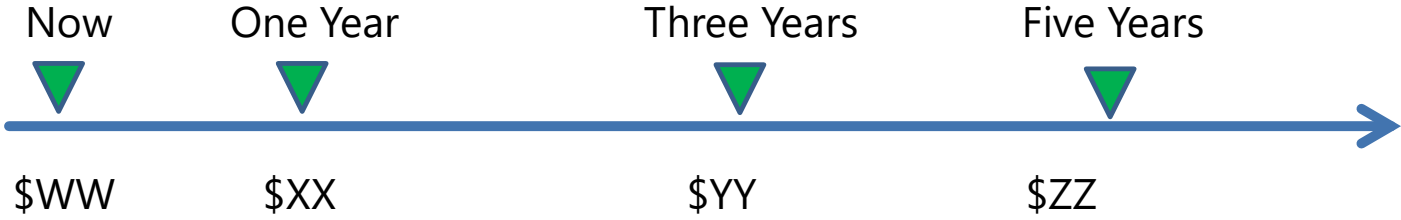


- The journey or the destination?
- Legacy or future?
- The same trajectory or change

BECOMING THE IDEAL COMPETITOR

- What does that look like and **Why**:
 - In scale?
 - In service lines?
 - In capabilities?
 - In value to consumers, referral sources, payers, staff?





Growth Tactic

1 year **Certainty** 3 year **Certainty** 5 year **Certainty**

Organic Growth

- same store
- new market or service

Acquire

- non profit
- for profit

Acquired

- non-profit
- for profit

Affiliation with

- smaller scale
- similar scale (+/- 40%)
- larger scale

Joint Venture

- non-profit
- for -profit

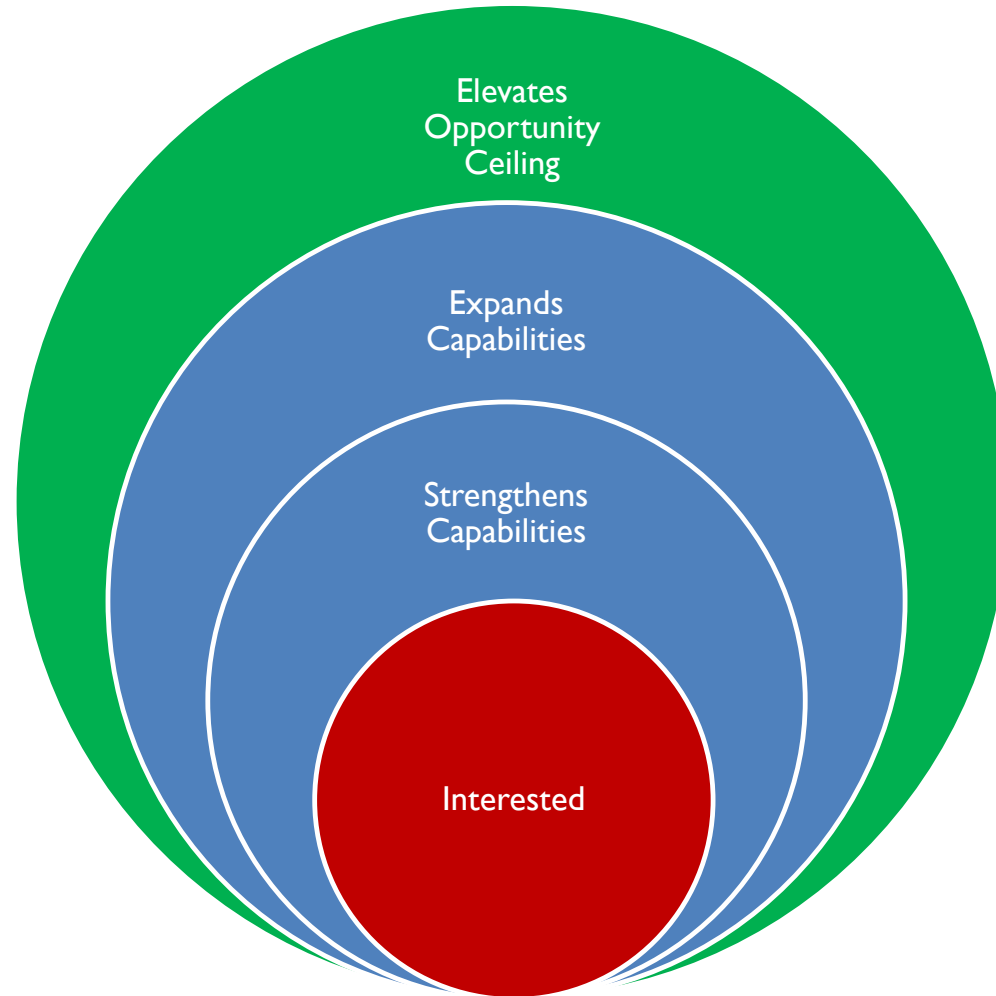
ABC, INC. GROWTH PLAN

THE MARRIAGE MODEL

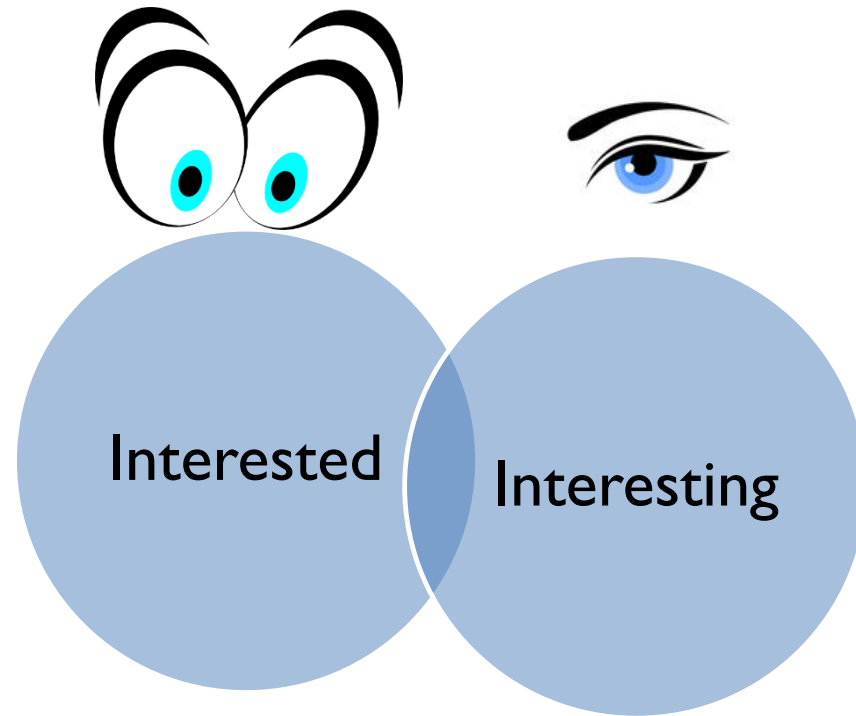


- No buyer or seller and no acquisition debt
- Seeking compatible (values and vision), attractive, and attracted partners
- Permanent union
- Shared assets and liabilities
- The real work begins after the wedding

Affiliation Targets



MUTUAL ATTRACTION



THE INVENTORY

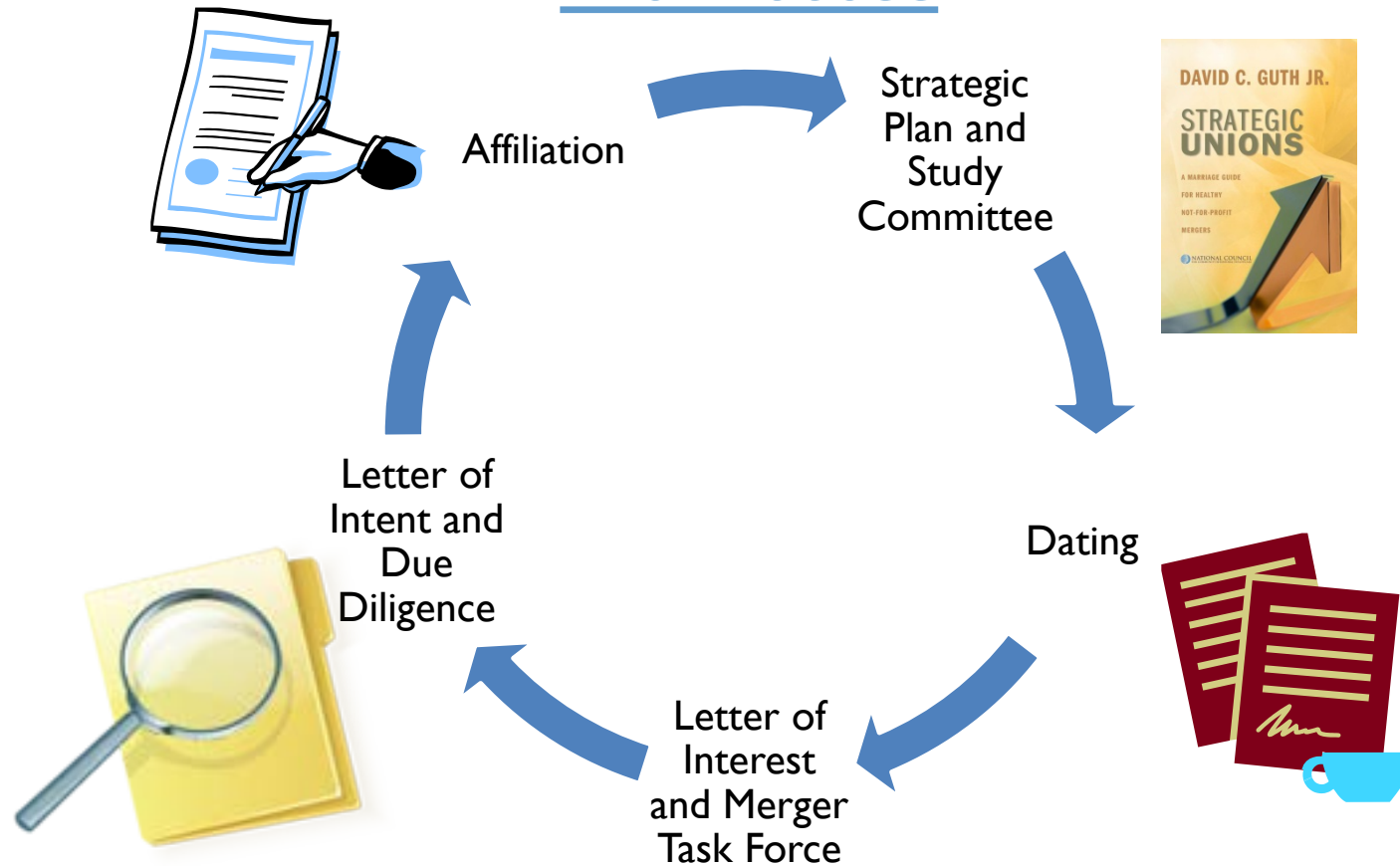


What assets **and liabilities** does my organization bring to another merger partner?

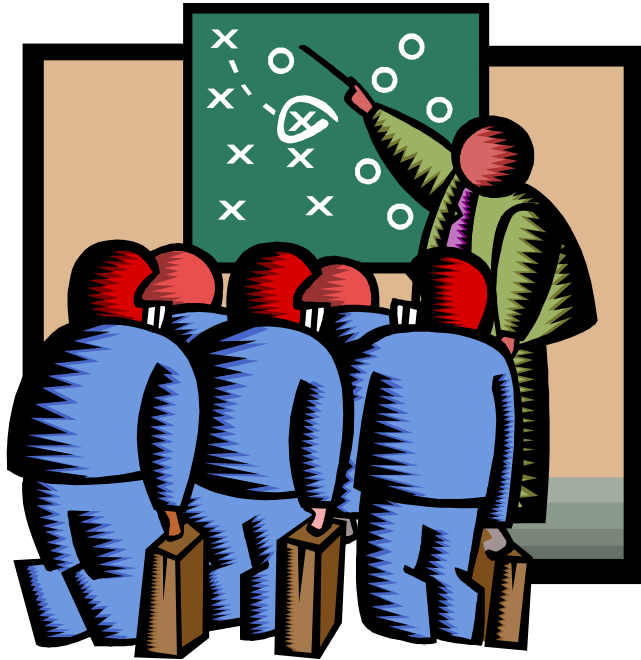
What strategically important assets could my organization expect to acquire through another merger partner?

HOW IT IS DONE

The Process



THE PLAN DESIGN



- The Organizational Chart
- The Corporate Plan
- The Board Plan
- The Brand Plan

- The Benefit Plan
- The Facilities Plan
- The Communications Plan
- The Authority Matrix
- The Technology Adoption and Conversion Plan



THE POST LETTER OF INTENT PROCESS



- Once you have completed your strategic planning process and determined that your organization is ready to begin the exploration, and prepared to merge or affiliate if encountering a good opportunity, it is time to begin the dating process.
- When you find a potential merger or affiliation partner that is both attractive to you and finds your organization attractive, it is time to commit to a very serious and time limited exploration process. Together you will determine if a union can effectively advance the strategic goals of each organization. This phase begins with the **Letter of Interest (Going Steady)**

THE PROCESS FROM LETTER OF INTEREST TO GO LIVE



Formation of Task Force

Step 1: The Task Force is formed and the members become very familiar with the other organization.

Step 2: The Task Force explores the goals, structure and date of letter of intent

Step 3: The Task Force Members get respective board endorsement of the decisions.

Step 4: The Task Force explores the plans.

Check agreement → *secure board support* → *disband or move forward*

Step 5: The Task Force Members get respective board endorsement of the decisions.

Step 6: The Task Force reviews the affiance and due diligence plans

Check agreement → *secure board support* → *disband or move forward*

PROCESS CONTINUED



- Step 7: The respective boards approve the letter of intent.

Check agreement → *secure board support* → *disband or move forward*

- **Step 8: CEO's execute Letter of Intent (The Engagement)**
- Step 9: Post Letter of Intent Activity
- Step 10: The Task Force reviews the final due diligence and final affiliation plan
- Step 11: The boards approve the transaction.



PROCESS CONTINUED



Step 12: The CEO's execute closing documents (**The wedding and point of no return**)

Step 13: Branding and communications

Step 14: The Affiliation goes live



"OF COURSE YOU'LL MAKE MISTAKES, BUT NONE AS BIG AS THE ONE I MADE."

WHERE ARE CENTERSTONE AND USPIRITUS TODAY



Our mission: delivering care that changes people's lives

QUESTIONS?



THANK YOU