Hospital Transactions & Valuation Issues

4 Steps to Kick Off a Successful Transaction Process

Written by Kathleen Roney | March 19, 2012

Evidenced in the current influx of merger and acquisition activity, some hospitals are considering mergers or sales as smart moves given the current economy and oncoming healthcare reform. There are varieties of reasons a hospital may consider a merger, partnership or affiliation. Whether they have distressed assets, need capital investments or just require the stability of a partner — a transaction is a big decision that requires a great deal of consideration.

Here are four steps a hospital should follow to begin a transaction.

1. Analyze, assess and project. Dan Grauman, MBA, managing director and CEO of Veralon, a healthcare finance and management consulting company, believes this first step is the most important. A hospital needs to conduct a structured, thoughtful process with many forward thinking assessments and projections. According to Mr. Grauman, administrators and executives should project outcomes from a variety of scenarios including the option of remaining independent. "The decision [to sell or merge the hospital] deserves thoughtful and deliberate assessment and it is the most important decision hospital leadership will ever make," says Mr. Grauman.

2. Engage an advisor. Due to the complexity of current M&A activity, few hospitals can navigate a transaction independently. An investment bank, consulting firm and/or attorneys are commonly used as transaction advisors. "The advisor first needs to help the hospital administrators and executives crystallize the needs of the hospital as well as the non-negotiables," says Mr. Grauman.

3. Consider all partner options. If a transaction is really the only way to access needed capital or to keep the hospital operating, the next step is looking at all the categories of partners. Mr. Grauman believes considering all the options is crucial. Do not rule out another non-profit, a for-profit or even a private equity investor. Mr. Grauman says there are four main categories of partners: non-profit health systems, non-profit standalone hospitals, for-profit hospital operators like CHS or Tenet Healthcare and emerging for-profit systems backed by private equity firms like

Cerberus Capital Management, which operates Boston-based Steward Health Care System, and The Blackstone Group, which holds majority equity in Tenn.-based Vanguard Health Systems. Mr. Grauman encourages hospitals to review objectives, philosophy and cultural fit when considering potential partners.

4. Solicit interest. The last step is beginning the formal process of soliciting interest, bids and proposals from the various potential partners.

It is important to remember that some hospitals are ideal for potential partners, especially for private equity firm partners, while others are not. The hospitals facing challenges accessing capital are in that situation for a few reasons. According to Mr. Grauman, for example, administrators or executives may have mismanaged the hospital operations or finances, they may have focused on the improving the wrong clinical areas or they may have lost sight of volume drivers or medical staff relationships.

Executives and administrators become interested in selling or merging hospitals for a variety of reasons. Depending on the situation, turnaround may only be a matter of reinvesting in technology and medical staff to get up to speed with competitive hospitals. In those situations, the hospital could have done better under the circumstances and the hospital fits the profile of an attractive investment to potential partners, especially private equity firms. Any potential partner is going to want to see that the fundamentals for the hospitals operation are still present.

Situations and factors always vary, which is why it is important for hospital executives and administrators to project and assess various scenarios for their hospital and its specific situation.