Evaluating a Partner Pre-LOI: 4 Things to Consider

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Seventy-one percent of healthcare leaders expect merger and acquisition (M&A), and other partnership activity to increase over the next three years, according to a *HealthLeaders* survey. But as hospitals explore consolidation as a strategy for navigating reimbursement, regulatory and market challenges, there is concern that some organizations are rushing the letter-of-intent (LOI) process.

An LOI is much like a marriage proposal: It signifies that two organizations are serious about a partnership and will perform the due diligence necessary to move forward with a transaction.

But while an LOI isn't binding, it's critical that healthcare organizations are sure they have found the right fit for M&A or partnership before an LOI is signed. For one thing, unraveling an LOI is a politically sensitive endeavor, since the intent to merge or partner likely has been reported in local, regional, or even national media. There's also the matter of explaining to staff and physicians why a proposed partnership isn't meant to be and readjusting expectations. And rushing the LOI process ultimately increases the amount of money spent on legal work and diverts time from organizational priorities. These are situations that often can be avoided pre-LOI when organizations carefully assess both the benefits and risks.

How can hospitals and health systems make certain they have found the right partner before an LOI is signed? There are four strategies to consider.

BEFORE YOU SEEK A PARTNER, PERFORM A "PRE-PARTNERSHIP ASSESSMENT."

Take a careful look at your organization's readiness for partnership and what you hope to achieve from consolidation or affiliation. What are the "must haves" for partnership? What are the "nice to haves"? Clearly define and articulate the goals, objectives, guiding principles and critical attributes for partnership. Then, determine the ideal "shape" for partnership, knowing that *form*—in this case, the structure for partnership—follows *function*, or the intended purpose of partnership. For example, is a merger or acquisition needed to achieve the organization's goals, or could a strategic alliance meet the organization's objectives?

KNOW WHERE YOU STAND IN YOUR MARKET.

What moves are your competitors making, and what initiatives are payers exploring in your market or region? What are the types of disruption your region has already experienced, and what signs of future disruption do you see? Taking a pulse on market dynamics will help you better determine:

- key attributes a partner must possess
- The type of partnership model best suited for the market environment
- The likelihood that partnership will help your organization achieve its goals in the short term and long run

CONDUCT AS MUCH "PRE" DUE DILIGENCE AS POSSIBLE.

Some organizations hold off on thoroughly vetting a potential business partner from every angle until they reach the due diligence period. This is a mistake: The more due diligence is conducted up front, the greater the likelihood the deal will be successfully executed. That's why it's critical that healthcare leaders identify any concerns or issues they wish to explore in depth before an LOI is signed. For example, what services will continue to be offered, and which services may be discontinued? Will some staff be reassigned, and if so, which staff? Be sure to probe potential pain points, and resist the urge to sign an LOI until you're comfortable with the answers to your organization's toughest questions.

MAKE THE TOUGH DECISIONS UPFRONT.

What will the governance structure of the consolidated organization look like? What leadership changes will need to be made under the new operating model? Will there be equal representation on the board of trustees, and if not, how many seats will your organization have on the board? Making these decisions in advance and including them in the LOI will help you avoid a "soft" LOI that leaves much to be determined before a definitive agreement is reached.

Conducting pre-due diligence before an LOI is signed helps ensure your organization gains the right match, the right model, and the right terms for partnership—and better positions the partnership for success.

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