

4 Due Diligence Considerations in the COVID Era

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The health care industry continues to consolidate at a rapid pace. Although the pandemic has delayed the implementation of some transactions and even compelled some organizations to cancel plans to merge or affiliate, others that would not likely have sought out affiliation options are now doing so.

Under normal circumstances, key due diligence considerations pertaining to a potential affiliation or partnership must lead to affirmative answers to:

- Will the transaction better position the organization to fulfill its mission? Will it better enable your organization to meet the health care needs of service area residents?
- Can the transaction mitigate financial risks and strengthen competitive position? Are expected benefits measurable and attainable?
- Does the transaction better enable the organization to achieve its strategic vision?

Given the impact of the pandemic, due diligence is now more important than ever. More focused consideration and scrutiny should be placed on:

1. Future estimates of volume and financial performance, including sensitivity analyses for:
 - a. The status quo
 - b. Alternative scenarios on return to pre-pandemic inpatient and outpatient volumes
 - c. A scenario characterized by a potential 2nd wave of the pandemic involving cessation/delay of elective procedures and non-emergent clinical care)



2. Emergency/pandemic preparedness, which should include review and assessment of emergency response plans, surge capacity to absorb increases in patient volume, PPE and resource management, and technology infrastructure to offer telehealth and remote work capability
3. Information systems compatibility and requirements, which are moved to the forefront given exponential growth and user adoption of telehealth and virtual care platforms
4. Physician enterprises. The pandemic has had a significant negative impact on the financial performance of hospital-employed physician groups. Employment arrangements, compensation structures, subsidy levels, and compliance with regulatory policies should be carefully assessed.

A go/no-go decision to pursue a significant affiliation should include:

- clarity on the rationale for, and potential benefits of, an affiliation;
- the nature of the affiliation options available; and
- the degree of control and flexibility each partner has will have to forgo to secure the desired benefits of an affiliation.

These decisions are never easy and, in light of the pandemic, parties to a potential transaction should carefully review available information and consider the implications for the future.

A more focused due diligence process will provide a foundation for prioritization of partnership initiatives and integration. This will lead to better decisions related to the feasibility and business case for the deal, potential changes that need to be made to transaction terms, and confirming whether to proceed with the transaction. In these unprecedented times, as we approach the “New Normal” the ability of transacting parties to mitigate risks and resolve issues together will determine the success of the affiliation. ●