VERALON

HEALTHCARE MANAGEMENT ADVISORS

Blog Series: No. 1 - Taking a Look at a Deal in Depth

Anatomy of a Deal: Why 2021 Could Present Interesting Opportunities for Acquisitions

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The road through COVID-19 likely will be uneven for not-for-profit systems, with factors such as geography, cash position, unemployment and soft demand for services all playing a role. But for some systems, year two of the pandemic could also prove to be the right time for growth.

In our “Anatomy of a Deal” series, we’ll explore key considerations that a not-for-profit health system might face in acquiring an independent hospital during the pandemic. We’ll also provide an in-depth look at the process for a hospital merger or acquisition, from the initial response to negotiations between preferred candidates and independents to due diligence.

INTRODUCING THE KEY PLAYERS

While the organizations depicted in this series are fictional, they are grounded in Veralon’s experiences with mergers between independent hospitals and not-for-profit systems.

Before COVID-19, some hospitals that had successfully maintained their independence were able to avoid partnership because their financial position remained strong. These hospitals still had the clinical expertise to support key service lines, and they provided value for their communities, like this publicly owned hospital in North Carolina.

But the pandemic created a financial event for hospitals that stretched independents’ ability to survive, with a severe drop in elective procedures, significant decreases in emergency and inpatient care and higher expenses. Some also face greater difficulty collecting out-of-pocket payments from patients amid economic uncertainty. Now, leaders must consider: “How long can we maintain our independence if pre-pandemic volumes don’t materialize?”

In our scenario, leaders for Independent Hospital (IHX)—a fictitious hospital inspired by real events—knew the hospital would need an infusion of cash and resources to stay afloat in 2021 and beyond. IHX boasts geographic exclusivity and serves an attractive, affluent community on the east coast. But IHX needed a boost in capital to keep up with the increasing healthcare needs of a growing population. The hospital also had struggled financially under the weight of the pandemic, despite emergency funds received through the CARES Act, because it had less than three months of cash reserves before the coronavirus emerged.

Leaders for Regional Health System (RHS), a three-hospital system with $1 billion in revenue and a medical staff of 1,000 physicians, received IHX's request for proposal (RFP). But for RHS, IHX was not a dream acquisition. The hospital was located in RHS's tertiary market, and financially, IHX had reached the point of financial distress. Expensive upgrades to medical facilities, equipment, and IT systems also would be needed to position the hospital not only to meet the growing needs of its market, but also perform well under value-based contracts.

However, RHS knew that if it didn't acquire IHX, a competitor would—and that could pose a substantial threat to RHS's long-term future.

GO BEHIND THE SCENES

In upcoming blogs, we'll take a behind-the-scenes look at:

- How RHS responded to IHX's RFP and the factors that IHX weighed in evaluating the response
- The negotiations that took place between RHS and IHX once the health system was identified as the preferred partner
- The due diligence process for the acquisition

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