HEALTHCARE MANAGEMENT ADVISORS

Hospital M&A: 3 Key Considerations to Reach a Fair Deal

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Board members of not-for-profit community hospitals face enormous pressure to protect their community's access to care. Even when the economic reasons for hospital mergers and acquisitions (M&A) are compelling, the decision to cede control to another system cannot be made based on purchase price alone.

It's just one reason why not-for-profit board members must understand their fiduciary responsibility in the event of a merger or acquisition. One key consideration — "Is this a fair deal?" — requires that boards assess a number of components.

Often, board members of not-for-profit community hospitals assume that obtaining a fairness opinion, or an assessment of whether a not-for-profit organization has received fair consideration of its assets, is the primary way they can demonstrate fulfillment of their fiduciary duties to their community. But as Veralon has discussed in recent blogs, nonfinancial deal terms are considered equally important as financial considerations in determining whether the health system or hospital has been fairly valued. With the shift toward M&A transactions that include capital commitments, continuation-of-service agreements, or models for shared governance, board members must look beyond the purchase price in determining whether a proposed deal is fair.

That's why engaging a healthcare valuator and transaction consultant in the early stages of M&A discussions is critical. It enables board members to gain deeper insight into the overall value proposition of a transaction, including the nonfinancial terms of the deal. It also ensures that a hospital has been fairly valued from a number of angles, better positioning the deal to survive regulatory scrutiny.

KEY QUESTIONS FOR LEADERS

How can board members ensure that the deal they are offered is fair? Three key considerations should guide their approach.

What are the defining reasons for the merger or acquisition? The ability to clearly articulate the reasons for M&A will help board members determine what the hospital must gain from the deal. For example, is lack of capital for necessary infrastructure improvements a key driver for partnership? Are low operating revenues threatening the hospital's ability to offer needed services?

What are the nonfinancial aspects of the transaction that we should consider? For example, when Lafayette General Hospital merged with Ochsner Health in late 2020, Ochsner agreed to invest $465 million in capital and other program resources in Acadiana, a 10-parish region of Louisiana where the hospital is located, over the next 10 years. Ochsner also agreed not to reduce staff but increase minimum pay while preserving employee benefits and expanding key services, including behavioral health, pediatrics, women's health, and oncology.

Can we identify the value we are receiving? A financially fair transaction does not have to represent the highest or best price; it should, however, represent a price that falls within the range of reasonable values identified. A formal fairness analysis should clearly identify and explain the valuation approaches used in the analysis with all supporting financial details. It should include a review and analysis of proposed terms of the deal; an explanation of the adjustments and reconciliations that were made in arriving at the valuation; and the sources of information used, including interviews with key hospital leaders and other constituents. It should also incorporate an analysis of the "value" of nonfinancial terms of the deal.

By staying focused on fairness from a number of angles, hospital board members can make the right decisions for the future of care in their community during the pandemic and beyond.

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