POLSINELLI

Health Care M+A

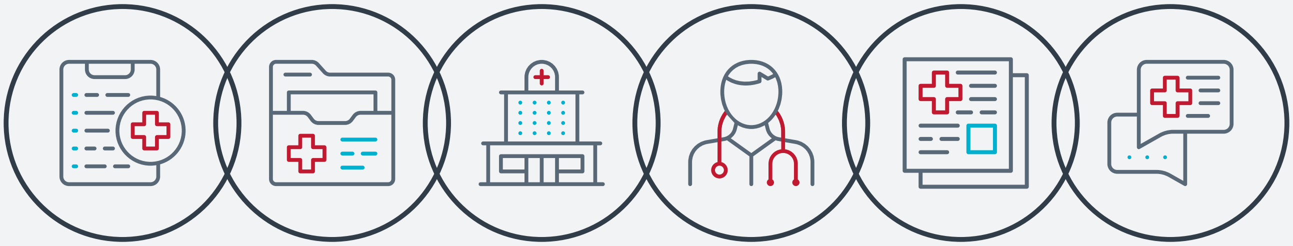
HEALTH CARE “PRIME”

The Strategic Role of Systematic Health Care M+A in Remaking the Future of Health Care

Mergers and acquisitions and innovation are the primary change agents accelerating the remaking of the future of health care.

This white paper explores the strategic role of the merger and acquisition process applied by programmatic acquirers in buying and consolidating middle market health care businesses. These businesses include clinical practices and other providers and suppliers either directly furnishing health care services and products to patients, or indirectly providing administrative and other supporting services and products to those that in turn are furnishing care to patients, such as these subsectors and niches of the health care industry:

Ambulatory surgery centers | Autism services | Behavioral health | College health | Correctional health care | Dental services Durable medical equipment | Federally qualified health centers | Fertility clinics | Freestanding emergency departments | Health technology | Home health | Hospice | Hospitals | Group purchasing organizatons | Imaging | Infusion therapy | Labs | Long-term care hospitals and rehabilitation facilities | Medtech | Nursing home, skilled nursing, and assisted living facilities | Personal care | Pharmacies Pharmacy benefits management | Physical therapy | Physician services | Practice management-management services organization Remote patient monitoring | Renal care | Revenue cycle | Telehealth-telemedicine | Urgent care centers | Vision services



Middle market companies are defined by various metrics, but these tiers generally identify the "middle market":[1]

"Middle Market" Tier	Enterprise Value
• Lower	• Between $25 million and $100 million
• Middle	• Between $100 million and $500 million
• Upper	• Between $500 million and $1 billion

This white paper analyzes the interplay of those middle market health care business mergers and acquisitions with the four-part, patient-care-centric conceptual framework of ownership, organization, payment and delivery that we described in our October 2018 white paper entitled, "Health Care 'Prime' – The Shaping of Health Care in America Through M+A and Innovation."[2] That writing sought to explain, through the four-part framework, how six identified themes and outcomes are being implemented through mergers and acquisitions and innovation activities as significant change agents in remaking the future of health care.[3] In that original white paper, we used mega-deals to illustrate the remaking. We labeled the cumulative activity during this period of accelerating change as "Health Care 'Prime'" and concluded that this era will be centered on the patient more than in the past.

In "Health Care 'Prime': The Emergence of 'Supergroups' Composed of Medical, Dental and Other Clinicians,"[4] our first sub-white paper flowing out of "Health Care 'Prime'," we evaluated the proliferation of large combinations of physicians, dentists, vision-care specialists and other individually licensed health care providers as one trend disrupting the traditional approach of separately owning, organizing and supporting these licensed professions in furnishing clinical health care services.[5] We covered how changes in the health care ecosystem are leading clinicians to migrate to new practice models such as supergroups, which allow clinicians to access capital from private equity and other third parties, utilize new methods of care delivery, deploy and use new technologies, engage in innovation and take other steps to develop and deliver health care services that are patient-centric to meet changing consumer preferences and payor demands.[6]

Systematic Health Care M+A

In this white paper, we use the collective themes and outcomes in "Health Care 'Prime'" and "The Emergence of 'Supergroups'" to explore the programmatic approach to mergers and acquisitions of middle market health care businesses, and the importance of those middle market deals in realizing the future of health care.

Middle market health care businesses defining the future of health care often embody and implement the themes and outcomes we initially described in "Heath Care 'Prime'" and further identified in "The Emergence of 'Supergroups'."[7] Those inter-related themes and outcomes include:

Health Care "Prime"	The Emergence of "Supergroups"
• Private equity ownership	• Capitalizing on changing payment systems
• Value-based care	• Aligning services and performance across the continuum of care
• Consumerism	• Driving innovation through technology
• Integrated care continuum	• Meeting changing consumer preferences and demands
• Data revolution	• Accessing capital
• Shift from in-patient to out-patient care	• Obtaining specialized expertise to support operations
	• Meeting marketplace needs for alternative practice models

1 Nico Cordiero, Bryan Hanson, and Jennifer Sam, "US PE Middle Market Report," Pitchbook, 2017.

2 Jon Henderson, Andrew Kinworthy, and Kevin McDonnell, "Health Care 'Prime' – The Shaping of Health Care in America Through M+A and Innovation," Polsinelli, 2018; Jon Henderson and Andrew Kinworthy, "Health Care 'Prime': The Shaping of Health Care in Texas and Nationwide Through M+A and Innovation," The Texas Law Book, Oct. 22, 2018; Mark Goran and Michael Dolan, "Shaping Health Care In America Through M&A And Innovation," Law360, Nov. 13, 2018, https://www.law360.com/articles/1100061/shaping-health-care-in-america-through-m-a-and-innovation; "Health Care Prime: How Will M&A Shape the American Health Industry Going Forward? By Adhering to the Amazon Model," *U.S. News: Best Law Firms* (2019), 36-37.

3 Henderson, Kinworthy, and McDonnell, "Health Care 'Prime'."

4 Bruce Johnson, Jake Krysiak, and Kelly McGinnis, "Health Care 'Prime': The Emergence of 'Supergroups' Composed of Medical, Dental and Other Clinicians," Polsinelli, 2019.

5 Ibid.

6 Ibid.

7 Ibid.

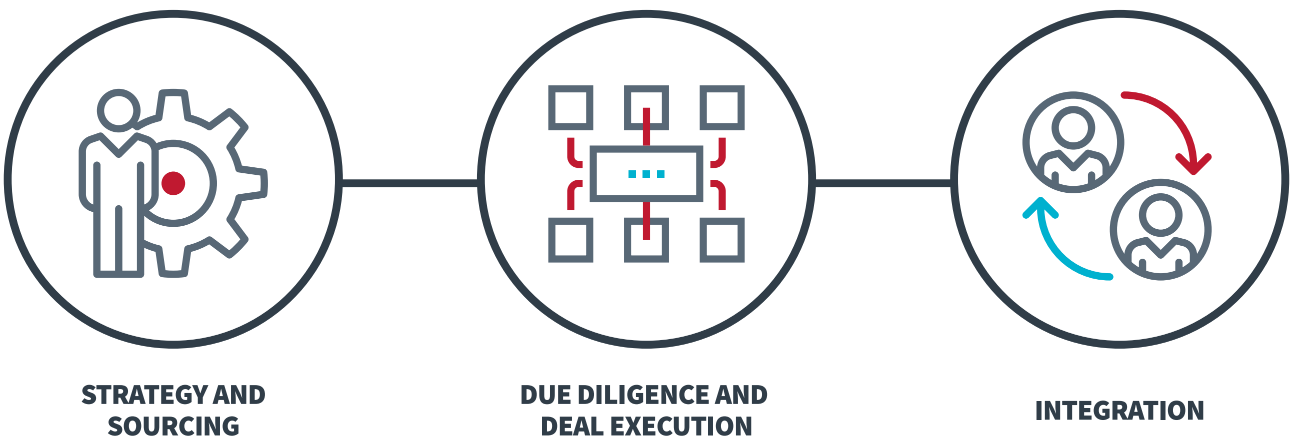
We use the label “Systematic Health Care M+A” to describe the programmatic processes and systems through which middle market health care mergers and acquisitions are executed by those remaking the future of health care within the notion of “Health Care ‘Prime’.”

“Programmatic mergers and acquisitions” is the idea that companies strategically completing a high volume of smaller deals tend to create more value over time than companies that only occasionally complete a large acquisition. Since larger deals tend to be more “hit or miss,” the premise is that a defined strategy of repetitively executing smaller deals can more reliably create greater net value over time.[8]

Evidence shows that programmatic acquirers consistently outperform their peers in terms of overall growth and value generation[9] when compared to occasional, high-profile mega-deals. Programmatic mergers and acquisitions provide a sustainable growth path even when businesses are rocked by recessions and general societal and economic downturns.[10]

Those who engage in Systematic Health Care M+A are more likely to use strategic, specific practices at each stage of the merger and acquisition process, and also as a means of maintaining what is known as the “M&A operating model.”[11]

M&A OPERATING MODEL



The Systematic Health Care M+A process is usable across virtually all subsectors and niches of the health care industry, and across the deal size tiers within the middle market.[12] The following table illustrates three categories of hypothetical programmatic acquirers and their activities, and related profiles of respective acquisition targets in connection with their programmatic merger and acquisition strategies:

8 Werner Rehm, Robert Uhlaner, and Andy West, “Taking a longer-term look at M&A value creation,” McKinsey & Company, January 1, 2012, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/taking-a-longer-term-look-at-m-and-a-value-creation.

9 Oksana Kukurudza et. al., “The Role of Finance in Successful Serial M&A,” IMAA, https://imaa-institute.org/the-role-of-finance-in-successful-serial-ma/.

10 “Forget Those Big Deals (and Headlines): Private Equity Firms are Shopping the Middle Market,” Knowledge@Wharton, Mar. 5, 2008, https://knowledge.wharton.upenn.edu/article/forget-those-big-deals-and-headlines-private-equity-firms-are-shopping-the-middle-market/.

11 Jeff Rudnicki, Kate Seigel, and Andy West, “How lots of small M&A deals add up to big value,” McKinsey & Company, July 2019, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/repeat-performance-the-continuing-case-for-programmatic-m-and-a.

12 Kees Cools et. al., “The Brave New World of M&A: How to Create Value from Mergers and Acquisitions,” Boston Consulting Group, July 2007; Floyd Plettenberg, “M&A as second nature; an accelerator of innovation and growth,” Dealsuite.com, https://www.dealsuite.com/articles/ma-as-second-nature.

Categories of Programmatic Acquirers			
	High Annual Volume, Low Target Enterprise Value	**Medium Annual Volume, Medium Target Enterprise Value**	**Low Annual Volume, High Target Enterprise Value**
Number of Acquisitions Per Year	• Between 5-20	• Between 3-4	• Between 1-2
Acquisition Target's Profile			
Types of Health Care Clinical Practices and Companies	• Single-location physician, dental, or vision services • Single-location home health agencies and hospices	• Ambulatory surgical centers • Single-location long-term care facilities • Multi-location home health agencies and hospices • Multi-location physician, dental, or vision services • Practice management-management service organizations supporting physician, dental, or vision services	• Hospitals • Networks of urgent care centers • Networks of long-term care facilities
Typical Enterprise Value	• Under $10 million	• Between $10 and $50 million	• Above $50 million
Other Common Attributes	• Usually for-profit • Closely-held ownership (< 5 owners) • Small management team comprised mostly of owners	• Usually for-profit, sometimes not-for-profit • Larger, more diverse ownership • Combination of individual and institutional owners • Larger management team with clearly-defined roles and responsibilities	• Usually for-profit, sometimes not-for-profit • Combination of individual and institutional owners • Highly-sophisticated management team and corporate organizational structure
Type of Acquisition	• Add-on	• Add-on • Platform	• Add-on • Platform • Tuck-in • Bolt-on

With the number of general health care mergers and acquisitions reaching a record high in 2018, and the rise of programmatic merger and acquisition deals in various health care subsectors and niches of the health care industry in 2019, we expect to see increasing utilization of Systematic Health Care M+A. The fact that we are writing in the midst of the "frozen" state of deal making caused by the COVID-19 pandemic while we wait on the "thaw" is not lost on us.[13] However, as we look ahead, we anticipate a period when there are more mid-cap than large-cap transactions by both strategic and financial buyers. This is because acquirers will be risk averse when first resuming merger and acquisition activity post-pandemic, and risk aversion usually results in smaller-sized deals, as buyers seek to mitigate risk by putting less at stake. It is with this horizon in mind that we advance this white paper.

The habits and practices of programmatic acquirers are more relevant than ever, and provide a reliable and effective approach to addressing ownership, organization, delivery and payment issues and considerations throughout the entirety of the merger and acquisition process for middle market health care businesses.

13 Thomas Franck, Fred Imbert, and Yun Li, "Here's a full recap of Warren Buffet's newsmaking comments at Berkshire Hathaway's annual meeting," CNBC, last modified May 4, 2020, https://www.cnbc.com/2020/05/02/warren-buffett-berkshire-hathaway-annual-meeting-live-updates.html.

STRATEGY AND SOURCING

The first stage of the merger and acquisition process involves developing a strategy for identifying deals and sourcing them appropriately and efficiently.[14] Decision-making at this stage is driven by investment thesis and corporate strategy, and governed by a defined set of criteria with a clear link to strategic objectives.[15]

Programmatic acquirers consider market trends, the limitations of pursuing certain deals, and other forces that might affect their success in any given market, such as their strengths, their competitive advantages, and the probability that they will be able to achieve the defined goal they have set for themselves.[16] For example, 3M, a company that implemented a programmatic acquisition strategy and completed twenty acquisitions between 2009 and 2013, consequently increasing its enterprise value by 57%, stated that it "pursue[s] acquisitions that utilize 3M's core strengths – global reach, technologies, brand, manufacturing – where [it] can drive value faster than a standalone company."[17] Programmatic acquirers analyze and assemble the resources needed to achieve their end goal – be it capital, partners, different capabilities, or specific assets.

Organization

At this stage, programmatic acquirers also identify an organizational model that complies with applicable regulatory restrictions and is repeatable for effectiveness and scale while also being adaptable to the specific circumstances that a given acquisition and overall growth plans might present.

In health care services, regulatory restrictions include state-specific prohibitions on the "corporate practice of medicine" (or other applicable licensed professions), licensure and certificate of need requirements, fraud and abuse laws, fee-splitting and other prohibitions that restrict who may own, refer to and from, pay compensation to and in what amounts, or employ or control the practices of licensed health care providers. Sometimes, differing regulatory frameworks across states applicable to certain types of health care providers may require deploying multiple organizational models, such as with physician services, where an acquirer may utilize a direct acquisition model in states without corporate practice of medicine prohibitions, and a "friendly PC" model in states with corporate practice of medicine prohibitions. Additional common considerations in organizing health care businesses include the use of a single or multiple employer identification numbers, enrolling and contracting with commercial and governmental payors, employee benefits, insurance, labor and employment and, since the impact of the COVID-19 pandemic, "affiliation" under SBA stimulus borrowing rules.

A programmatic acquirer decides whether the business advantages to be gained by use of multiple models outweighs the simplicity of using one model uniformly, regardless of geography. In both for-profit and not-for-profit settings, programmatic acquirers seek to streamline organizational structures for efficiencies, control and predictability of operational results in scaling their businesses.

Ownership

After identification of the organizational structure for acquisitions, programmatic acquirers next bring that framework into deal-sourcing discussions.[18] Programmatic acquirers take time to identify the best source of funding or ownership for an acquisition.[19]

The ownership structure of the business often differs depending on the type of health care services offered by the acquisition target. Certain categories of programmatic acquirers effect a transaction structure in which the seller (or target owner) receives, in lieu of cash, a portion of purchase price proceeds as equity in the acquirer itself or one of its affiliates. Alternatively, other programmatic acquirers structure acquisitions for a seller (or target owner) to retain a portion of the target's equity. Still other programmatic acquirers utilize a joint venture ownership structure. The ownership structure of the business also often differs depending on the structure of

14 Rudnicki, Seigel, and West, "How lots of small M&A deals add up to big value."

15 Greg Schooley and Mike Phillips, "Build Your M&A Muscle: Why Serial Acquirers Win at Value Creations," IMAA, https://imaa-institute.org/build-your-ma-muscle-why-serial-acquirers-win-at-value-creation/.

16 Rudnicki, Seigel, and West, "How lots of small M&A deals add up to big value."

17 Schooley and Phillips, "Build Your M&A Muscle."

18 Rudnicki, Seigel, and West, "How lots of small M&A deals add up to big value."

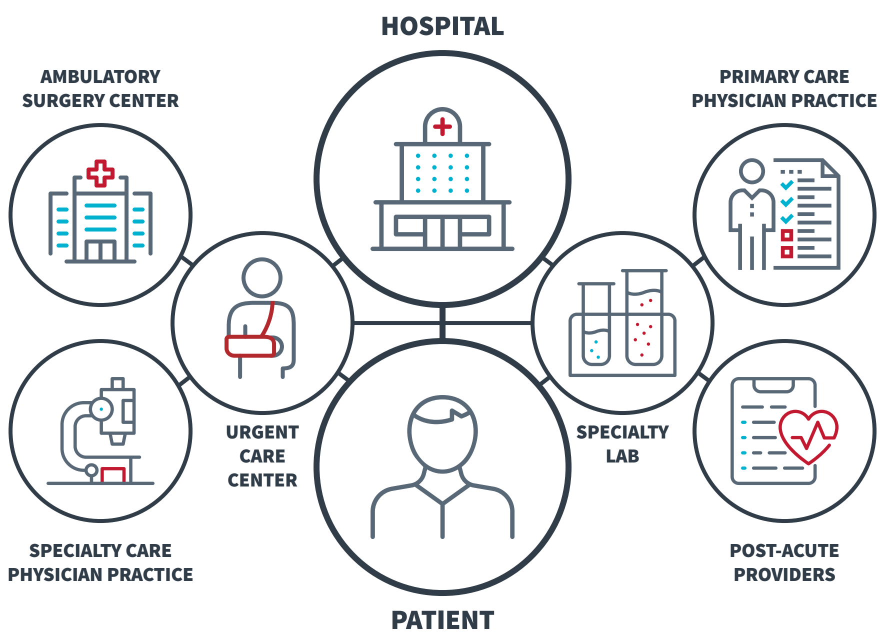
19 Ibid.

the programmatic acquirer itself, including whether the programmatic acquirer is a for-profit or not-for-profit entity, a private equity sponsor or publicly traded.

The ownership of health care businesses is typically influenced by arrangements with payors, and is often limited due to restrictions imposed by state corporate practice laws, licensure requirements, and other federal and state laws and regulations.[20] Private equity investment has become significant in the ownership of health care in the United States, and has been especially prominent in lower middle market deals.[21] Private equity firms frequently show up as a source of funding for these health care deals largely because they have processes for identifying acquisition targets and are highly effective at supporting their portfolio companies in sourcing add-on acquisitions and raising capital.[22] Thus, in identifying the best source of funding or ownership, programmatic acquirers are looking more than ever to private equity funds to pursue their strategy of aligning the care, scale, engagement, and capital investment of a patient-centric integrated care continuum.

Delivery

At this stage of the merger and acquisition process, programmatic acquirers also consider how the target company, and the offered products and services, align with the care deliverable the acquirer provides to patients. This includes consideration of how the target company's services fit within the care continuum of the acquirer's other health services offerings. In addition to using acquisitions to scale their health services offerings, many health care companies also seek to use their acquisitions to bolster their innovation pipelines and create new growth vectors.[23] The resulting comprehensive offering of services across a larger span of the patient care continuum allows companies to broaden their reach and diversify their market presence.[24] This diversity is extremely valuable, as giving patients the ability to choose how, where and from whom they receive their care is becoming a competitive necessity for providers as consumers have come to expect more choice in their health care.[25] To achieve this portfolio diversification, programmatic acquirers utilize both horizontal integration, which helps acquirers reach new markets, and vertical integration, which helps health care companies seeking differentiation and new models for growth to systemize the care continuum, capture payments, and ultimately provide consumers with an array of different services.[26]



20 Henderson, Kinworthy, and McDonnell, "Health Care 'Prime'."

21 Zane Carmean and Stephen-George Davis, "2019 Annual US PE Market Report," Pitchbook, 2019; Dana Pawlicki, "Opinion – Why Lower Mid-Market Healthcare M&A is Poised for Growth," Stonington Capital Advisors, https://stoningtoncapital.com/opinion-why-the-lower-mid-market-healthcare-ma-is-poised-for-growth/.

22 "The story behind the billions spent in healthcare mergers and acquisitions," WIPFLI, Aug. 21. 2019, https://www.wipfli.com/insights/articles/hc-vflt-healthcare-mergers-and-acquisitions-trends.

23 Kara Murphy et. al., "Global Healthcare Private Equity and Corporate M&A Report 2019," Bain & Company, 2019.

24 Henderson, Kinworthy, and McDonnell, "Health Care 'Prime'"; Kara Murphy et. al., "Global Healthcare Private Equity and Corporate M&A Report 2019."

25 Ibid.

26 Jeff Haxer, Ben Siegal, and Dale Stafford, "Corporate M&A: Healthcare Acquisitions Feed Revenue Growth," Bain & Company, April 17, 2019, https://www.bain.com/insights/global-healthcare-private-equity-and-corporate-ma-report-2019-corporate-ma/.

More so than ever, these deliverables include medical technologies in addition to traditional medical products and services.[27] In fact, in 2018, the total disclosed deal value in the medical technology space was $10.5 billion, a sharp rise compared to the $6.5 billion deal value in this space in 2017.[28] Programmatic acquirers see the Systematic Health Care M+A model[29] as a "natural option when trying to obtain new capabilities and technologies," and acquirers are willing to pay a premium price for next-generation platform technologies, which acquirers see as "hav[ing] the potential to disrupt entire industries."[30] The access that medical technology gives consumers through the use of wearables, telemedicine, and other electronics has given rise to direct-to-consumer models in the consumer-focused medtech space and promises to be a continuing source of significant merger and acquisition activity in the short and long-term.[31]

Payment

In this first stage of the merger and acquisition process, programmatic acquirers also take into account the shift in payment models from a fee-for-service model to a value-based care model. Because of the shift away from a model based entirely on the "services furnished" and towards a model that makes providers "more accountable for cost and care outcomes," programmatic acquirers in the health care space increasingly focus on identifying and pursuing targets that have already been successful in implementing value-based payment models, or that have the appropriate infrastructure in place to succeed in a value-based reimbursement world.[32]

DUE DILIGENCE AND DEAL EXECUTION

After identifying target companies that meet their strategic, sourcing, and deliverable goals, programmatic acquirers engage in a structured due diligence process to determine whether the target company is an optimal acquisition. In screening potential targets, programmatic acquirers at this stage gather relevant information about revenue and cost synergies, consider how the target company will integrate into their existing organization (both functionally and culturally), and seek to understand vital due diligence matters described below with respect to organization, ownership, delivery and payment.[33]

Because of the importance of the diligence process and the impact it can have on the overall deal, many acquirers organize a small, focused team to handle due diligence and interface with the target company on all diligence matters.[34] However, a due diligence team that is too narrowly focused or staffed so as to lack essential capabilities to evaluate efficiencies, consider typical acquisition risks or react to common diligence variables can sink even the most promising transaction in the early stages of the acquisition process. On the other hand, a due diligence team that is over-staffed and lacking clearly defined roles and responsibilities could subject an equally promising transaction to the same fate. Thus, a thoughtfully-designed multi-disciplinary diligence team is key for a successful acquisition, and these diligence teams are most effective when they have clearly defined roles and diligence activities that "fit" the factual profile of the acquisition target.[35] With a design thinker's empathetic eye for the target company, a programmatic acquirer may apply a "one size fits all" approach tailored to the facts of the category of acquisition target being consolidated, but will not attempt to do so generically across multiple target company fact patterns.

Additionally, because in nearly all cases the overall diligence process sets the tone for the acquisition, programmatic acquirers also find that narrowly-tailored, targeted diligence requests are paramount to the

27 Kara Murphy et. al., "Global Healthcare Private Equity and Corporate M&A Report 2019."

28 Ibid.

29 Ari Salonen, "Beating the Odds in Healthcare M&A," Midaxo, Mar. 6, 2018, https://blog.midaxo.com/project/beating-the-odds-in-healthcare-ma.

30 Kara Murphy et. al., "Global Healthcare Private Equity and Corporate M&A Report 2019"; Schooley and Phillips, "Build Your M&A Muscle."

31 Kara Murphy et. al., "Global Healthcare Private Equity and Corporate M&A Report 2019."

32 Henderson, Kinworthy, and McDonnell, "Health Care 'Prime'."

33 Rudnicki, Seigel, and West, "How lots of small M&A deals add up to big value."

34 Patrick McCurdy et. al., "Practice Makes Perfect: What Sets Programmatic Acquirers Apart," McKinsey & Company, Nov. 2019, https://www.mckinsey.com/business-functions/m-and-a/our-insights/practice-makes-perfect-what-sets-programmatic-acquirers-apart.

35 Ibid.

diligence process and ensure the acquirer obtains necessary and relevant information without overwhelming the target company's management team with overly burdensome requests. Programmatic acquirers are thoughtful about how they interact with acquisition targets at this early stage, and the due diligence process is a key early indicator to the target of what the relationship with the acquirer is going to look like throughout the balance of the deal process.

Organization and Ownership

Programmatic acquirers focus a large portion of their diligence on understanding the organizational structure of the target company. Obtaining a comprehensive picture of the roles, capabilities, and attitudes of the target company's employees during the diligence stage is key to a successful acquisition, because it informs leadership and decision-making at the integration stage.[36] In conducting this diligence, programmatic acquirers are better able to determine how well the target company's current organizational structure and culture will mesh with those of the acquirer and its affiliates.[37] This diligence also helps acquirers determine how much money and effort they are willing to put into a deal before the costs of acquiring the target outweigh the benefits of an acquisition.[38]

A thorough understanding of the internal organization of the acquiring company is also a major contributor to the success of a transaction, and the diligence teams of programmatic acquirers must be keenly aware of their own internal organization and operational capacities and functions in order to ensure they can adequately assess efficiencies (or lack thereof) and risks during the due diligence stage.[39]

The rise of alternative ownership structures and third party investors in the health care industry requires that acquirers focus on understanding the ownership structure of the target company and its interplay with relevant regulatory considerations.[40] Importantly, acquirers should seek to understand the entire lineage of ownership of the target and motives behind any prior investments in a target company to ascertain whether the target's historical ownership may have created any compliance risk that could impact the target post-acquisition.

Delivery and Payment

During due diligence, acquirers seek information about the services or products that the target company offers to better understand if the target will be an accretive acquisition and further their goals. If the acquirer's goal is to expand the variety of their offered services, then diligence inquiries should confirm that the target company's products or services will contribute to achieving such a goal. Conversely, some health care companies, such as GlaxoSmithKline, focus their Systematic Health Care M+A on creating greater value rather than expansion.[41] Because GlaxoSmithKline's deals are pragmatically chosen based on a set of specific strategic and financial criteria,[42] its diligence efforts are necessarily tailored to ensure that the target meets those criteria, and to further ensure that the target will enhance its brand and make its deliverables more attractive to consumers.

As part of the due diligence process, acquirers also scrutinize the target company's payor mix to identify trends that could negatively impact revenue, particularly as health care reimbursement continues to shift to value-based care models. As part of this review, acquirers look to identify abnormalities in the target's payor mix relative to other companies in the acquirer's existing platform, and to understand if there are opportunities for improvement or reasons for concern regarding the target's long-term revenue potential. Due diligence with regard to payor arrangements is also key to avoiding revenue disruption that can result if the payors' consent is not timely sought and obtained when implementing a transaction.

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36 David Harding and Ted Rouse, "Human Due Diligence," Harvard Business Review, Apr. 2007, https://hbr.org/2007/04/human-due-diligence.

37 Ibid.

38 Ibid.

39 Rebecca Doherty, Cristina Ferrer, and Eileen Kelly Rinuado, "Building the right organization for mergers and acquisitions," McKinsey & Company, Sept. 2016, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/building-the-right-organization-for-mergers-and-acquisitions.

40 Johnson, Krysiak, and McGinnis, "The Emergence of 'Supergroups'"; Kara Murphy et. al., "Global Healthcare Private Equity and Corporate M&A Report 2019."

41 Jens Kengelbach et. al., "Does Practice Make Perfect? How the Top Serial Acquirers Create Value," Boston Consulting Group, April 2011.

42 Ibid.

If the results of the acquirer's due diligence review are satisfactory and the target company is deemed an optimal acquisition, programmatic acquirers next implement well-defined processes for deal execution. Such processes include careful review of initial pre-determined criteria for making both binding and nonbinding offers and the subsequent utilization of well-developed standardized transaction documentation upon agreement of principal terms.[43]

To that end, seasoned programmatic acquirers take significant care (and incur significant expense) to initially plan and prepare, and subsequently continuously improve and cultivate, standardized transaction documentation that will be used in connection with their programmatic acquisition strategies. Such standardized documentation must be reflective of the anticipated enterprise value of prospective acquisition targets, as well as desired deal structures, including the operational realities of the acquirer itself and its prospective acquisition targets.

The most successful programmatic acquirers are also highly adept at leveraging the assistance of external legal, transaction advisory, valuation, accounting and other due diligence advisors throughout the stages of the acquisition process, but the extent of such assistance will vary depending on the structure, complexity, and the size of a specific acquisition.

For "High Annual Volume, Low Target Enterprise Value" acquirers executing a Systematic Health Care M+A strategy using standardized transaction documentation, minimizing transaction expenses for singular acquisitions is of paramount importance, and such acquirers may only leverage the assistance of external advisors in a piecemeal manner when required in connection with analyzing atypical, novel or extraordinarily complicated issues that arise in any singular acquisition. These acquirers may also outsource entire parts of acquisition functions, such as legal, to a single service provider who integrates deeply with the acquirer's internal team. On the other hand, a "Low Annual Volume, High Target Enterprise Value" acquirer executing a Systematic Health Care M+A strategy will likely engage with external advisors throughout all facets of the acquisition process – nevertheless, efficiencies may still be realized due to the programmatic nature of the acquisition strategy and the external advisors' familiarity with the habits and preferences of such an acquirer. In all cases, successful programmatic acquirers will be mindful to select external advisors that intentionally use processes and technology and apply "systems thinking" initiatives in executing on programmatic acquisition strategies for their clients who engage in Systematic Health Care M+A.

The processes employed by programmatic acquirers at the due diligence stage allow acquirers to make well-informed decisions about target companies, while maintaining a positive and collaborative relationship with the target. Upon agreement of principal deal terms, programmatic acquirers seek to effect acquisitions in the most efficient and standardized manner practicable.

INTEGRATION

The integration stage of the merger and acquisition process is arguably the most important for programmatic acquirers. It is a core facet of a successful merger and acquisition strategy.[44] At this stage, acquirers consider corporate culture and organizational health, and spend time "aligning people, getting buy-in, and developing measurements for the new companies' vision."[45]

Organization and Ownership

Programmatic acquirers find that their approach to integration is extremely important, and successful programmatic acquirers have an internal integration team and a defined integration process and strategy.

43 Patrick McCurdy et. al., "Practice Makes Perfect."

44 Oksana Kukurudza et. al., "The Role of Finance in Successful Serial M&A."

45 Patrick McCurdy et. al., "Practice Makes Perfect."

Successful acquirers develop their corporate departments in ways that prepare their employees for the continued growth of the company. A defined integration process lends itself to that preparation by providing a playbook so that employees know their role in the growth process and ensures that operations of both the target and the acquirer can continue without disruption.[46] The approaches taken for the integration processes utilized at this stage often look different depending on the type of programmatic acquirer, the resources of the programmatic acquirer, the deal type and structure, and the enterprise value of the acquisition target. For instance, the integration process for a "High Annual Volume, Low Target Enterprise Value" acquirer of a closely-held physician practice might consist of merely taking over the business operations and administrative functions of the acquired practice, while allowing the selling physician to continue running the day-to-day clinical aspects of the acquired practice, so as not to disrupt the acquired practice's normal operations following the closing. Alternatively, for a "High Annual Volume, Low Target Enterprise Value" acquirer, the integration process might be more complex so as to involve multiple steps and stages, and feature cross-discipline teams. However, in all cases, an independent and standalone integration team is able to fully focus on the complete integration of the acquisition target, thus allowing other corporate departments of the acquirer to focus entirely on their respective jobs, rather than having integration responsibilities span multiple departments and distracting the acquirer's personnel from their core roles and functions.

Delivery

In addition to considering how best to integrate the target company, acquirers also consider integration from both a deliverable and a data standpoint. Programmatic acquirers integrate the target company in a way that maximizes the alignment of the target company's service offerings with the acquirer's overall care delivery model in a manner consistent with the goals and objectives identified in the first stage of the merger and acquisition model. In doing so, successful acquirers put processes in place that account for the planning, execution, and performance monitoring of the newly-integrated deliverables.[47] Because these deliverables so often involve the data accumulated by the companies, acquirers at this stage consider the best ways to integrate the target company's technology with their existing IT platforms. If similar data and information is collected by the acquirer and the target, then the acquirer must effectively and efficiently compile all such data during the integration stage. However, if the target company's offerings are different from the acquirer's or the target utilizes different technology platforms, the acquirer must consider how to integrate the new business line or technology, and how to evolve its own infrastructure to adequately accommodate it.

Payment

The key function of the integration phase is establishing systems and processes that allow both existing and newly acquired companies to work seamlessly when combined. Thus, at the integration stage, acquirers consider how to integrate the target company's payor arrangements and revenue cycle functions with their own. As health care providers shift from a fee-for-service payment model to a value-based care payment model, acquirers seek to determine ways to receive payment for the outcomes produced, rather than for the services administered.

In all cases, integration results are improved when orchestrated by the acquiring company's finance functions. Cost and payment-focused leaders at the acquiring company are better equipped to recognize target synergies and identify cost efficiencies, which can greatly affect the company's position in the market.[48] Acquirers that both quantify these synergies and disclose them see 42% higher enterprise value growth and 25% higher EBITDA growth compared to acquirers who do not disclose this information.[49]

46 Jonathan Henderson, "Healthcare Dealmakers Quarterly Market Update," Polsinelli, Apr. 8, 2020, webinar, 0:44:06, https://player.vimeo.com/video/405552720.

47 Schooley and Phillips, "Build Your M&A Muscle."

48 Oksana Kukurudza et. al., "The Role of Finance in Successful Serial M&A."

49 Schooley and Phillips, "Build Your M&A Muscle."

CONCLUSION

Middle market deals make up an increasing share of health care business mergers and acquisitions, and the acquirers who are most successful in creating value through executing these deals are those with defined processes and systems in place at each distinct stage of the merger and acquisition life cycle, and whose end-to-end M&A operating model possesses the infrastructure to support the growth that comes with a programmatic acquisition approach. These acquirers intentionally engage in "Systematic Health Care M+A" as a means to their end.

In understanding each stage of the programmatic merger and acquisition process through the lens of the patient-centric themes of organization, ownership, delivery and payment, these programmatic acquirers establish a valuable, consistent and repeatable approach for managing their middle market health care business merger and acquisition activity – a trend that will accelerate redefining the future of health care by encouraging innovation and ultimately enhancing patient care.

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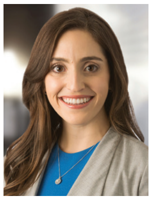

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