HEALTHLEADERS MEDIA
CFO EXCHANGE

Insights Report

OCTOBER 2015

DAVID HARTIG

MAKING PARTNERSHIPS WORK:

M&A, Clinical Affiliations, and Payer Partnerships

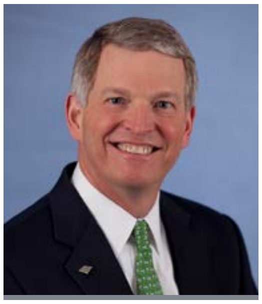
Analysis and in-depth discussion from healthcare finance leaders at the HealthLeaders Media CFO Exchange in August 2015

An independent HealthLeaders Media report supported by

Bank of America Merrill Lynch

Share }

Industry Imperatives: Payment Reform, Transparency, and Partnership



JOHN HESSELMANN
National Head of Specialized Industries
Bank of America Merrill Lynch

KERRI SCHROEDER
Specialized Industries Credit Products Executive
Bank of America Merrill Lynch

LYNN WIATROWSKI
Specialized Industries Treasury Sales Executive
Bank of America Merrill Lynch

We at Bank of America Merrill Lynch are honored to continue to serve as a sponsor of the HealthLeaders Media CFO Exchange. The discussions among industry leaders about this transformational period for healthcare are valuable for the participants and help our team better serve our clients.

Three themes emerged at this year's Exchange, which are consistent with what we're experiencing in the industry:

■ **Payment reform is moving more slowly than anticipated.** Fee-for-service remains the dominant payment mechanism, and while many hospitals see taking on risk by managing population health as the path to maintain fiscal health, many insurers are reluctant to offer innovative payment models. In the meantime, although the Patient Protection and Affordable Care Act has increased the number of insured patients and reduced uncompensated care, high-deductible plans and many of the "silver" and "bronze" coverage options on health insurance exchanges leave patients with an unexpectedly high burden for healthcare spending—and many hospitals with increasing levels of bad debt for insured patients.

■ **Transparency is an elusive goal.** Many CFOs remain frustrated by the inability to define the cost for every procedure in the hospital, and while consumers seek transparency regarding the price and quality of healthcare services, that information is difficult to provide given the complexity of the reimbursement environment. It is clear that hospitals have a handful of common goals: provide care in a way that balances cost and quality; minimize unnecessary utilization; and retain patients and revenue streams within the system. In many cases, this means delivering care to patients in different ways depending on complexity and need—using case management and care coordination for chronic patients, while leveraging urgent care, retail locations, and e-solutions to provide convenient access to care for less acute patients.

■ **Partnerships are key to managing the financial impact.** To rise to the clinical and financial challenges in this transformational time in our industry, partnering with the right organizations is critical. These partnerships are not all about mergers and acquisitions. Hospitals are approaching partnerships from every angle: creating narrow networks to better manage populations, partnering with physicians to drive clinical efficiency and improvements, and even partnering with large employers to craft direct-to-employer plans that cut out the middle man in reimbursement. But not just any partner will do. Culture and strategies must be aligned for these partnerships to be effective over the long term.

We're proud to work with HealthLeaders Media to bring you insights from around the industry. Be sure to explore all of the information and resources available to you on the Executive Insight Center on the HealthLeaders Media website.

Embracing Business, Payer, and Clinical Partnerships

CHRISTOPHER CHENEY
Senior Finance Editor
HealthLeaders Media
ccheney@healthleadersmedia.com

Clinical and financial imperatives vary from health system to system and hospital to hospital, but transformational change in the healthcare industry is driving providers to enter into a wide range of partnerships.

The nearly universal partnership push among healthcare providers was the primary focus of four roundtable sessions at the 2015 HealthLeaders Media CFO Exchange, held at the Broadmoor Resort in Colorado Springs, Colorado. Finance leaders from more than 40 hospitals and health systems across the country discussed their experiences with a continuum of partnerships, including mergers and acquisitions, clinical affiliations, and relationships with commercial payers.

For M&A deals, CFO Exchange attendees say the crucial elements for success include identifying top goals, planning carefully, monitoring performance post-transaction, and having flexibility to accommodate the unexpected with new partners.

For clinical affiliations, the finance leaders say these relationships are easier to create, from a regulatory perspective, but can bring significant financial challenges. The key to success in clinically focused partnerships is developing mechanisms to tease out and monitor the downstream financial impacts of the relationships.

After decades of healthcare providers and commercial payers functioning as financial adversaries, CFO Exchange participants say revamping relationships with commercial payers can be daunting.

Many provider organizations have multiple partnerships—traditional M&A, clinical affiliations, and payer arrangements all at the same time. There is no single model that finance leaders should ape. Instead, partnerships depend on market particulars and should fulfill customer needs.

Discussion

Financial Perspectives on Healthcare Provider Partnerships

CHRISTOPHER CHENEY

Partnerships remain a key strategy for hospitals and health systems to manage the financial impact of changes sweeping across the industry.

But what kind of partnerships? To rise to the clinical and financial challenges of this transformational period, healthcare providers are launching a wide range of partnerships, from narrowly focused clinical affiliations to mergers and every kind of imaginable relationship in between.

"We realize that as we move toward population health, we are going to have to be able to establish partnerships. We can't own everything, but we have to be able to have some influence along the continuum of care," says Kevin Griffin, senior vice president of financial planning and analysis at Winston-Salem, North Carolina–based Novant Health, where he oversees M&A and joint ventures.

TAKEAWAYS

- **M&A success factors**
- **Aligning clinical affiliations**
- **Partnering with payers**

M&A success factors

The most traditional form of partnering among healthcare providers, mergers and acquisitions, continues, as organizations seek market share and the safety of size. CFO Exchange attendees, who are often responsible for the execution of M&A deals, highlight several factors for success.

"First and foremost, you must clearly define the purpose of the deal," says Nick Barto, senior vice president at Catholic Health Initiatives, headquartered in Englewood, Colorado. "The deal can't be for the sake of the deal. You must also make certain that you understand the unintended consequences of the deal.

"You—and the facility or health system that is joining you—have to understand the economic levers that need to be pulled," Barto says. "You have to understand what makes the deal tick and where the synergies are from supply chain and other operational areas that you can move fairly quickly on. You have to understand the synergies that are harder to achieve and be willing to move quickly on those organizationally and not hang back. If you hang back too long, the unintended consequences include your competitors reacting. If you are not ready to react alongside them to protect the asset that you just brought into your system, you can have some short-term disruption."

A shared mission has been the driving force for M&A at OhioHealth in Columbus, says Senior Vice President and CFO Vinson Yates. "Almost every time, we have been told by the local hospitals we have acquired that the selling point for us versus others has been culture and fit—the belief that we actually pay attention to our mission, which is very simple: to improve the health of those we serve. That's the selling point. If you can't get past that, you really have difficulty with everything else," he says.

A healthcare provider merger or acquisition deal must be cultivated and tended carefully to achieve the hoped-for mutual benefits.

"The way we try to make sure that the synergies are realized is solid and detailed business planning prior to the transaction being signed," says Dennis Dahlen, senior vice president

Share }

THE PARTICIPANTS

Elizabeth M. Allen
CFO
Allegheny Health Network
Pittsburgh

Todd Anderson, CPA
Vice President of Finance and Operations and CFO
Grandview Medical Center
Dayton, Ohio

Charles F. Ayscue, MBA
Senior Vice President of Finance and CFO
Mission Health System
Asheville, North Carolina

Nick Barto
Senior Vice President
Catholic Health Initiatives
Englewood, Colorado

Dara Bartels
Interim CFO
Gundersen Health System
La Crosse, Wisconsin

Mark Bogen, CPA
CFO and Senior Vice President of Finance
South Nassau Community Hospital
Oceanside, New York

Peg Burnette, CPA
CFO
Denver Health
Denver

Cora Case, CMA, CHC, CHFP, MBA
Vice President of Operations and CFO
Renown Health
Reno, Nevada

Luis Chanaga
Vice President of Finance/Operations and CFO
Grandview Medical Center System
Dayton, Ohio

Dennis Dahlen
Senior Vice President of Finance and CFO
Banner Health
Phoenix

Edward (Ted) L. Dudley III
Executive Vice President and CFO
Catholic Medical Center
Manchester, New Hampshire

of finance and CFO at Phoenix-based Banner Health. "Sometimes, that's with external help; we've utilized an accounting firm to help establish the synergies. Then you memorialize those items in the transaction. It's not that the dollars are all listed in the agreement, but both sides acknowledge what they are going to try to get out of the transaction.

"When I present it to our board for approval, we include the evaluation of the synergies, creating accountability on management to achieve them," Dahlen says. "From that point on, it takes courage and persistence to make sure all of it happens, because you'll make new discoveries and the facts might change. In my experience, new discoveries are usually negative news, so it will erode what you thought the yield would be, and that is where courage and persistence is required. Accountability for the business outcome doesn't change, so the search for new synergies begins. The important factors are the up-front business planning and the back-end accountability to that business plan."

Governance has been a key factor in achieving M&A success at Scripps Health, says Richard Rothberger, corporate executive vice president and CFO at the San Diego–based health system. "One of the ways that we work with new partners is we set joint operating committees. Then there's a board, an oversight group, and often a finance subcommittee. You can keep your eye on the ball the entire time, so you make sure that you don't lose traction on the vision that you jointly set up at the beginning, so we can jointly be accountable for the success of the new group," he says.

An essential part of executing an M&A deal is making it stick with both organizations, says Fred Savelsbergh, CFO of Baylor Scott & White Health in Dallas. "If you are in it, burn the boats. Effectively, if you are going to get into a merger or acquisition, you are not going to get out of it. If people know where the exit is, they will either use

"If providers are going to be successful, we are going to look a lot like what the customer wants."

ELIZABETH M. ALLEN
CFO
ALLEGHENY HEALTH NETWORK
PITTSBURGH

Share

Kevin Griffin
Senior Vice President of Financial Planning and Analysis
Novant Health, Inc.
Winston-Salem, North Carolina

John Grigson, CPA
Senior Vice President and CFO
Covenant Health
Lubbock, Texas

Scott Hawig
Senior Vice President of Finance, CFO, and Treasurer
Froedtert Health
Milwaukee

Erick Hawkins
CFO and Vice President of Heart and Vascular Services
Rex Healthcare
Raleigh, North Carolina

Rick Hinds, CPA
Executive Vice President and CFO
UC Health
Cincinnati

Dale E. Hocking, CPA
CFO
Jupiter (Florida) Medical Center

Allen Johnson
CFO
Truman Medical Centers
Kansas City, Missouri

Pat Keel, FHFMA
Executive Vice President and CFO
Good Shepherd Health System
Longview, Texas

Jeffrey D. Limbocker, FHFMA, MBA
Regional CFO
Franciscan Missionaries of Our Lady of the Lake Hospital
Baton Rouge, Louisiana

Kelly Linson
Vice President and Chief Accounting Officer
Southwest Community Health System
Middleburg Heights, Ohio

Richard (Rick) Lyman
Vice President of Revenue Cycle
Advocate Health Care
Chicago

Which of the following are among the financial objectives of your overall merger, acquisition, and/or partnership planning or activity?

Increase market share within our geography	68%
Improve operational cost efficiencies	62%
Improve financial stability	58%
Expand geographic coverage	58%
Improve position for payer negotiations	54%
Improve access to capital	27%
Improve access to operational expertise	25%
Improve access to financial management	9%

SOURCE: HealthLeaders Media Intelligence Report, *The M&A and Partnership Mega-Trend: Deals for Growth and Survival*, February 2015; *hlm.tc/1K9kVa8*.

it or it takes longer to truly get to one operation. You can study different mergers and acquisitions where, post-transaction, there are still two CEOs or two COOs: People are still holding out hope for the past, versus focusing on the organization's future."

Aligning clinical affiliations

For many health systems and hospitals, clinical affiliations are an attractive alternative to mergers and acquisitions. It's a way to gain the benefits of collaboration without creating a new legal entity, as a full merger or acquisition requires.

"At ProMedica, we are collaborating with several health systems in our region to identify new and innovative ways to increase standardization of care and reduce costs. With scale [impacting] overhead, shared services, and other transaction-oriented services, operations can be implemented more cost-effectively, which drives overall value," says Alan Sattler, CFO of the Toledo, Ohio–based health system.

For MemorialCare Health System, based in Fountain Valley, California, a partnership was a good way to pursue a strategic goal that the health system had been unable to achieve on its own. "We felt the need to get into the ambulatory space in a much bigger way than we were," says CFO Karen Testman. "There is a great deal of consumer and managed care pressure to provide services at a lower cost and in more convenient settings in our Southern California market. We believed one of the best ways to make that happen was to enter the freestanding surgery center and imaging center business.

"As a hospital provider," Testman says,

Share }

Considering your most recent M&A and/or partnership activity, was it ...

A merger of two organizations into one	10%
An acquisition of one organization by another	34%
A contractual relationship, but not M&A	38%
Other	6%
No activity	11%

SOURCE: HealthLeaders Media Intelligence Report, *The M&A and Partnership Mega-Trend: Deals for Growth and Survival*, February 2015; hlm.tc/1K9kVa8.

Michelle Mahan
Senior Vice President and CFO
Frederick (Maryland) Memorial Health System

Patrick McGuire, MBA, CPA
CFO
St. John Providence Health System and the Michigan Ministries of Ascension Health
Warren, Michigan

Chris McLean
Executive Vice President and CFO
Methodist Le Bonheur Healthcare
Memphis, Tennessee

Mark Meyer, BS, CPA
Executive Vice President and CFO
Grady Health System
Atlanta

Daniel J. Moncher, FACHE, CPA, MBA
Executive Vice President and CFO
Firelands Regional Medical Center
Sandusky, Ohio

Michael Moody
Senior Vice President of Partnerships, Affiliations, and Integration
John Muir Health
Walnut Creek, California

Gregory (Greg) Pagliuzza, FACHE
CFO
Trinity Regional Health System
Rock Island, Illinois

"we had experienced challenges operating freestanding centers on our own in the past, so we made the decision to partner with industry experts along with our physicians. For our surgery centers, we chose to partner with Surgical Care Affiliates. We believed they could help us create a more successful operation, and we needed a network of ambulatory surgery center destinations for our members to receive care. Since we have a substantial number of members in the market, SCA felt we were a partner they wanted to work with, and the physicians felt better about including a partner whose primary focus is running surgery centers."

From a financial perspective, clinical affiliations can be challenging, warns James Wentz, MBA, CFO of University of Mississippi Medical Center in Jackson. "Finance may not be a reason driving a clinical affiliation, but there are financial metrics in every clinical affiliation. There are outcomes like a [per member per month] reduction or some standardized protocol or movement to a center of excellence or a geography-volume play. Every one of these clinical affiliations has financial metrics that are incorporated in the arrangement. Our job is to make sure the right metrics are picked from the financial perspective as well as to assess the financial impact of the partnership."

Edward L. Dudley III, executive vice president and CFO at Catholic Medical Center in Manchester, New Hampshire, says gauging the financial impact of a clinical affiliation requires significant effort.

"It is going to be market by market. There is not going to be one model across the entire country."

PATRICK MCGUIRE, MBA, CPA
CFO
ST. JOHN PROVIDENCE HEALTH SYSTEM AND THE MICHIGAN MINISTRIES OF ASCENSION HEALTH
WARREN, MICHIGAN

DAVID HARTIG

Thinking back to the last time a merger, acquisition, or partnership involving your organization was abandoned before or during due diligence, which of the following were among the operational reasons that the deal did not proceed?

Concern about governance	26%
Incompatible cultures	26%
Mistrust between parties	21%
Concern about operational transition plan	20%
Concern about fate of organization's mission	15%
Other party's decision, for reasons I don't know	10%
Lack of community support	8%
Don't know	21%

SOURCE: HealthLeaders Media Intelligence Report, *The M&A and Partnership Mega-Trend: Deals for Growth and Survival*, February 2015; hlm.tc/1K9kVa8.

Christian Pass
Senior Vice President and Interim CFO
John Muir Health
Walnut Creek, California

Bob Reilly
CFO
Anne Arundel Medical Center
Annapolis, Maryland

Craig S. Richmond, CPA
Senior Vice President and CFO
The MetroHealth System
Cleveland

Richard (Rich) Rothberger
Corporate Executive Vice President and CFO
Scripps Health
San Diego

Cheryl Sadro
Executive Vice President and Chief Business and Finance Officer
The University of Texas Medical Branch
Galveston, Texas

Alan M. Sattler, FACHE, MBA
CFO
ProMedica
Toledo, Ohio

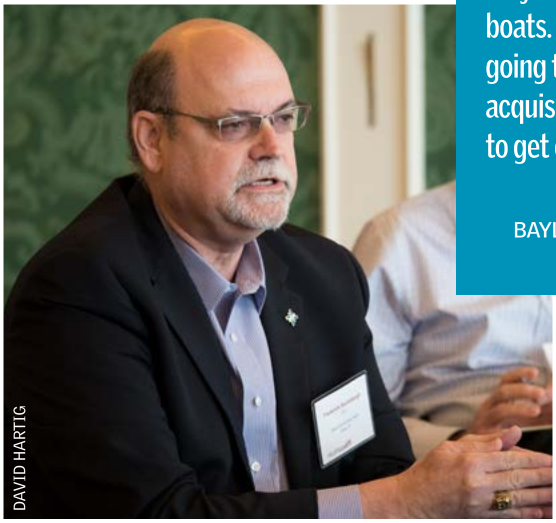
"It's all about how we tease it out and how our clinical partner teases it out. We may not be the one saying the relationship is not working. They may be the one saying the relationship is not working, which causes us to find an alternative solution to that clinical relationship," he says. "It's forever changing and it's a balancing act, because a clinical affiliation is not just for us."

Partnering with payers

As healthcare providers are being variously prodded and drawn to assume more financial risk in the delivery of medical services, establishing partnerships with payers is often problematic.

The details of value-based payment arrangements with commercial payers can be overwhelming, Dahlen says. "There are a lot of shared saving partnerships with payers, and there have been some recent articles that have resonated with me about the proliferation of these models, particularly in the area of proprietary quality measures, triggers, and thresholds.

"The articles suggested, and I agree, that we risk a Tower of Babel scenario where we can't possibly be successful



DAVID HARTIG

> "If you are in it, burn the boats. Effectively, if you are going to get into a merger or acquisition, you are not going to get out of it."
>
> **FRED SAVELSBERGH**
> CFO
> BAYLOR SCOTT & WHITE HEALTH
> DALLAS

Fred Savelsbergh
CFO
Baylor Scott & White Health
Dallas

Richard Silveria
Senior Vice President of Finance and CFO
Boston Medical Center
Boston

Julie Soekoro, CPA
CFO
Trinity Medical Center
Birmingham, Alabama

Karen Testman
CFO
MemorialCare Health System
Fountain Valley, California

Mark A. Thompson, CPA
CFO and Vice President of Finance
Regional Health
Rapid City, South Dakota

Elizabeth (Beth) S. Ward, CPA, MBA
CFO
UT Southwestern University Hospitals and Clinics
Dallas

James L. Wentz, MBA
CFO
University of Mississippi Medical Center
Jackson, Mississippi

Lori Wooten
Senior Vice President and CFO of Hospital Operations
Capella Healthcare
Franklin, Tennessee

Vinson M. Yates
Senior Vice President and CFO
OhioHealth
Columbus, Ohio

managing all of them on a patient-by-patient basis," Dahlen says. "We are measuring nearly 100 quality measures, which span multiple payers, and it's overwhelming. We may not have reached the tipping point yet, but we are coming to the realization that there is probably a limited set of quality measures you can work with effectively."

Following customer needs

As finance leaders at healthcare providers try to anticipate the evolution of their partnerships and how those relationships will impact their organizations over the long term, they see little hope for one-size-fits-all solutions.

"If providers are going to be successful, we are going to look a lot like what the customer wants. That is what we are trying to get to, so it will be ease of convenience, reasonable cost, and high quality," says Elizabeth Allen, CFO of Pittsburgh-based Allegheny Health Network. "When we are doing a partnership now, it needs to get us to meeting the customer demand and the customer needs."

"It is going to be market by market," says Patrick McGuire, MBA, CPA, CFO of Warren, Michigan–based St. John Providence Health System and the Michigan Ministries of Ascension Health. "There is not going to be one model across the entire country. In some markets, health systems and providers are going to try to own as much as they can own. In other markets, health systems are going to partner with others, or they are going to be a niche player."

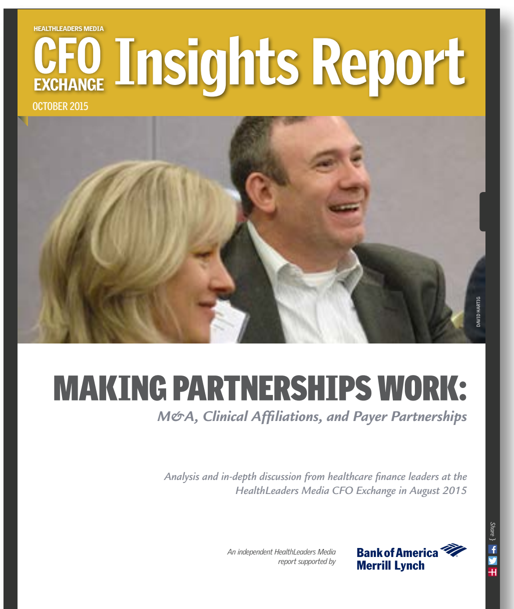
Christopher Cheney is senior finance editor for HealthLeaders Media.
He may be contacted at ccheney@healthleadersmedia.com.

About Us

HealthLeaders Media is a leading multi-platform media company dedicated to meeting the business information needs of healthcare executives and professionals. To keep up with the latest on trends in physician alignment and other critical issues facing healthcare senior leaders, go to *www.healthleadersmedia.com*.

Our Intelligence Unit is the industry's foremost source for executive healthcare business research. It provides proprietary analysis and forecasts through monthly Intelligence Reports on key issues impacting healthcare. Each month, HealthLeaders Media releases a new comprehensive report featuring cutting-edge strategies, benchmarks, and lessons learned from leaders at provider organizations across the country. Data is sourced from our 8,000-member executive Council—delivering the most unbiased industry intelligence available.

Access our full library of exclusive research online at *http://promos.hcpro.com/intelligence*.



HealthLeaders Media

Executive Vice President
ELIZABETH PETERSEN
epetersen@hcpro.com

Publisher
CHRIS DRISCOLL
cdriscoll@healthleadersmedia.com

Leadership Programs Director
JIM MOLPUS
jmolpus@healthleadersmedia.com

Editorial Director
EDWARD PREWITT
eprewitt@healthleadersmedia.com

Leadership Programs Editor
JULIE AUTON
jauton@healthleadersmedia.com

Senior Finance Editor
CHRISTOPHER CHENEY
ccheney@healthleadersmedia.com

Managing Editor
BOB WERTZ
bwertz@healthleadersmedia.com

Media Sales Operations Manager
ALEX MULLEN
amullen@healthleadersmedia.com

Sponsorship

For information regarding underwriting opportunities for **HealthLeaders Media Exchange Insights Reports,** contact: **781-639-3390** | ***sales@healthleadersmedia.com***

HealthLeaders Media
EXCHANGE

HEALTHLEADERSMEDIA.COM

75 Sylvan Street, Suite A-101 > Danvers, MA 01923 > 978-223-1723
100 Winners Circle, Suite 300 > Brentwood, TN 37027 > 781-639-3390
For general inquiries, please email: *sales@healthleadersmedia.com*.