M&A FOR HEALTHCARE INVESTMENTS
Overcoming Risks and Realizing Value

Silvia Hidalgo, Director, M&A Healthcare Leader, RSM US LLP
Matt Wolf, Director, M&A Healthcare, RSM US LLP
Introduction

Matt Wolf
Director, RSM
Healthcare M&A

Silvia Hidalgo
Director, RSM
Healthcare M&A Leader
Learning Objectives

By the end of this presentation, participants will be able to:

1. Understand M&A framework and leading practice overview
2. Learn strategies and stories for creating value through M&A in healthcare
3. Learn from specific examples of lessons learned and success in overcoming risks
## Agenda

<table>
<thead>
<tr>
<th>Section</th>
<th>Speaker</th>
<th>Duration</th>
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</thead>
<tbody>
<tr>
<td>1. Healthcare M&amp;A Market Activity</td>
<td>Matt Wolf</td>
<td>20 min</td>
</tr>
<tr>
<td>2. Merger Integration Approach</td>
<td>Matt Wolf</td>
<td>10 min</td>
</tr>
<tr>
<td>3. Case Study: Creating Value in Healthcare M&amp;A</td>
<td>Silvia Hidalgo</td>
<td>30 min</td>
</tr>
<tr>
<td>4. Lessons Learned and Success in Overcoming Risk</td>
<td>Silvia Hidalgo</td>
<td>10 min</td>
</tr>
<tr>
<td>6. Q&amp;A</td>
<td>Matt Wolf, Silvia Hidalgo</td>
<td>15 min</td>
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While deal activity has remained relatively consistent, mega deals have driven deal value significantly higher in three of the last four years.

Observations

**Common Provider Deals**
- Large system/ smaller system consolidation
- System buying niche (e.g., Ambulatory)
- Systems buying physician practices
- Systems buying regional payers
- Physician practice consolidation

**Major Deal Drivers**
- Depressed margins and search for scale
- Increased regulatory complexity and costs (ACA, HITECH, etc.)
- Customer demands for coordinated care
- Blockchain
- Artificial Intelligence
- Consumerism
- Telemedicine

Source: CapIQ
1) Industry Classifications ( Buyers/Investors): Health Care Providers and Services (Primary)
2) All Transactions Announced Date: 1/1/2016 – 6/30/2019
3) Geographic Locations (Buyers/Investors): U.S. (Primary)
Market Update – RSM Deal by Subsector and Type

Deals by Subsector (3+ years)

- Providers, 125, 46%
- Pharma and pharma services, 66, 25%
- Devices and products, 43, 16%
- Other HC services, 35, 13%

Healthcare Deals by Project Type

- Buy side, 60%
- Sell side, 30%
- Other, 10%

- Providers, 125, 46%
- Pharma and pharma services, 66, 25%
- Devices and products, 43, 16%
- Other HC services, 35, 13%

The least fragmented sectors include:
- Hospitals
- Clinical Laboratory
- SNFs
- Pharma
- BioTech

The most fragmented sectors include:
- Medical Devices
- Dialysis
- EMT
- Specialty Pharmacies
- Hospice
- DME
- ALFs
- Urgent Care
- Hospitalists
- Pharma Services
- Primary Care
- Allergy
- "Retail" Services (dental, dermatology, vision, PT & OT)
- Women’s Health & Fertility
- Pain Management
- Imaging, Radiology, Oncology
- Patient Engagement & Education
- ACOs
- CROs
- HCIT & RCM
- Behavioral Health
- Home Care & Home Health
- Ortho
- Gastro
- Urology
Healthcare providers have grown through M&A but may have left money on the table. As these three large deals suggest, financial value may deteriorate if performance improvement, synergies and overall integration are not squarely in focus.

### 2018 Transactions Sample Set

<table>
<thead>
<tr>
<th></th>
<th>EBITDA Margin</th>
<th>Supplies as % of Rev</th>
<th>Labor as % of Rev</th>
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<tbody>
<tr>
<td>PROMEDICA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>HCR ManorCare</td>
<td>23% to 18%</td>
<td>25% to 28%</td>
<td>27% to 30%</td>
</tr>
<tr>
<td>SURGERY PARTNERS</td>
<td>23% to 21%</td>
<td>4% to 4%</td>
<td>54% to 55%</td>
</tr>
<tr>
<td>National Surgical Healthcare</td>
<td>23% to 18%</td>
<td>25% to 28%</td>
<td>27% to 30%</td>
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<tr>
<td>Encompass Health</td>
<td>23% to 21%</td>
<td>4% to 4%</td>
<td>54% to 55%</td>
</tr>
<tr>
<td>Reliant</td>
<td>23% to 18%</td>
<td>25% to 28%</td>
<td>27% to 30%</td>
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### Commentary

- **PROMEDICA**
  - **Deal Size:** ~$4.4B
  - **Commentary:** "The negative outlook reflects significant risks of rapidly executing on multiple large growth strategies, while transforming the organization’s business, governance and management models during a period of operating challenges across the enterprise. While margins and liquidity are expected to improve, the pace could be slower than anticipated given the magnitude of execution and business transition risks."
  - **Moody’s, October 2018**

- **HCR ManorCare**
  - **Deal Size:** ~$0.7B
  - **Commentary:** "The developing outlook reflects uncertainty around the final terms and composition of the capital structure and deleveraging capabilities. Moody’s will also weigh the benefits of the NHH acquisition (e.g., greater scale, business diversification, and potential synergies) against the integration risk associated with this relatively large transaction."
  - **Moody’s, May 2017**

- **Encompass Health**
  - **Deal Size:** ~$0.7B
  - **Commentary:** "The negative outlook reflects Moody’s belief that recent large debt-financed acquisitions demonstrate management’s willingness to operate with higher leverage in order to complete opportunistic acquisitions. Further, the increase in debt and weaker credit metrics resulting from these leveraging transactions reduce HealthSouth’s cushion to absorb negative events at the current rating level."
  - **Moody’s, September 2015**
Merger Integration Approach

After the synergy assessment and initial due diligence is complete, the Integration Management Office, Day 1/BCP, Quick Wins, 100-Day and Long Term Integration planning and execution phases guide the effort toward business value optimization.

- **Strategy & Vision**: Execution of Corporate Strategy and the active seeking of an acquisition
- **Synergy Assessment and Due Diligence**: Actively seeking to determine the value of the acquisition target and identifying synergies, risks and integration costs
- **Due Diligence**: Initial planning required to prepare for the first day of the new organization through the detailed planning of the activities required to complete integration and realize the benefits.
- **Integration Planning**: Execution of integration projects required to begin integrating those parts of the organization considered high priority (ex. external reporting, consolidated applications)
- **Quick Wins and 100 Day Integration**: Completion of critical projects/efforts necessary to meet business requirements and mitigate risk (e.g., contractual, financial, legal)
- **Day 1/BCP Execution**: Completion of integration projects that optimize the business and finalize the integration
- **Long Term Integration**: Execution of strategy and preparation for a divestiture or sale of the combined entities at a profit
- **Business Value Optimization**: Execution of strategy and vision
CASE STUDY

Creating Value Through M&A in Healthcare
Case Study: Provider Merger Integration Project Star

- **TRANSACTION TYPE:** Large system/smaller system consolidation

- **VALUE DRIVERS:**
  - Depressed margins and search for scale
  - Customer demands for coordinated care
  - Consumerism
  - Telemedicine

Buyer seeks to become leading integrated delivery system in the local market. The market is fragmented across service lines and care delivery. Opportunities to serve the region are significant for the Buyer’s mission and the organization.

- The needs of the market are consistent with the buyer’s mission and service lines, specifically among the following modalities: General/Internal Medicine, Physical and Occupational Therapy, Oncology, Behavioral Health, Emergency Medicine, and Cardiology.

- The transaction supports the buyer’s objectives of incremental revenue opportunities by providing increased system and market penetration.
Transaction Overview: Project Star

- Define growth strategy
- Develop Strategy for acquisition
- Assess strategic alignment & accelerations
- Conduct feasibility study

- Conduct due diligence (financial, operational, and IT due diligence)
- Identify “red flag” issue
- Identify preliminary view of synergy/value creation potential
- Identify confirm possible integration issues
- Refine valuations

- Set-up Integration Management Office, reporting and controls leading to Day One
- Manage business case and reporting
- Complete functional training/onboarding
- Support key integration initiatives across the functions

- Establish and Execute synergy tracking
- Plan and manage culture transition
- Complete transaction post-mortem analysis
“The local market presents an opportunity to work together in new ways, while creating an indispensable Healthcare provider in the region.” - Buyer

**Differentiated Patient Focus and Experience**

**Clinical Excellence along the continuum of care – from Home Health to Hospital Admissions**

**Indispensable**

**Coordinated, team-based primary care as the foundation**

**Health Plan options to increase access to care**
Market Snapshot

The local market could benefit from a mission-based healthcare company who can bring together service across the continuum of care.

Growing Potential Market
- Projected population growth over the next 5 years (vs. 3.7% national average): 5.7%
- Growth rate in 65+ age group: +22%

Strong Growth in Service Lines
- Projected growth in outpatient services in the next 5 years: +13.5%
- Projected increase in inpatient days in the next 5 years, led by infectious disease, psychoses, and urinary disease: +6.3%

Opportunity to Improve Community Health
- Population covered by Medicaid, or no insurance: 28%
- PCP Ratio in local market vs. neighboring city: 0.5x
## Market Snapshot

### Local Market Population
- **600K** Total Population in the region
- **60%** Live in the local market
- **$77K** Average Household Income
- **57%** Covered by Private Insurance
- **27%** Medicaid / No Insurance

### Health Indicators
- **13%** Considered in Poor or Fair Health
- **30%** Adult Obesity
- **51** Preventable Hospital Stays (per 1000 Medicare enrollees)

### Local Market Health System - Hospitals
- **3** Hospitals, with **758** Hospital Beds
- **$1.1B** Net Patient Revenue
- **13.8M** estimated outpatient procedures in 2016
- **68.9k** estimated inpatient discharges in 2016, comprising **300k** inpatient days

### Local Market Health System – Other
- **1510:1** PCPs per Capita
- **755** Physicians, of which **360** Primary Care Physicians
- **12** Ambulatory Surgical Centers (ASCs)
Market Opportunity Analysis
Service Lines and Physician Needs Trends

Market Analysis suggests expansion among service lines and delivery across the continuum of care

Key Facts and Trends

Service Line Trends

- **Outpatient procedures expected to increase 13.5% over the next 5 years, led by labs (+0.6M, 14%) general and internal medicine (+0.5M, 12%), oncology (+0.2M, 21%), and physical & occupational therapy (+0.2M, 13%);**

- **Inpatient procedures are expected to grow 6.3% over the next 5 years, led by infectious diseases (+9k patient days, 23%), psychoses (+4k patient days, 16%), and urinary disease (+2k patient days, 14%).**

Physician Need Trends

- Compared to surrounding counties, the local market lags its peers in key health indicators including % of population in poor or fair health, rate of preventable hospital stays, and obesity
- PCP ratio per capita significantly lags surrounding areas (1510:1 in the local market vs. national average (1320:1);
- There is one current leader in primary care delivery, but the market remains fragmented with an opportunity for a leader to emerge.

Market Implications

**Significant Projected Expansion in both Outpatient and Inpatient Service Lines**
Opportunity to capture market share of expanding inpatient and outpatient service needs.

**Primary Care Needs**
Low physician ratio suggests a need for additional primary care providers to coordinate care for the growing and aging population.

Source: Truven Health Analytics Market Expert
Market analysis suggests that the aging Baby Boomer population in region presents an attractive target for service delivery development across the continuum of care.

**Key Facts and Trends**

**Demographic Trends**

- Local market population growth anticipated to outpace national average over the next 5 years (5.7% vs. 3.7%);
- Senior (65+) population segment is experiencing the fastest population growth over the next 5 years (22%);
- Commercial insurance comprises the largest segment of the population with 57% of the market; however, the largest commercial insurer (Kaiser) has 16% market share (Buyer's Health Plan has 12% market share).

**Market Dynamics Trends**

- Market is experiencing aggressive transformation to value-based medicine to better manage health outcomes across populations;
- Fragmented market with no current dominant market player operating across the continuum of care.

**Market Implications**

**Attractive Market Expansion Opportunity**

Local market exhibits favorable market dynamics for expansion in terms of population growth rates, improvement opportunity in overall health, and payer mix.

**Competitive Dynamics**

Fragmented payer and provider network suggests market is primed for consolidation

**Focus on Healthy Aging of Medicare Population**

Strong argument to support service delivery expansion given high projected growth in the 65+ age segment.

Source: Truven Health Analytics Market Expert, Mark Farrow and Associates County Health Coverage Estimate (Q2'2015)
Market analysis identified potential service lines and relative Buyer/Seller strengths and gaps.

<table>
<thead>
<tr>
<th>Clinical Service Category</th>
<th>Vision</th>
<th>BUYER Portland Area</th>
<th>TARGET</th>
<th>Other Competitor</th>
<th>Gap to Vision</th>
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<tbody>
<tr>
<td>Cardiology</td>
<td>Core</td>
<td>◆</td>
<td>◎</td>
<td>◆ XYZ Clinic</td>
<td>Small</td>
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<td>Physical &amp; Occupational Therapy</td>
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<td>◆ Ear Nose &amp; Throat Clinic</td>
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Functional Capability Assessment

Functional Capability assessment of Buyer and Target will determine integration complexity, and value potential for each area.

Quantitative summary

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>No Capability</th>
<th>Basic</th>
<th>Average</th>
<th>Advanced</th>
<th>Best in Class</th>
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<tbody>
<tr>
<td>Physician Enterprise</td>
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<td>Risk &amp; Quality</td>
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<tr>
<td>Revenue Cycle Mgmt.</td>
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<td>Clinical Operations</td>
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<td>HR</td>
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<td>Finance</td>
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ILLUSTRATIVE

Legend:
- Blue: To-be capabilities - New Integrated System
- Green: As-is capabilities – Buyer
- Gray: As-is capabilities – Target
RSM’s methodology framework is defined internally by Phases, Work Products, Roles and Supplemental Content. We use this methodology to train our resources and promote the consistent delivery our clients demand.

**3.0 Day 1 and BCP Planning**
- Day 1 Planning Kickoff
- Confirm strategy and objectives
- Identify business continuity and risk mitigation requirements
- Identify Day 1 requirements
- Create Day 1 BCP/BCP plan

**4.0 Quick Wins and 100 Day Planning**
- Conduct initial functional integration workshops
- Develop preliminary long term functional integration plans
- Identify day 100 “quick wins”
- Create preliminary quick wins and 100-day plan
- Finalize quick win and 100-day integration plan
- Plan for Integration Launch

**5.0 Long Term Integration Planning**
- Inventory preliminary long term integration plan initiatives
- Conduct integrated functional integration workshops
- Prioritize and prioritize long term integration initiatives
- Develop long term integration roadmap

**6.0 Day 1 Execution**
- Execution of Day 1 requirements

**7.0 BCP/Risk Execution**
- Execute on BCP and risk mitigation plans

**8.0 Quick Wins Execution**
- Execute Quick Wins

**9.0 100 Day Execution**
- Launch 100-day integration initiative
- Execute core business 100-day plan
- Execute of technology 100-day plan
- Execute of back office 100-day plan

**10.0 Long Term Integration Execution**
- Launch long term integration initiatives
- Execute core business integration plans
- Execute of technology integration plans
- Execute of back office integration plans

**Note:** A detailed activity/task list can be provided for each of the above phases upon request.

*The Integration Planning phase timeline is adjusted to match the scope of planned synergies and varies based on project complexity, business readiness and resource availability.*
The Integration Management Office (IMO) is air traffic control for the transaction.

### ROLES

#### EXECUTIVE STEERING COMMITTEE (ESC)
- 6. Provide program and cross-functional leadership
- 6. Set targets, priorities, and goals
- 6. Review deliverables and agree on implications and path forward
- 6. Provide strategic objectives and oversight to rapidly resolve escalated issues and proactively manage risks
- 6. Provide policy guidance and oversight
- 6. Approve major decisions and communications. Sign-off on major milestones

#### INTEGRATION MANAGEMENT OFFICE (IMO)
- 6. Formulate program strategy, manage risks, make key program decisions, and determine ESC agenda and content
- 6. Ensure TSA program requirements are planned and executed
- 6. Manage to work plan and interdependencies
- 6. Identify and address issues / risks
- 6. Capture / report program status

#### FUNCTIONAL TEAMS
- 6. Coordinate, define and document the interim and integration end-state business process and business requirements
- 6. Prioritize milestones and functional requirements for Day One, 30-60-90 post close
- 6. Work with functional and cross-functional resources to resolve and escalate issues
- 6. Provide functional design help for the project
- 6. Responsible for agreed upon deliverables to the IMO including weekly project status updates
- 6. Play an active role in organizational change management
Integration Planning Process Timeline

High Level transaction timeline

Typical Key Events and Timing*

I. “Ramp-up”: Establish Integration Framework
- Pre-launch prep
- LOI Signed
- Launch Integration Management (IMO)

II. “Planning”: Conduct Integration Planning
- 5-7 Months
- Launch Integration Teams
- Full BU Hand-Off
- Legal Close
- Full Transition to Functional Teams

III. “Implementation”: Execute Integration Plans
- 3-12 Months
- Business as Usual (BAU)

Typical Key Events and Timing*

A Integration Management (IMO)
- ~5-7 Months
- 0 – 12 Months

B Functional Integration Teams
- ~4-6 Months
- 0 – 12 Months

C Data/Clean Room
- ~ 4-6 Months
- 1 Month

*Timelines will vary depending on size and complexity of deal
## Key Integration Considerations

### Common functional area specific challenges

<table>
<thead>
<tr>
<th>Revenue Cycle Mgmt.</th>
<th>Clinical</th>
<th>Physician Enterprise</th>
<th>Pharmacy</th>
<th>Cyber Security</th>
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</thead>
<tbody>
<tr>
<td>• Identify and remediate revenue leakage</td>
<td>• Identify / eliminate redundancy</td>
<td>• Documentation templates and quick-key shortcuts</td>
<td>• Implement standardized pharmacy revenue integrity</td>
<td>• Understand sophistication of information security program</td>
</tr>
<tr>
<td>• Reduce technical drag on revenue realization</td>
<td>• Efficient clinical workflows</td>
<td>• Physician compensation modeling</td>
<td>• Align purchasing and inventory management practices</td>
<td>• Regulatory compliance status (HIPAA, PCI, Privacy)</td>
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<tr>
<td>• Establish production-centric operational workflows</td>
<td>• Identify new model of care</td>
<td>• Automated charge reconciliation</td>
<td>• Implement innovative pharmacy services to stay competitive</td>
<td>• Third party security risk</td>
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<tr>
<td>• Deliver critical reporting to executive leaders</td>
<td>• Clinical system(s) integration</td>
<td>• Charge master and item master audit / alignment</td>
<td>• Initiate / expand retail or specialty pharmacy</td>
<td>• Vulnerability management and remediation</td>
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<tr>
<td>• Drive alignment to industry best practices</td>
<td>• Optimized clinical staffing model</td>
<td>• Performance dashboards and provider metrics</td>
<td>• Achieving full realization of 340B eligibility, if applicable</td>
<td>• Understand pending claims and reported security incidents</td>
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<tr>
<td>• CDM standardization</td>
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<td>• Charge Capture/revenue realization workflow alignment</td>
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### Finance

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<th>IT</th>
<th>HR, Org and Communications</th>
<th>Sourcing/Vendor Mgmt.</th>
<th>Real Estate</th>
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<tbody>
<tr>
<td>• Day One and TSA</td>
<td>• Talent retention</td>
<td>• Standardize order fulfilment processes</td>
<td>• Understand shared facilities</td>
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<tr>
<td>• Stranded costs, including mitigation plan</td>
<td>• Pension funding liabilities</td>
<td>• Possible loss of key specialists and core competencies</td>
<td>• Document lease terms, contracts and rationalization opportunities</td>
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<tr>
<td>• Impact to control environment</td>
<td>• Understanding legal requirements, regulatory aspects and implications in each jurisdiction</td>
<td></td>
<td>• Establish transition timelines</td>
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<tr>
<td>• Standardize external reporting, treasury, tax, and accounting processes</td>
<td>• HRIS system and processes</td>
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<td>• Establishment of IT environment to support the NewCo</td>
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<td>• Software licenses / contracts</td>
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<td></td>
<td>• Stranded costs</td>
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<td></td>
<td>• HRIS system and processes</td>
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<td></td>
<td>• Absence of a plan or process for managing retention, transfers and redundancies</td>
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<td></td>
<td>• Employee retention and communications</td>
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</tr>
</tbody>
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### HR, Org and Communications

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<td></td>
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Risk Management

Actively identify and monitor risk types by function, ensure contingency planning is in place to minimize impact and likelihood.

IMO Risk Register - Summary

Impact, Manageability, and Likelihood Matrix:

<table>
<thead>
<tr>
<th>Impact</th>
<th>Likelihood</th>
<th>Manageability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>#</th>
<th>Function</th>
<th>Description</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Physician Network</td>
<td>Talent retention</td>
<td>Parker</td>
</tr>
<tr>
<td>2</td>
<td>Sourcing</td>
<td>Change of control clauses on top 10 vendor contract</td>
<td>Tyler</td>
</tr>
<tr>
<td>3</td>
<td>Rev Cycle Management</td>
<td>Delayed implementation of IT wall of applications</td>
<td>Parker</td>
</tr>
<tr>
<td>4</td>
<td>HR</td>
<td>Develop new contract for payroll provider delayed</td>
<td>Parker</td>
</tr>
</tbody>
</table>
Risk Management best practices increase M&A success rate

RSM’s Experience Shows Deploying IMO leading practices improves success by 40% - 60%

Key Things to get right

- IMO Defined Operations
- Integration Budget Management
- Focus on Day1 Transition Success
- TSA Managed to Accelerate
- Synergy Acceleration

SUCCESS FACTORS

Elements That Improve Rate and Levels of Success

- FOCUS
  5% - 10% Improvement
  The deal thesis provides the goals and reason for the deal. Work is structured to achieve anticipated deal outcomes

- CULTURE
  10% - 15% Improvement
  Culture integration requires change management, people engagement, planning, and measurement

- EXECUTION
  15% - 20% Improvement
  Plan, Manage, Execute, Measure. Keep the core work in focus and manage the change in scope to meet milestones

- SPEED
  10% - 15% Improvement
  Speed of execution is key, slow integrations fail. Leverage the energy of the teams to drive the results

EXPERIENCE

Identify the right resources internally and externally to complete integration process across the business functions to maximize value and reduce risk.

Integration Management Office (IMO) is the tool to effect the increased success and value
Synergy Identification

The transaction has the potential to increase financial return through increased market penetration, capturing additional referrals, adopting operational best practices, and growing payer customer base.

A system with the similar service offerings as Buyer in local market (hospital, physician network, clinics and ambulatory surgical centers) has the potential to achieve a net operating revenue of $1.3B to $1.5B.

Based on local market Medicare leakage data, there is an opportunity for the system to serve more patients’ hospital needs. Capturing an additional 10-30% of the Medicare leakage would increase patient revenue by $9-$27M.

Bringing the best practices and clinical care models of the Buyer provides an opportunity to achieve financial savings while improving patient care outcomes.

An integrated care network in local market will likely increase attractiveness of Buyer’s payer plans for employers in the Metropolitan Area, leading to greater covered lives by Buyer’s payer plans.

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Indicative High Level Pro-Forma

There is a potential for achieving net operating revenue from $1.3B to $1.5B. This figure was reached by projecting system and market penetration rates similar to Buyer in the local market.

<table>
<thead>
<tr>
<th></th>
<th>Target Existing Hospitals</th>
<th>Buyer Hospitals, Clinics, and Ambulatory Care</th>
<th>Integrated System with Hospitals, Clinics and Ambulatory Care (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2015 Actuals</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Service Revenues</td>
<td>$2,365</td>
<td></td>
<td>$3,769</td>
</tr>
<tr>
<td>Net Operating Revenues</td>
<td>823</td>
<td></td>
<td>$1,505</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>803</td>
<td>$995 (2)</td>
<td>1,145 (2)</td>
</tr>
<tr>
<td>Excess Revenue Over Operating Expenses</td>
<td>20</td>
<td>313 (2)</td>
<td>360 (2)</td>
</tr>
<tr>
<td><strong>2016 Estimate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assumptions:
1. Pro forma assumes:
   - the Integrated System would eventually have the same service offerings as Buyer, including hospitals, clinics and ambulatory surgical centers
   - the per head medical spend in local market is similar to the Buyer’s in the local market.
2. The excess revenue over operating expenses does not include shared costs incurred by Buyer.
# Synergy Opportunities for Healthcare Providers

## OPEX and CAPEX Synergy Opportunity Areas in Healthcare

<table>
<thead>
<tr>
<th>Human Capital</th>
<th>Non Labor / Supply Chain</th>
<th>Revenue Cycle</th>
<th>Physician Enterprise</th>
<th>Clinical Optimization</th>
<th>Shared Services</th>
<th>Cyber Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workforce Productivity</td>
<td>Medical / Surgical / Pharmacy Distribution</td>
<td>Patient Access</td>
<td>Pro Fee Billing</td>
<td>Patient Throughput</td>
<td>Procure to Pay</td>
<td>Endpoint management</td>
</tr>
<tr>
<td>Position Control</td>
<td>Environmental Services</td>
<td>Pre Service Collection</td>
<td>Credentialing</td>
<td>Medical Imaging</td>
<td>Information Technology</td>
<td>Network Consolidation</td>
</tr>
<tr>
<td>Premium Pay Reviews</td>
<td>Food Services</td>
<td>Insurance Verification</td>
<td>Clinic Staffing</td>
<td>Emergency Department</td>
<td>Decision Support</td>
<td>Security application portfolio</td>
</tr>
<tr>
<td>Span of Control</td>
<td>Clinical Pharmacy</td>
<td>Out of Pocket Estimating</td>
<td>Physician Productivity</td>
<td>Surgical Services</td>
<td>Philanthropy Operations</td>
<td>Operational Risk Reduction</td>
</tr>
<tr>
<td>Resource Mix</td>
<td>Operating Room / Cath Lab</td>
<td>Scheduling</td>
<td>Patient Access</td>
<td>Care Variation</td>
<td>Human Resources</td>
<td>Governance, Risk and Compliance</td>
</tr>
<tr>
<td>Talent Strategy &amp; Planning</td>
<td>Value Analysis</td>
<td>Charge Capture</td>
<td>Physician Comp</td>
<td>EMR Optimization</td>
<td>Sourcing</td>
<td>Maintenance contracts</td>
</tr>
<tr>
<td>Total Rewards</td>
<td>Contract Services</td>
<td>QHR &amp; Coding</td>
<td>Physician Network Strategy</td>
<td>Evidence based protocol – redesign</td>
<td>Finance</td>
<td>Datacenter consolidation</td>
</tr>
<tr>
<td>HR Operating Model</td>
<td>Procure to Pay Workflow</td>
<td>Denial Avoidance</td>
<td>Physician Alignment</td>
<td>Telemedicine</td>
<td>Legal</td>
<td>Help Desk</td>
</tr>
<tr>
<td>Benefit Structure</td>
<td>Physician Preference Items</td>
<td>ICD-10</td>
<td>Meaningful Use</td>
<td>Home Health</td>
<td>Planning &amp; Marketing</td>
<td>Resource mix</td>
</tr>
<tr>
<td>HR Technology Solutions</td>
<td>Smart Building</td>
<td>Billing / Reimbursement</td>
<td>ACO Strategy</td>
<td>Retail Clinics</td>
<td>Develop Shared Service Center</td>
<td>Security Vendor Contracts</td>
</tr>
</tbody>
</table>

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**Note:** The chart highlights areas for potential synergy opportunities, indicating where improvements can be made through optimization, redesign, or BAU (Business As Usual) strategies.
Focus on quick wins in the first 100 Days post-close and Implementation Waves
Lessons Learned and Success in Overcoming Risk
Lessons Learned

1. **Gain commitment** from each organization’s board and leadership that would eventually lead to close, and a successful Day One.

2. **Establish the right governance, leadership and oversight structure** to ensure alignment on target operating model, scope of services, principles, regulatory and tax issues.

3. **Create the investment thesis, identify synergy potential during diligence.** Post-close institutionalize disciplined synergy management and tracking.

4. **Assess the impact** and implication of the Integration, focusing on both Buyer’s and Target’s current operations, and system-wide.

5. **Communicate intent** to employees, partners, and the community regarding the value of transaction.
UPCOMING EVENT

McGUIRE WOODS & RSM PRESENT:

The 17th Annual
HEALTHCARE PRIVATE EQUITY & FINANCE CONFERENCE
February 19-20, 2020
The Ritz-Carlton Chicago

REGISTER:
healthcareprivateequity.com

Who should attend:
• Private equity funds
• C-level executives in the healthcare and life sciences industries

2019 Topic Sample:
• Reimbursement Trends in PPM Businesses
• Investments in Hospital Based Specialties: Anesthesiology, Emergency Medicine, Hospitalists, and Pathology
• Physician Alignment Strategies: Physician Autonomy, Equity and Compensation Models, and Leadership

Keynote by world-renowned historian Doris Kearns Goodwin
Contact information

Silvia Hildago
Director, M&A Healthcare Leader
RSM US LLP
Atlanta, Georgia
silvia.hildago@rsmus.com
+1 404 751 9073

Matt Wolf
Director, M&A Healthcare Leader
RSM US LLP
Minneapolis, Minnesota
matt.wolf@rsmus.com
+1 612 376 9880
THANK YOU FOR YOUR TIME AND ATTENTION