

PART 2: REMAIN INDEPENDENT OR ALIGN?
A Question & Answer Session

Sponsored By:
TRG Healthcare
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Welcome

PART 2: REMAIN INDEPENDENT OR ALIGN?

A Question & Answer Session

- We will begin shortly
- Audio Dial-In: **916-233-3087**
- Audio Participant Code: **261-783-853**
- If you are experiencing technical issues, please contact Patricia Lee at **215-599-2464**.
- Phone lines *will* be muted during the presentation.

Today's Speakers



Howard Peterson
Managing Partner
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Howard Peterson, MHA

Mr. Peterson is the Founder and Managing Partner of TRG Healthcare, LLC. He has more than 30 years of healthcare experience developing progressive strategic, financial and operational solutions for a broad range of healthcare clients. His consulting expertise includes: strategic and financial positioning, operational and financial performance improvement, and strategic transactions. He has worked extensively with hospitals, health systems, academic medical centers, as well as physician and faculty group practices.



Joseph Huber, CPA
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Joseph Huber, CPA

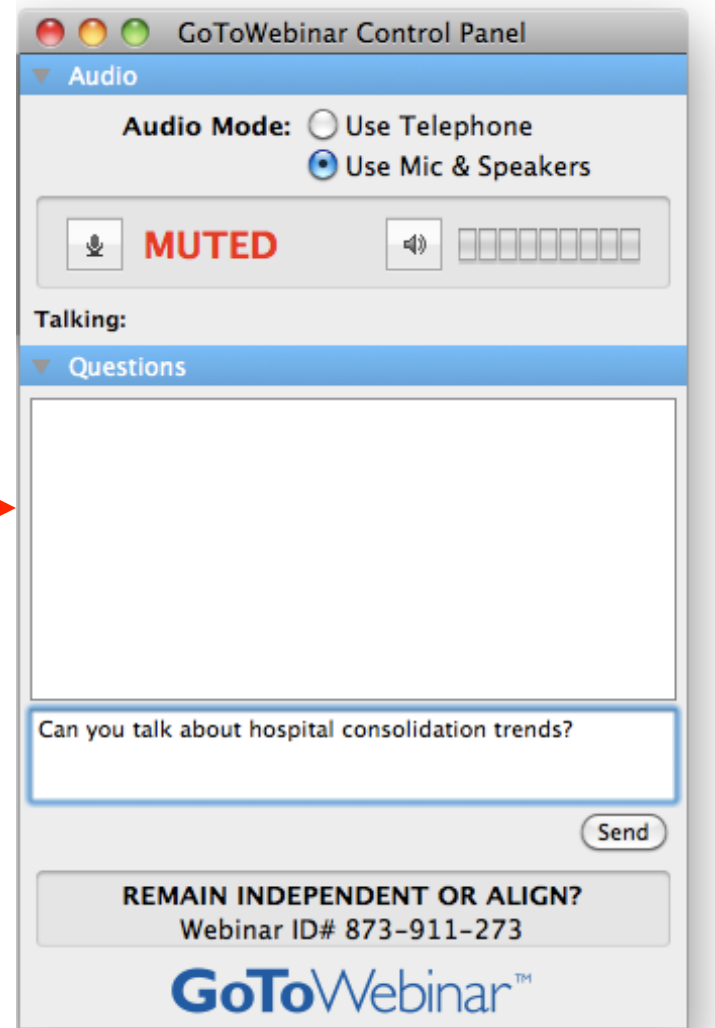
Mr. Huber has more than 35 years of experience in healthcare financial management and accounting. He brings significant technical financial knowledge to his clients in addition to possessing a senior level perspective on financial planning and strategy in healthcare organizations. Mr. Huber's consulting work focuses on developing financial strategies related to mergers and acquisitions, evaluating the impact of clinical service line development or expansion, and establishing targets for performance improvement. He also brings significant hands-on experience to each consulting engagement having served as CFO for several non-profit hospitals, teaching hospitals, and for-profit entities during the course of his career.

Format for Today's Session

- Today's webinar is intended as follow-up to our Webinar held October 12th entitled: *"REMAIN INDEPENDENT OR ALIGN? A Guide To Manage Through This Critical Decision"*.
- All participants should have received a copy of the materials presented on October 12th as background to today's discussion.
- During our October 12th Webinar we were unable to address a number of questions submitted by participants for lack of time.
- We will begin today's session by addressing many of those questions received but not answered on October 12th.
- We will field any additional questions you submit during today's Webinar at the end as time permits.
- If we do not get to your question(s) in the thirty minutes available to us today, we will provide you with answers offline.

Submitting Questions

- Send questions during the presentation using the “Chat” feature on the right side of your computer screen



Questions & Answers



“Health Care is so trend driven, why can’t we just remain independent and wait for this one to pass?”



- The game is changing and providers need to think about what they are doing in a fundamentally different way.
- The health care provider of the future will have a larger geographic footprint to support population health management.
- It is not possible to achieve the same economies of scale and cover the costs of emerging IT mandates as an independent entity.

“How do I raise this matter with my Board without the Board thinking I’m not doing my job?”



- You would fail to do your job if you did NOT raise this matter with the Board.
- Your job is to make sure the hospital remains successful and fulfill its obligations to the community.
- There are only so many things you can do as an independent organization and circumstances may require you look at other options.

“What are the typical financial considerations of doing a merger?”



- Start by looking at your balance sheet and figuring out how over time the indebtedness could be managed.
- Requires you inform those that hold debt or have other financial interest in your hospital.
- Be aware of the potential for a bond down grade as a result of the merger and know that this is OKAY if you come out a stronger organization in the end.

“We don’t want to partner with a for-profit only interested in shareholder returns. Why consider this option?”



- There is nothing inherently bad about for-profit organizations.
- Considering one or more for-profits doesn’t cost your organization anything but helps inform the process and avoid second guessing within the organization later on.
- While you may give up greater governance control, that is balance by greater economies of scale for operations, purchasing, and capital purchasing.
- Selecting a for-profit partner is only an initial part of the transaction and you can negotiate virtually anything (e.g., 10 year control of clinical programs).

“If I did a proprietary transaction, what would that look like?”



- A portion of the purchase price goes to satisfy preservation of non-profit asset in community.
- There is a change in control with the conversion of your hospital's status from not-for-profit to for-profit.
- The Board of your hospital goes from being a true board to an advisory board.
- Things come to the table as to the standards for how work is done.

“How do you engage the medical staff in this sort of a process?”



- Keep in mind that the interests of the medical staff are not entirely the same as those of the hospital and are not necessarily in the best interest of the hospital.
- Be honest and forthright with the medical staff about your divergent interests .
- Good communication is key but take care to find the right balance so that you are sharing information without turning the process over to the doctors.

“How should we approach communication with our employees and the market about this type of process?”



- Be open and transparent with each of these groups.
- It is helpful to have a regular distribution of communications electronically and through traditional hard copy methods as well.
- Focus communications on the process, the rationale for the process, and the anticipated benefits.

“How do I manage looking at alignment when I’m getting pressure from my bond insurer about meeting covenants?”



- The bond insurers have same interests as you - the financial strength and viability of your hospital.
- If you can align and take debt out, or make your organization more financially secure by becoming part of a larger entity then they will be supportive and this and it will help you to manage your relationship with them more effectively.

“What are reasons not to align with a particular party?”



- A poor “fit” with respect to culture or mission insofar that this difference outweighs any economic benefits
- Lack of some definitive value proposition other than size (e.g., cost savings, revenue enhancements, etc.)
- The strength/size of the partner is such that your hospital becomes just a number in the system, unable to impact the direction of the larger organization.
- An arrangement in which your organization would be absorbed by the partnering organization.

“Do we really need an advisor for this work – what are the risks/benefits of doing it on our own?”



- Most organizations have never done a transaction. Getting it right requires very specific knowledge about the process and the appropriate parties to involve for a successful outcome.
- A process run internally can go on two to three times as long, accruing considerable organizational costs, and has the potential to be fraught with peril.
- Involving qualified advisors can make your process considerably more efficient, help you avoid common missteps along the way, and get your hospital to the very best outcome possible.

“What is the role of the consultant and the deliverables of the consultant?”



- Designs the framework for the planning process.
- Facilitates Board discussions throughout the planning process and deliberations.
- Represents the interests of your hospital’s leadership and Board.
- Serves as a negotiating voice with potential partners.

“What are typical decision criteria for evaluating and ultimately selecting a partner ?”



- Common themes within the decision criteria typically selected by hospitals include:
 - Governance and control
 - Access to capital
 - Preservation of mission
 - Continuance of priority programs
 - Commitment to quality
 - Compatible culture
 - Brand strength
 - Access to technology

“What are the major benefits in merging?”



- The major benefits of merging typically include:

Various Types of Economies of Scale

Better Insurance Rates

Improved Access to Capital

Stronger Brand

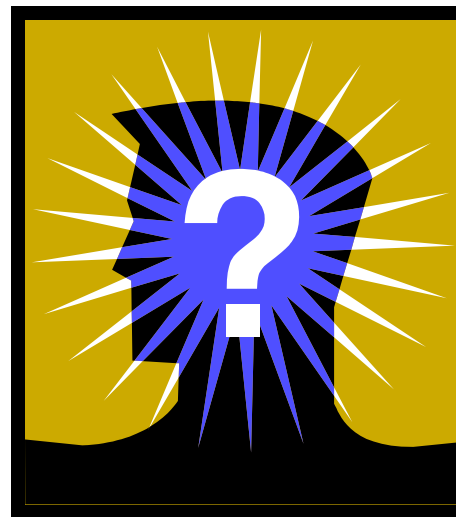
“What are the key characteristics of successful integration?”

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- A successful integration takes into consideration the unique needs of the different constituencies.
- A successful integration is sensitive to the cultural characteristics of the merging organizations.
- A successful integration sets and beats timeframes.

ADDITIONAL QUESTIONS?



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Thank You!

For any remaining questions or to request a copy of today's presentation please contact:

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