

Strategies for Independent Community Hospitals to Remain Viable

Can Your Community Hospital Remain Independent?

April 15, 2014



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Today's Speakers

- Fred Geilfuss, Partner, Foley & Lardner LLP
- Holly Sullivan, Senior Vice President and Partner, Hammes Company; Board Member, American Hospital Association's Society of Healthcare Strategy and Market Development
- Michael Quinn, Managing Director, Ziegler
- Susan Green, Senior Vice President and CFO, Lowell General Hospital



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Fred Geilfuss

C. Frederick Geilfuss II is a partner with Foley & Lardner LLP and is a member of the firm's Health Care Industry Team. Foley & Lardner's health care practice has been recognized by US News and World Report as the top health practice for the past two years. Mr. Geilfuss is co-chair of the Health Care Industry Team Business and Transactions Work Group. He counsels health systems, hospitals, medical clinics, rehabilitation agencies, nursing homes, and other health care providers on general operational concerns, regulatory and business matters. He has many years of experience in health care acquisitions, integrated delivery service issues, managed care contracting, and other health law issues. Mr. Geilfuss is listed in Best Lawyers in America and has been recognized as one of the nation's outstanding health care transaction lawyers by *Nightingale's Health Care News*. He also has received a Lilly Award for his service on behalf of the mentally ill.

Before joining the firm, Mr. Geilfuss served as a law clerk to the Hon. Harlington Wood, Jr., Circuit Judge, on the United States Court of Appeals, Seventh Circuit. Upon completing the clerkship, he became an attorney on the Civil Division Appellate Staff at the United States Department of Justice, representing the United States Department of Health and Human Services in matters involving Medicare and Medicaid, as well as other federal agencies.



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Fred Geilfuss (cont.)

Mr. Geilfuss' professional memberships include the Health Law Section of the State Bar of Wisconsin and the Health Law Section of the American Bar Association. He also serves on the boards of directors of several civic, charitable and health organizations, including the University School of Milwaukee Endowment, Grand Avenue Club, Inc., Curative Foundation, Inc. (currently serving as president), Wisconsin Psychoanalytic Foundation, State of Wisconsin Historical Foundation, and the Gardner Foundation (currently serving as secretary).

Mr. Geilfuss graduated from the University of Wisconsin Law School (J.D., *cum laude*), where he was elected to the Order of the Coif and was an editor of the *University of Wisconsin Law Review*. He also is a graduate of the University of Wisconsin School of Economics (M.A.), and Williams College (B.A., *cum laude*).

Mr. Geilfuss is admitted to the Wisconsin Bar and also is admitted to practice before the United States Court of Appeals for the Seventh Circuit and the United States Supreme Court.

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Holly Sullivan

Holly Sullivan is a senior healthcare executive with more than twenty years of strategic and business planning, marketing, physician relations and business development experience. Currently, Ms. Sullivan is a Senior Vice President at Hammes Company with responsibility for leading and managing the firm's work with large, multi-state healthcare systems as well as overseeing the Company's marketing, communication and public relations activities. Ms. Sullivan manages the relationships and ongoing work with many renowned health systems across the country. Her prior experience includes marketing and business development for a major pharmaceutical company, developing educational programs for a wide variety of physicians. She also worked in banking, structuring and syndicating financing for large corporate clients.

Her education includes: Master of Business Administration, Marketing & Strategy - Kellogg School of Management Northwestern University, Evanston, Illinois; Bachelor of Business Administration, Accounting & Finance - University of Michigan, Ann Arbor, Michigan

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Michael Quinn

Mike Quinn joined Ziegler in 2010 as a Director focusing on the east coast region and providing capital markets and strategic advisory services to healthcare organizations, including health care systems and independent hospitals. Since joining Ziegler, Mike has led more than \$1 billion of financing transactions for his healthcare clients and was promoted to Managing Director in January of 2014.

Mike started his career in the financial guaranty business at Radian where he spent five years in the municipal underwriting group focusing on credit analysis and underwriting in the healthcare sector. He spent two years at Financial Guaranty Insurance Company as a Vice President in Public Finance where his responsibilities included underwriting primary market public finance transactions and running their secondary market desk. Prior to joining Ziegler, Mike was a Vice President at Shattuck Hammond Partners.

Prior to joining Shattuck Hammond Partners, he managed Assured Guaranty Corporation's healthcare and higher education underwriting group. At Assured, his group guaranteed more than \$10 billion of tax-exempt bond issuance across over 100 obligors with no claims paid or reserves established against any insured risk. Mike is a member of the National Federation of Municipal Analysts, the Municipal Analyst Group of New York and the NJ Chapter of the Healthcare Finance Management Association.

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Susan Green

Susan Green serves as Treasurer and Senior Vice President and Chief Financial Officer of Lowell General Hospital. With more than two decades committed to healthcare finance, she leads the hospital's financial operations including revenue systems, cost-management and reimbursement.

Green previously served as chief financial officer and acting chief executive officer at Anna Jaques Hospital, and as director of finance at Winchester Hospital. She also spent eight years as a CPA focused on healthcare at Deloitte & Touche, LLP and Mullen & Company.

Green is a fellow in the Massachusetts Health Leadership College and is a member of the Healthcare Finance Management Association. She holds a graduate degree in taxation from Bentley College and an undergraduate degree in accounting from Salem State University. Green is also active in several community organizations including Treasurer of the Board of Directors of Lowell Community Health Center, Board Member of the Jeanne Darc Credit Union and the American Textile History Museum.

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Introduction

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Introduction

- First session of web series
- Focus has been on consolidations/affiliations/mergers since ACA adopted
- Merger activity increasing
- Comments frequently heard
 - » Not if, but with whom and when
 - » Community hospital is an “endangered species”
 - » Foresee 80-100 hospitals
- Recent survey shows 87% of responding hospitals considering mergers



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Introduction (cont.)

- Community hospitals do have choices
- Today focus on:
 - » What hospital boards should consider as merger issues arise
 - » Background data on merger activity
 - » How to assess whether your hospital has the attributes to be successful as an independent
 - » What tools can assist in decision making
 - » A case study: Lowell General Hospital



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Web Series

■ Web Series will explore:

- » Can mission of hospital be met through transactions/relationships/activities while keeping independence?
- » What strategies and alternatives are available and have they been tried?
- » Are goals of a merger possible through pursuit of other strategies?
- » How does a board critically assess suggestions brought forward by executive leadership?
- » Case study focus on strategies that have been utilized.



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The Environment

■ New environment:

- » Market environment for hospitals has changed
 - Health care cost increases slowing
 - Health care as percent of GDP actually decreased
 - Businesses demanding cost reductions
 - Unsustainable costs
 - Old strategies not as easily successful
- » Reimbursement changes
 - Medicare cuts
 - Different payment methods
 - Commercial payers stronger



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The Environment (cont.)

■ New models

- » Employers taking risk
- » Accountable care structures in public and private markets
- » Physician-led ACOs
- » New relationships

■ Consumers more involved

- » High deductible plans
- » More transparency
- » More shopping
- » Mobile apps



The Environment (cont.)

■ Capital demands increasing

- » IT
- » Equipment
- » Facilities

■ Quality focus

■ Compliance focus

■ Capital access

■ Physician costs



Mergers

- Mergers may be an easy answer
- Address environment
- Increase scale and achieve economies
- Size allows better care coordination/ population health
- Share of resources
- Lock in referrals
- Better capital access with scale
- Increase market share
- Balance strength of managed care companies



Merger Not Only Answer

- **Immediate or short-term issues addressed by a permanent solution**
- **Not all mergers deliver as expected**
 - » Acquiror's capabilities may not match expectation
 - » Further acquisition/changed ownership
 - » Cultural fit
 - » Surprises
 - » Different perspective/mission
- **Independence may be best way to ensure mission**



Mergers Not Automatic

■ New antitrust enforcement

- » Success of enforcement actions
- » Increasing skepticism of claims of pro-competitive input
- » Vertical arrangements challenged
- » Challenges after the fact



What Strategies/Alternatives are Available?

■ Board role

- » Duty of loyalty
- » Duty of care
- » Be informed

■ Market share important in any environment

■ Develop centers of excellence

■ Management service/leased departments

■ New partnerships – with insurers, other independent hospitals, tertiary hospitals, device manufacturers



What Strategies/Alternatives? (cont.)

- Clinical integration in organization and ACO participation
- Private equity ventures
- Contracting strategies – narrow, branded and value networks
- Collaborative physician structures – co-management
- Become the acquiror



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What Strategies/Alternatives? (cont.)

- **Review operations for savings**
 - » Reduce readmissions; follow-up arrangements
 - » Optimize quality
 - Better data
 - » Logistics improvement
 - » Improve purchasing
 - Phillips/Georgia Regions
 - Payor partnerships with drug companies
- **Enhance patient experience**
 - » Mobile apps
 - » Improve facility design to enhance experience
- **Creative Capital Access**



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Current Challenges Magnified for Community Hospitals

Holly Sullivan,

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Current Challenges Magnified for Community Hospitals

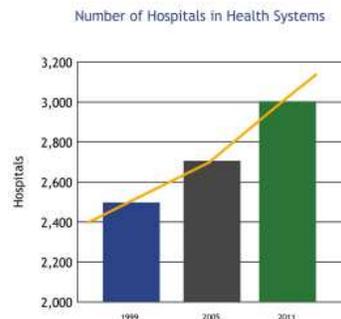
- **Unprecedented change**
 - » Reform and market trends
- **Emergence of new competitors**
 - » CVS, Walgreens, Target, other retail players, insurance providers
- **Market pressures are significant**
 - » Significant investment will be required in the near term
- **Consolidation continues at all levels**



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A Trend Toward Consolidation

- System-affiliated hospitals continue to outnumber those with independent status, and the trend continues
- 61% of all community hospitals are part of a greater system



SOURCE: American Hospital Association Trendwatch Chartbook, 2013; American Hospital Association Facts of U.S. Hospitals, AHA Hospital Statistics



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Association Perspective

- American Hospital Association
 - » Majority of AHA member hospitals are system affiliated
 - » Trend toward more system affiliated hospitals and fewer freestanding/community hospitals
 - » Strategies to align and bring value in new environment



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Association Perspective

- **Society of Healthcare Strategy and Market Development (“SHSMD”)**
 - » What does a healthcare strategist do in new world?
 - » How can we deliver value as our membership profile changes?
 - » How can we change what we offer to reflect this shift?



What Are Some of the Issues of Consolidation?

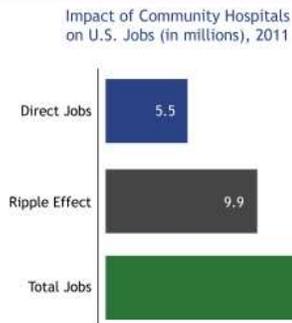
- **Anti-trust scrutiny**
- **Bureaucracy**
- **Unwieldy**
- **Agility**
- **Control**
- **Culture**

SOURCE: American Hospital Association Trendwatch Chartbook, 2013; Giant Healthcare Systems: Higher Prices, Fewer Choices And Impersonal Care – Forbes.com, 1/22/2014; “The Way Forward” Trustee Magazine.com, May 2013



Remaining Independent

- Still a sustainable and even preferred model for some
- Serve as a strong pillar in the community
- Strong consumer loyalty and philanthropy



SOURCE: Economic impact of hospitals, Trendwatch Chartbook 2014, American Hospital Association, Feb. 11, 2014.; 8 Success Factors for Independent Community Hospital's, Becker's Hospital Review, November 3, 2011



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Mandate for Community Hospitals

- Create viable strategies for sustained relevance and long-term market growth
 - » Care management expertise
 - » Comprehensive network and geographic reach
 - » Physician integration and collaboration
 - » Low cost, quality care for the entire population
 - » Independence possible, isolation is not (partnerships, affiliations, co-branding)



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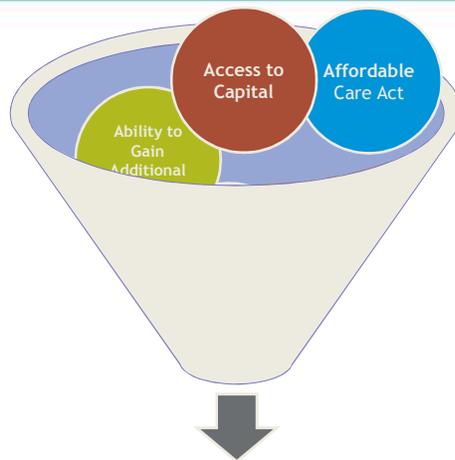
Do We Need to Merge or Find a Strategic Partner?

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CHANGING HEALTHCARE ENVIRONMENT is LEADING TO INCREASED Strategy Discussion

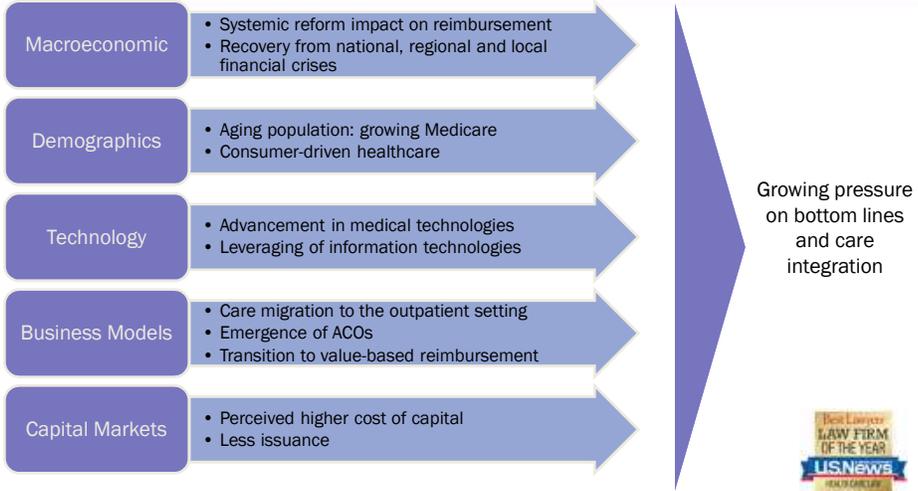


Do we need to merge or find a strategic partner?



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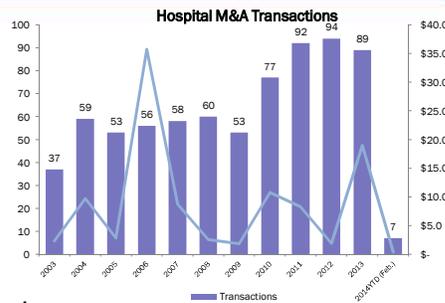
Key Healthcare Sector Trends



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Hospital M&A Deals Over the Past Decade

- **89 announced hospital M&A transactions in 2012**
- **3rd most during ten-year period**
 - » Over \$19 billion in reported dollars committed, the most since 2006 and the 2nd most during ten-year period
 - » Headlined by two "mega deals"
 - 06/24/2013 - Tenet announced the acquisition of Vanguard valued at \$4.3 billion
 - 7/30/2013 - CHS announced the acquisition of HMA valued at \$7.6 billion



- **2014 transaction volume is off to a slower start with only 7 deals reported through February, a 36% decline compared to the same period last year**
- **A weak and uncertain operating environment and more aggressive state and federal regulatory challenges jeopardizes certainty of close and may be curtailing recent activity; further, early integration results of recently completed deals is mixed**



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Source: Irving Levin Associates, 2014 information is preliminary figures based on Irving Levin Associates' monthly "The Health Care M&A Report"

