



Financial Improvement for PE-Backed Healthcare

OCTOBER 17, 2023

BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



Welcome



KAREN FITZSIMMONS

Partner and National Co-Leader

BDO Center for Healthcare
Excellence and Innovation

703-893-0600

kfitzsimmons@bdo.com

With You Today



JIM CLAYTON

National Private Equity Co-Leader
& Management Consulting Principal

610-455-2077
jclayton@bdo.com



VIN PHAN

Partner & Leader, Healthcare
Transaction Advisory Services

615-493-5613
vphan@bdo.com



VENSON WALLIN

Managing Director, Healthcare
Regulatory & Compliance Services

703-245-0376
vwallin@bdo.com

Learning Objectives



Review common challenges that private equity investors in healthcare are facing.



Identify how to create foundational change.



Describe timely regulatory & compliance updates affecting the healthcare industry.

Private Equity Investment Challenges in Healthcare



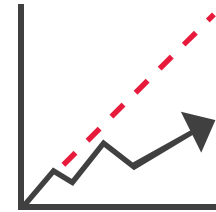
Common Challenges

Common challenges facing private equity investors in healthcare as risk of delayed integration compounds over time include:

Overvaluation and inaccurate capital market analysis



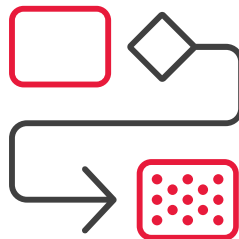
Absence of benchmarking data against competitors



Heightened risk exposure is slowing down deals



Lack of a standardized financial organization



Operational and clinical staffing inefficiencies



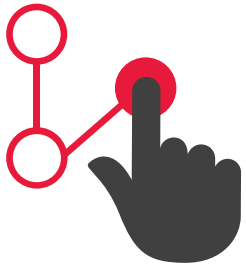
Regulatory intervention



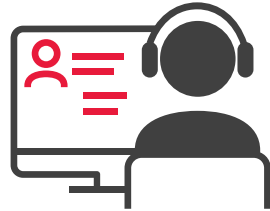
Creating Foundational Change



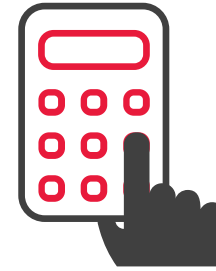
Develop Efficient Valuation Processes



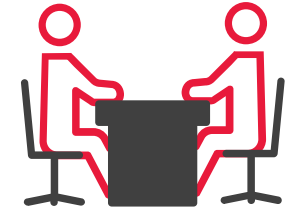
Update your valuation models and key inputs



Avoid last-minute, subjective calls that may result in a loss of credibility



Ensure your approach is transparent and capable of calculating fair value under periods of high volatility



Consider working with a third-party valuation specialist

Create Robust Competitive Analyses



Survey the competitive landscape



Conduct a feasibility study



Prepare to negotiate value-based care contracts



Determine the economic impact

Uncover Hidden Risks in Your Portfolio Companies

Given PE's interest in distressed healthcare assets, distressed M&A deals inherently come with more risk. Consider due diligence around multiple risks.

FINANCIAL DUE DILIGENCE



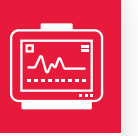
- ▶ Assess working capital components and bridge analyses of sales and earnings
- ▶ Identify risks, disclosure, and other negotiation points impacting purchase price

OPERATIONAL DUE DILIGENCE



- ▶ Confirm if plan is achievable (or not) based on existing facilities/CapEx
- ▶ Opine on transaction synergies
- ▶ Highlight post-deal upsides to enhance your business plan

ELECTRONIC HEALTH RECORD DUE DILIGENCE



- ▶ Assess if the current EHR platform will support the future business
- ▶ Evaluate the resilience, reliability, scalability, and security of the current EHR platforms
- ▶ Identify any potential investment or remediation needs to deliver the business plan such as standardizing EHR platforms across the enterprise

Uncover Hidden Risks in Your Portfolio Companies

Given PE's interest in distressed healthcare assets, distressed M&A deals inherently come with more risk. Consider due diligence around multiple risks.

TAX STRUCTURING AND DUE DILIGENCE



- ▶ Optimize your tax position and manage compliance obligations
- ▶ Get professional advice in all tax areas
- ▶ Navigate differing stakeholder tax requirements

M&A INTEGRATION AND CARVE-OUT SUPPORT



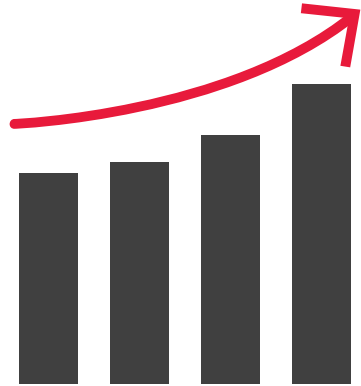
- ▶ Develop stand-alone cost models and minimize/eliminate stranded costs
- ▶ Preserve value throughout the transaction by minimizing disruption to the ongoing business
- ▶ Develop a 100-day plan

INVESTIGATIVE DUE DILIGENCE



- ▶ Develop information regarding the background, track record, and reputation of other parties involved in a transaction that can impact an opportunity
- ▶ Enhance risk management safeguards and mitigate operational risk by providing insight into a counterparty's legal, regulatory, and media status

Focus on Strategic Cost Optimization Rather Than Cost-Cutting



Margin improvement
is a long-term play

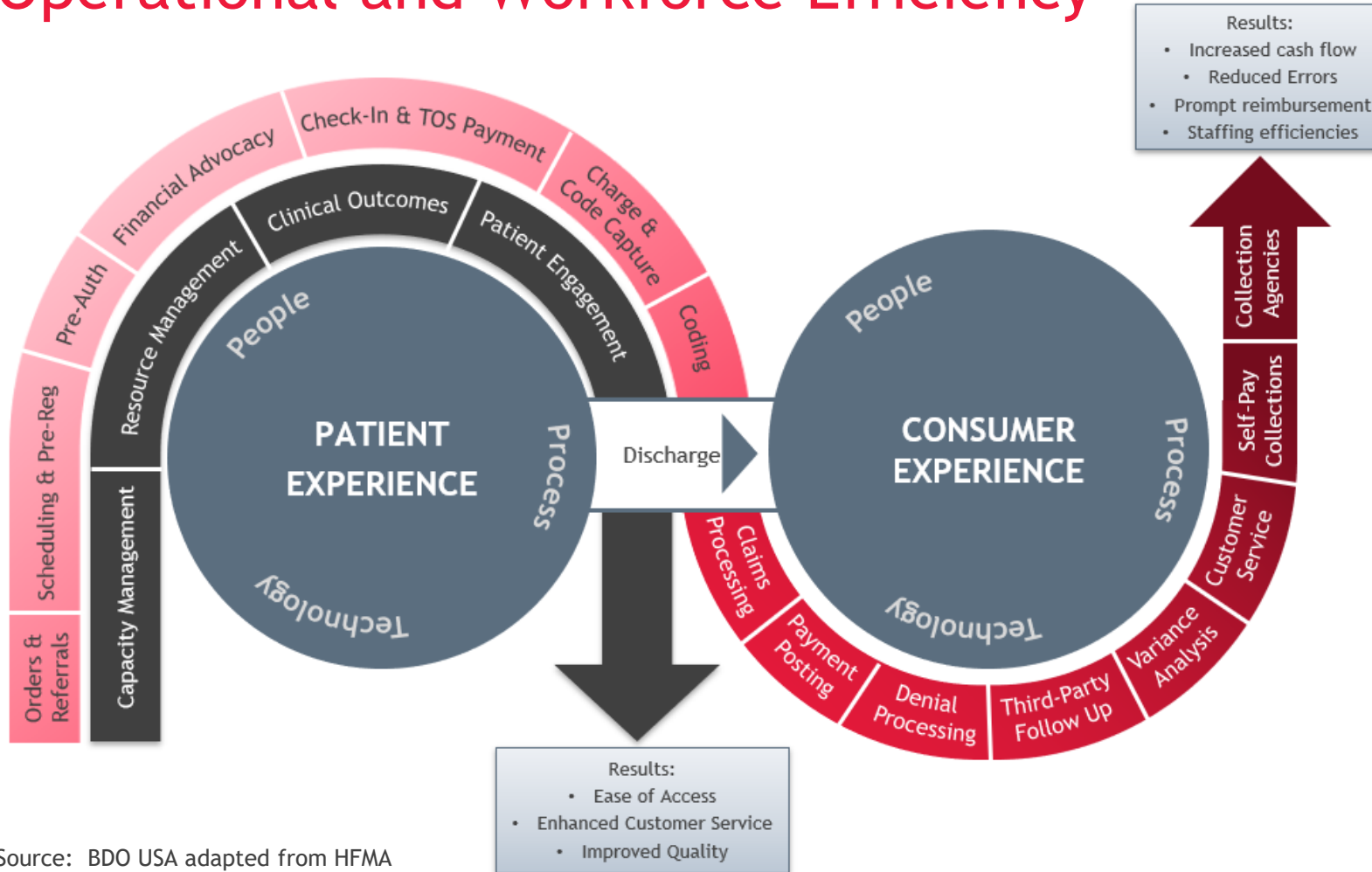


Common margin
improvement tactics are
short-term (ex. cost-cutting)



Foundational changes
yield long-term
financial stability

Re-Examine Your Revenue Cycle to Develop Operational and Workforce Efficiency



Source: BDO USA adapted from HFMA

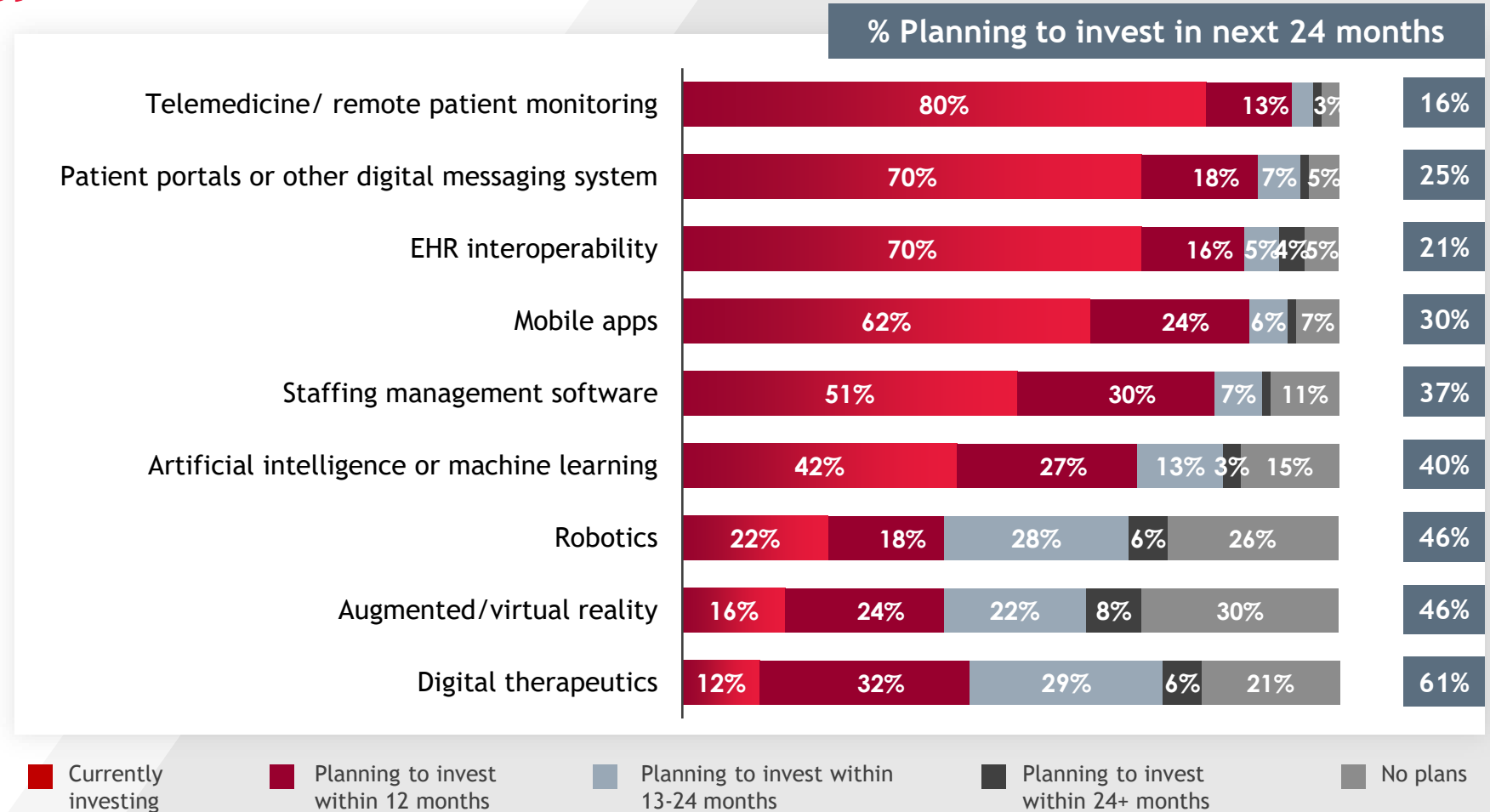
An optimized revenue cycle is achieved through standardized workflows, centralized functions, and an EHR/PM platform that enables the practice to scale.

Complexities in PE:

- ▶ Growth higher investment priority than practice integration (operating model) results in high variability in processes
- ▶ Redundant staff and systems add to cost
- ▶ Single specialty and small practice PM/EHR lack modern functionality, automation and ability to serve as core enterprise platform

Improve the Clinician Experience Through Technology

Is your organization currently investing or planning to invest in the following technologies to improve the clinician experience?



Source: BDO 2023 Clinician Experience Survey

Healthcare's Regulatory Update



Monitor Regulator Oversight and Proactively Address Concerns



Enhance Your Cost-Estimate Capabilities

Make it easier to comply with existing and potential future pricing mandates



Follow Global Reporting Trends

Stay up-to-date to better predict the future we may face in the U.S.

ESG assessments are integral to getting deals done



Recognize the impact of current & proposed regulations

Understand the financial implication and potential cash flow issues



Stay Aware of FTC Antitrust Regulation

Be prepared to negotiate merger remedies

No Surprises Act

HOW BDO CAN HELP

- ▶ Analyzing out-of-network payments to determine whether initiating a dispute is appropriate.
- ▶ Establishing an out-of-network payment evaluation system, including tracking payment status.
- ▶ Evaluating and optimizing materials related to disputes to improve timelines and outcomes.
- ▶ Third party payer contracting strategy.
- ▶ Creating plans and strategies to comply with further NSA and pricing transparency requirements as legislation and regulation continue to evolve.





Healthcare
Trends & Topics
WEBCAST SERIES

Q&A





Healthcare
Trends & Topics
WEBCAST SERIES

Thank You!





About BDO USA

At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes – for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, P.C, a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

www.bdo.com

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2023 BDO USA, P.C. All rights reserved.

