

25th Association of Cancer Executives Annual Meeting

Cancer Network Development/Service Line Joint Ventures: A Framework for Collaboration Between Organizations

January 28, 2019



800.729.7635

ecgmc.com

Agenda

- » Strategic Planning
- » Reasons to Partner
- » Identifying Partners
- » Collaboration Objectives
- » Alignment Options
- » Considerations

Strategic Planning

Strategic Planning

Strategic Plan Framework



The purpose defines what the organization wants to be in the future.

Goals define what must be accomplished to achieve the purpose.

Strategies define how each goal will be achieved.

Tactics are specific activities that support each strategy.

Values, Culture, and Philosophy

Efficient and Effective Organization, Operating Mechanisms, and Governance

Financial Strength and Capital Formation

Strategic Planning

Characteristics of Top Cancer Programs

Often, the attributes of top cancer programs may serve as a benchmark during the strategic planning process.

Example Characteristics

Hundreds of open research studies



Numerous multidisciplinary tumor boards

Material percentage of patients enrolled in research studies



Training for healthcare professionals

Numerous multidisciplinary clinics



Hundreds of clinicians

Comprehensive support services
(e.g., nutrition, financial counseling, physical therapy, massage, pastoral care)



Translational research programs

Strategic Planning

A Planning Framework

Excellence in cancer care requires successful execution across multiple areas.

Physician Leadership and Expertise

- » Cancer leadership (clinical and administrative dyad)
- » Dedicated and subspecialized surgeons and oncologists for tumor sites
- » Physician champions for tumor sites

Quality Improvement

- » Tumor-specific reporting
- » Real-time data that actively informs program (re)design
- » National quality initiative participation
- » Preparation for value-based care

Research

- » "Critical mass" of research studies, scientists, and grants
- » Dedicated research staff
- » Collaboration with other entities

Supportive Care

- » Dedicated navigators
- » Social work, psychosocial, nutritional and financial counseling, etc.
- » Integrated palliative care
- » Seamless transition to survivorship



Screening, Education, and Prevention

- » Adherence to national guidelines
- » Genetic counseling services
- » Formalized community outreach
- » Integration with primary care/other specialties

Diagnosis

- » Seamless evaluation
- » Pathology expertise
- » Access to advanced diagnostics

Treatment

- » Multidisciplinary care teams
- » Prospective tumor boards
- » Clinical pathways utilized in 90% of applicable cases

Facilities and Technology

- » Electromagnetic technology
- » Interventional oncology
- » Pharmacogenetics
- » Dedicated and updated space

Strategic Planning

Defining a Service Line

After creating a strategic vision and direction for the service line, the organization must assess its existing resources and capabilities vis-à-vis those necessary to achieve the vision. At times, support from an outside organization (a partner) may be necessary to help the organization realize its vision.



- » Wellness and prevention
- » Screening
- » Diagnosis
- » Treatment
- » Supportive care
- » Research
- » Training and education
- » Quality improvement



- » Physicians
- » Nurses
- » Allied health professionals
- » Administrative staff



- » Specialty-, patient-, and provider-friendly facilities
- » Diagnostic imaging capabilities and access
- » State-of-the-art procedural, surgical, and medical capabilities






- » Governance and leadership
- » Financial stewardship
- » Operational effectiveness
- » Marketing and community outreach initiatives

Reasons to Partner

Reasons to Partner

Objectives

-  Hospital-physician alignment
-  Multidisciplinary clinical program and service line development
-  Enhanced data and outcomes for revenue cycle, operational KPIs, and patient satisfaction
-  Brand enhancement through comprehensive cancer and disease-specific program development
-  Capitalize on cost efficiencies through market-leading equipment and software vendor relationships
-  Referral growth driven by high-functioning physician outreach team and targeted patient and community marketing
-  Service area expansion through additional partnerships, affiliations, or M&A



Reasons to Partner

Development Options

There are various means to acquire the resources and capabilities that an organization needs to realize its vision.

Build

Typically, the “build” approach necessitates bringing new providers into the community and assembling other requisite infrastructure, such as clinic space and the associated diagnostic or therapeutic capabilities. This is often the slowest approach to program development but allows for customization.

Buy

The “buy” approach to program development seeks to acquire and utilize existing infrastructure (providers, technology, administrative leadership, etc.).

Align

The “align” approach may be preferred when (1) there is not enough critical mass for a program in a single market, (2) the organization does not have the time or resources necessary to build or buy a program, or (3) there is already an established program that cannot be acquired for some reason.

Identifying Partners

Identifying Partners

Rationale

Thoughtful up-front alignment regarding the venture's goals

- » Insight into most impactful partner selection to make institution stronger while creating meaningful overlap
- » Patient deliverable and experience that far surpasses competition
- » Vendor relationships that result in lower cost of capital
- » Growth increases barrier to entry for competition
- » Secure referral market

Looking at win-win alignment within marketplaces focused on sustainability

- » Focusing on long-term sustainability as opposed to maximized return.
- » Looking at needs of partners over time ensures satisfaction.

Focus on treatment of patients and gaining market share across all payer mixes

- » Pride in best clinical offering across the full spectrum of patients

Identifying Partners

Key Factors to Consider

There are numerous criteria that may be considered in order to identify a partner that best aligns with the organization's objectives.

Common Evaluation Criteria

Qualitative Considerations

- » Alignment of mission and vision
- » History with potential partner
- » Geographic proximity to partner
- » Partner's history of successful affiliations
- » Partner's strategic plans
- » Reputation and branding
- » Continuation/enhancement of services
- » Focus on quality patient care
- » Physician platform, retention, and recruitment
- » Operational culture

Monetary Considerations

- » Amount and timing of capital commitment
- » Fulfillment of debt obligations
- » Strategic projects and prioritization
- » Transaction proceeds
- » Funding a community foundation

Ongoing Control

- » Governance structure
- » Local control and involvement
 - › Strategic planning and direction
 - › Operating and capital budgets
 - › Service continuation/enhancement
- » Physician involvement in governance

Collaboration Objectives

Collaboration Objectives

Vision and Guiding Principles

Vision

Deliver the highest-value cancer care through an integrated, innovative, and financially sustainable affiliation.

Guiding Principles

Improve Care and Quality

- » Bring better cancer care to patients and communities, measured by outcomes, quality metrics, and costs.
- » Improve the level and sophistication of care to collectively benefit our communities.

Expand Access

- » Expand access to high-quality cancer care.
- » Expand the number of unique patients/lives touched throughout the spectrum of cancer care from prevention (preventive care, risk assessment, risk reduction) to survivorship.
- » Expand access to research by increasing clinical trials availability.

Partner

- » Recognize and capitalize on the unique capabilities that each organization brings to the collaboration.
- » Remain philosophically flexible, in order to respond to unforeseen changes or challenges.
- » Ensure that value creation is encouraged and rewarded: a win-win arrangement.
- » Focus on scalability so the affiliation can grow to meet patient needs.

Collaboration Objectives

Key Tenets

Organizations can examine collaborative opportunities across four areas to ensure alignment with the strategic direction, capabilities, and constraints of the organization.

Evaluation Criteria

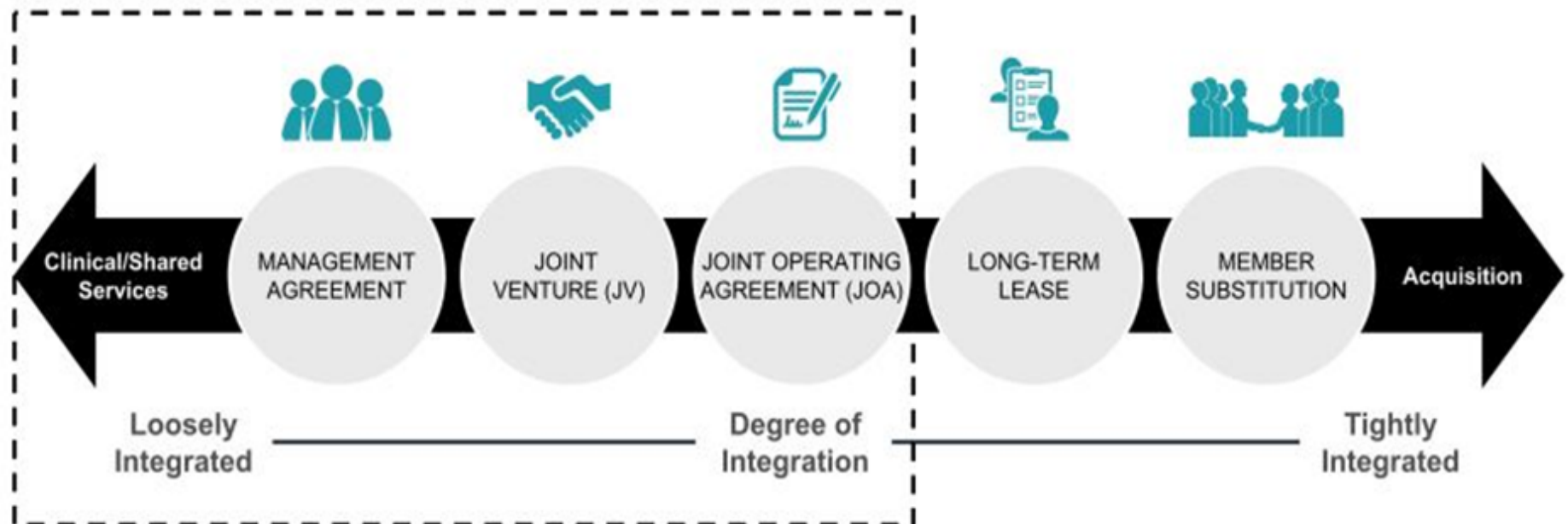
Quality	Mission	Finance	Operations
<ul style="list-style-type: none">» Care quality aligned with the program's standards and outcomes» Commitment to continuous monitoring and improvement	<ul style="list-style-type: none">» Commitment to support and engage in clinical research	<ul style="list-style-type: none">» Financial support clearly defined and limited in duration» Clinic becomes self-sustaining, covering both operating and capital needs	<ul style="list-style-type: none">» Clinical and business information integrated into the program» Clinical and operational policies and practices adopted» Patient experience consistent across the program's sites
Goal Improve regional quality through expansion.	Goal Provide greater access to care and research.	Goal Invest in accretive opportunities.	Goal Develop operational efficiency and alignment.

Alignment Options

Alignment Options

Range of Alignment Models

For organizations that choose alignment as a developmental strategy, there are a number of models they can utilize to achieve their goals.



Many of these models allow organizations to financially and clinically integrate services.

Alignment Options

Management Agreement

A management agreement or clinical services affiliation is typically a contract for a specific service line, with minimal financial investment. Each organization maintains local ownership, and a partner will conduct the day-to-day operations.

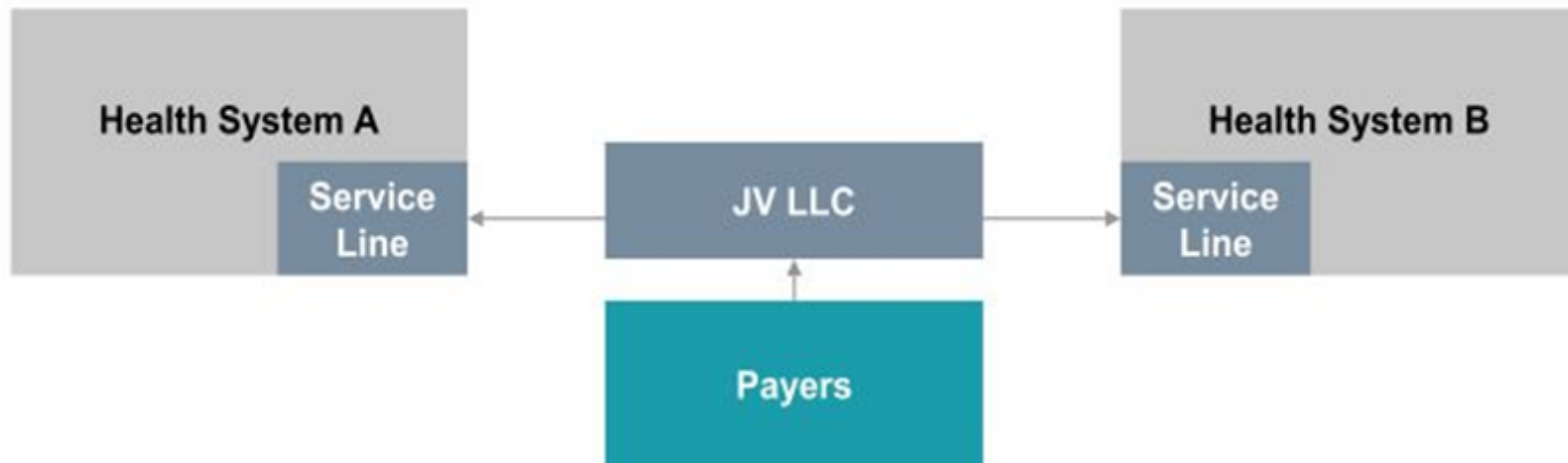


- » Through a loose alignment, an organization is able to harness the specific capabilities of a partner through a contract for a service line.
- » A successful clinical services affiliation may lead to opportunities for tighter alignment with more financial upside.

Alignment Options

JV: An Overview

In this model, a new entity would be created that could purchase equipment and/or lease services from the system(s). The JV would provide the services to each health system “under arrangement,” and each system would bill for the services.

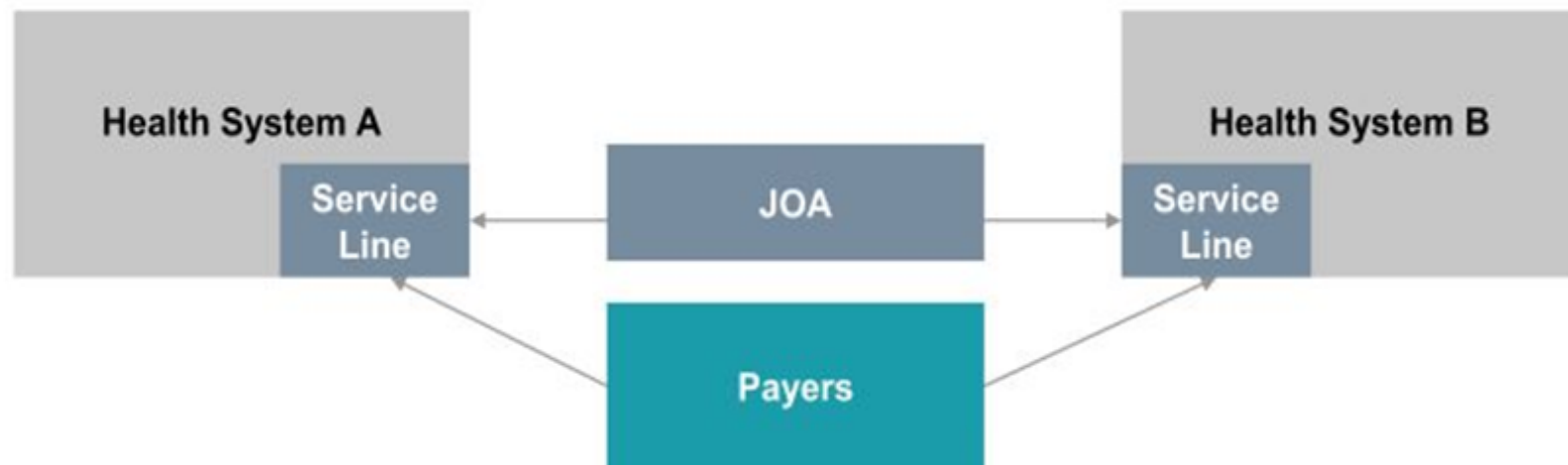


- » The JV can purchase equipment and is an actual legal entity, making it easier to capitalize.
- » All revenue received from the services is remitted to the LLC. Any profits remaining after paying the JV expenses are distributed to the owners of the JV.
- » Funds flow is based on the initial contributions of each hospital (value of the service line and/or capital).
- » Each health system agrees to contribute all or a portion of the net/income loss of the service, which is then reallocated based on each hospital's share in the JV.

Alignment Options

JOA: An Overview

A JOA is similar to a JV in that it creates economic alignment; however, a JOA allows both parties to continue operating without disrupting the service line.



- » The funds flow is decided based on the contributions of each hospital (value of the service line and/or capital).
- » Each health system agrees to contribute all or a portion of the net/income loss of the services, which is then reallocated based on each hospital's share in the JOA.
- » Operations and the reporting structure of the service line remain the same.

Alignment Options

Key Considerations

Both the JOA and JV models are able to accommodate a myriad of services. Yet, to be successful, the models are dependent on the parties' mutual agreement on a number of key issues.

- » **Definition of Services:** The first and most critical task will be to define the scope of services included by each party in the JOA/JV. There would likely be similar services (to the extent they exist at both organizations) included in the JOA/JV by both parties. This arrangement will enable the parties to be indifferent to where services are provided.
- » **Valuation:** Establishing the value of the businesses will be critical to determining what each party is contributing to the venture. The valuation must take into account current performance as well as likely future performance in a go-it-alone scenario (changes in reimbursement, fluctuations in program volume, etc.).
- » **Capitalization:** After the valuation has been conducted, the parties will assess the desired capitalization of the venture vis-à-vis the results from the valuation. Achieving the desired results may require an initial capital transfer (e.g., if the parties desire an 80/20 split, but the valuation indicates the current split is 90/10, the minority partner would need to “buy up”).

Alignment Options

Key Considerations *(continued)*

- » **Value Updates:** Ideally, the business valuation will be updated only in the event of (1) dissolution or (2) the need for disproportionate recapitalization. More frequent revaluations will create disincentives to growing the program, from a site-neutral perspective.
- » **Accounting:** The parties will need to agree up front to the specifics of the accounting methodologies that will be used to calculate net income for the service line at each organization, including defining revenue and direct and indirect expenses attributed to the program. These methodologies should match what was used in performing the valuation and should not vary during the period of the JOA/JV.
- » **Noncompete:** Each party must agree not to compete with the services provided through the JOA/JV within the region serviced by the JOA/JV.
- » **Governance:** In the likely event that there is a minority partner, that partner's interests may be safeguarded by either decoupling governance representation from capitalization or utilizing reserve powers to prevent the majority partner from taking unilateral actions that would negatively impact the minority partner (e.g., approval of capital calls).
- » **Taxes:** Tax obligations associated with this venture will be minimized if the funds transferred between the organizations are limited to the net income variance.

Considerations

Considerations

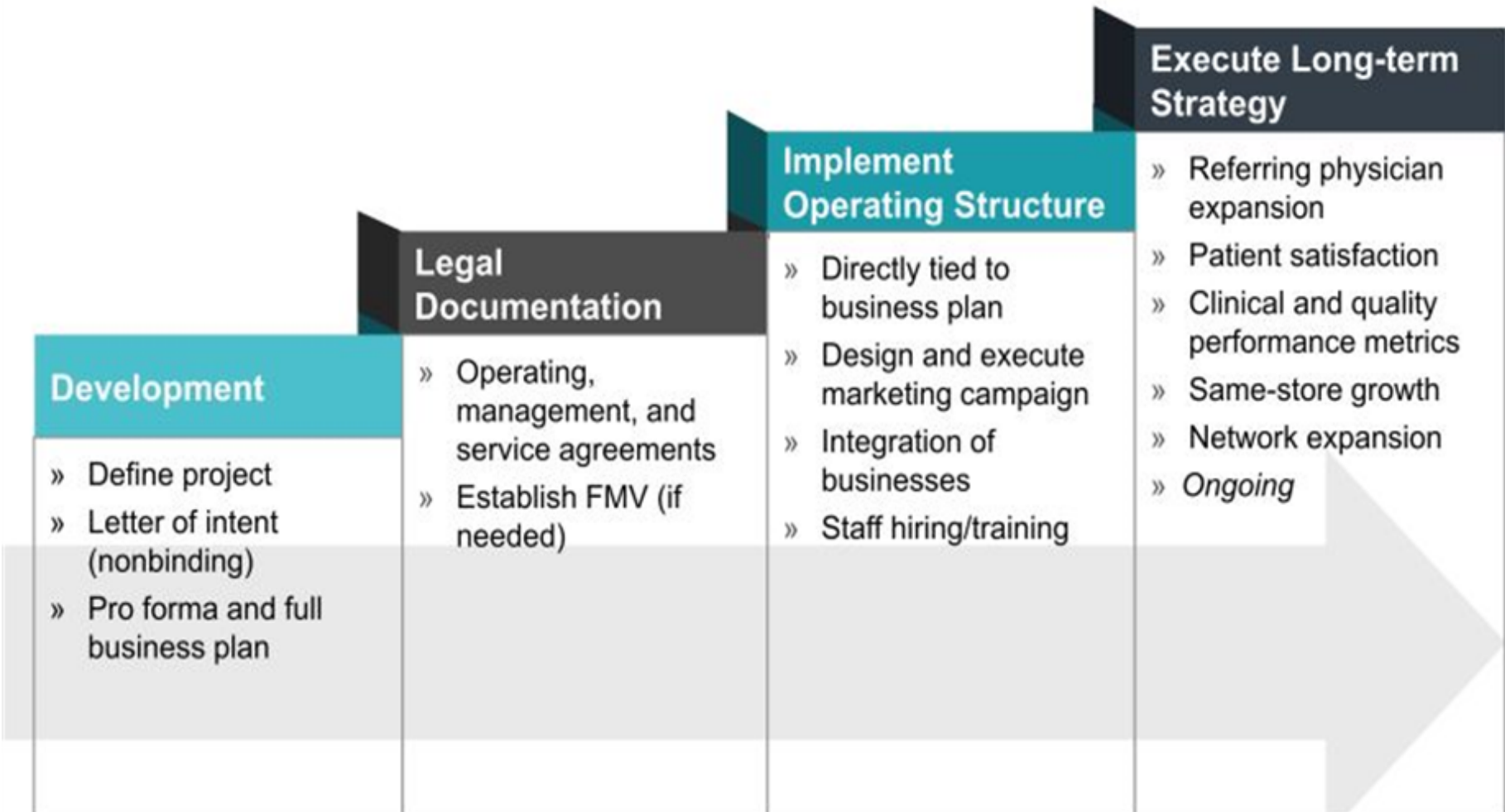
Contractual

When assessing a prospective partner, organizations should consider the following legal, organizational, and strategic issues:

- » **Governance:** How will the governance for the service line be formulated? If one party has minority representation, will the contract allow for a supermajority on major decisions?
- » **Community Relations:** What effect will the new partnership have on the organization's relationship with the community?
- » **Funds Flow:** Are accounting and infrastructure systems in place to isolate the revenue, expenses, and overhead associated with the service line? Are physician compensation methodologies aligned?
- » **Litigation:** Has the prospective partner initiated any litigation, or are there lawsuits pending against the organization?
- » **Brand Identity:** Is the prospective partner well known locally or regionally? How will the partner's reputation affect the organization's brand?
- » **Financial Strength:** Does the potential partner have the financial capacity and track record to meet its obligations?
- » **Tax Status:** Is the partner a for-profit or not-for-profit operation, and will this be a concern?
- » **Culture and Values:** How closely aligned are the missions of both entities? If one partner has a religious affiliation, how will that affect the partnership?
- » **Unwinding of Provisions:** Should the arrangement prove unsuccessful, how will both parties end the relationship?

Considerations

Typical Process and Time Frames





Matt Sturm

**Associate
Principal
ECG
Management
Consultants**

206-689-2200

msturm@ecgmc.com



Josh Eaves

**Senior Vice
President,
Strategic Partner
Development and
Acquisitions
Alliance
Oncology**

615-263-7856

jeaves@aiq-us.com

