



Carle Health drives growth with on-demand M&A

Deloitte's M&A-as-a-Service

The Carle Health journey

The challenge

Champaign-Urbana, Illinois-based Carle Health is a vertically integrated health system with more than 9,500 employees. Carle is home to five hospitals—including the 433-bed Carle Foundation Hospital—as well as multi-specialty physician groups and the world's first engineering-based medical school, the Carle Illinois College of Medicine. The system's Health Alliance medical plan serves roughly 230,000 members in Illinois, Indiana, Iowa, North Carolina, Ohio, and Washington.

As a physician-led organization, Carle has always taken a patient-centric approach to

their practice with the understanding that success hinges on keeping people from becoming patients in the first place—and on caring for those who do become patients in a holistic, outcome-oriented way. But Carle serves many rural communities, which can be costlier to care for.¹ To remain financially strong while fulfilling their mission, Carle decided on a strategy to acquire or partner with other health systems and/or health plans, wherever possible. This strategy helps

¹ Ayla Ellison, "Rural vs. urban: A comparison of hospital costs and charges," Becker's Hospital Review, February 9, 2016, <https://www.beckershospitalreview.com/finance/rural-vs-urban-a-comparison-of-hospital-costs-and-charges.html>, accessed August 24, 2020.

them expand their geographic footprint, make use of the resulting economies of scale, and introduce the patient-centric, results-oriented Carle clinical approach to those communities. In order to remain strong and relevant, and to be able to provide high quality care to its patients and service to its members, the organization set a goal for itself - to double in size between 2020 and 2025.

Delivering on this vision would require Carle to identify organizations that fit either their health plan or provider business quality, customer service and financial qualifications, and then try to open the door for a discussion about a potential



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relationship. All this takes specialized knowledge and resources, often the realm of an in-house corporate development group. Carle had strong executive leadership, knowledgeable and committed staff, and innovative growth plans, but they didn't have a dedicated corporate development and merger and acquisition (M&A) team, the breadth and depth of market data they desired, or the types of industry relationships that could lead them to the envisioned transactions. However, they did have a trusted adviser in Deloitte.

Bridging the gap between strategy and M&A action

Together, Carle and Deloitte worked through a series of strategic choices the health system would need to make in order to execute on their M&A goal. This exercise revealed five key issues:

- 1. Prioritizing areas for expansion.** For instance, Carle could focus on growing the health plan versus their clinical services or target new states instead of expanding into adjacent markets.
- 2. Finding room on the executive agenda.** At Carle, each member of the C-suite had many responsibilities including a variety of strategic initiatives other than M&A, so their time to focus on M&A was limited.
- 3. Getting the attention of potential partners.** Carle's capabilities and reputation for excellence were not always known outside the immediate region.
- 4. Scaling operations to run a combined business.** Some systems and processes (think claims processing) might not be scalable enough or set up for a value-based arrangement.
- 5. Playing to their strengths in a competitive market.** Carle's unique physician-led, mission-driven, non-urban value proposition, as well as its strong financial position and quality-based achievements, would need to be communicated clearly to prospects, especially when going up against well-funded and aggressive national players.

To help address these issues, Deloitte formed a core team of healthcare M&A specialists. This M&A-as-a-Service (MAaaS)

team's role was to carry out many of the activities of an internal corporate development team. In that capacity, the team worked with Carle's senior leadership team to:

Continue translating the corporate strategy into an M&A strategy for inorganic growth

This included determining where to pursue M&A activity—for example, by clinical service type, health plan line of business, and geography—and how to pursue M&A activity, such as through acquisition or partnership. It also included weighing considerations such as operational scalability.

Define criteria for evaluating partnership and acquisition opportunities

The criteria were informed by Carle's M&A strategy and included attributes such as quality scores, payer mix and patient volume for clinical services and membership volume for health plan assets. With the formalization of such criteria, Carle gained the ability to assess potential opportunities—both solicited and unsolicited—without bias or “deal fever.”

Create a dynamic pipeline of health plan and provider organizations

This began with the deliberate application of target-screening criteria against the universe of health plans and provider organizations, which helped Carle arrive at a preliminary list of targets ranked by attractiveness. The list was further refined into a true opportunity pipeline based on the combination of a high-level “feasibility” review (i.e., likelihood of shared interest) and outreach and discussions through both the Carle and Deloitte stakeholder network.

Manage a very aggressive M&A cycle

The MAaaS team collaborated closely with Carle as the organization pursued more than a dozen potential M&A, partnership, and joint venture transactions simultaneously, all at various stages of the M&A lifecycle and all according to an M&A playbook that helped instill rigor, discipline, and consistency in each potential deal.

A history of leaning into change

Carle had been a longtime client of Deloitte's tax services group when Carle Foundation Hospital merged with Carle Clinic, a physician group that also owned Health Alliance. The year prior to merger was 2009, and Deloitte had advised Carle about compliance with the Stark law—the federal law prohibiting physician self-referral—and about Affordable Care Act readiness a year later. One of those recommendations was for the two entities to consider joining forces as a vertically integrated health system.

Several years later, Health Alliance found itself under a new mandate: to cover some of the people enrolled in Illinois' newly adopted managed Medicaid program. Early attempts to do so were not as successful as envisioned, so Carle engaged Deloitte to help them determine whether to try to serve this vulnerable population in a more sustainable way, divest themselves of the Medicaid portion of the business, or exit the health plan business totally.

That process of introspection prompted Carle, as a vertically integrated health system, to reevaluate their overall business approach. Once again, they reached out to Deloitte, this time to model and analyze alternative scenarios for the senior management team to consider. Carle weighed their options and arrived at a pair of pivotal conclusions. First, the health system would remain independent so that physician leaders could continue bringing a patient-centric, high quality clinical perspective to all aspects of the business. Second, Carle and Health Alliance would transition their care delivery and payment model from a transactional, fee-for-service approach toward value-based, outcome-oriented care.

These events set the stage for Carle's M&A journey and added another dimension to Deloitte's years of service. With Carle now at the threshold of rapid growth potential, Deloitte continued to support the leadership team's efforts to create value for patients, members, and the organization itself.

Enable on-demand, transaction-specific support

Through the MAaaS team, Carle was able to tap into Deloitte's broader M&A transaction support services on demand. These services included due diligence, valuation, transaction structuring, and integration planning and execution.

Results

Carle's physician-led culture, commitment to patient-centric, value-based care, and extensive experience delivering integrated care in local communities have stood out among organizations eager to keep patients at the center of their mission.

With help from their Deloitte MAaaS team, Carle took their value proposition to FirstCarolinaCare—a provider-owned health plan in Pinehurst, North Carolina with roughly 25,000 commercial and Medicare Advantage members and \$150 million in revenue—and acquired a majority stake.

Not long after, Carle considered input from their MAaaS team and entered into a strategic acquisition of Advocate Aurora Health's Central Illinois Business (CIB), which included two hospitals, a physician group, and several joint venture interests that added nearly 2,000 new employees, roughly 80 employed physicians, and more than \$200 million in annual revenue to the Carle Health system.

Today, Carle can, in order to achieve its objectives, count on Deloitte to bring its end-to-end M&A services to bear. Under a flexible engagement structure based on quarterly statements of work, Carle and the MAaaS team can scale resources up and down efficiently to address Carle's most time-sensitive opportunities while assisting Carle management on a range of strategic and operational initiatives. Along the way, Carle can draw on Deloitte's consulting, advisory, tax, and corporate finance competencies during each phase of the M&A lifecycle, bringing in specific capabilities as each situation requires. This approach offers both Carle and Deloitte significant flexibility in how and when MAaaS capabilities are delivered. It also reduces the administrative burden for both organizations and provides a clear line of sight into the consulting spend to decrease the risk of surprises in the budget.

A new way to drive M&A

Successful transactions have bolstered Carle's reputation as a proven and capable deal maker. Just as important, however, are the deals that Carle has chosen *not* to make. Corporate development is after all a discipline that is as much about organizational excellence as it is about growth. By knowing where to start discussions as well as where to end them, Carle is growing in a methodical, sustainable way. And by accessing the M&A capabilities they need at the very time they need them, this world-class provider system is boosting its ability to remain innovative while keeping its commitment to provide patients and members with high quality, affordable care.

About Deloitte M&A-as-a-Service

With Deloitte MAaaS, organizations can stand up a corporate development capability or augment the one they already have.

MAaaS supports M&A activities on a subscription or retainer basis. The result is an ability to scale effectively when a transaction emerges or as activity intensifies, without the usual delays of

contract execution, process handoffs, and the presence of a learning curve. Our offering spans the M&A lifecycle and provides access to a multi-disciplinary pool of advisors, AI-enabled assets, and customized insight and labs.

About Deloitte Advise-as-a-Service

Deloitte Advise-as-a-Service pairs deep subject matter knowledge and experience with talent resource consistency via a retainer model to inform and produce outcomes and recommendations. Using time-tested methodology, our subject matter specialists facilitate insights and produce outcomes and recommendations.

Advise-as-a-Service is part of Deloitte's broader suite of Operate Services in which we advise, maintain, and enhance technologies while delivering insights across flexible economic models, including Program Management-as-a-Service, Learning-as-a-Service, and Strategy-as-a-Service. Our other Operate Services include **Application Management Services, Foundry Services, Analytics-as-a-Service, and Business Process Enablement Services.** Learn more about our Operate Services.

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