



CASE STUDY

Finding the Right Buyer

Struggling Surgical Hospital (“SH” or the “Facility”) Partners with Regional Healthcare System, Resulting in Significant Operational and Financial Improvements

CHALLENGE

The Facility is a multispecialty surgical hospital with eight operating rooms, three main treatment rooms, and 23 beds. At the time SH engaged with Merritt*, the Facility offered a strong mix of specialties and had a solid reputation for quality care. Despite these positive achievements, SH was unable to establish the efficiencies needed to attain its maximal financial potential. SH was also unable to obtain competitive commercial insurance contracts.

To strengthen its position in the market, SH's stakeholders desired to sell an interest to a strategic buyer with the resources to fuel growth. In order to achieve these goals, SH's majority owner, a private equity company, chose Merritt as their exclusive sell-side advisor because of Merritt's experience in this type of complex transaction. Merritt possesses a sophisticated understanding of the healthcare marketplace, due to their clinical, transactional, and operational experience. This expertise, in addition to the firm's deep network of industry relationships, allows Merritt to optimize valuations and facilitate successful sales.

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MerrittHealthcare
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Mergers & Acquisitions

Merritt Healthcare Advisors (Merritt) engaged with a struggling surgical hospital based in the Central Valley of California, providing impactful operational and transactional advisory services. Merritt's work resulted in securing a value added strategic partner, a meaningful increase in valuation and ensuring a smooth and successful enterprise sales process.

SOLUTION

- **Identifying a Path for Improvement:** Leveraging its market knowledge, Merritt analyzed SH's key performance indicators and found opportunities to boost profitability. These included benchmarking SH's staffing and compensation practices against industry standards, recommending salary adjustments based on its staffing model, and importantly, modeling the impact of enhanced payer rates on the Facility's existing book of business.
- **Focusing on the Future:** When positioning SH for sale, Merritt wanted buyers to see what the facility could be, not what it was currently. Merritt modeled SH based on recommended improvements, and showcased the Facility's true potential in a credible way to buyers.
- **Finding the Right Buyer:** Merritt tapped into its network to find prospects that would be the best fit for the Facility. The ideal buyer needed a West Coast presence, strong payer relationships and sufficient resources.
- **Providing Disciplined, Experienced Guidance:** The sales process can be lengthy and time consuming. Because of this, Merritt sought to ease anxieties and build trust, developing relationships with key stakeholders and creating a thoughtful plan for bringing SH to market.

RESULTS

By demonstrating SH's untapped potential, Merritt attracted the attention of strategic hospital buyers, including a Northern California-based health system. The system offered a purchase price that exceeded the expectations of the stakeholders. Upon receiving the offer, Merritt participated in the complex due diligence and negotiation processes to successfully close the sale.

The new strategic partner leveraged its strong market presence to negotiate better commercial insurer contracts and continued to implement several of the changes to controllable expenses Merritt recommended. SH is now profitable, significantly improving physician morale. SH is a prime example of how implementing clinical and financial best practices can boost the bottom line and result in a successful sales process.