Herzlich willkommen zum
Satelliten-Symposion
“Academic healthcare networks and international experiences“

Boston Consulting Group (BCG)

26. September 2019
Berlin
Academic healthcare networks and international experiences
## Agenda

<table>
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<tr>
<td>09:00-09:30</td>
<td><strong>Introduction</strong> (Dr. Zun-Gon Kim, Partner, BCG)</td>
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<tr>
<td>09:30-10:00</td>
<td><strong>Integration by interaction</strong> — Lessons learned from Spain (Carolin Tetzel, LL.M., Head of Legal and Transactions, Helios Health)</td>
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<tr>
<td>10:00-10:30</td>
<td><strong>Merger of two Dutch university hospitals</strong> — Lessons learned from Amsterdam (Prof. Dr. Hans Romijn, Chairman of the Board of Directors of AMC and Vice-Chairman at VUmc)</td>
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<tr>
<td>10:30-11:00</td>
<td><strong>Reflections on network building, integration success factors and potential pitfalls</strong> (All)</td>
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Introduction

Dr. Zun-Gon Kim, Partner, BCG
“Butterflies in one’s stomach” at the beginning of a merger or acquisition ...
Most M&A transactions destroy value: Results of recent BCG study

% of deals analyzed

<table>
<thead>
<tr>
<th></th>
<th>Value destroyed</th>
<th>Value created</th>
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<tbody>
<tr>
<td>Percentage</td>
<td>64%</td>
<td>36%</td>
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Announcement effect¹

1. Performance Index from five days before announcement to five days after compared to market average
Note: Sample size = 277
Source: VM research system; SDC; Compustat; BCG study “Winning through mergers in lean times”
Turning a merger into a real success is far from obvious
PMI is about making an equity story come to life

Before the deal

Strategy
Estimated synergies
Valuation

“Equity story”

After the deal

People
Culture
Organizations
Processes
IT
And delivering on the synergies

New company up and running
A host of questions to answer

**Strategy**
- Strategic rationale
- Value drivers
- Equity story

**Process**
- How to run the process
- Keeping program on track
- Which IT platform

**Synergy**
- Cost synergies
- Revenue synergies
- How fast to pursue

**Organization**
- Who will lead
- Target organization
- Choosing between candidates

**Others**
- Which brands to keep
- Site profiles
- Future culture
Integration logic and guiding principles
Example framework template to define overall integration logic

**Strategic logic**

- **Long-term strategic** (e.g., access to new technologies)
  - Take time
  - Time is money

- **Short-term operational** (e.g., industry consolidation)
  - Merger of equals
  - Take over

**Speed of integration**

- **Take time**
- **Time is money**

**Spirit of integration**

- **Merger of equals**
- **Take over**

**Strategy of products and regions**

- **Portfolio addition**
- **Portfolio consolidation**

**Scope of integration**

- **Few units or none**
- **All at once**

Source: BCG
# 12 imperatives for successful PMI

<table>
<thead>
<tr>
<th>Set the direction</th>
<th>Capture the value</th>
<th>Build the organization</th>
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<tbody>
<tr>
<td>1. Define at the start the <strong>basic objectives</strong> of the integration</td>
<td>5. Emphasize <strong>speed</strong>: use the period before closing to start designing the future company and prepare to capture value</td>
<td>9. Design the future <strong>operating model</strong> early on; it may differ from the Day One structure</td>
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<tr>
<td>2. Manage the integration as a <strong>discrete program</strong>, with a rigorous approach, independent of size</td>
<td>6. Aggressively pursue <strong>synergies</strong> according to the integration’s objectives</td>
<td>10. Manage <strong>talent</strong> by selecting, retaining and developing the best people</td>
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<tr>
<td>3. Organize <strong>Integration teams</strong> around drivers of value and the target operating model, and appoint leaders from both companies</td>
<td>7. Keep the current business strong by including <strong>current customers</strong> in the integration process</td>
<td>11. Rigorously manage <strong>cultural integration and change management</strong></td>
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<td>4. Insist on <strong>senior leadership</strong> that is committed, credible, and highly visible</td>
<td>8. Decide on <strong>IT</strong> for the integrated company early, and explicitly</td>
<td>12. <strong>Communicate, communicate, communicate</strong>, better to have too much than too little</td>
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Integration by interaction—Lessons learned from Spain

Carolin Tetzel, LL.M.
Head of Legal and Transactions, Helios Health
Integration by Interaction—Lessons learned from Spain

Carolin Tetzel, LL.M. - Head of Legal and Transactions
About me

- Head of Legal and Transactions, Helios Health GmbH / Fresenius Group
- 16 years of professional experience, nationally and internationally – as Lawyer and Inhouse Counsel
- Expert in healthcare advisory including university hospitals
- Experienced in international and national transactions and restructurings
- Post-merger integration and change management expertise
About Helios: in Milestones

- Privatization of individual hospitals: +4, +12, +2, +5, +24
- Consolidation: +6, +11, +41, +44
- Internationalization Cluster and Service

Sales in € billions:
- 1995: 1.2
- 2005: ~5.6
- 2014: ~8.9
- 2017: ~8.9

Acquired number of hospitals
About Helios: in Numbers

- **Hospitals**: 133
- **Beds**: 36,800
- **Employees**: 100,000
- **Inpatients**: 1.6m
- **Outpatients\(^2\)**: 17m
- **Medical centers\(^3\)**: ~493
- **Revenue (€)**: 8,893m

Helios Spain business model allows for significantly higher ratio of outpatients

---

1. Includes doctors under mercantile relationship
2. Includes 2.2 million Emergency Room cases
3. Includes 126 outpatient clinics, 10 Prevention centers (Germany) and ~300 ORPs, 57 outpatient centers (Spain)
What Makes the Difference
Key Take-Aways

- Successful integration by selective interaction
- Learn from each other, learn from the best
- Embrace cultural and structural differences
- Best practice transfers drives transformation
Embrace cultural Differences

## Framework: Comparison

<table>
<thead>
<tr>
<th>Regulation Density</th>
<th>Medium with local variations</th>
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<tbody>
<tr>
<td></td>
<td>• Depending on state-by-state regulations</td>
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<tr>
<td></td>
<td>• Variable health care models (PPP)</td>
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<tr>
<td></td>
<td>• No sector boundaries</td>
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<table>
<thead>
<tr>
<th>Insurance System</th>
<th>Multiple financing models</th>
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<tbody>
<tr>
<td></td>
<td>• Private full-coverage insurance additional to public insurance</td>
</tr>
<tr>
<td></td>
<td>• ~20% of population with private coverage</td>
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<table>
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<tr>
<th>Financing</th>
<th>Surrounding</th>
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<tr>
<td>In a dynamic surrounding</td>
<td></td>
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<tr>
<td>• Consolidation opportunities</td>
<td></td>
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<tr>
<td>• Greenfield and ORP</td>
<td></td>
</tr>
<tr>
<td>• Digitalization for services and growth</td>
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<th>High and nationwide</th>
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<tr>
<td>• Low flexibility for state-specific regulations</td>
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<tr>
<td>• Uniform health care models</td>
</tr>
<tr>
<td>• Strict sector boundaries</td>
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<tr>
<th>Separate financing models</th>
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<tbody>
<tr>
<td>In a largely saturated surrounding</td>
</tr>
<tr>
<td>• Rare privatization or consolidation</td>
</tr>
<tr>
<td>• Outpatient growth against boundaries</td>
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<tr>
<td>• Process digitalization</td>
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<table>
<thead>
<tr>
<th>Spain</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Density</td>
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<tr>
<td>Insurance System</td>
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</tbody>
</table>

- Private full-coverage insurance additional to public insurance
- ~20% of population with private coverage

- Private full-coverage insurance instead of public insurance
- Complementary private insurance
- ~11% of population with private coverage
### Framework: Free-choice Model Madrid

- Free choice of hospital for all Madrid residents
- Basic Model: Capitation Model
- Main incentives:
  - Quality ranking and high technical standard
  - Short waiting time
  - Single bedroom with extra bed for relatives
  - Free parking, good quality meals etc.

### Net Free Choice Revenues
- 90% of actual treatment price (DRG alike) for inbound patients
- 100% of actual treatment price (DRG alike) for outbound patients
Foundation and construction of new hospital for private patients (HIC-insured) does not require a public operation license

- Hospital and medical center (100 beds)
- Opening in 2018
Best Practice Transfer and Transformation
The Best of Both Worlds

- Outpatient services
- Procurement
- Outsourcing & Cooperations
- Standard-ization
- Clustering
- Peer- & Management-Reviews
- Laboratory
- IQM
- Quality
- Outcomes
- Process
- Service
- Short waiting times
- LOS

Helios.health
The Best of Both (Medical) Worlds

Outpatient services

LOS

Short waiting times

Service-App

Procurement

Outsourcing & Cooperations

Standard-ization

Laboratory

IQM

Quality

Peer- & Management-Reviews

Clustering

INTEGRATION THROUGH INTERACTION

Helios.health
Key Take-Aways

• Positive patient experience is key driver of Quirónsalud’s success

• Integration of outpatient and inpatient care drives improved quality and efficiency

• Digital transformation is not optional and changes the patient-doctor-relationship

• Cross-border knowledge transfer between Quirónsalud and Helios improves clinical practice
Positive Patient Experience as Key Driver of Quirónsalud’s Success

Patients want ...
- Services provided on time
- Empathy, their educational, emotional, and spiritual needs taken care of

Patients expect ...
- High quality & safe care
- Innovative & affordable care

Quirónsalud offers ...
- Patient-centered care:
  - “Care & caring” program: we teach our employees how to treat patients
  - Focus groups with patients to improve services
- Good accessibility, short waiting list: process standardization and on time control of waiting times
  - Outpatient: less than 15 days, less than 15 minutes
  - Emergency Department: first medical attention under 30 minutes

Quirónsalud has to guarantee ...
- High quality & safe care
- Innovative & affordable care
- Efficiency
Digital Transformation: Working along 4 transformational Axes

1. With our external partners
2. Among our centers
3. Inside our hospitals
4. With our patients
...with external Partners

1

57 primary care centers
Ambulances
140 Nursing homes

Brain stroke Ceuta y Melilla
Torrevieja-Orihuela
Online authorizations
...with the QS Centers

Brain Stroke Madrid

Remote ICUs Catalonia

All medical services

Digital Pathological Anatomy
...inside the QS Hospitals

- Auto admission
- Virtual ticket
- Indoor guidance
- Consent signing

“From kiosks to mobile”

Surgery patient tracking
- Real-time information to family
- Automatic time data entry with bracelets
- Operating theaters plan follow-up

Fragile patients program
900 steps

Helios.health
More than 700,000 patients in portal (>56% active patients in last 6 months)

Over 5,000,000 access to medical record, 1,000,000 appointments, 450,000 certificates of assistance
The Best of Both (Process) Worlds

Outpatient services

LOS

Short waiting times

Procurement

Outsourcing & Cooperations

Standard-ization

Laboratory

IQM

Quality

Peer- & Management- Reviews

Clustering

Service-App

Service

Outcomes

Process

INTEGRATION THROUGH INTERACTION
Key Take-Aways

- Standards adapted to individual market conditions
- Size matters: Bundling of quantity & internationalization create new opportunities
- Efficiency supports quality – however, there are limits to standardization
Efficiency Supports Quality

From single projects to common strategy

First things first
• Each unit defines its own goals
  → quality and price

Synergies potential yes/no?
• Are there synergies based on individual goals and how can they be achieved?

Strength through bundling
• Combine negotiation process
• Common negotiations of volumes and price

Use country specifics
• Individual implementation of results
Thank you
Merger of two Dutch university hospitals—Lessons learned from Amsterdam

Prof. Dr. Hans Romijn
Chairman of the Board of Directors of AMC and Vice-Chairman at VUmc
Merger of two university hospitals
lessons learned from Amsterdam

Hans Romijn
Professor of Medicine, CEO and Dean
Amsterdam UMC
Amsterdam: 2 universities
Two complete university medical centers

no collaboration before 2010
Amsterdam: only 750,000 inhabitants
Merger: sequence of events

2010         AMC: proposal in strategic meeting

2013         VUmc and AMC agree to merge

2013-2018    Many legal problems

June 8, 2018 Merger
Merger program

1. Explain and communicate reasons for the merger
Arguments to merge

1. Clinical benefits of scale
   centralization of patient groups
   more differentiation of care

2. Cost benefits

3. Consolidation of research activities

4. Coherence versus unproductive competition
Centralization of stroke patients in London improves care

![Graph showing the percentage of patients receiving care against the number of patients per day for HASU and Non-HASU treatments. The graph indicates a higher percentage of patients receiving care at HASU compared to Non-HASU settings.](image)

Stroke. 2015;46:2244-2251
Increased number of operations per surgeon reduces mortality.

Number of operations per surgeon / year

Annals of Surgery 2016;263:727-732
Arguments to merge

1. Clinical benefits of scale
2. Cost benefits
3. Consolidation of research activities
4. Coherence versus unproductive competition
Merger program

1. Explain and communicate reasons for the merger

2. Define and communicate common purpose
   + New name
   + New logo
New identity
Merger program

1. Explain and communicate reasons for the merger

2. Definition and communication of common purpose
   New name
   New logo

3. Clear program of change management
Agreement with the labor unions

14,000 employees

No dismissals due to the merger within 5 year after the merger
CONCENTRATION PROFILES 2022
Many risks, but failure is not an option

Olympic swimming pool that was short by 1 meter
Program of change management

Excell in
- Patient care
- Training and education
- Research

Create one organisation

Concentrate activities
- Patient care
- Training and education
- Research
Program of change management

Excell in
- Patient care
- Training and education
- Research

Create one organisation

Concentrate activities
- Patient care
- Training and education
- Research
Excell in
- Patient care
- Training and education
- Research

Integration and harmonisation
Create one organisation

Concentrate activities
- Patient care
- Training and education
- Research

Joint Commission International
Management integration:
- Boards of supervisors and directors
- Harmonisation divisions / services
- Chairmen of departments / services

Excell in
- Patient care
- Training and education
- Research

Integration and harmonisation
Create one organisation

Concentrate activities
- Patient care
- Training and education
- Research
Merger

• Harsh facts:
  – Legal issues, ICT, buildings, processes, etc

• Soft facts:
  – Culture, collaboration, trust, participation
Program of change management

Excell in
- Patient care
- Training and education
- Research

Integration and harmonisation
Create one organisation

Concentrate activities
- Patient care
- Training and education
- Research
Wave 1: het hele plaatje

Werkplekken verhuizen

Zorgadministratie, DBC’s

OK-programma

Radiologie-beelden

derma

ortho

IC-kind

long

oog

Medische apparatuur verplaatsen

Inzage patiëntendossiers

‘Warm welkom’, aanstelling, reiskosten
Major lessons

- Continuous emphasis on necessity of the merger
- Open communication on merger process
- Emphasis on new common culture
- Execution of merger step by step and with respect
- Unity of governance
- Dedicated merger teams enforced by board of directors
- Organize merger process from top AND bottom
- Identify, train and coach: management skills
AMC + VUmc  Metamorphosis  Amsterdam UMC
Twee universitair medische centra
Reflections on network building, integration success factors and potential pitfalls
In retrospective, to what extent could pre-merger ambitions and expectations be met?

How clear was the ("top-down") strategic rationale before signing and to what extent was the rationale adjusted during the integration process ("bottom-up")?

What were the "integration principles" in terms of longer-versus shorter-term benefits, speed and spirit?

Any additional lessons learned and take-aways in the strategic context?
In retrospective, what were the most critical elements to manage the integration process?

How did you design the integration process in terms of structure or teams and which tools or experiences could you apply?

What kept you awake 100-days before and after closing?

Any additional lessons learned and take-aways in the integration process context?
Synergies

- Cost
- Revenue
- Speed

In retrospective, how successful was the merger in terms of synergy realization?

Which synergies could be realized more straightforward and which ones are still hard to crack?

How was the balance between topline and bottom-line synergies and to what extent have pre-merger ambitions been met?

Any additional lessons learned and take-aways in the synergy context?
In retrospective, how clear was the target organization before the merger?

To what extent is the organization of the "NewCo" a mixed model versus the replication of an existing one?

When during the merger were target structures and nominations defined and communicated?

Any additional lessons learned and take-aways in the organizational context?
Which role did culture play and to what extent was this considered during the integration?

Anything specific to share in the context of sites and portfolio?

Anything specific to share in the context of branding?

Any additional lessons learned and take-aways which we forgot to discuss?

Others

- Culture
- Sites
- Brands
Many thanks for your attention
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