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Surviving Due Diligence

*“Being  
organized is  
the key”*



## Tips and Trends in Healthcare M&A

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### Surviving Due Diligence - An Emotional Roller Coaster Ride

by Monica Bourke

The due diligence process is the verification that all representations made by the seller are accurate and correct. Generally, this is an extensive review performed by the buyer in the areas of clinical processes, operational procedures and financial records. It can be an exhaustive process on the part of the seller because each potential buyer is always looking for something a little different than the last.

As a former home care owner who has recently undergone the grueling due diligence process the best advice I can give sellers (or potential sellers) is to get organized now! It never hurts to have all important company documents in one place. If a company is selling or thinking of selling, the amount of energy you will invest if you are not organized can be extremely time consuming. I prepared numerous different types of packets to address the inquiries of various potential buyers during my sales process.

Buyers want quick responses to their requests so it is important to be able to produce the information as rapidly as possible. Being organized is the key to getting information to the broker and/or the buyer as quickly as possible. Below is a sample of some of the information requested by the buyer when the due diligence process begins:

#### Request for Information for Medicare Agency

1. Financial Statements for past three years (month by month and YTD).
2. Bank Statements for three years.
3. Three years of personal and corporate tax returns.
4. Most recent Cost Report.
5. Most current PS&R covering 3 years.
6. Copy of License(s) and certificates.
7. Terms of Current leases and description of real estate.
8. Org Chart with job titles, hire dates and pay rates.
9. Payroll Information including employee information, contractor rates and contracts.
10. Past three years unduplicated admissions by month.
11. Copy of most recent surveys and related POCs.
12. Description of employee benefits.
13. Types of referral sources and admits by referral source.
14. Contracts with Pay Sources and Vendors.
15. Corporate Structure and Ownership and articles of incorporation.
16. List of software and contracts with vendors as applicable.
17. Billing/Payroll process and 2 years of payroll reports.
18. Accounting Process (how is revenue realized).
19. Insurance Policies.
20. Statistics Reports.

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Keep your eye  
on the prize

My suggestion is to get a large three ring binder, create a table of contents and put a copy of all the above documents in the binder. Secondly, develop an electronic file on your computer with a copy of all of the documents so they can be e-mailed quickly to the broker. It's a good idea to spend the time to download your financials to an Excel Spreadsheet, that way the numbers can be easily manipulated by the broker and/or the buyer as they are verifying the valuation of your company. Many software accounting systems allow the user to export data in an excel format. Set up one workbook called "due diligence" and import as much of the above data into it as possible. It will make life so much easier when a prospective buyer requests information. Finally, update the information on a regular basis to keep it accurate and current in both the electronic format and the hard copy binder.

The final survival piece, in my opinion, is to drop all of your expectations and develop an awful lot of patience. Working with a broker that you trust and feel comfortable with can dramatically reduce the stress. It often takes upwards of six months for an agency to get from listing to close. The emotional roller coaster of the ride can make your nerves stand on its ends. However, just by knowing you have a knowledgeable and experienced representative whose interests are aligned with yours, will relieve much of the associated anxiety. The important thing to take into consideration is that the ride ends with a big reward at the finish. Keep yourself organized with your eye on the prize at the end of the ride and you will sail through your experience a lot easier than did I!

*"Have a knowledgeable and experienced representative whose interests are aligned with yours"*

### About the Author



Monica Bourke, RN, is an experienced consultant in the home care industry providing clinical process and procedure support. She also works with other healthcare businesses in developing selling and marketing strategies. Over the past twenty six years, Monica held management, marketing and consulting positions in Nephrology, Transfusion Medicine, Blood Banking, Biotech, and Home Health Care. As a former owner of a homecare agency, she brings a wealth of knowledge to her clients. She has authored numerous community articles related to home healthcare and care of the elderly and is a frequent guest columnist with Register Publications.

**Fletridge Pacific proudly welcomes Monica Bourke as an Associate as of September of 2008.**

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