REPRINT August 2018

hfm

healthcare financial management association hfma.org

Eric A. Jordahl
Matt Robbins

merging treasury functions to optimize strategic value

To achieve a truly effective merger, careful attention should be paid to treasury operations and invested assets, along with capital management and external financing.

Executives of merging healthcare organizations face the challenge of knitting together previously separate operations, strategies, and balance sheets into a new and cohesive whole. The efficient consolidation of treasury platforms is critical to merger success, as treasury is the wheelhouse for organizing and deploying the credit, liquidity, and capital resources that fuel operations and strategy.

Most merging organizations, or those considering partnerships, focus their merger-integration planning on two pieces of the treasury wheelhouse: capital management and external financing. This focus on credit and debt is understandable.

However, to achieve a truly effective merger integration, equal attention should be paid to the other pieces of treasury: treasury operations and invested assets. Further, the application of an effective enterprise resource allocation framework can materially improve the understanding and eventual deployment of the merged organization's financial and credit resources.

Business combinations create a unique opportunity to assess past practices and make new choices about how various activities will be structured and organized. For treasury, this means assessing and perhaps redefining the functions, people, processes, technologies, and combined relationships that will optimize operations and accelerate post-merger performance.

Step One: Catalogue the Existing Treasury Functions

The first critical step in treasury merger integration is for representatives of both parties to develop a series of functional catalogues, to be completed by a subgroup or subgroups in a manner that produces consistency across the organizations. These catalogues should summarize what is being done by whom, using what technology, and with the support of what external resources. The resulting functional organization chart gives leaders of the respective organizations an understanding of how their existing treasury platforms work and whether material overlaps or gaps might need to be addressed as part of the integration process.

The cataloging process also creates the foundation for specific action steps that will help guide actual treasury integration.

Capital management. This step entails defining the organization's capital capacity (internal and external capital resources), shaping the combined credit position, and determining how the organization should interact with rating agencies and other external credit market constituents.

Treasury operations. The objective here is to establish cash targets and commercial banking relationships, with the latter addressing both core treasury services as well as credit capacity and access.

External financing. This step involves determining the process and timetable for integrating the comprehensive borrowing (including leases) and security platforms (i.e., master trust indentures and/or other creditor agreements).

Invested assets. Regarding these assets, the objective is to determine the process and timetable for combining investment platforms and the associated restricted and unrestricted pools, pension plans, and specialty funds.

In each of these areas, the catalogue should define not only the core treasury subfunctions (i.e., cash management or debt issuance), but also how core treasury interacts with other parts of the enterprise (i.e., how capital management interacts with capital allocation) and how it is supported by various external relationships (i.e., with commercial or investment banks or advisers).

Step Two: Define the New Treasury Platform

Once a current-state catalogue has been developed, attention can turn to defining the pro forma treasury platform and the process plan for each functional area.

At this point, senior management and governance need to make a threshold determination as to whether they want treasury to be a series of tasks or a strategic corporate resource. This step will dramatically influence which functions are centralized, distributed, or outsourced, as well as the supporting frameworks and relationships that are put in place.

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Questions to consider include the following:

> Will there be a centralized treasury function, and if so, what activities will it be responsible for?
> Which functions across the enterprise will materially influence treasury performance, and how can effective communication be established and maintained?
> What external relationships (e.g., debt and investment advisers, commercial and investment bankers, and others) will be put in place or leveraged?

The treasury functions identified above—capital management, treasury operations, external financing, and invested assets—remain the main areas of consideration, and each contains functions that require focused attention to planning by the board and senior management as early in the consolidation process as possible.

Step Three: Treasury Platform Integration

The final step is the process of overlaying the catalogue onto the targeted treasury platform. Component plans may vary—not only in content but also in the time frame and complexity associated with reaching an end result. Defining this reality as early as possible and using the comprehensive catalogues to get ahead of the issues will have a favorable impact throughout the actual integration process.

Capital management and treasury operations integration challenges require in-depth assessment and decision support, but typically the process ultimately is straightforward.

Getting the treasury function right following a merger will bind the organizations together financially and improve the likelihood of success.

Capital management. The focus is on securing the best possible credit position and implementing solid capital management and allocation procedures that connect seamlessly into the financing process. This typically is the treasury function that is most distributed across the organization, with important inputs coming from capital planning and allocation as well as from financial planning and analysis. Building effective connections across these different corporate finance functions is a critical success factor.

Treasury operations. The objective is to establish the right cash targets and cash management processes and to put in place commercial banking relationships that achieve the right balance between product execution, fees, and access to bank credit. Much of this work is a nuts and bolts treasury function, but challenges might emerge from control over certain functions being in other parts of the enterprise finance function. Additionally, the question of how the core treasury spend translates into credit access is an incredibly important strategic consideration that should be carefully assessed by leadership.

External financing and invested assets. These areas can get more complicated due to the steps and time that might be involved in achieving integration. Both areas frequently consist of portfolios of complex credit and financial positions that carry different consolidation barriers (costs or risk) that may extend the integration timetable. If risk tolerance, product acceptance, or cost/return objectives change, then the integration team will need to define the steps and timing required to complete a successful transition.

The Role of Enterprise Resource Allocation

An enterprise resource allocation framework is important in that it can help an organization better define its aggregate financial and credit resources and then test how these resources match up against the risks embedded in the operations, strategy, debt portfolios, or capital needs of the combined organization. Baseline financial plans—the foundation of most premerger assessment work—provide critical information about expected financial and credit performance. However, these analyses assume a fairly static balance sheet with relatively less emphasis on whether the combined enterprise produces risk capacity and risk-adjusted returns that are superior to the individual entities. Integrated decision-support frameworks go further and can help to define how the organization deploys key balance sheet resources—both debt and invested assets—to best support the new entity. It also can provide management and governance leaders with a summary of the set of risk factors that need to be carefully monitored and managed.

Mergers are a constant in the current healthcare landscape and are likely to remain so well into the future. As the financial "hub" of the organization, treasury is the keeper of all balance sheet resources and facilitates the flow of capital and credit across the organization. Getting this function right following a merger will bind the organizations together financially and materially improve the likelihood that the new organization will be successful. ■

Eric A. Jordahl is a managing director at Kaufman, Hall & Associates, LLC, and a member of HFMA's First Illinois Chapter (ejordahl@kaufmanhall.com).

Matt Robbins, CFA, is a senior vice president at Kaufman, Hall & Associates, LLC, and a member of HFMA's Massachusetts-Rhode Island Chapter (mrobbins@kaufmanhall.com).