

Market Trends: Health System Joint Ventures with Specialty Providers

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Today's Agenda

#1 Context & Trends

- A. Set the stage
- B. Review driving forces
- C. Review national trends
- D. Review Ohio trends

#2 Key Considerations

- A. Finance
- B. Governance
- C. Operational
- D. Legal

#3 Best Practices

- A. Finance
- B. Governance & Mission
- C. Operational
- D. Legal

SECTION 1

Context & Market Trends

Introduction to health care joint ventures, divestitures & carveouts

National and state market trends

Joint Ventures, Divestitures, & Carveouts

Joint Ventures

A partial divestiture of a business unit/operating division/service line in which:

- A parent company spins off the division and sells, contributes, or combines the division with an operationally separate (perhaps legally separate) third party; and
- The parent company intends to remain involved (passively or actively) in the division.

Divestitures

A legal separation of a business unit/operating division/service line in which:

- A parent company spins off the division and transfers complete ownership to a third party; and
- The parent company does not intend to remain involved in the division.

Carveouts

A partial divestiture of a business unit/operating division/service line:

- that is (internally) terminated or contributed to a third party;
- integral to the continued operations of the parent company; and
- that is controlled by, managed, and/or operationally distinct from the parent company.

Partnerships Across the Continuum of Care



- Joint Ventures (JV(s)) are being used as an increasingly common strategy among health systems.
- Recent focus has been on system-ancillary service lines or services that are not part of the “core mission.”
- Hospital and Specialty Provider partnerships have exploded over the past couple of years nationally and within Ohio.

Drivers Behind Partnership as a Strategy

Financial Rationale

- Shared costs
- Cost pressures
- Economies of scale
- Additional cash flow
- Growth requires capital

Risk Mitigation/ Allocation

- Shared risks
- Allows sub-industry focus to better address risks

Expertise

- Sub-industry expertise
- Allows existing expertise to be used in a more effective manner

Market

- Improves ability to access new markets
- Improves ability to focus on core competencies

Regulatory

- Incentives promoting coordinated care
- CMS/Payor policies
- Differing regulatory burdens between provider types

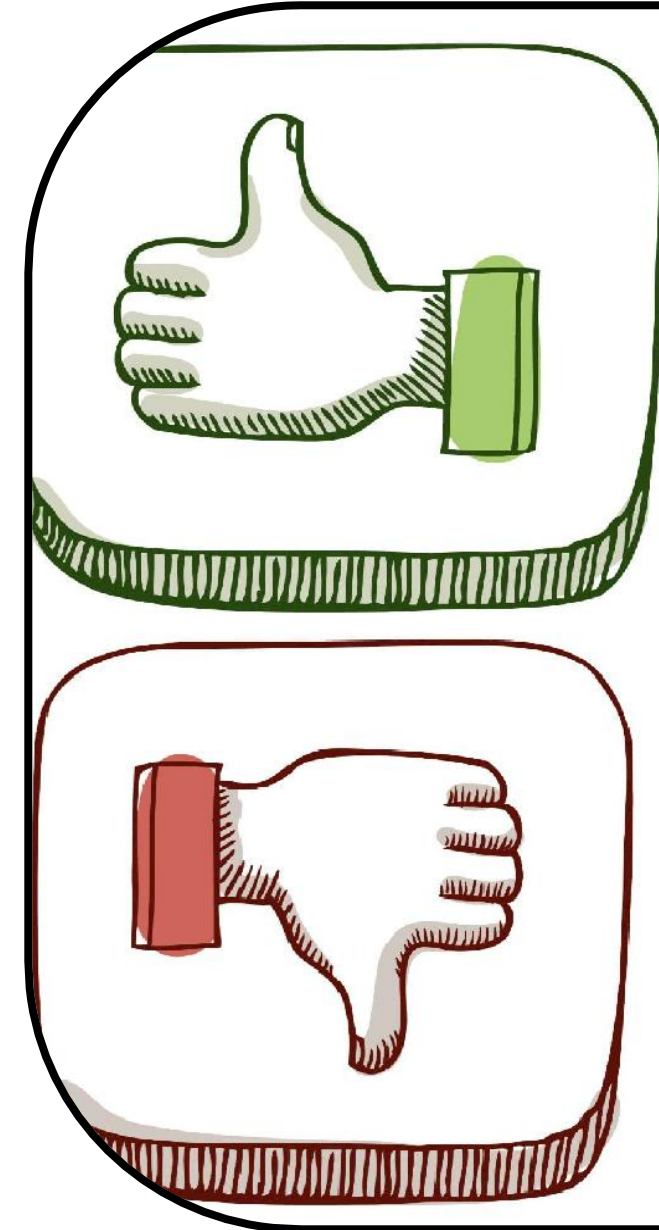
Dating

- Allows partners to evaluate one another before committing to further integration efforts
- Provides insight into partners' culture

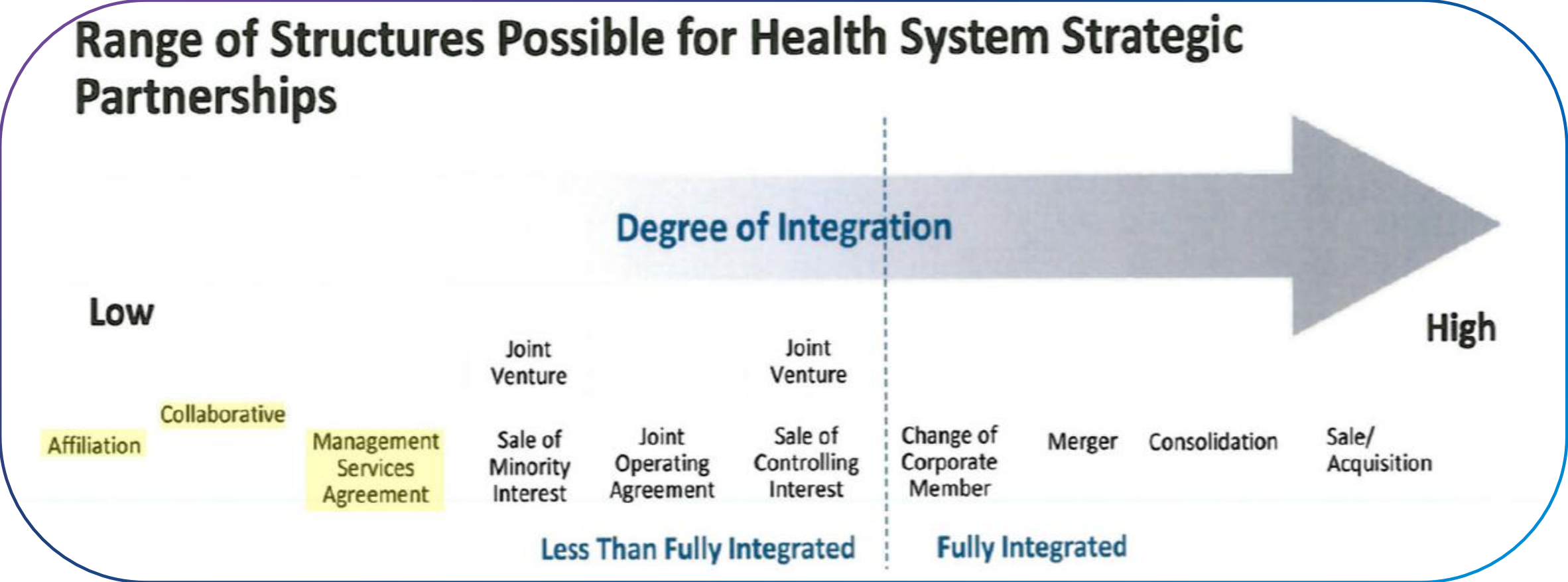


There are tradeoffs...

Shared Margin	Shared Control	Flexibility
Culture / Mission	Development / Evolution	Organizational Focus / Integration
Complexity / Overhead	Reputation	Divorce



Partnership Models



National Trends by Sector – JVs and Divestitures



National Trends by Sector - Carveouts

Commodity

- Environmental, janitorial, and housekeeping
- Food and dietary services
- Laundry
- Waste disposal
- Transcription/Interpretation
- Facilities Management

Professional

- Revenue Cycle Management (RCM)
- Business process/project management
- Information technology
- Data analytics
- Data archiving and cloud migration
- HR/Recruitment processes

Specialized

- Physician staffing and service lines
- Pharmacy / 340B Support
- Laboratory services
- Medical imaging
- Remote patient monitoring (RPM)
- Virtual care services

Ohio Market Trends



Preventative/Outpatient

Acute Care

Post Acute Care



SECTION 2

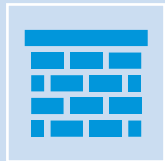
Key Considerations

Finance, Governance, Operational, and Legal

Joint Ventures – Finance



Economic Terms



Structure & Ancillary Arrangements



Partnership Impact

Joint Ventures – Governance

Control

Manager/Board
v. Member
Structure and
Approvals

Consent on
Specialty Issues

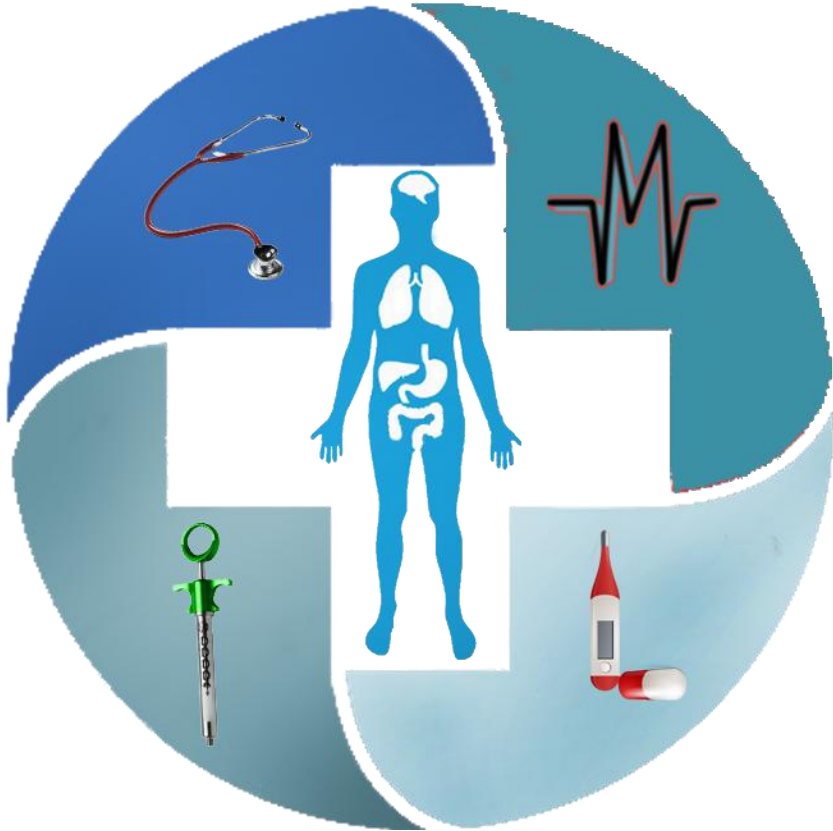
Continuing
Capital/Equity
Issues

Separations

Restrictive
Covenants

Compliance,
Regulatory, and
Tax Issues

Joint Ventures – Operations & Utilization



Care pathway alignment

Referral coordination

Performance metric tracking

Quality metric tracking

IT integration

Employees

Ancillary Arrangements

Joint Ventures – Other Legal Considerations

Key Negotiation Terms

Fraud & Abuse

Valuations

Cybersecurity & HIPAA

Tax-Exempt Issues

Antitrust Considerations

Ohio-Specific Considerations

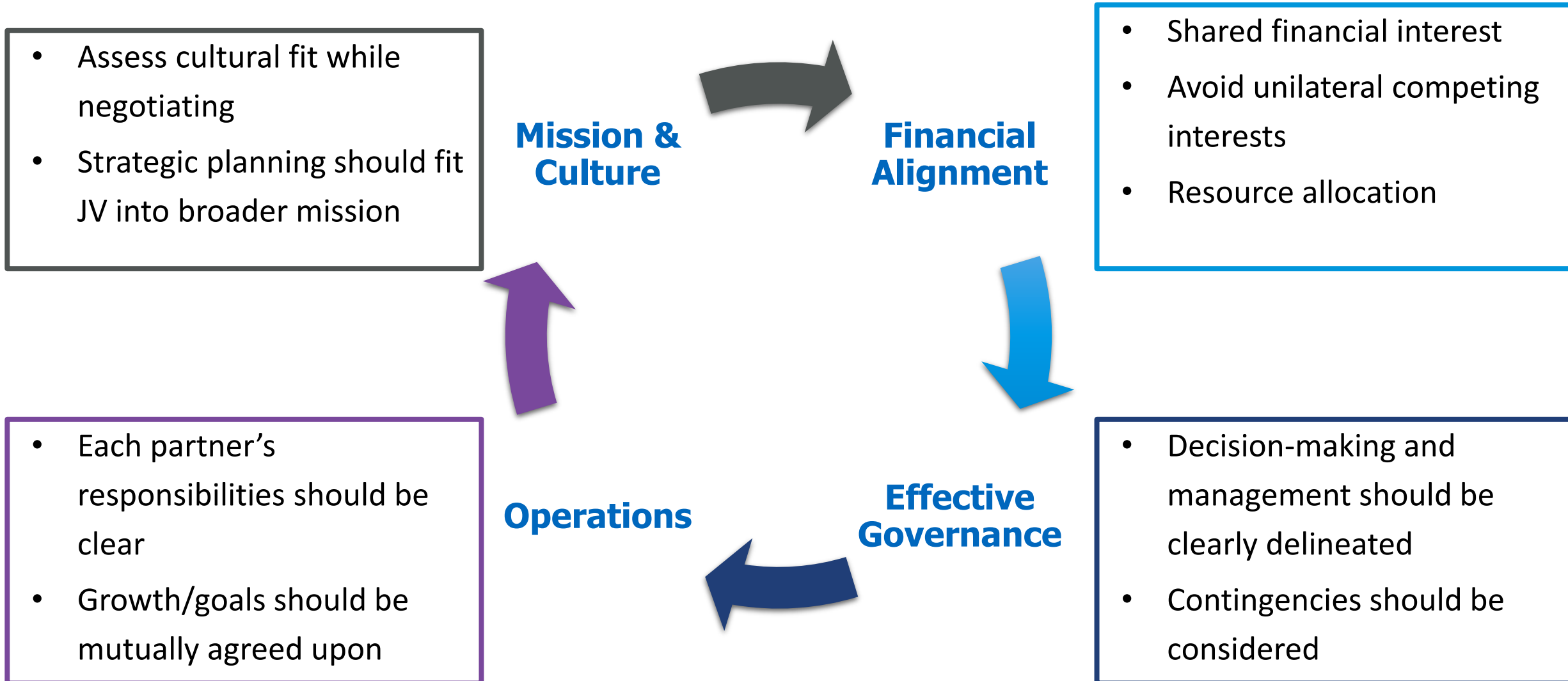


SECTION 3

Best Practices

Finance, Governance, Operational, and Legal

Strategic Considerations Before Entering JV



Best Practices – Financial Alignment



Ensure upside and downside financial incentives for each partner are aligned.



Agree on form and value of initial contributions



Each partner should appoint internal, accountable executives and those executives should be comfortable working closely



Partners should be closely aligned on their objectives, growth strategy, and goals

Best Practices - Governance



Decision-making structure and limits should be clear and clearly divided between JV management and Partners



Key terms should be negotiated early



Operational teams should be engaged early and consulted in this process

Best Practices – Mission & Culture



Partners should assess cultural fit early and be wary of red flags – will likely only become bigger issues



Employee relations, public relations, and public image should be considered early



Impact on clinical providers should be carefully considered

Best Practices – Operations



JV should fit within each Partners' broader operational strategy



Clinical operations and continuum of care should be aligned early



Quality and utilization should be factored-in early and monitored



Growth incentives, strategy, and purpose should be aligned



Each partners' objectives with the JV should be communicated early and often

Best Practices – Legal



Get involved early to improve negotiating leverage, understanding of objectives, and to screen against pitfalls



Design and document a path to success



Ensure key terms are specified and develop a framework to address change

Q&A





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