

Corporate Constellation : A Nonprofit Business Model Innovation

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VISIONARY
VOICES

Objectives for Participants:

1. Recognize the difference in form/structure between Mergers, Acquisitions (M&A) & Affiliations.
2. Understand how the Affiliation partnership contrasts from other M&A and Affiliation models/approaches.
3. Identify & describe the short and long term benefits of business combinations through Affiliation.
4. Develop an appreciation for how fiscal and programmatic considerations merge together throughout the Affiliation process that results in expanded programming aligned with your mission.
5. Know how an Affiliation offers protection from the evolving challenges in human services sector funding related to stagnating reimbursement rates & increased operating expenses.
6. Realize in what manner stakeholder concerns are addressed; i.e. consumers, families, staff, board members, throughout the Affiliation process.
7. Comprehension of the need for scope and scale of systems available through Affiliation.
8. Understanding that through Affiliation the maintenance of local culture, autonomy and identity are fostered, advanced and promoted ensuring organizational advancement & ingenuity.
9. Know what impacts an Affiliation, or any consolidation method, creates in order to promote organizational sustainability on emerging reimbursement systems like Value Based Payments (VBP).
10. Generate interest from your organization in following up with Inperium to better understand how Affiliation can work for you and your specific needs.

Definitions: Merger – Acquisition - Affiliation

Definition of Merger

Merger refers to the **consolidation** of two or more entities to form a **new company** with a new name as a single entity in which there is shared ownership & control while having all the assets/liabilities/legal rights/obligations of each company combined. The consolidating companies no longer exist. The two (2) companies amalgamate, & are dissolved to form a new company.

Definition of Acquisition

Acquisition refers to the **purchase of a business** target by acquiring enterprise so that the acquirer **gains control** over the target by purchase of the assets of the company or by obtaining ownership over 51% of its capital without the two (2) companies losing their existence. The acquirer is more powerful in terms of size, structure, and operations, which takes over the weaker company & is done either voluntarily or involuntarily.

Definition of Affiliation

An affiliation is when two (2) companies that are related to each other in some manner & are working towards similar goals or providing equivalent services create a **business relationship** that results in the adoption of a common sole member in order to become connected or associated resulting in both companies benefiting from each other under the **common membership**.

The Decision

Top Challenges Overcome

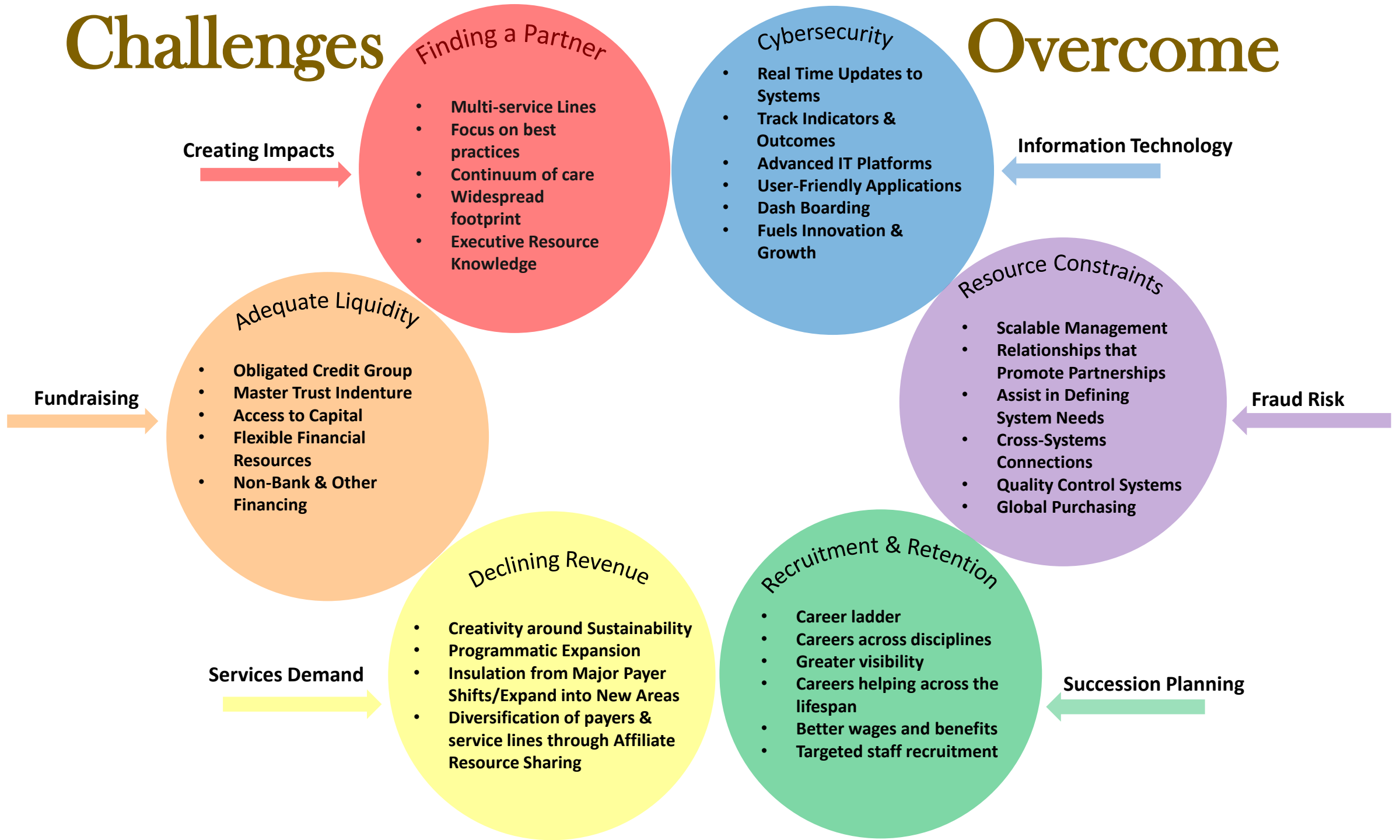
Areas of Board/Executive Concern Cured

Nonprofit Standards, A Benchmarking Survey – June 2018

www.bdo.com

Challenges

Overcome

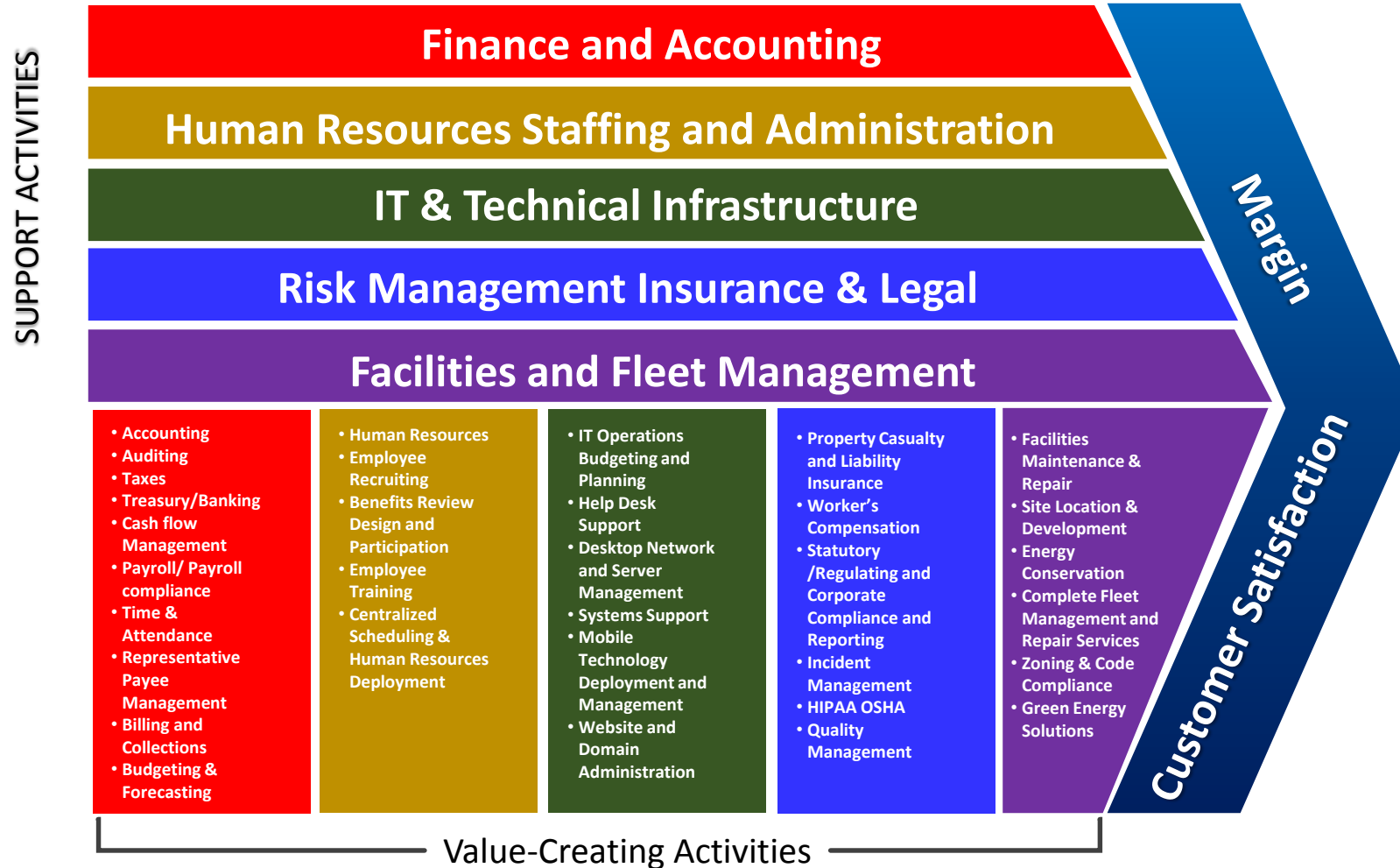


Value Creating Proposition - Affiliation

The Value Chain

The Value Chain model illustrates how value is added through various processes & what areas we recognize that increase the efficiency of our customers with the overall goal to deliver maximum value for the least possible total cost & create competitive advantages.

Value Chain



Affiliation:

A Strategic Alternative

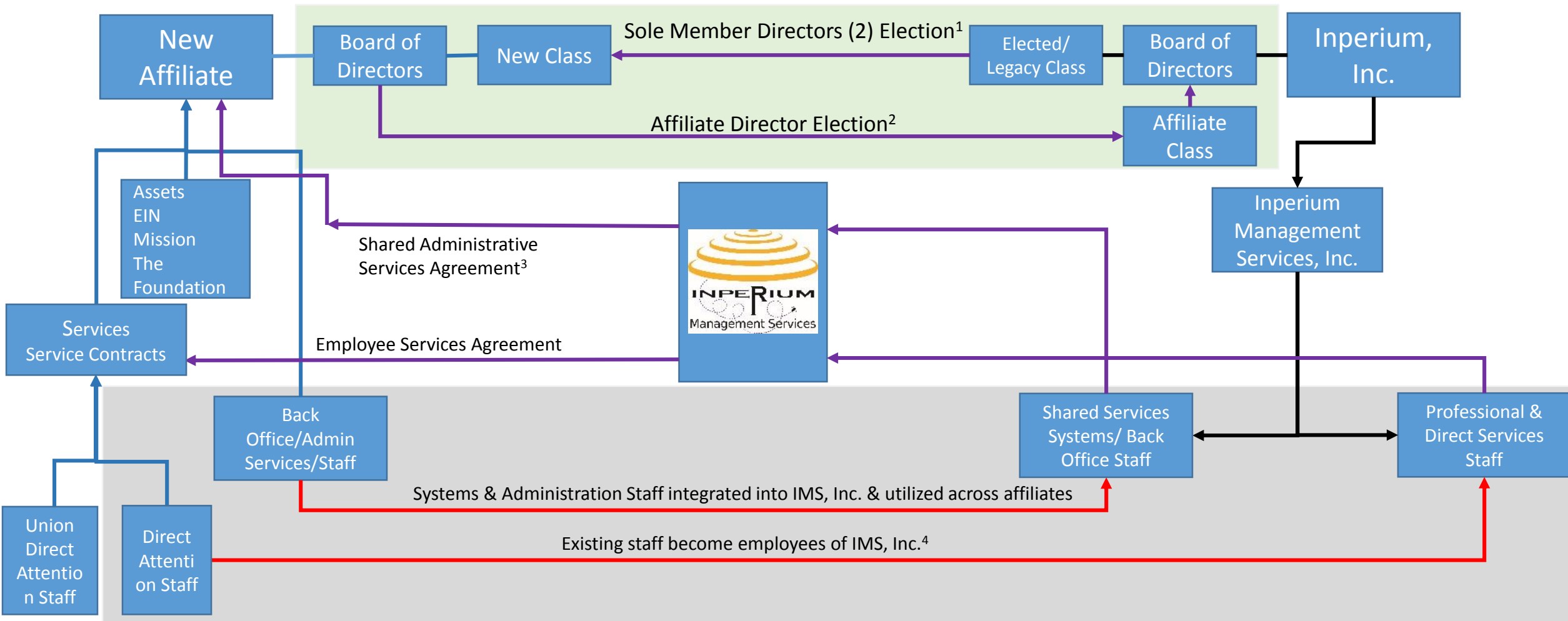
HANDOUT

Legal Entity Structure - Models

Pre & Post Affiliation



New Affiliate and Inperium, Inc. (Post affiliation prototypical approach)



- 1- From Elected Director class of Inperium, Inc. Board
- 2- Total Number & class of Director determined by metrics of affiliate
- 3- Agreement provided at cost & less than market rate
- 4- Staff retain their original date of hire

Shared Governance Control

Integration of Affiliate

Bylaws & Reserve Powers

Sole Member Reserve Powers – Minimum Required

- Corporate Governance
 - Capital Investment
 - Business Combinations
 - Asset Disposition
 - Acquisitions & Affiliations
 - Election/Reelection/Removal of a Director; Amendment of Articles of Incorporation/Bylaws; Change in business purpose/legal name/name(s) Corporation does business as (^);
 - Capital contribution/incurrence/guaranty of any debt (*);
 - Merger/Acquisition/Division or conversion/Sale to another entity or business other than Sole Member or its affiliate;
 - Sale/Lease/Encumbrance/Other disposition of all/substantially all of the Corporation's assets; filing for bankruptcy/insolvency/dissolution/liquidation;
 - Acquisition of a subsidiary or affiliate including by a related entity
- (^)Post timeframe outlined in Definitive Agreement
- (*)An amount in excess of Board of Directors established amount

Governance Control Detailed

Board of Directors

HANDOUT

The Process - Next Steps & Time Line

What's Next?

1. Non-Disclosure Agreement¹
 2. Letter of Intent and Term Sheet²
 - Draft executive/key staff contract language³
 3. Due Diligence Efforts (ALL parties)
 - Fiscal/Programmatic/Business Operations and Legal review
 - Risk & Technology Assessment
 - Approvals Required⁴
 4. Definitive Agreement⁵
 - Board actions/consents/modifications/assignments/notices
 - Affiliate and Inperium
 - Employment contracts for key staff
 - Administrative services/management services agreements
-
1. Confidentiality agreement permits **sharing of basic proprietary information** between the parties that wish to share with one another but restrict access by a 3rd party
 2. Document **outlining general provisions** before agreements are finalized; written conceptualization of the affiliation that are non-binding or binding to either or both parties that protects both parties until a finalized transaction and closing of the affiliation. Term sheet delineates **fundamental terms** before expending substantial resources on definitive agreements, finalizing due diligence and seeking 3rd party approvals
 3. Details wage, benefit, stay & sign-on payments and other necessary **employment terms for those key employees** that are being encouraged to/and have chosen to remain as part of the affiliation process through closing
 4. Determine what **regulatory approvals** are required from the appropriate departments, divisions, lending institutions and all other governmental bodies that are required to approve affiliation; evaluate if the approval is required prior to closing and if there is any potential for interpretation of the affiliation as a change in control
 5. Converts Letter of Intent and Term Sheet to **granular details of the affiliation**

What's Next? (cont.)

5. Regulatory Approvals⁶

- Attorney General
- Departments of Health/Human Services/ Licensure
- Lending Institutions
- Employee Benefit Programs
- Other contractually required

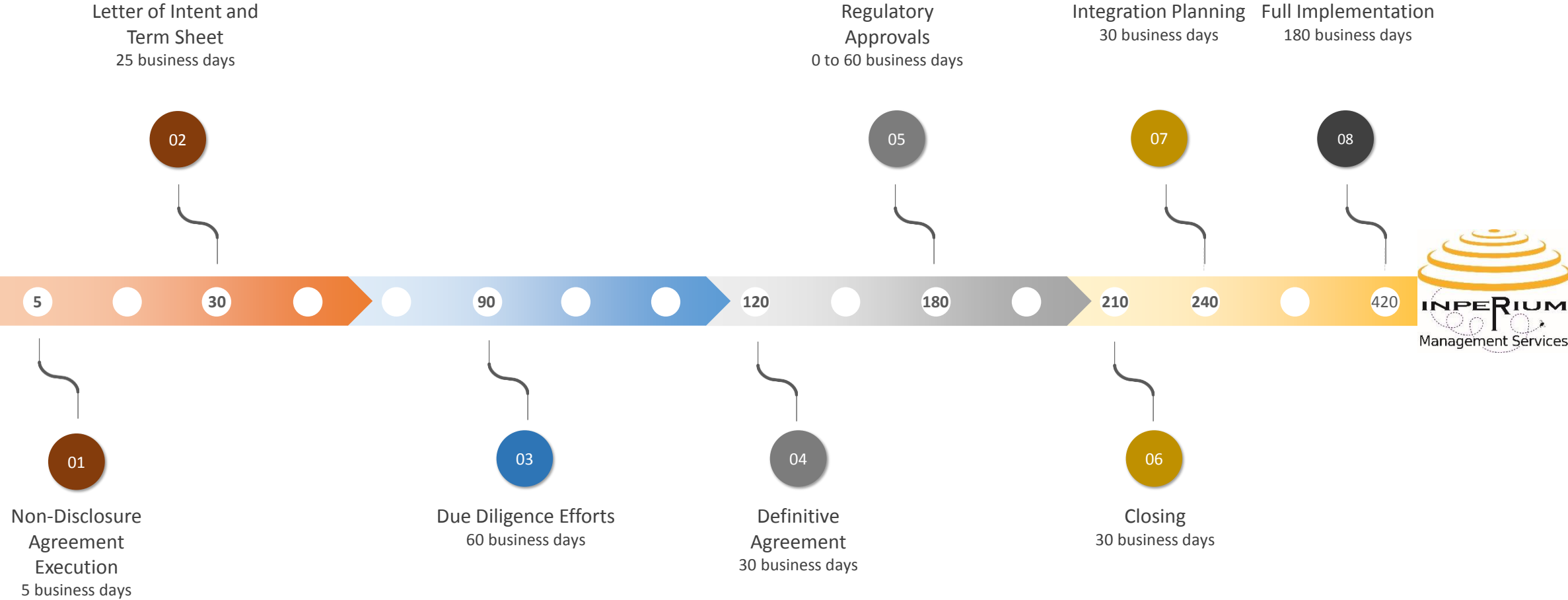
6. Closing⁷

7. Integration Planning⁸

8. Full Implementation

6. Provided in the form of a non-objection letter, formal approval letter based on a regulation, circular or law **and provided by the regulatory body** within the timeframe of their own guidelines
7. The actual legal **date of affiliation** after all other matters have been concluded and the date on which **consolidation** by the affiliate of its balance sheet, revenue & expenses and profit or loss with Inperium, Inc.; formal approvals required from all Boards
8. Period of time when due diligence, information learned by both parties is prioritized into a roadmap, a dashboard is created for tracking of the details within the plan, the work plan assignments are given to the responsible parties and the roll out to staff of the details of the affiliation **occurs with Inperium Management Services, Inc.**

The Timeline: From Decision Day to Full Implementation



Commonly Asked Questions

& the Answers

Q. What would be the chief advantage of affiliation with Inperium for the Affiliate?

A. **ENHANCING YOUR MISSION - sustainability** and the ability for the affiliate to continue its mission, vision and services while offering **protections** to the individuals it supports by being part of a larger organization. As part of the larger organization the affiliate is able to be **insulated** from fluctuations in funding by **leveraging** economies of scale for back office functions and having a larger voice in the **marketplace** among other safeguards.

Q. In regards to advantages of scale, what are the most predominant examples of scale advantage in your experience?

A. **FINANCIAL BENEFITS** - banking and Financial relationships, with regard to real estate and debt financing, to offer more **favorable** lending terms; Workers Compensation & ALL insurances, as well as, employee health and welfare benefits WILL realize a reduction in expense because of the larger volume; other expenses such as food, electric, fleet maintenance and office supplies are examples of expenses that are reduced due to Inperium's greater **scaled** buying power.

Q. How will this proposed affiliation better the lives of the individuals and families of those we serve?

A. **THEY CAN FEEL MORE SECURE** – by offering **sustainability** your programs remain intact, in addition, they are insulation from changing economic challenges while other granular benefits are produce resulting in more **satisfied** & committed staff **boosting** morale & **improving** the lives of those we serve.

Q. What are some of the financial benefits that can be expected from affiliation?

A. **COST SAVINGS** - refinanced debt can achieve more **favorable** payment terms; **reduction** in expenses for all insurances; leveraged purchasing; systems **enhancements** and cost reductions to time and attendance, payroll, telecommunications **platforms** name a few of the many that exist.

Q. What are the financial risks, in your experience, that an affiliate should be aware of?

A. **NONE** - we have found that through affiliation there is an **immediate** opportunity for improved financial position/condition & **access** to additional capital. The access to our Obligated Credit Group allows each affiliate use of its Master Trust Indenture arrangement to provide access to capital & financial resources that are flexible, done by ease of transfers, accommodates growth/development & is offered at greatly reduced lending rates through bank, non-bank & other capital provider solutions.

Q. How is the proposed corporate structured represented to the public and/or press?

A. **AS MAKING SENSE FOR ALL** - in exchange for sharing governance, which is **customizable**, along with the **integration** of systems and staff through the use of Shared Service and Employee Agreements the affiliate can benefit from all aspects of affiliation while **retaining** their own identity and mission. The Affiliate ultimately determines how they desire the relationship to be communicated to the public and/or press.

Q. Are Mergers, Acquisitions OR Affiliations (MAA) a business strategy, approach, or something else?

A. **IT IS A TOOL & TACTIC**- that supports an overall Corporate strategy with an objective of creating a Market Leader in the industry with sufficient size & voice to have a substantial impact on the consumers served & the community at large as well as wealth creation; MAA is generally considered one tactic by which these objectives can be achieved BUT in the nonprofit MAA process this is the exception to the rule in that it can also be a strategy because nonprofit MAA routinely results in substantial and instantaneous **market standing**, breadth of **consumer impacts & wealth creation** by the target & the sole member & essentially the deal itself, not the aftermath of the deal, create all of these in nonprofit MAA.

Q. Realizing that the Affiliate would continue to exist as a corporation, can you outline what the role of the Affiliate board would be once the affiliation was finalized?

A. **THE SAME AS IT HAS PRE-AFFILIATION** - the Affiliate board would remain **intact** as it is today and continue to meet at the frequency it chooses and continue the committees it has established or others it wished to create; once we satisfy the minimally required Reserved Powers in accordance with the bylaws, corporate law and other considerations – all the other matters are decided by the Affiliate Board. Inperium offers **synergy** opportunities to allow the affiliate the ability to continue its governance, operations and further its mission without undue interference from Inperium.

Q. Will key OPERATIONAL decisions rest with the Affiliate Board?

A. **YES - THEY WILL** – decisions are dependent upon what the Affiliate Board is **comfortable** with as it relates to the specific concerns and how the Board chooses to align with the reserved powers. Aside from the required reserved powers, it is up to the Executive (CEO) and Board of the Affiliate to determine what decisions they want to retain **control** over, for how long, and under what arrangements working in agreement with Inperium.

Q. What are some examples of typical decisions reserved for the Inperium Board?

A. **SPECIFIED GOVERNANCE AS DEFINED IN THE BYLAWS** - the Inperium Board, consisting of Directors from the Affiliate(s) Board, can cause the removal of a Director for failure to adhere to the bylaws & make other assignment of members/terms, amendments to the bylaws and commitment of long term debt, are a few of the examples of the basis decisions that “can” occur at the Inperium Board level, these areas are all **prescribed** on the definitive **agreement** and bylaws.

Q. If an Affiliate is losing money, but represented a service considered key to the Affiliate's mission, how would the decision/process of whether or not to continue the service be reached in the new structure?

A. **WE BELIEVE IT WOULD BE THE SAME** - all Boards have a legal fiduciary responsibility to take action in these instances, an affiliation with Inperium does not change the process about considering discontinuance of a service or program by the Affiliate except in grave financial circumstances where inaction at the local level would breach **fiduciary duty**.

Q. Can you describe what issues of culture merger or conflict you've experienced between agencies in your organization to date and how you have handled these issues?

A. **THERE IS NO CONFLICT IF THERE IS NO MERGER** - we have had positive experiences with the prior affiliations under our Constellation; the culture of the Affiliate remains their **culture**, the **systems** and services behind the scenes will change but, the overall process is very **discrete** to most all involved unless otherwise elected by the Executive to be more visible based on the Affiliates **individualized** desires.

Q. How will the affiliation benefit our employees?

A. **THEY TOO CAN FEEL MORE SECURE** - you will have a **better** and more **effective** workforce as there will be improved **morale** and the opportunity to **pay** staff higher wages 6-12 months post affiliation; offers **advancement** for staff through Inperium and allows for senior leadership to move into a role with Inperium while moving staff at the Affiliate into a higher role.

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Commonly Asked Questions

& the Answers

Pennsylvania (PA) Member Registration

Q. Does affiliating with a PA Parent, rather than a parent registered in my state, increase any of the regulatory or tax filings we must make?

A. THERE ARE NO ADDITIONAL FILINGS. Except that in some states you might be required to make a filing that discloses the affiliation & you will continue to make the same governmental filings that you are currently making.

Q. If we affiliate with a PA Parent will we be required to comply with PA's audit, fundraising, or conflict of interest requirements in addition to those in our state?

A. NO. For fundraising in your own state, you will not be required to comply with any of Pennsylvania's audit, fundraising, or conflict of interest rules. You will need to continue to comply with all applicable requirements of your state.

Q. Does affiliating with a PA parent offer any advantages that we will not obtain by affiliating with a Parent in our state?

A. YES. You will have access to the programs, services, and talents of other affiliates in PA & you may have access to grants & fundraising sources in PA to which you will not have access if you affiliate with a non-Pennsylvania Parent.

Q. Will the PA Attorney General need to review and approve the affiliation even though we are not located in Pennsylvania?

A. NO. The PA Attorney General is only responsible for the charitable assets of not for profit entities registered in PA. The Attorney General or other governmental agency of your state may need to review & approve the affiliation regardless of the state in which the Parent is registered.

Q. Do we lose anything by not affiliating with a Parent registered in our own state?

A. NO. There is no difference relating to governance, revenue sources, or regulatory requirements. Aside from the advantages shared above you will not be affected by the state in which your Parent is registered.