VALUE CREATION AND CAPTURE IN AFFILIATIONS

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WHAT YOU NEED TO KNOW

- Research concerning the sources of value derived from business combinations is anchored in studies of commercial transactions and routinely misapplied to affiliations of nonprofits.
- Affiliations deliver value to nonprofit consolidators on the closing date through the contribution of the net assets of its new affiliate, which are frequently the largest component of the transaction's total economic value. The contribution of net assets on the closing date in affiliations has no parallel in commercial business combinations.
- The combination of net assets enabled by affiliation offers managements of human services nonprofits an underappreciated path to redressing the most formidable impediment to sustainability: limited capital access, stemming from the modest profit margin potential of most services, and the unavailability of equity financing due to the absence of any ownership interest.
- Both commercial acquisitions and nonprofit affiliations can create value from transaction synergies, but the value added by each synergy varies depending upon the degree of integration required to create value, and the level of control exercised over key assets and activities.
- Commercial acquisitions typically derive greater benefit from *economies of scale* because commercial firms typically have superior capital access and govern newly acquired resources by fiat. These newly acquired resources are typically more closely aligned with existing resources because commercial firms tend to have more narrow scope than nonprofits of similar size.
- Nonprofit consolidators typically derive greater benefit from *economies of scope* because diversification (both programmatic and geographic) reduces risk and increases access to future affiliation opportunities. Commercial firms tend to forego diversification because scope adds complexity, and because owners can diversify their own portfolios and so prefer that the firms in which they invest focus on profitable segments of growing markets in specific industries.
- The performance of a business combination in isolation is difficult to measure, so the change in net asset book value over time offers a useful alternative. The calculation of compound annual growth rates for 160 nonprofit human services organizations from 29 states over the five years ended in 2020 (see Appendices I and II) reveals that (1) few firms earned persistently high returns, (2) the industry's top performer was Inperium, Inc., a nonprofit consolidator, and (3) more than one in five nonprofits included in the study reported *negative* net asset growth for the period.

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Research assessing the value created or destroyed in mergers and acquisitions is anchored in studies of commercial (i.e., for-profit) enterprises. This research typically considers value from the perspective of the firms being combined, and focuses on reductions in costs, increases in revenues, and returns to shareholders. While these metrics may be meaningful as manifestations of transaction synergies, they offer no useful information regarding the sources of synergy – and understanding the sources of incremental value is key to planning, creating, capturing, measuring, and monitoring that value - and so improving M&A performance.

Associate Professors Feldman and Hernandez (the "Authors") of the Wharton School have published an insightful manuscript titled "Synergy in Mergers and Acquisitions: Typology, Lifecycles, and Value". Their work inspires this essay, which constructs a parallel conceptualization of the differing sources, magnitudes, and metrics of synergies in business combinations involving nonprofit human services organizations. This topic is timely because nonprofit business combinations are increasingly common; it is important because failing to distinguish between the different sources of value creation in commercial and nonprofit transactions leads to sub-optimal decisions by nonprofits regarding business models, strategies, and transaction execution.

The information included will be useful to officers and directors of nonprofit human services organizations in exercising their duty of care. These fiduciaries should be mindful that the strategic and valuation logics supporting commercial M&A must be thoughtfully adapted to the nonprofit environment if business combinations are to advance the important missions of the nonprofit organizations they govern.

INTRODUCTION Directors and officers of commercial firms create wealth for shareholders by increasing the value of the firm, which typically requires delivering superior products or services to a continually expanding number of consumers. Directors and officers of nonprofit firms create value for a continually expanding number of consumers by delivering superior products or services, which typically requires increasing the value of the firm. In pursuit of these differing goals, both commercial and nonprofit firms may pursue business combinations[1]. Research assessing the value created or destroyed in these transactions is anchored in studies of commercial enterprises and fails to distinguish between the different sources of value creation in commercial and nonprofit transactions, leading to sub-optimal decisions by nonprofit directors and officers.

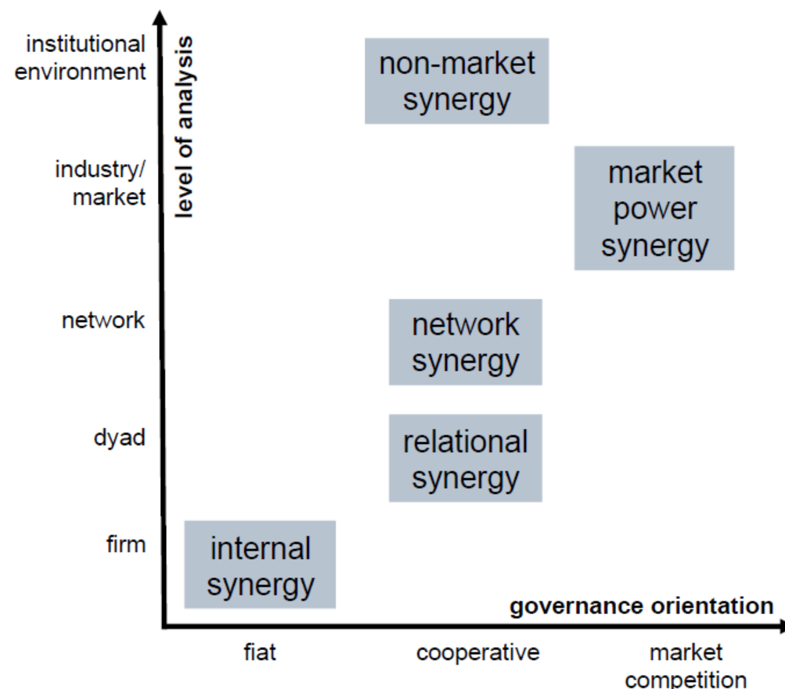
Business combinations involving commercial firms occur because combining the resources and operations of two firms is expected to create greater economic value than if the resources and operations are owned and operated independently. The sources of this incremental value are termed synergies. A recently published manuscript titled *"Synergy in Mergers and Acquisitions: Typology, Lifecycles, and Value"* (Feldman, 2021) offers an insightful and useful conceptualization of the distinct sources of synergies

[1] In this essay, business combinations of for-profit firms are referred to as "acquisitions" concluded by "acquirers" with "targets", while business combinations of nonprofit firms are referred to as "affiliations" concluded by "sole members" or "consolidators" with "affiliates". Statements of general applicability refer simply to "business combinations".

available through mergers and acquisitions, introduces the concept of synergy lifecycles, and considers how synergies interact, with the goal of defining the total value creation potential of commercial M&A. The Authors posit five distinct sources of synergy: operational[2], market power, relational, network and non-market based on two underlying dimensions including (1) the level of analysis at which valuable activities occur [firm, dyad, network, industry, or institutional context] and (2) the orientation by which those activities are governed [fiat, cooperation, or market competition]. The five synergies correlate closely to five theories of value creation: the resource-based theory, industrial organization theory, the relational view, social network theory, and stakeholder theory. The concept of synergy lifecycles is introduced to incorporate consideration of how the initial timing and duration of the value creation varies across the five synergies. This variation results from differences in the post-merger integration required to create the synergistic value, and the degree to which the acquirer can exert sufficient control over the assets and activities combined by the merger to realize the potential benefits. The paper concludes with consideration of how the synergy types interact, yielding co-synergies when they complement each other and dis-synergies when they substitute for one other. In conclusion, the value created by M&A is defined as the sum of the present values of each of the synergy types, their co-synergies, and their dis-synergies.

Figure 1. Typology of Synergies

The level of analysis (depicted in the vertical axis) creates variance in the *integration required* to activate the various synergies and thus affects the timing of initial realization. The governance orientation (depicted by the horizontal axis) affects the *control* the firm has over the sources of synergy gains and thus affects the duration of synergies (Feldman, 2021).



[2] Operational synergies are also referred to as internal/efficiency synergies by the authors.

The key elements of the authors' thesis are summarized below.

<u>Synergy Typology:</u> The potential sources of incremental value from M&A most often cited in academic research are **operational synergies** which create value by enabling the combined firms to employ resources and capabilities more efficiently, and **market power synergies** that create value by enabling the combined firms to reduce the power of counterparties (typically suppliers or customers) in competition-governed interactions. The focus on these sources of synergy stems from their compatibility with long-dominant precepts of the industrial organization and resource-based theories of value creation, each of which assume that the firm must *own and control* valuable assets that are governed by fiat to compete with external parties to capture value.

Over the past thirty years, alternative conceptualizations, including the relational view, social network, and stakeholder theory, have augmented the industrial organization and resource-based theories. These new paradigms assert that not all valuable assets and activities of the combined firms are governed through hierarchy post-acquisition. Acquirers also inherit and recombine other valuable relationships outside the boundaries of either of the combined firms that are governed by *cooperative arrangements* or by *markets*. Consequently, M&A value can arise from sharing valuable assets and by interacting cooperatively with external partners in the firm's environment.

The sources of synergy and the governance orientation of the combined firms are insufficient to describe the value created by M&A because the activities creating value occur at distinct levels of analysis and entail varying levels of integration. The most immediate level beyond the firm itself is the *dyad*, which refers to contractual, cooperative partnerships with *individual* third parties. The next level is the *network*, comprising the structure of the combined firms' direct and indirect cooperative ties. Beyond the network are interactions with other actors, not necessarily contractually involved with the focal firm, but who affect the value it can create and capture. Some of those interactions (e.g., with rivals or suppliers) are competitive, occurring at the level of the *industry or market*; whereas other interactions (e.g., with communities or the media) are non-competitive and occur in the *institutional environment* (the highest level of analysis).

Operational synergies typically related to economies of scale arise within firm boundaries, require moderate degrees of integration, and are governed by fiat. Other synergies occur outside the boundaries of the combined firm, require different levels of integration, and are governed by cooperative arrangements or markets. **Market power synergies** give the acquirer power over a counterparty (i.e., they are zero-sum), while **relational synergies** allow *both* parties to create and appropriate more value. Relational synergies create value through repeated exchanges at the dyad level with individual partners outside the boundaries of the firm. Such value involves partner-specific assets, such as mutual trust, governance routines, contracting capabilities, or knowledge-exchange capacity. Relational synergies involve the creation or improvement of *partner-specific assets* that allow the combined firm to derive more value from *specific* external partners. Like market power synergies, relational gains make interactions with other firms more profitable, but they are distinct in that the exchange producing relational rents is governed cooperatively, not competitively.

Network synergies show that the structure created by *multiple dyadic ties* has value beyond any individual tie. From a network lens, an acquisition is a "collapse" of two nodes in which the acquirer inherits the contractual ties of the target. Recent studies have demonstrated that an acquirer may pursue network synergies by purchasing a target whose alliance network, when combined with that of the acquirer, puts the combined entity in an improved structural position, manifested in metrics such as centrality, structural holes, or equivalence. Network synergies are driven by two kinds of changes: inheriting new ties that the target firm brings to the acquirer's pre-existing network (additive); or eliminating redundant ties that the acquirer and target had in common (subtractive). In the first case, value comes from novel network resources; in the second case, value arises from greater exclusivity in access to network resources. Relational synergies enhance the gains from *individual direct* ties, while network synergies improve the acquirer's position in a network encompassing *all* the direct ties *and* indirect ties of the combined firms.

Lastly, consistent with stakeholder theory, **non-market synergies** emphasize the relations with non-market actors, such as governments and community organizations, that play a distinct role in firms' ability to appropriate value from their environment because they confer added legitimacy. Non-market synergies are similar to relational and network gains because they result from external cooperative relationships, but the latter two arise from interactions with other firms with common economic interests (*e.g.,* a buyer and a supplier), usually governed by a legal contract. Non-market synergies, in contrast, bring the combined firm together with parties from the broader environment that have distinct societal roles (e.g., NGO, government) within the realm of non-market strategy.

Synergy Lifecycles: The Authors' five synergy typology provides a framework for understanding distinct *sources* of potential synergies. The *realization* of potential synergies depends upon the differences in the post-merger integration required, and upon the level of control the acquirer can exert in pursuit of synergies over the assets and activities combined by the merger. The more integration required, the longer the interval between closing and the realization of the synergy value. The notion of integration implies that synergy benefits are achieved over time, and presumably eventually fade, giving rise to the concepts of synergy duration and synergy lifecycles. Synergy lifecycles begin on the closing date and conclude when synergies dissipate.

Once achieved, the duration of synergies depends on the continued use of and investment in the combined assets, activities, and relationships. The ability to use and invest in those factors is a function of the combined firm's control over them. This control is directly related to the governance orientation underlying the synergy. Fiat and market competition entail relatively powerful control because the firm owns the relevant assets and can act unilaterally. In contrast, cooperative governance offers lower control because the acquirer relies on shared assets, needing the input and approval of third parties.

Academic research on integration has focused on synergies associated with the internal fit between acquirers and targets, and ignored synergies associated with the external fit between the combined firms and third parties, such as network partners or non-market stakeholders. Yet, to realize synergies, the merged firms typically *cooperate* with external parties to create value or *compete* with others to extract value, which in each instance delays synergy realization. Consequently, the five synergy types exhibit

heterogeneous lifecycle shapes because the initial timing of value realization and duration varies both *across* synergy types and *within* synergy types.

Regarding ***realization across synergy types***, the greater the post-acquisition integration required by the combination of assets, activities, and relationships involved in a synergy type, the longer it will take firms to realize value from that synergy type. Regarding ***duration across synergy types***, the greater the post-acquisition control the combined firm has over the assets, activities, and relationships involved in producing a synergy type, the longer the gains from that synergy type will persist.

Regarding ***realization within synergy types***, the greater the pre-acquisition alignment between the assets, activities, and relationships involved in a synergy type, the more efficiently the acquirer can accomplish the required post-acquisition integration, and thus the faster the firm will realize value from that synergy. Regarding ***duration within synergy types***, the greater the post-acquisition stability of the assets, activities, and relationships involved in a synergy type, the better the acquirer can control the sources of the synergy, and thus the longer the duration of the gains from that synergy.

Generating value from internal assets often requires combining previously distinct systems, cultures, and organizations and so requires moderate to high integration that delays the initial realization of operational synergies. The underlying *source* of value of operational synergies, however, lies within the boundaries of the combined firms and so can often be pursued by fiat. To the degree management of the combined entities exercises full *control* over the assets and activities that generate operational synergies, they can be realized more quickly than synergies over which management has less control.

Market power synergies require little integration to secure synergistic benefits. External competitive interactions do not require intense trust-building or coordination, and internal integration may be needed, but is not core to profitability. Often, the closing directly enables the firm's ability to realize market power synergy benefits because it allows the acquirer to act unilaterally in its competitive arena (e.g., raise prices, pressure suppliers).

By comparison, relational synergies require greater integration because they involve developing trust and joint routines with an external third party, *in addition* to the usual internal integration process. The firm's internal process must bring together personnel and other assets to manage the external partners involved in relational synergies, while externally, the firm must develop and update a relationship with each valuable partner.

Non-market synergies involve both internal and external integration, the latter of which is especially time-consuming. Internally, firms must pool expertise and commence a lengthy process of building trust with non-market stakeholders. These stakeholders are often wary of firms, and even if one of the merging firms had a prior relationship with a stakeholder, the combined entity may need to prove itself worthy once again. Unlike with relational synergies, there is no contract to specify objectives, govern the interaction, or facilitate the development of relational routines, and consequently, there may be a prolonged interval before realizing the initial synergies from non-market stakeholders.

Unlike relational or non-market synergies, which depend on developing strong bonds with individual partners, network synergies are mechanically driven by changes in the structure of the portfolio of ties. This change is (comparatively) immediate upon deal completion and requires little to no integration. For instance, once an acquirer inherits the multiple contractual alliances of a target in a single transaction, it automatically occupies a more central position in the network than before. A relatively low integration of internal assets is required, and the ties that existed pre-acquisition continue as before. Hence, network synergy gains are realized more quickly than any other type of synergies.

Co-Synergies and Dis-Synergies: Further complicating the value creation calculation, acquisitions not only give rise to multiple synergy types with heterogeneous lifecycles, but the total value created by a deal depends not only on the amount and timing of value created by each synergy type, but also on the extent to which each type interacts with the others. A co-synergy arises when two types complement one another; a dis-synergy arises when two types substitute one another.

To illustrate, operational synergies create co-synergies when efficiencies enabled by an acquisition enhance the firm's effectiveness in managing external relationships; operational synergies create dis-synergies when efficiencies are accompanied by cognitive constraints that prevent management from accurately perceiving those operational improvements undermine the firm's fit with its external environment. Relational co-synergies can arise when an acquirer's enhanced alignment with another firm facilitates the development of new or expanded internal assets or capabilities; relational dis-synergies can occur when acquirers forego profitable investments to maintain the goodwill of a dyadic partnership gained in a transaction. Each source of synergy interacting with others can create co-synergies or dis-synergies, depending on the unique factors encountered in each transaction.

Assessing Value Creation Through M&A: Most deals have the potential for multiple synergies. To realize synergistic value in commercial mergers and acquisitions, firms must pay a price that does not capitalize the gains generated by the acquirer-target combination. Therefore, **realized deal value** equals the sum of:

- The present values of the five distinct sources of synergy (operational, market power, relational, network and non-market); plus
- The present values of co-synergies; less
- The present values of dis-synergies; less
- The Deal Price Premium.

From the firm's perspective, this decomposition of the sources of value clarifies that realized value for each acquisition will be the product of an assessment of value contributed by each synergy type and their interactions. This approach facilitates the comparative analysis essential to choosing amongst alternative target companies and monitoring post-transaction performance, and so is more useful than inferring value creation or destruction from manifestations of value, such as calculations of abnormal returns to shareholders.

The Authors' expansive conceptualization involving synergies of new types, their distinctive lifecycles, and their interactions, has important implications for the theory and practice of commercial M&A. This paper attempts to explain why these implications differ dramatically for business combinations involving nonprofit human services organizations – and indeed, why the adoption of the theory and practice appropriate to commercial transaction by nonprofits leads to ineffectual business models and failed strategies.

NONPROFIT HUMAN SERVICES M&A PERFORMANCE: CREATING, CAPTURING AND MEASURING VALUE

Introduction: Human services organizations provide behavioral health, addictions, developmental disabilities, child welfare, foster care, special and alternative education, community housing development, juvenile justice, or similar services. The industry presents many but not all the characteristics of monopolistic competition, a term used to describe industries with low entry barriers in which many firms offer products or services that are similar but not perfect substitutes. Firms within the industry expend little effort on product differentiation (which is of limited utility in markets in which consumers are ill-equipped to differentiate the quality of complex products) or market segmentation (which is of limited utility in markets without intense competition). Indeed, such measures would be ill-advised given the industry's pervasive social welfare logic.

The evolution of the human services industry has been affected by the industry's distinctive structure, which includes both for-profit and nonprofit firms. The participation of nonprofit corporations introduces significant market distortions because nonprofits disavow a profit motive (depressing the pricing power of for-profit competitors), issue no equity (limiting capital access and fostering industry fragmentation), and have no owners (weakening corporate governance and diminishing incentives for industry consolidation) (Hansmann, 1987). Significantly, nonprofits rarely exit markets, and when they do, their decisions are not necessarily because of expectations of inadequate returns on invested capital. Consequently, demand-supply imbalances are not restored to equilibrium via the market mechanisms characteristic of other industries[3]. These factors contribute to an industry environment akin to the education industry in which firms compete primarily on status rather than price.

Access to capital plays a critically important role for nonprofit human services firms because, as revenues increase, assets must also increase to finance expanded investments in working capital, technology, fixed assets, and new capabilities. Nonprofits struggle to secure sufficient capital because they cannot issue equity, and because they are engaged in a low-margin industry with dominant (often governmental) payors. Limited capital access consequently prevents nonprofits from growing revenues to scale (a task made increasingly difficult because of the evolution of technologies and the standardization of clinical practices)[4] and forecloses cost leadership as a strategic option for creating sustained competitive advantage. Meanwhile, a growing number of health insurers and private equity platforms are changing the industry's competitive landscape through roll-ups and the construction of technology-enhanced service capabilities on a scale far beyond the capacity of any nonprofit human services enterprise.

Nonprofits also face a formidable competitive disadvantage relative to their private equity competitors regarding corporate governance. Private equity governance consists of a small cadre of highly incentivized

[3] Nonprofits infrequent exits from markets also has implications for valuation as terminal value is typically not an element of expected returns on invested capital.
[4] As minimum efficient scale, increases capital becomes a barrier to entry, and industries tend to consolidate.

industry experts capable of assessing strategic alternatives, allocating capital, and monitoring plan execution. In contrast, volunteer trustees of nonprofit boards are often sophisticated and well-intentioned professionals, albeit with limited relevant industry expertise, who are less prepared to engage in strategic planning, capital allocation, and performance monitoring. Further, volunteer trustees - immersed by experience in commercial logics - are rarely well-informed about important distinctions between commercial and nonprofit enterprises, and so predisposed to assume that practices well-suited to commercial enterprises are equally well-suited to the nonprofits they govern. Lastly, nonprofits' decision-making process is often more inclusive than the more hierarchically structured for-profits, so nonprofits' response to complexity is often hampered by difficulties securing widespread agreement on a course of action. Nonprofit managements seeking metamorphic change must therefore overcome the risk-aversion of volunteer boards inclined to prefer inertia and retrenchment to innovation and strategic reorientation when faced with uncertainties. In this environment, nonprofit business development activities have historically focused on de novo business development projects rather than mergers and acquisitions, which are (mistakenly) perceived to entail greater risks. When business combinations of nonprofit human services organizations occur, they are typically motivated by a desire to advance the nonprofit's mission, reduce financial or operating risk, provide the enterprise or its officers with economic benefits not otherwise available, or some combination of these.

N*onprofit business combinations differ fundamentally from commercial mergers and acquisitions because they do not involve a change of ownership, but only a change of control.* Control of assets and operations is the most valuable right that exists in nonprofit organizations because they have no owners. While nonprofit business combinations are sometimes accomplished via merger, the member substitution legal structure[5] is more commonly employed because this structure conveys control of one nonprofit organization to another while leaving both nonprofit corporations intact. For the sole member, the benefits of this structure include recognition of new affiliates' assets at fair value, the segregation of risks, and the avoidance of delays related to relicensing, contract assignments, and court approval encountered with mergers. For target firms, the benefits of this structure include maintenance of a separate corporate identity, the possibility of continued participation by officers and directors in their current roles, and the ability to negotiate the reserved powers of the sole member, none of which are possible in mergers.

Sole members executing affiliations have typically adopted the parent-subsidiary organizational arrangement characteristic of conglomerates executing acquisitions in the commercial marketplace. However, affiliations of human services nonprofits are typically concluded without a purchase price (although a provision in the definitive agreement often obligates the consolidator to make cash transfers to the new affiliate[6]), and the reserved powers of the consolidator are negotiated and provide varying degrees of control depending upon the circumstances of each affiliation. Financial reporting of affiliations

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[5] In a member substitution transaction, the bylaws of the engaged nonprofits are amended to provide for a member class (typically a "sole member") whose authority may range from (at one extreme) the ability to nominate, elect and remove members of the board of directors and to initiate and implement a broad array of corporate actions, to (at the other extreme) the ability to approve, but not initiate, a limited number of fundamental corporate actons.

[6] In that the consolidator acquires sufficient control of the target on the closing date to satisfy the requirements for consolidated financial reporting, these cash transfers are inter-company transactions that have no impact on the consolidated balance sheet and do not constitute a "price". Effectively, as an economic matter, affiliations amount to a specialized form of fundraising.

(but not mergers) pursuant to generally accepted accounting principles ("GAAP") typically requires the consolidator to apply purchase accounting treatment to the transaction, and so the values of a new affiliate's assets are reflected on the consolidator's balance sheet at their fair value as of the closing date. As many older nonprofits' balance sheets include real estate assets whose book value is far less than fair value, purchase accounting treatment can have a meaningful impact on the consolidated assets and net assets reported by the consolidator post-closing. ***In fact, it is not uncommon for the incremental net assets recognized by the consolidator on the closing date to exceed the expected present value of future earnings of the new affiliate, as many nonprofit organizations are engaged in low-margin businesses.*** This transaction economics, in which most of the deal value is recognized on the closing date and without capital investment, has no parallel in commercial M&A with important implications for consolidators' business model and strategy.

One important implication of affiliations' unique economics is that consolidators sometimes forgo reserve powers providing them fiat, and instead target collaboration and shared governance control with affiliates. This approach accommodates the preference of affiliation prospects and is one of the many peculiarities of nonprofits' unique change of control marketplace, in which (1) the value added by the consolidator through affiliation is substantial, (2) the price paid by the consolidator to obtain this added value is nil, and (3) considerations associated with creating private benefit for transaction participants may be entirely absent, or at least secondary.

The foregoing factors combine to create a limited but growing market for corporate control in the nonprofit human services industry segment. This nascent market differs from its commercial counterpart in that (1) the *value* gained via business combinations by nonprofits includes an immediately available synergy (in the form of contributed net assets) unavailable in commercial transactions, (2) the expected *value* of operational, market and relationship synergies diverge, and (3) the metrics of by which *value* is calculated differ.

Management studies focus on different beneficiaries of "value" including firms, shareholders, stakeholders (including employees, consumers, and others) or society, each of whom may define value differently. This essay discusses value from the perspective of the firm, and specifically, nonprofit human services consolidators. Nonprofit consolidators are distinguished from nonprofit providers in that nonprofit providers pursue value primarily on behalf of service beneficiaries, while consolidators pursue value primarily on behalf of their affiliated service providers.

Affiliation Synergy Topology: The availability of contributed net assets through affiliation has important implications for consolidators' business models and strategies because ***scope*****,** rather than **scale,** becomes the **operational synergy** offering the greatest potential for value creation and capture**.** The importance of scope stems from its co-synergy with contributed net assets, as the broader the service lines of a diversified consolidator (programmatically and geographically) the greater the opportunities to close additional affiliations.

While affiliating nonprofits invariably operate significantly below minimum efficient scale, economies realized from the pooling of resources and functions are frequently less than the synergies available. Only

infrequently do affiliations result in the control by fiat exercised by acquirers, and so the initial realization of scale economies is prolonged, and their duration is curtailed. Further, growth has mission value unrelated to scale in affiliations, and so the realization of the economic benefits available through operational efficiencies may be secondary to achieving non-economic benefits. Perhaps most importantly, operational synergies in nonprofit transaction must be pursued with an awareness that "slash and burn" integration processes can be a source of dis-synergies with contributed net assets, as affiliation prospects invariably assess consolidators' past integration practices before executing definitive agreements. Effectively, integration of nonprofit affiliates beyond the minimum necessary to satisfy the requirements for consolidated financial reporting may be counterproductive if integration practices discourage other nonprofits from affiliating.

Market power synergies can be achieved by affiliating nonprofits in situations in which *suppliers* have sufficient bargaining power to extract premiums, and the affiliation can redress the power imbalance. Market power synergies with *buyers* are unavailable to affiliating nonprofits because the industry structure includes a few powerful (often governmental) buyers that set prices and are not affected by market power gained via business combinations in the highly fragmented human services marketplace.

While the value derived from operational and market power synergies are *less significant* in affiliations than in acquisitions, the value derived from relational, network, and non-market synergies are *more significant*. Specifically, affiliation-induced changes in the firm's external cooperative environment create relational and network co-synergies that increase the probability of closing subsequent affiliations, thereby expanding access to the consolidator's largest source of value capture. To illustrate relational co-synergies, affiliates may introduce new target companies to the consolidator because of the affiliate's separate dyadic relationships. To illustrate network co-synergies, the initial affiliation of the consolidator with a nonprofit in a new state may enable the consolidator to assume a network position encompassing all its new affiliate's direct and indirect ties. The added legitimacy conferred on newly affiliated nonprofits constitutes a non-market synergy that is of critical importance because affiliations typically require the approval (or non-objection) of the state Attorney General, in addition to approvals from governmental licensing authorities and payors.

Nonprofit Lifecycles and Affiliation: Synergy topologies offer a framework for understanding distinct sources of *potential* synergy, while synergy lifecycles are concerned with the *realization* of synergies. Like acquisitions, literature discussing affiliations has focused on integration of the "affiliate" with the "consolidator", with little consideration afforded the often more significant value delivered through relational, network and non-market synergies. Further, only minimal attention is devoted to the interval between the initial realization of a synergy, and its subsequent erosion over time that the Authors refer to as the synergy lifecycle. Yet affiliation synergies exhibit heterogeneous lifecycles both across and within synergy types that determine the expected net present value of synergy-related cash flows post-closing, which are driven not only by their size and level of uncertainty of synergy cash-flows, but also by their *timing.*

From a consolidator's perspective, affiliation performance is measured by whether business combinations singularly or collectively create value (which in an economic context refers to the present value of a series

of cash flows) that is *captured* by the consolidator. The distinction between **value creation** and **value capture** is critical to understanding the economics of business combinations (Verdin, 2015).

Value creation at the transaction level refers to changes in the value of an affiliate linked to changes in its financial performance. Value creation can be generated along a continuum. On one extreme would be value generation that occurs entirely in the affiliate that would have occurred independently of the characteristics of the consolidator. At the other extreme lies value inherently linked to specific characteristics of the consolidator and resulting in the improved financial performance of the affiliate that could not have been achieved by the affiliate independently. *Value capture at the transaction level* refers to the portion of transaction value created that is retained by the affiliating nonprofits and not appropriated by other value chain participants or other stakeholders.

Value creation *at the firm level* is measured by a combination of returns on invested capital (“ROIC”), growth rates, and the ability to sustain these factors over time. Understanding the contributions made by each of these factors to the value created *by each business unit of the firm* is important because this is the only way to gain the clarity necessary for strategy development and capital allocation. Clearly, not all growth is equal because some types of growth require relatively more invested capital or are less sustainable (Lawler, 2004). For most businesses with a high ROIC, increases in growth create the most value, while for businesses with a low ROIC, improvements in margins create the most value (Koller, 2011). This concept is especially important in discussions of the nonprofit human services industry because nonprofit consolidators have an extremely high ROIC (because the net assets of new affiliates are recognized for financial reporting purposes as contributions) and so consolidators’ benefit most from strategies targeting growth, while the ROIC of most nonprofit service providers is quite modest, and so they benefit most from strategies focused on improving margins. *Value capture at the firm level* refers to changes in the value of the affiliating nonprofits that are unrelated to change in their financial performance (Koller, 2011). The contribution of an affiliate’s net assets on the closing date, recognized on the consolidated financials at fair value, is one illustration of value capture.

Value creation and capture can be assessed at the task level, as well as at the transaction and firm levels. Academics have invested considerable effort into defining the modes by which economic value is generated and the levers that contribute to acquisition returns (Berg, 2005), and certain of these apply to affiliations. These levers, which are employed during different phases of a transaction, include the acquisition, holding, and divestment phases. Value is *captured* during the acquisition phase through superior deal making capabilities (evidenced by the negotiation of attractive business terms) and through decisions associated with deal structure, leverage, and related matters. During the subsequent holding period, value is *created* through the introduction of strategic, organizational, and operational improvements to the acquired company, and through reductions in agency costs. During the divestment phase, acquirers attempt to *capture* value by leveraging their superior knowledge of the industry, its business, and the economic environment to exit at elevated valuation multiples and so maximize returns on invested capital. Notably, in acquisitions, as in affiliations, value may be *created* by the acquired company (e.g., by increasing EBITDA) or *captured* outside the acquired company (e.g., through increases in market multiples).

Valuation is a quantitative process for determining the value of an asset, activity or firm and has always been central to discussions of commercial M&A because of its role in transaction pricing. Valuation is a much-neglected topic in the assessment of affiliations, presumably because the incremental wealth conveyed to nonprofit consolidators via affiliation entails no purchase price, and because there is typically no divestment phase. Yet valuation remains important because consolidators routinely encourage new affiliates to expand while simultaneously pursuing additional affiliations, and this growth is accompanied by asset growth that must be funded by increases in debt or equity. As nonprofits cannot issue stock and are engaged in a low margin industry, nonprofit consolidators must focus on alternative avenues by which value can be created, captured, leveraged, and reinvested to sustain growth. For this reason, value capture and wealth accumulation by consolidators are *per se* an appropriate charitable aim because consolidators must construct a capital structure that is appropriate to the phase of their corporate growth strategy, the industry's life cycle, and the vast uncertainties associated with technological change.

The performance measures used to study the impact of business combinations must reflect changes in the firm's economic performance over time. Yet, despite the massive amount of research done, there is no agreement on how to measure the performance of business combinations (Zollo, 2008). For commercial firms, which have historically pursued the single, common objective of enhancing shareholder value, Wall Street analysts and investors have differed on whether to use return on equity, changes in total shareholder return, or other measures as their primary metric to assess M&A impact.

Nonprofit human services organizations share no single, common economic objective akin to increasing shareholder value, nor non-economic, publicly available, performance metrics equivalent to GAAP attested by independent auditors, and so the assessment of affiliations and nonprofit performance is especially challenging[7]. Nonprofit directors and officers have historically reverted to measuring economic performance by reference to net income because the information is readily available. This convention is shortsighted in that nonprofits, by the nature of their missions, have much longer lifecycle than commercial enterprises and contend with capital access issues not encountered by commercial enterprises. This essay posits that the best available economic performance measures for nonprofits are the compound annual growth rates (CAGR) of revenues and net assets over a strategic planning time frame (ideally about five-years[8]) relative to a peer group. The CAGR of revenues is meaningful because it shows the firm's relative success in satisfying demand[9]. The CAGR of net assets is meaningful because it shows the ability of the firm's capital structure to finance future revenue growth without excessive risk. The net asset metric is also useful because it focuses the attention of nonprofit officers and directors on the relationship between their income statement and balance sheet, placing the income statement in its proper context as an installment in the organization's evolution from its current balance sheet to another that is preferred.

The value to the consolidator derived *from a specific transaction viewed in isolation* equals the sum of factors below:

[7] Performance measurement is becoming more important as value-based payments require nonprofits to demonstrate their worth to payors and other stakeholders.
[8] The typical business cycle in the United States over the past 75 years is approximately five years, albeit the current business cycle lasted more than ten years.
[9]The failure of markets to supply services sufficient to satisfy demand is a key economic justification for the existence of nonprofits (Hansmann, 1987).

- The fair value of contributed net assets captured at closing, plus
- The present values realized from the five other sources of synergy (operational, market power, relational, network and non-market); plus
- The present values of co-synergies; less
- The present values of dis-synergies.

From a firm perspective, the value of affiliations to the consolidator is the total value over time that could not have been secured absent affiliations. Appendix I presents the CAGR of net assets (Pages A-1 through A-4) and Appendix II presents the CAGR of revenues (Pages B-1 through B-4) for 160 nonprofit human services organizations from 29 states for whom audited financial statements were publicly available for the five years ended in 2020[10]. Of note, 35 (21.9%) of the organizations reported *negative* CAGR of net assets for the five-year period. Were these commercial enterprises, most would have exited the industry in response to demands from owners wanting to reallocate their capital to investments promising superior returns.

WHY DO SOME NONPROFITS PRODUCE SUSTAINED ABNORMAL RETURNS?

Profitability differs across industries, and across firms within industries, for reasons that are elusive (Bou, 2007). Classical industrial organization theory attributed these differences to industry structure but struggled to explain the persistent abnormal returns earned by some firms within industries, offering firm size as the likely differentiating factor. Strategic management theory later focused on the firm itself as the source of intra-industry performance heterogeneity, and most studies subsequently have concluded that the firm effect is indeed greater than the industry effect.

The concept of strategic groups offers an attractive middle ground between firm and industry effects for analyzing differences in firm performance within industries. Strategic groups refer to a subset of firms within the same industry making similar decisions in key areas (Porter, 1980). Research has shown that industry participants share common perceptions about the strategies of firms within industries, and cluster competitors in ways that influence how industries evolve (Reger, 1993). Within human services, consolidators constitute one such strategic group.

Some studies have segmented firms' abnormal returns into a permanent and a dynamic component (Bou, 2007)[11]. The permanent component is the persistent part of abnormal returns that is not eroded by competition and is explained in part by factors common to all firms in the same industry, such as barriers to entry, patents, or other factors. The dynamic component is firm specific, and includes factors such as organizational processes, managerial competence, or resource endowment. Persistent abnormal returns are of special interest because conventional microeconomic theory assumes that, in the long-run, abnormal returns disappear because economic forces push them back to the equilibrium level. The resource-based view of the firm challenges this assumption, proposing instead that firm-specific

[10] Nonprofits are not required to make their independent audits publicly available and rarely do so. This absence of peer comparison data inclines nonprofits to compare their recent performance to their historical performance when peer comparisons would be more informative.

[11] A third, unexplained factor of firm profits correlates neither across time, nor across firms, and encompasses specific circumstances that affect a firm's profit rate in one specific year.

idiosyncrasies enable the accumulation and leverage of unique and durable resources that can be a source of sustainable competitive advantage. Firms sustain this advantage by developing “isolation mechanisms” (Depak, 2007) that inhibit imitation and impede competition.

An insight emerging from the strategic group concept is that one or a few firms may be responsible for abnormal profitability within an industry. Firms are not identical, but rather dynamic collections of specific capabilities, strategies and organizational structures that are the sources of performance differences (Hawawini, 2003). Effectively, strategic group theory suggests that *firm-specific effects* matter more than industry factors for a few dominant value creators and destroyers, ***but for most firms***, *industry effects* are more important to performance than firm-specific factors.

Within the human services industry, Inperium, Inc. illustrates how one firm can consistently outperform rivals over an extended period, even in a fragmented, low-margin industry. Inperium, a nonprofit consolidator founded in January 2015, reported both the highest CAGR of revenues (29.6%) and net asset (95.7%) during the 2015-2020 interval as reported in Appendices I and II. Inperium’s annual performance for the five-year period is summarized below:

	Fiscal 2015 (1)	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Summary	% from Each Source
Revenues	$ 40,581	$ 50,721	$ 63,486	$ 90,998	$ 125,692	$ 150,610		
Initial Capital	$ 1,144						$ 1,144	2%
Net Income from Existing Business	$ 670	$ 834	$ 2,409	$ 195	$ 1,686	$ 8,621	$ 14,415	28%
Net Assets contributed by New Affiliates	$ -	$ 204	$ 1,337	$ 22,814	$ 7,575	$ 4,631	$ 36,561	70%
Increase in Net Assets	$ 1,814	$ 1,038	$ 3,746	$ 23,009	$ 9,261	$ 13,252	$ 52,120	100%
Net Assets End of Period	$ 1,814	$ 2,852	$ 6,598	$ 29,607	$ 38,868	$ 52,120		
Business Combinations Closed	0	1	1	6	4	4	16	

(1) For the six months from Inperium's founding to June 30th

Most nonprofit human services organizations focus on matching their competitor’s strategies and achieving targeted financial results through superior execution. At best, these strategies achieve incremental improvements in cost or quality and generate industry standard returns over time. Inperium’s consistent atypical performance and returns are the product of a strategy that pays little attention to matching or beating rivals, focusing instead on developing and refining an innovative business model for which there are few competitors. Indeed, the few other nonprofits comprising the strategic group of human services industry consolidators focus on achieving scale economies or market power by structuring business combinations as mergers or demanding extensive reserved powers. This business model has enabled several to achieve superior revenue growth **but without comparable increases in net assets,** and so their growth trajectory is unsustainable.

Inperium instead offers “affiliations without concessions” in which the sole member retains the right to approve – but not initiate – a limited number of fundamental corporate actions. In the Inperium model, directors and officers of affiliates remain in their pre-affiliation roles and continue to guide the strategy of their organizations, which retain their separate corporate existence and identities. Inperium carefully pursues economies of scale and scope through the construct of a shared services organization. Affiliates contract for core services like accounting and technology with the shared services organization and*, at each affiliates' election*, other value-added administrative services or financing options including obligated group debt placements. For many affiliates, the primary benefits secured through affiliation with Inperium results not from operational synergies but from (1) cash investments committed by Inperium at closing to advance mission, (2) expanded access to lower-cost capital through participation in obligated group financings, (3) improved governance stemming from the greater availability of timely and accurate information, and (4) the resurgent innovation that frequently accompanies participation in a diversified provider network.

By tailoring its business model to support local control of charitable activities, *then continuously refining it*, and by adopting differentiated deal sourcing tactics, Inperium closed sixteen transactions between 2016 and 2020. The volume and diversity of these transactions has enabled Inperium to evolve competencies constituting “isolation mechanisms” related to deal sourcing, due diligence organization and processes, and deal structuring. These competencies complicate imitation by potential competitors, who are constrained by their histories, organizational structures, institutional logics, and past investments (Ghemawat, 1986). As over 70% of Inperium's industry leading net assets growth between 2016 and 2020 was captured from new affiliations at closing in an industry that remains highly fragmented, Inperium appears well-positioned to sustain its exceptional performance.

Trustees and advisors trained in fields including strategy, law, finance, accounting, and organizational development, misapply the dominant logic (Prahalad, 1986) guiding commercial M&A to affiliations, creating challenges for nonprofit CEOs. Consequently, CEOs adopting business models and strategies better suited to advancing their nonprofit's mission confront continuous challenges from guardians of the generally accepted wisdom. Perhaps the most pernicious misapplication of this conventional wisdom derives the considerable body of commercial research that concludes that business combinations destroy value rather than create it. While many commercial transactions fail and will continue to do so, affiliations are nearly always accretive as of the closing date.

About The Authors

Ryan D. Smith, Founder and Chief Executive Officer, Inperium, Inc.

Ryan founded Inperium, one of the nation's fastest growing and most profitable nonprofit human services organizations, in January 2015 and continues to serve as Board President and CEO. Inperium is a nonprofit consolidator established to support a network of affiliated companies to advance quality services, continuity of care, and efficient use of public funding. Since its inception, Inperium has closed nearly twenty business combinations involving both nonprofit and for-profit firms.

Prior to founding Inperium, Ryan served as CEO of a Pennsylvania nonprofit provider of services to people with intellectual and developmental disabilities.

Ryan is a frequent presenter at professional conferences on nonprofit issues, mergers and acquisitions, strategy, and other business development topics.

J. Kevin Fee, President, Angler West Consultants, Inc.

Kevin is the President of Angler West Consultants, Inc., an advisory firm focused exclusively on mergers and acquisitions of human services organizations. Founded in 1996, clients of the firm have included many of the industry's largest and fastest growing public, private and nonprofit corporations.

Prior to founding Angler West, Kevin had over twenty-five years of experience serving as a senior executive of large nonprofit health and human services organizations.

Kevin has published articles on topics including business combinations, financial restructuring, valuation, and governance of nonprofit organizations and has presented at conferences on these and other topics.

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	SELECT NONPROFIT HUMAN SERVICES ORGANIZATIONS COMPOUND ANNUAL GROWTH RATES OF NET ASSETS FIVE YEARS ENDED IN 2020				
		State	Net Asset Growth		
1	Inperium	PA	$ 52,120,346	$ 1,814,169	95.7%
2	Vibrant Emotional Health	NY	$ 53,771,527	$ 5,219,479	59.4%
3	Association for Individual Development	IL	$ 16,441,054	$ 2,210,983	49.4%
4	Viability (f/k/a/ Community Enterprises)	MA	$ 16,898,547	$ 2,866,600	42.6%
5	Independent Group Home Living Program	NY	$ 47,396,729	$ 11,072,840	33.8%
6	Astor Services for Children and Families	NY	$ 10,626,825	$ 3,712,317	23.4%
7	Signal Behavioral Health Network	CO	$ 3,636,218	$ 1,335,137	22.2%
8	Community Bridges	AZ	$ 23,608,828	$ 8,937,017	21.4%
9	Center for Human Development Inc	MA	$ 41,310,148	$ 16,566,924	20.1%
10	Abilis, Inc	CT	$ 4,970,172	$ 2,004,471	19.9%
11	Lutheran Social Services of Illinois	IL	$ 14,426,700	$ 6,151,546	18.6%
12	Lifepath Inc.	PA	$ 4,273,933	$ 1,946,058	17.0%
13	LifeWorks NW	OR	$ 48,613,483	$ 22,327,004	16.8%
14	Pressley Ridge	PA	$ 26,063,192	$ 12,107,323	16.6%
15	Brockton Area Multi-Services Inc	MA	$ 18,276,948	$ 8,572,879	16.3%
16	Alleghenies Unlimited Care Providers	PA	$ 8,128,363	$ 3,872,203	16.0%
17	Lakeview Center Inc	FL	$ 281,378,000	$ 137,868,000	15.3%
18	Pacific Clinics	CA	$ 8,078,806	$ 3,986,720	15.2%
19	Southwest Key Programs Inc	TX	$ 88,663,426	$ 44,056,715	15.0%
20	Special Service for Groups	CA	$ 8,335,901	$ 4,192,926	14.7%
21	Delta Community Supports Inc	PA	$ 10,821,609	$ 5,497,612	14.5%
22	Riverside Community Care	MA	$ 26,858,591	$ 13,827,890	14.2%
23	Third Sector New England	MA	$ 86,456,686	$ 45,571,036	13.7%
24	Better Way of Miami	FL	$ 4,783,149	$ 2,557,084	13.3%
25	Cascadia Behavioral Healthcare	OR	$ 47,980,987	$ 25,712,046	13.3%
26	Passavant Memorial Homes	PA	$ 26,628,487	$ 14,332,020	13.2%
27	National Able Network	IL	$ 2,755,418	$ 1,484,661	13.2%
28	Dr. Gertrude Barber Center	PA	$ 23,751,724	$ 12,821,392	13.1%
29	Family Residences and Essential Enterprises	NY	$ 15,706,457	$ 8,598,090	12.8%
30	Anderson Center for Autism	NY	$ 30,556,407	$ 16,995,801	12.4%
31	Keystone Human Services	PA	$ 47,728,252	$ 26,556,934	12.4%
32	KVC Health Systems Inc	KS	$ 31,554,950	$ 17,594,199	12.4%
33	Peace River Center	FL	$ 10,431,645	$ 5,888,531	12.1%
34	Vantage Health System	NJ	$ 5,036,632	$ 2,844,733	12.1%
35	Pillars Community Health	IL	$ 11,340,983	$ 6,525,477	11.7%
36	Burrell Behavioral Health	MO	$ 90,247,785	$ 52,099,934	11.6%
37	Services for the Underserved	NY	$ 60,145,000	$ 34,871,000	11.5%
38	Spurwink Services	ME	$ 15,138,609	$ 8,825,066	11.4%
39	The Primary Health Network	PA	$ 54,824,219	$ 32,216,115	11.2%
40	La Casa de Esperanza	WI	$ 10,945,255	$ 6,514,709	10.9%
41	Compass Health Inc	MO	$ 109,553,713	$ 66,327,364	10.6%
42	Woods Services	PA	$ 160,414,000	$ 97,155,000	10.5%
43	Meridian Behavioral Healthcare	FL	$ 12,672,201	$ 7,690,375	10.5%
44	Lifespring Health Systems Inc	IN	$ 18,603,777	$ 11,295,598	10.5%
45	Project Home	PA	$ 110,035,368	$ 67,157,967	10.4%
46	Melmark	PA	$ 68,171,236	$ 42,280,950	10.0%
47	Frontier Behavioral Health	WA	$ 32,648,620	$ 20,607,559	9.6%
48	Lifestream Behavioral Center Inc	FL	$ 32,138,784	$ 20,337,326	9.6%
49	Young Adult Institute	NY	$ 39,295,661	$ 24,997,499	9.5%

	SELECT NONPROFIT HUMAN SERVICES ORGANIZATIONS				
	COMPOUND ANNUAL GROWTH RATES OF NET ASSETS				
	FIVE YEARS ENDED IN 2020				
		State	Net Asset Growth		
50	Mental Health Center of Denver	CO	$ 72,374,313	$ 47,124,907	9.0%
51	BARC Developmental Services	PA	$ 5,761,879	$ 3,801,238	8.7%
52	Seven Hills Foundation	MA	$ 91,260,826	$ 60,718,510	8.5%
53	Youth Villages	TN	$ 384,434,651	$ 256,247,715	8.5%
54	Advocates Inc.	MA	$ 30,625,680	$ 20,415,058	8.4%
55	Seneca Family of Agencies	CA	$ 31,535,558	$ 21,143,809	8.3%
56	Helen Ross McNabb Center, Inc	TN	$ 80,596,276	$ 54,063,753	8.3%
57	Bell Socialization Services Inc	PA	$ 4,980,731	$ 3,404,990	7.9%
58	Developmental Disabilities Institute	NY	$ 31,321,208	$ 21,440,831	7.9%
59	Justice Resource Institute Inc	MA	$ 84,093,506	$ 57,865,561	7.8%
60	Access Services	PA	$ 8,999,483	$ 6,267,244	7.5%
61	People Encouraging People	MD	$ 14,148,779	$ 9,952,539	7.3%
62	North Suffolk Mental Health Association	NY	$ 13,177,817	$ 9,356,779	7.1%
63	Comprehensive Healthcare	WA	$ 62,359,516	$ 44,467,964	7.0%
64	JEVS Human Services	PA	$ 62,985,238	$ 45,799,607	6.6%
65	Meridian Healthcare	OH	$ 6,178,055	$ 4,568,825	6.2%
66	Star View Children and Family Services	CA	$ 6,432,849	$ 4,781,294	6.1%
67	Adults and Children with Learning Disabilities	NY	$ 30,296,867	$ 22,650,626	6.0%
68	Mountain Comprehensive Care Center	KY	$ 16,592,029	$ 12,559,546	5.7%
69	Devereux Foundation	PA	$ 219,906,000	$ 167,646,000	5.6%
70	SMA Behavioral Health Services	FL	$ 29,770,593	$ 22,822,256	5.5%
71	Community Housing Partners Corporation	VA	$ 220,566,991	$ 169,126,862	5.5%
72	Henderson Behavioral Health	FL	$ 30,264,573	$ 23,230,840	5.4%
73	Compass Health	WA	$ 29,990,099	$ 23,132,459	5.3%
74	Eckerd Youth Alternatives	FL	$ 61,214,767	$ 47,386,064	5.3%
75	New Horizons Resources	NY	$ 15,302,999	$ 11,858,670	5.2%
76	May Institute	MA	$ 28,853,988	$ 22,377,342	5.2%
77	Mental Health Partnerships	PA	$ 1,415,951	$ 1,100,007	5.2%
78	Lutheran Social Services of Minnesota	MN	$ 70,990,834	$ 55,545,340	5.0%
79	AMIKIDS, Inc.	FL	$ 36,115,586	$ 28,289,119	5.0%
80	Spectrum360	NJ	$ 7,994,570	$ 6,280,669	4.9%
81	Bancroft Neurohealth	NJ	$ 47,237,450	$ 37,488,758	4.7%
82	Columbus House	CT	$ 8,833,482	$ 7,035,572	4.7%
83	Hope Network	MI	$ 66,394,256	$ 52,889,017	4.7%
84	Community Teamwork Inc.	MA	$ 96,908,731	$ 77,492,791	4.6%
85	Cherokee Health Systems	TN	$ 44,039,068	$ 35,227,139	4.6%
86	Mosaic	NE	$ 151,293,923	$ 121,156,199	4.5%
87	Fred Finch Youth Center	CA	$ 10,340,293	$ 8,308,043	4.5%
88	Special Citizens Futures Unlimited	NY	$ 2,750,498	$ 2,210,983	4.5%
89	Green Chimneys	NY	$ 34,405,432	$ 27,670,374	4.5%
90	Lutheran Social Services of Wisconsin and Upper Michigan	WI	$ 43,931,554	$ 35,507,247	4.3%
91	ADAPT Community Network	NY	$ 152,542,000	$ 123,948,000	4.2%
92	Center for Family Support	NY	$ 12,800,130	$ 10,415,650	4.2%
93	Bay Cove Human Services	MA	$ 30,874,016	$ 25,178,649	4.2%
94	Allied Services Foundation	PA	$ 115,818,362	$ 94,711,997	4.1%
95	Easter Seals Arkansas	AK	$ 23,163,823	$ 19,225,038	3.8%
96	Children's Services of Roxbury Inc	MA	$ 4,253,554	$ 3,542,294	3.7%
97	PEMHS (Personal Enrichment Through Mental Health Service	FL	$ 6,694,866	$ 5,585,035	3.7%
98	Suncoast Center Inc	FL	$ 10,453,233	$ 8,791,345	3.5%

	SELECT NONPROFIT HUMAN SERVICES ORGANIZATIONS				
	COMPOUND ANNUAL GROWTH RATES OF NET ASSETS				
	FIVE YEARS ENDED IN 2020				
		State	Net Asset Growth		
99	River Valley Behavioral Health (Green River Regional Mental H	KY	$ 31,642,909	$ 26,784,428	3.4%
100	Family League of Baltimore City Inc.	MD	$ 3,502,154	$ 2,982,791	3.3%
101	Lifespire	NY	$ 31,118,550	$ 26,727,501	3.1%
102	Resources for Human Development	PA	$ 24,160,136	$ 20,875,301	3.0%
103	Birch Family Services	NY	$ 3,847,768	$ 3,351,039	2.8%
104	Henry Street Settlement	NY	$ 49,886,840	$ 43,472,899	2.8%
105	Unity House of Troy	NY	$ 13,697,311	$ 11,943,312	2.8%
106	Sheppard Pratt	MD	$ 359,061,923	$ 316,088,149	2.6%
107	Wildwood Programs, Inc	NY	$ 15,491,973	$ 13,664,985	2.5%
108	David Lawrence Mental Health Center	FL	$ 23,211,054	$ 20,487,754	2.5%
109	Community Residences and Outreach	CT	$ 4,463,265	$ 3,985,883	2.3%
110	Hathaway-Sycamores Child and Family Services	CA	$ 14,280,778	$ 12,870,138	2.1%
111	Aspire Health Partners	FL	$ 69,298,559	$ 62,826,544	2.0%
112	Fedcap	NY	$ 38,072,487	$ 34,931,283	1.7%
113	Heritage Behavioral Health Center	IL	$ 7,870,656	$ 7,241,323	1.7%
114	Southwest Behavioral Health Services	AZ	$ 34,404,388	$ 31,707,545	1.6%
115	CONCERN	PA	$ 9,749,300	$ 9,132,333	1.3%
116	Metropolitan Family Services	IL	$ 58,731,833	$ 55,437,364	1.2%
117	HASC Center	NY	$ 36,006,301	$ 34,084,621	1.1%
118	DACCO	FL	$ 6,959,204	$ 6,646,049	0.9%
119	COMHAR	PA	$ 12,471,283	$ 11,922,050	0.9%
120	Hamilton Center	IN	$ 44,570,368	$ 42,727,148	0.8%
121	Community Solutions	CT	$ 14,249,968	$ 13,753,686	0.7%
122	Hazelden Betty Ford Foundation	MN	$ 313,882,000	$ 304,559,000	0.6%
123	Pioneer Human Services	WA	$ 38,492,000	$ 37,501,741	0.5%
124	American Training	MA	$ 6,764,007	$ 6,622,954	0.4%
125	Jefferson Center for Mental Health	CO	$ 49,622,240	$ 49,254,683	0.1%
126	Kennedy Krieger	MD	$ 121,087,000	$ 122,188,000	-0.2%
127	Thrive Behavioral Health	RI	$ 6,741,155	$ 6,858,842	-0.3%
128	Orange Grove Center	TN	$ 11,416,729	$ 11,644,219	-0.4%
129	Sierra Vista Child & Family Services	CA	$ 3,959,535	$ 4,053,795	-0.5%
130	Community Alternatives	VA	$ 1,578,263	$ 1,645,005	-0.8%
131	United Services, Inc.	CT	$ 4,379,738	$ 4,659,480	-1.2%
132	Communicare Inc	KY	$ 21,041,869	$ 22,394,645	-1.2%
133	Aurora Comprehensive Community Mental Health Center	CO	$ 14,369,868	$ 15,301,382	-1.2%
134	Odyssey House	NY	$ 18,024,862	$ 19,289,629	-1.3%
135	Ohel Children's Home and Family Services Inc	NY	$ 28,596,534	$ 30,622,653	-1.4%
136	Northwest New Jersey Community Action Program, Inc.	NJ	$ 4,793,576	$ 5,157,247	-1.5%
137	Citrus Health Network	FL	$ 15,747,669	$ 17,206,919	-1.8%
138	Jewish Board of Family and Children's Services	NY	$ 106,920,519	$ 117,005,721	-1.8%
139	Pathways Inc	KY	$ 13,221,315	$ 15,080,306	-2.6%
140	Children's Institute of Pittsburgh	PA	$ 106,079,059	$ 123,898,815	-3.1%
141	The Children's Village	NY	$ 36,103,587	$ 42,762,456	-3.3%
142	Hillside Family of Agencies	NY	$ 39,495,367	$ 48,441,108	-4.0%
143	Mental Health Partners	CO	$ 24,435,367	$ 29,989,613	-4.0%
144	Uplift Family Services	CA	$ 36,491,187	$ 46,090,318	-4.6%
145	Elwyn	PA	$ 55,326,904	$ 70,049,308	-4.6%
146	Adult & Child Mental Health Center, Inc	IN	$ 17,080,372	$ 21,868,887	-4.8%
147	Residential Management Services	CT	$ 3,477,634	$ 4,560,870	-5.3%

	SELECT NONPROFIT HUMAN SERVICES ORGANIZATIONS COMPOUND ANNUAL GROWTH RATES OF NET ASSETS FIVE YEARS ENDED IN 2020				
		State	**Net Asset Growth**		
148	Chestnut Health Systems, Inc	IL	$ 35,636,539	$ 46,856,780	-5.3%
149	United Cerebral Palsy Seguin of Greater Chicago	IL	$ 18,220,432	$ 24,306,104	-5.6%
150	Ability Beyond Disability	CT	$ 11,099,935	$ 15,670,902	-6.7%
151	New Vista of the Bluegrass	KY	$ 36,523,881	$ 51,856,561	-6.8%
152	Humanim	MD	$ 9,160,684	$ 13,271,084	-7.1%
153	Gateway Longview	NY	$ 6,829,943	$ 9,916,703	-7.2%
154	Community Hope	NJ	$ 3,717,973	$ 5,677,780	-8.1%
155	Project Renewal	NY	$ 7,355,689	$ 11,444,365	-8.5%
156	Victor treatment Centers Inc	CA	$ 31,520,464	$ 49,044,313	-8.5%
157	Community Care Alliance	RI	$ 2,051,714	$ 3,640,012	-10.8%
158	Lester And Rosalie Anixter Center	IL	$ 10,736,777	$ 19,061,075	-10.8%
159	Bethesda Lutheran Communities	WI	$ 101,583,183	$ 203,409,906	-13.0%
160	Harbor Behavioral Health	OH	$ 11,226,659	$ 22,560,090	-13.0%
	MEANS FOR THE 160 NONPROFITS		$ 43,244,147	$ 34,068,020	4.9%

	SELECT NONPROFIT HUMAN SERVICES ORGANIZATIONS COMPOUND ANNUAL GROWTH RATES OF REVENUES FIVE YEARS ENDED IN 2020				
		State	Revenue Growth		
		Hdqtrs	2020	2015	CAGR (1)
1	Inperium	PA	$ 148,476,147	$ 40,581,255	29.6%
2	Citrus Health Network	FL	$ 183,774,222	$ 66,053,857	22.7%
3	Vibrant Emotional Health	NY	$ 75,774,273	$ 27,569,595	22.4%
4	Signal Behavioral Health Network	CO	$ 68,882,467	$ 28,076,839	19.7%
5	Southwest Key Programs Inc	TX	$ 455,201,186	$ 186,151,936	19.6%
6	Sierra Vista Child & Family Services	CA	$ 16,596,388	$ 6,934,607	19.1%
7	Burrell Behavioral Health	MO	$ 150,106,634	$ 64,356,478	18.5%
8	Special Service for Groups	CA	$ 133,358,008	$ 57,897,965	18.2%
9	ADAPT Community Network	NY	$ 237,988,000	$ 108,924,000	16.9%
10	Community Bridges	AZ	$ 123,415,759	$ 59,485,142	15.7%
11	Mountain Comprehensive Care Center	KY	$ 81,546,492	$ 41,747,720	14.3%
12	Third Sector New England	MA	$ 67,575,257	$ 36,702,032	13.0%
13	Project Renewal	NY	$ 99,649,008	$ 54,811,614	12.7%
14	Independent Group Home Living Program	NY	$ 136,999,019	$ 77,161,913	12.2%
15	Abilis, Inc	CT	$ 25,381,755	$ 14,480,224	11.9%
16	Spectrum360	NJ	$ 29,888,887	$ 17,299,471	11.6%
17	Viability (f/k/a/ Community Enterprises	MA	$ 35,345,702	$ 20,607,478	11.4%
18	Thrive Behavioral Health	RI	$ 21,179,593	$ 12,633,327	10.9%
19	Services for the Underserved	NY	$ 249,184,000	$ 151,943,000	10.4%
20	Woods Services	PA	$ 339,159,000	$ 207,858,000	10.3%
21	Eckerd Youth Alternatives	FL	$ 286,538,038	$ 176,067,542	10.2%
22	Pathways Inc	KY	$ 38,597,810	$ 24,128,745	9.9%
23	Compass Health Inc	MO	$ 252,751,729	$ 158,351,983	9.8%
24	Lifestream Behavioral Center Inc	FL	$ 59,867,836	$ 37,611,972	9.7%
25	Residential Management Services	CT	$ 28,214,677	$ 17,767,063	9.7%
26	Compass Health	WA	$ 78,294,191	$ 49,417,678	9.6%
27	Metropolitan Family Services	IL	$ 88,319,578	$ 55,758,758	9.6%
28	Project Home	PA	$ 51,740,356	$ 32,755,997	9.6%
29	Fedcap	NY	$ 273,510,645	$ 173,886,838	9.5%
30	Seneca Family of Agencies	CA	$ 139,319,417	$ 88,831,426	9.4%
31	New Vista of the Bluegrass	KY	$ 172,260,374	$ 110,120,375	9.4%
32	Meridian Healthcare	OH	$ 17,008,207	$ 11,090,311	8.9%
33	Pillars Community Health	IL	$ 23,439,981	$ 15,372,938	8.8%
34	AMIKIDS, Inc.	FL	$ 76,162,611	$ 50,898,785	8.4%
35	Meridian Behavioral Healthcare	FL	$ 53,384,091	$ 36,097,087	8.1%
36	Frontier Behavioral Health	WA	$ 68,763,153	$ 46,802,803	8.0%
37	Spurwink Services	ME	$ 79,373,042	$ 54,240,895	7.9%
38	Delta Community Supports Inc	PA	$ 23,915,955	$ 16,432,304	7.8%
39	HASC Center	NY	$ 57,320,996	$ 39,635,665	7.7%
40	Justice Resource Institute Inc	MA	$ 213,304,002	$ 148,302,047	7.5%
41	Lakeview Center Inc	FL	$ 330,212,000	$ 231,518,000	7.4%
42	New Horizons Resources	NY	$ 32,375,531	$ 22,719,312	7.3%
43	Advocates Inc.	MA	$ 110,891,057	$ 78,440,887	7.2%
44	Dr. Gertrude Barber Center	PA	$ 94,844,273	$ 67,467,617	7.0%
45	Seven Hills Foundation	MA	$ 263,060,934	$ 188,017,637	6.9%
46	Lutheran Social Services of Minnesota	MN	$ 188,209,798	$ 135,237,823	6.8%
47	The Children's Village	NY	$ 122,045,611	$ 87,781,227	6.8%

	SELECT NONPROFIT HUMAN SERVICES ORGANIZATIONS COMPOUND ANNUAL GROWTH RATES OF REVENUES FIVE YEARS ENDED IN 2020				
		State	Revenue Growth		
		Hdqtrs	2020	2015	CAGR (1)
48	Elwyn	PA	$ 394,795,235	$ 284,404,900	6.8%
49	Fred Finch Youth Center	CA	$ 40,247,775	$ 29,066,923	6.7%
50	The Primary Health Network	PA	$ 88,996,381	$ 64,438,412	6.7%
51	Keystone Human Services	PA	$ 205,483,625	$ 151,303,509	6.3%
52	Bell Socialization Services Inc	PA	$ 15,767,949	$ 11,623,322	6.3%
53	Bancroft Neurohealth	NJ	$ 182,419,160	$ 134,676,801	6.3%
54	Adults and Children with Learning Disabilities	NY	$ 87,157,005	$ 64,855,956	6.1%
55	Center for Human Development Inc	MA	$ 117,969,841	$ 87,826,429	6.1%
56	Anderson Center for Autism	NY	$ 66,724,959	$ 49,753,450	6.0%
57	Cascadia Behavioral Healthcare	OR	$ 79,060,076	$ 59,327,210	5.9%
58	Bay Cove Human Services	MA	$ 133,718,224	$ 100,683,536	5.8%
59	Melmark	PA	$ 94,619,894	$ 71,377,572	5.8%
60	Young Adult Institute	NY	$ 245,364,455	$ 185,579,734	5.7%
61	People Encouraging People	MD	$ 29,295,178	$ 22,170,301	5.7%
62	National Able Network	IL	$ 24,992,881	$ 18,954,902	5.7%
63	Comprehensive Healthcare	WA	$ 65,320,594	$ 49,587,337	5.7%
64	Riverside Community Care	MA	$ 86,963,270	$ 66,376,259	5.6%
65	JEVS Human Services	PA	$ 111,416,093	$ 85,088,475	5.5%
66	Helen Ross McNabb Center, Inc	TN	$ 73,928,056	$ 56,729,995	5.4%
67	Hamilton Center	IN	$ 44,060,805	$ 33,813,944	5.4%
68	Lifepath Inc.	PA	$ 65,926,154	$ 50,676,164	5.4%
69	Youth Villages	TN	$ 264,333,280	$ 203,733,814	5.3%
70	Family Residences and Essential Enterprises	NY	$ 127,494,279	$ 98,808,951	5.2%
71	Special Citizens Futures Unlimited	NY	$ 14,923,344	$ 11,567,322	5.2%
72	Birch Family Services	NY	$ 71,368,482	$ 55,425,296	5.2%
73	Columbus House	CT	$ 14,647,082	$ 11,426,776	5.1%
74	Brockton Area Multi-Services Inc	MA	$ 98,640,347	$ 77,030,849	5.1%
75	Peace River Center	FL	$ 31,349,774	$ 24,521,684	5.0%
76	Devereux Foundation	PA	$ 543,124,000	$ 427,872,000	4.9%
77	Adult & Child Mental Health Center, Inc	IN	$ 46,532,558	$ 36,710,137	4.9%
78	BARC Developmental Services	PA	$ 24,835,427	$ 19,793,370	4.6%
79	Suncoast Center Inc	FL	$ 20,839,536	$ 16,643,601	4.6%
80	Mental Health Center of Denver	CO	$ 109,088,051	$ 87,136,510	4.6%
81	Hathaway-Sycamores Child and Family Services	CA	$ 63,627,251	$ 51,247,981	4.4%
82	May Institute	MA	$ 137,186,024	$ 110,744,330	4.4%
83	Kennedy Krieger	MD	$ 290,105,000	$ 234,222,000	4.4%
84	LifeWorks NW	OR	$ 47,723,358	$ 38,552,648	4.4%
85	Children's Services of Roxbury Inc	MA	$ 32,141,725	$ 26,015,967	4.3%
86	American Training	MA	$ 24,642,178	$ 19,984,690	4.3%
87	Henderson Behavioral Health	FL	$ 46,580,476	$ 37,812,542	4.3%
88	KVC Health Systems Inc	KS	$ 153,638,262	$ 124,817,946	4.2%
89	Unity House of Troy	NY	$ 25,547,401	$ 20,779,313	4.2%
90	Center for Family Support	NY	$ 53,089,185	$ 43,277,035	4.2%
91	Hope Network	MI	$ 156,034,827	$ 127,503,540	4.1%
92	Henry Street Settlement	NY	$ 47,517,730	$ 39,107,042	4.0%
93	Access Services	PA	$ 38,686,585	$ 31,848,089	4.0%
94	PEMHS (Personal Enrichment Through Mental Health Service	FL	$ 17,623,343	$ 14,518,970	4.0%

	SELECT NONPROFIT HUMAN SERVICES ORGANIZATIONS COMPOUND ANNUAL GROWTH RATES OF REVENUES FIVE YEARS ENDED IN 2020				
		State	Revenue Growth		
		Hdqtrs	2020	2015	CAGR (1)
95	North Suffolk Mental Health Association	NY	$ 57,156,942	$ 47,154,871	3.9%
96	Odyssey House	NY	$ 40,705,508	$ 33,819,814	3.8%
97	Better Way of Miami	FL	$ 5,640,185	$ 4,716,075	3.6%
98	Association for Individual Development	IL	$ 35,154,559	$ 29,851,685	3.3%
99	Uplift Family Services	CA	$ 102,658,458	$ 87,321,582	3.3%
100	Mosaic	NE	$ 283,095,568	$ 240,832,045	3.3%
101	Heritage Behavioral Health Center	IL	$ 11,800,541	$ 10,040,878	3.3%
102	SMA Behavioral Health Services	FL	$ 57,146,915	$ 48,673,529	3.3%
103	Community Residences and Outreach	CT	$ 50,574,924	$ 43,280,261	3.2%
104	Jewish Board of Family and Children's Services	NY	$ 229,856,677	$ 196,844,085	3.1%
105	Pressley Ridge	PA	$ 84,593,087	$ 72,926,397	3.0%
106	Green Chimneys	NY	$ 45,163,875	$ 39,183,505	2.9%
107	United Cerebral Palsy Seguin of Greater Chicago	IL	$ 45,230,115	$ 39,474,219	2.8%
108	Passavant Memorial Homes	PA	$ 123,509,616	$ 108,450,191	2.6%
109	Developmental Disabilities Institute	NY	$ 113,179,603	$ 99,744,325	2.6%
110	Ohel Children's Home and Family Services Inc	NY	$ 72,630,752	$ 64,162,341	2.5%
111	Aspire Health Partners	FL	$ 102,224,061	$ 90,391,400	2.5%
112	Wildwood Programs, Inc	NY	$ 38,727,157	$ 34,585,726	2.3%
113	Southwest Behavioral Health Services	AZ	$ 88,949,568	$ 79,451,273	2.3%
114	Cherokee Health Systems	TN	$ 61,368,427	$ 54,984,026	2.2%
115	Pacific Clinics	CA	$ 109,232,549	$ 97,912,562	2.2%
116	Aurora Comprehensive Community Mental Health Center	CO	$ 58,958,473	$ 53,036,018	2.1%
117	Jefferson Center for Mental Health	CO	$ 79,179,310	$ 71,863,903	2.0%
118	Hazelden Betty Ford Foundation	MN	$ 207,016,000	$ 188,913,000	1.8%
119	Astor Services for Children and Families	NY	$ 61,391,457	$ 56,119,856	1.8%
120	Harbor Behavioral Health	OH	$ 46,849,523	$ 42,842,118	1.8%
121	Community Solutions	CT	$ 33,318,578	$ 30,681,005	1.7%
122	Sheppard Pratt	MD	$ 382,555,706	$ 355,996,005	1.4%
123	Gateway Longview	NY	$ 29,153,108	$ 27,211,572	1.4%
124	Orange Grove Center	TN	$ 40,489,407	$ 37,867,573	1.3%
125	Allied Services Foundation	PA	$ 177,496,249	$ 166,032,403	1.3%
126	Resources for Human Development	PA	$ 279,202,620	$ 261,213,976	1.3%
127	Community Care Alliance	RI	$ 33,702,560	$ 31,578,801	1.3%
128	DACCO	FL	$ 18,813,963	$ 17,766,399	1.2%
129	Lutheran Social Services of Wisconsin and Upper Michigan	WI	$ 59,745,426	$ 56,519,600	1.1%
130	Easter Seals Arkansas	AK	$ 23,867,834	$ 22,618,262	1.1%
131	CONCERN	PA	$ 21,320,791	$ 20,209,369	1.1%
132	Northwest New Jersey Community Action Program, Inc.	NJ	$ 19,361,432	$ 18,411,138	1.0%
133	Lutheran Social Services of Illinois	IL	$ 89,677,723	$ 86,273,701	0.8%
134	La Casa de Esperanza	WI	$ 16,555,594	$ 16,253,397	0.4%
135	Ability Beyond Disability	CT	$ 69,561,805	$ 69,662,580	0.0%
136	Bethesda Lutheran Communities	WI	$ 125,312,057	$ 126,758,919	-0.2%
137	Hillside Family of Agencies	NY	$ 134,209,437	$ 137,341,236	-0.5%
138	David Lawrence Mental Health Center	FL	$ 24,282,098	$ 24,861,021	-0.5%
139	Community Teamwork Inc.	MA	$ 8,680,883	$ 8,920,386	-0.5%
140	Lifespire	NY	$ 98,155,113	$ 101,080,175	-0.6%
141	COMHAR	PA	$ 42,954,116	$ 45,264,896	-1.0%

	SELECT NONPROFIT HUMAN SERVICES ORGANIZATIONS COMPOUND ANNUAL GROWTH RATES OF REVENUES FIVE YEARS ENDED IN 2020				
		State	Revenue Growth		
		Hdqtrs	2020	2015	CAGR (1)
142	Family League of Baltimore City Inc.	MD	$ 23,817,448	$ 25,261,014	-1.2%
143	Pioneer Human Services	WA	$ 76,248,000	$ 81,106,205	-1.2%
144	United Services, Inc.	CT	$ 16,927,559	$ 18,167,664	-1.4%
145	Chestnut Health Systems, Inc	IL	$ 43,618,849	$ 47,541,122	-1.7%
146	Community Alternatives	VA	$ 15,610,213	$ 17,052,063	-1.8%
147	Alleghenies Unlimited Care Providers	PA	$ 8,338,413	$ 9,194,611	-1.9%
148	Lifespring Health Systems Inc	IN	$ 34,244,251	$ 38,885,558	-2.5%
149	Community Housing Partners Corporation	VA	$ 90,641,603	$ 104,391,210	-2.8%
150	Vantage Health System	NJ	$ 9,705,675	$ 11,296,298	-3.0%
151	Mental Health Partnerships	PA	$ 17,185,472	$ 20,135,206	-3.1%
152	Victor treatment Centers Inc	CA	$ 29,711,355	$ 35,126,970	-3.3%
153	Communicare Inc	KY	$ 58,573,883	$ 72,364,078	-4.1%
154	Mental Health Partners	CO	$ 42,386,113	$ 52,469,780	-4.2%
155	Humanim	MD	$ 26,225,454	$ 32,843,164	-4.4%
156	Lester And Rosalie Anixter Center	IL	$ 16,230,336	$ 21,056,218	-5.1%
157	River Valley Behavioral Health	KY	$ 33,398,768	$ 44,540,831	-5.6%
158	Community Hope	NJ	$ 12,047,477	$ 17,074,480	-6.7%
159	Children's Institute of Pittsburgh	PA	$ 31,000,260	$ 44,731,832	-7.1%
160	Star View Children and Family Services	CA	$ 15,556,157	$ 22,510,409	-7.1%
	MEANS FOR THE 160 NONPROFITS		$ 95,003,953	$ 71,376,841	5.9%