



BVR's Guide to Healthcare Valuation

The valuation of healthcare companies is an increasingly tricky task, made even more so by the ever changing legal regulations.

"Healthcare Valuations have never been more challenging," according to Don Barbo (Hill Schwartz Spilker Keller LLC). Barbo—a frequent speaker on healthcare valuations—says this field is rapidly changing due to reimbursement issues, loopholes quickly opening and closing, advances in technology, and Medicare fee changes.

With cases like *Derby*, *Caracci*, and *Delaware Open MRI Radiology* and others continuing to impact the healthcare valuation industry, this *Guide* gathers together many of the top experts in healthcare valuation, giving you the essential tools you need to conduct these tough valuations.

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Edited by:
Mark Dietrich
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Introduction

Healthcare is the single largest segment of the economy, the financial aspects of which are perhaps the least well understood. BVR's Guide to Healthcare Valuation brings together the country's top healthcare industry experts in the first comprehensive undertaking aimed at providing both preparers and users of valuation reports with an in-depth understanding of individual industry subsectors. From physician practices to home health care agencies, valuation across the continuum of medical care venues is addressed.

First and foremost, each member of the panel of valuation experts provides guidance consistent with the mandatory regulatory constraints on valuation assumptions and methodologies in the healthcare industry. Specific risks under the Stark Law and Anti-kickback statute are addressed in a separate chapter along with *real* advice on how to deal with them in a valuation engagement. The import of the nonprofit hospital sector is addressed in another chapter on inurement and tax exemption issues.

As will be clear to experienced healthcare appraisers and other readers alike, no valuation task can be accomplished without a thorough understanding of the market area in which the entity being valued operates. Despite the significance of national trends and the federal Medicare program in the valuation of healthcare enterprises, local differences in provider reimbursement by health insurers and individual state Medicaid programs lead to significant differences in operating results and value.

Notably, each of the valuation chapters provides keen insights on the significance of understanding the revenue cycle. The manner in which healthcare providers—such as physicians, hospitals, imaging or ambulatory surgery centers—are paid or reimbursed for their services varies radically. As such, an assumption about inflation or growth in per unit reimbursement appropriate for one of these sectors may be wholly inappropriate for another.

The largest number of provider entities and the most frequent valuation engagement involves physician practices and the Guide reflects this. In addition to a detailed valuation chapter, the Guide includes chapters on how to analyze CPT® codes and the use of MGMA data. Where a medical practice valuation is the most common form of healthcare valuation, the most common reason for that valuation is a divorce. Two chapters on the unique issues of divorce valuation are also included.

Physician business relationships with hospitals and other provider entities are perhaps the major driving force in the healthcare industry today and the Guide devotes six separate chapters to valuation issues in this growing market segment. I am certain the heretofore unseen scale of these comprehensive works will stand as a major contribution to the healthcare community's Body of Knowledge.

Buy-ins and buyout agreements and formulas among the owners of an entity, which are another frequent consulting, valuation and litigation engagement area, are addressed as well. Another chapter addresses the tax aspects of transactions, which can have a significant affect on the manner in which a valuation method is approached.

As Technical Editor for this Guide, I was particularly appreciative of the willingness of my friends and colleagues in the healthcare valuation discipline to share their vast knowledge, without reservation, in their specialty areas. The separate chapters devoted to ambulatory surgery, imaging, dialysis, home health and hospitals offer the valuation analyst information and insight usually obtainable only through hours of study and years of experience.

The Guide is rounded out with contributions from thought leaders in the broader healthcare community addressing such diverse areas as private equity, globalization, quality of care and issues to be addressed by an organization's Board of Directors. In addition, readers and users will benefit from discussions of the Cost of Capital and Valuation Standards by industry leaders. Finally, a number of chapters include checklists to aid the valuation analyst in the performance of the engagement.

On behalf of Business Valuation Resources and my co-editor, Cindy Eddins Collier, our thanks to all of the contributors for their hard work on behalf of their colleagues, who we are certain, will find BVR's Guide to Healthcare Valuation an important and valuable addition to their professional library.

Mark Dietrich, Technical Editor, October, 2008

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