

A photograph of a person sitting on a hospital gurney. The person is wearing a white hospital gown with a blue floral pattern. Their hands are clasped in their lap. The gurney has a white mesh cover and blue wheels. The background is a plain, light-colored wall.

Mark O. Dietrich

Excerpt from:

BVR Guide to

Ancillary Healthcare Services Valuation

BVR Guide to Ancillary Healthcare Services Valuation

Mark O. Dietrich
Editor



1000 SW Broadway, Suite 1200, Portland, OR 97205

(503) 291-7963 • www.bvresources.com



What It's Worth

Copyright © 2016 by Business Valuation Resources, LLC (BVR). All rights reserved.
Printed in the United States of America.

No part of this publication may be reprinted, reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher or authorization through payment of the appropriate per copy fee to the Publisher. Requests for permission should be addressed to the Permissions Department, Business Valuation Resources, LLC, 1000 SW Broadway St., Suite 1200, Portland, OR 97205; (503) 291-7963; fax (503) 291-7955; permissions@bvresources.com.

Information contained in this book has been obtained by Business Valuation Resources from sources believed to be reliable. However, neither Business Valuation Resources nor its authors guarantee the accuracy or completeness of any information published herein and neither Business Valuation Resources nor its authors shall be responsible for any errors, omissions, or damages arising out of use of this information. This work is published with the understanding that Business Valuation Resources and its authors are supplying information but are not attempting to render business valuation, legal, or other professional services. If such services are required, the assistance of an appropriate professional should be sought.

Please note that there are several hyperlinks to Internet links within this text and are included for your reference. However, due to the fluid nature of Internet links (i.e., the url can change at any time), some may not be accessed in the same location as they were when this guide was originally published.

Publisher: Sarah Andersen

Managing Editor: Monique Nijhout-Rowe

Senior Copy Editor: David Solomon

Chair and CEO: David Foster

President: Lucretia Lyons

Chief Revenue Officer: Lisa McInturff

Customer Service Manager: Retta Dodge

Print ISBN: 978-1-62150-092-6

EPUB ISBN: 978-1-62150-093-3

Library of Congress Control Number: 2016961782

Table of Contents

About the Authors	ix
Introduction	1
PART I. THE HEALTHCARE MARKETPLACE	5
Chapter 1. Healthcare Market Structure and Its Implication for Valuation of Privately Held Provider Entities—An Empirical Analysis	7
1.0 Results of Original Study	13
2.0 Data Sources and Impact on Analysis	14
3.0 Public Healthcare Insurers	15
4.0 Market Share	16
5.0 History of Blue Cross Plans	17
6.0 Public Hospital Companies	18
7.0 Medicare Part A Spending	21
8.0 Other Hospital Market Factors	24
9.0 Valuation Imperative	24
10.0 Example	25
11.0 Surgery Centers	25
12.0 Medicare Part B Spending	28
13.0 Prevalence of For-Profit Hospitals	28
14.0 Valuation Imperative	32
15.0 Radnet	32
16.0 Acquisition Versus Same Store Growth	33
17.0 Valuation Imperative	33
18.0 Implications for Valuation of Private Healthcare Providers	34
19.0 Other Uses of Market Data	36
20.0 Valuation Imperative	36
21.0 Regulatory Issues	36
22.0 Conclusion	37
Chapter 2. Factors in Estimating Cost of Capital and Forecasting Cash Flow in Healthcare	41
1.0 What Comprises the ‘Healthcare Industry’?	43
2.0 Deriving the Discount Rate	44
3.0 Weighted Average Cost of Capital (WACC)	45
4.0 Government Influence	46
5.0 Identifying Factors That Contribute to Risk	46
6.0 Near-Term Forecasting and Risk Assessment: MedPAC, the MPFS Proposed and Final Rules, and the Market	47
7.0 Identifying Reimbursement Trends That Are Not Sustainable	49
8.0 The MedPAC Crystal Ball	52
9.0 Primary Care: The Baseline for Risk in Physician Practices	54
10.0 Understanding the Impact of Payor Relationships	56
11.0 Using Guideline Company Data to Forecast Cash Flows and Assess Risk	57
12.0 Conclusion	59

PART II. REGULATORY CONSIDERATIONS IN HEALTHCARE VALUATION	61
Chapter 3. The Anti-Kickback Statute and Stark Law:	
Avoiding Valuation of Referrals	63
1.0 The Anti-Kickback Statute	65
2.0 The Stark Law	73
3.0 Valuation Scenarios to Consider	75
Chapter 4. The Volume or Value Standard: Navigating the Stark Law's	
Prohibition on 'Taking Into Account' Designated Health Service Referrals	87
1.0 Stark Law Overview	90
2.0 Navigating the Volume or Value Standard—Documenting Compliance	91
3.0 Understanding the Volume or Value Standard—Guidance From CMS	92
4.0 The Volume or Value Standard—Case Law Illustrations	98
5.0 Conclusion	101
Chapter 5. The Imperative to Meeting the Stark Group Practice Definition	103
1.0 Why the Definition Matters	106
2.0 Single Legal Entity	106
3.0 Physicians	107
4.0 Range of Care	107
5.0 Services Furnished by Group Practice Members	108
6.0 Distribution of Expenses and Income	108
7.0 Unified Business	108
8.0 Volume or Value of Referrals	109
9.0 Physician-Patient Encounters	109
10.0 Productivity Bonuses	109
11.0 Profit Sharing	111
12.0 Conclusion	112
Chapter 6. Valuation Issues Affecting Tax-Exempt Healthcare Entities	113
1.0 Introduction	115
2.0 Valuation Issues	116
3.0 Other Regulatory Considerations	122
4.0 Other Medicare Fraud and Abuse Penalties	124
5.0 Tax-Exempt Entity Definitions	131
6.0 Tax-Exempt Organization Transactions—Private Inurement and Excess Benefits	133
7.0 The Initial Contract Rule	136
8.0 Section 4958 Penalty Excise Taxes	136
9.0 Intermediate Sanctions	137
10.0 Excess Benefit Transaction Presumption of Reasonableness	143
11.0 Conflict of Interest	143
12.0 Appropriate Data	143
13.0 Adequate Documentation	144
14.0 Analyst Considerations Regarding Private Inurement	145
15.0 Purpose of Intermediate Sanctions	146
16.0 Imposition of Penalty Excise Taxes	146
17.0 Rebuttal Presumption of Reasonableness	146
18.0 Excess Benefit Transaction	147
19.0 Reasonableness of Tax-Exempt Entity Compensation	147
20.0 Revocation of Tax-Exempt Status	149
21.0 Analyst Common Misconceptions Regarding Healthcare Property and Services Valuations	150
22.0 Summary and Conclusion	155

Chapter 7. Patient Medical Records, HIPAA, and State Medical Records	
Law in Valuation and Litigation	159
1.0 Introduction	161
2.0 The Health Insurance Portability and Accountability Act of 1996	162
3.0 Conclusion	183
Chapter 8. By the Numbers: A Case-Based Understanding of Healthcare Valuation Fraud	185
1.0 Introduction	187
2.0 Principal Statutes Related to Valuation Fraud	187
3.0 Import of Qui Tam Relators	188
Chapter 9. <i>Bradford Regional Medical Center</i>: Lessons for the Inexperienced	225
1.0 Introduction	227
2.0 Court's Findings in <i>Bradford Regional Medical Center (BRMC)</i> Case	228
3.0 Key Valuation Issues in <i>BRMC</i> Case	229
4.0 Conclusion	233
Chapter 10. Converting Physician Practices to Tax-Exempt Status	235
1.0 Basic Tax Consequences	237
2.0 Valuing Intangible Assets	241
3.0 Personal Versus Enterprise Goodwill	241
4.0 Hypothetical Sale	244
5.0 Current Economy Considerations	244
6.0 Conclusion	245
Chapter 11. What Goes Around Comes Around: <i>Derby v. Commissioner</i>	247
1.0 Case Summary	250
2.0 Transaction Overview	251
3.0 Taxpayers' Valuation for Trial	252
4.0 The Donation	254
5.0 Conclusion	254
Chapter 12. What Is to Be Learned From <i>Caracci</i>?	255
1.0 The Key Valuation Issue and Valuation Experts	258
2.0 History of Sta-Home	258
3.0 Position of the Parties	259
4.0 Tax Court Opinion	259
5.0 The Standard of Value	259
6.0 Hahn's Valuation Approaches	260
7.0 Wilhoite's Valuation Approaches	260
8.0 Appellate Court Opinion	261
9.0 Synonymous Standard of Value?	261
10.0 Key Regulatory Issues in Health Care	262
11.0 Valuation Questions Raised by the Case	263
12.0 Looking Ahead	270

PART III. VALUING HEALTHCARE ENTERPRISES	271
Chapter 13. Understanding and Using the Technical and Professional Components of Ancillary Revenue When Valuing Medical Practices	273
1.0 Some Common Mistakes	276
2.0 Jurisdictional Issues	277
3.0 Transactions	277
4.0 Individual Market Idiosyncrasies	281
5.0 Conclusion	281
Chapter 14. Valuation Considerations Specific to Diagnostic Imaging Entities	285
1.0 The Unique Structure of Diagnostic Imaging Services Requiring Analysis	288
2.0 Diagnostic Imaging: Influences on Revenue, Historical Performance Analysis, and Revenue Forecasting	290
3.0 Regulatory Impacts Specific to Diagnostic Imaging Entities and Their Influence on Forecasting Revenue Streams	300
4.0 The Primary Influences and Considerations Required When Analyzing and Forecasting Infrastructure Expense Unique to Diagnostic Imaging Entities	304
5.0 Potential Land Mines and Valuation Considerations That Can Come Back to Haunt You	306
Chapter 15. Ambulatory Surgery Centers	311
1.0 Introduction	313
2.0 Segment Overview	314
3.0 History of ASCs	315
4.0 Certificate of Need Requirements	316
5.0 ASC Growth	316
6.0 Changes in Medicare Payment System for ASCs	318
7.0 Discrepancy in Payments	322
8.0 CY 2015 Final Ruling	323
9.0 2015 Sequestration	324
10.0 Typical ASC Legal Structures	324
11.0 Typical ASC Financial Structure and Performance	325
12.0 Income Statement Observations	327
13.0 Balance Sheet Observations	329
14.0 Does the Past Tell Us Anything About the Future?	331
15.0 ASC Risk-Assessment Matrix	331
16.0 Purchase or Sale of Controlling Equity Interest	333
17.0 Purchase or Sale of Noncontrolling Equity Interests	341
18.0 Conversion of an HOPD	343
19.0 Data Request	345
20.0 Conclusion	348
21.0 Bibliography	348
Chapter 16. Valuing Dialysis Clinics: Reasons for Valuation	349
1.0 Regulatory Considerations	353
2.0 Reimbursement Models	354
3.0 Valuation Approaches	355
4.0 Value Drivers	356
5.0 Government Enforcement Environment	358
6.0 Conclusion	358

Chapter 17. The Valuation of Pathology Services	359
1.0 Clinical and Anatomic Pathology Background	361
2.0 Clinical Pathology Services	361
3.0 Anatomic Pathology Services	364
4.0 Market for Professional Pathology Services	366
5.0 Pathology Services Agreements	368
6.0 Summary	374
Chapter 18. The Valuation of Hospitals	375
1.0 Overview of the Hospital Industry	377
2.0 Hospital Value Drivers	378
3.0 Healthcare Reform Law	380
4.0 Current Challenges Facing Hospitals	382
5.0 Hospital Reimbursement	384
6.0 Valuation Process	386
7.0 Conclusion	392
8.0 Resource Materials	392
Chapter 19. Home Healthcare Services	395
1.0 The Industry	397
2.0 Funding of Home Health Products and Services	399
3.0 Home Health Funding	401
4.0 Hospice Funding	402
5.0 Private Duty Funding	403
6.0 Home Medical Equipment Funding (HME)	403
7.0 Home Infusion Therapy (HIT) Funding	404
8.0 Home Health Industry Information	405
9.0 Valuing Home Healthcare Businesses	409
10.0 Special Situations Affecting Home Healthcare Value	412
11.0 Conclusion	415
Chapter 20. Valuing Joint Ventures and Other Physician Alignment Initiatives	417
1.0 Reasons for Valuation	419
2.0 Regulatory Considerations	420
3.0 Key Features and Typical Valuation Methodologies	422
4.0 Types of Information Utilized and Testing Assumptions	426
Chapter 21. Urgent Care Centers: Valuation Overview	429
1.0 Retail Healthcare	431
2.0 Value Proposition—Patients	432
3.0 Value Proposition—Payers	432
4.0 Payor Mix	433
5.0 Medicare FFS Program	435
6.0 Industry Growth	435
7.0 Market Participants	436
8.0 Private Equity and Urgent Care	437
9.0 Hospitals and Urgent Care	437
10.0 Physician Entrepreneurs	438
11.0 Typical Urgent Care Income Statements	438
12.0 Transaction Market Defined	440
13.0 Valuation Characteristics and Methodology	441
14.0 Cost Approach	441
15.0 Market Approach	442
16.0 Income Approach	442
17.0 Conclusion	444

Chapter 22. Valuing CINs, ACOs, PHOs, and IPAs447

1.0 Shifting Focus From Volume to Value449

2.0 Bringing Providers Together452

3.0 Transactions Involving MPNs453

4.0 Example 1: Income Approach455

5.0 Income Approach Analysis456

6.0 Working Capital and Cash Flows460

7.0 Summary Financials460

8.0 Accounting for the Risk of Shared Savings Revenue462

9.0 Residual Value463

10.0 Sensitivity Analysis—Multiple Cash Flow Scenarios463

11.0 Venture Capital Discount Rate466

12.0 Exit Event Assumed on Dec. 31, 2018.467

13.0 Other Considerations468

14.0 Example 2: Market and Cost Approaches468

15.0 Conclusion473

About the Authors

ABOUT THE EDITOR

Mark O. Dietrich, CPA/ABV, is editor, technical editor, and contributing author to the *Business Valuation Resources (BVR)/American Health Lawyers' Association (AHLA) Guide to Healthcare Valuation*, 4th edition (2016); editor and principal author of *Business Valuation Resources' Guide to Physician Practice Valuation*, 3rd edition (2016); co-editor and contributing author of the *BVR/AHLA Guide to Healthcare Industry Compensation and Valuation*, 2nd edition (2016); and co-author with Gregory Anderson, CPA, CVA, of *The Financial Professional's Guide to Healthcare Reform*, published by John Wiley & Sons. Mark is also author of the *Medical Practice Valuation Guidebook* and co-author of *PPC's Guide to Healthcare Consulting*, along with more than 100 articles on valuation, taxation, managed care, and the healthcare regulatory environment. He serves as Of Counsel to Meyers, Harrison & Pia. Mark's career experience includes serving as partner-in-charge of the annual audit of an 80-physician tax-exempt faculty group practice, representation of tax-exempt and taxable entities in Internal Revenue Service field audits, participation in the development of a 250-physician independent network and negotiation of its managed care and Medicare Advantage contracts, and more than 400 valuation engagements in the healthcare industry.

A regular speaker at national conferences on healthcare valuation and other topics, Mark also has lectured in the United Kingdom during 2009, 2011, 2012, and 2014 on managed care, healthcare valuation, and valuation of medical practices to Her Majesty's Revenue and Customs. He is a member of the editorial board of *Financial Valuation and Litigation Expert* and chaired the AICPA's National Healthcare Industry Conference Committee in 2012 and 2013. Mark has also served on the AICPA's ABV Credential Committee and ABV Exam Review Course Task Force.

CONTRIBUTING AUTHORS

G. Don Barbo, CPA/ABV, is a managing director with VMG Health. Don has extensive experience in healthcare valuation engagements involving mergers and acquisitions, divestitures, partnership transactions, leasing arrangements, divorces, and commercial damages. His healthcare valuation experience includes hospitals, ambulatory surgery centers, imaging centers, cardiac catheter centers, and physician practices. He has also served as the chief financial officer for a physician practice management company. Don has published numerous articles and is a frequent speaker regarding the valuation of healthcare businesses. He also serves on the Panel of Experts for the Healthcare Section of the *Financial Valuation and Litigation Expert's* newsletter. He holds an undergraduate degree in accounting from Texas Tech University and an MBA from the SMU Cox School of Business.

Carol W. Carden, CPA/ABV, ASA, CFE, is a principal with PYA and provides business valuation and related consulting services to a wide variety of business organizations, primarily in the healthcare industry. Ms. Carden's primary areas of expertise are in finance, valuation, managed care, and revenue cycle operations for healthcare organizations. She has performed appraisals of businesses and securities for a wide variety of purposes such as mergers, acquisitions, joint ventures, management service agreements, and other intangible assets. She is also a nationally recognized speaker and writer on healthcare valuation topics. She is the chair of the Business Valuation Committee for the AICPA, was chair of the 2010 National AICPA Business Valuation Conference, and was on the planning committee for the 2011 AICPA National Healthcare Conference.

Darcy Devine, ASA, CVA, specializes in the valuation of healthcare assets and services. For 20 years, she has assisted hospitals, health systems, investors, physicians, and other providers with business and equipment appraisals, fair market value opinions, compensation assessments, and valuation report reviews. She holds a Bachelor of Business Administration with a concentration in finance from the Goizueta Business School at Emory University and a Master of Business Administration from the University of Georgia.

Alice G. Gosfield, Esq., is the principal of Alice G. Gosfield & Associates, P.C. in Philadelphia. Her legal career has been restricted to health law with an emphasis on representation of physicians and their group configurations and a focus on noninstitutional reimbursement including Medicare, managed care, fraud and abuse compliance and avoidance, medical staff issues and utilization management, and quality issues. Ms. Gosfield served as chairman of the board of directors of the National Committee for Quality Assurance and on four committees of the Institute of Medicine of the National Academy of Sciences. She is the first chairman of the board of PROMETHEUS Payment Inc. and served as president of the American Health Lawyers Association and chaired its Physician and Physician Organizations Institute. She is a graduate of Barnard College and New York University School of Law.

Alyssa C. James, Esq., works with clients in numerous aspects of healthcare law. Her work involves counsel regarding hospital/physician contracting matters, fraud and abuse/Stark analyses, hospital and health system matters, regulatory and compliance issues, organization governance, corporate transactions, and hospital/physician alignment. James has made several presentations in the area of fraud and abuse, including for the Healthcare Financial Management Association and Indianapolis Bar Association. She received her law degree and graduate certificate in health law from Indiana University Robert H. McKinney School of Law.

Matthew D. Jenkins, JD, is a partner in the Richmond, Va., office of Hunton & Williams LLP and heads the firm's Health Law Group. He has worked extensively with hospitals and multi-hospital systems on regulatory, corporate, governance, and transactional matters. He has led

a number of nonprofit entities through conversion transactions resulting in the creation of substantial community foundations. His work also involves legislative matters and practice before administrative agencies. Mr. Jenkins is a member of the American Bar Association's Health Law Section, where he serves as a vice-chair of the Transactional & Business Interest Group. He served two terms as a governor's appointee on the Special Advisory Commission on Mandated Health Insurance Benefits for the Commonwealth of Virginia. He is a past chair of the Health Law Section of the Virginia State Bar. Mr. Jenkins earned his J.D. in 1984 from the University of Virginia.

Elliott Jeter, CFA, CPA/ABV is a managing director at VMG Health. He specializes in providing valuation, transaction advisory, strategic, and operational consulting services to the firm's clients. He has extensive experience working closely with ambulatory surgery centers, hospital systems, physician groups, and other healthcare providers. Jeter is a graduate of Texas A&M University and also earned a Masters of Business Administration from the University of Texas at Austin. He is a frequent speaker at healthcare trade association meetings and has written numerous articles on healthcare valuation issues that have been published in industry magazines and journals.

Karin Chernoff Kaplan, MBA, CVA is a director at Veralon, a national healthcare strategy and valuation firm. She is an expert in healthcare valuation and has extensive experience in healthcare strategy, finance, and operations, having spent more than 30 years as a consultant and healthcare management professional. Kaplan works with health systems, community and teaching hospitals, physicians, and other healthcare providers on a wide range of matters. She holds a certification from the National Association of Certified Valuators and Analysts and is a frequent speaker on physician-hospital alignment, compensation design, and business valuation topics at the national level.

Robert M. Mundy, CPA, ABV, CVA, is consulting principal at Pershing Yoakley & Associates P.C. (PYA). He has a broad background in business valuations with extensive experience in healthcare valuation engagements involving mergers and acquisitions, financial reporting, joint ventures, divestitures, partnership transactions, leasing arrangements, and divorce settlements. His healthcare valuation experience includes general acute care and specialty hospitals, diagnostic imaging centers, ambulatory surgery centers, skilled nursing facilities, assisted living centers, cancer treatment centers, cardiac catheter labs, and a variety of physician practices. He has also held business valuation and auditing positions at a regional public accounting firm.

Aaron Murski, CVA is a managing director at VMG Health where he focuses on developing client relationships and providing valuation, transaction advisory, and operational consulting services in the healthcare services industry. Specifically, he has significant experience with the acute care and specialty hospital, physician practice, inpatient rehabilitation, cancer treatment, ambulatory surgery center, and diagnostic imaging segments. In addition to the extensive

valuation experience for transaction planning and financial reporting purposes, he has consulted on numerous development, feasibility, and recapitalization analyses for joint venture, restructuring, and de novo business development purposes. Murski received a Bachelor of Business Administration in finance from the Mays Business School at Texas A&M University.

Kenneth W. Patton, ASA, is managing director of ComStock Advisors and specializes in providing business valuation and ESOP-related services. He is the author or co-author of approximately 30 articles on business valuation. He has made numerous speeches on business valuation topics. Patton acted as expert witness in many state and federal courts on matters that reached the stage of deposition and trial testimony. He has a bachelor's degree in economics from the University of Tennessee and a master's degree in finance from Rhodes College.

James M. Pinna, Esq., is a partner in the Richmond, Va., office of Hunton & Williams LLP and practices with the firm's Health Law Group. He works primarily with hospitals, multihospital systems, and other healthcare providers on regulatory, transactional, corporate governance, and compliance matters. He is a vice chair of the Business & Transactions Interest Group of the American Bar Association's Health Law Section and a member of the American Health Lawyers Association. Previously, he worked in business development for National Nephrology Associates, a privately held dialysis company based in Nashville. Mr. Pinna earned his J.D. from the University of Virginia.

Robert F. Reilly, MBA, CPA, CMA, CFA, ASA, CBA, is a managing director of Willamette Management Associates. Robert has been the principal analyst on over 2,000 valuations of businesses, business interests, and intellectual properties in virtually every industry and business sector. Robert holds an MBA in finance from Columbia University. He is a member of the American Economic Association, National Association of Business Economists, American Society of Appraisers, Institute of Business Appraisers, American Bankruptcy Institute, Institute of Property Taxation, and several other professional organizations. He is a co-author of the following six textbooks: *Valuing a Business: The Analysis and Appraisal of Closely Held Companies*, *The Handbook of Advanced Business Valuation*, *Valuing Intangible Assets*, *Valuing Small Businesses and Professional Practices*, *Valuing Accounting Practices*, and *Valuing Professional Practices: A Practitioners Approach*.

Stuart J. Schaff, CVA, CHFP is a manager at Veralon, a national healthcare strategy and valuation firm. He advises healthcare organizations on a wide range of physician-hospital alignment matters including conducting valuations for healthcare businesses including medical practices and ambulatory surgery centers, determining the fair market value of hospital-physician compensation arrangements, designing physician compensation models for practices from a single physician to large groups with multiple specialties, and facilitating the formation of clinically integrated networks and accountable care organizations. Schaff is designated as a certified

valuation analyst by the National Association of Certified Valuators and Analysts and a certified healthcare financial professional by the Healthcare Financial Management Association. He frequently presents on healthcare finance and physician alignment topics.

Alan B. Simons, CPA/ABV, CFF, CMPE, DABFA, is the principal-in-charge of LarsonAllen's national health care valuation practice and the business valuation and litigation support practice for the Philadelphia office. He is an active member of the Healthcare Financial Management Association (HFMA), the Medical Group Management Association (MGMA), the American Health Lawyers Association (AHLA), the American Society of Appraisers (ASA candidate), the Institute of Business Appraisers (IBA), the American Institute of Certified Public Accountants (AICPA), the Pennsylvania Institute of Certified Public Accountants (PICPA), and the Forensic and Valuation Services Division of the AICPA.

Douglas G. Smith is managing partner of strategic positioning and consulting services at Integrated Medical Partners. He is experienced with strategic action planning, operations profit improvement, physician leadership development, and radiology group governance and management. Smith is a frequent speaker on a variety of topics for the diagnostic imaging services sector.

Todd J. Sorensen, MBA, CVA, is managing director of VMG Health. He specializes in providing valuation and transaction advisory services to the firm's healthcare clients. He has acted as financial advisor in transactions with physician groups, acute care hospitals, health maintenance organizations, preferred provider organizations, diagnostic centers, ambulatory surgery centers, home health agencies, physical and operational therapy centers, institutional pharmacies, retail pharmacies and rural health clinics. Mr. Sorensen received his MBA from Baylor University.

Jessica E. Stack, MBA is a manager at Veralon, a national healthcare strategy and valuation firm. She advises clients on a wide range of physician-hospital alignment, compensation, financial planning, and valuation matters. Stack has worked with nonprofit and for-profit hospitals, health systems, physician organizations, and healthcare attorneys across the United States. In addition to her healthcare valuation experience, Stack has managed valuations of AIG's central region entities located in the Middle East and Africa and provided services to organizations in a variety of industries for M&A planning and reporting, ASC 805 purchase price allocations, ESOPs, strategic business and financial planning, startup venture feasibility, and tax and estate planning.

Kathie L. Wilson, CPA, CVA, maintains a consulting practice, assisting accountants and attorneys in the areas of medical practice accounting and valuation and family law litigation in the San Francisco Bay Area. She holds a Masters in Taxation from Bentley College and a B.A. in business administration from the University of Washington.

Joseph N. Wolfe, Esq., is a partner with Hall Render, the largest healthcare-focused law firm in the country, now with offices nationwide. He provides advice and counsel to some of the nation's largest health systems, hospitals, and medical groups on a broad range of regulatory, operational, and strategic matters. He regularly counsels clients on a national basis regarding compliance-focused physician compensation strategies. He is a frequent speaker on issues related to the physician self-referral statute (Stark Law), hospital-physician transactions, physician compensation, and healthcare valuation issues. Before attending law school at the University of Wisconsin, he served as a combat engineer in the United States Army.

Introduction

I am pleased to release the first edition of the *BVR Guide to Ancillary Healthcare Services Valuation*, the successor to my first book, *The Medical Practice Valuation Guidebook*, which was published back in 1999.

The Contents

This new guide, which focuses specifically on ancillary healthcare services, opens with an analysis of the healthcare market and how the market share of insurers and relative negotiating strength of ancillary service providers affects value. This is followed by a chapter, “Factors in Estimating Cost of Capital and Forecasting Cash Flow in Healthcare,” that focuses more on finance and expanded examples of cash flow forecasting anomalies in the industry.

Separate chapters address various aspects of the regulatory environment, the knowledge of which is critical to a defensible valuation conclusion. Robert Reilly contributes a comprehensive chapter titled “Valuation Issues Affecting Tax-Exempt Healthcare Organizations.” He includes an important discussion subtitled “Analyst Common Misconceptions Regarding Healthcare Property and Services Valuations.” I encourage you to read that section in particular and, notably, the context of Robert’s statement that “the analyst should consider if there are several contracts being entered into as part of the healthcare property transfer... And the analyst should consider whether there are employment agreements, noncompete agreements, intellectual property licensees, lease transfers, or other agreements that are part of the overall transaction. If so, the analyst should assess the fair market value of the total (multicontract) transaction.”

“Converting Physician Practices to Tax-Exempt Status” is included in the guide since hospitals often employ this strategy with their physician practices.

As editor and contributor to the guide, I developed a new chapter, “Patient Medical Records, HIPAA and State Medical Records Law in Valuation and Litigation.” I am most grateful to reviewer and technical contributor Lara B. Winn, Esq., of Ankner and Levy in Boston for her

work on this chapter. The focus of this chapter is threefold: (1) to provide knowledge of the law; (2) to identify circumstances in which valuation analysts and experts become subject to HIPAA's privacy and security rules; and (3) to explore how HIPAA, state law, contract law, and technology in the form of electronic health records have combined to end the appropriateness of conventional application of the cost approach to value medical records. More often than not, it is likely that the liability for secure storage and retrieval of medical records, especially paper records that will soon be functionally obsolete, exceeds the potential value of those records.

To address the explosion in qui tam case litigation and settlements involving valuation issues, I have contributed a chapter analyzing key cases, including *DaVita* (a dialysis company), *Citizen's Medical* (a hospital), *Meridian* (a surgery center operator), and *North Broward* (a hospital). The chapter looks at issues involving business valuation techniques and analyzes expert testimony and expert reports. Readers should find a wealth of insight and warnings here, regardless of whether one accepts or rejects the position of the relators. Joseph Wolfe and Alyssa James of Hall Render provide an in-depth review of the Stark law and regulations' volume or value of referrals prohibition that can serve as a useful guide in evaluating the qui tam cases.

The "Valuation of Healthcare Industry Enterprises" section of the guide contains nine chapters. Elliott Jeter of healthcare valuation firm VMG contributes one on urgent care, a rising phenomenon in the post-ACA era that has attracted much attention and equity capital. Darcy Devine has added a chapter on the valuation of pathology labs. Karin Chernoff Kaplan, Stuart J. Schaff, and Jessica E. Stack (Veralon) contribute "Valuing CINs, ACOs, PHOs, and IPAs," an in-depth look at the mechanics of valuing common forms of clinical integration arrangements between physicians and hospitals.

Carol Carden (PYA) provides two chapters from her depth of expertise, including one on valuing dialysis clinics that is an important read given the focus of regulators on this industry segment. She also wrote "Valuing Joint Ventures and Other Physician Alignment Initiatives," a topic that is critical for hospital integration strategies with physicians.

Don Barbo (Deloitte) and Robbie Mundy (Ankura) provide a comprehensive chapter on valuing hospitals in the post-ACA era. Doug Smith of Integrated Medical, a leading imaging industry consultant, offers a complete chapter on revenue forecasting in the imaging sector, and Alan Simons (CliftonLarsonAllen) updates the home health chapter. Finally, Todd Sorensen (VMG) contributes a comprehensive chapter on valuing ambulatory surgery centers, including the nuances of control versus noncontrol transactions.

Closing

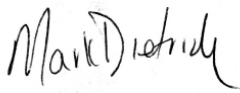
As an industry, the government and by extension the public, as well as our clients, rely upon us to exercise professional judgment in a sound and reasoned manner that reflects not only technical knowledge of finance and valuation, but also a profound respect for the law and

regulations. I hope readers of this new guide will find herein technical knowledge that is also practical and tempered with respect for the law.

Acknowledgements

I am deeply indebted to all of the contributing authors for taking the time out of their business and personal lives to provide content for the guide. With an unprecedented volume of work in healthcare appraisal and transactions, this is a considerable commitment to the profession's body of knowledge.

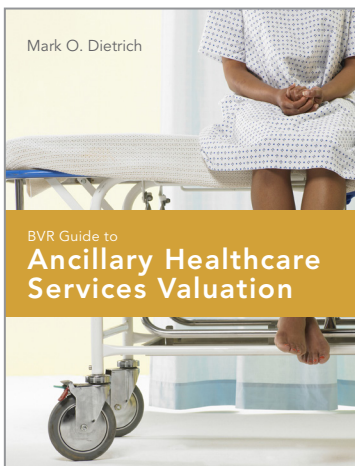
As editor and technical editor for this first edition of the *guide*, and on behalf of Business Valuation Resources, our thanks to all the contributors.

A handwritten signature in black ink that reads "Mark O. Dietrich". The signature is written in a cursive, flowing style.

Mark O. Dietrich, CPA/ABV



Get an in-depth review of ancillary healthcare services valuation with new guide



\$199 print or PDF
\$249 print and PDF

The landscape of the healthcare industry is constantly evolving and changing. In the new **BVR Guide to Ancillary Healthcare Services Valuation**, 15 of the top healthcare valuation experts have contributed a collection of tried and true methods infused with new and innovative approaches that will challenge the future direction of healthcare valuation. Focused specifically on ancillary healthcare services, this guide provides in-depth analysis of the healthcare market and how the market share of insurers and relative negotiating strength of ancillary service providers affects value.

Highlights of the guide include:

- Conduct a thorough and bulletproof valuation with guidance on the latest research and innovative valuation methodologies
- Have the most current information on how regulations and the government's crackdown on healthcare transactions are shaping valuations
- Get an in-depth review of valuation and tax exempt organizations in the healthcare industry with a discussion on the Stark law and regulations' volume or value of referrals prohibition

Learn more about the compendium and order your copy at:
bvresources.com/publications

If you prefer, fax this form to our secure line: (503) 291-7955 or call (503) 291-7963

☐ **Yes!** I'd like to order the BVR Guide to Ancillary Healthcare Services Valuation in the following format:

☐ \$199 Print (+\$9.95 S&H)

☐ \$199 PDF

☐ \$249 Print & PDF (+ \$9.95 S&H)

Name: _____ Firm: _____

Address: _____ City, State, Zip: _____

Phone: _____ Fax: _____ E-mail: _____

Billing Information:

☐ Visa ☐ Mastercard ☐ AMEX ☐ Check payable to: Business Valuation Resources, LLC

Credit Card #: _____ Exp. Date: _____ Sec. Code: _____

Cardholder Name & Address (if different): _____