Medical Practice Valuation

James Unland, President
Health Capital Group
HealthCapitalGroup@yahoo.com
The Big Rule Of Value

All ‘Economic’ Values Are Anticipations Of The Future
The Paradox of Value in Health Care ‘Facilities’

-- They take millions and tens of millions of dollars to keep up-to-date and competitive.

-- Yet, their ‘assets’ are not really worth much.

-- Their value lies in the reasonable expectation of a relatively stable to growing ‘net cash flow.’

-- Anything that affects net cash flow and the expectation thereof affects value and viability.

-- Market Share tends to drive everything in medical service businesses
Medical Practices Are Generally Service Based

-- They are almost always closely held
-- ‘Facilities’ are usually held separately
-- ‘Value’ is tied to reasonable anticipations of future business fundamentals
In a ‘closely held’ service business ‘value’ is based on …

The price which a dispassionate investor could pay and achieve a reasonable rate of return on investment.
‘Ownership’ is important...

-- What exactly does the practice ‘own’?
-- Are they any ‘control’ issues?
-- Is it ‘transferable’ in a market-based sale transaction?
Common Practice Assessment
Engagements

- Valuation to Determine Worth
  - Purchase or Sale of Practice
  - Bringing in Partners
  - Dissolution of Partnership

- Assess Practice Performance
  - Identify Factors Affecting Financial Success
  - Develop Strategies for Improvement

- Due Diligence/Forensic Analysis
  - Civil and Criminal Litigation
  - Healthcare Fraud and Abuse Investigations
Components of A Practice Assessment

- **Review of Preliminary Data**
  - Financial Statements
  - Practice Specific Data

- **Site Visit**
  - Physical Visit
  - Observations
  - Interviews

- **Report**
  - Follow Up Analysis
  - Additional Research
  - Written Report
Review of Preliminary Data

- Comparison of Practice to Industry Benchmarks
- Identification of Potential Practice Challenges
- Evaluation of Practice in the Context of Economic and Market Trends
Comparison of Practice to Industry Benchmarks

- **Productivity**
  - Type of Measures
  - Variations by Specialty
  - Growth

- **Revenue**
  - Profitability
  - Age of Practice
  - Collection Activity

- **Expenditure Levels**
  - Physician Compensation
  - Levels of staffing
  - Overhead
Identification of Potential Challenges to Value

- **Internal Influences**
  - Payor Mix
  - Productivity
  - Shifting Referral Sources
  - Governance Structure
  - Practice Politics
  - Administrative Systems

- **External Influences**
  - Local Economic Events
  - National Economic Events
  - Reimbursement Levels
  - Technological Changes
  - Competitor Activity
Site Visit

- **Purpose**
  - Complete the Profile
  - Clarify Data
  - Gather Additional Information

- **Methods**
  - Observations
  - Interviews

- **Objectives**
  - Verify Assets
  - Assess Management Preparedness
  - Evaluate Effectiveness of Administrative Systems
Assess Management Preparedness

- Regulatory Challenges
- OSHA
- Americans With Disability Act
- Department of Labor
- Stark Regulations
- Reimbursement Trends
- HIPPA