FMV Vantage Point
HealthCare Appraisers
INCORPORATED

Business Transactions
What does the appraised value mean?

Business appraisers are frequently engaged by buyers and sellers to value healthcare business entities, such as physician practices, ambulatory surgery centers and ambulatory care facilities, to ensure a buy-sell transaction complies with the fair market value standard. Buyers and sellers, however, are not often aware of how specific deal structures and terms can affect the appraiser's opinion of value for the proposed transaction. Here are some important valuation distinctions that users of business appraisals should keep in mind:

Equity Value

Business appraisers can value the *equity* of a business entity. The equity value is the price that is applicable when all assets and all liabilities of an entity are being acquired. Typically, equity value is used when the transaction is structured as a stock purchase. To the extent that any assets or liabilities will be excluded from the transaction, appropriate adjustments must be made to the equity value in order for the *transaction* to be consistent with fair market value ("FMV"). The FMV purchase price should be based on the bundle of assets and liabilities actually being purchased in the transaction.

Enterprise Value

Appraisers often talk about the *enterprise* or *business enterprise* value of a subject entity. The enterprise value is the price that is applicable when all assets of the entity are being acquired, but none of the interest bearing debt or other capital structure related liabilities is to be assumed. Appraisers may also call this price the value of total invested capital for the business entity. This price assumes the seller will retain the obligation to pay debts, which typically will be satisfied with the sale proceeds.

Asset Value

Another distinction appraisers make relates to the *asset value* of a business entity. Asset value is the price that is appropriate when only selected assets are acquired and/or selected liabilities are assumed. Frequently, buyers elect to not purchase cash, receivables and other working capital assets or to assume payables and other debt obligations. Asset value is typically applied in those transactions structured as an asset purchase. The appraiser determines the asset value of the entity based on the specific assets and liabilities acquired in the deal.

FMV Pitfall

We have seen occasions where appraisers' valuation reports have been misapplied in light of the specific terms of purchase transactions. For example, enterprise value might be used as the purchase price for the equity of a business, or the asset value may be based on the wrong bundle of assets and liabilities to be acquired. Such errors can be costly, particularly since the primary reason the parties engaged the appraiser was to determine FMV for healthcare regulatory compliance purposes. To avoid these types of errors, it is imperative that the parties to the transaction ensure that the value in the FMV opinion has been adjusted to match the specific transaction terms. One of the surest ways of accomplishing this is to present the term sheet or the letter of intent to the valuator for their review. The appraiser can confirm for the parties as to whether the appropriate value has been used to determine the purchase price for the transaction.