



Successfully Managing the Valuation Process in a Transaction

Presenter:

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How to Select and Engage a Valuation Firm: Two Types of Consultants Providing Valuation Services

- Certified by a professional appraisal organization (i.e. ASA, AICPA, NACVA, IBA, etc.)
 - Met experience requirements
 - Mastered the body of knowledge for an appraisal specialty as evidenced by examinations and/or peer review of work
 - Subject to professional standards and ethics codes
 - Meet continuing professional education requirements
- Valuation Consultants
 - Expertise and experience in providing valuation services
 - Often provide other forms of consulting services

How to Select and Engage a Valuation Firm:

Two Types of Valuation Services

- Compensation Valuation (“CV”)
 - No formal professional certifications
 - No established body of knowledge
 - Minimal literature
- Business Valuation (“BV”)
 - Professional certifications (i.e. ASA, ABV, CVA, AVA, etc.)
 - Well established body of knowledge
 - Texts, courses, periodicals, etc.

How to Select and Engage a Valuation Firm: Appraiser Engagement Contracts

Before you contract with an appraiser, consider:

- Professional certifications
- Education and training
- Appraisal experience
- Healthcare experience
- Professional reputation

How to Select and Engage a Valuation Firm: Appraiser Engagement Contracts (continued)

Selecting the “Right Fit” appraiser:

- Consider the appraiser’s experience in valuing the same or similar types of arrangements or transactions
- Consider the appraisal purpose and intended use (*i.e.*, litigation, transactional, compliance review)
- Consider availability and timing
- Consider the fees charged by the appraiser

How to Select and Engage a Valuation Firm: Appraiser Engagement Contracts (continued)

Appraiser Independence Issues:

- Financial independence related to the client or transaction
- Conflicts of interest
 - Appraisers as advocates for their appraisal opinion
 - Other consulting arrangements may entail client advocacy or advocacy-type work

Managing the Valuation Process

- Order the appropriate scope of work
 - Full appraisal
 - Limited appraisal
 - Calculation of value
- Match firms to scope of work:
 - “Boutique” vs. General
 - Small vs. Large

Managing the Valuation Process

Accelerating the Turnaround Time

- Involve the valuator as early in the process as possible
- Shorten the engagement letter process
- To the extent possible, focus on providing substantially “cooked” arrangements
- Facilitate the flow of data to the valuator
- Consider periodic conference calls to address issues/status
- Address the “deliverables” – consider the transmission of summary data (*e.g.*, exhibits) in advance of the full report

Managing the Valuation Process

Quality/Extend of Available Data

- Consider a conference call with the valuator specifically to discuss the rationale for each item on the data request and to discuss any alternate data or possible “work arounds” if the specific requested information is unavailable
- Identify the most appropriate client contacts to the valuator
- Encourage the provision of adequate, responsive information
- Consider arrangements “globally” to avoid “stacking” of compensation elements or inconsistencies in related transactions (*e.g.*, a physician practice acquisition followed by employment of the physician(s))

Managing the Valuation Process

How to be Transaction-Friendly while Maintaining Independence

- To the extent possible, discuss “ballpark” FMV ranges and “issue spot” early in the process
- The valuator should provide the broadest supportable range of FMV. The valuator should not be deliberately conservative. (Note that certain valuations result in a single point, while others may be given as ranges.)
- The valuation firm may be able to offer structural alternatives for consideration
- Consider “gotomeeting.com” or similar vehicle for presenting/discussing findings

Managing the Valuation Process

Dealing with Sidewalk Valuators

- Preconceived concepts of value can be difficult to overcome
- Focus on legitimate, objective valuation parameters and issues
- The valuator should consider and evaluate all relevant information provided by the client
- Consider limited scope involvement by a second valuator in a “dispute” situation
- *Consistency* in valuation approaches and conclusions is a key concern to a healthcare valuator. Departures from previously established methods and conclusions can be risky

Managing the Valuation Process

Fatal Valuation Report Errors

- Mismatch between the FMV analysis/opinion and the terms of the agreement
- The scope of the opinion does not meet expectations (e.g., whether commercial reasonableness is considered)
- The opinion equivocates (including with respect to reliance upon conclusions that are inaccurate or which the client cannot represent)
- The valuation report is not compelling or is based upon regulatory-impermissible valuation approaches
- A FMV report that cannot be defended can be devastating to a valuator and the client