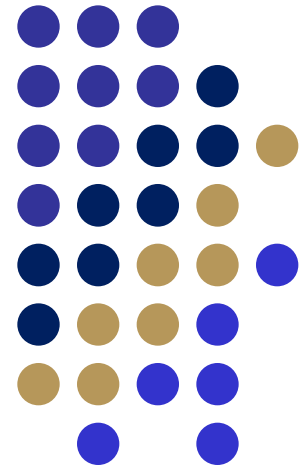
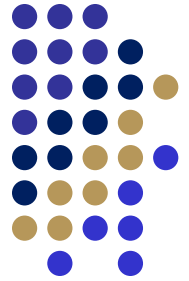


Key Valuation Topics Impacting ASCs

Presented By
Stuart A. Neiberg, CPA, CFA, Director

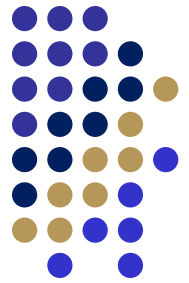


Presentation Outline



- Valuation 101: Approaches and Methods and other 411
 - What are Valuation Multiples?
- Minority vs. Majority Control
- Do's and Don'ts
- Value Enhancers and Value Detractors
- Reported Earnings Multiples
- Recent “Unique” Transaction Observations

Valuation 101



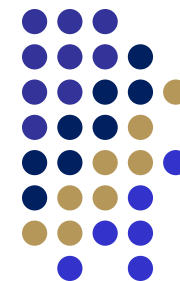
- Valuation is *forward* looking
- Why get a valuation?
- Standard of value in most healthcare transactions is *Fair Market Value*. The definition of **fair market value** in healthcare is slightly different than the standard valuation definition.
 - the price at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell ... *between well informed parties who are not otherwise in a position to generate business for the other party...*
 - *Implications of "hypothetical"*

Valuation 101



- **Income Approach** – A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated future economic benefits into a single present amount.
- Most common methods: Discounted Cash Flow Method and Capitalization of Earnings Method
- When and why?
- Example: next slide

Valuation 101

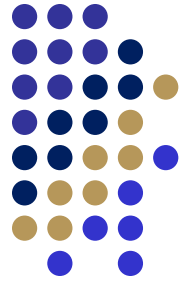


	Low Weighted Average Cost of Capital ("WACC")					Terminal Year
	2013	2014	2015	2016	2017	
Free Cash Flow	\$716,731	\$689,381	\$819,707	\$916,550	\$1,014,428	\$1,076,696
Partial Period Factor	0.25					
Discounting Periods (mid-point)	0.13	0.75	1.75	2.75	3.75	
Present Value Factor @ 14.0%	0.9838	0.9064	0.7951	0.6974	0.6118	
Present Value of Cash Flow	134,776	624,855	651,749	639,202	620,627	

Present Value of Projected Cash Flows	2,671,209	
Present Value of Terminal Value Calculation	<u>5,489,355</u>	
Indicated Market Value of Total Capital	<u>\$8,160,564</u>	
Less: Debt	(1,529,861)	Exhibit B.2
Plus: Surplus Cash	<u>601,000</u>	Exhibit C.5
Indicated Market Value of Equity (Rounded)	<u>\$7,232,000</u>	
(control, marketable)		

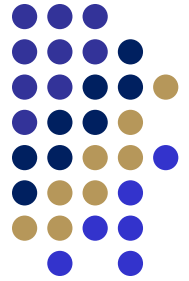
Terminal Value Calculation	
Free Cash Flow in Terminal Year	1,076,696
Divided by Capitalization Rate (WACC - LTGR of 2.00%)	<u>12.00%</u>
Equals Terminal Value in 2017	8,972,466
Present Value Factor for 2017	<u>0.6118</u>
Present Value of Terminal Value	<u>\$5,489,355</u>

Valuation 101



- **Market Approach** – A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.
- Most common methods: Guideline Publicly Traded Method and Comparative Transactions Method
- When and why?

What are Valuation Multiples?



The Meaning Behind the Numbers

The Finance Definition (a.k.a. Appraiser speak)

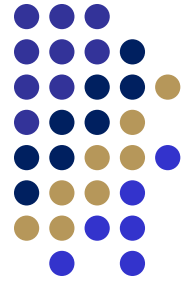
“A mathematical expression of risk and growth, which when applied to a perpetually recurring earnings stream results in an indication of value”

A multiple is mathematically expressed as follows:

$$\frac{1}{(K - g)}$$

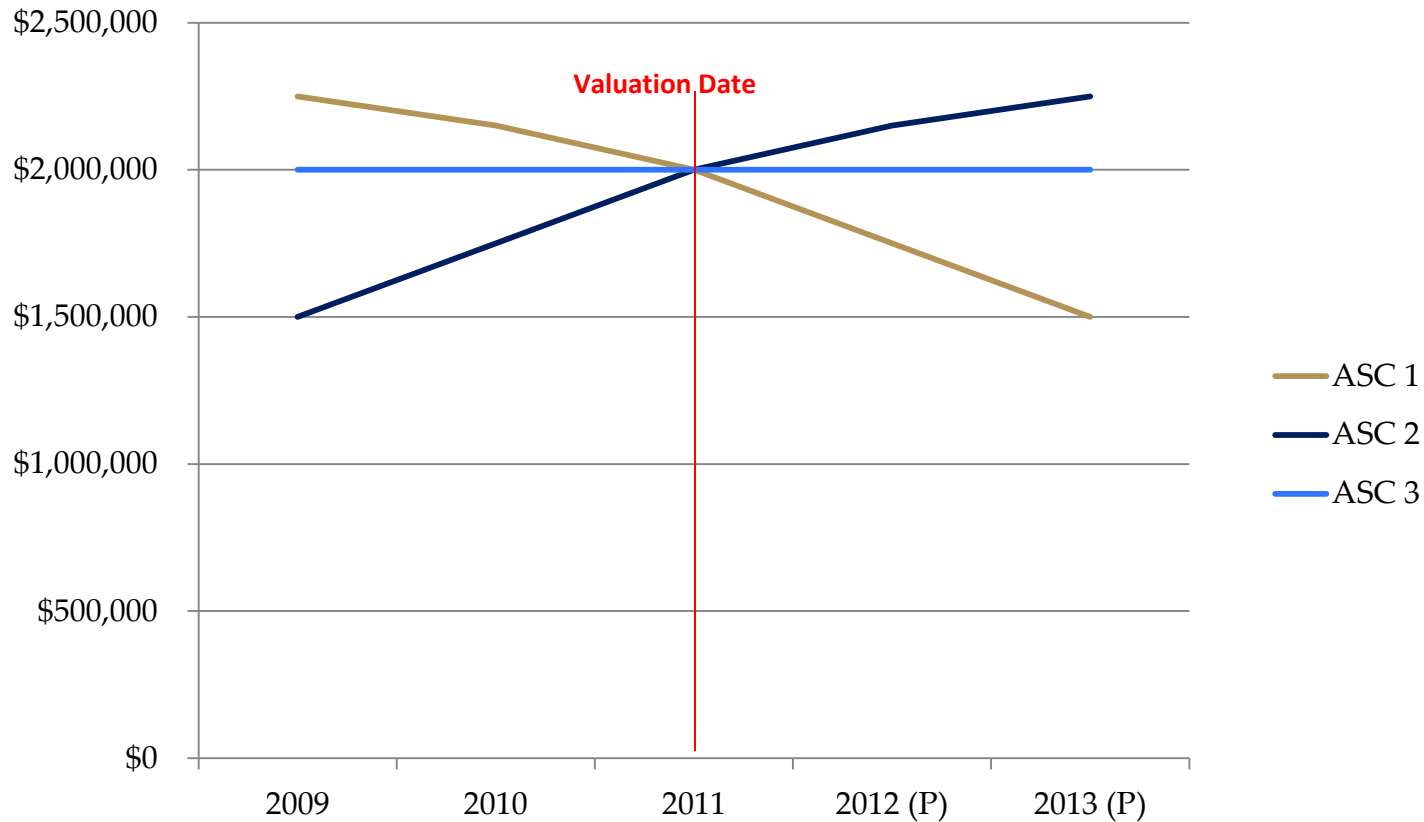
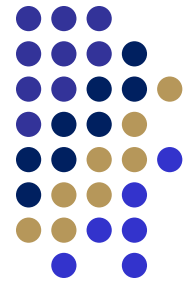
- Where, (K) represents the rate of return (risk), and
- (G) represents the growth rate of the earnings stream

What are Valuation Multiples?

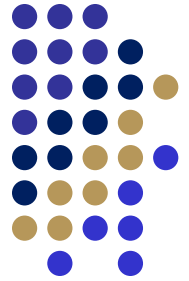


	<u>Varying Growth</u>			<u>Varying Risk</u>		
	<u>Scen 1</u>	<u>Scen 2</u>	<u>Scen 3</u>	<u>Scen 1</u>	<u>Scen 2</u>	<u>Scen 3</u>
k	17.0%	17.0%	17.0%	17.0%	19.0%	22.0%
g	2.0%	3.0%	4.0%	2.0%	2.0%	2.0%
Multiple	6.67	7.14	7.69	6.67	5.88	5.00

Three ASC's with \$2.0M EBITDA

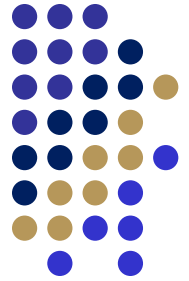


Valuation 101



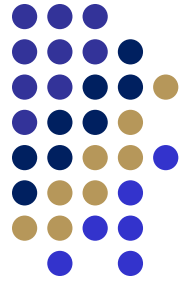
- **Asset or Cost Approach** – A general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on the value of the assets net of liabilities.
- When and why?

Minority vs. Majority Control



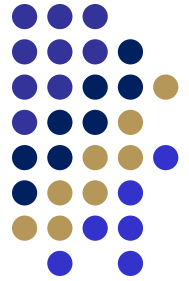
- Interests providing absolute control (e.g., greater than a 50% interest) are worth more than interests which do not have the same control rights.
- Control granted by the governing documents. Examples include:
 - Major equipment purchases and investments
 - Debt signing authority
 - Admitting new owners
 - Granting physician privileges

Do's and Don'ts



- In connection with a hospital's 100% acquisition of an ASC, can we consider overlaying hospital's fee structure onto valuation?
- If a new surgeon who has not done any (or a material amount) of cases is looking to buy in, should you include his/her cases in connection with valuing the interest?
- An ASC has done a poor job on collecting from Medicare; can we factor billing improvements into our valuation?
- An ASC experienced a one-time material adverse event in the most recently completed year. Can we ignore for purposes of valuation?
- An ASC is looking to but out one investor at \$X and sell an interest to a new investor at 75% of \$X.
- Assume a hospital want to buy an ASC for purposes of shutting it down. Impact to value?
- Others?

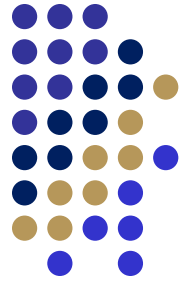
Value Enhancers/Detractors



Enhancers

- Multispecialty (diversification of case types)
- Diversification of surgeons – majority of cases not done by a single surgeon
- High % of cases performed by owners who are “motivated” to continue working
- An established history of continually seeking new owners
- History and expectation of continued distributions
- Growth in cases and earnings; reimbursement growth less certain
- Little debt over time
- Barriers to entry (*e.g.*, CON)
- Predominantly in network with Commercial payors
- Others?

Value Enhancers/Detractors



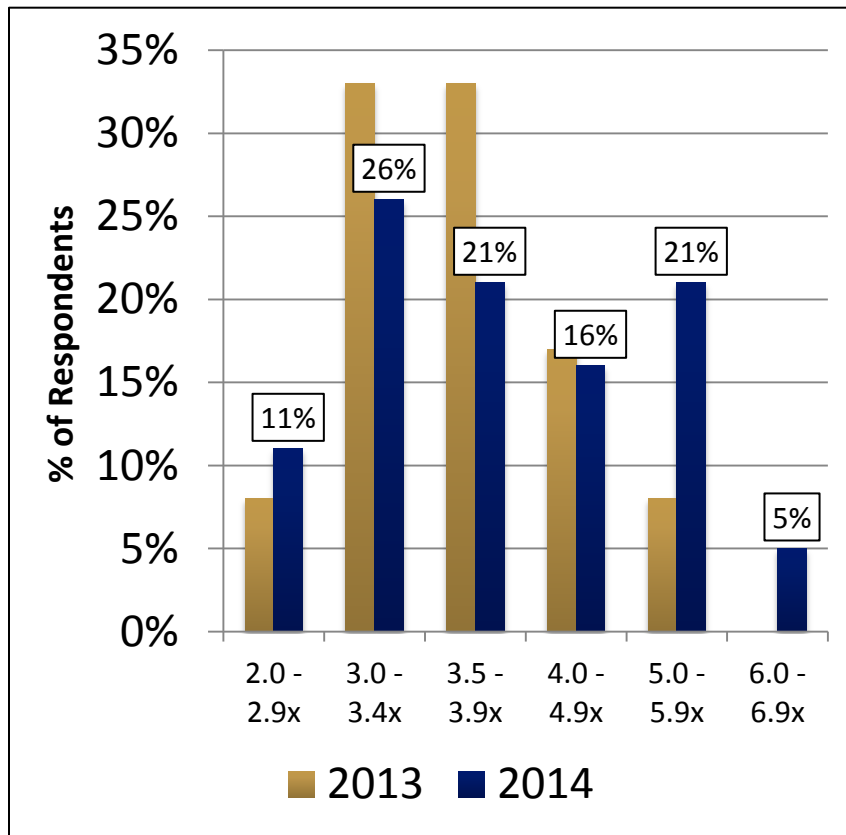
Detractors (opposite of previous slide)

- Reliance on single specialty (not always)
- Lack of diversification of surgeons – majority of cases done by a single surgeon
- High % of cases performed by non-owners
- Little vision on extending center life cycle
- Lack of distributions or lack of consistency in distributing cash flow
- No growth or loss in volume, revenue
- Excessive debt
- Heavy reliance on workers compensation
- Predominantly out-of-network with Commercial payors
- Others?

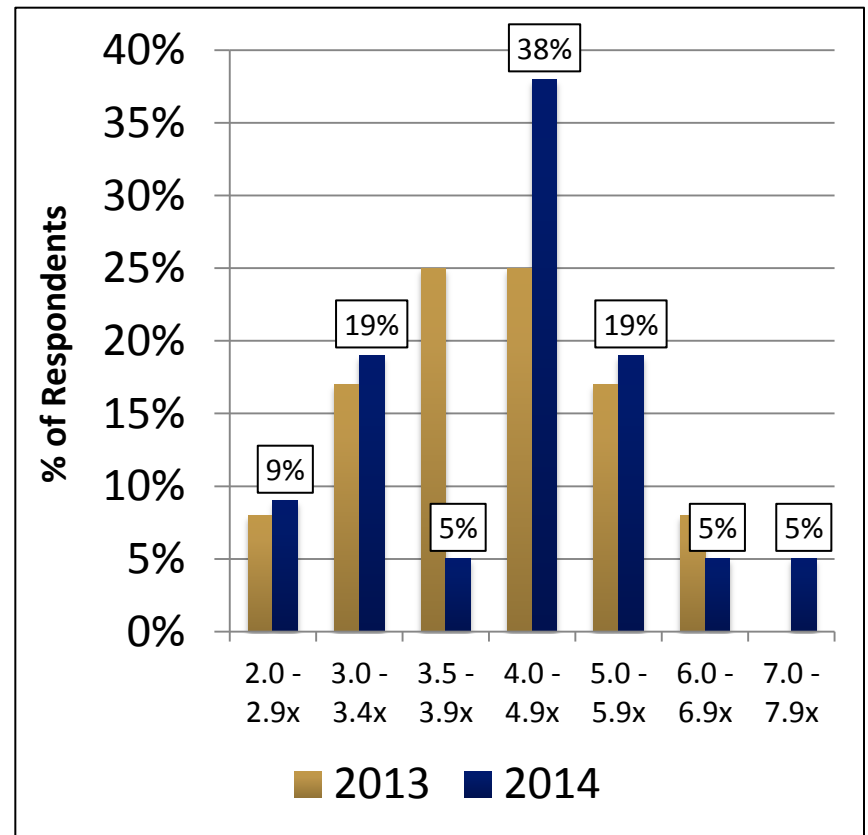
Observed Multiples for Minority Interests



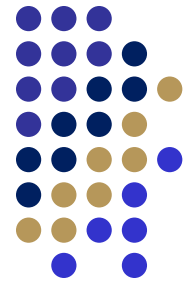
Single-Specialty Centers



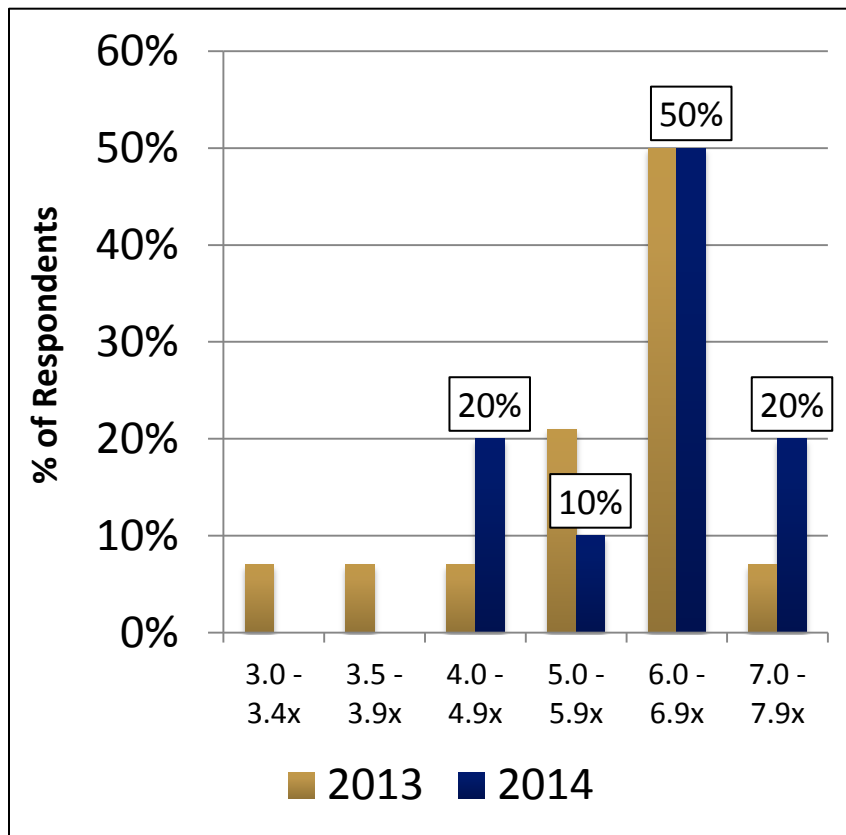
Multi-Specialty Centers



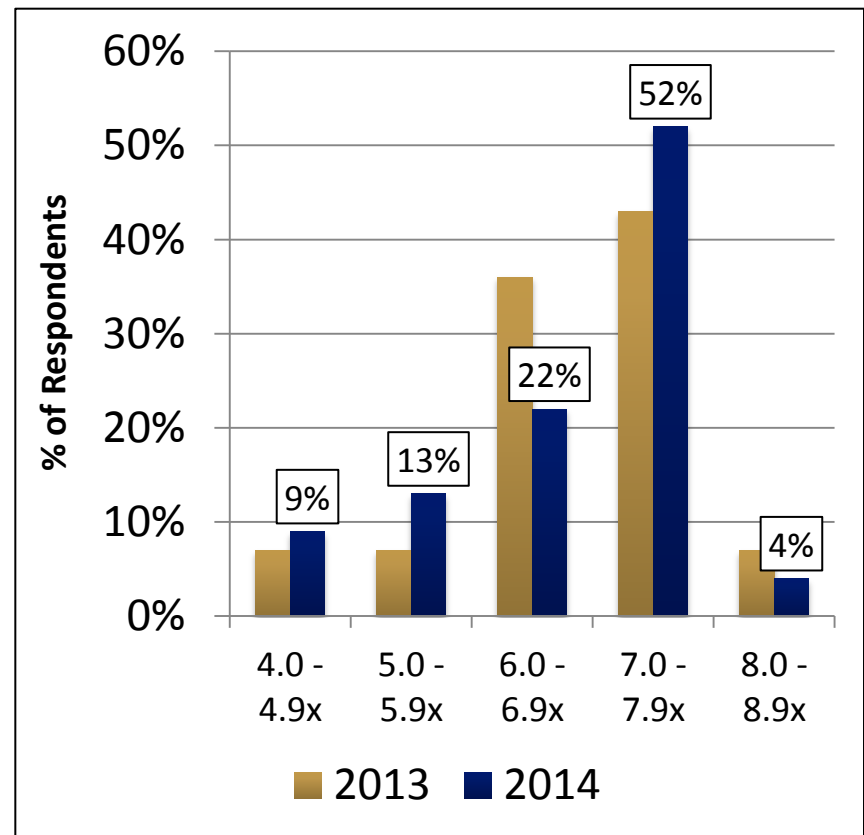
Observed Multiples for Controlling Interests



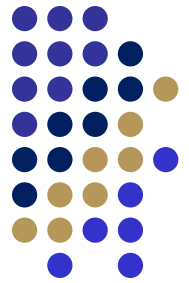
Single-Specialty Centers



Multi-Specialty Centers

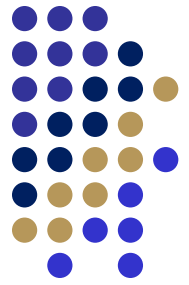


Recent “Unique” Transaction Observations

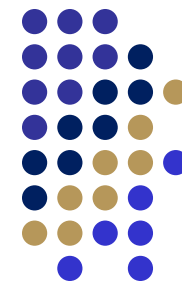


- ASCs that do not have profits, but still have value?
 - Valuing CONs
 - “Most Favored Nation” clauses in Payor Contracts
- ASCs holding significant Debt
 - How to get to determine what the equity is worth for syndication.

Recent “Unique” Transaction Observations



- HOPDs that are being converted to ASCs
 - What is the correct income stream?
- ASCs operating as In-Office Ancillaries
 - How are these compared to ASCs in a state that has CON protection?



QUESTIONS?

Key Valuation Topics Impacting ASCs

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