

1. What is healthcare valuation?

Healthcare valuation involves the valuation or appraisal of healthcare-related businesses, assets, or services.

2. How are healthcare valuations different from other valuations?

The U.S. healthcare industry is highly regulated. The price paid for a healthcare business, asset, or service may be limited by state and federal laws. Valuers and appraisers who specialize in healthcare must understand the ever-evolving features of the industry, including federal fraud and abuse laws, IRS private inurement rules, and other regulatory and legal requirements.

3. What is the basis of healthcare valuation?

Two of the most important concepts in healthcare valuation are fair market value (FMV) and commercial reasonableness (CR).

- FMV is what is known as a "standard of value". A standard of value is the definition of value used in a valuation or appraisal. FMV is the standard of value required by many healthcare laws in the U.S.
- Commercial reasonableness means that there is a legitimate business purpose for the arrangement between the two parties.

For most healthcare arrangements, both the FMV and commercial reasonableness standards must be met. The price paid for a healthcare business, asset, or service must be fair market value, and the overall arrangement must also be commercially reasonable.

4. What is FMV in healthcare?

The fair market value definition often used in healthcare valuation (see below) comes from the Physician Self-Referral Law, also known as the Stark Law.

"Fair market value" means:

(1) General. The value in an arm's-length transaction, consistent with the general market value of the subject transaction.

(2) Rental of equipment. With respect to the rental of equipment, the value in an arm's-length transaction of rental property for general commercial purposes (not taking into

account its intended use), consistent with the general market value of the subject transaction.

(3) Rental of office space. With respect to the rental of office space, the value in an arm's-length transaction of rental property for general commercial purposes (not taking into account its intended use), without adjustment to reflect the additional value the prospective lessee or lessor would attribute to the proximity or convenience to the lessor where the lessor is a potential source of patient referrals to the lessee, and consistent with the general market value of the subject transaction.

"General market value" means:

(1) Assets. With respect to the purchase of an asset, the price that an asset would bring on the date of acquisition of the asset as the result of bona fide bargaining between a well-informed buyer and a well-informed seller who are not otherwise positioned to generate business for each other.

(2) Compensation. With respect to compensation for services, the compensation that would be paid at the time the parties enter into the service arrangement as the result of bona fide bargaining between well-informed parties who are not otherwise in a position to generate business for each other.

(3) Rental of equipment or office space. With respect to the rental of equipment or the rental of office space, the price that rental property would bring at the time the parties enter into the rental arrangement as the result of bona fide bargaining between a well-informed lessor and a well-informed lessee who are not otherwise in a position to generate business for each other.

5. How does an appraiser determine FMV?

FMV opinions are developed by appraisers who use their professional judgment and expertise. Appraisers may apply any number of acceptable methods, considering the facts and circumstances of the arrangement. The appropriate data and factors to be considered will vary based on the particular engagement. Data points used for an analysis may include a wide variety of sources, such as:

Client-provided information

- National and regional survey data
- Reimbursement data
- Public equity markets
- Public transaction databases
- Press releases
- SEC filings

- Bond market research
- Lawsuits and reviews
- Attorney General reviews
- Certificate of Need filings
- Medicare cost reports
- Government studies
- Academic research

6. Why get a fair market value opinion?

Healthcare laws and regulations — such as the Stark Law, the Anti-Kickback Statute, and IRS rules for tax exempt organizations — require transactions to be commercially reasonable and consistent with FMV. Given the potentially severe consequences for noncompliance, it is advisable for an organization to secure an independent third-party opinion as one element of its overall compliance efforts.

7. Does the buyer or the seller engage the appraiser?

The buyer or the seller can engage the appraiser. The appraisal report will identify the intended users and the intended purpose of the appraisal. If both parties plan to rely on the appraisal, the appraisal report needs to include a statement that both parties are intended users.

8. What if both parties get an appraisal or fair market value opinion and the results are different?

The parties should anticipate some differences between the two appraisals. Valuation opinions are based on the professional judgment of the appraiser, drawing on factual evidence along with subjective data. Different appraisers may arrive at different conclusions, depending on experience, limiting conditions, reasoning philosophies, availability of data, the defined scope of the engagement, and other factors. Extremely divergent values, however, may indicate that the appraisers weren't given the same assignment and/or didn't have access to the same amount or quality of information and data.

9. What designations/credentials/qualifications should a healthcare appraiser have in particular?

Appraisers should have credentials from one of the top national organizations for valuation professionals, including the American Society of Appraisers (ASA) and the

National Association of Certified Valuers and Analysts (NACVA). To be credentialed by one of these organizations, an appraiser must meet training and experience requirements, pass an examination, and demonstrate competence through case studies or sample reports.

Credentialed appraisers are also required to complete continuing professional education and be recertified after a three- to five-year period. ASA's credentials include Accredited Senior Appraiser (ASA) and Accredited Member (AM). NACVA's credentials include Certified Valuation Analyst (CVA). Additionally, the appraiser should have sufficient experience performing valuations in the healthcare space and an understanding of the unique regulatory requirements impacting provider transactions.

10. What is the process for hiring a healthcare appraisal firm?

The process varies by firm. BuckheadFMV's process often starts with an initial phone call with the client and/or the client's legal representation. The next step is a conflict check. BuckheadFMV then issues a proposal outlining scope of work, data needed to complete the work, deliverables, timeline, and professional fees. If the client agrees to the proposal, BuckheadFMV will start work on the project.

11. What types of deliverables do healthcare valuation firms issue?

The deliverable for a healthcare valuation engagement is typically a written report. Appraisal reports should meet professional standards and clearly convey the evidence-based path to the valuation. They should never be misleading and should contain sufficient information for the intended users to understand the report. Reports must contain a signed statement by the appraiser.

The Uniform Standards of Professional Appraisal Practice (USPAP) are the generally recognized ethical and performance standards for the appraisal profession in the United States. USPAP contains standards for all types of appraisal services, including real estate, personal property, business, and mass appraisal. USPAP is updated every two years so that appraisers have the information they need to deliver unbiased and thoughtful opinions of value.

12. What is a fair market value "opinion letter"?

The healthcare appraisal industry typically refers to an appraisal report as a fair market value "opinion letter" when the subject of the report is a service (e.g., clinical or administrative work performed by a physician).

13. How long is a valuation report considered valid?

A valuation opinion represents the value of a business, asset, or service as of a specific identified date (the "valuation date"). The date the valuation findings are delivered to the client is the report date. The time period for which the findings remain valid following the valuation/report date will vary depending on the purpose of the engagement, the intended users of the report, and the specific facts and circumstances surrounding the arrangement. In many cases, valuations remain valid for at least one year. However, many factors can affect the validity period.

14. What types of healthcare organizations benefit from FMV appraisals?

Valuation clients can include healthcare organizations, healthcare providers, and other parties that work with healthcare organizations or providers. Some examples include:

- Hospital systems
- Physician groups
- Healthcare attorneys
- Ambulatory surgery centers
- Home health care providers
- Hospice providers
- ACOs, CINs, IPAs, and PHOs
- Ambulance and EMS companies
- Behavioral health companies
- Clinical laboratories
- Cancer centers
- Dialysis centers
- Imaging centers
- Endoscopy centers
- Physical therapy centers
- Infusion centers
- Rehabilitation hospitals
- Surgical hospitals
- Urgent care centers

15. What reasons do hospitals, physician groups, etc. seek FMV appraisals?

Professional valuations are instrumental and beneficial to decision-making in cases of:

- Physician employment
- Call coverage
- Medical directorships

- Clinical co-management
- Midlevel supervision
- Hospital-based specialty stipends
- Mergers and acquisitions
- Joint ventures
- Asset valuations
 - Machinery and equipment
 - Patient charts
 - Certificate of Need
 - Non-compete agreements
 - Trade names
- New service valuations
- Reevaluation of arrangements
- Quality incentives
- Buy-ins/buy-outs
- Management services
- Professional interpretations/reads
- Shared savings distribution
- Block leasing
- Marketing services
- Advisory board participation
- Consulting services
- Honorariums
- Speaking and teaching services
- Space, equipment, and staff leasing
- Sponsorships
- Physician recruitment incentives

16. How much does a business valuation or a fair market value opinion cost?

The cost varies widely and depends on the nature and scope of the valuation. For a relatively simple arrangement, such as a single physician's employment agreement, a professional healthcare FMV opinion may cost just a few thousand dollars.

However, analyses with a much broader scope, such as a comprehensive review of all provider compensation methodologies at a health system, can cost tens or hundreds of thousands of dollars. FMV engagement fees are based on the valuator's professional hourly rates and the time commitment required to complete the assignment based on the anticipated scope of services.

17. How long does it take to get a business valuation or an FMV opinion?

Depending on the nature and complexity of the valuation, and the availability of requested information from the client, preparing a business valuation or FMV opinion may require only a few days up to several months in some cases.