

THE MYTH OF THE MULTIPLE

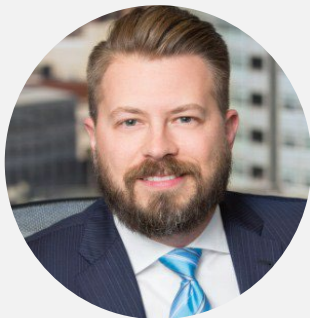
The Financial and Compliance Considerations that Drive FMV
and Purchase Price in Healthcare Transactions

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MEET THE PRESENTER

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EXPERIENCE

Jason Ruchaber is the founder and managing partner of Root Valuation, a professional services firm providing healthcare valuation and financial advisory services to clients nationally. His practice includes healthcare valuation engagements involving mergers and acquisitions, divestitures, partnership transactions, intellectual property arrangements, physician compensation, and litigation support. As a healthcare valuation expert with nearly 20 years of professional experience, he is frequently called upon as a trusted advisor to health system executives, physicians, health lawyers, compliance officers and investors. Key areas of focus include: Physician Medical Groups, Managed Care Organizations, Urgent Care, Ambulatory Surgery Centers, Vascular Access and Dialysis Centers, Certificates of Need

+ MORE ABOUT ME

Jason earned his bachelor's degree in Finance from University of Texas at Austin, he holds the Chartered Financial Analyst (CFA) designation, and is an Accredited Senior Appraiser (ASA) with the American Society of Appraisers, where he also previously served as a faculty member of the Healthcare Special Interest Group. Jason is a frequent speaker, author and instructor on healthcare valuation topics and is an active member of several professional and trade organizations.

AREAS OF EXPERTISE

- [Business Valuation](#)
- [Transaction Advisory](#)
- [Litigation & Dispute Resolution](#)
- [Expert Testimony](#)
- [Strategic Value Consulting](#)
- [Physician Alignment Consulting & Compliance](#)

DISCLAIMER

- This presentation is intended for educational purposes only and does not constitute legal, investment or valuation advice.
- This presentation represents the views of the speaker only, and should not be attributed to any current or former employer or client of speaker.



AGENDA

- The Basics – Deal Lingo
- Everybody Talks – Separating Fact from Fiction
- Brass Tacks – Fundamentals of the Market Approach
- Price vs. Value
- Compliance Considerations and other Factors in Healthcare Transactions
- Q&A





The Basics Deal Lingo



Valuation Lingo – Standard of Value

- **Fair Market Value (FMV)** - the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.
- **FMV in Healthcare** – **[NEW for 2021]** “the value in arm's-length transactions, consistent with the general market value of the subject transaction.” General market value means:
 - **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 seller that are not otherwise in a position to generate business for each other.
 - **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 that are not otherwise in a position to generate business for each other.
 - **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 lessee that are not otherwise in a position to generate business for each other.
- **Strategic Value (or Investment Value)** - the value to a particular investor based on individual investment requirements and expectations.



Valuation Lingo – Financial Terms

- **Market Multiple** - the market value of a company's stock or invested capital divided by a company economic measure (such as Revenue, Income, Cash Flow) or other company measure (such as number of Physicians, ORs, Licensed Beds, etc.)
- **Total Invested Capital (TIC)** - the sum of equity and debt in a business enterprise. Debt is typically (a) all interest-bearing debt or (b) long-term, interest-bearing debt. May also be referred to as "Enterprise Value"
- **Equity Value** - the owner's interest in property after deduction of all liabilities. Equals TIC minus debt.
- **Net Working Capital (NWC)** – Defined as current assets minus current liabilities
- **Required Rate of Return** – the minimum rate of return acceptable by investors before they will commit money to an investment at a given level of risk (expressed as an interest rate %).
- **Net Revenue** – Collections (cash basis) or Billed charges net of Contractual Allowances (accrual)
- **EBITDA** – Earnings before Interest Taxes Depreciation and Amortization
- **Net Income** – Earnings after expenses, including Interest Taxes Depreciation and Amortization
- **Free Cash Flow** – Cash generated that *can* be paid to company stakeholders



Valuation Lingo – Approaches to Value

- **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.
- **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.
- **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. [FOCUS OF PRESENTATION]



Valuation Lingo – Market Approach

For BV there are two primary variations of the Market Approach:

- **Guideline Public Company Method:** This method entails a comparison of the subject company to similar publicly traded companies. The comparison is generally based on published data regarding the public companies' stock price and earnings, sales, or revenues, which is expressed as a fraction known as a "multiple". The public companies identified for comparison purposes should be similar to the subject business in terms of industry, product, market, growth, and risk.
- **Merger & Acquisition ("M&A") Method:** This method reviews published data regarding actual transactions involving either minority or controlling interests in either publicly traded or closely held companies. In judging whether a reasonable basis for comparison exists, consideration must be given to such factors as the similarity of investment and investor characteristics, the extent to which reliable data is known about the considered transactions, and whether or not the price paid for the guideline companies was in an arms-length transaction, or a forced or distressed sale.





Everybody Talks Fact vs. Fiction

Hey, did you
hear they got
a 10x
multiple??



Information Overload

THE SECTORS WITH THE HIGHEST VALUATION MULTIPLES



HCIT (4.59x LTM revenue, 25.9x LTM EBITDA)

BUYOUTS

Cor
Org
rev

Consumer Directed
Health/Wellness (6.83x LTM
revenue, 22.2x LTM EBITDA)

Home Health/Hospice (2.70x
LTM revenue, 22.0x LTM
EBITDA)

HOME HEALTH CARE

Home Health, Hospice Still Have Highest Multiples in All of Health Care

By Robert Holly | June 23, 2021

Median US PE buyout multiples of 12x may be the new norm

HOSPITALS, HEALTH SERVICES, PAYERS

Report: Quarterly health services deal volume hits record-high

The volume of deals in the health services sector hit a quarterly record-high of 426 deals in Q1 2021, up 21% from 352 deals in the fourth quarter of 2020. Regulatory shifts, changes in care delivery and the rise of non-traditional healthcare companies are all driving the

ASC valuation multiples continue to rise & more — 12 ASC industry notes

Eric Oliver - Tuesday, November 3rd, 2020 [Print](#) | [Email](#)



Fact vs. Fiction

- Despite the large volume of information describing transactional activity in the Healthcare Sector, the vast majority of transactions are not publicly disclosed.
- Those that are disclosed are often very large in size or strategic in nature.
- Even when public disclosure is made, many of the factors salient to the purchase price are not reported:
 - Adjustments to reported financials
 - Proforma expectations
 - Carve-outs / exclusions
 - Non-financial deal terms
 - Etc.
- Valuation multiples vary significantly from deal to deal

Example of “Reported” Multiples

Market Sector	No. of Companies	Equity Mkt. Value (\$mn)	Average % Change		LTM Multiples		Earnings Ratio		PEG Ratio
			1 mo	12 mo	Rev	EBITDA	LTM	2021E	2021E
Providers									
Acute Care Hospitals	4	\$105,103	17.2%	96.2%	1.47x	8.6x	13.0x	19.9x	3.6x
Assisted/Independent Living	3	1,630	(5.8%)	155.9%	1.94x	20.2x	1.5x	17.1x	NM
Behavioral Health	4	32,037	(0.8%)	20.6%	0.45x	21.9x	37.7x	25.9x	3.0x
Dialysis Services	2	35,896	(2.9%)	6.3%	2.04x	11.1x	18.1x	13.9x	0.8x
Healthcare Staffing	2	5,371	3.2%	91.1%	1.30x	13.3x	37.5x	15.9x	2.1x
Home Health/Hospice	9	35,425	(0.2%)	20.0%	2.70x	22.0x	36.7x	30.5x	2.3x
Rehabilitation	5	16,961	(1.7%)	77.9%	5.55x	14.5x	28.6x	25.9x	0.9x
Skilled Nursing	2	5,838	0.8%	73.9%	1.68x	18.5x	19.4x	23.6x	1.6x
Providers – Other	6	27,758	(24.3%)	51.0%	5.40x	19.4x	NM	21.8x	NM
Payors/Managed Care									
Commercial Managed Care	5	\$621,044	1.1%	34.5%	2.90x	14.0x	20.6x	17.0x	1.3x
Government Managed Care	3	59,847	(2.6%)	16.2%	1.52x	12.1x	25.5x	16.8x	1.1x
Specialty Managed Care	2	10,125	1.5%	45.6%	0.56x	6.2x	13.6x	15.5x	0.9x
Consumer Directed Health/Wellness	6	\$12,017	(5.2%)	35.6%	6.83x	22.2x	17.9x	33.1x	3.4x
Telemedicine	5	\$28,414	(10.8%)	(30.9%)	6.69x	NM	NM	23.4x	NM
HCIT	28	\$112,575	(1.0%)	34.5%	4.59x	25.9x	34.3x	36.9x	2.3x
Other Outsourced Services									
Care Management/Third-Party Administrator	4	\$9,923	1.5%	30.4%	1.89x	14.4x	16.2x	18.0x	0.4x
Clinical Laboratories	10	78,650	1.8%	35.1%	2.61x	10.3x	11.2x	15.9x	(0.0x)
Contract Research Organizations	5	112,764	5.8%	59.8%	4.67x	25.7x	41.6x	29.4x	1.8x
Hospital Vendors	3	8,591	(5.0%)	13.1%	2.25x	15.0x	19.5x	21.5x	2.7x

Source: Duff and Phelps Healthcare Services Sector Update – July 2021

The Pitfall of Simplicity

One of the biggest challenges with market multiples is their veil of simplicity

- The notion that $\text{value} = \text{earnings} \times \text{multiple}$ is an easy concept
- Because of this, market participants with no understanding of finance or valuation may have preconceived notions of value or valuation multiples that may be wildly inaccurate
- Even sophisticated market participants may be lulled into believing valuation multiples in a particular sector are homogenous and/or prevailing
- Misconceptions on multiples are exacerbated by the fact that PHYSICIANS TALK

Keepin' It Real

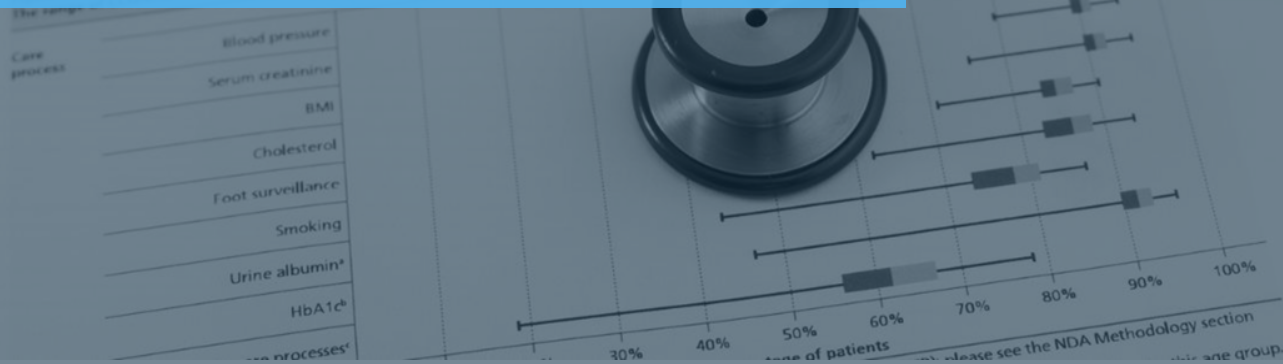
It is incumbent upon the Appraiser to educate sellers (and buyers) on the realities of market multiples

- Never Assume....
 - It is always unrealistic to assume that your deal will be valued the same as any other deal you have “heard” about, unless you have compared the facts and circumstances to your practice and have found them to be identical – including who the parties are.
- Comparability Factors to Consider (non-exhaustive list)
 - Products and Services
 - Service Area / Geography
 - Patient mix
 - Payor mix / Contracting
 - Reputation / Expertise
 - Capital Structure
 - Profitability
 - Depth of Management
 - Staffing
 - Maturity of Business
 - Competitive Environment
 - Deal terms / Carve-outs
 - Physician compensation model
 - Non-Clinical Revenue
 - Services Agreements
 - IT Infrastructure
 - Control vs. Minority
 - Restrictive Covenants
 - Growth expectations





Down to Brass Tacks Market Approach



The Myth of The Multiple

- Market multiples may be simple in concept, but very difficult in application
- The determination of purchase price (or value) is a result of significant analysis on earnings, risk, growth, and other financial, legal and operational factors
- Value is most often determined based on expected free cash flow and risk
- A valuation multiple is a calculated relationship of the observed purchase price relative to some underlying company variable
- Market Multiples are most often calculated based on reported Revenue or EBITDA
- Market Multiples rarely tell the whole story of a transaction and can be misleading
- “Value” and “Purchase Price” may be different
- In Healthcare, specific caution against use of “tainted data”

The *MATH* of the Multiple

- Another way to think about multiples is by disaggregating the financial theory
- As previously noted, value is most often determined based on expected free cash flow and risk
- Mathematically this looks like this:

$$\text{Multiple} = \frac{1}{(K - g)}$$

Where: K = the Required Rate of Return based on the risk of the earnings, and

g = the long-term growth rate of earnings

- Assuming a 17% rate of return and a 2% growth rate, the multiple is $\frac{1}{(.17 - .02)} = 6.67x$
- But now we need to ask, 6.67x what??

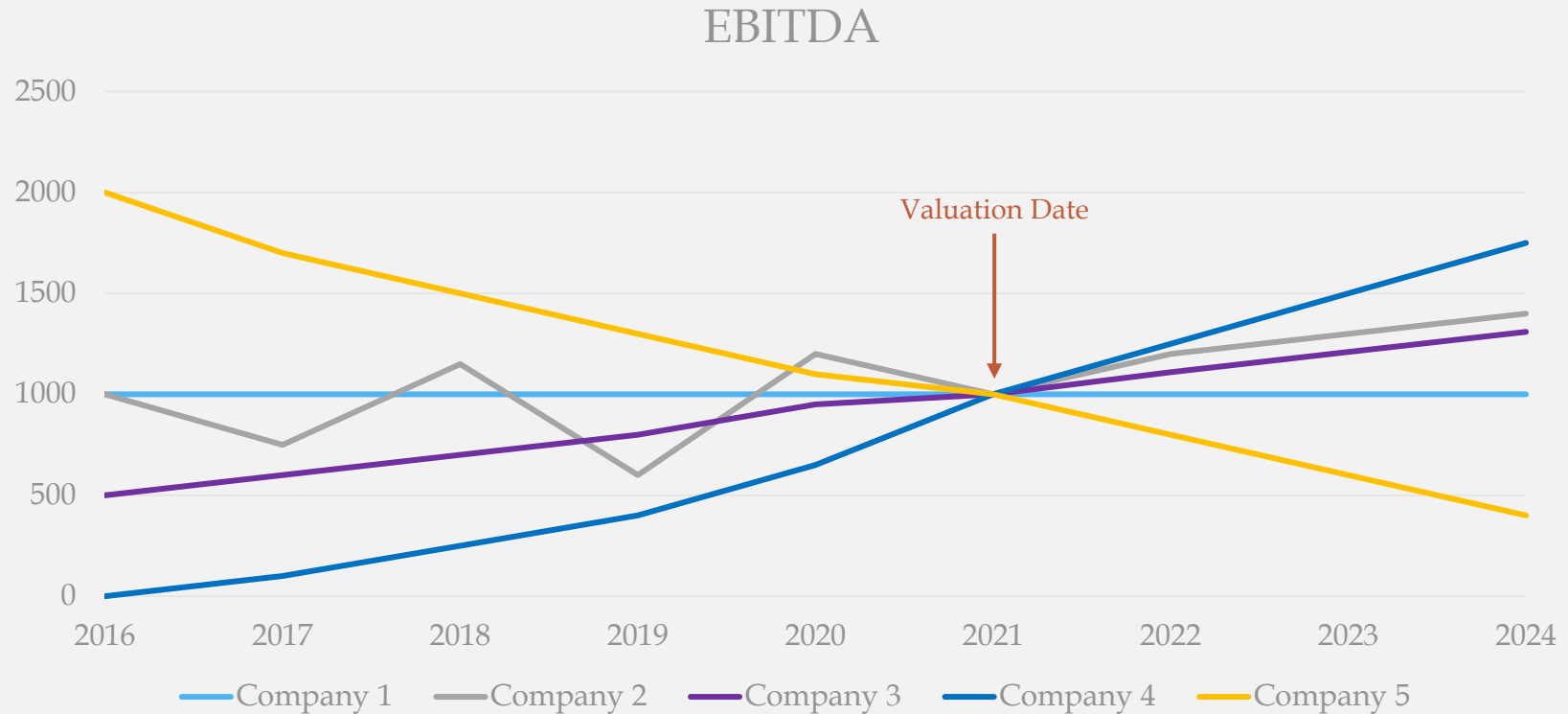


The MATH of the Multiple

- In the prior example, the math is a simplification of the DCF method, and the multiple is for free cash flow (more specifically $FCF_{t=1}$)
- Depending upon whether K represents WACC or K_e , could be levered or unlevered FCF (and result in TIC or Equity Value)
- If using a different measure of earnings, the math can be adjusted, but it can get complicated (pre-tax vs. after-tax measures, etc.)
- The main takeaway, however, is that mathematically valuation multiples are a function of three (3) primary components:
 1. The company measure being used (i.e., Earnings)
 2. The anticipated *future* growth in the selected measure of earnings
 3. The appropriate risk-adjusted rate of return matched to those earnings
- Therefore, when asking “Is your multiple as big as mine?”:
 - What company measure is being referenced? (Revenue, EBITDA, Cash Flow, other?)
 - Was the multiple applied to a historical measure or an adjusted (or future) measure?
 - How do the growth expectations for your Practice compare to the other Practices?
 - How risky is your Practice relative to the other Practices (sources of revenue, number of docs, payor mix, specialty, etc.)



EXAMPLE - 5 Companies Each with \$1.0M of Earnings



Despite identical measurement period EBITDA, each of these companies likely warrants a different valuation multiple



Theory, schmeary
Real World Deal
Considerations

Value vs. Purchase Price

- The Appraiser's role is to determine Value, which may vary significantly from Purchase Price
- This concept of Value vs. Price has significant relevance to both the derivation and application of multiples

	Reported Earnings	Normalized Earnings
Purchase Price	Derivation of Multiple (Observable)	Applied Multiple
Fair Market Value	Implied Multiple	True Multiple



Value vs. Purchase Price

Stock v. Asset Purchase

- **Stock Purchase (i.e., Equity Value)**

Assumption is that Buyer assumes assets and liabilities of the Seller - which may result in lower *purchase price* amount, but doesn't lower the overall *value* of the transaction

- **Asset Purchase (i.e., Enterprise Value)**

Buyer acquires only specific assets of the Seller

Need to identify both Tangible v. Intangible Assets

*Reported transactions may include BOTH Stock and Asset Purchases. The indicated valuation multiples are NOT directly comparable.

**Similarly, the measure of earnings applicable to Asset vs. Stock purchase should be different. Generally, EBITDA is an Enterprise (Asset) level measure, whereas Net Income is an Equity (Stock) level measure



Value vs. Purchase Price

Minority vs. Control

- Secondary adjustments such as the DLOC and DLOM are shareholder level (i.e., equity) adjustments and therefore should not be included in enterprise level multiples such as EBITDA
- For levered companies, doing so will result in significant understatement of shareholder value (overstatement of discounts)

Example:

	Control Valuation		Minority Valuation	
	Company A	Company B	Company A	Company B
EBITDA	2,500,000	2,500,000	2,500,000	2,500,000
Debt	-	7,500,000	1,000,000	7,500,000
Multiple	7.0x	7.0x	4.0x	4.0x
Enterprise Value	17,500,000	17,500,000	10,000,000	10,000,000
Equity Value	17,500,000	10,000,000	9,000,000	2,500,000
Implied Discount			49%	75%



Value vs. Purchase Price

Deal Terms and Components

- Contract Terms that apportion risk and liabilities
 - ❖ Specific liabilities to be assumed as part of the deal
 - ❖ Indemnifications
 - ❖ Limitations on liability (baskets; ceilings; etc.)
 - ❖ Representations and Warranties



Value vs. Purchase Price

- **Physician Compensation Model**
 - This is a critical consideration in physician practice transactions
 - There are wide variations in compensation model design and structure
 - Private Equity vs. Hospital transactions
 - Personal vs. Institutional value
 - Implications for observed multiples
- **Other Transaction and Compensation Components/Stacking**
 - Continuity of Providers post-acquisition
 - Employment vs. Professional Services Agreement (post-acquisition)
 - Space Rental
 - Equipment Lease
 - Management / Co-Management Agreements
 - Administrative Services Agreement(s)

Value vs. Purchase Price

- **Other Deal Considerations**
 - Carve-outs and Exclusions (Cash, A/R, NWC, Debts)
 - Earn-outs, Contingent Consideration and Profit Share Models
 - Tax Attributes and/or Liabilities
 - Certificates of Need (CON) and other intangible assets
 - Corporate Practice of Medicine - Friendly PC/MSO model
 - Personal Goodwill or Institutional Value?
- **No-Nos (Things that should not factor into price)**
 - Buyer-specific Synergies
 - Specific commercial rates or site of service differentials (i.e., HOPD)
 - Elimination of duplicative (but required) services (i.e., administration)
 - Consideration of downstream referrals, ancillaries, and other strategic benefits



Data Sources

Transactional Databases

- Levin Associates – Deal Search Online (discontinued) / LevinPro HC
- DealStats (PrattsStats)
- Bizcomps
- ValueSource
- Pitchbook
- Definitive Healthcare

Other Sources

- Compiled Survey Data
- Investment Bank/PE sector reports
- Healthcare focused publications (Becker's, Modern Healthcare, Irving Levin)

Levin Pro HC

SHORTCUTS

- Saved search (0)
- Recent search (1)

FILTER

Target Sector

- Behavioral Health Care (1,052)
- Biotechnology (2,894)
- eHealth (2,561)
- Home Health & Hospice (1,989)
- Hospitals (2,656)
- Laboratories, MRI and Dialysis (1,573)
- Managed Care (972)
- Management Services Organization (2)
- Medical Devices (3,012)
- Other Services (3,918)
- Pharmaceuticals (2,631)
- Physician Medical Groups (3,873)
- Rehabilitation (907)

Location

- United States (23,275)
- International (3,839)

Acquirer Sector

- Behavioral Health Care (554)
- Biotechnology (1,566)

DEALS

Enter a term

Terminated: No

Results: 28,240 [Export](#)

Target	Acquirer	Target Sector	Date	Price	Revenue	Location
Optim Dental and Vogue Dental	Access Dental Manage...	Physician Medical Groups	11/24/2021	\$10,000,000	NA	Springfield, IL
Jameda GmbH	DocPlanner	eHealth	11/23/2021	NA	NA	Munich, Bavaria
Sherman, Texas medical office building	Montecito Medical Real ...	Other Services	11/23/2021	NA	NA	Sherman, TX
SkinTrust Dermatology	Advanced Dermatology ...	Physician Medical Groups	11/23/2021	NA	NA	Greenville, SC
Silver Linings Hospice Care	Charter Health Care Gro...	Home Health & Hospice	11/22/2021	NA	NA	Cedar Crest, NM
Abveris	Twist Bioscience Corpor...	Laboratories, MRI and D...	11/22/2021	\$190,000,000	NA	Canton, MA
Riverside Optometry	Total Vision	Physician Medical Groups	11/22/2021	NA	NA	Riverside, CA
Health Fidelity, Inc.	Edifecs, Inc.	eHealth	11/22/2021	NA	NA	San Mateo, CA
American Health Staffing Group, Inc.	Littlejohn & Co. LLC	Other Services	11/22/2021	NA	NA	Edmond, OK
7 Florida dental practices	Marquee Dental Partners	Physician Medical Groups	11/22/2021	NA	NA	Brandon, FL; Lakeland, ...

[Feedback](#)

<https://prohc.levinassociates.com/deals/detail?id=34521>

Levin Pro HC

The screenshot displays the Levin Pro HC web application interface. The top navigation bar includes links for NEWS, DEALS, ADVISORS, HEALTH SYSTEMS, PRIVATE EQUITY, and LAW FIRMS. The left sidebar contains various filters such as Private Equity (9), Real Estate Investment Firm (0), REIT (0), SPAC (1), and Other (15). The main content area is titled 'DEALS' and shows a search bar, a target sector filter for 'Physician Medical', and a list of results. An 'Export setting' dialog box is open, allowing users to configure the export of data. The dialog box includes options for the number of rows (set to 25), a 'Select all' checkbox, and three sections of checkboxes: 'Target Related', 'Acquirer Related', and 'Deal Terms Related'. The 'Deal Terms Related' section is currently selected. At the bottom of the dialog box, there are 'Cancel', 'Reset to default', and 'Download' buttons.

Export setting

Number of exporting rows: Export description ⓘ

Select all

Target Related:

Target Description Seller Listing Location Sector Subsector Facilities Beds

Square Footage Providers Revenue Revenue Note EBITDA EBITDA Notes

Acquirer Related:

Acquirer Description Listing Sector Subsector Type Sponsor/Owner CEO Website

Location

Deal Terms Related:

Announcement Date Price Deal Terms Price/Revenue Price/EBITDA Advisor Comments

DealStats (formerly PrattStats)

Screen, Display & Export
RECENT SAVE RESET

Quick Search
Search
Display
Sort
Download
User References
User Activity

- SIC
- NAICS
- Sale Date
- Net Sales
- Target Type
- Transaction Type

Select All

Search

- 01. Agriculture, Forestry & Fishing
- 10. Mining
- 15. Construction
- 20. Manufacturing
- 40. Transportation & Public Utilities
- 50. Wholesale Trade
- 52. Retail Trade
- 60. Finance, Insurance & Real Estate
- 70. Services
- 90. Public Administration

Primary
 Secondary & Tertiary

Data
Statistics
Insights
Summary
Multiples
Equity

HIDE UNSELECTED
View 10

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GO
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1 - 10 of 93 (Page 1 / 10)

	SIC	NAICS	Target Type	Sale Date	Target Business Description	Net Sales	Transaction Type
<input checked="" type="checkbox"/>	<input style="width: 80px;" type="text" value="8011"/>	<input style="width: 80px;" type="text" value="Search"/>	All		<input style="width: 100%;" type="text" value="Search"/>		All
<input checked="" type="checkbox"/>	8011	621111	Private	05/01/2021	Medical Doctor Practice	\$306,166	Asset
<input checked="" type="checkbox"/>	8011	621111	Private	02/01/2021	Medical Doctors Office	\$356,610	Asset

BIZCOMPS

1. Search Standard Detailed

SIC Codes NAICS Codes Description

2. Review Records Details

Records Found: 120 Sort by: SIC low to high Show page: 1 of 2

SIC	NAICS	Description	Revenue (\$000)	SDE (\$000)	Asking Price (\$000)	Sale Price (\$000)	Price/Revenue	Price/SDE	Location	Sale Date
8011	621111	Medical Practice	435	243	260	240	0.55	0.99	TX	8/29/2019
8011	621111	Medical Clinic	137	105	196	133	0.97	1.27	FL	8/27/2019
8011	621111	Medical Clinic	3,026	932	2,490	2,390	0.79	2.56	FL	8/6/2019
8011	621111	Medical Practice	725	168	248	148	0.20	0.88	FL	8/1/2019
8011	621111	Medical Practice	724	168	250	140	0.19	0.83	FL	8/1/2019
8011	621111	Medical Practice	898	397	443	343	0.38	0.86	FL	7/22/2019
8011	621111	Medical Clinic	630	261	145	145	0.23	0.56	FL	6/2/2019
8011	621112	Psychotherapy Practice	814	353	400	375	0.46	1.06	FL	5/30/2019
8011	621111	Medical Clinic	1,620	894	1,557	1,157	0.71	1.29	FL	5/16/2019
8011	621111	Medical Spa	188	83	191	194	1.03	2.34	FL	3/21/2019
8011	621112	Psychotherapy Practice	1,194	252	680	330	0.28	1.31	MD	3/21/2019
8011	621111	Medical Practice	488	185	315	235	0.48	1.27	FL	2/13/2019
8011	621111	Medical Clinic	1,000	401	1,262	1,300	1.30	3.24	TX	1/31/2019
8011	621111	Medical Clinic	596	191	165	150	0.25	0.79	FL	1/13/2019
8011	621111	Medical Clinic	450	144	250	200	0.44	1.39	FL	12/31/2018
8011	621111	Medical Clinic	1,147	359	599	599	0.52	1.67	FL	12/16/2018
8011	621111	Medical Spa	1,105	470	714	460	0.42	0.98	FL	9/30/2018
8011	621111	Medical Practice	1,511	396	575	525	0.35	1.33	FL	8/30/2018
8011	621111	Medical Spa	258	80	200	180	0.70	2.25	FL	8/30/2018
8011	621111	Medical Clinic	397	166	200	200	0.50	1.20	FL	8/30/2018
8011	621111	Medical Spa	258	80	186	166	0.64	2.08	FL	8/9/2018
8011	621111	Medical Practice	897	176	500	500	0.56	2.84	FL	5/30/2018

3. Export Data Analysis

BIZCOMPS EXPORT

B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	
Admin	Subject Business										Transaction						Location							
ID	SIC	NAICS	Business Description	Revenue	SDE	Inventory	FF&E	Rent/Rever	Franchise Royalty	Employees	Asking Price	Price	Price / Revenue	Price / SDE	Down Pmt	Terms	Days on Mkt	Sale Date	Location	State	Census Region	Census Division	Other Area	
11484	8011	621111	Cosmetic Laser	643	177	15	216		No	1	450	430	0.67	2.43	84%	3 Yrs @ 5%		5/26/2017	Florida	FL	South	South Atlantic	East	
11526	8011	621111	Cosmetic Laser	130	41	0	25	2.0%	Y-5%	3	90	90	0.69	2.20	30%	6 Mos @ 6%		6/7/2013	Florida	FL	South	South Atlantic	East	
11527	8011	621493	Cosmetic Laser	161	63	3	125	22.0%	No	1	195	180	1.12	2.86	55%	1 Yr @ 7%		5/31/2013	Texas	TX	South	West South Central		
11539	8011	621493	Cosmetic Laser	484	275	0	50		No	3	349	200	0.41	0.73	100%			7/13/2010	Florida	FL	South	South Atlantic	East	
11503	8011	621111	Dermatology	4,431	1,671	167	637	2.8%	No	1	2,033	2,033	0.46	1.22	0%	10 Yrs @ 5%		8/31/2014	Florida	FL	South	South Atlantic	East	
11519	8011	621111	Flu Shots	1,718	737	2		9.5%	No	1	1,800	1,800	1.05	2.44	33%			9/6/2013	Oregon	OR	West	Pacific	Northwest	
11529	8011	621493	Laser Clinic	1,128	252	10	840	10.0%	No	4	489	489	0.43	1.94	76%			4/2/2012	Florida	FL	South	South Atlantic	East	
11509	8011	621493	Laser Clinic	201	83	8	50	8.4%	Yes	6	222	207	1.03	2.49	81%	1Yr @ 5%		6/16/2014	Florida	FL	South	South Atlantic	East	
11500	8011	621111	Medical Clinic	506	291	1	90		No	10	450	150	0.30	0.52	33%	3 Yrs @ 7%		9/30/2014	Florida	FL	South	South Atlantic	East	
11485	8011	621111	Medical Clinic	2,935	742	0		4.0%	No	14	2,100	1,300	0.44	1.75	100%			2/11/2017	Florida	FL	South	South Atlantic	East	
11492	8011	621111	Medical Clinic	506	31	1	90		No	1	450	150	0.30	4.84	17%		60	9/30/2015	Florida	FL	South	South Atlantic	East	
11531	8011	621111	Medical Clinic	490	173	25	690		No	1	515	515	1.05	2.98			120	1/25/2012	Florida	FL	South	South Atlantic	East	
11520	8011	621111	Medical Clinic	876	386	0		8.2%	No		2,300	250	0.29	0.65	40%			7/30/2013	Florida	FL	South	South Atlantic	East	
11528	8011	621111	Medical Clinic	9,000	1,750	0		14.0%	No	6	9,000	7,500	0.83	4.29				12/31/2012	Florida	TX	South	West South Central		
11537	8011	621111	Medical Clinic	1,100	710	0	214	2.3%	No	13	1,645	1,605	1.46	2.26	85%		35	11/19/2010	Florida	FL	South	South Atlantic	East	
11554	8011	621111	Medical Clinic	171	98	2	26		No	21	260	60	0.35	0.61	100%		299	1/1/2008	Virginia	VA	South	South Atlantic	East	
11556	8011	621111	Medical Clinic	606	171	15	100	6.0%	No	28	420	395	0.65	2.31	50%		273	8/14/2008	Florida	FL	South	South Atlantic	East	
11557	8011	621111	Medical Clinic	1,401	797	10	100	1.5%	No		1,790	1,790	1.28	2.25	100%		98	7/28/2008	Florida	FL	South	South Atlantic	East	
11558	8011	621111	Medical Clinic	3,723	1,550	0	1,300		No	25	2,600	1,800	0.48	1.16			214	5/20/2008	Florida	FL	South	South Atlantic	East	
11559	8011	621111	Medical Clinic	739	134	2	200	11.0%	No	1	423	448	0.61	3.34	100%			4/10/2008	Florida	FL	South	South Atlantic	East	
11561	8011	621111	Medical Clinic	555	71	5	250		No	3	310	310	0.56	4.37	90%			1/31/2008	Las Vegas, NV	NV	West	Mountain	Southwest	
13292	8011	621111	Medical Clinic	865	289	0	55		No	4	590	500	0.58	1.73	91%	1 Yr @ 6%		4/30/2018	Texas	TX	South	West South Central		
11517	8011	621111	Medical Clinics	941		2		3.1%	No	2	500	500	0.53		40%	5 Yrs @ 5%		10/31/2013	Texas	TX	South	West South Central		
13290	8011	621493	Medical Laser Clinic	1,650	405	0	200		No	1	1,150	825	0.50	2.04	100%			5/17/2017	Florida	FL	South	South Atlantic	East	
13288	8011	621111	Medical Practice	231	100	1	10	10.0%	No	2	125	75	0.32	0.75	100%		66	4/30/2015	Florida	FL	South	South Atlantic	East	
11514	8011	621111	Medical Practice	423	101	5	40		No	1	219	120	0.28	1.19	25%			3/10/2014	Texas	TX	South	West South Central		
11515	8011	621111	Medical Practice	246	113	0	2		No	6	79	40	0.16	0.35	63%	6 Mos		12/31/2013	Florida	FL	South	South Atlantic	East	
11516	8011	621111	Medical Practice	1,086	157	0	5	4.0%	No	7	500	400	0.37	2.55	100%			10/31/2013	Florida	FL	South	South Atlantic	East	
11512	8011	621111	Medical Practice	693	206	5	40	11.0%	No	1	300	275	0.40	1.33	73%			4/1/2014	Florida	FL	South	South Atlantic	East	
11501	8011	621111	Medical Practice	346	163	1	15		No	14	138	145	0.42	0.89	62%	16 Mos		9/29/2014	Texas	TX	South	West South Central		
11502	8011	621111	Medical Practice	406	196	0	15	12.0%	No	5	260	60	0.15	0.31	100%			9/2/2014	Florida	FL	South	South Atlantic	East	
11505	8011	621111	Medical Practice	717	371	0	30	4.0%	No	2	850	550	0.77	1.48	100%			8/11/2014	Florida	FL	South	South Atlantic	East	
11507	8011	621111	Medical Practice	635	440	0	10		No	10	750	350	0.55	0.80	2%	SBA		7/31/2014	Florida	FL	South	South Atlantic	East	
11494	8011	621111	Medical Practice	431	172	3	15		No	2	299	270	0.63	1.57				5/22/2015	Illinois	IL	Midwest	East North Central	East	
11483	8011	621111	Medical Practice	4,000	1,500	0			No	14	1,950	1,950	0.49	1.30	100%			6/30/2017	Florida	FL	South	South Atlantic	East	
11498	8011	621111	Medical Practice	1,302	267	1	300	5.4%	No	20	715	590	0.45	2.21	42%	5 Yrs @ 6%		11/3/2014	Florida	FL	South	South Atlantic	East	
11486	8011	621111	Medical Practice	1,429	805	0	183		No	2	650	625	0.44	0.78	100%			1/31/2017	Florida	FL	South	South Atlantic	East	
11487	8011	621111	Medical Practice	2,000	215	0	21		No	12	1,039	650	0.33	3.02	100%		116	8/31/2016	Florida	FL	South	South Atlantic	East	
11555	8011	621111	Medical Practice	281	130	3	40	9.4%	No	6	62	57	0.20	0.44	50%	2 Yrs @ 8%		12/3	10/24/2008	Florida	FL	South	South Atlantic	East
11551	8011	621111	Medical Practice	1,183	354	0	100		No	26	750	600	0.51	1.69			114	2/18/2009	Florida	FL	South	South Atlantic	East	
11552	8011	621111	Medical Practice	269	155	3	40	15.0%	No		150	150	0.56	0.97	100%			110	2/3/2009	Florida	FL	South	South Atlantic	East

ValueSource Market Comps

1. Search Standard Detailed

Use SIC Codes Description

2. Review Records Details

Records Found: 78 Sort by: Show page: 1 of 1

SIC	Business Description	Sales (\$000)	DE (\$000)	Selling Price (\$000)	Price/Sales	Price/DE	State	Sale Date
8011	Medical Practice	435		165	0.38		FL	1/31/2012
8011	Family Health Care Provider	398	-6	160	0.40		AZ	11/29/2011
8011	Doctor of Ophthalmology	502	321	490	0.98	1.53	UT	5/30/2012
8011	Oncology Practice	5,713	-4,275	4,799	0.84		NV	7/4/2012
8011	Heath	130		90	0.69		FL	6/6/2013
8011	Flu Shots	1,718		1,800	1.05		OR	9/9/2013
8011	Clinics	941		500	0.53		TX	10/30/2013
8011	Medical Practice	1,900		395	0.21		AZ	12/5/2013
8011	Chiropractic Practice	87		30	0.34		TX	2/10/2014
8011	Medical Related Business	740		275	0.37		FL	3/31/2014
8011	Chiropractic Practice	423		120	0.28			3/9/2014
8011	Laser Clinic	201		215	1.07			6/15/2014
8011	Health-Wellness	120		160	1.33			8/18/2014
8011	Medical	876		250	0.29		FL	7/22/2013
8011	Medical	160	84	45	0.28	0.54	FL	11/14/2015
8011	Medical Clinic	506	31	150	0.30	4.84	FL	9/14/2015
8011	Medical Office	166	65	48	0.29	0.74	FL	11/14/2015
8011	Package & Ship	241	60	148	0.61	2.47	FL	6/14/2015
8011	Medical Clinic	506	31	150	0.30	4.84	FL	9/14/2015
8011	Medical Practice	431	172	270	0.63	1.57	FL	5/21/2015
8011	Physician Practice	346	163	105	0.30	0.64	TX	9/28/2014
8011	Texas Medical Screening	1,469	1,167	3,300	2.25	2.83	TX	1/20/2014

3. Export Data Analysis Direct Market Data Report

Pitchbook

PitchBook All Categories Search PitchBook...

Companies & Deals Search | Pivot Table Hide search details

Search Criteria (2) Ownership Status: Privately Held (backing) Backing Status: Accelerator/incubator-backed, Angel-backed, VC-backed, PE-backed

Overview Companies Deals Investors **Pivot Table** Charts

+ Add Filters Hide Filters Show empty rows/columns

Industry
 Diagnostic Equipment, Ther... Apply filters Clear all filters

	Deal Count	Capital Invested	Capital Invested Median	Pre-money Valuation Median	% Acquired Median	Post Valuation Median
Business Status						
Product In Beta Test	28	11.42	0.15	5.30	8.50%	7.66
Pre-Clinical Trials	96	434.41	1.84	10.31	35.14%	20.40
Clinical Trials - Phase 1	42	83.09	2.00	7.50	40.66%	11.02
Clinical Trials - Phase 2	42	384.67	4.65	17.96	34.63%	25.00
Clinical Trials - Phase 3	29	188.61	1.50	17.00	15.50%	26.59
Clinical Trials - General	156	731.07	2.30	13.85	31.50%	23.42
Product Development	162	431.53	1.00	4.87	23.77%	6.00
Profitable	438	41,586.52	8.00	22.50	100.00%	72.28
Generating Revenue/Not Profitable	83	841.95	3.63	13.12	40.74%	23.33



Pitchbook Export



Search Link: <https://my.pitchbook.com/?pcc=502551-37>
 Search Criteria: Deal Date: From: 01-Jan-2016; To: 12-Aug-2017
 Option: Search on a full transaction; Deal Type: Buyout/LBO; All Buyout Types > Manage
 > Add-on; All Buyout Types > Secondary

Deal ID	Companies	Description	Announced Date	Implied EV	Revenue	EBITDA	Implied EV/Revenue	Implied EV/EBITDA	Primary Industry Sector	Primary Industry Group	Primary
73981-18T	Press Ganey Associates	Provider of strategic advisory services intended for re	03-Jun-2016	2,303.62	344.32	98.74	6.69x	23.33x	Healthcare	Healthcare Services	Practice Manag
76339-99T	Great Expressions Dental Centers	Owner and operator of dental care service centers in		675.00					Healthcare	Healthcare Services	Clinics/Outpatie
76711-42T	ProPharma Group	Provider of medical information, pharmacovigilance and		134.00	70.00		1.91x		Healthcare	Healthcare Services	Practice Manag
76674-25T	Team Health Holdings	Provider of healthcare administrative services. The co		6,083.10	4,379.34	277.08	1.39x	21.95x	Business Products and Services (B2B)	Commercial Services	BPO/Outsourc
79859-26T	Jefferson Dental Clinics	Provider of dental care services. The company provid		230.00		19.00		12.11x	Healthcare	Healthcare Services	Clinics/Outpatie
82388-62T	CityMD	Operator of clinics in the greater New York area. The	18-Apr-2017	600.00					Healthcare	Healthcare Services	Clinics/Outpatie
89119-90T	Quantum Health	Provider of consumer healthcare navigation and care i		220.00	60.60		3.63x		Business Products and Services (B2B)	Commercial Services	Other Commer
95572-45T	Delphi Behavioral Health Group	Operator of a holding company focused on investment		130.20					Financial Services	Other Financial Services	Holding Compa
89401-51T	Eating Recovery Center	Provider of specialized treatment for individuals with e	30-Aug-2017	580.00	163.80	41.80	3.54x	13.88x	Healthcare	Healthcare Services	Clinics/Outpatie
98087-59T	Bristol Hospice	Provider of hospice and palliative care services servin	17-Aug-2017	70.00					Healthcare	Healthcare Services	Clinics/Outpatie
99214-03T	Cloudmed	Provider of revenue recovery and consulting services;		250.00		30.10		8.31x	Business Products and Services (B2B)	Commercial Services	BPO/Outsourc
99028-00T	Autism Learning Partners	Provider of autism treatment and other development di	18-Sep-2017	270.00		16.00		16.88x	Healthcare	Healthcare Services	Clinics/Outpatie
103025-71T	Vein Clinics of America	Provider of specialized treatment for patients suffering		125.00					Healthcare	Healthcare Services	Clinics/Outpatie
98857-72T	MedRisk	Provider of network-based physical therapy cost-cont	18-Dec-2017	1,280.00	439.20	89.00	2.91x	14.38x	Healthcare	Healthcare Services	Other Healthca
106321-51T	Charlotte Radiology	Provider of progressive radiology services. The comp		228.40		21.20		10.77x	Healthcare	Healthcare Services	Clinics/Outpatie
101566-99T	Lone Peak Dental Group	Operator of an entrepreneurial dental service organiz	06-Jan-2017	76.56					Healthcare	Healthcare Services	Clinics/Outpatie
101006-47T	ReMed Recovery Care Centers	Provider of treatment for individuals with traumatic bra		50.40					Healthcare	Healthcare Services	Hospitals/Inpati
105570-55T	Vertava Health	Provider of addiction treatment programs and behavior		275.00					Healthcare	Healthcare Services	Clinics/Outpatie
107291-08T	Health Prime International	Provider of medical back-office billing service intend		60.00	15.50		3.87x		Healthcare	Healthcare Services	Practice Manag
104819-88T	Sound Physicians	Provider of inpatient physician services intended to im	21-Apr-2018	2,150.00	1,466.09		1.47x		Healthcare	Healthcare Services	Practice Manag





Healthcare Compliance

Regulatory and other considerations

Healthcare Regs

- **Stark Law** –Federal Physician Self-Referral Prohibition
 - Strict Liability
 - Applies to Designated Health Services (“DHS”)
 - Commercial Reasonableness Component
- **Anti-Kickback Statute (AKS)** – Federal Anti-Kickback Statute
 - Intent Based
 - Fact and Circumstances – why did parties enter into the transaction?
 - Three Repeating Refrains:
 - Volume and Value of Referrals (or other business generated)
 - Set in Advance
 - Does not exceed FMV

Healthcare Regs

- **Commercial Reasonableness**

- Requirement in several Stark Exceptions
- Definition Codified in 2020 Stark Final Rule

“Commercially reasonable means that the particular arrangement furthers a legitimate business purpose of the parties to the arrangement and is sensible, considering the characteristics of the parties, including their size, type, scope, and specialty. An arrangement may be commercially reasonable even if it does not result in profit for one or more of the parties”

- CMS Commentary: “The determination of commercial reasonableness is not one of valuation. Nor does the determination that an arrangement is commercially reasonable turn on whether the arrangement is profitable.”
- Clarifies that CR is not purely a function of economic merit
- Potential for a much wider set of circumstances and considerations to be relevant in the consideration of Commercial Reasonableness



Attorney Role in Valuations

Benefits of working with Counsel on Valuations

- Engage appraiser under Attorney Client Privilege
- Confirm permissible transactions
- Validate Assumptions / Safe Harbors
- Assist with Risk Assessment
- Reconcile deal terms to appraisal adjustments
- Review for non-productive language or discussions
- Double check against balance sheet and other known facts about the business to make sure assets and liabilities have been accounted for properly



Other Factors to Consider

The Healthcare sector is subject to constant (and often material) changes stemming from legislation, health policy, innovation, demographic shift, disease prevalence and other factors. These changes can render observed valuation multiples from historical periods obsolete.

Recent Significant Changes

- COVID-19 Pandemic
- Stark Law and AKS revisions
- 2021 Medicare Physician Fee Schedule Updates
- Biden Legislative Agenda / Infrastructure Bill



COVID-19

COVID-19 has had a significant impact on the healthcare landscape, including:

- Temporary shut down of elective surgical procedures
- Delays in preventive care / facility avoidance
- Rapid adoption and policy changes to accommodate Telehealth
- HHS stimulus funds, Medicare Advance Payments, PPP/EIDL funding
- Major shifts in population demographics / relocation



2020 Stark and AKS Final Rules

In December 2020 CMS published the Stark and AKS Final Rule, with significant revisions to the most important regulatory framework impacting valuation in the healthcare sector, including:

- Revised definition(s) for Fair Market Value
 - Separation of the value or volume language in FMV
 - Added language specific to Assets, Real Estate and Compensation
- Codified Definition of Commercial Reasonableness
- Creation of new safe harbors for Value Based Enterprises
- Revisions to the isolated transaction exception



2021 Medicare Physician Fee Schedule

- For calendar year 2021, CMS made significant changes to the Medicare Physician Fee Schedule, adopting American Medical Association changes to office-based CPT codes, among other changes
- This has had (and will continue to have) a material impact to Physician Practice reimbursement under Medicare, impact the manner in which physicians are compensated
- Impacts vary by medical specialty, with office -based specialties generally benefiting and other specialties receiving downward adjustments
- These adjustments result in historical data not being applicable in many valuation models, and may result in physician practice valuation multiples varying by medical specialty



Biden Legislative Agenda

The Infrastructure Investment and Jobs Act, one of the trillion+ dollar policy initiatives of the Biden Administration that was voted into law in November, includes significant impacts to the Healthcare Industry, including being funded in part through Medicare Policy Changes

- Restores a two percent cut to all Medicare payments to providers to help fund infrastructure spending, with cuts starting in 2022 and lasting through 2031
- Moratorium on Implementation of Rule Removing AKS Safe Harbor Protection for Prescription Drug Rebates - Delays the Medicare Part D rebate rule until 2026

Several additional healthcare related measures in the broader (unpassed) Build Back Better bill, including workforce initiatives, public health infrastructure provisions, mental health funding, and others



QUESTIONS??

