

CPA LEADERSHIP INSTITUTE
VALUATION OF HEALTHCARE ENTITIES AND ASSETS-THE IMPACT OF 2010 LEGISLATION
WEBINAR SYLLABUS

OBJECTIVES: After attending this session, participants should be able to understand:

- How the recent healthcare legislation is already driving changes in both the operational and financial aspects of healthcare enterprises;
- How healthcare legislation will impact many facets of the healthcare industry;
- The different methodology that can be employed in valuing intangible rights, interests, or characteristics that affect the valuation of an entity (e.g., provider services agreements, professional goodwill, human capital, and intellectual property); and
- *The Four Pillars* of the healthcare industry and how they impact the expected economic conditions and events surrounding valuation of healthcare entities.

OVERVIEW OF THE VALUATION OF HEALTHCARE ENTERPRISES

- **Basic Valuation Tenets**
 - All value is the expectation of future benefit; therefore, value is forward looking
 - The best indicator of future performance is usually the performance of the immediate past
 - Historical accounting and other data are useful primarily as a road map to the future
- **The Value Pyramid**
 - Key “*value drivers*” of healthcare enterprises may be viewed within the “*Value Pyramid*”
- **Buy or Build? –Value as “*Incremental Benefit*”**
 - “*Principle of Substitution*”

FOUR PILLARS OF THE HEALTHCARE INDUSTRY

- **Regulatory**
- **Reimbursement**
- **Competition**
- **Technology**

WHAT IS DRIVING HEALTHCARE REFORM?

- **Key Drivers of Change to Supply and Demand of Services**
 - Changing reimbursement environment
 - Increasing regulatory scrutiny
 - Changing competitive landscape
 - Technological and clinical advancements
- **Other Factors**
 - Increasing healthcare costs as a percentage of national GDP
 - Changing patient demographics
 - Manpower shortage of physicians and other providers
- **Emerging Models of Healthcare That Serve as a Vehicle for Healthcare Reform**
 - Patient centered medical home model
 - Retail clinic model
 - Bundled payment model
 - Accountable Care Organization (ACO) model

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- **Reimbursement**
 - Growth of physician-ownership
 - Decreases in the professional physician fee component of reimbursement and supplementary sources of income in ancillary services
 - Attack on physician ownership of technical component (TC) of revenue stream
 - Restrictions in physician investment in ASTC revenue stream enterprises
 - Sustainable growth rate
- **Regulatory**
 - Patient Protection and Affordable Care Act of 2010 [H.R.3950] (March 23, 2010)
 - Health Care and Education Reconciliation Act of 2010 [H.R. 4872] (March 30, 2010)
 - *H.R. 4872, Section 1106: Effect on existing and developing hospitals*
 - *H.R. 3950 Section 6003: Disclosure requirements for in-office ancillary services exception to the prohibition on physician self-referral for certain imaging services*
 - *Increased scrutiny of fraud and abuse compliance at the federal level*
 - *Fraud and program integrity initiatives*
- **Competition**
 - Who is buying healthcare enterprises right now?
 - Emerging trends in consolidation, integration, and partnering
 - Medical practice – hospital consolidation and integration
 - Healthcare reform leads to increased demand
- **Technology**
 - Effect of outdated techniques on value
 - Contradiction: higher quality of care can drive up healthcare costs
 - American Recovery and Reinvestment Act (signed by President Obama February 17, 2009)
 - Health Information Technology for Economic and Clinical Health Act (HITECH) of AARA
 - Computerized Physician Order Entry (CPOE)
 - Incentives from 2010 Healthcare reform legislation

VALUATION OF HEALTHCARE ENTERPRISES, ASSETS, & SERVICES

- **Basic Valuation Theory**
 - Standard of Value
 - Premise of Value
 - Classification and valuation of assets
 - *Tangible assets*
 - *Intangible assets (including goodwill)*
- **Valuation of healthcare enterprises**
 - Appropriately define and have all parties agree to the “*Standard of Value*”
 - Types of value to be determined (e.g., *Fair Market Value, fair value, market value, investment value, book value, etc.*),
 - Appropriately define and have all parties agree to the “*Premise of Value*”

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- “*Value under what further defining circumstances?*”
 - Definitions of *Standard of Value* and *Premise of Value*
 - Assumptions for *Standard of Value* and *Premise of Value*
 - Summary of a transaction in healthcare
 - Definition of *fair market value*
- **Valuation of Healthcare assets**
 - Tangible assets
 - Intangible assets
- **Valuation of Healthcare Services**
 - Compensation Arrangements
 - *Fair Market Value* (FMV)
 - *Commercial Reasonableness*
 - Federal False Claims Act (FCA)
- **Guiding Economic Concepts Related to Valuing Compensation Arrangements**
 - Opportunity Cost
 - Principle of Utility
 - Principle of Substitution
- **Economic Value Analysis**
- **Valuation Methodology for Physician Services**
 - Work RVU
 - Physician Compensation Expense Allocation
- **Generally accepted benchmarking data**

CONCLUDING REMARKS

- **In an era of healthcare reform, don’t forget to consider the valuation processes for healthcare enterprises, assets and services within the context of...**
 - The Four Pillars of the healthcare industry
 - Key drivers of healthcare reform
 - constantly changing legislative and regulatory reform efforts
- ***Love Everyone, Trust No One, and Paddle Your Own Canoe***