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HEALTHCARE INSIGHTS

THE DUE DILIGENCE IMPERATIVE: TECHNOLOGY

(Part Five of a Six-Part Series)

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The first part of this six-part series set forth an overview of the due diligence imperative for valuation professionals, in the context of the *Four Pillars of Healthcare Value*, i.e., Reimbursement, Regulatory, Technology, and Competition.¹ The second, third, and fourth installments reviewed the due diligence process related to the reimbursement, regulatory, and competitive environments, respectively. This fifth installment will review the due diligence process as it relates to technology in the healthcare industry.

Technology should be construed in its broadest sense when applied to the healthcare industry. Not only does it include the tangible tools, pharmaceuticals, and software that providers use during the provision of clinical services, but technology can also refer to the management of patient records, as well as the procedures that constitute the standardized course of care.²

Medical technology should not be limited to the sophisticated machinery used by doctors to treat patients and map different parts of the body, but should also encompass the complex systems used to collect, maintain, and analyze patient data and various other processes. The technologies represented by these processes help improve patient clinical outcomes (and help physicians treat patients more efficiently), as well as enable cost reduction without compromising the quality of care.

The information that an analyst may want to gather to gain knowledge about current technological advancements and

their effect on the healthcare industry may include, but are not limited to:

- Updates related to the Health Information Technology for Economic and Clinical Health (HITECH) Act.
- Developments in information systems and technology as it relates to the healthcare industry, including but not limited to: diagnostic and therapeutic technology, and management information technology.
- Costs of implementing various systems.
- The type of technology prevalent in the area of expertise of the subject interest.

The various sources of information that may contain this data include, but is not limited to:

- Office of the National Coordinator for Health Information Technology, U.S. Department of Health and Human Services.³
- Healthcare Information and Management Systems Society;⁴
- FutureScan: Healthcare trends and implications; an annual publication, published by the Society for Healthcare Strategy and Market Development of the American Hospital Association and the American College of Healthcare Executives, highlights key trends affecting U.S. healthcare organizations.⁵

1 *Healthcare Valuation: The Financial Appraisal of Enterprises, Assets, and Services* By Robert James Cimasi, MHA, ASA, FRICS, MCBA, AVA, CM&AA, Volume 1, Hoboken, NJ: John Wiley & Sons, Inc., 2014, p. 2.

2 *Ibid*, p. 531.

3 "About ONC" HealthIt.Gov, Newsroom, <https://www.healthit.gov/newsroom/about-onc> (Accessed 2/19/18).

4 "HiMSS" Healthcare Information and Management Systems Society, 2018, <http://www.himss.org/> (Accessed 1/4/18).

5 "FutureScan, Healthcare Trends and Implications, 2017–2022" Society for Healthcare Strategy and Market Development of the American Hospital Association and American College of Healthcare Executives, Health Administration Press, 2017, <http://trustees.aha.org/envtrends/Futurescanpercent20PPTpercent20forpercent20Trustees.pdf> (Accessed 2/19/18).

- MedTech, which is an association of over 100 pharmaceutical, biotechnology, and medical technology companies, their suppliers and service providers, and research universities, that facilitates learning, collaboration, and a sharing of knowledge.⁶

The above information presents some of the data sources by which an analyst may gather information regarding the healthcare technological environment and the laws and regulations governing it, to facilitate the analyst's assumptions and calculations necessary to develop an opinion as to the fair market value of the subject interest.

As noted above, specific research is typically collected from the subject interest being appraised, and the appropriate contact designated by the client, e.g., chief information officer (CIO), chief financial officer (CFO); or legal counsel, when pertinent. As the requested documents and information are gathered, an engagement-specific database may be useful to appropriately account for the data in a manner that adequately identifies, classifies, and stores it, so that it may be timely and efficiently retrieved for use (ICSR).

The data requested of and obtained from the subject interest may include, but is not limited to:

- Information on management information systems, including all software for accounting, coding, billing, reporting, patient records, etc., with the name of the manufacturer, product, modules, options, etc., as well as the version, release, and update numbers.
- A detailed inventory of owned and leased medical equipment and office equipment.
- The cost to build existing equipment or systems;
- A list of existing medical technology used by the subject interest.
- Capital budgets or forecasted statements prepared by the subject interest listing the allocated capital expenditure for technological advancements.

As this research is client and project specific, the documents and the information required may change depending on the facts and circumstances surrounding the engagement.

The healthcare industry has experienced paradigm shifts

over the past several years due to the growth in the number of healthcare technology companies, led by the 2007 public listing of Athenahealth, a medical software company whose shares jumped by ninety-seven percent on the first day after the initial public offering (IPO).⁷ Additionally, the healthcare industry is constantly changing with increased emphasis on advancements and utilization of new technologies.

For instance, the revenue stream of an enterprise may be dependent upon a specific technology, new sources of competition may arise from the development of new and improved technologies that render the old methods obsolete. For example, the introduction of Nexium, "The Purple Pill," which revolutionized the treatment of bleeding ulcer patients, significantly reduced both the need for surgery and the length of hospital stays,⁸ thereby diminishing patient demand for surgical services from gastroenterologists and permanently affected the cottage industry of ambulatory surgery centers that had flourished prior to the introduction of Nexium. In performing the requisite due diligence for a healthcare enterprise, an analyst should undertake research to identify any potential future advancement that may disrupt (or enhance) the revenue-generating capabilities of a subject enterprise.

The emerging technology in the clinical treatment of patients will also shape the reimbursement environment that rewards providers based on quality over quantity.⁹ For example, the growing importance of the value-based reimbursement may bring about an integrated management information technology system that includes data input by the patient, provider, and payor.¹⁰

Owing to the increase in medical technology companies, as well as technological changes and regulations introduced by the 2010 Patient Protection and Affordable Care Act (ACA), healthcare transactions are increasing in both size

6 "About—MedTech" MedTech, <https://www.medtech.org/about/> (Accessed 1/4/18).

7 "Athena IPO soars ninety-seven percent" By Lynn Cowan, The Wall Street Journal, September 21, 2007, <https://www.wsj.com/articles/SB119033555918634637> (Accessed 1/4/18).

8 *Healthcare Valuation: The Financial Appraisal of Enterprises, Assets, and Services* By Robert James Cimasi, MHA, ASA, FRICS, MCBA, AVA, CM&AA, Volume 1, Hoboken, NJ: John Wiley & Sons, Inc., 2014, pp. 496, 499.

9 *Ibid.*, p. 627.

10 *Ibid.*

and complexity, resulting in emboldened efforts at regulatory review, requiring that the analyst seek and obtain robust general and specific research data and information in conducting a complete and thorough due diligence process (that will withstand scrutiny) related to the subject property interest being appraised, whether an enterprise, asset, or service. **VE**

organization and networks involving a wide range of specialties, physician owned hospitals as well as several limited liability companies for acquiring acute care and specialty hospitals, ASCs, and other ancillary facilities. E-mail: tzigrang@healthcapital.com



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