

The Due Diligence Imperative

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National Association of Certified Valuators and Analysts

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Conclusion (Part Six of a Six-Part Series)

The first installment 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. The second through fifth installments reviewed the due diligence process related to the reimbursement, regulatory, competitive, and technological environments, respectively. This series conclusion will review the due diligence process generally as it relates to the healthcare industry. For more detailed information, see the September/October issue of *The Value Examiner*.



Resources:

[The Value Examiner](#)

[The Four Pillars of Healthcare Valuation](#)

[Healthcare Industry—Trends, Analysis, and its Impact on Valuations](#)

[Trending Matters in Business Valuation and Healthcare Valuation](#)

The first installment 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 through fifth installments reviewed the due diligence process related to the reimbursement, regulatory,

competitive, and technological environments, respectively. This series conclusion will review the due diligence process generally as it relates to the healthcare industry. For more detailed information see the September/October issue of *The Value Examiner*.

Each of the previous series installments set forth a detailed list of information and documents to be collected by the analyst specific to each of the Four Pillars. Obtaining and reviewing some general research items may be crucial before starting any project. For example, information related to current Medicare reimbursement rates (the date of which rates will be specific to the project), projected rates (for the next three to five years), and the Medicaid to Medicare fee index may be reviewed for use in reimbursement benchmarking.

Additionally, the analyst may be well-served to review the applicable provisions of current and pending healthcare legislation, such as the 2010 Patient Protection and Affordable Care Act (ACA); Medicare Access and CHIP Reauthorization Act of 2015 (MACRA); federal and state fraud and abuse laws; and, other laws, regulations, and case law as applicable to the specific facts, circumstances, and location of the engagement. Additionally, in some situations, such as when the client plans to start a new practice or business, the analyst may need to research federal and state licensure, certification, and accreditation regulations; and, state Certificate of Need (CON) laws, to determine their applicability to, and impact on, the project.

In conducting a competitive analysis related to the Subject Interest, the analyst must develop a working knowledge of the competitive environment in the Subject Interest's market service area; obtain the data required to conduct a financial benchmarking study of the competitors in the geographic area proximate to the Subject Interest; and review the financial profiles and financial statements of the competitors.

While the general research process provides the valuation analyst with an adequate grasp of the body of knowledge applicable to a particular property interest being appraised, it is the efficacy of the valuation analyst's subsequent application of generally accepted accounting approaches and methods to that data that determines the successful outcome of the engagement.

The due diligence process of a healthcare transaction is a critical exercise for the valuation analyst. There has been a paradigm shift in the healthcare industry over the past several years, most notably manifested in the various provisions of the ACA, as healthcare transactions are increasing in both size 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. This due diligence process is especially important in consideration of the Four Pillars of Healthcare Valuation, i.e., Regulatory, Reimbursement, Competition, and Technology, which are unique areas of risk that shape the market forces within the U.S. healthcare industry, in the valuation of healthcare enterprises, assets, and services.

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[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.

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