

COVID-19 Healthcare Valuation Implications

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NACVA and the CTI's

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Presenter Bio

Todd A. Zigrang, MBA, MHA, FACHE, CVA, ASA is the President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 25 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 2,000 transactions and joint ventures involving acute care hospitals and health systems; physician practices; ambulatory surgery centers; diagnostic imaging centers; accountable care organizations, managed care organizations, and other third-party payors; dialysis centers; home health agencies; long-term care facilities; and, numerous other ancillary healthcare service businesses. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.



Mr. Zigrang is the co-author of the “*Adviser’s Guide to Healthcare – 2nd Edition*” (AICPA, 2015), numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Guide to Valuing Physician Compensation and Healthcare Service Arrangements* (BVR/AHLA); *The Accountant’s Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies*; *Business Appraisal Practice*; and, *NACVA QuickRead*. Additionally, Mr. Zigrang has served as faculty before professional and trade associations such as the American Bar Association (ABA); the National Association of Certified Valuators and Analysts (NACVA); the American Society of Appraisers (ASA); Medical Group Management Association (MGMA); Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.



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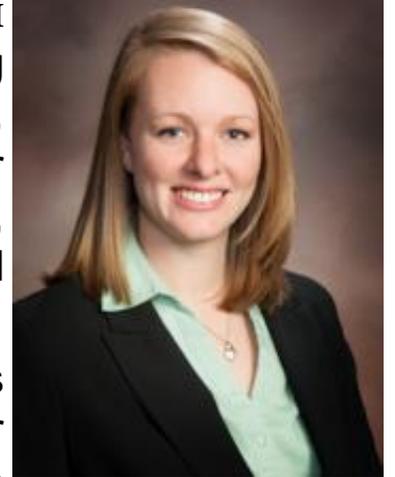
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Presenter Bio

Jessica L. Bailey-Wheaton, Esq., serves as Senior Vice President & General Counsel of **HEALTH CAPITAL CONSULTANTS (HCC)**, where she focuses on the areas of project management and consulting services related to the impact of federal and state regulations on healthcare transactions. In that role, she provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. Additionally, Ms. Bailey-Wheaton heads HCC's Certificate of Need (CON) and regulatory consulting service line.

Ms. Bailey-Wheaton is the co-author of numerous peer-reviewed and industry articles in publications such as: *The Health Lawyer* (ABA); *Physician Leadership Journal* (AAPL); *The Journal of Vascular Surgery*; *The Value Examiner* (NACVA); *QuickRead* (NACVA). She has previously presented before NACVA, the ABA, and the National Society of Certified Healthcare Business Consultants (NSCHBC).

She serves on the editorial boards of NACVA's *QuickRead* and the American Health Law Association's (AHLA's) *Journal of Health & Life Sciences Law*. Additionally, she serves as Vice Chair for Educational Programming with AHLA's Fair Market Value Affinity Group; Liaison for the Young Lawyers Division (YLD) Health Law Committee; and, Vice Chair for the ABA HLS Membership Committee. Ms. Bailey-Wheaton is a member of the Missouri and Illinois Bars and holds a Juris Doctorate (JD), with a concentration in Health Law, from Saint Louis University School of Law.



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Session Overview

- Impact of COVID-19 on Healthcare Transactions
- Impact of COVID-19 on the 4 Pillars of Healthcare Valuation
 - Regulatory
 - Reimbursement
 - Competition
 - Technology
- Impact of COVID-19 on the Valuation of Healthcare Enterprises and Assets
- Impact of COVID-19 on the Valuation of Healthcare Services



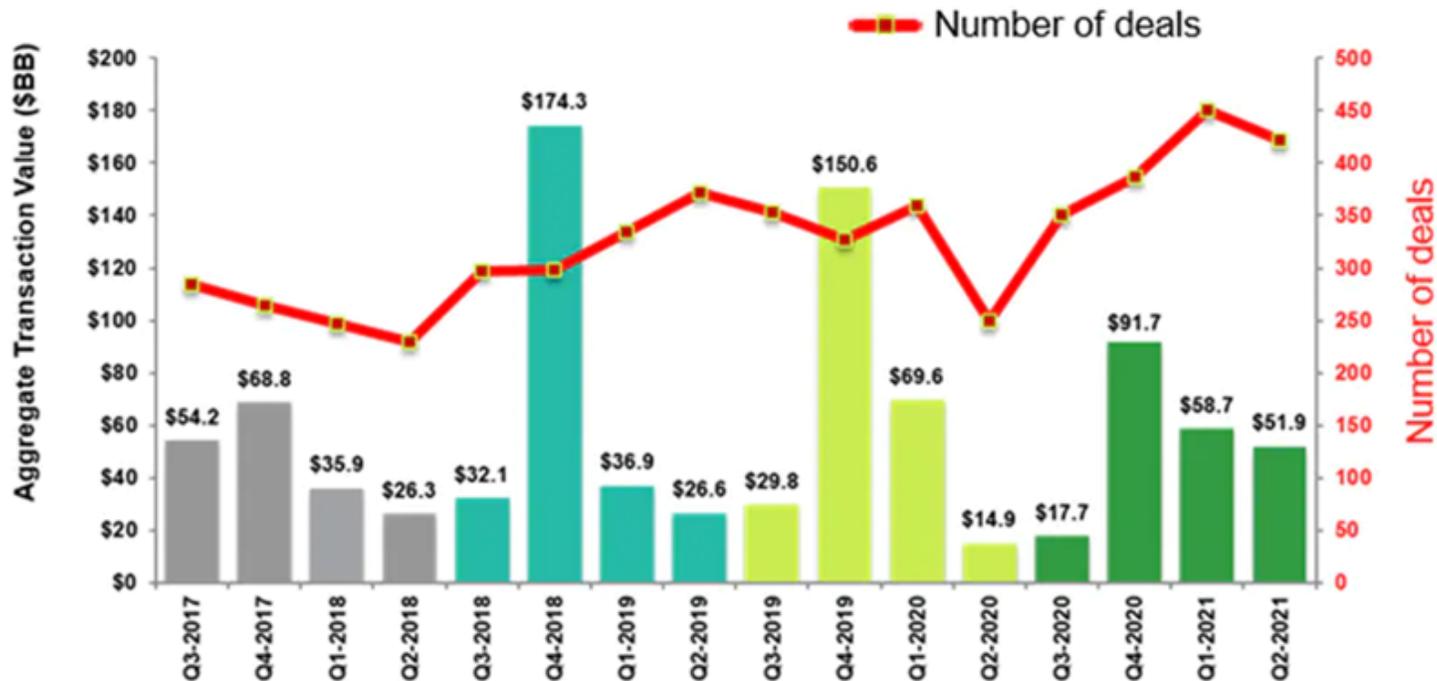
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Healthcare M&A Activity Impact of COVID-19

Quarterly U.S. Healthcare M&A Activity for Transactions Closed, Aggregate Transaction Value, and Number Of Deals



Source: "Healthcare M&A Update: H1 2021" Baker Tilly Capital, available at: https://prismic-io.s3.amazonaws.com/baker-tilly-www/bd4cad7b-0169-4dfb-8bcc-53fab233c1ff_2021_h1-healthcare-ma-update.pdf (Accessed 12/9/21).



Healthcare M&A Activity

Impact of COVID-19

- COVID-19 has a continuing impact on:
 - Horizontal Consolidation Strategies
 - Vertical Integration Strategies
 - Risk Mitigation Strategies
 - Healthcare Services Offered
 - Non-Traditional Healthcare Providers
 - Due Diligence

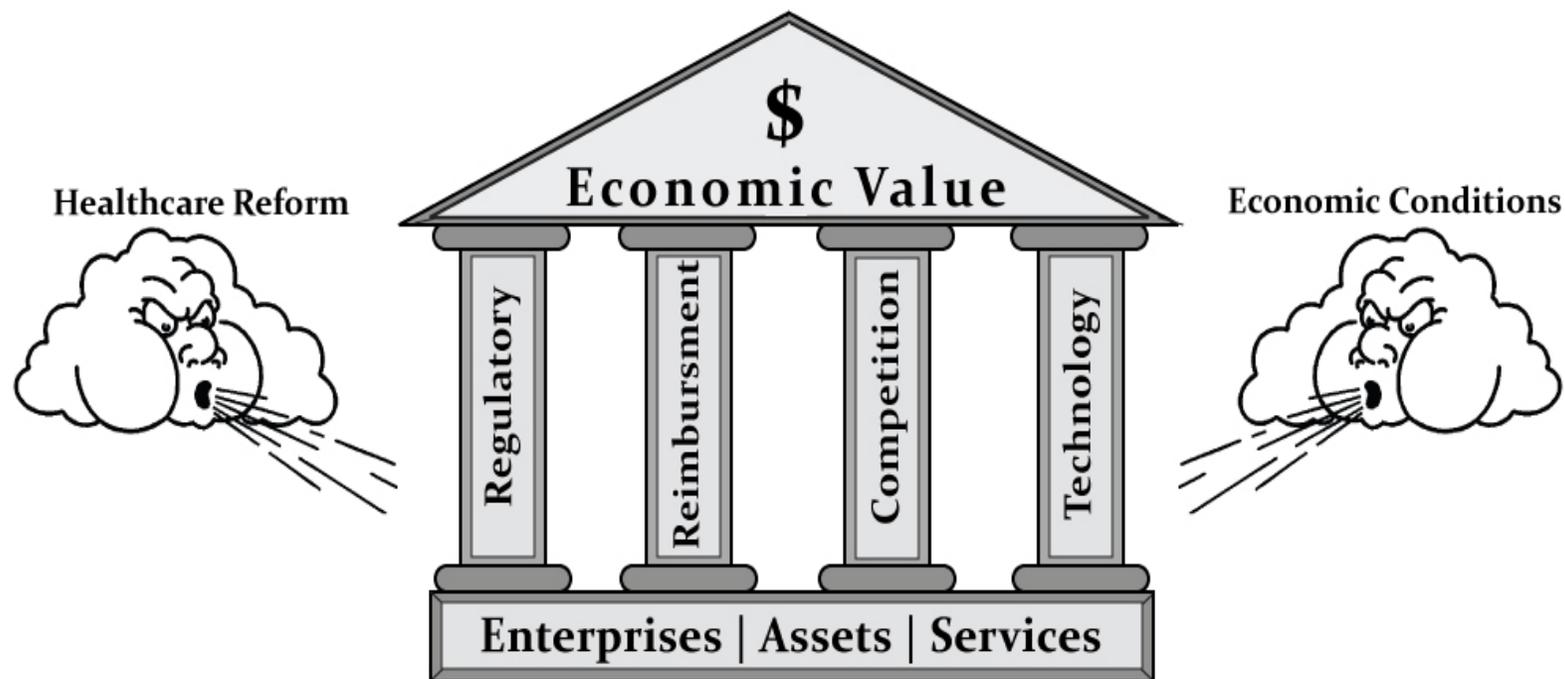


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Impact on the Valuation of Healthcare Enterprises, Assets, and Services



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COVID-19 Impact on Healthcare Valuation Regulatory Considerations

- Federal legislation affecting healthcare providers
- Regulatory Waivers & Relaxations
 - Telehealth Services During Certain Emergency Periods Act
 - Anti-Kickback Statute & Stark Law Blanket Waivers
- Compliance issues after end of waivers & relaxations



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COVID-19 Impact on Healthcare Valuation Reimbursement Considerations

- Cancelled or rescheduled elective procedures
- Potential changes in payor mix
- Simultaneous changes to the Medicare Physician Fee Schedule
- Telehealth services



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COVID-19 Impact on Healthcare Valuation Competition Considerations

- Healthcare workforce issues
- Potential acceleration in shift of healthcare delivery to outpatient settings
- Technologically-inclined providers positioned to succeed during the pandemic
- Changes in competition driving mergers and acquisitions



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COVID-19 Impact on Healthcare Valuation Technology Considerations

- Information technology solutions such as web/cloud-based EMRs have seen a significant boost in uptake
- Advancements in virtual health, drones and robotics to reduce person-to-person interaction
- Temporary expanded use of healthcare technology – will it continue?



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Valuation Approaches for Healthcare Enterprises, Assets, & Services

➤ Factors to Consider

- Valuation Date and Subsequent Events
- Financial Projections
- Valuation Purpose



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Valuation Approaches for Healthcare Enterprises, Assets, & Services

➤ Valuation Approaches

- Income Approach considerations
- Market Approach considerations
- Asset Approach considerations



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Valuation Approaches for Healthcare Enterprises, Assets, & Services

➤ Income Approach

- Cash Flow or other Economic Benefits of Ownership
- Capital Considerations



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Income Approach

- Risk Adjusted Rates of Return
- Valuation Adjustments
- COVID-19 Premium



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Consideration of Market Approach-based Valuation Methodologies

- Applicability of Historical Transaction Multiples
- Applicability of Selected Economic Benefits of Ownership (Earnings Stream)



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

- **Consideration of Asset Approach-based Valuation Methodologies**
 - Premise of Value Considerations
 - Healthcare Business Valuation Considerations



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Impact on Specific Healthcare Industry Subsectors

- Hospitals
- Physician Practices
- Ambulatory Surgery Centers (ASCs)
- Long-Term Care
- Hospice and Home Health
- Payors
- Pharmaceutical Companies
- Dialysis Centers
- Medical Device and Supply Companies
- Ancillary Service Providers



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Hospitals

- Impact of COVID-19
- Merger and Acquisition Activity
- Short-Term Outlook
- Valuation Implications



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Physician Practices

- Impact of COVID-19
- Merger and Acquisition Activity
- Short-Term Outlook
- Valuation Implications



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Ambulatory Surgical Centers (ASCs)

- Impact of COVID-19
- Merger and Acquisition Activity
- Short-Term Outlook
- Valuation Implications



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Long-Term Care

- Impact of COVID-19
- Merger and Acquisition Activity
- Short-Term Outlook
- Valuation Implications



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Hospice and Home Health

- Impact of COVID-19
- Merger and Acquisition Activity
- Short-Term Outlook
- Valuation Implications



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Payors

- Impact of COVID-19
- Merger and Acquisition Activity
- Short-Term Outlook
- Valuation Implications



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ **Pharmaceutical Companies**

- Impact of COVID-19
- Merger and Acquisition Activity
- Short-Term Outlook
- Valuation Implications



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Dialysis Centers

- Impact of COVID-19
- Merger and Acquisition Activity
- Short-Term Outlook
- Valuation Implications



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Medical Device and Supply Companies

- Impact of COVID-19
- Merger and Acquisition Activity
- Short-Term Outlook
- Valuation Implications



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Valuation of Healthcare Enterprises & Assets

Impact of COVID-19

➤ Ancillary Service Providers

- Impact of COVID-19
- Merger and Acquisition Activity
- Short-Term Outlook
- Valuation Implications



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Valuation of Healthcare Services

Impact of COVID-19

- Purpose of Engagements
- Similarity to Business Valuation
 - Fair Market Value
 - Regulatory Requirements
 - Valuation Principles
 - Valuation Methodologies
- Differences from Business Valuation



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Compensation Arrangements

Purpose of Engagements

- Types of Service Arrangements
 - Physician Compensation
 - Employment
 - Provider Services
 - Non-Clinical
 - Management Services Agreements (MSAs)
 - Co-Management Service Arrangements
 - Telemedicine Service Agreements



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Compensation Arrangements Comparison to Business Valuation

- Fair Market Value
- Regulatory Requirements
- Valuation Principles
- Valuation Methodologies



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Compensation Arrangements Valuation Methodologies

➤ Income Approach

- Applications
- Advantages
- Limitations
- Considerations Resulting from COVID-19



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Compensation Arrangements Valuation Methodologies

➤ Cost Approach

- Applications
- Advantages
- Limitations
- Considerations Resulting from COVID-19



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Compensation Arrangements Valuation Methodologies

➤ Market Approach

- Applications
- Advantages
- Limitations



Compensation Arrangements Valuation Methodologies

➤ Market Approach

- Effect of COVID-19 on Physician Compensation and Productivity from 2020 to 2021
 - Changes in Annual Compensation
 - Changes in wRVU Productivity
 - Changes in Compensation per wRVU



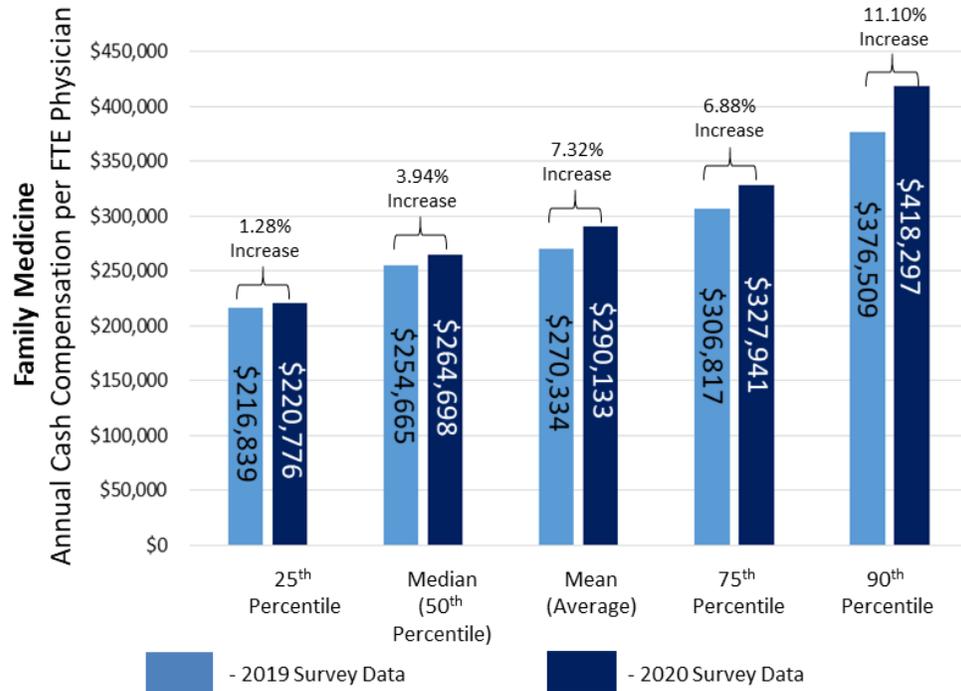
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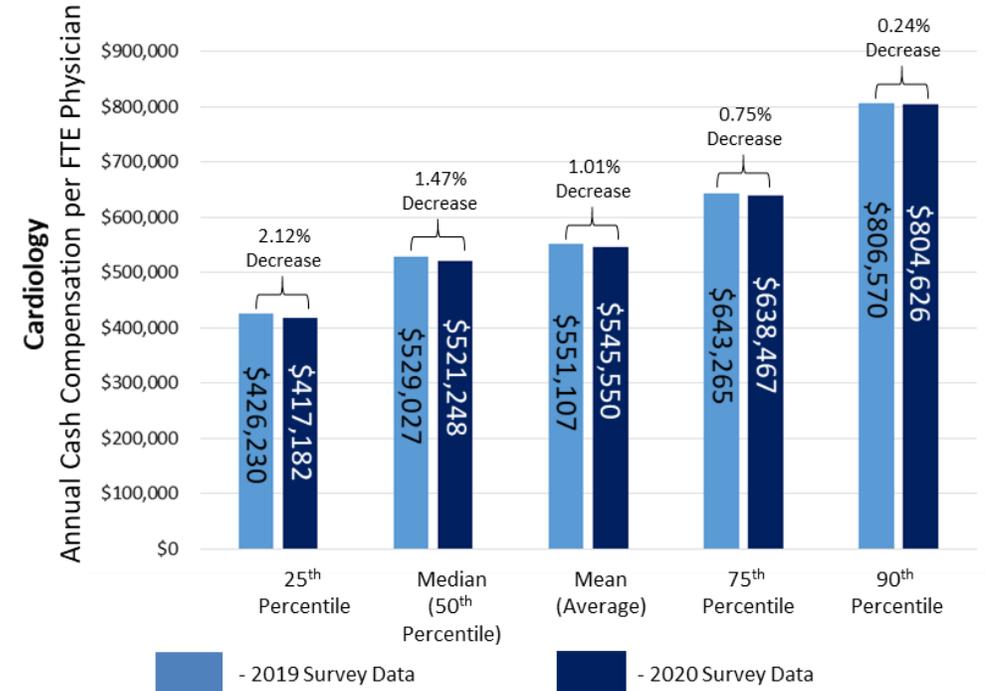
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Compensation Arrangements Valuation Methodologies

➤ Annual Cash Compensation



Note: Survey data is for Family Medicine (without OB) results from survey published by MGMA.

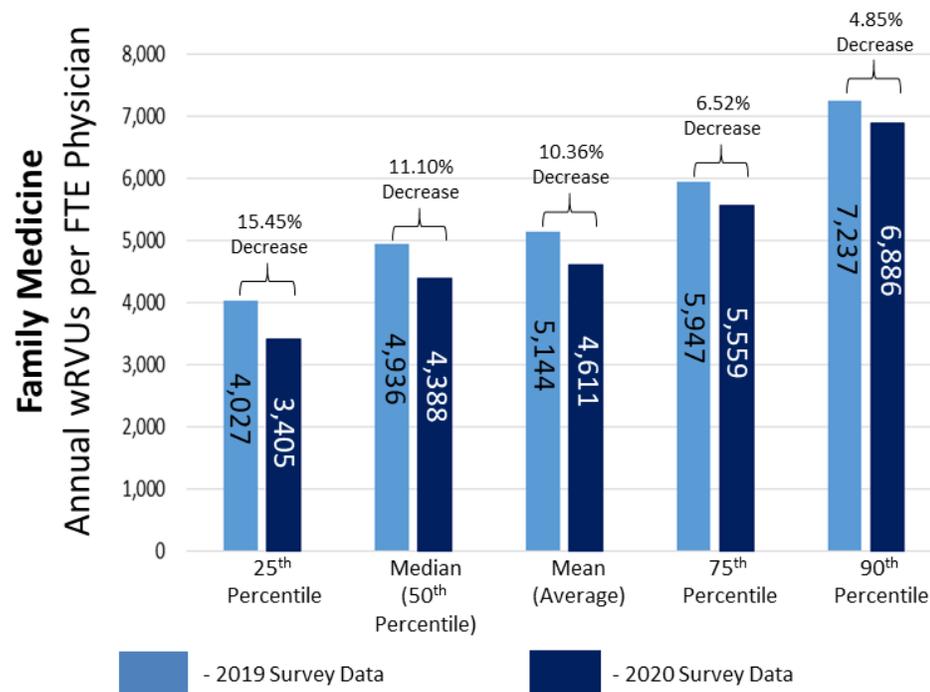


Note: Survey data is for General Cardiology (Noninvasive) results from survey published by MGMA.

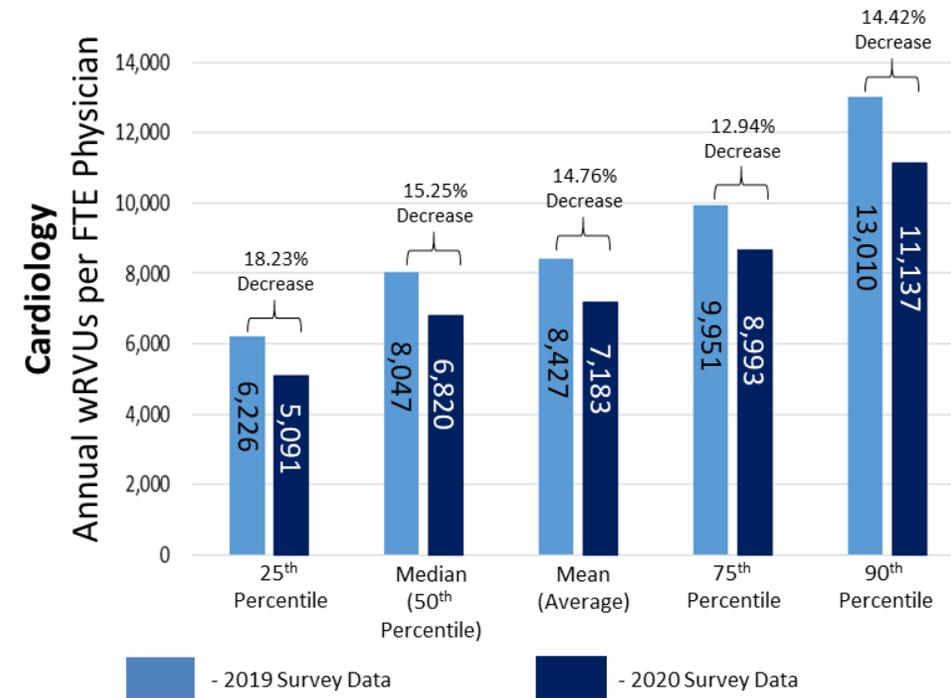


Compensation Arrangements Valuation Methodologies

➤ Annual wRVU Productivity



Note: Survey data is for Family Medicine (without OB) results from survey published by MGMA.

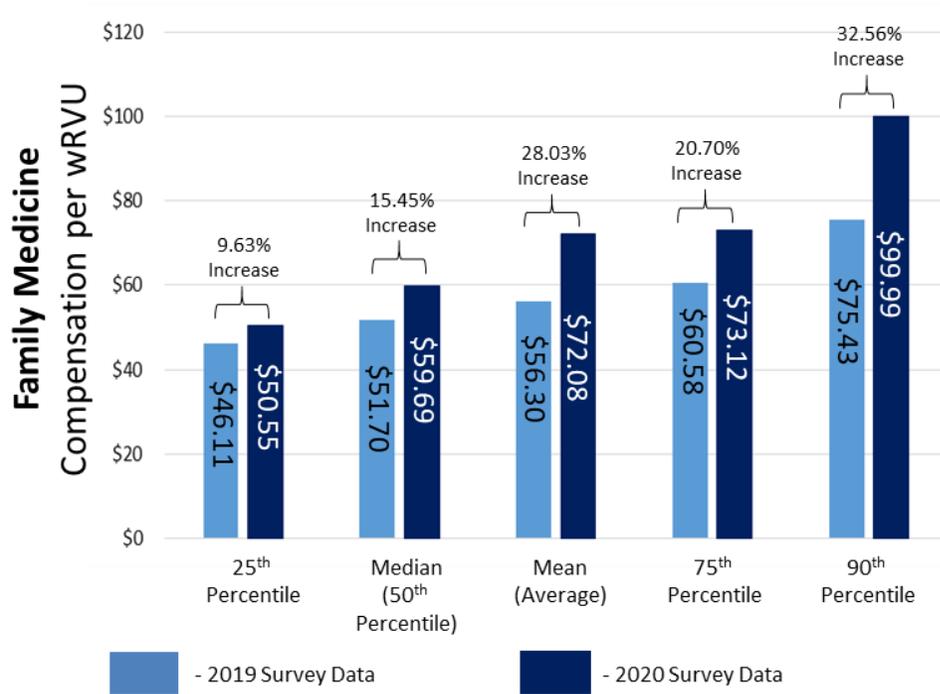


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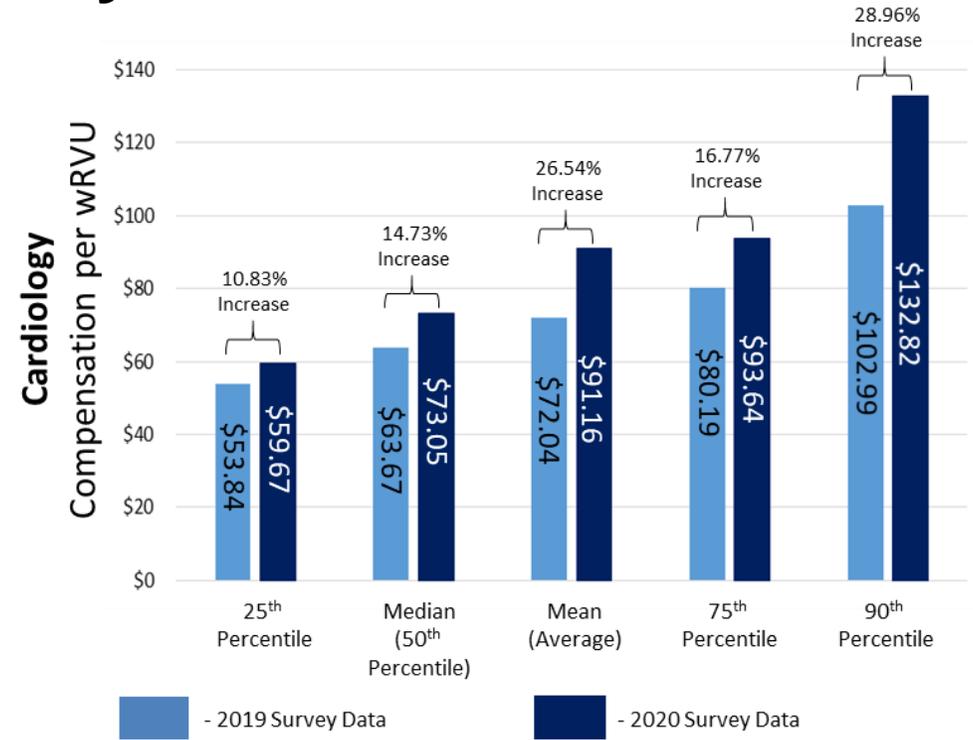


Compensation Arrangements Valuation Methodologies

➤ Compensation per wRVU Productivity



Note: Survey data is for Family Medicine (without OB) results from survey published by MGMA.



Note: Survey data is for General Cardiology (Noninvasive) results from survey published by MGMA.



Compensation Arrangements Valuation Methodologies

➤ Family Medicine and Cardiology

	2016	2017	2018	2019	2020
Family Medicine					
Median Annual Cash Compensation	\$233,770	\$236,935	\$247,253	\$254,665	\$264,698
Percentage change from prior year		1.35%	4.35%	3.00%	3.94%
Median wRVU Productivity	4,850	4,804	4,914	4,936	4,388
Percentage change from prior year		-0.95%	2.29%	0.45%	-11.10%
Median Compensation to wRVU Productivity	\$49.49	\$50.29	\$51.14	\$51.70	\$59.69
Percentage change from prior year		1.62%	1.69%	1.10%	15.45%
Cardiology					
Median Annual Cash Compensation	\$470,610	\$479,882	\$515,635	\$529,027	\$521,248
Percentage change from prior year		1.97%	7.45%	2.60%	-1.47%
Median wRVU Productivity	7,325	7,683	7,644	8,047	6,820
Percentage change from prior year		4.89%	-0.51%	5.27%	-15.25%
Median Compensation to wRVU Productivity	\$60.80	\$60.73	\$63.21	\$63.67	\$73.05
Percentage change from prior year		-0.12%	4.08%	0.73%	14.73%



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Compensation Arrangements Valuation Methodologies

➤ Other Considerations

- Changes to the Medicare Physician Fee Schedule (MPFS)

Changes in the 2021 MPFS

- Increase in wRVUs for most office visit Evaluation & Management (E&M) Codes
- Reduction in the conversion factor to \$34.89
- Addition of add-on codes (G2212 and G2211) to recognize extended office visit time and account for qualified, severe or complex chronic conditions



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Compensation Arrangements Valuation Methodologies

➤ Other Considerations

- Changes to the Medicare Physician Fee Schedule (MPFS)

Changes in the 2022 MPFS

- Reduction in the conversion factor to \$33.58, due to end of the temporary 3.75% payment increase for 2021, as a budget neutrality adjustment
- If the Government decides to waive the budget neutrality payment reduction, the conversion factor will remain unchanged at \$34.89



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Compensation Arrangements Valuation Methodologies

➤ Other Considerations

Changes to the Medicare Physician Fee Schedule (MPFS)

	Changes under 2021 MPFS from 2020		Changes under 2022 MPFS from 2021	
	Change in Work RVUs	Change in Payment	Change in Payment with Expiration of 3.75% CF Increase CF = \$33.58	Change in Payment with Expansion of 3.75% CF Increase CF = \$34.89
Family Medicine	8.00%	13.00%	-1.60%	2.10%
Cardiology	1.00%	1.00%	-4.70%	-1.20%
General Surgery	-4.00%	-6.00%	-3.80%	-0.20%
Internal Medicine	2.00%	4.00%	-2.40%	1.20%
Neurosurgery	-4.00%	-6.00%	-3.20%	0.50%
Ophthalmology	-4.00%	-6.00%	-3.30%	0.40%
Orthopedic Surgery	-3.00%	-4.00%	-2.70%	1.00%
Obstetrics/ Gynecology	4.00%	7.00%	-3.00%	0.70%
Pediatrics	4.00%	6.00%	-2.90%	0.80%
Psychiatry	4.00%	7.00%	-3.10%	0.50%
Vascular Surgery	-2.00%	-6.00%	-11.40%	-8.10%

"Medicare Physician Payment Schedule: Detailed Summary"
American Medical Association (AMA), 2020, <https://www.ama-assn.org/system/files/2020-12/2021-pfs-qpp-final-rule.pdf>;
"2022 Medicare Physician Fee Schedule (PFS) and Quality Payment Program (QPP) Proposed Rule Summary Physician Payment Schedule, AMA, 2021, <https://www.ama-assn.org/system/files/2022-pfs-qpp-proposed-rule.pdf>.



Valuation of Healthcare Services

Impact of COVID-19

➤ Other Considerations

- Emergency Departments and Intensive Care Units
- Hazard Pay
- Non-Essential Services
- Advanced Practice Clinicians
- Acceleration to Value-Based Reimbursement



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Conclusion

- Return to fundamental valuation analysis frameworks
- Evaluate the specific facts and circumstances for each valuation assignment
- Evaluate whether the impact of COVID-19 was known or knowable as of the valuation date
- Consider what the short-term and long-term impacts of COVID-19 are on the enterprise, assets, or service
- Valuations may need to be updated or modified as the impact of COVID-19 continues to evolve
- Keep clients informed of the impacts that COVID-19 may have on the valuation assignment



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Conclusion

- While the focus of healthcare providers and regulators is, appropriately, on the access to and delivery of care to those impacted by the COVID-19 outbreak, the regulatory scrutiny related to fraud and abuse issues will persist
- This current uncertainty creates a plausible scenario wherein a valuation professional may be required to deviate from industry normative benchmark data to account for those specific facts and circumstances related to a given transaction
- As a result, valuation professionals opining on these transactions should:
 - Utilize an evidence-driven methodology that includes both qualitative and quantitative assessments of the specific facts and circumstances related to the transaction
 - Document their consideration of these facts and circumstances
 - Articulate their ultimate applicability to the transaction in support of their opinion



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Questions and Answers



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