

Introduction

This guide is meant to both educate and save time for healthcare attorneys and executives who are tasked with reviewing a Fair Market Value (FMV) Opinion or any analysis related to the FMV standard within healthcare.

As a result of the changing healthcare environment, the number of transactions and new models for healthcare reimbursement are multiplying. As the economics of healthcare change, so do the valuations of transactions, compensation arrangements, real estate, and fixed assets. This challenge, coupled with increased regulatory scrutiny on cost and referral relationships, has prompted healthcare executives to need more guidance related to the FMV standard.

Many healthcare attorneys, executives, and physicians have limited financial background, but are being asked to carefully review valuations for business and compliance purposes. This guide has been developed to provide basic information on nearly every type of transaction or compensation arrangement that must adhere to the FMV standard.

ORGANIZATION OF THIS GUIDE

The Overview Section of this Guide is meant to be a reference source in order to understand the regulations surrounding FMV and provide general tips to assist in determining if an FMV report is sound and defensible. An appendix is included to provide an easily accessible FMV checklist for readers.

The Business Valuation Section provides an overview of the types of entities being valued in today's market. This overview also includes a thorough explanation of the three standard approaches to value (cost, income, market). These three approaches are addressed in most every

business valuation analysis or report. Therefore, each chapter is formatted so that these three standard approaches and the nuances associated with each type of entity is addressed. This layout allows the reader to easily reference specific valuation guidelines when reviewing a report related to any entity type.

The Compensation Arrangement Section first provides an overview of the types of arrangements in today's market. Each chapter then provides a description of the service and an overview of the type of structures for each type of compensation arrangement. Lastly, value drivers for compensation and key considerations when reviewing each type of compensation FMV analysis are outlined.

The Real Estate and Capital Asset Section provide separate chapters for each and includes an additional chapter related to timeshares. Based on the uniqueness of these valuations, these chapters stand alone. Both real estate and capital assets may be leased or purchased, therefore valuation indicators and guidance associated with each are addressed as it relates to these types of valuations specifically.

VMG Health has contributed to this guide based on more than 20 years of experience focused solely on providing healthcare valuations. The overview and valuation methodologies described are not to be construed as legal, tax, consulting, or valuation advice. The following are only guidelines. Should a valuation apply different judgment, it does not indicate the valuation is unsupported. Understanding regulatory guidance and the reasoning behind selected methods is important when assessing any opinion or analysis.