Buying and Selling in the Healthcare Industry



ARTICLE 07.10.15 DEAN DORTON

Merger and acquisition (M&A) transaction volume in the healthcare industry is off to a fast start in 2015, continuing the robust trend from 2014. Many analysts and executives believe M&A activity will continue its strong momentum and may accelerate at an even faster pace for the remainder of 2015.

Participants in the marketplace, both buyers and sellers, are assessing whether future transactions meet their organization's goals and operational strategies. Furthermore, management teams are assessing the value of the subject entity to ensure the transaction price reflects the current market and maximizes their long-term return on capital. Understanding the marketplace of the subject entity can be a daunting task and determining whether the assessed value will enable the organization to meet its objectives can be challenging. To further complicate the analysis, Stark Law requirements and other regulatory concerns must be addressed.

The approaches to valuation are often implicitly known and performed, but often not formally outlined. The three primary approaches to valuing a healthcare entity (or any closely-held business) are the asset, market, and income approaches. The asset approach looks to the subject entity's tangible equity on the balance sheet, but often ignores the intangible assets (e.g. customer relationships, assembled workforce, and goodwill). The market approach uses known transactions in the marketplace for entities that are comparable to the subject entity to arrive at valuation multiples (often reflected as multiples of revenue or earnings) which are applied to the subject entity's financial metrics. The income approach derives value by converting the subject entity's forecasted future cash flows to present value using a discount rate adjusted for the risks of the forecast, industry, and inherent characteristics of the subject entity.

Dean Dorton's valuation expertise and experience, combined with its healthcare industry knowledge, has contributed to the success of many M&A transactions. From guidance in strategy to valuation, Dean Dorton can assist with the challenges involved with M&A transactions.

For more information, contact Adam Shewmaker at 502.566.1054 or ashewmaker@deandorton.com or David Angelucci at 859.425.7695 or dangelucci@deandorton.com.

View Adam Shewmaker's Bio