CASE STUDY: RSM IMPARTS VALUATION INSIGHT TO BENEFIT ACQUISITION

Overview

An independent, nonprofit health care system and a children’s hospital provides care through more than 12,000 inpatient visits and more than 200,000 emergency room and other outpatient visits each year.

Background

RSM was contacted by the hospital’s outside counsel, who had an existing relationship with RSM, to provide consultation and valuation analyses related to their potential acquisition of a local pediatrics practice. The pediatrics practice had several locations with approximately 20 physicians, some of whom had privileges at the children’s hospital. The client wanted to extend its reach of outpatient services. Like every other hospital in the nation, our client faced uncertainty over the future of health care regulation, delivery and reimbursement. The client’s focus was to secure patient volume in order to provide stability.

The client considered multiple ways to structure the deal, including employing the pediatricians or contracting with them and leasing the assets. Consequently, they needed a valuation team with the skill and experience to handle the complicated and diverse project elements. Enter RSM’s valuations team.

Project

RSM professionals performed preliminary valuations of the target pediatrics practice under a myriad of deal assumptions. In addition, they facilitated discussions between an executive committee from the client and a committee of owner physicians from the pediatrics practice.
RSM added substantial value by educating the pediatric physicians group on critical elements impacting the entire deal structure. The primary area of education was regarding physician compensation. Initially, the physician owners didn't fully appreciate that they were being paid two ways: 1) as a physician, and 2) as a business owner. The physicians, nonetheless, still expected to receive similar remunerations as they had in the past. However, the physicians were not distinguishing between their two forms of benefits—compensation and owner dividends. RSM successfully illustrated the difference between these types of earnings which ensured that:

- The client would not overpay the physicians either in terms of compensation or for their business.
- The deal would not fall apart because of this misunderstanding.
- Parties on both sides recognized RSM's knowledge and understanding of economic principles and theory, which added credence to their analyses.

Outcomes

After prolonged discussions, the client acquired the target pediatrics practice. The client was so pleased with RSM's advisory role and services that the team was asked to assist with a subsequent practice acquisition in a very similar capacity.