

Team bridges gap with outside consultant and delivers valuation analyses to seal the deal

CASE STUDY: COMMUNITY MEDICAL CENTER

One-stop value for community medical center

Overview

Characterized as the largest small health care campus serving southeast Minnesota, this community medical center offers multiple facilities, including a hospital (57 beds), primary care clinic, and assisted living and long-term care facilities (86 combined units).

Background

A large health system owned 25 percent of the community medical center, our client, and wished to purchase the remainder of the organization. In addition, our client was interested in using the sale to secure funding for future capital improvements to the facilities. The community medical center is a not-for-profit organization, and its board was primarily concerned about serving the local community. If selling to the health system was the best way to provide continual optimal care for the community, then the board was a willing seller.

Project

RSM was engaged to perform valuation analyses to help the community medical center in its negotiations with the large, multibillion dollar health system. In addition to valuation services, the medical center wanted RSM to perform a debt capacity study. This analysis would give the medical center an idea of how much debt it could realistically raise in the capital markets, allowing the center to determine whether it should sell to the health system, or if it could survive with an influx of new capital. RSM's ability to educate the board and explain complex transaction economics and concepts in a straightforward manner was paramount to the success of the engagement.

RSM's team estimated the fair market value of the medical center's three distinct operations — hospital, clinics and long-term care and assisted living. Our client had a separate buyer for the long-term care facility.

The RSM valuation team, coordinating with the investment bank, performed the debt capacity study. While not initially part of the engagement scope, RSM ended up working very closely with the medical center's outside consultant that they had been using for years for capital and financial planning. RSM quickly realized that the outside consultant had prepared projections that were inconsistent with the medical center's expectations of future growth. The RSM team bridged the gap between the outside consultant's, the medical center's and the large health system's expectations, arriving at a reasonable and useful valuation. The RSM team also attended several board meetings and assisted the medical center's board throughout the pre-negotiation planning process.

Outcomes

- The medical center agreed to work with RSM because the firm's health care valuation team demonstrated commitment and a high level of service by physically meeting with their leadership.
- RSM exceeded expectations by working with the outside consultant and by educating the client's board and executive team throughout the planning and negotiation process.
- The net benefit to the client was delivery of a credible valuation analysis, that they could bring to the negotiation table, as well as a solid understanding of what the analyses meant and how to effectively leverage them during the negotiation process.

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