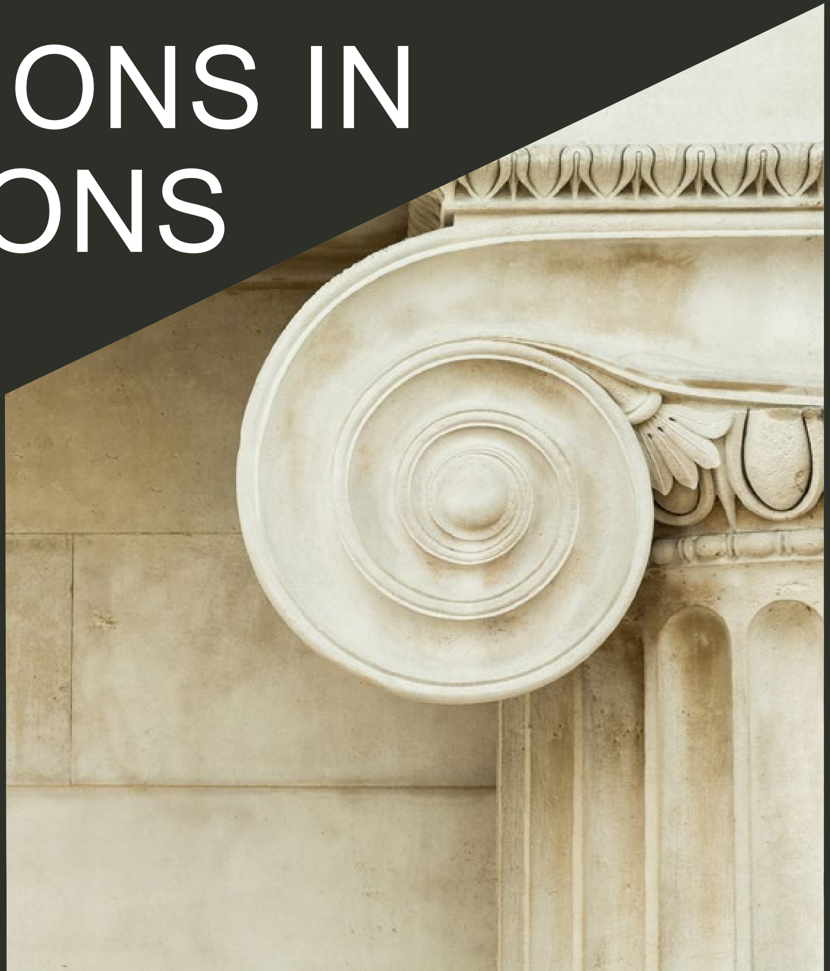
VALUATION CONSIDERATIONS IN TELEHEALTH TRANSACTIONS



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AGENDA

- Services being used for telehealth and virtual care
- Valuation needs and market trends
- Compensation arrangements
- Innovative Collaborations

TELEHEALTH AND VIRTUAL CARE SERVICE OFFERINGS

EXAMPLES OF PROVIDERS UTILIZING TELEHEALTH

TELEHEALTH CARE DELIVERY MODELS

Clinician to Clinician

- Second opinion programs
- eICU; eED
- Virtual conferencing

Provider to Patient

- Remote patient monitoring and chronic care management
- Virtual specialty care / primary care models

Consumer-Driven

- Direct to consumer telehealth platforms
- Mobile apps

EMERGING VIRTUAL CARE MODELS CREATES ENHANCED NEED FOR THOUGHTFUL VALUATIONS

- Virtual + In-Person Hybrid = Healthcare of the Future
- Accessibility + Ease of Use > In-Person, Manual Solutions
- Emerging virtual care models driven by four trends
  - reduced burden of care delivery
  - coverage and payment parity for telehealth and RPM
  - enhanced focus on data sharing and privacy
  - expansion of digital care into new healthcare sectors
- Growing use of chatbots for intake, care initiation, triage and follow-up
- Various emerging and new regulatory risks that require evaluation and planning

EMERGING VIRTUAL CARE MODELS – NOTABLE DEALS AND COLLABORATIONS

- **Teladoc and Livongo's $18.5B merger**, which combined telehealth and remote patient monitoring into one cohesive platform
- **Transcarent and BridgeHealth merger**, designed to align individuals and self-insured employers with emphasis on 24/7 access with quality and price information availability (Livongo founder is now CEO)
- **Optum/Change Healthcare $13B combination** (pending), reference to accelerated use of AI for revenue cycle management and other financial systems improvements
- **Doctor on Demand/Grand Rounds combination**, remote primary care service combined with second opinion service
- **Microsoft and Nuance Communications' collaboration** to bring clinical intelligence into exam rooms so providers can focus more on patient care
- **Lyft's launch of a healthcare division** to facilitate access to care

RELEVANT LEGAL AND REGULATORY CONSIDERATIONS FOR VALUATIONS

- Corporate Structuring -- Corporate Practice of Licensed Professions ("CPOLP")
  - Includes medicine, dentistry, optometry, psychology, physical, occupational, and speech therapy
  - Necessitates the use of an affiliated practice model
- Licensure (including non-physician professionals)
  - Supervision of mid-level
- Fraud and Abuse
  - Arrangements with referral sources
  - Marketing and advertisements
- Reimbursement Matters

VALUATION

Market Trends, Compensation & Collaborations

STANDARD OF VALUE & DEFINITIONS

- The term fair market value is defined in the Stark III Final Regulations (42 CFR § 411.351) as:

  "The value in an arm's-length transaction, consistent with the general market value of the subject transaction. "General market value" means the price that an asset would bring on the date of acquisition of the asset as the result of bona fide bargaining between a well-informed buyer and seller that are not otherwise in a position to generate business for each other."

- Commercial Reasonableness means:

  "The particular arrangement furthers a legitimate business purpose of the parties to the arrangement and is sensible, considering the characteristics of the parties, including their size, type, scope, and specialty. An arrangement may be commercially reasonable even if it does not result in profit for one or more of the parties."

NEW REGULATORY STANDARDS – 1/19/21

Key Takeaways

- No change to valuation approach under revised definitions.
- Survey data percentiles do not set the boundaries of FMV. Facts and circumstances of specific arrangement should be considered.
- Projected losses should be addressed. Arrangement doesn't need to generate profit but not irrelevant for compliance purposes.
- Value based models can not include referrals as part of the formula.

VALUATION METHODOLOGIES

- Income Approach: Value is derived by discounting future cash flows to present value at an appropriate rate of return.
- Market Approach: Value is derived by analysis of comparable transactions or contractual relationships.
- Cost Approach: Value is derived by estimating the costs that would be incurred in replicating a comparable asset or service with the same level of utility.

TELEHEALTH VALUATION ARRANGEMENTS

- Professional Services Arrangements
  - Compensation to telehealth providers for professional and clinical services
- Management Services Arrangements
  - Compensation to telehealth management service organizations (“MSO”) for management services
  - Corporate Practice of Licensed Professions (CPOLP) regulations
  - “Affiliated PC” model

PROFESSIONAL SERVICES ARRANGEMENTS

TYPICAL FEE STRUCTURES	VALUATION APPROACH	VALUATION ISSUES
• Per consult rate • Hourly or per minute rate • Fixed rate / availability guarantee	• Review benchmark data • Determine all associated costs and time with providing services • Review expected revenue for associated services • Analyze similar arrangements, if available	• Lack of telemedicine specific data • Difficulty in getting actual cost data • Accounting for low utilization when coverage is needed • Understanding any differences in overhead services depending on where services are being rendered (in-office, home, etc.)

MANAGEMENT SERVICES ARRANGEMENTS

- Telehealth company sets up MSO to contract with the Affiliated PC to provide all administrative and management services
  - Management services
  - Billing and collection /revenue cycle services
  - Clinical and administrative support personnel
  - Equipment and facilities
  - Technology and software
  - Marketing Services
- Conduct valuation of each component of the MSO fee

MANAGEMENT SERVICES ARRANGEMENTS

Valuation Approach

- Market Approach is utilized in valuing each service given the availability of fees charged by companies providing similar services.
- Cost Approach utilized when the client is able to provide appropriate cost data associated with the services.
- Depending on the specific service and available market data, either value at cost reimbursement or cost plus a mark-up.

Valuation Issues

- Varying state laws, often requiring multiple Affiliated PCs
- Lack of telehealth specific market data
- Relying on cost estimates for start-up entities

QUESTIONS?

THANK YOU

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