



## TRANSACTION ADVISORY SERVICES

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### About Navigant

Navigant Consulting, Inc. (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant's professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage, and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, the firm primarily serves clients in the healthcare, energy, and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, Navigant's practitioners bring sharp insight that pinpoints opportunities and delivers powerful results. More information about Navigant can be found at [navigant.com](http://navigant.com).

# HEALTHCARE VALUATION AND FINANCIAL ADVISORY SERVICES

Health systems, physician groups, payers, and other healthcare organizations are currently facing significant financial and operational challenges against the backdrop of a changing economic landscape due to healthcare reform. Both for-profit and non-profit entities are seeking ways to optimize capacity, cut costs, grow into new markets, evaluate service lines, and improve quality of care by aligning with physicians and affiliating with other entities. The traditional approaches used to evaluate opportunities historically by payers and providers are not the same methods that will be required to measure sustainability in the new world.

Navigant professionals work with organizations all along the continuum of care: health systems, physician groups, payers and life sciences companies. Clients turn to Navigant to achieve profitable growth, operate more efficiently, deploy capital effectively and manage risk proactively. Our consulting team consists of professionals with extensive experience in the field, including hospital, health plan, physician group and healthcare finance program executives, MDs, pharmacists and many other clinical professionals. The Navigant team is committed to working with healthcare clients to design, develop and implement solutions that create high-performing physician organizations and healthcare systems while assisting our clients in managing inherent risk.

## VALUATION ADVISORY OVERVIEW

Navigant's valuation experts have many years of healthcare industry experience and are attuned to legal, regulatory and financial reporting issues affecting valuations in the healthcare industry, including:

- Medicare and Medicaid "fraud and abuse" laws (Anti-Kickback Statute)
- Physician Self-Referral ("Stark") Regulations
- Internal Revenue Code 501(c)(3) for tax exempt organizations (private inurement and private benefit restrictions)
- State Attorney General review processes and mandates
- Commercial Reasonableness
- State Certificate of Need (CON) laws
- Office of Inspector General (OIG) Advisory Opinions
- FASB Accounting Standards (e.g., Topics: 350, 360, 805, 820)

In order to ensure clients receive the highest level of expertise, we often draw upon the deep industry experience of our healthcare consulting practice professionals within Navigant. This integrated team approach provides clients with supportable and defensible valuation opinions that are unmatched.

Our clients rely on us to provide valuations related to their specific needs and not just a “black box” solution. Common motivations for our valuation solutions include regulatory compliance, transaction planning, strategic planning, tax compliance, financial reporting and litigation, and arbitration support.

The Valuation and Financial Advisory Services team has the ability to draw upon a unique combination of technical expertise and deep healthcare industry knowledge within one firm to provide comprehensive, customized solutions to our clients.

- Life Sciences
- Payer Strategy
- Hospital and Health System Strategy
- Physician Strategy
- Ambulatory Strategy
- Navigant Capital Advisors\*
- Healthcare Information Technology

*\*The Corporate Finance Division of Navigant, Inc.*

## REPRESENTATIVE VALUATION CASE STUDIES

### Transaction Support & Regulatory Compliance: Physician Employment Model

Navigant was engaged by a non-profit health system to determine the fair market value of certain primary care and specialty physician practices for potential acquisition. The client retained Navigant under a master services agreement to provide business and asset valuations of the targeted physician practices.

### Strategic Decision Making: Hospital Joint Venture Planning

Navigant was engaged by a children's hospital to determine the fair market value of the hospital and the pediatric unit of a general acute care hospital for joint venture planning purposes. Navigant advised client management on the relative equity value split for the joint venture based on a comprehensive discounted cash flow analysis of both entities.

### Valuation & Regulatory Compliance: Cardiology Practice

Navigant was engaged by a health system to value the business enterprise, personal property, and intangible assets of a cardiology practice for transaction planning and regulatory compliance purposes. In addition, Navigant's engagement included a fair market opinion on the proposed post-transaction physician compensation.

### Transaction Support: Comprehensive Valuation Services

Navigant was engaged by a privately held diversified healthcare company to provide valuation support for the contemplated corporate transactions that involved purchasing the partial interests of a former partner in 12 entities. Services consisted of determining a range of supportable fair values for the multiple subject entities, the partial interests, and the extensive underlying tangible real property assets. Our client utilized our conclusions in its preparation of transaction documents and as a basis for negotiation purchase prices.

### Regulatory & Tax Compliance: Fair Market Value of Services

Navigant was engaged by a non-profit health system to determine the fair market rate of various services provided to a jointly-owned specialty hospital that would be co-located at one of the health system's facilities. The services included various employee, purchased, administrative, and information technology services. Navigant conducted detailed market benchmarking, cost, and profit margin analysis in order to support a range of fair market rates for each of the service arrangements for regulatory and tax compliance purposes.

### Valuation & Transaction Advisory: State Attorney General Review

Navigant was engaged by a State's Office of the Attorney General (“AG”) to assist with two fair market valuation analyses and an overall transaction analysis. Navigant's assistance was in connection with the AG's review of a proposed transaction involving a non-profit healthcare entity in accordance with State statutory requirements.

### Dispute Resolution: Valuation Expert Witness

Navigant was engaged by the legal counsel of a non-profit entity to estimate the fair market value of a hospital related to a transaction dispute. The Navigant valuation expert provided an expert report and a rebuttal report, as well as a deposition and court testimony.

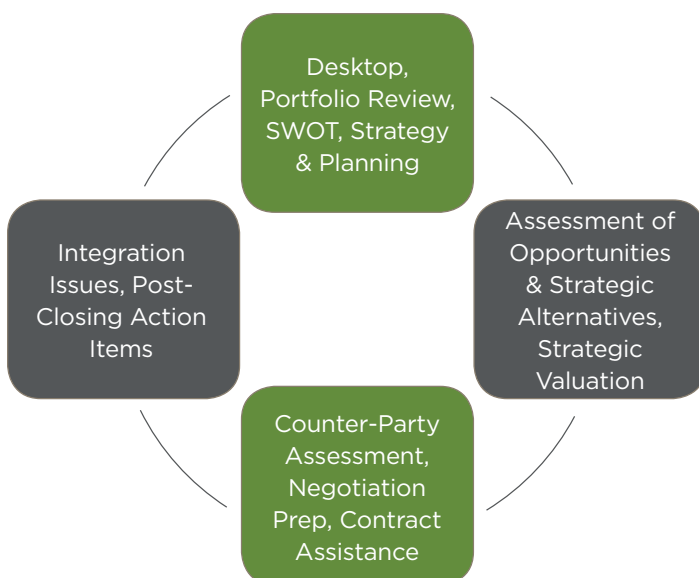
## Transaction Planning: Tangible Asset Valuation & Due Diligence

Navigant was engaged by a non-profit regional healthcare system to provide a fair market value analysis of the group's tangible assets in order to assist with its transaction planning process. The services consisted of estimating the fair market value for the medical group's primary physician's units and ancillary units. Our analysis included allocating the tangible assets to the appropriate unit in order to value each unit on a stand-alone basis. In addition, we performed due diligence to verify and validate the ownership of the tangible assets of each unit. Based on our analysis, both parties decided to proceed forward with further due diligence negotiations.

## TRANSACTION AND FINANCIAL ADVISORY OVERVIEW

Navigant provides its clients with advisory services that are focused on transaction analysis and support. Navigant offers unbiased advice that is centered on creating value for our clients in a market that is significantly fueled by industry-wide trends of cost reduction through healthcare reform. Our transaction advisory services serve clients across the healthcare provider continuum.

Our team members are dedicated to offering all services throughout the deal process, including providing management with a thorough analysis and understanding of each strategic alternative. The diagram below illustrates a comprehensive process focused on key areas to assist clients with making highly educated and effective decisions with respect to mergers and/or acquisitions.



## AREAS OF EXPERTISE

Our transaction advisory services encompass the following areas of expertise:

### Transaction Due Diligence

- Financial / Operational Review
- Capital Structure Optimization
- Legal & Regulatory Assessment
- Summary Risks & Merits
- Negotiation Preparation
- Post-Closing Assessment

### Investment Advisory

- Deal Flow
- Due Diligence
- Scenario / Sensitivity Analysis
- IRR / NPV Analysis

### Real Estate Advisory & Valuation Services

- Timeshare, Market Rent Guidelines, Negotiation Strategies for Lease Renewals
- Lease & Operating Expense Audits, Sale / Leaseback Transactions
- Transaction & Compliance Consulting / Financial Reporting for Mergers, Integration Projects, Expansion, Redevelopment, Buy-out / Buy-in
- Valuation Analysis of Ground Leases & Leasehold Interests
- Insurance Valuations of Real Estate & Personal Property

### Fixed Asset Management & Valuation Services

- Fixed Asset Inventory, Tagging & Asset Management Outsourcing Services
- Fixed Asset Valuation / Costing Services
- Cost Segregation / Building Componentization Services
- Financial Reporting Support for Real, Personal & Intellectual Property

### Strategic Alternative Assessment

- Client Objective Analysis
- Available Alternatives
- Industry Trends / Opportunities
- Transaction Structure
- SWOT Analysis
- Capital Allocation

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## Valuation Advisory

- Fairness Opinions
- ProForma Financial / Operational Forecast
- Weighted Average Cost of Capital
- Historical and Strategic Valuation Analysis

## REPRESENTATIVE TRANSACTION AND FINANCIAL ADVISORY CASE STUDIES

### Strategic Decision Making Related to a Joint Venture Opportunity

Navigant was engaged by a non-profit health system to assist with the strategic and financial assessment surrounding the formation of a for-profit joint venture with a leading outpatient imaging provider in its primary service area. Navigant advised client management on the economics of forming a new company and how contributing each of the respective businesses would translate into a post-transaction equity split. Navigant also provided synergistic analyses considering various scenarios, developed the business plan for the post-transaction joint venture, and prepared board presentation documents illustrating potential financial returns and strategic value creation scenarios to be presented to the client's board of directors.

### Strategic Financial Decision Making Concerning Whether to Seek a Long-Term Affiliation with a Larger Health System

Navigant assisted the board of directors of a non-profit health system with understanding the financial implications of pursuing a "go-it-alone" strategy vs. an affiliation strategy of joining a larger health system. Navigant assembled financial models considering varying potential macro- and microeconomic factors and the relevant factor to the cash flows of the organization, which was a heavily leveraged hospital that had strong operating margins and increasing capital needs. Result was that the client decided a merger was best for the community, physicians and the organization, in part due to bond covenant issues and lack of ability to meet significant physician integration costs of the next few years. Navigant analyzed potential synergies prospective buyers might bring and how it would impact the hospital client.

### Transaction Advisory Related to a Joint Venture Arrangement Between a Not-For-Profit Health System and a For-Profit Strategic Investor

Navigant assisted a non-profit health system with analyzing the economics of partnering with a for-profit strategic investor for the purpose of forming a joint venture arrangement to acquire a hospital. Navigant's scope of work included identifying key risks and merits of forming the joint venture as well as acquiring the hospital, providing financial and operational forecasts utilizing synergistic elements from management, assisting with structuring the transaction and key terms of partnership, and conducting scenario analyses incorporating future expected trends of utilization, reimbursement, and cost management. Our analysis considered a "go-it alone" strategy for the not-for-profit system as well as the joint venture strategy that ultimately proved to be the ideal model.