



Healthcare Brand Value

Determining Compensation for Co-branding Affiliation Arrangements

October 26, 2021

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WE ARE AN INDEPENDENT MEMBER OF HLB—THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Introductions



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A national healthcare advisory services firm
providing consulting, audit, and tax services

PYA by the Numbers

Clients in ALL
 **50**
STATES



O V E R
1200
Healthcare
valuation opinions
rendered annually



2,641
Number of healthcare projects
during 2020

Brand Use in Healthcare

Healthcare Brand Value

PYA Brand Value Framework:
Phase 1 and Phase 2

PYA Experience



Brand Use in Healthcare



Brand Use in Healthcare



Brand Use in Healthcare

- Formidable brand names in healthcare
- Well-recognized at the local and national level for capabilities and quality



Brand Use in Healthcare



- At the regional level, there are many more well-recognized brand names.
- Significant investments have been made by health systems to create top of mind awareness.

Our experts have experts.



Why are hospitals interested in these co-branding affiliations?

- Learn and develop protocols and processes that promote consistent, quality outcomes.
- Develop new and improve upon existing clinical skills.

Why are hospitals interested in these co-branding affiliations?

Requires Access to Brand

- Build reputation for quality.
- Physician recruitment.
- Signal to existing and potential patients, superior skills, stemming outmigration and increasing market share.

Brand Use in Healthcare

- Co-Branding is a common strategy in health care.
- Signals collaboration and elevated service offerings.
- Can happen in affiliations/network arrangements or joint ventures.
- A fee may be payable to compensate the “licensor” for investments made to build brand strength, and it is often based on the value the brand generates for the “licensee”.



Healthcare Brand Value



Healthcare Brand Value

Sample Components of Hospital Enterprise Value

Tangible Assets

- Working Capital
- Land/Building
- Medical Equipment

Intangible Assets

- **Brand**
- Assembled Workforce
- Licenses
- Certificate of Need

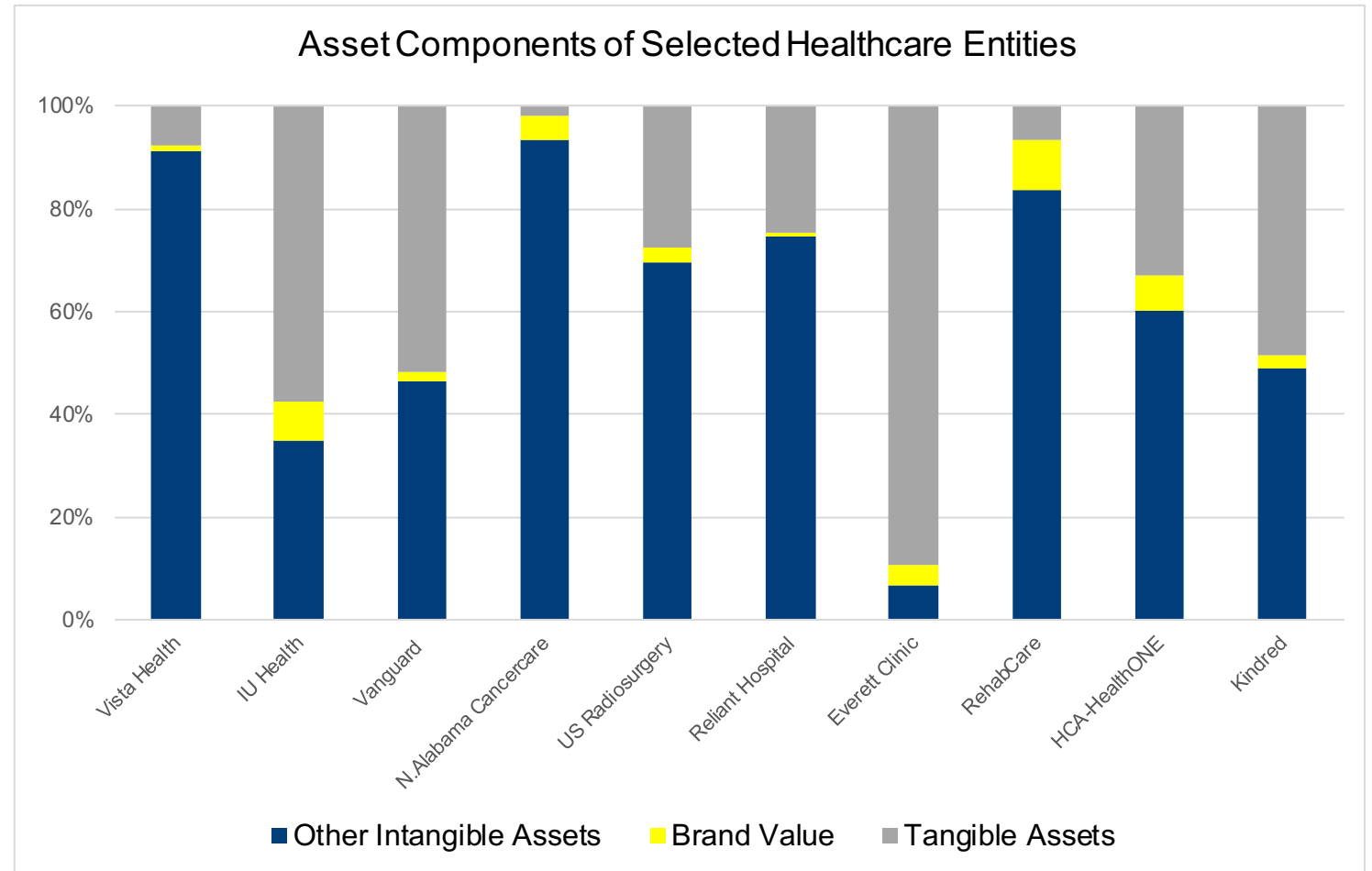
Brand value is specific to the cash flows it helps support.

Application of brand to new enterprises can increase brand value.

Healthcare Brand Value



Brand is important – but is often a smaller component when compared to the many other tangible and intangible assets health systems rely upon to create value.



Healthcare Brand Value



How much should I invest in developing my brand name?

How much should I pay or receive for the use of brand in the context of an affiliation/joint venture?

What was the impact of my investment in marketing/branding?

Am I allocating my resources appropriately?

PYA Brand Value Framework

Phase I

- Evaluate Health System's brand strength in primary and secondary service areas and across the country (as applicable).
- Perform market research on observable compensation for co-branding arrangements in healthcare affiliations and other datapoints of relevance.
- Perform valuation analysis to develop a value framework based on how brand is typically applied that can be applied to a variety of arrangements, typically as a range.



Phase II

- Understand the terms of proposed arrangements.
- Evaluate value proposition related to the use of Brand within these arrangements.
- Apply framework developed in Phase I to determine fair market value fee for the use of the brand as it relates to the arrangements.

PYA Brand Value Framework – Phase 1





Assess Brand Strength

Step 1 – Assess Brand Strength



Step 1 – Assess Brand Strength



National Rankings

US News rankings

LeapFrog quality scores

Healthgrades

Hospital Compare – Star Ratings

Affiliations with known experts –
Mayo, MD Anderson

Step 1 – Assess Brand Strength

Patient Preference & Loyalty

Net Promoter Score

NRC Health research on market perceptions

Measures of In-migration

Measures of Out-migration



Step 1 – Assess Brand Strength

Brand strength is often service line specific:

- In a single hospital system, brand strength may be substantially different within various service lines.
- Important to evaluate appropriate qualitative factors that drive preference and perception of value.
- Many joint ventures are service line specific (e.g., cancer centers, etc.).



Step

2

Perform Market Research

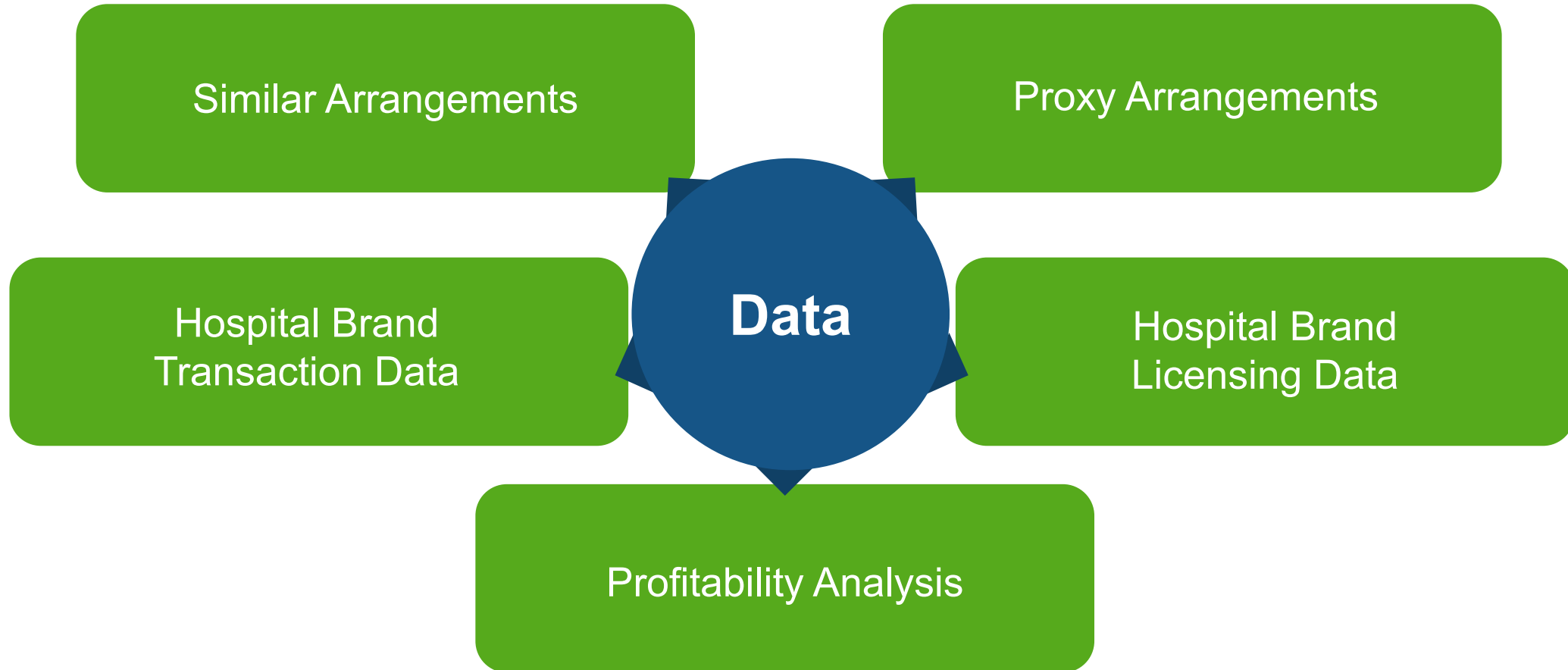
Step 2 – Perform Market Research



Identify data on transaction terms for comparable arrangements.



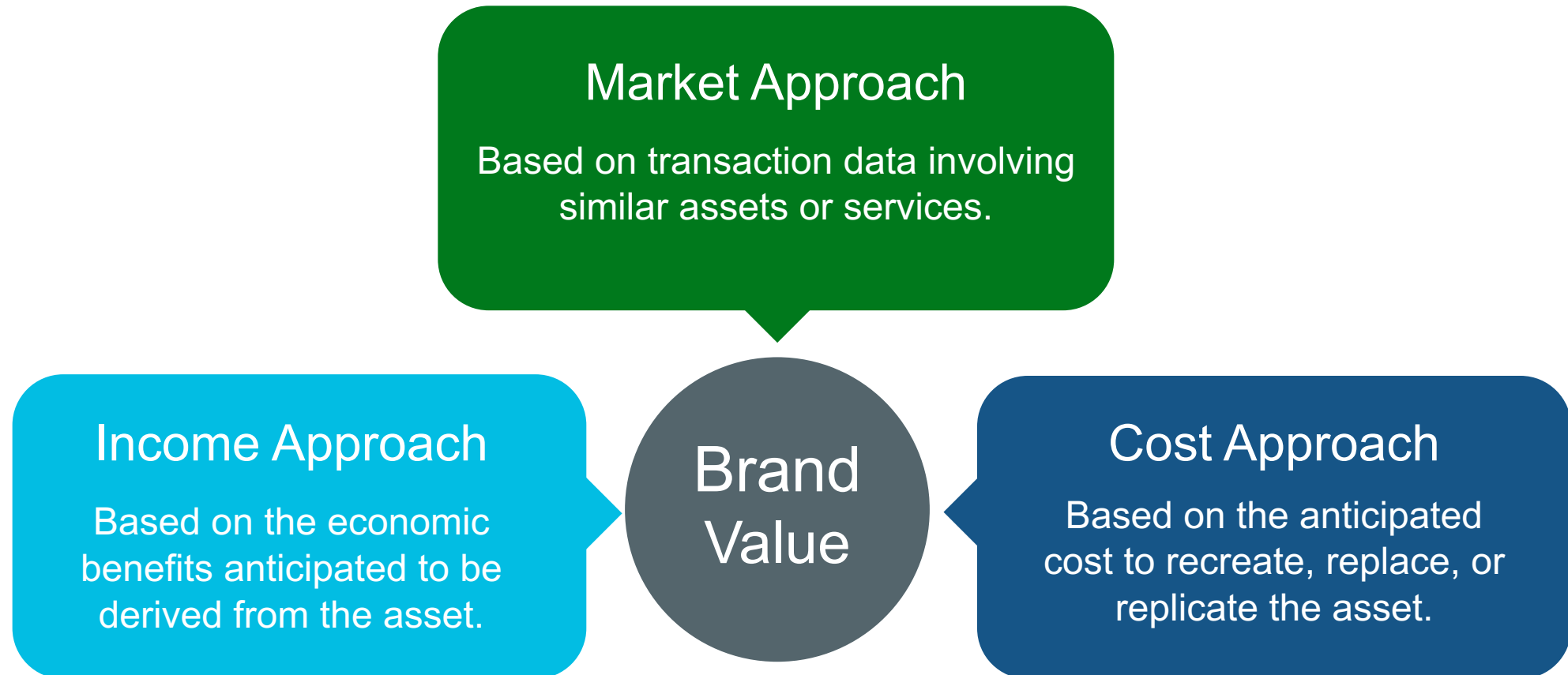
Step 2 – Perform Market Research



Step
3

Perform Valuation Analysis and Develop a Framework

PYA Brand Value Framework – Phase 1



Market Approach: Comparable Transactions



- Identify comparable licensing fee data or develop proxy calculations to determine what an appropriate licensing fee would look like.
- Adjust for qualitative attributes of brand.
- Adjust for quantitative factors including impact on cash flows.
- Adjust for how future arrangements will be structured.

Market Approach: Comparable Transactions

- Outside of healthcare, brand licensing fees are typically structured as a percent of revenue or another cash flow metric.
- However, given unique regulatory considerations in healthcare, agreements typically suggest fixed payments for a pre-determined contractual period.
- Payments can be structured to be based on number of beds, number of facilities, number of physicians, etc. Ultimately, the form and format of the fee needs to fit the arrangement.

PYA Brand Value Framework – Phase 2



PYA Brand Value Framework – Phase 2



- Determining Brand Use/Application
 - Exclusive/Non-Exclusive.
 - Brand positioning/size.
 - Service line specific or used at enterprise level?
 - Term of Agreement.
 - Where will the branding appear; how would it be used?



PYA Brand Value Framework – Phase 2



- Determining Transaction Structure:
 - Contractual arrangement versus equity JV.
 - Reset at end of each term of the agreement.
 - At risk for achieving defined metrics or fixed fee.
- How will it be paid for?
 - Upfront lump sum payment?
 - Ongoing licensing fee?
 - What other assets are part of the transaction?

PYA Experience



Example 1: Enterprise Level

Phase I

- Marketing department of an AMC in the Southeast
 - Requested valuation of brand in the context of its clinical enterprise.
 - To establish a baseline value.
 - To measure impact of future marketing and market expansion efforts.

Phase II

- AMC to form JV for smaller Hospitals
 - Requested valuation of brand in the context of the JV.
 - Intent was to be given credit to contributing brand for proposed JV.

Example 2: Cancer Network Access

Phase I

- Business Development team of Cancer Center in Northeast:
 - Requested valuation of brand in the context of its cancer network.
 - Cancer center forms partnerships with community hospitals providing access to its cancer care resources.

Phase II

- To establish a baseline for affiliations using brand:
 - Determine fee range for access to the use of the brand specific to services provided in conjunction with cancer center.
 - Supported by arrangements focused on maintaining quality standards.

Example 3: Orthopedic Clinic and AMC

Clinic in the West Coast - Specific to future JV surgery centers

- Payments had already been determined for the use of private orthopedic clinic's brand in JVs with AMC in west coast.
 - Requested to evaluate if the payments were within Fair Market Value.
 - To ensure regulatory compliance.

Example 4: AMC – Community Hospital Outreach

Phase I

- Business Development and Marketing Team jointly engaged PYA to evaluate brand value.
 - AMC is working with community hospital to stand up several services.
 - Near term plan to potentially co-brand at the enterprise level.

Phase II

- Determined range of fair market values that can be used in current arrangement and framework for future arrangements.
- Framework considers the size of affiliate hospital (using bed size, and revenue).

PYA Resources

PYA Publications

- White Paper: *What's in a Name? Valuation of Healthcare Brands* - <https://www.pyapc.com/wp-content/uploads/2018/08/Whats-in-a-Name-Valuation-of-HC-Brands-White-Paper-PYA.pdf>
- American Health Law Association 2020 Healthcare Transactions Resource Guide – Brand for your Buck: Leveraging Brand as an Asset in Healthcare Alliances - <https://www.pyapc.com/wp-content/uploads/2020/06/2020-AHLA-Transactions-Resource-Guide.pdf>

Other Resources

- PYA Website – www.PYAPC.com