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What's the Value of Your Business

By Nishen Radia
 Monday, October 16, 2006

What's the Value of Your Business? By Nishen Radia, FocalPoint Partners, LLC

In this month's Rock-Pond article, we discuss the key issues any entrepreneur should understand when assessing the valuation of their healthcare assets.

Time and time again, entrepreneurs, when considering their exit options for their business, ask us the same question: "How much is my business worth?" And the answers we give every time are exactly the same: more questions right back at you! All businesses are not created equal!

Valuation is an art, and not a science. This is particularly the case when thinking about home healthcare providers, where the quality of business and operations can have deep impacts on valuation. Some of these factors can be controlled, some can't. Yet acquirors often revert blindly to "industry multiples". But as recent deals have shown, the right asset positioned correctly can optimize valuation and blow industry averages away!

So, what drives valuation and what does this tell us about how to position a company? Firstly, **growth** is key. The reason why specialty businesses trade at strong multiples is the scalability and growth. As an entrepreneur, always map out your growth strategy. Being able to demonstrate where the company is going and how you've executed on previous years' strategies will be critical in driving valuation. Tied to growth, the second factor is **profitability**. Margins remain key, so make sure that growth is profitable.

You've all heard that in real estate, the key is location, location, location. When valuing companies, the key is **management, management, management**. A company with well-run operations, strong sales and marketing and tight financial controls will always be valued at higher multiples. A strong management team will allow a buyer to have greater confidence in the target's growth.

These factors are applicable to all companies. Home healthcare providers face an additional burden in demonstrating why they should be valued higher. There are a number of other factors that need consideration. A well-diversified **payor mix** is key, as significant payor concentration vastly increases the risk to a buyer. **Billing and collection** are highly relevant. Every deal we have closed at FocalPoint in the healthcare space has involved buyers spending time poring over cash collection schedules. To the extent a company is not collecting over time, the buyer will start to discount revenues and profitability.

Healthcare entrepreneurs must continually **innovate** to remain in line with industry trends. The recent advent of ambulatory infusion suites ("AISs") is an example. Entrepreneurs that had a cohesive, robust strategy for AISs were rewarded by buyers who valued the initiative to stay ahead of the curve in an ever-changing healthcare environment.

Finally, there are a whole set of factors an entrepreneur just cannot control. **Geography** is critical – buyers see certain markets as more strategic than others. That cycle of focus is constantly evolving and should be less of a worry to entrepreneurs. **Macroeconomics** and **capital markets** will affect value. We are in one of the best M&A markets of recent times for a simple reason—buyers have been given extra confidence by relaxed capital markets and an economy that has been strong. That has driven many of the high valuation's we've been seeing recently. Beware – it won't last forever!

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Nishen Radia



Nishen Radia is a co-founder of FocalPoint Partners, and has years of experience advising middle-market and multinational corporations on merger and acquisition strategies and execution, debt and equity capital raising and valuation/fairness opinions. Since co-founding FocalPoint, Mr. Radia has closed numerous transactions in the US middle-market, where he has applied the technical expertise and know-how gained working with larger firms to his more entrepreneurial client base.

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FocalPoint Partners LLC is an independent investment bank, specializing in mergers and acquisitions (both healthy and distressed), private placements (both debt and equity), and financial restructurings. The firm's primary focus is on middle-market companies with revenues between \$10 million and \$250 million in a diverse range of industries. The firm's goal is to provide unbiased, innovative financial advice by taking the time to truly understand the needs of its clients and then devising a strategy that best fits those objectives.

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