

## STROUDWATER'S FINDINGS FROM THE FIELD | SEPTEMBER 2018



**Client** [Piedmont Columbus Regional \(fka Columbus Regional Healthcare System | Piedmont Healthcare\)](#)  
**Columbus, GA**

**Engagement** **Fair Market Value Analyses and Community Benefit**

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<b>Engagement Detail &amp; Purpose</b>	<p>Columbus Regional Healthcare System engaged Stroudwater in 2017 to provide valuation services and a community benefit analysis related to its proposed affiliation with Piedmont Healthcare. Columbus Regional Healthcare included two acute-care hospitals in Columbus, Georgia with nearly 700 combined beds, as well as a cancer center, medical group, and retirement community. The intent of the strategic affiliation was to create a Columbus-area regional hub supported by a larger system, providing the community with more resources and strengthening access to care. The transaction was subject to review by the Georgia attorney general under the Georgia Hospital Acquisition Act, which stipulates that transactions involving a not-for-profit hospital must provide adequate community benefits that reflect the fair market value of the entity being transferred.</p>
<b>Challenges</b>	<p>While many of the deal terms had been negotiated with the assistance of transaction advisors, the specific language in the agreements did not reflect the full intent of the parties regarding debt and capital commitment treatment. The open legal interpretation of the language put financial commitments at risk without proper recourse for Columbus Regional Health System.</p>
<b>Stroudwater Solutions</b>	<p>Stroudwater provided financial advisory around the language used in specific deal terms to create legally binding commitments that increased the overall value of those commitments. This allowed certain commitments to be included in the valuation. Stroudwater's work on behalf of Columbus Regional resulted in commitment letters from the purchasing entity regarding extinguishment of debt over a specific time period.</p> <p>Stroudwater collaborated with the attorney general's advisor to understand the components of the capital commitment, the impact of debt on the valuation, and the history of the transaction—all of which were critical in determining the fair market value of the entire enterprise. Relying on three standard approaches to value (asset, income and market), Stroudwater considered Columbus Regional Health System's assets and operations in comparison to other similar entities. Columbus Regional's strong operational performance had been hampered by the large amount of debt the system had carried, limiting future investments. Stroudwater's analysis compared the proposed transaction to other transactions in the region involving not-for-profit hospitals, considering both the quantitative and qualitative benefits to Columbus through the transaction.</p> <p>Stroudwater provided a fair market valuation report and expert witness testimony at the attorney general hearing in support of the transaction. The transaction closed on March 1, 2018; Piedmont Healthcare agreed to assume Columbus Regional's roughly \$280 million in debt and invest \$250 million in capital expenditures at Columbus Regional, along with an additional \$30 million to \$50 million for the installation of a new EHR. Stroudwater's valuation analysis and advisory services ensured that meaningful language regarding the debt and capital commitment requirements was used in the definitive agreements.</p>

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**CEO Perspective**

Scott Hill, CEO for Columbus Regional Health, recalls that while the hospital had faced financial and operational challenges for three years (2013, 2014, 2015), in 2017, the organization was back in the black and had more than 200 days' cash on hand. "The process was not forced," said Hill, as he added, "We'd done a good job coming back from three rough years of losses." While Columbus Regional Health was not actively seeking an affiliation, when Piedmont Healthcare made inquiries about a possible partnership, Hill and his executive leadership team had a fiduciary responsibility to bring it to the board.

Leveraging the findings from a five-year study conducted by an outside firm, Hill said, "we knew we would survive, but given a chance to thrive, we owed it to our bond holders and community to explore the options." Columbus Regional conducted a very select RFP process, quickly winnowing down responses to three finalists. After the finalists presented to the board, there was unanimous agreement to pursue an affiliation process. "We believed that we'd ultimately benefit from collaborating with a well-run system."

In May 2017, Piedmont and Columbus Regional announced they had signed a letter of intent. Enter Stroudwater Associates, which was engaged to provide a valuation and community benefit report. "Opal Greenway and the Stroudwater team did a really nice job fact-finding," said Hill, and added, "she was good at listening and getting an understanding of our organization."

In fact, when the State of Georgia's accounting firm saw the valuation differently than Columbus Regional and Stroudwater, viewing it through the lens of a for-profit rather than non-profit deal, Hill shared that "Opal stuck to her numbers and stood behind Stroudwater's assessment. She's fantastic to work with."

In March 2018, Columbus Regional Health officially became Piedmont Columbus Regional, and joined a 10-hospital system. Hill reported that "both sides are excited by the integration," while adding that the parties still face a "heavy lift" that includes converting the hospital's EHR from Meditech to Epic. On his work with Stroudwater, Hill said, "they did a great job representing us and I'm happy to tell everyone. I'd call Opal and Stroudwater again with no hesitation."



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