

What's in a Name, and How Much Is It Worth?

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Every health system or independent hospital wants to establish itself as indispensable in its market. Once perceived this way, a healthcare organization is unlikely to be excluded from health insurers' networks, because plan members may react negatively. The perception of indispensability also provides negotiating leverage for managed care contracts and may offer an advantage when recruiting physicians and other clinical staff.

Having an exceptional, widely recognized brand name is one way to be perceived as indispensable. If a health system or hospital does not yet have such recognition, affiliating with a major brand name healthcare organization can help. Such affiliation can elevate the image of a health system or hospital in the community and even improve quality of care, assuming the affiliation includes sharing of expertise, protocols, and processes and not just use of the brand name. For healthcare organizations that already have brand name recognition, such affiliations may offer the opportunity to further increase awareness of their own brand, generate additional income, and potentially increase referrals of complex cases.

Brand name organizations can license their brand (potentially in addition to other assets/services, such as clinical protocols) to other hospitals, health systems, or ancillary service providers. These arrangements can be structured as straight licensing agreements in exchange for fees, or as joint ventures in which the brand name health system receives ownership in a joint venture entity.

As in most healthcare transactions, these arrangements must meet the fair market value standard, and in this case, determining fair market value is particularly challenging.



HOW MUCH IS A BRAND NAME WORTH?

Details related to licensing agreements involving healthcare services trade names or brands are not typically available to the public. However, trade name benchmarks do exist. For example, purchase price allocations performed for financial reporting purposes in connection with mergers and acquisitions typically include trade name valuations. These can be used to calculate benchmark royalty rates that were likely used by the appraisers, under management's guidance, in determining the values that are reported to the Securities and Exchange Commission (SEC). For instance, in our October analysis of trade name royalty rates, we found that the median rate was 0.78 percent and 0.87 percent for hospitals/health systems and outpatient services, respectively. Benchmarks for other sectors, including post-acute care, also exist.

To determine where a specific brand or trade name should fall relative to these benchmarks, a thorough qualitative analysis must compare the subject with the underlying benchmark entities based on several factors, including:

- Its relative reputational strength in the local market
- The profitability of the services using the trade name
- Whether the royalty is applicable to all revenue or just incremental revenue directly attributable to the affiliation
- Whether there are restrictions on usage
- Whether the license is exclusive
- The term of the license

Once an appropriate royalty rate is selected, it can be used for licensing purposes in connection with an affiliation or to calculate the value of the brand contribution to a joint venture or other entity. Any additional contributions—such as clinical protocols, IT, or services that might be included in the affiliation arrangement—should be analyzed separately. ●

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