

# Healthcare Commercial Due Diligence

## For Private Equity Firms

FTI Consulting's commercial due diligence provides critical insight regarding value of the business and future cash flows. Our experts have years of experience in health-related mergers and acquisitions and have served as economic experts before U.S. and international agencies. As one of the best competition economics firms in the world, we are a proven partner for regulatory transactions.



### Market Assessment

We evaluate the impact of marketplace disruptions, including new technology, to create current estimates of market size and expected changes over time. We create empirical models to appraise demand for healthcare products and services.

In addition to a comprehensive set of health-related databases, we have access to the IBM MarketScan™ commercial claims database covering over 50 million lives with over a trillion observations. Our team of PhD economists and econometricians produce forecasts and demand models that hold up to the highest level of scrutiny.



### Customer Assessment

Understanding customer behavior and perception of a product is critical in evaluating future cash flow projections. We conduct bespoke surveys and interviews to gather information relating to customer satisfaction, willingness to switch and brand perception.

Our team of international healthcare and communications experts embrace a partnership model where we work closely with the client to ensure the results are aligned with client needs and timelines.



### Financial Assessment

When evaluating a purchase, pressure testing management's financial model is critical in making the go, no-go decision. We carefully assess management assertions, testing for reasonableness, and offer alternatives when appropriate.

Across the firm, we work on approximately 1,800 healthcare engagements each year, allowing us to develop an extensive set of KPIs that we can overlay on management assertions as a reasonableness check.



### M&A, Antitrust and Competition Assessment

We perform regulatory risk analysis to determine threats to regulatory approval and perform scenario analysis of possible divestitures to remedy antitrust concerns.

Our senior team members each have over 30 years of experience analyzing and articulating the competitive effects and consumer benefits of mergers and transactions before the FTC, DOJ and state regulators. Our expertise spans across the healthcare spectrum to include inpatient, outpatient and physician acquisitions and affiliations.



### Value Proposition Development

We work with our clients to identify evidence, create analysis and develop compelling value propositions for products and services.

In healthcare, there is often an upfront, known cost, but an uncertain payoff. We quantify that payoff, supporting the value of the product or service, by leveraging existing studies and analyses and combining it with an extensive array of health data we maintain.



### Profitability Analysis

Cost centers used in accounting are too broad to allow for true product or market-level profitability analysis. We layer critical detail onto P&Ls to precisely allocate costs and identify avoidable costs, providing critical information needed to streamline the business.

## CASE STUDY: MARKET ASSESSMENT & PROFITABILITY ANALYSIS

### THE SITUATION

We were hired to consult for a private equity firm that recently acquired a major healthcare product company with global operations and an annual net revenue of \$1 - 4 billion USD.

### OUR ROLE

- Analyzed over 50 countries to determine which they should grow, optimize or harvest and exit
- Quantified the market size in each country and forecasted the changes in market size over the next three years
- Identified market share that was most vulnerable to new technology developed by competitors
- Conducted a profitability study to assess true product-level profitability, identify avoidable costs and quantify return on investment

### OUR IMPACT

We showed that the forecasted three-year change in growth rate of sales by country varied and would dramatically impact financial performance over the next few years. We identified several countries that the firm had previously exited or were considering exiting that were high potential markets and provided recommendations to the operating model for a set of countries with low operating margins. We allocated costs appropriately and found that despite generally high margins, country-specific profit margins ranged from negative to over +50% (EBITDA). We found that the time to break even in a market varied between 8 and 33 months, highlighting the fact that for certain market segments within specific countries, the firm was unlikely to break even going forward.

#### SCOTT BINGHAM

Senior Managing Director  
404.460.6294  
scott.bingham@fticonsulting.com

#### SUSAN MANNING, PHD

Senior Managing Director  
202.589.3458  
susan.manning@fticonsulting.com

#### JEN MAKI, PHD

Managing Director  
602.744.7157  
jen.maki@fticonsulting.com