



TRANSACTION SERVICES TEAM

# BKD'S DUE DILIGENCE HELPS UKHA IN CANCER CENTER ACQUISITION

## AT A GLANCE

**CLIENT //** An independent hospital authority

**ISSUE //** Acquisition of area cancer centers

## THE CLIENT

The University of Kansas Hospital Authority (UKHA) oversees The University of Kansas Hospital and The University of Kansas Cancer Center operations.

## THE PROBLEM

- UKHA wanted to acquire the Kansas City Cancer Center (KCCC), which comprised 11 metropolitan locations.
- UKHA previously engaged a third party to provide a fair market value estimate of KCCC, but UKHA needed to understand all necessary pro forma adjustments related to historical financial statements, including costs allocated to KCCC from its parent organization and potential reimbursement changes following the acquisition of KCCC by UKHA.

## THE SOLUTION

- BKD reconciled historical financial statements used in the third-party valuation to historical information acquired through due diligence and compared recent adjusted earnings before interest, taxes, depreciation and amortization (EBITDA).
- BKD analyzed revenue by location and physician.
- BKD evaluated historical charges to KCCC in relation to its management services agreement.

## THE RESULT

- UKHA was able to consider EBITDA adjustments and the potential impacts of KCCC converting to provider-based clinics.
- UKHA acquired KCCC, which assisted the University of Kansas in obtaining its National Cancer Institute designation.

*Additional Case Studies on Back*

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## BKD HELPS PRIVATE EQUITY FIRM UNDERSTAND TARGET'S REVENUES

A private equity-backed company was acquiring a contract research organization with domestic and international locations. The target had drastically increased its revenues and margins during a two-year period, and the client wanted to evaluate its quality of earnings to understand key performance indicators.

BKD gathered reports detailing hours billed, payroll expenses and billed revenues and calculated the average payroll cost by employee.

Using this data, BKD summarized and evaluated employee utilization, revenues, costs and margins at a level the target couldn't provide, leading to the identification of a nonrecurring project with exceptionally high profitability.

BKD was able to show the client the source of the extra revenue and margin, and the client had a clearer understanding of the target organization's expected future cash flows.

## BKD PROVIDES HOSPITAL INSIGHT INTO CLINIC'S CASH FLOWS

A critical access hospital with cost-based reimbursement was considering acquiring a physician-owned clinic that could have adversely affected the hospital's reimbursement through its Medicare cost report. The hospital had a fair market value appraisal but didn't like the clinic's unaudited financial statements or the appraisal's limiting conditions. In addition, the clinic wouldn't include a net working capital target or post-closing adjustment.

BKD compared the pro forma cash flows from the quality of earnings to the discounted cash flows from the valuation—revealing quality of earnings cash flows that were 48 percent lower than in the valuation.

The hospital shared the cash flow findings with the clinic and tried to reduce the purchase price. The parties couldn't agree on a reduced valuation, but the hospital avoided a potentially costly transaction.