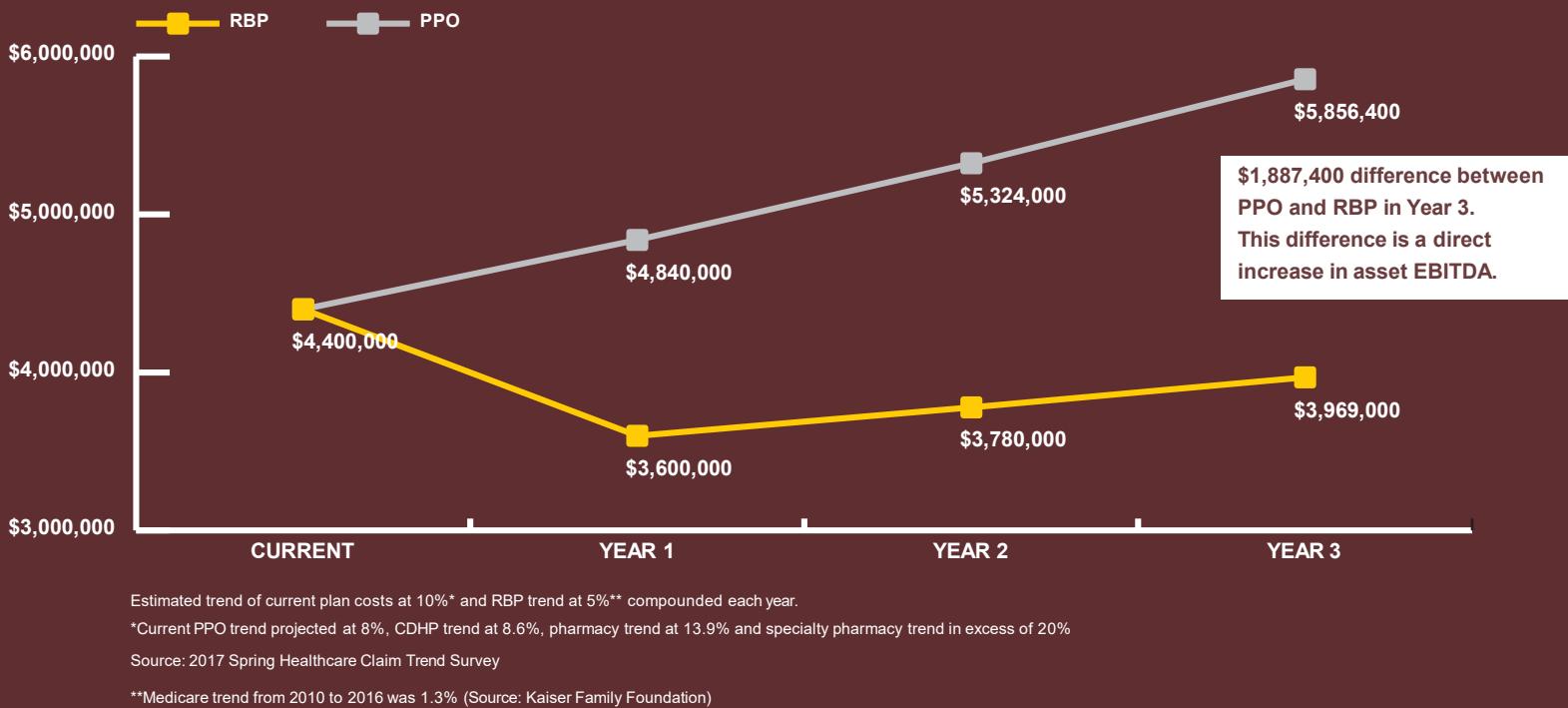


Private Equity is winning with Reference-Based Pricing!

Example of Recent Asset Sale



Reference-Based Pricing (RBP) is a pricing methodology that seeks to help employers save money on their healthcare spend by applying a medicare-based reimbursement philosophy for facility-based charges. Medicare reimbursements are developed by CMS using actual facility data to determine the true cost of providing a service. On average, employers are saving between **18–22%** with RBP compared to traditional PPO programs.

This savings, while significant on its own, provides a unique benefit when it comes to the management and sale of Private Equity assets. Considered a non-operational adjustment when performing a value calculation on an asset, the savings an RBP program generates is a direct increase in EBITDA and therefore those savings further compound the asset valuation at time of sale.

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Let's look at an example of a recent asset sale

A mid-sized manufacturing company based in the mid-west was facing serious financial struggles and needed to find a way to cut **\$500,000** out of its upcoming budget. After exhausting all efforts to increase efficiencies operationally, the managing group finally turned its attention to their employee medical program in hopes of finding additional cost reductions. Seeing the potential savings an RBP strategy offered, the group moved away from their traditional PPO program and implemented a reference-based pricing strategy.

In the first year, the employer saved nearly **\$800,000** on their medical spend. Due to the difference in the trend percentages of traditional PPO plans (10%) and RBP plans (5%) over 3 years, the RBP strategy is projected to reduce accumulated healthcare spend by **\$4.671 million**.

As market conditions changed and the financial health of the employer improved the managing group determined it was time to look at selling the asset. When looking at the current year financials, given the savings the RBP strategy had generated, the total increase to EBITDA was nearly **\$1.887 million**. This created a **\$9.437 million** increase in enterprise value (based on a **five** times multiple).

Reference-based pricing is a powerful strategy in the private equity marketplace by not only immediately helping improve an asset's financial health through day one cost savings on the medical plan, but also increasing the eventual valuation of that asset at time of sale through direct increase to EBITDA.

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