



**EDWARD G DETWILER
& ASSOCIATES LTD**

The experts in tangible asset appraisals



EXPERTS IN MEDICAL EQUIPMENT

**Specializing in
Appraisals
Research
Equipment Planning**

APPRAISALS • RESEARCH • EQUIPMENT PLANNING

About Edward G. Detwiler & Associates

With over 45 years of experience, Edward G. Detwiler & Associates, Ltd. specializes in appraising medical, scientific and other high technology equipment. The company's expertise allows it to perform a wide variety of assignments, including projects as small as a single asset or physician practice and as large as entire hospitals and public company mergers. These appraisals are done for many reasons, such as transfers of ownership, mergers, acquisitions, divorces, bankruptcies, lease buyouts and financing.

In addition to delivering expert, impartial medical equipment valuations, the company also provides:

- A highly skilled research team
- Market and product forecasting reports
- Customized research reports for any modality
- Appraisal review services
- Hospital equipment planning and design
- Inventory valuations

Appraisals

Our appraisals can be used to value single products, medical facilities or practices of all sizes, imaging or surgery centers, laboratories or entire hospitals. They are also used in financing of new products, including equipment of all types that may be found in a healthcare or research facility. While most of our work involves the valuation of medical and scientific equipment, we also provide services in other high technology and complex projects.

Research

Our research takes into consideration prior sales of like assets of like age and condition. This works quite well for products that have an established market. Values are obtained from various sources in the industry, including used equipment dealers and brokers and the original manufacturers and distributors. In addition to current market studies, we perform research for forecasting of values into the future, based on trends in medical and scientific research. We look for information regarding future developments that can help in estimating the useful life of products for technological obsolescence and planning of new replacement equipment for existing or new facilities.



Why

(Japanese market expansion and their needs)



Leasing and Financing

Appraisals for leasing options and evaluations.

*****Insert or modify information for the Japanese healthcare market**

Leasing: Types, Benefits, and End-of-Lease Options

Equipment acquisitions can be one of the largest expenses an organization faces. Leasing is a way for a business to obtain the use of new, timesaving, productive equipment with no capital investment, making it an integral part of a company's capital or operating budgeting process, and a way to fund equipment acquisitions. Currently, companies are placing a higher value on their working capital and the need for liquidity. Leasing provides a solution that enables businesses to fulfill their equipment needs, especially in high technology applications, without depleting their capital reserves.

Main reasons why companies lease:

- Cash flow and finances - Leasing permits a close matching of rental payments to the revenue produced by using the equipment. Since payments are spread affordably over time, leasing reserves capital and keeps debt lines open.
- Flexibility - As business needs change, it is often possible to add to or upgrade the lease at any point through changes allowed in most master leases. If growth is anticipated, it is important to negotiate that option when structuring the lease.
- Upgraded technology - If an industry demands the latest technology by nature, a short-term operating lease can help obtain the latest technology equipment and conserve cash. Leasing also reduces the risk of ending up with obsolete equipment, since upgrades can be performed or equipment added according to the needs of the business.
- Customized solutions - A variety of leasing products are available, allowing a customized program that addresses key business issues such as cash flow, budgeting, transaction structure and seasonality.
- Tax advantages - Lease payments can be deducted from corporate income, since the operating lease is not considered a purchase, but a tax-deductible operating expense.

A fair market value lease is considered an operating lease for which periodic payments are fully tax-deductible. It is the preferred option for those concerned about technological obsolescence. Also called a true lease, a fair market value lease is a lease for federal income tax purposes whereby the tax incentives, including depreciation, are retained by the lessor and forwarded to the lessee in the form of lower lease payments. Thus, this option tends to yield the lowest monthly payment. At the end of the lease there is the option to purchase the equipment at the then fair market value. Other alternatives are upgrading to new equipment, extending the lease term and returning the equipment.

The \$1 purchase option lease is considered a finance lease and is treated as a loan for federal income tax purposes. This lease structure is favored by customers who want to own the equipment at the end of the lease and have a desire to depreciate the investment. The \$1 purchase option lease contains the benefits of ownership, but tends to yield the highest monthly payments. At the end of the lease term the customer has the option to purchase the equipment for \$1.

The 10% purchase option lease is also considered a finance lease. It is a good alternative for those who are uncertain what their needs will be in the future and want a fixed purchase price at the end of the lease. With this lease structure, the monthly payment will be lower than a \$1 purchase option lease, but higher than a fair market value lease. At the end of the lease term the lessee may choose to purchase the equipment for 10% of the original cost, upgrade to new equipment or return the equipment.



Acquisitions

In today's market, many small practices are feeling squeezed to keep up with all the demands of patient care, reimbursements and regulations. A small practice that is unable to offer the variety of medical services available through a hospital system or large physician group may begin to realize that it is at a disadvantage. There are better reimbursements and incentives when a physician is affiliated with a larger group or organization due to more patient volume and better quality care.

*** (Include information about the Japanese market on acquisitions and mergers)

Standards and Ethics (ISO 55000)

(include Japanese standards and their future standards)

- Include any supporting information from professor in Kyoto or Noberto



Process of Appraisal

The process that we follow in most of our valuation cases begins with a site inspection, as it is necessary for us to inventory the assets of the practice or facility. During that visit we also review any pertinent documents and interview key personnel to complete our analysis. Following that inspection, we proceed with a research study into the value of the medical, scientific, information technology and office equipment. We then provide a complete and comprehensive appraisal report approximately two weeks following our inspection.

DEFINITIONS OF VALUE:

FAIR MARKET VALUE IN PLACE AND IN USE (FMV)

The definition of this value is the amount expressed in money, as of the appraisal date, that may be expected to exchange between a willing buyer and a willing seller with equity to both, neither under any compulsion to buy or sell, and both fully aware of all relevant facts. Further, the value of each item includes installation and the contribution of the item to the operating facility. This value presupposes the continued utilization of the item in conjunction with all other installed items.

ORDERLY LIQUIDATION VALUE (OLV)

The amount of gross proceeds which could be expected from the sale of the appraised assets, held under orderly sale conditions, given a reasonable period of time in which to find a purchaser, considering a completed sale of all assets, "as is and where is," with the buyer assuming all costs of removal, with all sales made free and clear of all liens and encumbrances, with the seller acting under compulsion. This value is frequently referred to as the "wholesale value". This is the estimated dollar amount that could be received if the equipment were to be sold on the used equipment market to be moved, resold and reinstalled in another location. This value is based primarily on the condition of the market and the popularity of the product, the manufacturer and the procedures performed by the product. Age, condition and other factors of obsolescence also enter into the valuation process as with the fair market value appraisal.

FORCED LIQUIDATION VALUE (FLV)

Defined as the estimated amount of the most probable price expressed in terms of currency in U.S. dollars which the subject equipment or inventory inspected could typically be realized at a properly advertised and conducted public auction sale, held under forced sale conditions (no more than 90 days), with the seller obligated to sell, and under present day economic trends, as of the effective date of the appraisal report. Conclusions take into consideration physical location, difficulty of removal, physical condition, adaptability, specialization, marketability, overall appearance and psychological appeal. All assets are to be sold "as is" with purchasers responsible for removal of the assets at their own risk and expense.

APPROACHES TO VALUE

Three approaches are used to determine the value of assets to be appraised; the "market" approach, the "cost" approach and the "income" approach. These approaches are used separately or in combinations that make the most sense for the particular product being valued. Explanations of these approaches and their applications follow:

The "market" approach takes into consideration prior sales of similar assets of like age and condition. This works quite well for products that have an established market. Values are obtained from various sources in the industry, including used equipment dealers and brokers and the original manufacturers and distributors.

The "cost" approach considers the current replacement cost of a new item of identical utility (or as close as possible) to that being valued. Then various subtractions are made from this value to reflect such items as wear and tear, age, and technological obsolescence. Replacement cost becomes the upper limit of value, regardless of the original cost of acquisition of the subject asset. The cost approach is often used as a test of the reasonableness of the other approaches.

Cost Approach Formula:

$$FMV\ Installed = \left(\frac{RCN - Warr - OLVt}{EUL} * RUL \right) + OLVt$$

RCN is Replacement Cost, New,

Warr is Expired Warranty, in this example, 7% for a one-year warranty,

EUL is the Estimated Useful Life of the Equipment,

OLVt is the Orderly Liquidation Value at Projected Termination of EUL,

RUL is the Remaining Useful Life of the Equipment at time of Valuation.

Example of Cost Approach:

RCN (\$)	WARR (%)	WARR (\$)	OLV (%)	OLV (\$)	EUL (Yr)	Age (Yr)	RUL (Yr)	FMV	FMV Rounded	FMV* Adjusted	FMVR	OLV	FLV
\$472,100	7%	\$33,047	15%	\$70,815	10	2	8	\$365,405	\$365,000	\$285,000	\$180,000	\$120,000	\$75,000
Percent of RCN:								77%	77%	60%	38%	25%	16%
\$4,700,000	7%	\$329,000		\$ -	8	2	6	\$3,278,250	\$3,278,000	\$3,000,000	\$1,500,000	\$500,000	\$350,000
Percent of RCN:								70%	70%	64%	32%	11%	7%
\$2,133,750	7%	\$149,363	0%	\$ -	8	2	6	\$1,488,291	\$1,488,000	\$1,300,000	\$800,000	\$150,000	\$100,000
Percent of RCN:								70%	70%	61%	37%	7%	5%

FMV Adjusted* is the value adjusted to that which a reasonable buyer would pay for similar used products, regardless of age and condition, typically not more than 65% of RCN

The "income" approach adds economic reality to the value of assets when they can be identified as a separate, income-producing business entity. If the income of the business or group of assets is greater than the expense of maintaining operations, then the valuation of the assets can be determined by the market or cost approach. If not, then an economic penalty must be assigned to the assets that reflects the condition of the business. The value may, in certain circumstances, be limited to the orderly liquidation value, even though the concept called for is the fair market value. The income approach will not be used in most engagements, except as it supports our assignment of Fair Market Value.

Our research takes into consideration prior sales of like assets of like age and condition. This works quite well for products that have an established market. Values are obtained from various sources in the industry, including used equipment dealers and brokers and the original manufacturers and distributors. Due to our extensive database of past appraisals of equipment, we rely heavily on that database in assigning or testing values.

REPORT FORMAT

Formatting of reports is done in a way that allows the reader to follow the inspector's path through the facility to identify the items appraised by description, including location, noun designation,

manufacturer, model number, serial number, quantity, condition and assigned value. While the report can be tailored to the needs of the client, we generally use the format found on the following pages. They are also tailored to the type of assets being appraised and the needs of various types of assets and reasons for appraisal.

The following spreadsheet is from an actual redacted report for a Fair Market Value Lease Buy-Out at the end of a 60 month lease:

Description	Original Cost	Fair Market Value
Philips Allura Xper FD20 Cardiovascular System, Including: Workstation, 9696 002 04711 Dell 690RT, Service Tag CVKxxxx Gantry C-Arm 9896 002 06463 GEO TILT, Serial Number 2xxx Image System 9696 002 06473 GEO IMAGE V, Serial Number 3xxx Injector, Mark V ProVis, Medrad PPD, Serial Number 10xxxx	\$ 1,200,000.00	\$ 285,000.00
Zonare Z.One Ultra Convertible Ultrasound System, Serial Number 03027Bxxxx, Transducer, curved array, C6-2, Serial Number 01261C6Xxxxx Transducer, L8-3, Serial Number 01675L5Xxxxx Printer, thermal, Sony Cart, Z.One SmartCart, with battery pack	\$ 48,926.16	\$ 18,000.00
Grand Total Values:	\$ 1,248,926.16	\$ 303,000.00

*Fair Market Value is based on the value at the end of a 60 mo. Lease



Equipment Planning

*** (Include information about the Japanese market on equipment planning for new/replacement facilities)

Process of equipment planning:

- Phase I – Programming and Budgeting, including
 - Technology Assessment with Transition Planning
 - Future Technology Budget and Acquisition Plan Development
- Phase II – Design
- Phase III – Construction Support
- Phase IV – Medical Equipment Procurement
- Phase V – Procurement Assistance
- Phase VI – Medical Equipment Installation Coordination



ABOUT US

ED DETWILER, ASA: PRESIDENT OF EDWARD G. DETWILER & ASSOCIATES, LTD., ED HAS OVER 45 YEARS OF EXPERIENCE IN THE MEDICAL & SCIENTIFIC EQUIPMENT FIELD AND IS A MEMBER OF THE FOLLOWING GROUPS: ACCREDITED SENIOR APPRAISER WITH THE AMERICAN SOCIETY OF APPRAISERS (ASA), BOARD MEMBER ON THE ASA HEALTH CARE SPECIAL INTEREST GROUP, COMMERCIAL PANEL MEMBER OF THE AMERICAN ARBITRATION ASSOCIATION, AND ASSOCIATE WITH AMERICAN BAR ASSOCIATION.

JAIME DOLEWSKI: AN ASSOCIATE APPRAISER AT EDWARD G. DETWILER & ASSOCIATES, LTD., JAIME HAS BEEN WITH THE COMPANY FOR 5 YEARS. CURRENTLY A CANDIDATE MEMBER WITH AMERICAN SOCIETY OF APPRAISERS, SHE IS SEEKING THE AM (ACCREDITED MEMBER) DESIGNATION.

CHRIS CALANDRA: ADMINISTRATIVE AND RESEARCH ASSISTANT AT EDWARD G. DETWILER & ASSOCIATES, LTD. CHRIS HAS BEEN WITH THE COMPANY FOR 7 YEARS. SHE LEADS THE RESEARCH FORECAST REPORT ACTIVITY AND SPENDS MUCH OF HER TIME WRITING THESE VERY DETAILED REPORTS.

NAO NISHIO: RESEARCH ASSISTANT, NEW TO EDWARD G. DETWILER & ASSOCIATES, LTD. ORIGINALLY FROM JAPAN, NAO IS A RECENT GRADUATE OF THE UNIVERSITY OF ILLINOIS, WITH A BACHELOR OF SCIENCE DEGREE IN CIVIL ENGINEERING. SHE BRINGS SKILLS NEEDED IN RESEARCH AND IN EQUIPMENT DESIGN FOR NEW AND REPLACEMENT FACILITIES.

FOR MORE INFORMATION VISIT US AT: WWW.EGDETWILER.COM



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Count on us to provide expert asset appraisal services!

