



HealthCare Appraisers

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Healthcare Transactions Year In Review

An Overview of Multiples and Current Trends in Valuation

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Presentation Outline

- Healthcare Transaction Trends
- Overview of Valuation Multiples
- 2010 ASC Valuation Survey (7th Year)
- Q&A

Healthcare Transaction Trends

- Significant increase in Physician Practice Acquisition activity by Hospitals
 - Cardiology
 - Primary Care
 - OB/GYN
- Physician Hospital acquisition activity has stalled as the industry awaits a repeal of healthcare reform and/or pending litigation
- Continued hospital acquisition activity in diagnostic imaging and radiation therapy
- ASC acquisition activity remains strong for physician investors. Seeing uptick in Hospital acquisition activity

Healthcare Transaction Trends

Other Observations

- Purchase expectations more reasonable than in past
- Due diligence more thorough, focus on sustainable integration models
- Narrowing range of acquisition multiples being paid across all entity types



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Business Valuation Basics:

VALUATION MULTIPLES

Valuation Multiples

First Question:

“What exactly is a valuation multiple?”

Valuation Multiple

- A valuation multiple is appraiser shorthand for the present value of a perpetual earnings stream mathematically expressed as follows:

$$\frac{1}{(K - g)}$$

- Key components of a valuation multiple”
 - 1) Definition of the **Earnings Stream**
 - 2) Estimation of **Risk (K)**
 - 3) Estimation of the rate of earnings **Growth (g)**

Defining “Earnings”

- Typically Measured as Earnings Before Interest Taxes and Depreciation (“EBITDA”), but can also be stated as cash flow, net income, distributions, etc.
- Single Period or Average? May be most recent year, trailing twelve months, 2-year average, etc. The appropriate measure is the one that is most indicative of future earnings capacity.
- In some instances historical earnings measures must be normalized to remove the effect of non-recurring income and/or expense items.

Estimation of Risk

- Risk is defined as the degree of uncertainty as to the realization of investment returns (*i.e., the earnings stream*).
- Risk is measured as the required rate of return necessary for an investor to commit funds given alternative investments.
- For mature in-network ASCs the required rate of return is generally in the range of 18-22%, however, this can be significantly different if earnings are volatile or at risk.

Estimation of Growth

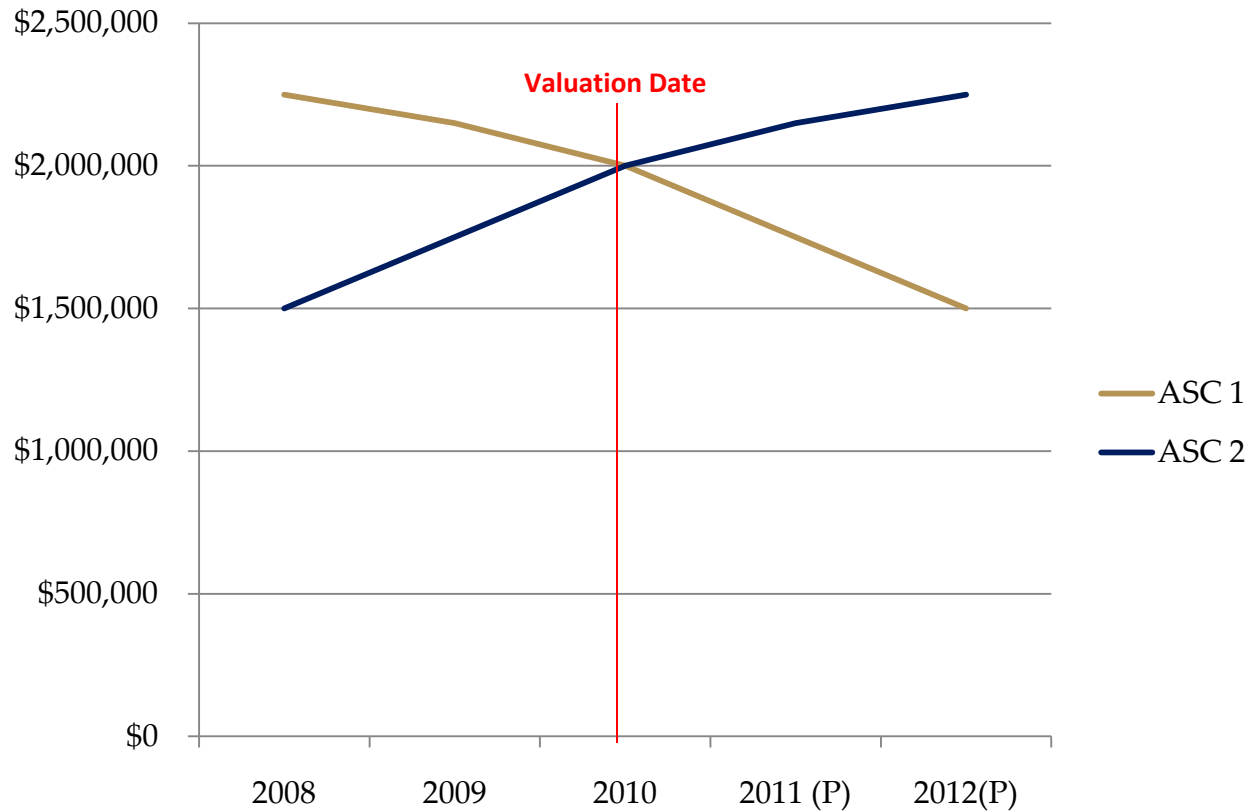
- A valuation multiple is a “perpetual” valuation model.
- Because of this, there are limitations regarding the growth assumption that can be built in to a multiple.
- Generally the growth assumption should not exceed the growth rate of the overall economy, which when measured as GDP, is less than 5%.
- Because of this limitation – valuation multiples should only be applied to stable businesses.

Valuation Multiples

Second Question:

“What multiple should I receive for my ASC?”

Two ASC's with \$2.0M EBITDA



Key Components of a Multiple

1. Earnings Stream

The next time you hear that Dr. Jones sold his interest for a multiple 5x, ask yourself “5x what?”

2. Risk

Not all earnings are the same! Two ASCs generating \$2.0 of earnings may have completely different risk profiles.

Higher Risk = Lower Multiple

3. Growth

All things equal, **Higher Growth = Higher Multiple.**

Valuation Multiples

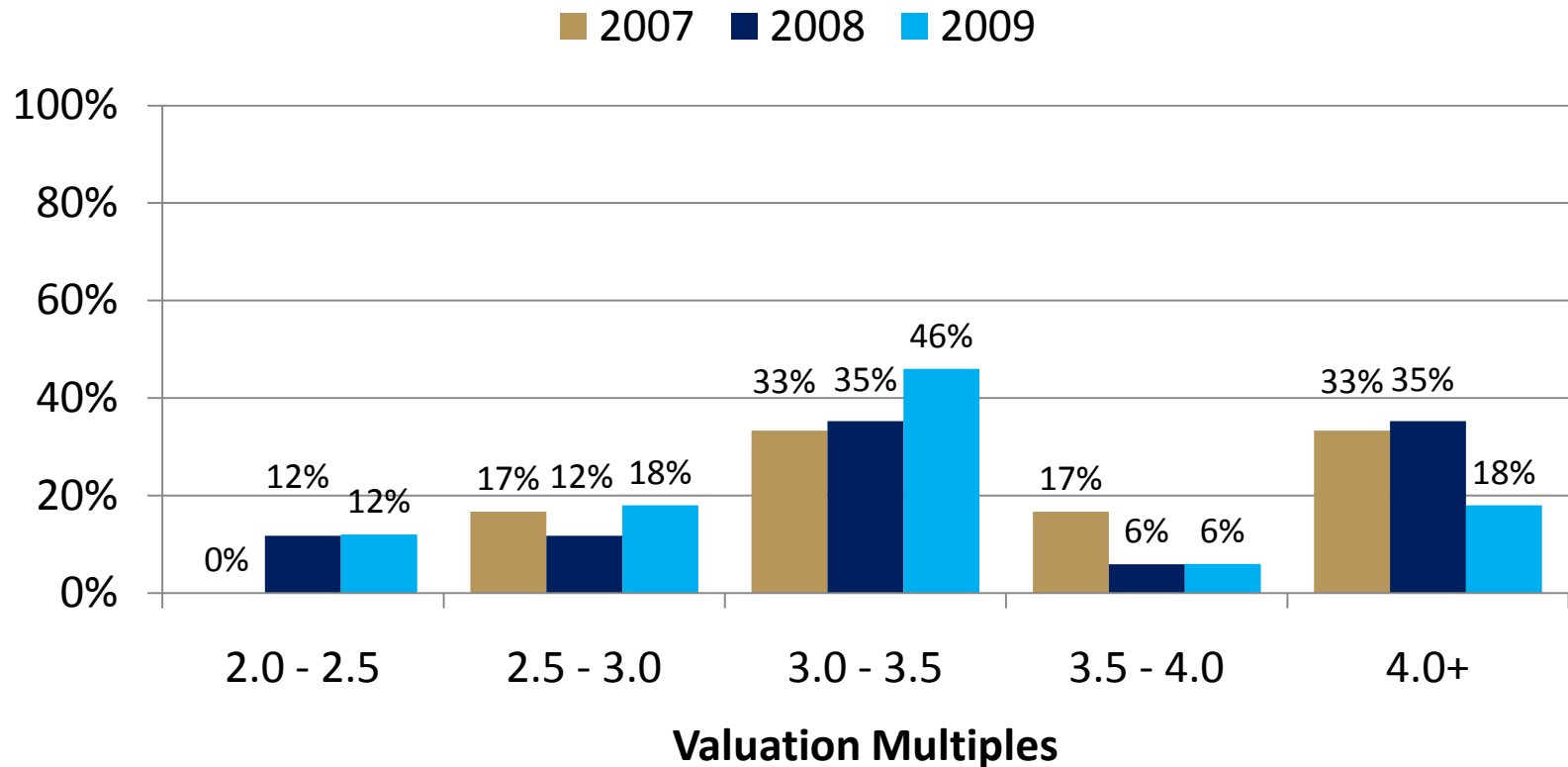
Last Question:

“What are the current industry trends for ASC multiples?”

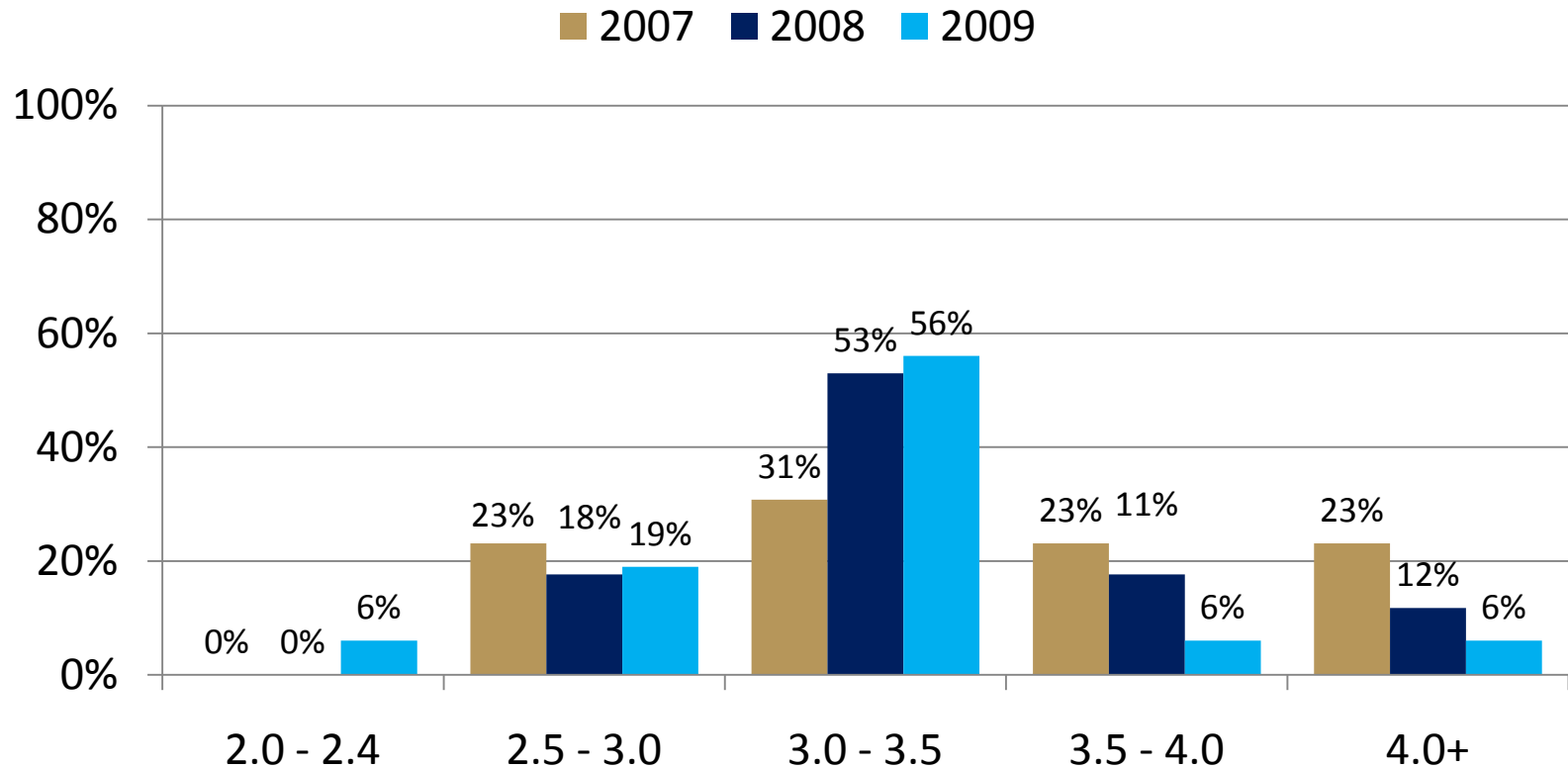
Overview of 2010 ASC Valuation Survey

- Generally, valuation multiples have decreased during the last year
- Out-of-Network ASCs continue to be priced lower in terms of multiple (not overall value)
- ASCs in strong CON states continue to be priced higher
- We are seeing an increase in overall transaction activity both at the minority and control level.

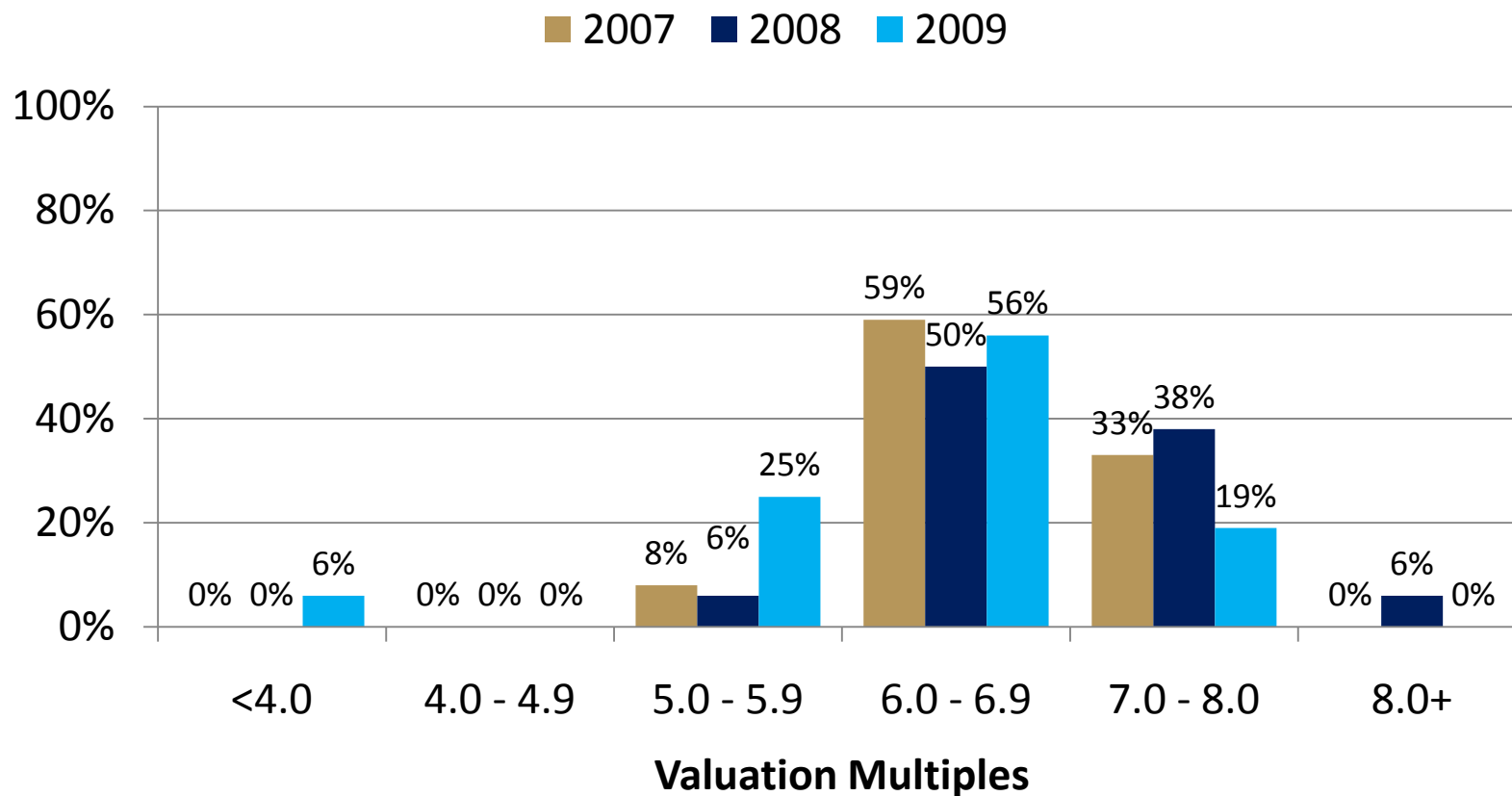
Minority Interest Redemptions



Minority Interest Buy-Ins



Controlling Interest Valuation Multiples



Other Notable Observations

- CMS continues to contemplate changes to the ASC payment mechanism.
- Reductions in reimbursement from Medicare are highly likely, though ASCs are well positioned to benefit from cost containment initiatives.
- More Hospitals are pursuing ASC acquisitions
- The OIG has indicated that it will dedicate more resources to review of transactions.
- Hospital employment of physicians may limit pool of potential investors and/or limit non-owner utilization in some specialties.
- Many surgeon investors are approaching retirement and scaling back their practices.

Responding Companies

- American Surgical Centers
- ASCs, Inc.
- ASC Strategies, LLC
- Accent Partners
- Community Care, Inc.
- Covenant Surgical Partners, Inc.
- Elite Surgical Affiliates
- Facility Development and Management, LLC
- Health Inventures
- Nikitis Resource Group
- NovaMed, Inc.
- Practice Partners in Healthcare, Inc.
- Regent Surgical Health
- Surgical Care Affiliates
- Symbion Healthcare
- Titan Health Corporation
- The C/N Group, Inc.



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