

KEY THOUGHTS ON ASC VALUATIONS

Presented by:

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Mr. Janiga is a Partner with HealthCare Appraisers and for the past 10 years has been providing his clients consultation in business valuation, litigation support, intellectual property, healthcare provider compensation relationships, and other types of financial analyses. Mr. Janiga's extensive industry experience includes working with healthcare organizations, attorneys, administrators, providers, developers, consultants, investment bankers, and private equity groups in connection with transactions involving healthcare entities, including ambulatory surgery centers. Many of the transactions Mr. Janiga analyzes involve Stark, Anti-Kickback, IRC 501(c)(3), and/or other regulatory implications, which necessitates analyses of fair market value and/or commercial reasonableness.

Mr. Janiga earned a Bachelor of Business Administration degree in 2007 from the Seidman College of Business at Grand Valley State University, dual majoring in finance and economics, and minoring in accounting. He is an Accredited Senior Appraiser (ASA) in Business Valuation through the American Society of Appraisers.

Outline of Presentation

Key Thoughts on ASC Valuations

- Supply + Demand Factors Driving M&A Activity
 - Macro
 - Micro
- Forms/Structures of Recent M&A Activity
- Valuation Overview and FMV Considerations
- Common Errors/Pitfalls in Valuation Analyses

Macro Supply + Demand Factors

Recent Regulation

- Where have we been the past decade?

2005	Deficit Reduction Act
2006	End of Temporary Moratorium on Construction of New Physician-Owned Hospitals
2010	Patient Protection & Affordable Care Act
2011	Budget Control Act (Sequestration in 2013)

Macro Supply + Demand Factors

Recent Regulation

- Where have we been the past decade? (cont.)

2012 American Taxpayer Relief Act
(2014 equipment utilization rate)

**2013 Medicare Payment Advisory Commission
June 2013 Report to Congress – Chapter 2: Medicare
Payment Differences Across Ambulatory Settings**

2015 Bipartisan Budget Act (Section 603 – Site Neutrality)

Macro Supply + Demand Factors

Recent Regulation

- Where have we been the past decade? (cont.)

2018 Department of HHS anticipates shifting 50% of Medicare fee-for-service payments to alternative payment mechanisms (*i.e.*, value instead of volume payment mechanisms)

Macro Supply + Demand Factors

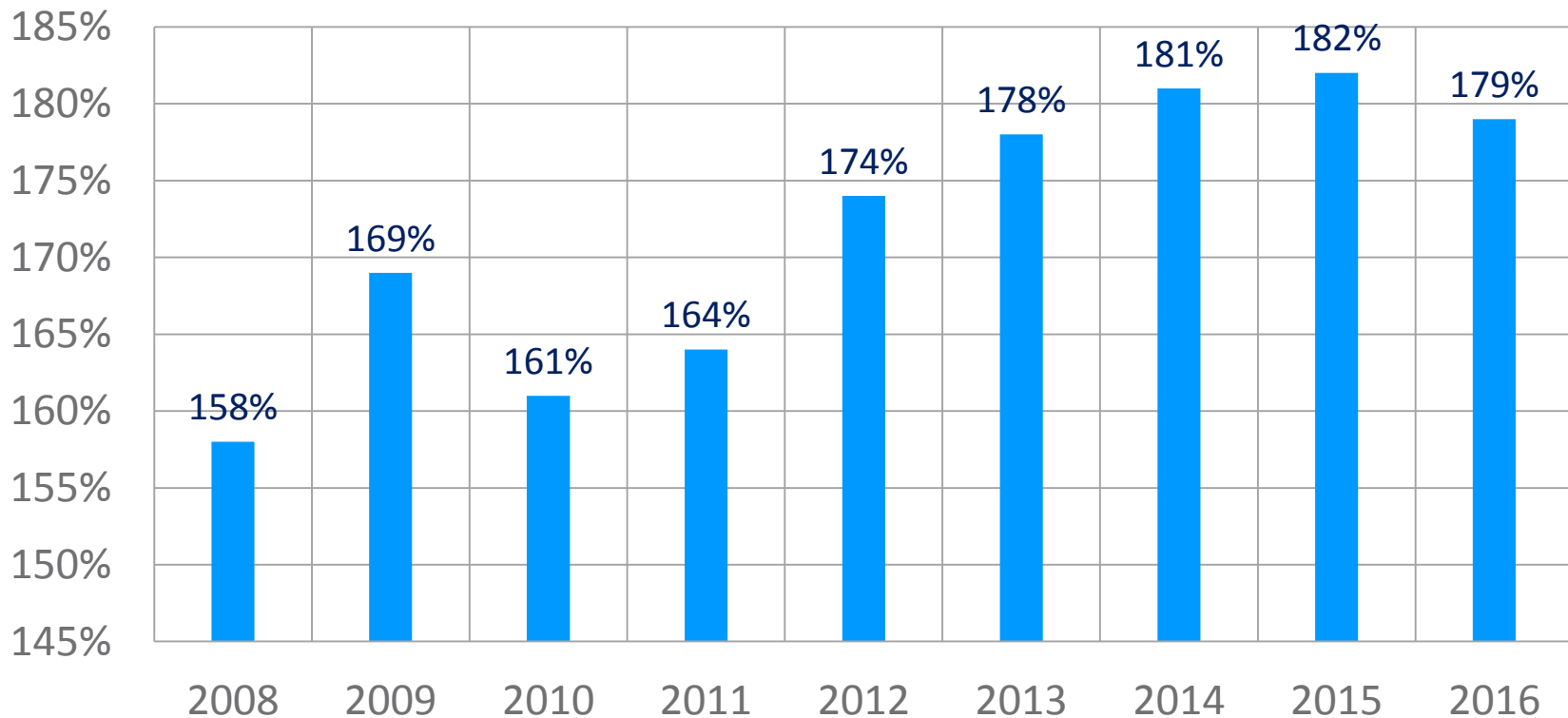
Achieving Lower Costs

- Population Health Management
 - Value/Risk-based contracting with payors
 - Medicare Shared Savings Program (ACOs)
 - Other ACOs

Macro Supply + Demand Factors

Achieving Lower Costs

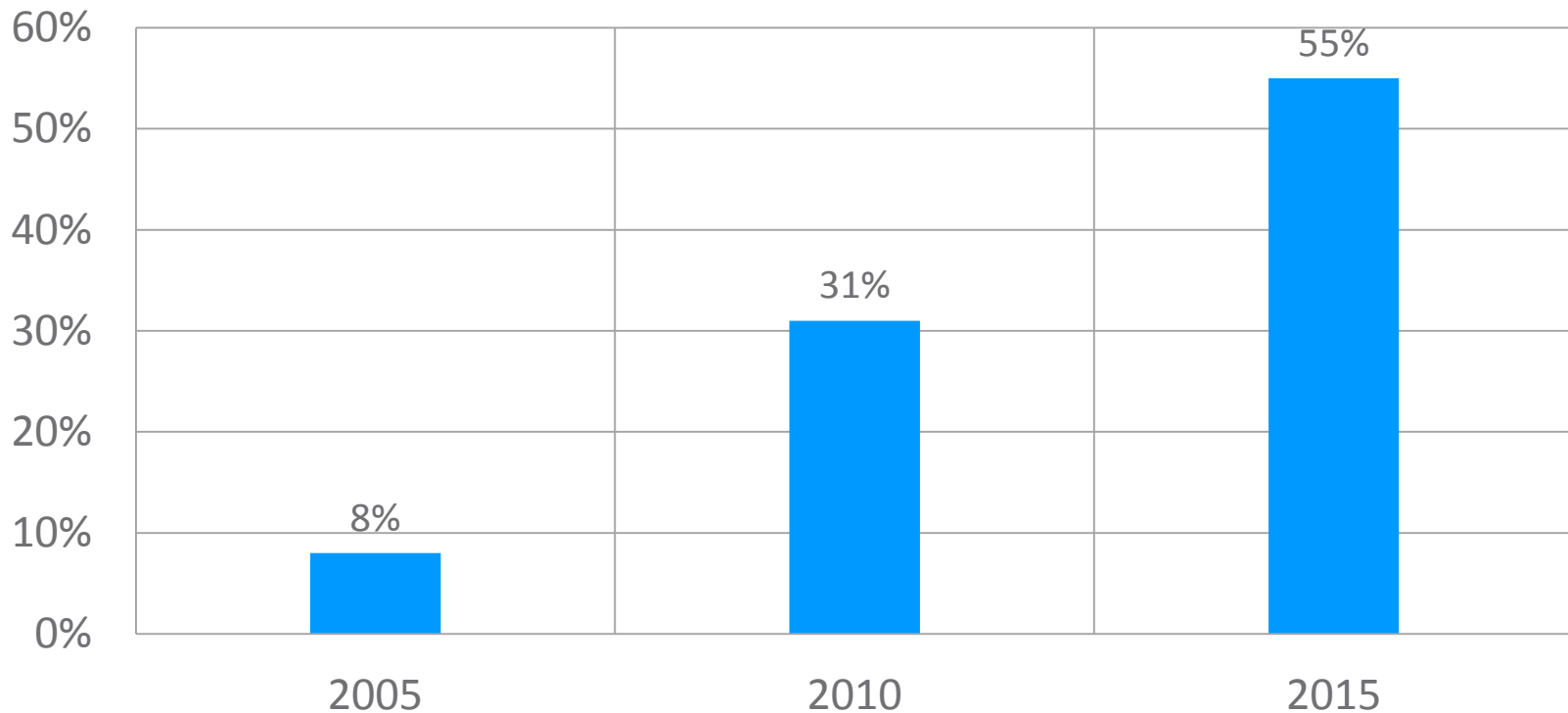
HOPD Medicare Rates as % of ASC Medicare Rates
By Year



Macro Supply + Demand Factors

Hospital Employment – Orthopedic Surgeons

% of Orthopedic Surgeons Employed By Integrated Delivery Systems

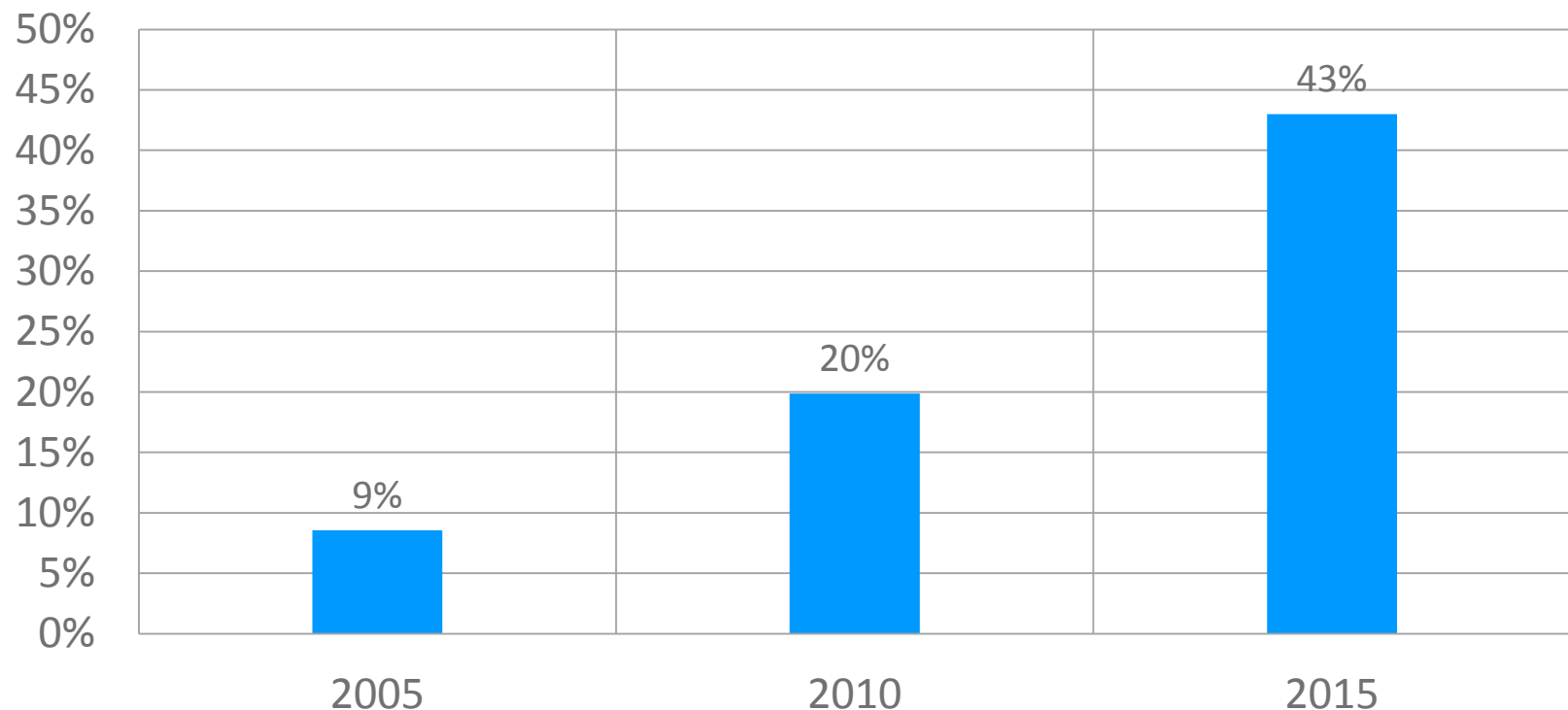


*Data compiled from 2005, 2010, and 2015 Medical Group Management Association, *Physician Compensation and Production Surveys*.

Macro Supply + Demand Factors

Hospital Employment - Gastroenterologists

% of Gastroenterologists Employed By Integrated Delivery Systems

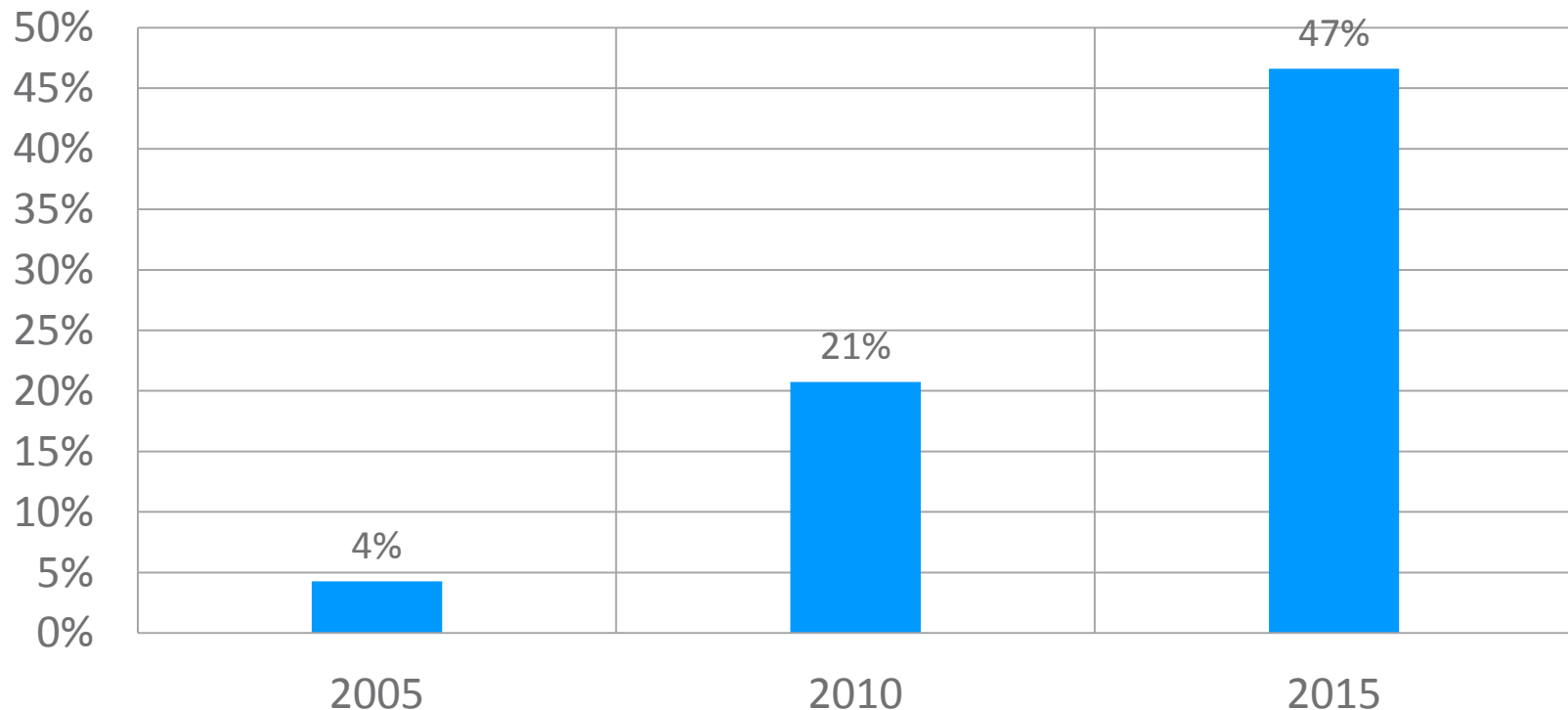


*Data compiled from 2005, 2010, and 2015 Medical Group Management Association, *Physician Compensation and Production Surveys*.

Macro Supply + Demand Factors

Hospital Employment - Pain Mgt Physicians

**% of Pain Mgt Physicians Employed
By Integrated Delivery Systems**

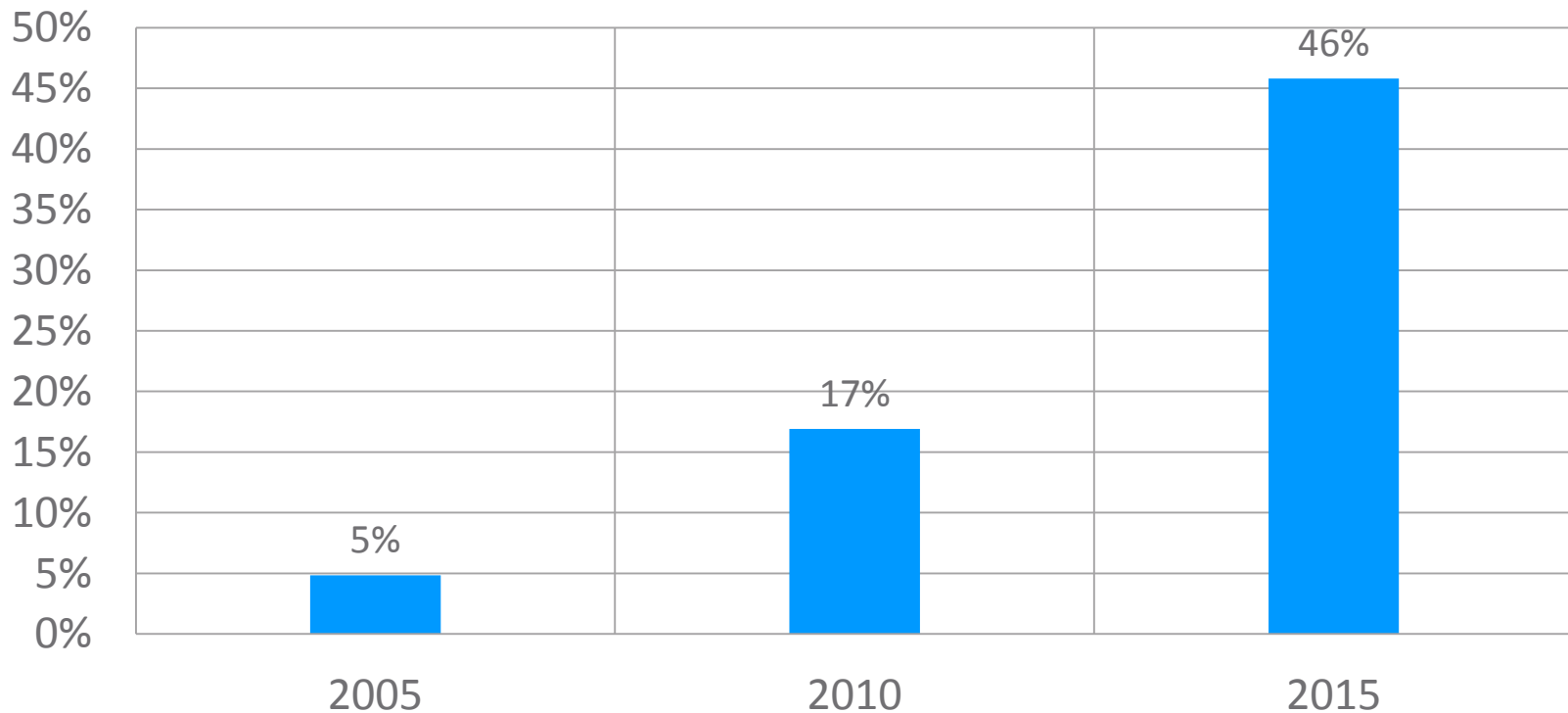


*Data compiled from 2005, 2010, and 2015 Medical Group Management Association, *Physician Compensation and Production Surveys*.

Macro Supply + Demand Factors

Hospital Employment - Urologists

**% of Urologists Employed
By Integrated Delivery Systems**

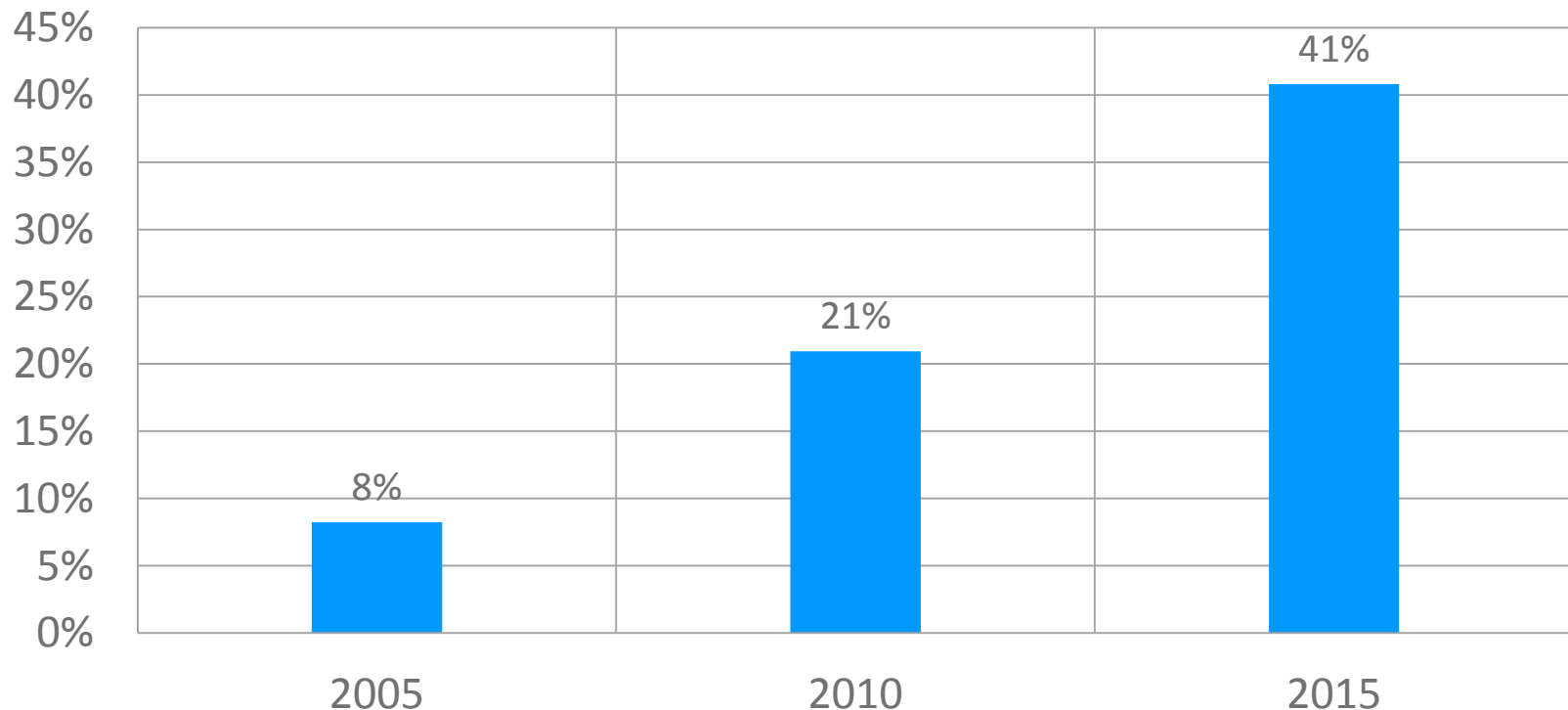


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Macro Supply + Demand Factors

Hospital Employment - Ophthalmologists

% of Ophthalmologists Employed By Integrated Delivery Systems

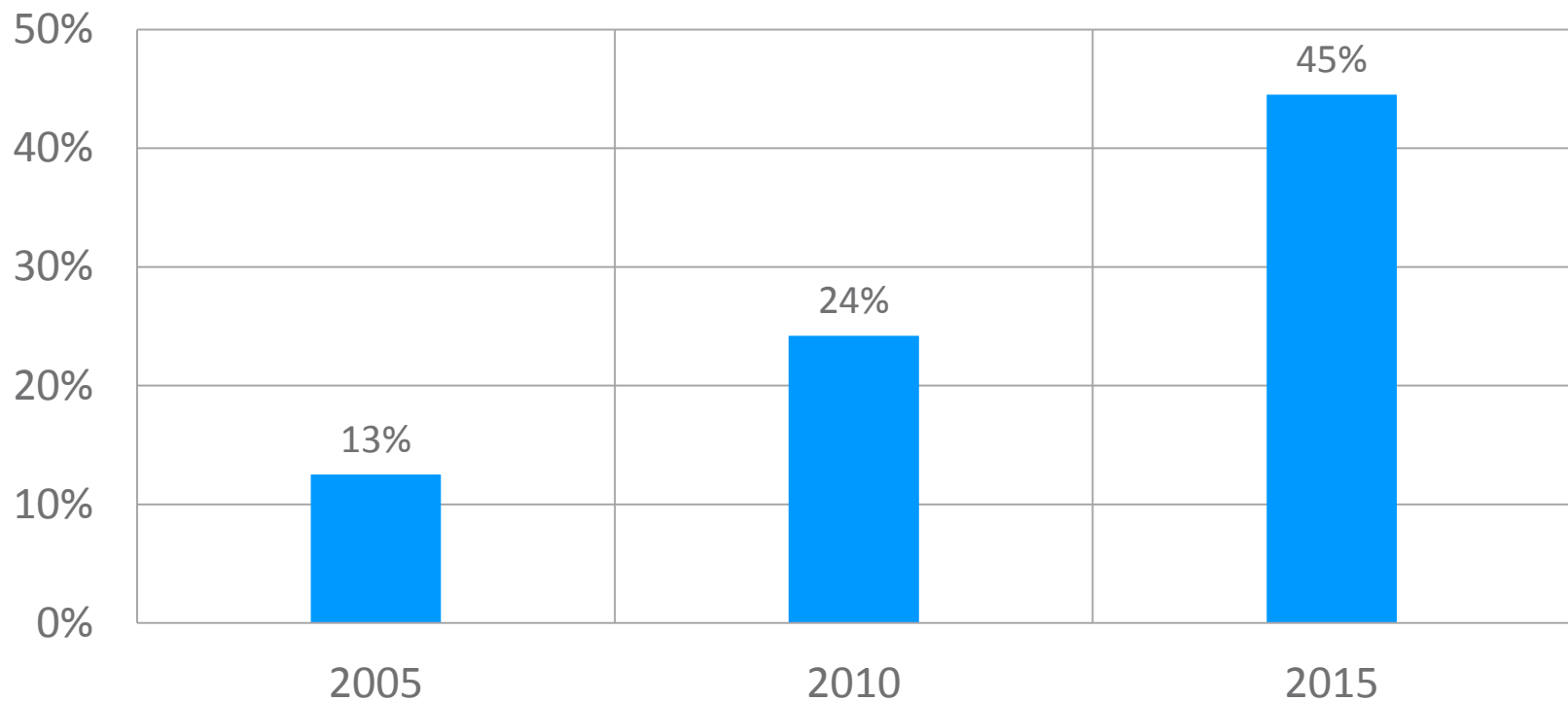


*Data compiled from 2005, 2010, and 2015 Medical Group Management Association, *Physician Compensation and Production Surveys*.

Macro Supply + Demand Factors

Hospital Employment - ENTs

**% of ENTs Employed
By Integrated Delivery Systems**

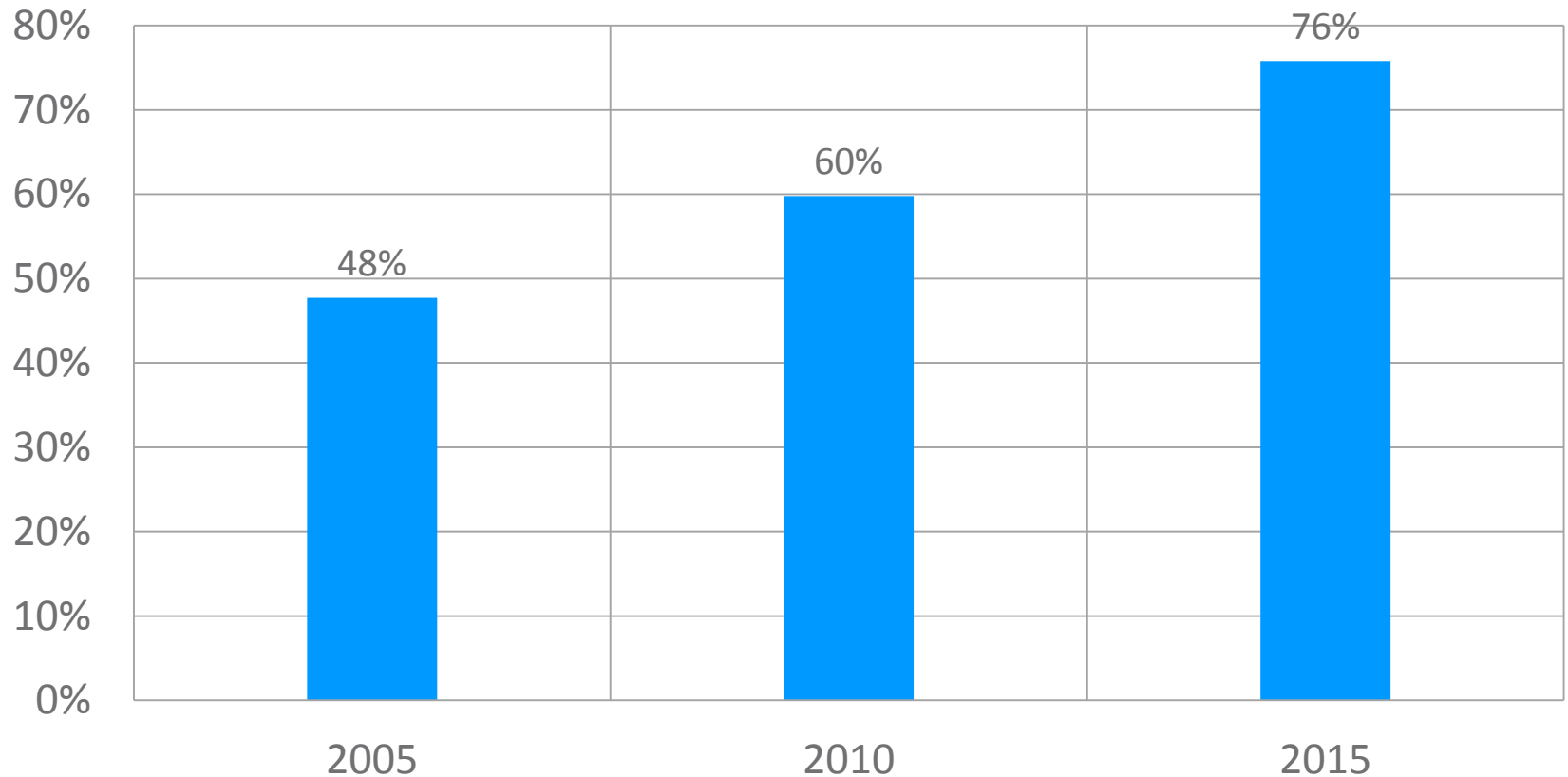


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Macro Supply + Demand Factors

Hospital Employment - Family Medicine

% of PCPs Employed by Integrated Delivery Systems

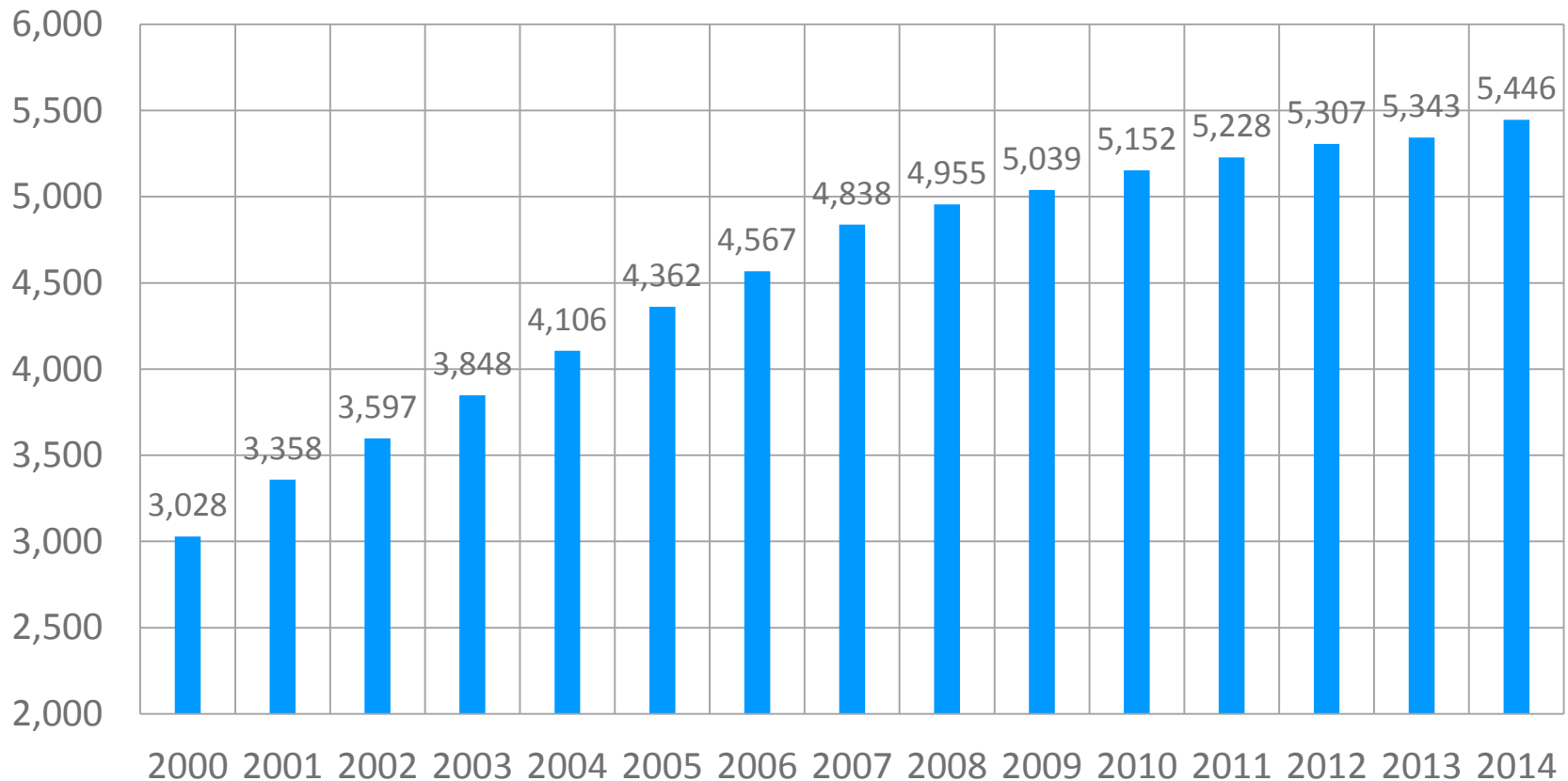


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Macro Supply + Demand Factors

Maturing Market

Number of Medicare-Certified ASCs by Year



Micro Supply + Demand Factors

Market-Specific Factors

- Size of primary service area
- Number of existing market participants
 - Hospitals/Health Systems
 - ASC Management Companies
 - Freestanding ASCs
 - Independent Surgeons
- State-Specific Items
 - Certificate of Need, reimbursement, employment
- Local economic and demographic conditions

Forms/Structures of Recent M&A Activity

- De Novos
- Existing Surgery Centers
 - HOPD
 - Freestanding
- Existing Surgery Centers as part of larger JOA
- Single + Multispecialty Surgery Centers
- Involvement of multiple types of market participants
- Other driving factors (*e.g.*, capital, contracts)

Forms/Structures of Recent JV Activity

Driving Forces Behind Contribution of HOPD

- Hospital's "position" within the local market
- Declining case volumes
- Engage experienced management company
- Recognition of possible payment neutrality
 - HOPD
 - Freestanding
- Less costly physician alignment opportunity
- Other local environment factors

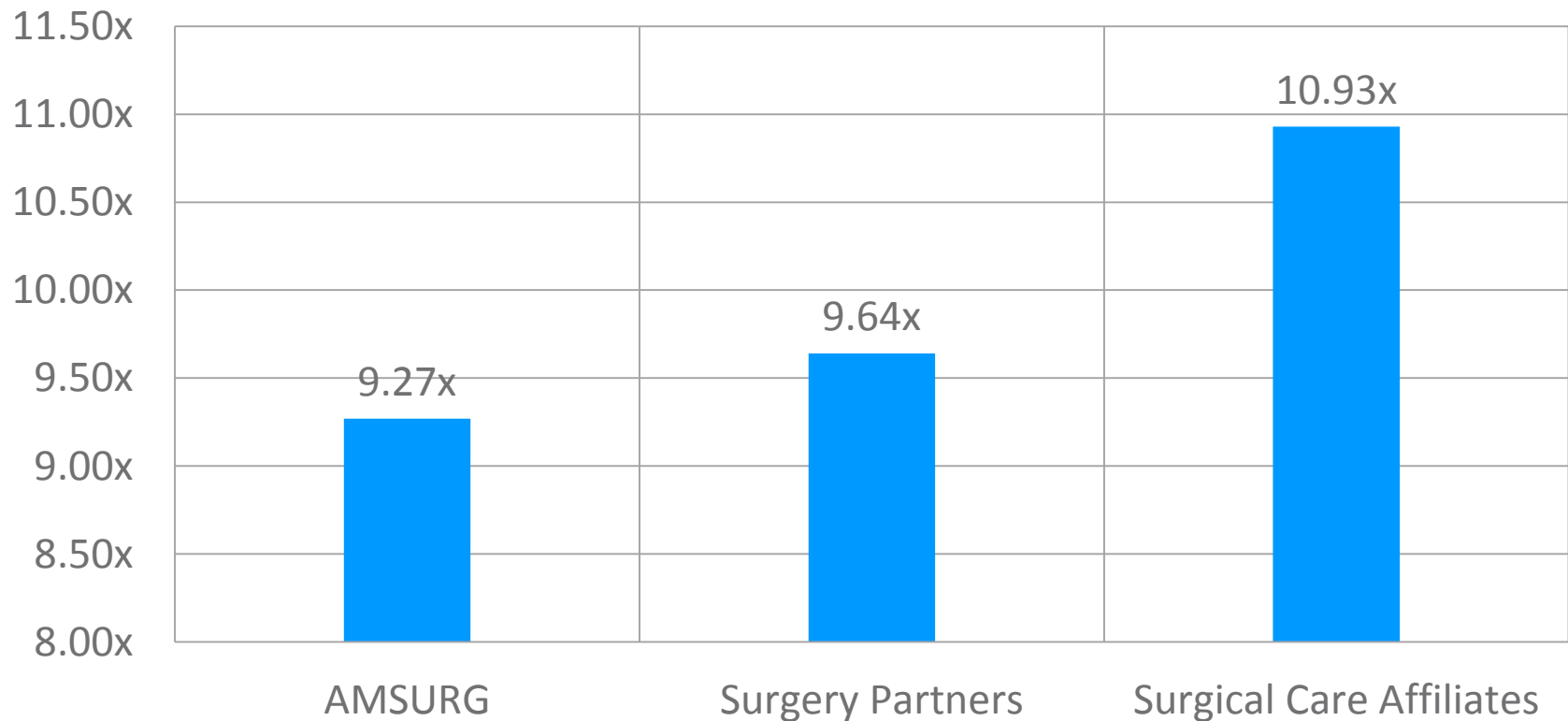
Valuation Overview and FMV Considerations

- Income Approach
 - Single Period vs. Multi Period
- Market Approach
 - Guideline Public Companies
 - Comparable Transactions
- Asset Approach
 - Net Asset Method

FMV Considerations

Guideline Public Companies

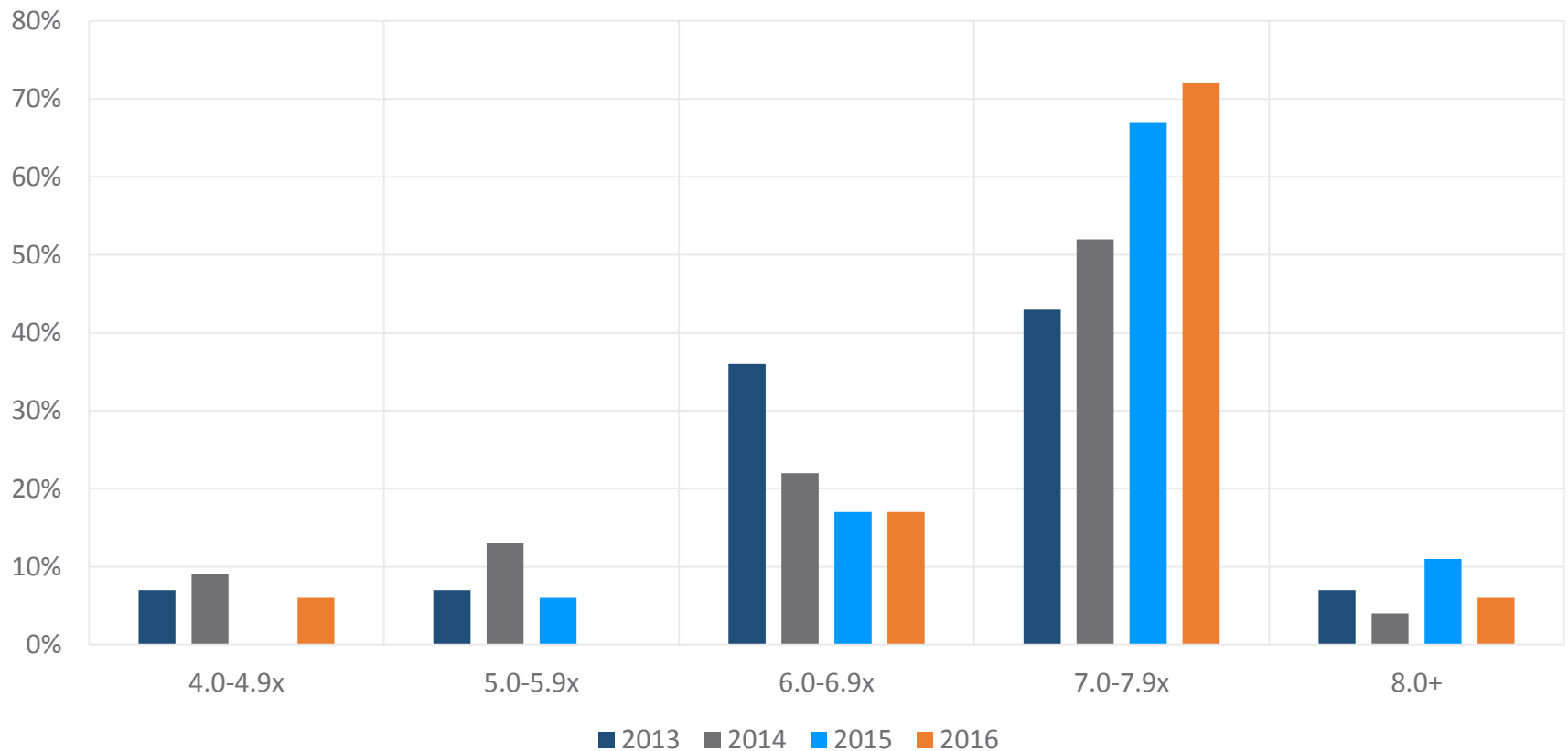
Trailing Twelve Month Valuation Multiples Enterprise Value / EBITDA



FMV Considerations

Comparable Transactions - HAI's Annual ASC Valuation Survey

EBITDA Multiple Trend for Controlling Interests
in Multi-Specialty ASCs



Common Errors/Pitfalls in FMV Analyses

- Forgetting to Adjust the Income Statement
 - Normalize Revenue
 - Fully Accounting for Appropriate Expenses
 - Fixed Costs
 - Management, billing and collecting, other
 - Supplies
- Use of Valuation Approach(es)
- Assessment of “Risk”
- Level of Value (Secondary Discounts)
- Adjusting for Stock vs. Asset Deal

Thank You!

Key Thoughts on ASC Valuations

Please contact me if you have questions regarding this presentation.

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