



HealthCare Appraisers

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Buying and Selling Units to Physician Investors: An Overview of Multiples and Current Trends in Valuation

Presented by Jason Ruchaber, CFA, ASA
Director of Business Valuation

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Presentation Outline

- Valuation Multiples
- Overview of 2010 ASC Valuation Survey (7th Year)
- Other Notable Observations
- Q&A

Valuation Multiples

First Question:

*“What is the $h^{**}l$ 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:

“Is your multiple as big as mine?”

Key Components of a Multiple

1. Earnings Stream

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

2. Risk

Not all earnings are the same! Two ASCs with \$1.0 of earnings may have completely different risk profiles.

Higher Risk = Lower Multiple

3. Growth

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

Valuation Multiples

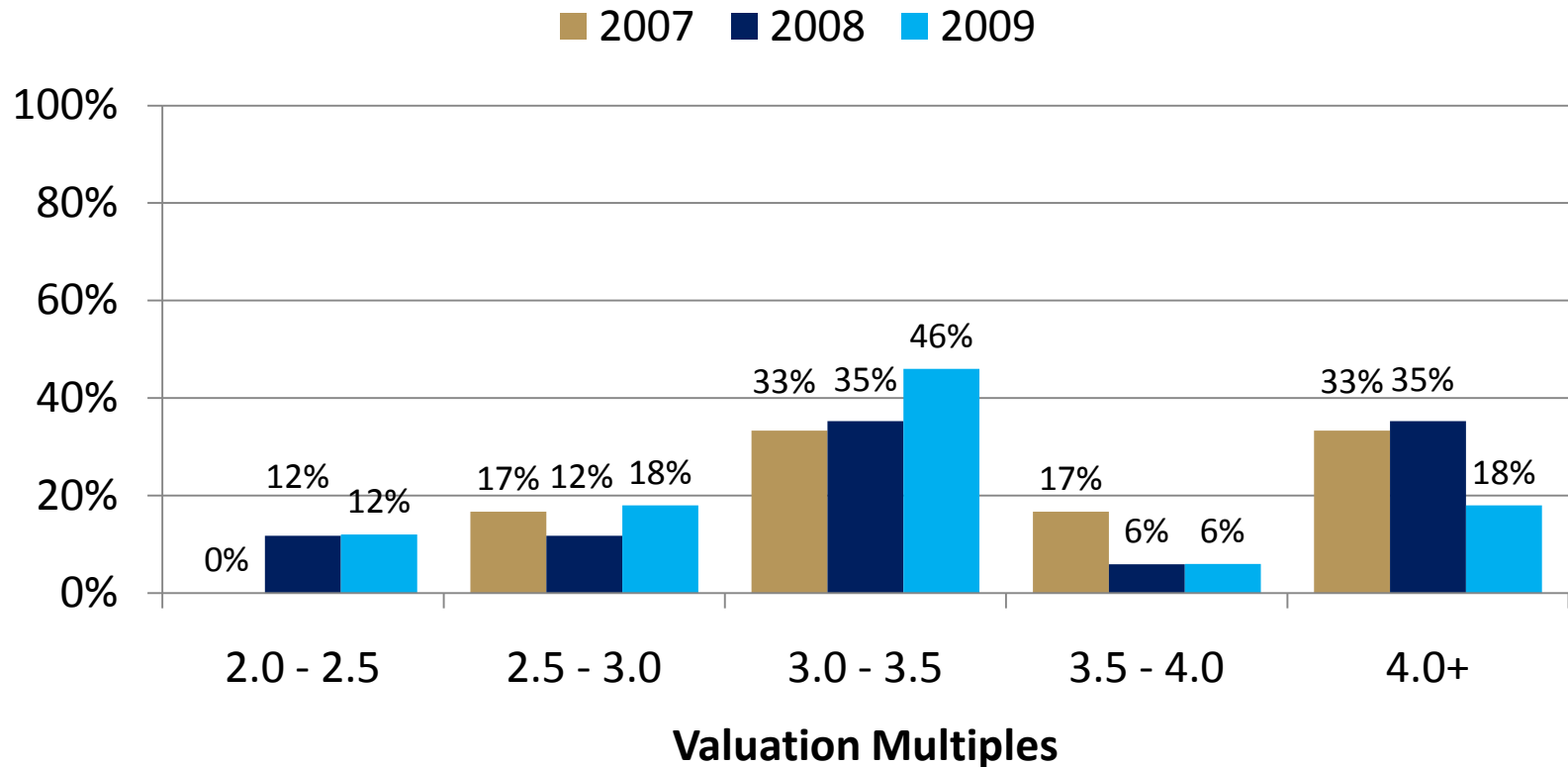
Last Question:

“Yeah that’s all fine and good, but what are the current ASC multiples?”

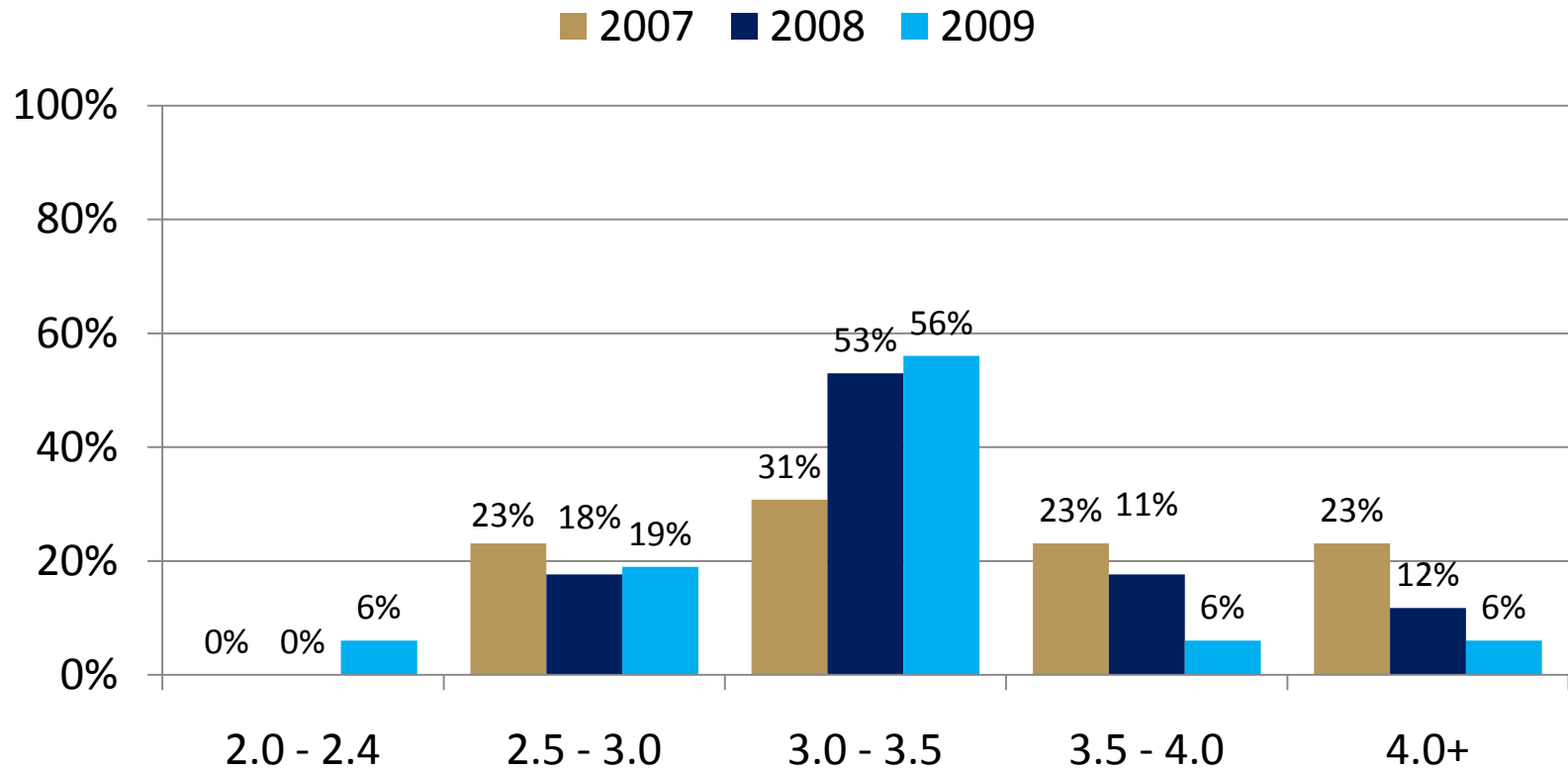
Overview of 2010 ASC Valuation Survey

- Generally, valuation multiples have decreased during the last year
- With the exception of Plastic Surgery, all surgical specialties are viewed as desirable in an ASC
- Out-of-Network ASCs continue to be priced lower
- Survey respondents are split evenly between those who believe the acquisition activity is decreasing, staying the same, and increasing.

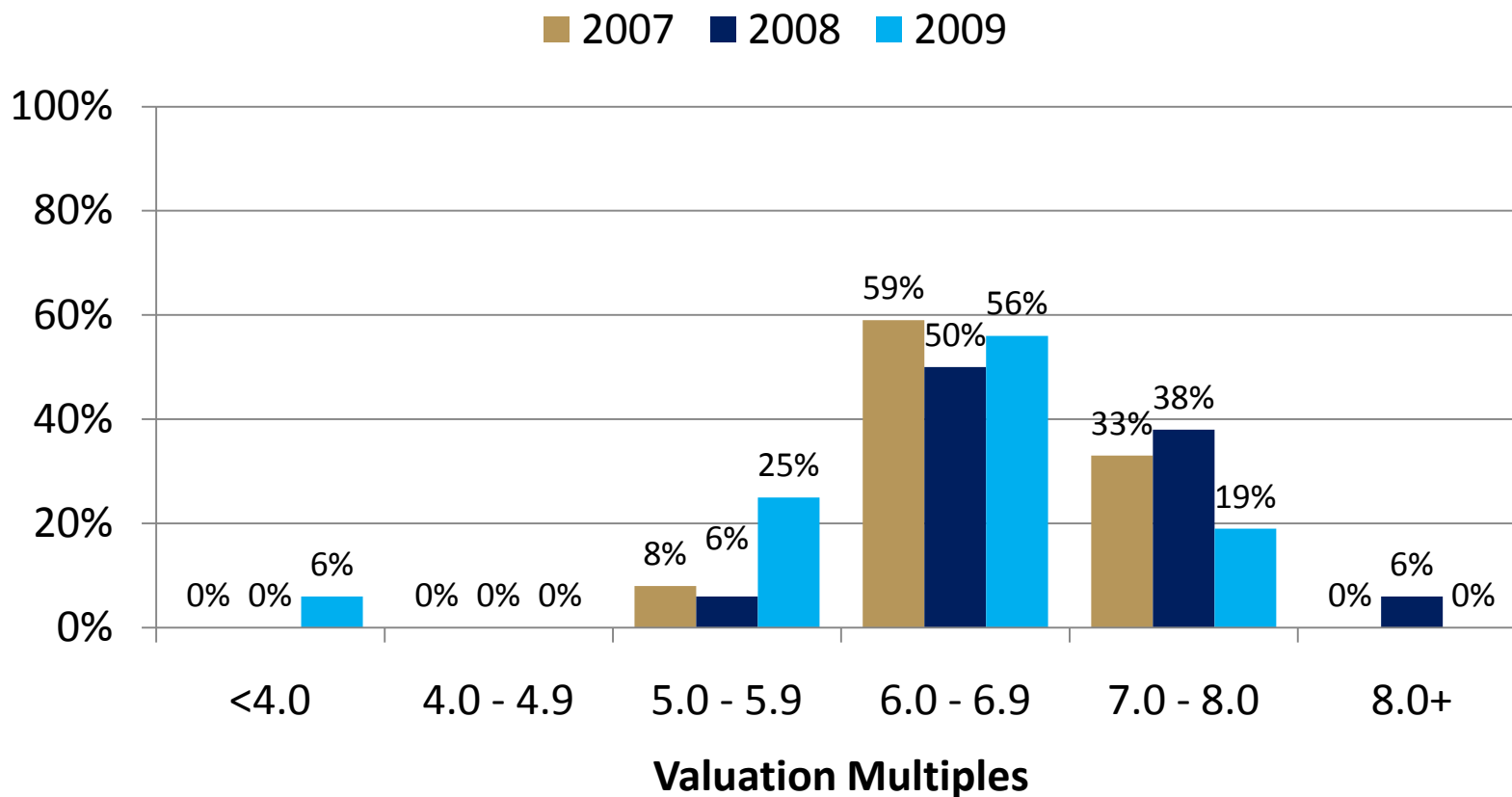
Minority Interest Redemptions



Minority Interest Buy-Ins



Controlling Interest Valuation Multiples



Preferred Surgical Specialties

Data sorted by specialty most desired to least desired

	Undesirable	No Preference	Desirable
General Orthopedics	0%	6%	94%
Orthopedic Spine	0%	12%	88%
Ophthalmology	12%	6%	82%
ENT	0%	24%	76%
Pain Management	0%	24%	76%
GI	12%	18%	70%
General Surgery	0%	35%	65%
Podiatry	12%	29%	59%
Urology	18%	35%	47%
GYN	12%	59%	29%
Plastic Surgery	82%	18%	0%

Impact of Out-of-Network Strategy

Impact Expressed in Multiples of EBITDA	% Respondents
<0.25x	12%
0.26x - 0.50x	29%
0.51x - 0.75x	6%
0.76x - 1.0x	35%
>1.0x	18%

Other Notable Observations

- 69% of Respondents list EBITDA as the primary earnings measure relied upon. Others rely upon Cash Flow.
- 88% of respondents report paying a premium of greater than 0.25x to acquire an ASC in a CON state; 18% report paying a premium of greater than 1.0x
- 71% of respondents indicate that new physician investors are required to personally guarantee a pro rata share of the ASC debt.

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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Jason Ruchaber, CFA, ASA
Director of Business Valuation

Denver Office

858 Happy Canyon Rd.

Suite 240

Castle Rock, CO 80108

(303) 688-0700

www.HealthCareAppraisers.com