

2009 Physician Hospital Valuation Survey

Presented by:

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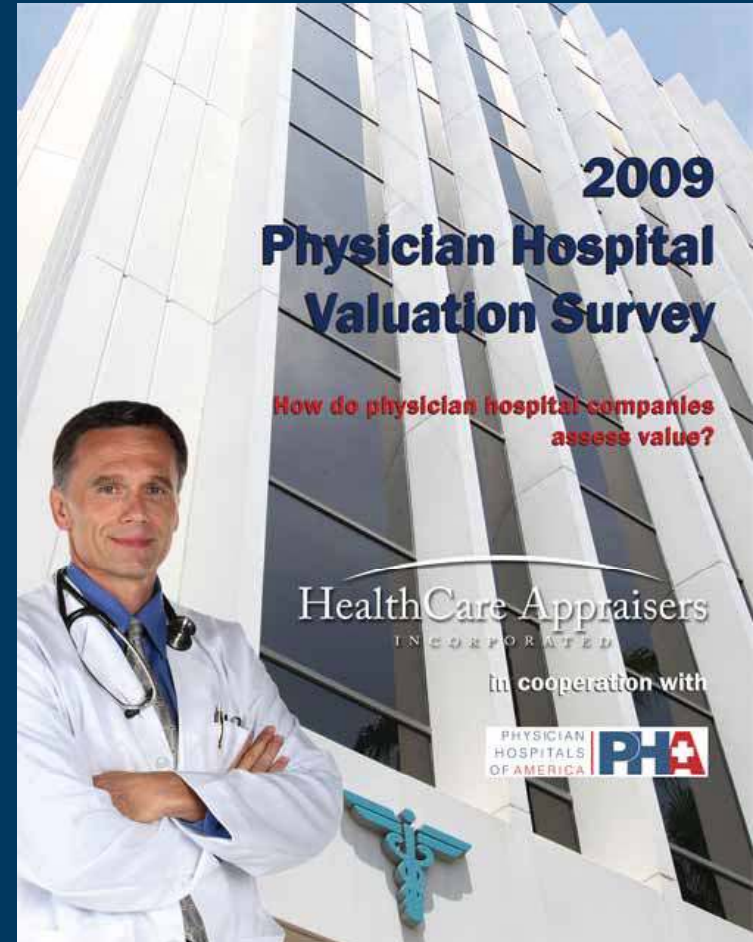
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HealthCare Appraisers, Inc.

In Cooperation with Physician Hospitals of America

2009 Physician Hospital Valuation Survey

- Surveyed physician hospital industry to determine:
 - Trends in both the value of physician hospital ownership interests and the management fees charged to these entities
- 30 Survey respondents representing more than 100 hospitals



Valuation Multiples & Methodologies

- When purchasing a controlling interest in a physician hospital:
 - 54% reported prevailing valuation multiples of 5.0 to 6.9 times EBITDA*
 - 18% reported higher valuation multiples
 - 28% reported lower multiples

Valuation Multiples	% Respondents
< 4.0	9%
4.0 to 4.9	19%
5.0 to 5.9	27%
6.0 to 6.9	27%
7.0 to 7.9	9%
8.0+	9%

**EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization*

Valuation Multiples & Methodologies

- 40% perceive that valuation multiples have stayed consistent with the prior year.
- 55% perceive that multiples have decreased.
- Only 5% believe multiples are increasing.

Change in Valuation Multiples	% Respondents
No Change from previous year	40%
Decreasing	55%
Increasing	5%

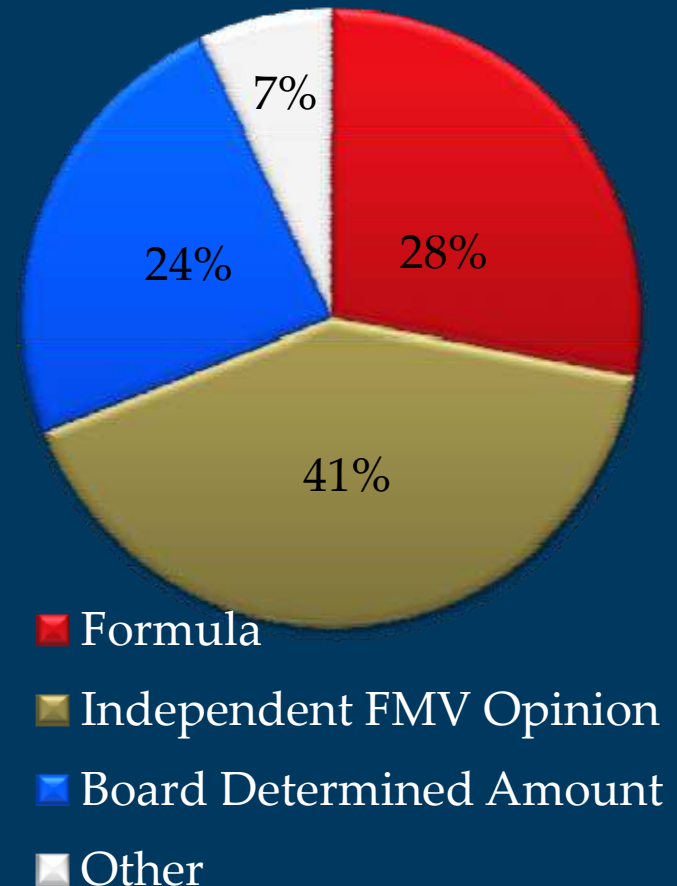
Valuation Multiples & Methodologies

- When buying out retiring or departing physicians:
 - Half pay between 3.0 to 4.9 times EBITDA.
 - 25% pay a multiple of 5.0 times or higher.

Valuation Multiples	% Respondents
< 2.0	17%
2.0 to 2.9	8%
3.0 to 3.9	13%
4.0 to 4.9	37%
5.0 to 5.9	17%
6.0+	8%

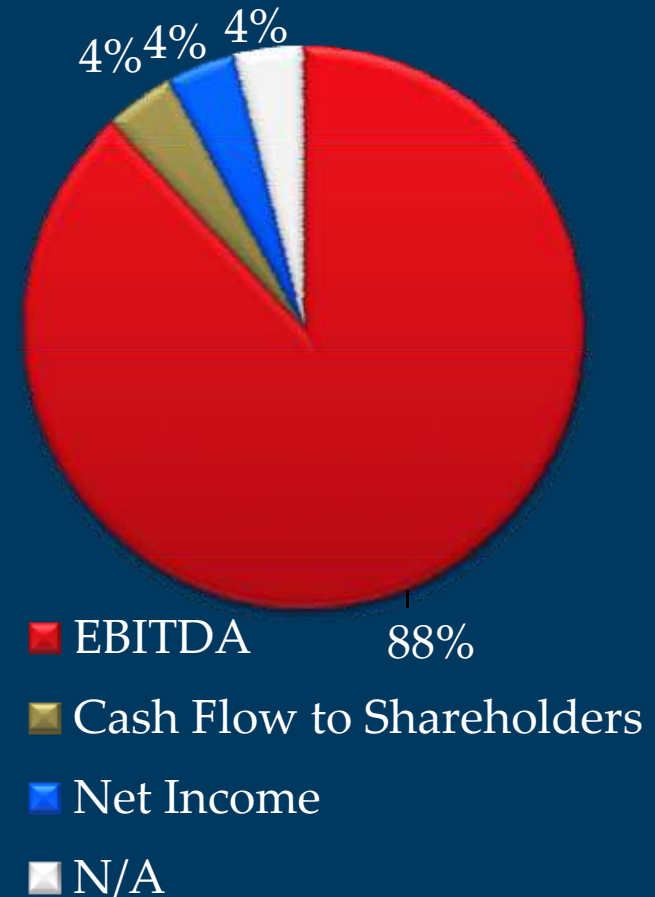
Valuation Multiples & Methodologies

- When buying out retiring or departing physicians, 52% base the redemption price on a predetermined formula.
- For new physician investors:
 - 28% use a formula to establish the buy-in price.
 - 24% allow the board to determine the purchase price.
 - 41% obtain an independent, fair market value opinion.



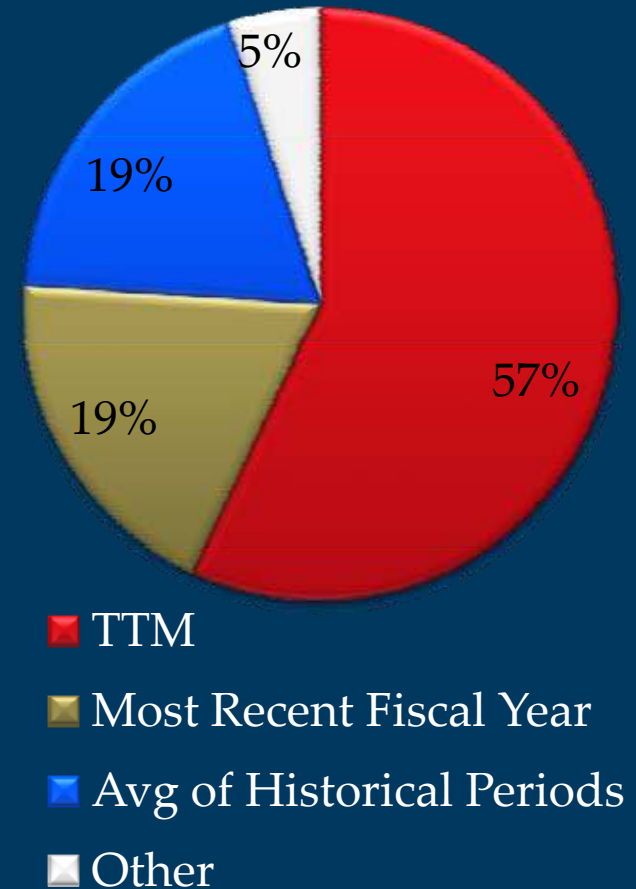
Valuation Multiples & Methodologies

- Regarding the measure of profitability utilized by the respondents, 88% measure earnings based on EBITDA.



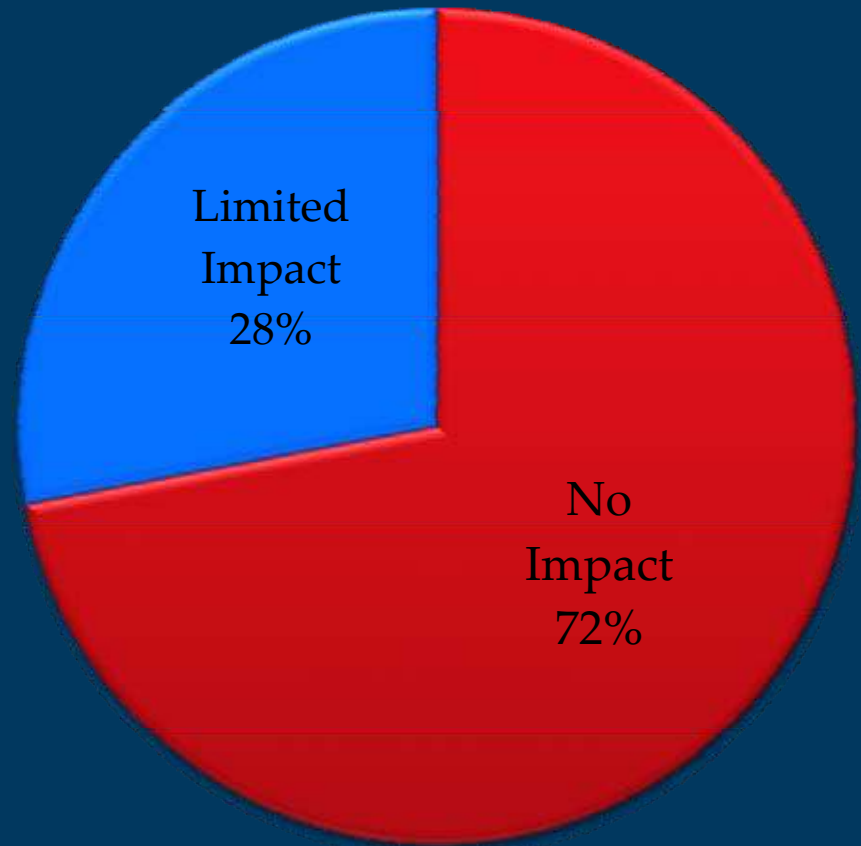
Valuation Multiples & Methodologies

- In valuing potential acquisitions:
 - 57% look at trailing 12 months of financial data.
 - 19% rely on the most recently completed fiscal year.
 - 19% utilize an average or weighted average of historical periods.



Valuation Multiples & Methodologies

- With respect to political proposals related to banning or limiting self-referral to physician-owned hospitals:
 - 72% report that this has no impact on the valuation process.



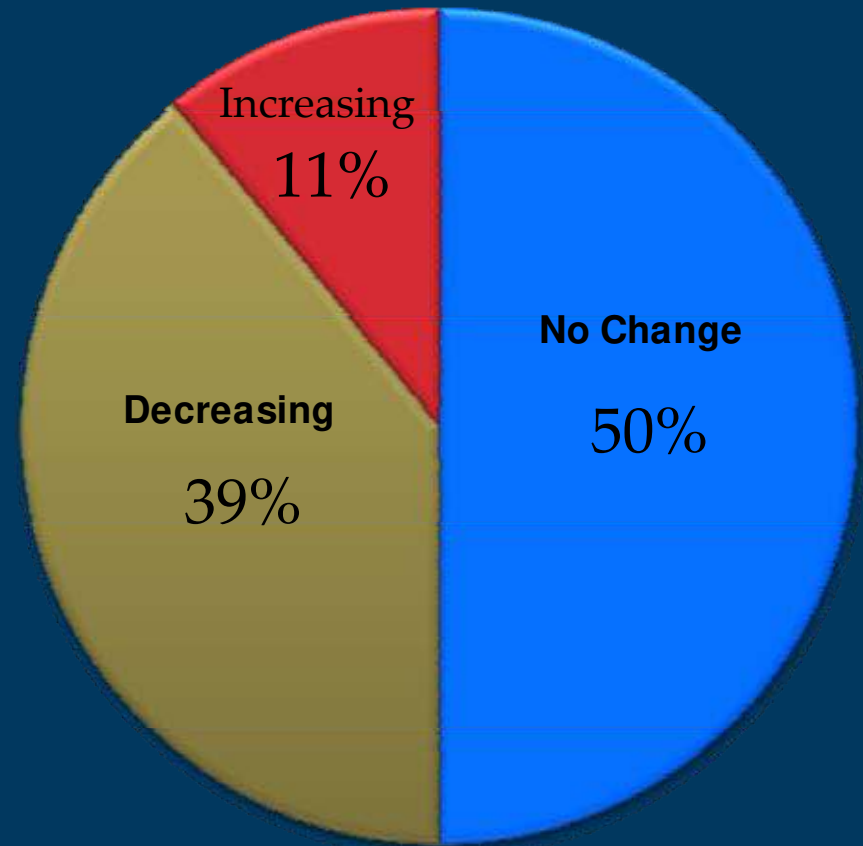
Valuation Multiples & Methodologies

- 81% of respondents report that President Obama and the Democratic majority in Congress have a negative effect on the outlook for physician hospitals.
- 26% indicated that the effect is very negative.

Impact on Outlook	% Respondents
Positive	4%
Slightly Positive	4%
No Impact	11%
Slightly Negative	29%
Negative	26%
Very Negative	26%

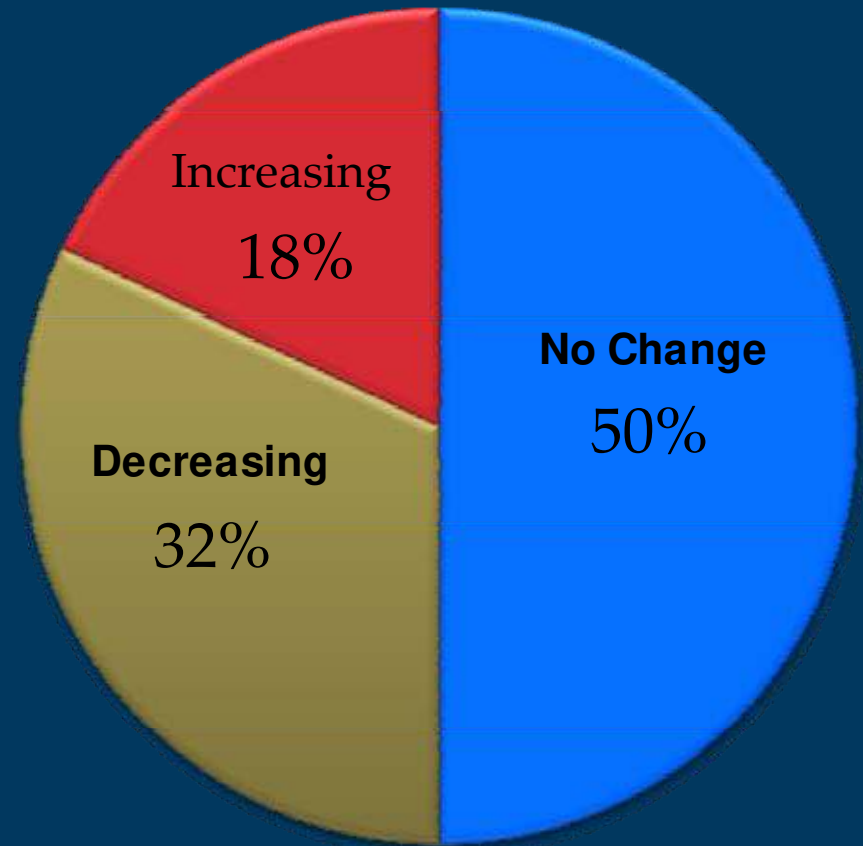
Transaction Activity

- For acquisition activity over the past year:
 - 39% reported that acquisition activity in the physician hospital market is declining.
 - Half indicated that there has been no change in activity from the prior year.



Transaction Activity

- Regarding competition for acquisitions during the past year:
 - 32% reported that competition for physician hospital investment opportunities has declined.
 - 18% reported that competition has increased.
 - Half reported no change.



Transaction Activity

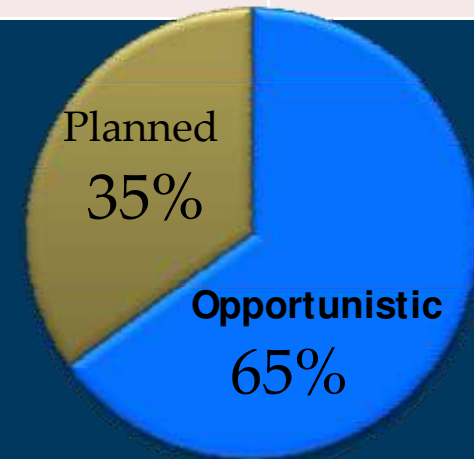
- During 2008:
 - 63% of respondents reported performing due diligence for physician hospital acquisitions.
 - But only 21% actually completed one or more acquisitions.
- When bidding on acquisition targets:
 - Half report 2 to 3 bidders.
 - 30% report 4 or more bidders.

Number of Hospitals Purchased	% Respondents
None	79%
1	7%
2	10%
3	4%
Potential Acquirers	% Respondents
1	20%
2 to 3	50%
4 to 5	20%
6+	10%

Transaction Activity

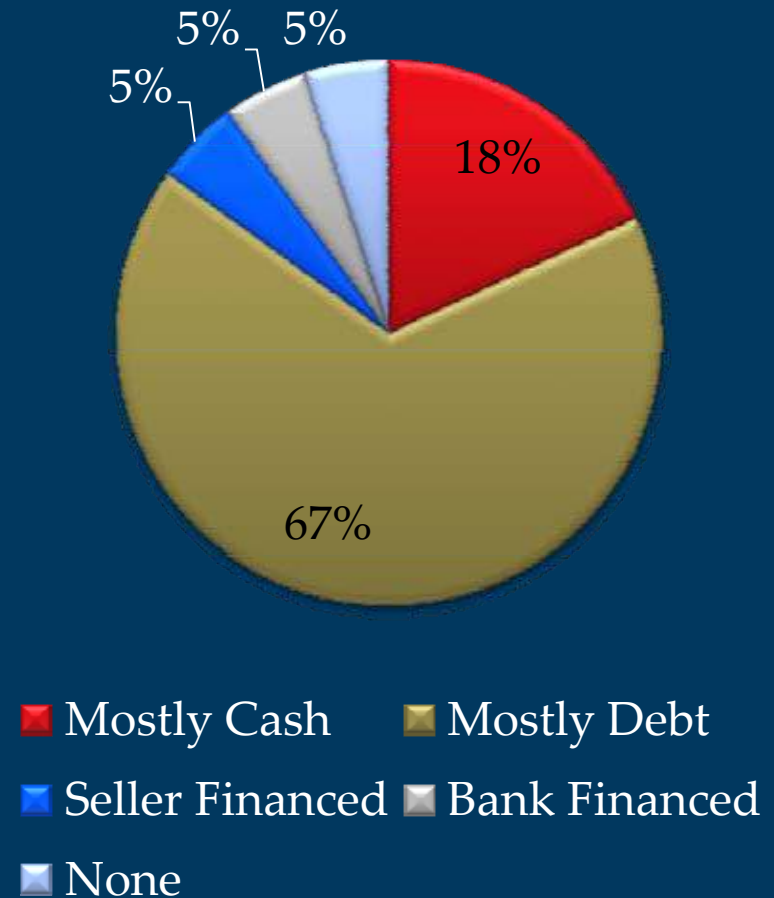
- For 2009:
 - 42% of respondents plan to purchase between 1 to 3 physician hospitals.
 - Of these, 10 respondents plan to close only 1 transaction, and 5 plan to purchase between 2 and 3 hospitals.
 - 65% were opportunistic when selecting physician hospital opportunities.

Number of Hospitals to Purchase	% Respondents
None	58%
1	28%
2	7%
3	7%



Transaction Activity

- More than two-thirds of the respondents fund their acquisitions principally through debt.
- 18% fund principally with cash.



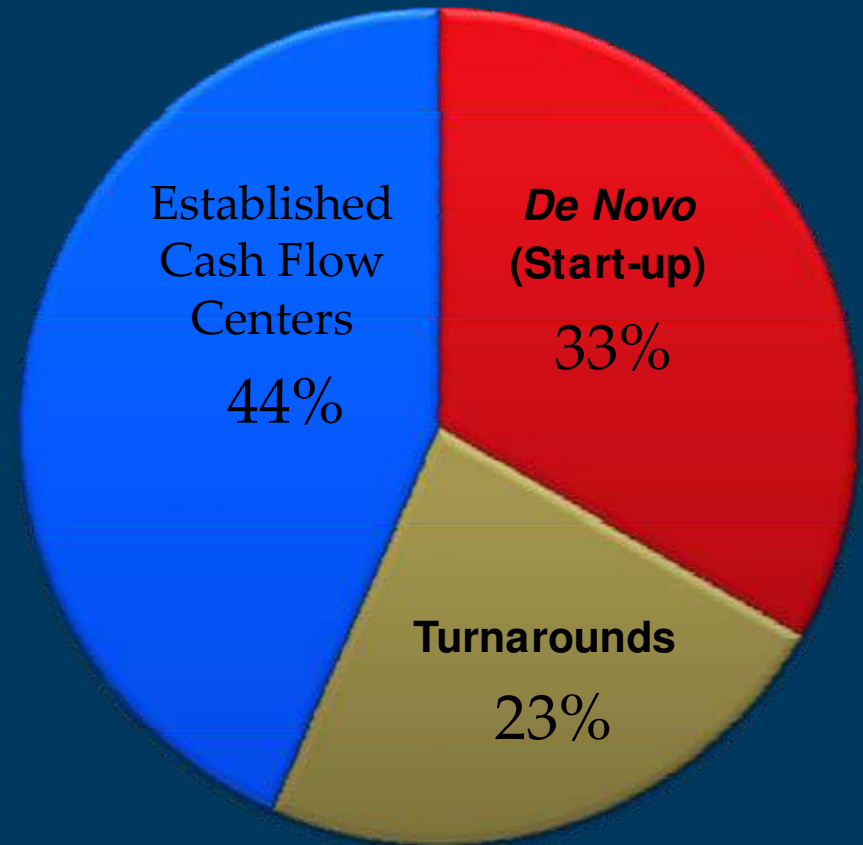
Transaction Activity

- Regarding acquisition opportunities:
 - 71% will consider an acquisition opportunity regardless of the magnitude of the investment.
 - 21% will not consider an investment of more than \$50 million.

Investment Level (Buy-in Price)	% Respondents
\$15,000,000	8%
\$50,000,000	13%
Not Applicable –any potential investment is considered	71%
Not Applicable - other	8%

De Novo (Start-up) vs. Purchase

- With respect to acquisition strategy:
 - One-third of the respondents seek *de novo* opportunities.
 - 23% seek turnaround opportunities.
 - 43% seek established cash-flowing centers.



De Novo (Start-up) vs. Purchase

- For a start-up hospital, 54% of respondents reported “buy-in” prices of less than \$75,000 per 1% interest.

Start-up Share Pricing Per 1%	% Respondents
< \$50,000	29%
\$50,000 - \$75,000	25%
\$75,001 - \$100,000	8%
\$100,001 - \$150,000	21%
\$150,001 - \$200,000	4%
\$200,001 - \$250,000	13%

De Novo (Start-up) vs. Purchase

- Regarding preferred equity ownership:
 - Respondents were fairly evenly spread on the ownership interest they seek to purchase.
 - 42% of respondents indicated that a 50-75% ownership interest was most desirable.

Preferred Equity Ownership	% Respondents
< 10%	13%
11% to 29%	20%
30% to 50%	17%
51% to 75%	42%
> 75%	8%

Preferred Physician Specialties

- Strongly desired specialties for physician-investors:
 - Orthopedics
 - Spine
 - General surgery
 - ENT
 - Gastroenterology
- Cosmetic surgery and oncology were identified as undesirable specialties in a physician-owned hospital.



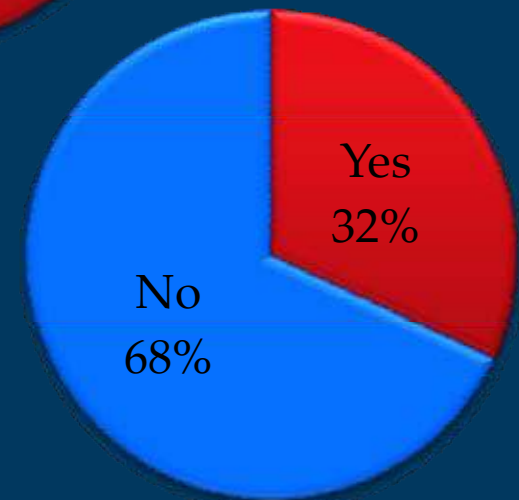
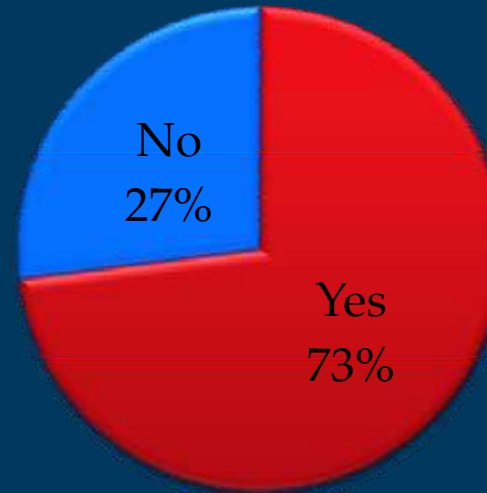
Management Fees

- Majority of respondents reported management fees ranging from 5-6% of net revenue.
 - 50% listed 5% as the minimum fee.
 - 50% listed 6% as the maximum fee.

% of Net Revenue	% Respondents Min. Fee	% Respondents Max. Fee
3%	25%	–
4%	15%	–
5%	50%	22%
6%	–	50%
7%	–	11%
Other/Flat Fee	10%	17%

Management Fees

- 73% of respondents indicate that they have an equity position in the hospitals they manage.
- However, 68% of the respondents indicate that equity ownership has no influence on the level of the management fee charged.



Thank You

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