



health inventures™

A large, semi-transparent image of surgical lights is positioned in the background, spanning across the middle of the slide. The lights are circular and have a glowing greenish-blue hue. The text is centered over this image.

# ASC Ownership Considerations for Hospitals and Health Systems

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*Real Partnership. Real Performance.*

# Agenda

- Introductions
- Market dynamics
- Future role of surgery centers
- Ownership alternatives
- Evaluating alternatives
- Key success factors

# About Health Inventures

- ③ 17 year old privately held company based in Denver, CO
- ③ A surgical services and practice management company creating high performing physician-hospital partnerships for improved clinical and financial outcomes
- ③ Historical core business is to develop and operate ambulatory surgery centers (ASCs) in joint partnership with hospitals and doctors
- ③ Have developed over 100 ASCs, and currently have 30 managed facilities across the United States
  - All are physician-hospital joint ventures (“JVs”)

# HI Services



**ASC and Surgical Hospital Services:** From development, physician-hospital joint-venture formation and operations management, to assistance with acquisitions and selling facilities we deliver strong financial and clinical performance for all stakeholders.



**Perioperative and Anesthesia Services:** With a team of multidisciplinary experts in surgery operations, clinical effectiveness, expense management and revenue cycle, we help create rapid stability in this vital area and lay the foundation for long-term surgical growth and clinical excellence.



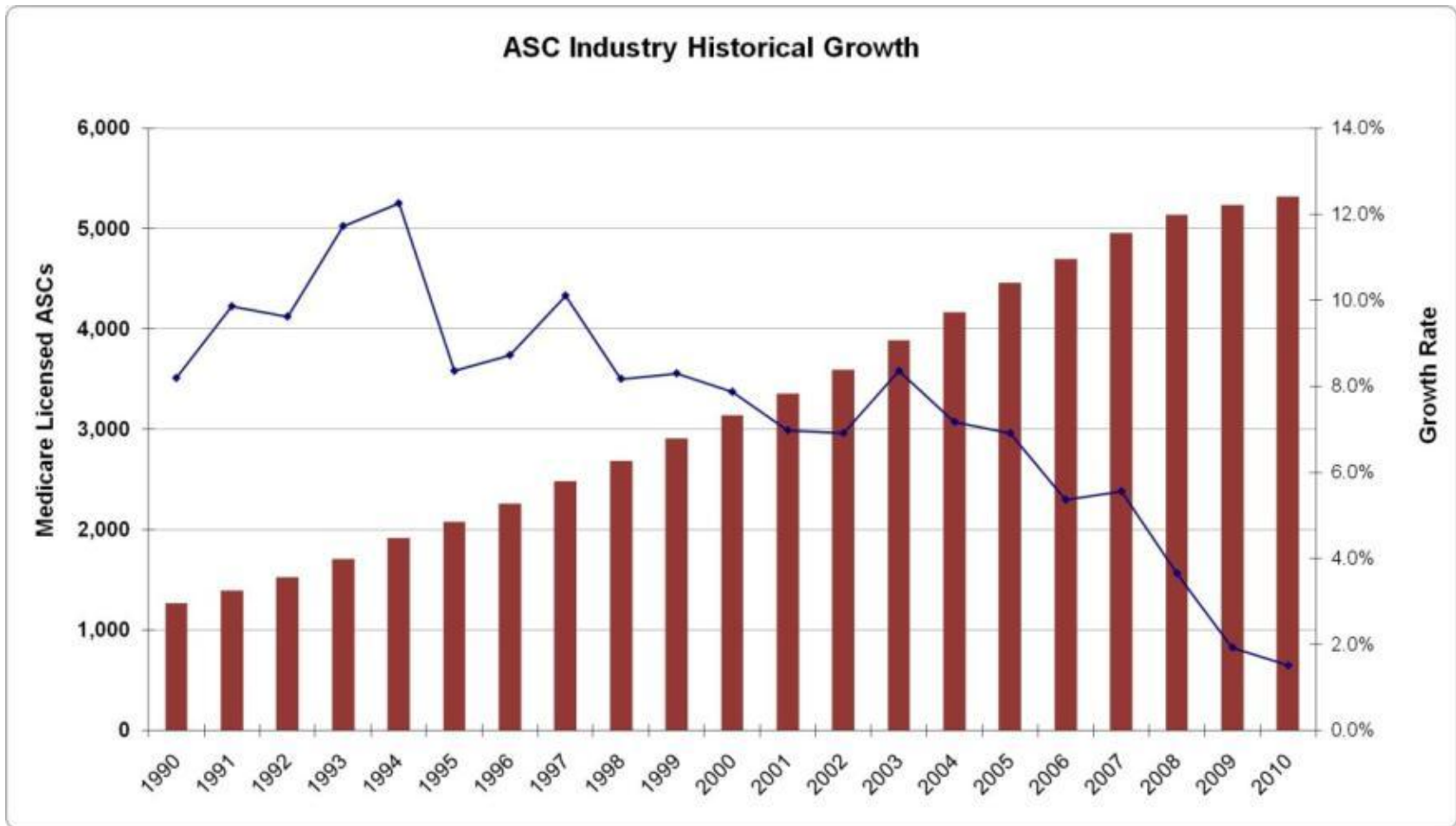
**Physician Services:** From planning and group formation to medical group performance improvement, all the way through long-term medical group management, the results are simple: improved physician enterprise value.



**HR and Employment Services:** For help managing the increasingly complex employment challenges, such as Benefits, Workers Compensation and Unemployment Claims, Payroll and Payroll Tax Compliance, Employee Relations and Risk Management. We have the expertise and the track record to help you reduce liability and increase profitability—today and tomorrow.

# MARKET DYNAMICS

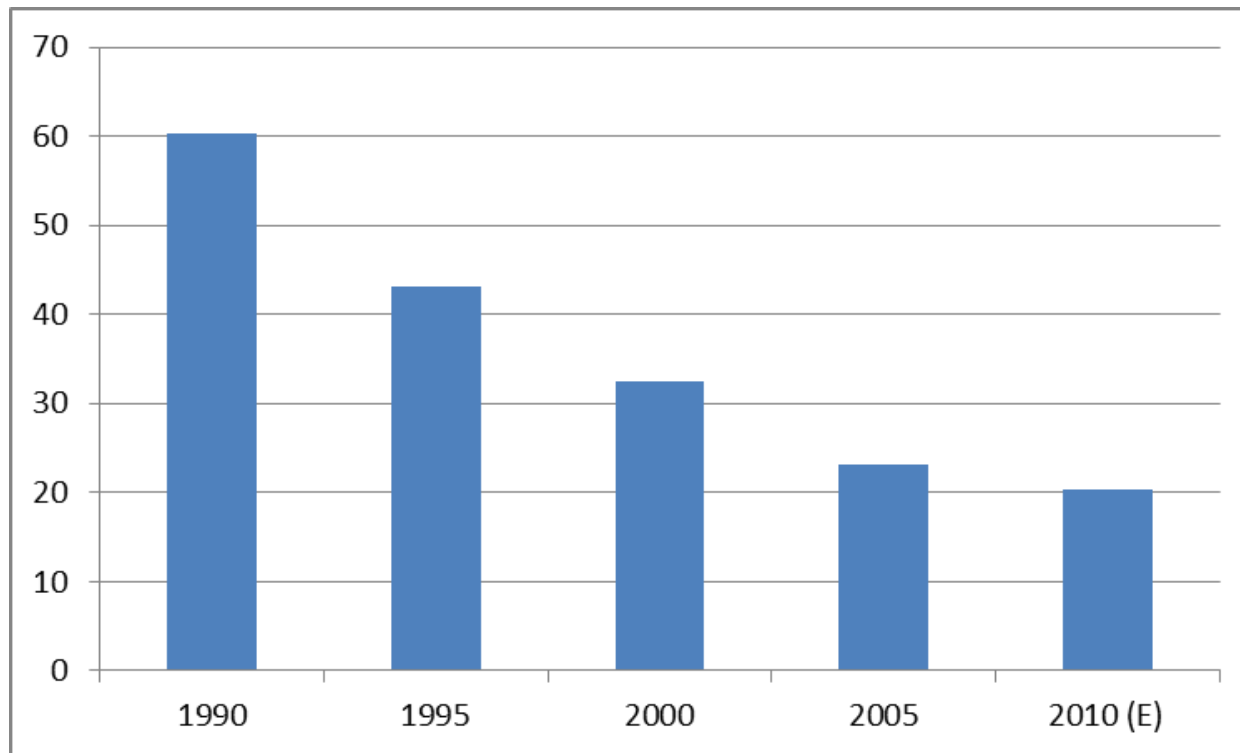
# Freestanding ASC Growth



Source: Centers for Medicare & Medicaid Services

# Physicians Available to Invest in ASCs

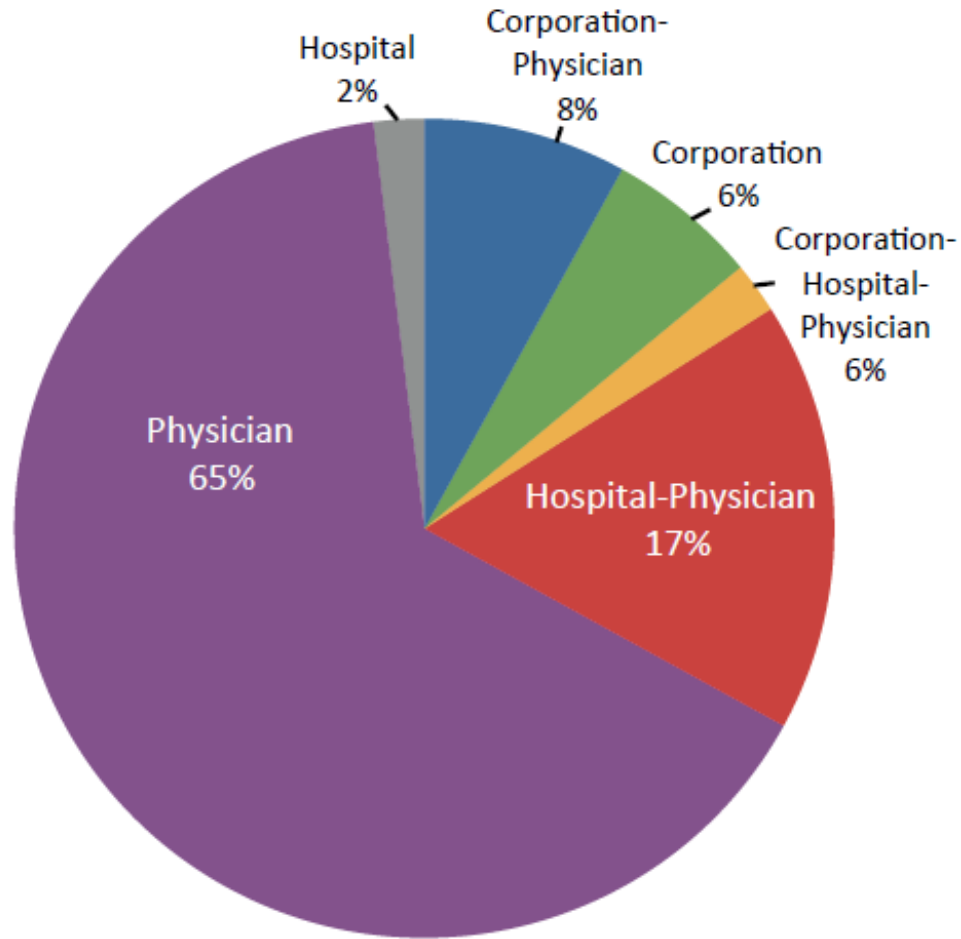
*A Barrier to ASC Growth: Number of ASC Eligible Surgeons per ASC in the US*



Source: "Ambulatory Surgery Centers: Annual Survey Shows Growth Continues to Slow," Deutsche Bank, February 4, 2008

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# ASC Ownership



ASCA's 2011 ASC Employee Salary & Benefits Survey



# Drivers of Consolidation

- ③ Mature, slow growth, market
- ③ Motivated physician sellers
  - > Uncertain future
  - > Poor economy
  - > Aging physician owners
  - > High ASC valuations
  - > Reimbursement pressures
  - > Increased competition

# Drivers of Consolidation

- ④ Motivated hospital buyers
  - > Eliminate a competitor
  - > Increase/regain market share
  - > Gain needed OR capacity at more reasonable cost
  - > Improve physician relations
  - > Physician recruitment and retention
  - > Keep new competitors out of the market
- ④ Motivated management company buyers
  - > Slow de novo growth
  - > Demand for services
  - > Turnaround opportunities

# Market Summary

- › Flat growth
- › Excess capacity
- › Consolidation
- › High ASC valuations
- › Increased hospital-physician partnerships
- › Long-term volume growth
- › Reimbursement pressures
- › Quality reporting requirements

# FUTURE ROLE OF SURGERY CENTERS

# Changing Requirements

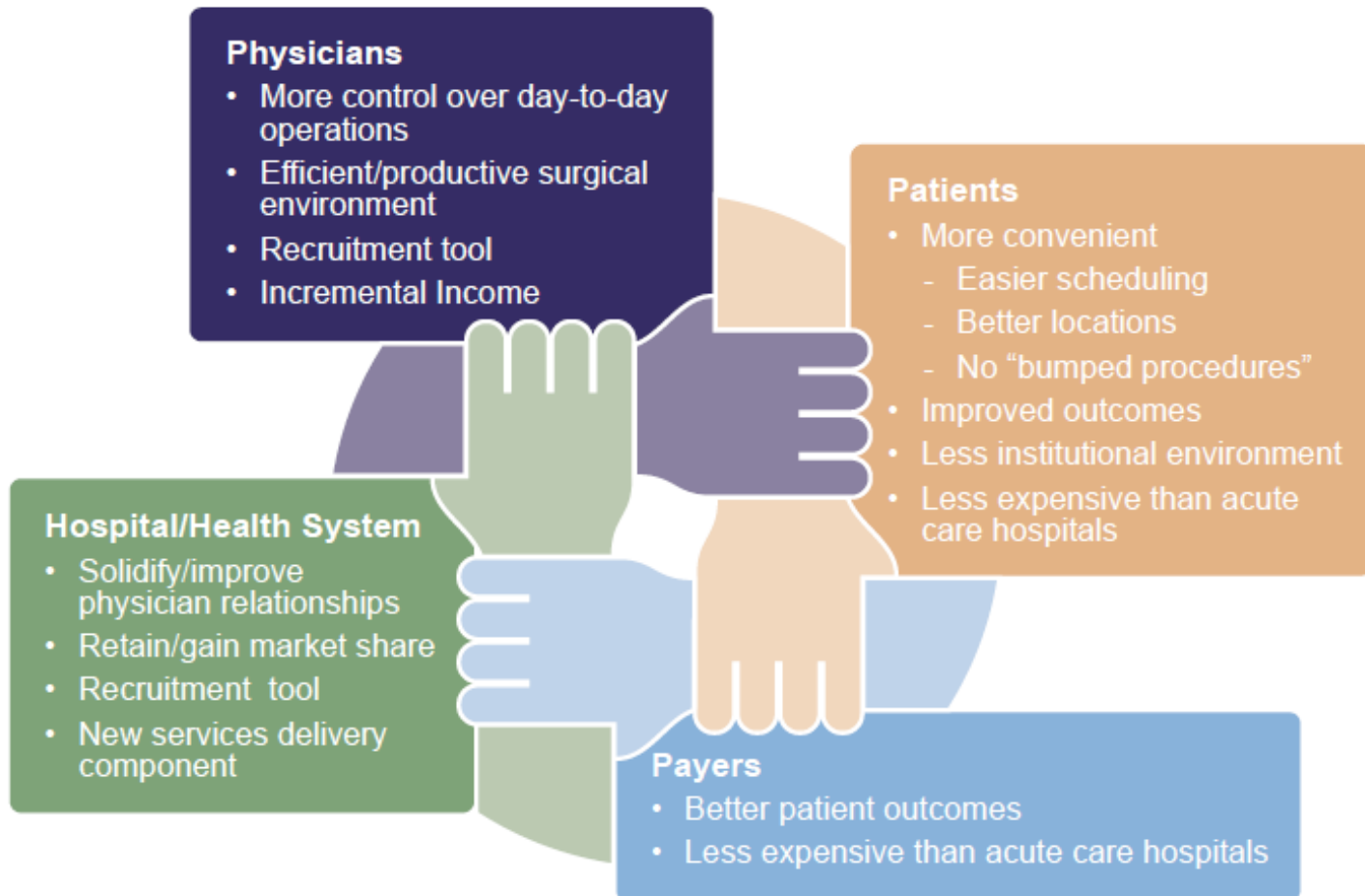
## Strategic and Operating Imperatives

Management Imperative	Fee for Service		Accountable Care
Accountability	Optimize performance within the facility	➔	Optimize performance across settings and time
Utilization	Maximize acute-care utilization	➔	Redirect acute-care utilization to lower acuity settings
Physician Partnerships	Align economically to drive acute-care volumes	➔	Align economically to manage shared risk
Technology Investments	Win clinical technology “arm’s race”	➔	Wire the health system for coordination and collaboration
Facility Strategy	Centralize and co-locate acute-care services	➔	Widely distribute primary care and preventive services
Care Coordination	Invest in only as an “avoidable losses” strategy	➔	Develop high-performance partner network across continuum
Expense Management	Manage inpatient cost trend below revenue growth trend	➔	Drive care to lowest-cost setting

# ASCs Well-Positioned

- ④ Low cost delivery model
  - > On average 40% less than hospital setting
  - > ASCs save Medicare \$2BN annually
- ④ Low capital cost in time of competing demands
- ④ High quality outcomes
- ④ High patient, surgeon, and staff satisfaction
- ④ Non-institutional care setting
- ④ Available operating room capacity
- ④ One of the few remaining vehicles for physician partnership opportunities

# Significant Stakeholder Value



# OWNERSHIP ALTERNATIVES



# ASC Development Scenarios

- Hospital buys into existing physician owned ASC
- Hospital develops new ASC
- Physicians buy into existing Hospital Outpatient Department (“HOPD”)

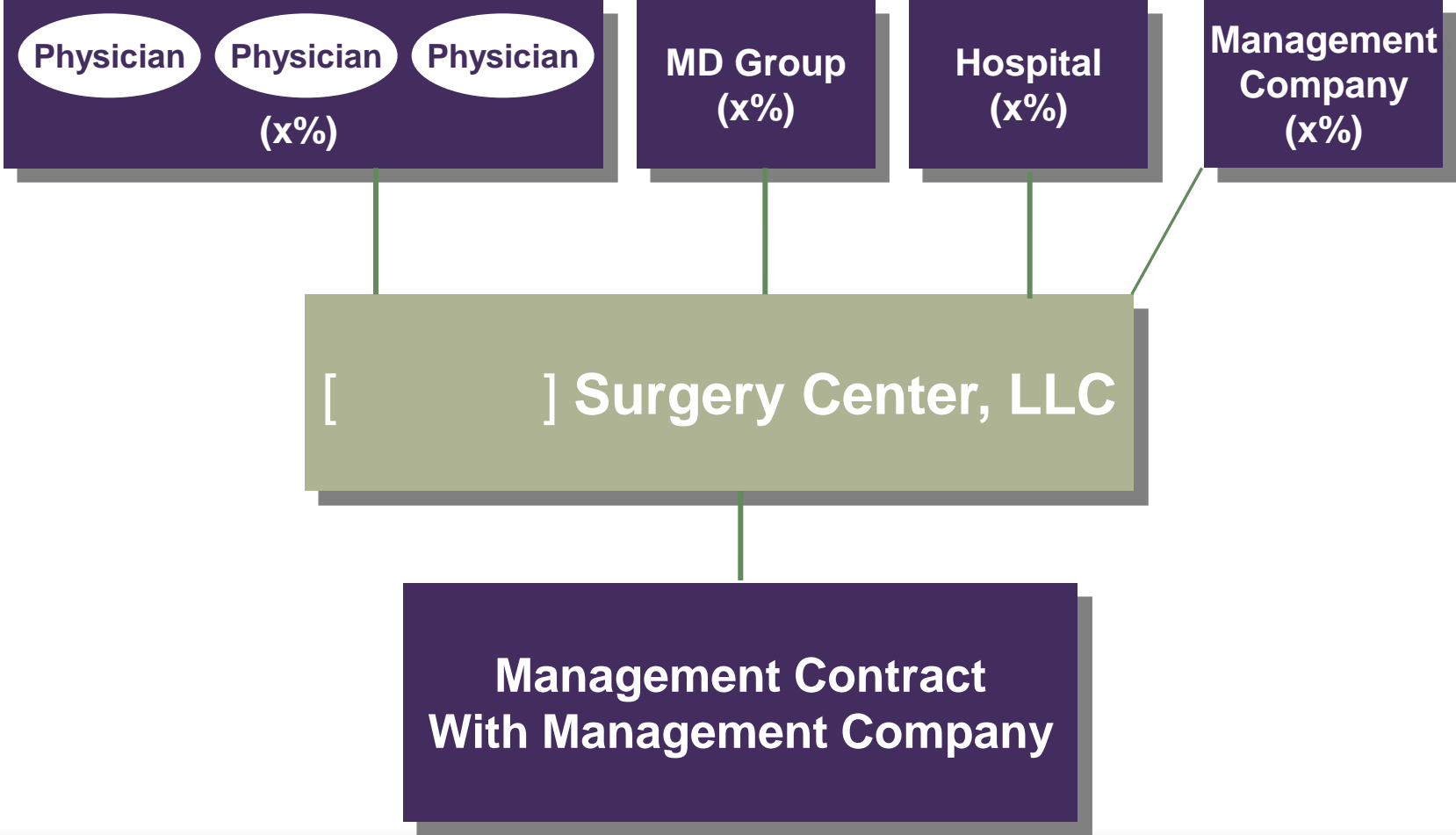
# Ownership Alternatives

- Department of a hospital (HOPD)
- Hospital owned, licensed as a freestanding ASC
- Hospital owned and co-managed with physicians (could include corporate operator)
- Physician-hospital joint venture (could include corporate operator)
- Hospital-corporate operator joint venture
- Physician owned, part of hospital delivery network

# Joint Venture Characteristics

- ④ Licensed as an ambulatory surgery center
- ④ Legal structure
  - > Limited Liability Company
  - > Limited Partnership
- ④ Owners
  - > Hospital
  - > Physicians
  - > Management Company
- ④ Governed by a Board
  - > Hospital appoints members
  - > Physicians elect members
- ④ Distributions of profit based on ownership share
- ④ Owners taxed based on individual owners' tax status

# Sample Joint Venture Structure



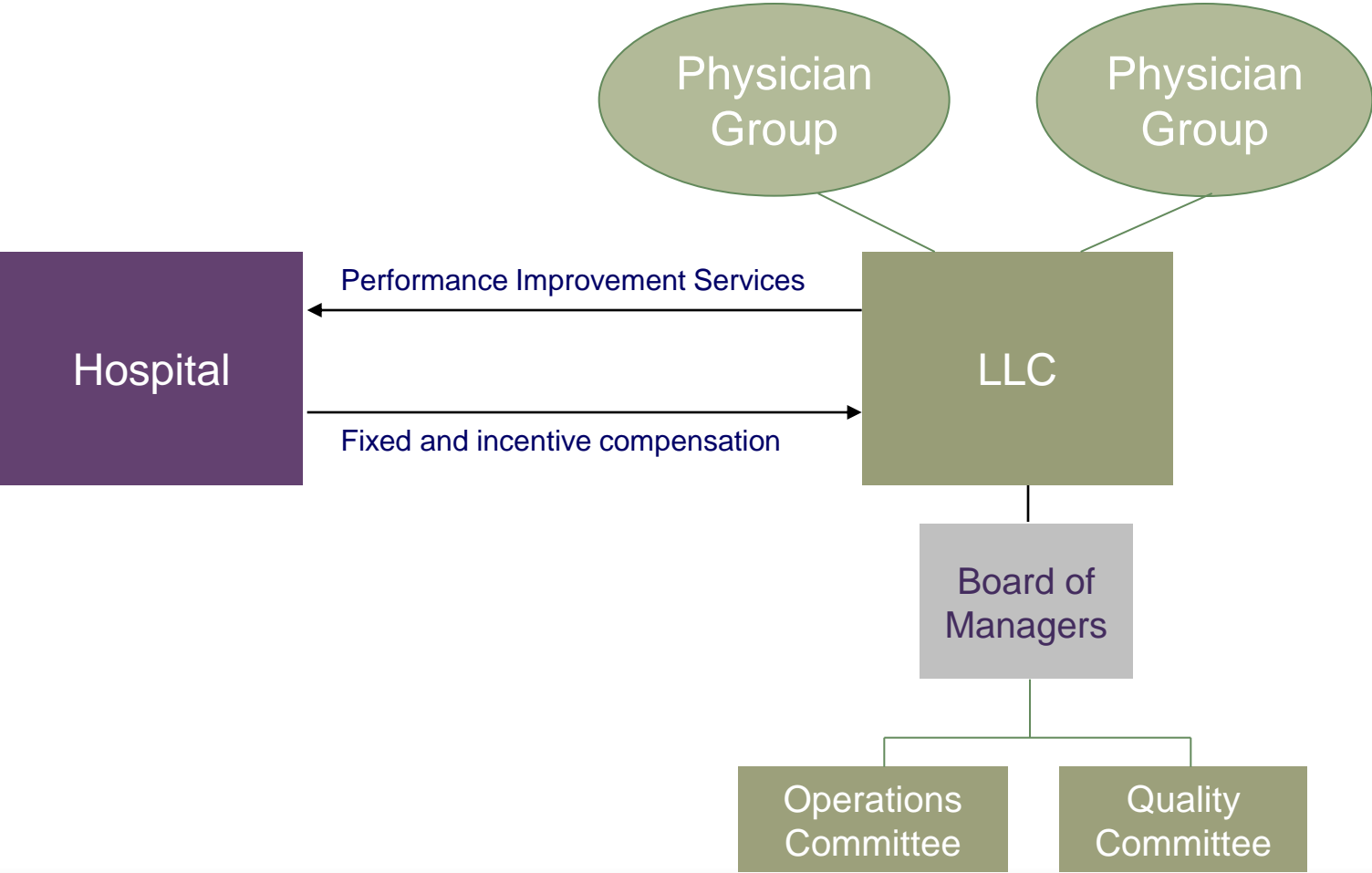
# JV Considerations

- Valuation requirements
- Eligible physicians
  - > Hospital employees
  - > Independents
  - > Specialties
- Ownership percentages
  - > Payor contracting
  - > Financial impact
  - > Available physician capital
- Capitalization
  - > Debt
  - > Equity
- Unit pricing

# Clinical Co-Management Model

- Clinical Co-Management Agreement compensates physicians for assisting in the management of a hospital service line.
- Contract is between the hospital and a physician practice or multiple practices or a separate management company formed for the purpose of providing the clinical co-management services.
- Contract typically provides for fixed and incentive compensation. Incentive component is contingent on meeting quality and other permissible metrics.
- Contract term is typically one to three years, renewable by mutual consent, with compensation adjusted annually.

# Sample Co-Management Structure



# Financial Terms

- ③ Clinical co-management agreement will provide for fixed and incentive compensation.
- ③ Maximum total compensation will be determined based on valuation opinion.
- ③ Time reporting required to the extent necessary to document fair market value (e.g., if valuation methodology is based on assumption of a minimum number of administrative hours) and for medical director services.



# Financial Terms

- Hospital will pay fixed compensation in monthly installments.
- Fixed compensation should be sufficient to reflect value of JOC, committee and medical director services.
- Incentive compensation will relate to a limited set of measures; not all duties will be measured by incentive compensation.
- Hospital will pay incentive compensation quarterly or annually.

# EVALUATING ALTERNATIVES

# Considerations

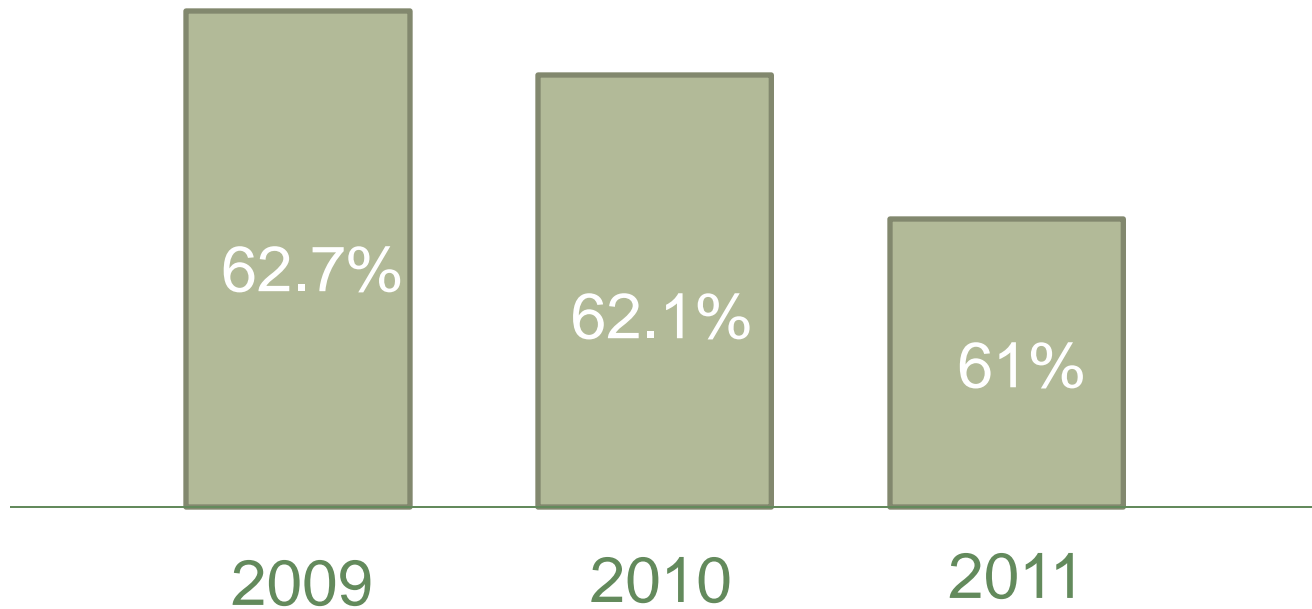
- Reimbursement
- Financial impact to hospital
- Market share gain and/or loss potential
- Ability to create ASC culture/operational performance in one model or another
- Physician expectations
- Competitive dynamics
- Physician recruitment/retention
- Business disruption
- Capital costs

# Strategic Fit

Variables	Hospital Owned	HOPD w/Co-Management	Joint Venture
Hospital control	↑	↑	↔
Level of physician engagement	↓	↔	↑
Fit within accountable care structure	↑	↑	↑
ASC culture	↓	↔	↑
Financial benefit to hospital	↑	↑	↔
Financial benefit to physicians	↓	↔	↑
Strength of partnership	↓	↔	↑
Price competitive	↓	↓	↑
Physician satisfaction	↓	↔	↑

# Government Reimbursement

*ASC Reimbursement as a % of HOPD Rates*



*Source: Centers for Medicare and Medicaid Services*

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# Financial Impact

- ③ Assess surgical volume impact of alternatives
- ③ Five year financial projections for ASC
  - > Capital requirements of facility compliance
  - > Service disruption
  - > Reimbursement differences/changes
- ③ Project cash flow impact of alternatives
  - > Rental income
  - > Ownership percentage
  - > Total value of lost physicians
- ③ Compare present value of alternatives

# KEY SUCCESS FACTORS

# Strong Physician Leadership

- ③ Steering committee should have physicians who are leaders among their peers and can represent the interest of your target physicians
- ③ Physicians have to be committed to the venture
  - > Appropriate non-competes have to be in place (in JV scenario)
  - > Meaningful investment requirement
- ③ Vested physicians are the best sales people among their peers
- ③ The entity's operations must be physician led in order to maximize the ASC's performance and meet the physicians' efficiency goals



# Committed Hospital Partner

- ③ Hospital should be active in governance but leave the operational management to the management company and physicians
- ③ Hospital should acknowledge physician leadership
- ③ Hospital representatives on the steering committee/Board must be key leaders who are empowered to make decisions for the hospital
  - > Shows commitment to the venture by the hospital
  - > Best relationship building opportunity with key physicians
- ③ Hospital needs to show commitment to the success of the venture and demonstrate that it is in this for the right reasons
- ③ Hospital needs to do what it can to facilitate the ASC's success
  - > Payor contracting support, vendor relationships, marketing, physician recruitment

# Contact Information

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