How to Structure a Hospital/Physician ASC Partnership the Right Way

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The ASC Market In The U.S.

- There are approximately 5,400 ASCs in the U.S.
- 90% of all ASCs have some degree of physician ownership
- About 20% of ASCs have a hospital partner
- While some ASC specialties are being paid better by Medicare, many others are not and, most importantly, ASCs without hospital partnerships are paid less than 60% of what a hospital is paid for the same outpatient surgeries
- Most locations in the U.S. are saturated with ASCs and, for the first time in recent history, net growth of ASCs has stalled
- Payors have all but eliminated out-of-network reimbursements in most markets, thus reducing the profit margin of most ASCs

The Trends of ASC Ownership

- Follow the Money
  - Medicare payments for ASCs that are independent versus HOPD
- What alignments of ownership exist today?
- Are ASCs increasing or decreasing nationwide?
- Focusing in on hospital/physician alliances
- What to look for in a hospital partner (this should not surprise physicians)
- A hospital contracting model to consider
Reimbursement and Ownership Dynamics

Consolidation Trends Transcend to ASC Landscape

Fewer ASCs are Being Built

- As a result, more acquisitions are being completed, primarily by hospitals and ASC companies; oftentimes with a three-way partnership
- 80% of Regent’s new ASCs are partnered with hospitals and surgeons
ASC Growth Rates have Stagnated

Continued Price Transparency Requirements Will Benefit ASCs over Hospital Surgery Depts.

Continued Proliferation of ACOs
The Economics of a Physician/Hospital/Corporate Management Model

- Medicare pays the ASC the same per case regardless of whether the ASC is part of a JV or not; payment is only higher if it is an HOPD
- Average reimbursement for independent ASCs is between $1,200-$1,700 per case, if the ASC is fully contracted
- Average reimbursement for hospital-affiliated ASCs is in the range of $2,200-$3,000 per case

A Hospital Can Be a Good Partner if They Have Higher Contracted Rates and They Do Not Require Control of Clinical/Operations

- Less than 20% of hospitals are partnered with physicians, primarily because, in the past, the hospital not only wanted majority ownership, but also control of operations.
- Most hospitals historically only wanted to partner with surgeons if they could own most of the ASC, control it, and manage it. This has changed dramatically the past few years.
- Regent’s ownership and governance model is a hybrid that allows the physicians to keep operational control, while providing the doctors a healthy financial result both in a sale and on future earnings. Most of our transactions provided the doctors who sold half of their interests with similar or higher financial returns annually than before the sale.

Why Partner With a Hospital?

- Significantly higher payments for cases with the hospital model versus the independent ASC model
- A strategic alliance with a hospital in concert with the aims of healthcare reform models
- Hospitals are now buying practices again and acquiring or developing ancillary services of which ASCs are a primary target
- Provides a wonderful hedge against shrinking surgeon reimbursements in their practices and at their ASCs
- Competitive advantage over ASCs that do not partner with hospitals; non-compete clauses
Why Partner?

Which Model Do We Usually Recommend?

• Hospital Contracting Model
  • If it is structured correctly, the payments per case are at least 30% higher than an independent ASC and, at the same time, it provides protection for the doctors that the hospital cannot compete with them in other transactions and allows the doctors to maintain daily clinical and operations control over the facility.
  • The hospital forms a strategic alliance with select surgeons, while minimizing their financial investment and risk and, at the same time, prevents surgeons from competing with them in other transactions.

Typical Ownership and Governance Model

<table>
<thead>
<tr>
<th>Governance Structure</th>
<th>Hospital Contracting Model</th>
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Regent Business/Partnership Model

Governance
- Hospital votes Regent’s ownership to demonstrate “control” on key legal and financial issues.
- Results in ability of the ASC to obtain “hybrid” payer contracted rates which are less than HOPD but more than independent ASC rates.
- Physicians maintain clinical control of operations even as minority owners, making it attractive to participate in these partnerships.

Sample Control Breakout

Physicians
- Medical Executive Committee recommendations
- Selection of anesthesia providers
- Daily operations decisions that require Board approval
- Approval of physician members that go to partnership vote
- Clinically-related operating policies and procedures
- Approval of equipment purchases as part of budget or are limited to a certain monetary value

Hospital
- Budget
- Strategic decisions
- Disposition of assets
- Super majority rights related to types of procedures conducted

When Is It Best to Use Our Recommended Model?
- When the doctors trust the local hospital
- In an over-saturated, competitive ASC market
- In a community where payors squeezed the independent ASCs on price and out-of-network facilities have to change to a contracted model
- In a market where the hospital of choice is accustomed to joint ventures with doctors
- Where hospitals are interested in partnering with doctors
- In a market where the hospital has a strong track record of negotiating favorable contract rates and also has contracting power
- In an existing ASC when the ASC has matured and/or does not see a significant increase in profits in the future
- If the local surgeons can utilize this model to form a strategic alliance with the local hospital of choice
The "Dreaded" Word ACQUISITION

The HOPD Model
another model that works well in some situations...for now

HOPD Model

Structure
- Hospital owns 100% of ASC, enabling HOPD rates
- Surgeons and management company engaged to provide operational and clinical oversight

Case Study: Knightsbridge Surgery Center
Columbus, Ohio

Background
- Founded in 2001, Knightsbridge Surgery Center (KSC) did not produce returns under initial management company
- Engaged BHH in 2004, which turned around facility to highly profitable through negotiating with payors and canceling inadequate contracts

Problem
- Payor strategy loses momentum, diminishing returns
- OhioHealth seeks partnership yet physicians seek retention of clinical control

Solution
- Hospital acquires 49% stake but has 50% vote and tiebreaker rights on key management decisions
- Hospital investment predicated on attainment of performance benchmarks

Result
- Meaningful liquidity event for physicians’ 49% interest
- Approximately 80% annual return for OhioHealth
- Net Revenue Per Case above that of ASC regional avg.
Summary Of Regent

- Founded in 2001; Headquartered in Chicago
- 18 facilities; 15 owned and managed historically
- Always a minority owner and manager
- 14 of 18 facilities are with hospitals; 2 new hospital/surgeon partnerships will be implemented in the next three months
- Our investment in partnerships represents our own money—no outside investors, no bank financing. We carefully scrutinize all our acquisitions based on their ability to obtain a strong ROI for Regent, our hospital and doctor partners
- Partnerships are not designed to be sold; Regent does not have investment bankers or venture capitalists requiring a sale a few years later. All facilities have to be profitable on an operational basis
- All of our facilities are clinically and financially successful
- We are noted in the industry as having superb management skills with a strong focus on physician relations and successful clinical outcomes

Surgery Center Partnerships Nationally and Internationally

- Center for Specialized Surgery
- Surgery Center of Mount Dora
- Robert Wood Johnson Endoscopy Center
- Ambulatory Surgical Pavilion at Robert Wood Johnson
- Marietta Surgery Center
- Knightsbridge Surgery Center
- IL Sports Medicine and Orthopedic Surgery Center
- Medical Center at Elizabeth Place
- Palos SurgiCenter
- Midland Surgical Center
- Endoscopy Center of Lodi
- Lodi Outpatient Surgical Center
- Neurosurgery Ireland at Hermitage Medical Clinic
- Cyber Knife Ireland
- Providence Health System/Portland
- Loveland Surgery Center
- Stem Cell Clinic
- Surgery Center of Reno
- Surgery Center of Wasilla
- Comprehensive Endoscopy Center
- Medical Arts Endoscopy Center
- Tipton Surgical Group Center
- Surgery Center of Rose
- Surgery Center of Reno

Regent Facilities/Partners

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- Endoscopy Center of Lodi
- Lodi Outpatient Surgical Center
- Neurosurgery Ireland at Hermitage Medical Clinic
- Cyber Knife Ireland
- Providence Health System/Portland
- Loveland Surgery Center
- Stem Cell Clinic
- Surgery Center of Reno
- Surgery Center of Reno
- Surgery Center of Rose
- Surgery Center of Reno
The Regent Approach

- Always a minority owner and manager
- Invests capital side-by-side with hospital and physician partners
- Partnerships are not designed to be sold; focus is long-term success
- All facilities demonstrate profitability on an operational basis
- All facilities are clinically and financially successful
- Recognized in the industry as providing superb management services with a strong focus on physician relations and successful clinical outcomes

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