

HOSPITAL-DOCTOR ASC JOINT VENTURES

A Highly Efficient Physician-Engagement Tool

David M. Thoene
Managing Member
Medical Surgical Partners, LLC.

MEDICAL SURGICAL PARTNERS, LLC.

- Turnkey developer of hospital-doctor ASC joint ventures
- Projects are 100% locally owned and managed
 - MSP does not require project equity
 - MSP does not require a management agreement
- Self-directed ASC projects since 1982
- www.medicalsurgicalpartners.com

HOSPITAL-DOCTOR ASC JOINT VENTURES

- There are ± 5,900 ASCs in the United States
- ± 1,700 are owned by hospital-doctor joint ventures
- Why are hospitals joining with doctors to offer services available in hospital operating rooms?
- And how are they doing it?

HOSPITAL-DOCTOR ASC JOINT VENTURES

- **Hospitals have experienced service line fragmentation**
 - **Rehabilitation and Physical Therapy**
 - **Imaging**
 - **Cancer treatment**
 - **Radiation Therapy**
 - **Cath Labs**
 - **Short Stay Surgery**
 - **Outpatient Surgery**

HOSPITAL-DOCTOR ASC JOINT VENTURES

- **Service line fragmentation resulted from:**
 - **Poor physician relations**
 - **Income opportunities for physicians**
 - **Workplace control needs of physicians**
- **The adverse impact on hospitals:**
 - **High remaining cost structure**
 - **Loss of relations with key physicians**
 - **Loss of high margin income**

TODAY THE MARKET IS FAVORABLE FOR RE-CONSOLIDATION OF SERVICES

- Physician ancillary businesses are maturing**
- They are difficult to grow**
- Reimbursement challenges are daunting**
- Lower valuations and fewer transactions**
- Declines in same store revenue and earnings growth**
- Declining pool of potential physician investors**

AND, HOSPITALS OFFER KEY ADVANTAGES TO ASC JOINT VENTURES

- Higher ASC reimbursement rates**
- Ability to leverage commercial contracts**
- Ability to secure financing**
- Ability to provide capital**
- Ability to provide management systems**
- Market presence**

WHICH BRINGS US TO PHYSICIAN ENGAGEMENT

- **Physician engagement is the degree to which physicians and hospitals, acting out of mutual self-interest, operate inside a common vision and set of goals with a shared destiny.**

AND WHAT IS THE SHARED DESTINY?

- **Bottom Line: To improve the health of the community by providing access to efficient, highly coordinated and high quality medical care.**

WHAT ARE THE EARMARKS OF SUCCESSFUL PHYSICIAN ENGAGEMENT?

- Behavioral Alignment
- Performance Alignment
- Operational Alignment
- Strategic Alignment
- Economic Alignment

BEHAVIORAL ALIGNMENT

- **Actions support clinical, service and business goals**
- **The relationship among caregivers is collegial**
- **All members are accessible and responsive**
- **Staff members are treated with respect**
- **All members are open to new ideas**

PERFORMANCE ALIGNMENT

- **Actions support growth and productivity**
- **Compliance with quality and safety standards**
- **Adherence to programs, protocols and standards of care**
- **Referrals are managed within the health system**

OPERATIONAL ALIGNMENT

- **Actions support efficiency goals**
- **Responsiveness to health system and to physician needs**
- **Physician leaders are developed for directorships and leadership positions**

STRATEGIC ALIGNMENT

- **Actions position the hospital and physicians for long-term growth**
- **Service lines and centers of excellence are supported**
- **Services are relocated for strategic value**

ECONOMIC ALIGNMENT

- **Actions support global contracts**
- **Pay for performance initiatives**
- **Ethical gain sharing is supported**
- **Shared risk and reward**

ASC JOINT VENTURES ARE UNCOMMONLY EFFECTIVE

- **They offer the physician engagement earmarks of success, and**
 - **They provide speed to market**
 - **Improved access to care**
 - **Off balance sheet financing availability**
 - **Less costly than other strategies**
 - **Profitable operation**
 - **Durability**

HOSPITAL-DOCTOR ASC JOINT VENTURES

- **How are they structured?**
- **How are the workplace control expectations of doctors satisfied?**
- **How are the joint ventures financed?**
- **How is sustainability ensured?**
- **Where are the synergies?**
- **What is the economic impact on hospital operations?**

HOSPITAL-DOCTOR ASC JOINT VENTURES

DEAL STRUCTURE - TYPICAL

Hospital-Doctor ASC Joint Venture

Hospital Member
Physician Members

Owns License
Leases Premises
Acquires Equipment
Develops Premises
Borrows Funds
Employs Staff
Operates Surgery Center

Long Term Lease

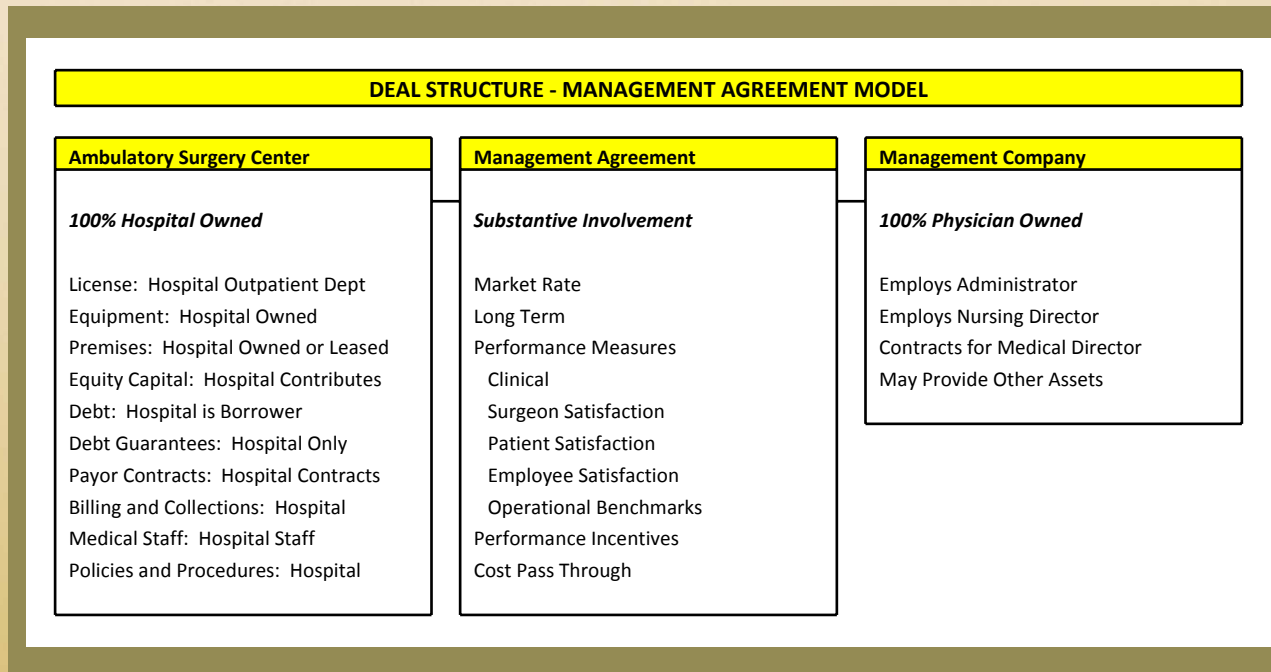
Market Rate
TI Allowance

ASC Real Estate Joint Venture

Surgeon Members
Non-Surgeon Members
Hospital Member

Owns Land and Building
Develops Land and Building
Borrows Funds
Leases Premises to ASC Joint Venture
Maintains Building and Land

HOSPITAL-DOCTOR ASC JOINT VENTURES: ALTERNATIVE STRUCTURE



TYPICAL CAPITALIZATION PLAN

EXAMPLE ASC: PROFILE ASSUMPTIONS

| STABILIZED CASELOAD | ANNUAL |
|--------------------------|---------------------|
| Surgeries | 1,828 |
| Procedures | 1,325 |
| Total | 3,153 |
| CASE MIX | |
| General Surgery | 39% |
| Gynecology | 14% |
| Orthopedic | 5% |
| Procedures | 42% |
| Total | 100% |
| PAYOR MIX | |
| Medicare | 19% |
| Medicaid | 19% |
| Various Commercial | 57% |
| Workers Compensation | 5% |
| Total | 100% |
| CAPITAL STRUCTURE | |
| Paid in Cash | \$ 650,000 |
| Long Term Debt | \$ 2,330,000 |
| Total | \$ 2,980,000 |

HOSPITAL-DOCTOR ASC JOINT VENTURES

| HOSPITAL IMPACT ON ASC REIMBURSEMENT | | | | |
|--------------------------------------|-----------------|----|-------------|------------|
| Specialty | Physician-Owned | | Hospital JV | Difference |
| Otolaryngology | \$ 1,725 | \$ | 2,380 | 38% |
| Gynecology | \$ 1,673 | \$ | 2,359 | 41% |
| General Surgery | \$ 1,522 | \$ | 2,099 | 38% |
| Ophthalmology | \$ 1,226 | \$ | 1,719 | 40% |
| Orthopedics | \$ 2,453 | \$ | 2,863 | 17% |
| Urology | \$ 1,327 | \$ | 1,823 | 37% |
| Podiatry | \$ 1,559 | \$ | 2,167 | 39% |

Source: 2009 VMG Health Intellimarker ASC Benchmarking Study

EXAMPLE ASC: KEY METRICS

| COMPARATIVE FINANCIAL MODELS | | | | |
|----------------------------------|------------------|----------------------|--------------------|---------------------------|
| | Physician-Owned | Typical JV Structure | | HOPD with Management Agmt |
| ASC OWNERSHIP PERCENTAGES | | | | |
| Hospital: | 0% | 49% | 51% | 100% |
| Physicians: | 100% | 51% | 49% | 0% |
| Admissions | 3,150 | 3,150 | 3,150 | 3,150 |
| Net Revenue Per Case | \$818 | \$1,063 | \$1,227 | \$1,718 |
| Net Revenue | \$2,577,000 | \$3,348,000 | \$3,865,000 | \$5,412,000 |
| Expenses | 2,273,000 | 2,273,000 | 2,273,000 | 2,273,000 |
| Management Fee (6%) | \$0 | \$0 | \$0 | \$325,000 |
| NET INCOME | \$304,000 | \$1,075,000 | \$1,592,000 | \$2,814,000 |
| Hospital Share | \$0 | \$527,000 | \$812,000 | \$2,814,000 |
| Doctor Share | \$304,000 | \$548,000 | \$780,000 | \$325,000 |

STRUCTURE: MEMBERSHIP

- **Physician**
- **Able to provide services in facility**
- **Licensed and Insured**
- **Current privileges at ASC**
- **Current privileges at hospital**

STRUCTURE: GOVERNANCE

- **Board of managers typical**
- **Equal board membership typical**
 - **Physician members elected**
 - **Hospital members appointed**

STRUCTURE: COMPLIANCE

- **Adherence to safe harbor provisions**
- **Distributions based on ownership interest**
- **Shared equity and debt risk**
- **Non-compete covenant**
 - **Competing businesses**
 - **Geographic area**
 - **Tail provision**

STRUCTURE: BUSINESS DURABILITY

- **Restrictions on transfer of shares**
- **Right of first refusal**
- **Affirmative requirement to purchase shares of retiring and inactive members**
- **Ability to purchase shares of disruptive members**

CONCLUSIONS

- **ASC JVs are more efficient, faster, and less costly than other physician engagement alternatives**
- **The hospital has a strong case to make for participation**
- **The business model is proven**
- **ASCs are here to stay**
- **The ASC offers a broad reach to non-surgeon constituencies**

CONCLUSIONS: Continued

- **Revenue and bottom line impact to hospital is manageable**
- **The model engenders physician loyalty**
- **The model enhances ancillary revenue opportunities**
- **The model enhances access to care and operational efficiency**

CONCLUSIONS: Continued

- **The model enhances new market development**
- **It enhances staff retention and recruitment**
- **It provides engagement opportunities for non-surgeons**
- **Bottom Line: Surgery center joint ventures are efficient physician engagement tools**

THREE IMPORTANT RESOURCES

- *Ambulatory surgery Centers: Legal and Regulatory Issues (Third Edition)*, American Health Lawyers Association – www.healthlawyers.org
- *2009 Multi-Specialty ASC Intellimarker Benchmarking Study*, VMG Health – www.vmghealth.com
- dthoene@medicalsurgicalpartners.com or www.medicalsurgicalpartners.com



Certificate of Participation

Name

Hospital-Doctor ASC Joint Ventures:
A Highly Efficient Physician-Engagement Tool –
Webinar

Date