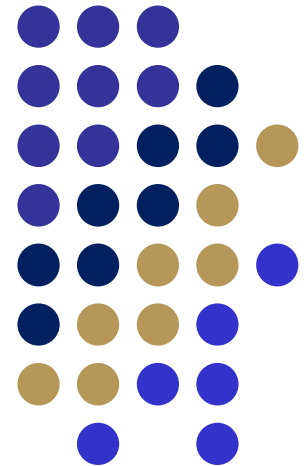


Findings from HealthCare Appraisers' 2014 ASC Valuation Survey

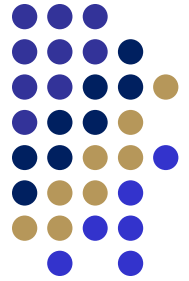
Presented By

Todd J. Mello, ASA, CVA, MBA, Founding Partner

Nicholas A. Newsad, MHSA, Manager



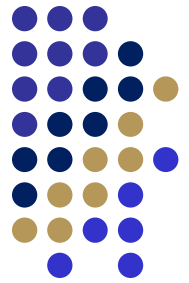
Webinar Outline



Findings from HAI's *2014 ASC Valuation Survey*

- History, Purpose and Limitations of the Survey
- What are Valuation Multiples?
- Minority vs. Majority Control
- Reported Earnings Multiples
- Buyers' Expectations
- ASC Management Fees
- ASC Billing Fees

History, Purpose & Limitations of the Survey



- Since 2003, HAI has published ten annual ASC surveys
- Why? To provide a centralized source of market intelligence on valuation trends within the ASC industry.
- 2014 was largest to date with 25 companies respondents
- Disclaimer: Survey should not be used in lieu of a formal valuation.

What are Valuation Multiples?



The Meaning Behind the Numbers

The Finance Definition (a.k.a. Appraiser speak)

“A mathematical expression of risk and growth, which when applied to a perpetually recurring earnings stream results in an indication of value”

A multiple is mathematically expressed as follows:

$$\frac{1}{(K - g)}$$

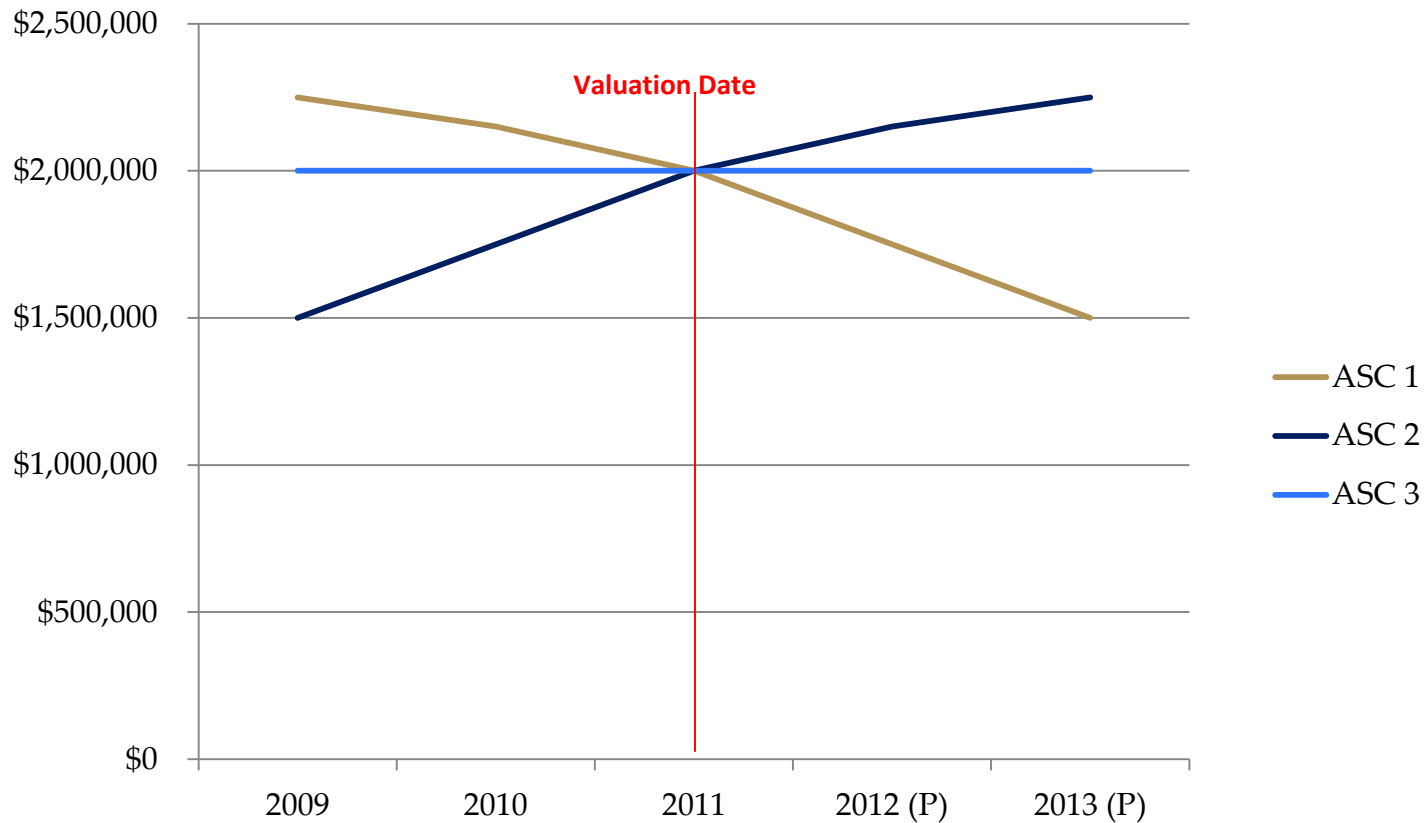
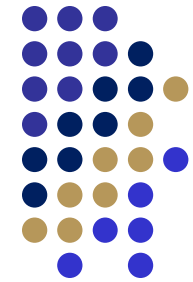
- Where, (K) represents the rate of return (risk), and
- (G) represents the growth rate of the earnings stream

What are Valuation Multiples?

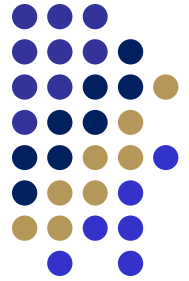


	<u>Varying Growth</u>			<u>Varying Risk</u>		
	<u>Scen 1</u>	<u>Scen 2</u>	<u>Scen 3</u>	<u>Scen 1</u>	<u>Scen 2</u>	<u>Scen 3</u>
k	17.0%	17.0%	17.0%	17.0%	19.0%	22.0%
g	2.0%	3.0%	4.0%	2.0%	2.0%	2.0%
Multiple	6.67	7.14	7.69	6.67	5.88	5.00

Three ASC's with \$2.0M EBITDA

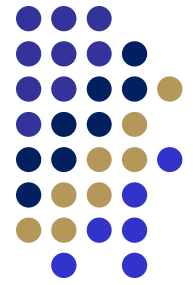


Minority vs. Majority Control

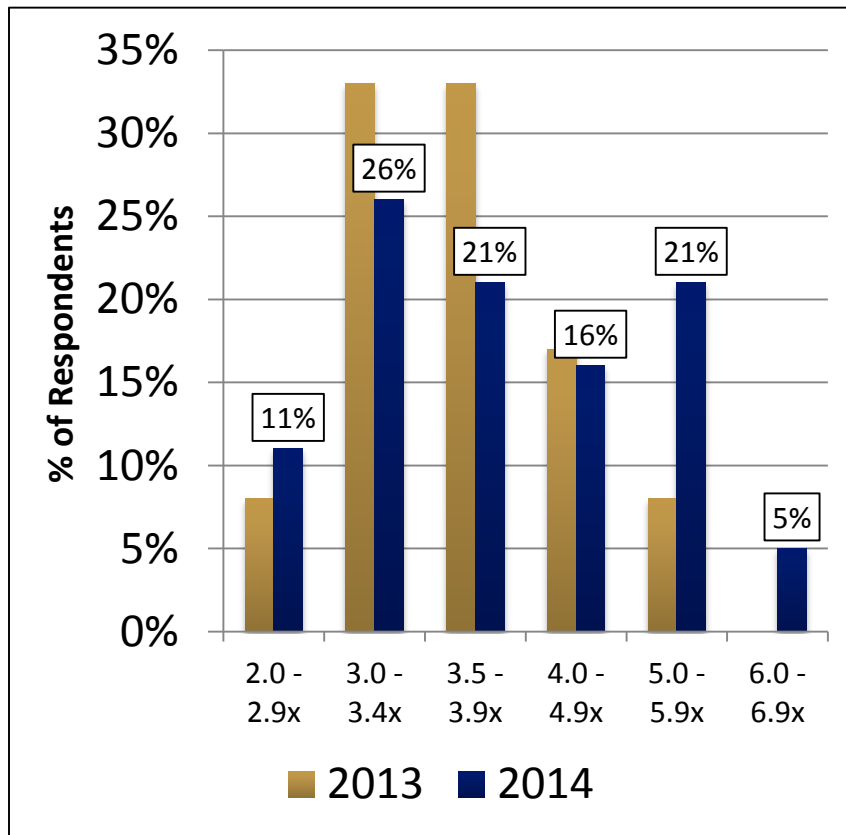


- Interests providing absolute control (*e.g.*, greater than a 50% interest) are worth more than interests which do not have the same control rights.
- Control granted by the governing documents. Examples include:
 - Major equipment purchases and investments
 - Debt signing authority
 - Admitting new owners
 - Granting physician privileges

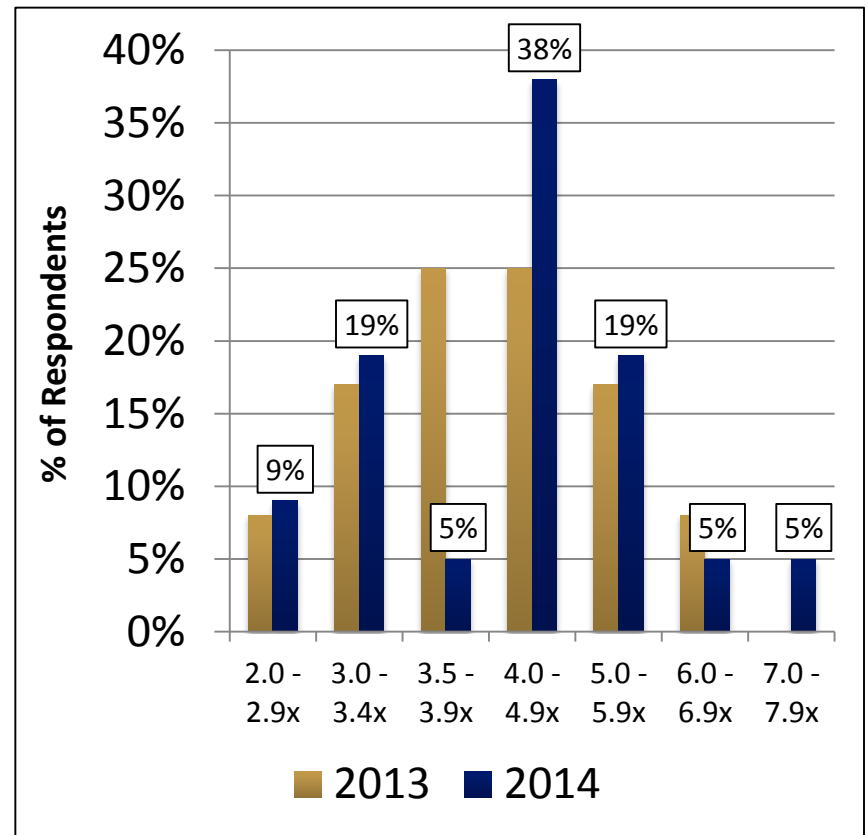
Observed Multiples for Minority Interests



Single-Specialty Centers



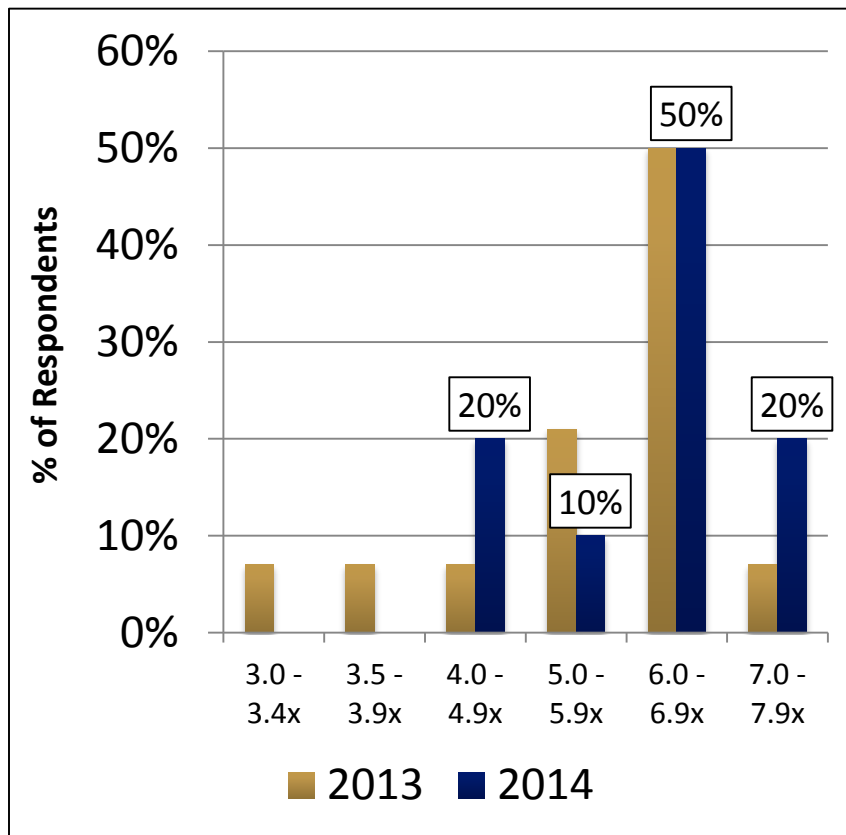
Multi-Specialty Centers



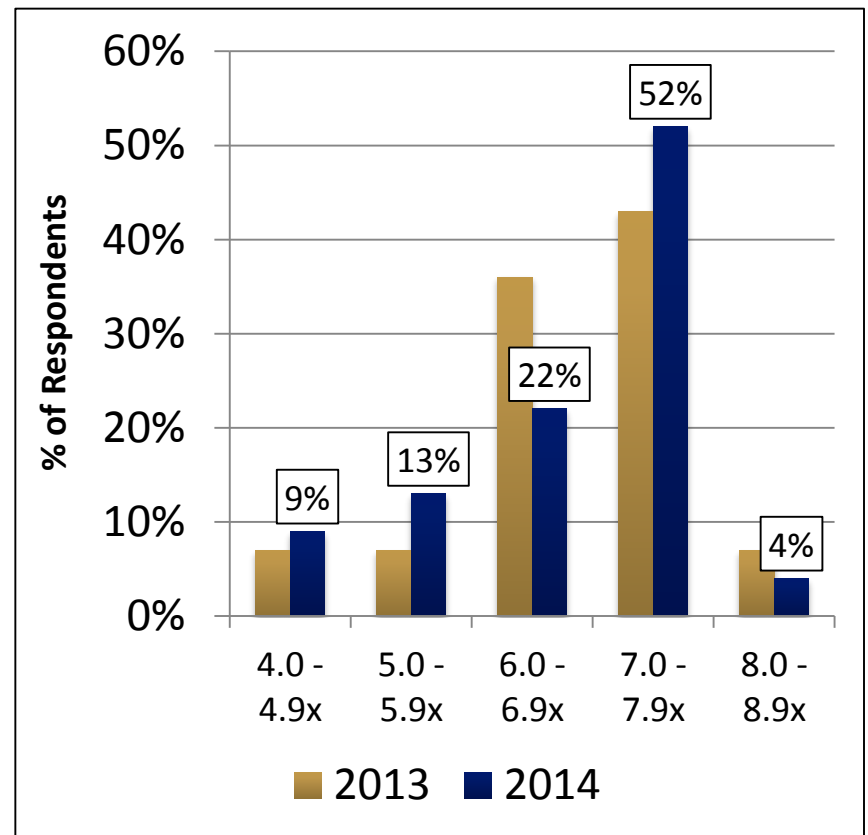
Observed Multiples for Controlling Interests



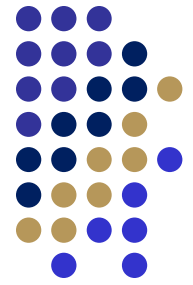
Single-Specialty Centers



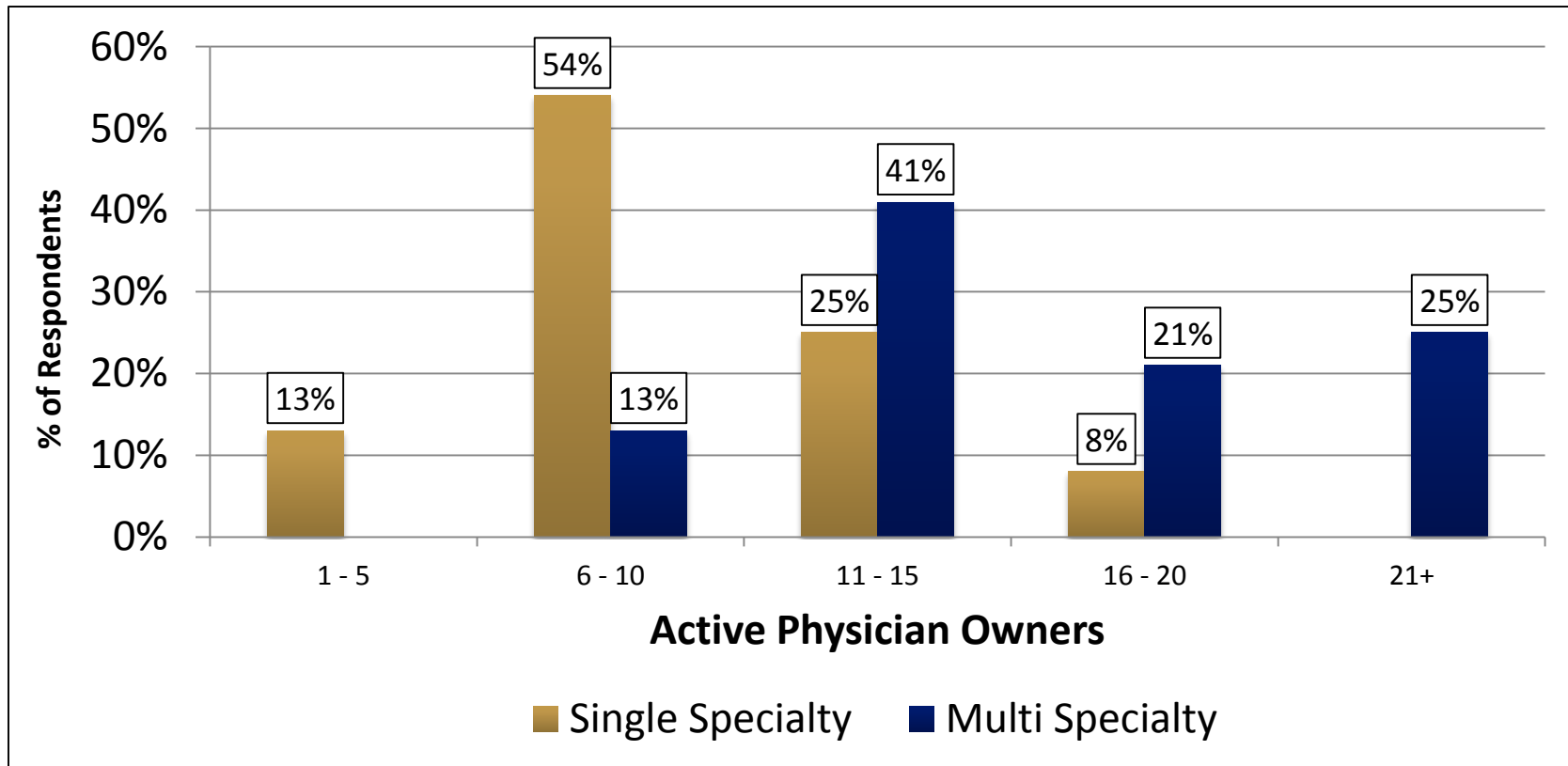
Multi-Specialty Centers



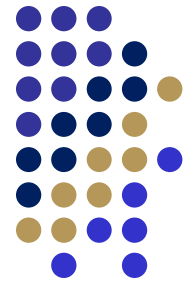
Buyer Expectations



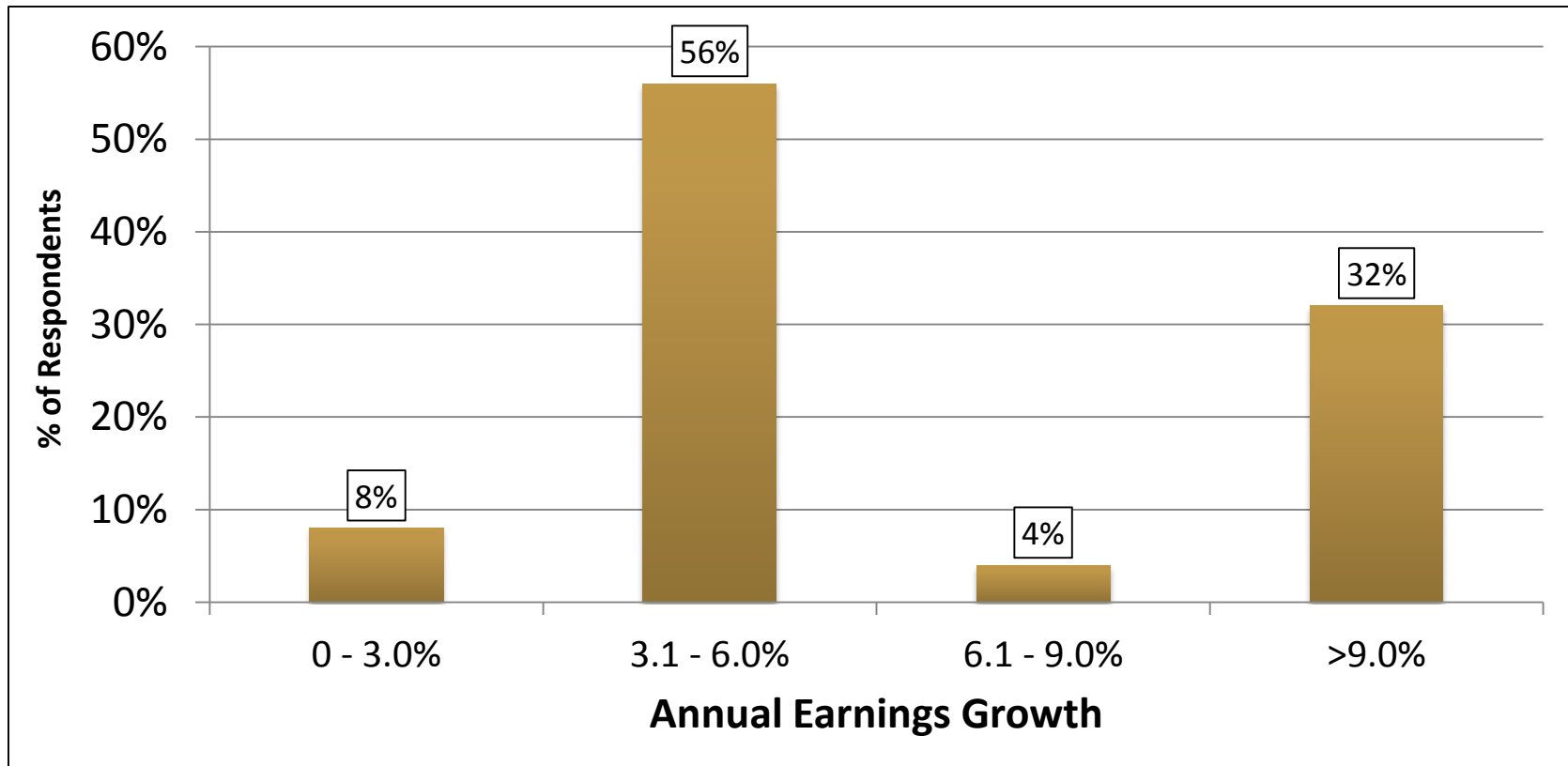
Preferred Number of Active Physician Owners



Buyer Expectations



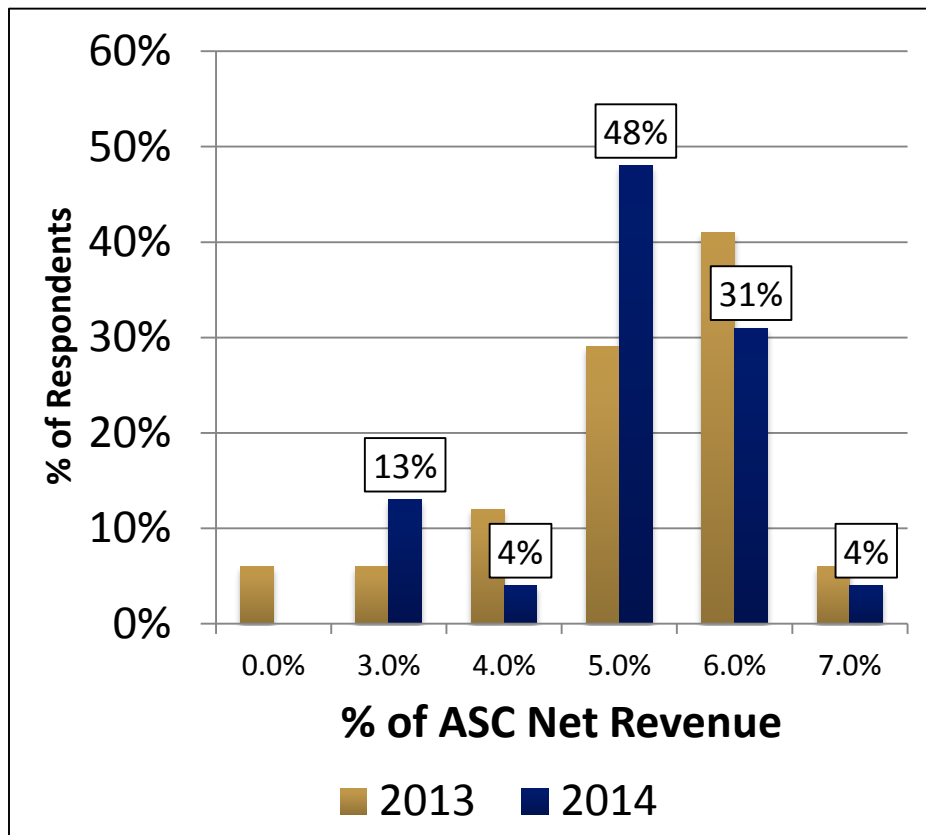
Initial Earnings Growth Expectations Post-Transaction



ASC Management Services



ASC Management Fee Rates



- Competitive trends
- 36% have *minimum* management fees
 - 60% of those report minimum fee of \$100K to \$200K
- 48% have sliding scale management fees whereby fees decline after a predetermined threshold
 - 58% of those report declining management fee rates between \$5.0M and \$9.9M in ASC net revenues

ASC Management Services

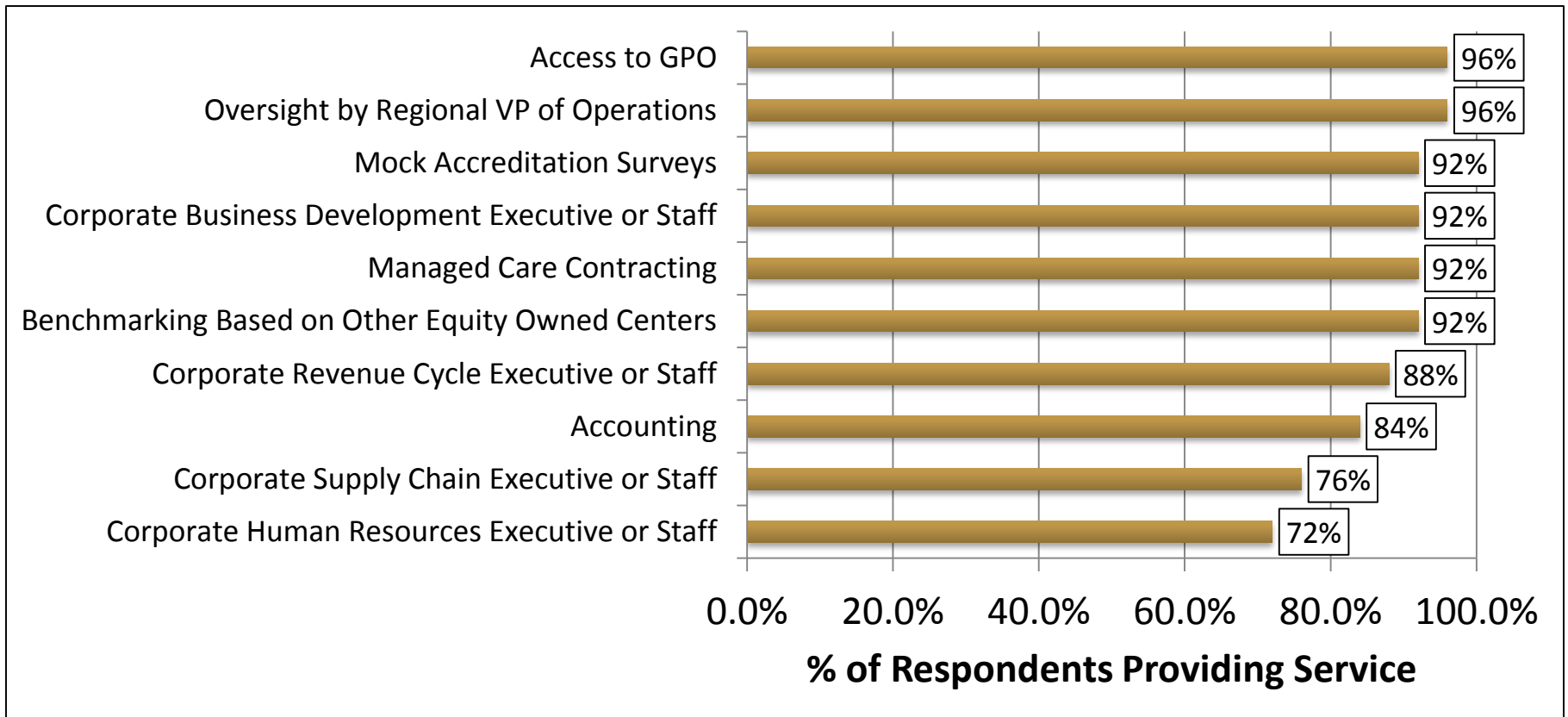


- 80% report no management arrangements with fees at risk for performance
 - 76% reported no at risk arrangements in 2013
- 64% report holding ownership in all managed ASCs
 - Over half of those who manage, or plan to manage, non-owned ASCs indicate increasing management fees 1% to 3% or more for service-only ASCs

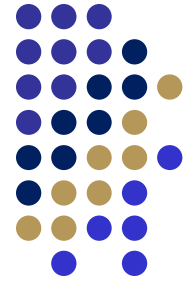
ASC Management Services



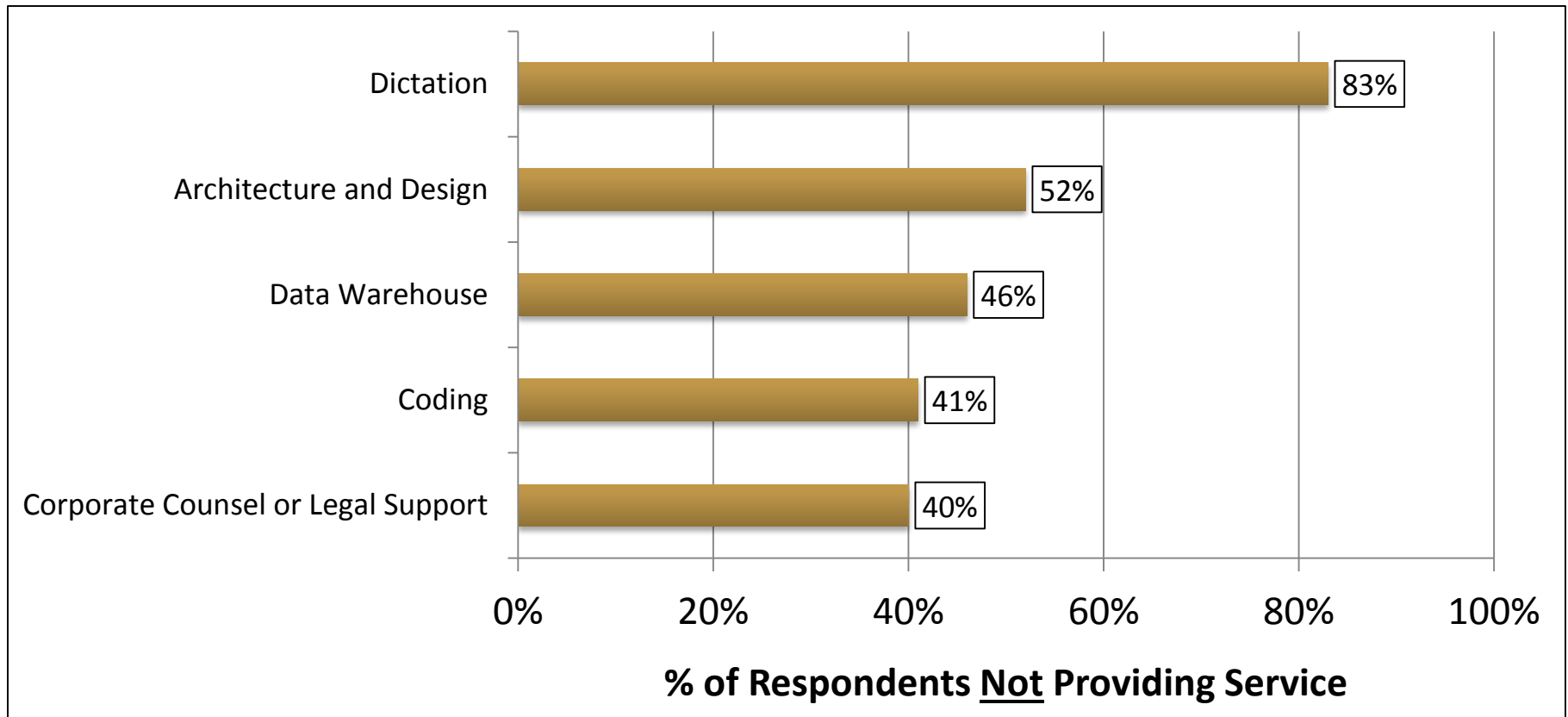
Services Often or Always Provided as Part of ASC Management Fee



ASC Management Services



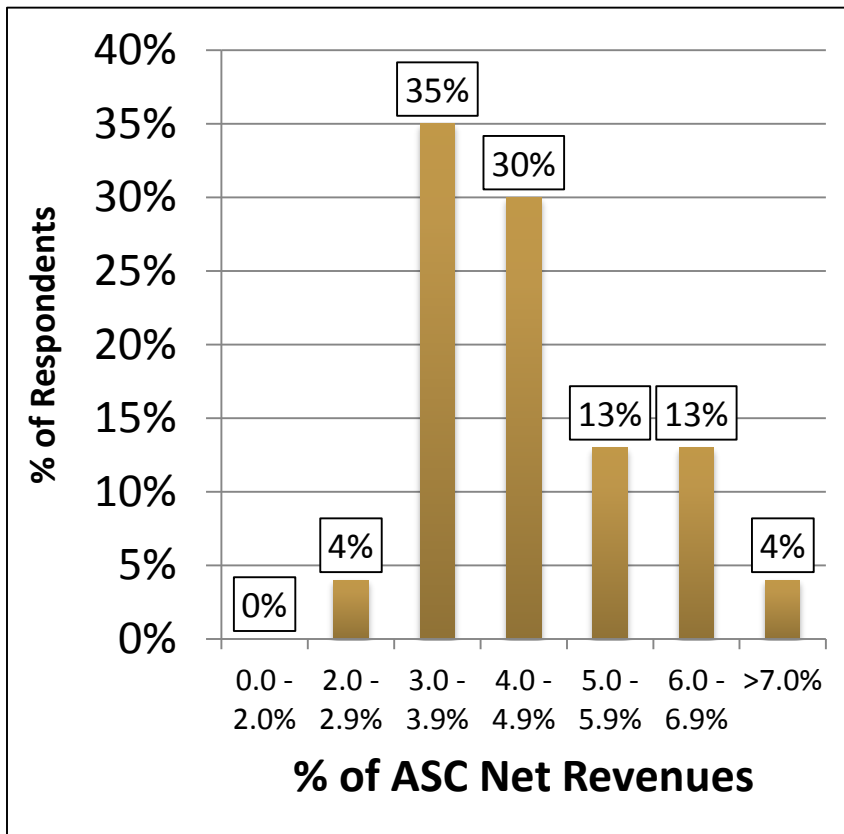
Services Never or Rarely Provided as Part of ASC Management Fee



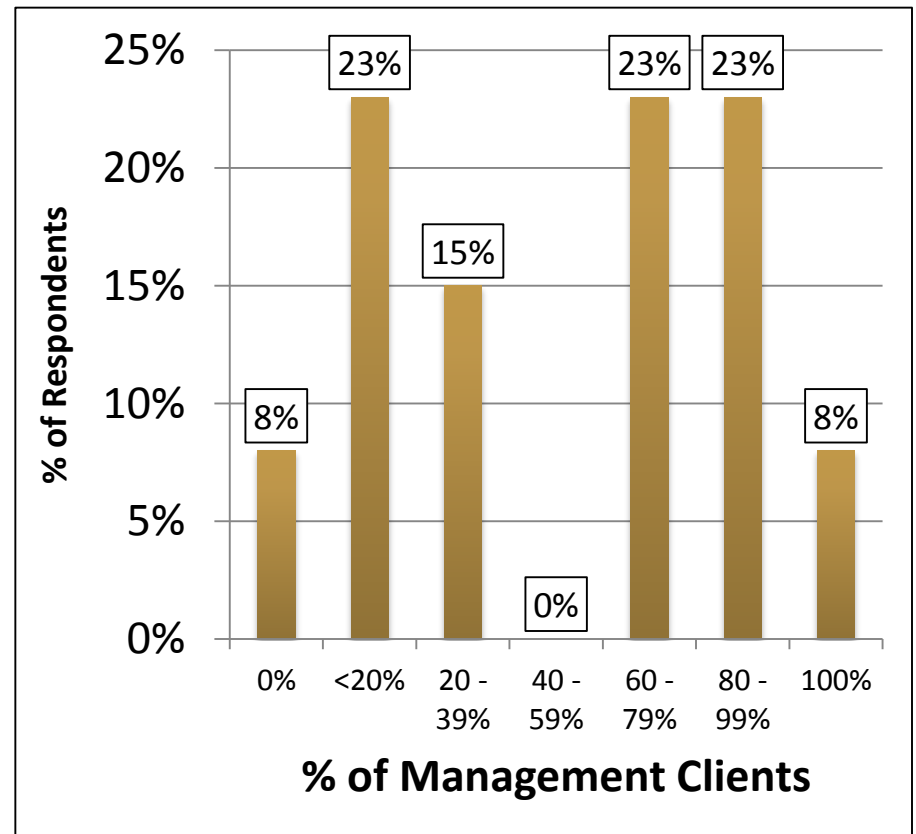
ASC Billing

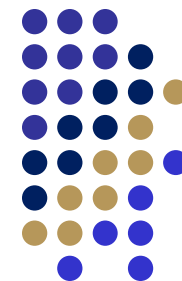


ASC Billing Fees



% of Mgt Clients Using Billing





QUESTIONS?

Findings From HealthCare Appraisers' 2014 ASC Valuation Survey

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