

## KEY THOUGHTS FOR A PHYSICIAN –HOSPITAL ASC JOINT VENTURE

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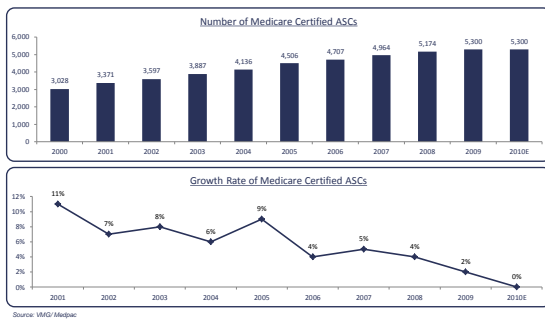


### The ASC Market In The U.S.

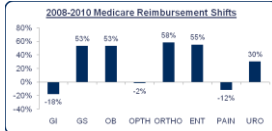
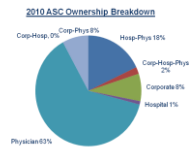
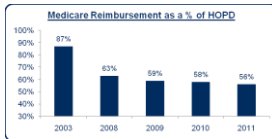
- There are approximately 5200 ASCs in the U.S.
- 90% of all ASCs have some degree of physician ownership
- About 20% of ASCs have a hospital partner
- While some ASC specialties are being paid better by Medicare, many others are not and, most importantly, ASCs without hospital partnerships are paid 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 are all but eliminating most out-of-network reimbursements, thus reducing the profit margin of most ASCs



### ASC Growth Rates have Stagnated



## Reimbursement and Ownership Dynamics



### Commentary

- Over 90% of ASCs have physician ownership
- Approximately 20% of ASCs have a hospital partner
- Reimbursement shifts in recent years
- Evaporation of Out-of-Network reimbursement



## The Economics of a Surgeon/Hospital/Corporate Management Model

- Medicare will pay the ASC the same per case regardless whether the ASC is independent or not
- The average reimbursement for independent ASCs is between \$1200-\$1700 per case
- The average reimbursement for hospital-affiliated ASCs is in the range of \$2200-\$3000 per case



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

- There is a historical reason why less than 20% of hospitals are partnered with physicians and it mainly has been because 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 worse, 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

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### Why Partner?




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### 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

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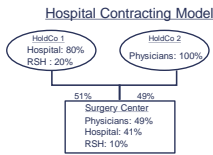
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### Different Ownership Models Exist Depending On Goals



#### Structure

- Hospital has 2 board seats, Physicians have 4 seats and Regent has 1 seat
- Physicians are Class A shareholders and Hospital and RSH represent Class B shareholders
  - Hospital controls Class B and majority vote
- Physicians retain voting control on clinical issues
- Maximizes physician financial upside while maintaining hospital's earnings consolidation ability



### Regent Business And Partnership Model Is Beneficial To Hospitals Interested In Pursuing Joint Ventures With Doctors

- Ownership Model:
  - 51% Hospital/Regent
  - 49% surgeons
- Hospital owns at least 26% of the 51%; most hospitals own 41% of 51%
- Governance Model:
  - Hospital votes Regent's ownership to demonstrate "control" on key legal and financial issues
    - This results in the ability of the ASC to obtain "hybrid" payer contracted rates which are less than HOPD, but more than independent ASC rates
  - Physicians are able to maintain clinical control of operations even though they are minority owners, making it attractive for them to participate in these partnerships



### Example of Retained Physician Control After a Transaction is Completed

- Physicians Control (At Board Level)
  - 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 that are part of budget or are limited to a certain monetary value

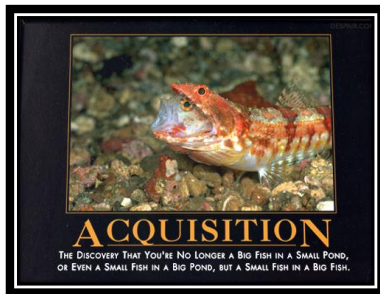


### When Is It Best To Use Our Recommended Model?

- When the doctors trust the local hospital
- In an over-saturated competitive ASC market
- In a community where payors squeeze 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 to partner 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



### Case Study: Knightsbridge Surgery Center Columbus, Ohio

#### Background

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

#### Problem

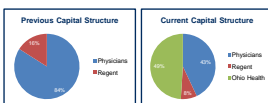
- Payor strategy loses momentum, diminishing returns
- OhioHealth seeks partnership yet physicians seek retention of clinical control

#### Solution

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

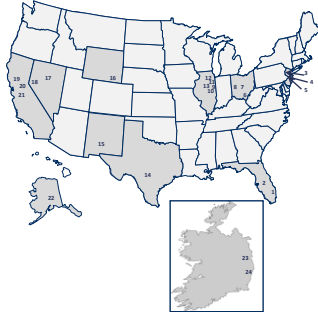
#### Result

- Meaningful liquidity event for physicians' 49% interest
- Approximately 133% annual returns for OhioHealth
- Net Revenue Per Case 2x-3x that of ASC regional avg.



## Summary Of Regent

- Founded in 2001; Headquartered in Chicago
- 24 facilities; 30 owned and managed historically
- Always a minority owner and manager
- 17 of 24 Partnerships are with hospitals
- 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

Regent's Partnerships  
Nationally and Internationally

1. Paramount ASC Tampa, FL Under Development	15. Swedish Cancer ASC - Under Development Chicago, IL Partner: Swedish Cancer Hospital
2. Surgery Center of Mount Zion Mount Zion, IL Partner: Lutheran Hospital	16. The Center for Special Surgery TCS San Antonio, TX
3. Ambulatory Surgical Center at Robert Wood Johnson New Brunswick, NJ Partner: Robert Wood Johnson University Hospital	17. Southern New Mexico Surgery Center Alamogordo, NM
4. Endoscopy & Cancer of Connecticut San Bernardino, NJ Partner: Robert Wood Johnson University Hospital	18. Cityview Surgical Center Cityview, NY
5. Peritoneal Endoscopy Surgical Center Baltimore, NJ Partner: Mount Sinai Hospital	19. Summit Surgery Center at Saint Mary's Medical Dallas, TX Partner: St. Mary's Regional Medical Center
6. Women's Surgery Center Marion, OH Partner: Mount Sinai Hospital	20. Surgery Center of Ohio Buckeye, OH Partner: St. Mary's Regional Medical Center
7. Endoscopy Surgical Center Columbus, OH Partner: Ohio Health	21. Advanced Surgery Institute San Diego, CA
8. Medical Center of Elizabeth Place Naperville, IL Partner: Parkland Health System	22. Lodi Outpatient Surgery Center Lodi, CA Partner: Lodi Memorial Hospital
9. Prime SurgiCenter Palm Springs, CA Partner: Prime Community Hospital	23. Lodi Endoscopy Center Lodi, CA Partner: Lodi Memorial Hospital
10. Medical Surgical Center Springfield, IL Partner: Parkland Community Hospital	24. Surgery Center of Anesthesiology Anesthesiology, MI
11. Sports Medicine and Orthopedic Surgery Center Baltimore, MD Partner: Parkland Community Hospital	25. Non-invasive Medical & Diagnostic Medical Center Dallas, TX Partner: St. Mary's Regional Medical Center
12. Rensselaer Surgery Center Geneva, IL	26. Cyber-Radiology Dallas, TX Partner: St. Mary's Regional Medical Center



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