

# Why Hospitals Prefer Owning a Majority Interest in an ASC Instead of 100% of an HOPD

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## Why?

- When owning 100% of an HOPD (even with a co-management agreement with surgeons) they are only “renting” the doctors; a partnership is more sustainable.
- Most hospitals require 51% ownership in current partnerships with surgeons.
- It allows consolidation of revenue in numerous instances.
- It provides more comfort to have certain controlling rights if they have majority ownership.

## Why?

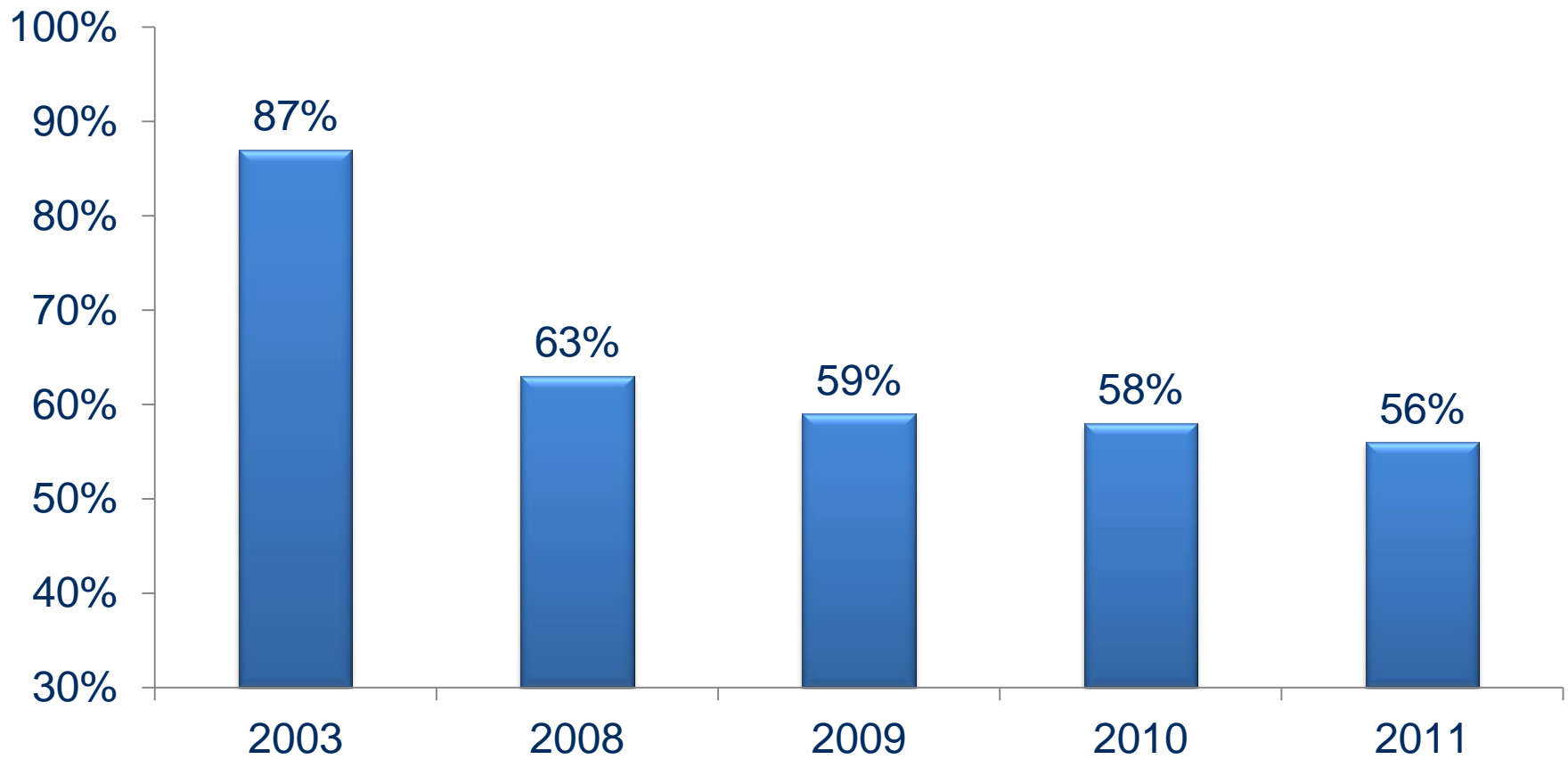
- In certain instances, it allows the entire ASC partnership to leverage HOPD contracted rates.
- If a hospital purchases an ASC from surgeons, a purchase of 51% or more interest will result in a high price (multiple); it would be uncommon for a hospital to purchase 100% of an ASC and turn it into an HOPD.
- Converting an existing ASC to an HOPD may result in very expensive capital costs to comply with hospital requirements, thus mitigating the increase in reimbursements for an HOPD.
- There is some risk that Medicare in the future will eliminate the financial advantage of an HOPD over an ASC.

# The Trends of ASC Ownership

- Follow the Money
  - See next slide – “table”

# Reimbursement and Ownership Dynamics

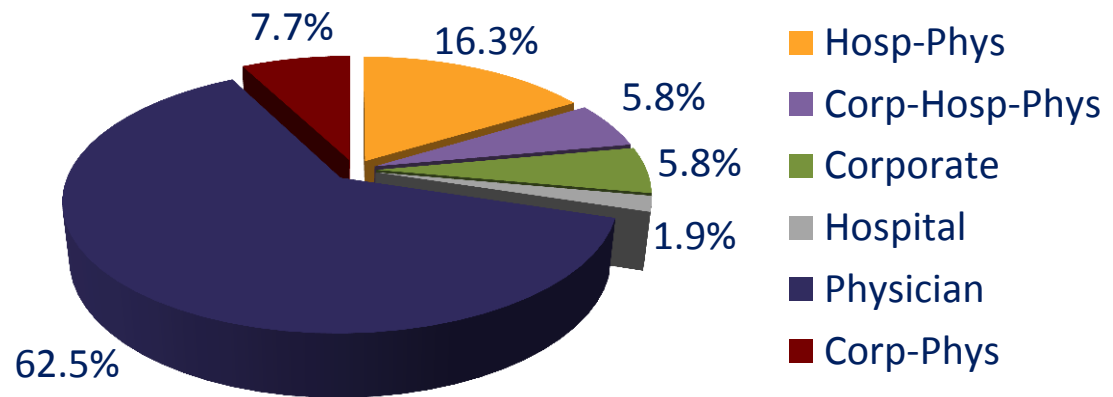
## ASC Reimbursement as a % of HOPD



Source: Medpac Report to the Congress: Medicare Payment Policy March 2012; ASCA's 2011 ASC Employee Salary and Benefits Survey

# Reimbursement and Ownership Dynamics

## 2011 ASC Ownership Breakdown



- Over 90% of ASCs have physician ownership
- Approximately 25% of ASCs have a hospital partner
- Reimbursement shifts in recent years
- Evaporation of Out-of-Network reimbursement

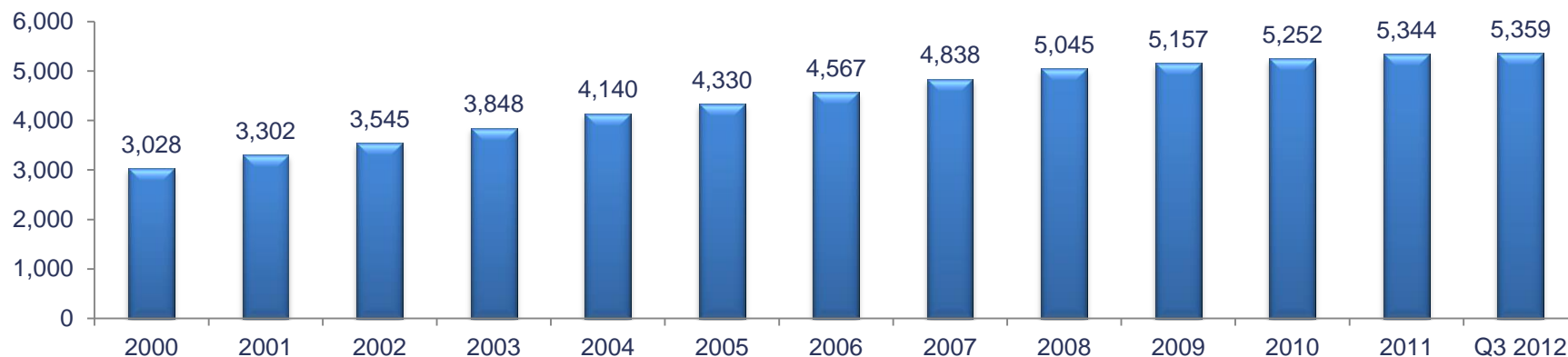
*Source: ASCA's 2011 ASC Employee Salary & Benefits Survey*

## Fewer ASCs are Being Built

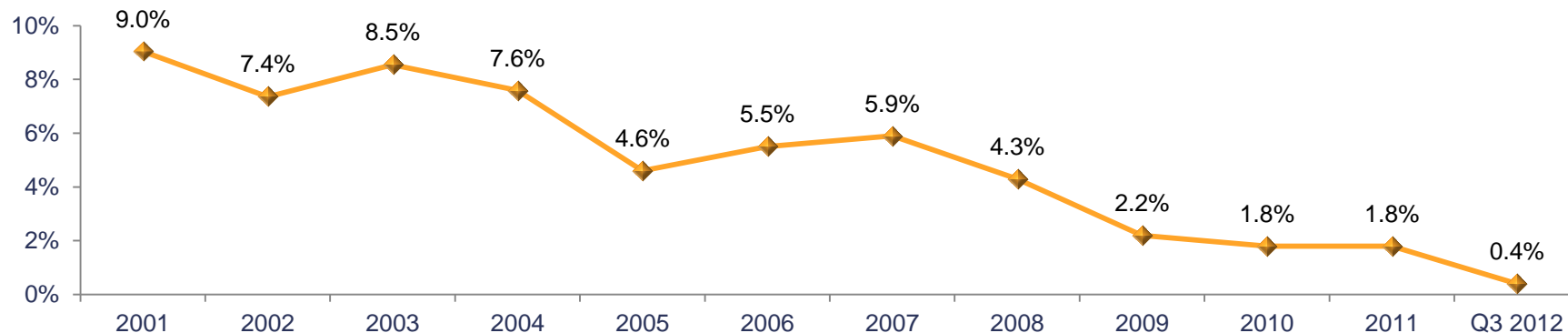
- As a result, more acquisitions are being completed which primarily involve acquiring majority ownership by the purchaser
- Because hospitals prefer having doctors as partners, an HOPD model where the hospital would have to own 100% is usually not the first priority

# ASC Growth Rates have Stagnated

Number of Medicare Certified ASCs



Growth Rate of Medicare Certified ASCs



Source: Report to Congress: Medicare Payment Policy, March 2013



# The New Outpatient Strategy: Hospital/Physician JVs

- There are approximately 5,300 ASCs in the U.S.
- 90% of ASCs have some degree of physician ownership
- Approximately 20% of ASCs have a hospital partner
- While some ASC specialties are better reimbursed by Medicare, many ASCs without hospital partnerships are paid less than 60% of what a hospital is compensated for the same outpatient surgeries
- Most U.S. locations are saturated with ASCs and, for the first time in recent history, net growth of ASCs has stalled
- Payers are all but eliminating most out-of-network reimbursements, thus reducing the profit margin of most ASCs

# 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**

- 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

# Which Model Do We Usually Recommend?

- **Hospital Contracting Model**

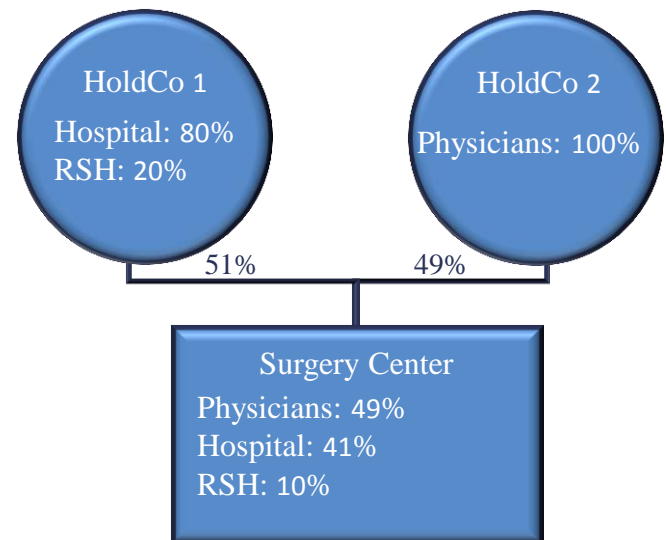
- If it is structured correctly, the payments per case are at least 30% higher than an independent ASC and, at the same time, it provides protection for the doctors that the hospital cannot compete with them in other transactions and allows the doctors to maintain daily clinical and operations control 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

## Governance Structure

- Hospital has 2 board seats, Physicians have 4 seats, and Regent has 1 seat
- Physicians are Class A shareholders, while Hospital and Regent 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

## Hospital Contracting Model



# 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.

# 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 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 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

# 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 with payors and canceling inadequate contracts

## Problem

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

## Solution

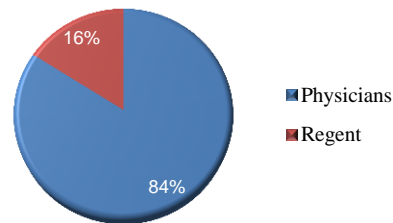
- Hospital acquires 49% stake but has 50% vote and tiebreaker rights on key management decisions
- Hospital investment predicated on attainment of performance benchmarks

## Result

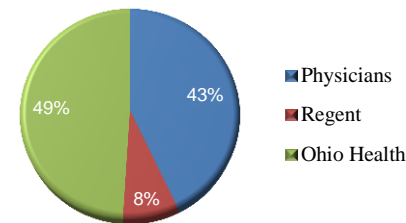
- Meaningful liquidity event for physicians' 49% interest
- Approximately 133% annual returns for OhioHealth
- Net Revenue Per Case 2x-3x that of ASC regional avg.



Previous Capital Structure



Current Capital Structure



# Different Ownership Models Exist Depending On Goals

## Classic Hospital Controlled ASC

### Surgery Center

Hospital: 51%  
Physicians: 39%  
RSH: 10%

### Structure

- Hospital has 2 board seats, Physicians have 2 seats and Regent has 1 seat
- Compelling negotiating position with payors
- Carve-out rights can be structured on operational decisions

# The HOPD Model

## HOPD Model



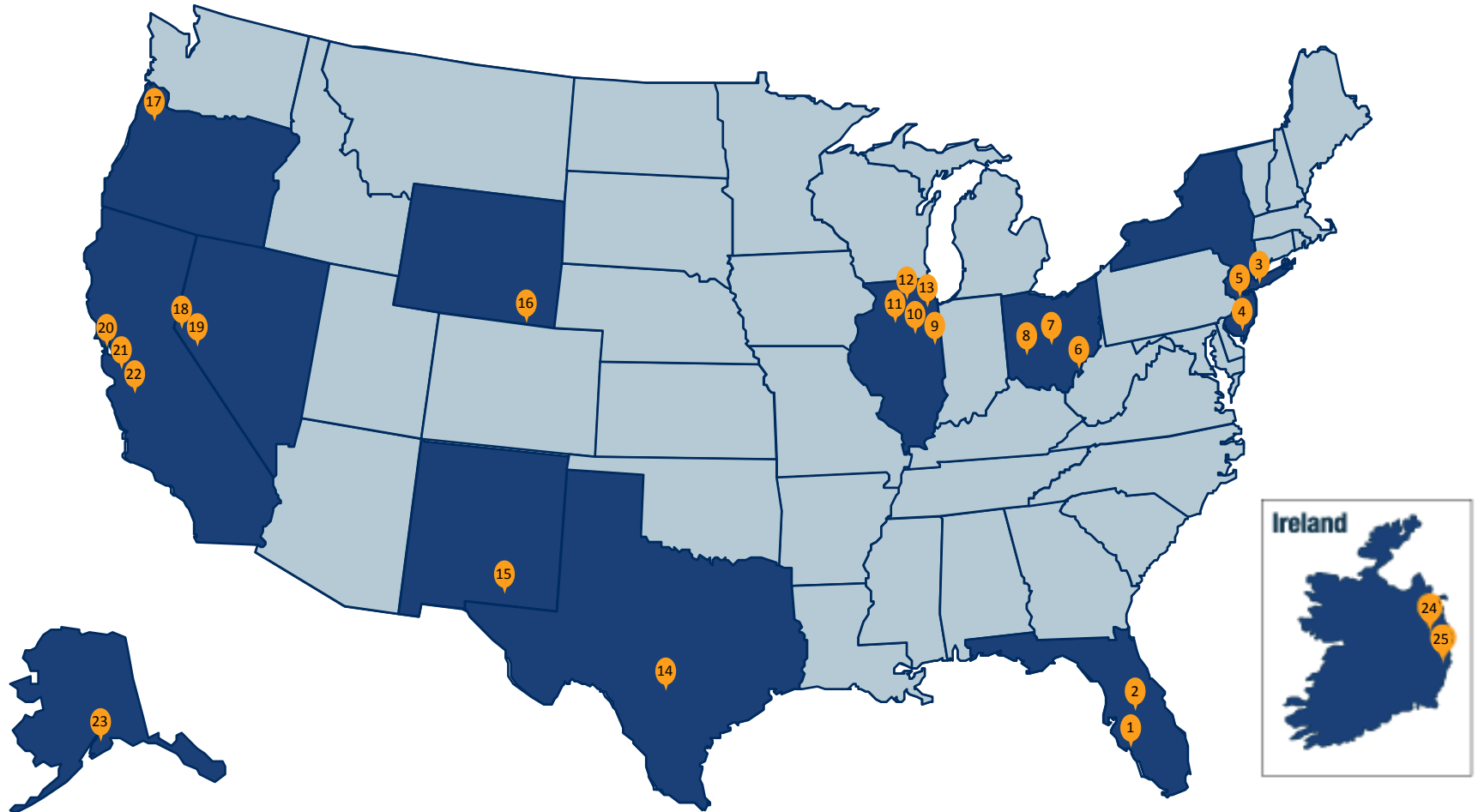
### Structure

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

# Summary Of Regent

- Founded in 2001; Headquartered in Chicago
- 25 facilities; 30 owned and managed historically
- Always a minority owner and manager
- 19 of 25 Partnerships are with hospitals; 5 new hospital /surgeons 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



# Regent Facilities/Partners

1. **The Center for Specialized Surgery**  
Ft Myers, FL
2. **Surgery Center of Mount Dora**  
Mount Dora, FL  
*Partnered With Leesburg Hospital*
3. **New York Eye and Ear Infirmary/Manhattan**  
New York, NY  
*\*Under Development*  
*Partnered With New York Eye and Ear Infirmary*
4. **Endosurgical Center of Central NJ**  
East Brunswick, NJ  
*Partnered with Robert Wood Johnson University Hospital*
5. **Ambulatory Surgical Pavilion at Robert Wood Johnson**  
New Brunswick, NJ  
*Partnered With Robert Wood Johnson University Hospital*
6. **Marietta Surgery Center**  
Marietta, OH  
*Partnered With Marietta Memorial Hospital*
7. **Knightsbridge Surgery Center**  
Columbus, OH  
*Partnered With OhioHealth*
8. **Medical Center at Elizabeth Place**  
Dayton, OH  
*Partnered With Kettering Health System*
9. **Palos SurgiCenter**  
Palos Heights, IL  
*Partnered With Palos Community Hospital*
10. **Midland Surgical Center**  
Sycamore, IL  
*Partnered With Kishwaukee Community Hospital*
11. **IL Sports Medicine and Orthopedic Surgery Center**  
Morton Grove, IL
12. **Ravine Way Surgery Center**  
Glenview, IL
13. **The Center for Ambulatory Surgery at Swedish Covenant**  
Chicago, IL  
*Partnered With Swedish Covenant Hospital*
14. **The Center for Special Surgery Texas Center for Athletes**  
San Antonio, TX
15. **Southern New Mexico Surgery Center**  
Alamogordo, NM
16. **High Plains Surgery Center**  
Cheyenne, WY  
*Partnered With Cheyenne Regional Medical Center*
17. **Providence Health System/Portland**  
Portland, OR  
*\*Under Development*  
*Partnered With Providence Health System*
18. **Summit Surgery Center at Saint Mary's Galena**  
Reno, NV  
*Partnered With PRIME Healthcare*
19. **Surgery Center of Reno**  
Reno, NV  
*Partnered With PRIME Healthcare*
20. **Advanced Surgery Institute**  
Santa Rosa, CA  
*Partnered With Santa Rosa Memorial Hospital*
21. **Endoscopy Center of Lodi**  
Lodi, CA  
*Partnered With: Lodi Memorial Hospital*
22. **Lodi Outpatient Surgical Center**  
Lodi, CA  
*Partnered With Lodi Memorial Hospital*
23. **Surgery Center of Anchorage**  
Anchorage, AK
24. **Neurosurgery Ireland at Hermitage Medical Clinic**  
Dublin, Ireland  
*\*Under Development*  
*Partnered With Hermitage Medical Clinic*
25. **Cyber Knife Ireland**  
Dublin, Ireland  
*\*Under Development*  
*Partnered With Hermitage Medical Clinic*

# 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



# Contacts

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