

ANATOMY OF AN ASC TRANSACTION

*WHAT TO EXPECT WHEN SELLING
AN INTEREST IN YOUR ASC OR ENDO CENTER*

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PRESENTATION GOALS

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- **Provide General Background on Ambulatory Surgery Centers (“ASCs”) & Endoscopy Center Transactions**
- **Describe Transaction Process**
- **Overview of Valuations and How Acquirer’s View Centers**
- **Discussion of Key Development and Operational Issues**
- **Discussion of Future Trends**

ABOUT ASC & ENDOSCOPY CENTER TRANSACTIONS

Consolidation and Acquisitions Current Environment

- Merger and Acquisition activity has picked up in recent years.
- Buyers include primarily national companies & hospitals but also insurance companies & private equity groups.
- Consolidation of companies is underway. Recent acquisitions of National Surgical Care (18 ASCs) by AmSurg and Titan (20 ASCs) by USPI highlight the trend.
- Multiples remain strong for centers with the right profile.
- Uncertainty driving some of the increase in activity.

Consolidation and Acquisitions

Motivation of Sellers

- Primary Motivation for Increase in M&A Activity
 - Sellers
 - Strategic partnerships bring economies of scale.
 - Liquidity. Sale of a mature business at capital gains tax rates can be compelling. In some cases buyers will price deals up to 3-8x EBITDA. Most typical range for attractive Centers is 5-7.
 - Concern over health reform
 - Potential increases in capital gains tax rates.

Consolidation and Acquisitions

Motivation of Buyers

- Primary Motivation for Increase in M&A Activity
 - National Company Buyers
 - Drive growth. Economies of scale lower cost structure of individual acquisitions thereby lowering effective multiples paid.
 - Hospital Buyers
 - Alignment of interests with physicians.
 - Conversion of to HOPD results in higher rates paid, thereby lowering effective multiple paid for the ASC.
 - Private Equity Buyers
 - Looking to invest in platforms
 - Insurance Companies
 - Platform for delivery of care, lower costs

ACQUISITIONS PROCESS AND PRICING

Consolidation and Acquisitions Valuation Ranges

- Deals valued between 3-8x EBITDA for majority interest (5-7x is most common). The higher multiples are paid to facilities with the following profile:
 - Diverse revenue base. No one physician more than 15% of production.
 - Demonstrable growth opportunities.
 - Large number of physicians utilizers.
 - Multiple specialties.
 - No out-of-network exposure, limited (<5%).
 - Hospital partner.
 - Limited competition (CON Barriers)
- Out-of-Network businesses or targets with other significant risk factors will trade in the 3-5x range.

Key Due Diligence Issues

How are Buyers Evaluating Centers?

- Growth Opportunities
 - Profile of Physician Owners, Succession Plans
 - New Potential Utilizers
 - Case Volume Challenges (Capacity) & Profitability of Cases
- Compliance & Regulatory Requirements
- Condition of Facility
- Supply & Staff Management, Vendor Contracting
- Payor Market Contacting
- Revenue Cycle Optimization
- Access to Essential Data
- Governance
- Anesthesia

Key Deal Points

- Valuation
- Amount Sold
- Management Agreements
- Governance
- Dilution for New Members
- Buy/Sell Provisions
- Non-compete/Non-solicit
 - Provisions of Hospital Employment

Anatomy of a Deal

- Identification of Opportunities
 - Direct Buyer Contact
 - ASCs and Imaging Centers are typically licensed and easily identified
 - Existing relationships
 - Direct Marketing from Facility
 - Identification of purchasers
 - Production of “Teasers” and “CIMs”
- Initial Evaluation of Opportunities by Buyers
 - NDAs
 - Review/Exchange of information
- Determination of Level of Interest

Anatomy of a Deal

➤ Pricing

- Acquirers perform a discounted cash flow analysis.
- Multiples are really only a proxy for value.
- Asset valuations performed as well.

➤ Indication of Interest

- Sets general terms of the Transaction. Typically non-binding except for certain provisions.

➤ Initial Interviews

- Seller selects several potential purchasers to interview & sets selection criteria (“Round 1”).
- Narrowing of potential purchasers, further negotiations.
- Buyers refine offers, pricing models adjusted.

Anatomy of a Deal

- Selection of Purchaser
 - Possible “Second Round” Interviews
 - Continued Negotiation & Selection
 - Execution of Letter of Intent

- Documentation and Due Diligence
 - Definitive Documents
 - Operating Agreement
 - Purchase and Sale Agreement
 - Comprehensive Due Diligence
 - Operational
 - Financial
 - Legal
 - Strategic
 - Regulatory & Compliance

- Closing

Anatomy of a Deal

Timing

- Identification of Purchaser/Seller, Transmission of Key Financial and Operational Data, 6-12 weeks (dependent on CIM production).
- Evaluation of Opportunity, Initial Indications of Interest, 4-6 weeks.
- Interviews, Final Negotiation, Purchaser Selection and Execution of Letter of Intent, 4-8 weeks.
- Documents, Due Diligence and Closing (assuming no CON), 6-12 weeks.
- Total Time..... 5 - 9 months *(but dependent on many factors)*

ABOUT Us

Certain Merritt Principals will complete \$85mm in ASC and endo center transactions win 2012. Our Clients include Hospitals and Physician Owned Centers.

ASCs - Anatomy of an ASC Deal and a Discussion of Current Legal Issues

Presented by:

Scott Becker, McGuireWoods, LLP

Key Legal Issues

Key Legal Issues

1. Redemptions
 - A. Safe Harbor
 - B. Without Consent
 - C. Staff Privileges – (1) generally, or (2) case numbers
2. Non Competes
 - A. Other ASC
 - B. Employment by Hospital
 - C. In Office

Key Legal Issues

Key Legal Issues

3. Government Subpoena
4. Medical Staff Privileges; Disruptive Physician
5. Terminate Employment
6. Lithotripsy Pricing
7. Out of Network
 - A. Pressure on doctor
 - B. Up front patient consent
 - C. To disclose or not to disclose
 - D. What amount to collect
 - E. Payor tactics

Key Legal Issues

Key Legal Issues

8. New Laser and Equipment
9. Anesthesiology
10. Medical Device Relationships – Third parties and PODs
11. Buy In Pricing
12. Payor Contracting

Questions or Comments?

For follow-up issues, please feel free to contact:

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