Buying and Selling of Ambulatory Surgery Centers:

Pricing by Tier in the Current Market

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Relationships That Drive Results

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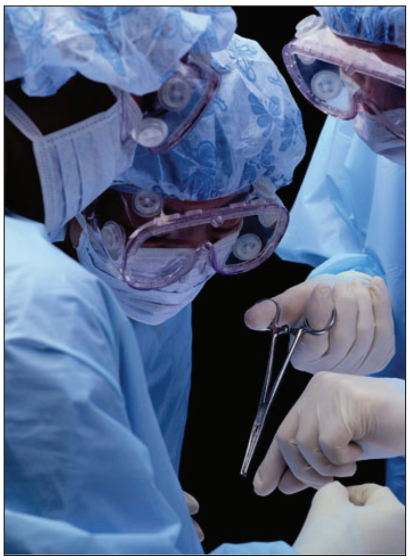
This article focuses on buyers of majority interests in ambulatory surgery centers. Currently, there are three public company buyers of majority interests in ASCs, and four private company buyers that fit in this category. These are the companies that generally buy more than 50% in an ASC transaction – typically from 51-66%.

A. Three of the principal public company buyers include:
   - Amsurg
   - NovaMed
   - Medical Facilities Corporation



B. Four of the principle private consolidators of majority interests of ASCs include:
   - Meridian Surgical Partners
   - National Surgical Care
   - United Surgical Partners
   - Symbion, Inc.

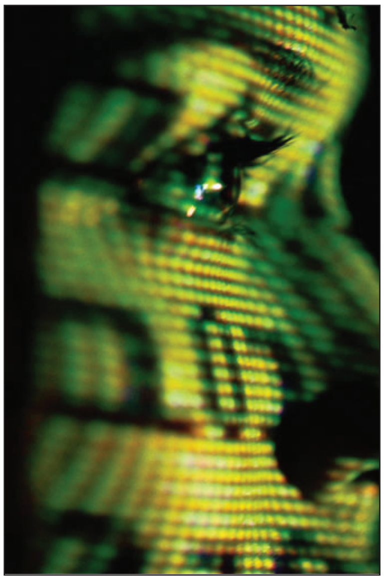
C. In addition to majority interest buyers, there are a number of minority interest purchasers (and sometimes majority interests) in ASCs. Several of the most prominent include:
   - Ambulatory Surgical Centers of America
   - Blue Chip Surgical Partners
   - Cirrus Health
   - Foundation Surgical Affiliates
   - HealthMark Partners
   - Nueterra Healthcare
   - Prexus Health Partners
   - Regent Surgical Health
   - SCA (formerly HealthSouth)
   - Surgical Management Professionals
   - Woodrum ASD

D. Tier One Deals and Criteria. The pricing of surgery centers (majority interests) can be broken down into three tiers. The first includes what we consider low risk acquisitions. These typically measure positively with regard to the following characteristics:
   - Certificate of need
   - Low out-of-network percentage of business
   - Limited reimbursement risk
   - Not overly dependent on too few doctors
   - Limited non-compete problems

   For these types of low risk transactions, we often see prices of 7 – 7.5 times EBITDA or higher minus debt. As part of this transaction, parties often acquire 51 – 66% of the target ASC's units, and the ASC enters into a long-term management with the buyer. The management fee agreement is typically at 5 – 6 % of collections. Normally, as part of pricing, the buyer acquires accounts receivable minus accounts payable.

E. Tier Two Deals. The second tier includes deals that have, of the five characteristics above, one or two characteristics that pose significant risks. These might be centers in a non-certificate of need state, or a center with some competition risk, reimbursement risk, or certain other risk. In a situation where a center measures negatively for one to two of these five factors, the party might be included in the second tier. Bear in mind that being completely negative on certain of these factors, can turn a tier one deal into a tier three deal vs. a tier two deal. For example, if the center is dependent on one to two physicians, or if many physicians in the venture have significant outside competitive interests, this can make the deal a tier three deal vs. tier two.

For tier two pricing, we often see pricing of 5 – 7 times EBITDA minus debt. The actual price within that range depends a great deal on the depth and number of different risks present.



F. Tier Three Deals. Finally, tier three deals as those with several risk characteristics. There are typically few buyers for these transactions, and if a buyer is found for these transactions, the price is 3 – 5.5 times EBITDA minus debt. Often, for these types of deals, the party will look toward one of the minority buyers with the intent of restructuring the venture to improve it for greater profitability going forward. In essence, instead of attempting to make a capital gain from the transaction, a party may focus on finding a buyer who will buy a minority interest and help manage and improve the center's profitability and stability.

Summary

A center generally must measure positively on the five characteristics above, in order to receive the most favorable pricing from a majority interest buyer. If a center does not measure well on all or certain key characteristics, it will likely receive little interest from majority interest buyers (or a lower price). Centers measuring low on these characteristics that are seeking a buyer should focus on soliciting offers from minority interest buyers, and improving profits, and potentially selling to a majority interest buyer in the future.

Index of Companies Mentioned

Company	Contact
Ambulatory Surgical Centers of America	Dr. Brent Lambert 781.258.1533
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Meridian Surgical Partners	Buddy Bacon or Kenny Hancock 615.301.8142
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