Why Less Is More:

Embracing the Niche Network Model for Joint-Venture ASCs

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Today's Presenters

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2

About Blue Chip Surgical

- Develops, manages and optimizes ASC businesses
- Nationwide network of 15+ ASCs
  - ✓ Clinically distinguished, highly profitable
  - ✓ 4 hospital/health system partners
  - ✓ Experts in spine-focused ASCs
- Annual ROI of each project is typically 50-200%
- Focus on financial, payor, legal and operational matters
- Enables our surgeon partners to focus on patient care
- Build trust-based JVs built on aligned incentives, shared risk-reward and creative business models

3

About Sentara Healthcare

- 124-year not-for-profit mission
- 10 hospitals; 2,349 beds; 3,700 physicians on staff
- 10 long term care/assisted living centers
- Extended stay hospital
- 3 Medical Groups (600+ Providers)
- 432,600-member health plan
- Sentara College of Health Sciences
- $4.0B total operating revenues
- $5.0B total assets
- 24,000 members of the team
- Mission: We improve health every day

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4

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Sentara-Blue Chip Partnership

- Sentara Lake Ridge; Lake Ridge, VA
- CON required
- JV Structure
  - ✓ Physician-led; 9 partners
    - ✓ Orthopedic & spine surgeons; pain specialists
    - ✓ All partners are board members – attend monthly, one-hour meetings
    - ✓ Each partner adds unique value
  - ✓ Sentara & Blue Chip hold minority stakes
  - ✓ Real estate owned in part by Ortho MD partners
- Small, focused ASC: 1 OR + 1 PR with expansion options
- Capture market share: spine/ortho + other specialties in time

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5

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Sentara Objectives

- Stable medical community & engage with top talent
- Proactive succession planning
- Facility coverage
- Total clinical, strategic and economic integration
- Ensure long-term viability of critical programs
- Manage CON process briskly
  - ✓ Decommission hospital OR & Transition to ASC
- Position for evolving reimbursement model
  - ✓ Hospital ORs & beds may become a cost center, not a revenue generator
- Improve level of care via specialty service centers
  - ✓ Musculoskeletal COE, MD office, imaging, ASC under one roof

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6

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ASC Investments: What Surgeons Want

- Control
  - ✓ Professional satisfaction
  - ✓ Personal – work/life balance
- Patient Focus
  - ✓ Excellent outcomes
  - ✓ Comfortable patient experience
  - ✓ A place to do their best work
- Productivity/Efficiency
- Financial Benefits
  - ✓ Economic stability
  - ✓ Ancillary income
  - ✓ Wealth-building

7

ASC Investments: What Hospitals Want

- Stronger Surgeon Relationships
  - ✓ Better communication
  - ✓ Sense of alignment
  - ✓ Loyalty – capture greater share from "splitters"
  - ✓ Capture surgeons aligned with hospital rivals
- Clinical Excellence
- Return on Investment
- Market Share
  - ✓ Brand awareness
  - ✓ Competitive advantage
- Control – typically 51% ownership
- Pricing Flexibility – ASCs allow for lower price points than hospital

8

Getting to Alignment with Surgeons

- Identify the best business model to achieve alignment
- Began with review of what both want to accomplish
  - ✓ Review of history
  - ✓ Competitive market dynamics
  - ✓ Why affiliation is being considered – MD & hospital perspectives
  - ✓ Affiliation options
- Present facts to address important questions
  - ✓ What is the motivation?
  - ✓ Why now?
  - ✓ What are the concerns of physician membership?
  - ✓ What can the health system offer versus not offering?
  - ✓ Benefits to both organizations compared to staying status quo?

The Problem with Traditional Multi-Specialty Model

- Too many specialties
  - ✓ Drives up capital costs
  - ✓ Risk of overbuilding
- Too many owners and/or wrong owners
- Generalist staffing – not truly "expert"
- Diluted financial results
  - ✓ Limited returns – can only make "restaurant money"
  - ✓ On small investments, 50+% ROI may only = $6,500 annually
  - ✓ Same $ profit distributions to each surgeon for different specialties (e.g., neurosurgery vs. dentistry)

10

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The Problem with Traditional Multi-Specialty Model (cont'd)

- Minimal cross-referral opportunities
- Non-committed owners
  - ✓ Misaligned incentives
  - ✓ Lack of shared vision
- Governance issues & complexity
  - ✓ Limited board participation by surgeon-owners
  - ✓ Lack of physician engagement due to minimal "skin in the game"

11

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New Approach: "Niche Network"

- Network of single-specialty, "boutique" ASCs
  - ✓ Spine/Ortho
  - ✓ Women's Surgery Center
  - ✓ Bariatric & Hernia
  - ✓ Pediatric
  - ✓ ENT
- Focus on clinical excellence & great patient experience

12

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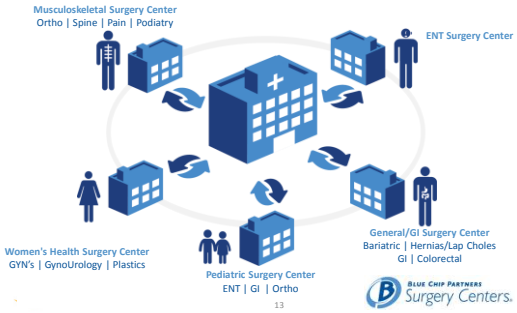
"Niche Network" Model



13

"Niche Network" Business Model

- Creatively-structured joint venture models:
  - ✓ Physician-led: surgeons are majority owners
  - ✓ Hospital and managing partner equal minority stakes
  - ✓ Nimble, responsive management structure
  - ✓ Shared risk & reward
  - ✓ Facilities configured to market niche
  - ✓ All surgeon-owners assume leadership responsibility

14

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"Niche Network" Business Model

- Hospital Equity Stakes – Why 51%?
  - ✓ Not-for-profits expect 51% equity to preserve Not-for-Profit status
  - ✓ For-profit hospitals & publicly-traded ASC management companies want to consolidate financials
- Surgeon Equity Stakes – Why 51%?
  - ✓ Commitment & engagement – MDs "own" the center
  - ✓ Well-informed, engaged surgeons make excellent business decisions

If hospitals must own 51%, future equity purchase options should be agreed at the outset.

15

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Niche ASCs: Surgery Center for Women

Hospital creates opportunity for surgeons to own a portion of the real estate

16

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Why "Boutique" ASCs

- Quality experience for both surgeon & patient
- The location factor:
  - ✓ Surgeons will travel crosstown 2-3x/month for quality, productivity, compressed schedules, control, etc.
  - ✓ Patients will travel crosstown for specialized experience, surgeon focus, easy parking, etc.
- Improved outcomes through "best practices"
- True expert staffing
- Full surgeon commitment – no "dead wood"
- Attractive financial benefits
- The "Board Meeting" advantage

17

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Why "Boutique" ASCs (cont'd)

- Address hospital strategic agenda:
  - ✓ Recruit "splitters" and surgeons from competitors
  - ✓ Grow inpatient volumes through MD alignment
  - ✓ Target hospital line development by specialty
- Improved "word of mouth" referrals
- New marketing opportunities:
  - ✓ Direct-to-consumer
  - ✓ Co-marketing with local teams, local celebs
  - ✓ Smaller, nimble, agile – responsive to needs of marketplace

18

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Boutique ASCs & ACOs

- Positioning for ACO and bundled payments:
  - ✓ Governance - engaged, informed surgeons
  - ✓ Ownership of the bundle
- Prepare for shift from revenue-based to cost-based models
  - ✓ New hospital metric: not how many beds filled, but how few

19

Niche vs. Multi-Specialty

	Hospital				Average Physician		
Niche Centers	Invest	Annual ROI $	Annual ROI %	# Phys	Invest	Annual ROI $	Annual ROI%
- Spine/Ortho	$147,000	$211,000	144%	10	$31,000	$44,000	142%
- Women's	$147,000	$54,000	37%	15	$20,400	$7,500	37%
- ENT	$147,000	$125,000	85%	10	$31,000	$26,000	84%
- General Surgery / Bariatric	$147,000	$138,000	94%	7	$44,000	$41,000	93%
TOTAL	$588,000	$528,000	90%	42			
Multispecialty	$510,000	$273,000	54%	40	$12,250	$6,600	54%

For hospitals, niche investments offer bigger payoff – both financially and with stronger MD bonds.

20

Spine & Musculoskeletal ASCs

Greenspring Surgery Center - Baltimore, MD

Crane Creek Surgery Center - Melbourne, FL

GNS Surgery Center - Athens, GA

Mayfield Clinic - Cincinnati, OH

21

Questions and Discussion

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22