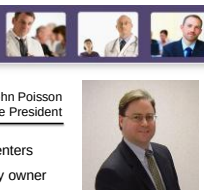
Physicians Endoscopy, L.L.C.



John Poisson
Executive Vice President

- Single-specialty GI focused; 25 operating GI centers
- Develop and manage EASCs as minority equity owner
- Seven (7) de novo under development
- 12+ Hospital—Physician JVs around the country
  - 40% of historical partnerships
  - 80% of all new partnerships
- Five (5) acquisitions in 2012 thus far
  - Hagerstown, MD
  - Bloomington, IL
  - Elgin, IL
  - Stoneham, MA
  - North Bergen, NJ

Presentation Summary

Roughly 50% of EASCs considering selling won't actually close a transaction

Six Key Challenge Areas:

1. Legal Structure of the ASC
2. Pre-Sale Preparation
3. Selecting Potential Buyers
4. Buyer Interviews/Presentations
5. Selecting the Buyer
6. Closing the Transaction

Case Studies

Challenge #1: Legal Structure

Ensure the legal structure allows for non-physician ownership

- S-Corp or PLLCs won't work; require conversions
- Conversions possible—but take time & money
  - legal documents: $10k+, 1-2 months
  - tax implications: none to significant
  - payer contracts: same vs new?
  - cash flow

Case Study:

- mid-Atlantic EASC, 10+ physicians, 7K+ procedures, great payer mix
- conversion to take 9-12 months
- tax liabilities >$100K
- re-licensing and payer contracting required
- challenges steep, after 18 months sold out 100% to hospital

Challenge #2: Pre-Sale Preparation

Demonstrated planning makes your facility stand out to buyers

- Owners need to decide desired outcomes upfront
  - maximize sales proceeds?
  - bring in partner to assist with growth & management?
  - desire for hospital relationship at some point?
  - business strategy well developed and being implemented?
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- Younger vs Older Physicians
  - young physicians less inclined to sell equity, more focus on growth
  - older physicians generally want cash
  - moderation and decisions upfront

Case Study:

- west coast EASC, 7 physicians, 8K+ procedures, excellent payer mix
- four physicians to retire within 3 years—no recruitment strategy developed
- every buyer walked away

Challenge #2: Pre-Sale Preparation (2)

Have a launch package prepared to release (after NDA)

- Designate primary liaison for buyer communications
- Historical data
- Growth plan articulated
  - physician recruitment
  - new payers
  - new ancillary services or procedures
- Downside risks: how to eliminate or minimize
- Set dates to meet buyers
  - 2-3 hours with each buyer
  - one buyer per evening
  - understand culture of buyer versus your own

Case Study:

- any highly interactive meeting whereby each party exits feeling a connection exists

Challenge #3: Selecting Potential Buyers

There are many types of relationships available

- "Management" Companies
  - 51%+ Majority Model
    - ✓ not able to dilute to accommodate new physicians
    - ✓ possible need for Board control or split power
    - ✓ multiples in the 6-8x range
    - ✓ forever a competitor to the local hospital(s)
  - Minority Model
    - ✓ equity generally in the 15-45% range
    - ✓ local Board control
    - ✓ multiples in the 4-6x range
    - ✓ hospital may be part of this model
- Hospital or Healthcare System
  - generally prefer 51%, but may consider minority
  - prefers to provide services to the ASC

Challenge #3: Selecting Potential Buyers (2)

There are many critical elements for consideration

- How flexible is the buyer?
- Who has Board control?
  - local versus management company
  - minority rights to block major actions
- Hospital relationship?
- Services provided, performance metrics?
- What is the buyers plan(s) to navigate healthcare reform?
- How many buyers to interview?
  - knowing the outcome you seek helps define this
  - single versus multispecialty management companies
  - how many hospitals to engage

Challenge #4: Buyer Interviews

They sell you, You sell them…works both ways

- Require all physicians to attend
- Decide what questions to ask buyers consistently
- Don't allow a "canned" presentation by the buyer—that allows the buyer to control the flow and information
- Impress the buyer with focus on growth and upside
- Have honest and crisp answers on downside risk

Spend significant time performing reference checks

- feedback from the current acquisition base?
- if a JV model, does buyer or hospital have existing similar experiences?

Challenge #5: Selecting the Buyer

This is a marriage, not a weekend fling

- If you decided on an outcome before the process started, this won't be a hard decision to reach
- The decision is best unanimous, or near unanimous

Case Study:

- mid-Atlantic EASC, 10 physicians, 8K procedures, good payer mix
- signed NDA in month 1
- center sent launch package immediately
- met with 3-physician Board in month 1
- met entire physician group in month 2
- signed LOI month 3
- performed due diligence validation months 3-5
- closed transaction month 6

Challenge #6: Closing the Transaction

Engage a solid, experienced legal firm

- Following LOI, due diligence verification and validation should be expected. It is painful.
  - expect significant follow-up reports and requests for materials
  - expect background checks, coding audits and other testing
- During this time period all parties are in a mutual standstill
- Expect to incur significant legal costs
- Expect your Administrator to play a key role in providing materials

Common Issues That Kill a Transaction

There may be issues uncovered in due diligence, make sure they are not surprises to you too.

- Material adverse financial finding impacts purchase price

  example: $200K reduction in EBITDA on a 7x sale adjusts price by >$700K

- Parties can't reach agreement on language in documents

  example: non-compete

- Material adverse legal event occurs or is uncovered

  example: EEOC action; patient care event

- Culture between parties deemed not a good fit

Thank You

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