ASC Transaction Environment:
Current Analysis & Valuation Trends

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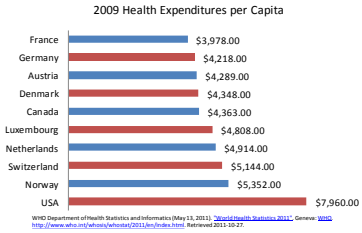
Presentation Overview

I. Observation & Trends – Healthcare Market
II. Observation & Trends – ASC Industry
III. ASC Transaction Market
IV. Trends in Valuation
V. Our Crystal Ball - What Does the Future Hold?

I. Observation & Trends – Healthcare Market

Current Market Observations

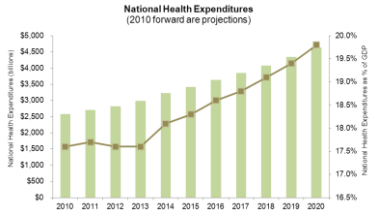
- Current Macro Healthcare Trends
  - US Healthcare Spending is out of Control



*This means healthcare costs per capita **WILL** come down*

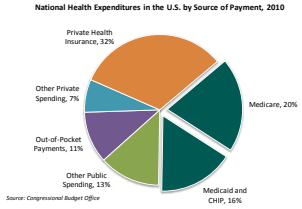
Current Market Observations

- Current Macro Healthcare Trends
  - Healthcare is currently 17.7% of GDP
  - Healthcare costs are growing at 3 times the rate of inflation



Current Market Observations

- Current Macro Healthcare Trends
  - According to CMS, Medicare and Medicaid are the two main sources of public financing for healthcare

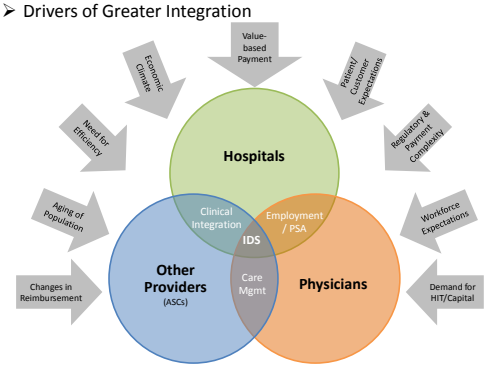


Current Market Observations

- Healthcare is Changing Regardless of the Election
  - Delivery System Reform
    - Accountable Care Organizations ("ACOs")
    - CMS Center for Medicare and Medicaid Innovation ("CMMI")
    - Patient Centered Medical Home
    - Providers continuing to pursue vertical integration of their delivery model through in-market consolidation
  - Payment Reform
    - Move towards Bundled Payments and forms of Capitation
    - Move towards "Valued Based" from "Fee For Service Based"
    - Shared Saving Initiatives

Current Market Observations

- Drivers of Greater Integration



II. Observation & Trends – ASC Industry

ASC Industry

- Observing a maturation of the ASC industry
- Economic downturn/sluggish recovery continues to impact ASC volumes
- Significant managed care and Medicare reimbursement pressure
- Uncertainty regarding healthcare reform's long-term impact on ASCs

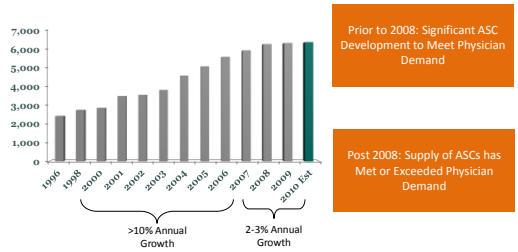
ASC Industry

- All signs point to a mature ASC industry

Growth in ASC Development has Leveled Off	Same Center Growth has Flat-Lined	ASC Supply Exceeds Physician Demand in Most Markets
Significant Capacity at Many ASCs	Growth in Observed ASC Mergers & Consolidation	Initial Stages of Consolidation among ASC Management Companies

ASC Industry

- Declining growth in new ASC development



ASC Industry

- Total Medicare payments for ASC services more than doubled between 2000 and 2010.
- Payments increased approximately 9.3% compounded annually from approximately $1.4 billion in 2000 to $3.4 billion in 2010.
- Growth in Medicare payments to ASCs have fallen from a high of 16.7% in 2000 to 6.3% in 2010.
- The reduction in growth in Medicare payments reflects slower annual growth in the number of Medicare certified ASCs, which has fallen from 9.0% in 2001 to 1.9% in 2010.

Medicare ASC Trends											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Medicare ASC payments (in billions)	$1.4	$1.6	$1.9	$2.2	$2.5	$2.7	$2.8	$2.9	$3.1	$3.2	$3.4
Growth	16.7%	14.3%	18.8%	15.8%	13.6%	8.0%	3.7%	3.6%	6.9%	3.2%	6.3%
Number of Medicare Certified ASCs	3,028	3,302	3,545	3,848	4,140	4,362	4,608	4,879	5,095	5,217	5,316
Growth	8.7%	9.0%	7.4%	8.5%	7.6%	7.3%	5.6%	5.9%	4.4%	2.4%	1.9%
Medicare Payments per Facility (in thousands)	$462	$485	$536	$572	$604	$619	$608	$594	$608	$613	$640
Growth	7.3%	4.8%	10.6%	6.7%	5.6%	2.5%	-1.8%	-2.2%	2.4%	0.8%	4.3%

ASC Industry

- Same center growth has flat-lined

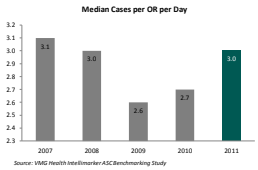
Same-Center Volume Growth						
ASC Company	FYE 2006	FYE 2007	FYE 2008	FYE 2009	FYE 2010	FYE 2011
USPI	7.00%	6.00%	2.00%	2.00%	-1%	1%
HCA	-1.20%	-1.10%	-0.20%	0.10%	-1.30%	2.30%
Amsurg	5.00%	4.00%	4.00%	1.00%	0%	1%
Novamed	1.30%	9.30%	-1.40%	-2.10%	-5.10%	

Sources: VMG Health Compiled Data; Capital IQ

- Market forces driving this trend:
  - Diminishing ability to attract new volume/physicians
  - Trend has been accelerated by the economic downturn

ASC Industry

- Rebounding of OR utilization from dip in 2009

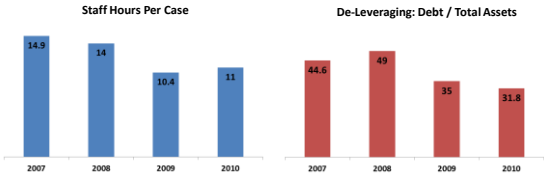


Source: VMG Health IntelEmarker ASC Benchmarking Study

From 2007 to 2009, OR utilization declined by 16% before rebounding 15% from 2009 to 2011.

ASC Industry

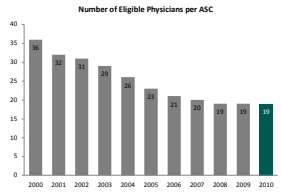
- Current focus – implementing operational efficiency



Source: VMG Health Intellimarker ASC Survey

ASC Industry

- Supply of ASCs has exceeded demand from physicians



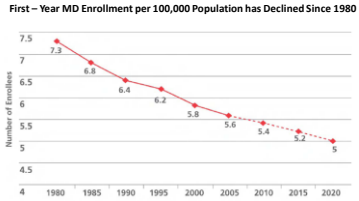
Decline of 17 eligible physicians per ASC from '00 – '10

2-3% Annual Growth in Eligible Drs

>40% Decline In Eligible Drs Per ASC

ASC Industry

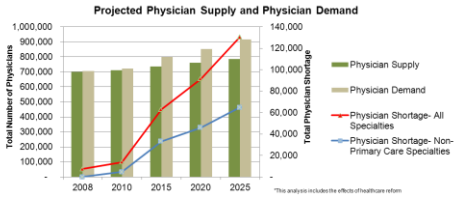
- Supply of new physicians will likely not meet demand of existing ASCs



Source: "Help Wanted: More US Doctors – Projections Indicate American will Face Shortage of MDs by 2020" by AAMC

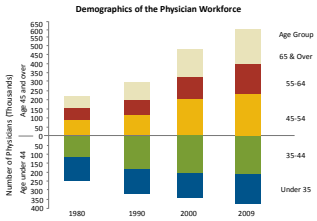
ASC Industry

- Current Macro Healthcare Trends
  - Supply of New Physicians will Likely not Meet Demand



ASC Industry

- Current Macro Healthcare Trends
  - Aging Physician Demographic Will Further Limit Recruitment & Volume



Source: "Physician Characteristics and Distribution in the US" by American Medical Association (2011 Edition)

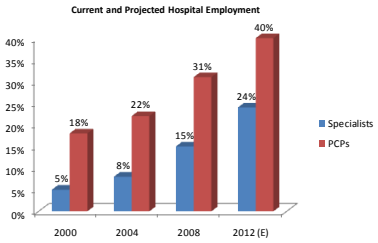
1980 – Approx 20% over Age 55

1990 – Approx 30% over Age 55

2009 – Approx 40% over Age 55

ASC Industry

- New competition: growth in hospital employment

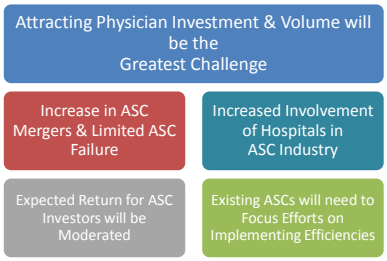


Since 2000:

- Employed PCPs has Doubled
- Employed Specialists has increased 5-fold

ASC Industry

- What to expect in a mature industry environment?



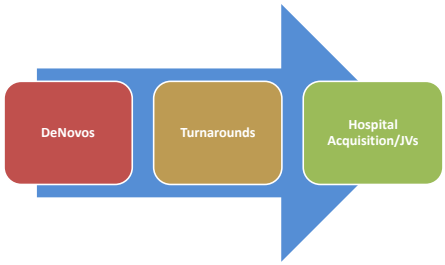
III. ASC Transaction Market

ASC Transaction Market

- ASC acquisition market – who are the buyers?
  - ASC management companies – Expanding market presence
  - Acute care hospitals – On the rise
  - Other ASCs – Consolidation strategies
  - Physician owned hospitals – Niche expansion strategy

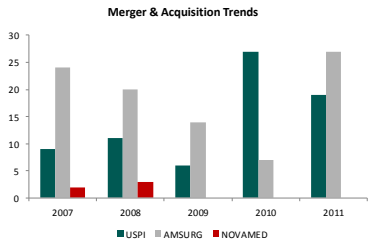
ASC Transaction Market

- The ASC market has evolved…



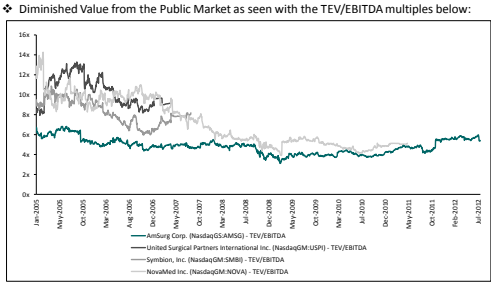
ASC Transaction Market

- ASC Acquisition History



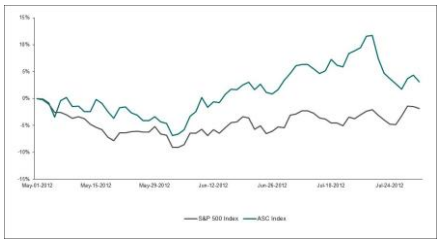
ASC Transaction Market

- However Buyers are Cautious
  - Buyers are Keenly Aware of the Challenges facing ASCs
  - Diminished Value from the Public Market as seen with the TEV/EBITDA multiples below:



ASC Transaction Market

- What are Wall Street's thoughts on Healthcare Reform
  - The impact of Healthcare Reform is still unclear for ASCs
  - ASCs continue to have strong performance against the S&P regardless of Healthcare Reform



ASC Transaction Market

- Key recent transactions:

Graymark announced an acquisition of Foundation Healthcare

- 21 centers
- $52.5MM transaction price
- 8.5x 2012 EBITDA

USPI acquisition of Titan Health Corporation

- 14 Centers
- $43.55 MM transaction price
- 8.0x 2011 EBITDA

ASC Transaction Market

- Key recent transactions:

Amsurg Corp. announces acquisition of National Surgical Care

- NSC – 18 ASCs
- $173MM transaction price
- 7.8x adjusted forward EBITDA
- 8.1x adjusted historical EBITDA

Surgery Center Holdings, Inc. (Surgery Partners) acquisition of NOVA

- Definitive agreement
- $109MM, or $13.25/share
- $105MM debt repayment, total transaction valued at $214MM
- 7.5x 2011 EBITDA

ASC Transaction Market

- Key recent transactions *(continued)*:

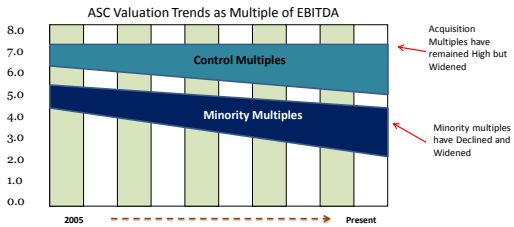
Sunlink Health Systems, Inc. announces merger with Foundation HealthCare Affiliates

- FHC – 14 ASCs and 1 specialty hospital
- Noncash merger
- 1.56MM common shares
- Contingent upon negotiation completion

USPI acquisition of HealthMark Partners

- HealthMark – 14 ASCs
- $32MM acquisition value

ASC Transaction Market



Key Takeaway - All ASCs are Not Created Equal with Respect to Valuation Multiples

ASC Transaction Market

- Demand for acquisitions is high
  - Need for ASC management companies to exhibit growth
  - Diminished ability to pursue growth through de novo development
  - Market consolidation strategies are being pursued aggressively
  - Hospitals are joining management companies in the buyers market
  - Private equity-backed ASC managers aggressively pursuing acquisitions to capture cash flows from ASCs

VI. What Does the Future Hold?

What Does the Future Hold?

- What does the future hold?

Moderate Contraction in the # of ASCs	Continued Consolidation of the Industry	ASC Performance will Mirror Hospital Employment Trends
Survival of the Fittest will Favor ASCs in Large Markets	As Low Cost Provider, ASCs Will Have a Seat at the Table	Strong ASCs will Remain Well Positioned

What Does the Future Hold?

- What does the future hold?
  - Will follow general hospital trends
  - Increased hospital involvement in the ASC industry
  - Industry participants should expect reduced reimbursement
  - Completely independent ASCs will have greater risk exposure
  - As a low cost provider, ASCs will have a place at the table
  - ASCs will remain a viable option, question is what will their ownership be?
  - Spine is an area of growth – inpatient to outpatient setting

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Questions?