Presentation Overview

I. Observation & Trends – Healthcare Market
II. Observation & Trends – ASC Industry
III. ASC Transaction Market
IV. Valuation Trends
V. What Does the Future Hold?
Current Market Observations

Current Macro Healthcare Trends
- US healthcare spending is out of control

- Healthcare is currently 17.2% of GDP
- Healthcare spending in the United States grew 3.7% in 2012, which is slightly greater than the increase in 2010
- By 2020, national health spending is expected to reach $4.5 trillion and comprise 19.2% of GDP
- Contrary to popular belief, healthcare spending appears to be slowing

- In the chart below, year over year growth in healthcare expenditures is shown from 2000 to 2012.
- Contrary to projections of out of control growth, healthcare expenditures are shown to be decelerating.
II. Observation & Trends – ASC Industry

ASC Industry

➢ State of Industry – Two Observations:
  1) Trends consistent with a mature industry
  2) Possible revival of de novo development

➢ Recovery in volume post-recession was short-lived – signs of weakness in same center volume trends

➢ Continued managed care and Medicare reimbursement pressure

➢ Uncertainty regarding healthcare reform’s long-term impact on ASCs
All Signs Point to a Mature ASC Industry

- Growth in ASC Development has tapered off
- Same Center Growth has flat-lined
- ASC Supply Exceeds Physician Demand in Many Markets
- Significant Capacity at Most ASCs
- Growth in Observed ASC Margins
- Initial Stages of Consolidation among ASC Management Companies

Slowdown in government ASC payments and new ASC construction point to a mature market

Medicare ASC Payments and Certified ASCs, 2000-2011

Rebounding of OR Utilization From Dip in 2009

- From 2007 to 2009, OR utilization declined by 10% before rebounding 15% from 2009 to 2011. Utilization appears to be leveling off.
- In many markets, we are seeing a revival of ASC de novo development - perhaps leading to decline in capacity utilization.
Current Focus – Implementing Operational Efficiency

- Observed a slight decrease in staffing efficiency in 2012, largely a result of decrease in same-center volume trends.

ASC Industry

Current Macro Healthcare Trends

- Supply of new physicians will likely not meet demand
- Aging physician demographic will further limit recruitment & volume

Demographics of the Physician Workforce

ASC Industry

- Hospitals have ramped up physician employment to build integrated networks
- ASCs and Physician Owned Hospitals ("POHs") rely on the same physician investor pool
- Growth in ASCs and POHs has far exceeded growth in the physician pool

What to Expect in a Mature Industry Environment?

- Attracting Physician Investment & Volume will be the Greatest Challenge
- Increase in ASC Mergers & Limited ASC Failure
- Increased Involvement of Hospitals in ASC Industry
- Expected Return for ASC Investors will be More Limited
- Existing ASCs will need to Focus Efforts on Implementing PFS Services
III. ASC Transaction Market

ASC Transaction Market

- In a Mature ASC Market, Who are the Buyers?

- Acute Care Hospitals
  - Broader consolidation trend
  - Increased reimbursement arbitrage
  - Goals of Cost Reduction

- ASC Management Companies
  - Interested in expanding existing market presence

- Competing ASCs
  - Merger Scenarios
  - Successful ASCs acquiring struggling ASCs

- Physician-owned Hospitals
  - Limited, niche expansion play
  - Limited by Capacity / Ownership Restrictions

ASC Transaction Market

- The ASC Market Continues to Evolve...

- Do Novo Development
- Management/Development Company/JVs
- Hospital Acquisition/JVs
- New Wave of Un-Peer Development?
ASC Transaction Market

- ASC Acquisition History

![Merger & Acquisition Trends](image)

**Consolidating ASC Market:**
- Staymark acquisition of Foundation Healthcare – 22 Centers
- USPI acquisition of Titan Health Corporation – 14 Centers
- Amsurg Corp. announces acquisition of National Surgical Care – 18 Centers
- Surgery Center Holdings, Inc. (Surgery Partners) acquisition of NOVA – 37 Centers
- Sunlink Health merger with Foundation HealthCare – 15 Centers
- USPI acquisition of HealthMark Partners – 14 ASCs
- SCA acquisition of Health Inventures – 20 Centers

Hospital Transaction Market

- Hospital M&A activity has been driven market consolidation, healthcare reform initiatives and cheap capital
- Activity has steadily risen over the last 5 years and was exceptionally high in 2012
- The number of large, multi-site “chain” transactions has risen
- While the number of deals seems to have decreased in 2013, the number of hospitals and beds involved in transactions hit a 5-year high, mainly driven by two very large mergers

![Hospital Transaction Market](image)
Buyers are Keenly Aware of Their Own Company Valuations

- Both publicly traded and private companies are keenly aware of their Wall Street value.

ASC Transaction Market

Hospital Share Prices Reflected the Good News from the Passage of the Healthcare Law

- ASCs continue to have strong performance against the S&P regardless of Healthcare Reform.

Demand for Acquisitions is High

- Frothy stock market—particularly for healthcare.
- Need for ASC management companies to exhibit growth.
- Diminished ability to pursue growth through de novo development.
- Same center performance does not provide growth investors expect.
- Market consolidation strategies are being pursued aggressively.
- Hospitals are joining management companies in the buyers market.
- ASC attracts significant interest from private equity due to their high cash flow generating ability.
IV. What is the Current Value of ASCs

Cost Approach
- Provides a Floor for Value – Tangible Assets + Identifiable Intangibles

Income Approach
- Discounted Cash Flow Value – Measure Future Benefits of Ownership

Market Approach
- What are Transaction Values of Comparable Companies

Fair Market Value Opinion should Consider these Three Approaches to Value – the forces driving these approaches are dynamic

How is Valued Measured

<table>
<thead>
<tr>
<th>Valuation Methodologies</th>
<th>Valuation Impact – Last 12 Months</th>
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<tbody>
<tr>
<td>Cost Approach</td>
<td>Stable</td>
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<td>Income Approach</td>
<td>Stable/Down</td>
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<tr>
<td>Market Approach</td>
<td>Up</td>
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Valuation Impact – Last 12 Months
- Stable
- Stable/Down
- Up

Keys to Value

- Future Cash Flow – The ability of the ASC to generate cash flow to the investor after all operating expenses, capital requirements, and debt service
- Risk – The likelihood of projected levels of cash flows realized given the operating and strategic environment under which the ASC operates

Income Approach

Valuation is not a one-size fits all – each ASC has unique growth and risk characteristics
Primary Factors Affecting Future Cash Flow

- Market Performance Trends
- Payor Mix – Mgd Care
- Facility Capacity
- Growth Potential
- Market Demographics
- Historical Recruitment Efforts/Ability
- Case Mix / Service Line Mix
- Ownership Flexibility
- Mid-Care Strength
- Primary Factors Affecting Future Risk

Primary Factors Affecting Risk

- Financial Leverage (Leverage
- Legal / Partnership (Non-Comp)
- Facility & Equipment Age / Condition
- Barriers to Entry (CON)
- Physician Diversification
- Service Line Diversification
- Market Competition
- Physician Diversification
- Revenue
- Facility & Equipment Age / Condition
- Barriers to Entry (CON)
- Physician Diversification
- Service Line Diversification
- Market Competition

Observed ASC Valuation Trends

ASC Valuation Trends as Multiple of EBITDA

<table>
<thead>
<tr>
<th>Year</th>
<th>Control Multiples</th>
<th>Minority Multiples</th>
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<tbody>
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- Acquisition Multiples have trended up slightly in last 3-5 years
- Minority multiples have declined and widened
ASC Market Transaction

Out-of-network minority valuation multiples have declined until recently. (2012, little misleading)

Out-of-network control level transactions and their valuation multiples have declined over the last six years.

IV. What Does the Future Hold

Reform and The Affordable Care Act

HOPD / ASC Payment Equalization

The Affordable Care Act
- Individual Mandate
- Health Insurance Exchanges
Reform and The Affordable Care Act

- In June 2013, MedPAC called for payment equalization between HOPDs and physician offices and ASCs for certain procedures.
- In April 2014, the OIG recommended that CMS reduce OPPS payment rates for ASC-approved procedures on beneficiaries with no-risk or low-risk clinical needs in outpatient departments.
  - Under this recommendation, OP departments would continue to receive the standard OPPS payment rate for ASC-approved procedures that must be provided in an OP department because of a beneficiary’s individual clinical needs.

Assuming that total outpatient volumes continue to grow, payment equalization may push utilization to low cost facilities, such as ASCs and physician offices.

Reform and The Affordable Care Act

- Insurers have vowed to raise premiums for small businesses and self-insured individuals.
  - UnitedHealth, Aetna, and the Blues have all cited premium increases of 25%-116% for 2014.
- Because of higher costs, small employers may drop coverage and pay mandate penalties.
- This may cause consumers to adopt higher deductible, lower premium plans.

Reform and The Affordable Care Act

Consumers may already be changing behavior:

“Or as you look at the trends over the past five years, you do see more of a shift towards the latter half of the year on the commercial book of business in the outpatient segment. So can you attribute at least to deductibles and co-pay? Penalty.”

-Samuel N. Hazen, President of Operations, HCA, on sluggish first quarter outpatient volumes.

Private insurance rates continue to climb.
Conclusion – Uncertainty is Certain

What Do We Know...Short Term

Volume Retention will be Difficult: Recruiting and retaining physician investment will be single greatest challenge

- Competition: Short Price
- Succession Planning
- Network weighted in partnership

Reimbursement Challenges: Despite ASC's status as low-cost provider for outpatient surgery, material growth in reimbursement should not be counted on

Evaluate Contracts
- Higher Acuity volume
- Special Affiliations with Hospitals

Questions?

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