THE FUTURE OF HOSPITAL/PHYSICIAN ASC JOINT VENTURES:
NEW REASONS TO PARTNER
NEW OWNERSHIP MODELS THAT WORK

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ASC Growth Rates have Stagnated

Number of Medicare Certified ASCs

Growth Rate of Medicare Certified ASCs

Source: VMG/ Medpac
### Commentary

- Over 90% of ASCs have physician ownership
- Approximately 20% of ASCs have a hospital partner
- Reimbursement shifts in recent years
- Evaporation of Out-of-Network reimbursement

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*Source: KNG Health / VMG Intellimarker*
RSH’s Current Facilities and Hospital Partnerships Span the Country

1. Surgery Center of Mount Dora
   Mount Dora, FL
2. Peninsula Ambulatory Surgical Center
   Bayonne, NJ
   Partnered with Bayonne Medical Center
3. Robert Wood Johnson ASC *
   New Brunswick, NJ
   Partnered with Robert Wood Johnson University Hospital
4. Marietta Surgery Center
   Marietta, OH
   Partnered with Marietta Memorial Hospital
5. Knightsbridge Surgery Center
   Columbus, OH
   Partnered with OhioHealth
6. Medical Center at Elizabeth Place
   Dayton, OH
   Partnered with Kettering Health System
7. Palos SurgiCenter
   Palos Heights, IL
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8. Midland Surgical Center
   Sycamore, IL
   Partnered with Kishwaukee Community Hospital
9. IL Sports Medicine and Orthopedic Surgery Center
   Morton Grove, IL
* Under Development
10. Ravine Way Surgery Center
    Glenview, IL
11. Swedish Covenant ASC - Under Development
    Chicago, IL
    Partnered with Swedish Covenant Hospital
12. The Center for Special Surgery at TCA
    San Antonio, TX
13. Southern New Mexico Surgery Center
    Alamogordo, NM
14. Cheyenne Surgical Center
    Cheyenne, WY
15. Summit Surgery Center at Saint Mary’s Galena
    Galena, NV
    Partnered With Catholic Healthcare West
16. Surgery Center of Reno
    Reno, NV
    Partnered With Catholic Healthcare West
17. Advanced Surgery Institute
    Santa Rosa, CA
18. Lodi Outpatient Surgery Center
    Lodi, CA
    Partnered with Lodi Memorial Hospital
19. Surgery Center of Anchorage
    Anchorage, AK
## Why Should a Hospital JV with an ASC?

<table>
<thead>
<tr>
<th>Description</th>
<th>Advantage</th>
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| Recruitment | • Financial upside  
• Enhanced patient experience  
• Enhanced productivity |
| Market Share | • Increase inpatient and outpatient volume  
• Grow service area  
• Branding |
| Capacity | • Free up operating room capacity  
• Refill capacity with higher acuity volume |

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**Initial Focus:** Specialties such as ophthalmology and gastroenterology cases which will not significantly impact hospital
RSH Seeks to Further Numerous Objectives for Hospital Partners

- Physician Recruitment
- Capacity
- Market Share
- Joint Venture opportunity creates financial upside and fosters retention
- Increase inpatient and outpatient volume
- Grow service area
- Branding in new markets
- Ease scheduling limitations
- Free up hospital operating room capacity
- Refill capacity with higher acuity volume

Shift in Hospital Operating Room Dynamics

1980: 90% Inpatient, 10% Outpatient
2005: 37% Inpatient, 63% Outpatient
2015: 33% Inpatient, 67% Outpatient

Key Goals Surrounding an ASC Strategy

Physician Recruitment
- Joint Venture opportunity creates financial upside and fosters retention

Market Share
- Increase inpatient and outpatient volume
- Grow service area
- Branding in new markets

Capacity
- Ease scheduling limitations
- Free up hospital operating room capacity
- Refill capacity with higher acuity volume

2010 Hospital ASC Ownership

- No Hospital Investor: 79%
- Hospital Investor: 21%

Source: The Advisory Board and ASC Association
Introduction Of The Hospital As A Serious and Fair Partner

• The Earth is round for a reason
  ▪ What comes around, goes around

• The emergence of the physician owned ASC model resulted from surgeons leaving hospitals in droves the past 15 plus years for numerous reasons such as:
  ▪ Control over management and operations
  ▪ Profits
  ▪ They really wanted to get away from the hospitals

• Most hospitals only wanted to partner with surgeons if they could own most of the ASC, control it and, worse, manage it
Introduction Of The Hospital As A Partner

• Today, hospitals have already felt the economic reduction of profitable outpatient surgeries and are more willing to share control and profits than before

• With healthcare reform just beginning and reform that favors strategic alliances with hospitals and physicians, forward-thinking hospitals and surgeons have already implemented this strategy or are planning for it

• Hospitals have come to the realization that they cannot operate outpatient centers themselves. They are too inefficient and have come to almost insist that professional surgery center management is required to implement these models

• Outside management acts as a buffer between surgeons and hospitals
The Economics of a Surgeon/Hospital/Outside Management model

• Medicare will pay the ASC the same per case regardless whether the ASC is independent or not
• The average reimbursement for independent ASCs by payors is about $1200-$1700 per case
• The average reimbursement by payor for hospital-affiliated ASCs are about $2200-$3000 per case
• The differences between hospital affiliated ASCs and independent ASCs are very significant financially, resulting in profits that can be 200-300 percent greater, especially if the independent ASC cannot achieve OON payments and is not primarily orthopedic based
Different Ownership Models Exist Depending On Goals

Classic Hospital Controlled ASC

- Hospital: 51%
- Physicians: 39%
- RSH: 10%

Structure
- Hospital has 2 board seats, Physicians have 2 seats and Regent has 1 seat
- Compelling negotiating position with payors
- Carve-out rights can be structured on operational decisions

Hospital Contracting Model

- HoldCo 1
  - Hospital: 80%
  - RSH: 20%

- HoldCo 2
  - Physicians: 100%

- Surgery Center
  - Physicians: 51%
  - Hospital: 49%
  - RSH: 10%

Structure
- Hospital has 2 board seats, Physicians have 4 seats and Regent has 1 seat
- Physicians are Class A shareholders and Hospital and RSH represent Class B shareholders
  - Hospital controls Class B and majority vote
- Physicians retain voting control on clinical issues
- Maximizes physician financial upside while maintaining hospital’s earnings consolidation ability
Hospital Interest Can Span Ownership Spectrum

Minority Interest Model

Surgery Center
Physicians: 70%
Hospital: 15%
RSH: 15%

Structure
• Physicians have 4 board seats, RSH and Hospital each have 1 seat
• Physicians have control over key operational and clinical decisions

HOPD Model

Surgery Center
Hospital: 100%

Structure
• Hospital owns 100% of ASC, enabling HOPD rates
• Surgeons and management company engaged to provide operational and clinical oversight

Co-Management Agreement
RSH, Physicians
Our Recommended Model

**Hospital Contracting Model**

HoldCo 1
- Hospital: 80%
- RSH: 20%

HoldCo 2
- Physicians: 100%

51% 49%

Surgery Center
- Physicians: 49%
- Hospital: 41%
- RSH: 10%

**Commentary**

- Hospital and management company develop or acquire ASC
  - Hospital and management company own 51%
  - Doctors own 49% or less
- Two classes of shares
- Hospital has certain rights which enable it to
  - Control ASC
  - Meet charitable objectives
  - Obtain hospital contract rates
- These rates are oftentimes a discount of HOPD rates that payers provide
  - Usually 30-40% discounts, but typically much higher than independent contract rates
- The operating agreement describes the hospital’s controlling rights, typically focusing on
  - Budget
  - Capital
  - Debt
  - Sale price
  - Issuance of shares
- Doctors can control Management and Clinical Operations thru board of director votes; 4,2.1
- Doctors select Anesthesia Coverage
- Doctors have votes to determine which doctor partners to allow into partnership
ACQUISITION

The discovery that you're no longer a big fish in a small pond, or even a small fish in a big pond, but a small fish in a big fish.
When Is It Best To Use Our Recommended Model?

• When the doctors trust the local hospital and the local CEO has job security
• In an over-saturated competitive ASC market
• In a community where payors squeeze the independent ASCs on price
• In a market where the hospital of choice is accustomed to joint ventures with doctors
• Where hospitals fully embrace accountable care organizations and would be inclined to partner with doctors
• In a market where the hospital has a strong track record of negotiating favorable contract rates
• If an existing ASC, when the ASC has matured and/or does not see a significant increase in profits over the past
• If the local surgeons can utilize this model to form a strategic alliance with the local hospital of choice
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* Under Development
Regent Surgical Health Background

Seasoned Operator
• Founded in 2001, Regent Surgical Health (RSH) has managed and developed 23 surgery centers and 2 acute care hospitals

Experienced Team
• Diverse backgrounds ranging from hospital administration, ASC management, acquisitions, joint ventures/physician syndication, quality management, and debt financing
• Public company management experience

Track Record
• Recruited hundreds of physicians to partnerships nationally and concluded 13 acquisitions and joint ventures with hospitals and doctors
• Collections and case growth exceeds industry peers

Partnership Driven
• Successfully partnered at 11 facilities with for-profit, non-profit and religious health systems
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