

## KEY THOUGHTS ON HOSPITAL/PHYSICIAN PARTNERSHIPS

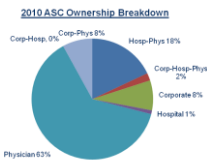
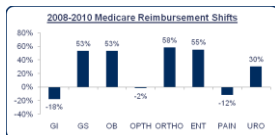
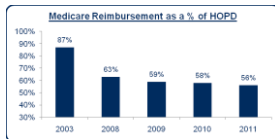
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### Why Partner With a Hospital ?

- Significantly higher payments for cases with the hospital model versus the independent ASC model
- A strategic alliance with a hospital in concert with the aims of the Patient Protection and Affordable Care Act
- Part of the strategic outcomes of the development of accountable care organizations
- Hospitals are now buying practices again and acquiring or developing ancillary services of which ASCs are a primary target
- Provides a wonderful hedge against shrinking surgeon reimbursements in their practices and at their ASCs
- Competitive advantage over independent ASCs

### Reimbursement and Ownership Dynamics



#### Commentary

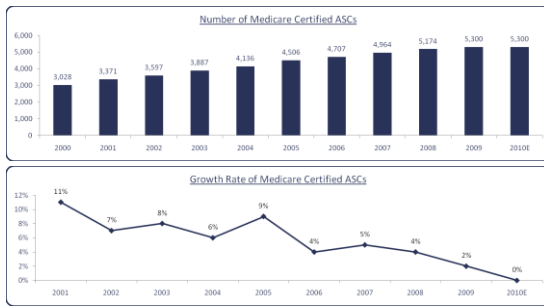
- Over 90% of ASCs have physician ownership
- Approximately 20% of ASCs have a hospital partner
- Reimbursement shifts in recent years
- Evaporation of Out-of-Network reimbursement

Source: KNO Health/VMEI Intelligence

## The ASC Market In The U.S.

- There are approximately 5200 ASCs in the U.S.
- 90% of all ASCs have some degree of physician ownership
- About 20% of ASCs have a hospital partner
- While some ASC specialties are being paid better by Medicare, many others are not and, most importantly, the independent ASCs are paid less than 60% of what a hospital is paid for the same outpatient surgeries
- Most locations in the U.S. are saturated with ASCs and, for the first time in recent history, net growth of ASCs has almost stopped
- Payors are all but eliminating most out of network reimbursements, thus reducing the profit margin of most ASCs

## ASC Growth Rates have Stagnated



## 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

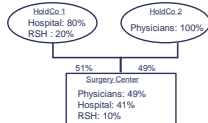
### Classic Hospital Controlled ASC



#### 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



#### 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

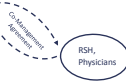
Surgey Center  
Physicians: 70%  
Hospital: 15%  
RSH: 15%

#### Structure

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

### HOPD Model

Surgey Center  
Hospital: 100%



#### Structure

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

## Our Recommended Model

- 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 its 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

## Our Recommended Model (cont.)

- The operating agreement describes the hospital's controlling rights, typically focusing on
  - Budget
  - Capital
  - Debt
  - Sale price
  - Issuance of shares.

### Recommended Model

- 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

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### Our Recommended Model




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### 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

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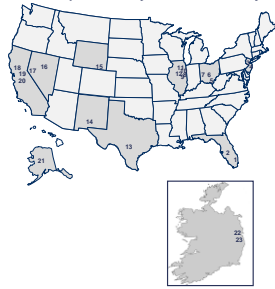
### When Is It Best To Use This Model (cont.)

- 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

### About Regent Surgical Health

- 23 facilities – 11 hospital partnerships
- Hospital partnerships in: Reno, Nevada (2); Columbus, Ohio; Marietta, Ohio; Dayton, Ohio; Chicago, Illinois (2); Sycamore, Illinois; New Brunswick, NJ (in development); Lodi, Ca
- All facilities are profitable
- Most new facilities have hospital partners
- Own 10-20%; always manages and owns
- Headquarters in Chicago (suburb)
- Regional offices in Birmingham; Northern and Southern California
- Proprietary case - costing software
- RISE proprietary program

**RSH's Current Facilities and Hospital Partnerships Nationally and Internationally**



1. Perinatal ASC Ft Myers, FL Under Development	12. Swedish Covenant ASC - Under Development Chicago, IL Partnered with Swedish Covenant Hospital
2. Surgery Center of Mount Dora Mount Dora, FL Partnered with Orlando Medical Center	13. The Center for Special Surgery at TCA San Antonio, TX
3. Perinatal Ambulatory Surgical Center Daytona, FL Partnered with Orlando Medical Center	14. Southern New Mexico Surgery Center Albuquerque, NM
4. Robert Wood Johnson ASC New Brunswick, NJ Partnered with Robert Wood Johnson University Hospital	15. Chryseus Surgical Center Champaign, IL
5. Morristown Surgery Center Morristown, TN Partnered with Morristown Memorial Hospital	16. Summit Surgery Center at Saint Mary's Galena, NY Partnered with St. Mary's Regional Medical Center
6. Kingsbridge Surgery Center Columbus, OH Partnered with Ohio Health	17. Surgery Center of Reno Reno, NV Partnered with St. Mary's Regional Medical Center
7. Medical Center at Elizabeth Place Dayton, OH Partnered with Anderson Health System	18. Advanced Surgery Institute Santa Rosa, CA
8. Palms SurgCenter Palms Highway, IL Partnered with Palms Community Hospital	19. Lodi Endoscopy Surgery Center Lodi, CA Partnered with Lodi Memorial Hospital
9. Midwest Surgical Center Sycamore, IL Partnered with Kalamazoo Community Hospital	20. Lodi Endoscopy Center Lodi, CA Partnered with Lodi Memorial Hospital
10. Sports Medicine and Orthopedic Surgery Center Morton Grove, IL	21. Surgery Center of Anchorage Anchorage, AK
11. Kinetic Way Surgery Center Glenview, IL	22. Neurosurgery Institute @ Haverdgate Medical Center Dublin, Ireland Under Development
	23. Celtic Health Ireland Dublin, Ireland 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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