



Endoscopy Centers – Key Trends and Issues
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Frank Coll, VP Business Development
Frank Principati, Chief Operating Officer

PE Physicians Endoscopy
The AEC Development and Management Company



Trends in the GI Market Trends in Physician Equity Strategies

Frank Coll, VP Development



Market Trends



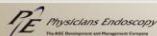
- Increase in insured population and demand for services
- More "Medicare like" coverage
- Physician employment increases with potential impacts to referral patterns
- Changing reimbursement may include bundled payments and hospitals as "gatekeepers" of the payments
- Baby Boomer effect - More GI retirements vs. GIs entering the healthcare market
- ACO Planning: Alignment with your physicians to provide
 - Integrated delivery of services through collaborative care
 - High quality care, appropriate outcomes, lower costs and higher overall value
 - Influence and adaptation of more technology
- ASCs
 - High quality services and outcomes, lower cost, increased efficiency, and increased patient satisfaction
- Hospitals and physicians
 - Create common objectives and service alignment for optimal success



Market Trends



Accountable Care Organizations (ACO) are tasked to bring hospitals and specialties together to provide the highest quality of care in the lowest cost setting. ACOs will recognize the value of business partners to be an essential component to the overall success

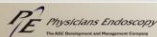


Market Trends



Strategic Options for GI Physicians and Centers

1. Build a center
 - o Trend is down on the number new centers being built
2. Merge with another practice who has a center
 - o Some activity
3. Buy in to an existing center and stay independent
 - o Still a viable option for those who have no center equity/facility fees
4. Continue your center on its current path with no changes to ownership structure
 - o Wait and see approach
5. Add a minority business partner, turning a portion of the center's equity value to cash and maintaining the larger ownership and management control
6. Add a majority business partner to achieve a larger one-time payout for equity, and retain minority position
7. Joint venture with both a business partner and a hospital. Maintain the largest equity position, potentially leverage the benefits of a hospital's commercial payer contracting, marketing, recruiting and benefit from an invested business partner's services



Potential Factors in an Equity Sale Decision



- How much equity is for sale; what are the benefits of selling that % and what are the post sale common goals
- Prospects for growth and expansion of the center
- Consideration of benefits and risks associated with hospital partnership
- Benefits and risks of a business/management partner
- Filing and approval of certificate of need (CON) if required
 - Nine- twelve months time period



Center Valuations



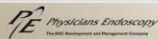
Standards for Valuation of the Center

- The previous 12 month EBITDA of the center used as the basis for an equity purchase price valuation
- EBITDA is represented by calculating Earnings Before Interest, Taxes, Depreciation and Amortization
- Minority offering will be a lower multiple of earnings; typically 4-5.5x EBITDA
- Majority ownership brings a higher multiple of earnings; typically 6-7x EBITDA





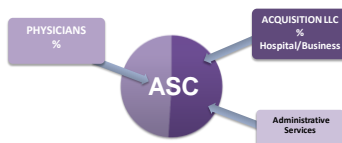
Defining the Hospital Joint Venture Partnership Model



Defining the Hospital Joint Venture Partnership Model



- The majority sale provides the physicians with a highest multiple available at fair market pricing.
- A hospital in the ownership structure may help provide the physicians with the potential of greater access to patients, hospital marketing/community influence, ACO positioning, and increased reimbursement
- The business partner provides ongoing supplemental administrative services, as agreed with the center.
- Governance and clinical control of the center will need to be determined by all owners.





Trends in the GI Market Trends in Managing Endoscopy Centers

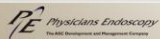
Frank Principati, COO



Market Trends and Issues



- **Flat to slight growth in case volume**
 - Industry Trends in same center growth
- **Demand for quality measures and reporting**
 - Influence and adaptation of more technology
- **Increased and ongoing Medicare inspections**
 - Clinical preparedness and consumer information
- **Recruitment Challenges**
 - More GI retirements vs. GIs entering the healthcare market
- **Trends in reimbursements**
 - Impact on profits
- **Hospitals interest in ASC JV opportunities**



Operational Requirements



Clinical Operations

- ✓ CQI
- ✓ Benchmarking across 20+ PE Centers
- ✓ Best Practices
- ✓ **Licensure and Accreditation Surveys**
- ✓ Assist in hiring and training staff
- ✓ Monitor and support compliance preparedness and accreditation process
- ✓ **Develop and report benchmarks for quality assurance**
- ✓ **Performance improvement programs**
- ✓ Physician Credentialing

Marketing

- ✓ Center Marketing Program
- ✓ **Physician Recruitment**
- ✓ Direct mail campaigns
- ✓ Advertising and center announcements in EndoEconomics
- ✓ **Strategic Planning & Market Analysis**

• **Key components within the ACO model**



PE's specialized services delivers more to the bottom line!

Operational Requirements



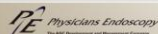
Financial Services

- ✓ Purchasing, Accounts Payable and Cash Disbursements
- ✓ Cash Management
- ✓ Financial Reporting and Management
- ✓ Equipment savings
- ✓ HIPAA Programs
- ✓ Purchasing Discounts with GPO
- ✓ Annual Budget Preparation
- ✓ Business Analyst
- ✓ Vendor Contract Negotiations

Human Resources

- ✓ Staff Recruitment
- ✓ Payroll and tax reporting
- ✓ Benefits Administration
- ✓ Retirement Planning
- ✓ Employee Relations
- ✓ Workers Compensation
- ✓ Unemployment Compensation
- ✓ Performance Compensation
- ✓ Compliance with Federal & State Laws
- ✓ Personnel Policy & Procedures

• Key components within the ACO model



PE's specialized services delivers more to the bottom line!

Operational Requirements



Billing Services

- ✓ AR Rep dedicated to your center
- ✓ Superior customer service
- ✓ Reduce rejections
- ✓ Maximize cash collections
- ✓ Electronic claim submission
- ✓ Assist with State reporting

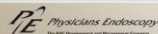
Professional Guidance

- ✓ Coordinate Meetings
- ✓ Board Member
- ✓ Developing ancillary companies
- ✓ Develop legal draft documents

Information Technology

- ✓ First-level support for technology related issues
- ✓ Help Desk – live PE assistance
- ✓ Phone systems
- ✓ Computer Maintenance
- ✓ Perform routine maintenance to center servers and workstations
- ✓ Assistance regarding hardware and software systems
- ✓ EMR integration

• Key components within the ACO model



PE's specialized services delivers more to the bottom line!

PE Contacts



PE Representative

Frank Coll
VP Business Development

Email

fcoll@endocenters.com

Direct

615-776-3217

Frank Principati
Chief Operating Officer

fprincipati@endocenters.com

215-589-9010

OUR PHILOSOPHY

- Be A Real Partner
- Deliver more and better service than our partners expect
- Do the Unexpected
- Expect the Unexpected
- Communicate
- Earn Our Keep
- Achieve Growth in Center Revenue and Profitability
- Never Institutionalize the ACO
- Make it A Positive Experience

