

How a Hospital/Physician ASC JV Affects Physician Alignment

JEFFREY SIMMONS, CHIEF DEVELOPMENT OFFICER
PAUL EISEMAN, VP BUSINESS DEVELOPMENT
REGENT SURGICAL HEALTH
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The ASC Market In The U.S.

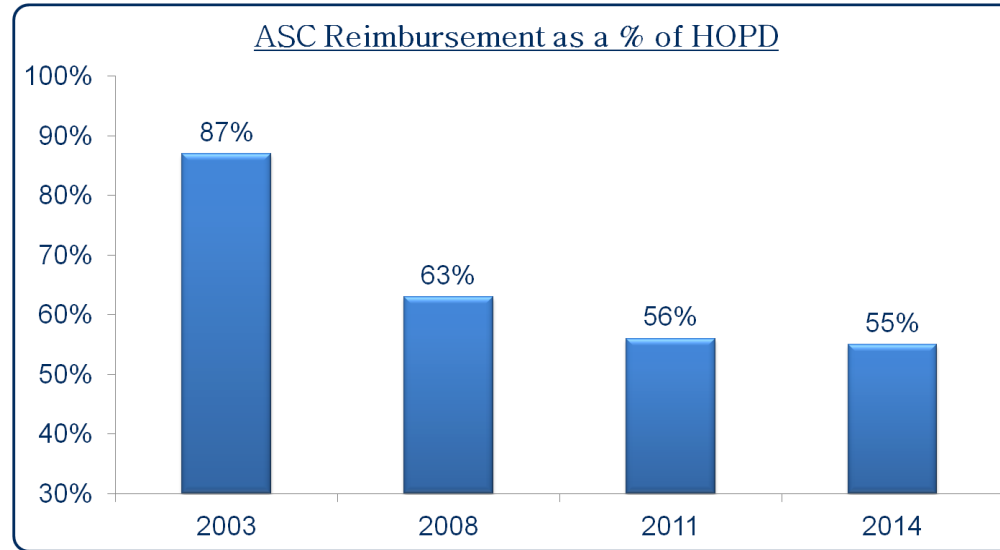
- There are approximately 5,400 ASCs in the U.S.
- 90% of all ASCs have some degree of physician ownership
- About 20% of ASCs have a hospital partner
- Independent ASCs are typically paid less than 60% of what a hospital is paid for the same outpatient surgeries
- Most locations in the U.S. are saturated with ASCs and, for the first time in recent history, net growth of ASCs has stalled
- Payors have all but eliminated out-of-network reimbursements in most markets, thus reducing the profit margin of most ASCs
- ASC's, particularly those driven by high acuity cases including total joint replacements and spine surgery, fit well into "Value-Based" healthcare (defined and discussed later in presentation)

The Trends of ASC Ownership

Today's Topics

- Follow the Money: Medicare payments for ASCs that are independent versus HOPD
- What alignments of ownership exist today?
- Are ASCs increasing or decreasing nationwide?
- Hospital/physician alliances: what we are seeing
- Trends towards value-based healthcare
- Developments transforming the industry
- What to look for in a hospital partner
- A hospital contracting model to consider

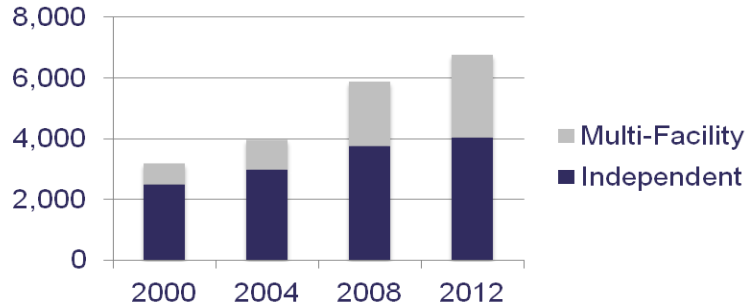
Reimbursement and Ownership Dynamics



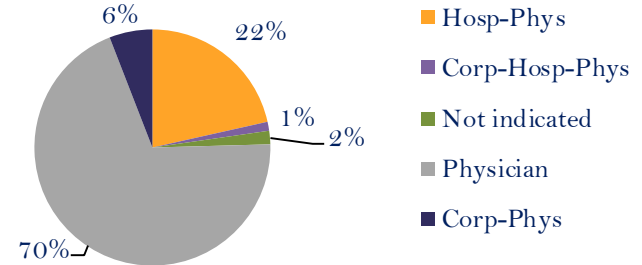
Source: Medpac Report to the Congress: Medicare Payment Policy March 2012; ASCA's 2011 ASC Employee Salary and Benefits Survey

Consolidation Trends Transcend to ASC Landscape

Growth in JV Surgery Centers

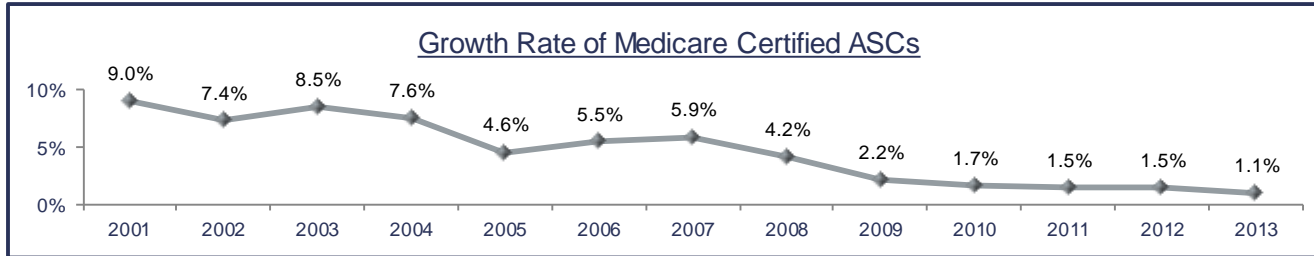
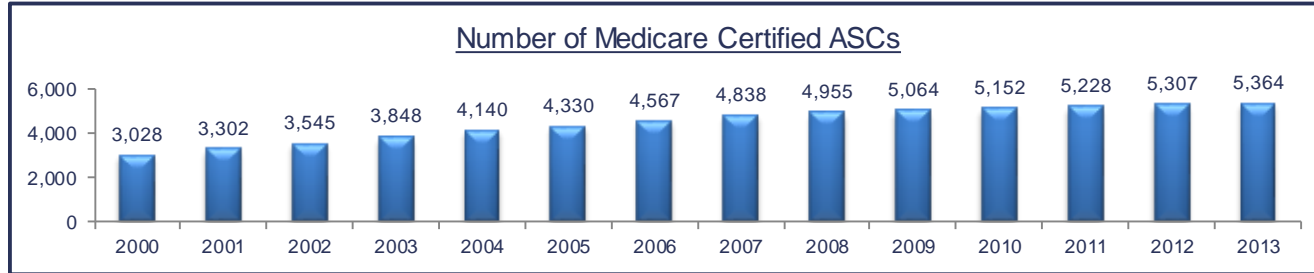


2013 ASC Ownership Breakdown



Source: J.P. Morgan North America Equity Research

New ASC Growth Rates have Stagnated



Source: Report to Congress: Medicare Payment Policy, March 2013

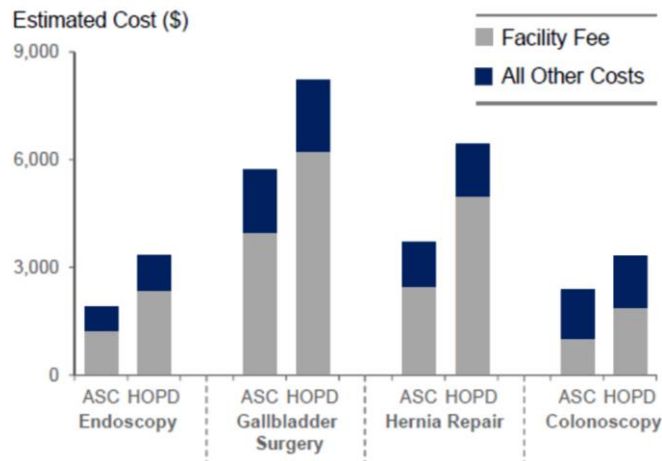
As Fewer ASCs are Built -Trend Toward Closer Alignments with Physicians & Hospitals

- More acquisitions are transacted, primarily by hospitals and ASC companies; oftentimes with a three-way partnership
- 80% of Regent's ASCs are partnered with hospitals and surgeons
- Most ASC transactions today are acquisitions due to the consolidation of the markets and the increase in JV activities by local hospitals; few ASC are being built
- Some states are not allowing new ASC JVs without a hospital partner
- Hospitals are taking on more risk by developing ACO strategies and need lower cost ASC's to comply with new Medicare and managed-care incentives

The Economics of a Physician/Hospital/Corporate Management Model

- Medicare pays the ASC the same per case regardless of whether the ASC is part of a JV or not; payment is only higher if it is an HOPD
- Average reimbursement for independent ASCs is between \$1,200-\$1,700 per case, if the ASC is fully contracted
- Average reimbursement for hospital-affiliated ASCs is in the range of \$2,200-\$3,000 per case

Continued Price Transparency Requirements Will Benefit ASCs over Hospital Surgery Depts.



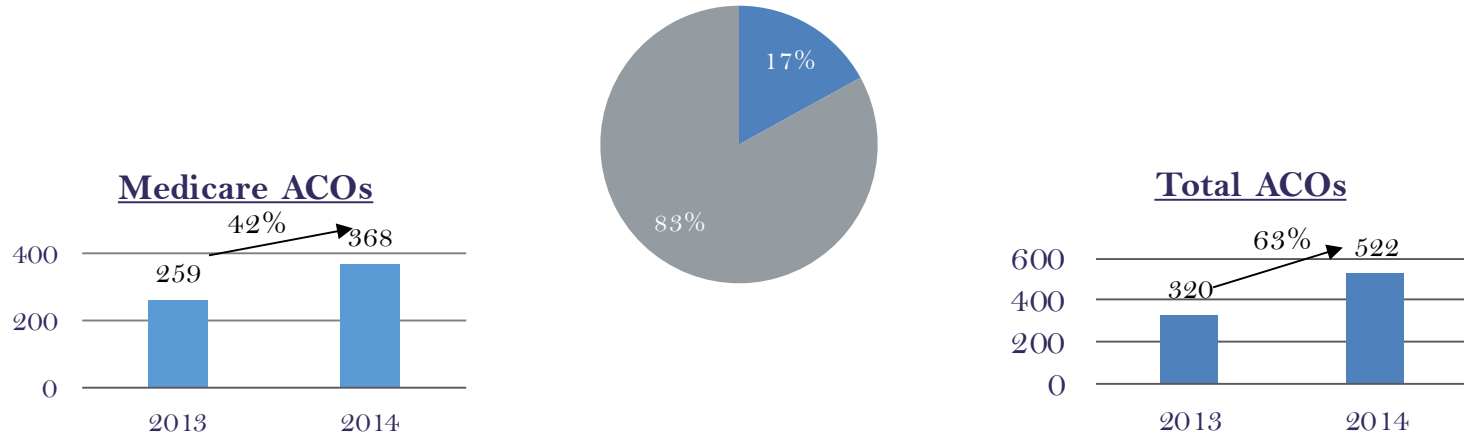
Colonoscopy Out-of-Pocket

- HOPD: \$591
- ASC: \$428

Source: SG2

Continued Proliferation of ACOs

% of Population Served by ACOs



Source: Oliver Wyman, WSJ

Value-Based Healthcare Definition & Trends*

- “Value” = Quality, patient experience & cost effectiveness
- Transition to value-based accelerating away from fee for service
- 75% of reimbursement to be value-based by 2020
- Medicare fee for service payments linked to quality: increasing from 30% in 2016 to 50% in 2018
- Centers of Excellence plays major role in value-based reimbursement. Defined as a healthcare provider enterprise offering a clinical service line that excels in one or more areas regarding cost, quality, access and service level experience for customers and buyers

*Becker Hospital Review Conference May 2016

Total Joint Replacements

Basic Service Line in Progressive ASC's

- Most notable migration of surgical procedure to ASC's is Total Joint Replacement (TJR)
- Cost effective and convenient surgical option made possible by development of less invasive technologies
- 2014 study AAOS (American Academy of Orthopedic Surgeons) showed same day TJR outcomes comparable to patients admitted to hospital and staying at least 1 night following surgery
- Advisory board found TJR surgeries increased from less than 10% outpatient in 2012 to 25% outpatient Q1 2014
- TJR is well suited for bundled payment strategies

Spine Surgery

Continues to Grow as a Viable Service Line in ASC's

- Continued strong increases in outpatient spine surgery including laminectomies, discectomies, disc replacements and fusions
- Push back from insurance companies on traditional fee for service payments
- Spine surgeons working with hospitals develop ‘Spine Centers of Excellence’ – such alignments lead to systems for bundled payments
- Expect increased integration with hospital value based healthcare consistent with bundled payments for hip and knee replacements
- Show value with financial data (savings), not just clinical effectiveness (quality)

Spine Surgery in a Value-Based World; Dr. Jed Vanichkachorn on Spine Bundled Payments, Becker Spine Review, August 3, 2015

Two Main Paradigms of Recovery for TJR and Spine Surgery (Trend for the Future, But Rules Vary State to State)

Transfer to Hotel or SNF for Recovery Post Surgery

- Potential increase in appropriate patient population
- Some patients and family member likely to prefer hotel room recovery
- Hotel cost greater than home health cost

Transfer to Home Health

- Expedited transfer of patient to home setting
- Reduced cost of home health vs. SNF/Hotel
- Smaller patient catchment

This new trend in recovery lowers costs and increases high quality outcomes consistent with value-based initiative of ACO's

Becker Spine Review August 2015:

Predictions for Spine Surgeon Ownership in ASC

Interview with 6 prominent spine surgeons:

**5 year prediction that 40 – 75% of spine surgeons
will have ownership in an ASC**

- Up to 75% of spine surgeons will utilize ASC's
- Significant growth of volume in spinal procedures performed in ASC's due to increases in minimally invasive technology and bundling of payments
- “Many surgeon owned ASC's are partnering with hospitals that have the ability to control patient flow and negotiate with payers”

A Hospital Can Be a Good Partner...

If They Have Higher Contracted Rates & Do Not Require Control of Clinical/Operations

- Less than 20% of hospitals are partnered with physicians. Hospital's wanted majority ownership and control of operations.
- Historically, most hospitals only wanted to partner with surgeons if they could own most of the ASC, control it and manage it. This has changed dramatically the past few years.
- Regent's ownership and governance model is a hybrid that allows the physicians to keep operational control, while providing the doctors a healthy financial result - both in a sale and on future earnings.
- Most Regent transactions provided doctors selling half of their interests with similar/higher returns annually than before the sale.

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 healthcare reform models
- 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 ASCs that do not partner with hospitals; non-compete clauses

Which Model Do We Usually Recommend?

Hospital Contracting Model

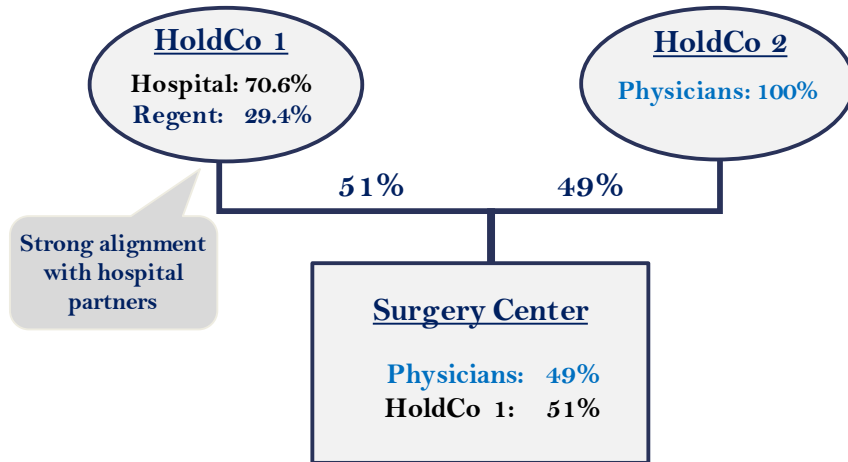
- If structured correctly, the payments per case are at least 30% higher than an independent ASC.
- This model provides protection for the doctors because the hospital cannot compete with them in other ASC transactions.
- Doctors maintain daily clinical and operations control over the facility.
- The hospital forms a strategic alliance with select surgeons, while minimizing their financial investment and risk. Correspondingly, it prevents surgeons from competing with them in other ASC transactions.

*Although Regent recommends a hospital partnership for long-range viability, our experience demonstrates pure Orthopedics and/or Spine Centers receive significant reimbursement and generate adequate ROI **without** a hospital partner.*

Typical Ownership and Governance Model

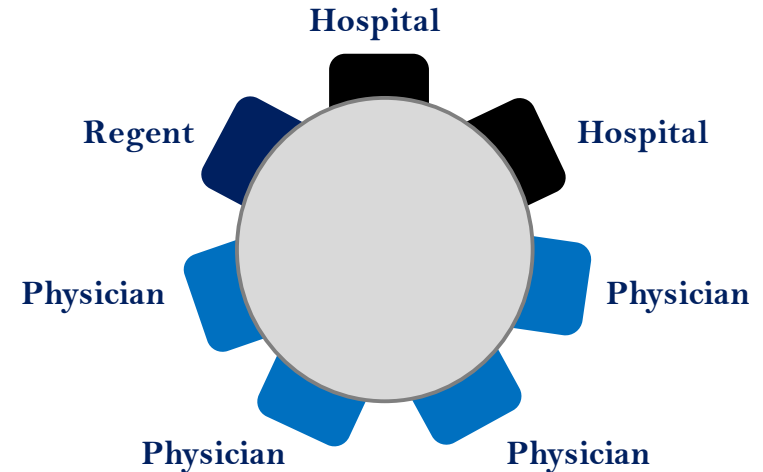
Governance Structure

- Partnership architecture is carefully designed to generate appropriate alignment and system of checks and balances



Board Structure

- Regent's role serves as a buffer between physicians and health systems with a singular focus on optimized operations, quality, compliance and profitability



Regent Business/Partnership Model

Governance

- Hospital votes Regent's ownership to demonstrate "control" on key legal and financial issues.
- Results in ability of the ASC to obtain "hybrid" payer contracted rates which are less than HOPD but more than independent ASC rates.
- Physicians maintain clinical control of operations even as minority owners, making it attractive to participate in these partnerships.

Sample Control Breakout

Physicians

- Medical Executive Committee recommendations
- Selection of anesthesia providers
- Daily operations decisions that require Board approval
- Approval of physician members that go to partnership vote
- Clinically-related operating policies and procedures
- Approval of equipment purchases as part of budget or are limited to a certain monetary value

Hospital

- Budget
- Strategic decisions
- Disposition of assets
- Super majority rights related to types of procedures conducted

When Is It Best to Use Our Recommended Model?

- When the doctors have a good relationship/trust the local hospital
- In an over-saturated, competitive ASC market
- Where payors squeeze the independent ASCs on price and out-of-network facilities have to change to a contracted model
- In a market where the hospital of choice is accustomed to joint ventures with doctors
- Where hospitals are interested in partnering with doctors
- In a market where the hospital has a strong track record of negotiating favorable contract rates and also has contracting power
- In an existing ASC, when the ASC has matured and/or does not see a significant increase in profits in the future
- If the local surgeons can utilize this model to form a strategic alliance with the local hospital of choice

Summary Of Regent

- Founded in 2001; Headquartered in Chicago
- 25 facilities; 35 owned and managed historically
- Always a minority owner and manager
- 18 facilities are with hospitals
- Our investment in partnerships represents our own money—no outside investors, no bank financing. We carefully scrutinize all our acquisitions based on their ability to obtain a strong ROI for Regent, our hospital and doctor partners
- All facilities have to be profitable on an operational basis
- All of our facilities are clinically and financially successful
- We are noted in the industry as having superb management skills with a strong focus on physician relations and successful clinical outcomes

The Regent Approach

- Always a minority owner and manager
- Invests capital side-by-side with hospital and physician partners
- Partnerships are not designed to be sold; focus is long-term success
- All facilities demonstrate profitability on an operational basis
- All facilities are clinically and financially successful
- Recognized in the industry as providing superb management services with a strong focus on physician relations and successful clinical outcomes

Regent Facilities/Partners

1. Surgery Center of Wasilla
Wasilla, AK

2. Providence Health System/Portland
Portland, OR
Partnered With Providence Health & Services

3. Endoscopy Center of Lodi
Lodi, CA
Partnered With Lodi Memorial Hospital

4. Lodi Outpatient Surgical Center
Lodi, CA
Partnered With Lodi Memorial Hospital

5. Surgery Center of Reno
Reno, NV

6. High Plains Surgery Center
Cheyenne, WY
Partnered With Cheyenne Regional Medical Center

7. Loveland Surgery Center
Loveland, CO

8. Palos Surgicenter
Palos Heights, IL
Partnered With Palos Community Hospital

9. Midland Surgical Center
Sycamore, IL
Partnered With Kishwaukee Community Hospital

10. Illinois Sports Medicine and Orthopedic Surgery Center
Morton Grove, IL

11. Ravine Way Surgery Center
Glenview, IL
Partnered With Northshore University Health System

12. Mt. Pleasant Surgery Center
Mt. Pleasant, MI
**Under Development*
Partnered With Mid-Michigan Health

13. Medical Center at Elizabeth Place
Dayton, OH
Partnered With Kettering Health Network

14. Knightsbridge Surgery Center
Columbus, OH
Partnered With OhioHealth

15. Marietta Surgery Center
Marietta, OH
Partnered With Marietta Memorial Hospital

16. The Center for Specialized Surgery
Fort Myers, FL

17. Surgery Center of Mount Dora
Mount Dora, FL
Partnered With Leesburg Hospital

18. Glasgow Medical Center
Newark, DE
Partnered With Christiana Care Health Initiatives

19. Robert Wood Johnson Endoscopy Center
East Brunswick, NJ
Partnered With Robert Wood Johnson University Hospital

20. Ambulatory Surgical Pavilion at Robert Wood Johnson
New Brunswick, NJ
Partnered With Robert Wood Johnson University Hospital

21. East Hills Surgery Center
East Hills, NY
**Under Development*
Partnered With Catholic Health Services of Long Island

22. West End Surgical, LLC
Beaverton, OR
**Under Development*

23. Neurosurgery Ireland at Hermitage Medical Clinic
Dublin, Ireland
Partnered With Hermitage Medical Clinic

24. Cyber Knife Ireland
Dublin, Ireland
Partnered With Hermitage Medical Clinic

25. Stem Cell Clinic
Roatan, Honduras

Contacts

www.RegentSurgicalHealth.com

Jeffrey Simmons, Chief Development Officer

Phone: 707.396.0138

Email: jsimmons@regentsurgicalhealth.com

Paul Eiseman, VP, Business Development

Phone: 502.541.3770

Email: peiseman@regentsurgicalhealth.com