

## Joint Venture Your ASC With A Corporate Partner and A Hospital Recommendations

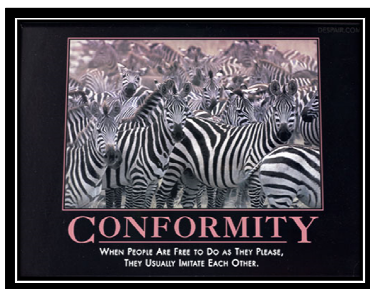
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### Why Partner With a Hospital ?

- 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

### Why Partner?



### 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

### 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

## Introduction Of The Hospital As A Serious and Fair Partner



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## 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

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## 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 payors provide
  - Usually 30-40% discounts, but typically much higher than independent contract rates

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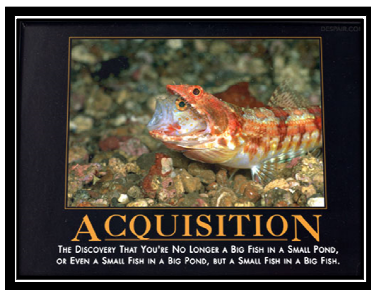
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### Our Recommended Model (cont.)

- The operating agreement describes the hospital's controlling rights, typically focusing on
  - Budget
  - Capital
  - Debt
  - Sale price
  - Issuance of shares.
- Doctors and management company can control internal operations such as
  - Anesthesia coverage
  - Partners (in or out)
  - Daily management

### Our Recommended Model



### When Is It Best To Use This 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

### 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

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### When Is It Best To Use This Model?



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### About Regent Surgical Health

- 17 facilities - 15 ASCs/2 hospitals
- Hospital partnerships in: Reno, Nevada (2); Columbus, Ohio; Marietta, Ohio; Dayton, Ohio; Chicago, Illinois (2); Sycamore, Illinois
- 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

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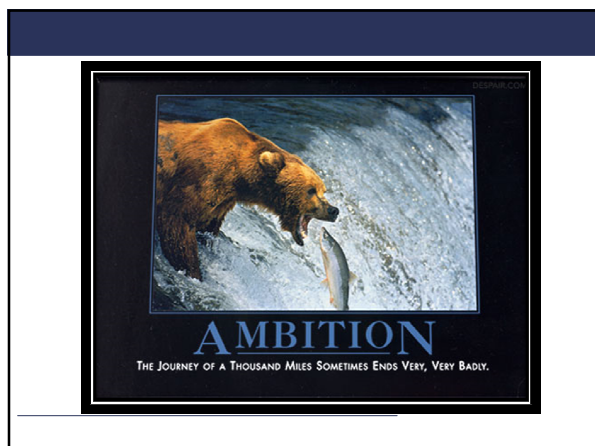
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