



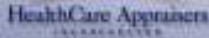
Healthcare Transactions Year In Review
 An Overview of Multiples and Current Trends in Valuation

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Presentation Outline

- Healthcare Transaction Trends
- Overview of Valuation Multiples
- 2010 ASC Valuation Survey (7th Year)
- Q&A



Healthcare Transaction Trends

- Significant increase in Physician Practice Acquisition activity by Hospitals
 - Cardiology
 - Primary Care
 - OB/GYN
- Physician Hospital acquisition activity has stalled as the industry awaits a repeal of healthcare reform and/or pending litigation
- Continued hospital acquisition activity in diagnostic imaging and radiation therapy
- ASC acquisition activity remains strong for physician investors. Seeing uptick in Hospital acquisition activity



Healthcare Transaction Trends

Other Observations

- Purchase expectations more reasonable than in past
- Due diligence more thorough, focus on sustainable integration models
- Narrowing range of acquisition multiples being paid across all entity types

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Business Valuation Basics:

VALUATION MULTIPLES

Valuation Multiples

First Question:

"What exactly is a valuation multiple?"

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Valuation Multiple

- A valuation multiple is appraiser shorthand for the present value of a perpetual earnings stream mathematically expressed as follows:

$$\frac{1}{(K-g)}$$

- Key components of a valuation multiple"
 - 1) Definition of the **Earnings Stream**
 - 2) Estimation of **Risk (K)**
 - 3) Estimation of the rate of earnings **Growth (g)**

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Defining "Earnings"

- Typically Measured as Earnings Before Interest Taxes and Depreciation ("EBITDA"), but can also be stated as cash flow, net income, distributions, etc.
- Single Period or Average? May be most recent year, trailing twelve months, 2-year average, etc. The appropriate measure is the one that is most indicative of future earnings capacity.
- In some instances historical earnings measures must be normalized to remove the effect of non-recurring income and/or expense items.

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Estimation of Risk

- Risk is defined as the degree of uncertainty as to the realization of investment returns (*i.e., the earnings stream*).
- Risk is measured as the required rate of return necessary for an investor to commit funds given alternative investments.
- For mature in-network ASCs the required rate of return is generally in the range of 18-22%, however, this can be significantly different if earnings are volatile or at risk.

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Estimation of Growth

- A valuation multiple is a “perpetual” valuation model.
- Because of this, there are limitations regarding the growth assumption that can be built in to a multiple.
- Generally the growth assumption should not exceed the growth rate of the overall economy, which when measured as GDP, is less than 5%.
- Because of this limitation – valuation multiples should only be applied to stable businesses.

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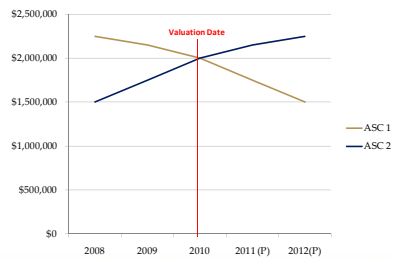
Valuation Multiples

Second Question:

“What multiple should I receive for my ASC?”

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Two ASC's with \$2.0M EBITDA



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Key Components of a Multiple

1. Earnings Stream

The next time you hear that Dr. Jones sold his interest for a multiple 5x, ask yourself "5x what?"

2. Risk

Not all earnings are the same! Two ASCs generating \$2.0 of earnings may have completely different risk profiles.

Higher Risk = Lower Multiple

3. Growth

All things equal, **Higher Growth = Higher Multiple**.

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Valuation Multiples

Last Question:

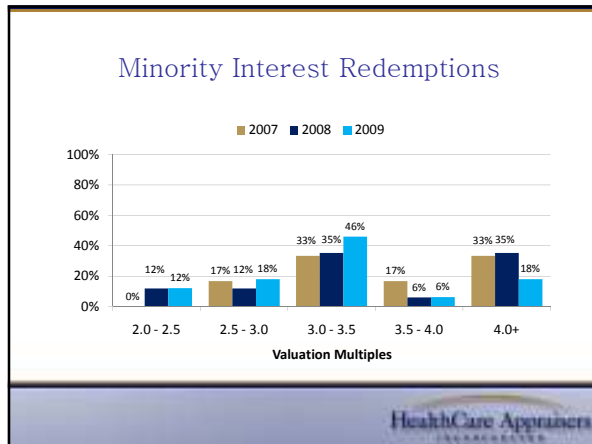
"What are the current industry trends for ASC multiples?"

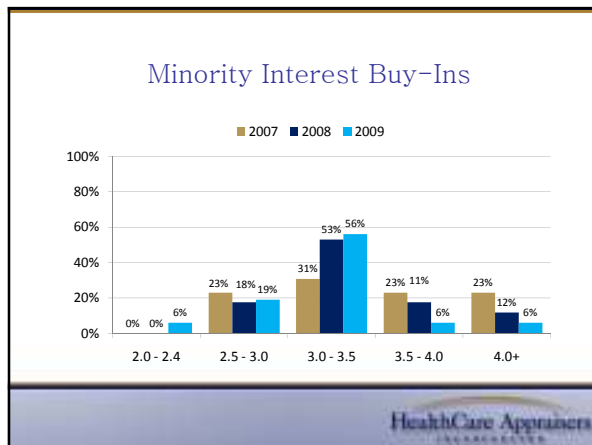
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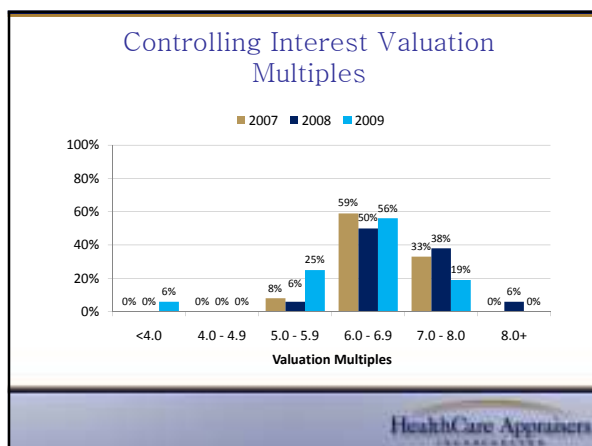
Overview of 2010 ASC Valuation Survey

- Generally, valuation multiples have decreased during the last year
- Out-of-Network ASCs continue to be priced lower in terms of multiple (not overall value)
- ASCs in strong CON states continue to be priced higher
- We are seeing an increase in overall transaction activity both at the minority and control level.

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Other Notable Observations

- CMS continues to contemplate changes to the ASC payment mechanism.
- Reductions in reimbursement from Medicare are highly likely, though ASCs are well positioned to benefit from cost containment initiatives.
- More Hospitals are pursuing ASC acquisitions
- The OIG has indicated that it will dedicate more resources to review of transactions.
- Hospital employment of physicians may limit pool of potential investors and/or limit non-owner utilization in some specialties.
- Many surgeon investors are approaching retirement and scaling back their practices.

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Responding Companies

- | | |
|--|---|
| ■ American Surgical Centers | ■ Health Inventures |
| ■ ASCs, Inc. | ■ Nikitis Resource Group |
| ■ ASC Strategies, LLC | ■ NovaMed, Inc. |
| ■ Accent Partners | ■ Practice Partners in Healthcare, Inc. |
| ■ Community Care, Inc. | ■ Regent Surgical Health |
| ■ Covenant Surgical Partners, Inc. | ■ Surgical Care Affiliates |
| ■ Elite Surgical Affiliates | ■ Symbion Healthcare |
| ■ Facility Development and Management, LLC | ■ Titan Health Corporation |
| | ■ The C/N Group, Inc. |

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