

Acquisitions & Valuations: A Buyer's Perspective on Selling Your ASC

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Overview

- Successful partnering: Seller's perspective
- Buyer strategies
- Transaction mechanics
- Valuation

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Successful Partnering: Seller's Perspective

Typical ASC Buyers

- Surgery center companies
- Management companies
- Hospitals/healthcare systems

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Surgery Center Companies

- 6 major players
- Typically look for substantial ownership
- Either public or on track to access public markets

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Management Companies

- Two models:
 - Consultants
 - Minority-interest
- May be involved with initial development
- Level of management services will vary from company to company

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Hospitals/Healthcare Systems

- Understand local market
- May place a premium on ASC due to relationships with physicians
- Disposition as a partner will vary from institution to institution

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Why Consider a Partner?

- Great business – but a challenging one
 - Reimbursement
 - Physician ownership
- Single focus on surgery center operations
- Gain benefits of scale
- Realize some of the value created

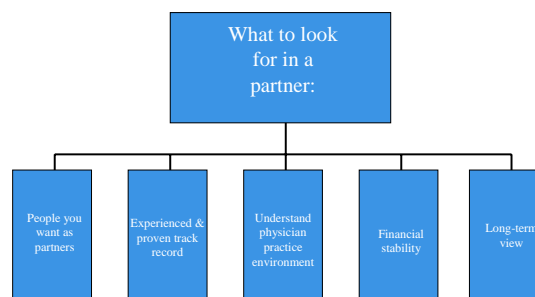
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The Acquisition Process: Seller

- Transition Committee
- Talk to several companies
- Proposals: Highest bidder may not be best partner
- Discuss 'bad news' early

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ASC Owners



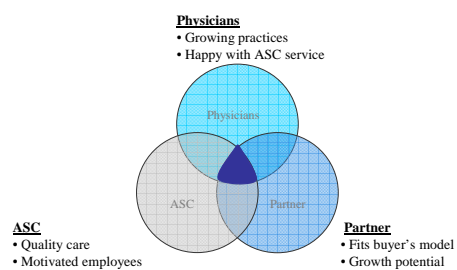
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Prior to Discussions

- Consensus among physicians to move forward
- Prepare:
 - Financial package
 - Case reports/utilization data
 - Other history and “color” on market
- Prepare for due diligence

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Elements of a Successful Partnership



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Buyer Strategies

Varying Strategies

- Hospital/healthcare system:
 - Compliments overall strategy
 - Effect on other profit centers
- Surgery center companies:
 - Business model
 - Transaction flow
- Management companies:
 - Core competencies
 - Resources

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ASC Buyers

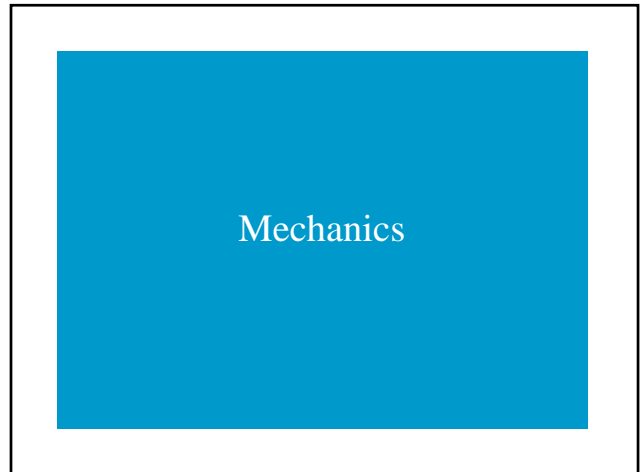
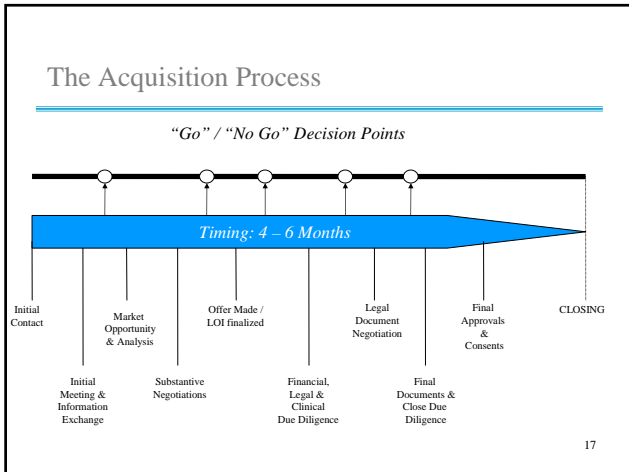
- What are buyers looking for?
 - Cohesive group of physician partners
 - Opportunities for expansion
 - Sustainable market position
 - Long term: return on investment

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ASC Buyers

- What a buyer does not want to see:
 - Recent changes that may not be sustainable
 - Overly complex ownership arrangements
 - Weak non-compete agreements
 - Significant out-of-network insurance reimbursement

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- ### Transactions
- Typically a sale of ownership units
 - Buy into existing limited partnership or LLC
 - Revised governing agreements
 - Less common: Asset acquisitions
 - Tax considerations
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- ### Critical Transaction Points
- Majority vs. minority ownership
 - Non-compete
 - Super-majority approvals
 - % ownership retained by key physician partners
 - Management fees
 - Consideration
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Consideration

- Cash
- Notes
 - Term
 - Interest rate
- Securities/stock
 - May ultimately have the greatest return
 - Therefore, bear more risk

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Additional Elements

- Medical director agreements
- Employee agreements

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Valuation

Valuation

- Not an “accounting” valuation
- Not a “fairness” valuation
- Acquisitions involve a negotiated price
 - Control premium
 - Other adjustments

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Valuation Approach

- Earnings before interest, taxes, depreciation, and amortization
- Why use EBITDA multiple?
 - Wall Street convention for consolidators
 - Easy number to identify
- Valuation:
 - Range is 5-6x historical EBITDA
 - Includes management fee

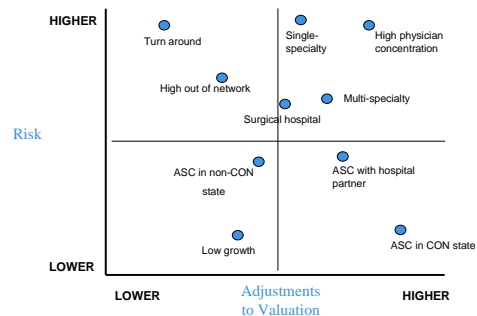
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How Buyers Value ASCs

- Current convention & EBITDA multiple
- Review of center history, performance and potential
- While EBITDA is historical, buyer is concerned with prospective performance.
- **Therefore, price is based on expectations of future performance**

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Risk vs. Adjustments to Valuation



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Summary

- There are many buyers interested in surgery centers
- There are many models and approaches to acquisitions
- Therefore, the market should be viewed as flexible in this regard

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Thank you!



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