MERIDIAN
SURGICAL PARTNERS

Performance, Efficiency, Achievement, Knowledge

The Inside Scoop on
Preparing Your ASC for Acquisition

The 14th Annual Ambulatory Surgery Center
Conference & Exhibits

Topics to Cover

Define your objectives

Selecting the right partner

What factors determine price?

What to expect in diligence & beyond

Timeline to closure

MERIDIAN
SURGICAL PARTNERS

MERIDIAN
SURGICAL PARTNERS

Performance, Efficiency, Achievement, Knowledge

Define Your Objectives

Define Your Objectives

- Return on initial investment
- Eliminate debt
- Professional management
- Growth
- Contract negotiation
- Minority vs. majority interest
- Maintain control
- Price expectations (5-8X EBITDA)

A seller needs to think of what advantages they have to attract a buyer.

MERIDIAN SURGICAL PARTNERS

Example - Partner Goals

- Partner with a strong ASC management company
- Each partner sell a pro rata portion of their shares
- Further improve billings and collections
- Negotiate better fees
- Recruit more partners
- Further control supply costs and expenses
- Continue quarterly distributions

MERIDIAN SURGICAL PARTNERS

MERIDIAN
SURGICAL PARTNERS

Performance, Efficiency, Achievement, Knowledge

Selecting the Right Partner

Who are the Buyers?

- 9 buyers of **majority** interests:
  - Public: Amsurg, NovaMed and Medical Facilities Corporation
  - Private: USPI, Surgical Care Affiliates, HCA, Symbion, National Surgical Care, Meridian Surgical Partners

- Many buyers of **minority** interest:
  - HealthMark Partners, Prexus Health Partners, ASCOA, Blue Chip Surgical Partners, Nueterra, Regent Surgical Care, Titan Healthcare, NeoSpine, Cirrus, Foundation, Woodrum ASD

The buyer invests in a surgery center with a goal to grow the business in order to generate a return on investment.

MERIDIAN SURGICAL PARTNERS

Selecting the Right Buyers

1. Clearly outline your partnership goals and objectives.

2. Interview several prospective buyers.

3. Preliminary valuation – is the price in range?

4. Select 2 or 3 companies to interview in person.

5. Select a buyer and enter exclusive LOI.

MERIDIAN SURGICAL PARTNERS

MERIDIAN
SURGICAL PARTNERS

Performance, Efficiency, Achievement, Knowledge

What Determines Price?

What Determines Price?

- EBITDA
- Growth potential
- Partnership stability
- Competition
- Payor mix

Key Considerations Regarding Price

- Prospects for growth
- Risks to cash flow
- Partnership issues
- Location

Transaction Pricing Criteria

	Decrease Multiple	Increase Multiple
Competition / Barriers to Entry	♦ Limited barriers to entry ♦ Several competing partnerships ♦ Ownership in multiple facilities	♦ Significant barriers to entry – CON State ♦ Few competing partnerships ♦ No external ownership
Reimbursement Risk	♦ High level of out-of-network revenue ♦ Specialty concentration – MC changes ♦ Other exposure (work comp reform)	♦ Contracted with major payors ♦ Positive MC changes (Ortho / ENT etc) ♦ No other exposure
Partnership Profile	♦ Partners nearing retirement ♦ Partner concentration (>20% revenue) ♦ Facility inconvenience – Location / Design	♦ Dedicated Partners ♦ Diversified partner contribution ♦ Proximity to facility – RE Ownership
Growth Prospects	♦ Limited growth from existing partners ♦ Few recruiting prospects ♦ Capacity concerns	♦ Partners with growing practices ♦ Excellent recruiting prospects ♦ Excess capacity

MERIDIAN
SURGICAL PARTNERS

Valuation

Valuation	
In Thousands	***T12M***
EBITDA	1,000
Multiple	7.0x
Enterprise Value	7,000
Less Debt	(500)
Add Cash	100
Equity Value	6,600
Ownership	51.0%
Proceeds to Sellers	**$ 3,366**

EBITDA is from the trailing 12 month period and may be adjusted for revenue risks such as out-of-network

Multiple will be in a range of 5.0x - 8.0x depending on growth prospects

If debt is to be assumed pro-rata by the buyer, then the actual debt balance will be subtracted from the Enterprise value

Value is given to the amount of cash that will remain with the business post-acquisition

Ownership will vary based on partnership

MERIDIAN SURGICAL PARTNERS

Valuation Killers

- Out-of-network payment structure
- Poor growth prospects

MERIDIAN
SURGICAL PARTNERS

Out-of-Network – Effect on EBITDA

Any decrease in reimbursement will have a dramatic effect on EBITDA

Rate Reduction	Current	Adjusted	Change	Comments
Case Volume	1,000	1,000	-	Assume that Volume remains unchanged while moving in-network
Revenue per Case	3,000	1,950	*-35%*	Revenue per case drops 35% as cases move to negotiated rates
Net Revenue	**3,000,000**	**1,950,000**	***-35%***	With no incremental volume increase, Revenue drops by 35%
Variable Labor	750,000	750,000	**-**	Variable Expenses remain the same with no increase in volume
Medical Supplies	600,000	600,000	**-**	Variable Expenses remain the same with no increase in volume
Other Expenses	300,000	300,000	**-**	Other costs are mostly fixed and remain constant
EBITDA	**1,350,000**	**300,000**	***-78%***	EBITDA has decreased by 78%
EBITDA Margin	*45%*	*15%*		*EBITDA margins drop from 45% to 15%*

Out-of-Network – Effect on EBITDA

Volume increases are insufficient due to costs associated with volume

Increased Volume	Current	Adjusted	Change	Comments
Case Volume	1,000	1,500	*50%*	This time assume that Volume increases by 50% by moving in-network
Revenue per Case	3,000	1,950	*-35%*	Revenue per case drops 35% as cases move to negotiated rates
Net Revenue	**3,000,000**	**2,925,000**	***-3%***	Due to incremental volume increase, Revenue remains close to current levels
Variable Labor	750,000	1,125,000	***50%***	Variable Expenses increase due to increased volume (same cost per case)
Medical Supplies	600,000	900,000	***50%***	Variable Expenses increase due to increased volume (same cost per case)
Other Expenses	300,000	300,000	***-***	Other costs are mostly fixed and remain constant
EBITDA	**1,350,000**	**600,000**	***-56%***	EBITDA has decreased by 56%
EBITDA Margin	*45%*	*21%*		*EBITDA margins drop from 45% to 21%*

Out-of-Network – Effect on Valuation

Valuation	
In Thousands	***T12M***
EBITDA	1,350
Multiple	7.0x
Enterprise Value	9,450
Less Debt	(500)
Add Cash	100
Equity Value	9,050
Ownership	51.0%
Proceeds to Sellers	**$ 4,616**
Effective Multiple:	*15.8x*

Valuation: In-Network	
In Thousands	***T12M***
EBITDA - Adjusted	600
Multiple	7.0x
Enterprise Value	4,200
Less Debt	(500)
Add Cash	100
Equity Value	3,800
Ownership	51.0%
Proceeds to Sellers	**$ 1,938**
Change in Valuation:	*-58%*

Expect a discount if your business is out-of-network

MERIDIAN
SURGICAL PARTNERS

Performance, Efficiency, Achievement, Knowledge

What to Prepare for in Diligence & Beyond

What to Prepare for in Diligence

- Financial diligence
- Partnership analysis
- Regulatory and legal diligence
- Billing and coding audit
- Managed care analysis

What to Prepare for in Diligence & Beyond

- Purchase and Sale Agreement
- New Operating Agreement
- Management Agreement
- Legal Counsel

MERIDIAN
SURGICAL PARTNERS

MERIDIAN
SURGICAL PARTNERS

Performance, Efficiency, Achievement, Knowledge

Timeline to Closure

Timeline to Closure

- Discovery
- Assessment – timing depends on the partnership
- Engagement – can be completed in 60-90 days

MERIDIAN SURGICAL PARTNERS

Timeline to closure

Week	Action
Week 0	Signed Letter of Intent
Week 1	Complete Meridian Data Request
Week 2	Complete Legal Diligence Request
Week 3	MSP Facility Visit
Week 5	Initial Drafts of Agreements
Week 6	Response to Initial Drafts
Week 7	Revised Drafts
Week 8	Shareholder Approval
Week 9	Execute Agreements and Closing

MERIDIAN
SURGICAL PARTNERS

Questions?

Kenny Hancock
President and Chief Development Officer
Meridian Surgical Partners
615-301-8142
khancock@meridiansurg.com

www.meridiansurg.com

MERIDIAN SURGICAL PARTNERS