


**How a Hospital/Physician ASC JV Affects Physician Alignment**

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June 12 ,2015

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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

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**The Trends of ASC Ownership**

- 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
- What to look for in a hospital partner
- A hospital contracting model to consider

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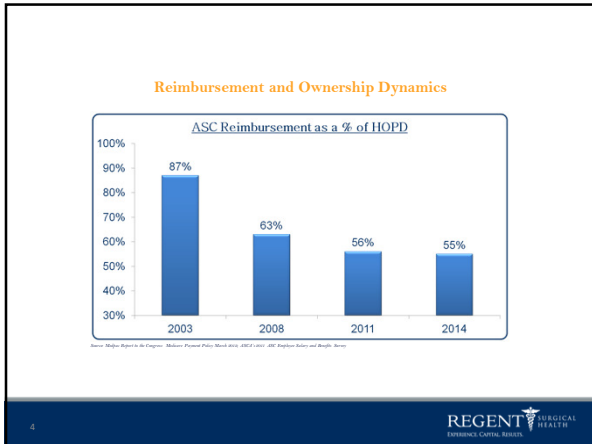
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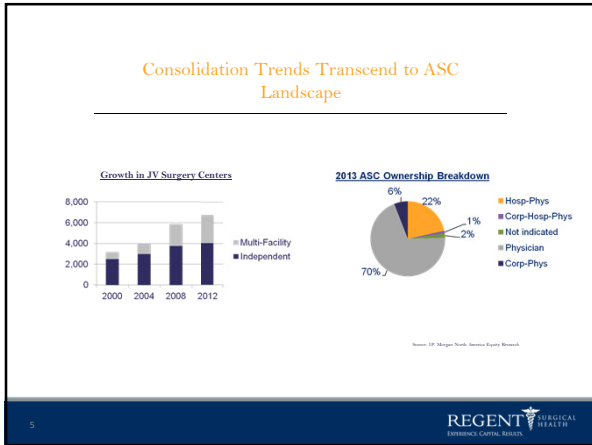
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**As Fewer ASCs are Being Built , There is a Trend Toward Closer Alignments with Physicians & Surgeons**

- As a result, more acquisitions are being completed, primarily by hospitals and ASC companies; oftentimes with a three-way partnership
- 80% of Regent's new ASCs are partnered with hospitals and surgeons
- Most ASC transactions today are acquisitions due to the consolidation of the markets, the increase in JV activities by local hospitals ; few ASC are being built
- More hospitals are seeking surgeons partnerships because many ASCs are available locally; hospitals do not have to acquire surgical practices to accomplish non competes and alignment patterns
- Some states are not allowing new ASC JVs without a hospital partner
- Hospitals are taking on more risk by developing ACO strategies and need a lower cost ASC to download cases from the hospital

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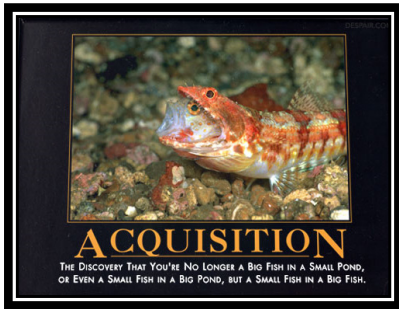
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**The "Dreaded" Word ACQUISITION**



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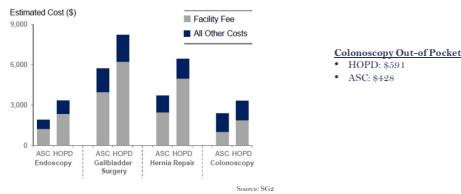
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**Continued Price Transparency Requirements Will Benefit ASCs over Hospital Surgery Depts.**



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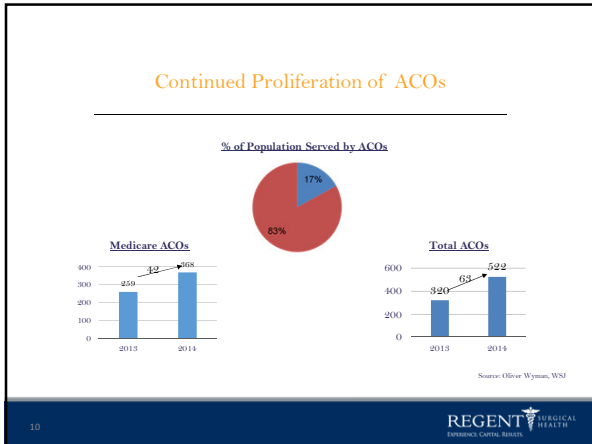
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### The Economics of a Physician/Hospital/Corporate Management Model

- 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

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### A Hospital Can Be a Good Partner if They Have Higher Contracted Rates and They Do Not Require Control of Clinical/Operations

- Less than 20% of hospitals are partnered with physicians, primarily because, in the past, the hospital not only wanted majority ownership, but also control of operations.
- Most hospitals historically only wanted to partner with surgeons if they could own most of the ASC, control it, and worse, 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 of our transactions provided the doctors who sold half of their interests with similar or higher financial returns annually than before the sale.

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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 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

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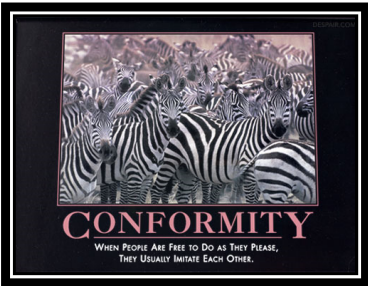
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### Why Partner?



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### Which Model Do We Usually Recommend?

- **Hospital Contracting Model**
  - If it is structured correctly, the payments per case are at least 30% higher than an independent ASC and, at the same time, it provides protection for the doctors that the hospital cannot compete with them in other transactions and allows the doctors to 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 and, at the same time, prevents surgeons from competing with them in other transactions.

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### Typical Ownership and Governance Model

**Governance Structure**

- Hospital has 2 board seats, Physicians have 4 seats, and Regent has 1 seat
- Physicians are Class A shareholders, while Hospital and Regent represent Class B shareholders
- Hospital controls Class B and majority vote
- Physicians retain voting control on clinical issues
- Maximizes physician financial upside while maintaining hospital's earnings consolidation ability

**Hospital Contracting Model**

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graph TD
    HC1((HoldCo 1  
Hospital: 80%  
RSH: 20%))
    HC2((HoldCo 2  
Physicians: 100%))
    SC[ Surgery Center  
Physicians: 49%  
HMA: 41%  
RSH: 10% ]
    HC1 ---|11%| SC
    HC2 ---|89%| SC
  
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### 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.

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### Sample Control Breakout

<p><b>Physicians</b></p> <ul style="list-style-type: none"> <li>• Medical Executive Committee recommendations</li> <li>• Selection of anesthesia providers</li> <li>• Daily operations decisions that require Board approval</li> <li>• Approval of physician members that go to partnership vote</li> <li>• Clinically-related operating policies and procedures</li> <li>• Approval of equipment purchases as part of budget or are limited to a certain monetary value</li> </ul>	<p><b>Hospital</b></p> <ul style="list-style-type: none"> <li>• Budget</li> <li>• Strategic decisions</li> <li>• Disposition of assets</li> <li>• Super majority rights related to types of procedures conducted</li> </ul>
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### 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
- In a community 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

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### The HOPD Model another model that works well in some situations...for now

**HOPD Model**

**Structure**

- Hospital owns 100% of ASC, enabling HOPD rates
- Surgeons and management company engaged to provide operational and clinical oversight

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### Case Study: Knightsbridge Surgery Center Columbus, Ohio

**Background**

- Founded in 2001, Knightsbridge Surgery Center (KSC) did not produce returns under initial management company
- Engaged RSH in 2004, which turned around facility to highly profitable through negotiating with payors and canceling inadequate contracts

**Problem**

- Payor strategy loses momentum, diminishing returns
- OhioHealth seeks partnership yet physicians seek retention of clinical control

**Solution**

- Hospital acquires 49% stake but has 50% vote and tiebreaker rights on key management decisions
- Hospital investment predicated on attainment of performance benchmarks

**Result**

- Meaningful liquidity event for physicians' 49% interest
- Approximately 133% annual returns for OhioHealth
- Net Revenue Per Case 2x-3x that of ASC regional avg.

**Previous Capital Structure**

**Current Capital Structure**

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### Summary Of Regent

- Founded in 2001; Headquartered in Chicago
- 21 facilities; 33 owned and managed historically
- Always a minority owner and manager
- 15 facilities are with hospitals; 2 new hospital /surgeon partnerships will be implemented in the next three months
- 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
- Partnerships are not designed to be sold: Regent does not have investment bankers or venture capitalists requiring a sale a few years later. 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

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### Surgery Center Partnerships Nationally and Internationally



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### Regent Facilities/Partners

<p><b>1. Center for Specialized Surgery</b> Palm Beach, FL <i>Partnered With: Mount Sinai</i></p> <p><b>2. Surgery Center of Mount Sinai</b> Mount Sinai, FL <i>Partnered With: Lehigh Valley Hospital</i></p> <p><b>3. Robert Wood Johnson Endoscopy Center</b> East Brunswick, NJ <i>Partnered With: Robert Wood Johnson University Hospital</i></p> <p><b>4. Ambulatory Surgical Pavilion at Robert Wood Johnson</b> New Brunswick, NJ <i>Partnered With: Robert Wood Johnson University Hospital</i></p> <p><b>5. Marietta Surgery Center</b> Marietta, OH <i>Partnered With: Marietta Memorial Hospital</i></p> <p><b>6. Kingsbridge Surgery Center</b> Columbus, OH <i>Partnered With: OhioHealth</i></p> <p><b>7. Medical Center at Elizabeth Place</b> Dayton, OH <i>Partnered With: Kettering Health System</i></p>	<p><b>8. Palm SurgCenter</b> Palm Springs, IL <i>Partnered With: Palm Community Hospital</i></p> <p><b>9. Midland Surgical Center</b> Sycamore, IL <i>Partnered With: Eisenhower Community Hospital</i></p> <p><b>10. Racine Way Surgery Center</b> Canton, IL <i>Partnered With: Northshore University Health System</i></p> <p><b>11. IL Sports Medicine and Orthopedic Surgery Center</b> Morton Grove, IL</p> <p><b>12. Loveland Surgery Center</b> Loveland, CO</p> <p><b>13. High Plains Surgery Center</b> Cheyenne, WY <i>Partnered With: Cheyenne Regional Medical Center</i></p> <p><b>14. Providence Health System (Portland)</b> Portland, OR <i>Partnered With: Providence Health System</i></p> <p><b>15. Surgery Center of Reno</b> Reno, NV</p>	<p><b>16. Endoscopy Center of Lodi</b> Lodi, CA <i>Partnered With: Lodi Memorial Hospital</i></p> <p><b>17. Lodi Outpatient Surgical Center</b> Lodi, CA <i>Partnered With: Lodi Memorial Hospital</i></p> <p><b>18. Surgery Center of Waulla</b> Waulla, AR</p> <p><b>19. Neurosurgery Ireland at Heritage Medical Clinic</b> Dublin, Ireland <i>Partnered With: Heritage Medical Clinic</i></p> <p><b>20. Cyber Knife Ireland</b> Dublin, Ireland <i>Partnered With: Heritage Medical Clinic</i></p> <p><b>21. Stem Cell Clinic</b> Boston, Honduras <i>*Under Development Partnered With: Hospital Conces</i></p>
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### 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

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"I am a man of fixed and unbending principles, the first of which is to be flexible at all times."

Everett Dirksen

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### Contacts

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