You Are a 15-Person Group.
Time For Change: What Are You Going To Do?

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Disclosure and Objectives

Enhance Healthcare provides consulting services to:

- HCAPS
- Cross Keys Capital

Lecture Objectives:

- Understand Group consolidation trends
- Prepare your anesthesia group for sale
- Identification of key outside resources
- Identify attributes of attractive practices
- Understand M&A timeline and process
- List of private equity and strategic suitors
3 A’s of Anesthesia
1980’s & 1990’s

ABILITY

AVAILABLE AFFABLE
12 A’s of Anesthesia
2000 & Beyond

ABILITY

AVAILABLE

ACCOUNTING
Financial Evaluation & Analysis

ATTRACTION
Recruitment of new providers

ACCOUNTABILITY
HR, Operations, Revenue Cycle Management, Credentialing, IT

AFFABLE

AGILE
Able to cover new services or business opportunities (ASC’s)

ACTIVE
OR Management

ACCOUNTABILITY
Risk and Quality Outcome Data

ADVOCATE
Legal Team Contracting, Healthcare Changes

ASC
PPO’s Hospital Initiatives, Surgeons

ASC
Able to cover new services or business opportunities

ADMINISTRATIVE

PAYORS, HOSPITAL SUBSIDIES

asc
THE PERCEPTION: Independent Practice
Pre-Op Your Practice: What is Your Group’s ASA status?

**Age**
- Length of present hospital contract
- Number of contract renewals
- Age variance of partners in group

**Height/Weight**
- Number of physicians
- Number of CRNA’s
- Number of administrative staff

**Medicines/Supplements**
- Subsidized arrangements - increasing or decreasing
- Additional stipends or payment arrangements - leadership, OR utilization, etc.

**Allergies**
- On-going contract negotiations with hospital
- Difficult managed care negotiations
- Unsettled Human Resource or Professional Liability lawsuits
Pre-Op Your Practice

Past Surgical History
- Hospital/ASC contracts lost
- Group contraction

Family History of Anesthesia Problems
- Partner infighting
- Issues with local competitor/APMC

Review Of Key Systems

**CV** - Providers, group leadership, clinical quality
**Pulm** - Payor contracts, Revenue Cycle Management
**Neuro** - Info systems, ability to communicate to providers
**Endocrine** - Value Added services, pre-op, pain management
**GI** - Relationships with administrators and surgeons
**Renal** - relationship with nursing and staff
Key Steps During the Decision Process

- Review of Operating and Partnership agreements
- Voting Rights-% of votes needed to complete sale
- Non-compete review- Both hospital contract & partnership agreement
- Transaction Board Of Directors - 3-5 partners regardless of group size
- Junior Partner/partner tract physicians- address early in process. Full or partial shares? Timing of partnership papers
- Employed physicians/CRNAs- will they participate in the sale of group?
Administrative staff- when to tell, who can you trust?
Outsourced Billing Company- can/will they help? Most are going to lose your business
Preparation of audited financial statements
Thorough review and evaluation of present staffing model. Are you too fat?? “lifestyle subsidy”
Frequent meetings with partnership to keep all stakeholders informed

Time consuming process-most meetings will take place after OR, nights and weekends. Must have group support
When /how to tell your hospital and surgeons
When/how to tell your administrative staff, CRNAs and employed physicians.
Suggested Outside Resources to help with sale

- Experienced transactional attorney—one who has been involved with deals of similar size and scope.
- 3rd party billing and compliance audit.
- Independent audit of past 3 yrs financials.
- Investment banker—should have extensive knowledge of industry and anesthesia market. Qualified IB will have deal experience with both strategic and private equity buyers.
M&A Market – Anesthesiology
Characteristics of an Attractive Anesthesiology Practice

Corporate Governance/Leadership:
- High-quality, well-respected members of a Company’s Board of Directors who have long-term leadership experience increase the value of their anesthesiology practice. These individuals are utilized by potential Transaction partners into leadership roles within the larger, acquiring organization.
- Additional attractive practice qualities are the length that a specific practice has been an exclusive hospital anesthesia provider, if partner doctors have taken on leadership or Board positions within the hospital itself in addition to any positions that they hold within the anesthesiology practice itself.

Size of Practice:
- Size is an important factor when buyers look at anesthesia practices. Size can be measured in a number of different terms:
  - Revenue/EBITDA
  - Case Volume
  - Unit Volume
  - Number of Partner Physicians
  - Number of Non-Partner Physicians
  - Number of CRNAs
- All of these are looked at individually and collectively to determine the attractiveness of a specific opportunity.

Hospital Relationships:
- Existing hospital relationships are a key value driver for anesthesia practices. Terms and lengths of existing contracts, how long the practice has been at the hospital location and existing relationships with senior management and hospital CEOs, as well as with the surgeon and other specialists are all taken into account when assessing practice value.
Managed Care Providers:
- An anesthesiology practice’s relationship with managed care providers is also critical when examining a potential transaction. Whether or not the practice is a participating or non-participating practice with the various payors can have a significant impact of future revenues for the potential acquirer. If they do participate, how long have they done so, the negotiation history, and what are the current and future rates built into the contract are all important factors that have an impact of practice valuation.

Profitability:
- Profitability can be measured in a variety of ways, but potential acquirers pay close attention to several factors that impact the payor mix:
  - Medicare/Medicaid vs. Commercial Insurance
  - Hospital/Municipality Stipend
  - Patient Population and Demographics
- In addition to this, other operational aspects of a practice are examined, such as:
  - CRNA/Physician Staffing Model
  - Back office/administrative support
  - Billing: accurately capturing all procedures performed
  - Procedural data capture – electronic vs. manual

Quality:
- One of the most important characteristics of an attractive anesthesiology practice to potential Transaction partners, is the “quality” of that practice. Quality can be measured using patient outcomes, as well as by using quantifiable quality metrics.
Currently, there are a number of strategic alternatives available to ABCD Anesthesiology Associates, PC

- **Buy-Out**
  - Financial Recapitalization
    - Partner with a top private equity group firm and focus on growth
    - “Cash out” up to 80% of equity in Company
    - Executive management retains positions with ABCD Anesthesiology
    - Leverage partner’s financial & operational expertise to undertake rapid top-line and bottom-line expansion campaign
    - Undergo 2nd “cash-out” (a.k.a. 2nd bite of the apple) in 3 to 5 years at substantially higher enterprise valuation

- **Status Quo**
  - Increase marketing activities / await uptick from the current tailwinds behind the growth in ABCD Anesthesiology’s customer base
  - Investigate new vertical / horizontal integration opportunities via organic or inorganic growth maneuvers
  - Implement sale preparation initiatives to streamline operations, reduce costs, improve financial transparency, and increase Enterprise Value

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**ONE-TIME ASSET SALE/100% EQUITY SALE**
- 100% divestiture of Company – Full cash-out
- Potential for ancillary transaction consideration via performance-based “earn-out” arrangements
- Five year employment contracts for key management
- Typical 3-5 year non-compete agreement for key management

**FINANCIAL RECAPITALIZATION WITH A PRIVATE EQUITY FIRM:**
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- Leverage partner’s financial & operational expertise to undertake rapid top-line and bottom-line expansion campaign
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Strategic Alternatives: Factors Driving Industry Consolidation

- Margin Pressure Favoring Larger Entities
- New, Better Capitalized Competitors Emerging
- Ever Expanding Competition
- Surplus of Buyers Driving Cash Multiples Higher

Sell/Recapitalize

Large Supply of Both Financial and Strategic Buyers Creating Flexible Opportunities for Sellers

Anticipated future increases in the capital gains tax rate coupled with uncertainty in the healthcare marketplace make the timing of M&A transactions especially attractive today.
Sell-Side Investment Banking – Process Summary

**ABCD Anesthesiology Associates, PC**

**Data Collection / CIM Creation**
- *Data collection process*
- *Unparalleled CIM Quality*

**Tactical Marketing**
- *Tactical in marketing approach*
- *Leverage strong industry relationships*

**Letter of Intent**
- *IB aides in the negotiations to arrive at favorable seller terms*

**Due Diligence**
- *IB carries out the bulk of the due diligence responsibilities, to limit the impact on everyday business operations.*

**Closing**

*2-3 Months*

*Strict Confidentiality Maintained Throughout The Entire Process*
Strategic Alternatives: Transaction Timing

- **CONCEPTUAL**: Value based on sector popularity and IP
- **PRE-ADOPTION**: Uncertain valuation as market needs to be proven
- **GROWTH**: Valuation inflection point coupled with rapid growth
- **“MAKE OR BREAK”**: Determine whether financing results in an increase in value that offsets the dilution
- **MATURING**: Highest valuation if sector dominance continues
- **MATURE**: Value declines as sector becomes commoditized

*DECISION*
- Invest / Sale
- Value Increase Over Time
- Portfolio Management

**OPTIMAL TIME TO PARTNER**

**OPTIMAL TIME TO SELL**
Suitors Summary
Healthcare Investors

- North Peak Capital LLC
- Highlander Partners, L.P.
- Moelis Capital Partners
- Riverside Partners
- Centerbridge
- Excellere Partners
- Cornerstone
- Enhanced Capital Partners
- Behrman Capital
- Riverside
- The Beeckman Group LLC
- DFW Capital Partners
- Behrman Capital
- DWH Partners
- MTS Health Partners
- AnesthesiaX
- Napa
- Mednax
- Somnia Anesthesia
- EnhanceHC.com