



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:

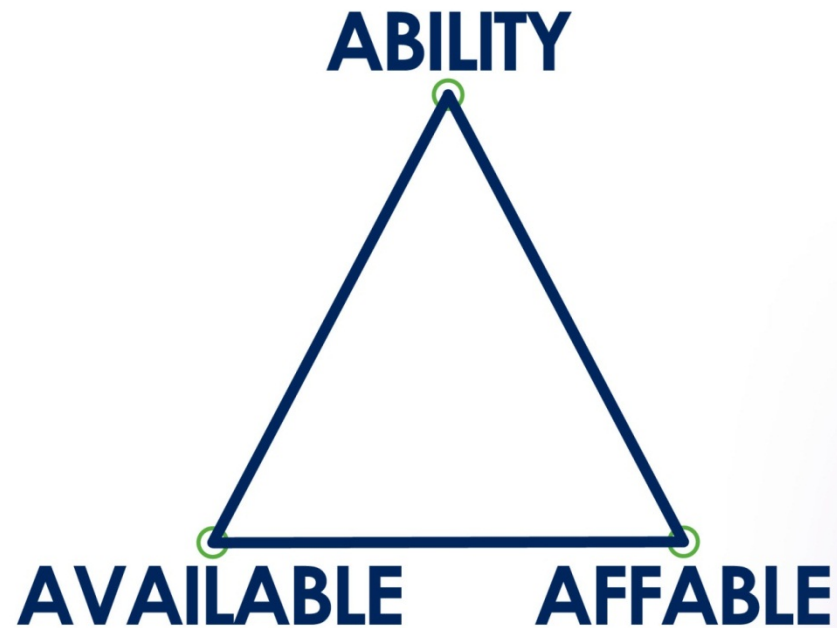
- HCAPS
- Cross Keys Capital

Lecture Objectives:

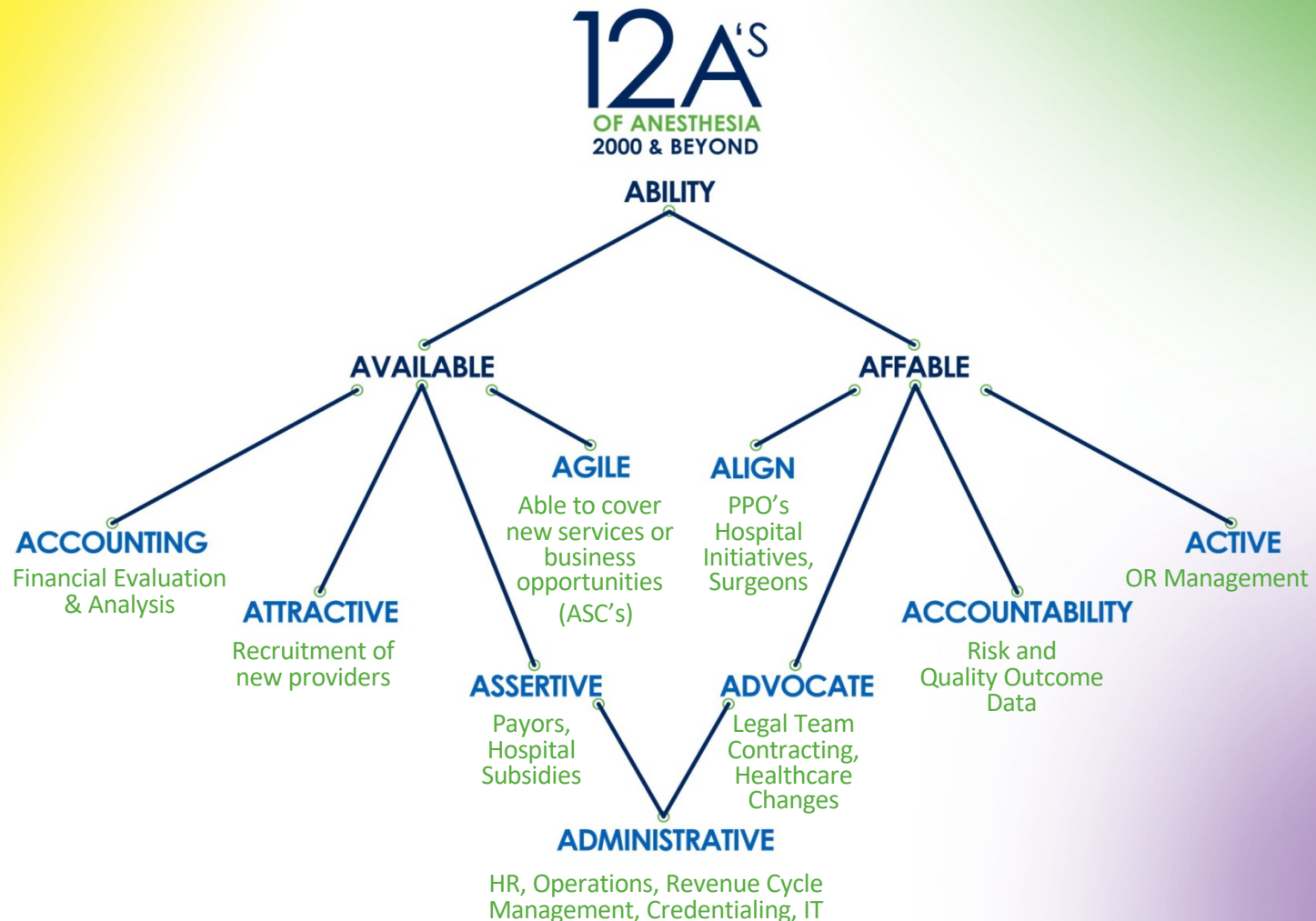
- Understand Group consolidation trends
- Prepare your anesthesia group for sale
- Identification of key outside resources
- Identify attributes of attractive practices
- Understand M&A timeline and process
- List of private equity and strategic suitors

3 A's of Anesthesia 1980's & 1990's

3A'S
OF ANESTHESIA
1980'S & 1990'S



12 A's of Anesthesia 2000 & Beyond



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?

Key Steps to Prepare to Sell



- ✚ 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.**

M&A Market – Anesthesiology

Characteristics of an Attractive Anesthesiology Practice



✚ 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

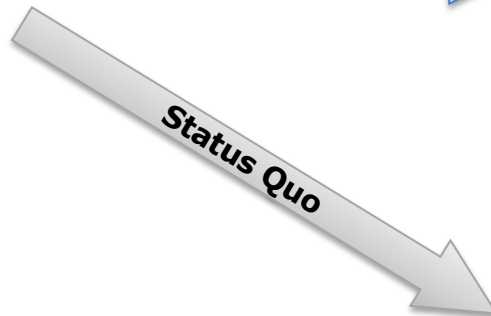
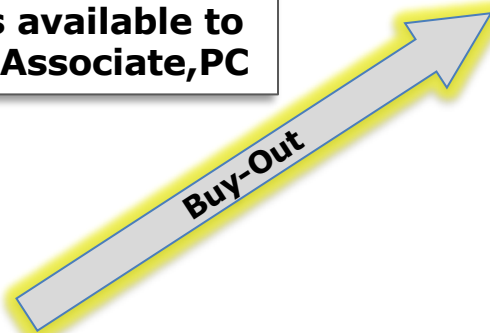
✚ Quality:

- 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.**

Strategic Alternatives Alternatives Available to ABCD Anesthesiology Associates, PC



Currently, there are a number of strategic alternatives available to ABCD Anesthesiology Associate, PC



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

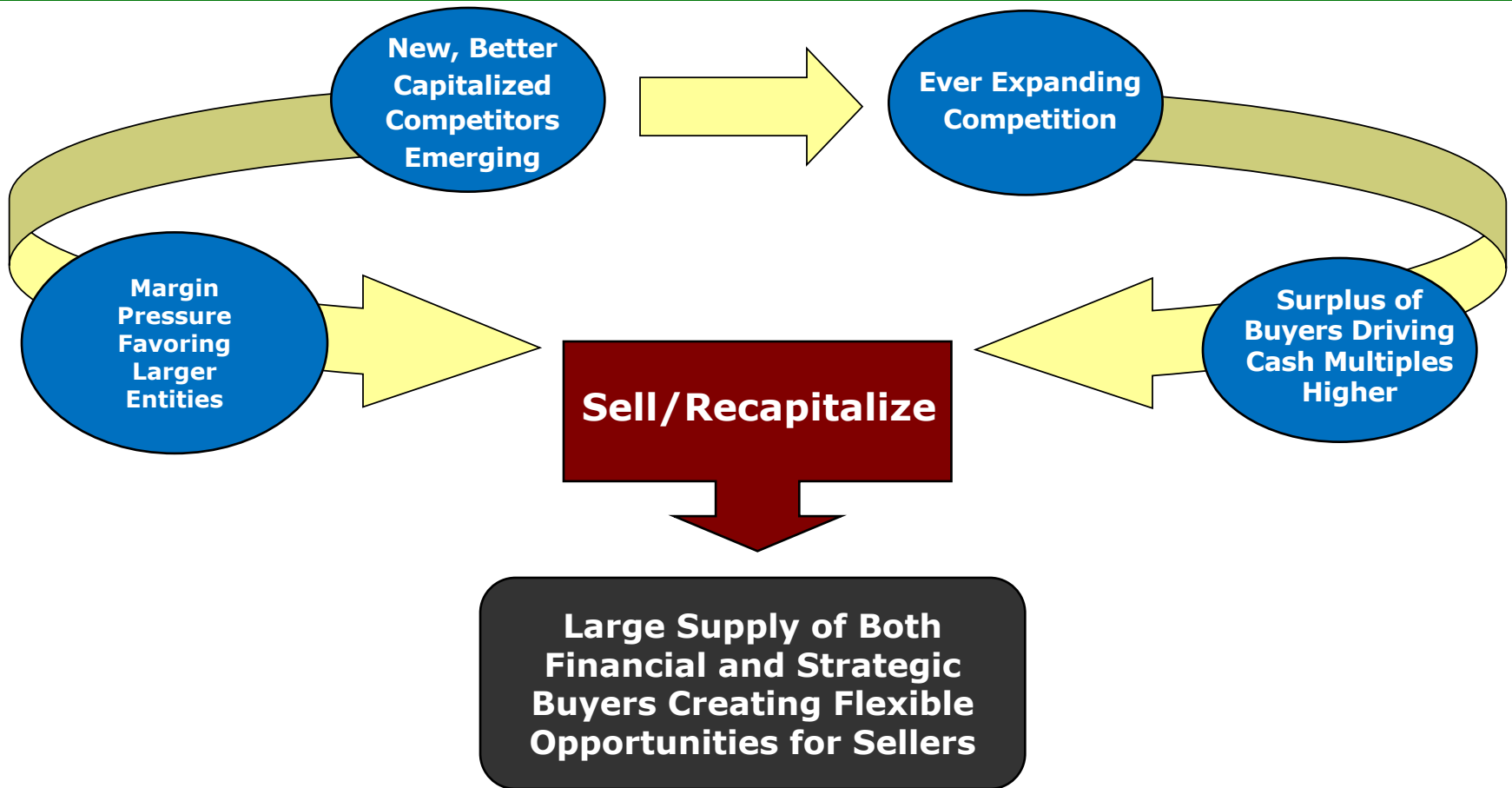
FINANCIAL RECAPITALIZATION WITH A PRIVATE EQUITY FIRM:

- ✚ 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

Strategic Alternatives: **Factors Driving Industry Consolidation**

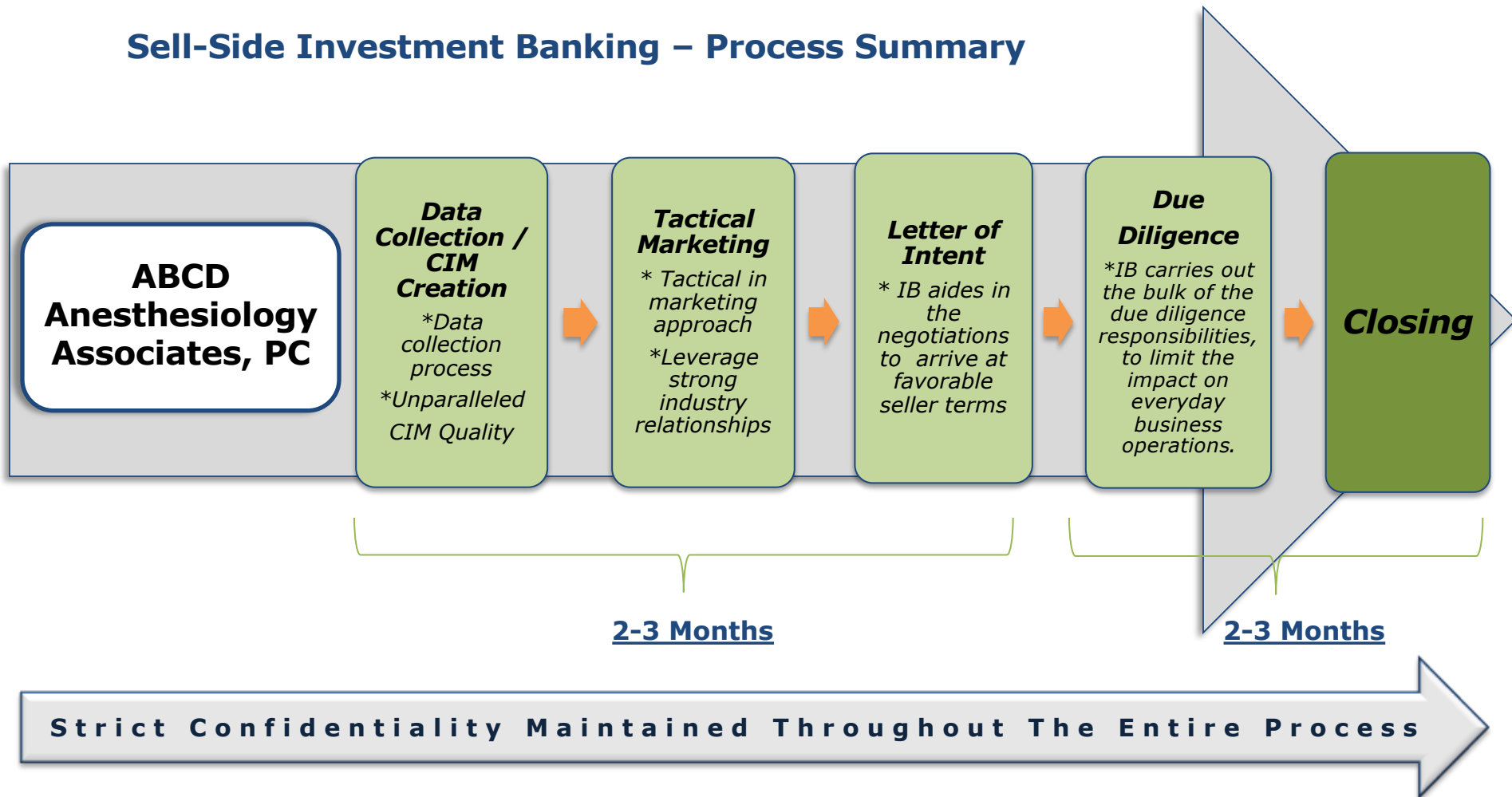


Anticipated future increases in the capital gains tax rate coupled with uncertainty in the healthcare marketplace make the timing of M&A transactions especially attractive today.

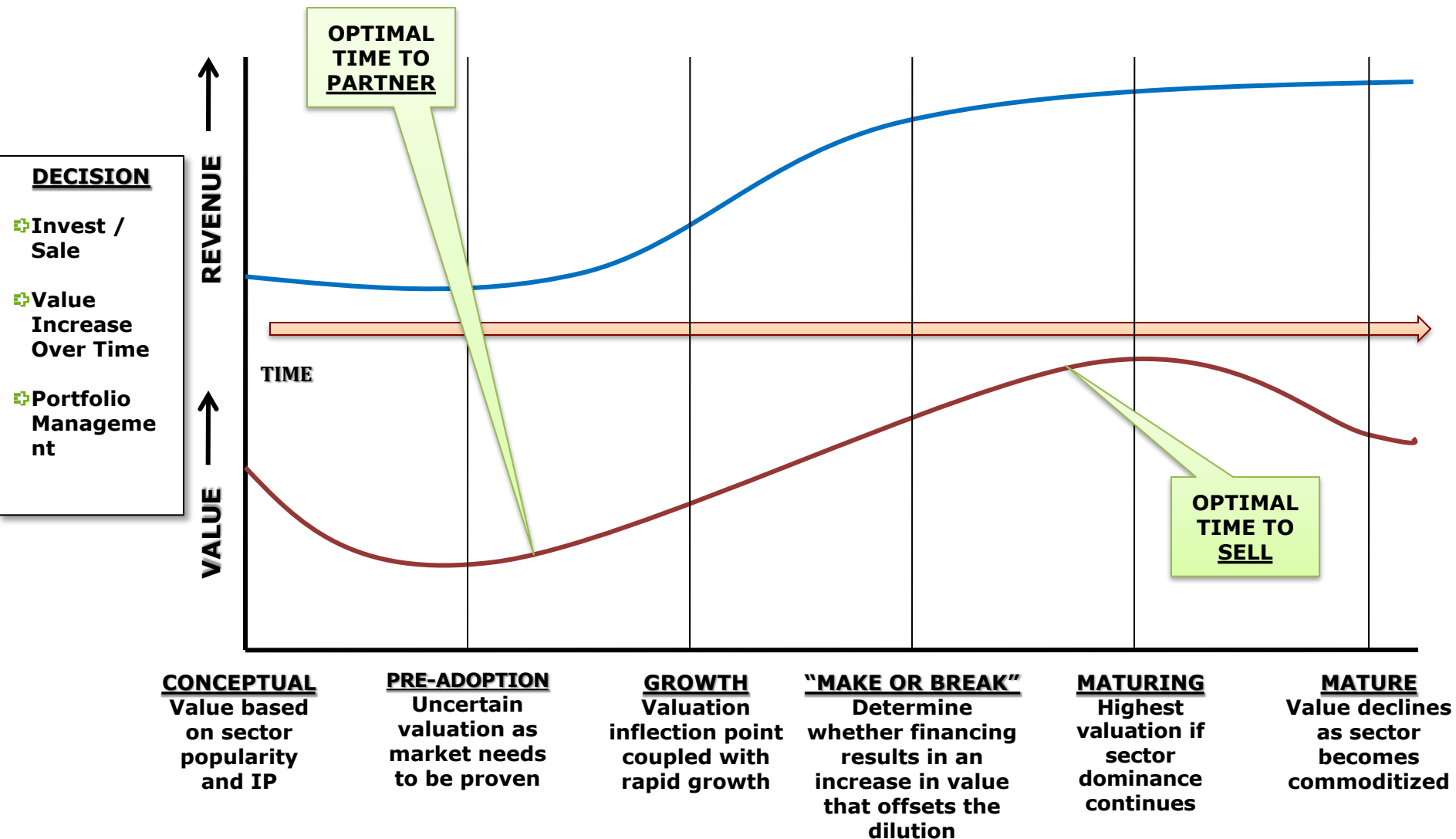
M&A Process: Disciplined and Discrete Process



Sell-Side Investment Banking – Process Summary



Strategic Alternatives: Transaction Timing



Suitors Summary

Healthcare Investors



MOELIS CAPITAL PARTNERS

