

HealthCare Appraisers
INCORPORATED

2010
ASC Valuation
Survey

How do the ASC companies
assess value?

Executive Summary

We are pleased to announce the results of HealthCare Appraiser's 2010 ASC Valuation Survey. For the past seven years, HealthCare Appraisers has surveyed the ambulatory surgery center ("ASC") industry to determine trends in the value and characteristics of ASC ownership interests and management fees charged to ASCs. Seventeen respondents, representing well over 500 surgery centers throughout the country, responded to this year's survey. The following summarizes highlights of the 2010 ASC Valuation Survey.

Valuation Multiples and Methodologies

- When purchasing a controlling interest in a multi-specialty ASC, 56% of the respondents reported prevailing valuation multiples of 6.0 to 6.9 times EBITDA, while 13% reported valuation multiples of 7.0 to 7.9 times EBITDA. 53% of respondents perceive that valuation multiples have stayed consistent with the prior year, while 41% perceive that multiples have decreased.
- When buying out retiring or under-performing physicians, 46% of respondents pay between 3.0 to 3.4 times EBITDA, and only 18% pay a multiple of 4.0 times or higher (down from 35% in 2009).
- When buying out retiring or under-performing physicians, 70% of respondents base the redemption price on a predetermined formula. For new physician investors, 41% of respondents report using a formula to establish the buy-in price; 18% allow the board to determine the purchase price; and 35% obtain an independent fair market value opinion. We note that the percentage of respondents seeking independent fair market value opinions has doubled from last year's survey.
- Regarding the measure of ASC profitability utilized by the respondents to determine the value of an ASC, 69% measure earnings based on earnings before interest, taxes, depreciation and amortization (EBITDA), and 25% report using cash flow to shareholders as the primary earnings measure.

Transaction Activity

- Respondents were split regarding the reported levels of acquisition activity in the ASC space, with 35% indicating that the market is declining, 35% indicating no change, and 30% indicating that activity has increased. 35% of respondents reported that competition for ASC investment opportunities has increased, while 53% reported no change.
- During 2009, 82% of respondents were actively searching for potential acquisitions. 40% of respondents performed due diligence on 1 to 5 ASCs, and 30% of respondents performed due diligence on more than 10 acquisition opportunities.
- Despite due diligence efforts, 65% of respondents did not close a deal during 2009. Five of the respondents completed 1 to 6 transactions, and only one respondent closed more than seven transactions.
- For 2010, 52% of respondents plan to purchase between 1 to 2 ASCs, 18% plan to purchase between 3 and 6 ASCs, and only one respondent reports plans to close more than seven deals.

De Novo (Start-up) versus Purchase

- 82% of respondents report that they seek *de novo* opportunities; 29% seek turnaround opportunities; and 41% seek established cash-flowing centers. (Some respondents seek multiple opportunities, *i.e.*, these percentages total more than 100%.) Those seeking *de novo* opportunities increased significantly from our last survey, while those seeking turnaround situations declined.

Executive Summary

- For a start-up surgery center, 24% of respondents reported “buy-in” prices of \$10,000 to \$15,000 per 1% interest, and 46% report pricing of less than \$10,000. This reflects a marked decrease in unit value from last year’s survey. 81% of the respondents indicated a general preference to hold minority (*i.e.*, less than 50%) ownership interests in ASCs. Only 19% indicated a desire for a majority interest, and no respondents indicated a desire to acquire greater than a 75% ownership interest.
- 94% of respondents reported an opportunistic stance with regard to new investment opportunities, and 52% indicated no monetary constraint to their proposed investment level.
- 47% of respondents funded their acquisitions principally through debt, a decline from 67% in last year’s survey. This trend appears consistent with tightening credit markets over the last 12 to 18 months.
- 94% of the respondents require a personal guarantee of a *pro rata* share of any initial debt obligation for *de novo* centers. 71% of the respondents require a personal guarantee from an investor purchasing a minority interest in an established center with outstanding debt.
- Nearly half of the respondents indicated they had guaranteed debt on behalf of a joint-venture center.
- Of those respondents who have provided a debt guarantee for a center, 25% indicated that they charged a fee to the other owners of the joint venture for providing the guarantee.
- Of those respondents who have charged minority investors a fee for providing a debt guarantee for a center, 75% reported that the fee charged was based upon the investor’s *pro rata* share of the outstanding debt obligation. Furthermore, half reported that they charged an annual fee equal to 2% of the outstanding loan balance. The remaining half indicated that the fee charged varies depending upon factors such as the credit risk of the particular center and that of the investors in the center.

Preferred Physician Specialties

- The respondents indicated that the majority of surgical specialties for physician-investors were desirable, with strong preferences noted for orthopedics, ophthalmology, ENT, GI and pain management. Cosmetic surgery was identified as the only undesirable surgical specialty in a surgery center.

Debt Guarantees and Related Fees

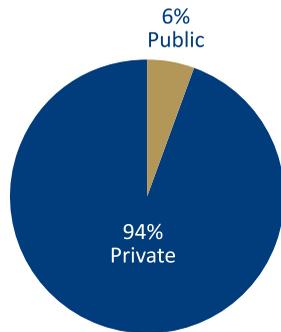
- As indicated above, the tightening credit markets over the past 18 months have resulted in some difficulties in securing debt financing. HAI has seen numerous arrangements arise whereby the majority partner in a center guarantees 100% of the center’s debt obligation on behalf of the partnership. In exchange for providing this guarantee, the majority partner may charge the minority investors a loan guarantee fee.

Management Fees

- 56% of respondents report that their management fees range from 3% to 6% of net revenue. 56% of respondents also maintain an equity interest in each of the ASCs they manage, and 73% of respondents indicate that management fees do not vary based on the manager’s level of equity ownership in the center.

2010 ASC Valuation Survey Results

1. Your company is:



6. Including your company, how many potential acquirers typically participate in the bidding process?

Potential Acquirers in Bidding Process	% Respondents
1 to 2	47%
3 to 4	47%
>4	6%

2. How many ASCs do you have under ownership?

ASCs Under Ownership	% Respondents
10 or fewer	72%
11 to 20	11%
21 to 30	0%
31 to 40	0%
41 to 50	6%
51+	11%

7. How many ASCs do you plan to purchase over the next year?

Number of ASCs Planned to Purchase	% Respondents
None	18%
1 to 2	52%
3 to 4	12%
5 to 6	6%
7+	12%

3. How many ASCs do you have under management?

ASCs Under Management	% Respondents
10 or fewer	71%
11 to 20	11%
21 to 30	6%
31 to 40	6%
41 to 50	0%
51+	6%

8. Of the following specialties, we regard their desirability in an ASC as follows:

Data sorted by specialty most desired to least desired	Undesirable	No Preference	Desirable
	General Orthopedics	0%	6%
Orthopedic Spine	0%	12%	88%
Ophthalmology	12%	6%	82%
ENT	0%	24%	76%
Pain Management	0%	24%	76%
GI	12%	18%	70%
General Surgery	0%	35%	65%
Podiatry	12%	29%	59%
Urology	18%	35%	47%
GYN	12%	59%	29%
Plastic Surgery	82%	18%	0%

4. How many potential acquisition candidates have you performed due diligence on over the last year?

Potential Acquisition Candidates	% Respondents
None	18%
1 to 5	40%
6 to 10	12%
11 to 15	12%
16+	18%

5. How many ASCs have you purchased over the last year?

Number of ASCs Purchased	% Respondents
None	65%
1 to 2	18%
3 to 4	0%
5 to 6	12%
7+	6%

9. In the context of a start-up ASC share pricing, what is the typical range observed per 1% interest?

Start-up Center Share Pricing Per 1%	% Respondents
<\$5,000	0%
\$5,000 - \$7,500	12%
\$7,501 - \$10,000	34%
\$10,001 - \$15,000	24%
\$15,001 - \$20,000	12%
\$20,001 - \$25,000	6%
>\$25,001	12%

2010 ASC Valuation Survey Results

10. For SINGLE SPECIALTY ASCs, your company generally prefers how many active physician owners?

Preferred Number of Physician Owners	% Respondents
1 to 5	11%
6 to 10	72%
11 to 15	11%
16 to 20	0%
21+	6%

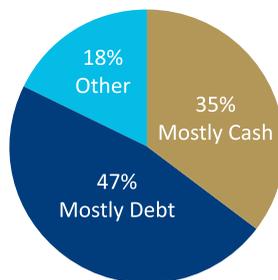
11. For MULTI SPECIALTY ASCs, your company generally prefers how many active physician owners?

Preferred Number of Physician Owners	% Respondents
1 to 5	0%
6 to 10	12%
11 to 15	52%
16 to 20	24%
21+	12%

12. From an equity standpoint, your company's preferred ownership is:

Preferred Equity Ownership	% Respondents
<10%	19%
11% to 29%	31%
30% to 50%	31%
51% to 75%	19%
>75%	0%

13. How are your ASC acquisitions generally financed?



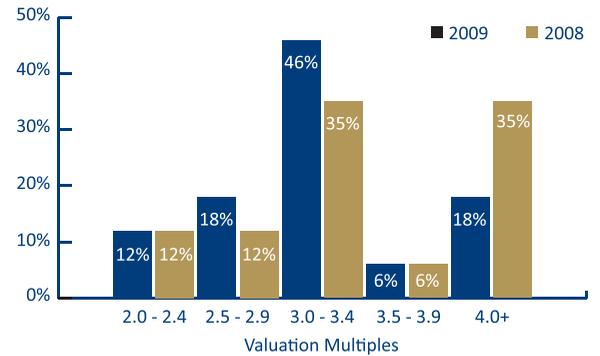
14. What is the investment level (*buy-in* price) that would preclude your company from participating in an ASC acquisition?

Investment Level (Buy-in Price) That Precludes Acquisition	% Respondents
>\$500,000	6%
>\$1,000,000	18%
>\$2,000,000	12%
>\$5,000,000	12%
Not applicable - any potential investment is considered	52%

15. How do you determine FMV for *buy-out* transactions (e.g., retiring physicians or under-performing physicians)?

Method For Determining FMV	% Respondents
Predetermined Formula	70%
Independent FMV Opinion	18%
Independent Pricing Analysis	6%
Board Determined Amount	6%

16. What valuation multiples (i.e., for *minority interest buy-out*) have you *most typically* observed in the marketplace during the past 12 months?



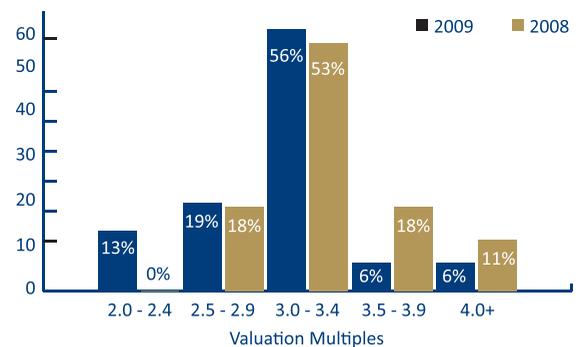
17. How do you determine FMV for *buy-in* transactions (e.g., new physician investors)?

Method For Determining FMV	% Respondents
Predetermined Formula	41%
Independent FMV Opinion	35%
Independent Pricing Analysis	6%
Board Determined Amount	18%

18. When *selling* minority interests to new physician investors, on average, how long does it take to identify the buyer and consummate the sale?

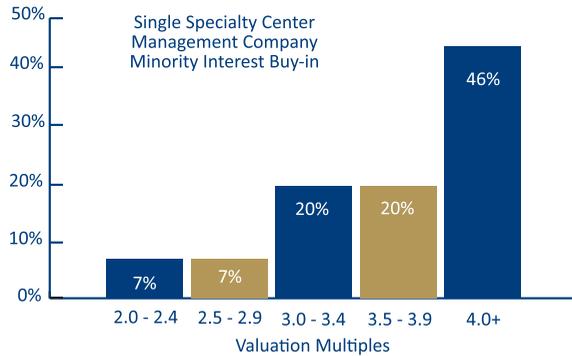
Time Period	% Respondents
<3 Months	35%
3 to 6 Months	47%
6 Months to 1 Year	18%
>1 Year	0%

19. What valuation multiples (i.e., for *physician minority interest buy-in*) have you *most typically* observed in the marketplace during the past 12 months?



2010 ASC Valuation Survey Results

20. What valuation multiples (*i.e.*, for **management company minority interest buy-in**) have you **most typically** observed in the marketplace during the past 12 months for a SINGLE SPECIALTY CENTER?

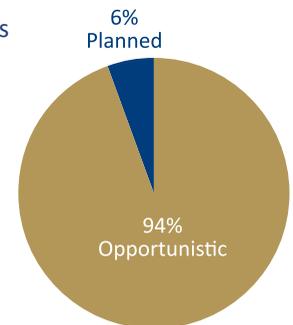


23. With respect to your acquisition strategy, do you prefer established facilities with immediate cash flow, turnaround situations at lower multiples/asset values or *de novo* development opportunities?

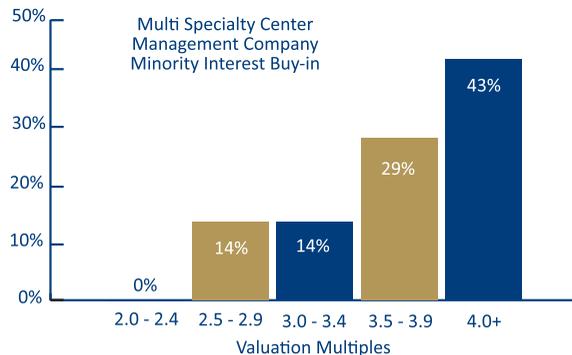
	% Respondents
Established Cash-Flowing Centers	41%
Turnarounds	29%
De Novo (<i>i.e.</i> , start-ups)	82%

(Multiple responses allowed)

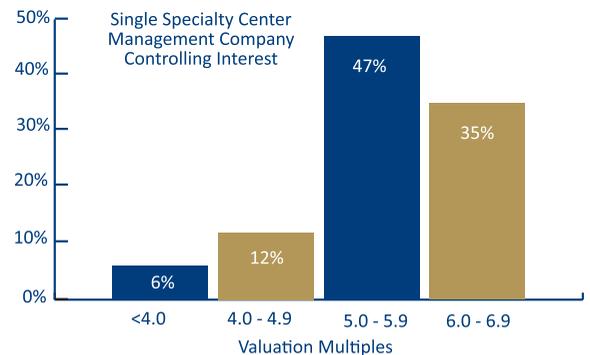
24. What best describes your company's posture with respect to selecting new ASC opportunities?



21. What valuation multiples (*i.e.*, for **management company minority interest buy-in**) have you **most typically** observed in the marketplace during the past 12 months for a MULTI SPECIALTY CENTER?



25. What valuation multiples (*i.e.*, for **controlling interest**) have you **most typically** observed in the marketplace during the past 12 months for SINGLE SPECIALTY CENTERS?



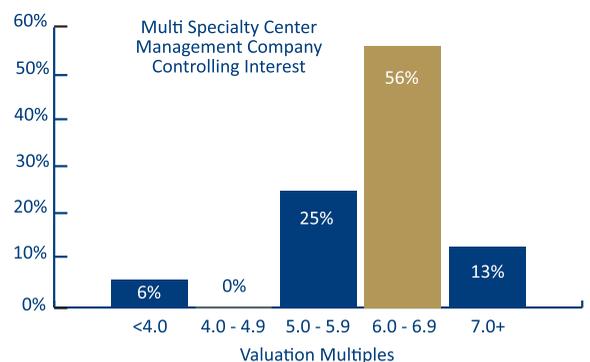
22a. What impact does hospital ownership have on your company's valuation of an ASC?

	% Respondents
No Impact	11%
Premium (<i>i.e.</i> , adds to value)	50%
Discount (<i>i.e.</i> , detracts from value)	11%
Not Applicable	28%

22b. What is the magnitude of impact to value?

Impact Expressed in Multiples of EBITDA	% Respondents
<0.25x	0%
0.26x - 0.50x	18%
0.51x - 0.75x	36%
0.76x - 1.0x	10%
>1.0x	36%

26. What valuation multiples (*i.e.*, for **controlling interest**) have you **most typically** observed in the marketplace during the past 12 months for MULTI SPECIALTY CENTERS?



2010 ASC Valuation Survey Results

27. In the past year, what best describes the multiples paid (or considered) by your company?

	% Respondents
No Change From Previous Year	53%
Decreasing (i.e., lower valuations)	41%
Increasing (i.e., higher valuations)	6%

28. In the past year, what best describes your observations in the ASC marketplace related to acquisition activity?

	% Respondents
No Change From Previous Year	35%
Decreasing	35%
Increasing	30%

29. In the past year, what best describes your observations related to competition for acquisition?

	% Respondents
No Change From Previous Year	53%
Decreasing	12%
Increasing	35%

30. What is the impact on the multiple paid for a surgery center whose Medicare reimbursement will **decrease** as a result of the new payment methodology (i.e., how much lower of a multiple)?

Impact Expressed in Multiples of EBITDA	% Respondents
<0.25x	29%
0.26x - 0.50x	36%
0.51x - 0.75x	14%
0.76x - 1.0x	14%
>1.0x	7%

31. What is the impact on the multiple paid for a surgery center whose Medicare reimbursement will **increase** as a result of the new payment methodology (i.e., how much lower of a multiple)?

Impact Expressed in Multiples of EBITDA	% Respondents
<0.25x	40%
0.26x - 0.50x	20%
0.51x - 0.75x	13%
0.76x - 1.0x	27%
>1.0x	0%

32. What is the magnitude of the premium paid by your company in a CON state?

Impact Expressed in Multiples of EBITDA	% Respondents
<0.25x	12%
0.26x - 0.50x	29%
0.51x - 0.75x	6%
0.76x - 1.0x	35%
>1.0x	18%

33. When valuing a potential acquisition candidate, on what primary earnings measure do you rely?

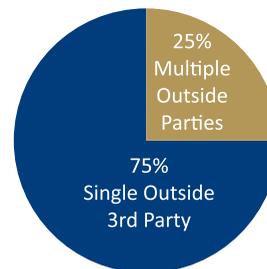
Primary Earnings Measure	% Respondents
EBITDA	69%
Cash Flow to Shareholders	25%
Net Income	0%
IRR Model	6%

34. What is the magnitude of the reduction to the multiple for a center with an out-of-network strategy (i.e., the center generally is not contracted with any payors)?

Measurement Period	% Respondents
<0.25x	6%
0.26x - 0.50x	6%
0.51x - 0.75x	6%
0.76x - 1.0x	6%
>1.0x	76%

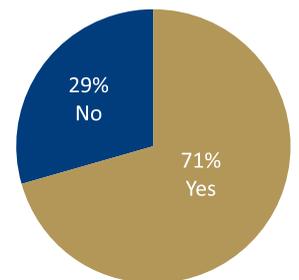
35a. If you have sold a **controlling** interest in an ASC during the last year, approximately how long did it take to identify a buyer and consummate the sale?

	% Respondents
<3 Months	6%
3 to 6 Months	11%
6 Months to 1 Year	17%
>1 Year	0%
Not Applicable	66%

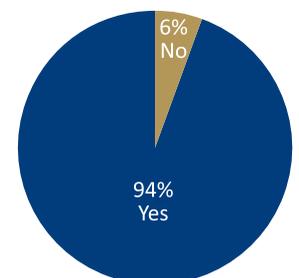


35b. If you sold a controlling interest, the buyer of your interest was:

36. In cases where a physician buys a minority interest in an existing center that has long-term debt, do you require the investing physician to personally guarantee a *pro rata* share of such debt?

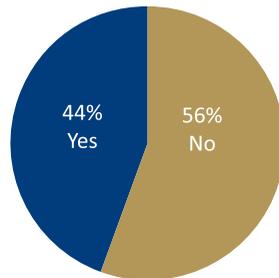


37. In the case of a *de novo* center, do you require all investors to personally guarantee a *pro rata* share of any initial debt?

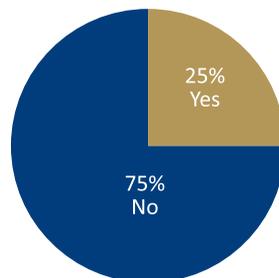


2010 ASC Valuation Survey Results

38a. Has your company provided a debt guarantee on behalf of a joint-venture center?



38b. If yes, did you charge the investors a fee for providing this guarantee?



38c. If you charged a guarantee fee, how was the fee determined?

	% Respondents
Analysis of Center Credit Risk	0%
Analysis of Investor Credit Risk	0%
Combination of the Above	33%
Other	67%

38d. If you charged a guarantee fee, which of the following best describes the methodology used to compute the fee:

	% Respondents
% of <i>Pro Rata</i> Share of Outstanding Loan Balance	75%
Flat Fee	25%

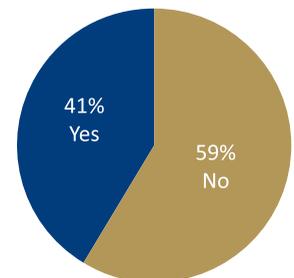
38e. Please indicate the relevant amount of the guarantee fee (*i.e.*, xx% or \$xx)

	% Respondents
2% of Outstanding Loan Balance	50%
Amount Varies Depending on the ASC and Investors	50%

39. What is the minimum management fee your company charges? (stated as a % of net revenue)

% Net Revenue	% Respondents
3%	6%
4%	22%
5%	43%
6%	17%
7%	6%
Other	6%

40a. Do you charge any flat annual minimum management fees?



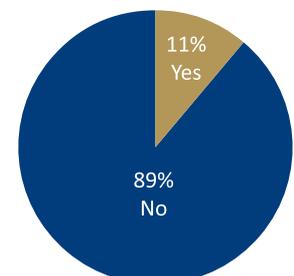
40b. What is the general minimum management fee you charge?

% Net Revenue	% Respondents
< \$75,000	8%
\$75,001 - \$100,000	31%
\$100,001 - \$125,000	8%
\$125,001 - \$150,000	8%
> \$150,001	31%
Other	14%

41a. What is the maximum management fee your company charges? (stated as a % of net revenue)

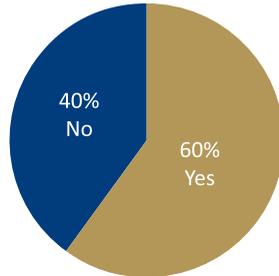
% Net Revenue	% Respondents
3%	6%
4%	0%
5%	6%
6%	44%
7%	16%
Other	28%

41b. Does your maximum management fee include the provision of an administrator whose salary is paid by your company and not passed through to the center as an additional cost?

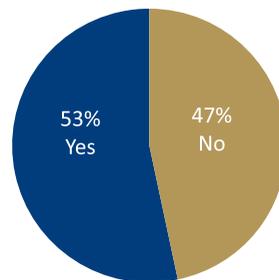


2010 ASC Valuation Survey Results

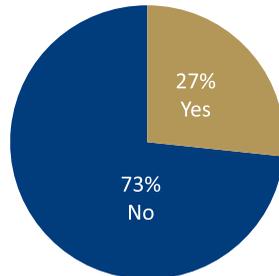
42. Does the management fee vary based on revenue levels of the surgery center (*i.e.*, do you use a sliding scale)?



43. Does the management fee vary based on the level of services provided?



44. Does the management fee vary based on your level of equity ownership?



45a. Does managing a hospital department (*i.e.*, versus a freestanding ASC) affect the management fee?

	% Respondents
Always	0%
Sometimes	87%
Never	13%

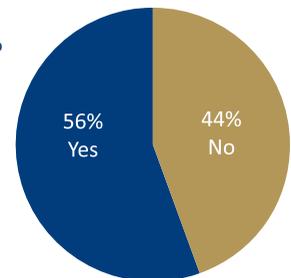
45b. If managing a hospital department does affect management fee, how is the impact determined?

	% Respondents
Depends on Level of Services Provided	92%
Depends on Net Revenue of Department	8%

45c. What is the impact?

Reduction in Management Fee %	% Respondents
0 - 0.25%	0%
0.26% - 0.5%	0%
0.51% - 1.0%	18%
1.01% - 1.5%	55%
1.51% - 2.0%	27%
>2.0%	0%

46. Do you maintain an equity ownership in all ASCs that you manage?



47. If you do, or plan to, manage centers in which you do not maintain an equity interest, what is the effect on the overall management fee as a % of net revenue?

% Net Revenue	% Respondents
Decrease 3% or Greater	0%
Decrease 2%	0%
Decrease 1%	0%
No Effect	55%
Increase 1%	27%
Increase 2%	9%
Increase 3% or Greater	9%

48. What management services do you provide?

	Never	Rarely	Sometimes	Always
Administrator at Management Company's Cost (<i>i.e.</i> , not passed through to center at cost)	50%	22%	22%	6%
Access to GPO	12%	0%	6%	82%
Managed Care Contracting	6%	0%	17%	77%
Accounting	11%	0%	11%	78%
Legal	29%	12%	18%	41%
Architecture and Design	22%	6%	33%	39%
Benchmarking Based on Other Equity-owned Centers	0%	0%	11%	89%

2010 ASC Survey Participants

HealthCare Appraisers would like to thank the following companies for their participation in this year's survey:

- American Surgical Centers
- ASCs, Inc.
- ASC Strategies, LLC
- Ascent Partners
- Community Care, Inc.
- Covenant Surgical Partners, Inc.
- Elite Surgical Affiliates
- Facility Development and Management, LLC
- Health Inventures
- Nikitis Resource Group
- NovaMed, Inc.
- Practice Partners in Healthcare, Inc.
- Regent Surgical Health
- Surgical Care Affiliates
- Symbion Healthcare
- The C/N Group, Inc.
- Titan Health Corporation

Disclaimer

The intent of this survey is to provide a summary of industry respondents' views regarding valuation, acquisition activity, ownership preferences and other trends regarding ASCs. Though our survey includes statistics regarding valuation multiples, this information should be used as general information only and should not be considered as providing any value guidance for any specific ASC interest. Business valuation is a complex process involving consideration and analysis of both financial and non-financial factors. The determination of fair market value should always be made by a qualified business appraiser with specific knowledge of the subject healthcare industry.



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