

# 2009 Physician Hospital Valuation Survey

**Presented by:**

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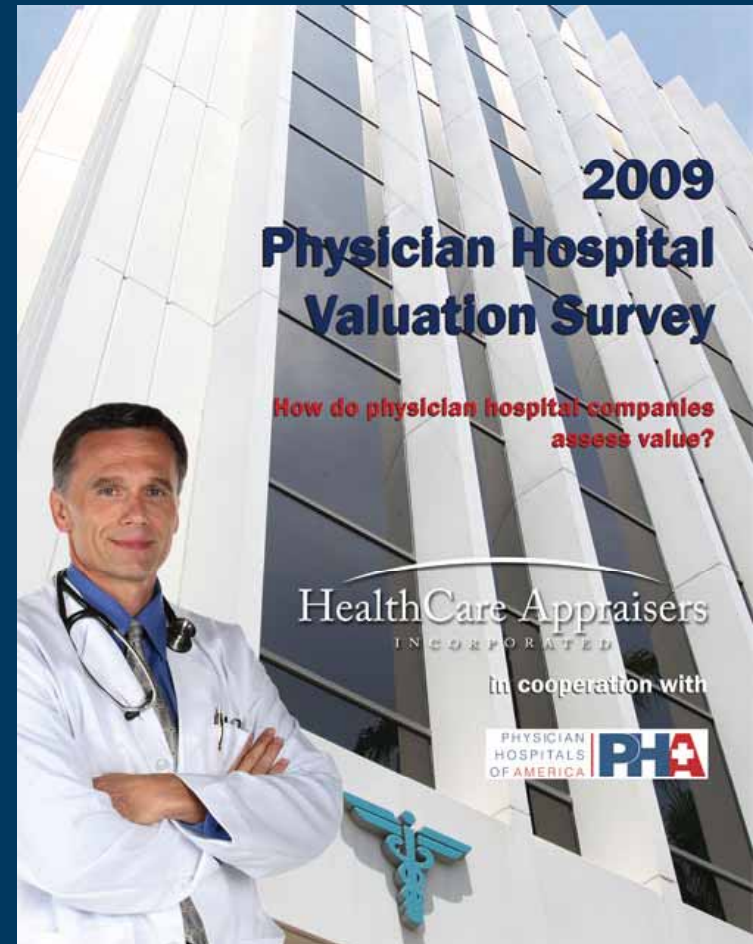
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**HealthCare Appraisers, Inc.**

**In Cooperation with Physician Hospitals of America**

# 2009 Physician Hospital Valuation Survey

- Surveyed physician hospital industry to determine:
  - Trends in both the value of physician hospital ownership interests and the management fees charged to these entities
- 30 Survey respondents representing more than 100 hospitals



# Valuation Multiples & Methodologies

- When purchasing a controlling interest in a physician hospital:
  - 54% reported prevailing valuation multiples of 5.0 to 6.9 times EBITDA\*
  - 18% reported higher valuation multiples
  - 28% reported lower multiples

Valuation Multiples	% Respondents
< 4.0	9%
4.0 to 4.9	19%
5.0 to 5.9	27%
6.0 to 6.9	27%
7.0 to 7.9	9%
8.0+	9%

*\*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization*

# Valuation Multiples & Methodologies

- 40% perceive that valuation multiples have stayed consistent with the prior year.
- 55% perceive that multiples have decreased.
- Only 5% believe multiples are increasing.

Change in Valuation Multiples	% Respondents
No Change from previous year	40%
Decreasing	55%
Increasing	5%

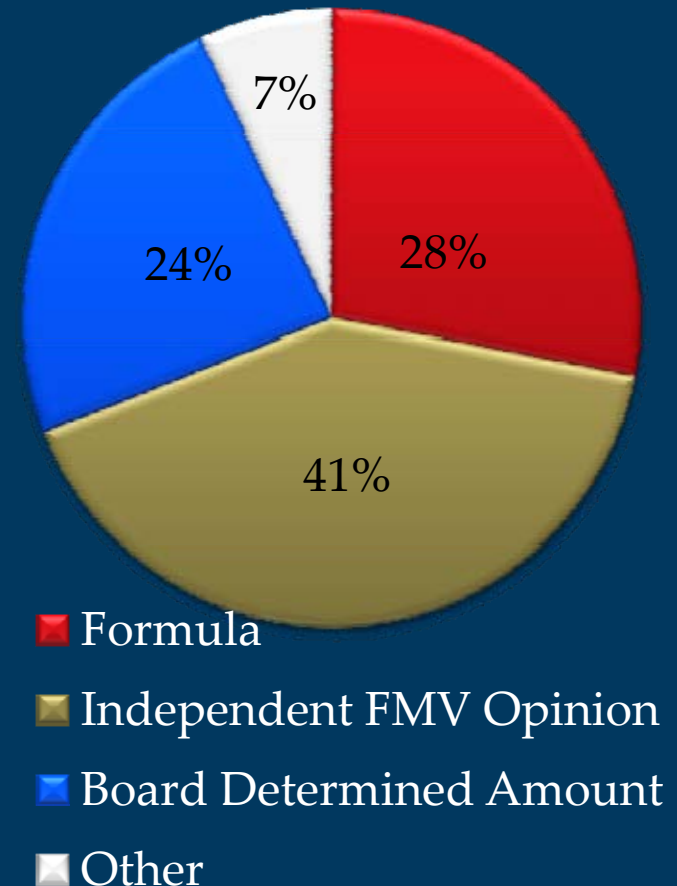
# Valuation Multiples & Methodologies

- When buying out retiring or departing physicians:
  - Half pay between 3.0 to 4.9 times EBITDA.
  - 25% pay a multiple of 5.0 times or higher.

Valuation Multiples	% Respondents
< 2.0	17%
2.0 to 2.9	8%
<b>3.0 to 3.9</b>	<b>13%</b>
<b>4.0 to 4.9</b>	<b>37%</b>
5.0 to 5.9	17%
6.0+	8%

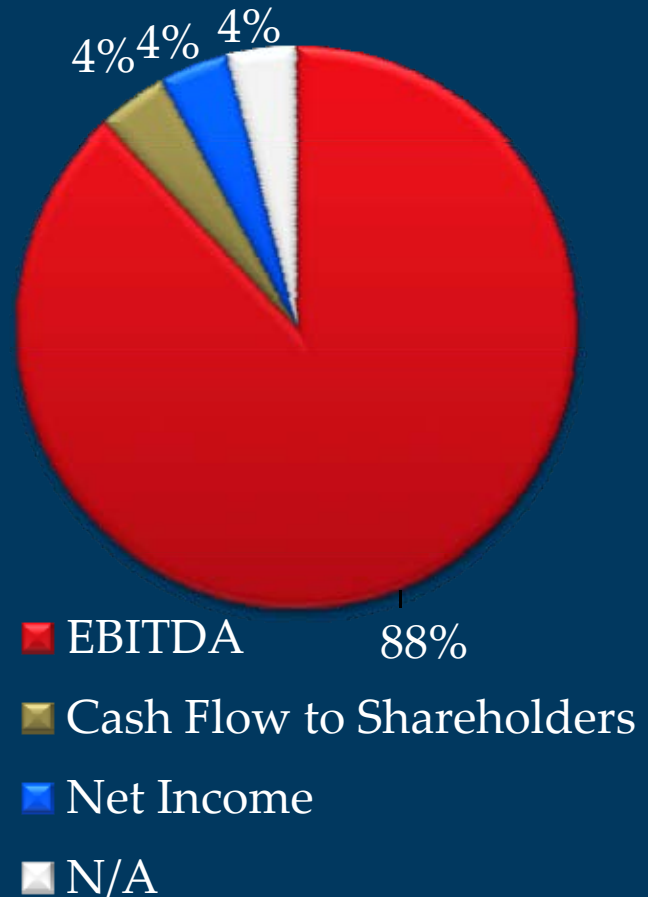
# Valuation Multiples & Methodologies

- When buying out retiring or departing physicians, 52% base the redemption price on a predetermined formula.
- For new physician investors:
  - 28% use a formula to establish the buy-in price.
  - 24% allow the board to determine the purchase price.
  - 41% obtain an independent, fair market value opinion.



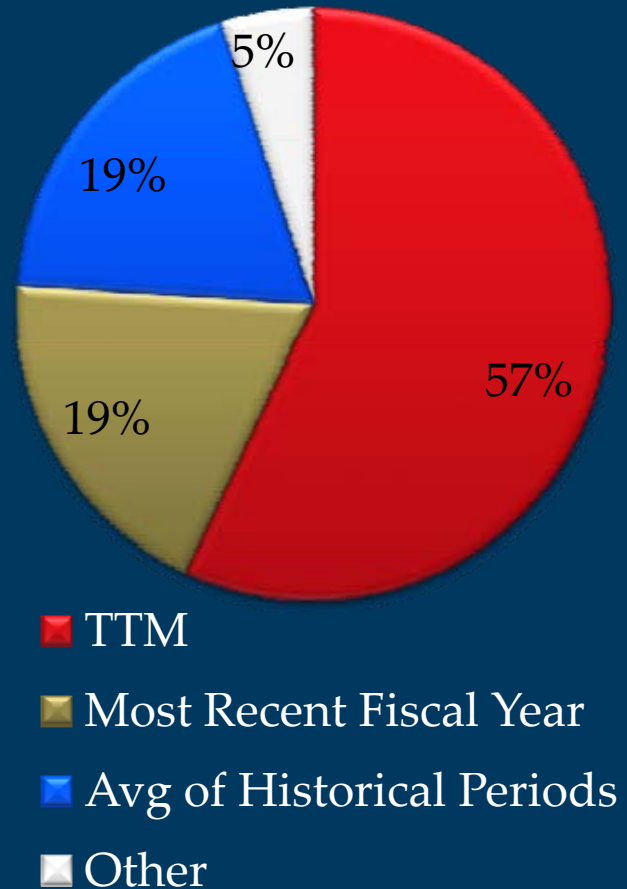
# Valuation Multiples & Methodologies

- Regarding the measure of profitability utilized by the respondents, 88% measure earnings based on EBITDA.



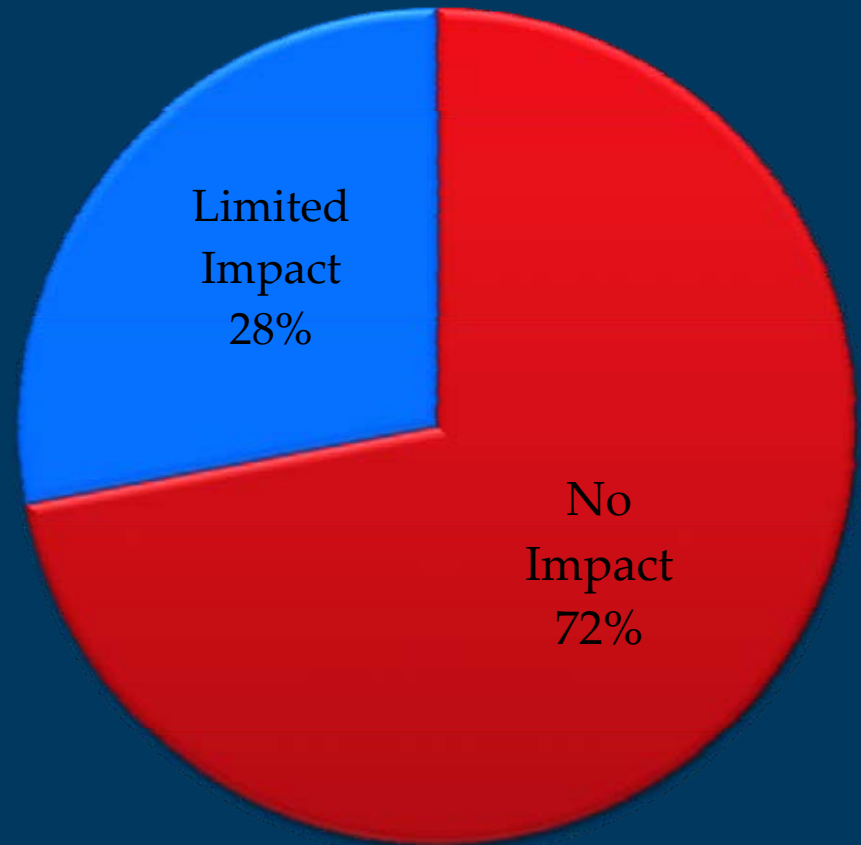
# Valuation Multiples & Methodologies

- In valuing potential acquisitions:
  - 57% look at trailing 12 months of financial data.
  - 19% rely on the most recently completed fiscal year.
  - 19% utilize an average or weighted average of historical periods.



# Valuation Multiples & Methodologies

- With respect to political proposals related to banning or limiting self-referral to physician-owned hospitals:
  - 72% report that this has no impact on the valuation process.



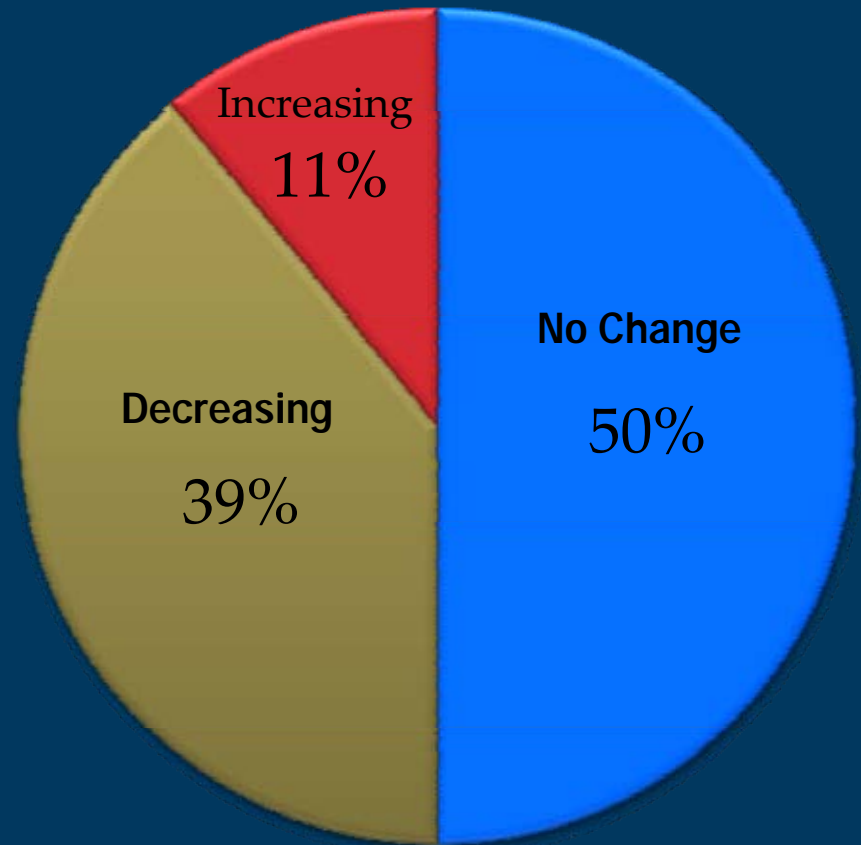
# Valuation Multiples & Methodologies

- 81% of respondents report that President Obama and the Democratic majority in Congress have a negative effect on the outlook for physician hospitals.
- 26% indicated that the effect is very negative.

Impact on Outlook	% Respondents
Positive	4%
Slightly Positive	4%
No Impact	11%
<b>Slightly Negative</b>	<b>29%</b>
<b>Negative</b>	<b>26%</b>
<b>Very Negative</b>	<b>26%</b>

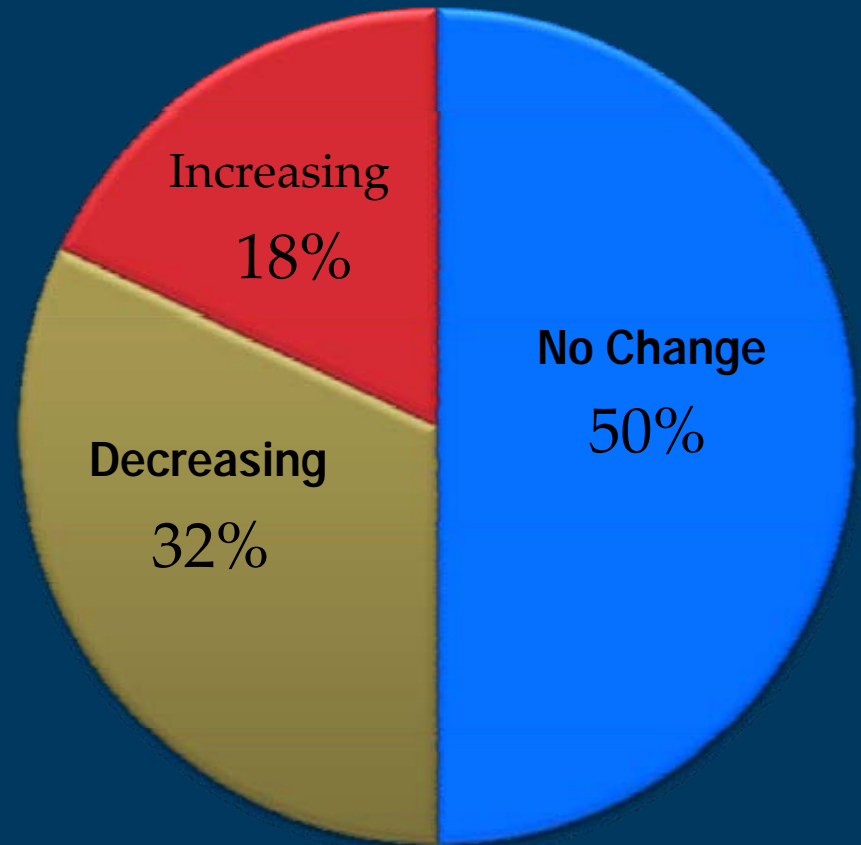
# Transaction Activity

- For acquisition activity over the past year:
  - 39% reported that acquisition activity in the physician hospital market is declining.
  - Half indicated that there has been no change in activity from the prior year.



# Transaction Activity

- Regarding competition for acquisitions during the past year:
  - 32% reported that competition for physician hospital investment opportunities has declined.
  - 18% reported that competition has increased.
  - Half reported no change.



# Transaction Activity

- During 2008:
  - 63% of respondents reported performing due diligence for physician hospital acquisitions.
  - But only 21% actually completed one or more acquisitions.
- When bidding on acquisition targets:
  - Half report 2 to 3 bidders.
  - 30% report 4 or more bidders.

Number of Hospitals Purchased	% Respondents
None	79%
<b>1</b>	<b>7%</b>
<b>2</b>	<b>10%</b>
<b>3</b>	<b>4%</b>

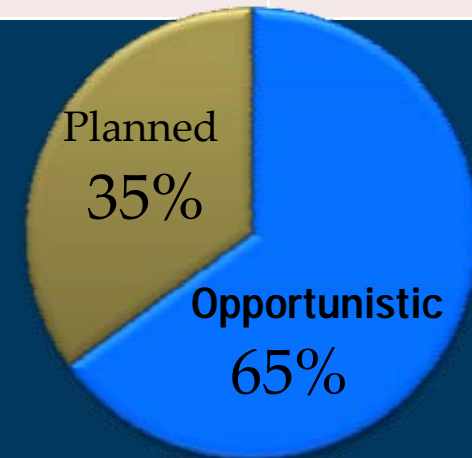
  

Potential Acquirers	% Respondents
1	20%
<b>2 to 3</b>	<b>50%</b>
4 to 5	20%
6+	10%

# Transaction Activity

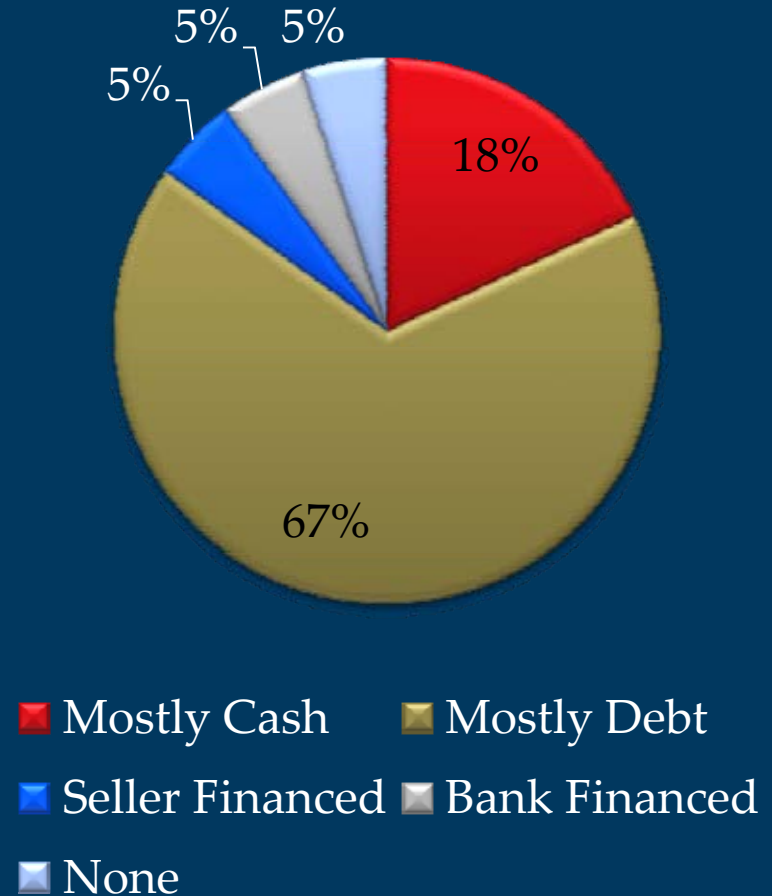
- For 2009:
  - 42% of respondents plan to purchase between 1 to 3 physician hospitals.
  - Of these, 10 respondents plan to close only 1 transaction, and 5 plan to purchase between 2 and 3 hospitals.
  - 65% were opportunistic when selecting physician hospital opportunities.

Number of Hospitals to Purchase	% Respondents
None	58%
1	28%
2	7%
3	7%



# Transaction Activity

- More than two-thirds of the respondents fund their acquisitions principally through debt.
- 18% fund principally with cash.



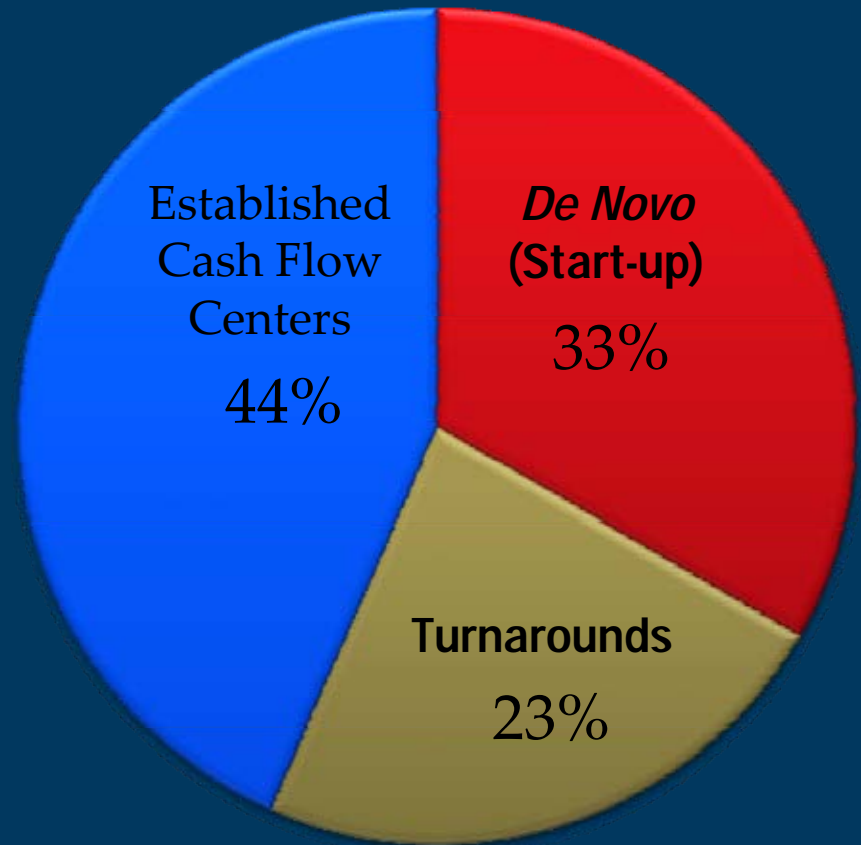
# Transaction Activity

- Regarding acquisition opportunities:
  - 71% will consider an acquisition opportunity regardless of the magnitude of the investment.
  - 21% will not consider an investment of more than \$50 million.

Investment Level (Buy-in Price)	% Respondents
\$15,000,000	8%
\$50,000,000	13%
<b>Not Applicable –any potential investment is considered</b>	<b>71%</b>
Not Applicable - other	8%

# *De Novo* (Start-up) vs. Purchase

- With respect to acquisition strategy:
  - One-third of the respondents seek *de novo* opportunities.
  - 23% seek turnaround opportunities.
  - 43% seek established cash-flowing centers.



# De Novo (Start-up) vs. Purchase

- For a start-up hospital, 54% of respondents reported “buy-in” prices of less than \$75,000 per 1% interest.

Start-up Share Pricing Per 1%	% Respondents
< \$50,000	29%
\$50,000 - \$75,000	25%
\$75,001 - \$100,000	8%
\$100,001 - \$150,000	21%
\$150,001 - \$200,000	4%
\$200,001 - \$250,000	13%

# *De Novo* (Start-up) vs. Purchase

- Regarding preferred equity ownership:
  - Respondents were fairly evenly spread on the ownership interest they seek to purchase.
  - 42% of respondents indicated that a 50-75% ownership interest was most desirable.

Preferred Equity Ownership	% Respondents
< 10%	13%
11% to 29%	20%
30% to 50%	17%
<b>51% to 75%</b>	<b>42%</b>
> 75%	8%

# Preferred Physician Specialties

- Strongly desired specialties for physician-investors:
  - Orthopedics
  - Spine
  - General surgery
  - ENT
  - Gastroenterology
- Cosmetic surgery and oncology were identified as undesirable specialties in a physician-owned hospital.



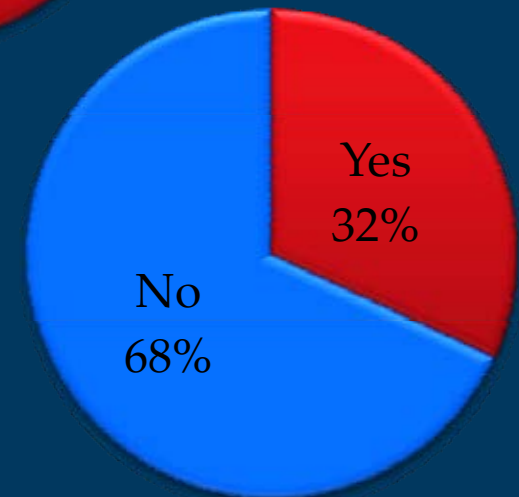
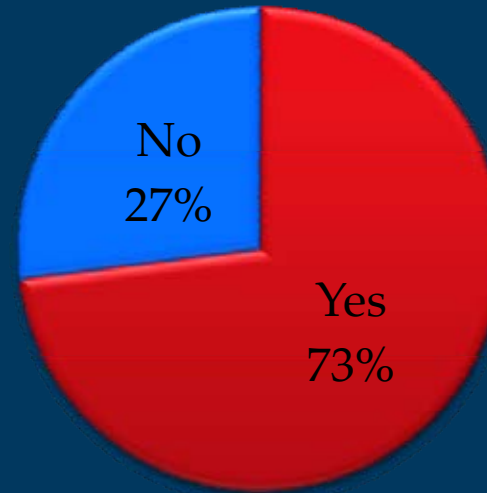
# Management Fees

- Majority of respondents reported management fees ranging from 5-6% of net revenue.
  - 50% listed 5% as the minimum fee.
  - 50% listed 6% as the maximum fee.

% of Net Revenue	% Respondents Min. Fee	% Respondents Max. Fee
3%	25%	–
4%	15%	–
<b>5%</b>	<b>50%</b>	22%
<b>6%</b>	–	<b>50%</b>
7%	–	11%
Other/Flat Fee	10%	17%

# Management Fees

- 73% of respondents indicate that they have an equity position in the hospitals they manage.
- However, 68% of the respondents indicate that equity ownership has no influence on the level of the management fee charged.



# Thank You

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