HealthCare Appraisers
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2013 ASC Valuation Survey

How do the ASC companies assess value?

Executive Summary

We are pleased to announce the results of HealthCare Appraisers' *2013 ASC Valuation Survey*. Since 2003, HealthCare Appraisers, Inc. 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 *2013 ASC Valuation Survey*.

Transaction Activity

- During 2012, 100% of our respondents were actively searching for potential acquisitions. 65% of respondents performed due diligence on 1 to 10 ASCs, and 35% of respondents performed due diligence on 11 or more acquisition opportunities.

- Respondents indicated significant levels of acquisition activity in the ASC space, with 56% reporting the acquisition of between 1 to 5 centers, 6% reporting the acquisition of between 6 to 10 centers, 6% reporting the acquisition of between 11 to 15 centers, and 6% reporting the acquisition of over 16 centers in 2012. 25% of respondents did not acquire an ASC in 2012. 53% of respondents believe that ASC acquisition activity has increased over the past 12 months.

- For 2013, acquisition activity is expected to remain high, as 53% of our respondents plan to purchase between 1 to 5 ASCs, 12% plan to purchase between 6 and 10 ASCs, and 12% plan to purchase between 11 and 15 ASCs. 18% of respondents are not planning to purchase over the next 12 months.

Valuation Multiples and Methodologies

- When purchasing a *minority* interest in a single-specialty ASC, 67% of the respondents reported prevailing valuation multiples of 3.0 to 3.9 times EBITDA, while 25% reported higher valuation multiples ranging from 4.0 to 5.9 times EBITDA.

- When purchasing a *controlling* interest in a single-specialty ASC, 71% of the respondents reported prevailing valuation multiples of 5.0 to 6.9 times EBITDA, while 7% reported higher valuation multiples ranging from 7.0 to 7.9 times EBITDA.

This is fairly consistent with the previous survey, in which 82% of respondents reported valuation multiples of 5.0 to 6.9 times EBITDA for controlling interests in single-specialty ASCs.

- When purchasing a *minority* interest in a *multi-specialty* ASC, 50% of the respondents reported prevailing valuation multiples of 3.5 to 4.9 times EBITDA, while 25% reported higher valuation multiples ranging from 5.0 to 6.9 times EBITDA and 25% reported lower valuation multiples ranging from 2.0 to 3.4 times EBITDA.

- When purchasing a *controlling* interest in a *multi-specialty* ASC, 79% of the respondents reported prevailing valuation multiples of 6.0 to 7.9 times EBITDA, while 7% reported higher valuation multiples of 8.0 times EBITDA or higher, and 14% reported lower valuation multiples ranging from 4.0 to 5.9 times EBITDA.

This is comparatively higher than the previous survey, in which 81% of respondents reported multiples of 5.0 to 6.9 times EBITDA for controlling interests in multi-specialty ASCs.

- A majority of respondents are willing to pay a premium for an ASC with a certificate of need ("CON"). 57% of respondents would pay a premium of 0.26 to 0.75 to the typical multiple.

Valuation Multiples and Methodologies (cont.)

- For 53% of respondents, out-of-network revenue at 20% of the ASC's total revenue would exceed the risk tolerance as a viable investment. However, we note that 27% of respondents do not have a percentage threshold with respect to out-of-network ASCs. In valuing out-of-network ASCs, 50% of respondents would reduce the typical multiple by greater than 2.0. In addition, 69% of respondents would also utilize an adjusted pricing model by converting revenue to reflect in-network rates and then applying an in-network model to the ASC's adjusted EBITDA.

ASC Characteristics

- Respondents indicated that cases from most specialties were desirable, particularly general surgery, orthopedics/ sports medicine, ENT, urology, pain medicine, and orthopedic spine. Only plastic surgery was considered an undesirable specialty by our respondents.

- 82% of respondents prefer between 6 and 15 physician owners for a single-specialty ASC. 65% of respondents prefer between 11 and 20 physician owners for a multi-specialty ASC.

- From an equity standpoint, our respondents' preferred ownership varied with 13% of respondents reporting they prefer less than 10% ownership, 50% of respondents reporting they preferred between 11% and 50% ownership, and 37% of respondents reporting they preferred greater than 50% ownership.

- When buying out retiring or under-performing physicians, 53% of respondents base the redemption price on a predetermined formula, and 29% of respondents obtain an independent FMV appraisal to determine value.

- When selling a minority interest to new physician investors, 53% of respondents reported an average period of 3 to 6 months to consummate a sale. When selling a controlling interest in an ASC, 60% of respondents reported an average period of 6 months to 1 year to consummate a sale. The majority of respondents (83%) report they have sold a controlling ASC interest to a hospital / health system or other outside 3rd party.

- 60% of respondents expect 3.1% to 6.0% earnings growth per year during the first several years post transaction, while 40% of respondents expect greater than 9% earnings growth per year post acquisition.

Management Fees

- 82% of respondents report that their management fees range from 4% to 6% of net revenue.

This is comparatively lower than the previous survey in which 66% of respondents indicated their management fees ranged from 5% to 7% of net revenue.

- 38% of respondents indicate their typical minimum management fee ranges from $100,000 to $199,999 per year. Furthermore, 59% of respondents have arrangements whereby the management fee rate varied based on the revenue generated by the ASC. All indicated the negotiated management fee decreases as a certain revenue threshold is achieved.

- 24% of respondents indicated they have management fee arrangements wherein part of their fee is at risk for performance metrics, while 76% of respondents indicated they have no at-risk management fee arrangements.

- 59% of respondents maintain an equity interest in all of the ASCs they manage, and 89% of respondents indicate that management fees do not vary based on the manager's level of equity ownership in the center.

- Respondents indicated that management duties provided as part of the management contract include: access to GPO, accounting services, financial and operational benchmarking, business development services, human resources, access to revenue cycle and supply chain executive(s), managed care contracting, mock accreditation surveys, and oversight from a regional vice president.

- 50% of respondents observe typical fees for ASC billing and collection services ranging from 2.0% to 3.9% of collections. 31% of respondents observe typical fees for ASC billing and collection services ranging from 4.0% to 5.9% of collections.

2013 ASC Valuation Survey Results

1. How many ASCs do you have under ownership?

ASCs Under Ownership	% Respondents
10 or fewer	53%
11 to 20	17%
21 to 30	6%
31 to 40	6%
41 to 50	6%
51+	12%

2. How many ASCs do you have under management?

ASCs Under Management	% Respondents
Have equity in every center we manage*	35%
10 or fewer	18%
11 to 20	18%
21 to 30	18%
31 to 40	0%
41 to 50	0%
51+	11%

**HAI notes this conflicts with question 34 results.*

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

Potential Acquisition Candidates	% Respondents
None	0%
1 to 5	35%
6 to 10	29%
11 to 15	18%
16+	18%

4. How many ASCs (or ASC interests) did you purchase during the past 12 months?

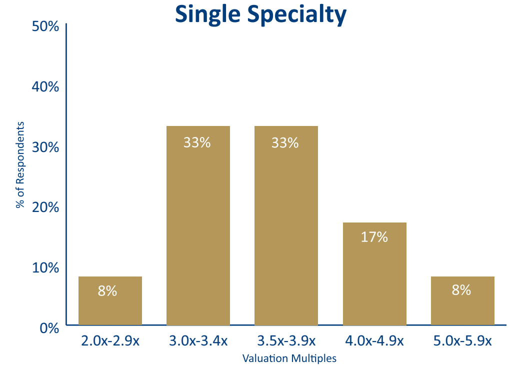
Number of ASCs Purchased	% Respondents
None	25%
1 to 5	57%
6 to 10	6%
11 to 15	6%
16+	6%

5. How many ASCs (or ASC interests) do you plan to purchase over the next 12 months?

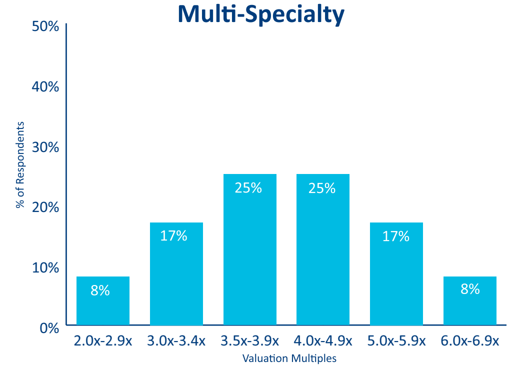
Number of ASCs Planned to Purchase	% Respondents
None	17%
1 to 5	53%
6 to 10	12%
11 to 15	12%
16+	6%

6. What valuation multiples have you most typically observed in the marketplace during the past 12 months for predominantly in-network centers?

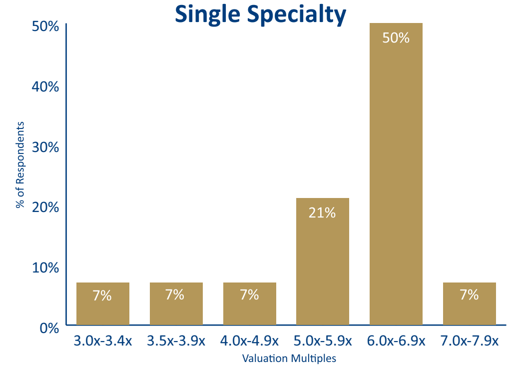
Minority Interest
Single Specialty



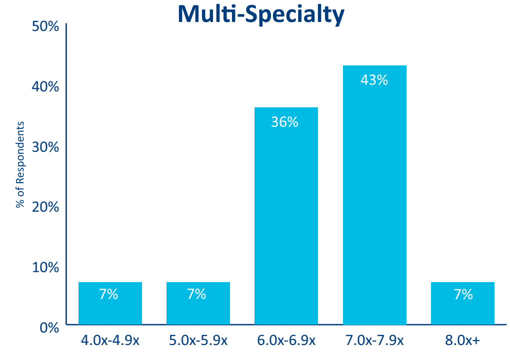
Minority Interest
Multi-Specialty



Majority Interest
Single Specialty



Majority Interest
Multi-Specialty



7. 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
Orthopedics/Sports Medicine	0%	0%	100%
Orthopedic Spine	0%	6%	94%
ENT	0%	6%	94%
General Surgery	0%	12%	88%
Pain Management	0%	12%	88%
GI	6%	12%	82%
Urology	6%	18%	76%
Podiatry	13%	25%	62%
Ophthalmology	0%	41%	59%
GYN	23%	29%	48%
Plastic Surgery	82%	12%	6%
Other - Neuro Spine	0%	0%	6%

8. For SINGLE SPECIALTY centers, your company generally prefers how many active physician owners?

Preferred Number of Physician Owners	% Respondents
1 to 5	12%
6 to 10	59%
11 to 15	23%
16 to 20	6%
21+	0%

9. For MULTI -SPECIALTY centers, your company generally prefers how many active physician owners?

Preferred Number of Physician Owners	% Respondents
1 to 5	0%
6 to 10	18%
11 to 15	29%
16 to 20	35%
21+	18%

10. From an equity stand-point, your company's preferred ownership is:

Preferred Equity Ownership	% Respondents
<10%	12%
11% to 29%	38%
30% to 50%	12%
51% to 75%	38%
>75%	0%

11. How do you determine the purchase price for ***buy-out*** transactions (*e.g.*,retiring physicians or under-performing physicians)?

Method For Determining FMV	% Respondents
Formula	59%
Independent FMV Opinion	29%
Independent Pricing Analysis	0%
Board Determined Amount	0%
Both Formula & Independent FMV Opinon	12%

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

Primary Earnings Measure	% Respondents
TTM EBITDA	88%
Prior Year EBITDA	0%
Forward Period EBITDA	0%
Free Cash Flow	6%
Other	6%

13. How do you determine the purchase price for ***minority interest buy-in transactions*** (*e.g.*, new or existing physician investors)?

Method For Determining FMV	% Respondents
Formula	65%
Independent FMV Opinion	23%
Independent Pricing Analysis	6%
Board Determined Amount	6%

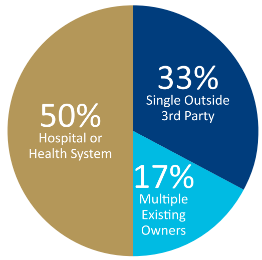
14. When ***selling*** minority interests to new physician investors, on average, how long does it take to identify the buyer and consummate the sale?

Length of Time	% Respondents
<3 Months	12%
3 to 6 Months	53%
6 Months to 1 Year	35%
>1 Year	0%

15a. If you have sold a CONTROLLING interest in a center during the last year, approximately how long did it take to identify a buyer and consummate the sale?

Length of Time	% Respondents
<3 Months	6%
3 to 6 Months	6%
6 Months to 1 Year	18%
>1 Year	0%
Not Applicable	70%

15b. If you have sold a CONTROLLING interest, was the buyer of your interest:



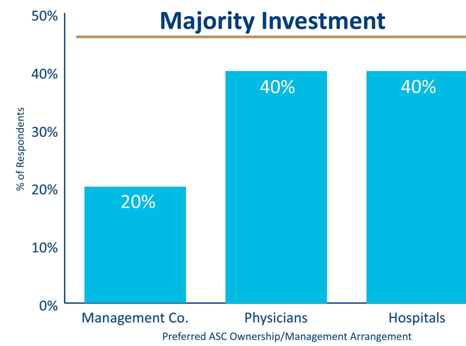
20. When evaluating an acquisition target, what level of earnings growth is typically expected in the first several years post acquisition?

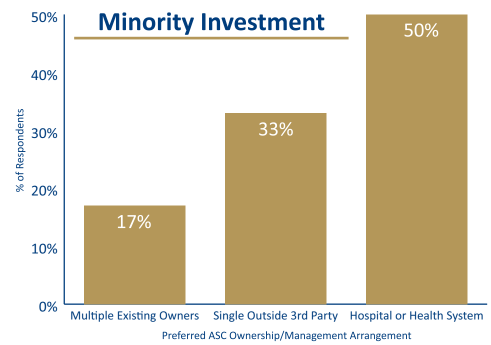
Earnings Growth Post Acquisition	% Respondents
0% to 3.0% per year	0%
3.1% to 6.0% per year	61%
6.1% to 9.0% per year	0%
>9.0% per year	39%

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

Change in Multiples Paid	% Respondents
No Change From Previous Year	71%
Decreasing (*i.e.*, lower valuations)	12%
Increasing (*i.e.*, higher valuations)	17%

21. Indicate your most preferential ASC ownership/ management arrangement:





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

Acquisition Activity	% Respondents
No Change From Previous Year	29%
Declining (*i.e.*, less competition)	17%
Increasing (*i.e.*, more competition)	54%

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

Acquisition Competition	% Respondents
No Change From Previous Year	44%
Declining (*i.e.*, less competition)	12%
Increasing (*i.e.*, more competition)	44%

22. Indicate your most preferential ASC ownership/management arrangement:

Ownership Structure	Never	Undesirable	No Preference	Desirable
Majority Physician	12%	12%	0%	76%
Majority Management Company	31%	50%	6%	13%
Majority Hospital	13%	37%	25%	25%
Minority Physician	0%	40%	13%	47%
Minority Management Company	6%	25%	6%	63%
Minority Hospital	6%	6%	31%	57%

19. What is the magnitude of the premium paid by your company for a surgery center with a CON?

Impact Expressed in Multiples of EBITDA	% Respondents
No Premium paid	28%
<0.25x	0%
0.26x - 0.50x	28%
0.51x - 0.75x	28%
0.76x - 1.0x	16%
>1.0x	0%

23. At what percentage of total revenue does Out-of-Network volume exceed your risk tolerance?

% Total Revenue	% Respondents
20%	53%
40%	13%
60%	0%
80%	7%
No Threshold for OON	27%

24. How does your company adjust valuation models/pricing for Out-of-Network centers?

Valuation Models Adjustment	% Respondents
Convert revenue to In-Network for modeling purposes and then determine value/price	69%
Apply a higher risk factor/discount rate to projected out-of-network model	13%
Adjust valuation Multiples downward	18%
Other	0%

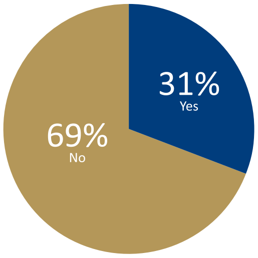
25. If applicable, what is the magnitude of the reduction to the multiple for a center with an out-of-network strategy (*i.e.*, the center generally is not contracted with any commercial payors)?

Impact Expressed in Multiples of EBITDA	% Respondents
<0.50x	0%
0.51x - 1.0x	7%
1.1x - 1.5x	14%
1.51x - 2.0x	14%
>2.0x	36%
N/A	29%

26a. What is the typical management fee your company charges? (% of net revenue)

% Net Revenue	% Respondents
0%	6%
3%	6%
4%	12%
5%	29%
6%	41%
7%	6%

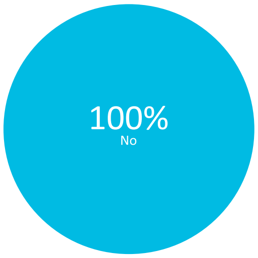
26b. Do you have a minimum annual management fee?



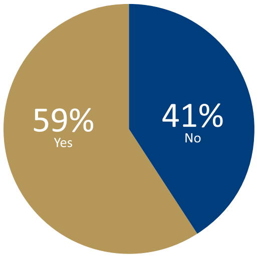
26c. If yes, what is the typical annual minimum management fee you charge?

% Net Revenue	% Respondents
< $100,000	8%
$100,000 - $199,999	38%
$200,000 - $299,999	0%
> $300,000	8%
N/A	46%

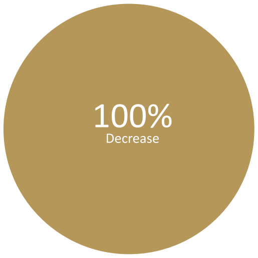
27. Does your management fee typically include the provision of a full-time, dedicated administrator whose salary is paid by your company and not passed through to the center as an additional cost?



28a. Do you have any ASC management arrangements wherein the management fee charges vary based on revenue levels of the surgery center (*i.e.*, do you use a sliding scale)?



28b. If you responded yes to 28a, does the applicable management fee rate increase or decrease after the revenue threshold is surpassed?

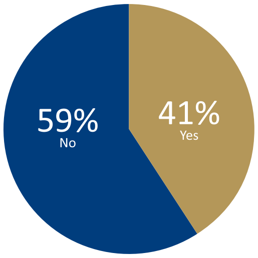


29. Do you have any ASC management fee arrangements wherein part of your fee is at risk?

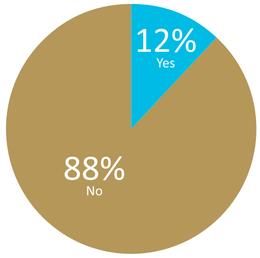
(Multiple responses allowed)

Part of Management Fee at Risk?	% Respondents
No	76%
Yes, we identify these as incentive payments, in addition to our base management fee	12%
Yes, we identify these as at-risk payments, that are part of our base management fee	12%
Yes, operational metric incentive/at-risk payments (*e.g.*, satisfaction surveys, on-time starts, turnover times, etc.,)	12%
Yes, revenue-related incentive/at-risk payments (*e.g.*, lump sum when revenue exceeds $10 million)	0%
Yes, growth-related incentive/at-risk payments (*e.g.*, lump sum if EBITDA grows 10% over previous period)	6%
Yes, profit-related incentive/at-risk payments (*e.g.*, lump sum when EBITDA exceeds $3 million)	6%

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



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



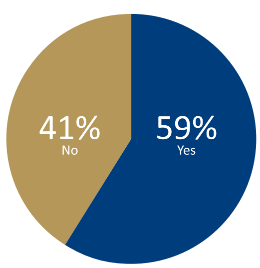
32. What is the typical management fee rate your company charges for hospital departments (% of net revenue)?

Management Fee % Net Revenue	% Respondents
<2.00%	0%
2.00% to 2.99%	0%
3.00% to 3.99%	0%
4.00% to 4.99%	7%
5.00% to 5.99%	7%
>6.00%	7%
N/A	79%

33. What is the typical management fee (in dollars) your company charges for managing hospital departments?

Management Fee in Dollars	% Respondents
<$100,000	6%
$100,000 to $249,999	6%
$250,000 to $499,999	0%
$500,000 to $749,999	18%
$750,000 to $999,999	0%
>$1,000,000	0%
N/A	70%

34. Do you maintain an equity ownership in all freestanding entities that you manage?



35. 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	20%
Increase 1%	13%
Increase 2%	0%
Increase 3% or Greater	13%
N/A, we maintain equity interests in all centers which we manage	54%

36. What management services do you provide?

Management Service	Never	Rarely	Sometimes	Often	Always
Access to GPO	0%	6%	0%	0%	94%
Accounting	6%	0%	18%	6%	70%
Architecture & Design	29%	6%	18%	18%	29%
Benchmarking Based on Other Equity-owned Centers	0%	0%	0%	0%	100%
Coding	35%	12%	6%	18%	29%
Corporate Business Development Executive or Staff	6%	0%	12%	12%	70%
Corporate Counsel or Legal Support	29%	0%	23%	12%	36%
Corporate Human Resources Executive or Staff	6%	0%	0%	13%	81%
Corporate Revenue Cycle Executive or Staff	6%	6%	0%	6%	82%
Corporate Supply Chain Executive or Staff	6%	0%	18%	6%	70%
Data Warehouse	23%	0%	12%	12%	53%
Dictation	76%	6%	12%	0%	6%
Managed Care Contracting	0%	0%	12%	12%	76%
Mock Accreditation Surveys	6%	0%	12%	12%	70%
Oversight by Regional Vice-President of Operations	0%	0%	6%	6%	88%

37. What are the typical fees you have observed in the market for surgery center billing and collections services provided by third parties? (as a % of net revenues)

% Net Revenue	% Respondents
0% to1.9%	0%
2.0% to 3.9%	50%
4.0% to 5.9%	31%
≥ 6.0%	19%

2013 ASC Survey Participants

HealthCare Appraisers thanks the following companies for their participation in this year's survey:

- Arise Healthcare
- ASC Strategies
- ASCOA
- ASD Management
- Covenant Surgical Partners, Inc.
- Health Inventures, LLC
- LifePoint Hospitals
- Meridian Surgical Partners
- Merritt Healthcare
- Practice Partners in Healthcare, Inc.
- Regent Surgical Health
- Surgery Partners
- Surgical Care Affiliates
- The Bloom Organization, LLC
- United Surgical Partners International
- Vanguard Health Systems
- VEI

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 made by a qualified business appraiser with specific knowledge of the subject healthcare industry.

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