ASC Financial & Operational Benchmarking

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I. The Case for Benchmarking: Now More Than Ever, or Current Market Observations

II. Benchmarking Defined

III. Benchmarking Process
Current Market Analysis

- Observing a Maturation of the ASC Industry

- Economic Downturn / Sluggish Recovery Continues to Impact ASC Volumes

- Significant Managed Care & Medicare Reimbursement Pressure

- Uncertainty Regarding Healthcare Reform’s Long-Term Impact on ASCs
Current Market Analysis

- All Signs Point to a Mature ASC Industry

- Growth in ASC Development has Leveled Off
- Same Center Growth has Flat-Lined
- ASC Supply Exceeds Physician Demand in Most Markets
- Significant Capacity at Many ASCs
- Growth in Observed ASC Mergers & Consolidation
- Initial Stages of Consolidation among ASC Management Companies
Current Market Analysis

- Declining Growth in New ASC Development

Prior to 2008: Significant ASC Development to Meet Physician Demand

Post 2008: Supply of ASCs has Met or Exceeded Physician Demand

>10% Annual Growth

2-3% Annual Growth
Current Market Analysis

- Same Center Growth has Flat-Lined

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<tbody>
<tr>
<td>USPI</td>
<td>7.0 %</td>
<td>6.0 %</td>
<td>2.0 %</td>
<td>2.0 %</td>
<td>(1.0 %)</td>
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<tr>
<td>HCA</td>
<td>(1.2 %)</td>
<td>(1.1 %)</td>
<td>(0.2 %)</td>
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<td>(1.3 %)</td>
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<tr>
<td>AMSURG</td>
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<td>NOVAMED</td>
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<td>9.3 %</td>
<td>(1.4 %)</td>
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Source: Company's Annual Reports

Market Forces Driving this Trend:

1. Diminishing Ability to Attract New Volume / Physicians
2. Trend has been Accelerated by the Economic Downturn
Current Market Analysis

- Growing Excess Capacity in Existing ASCs

Median Cases per OR per Day

Source: VMG Health Intellimarker ASC Survey

25% Decline in OR Utilization from 2007 to 2010
Current Market Analysis

- Supply of ASCs has Exceeded Demand from Physicians

![Bar chart showing the number of eligible physicians per ASC from 2000 to 2010.]

- 9-10% Annual Growth in ASCs
- 2-3% Annual Growth in Eligible Drs
- >40% Decline in Eligible Drs Per ASC
Aging Physician Demographic will Further Limit Recruitment & Volume

Demographics of the Physician Workforce

- **1980** – Approx 20% over Age 55
- **1990** – Approx 30% over Age 55
- **2009** – Approx 40% over Age 55

Current Market Analysis

- Supply of New Physicians will Likely not Meet Demand of Existing ASCs

First – Year MD Enrollment per 100,000 Population has Declined Since 1980

Source: “Help Wanted: More US Doctors – Projections Indicate American will Face Shortage of MDs by 2020” by AAMC
Current Market Analysis

Where have the Physicians Gone?

Current and Projected Hospital Employment

Since 2000:
- Employed PCPs has Doubled
- Employed Specialists has increased 5-fold
Current Market Analysis

What to Expect in a Mature Industry Environment?

- Attracting Physician Investment & Volume will be the Greatest Challenge
- Increased Involvement of Hospitals in ASC Industry
- Expected Return for ASC Investors will be Moderated
- Existing ASCs will need to Focus Efforts on Implementing Efficiencies
- Increase in ASC Mergers & Limited ASC Failure
- Expected Return for ASC Investors will be Moderated
Benchmarking Defined

• Simply put, to “Evaluate or check (something) by comparison with a standard”

• What benchmarking is:
  ○ A useful tool to measure and inform decision making
  ○ One component of larger effort of Process Improvement
  ○ A Process in and of itself
  ○ Objective agent of change (tool for physician buy-in)

• And what it isn’t:
  ○ Your ASC
  ○ A static, one time analysis
Benchmarking Defined

- Clinical versus Financial/Operational benchmarks
  - Adherence to clinical protocols vs. economic efficiency
  - Often related, can impact one another

- Benchmarking Process
  - Identify it
  - Track it
  - Change it
  - Monitor

- Internal versus External Benchmarks
Benchmarking Process

- **$ Investment in process: is the juice worth the squeeze?**

- **Sources of Industry Data**
  - Ambulatory Surgery Center Association “Financial Benchmarking Survey”
  - MGMA “2009 ASC Financial Performance Survey”
  - VMG Health “Intellimarker ASC Financial & Operational Benchmarking Study”
  - Other? Just “Google” it...

- **Finding the right peer group...**
  - Similar geographical region
  - Facility size by operating rooms, net revenue, case volumes
  - Other?
Benchmarking Process

- **Step One: Identify the metric**
  - Requires understanding of external metric, data source and calculation
  - Must be able to replicate metric with internal data
  - Understanding peer group is imperative for each metric!!!

- **How do you compare to the standard?**
  - Benchmarks must be comparable, and therefore *current* and from ASCs similar to yours
  - No two ASCs are alike – look at different cross sections of data
  - Some variances you cannot change....
• Net revenue per case, Orthopedics

<table>
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<tr>
<th>Orthopedics Net Revenue per Case - National</th>
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<tr>
<td>Mean</td>
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<td>$2,624</td>
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• Accounts Receivable Turnover

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<tr>
<th>A/R Turnover, Median Data by Facility Size (Op Rooms)</th>
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<tbody>
<tr>
<td>All Facilities</td>
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<tr>
<td>34.0</td>
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Source: VMG Health Intellimarker ASC Survey
Benchmarking Process

- Is it your ASC, or an industry trend?
  - Helpful to understand trend over time
- Current ASC industry trends:

  **Staff Hours Per Case**
  - 2007: 14.9
  - 2008: 14
  - 2009: 10.4
  - 2010: 11

  **De-Leveraging: Debt / Total Assets**
  - 2007: 44.6
  - 2008: 49
  - 2009: 35
  - 2010: 31.8

Source: VMG Health Intellimarker ASC Survey
Benchmarking Process

- After identifying metrics and variances....
  - In writing – define goal and process by which goal will be attained
  - Track metrics on a continual basis – frequency depends on metric and individual ASC needs
  - Collaborate – get staff and Board involved and incentivized to implement change over time