

HEALTHCARE REFORM HEADWINDS & TAILWINDS: CURRENT TRENDS AND THE IMPACT TO VALUATIONS

PRESENTED BY: AARON MURSKI, AVA AND COLIN PARK, CPA

TABLE OF CONTENTS

I. HEALTHCARE REFORM AND ASCs

II. HEADWINDS

III. TAILWINDS

IV. IMPACT TO VALUATIONS

V. Q & A

NOTE: *INDUSTRY COMMENTARY ONLY – “YOUR MILEAGE MAY VARY”*

HEALTHCARE REFORM AND ASCs

HEALTHCARE REFORM

TRIPLE AIM

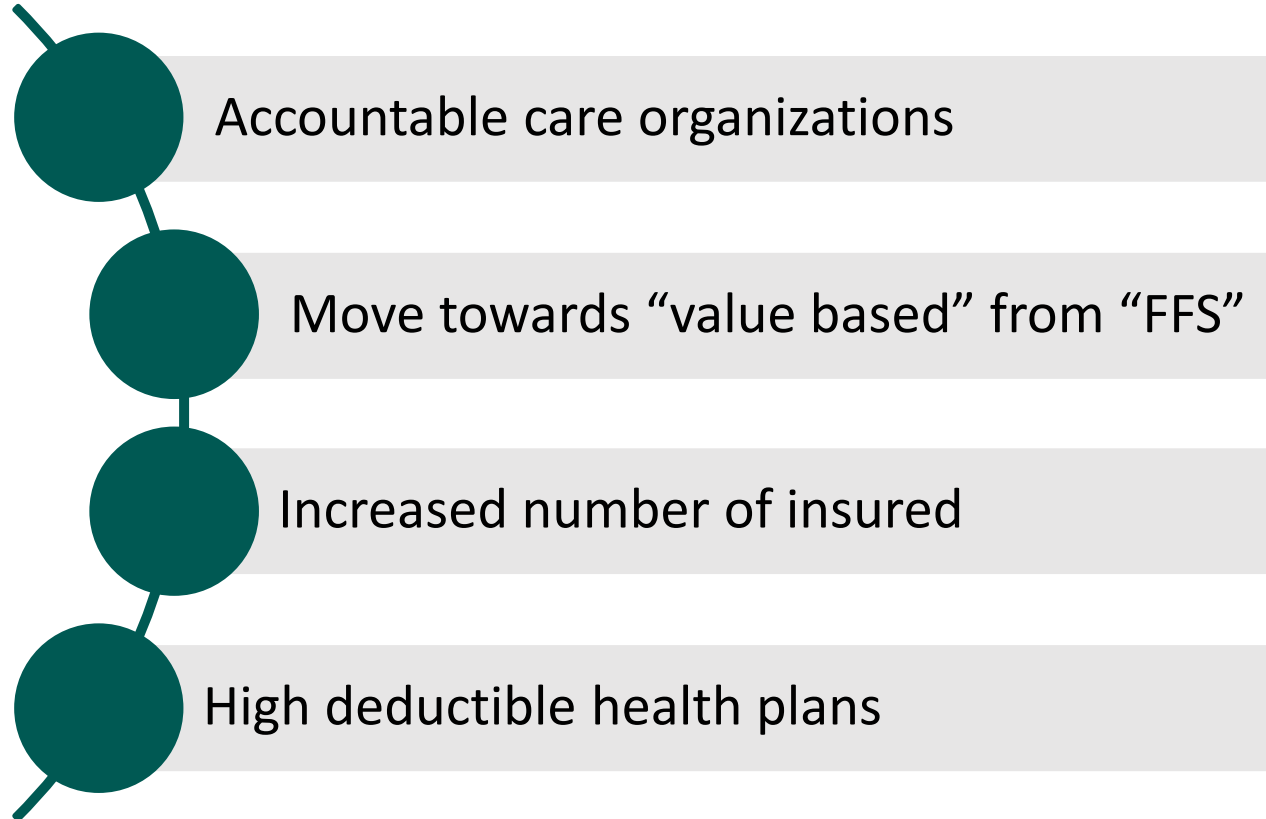


- ❖ Health insurance reform (“Obamacare”):
 - Goal of providing access to affordable care for everyone
 - Many elements to reform, including: Medicaid expansion, employer requirements and penalties and health insurance exchanges

- ❖ Payment and delivery system reform
 - Moving from fee-for-service to value-based payments and bundled payments
 - Government, private payers, businesses and health plans pursue initiatives to reduce costs and improve quality

HEALTHCARE REFORM AND ASCs

MAJOR INITIATIVES IMPACTING ASCs AND HOSPITALS



HEADWINDS

HEADWINDS

EXCHANGE TRENDS

t to take effect. **B1**

to is betting on a two-drug regimen to fight HIV, upending a decades-old strategy. **B1**

Southwest plane landed following a major malfunction of one engine. **B3**

FAA is ratcheting up standards for lithium fires on aircraft. **B3**

Apple's "Don't Breathe" e-cigarette box office with a million gross, more than double forecasts. **B4**

UnitedHealthcare's paid-card provider card is rolling out, potentially unavailable to some consumers. **C1**

Apple's CEO said he received 11.26 million shares, valued at \$135 million. **B6**

UAW-HP employees in lawsuit alleging age discrimination. **B6**

World-Wide

Health-plan choices are changing, with nearly a third of U.S. counties likely to offer



RESCUE AT SEA: These women from Nigeria and the baby were among more than 700 migrants rescued Sunday from seven boats in the Mediterranean Sea about 170 miles from the Libyan coast and transferred to the Italian coast guard operating in the area.

Health-Plan Choices Shrink

In 31% of U.S. counties, insurance exchanges appear likely to offer consumers one option

By ANNA WILDE MATHWES AND STEPHANIE ARMOUR

Nearly a third of the nation's counties look likely to have just a single insurer offering health plans on the Affordable Care Act's exchanges next year, according to a new

analysis, an industry pullback that adds to the challenges facing the law.

The new study, by the non-partisan Kaiser Family Foundation, suggests there could be just one option for coverage in 31% of counties in 2017, and there might be only two in another 31%. That would give exchange customers in large swaths of the U.S. far less choice than they had this year, when 7% of counties had one insurer and 29% had two.

Many insurers are losing

money on the health plans they sell through the exchanges, and the fallout is coming into focus. Companies including UnitedHealth Group Inc., Humana Inc. and Aetna Inc. have cited their losses in withdrawing from ACA marketplaces, as have smaller insurers that have been retreating, or even shutting down.

The insurers that remain are in some cases seeking sharp premium increases for next year, trying to get back in the black amid higher-than-ex-

pected costs.

At least one county—Pinal in Arizona—is at risk of having no insurers offering marketplace plans next year, despite talks between regulators and insurers aimed at filling the void.

Some consumers who don't get coverage through work might be able to buy health plans outside the exchanges, but many lower-income Americans who buy their own plans would be limited to exchange

Please see HEALTH page A12

At the same time, a slowdown for offerings is likely to shut about six weeks amid political uncertainty ahead of the presidential election, bankers and analysts say.

"We've been pro-narrow to the right of that have been ready time," said JD Moritz of Americas equity markets at Bank of America.

One of the largest IPOs is Valvoline Inc. engine and automotive maintenance business that spun off from Ashland could raise roughly \$1 billion, according to people familiar with the process.

Another closely watched deal is Nutanix Inc., Valley software company would be one of the billion-dollar startups this year, according to people familiar with the situation.

Please see IPO

"In 31% of U.S. counties, insurance exchanges appear likely to offer consumers one option...and there might be only two in another 31%."

TEXAS' LATEST GUSHER: WINDY AND STUNNING

Tensions on Turkey-Syria Border



HEADWINDS

PAYOR CONSOLIDATION

Major Payer Consolidations

2015 - 2016

2015-Q3

2015-Q4

2016-Q1

2016-Q2



Closed Q1 2016



Finalized August 1, 2015



Announced Q3 2015 \$54B

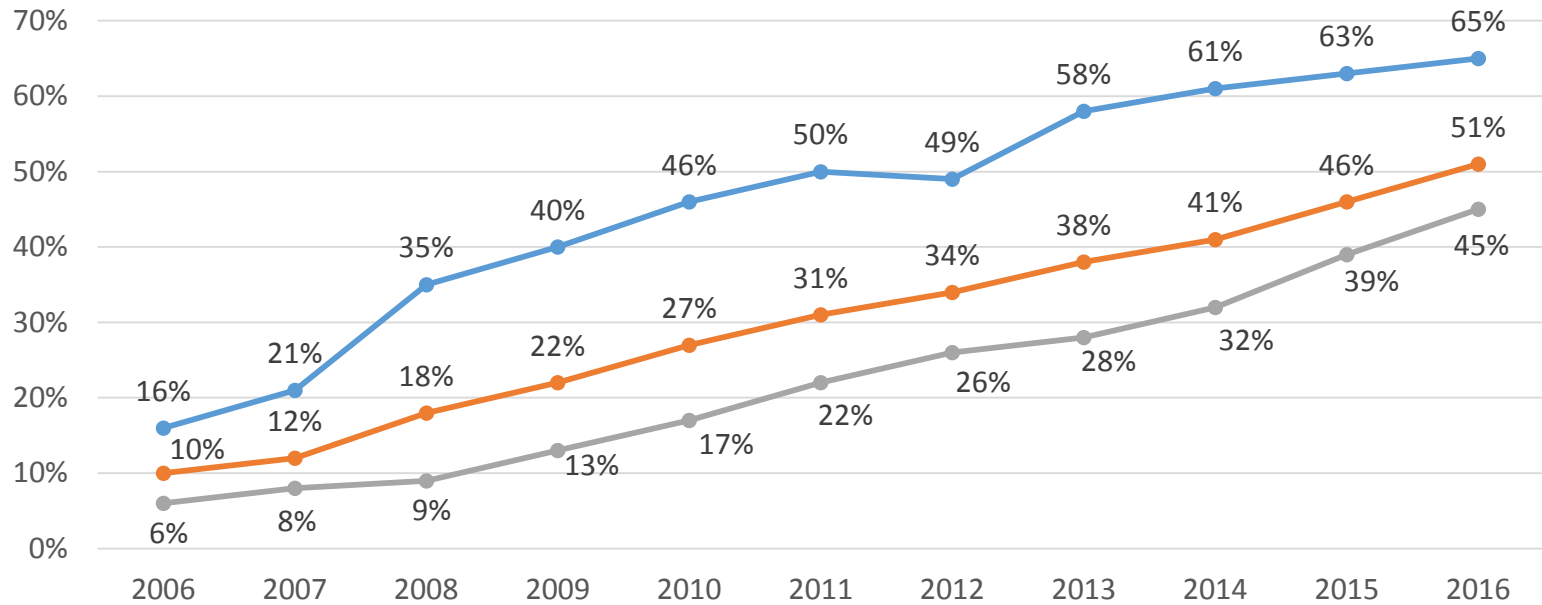


HEADWINDS

CHANGING HEALTH PLAN PRODUCTS

❖ More patients are covered by high-deductible health plans

Percentage of Covered Workers Enrolled in a HDHP



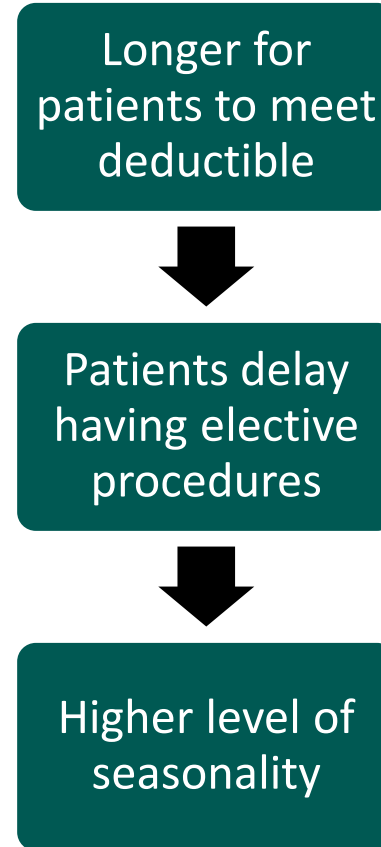
—●— All Small Firms (3-1999 Workers) —●— All Large Firms (200 or More Workers) —●— All Firms

HEADWINDS

CHANGING HEALTH PLAN PRODUCTS



POS collections process is crucial

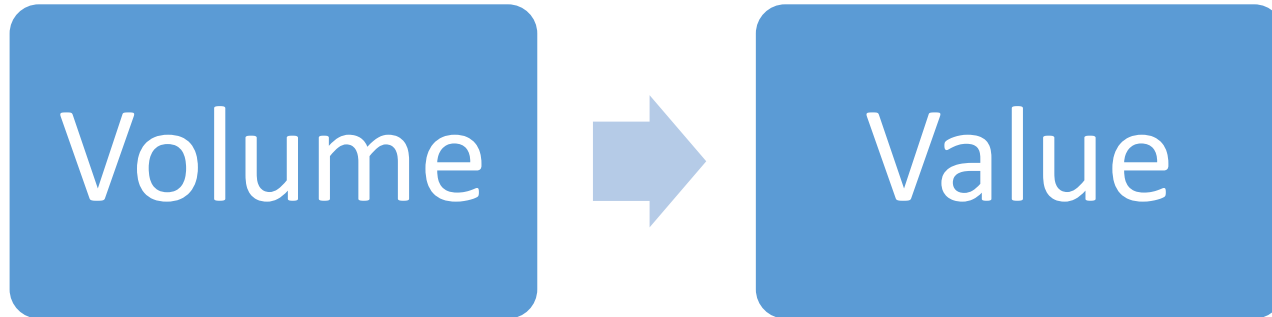


Proactive physician communication

HEADWINDS

SHIFT TO VALUE BASED HEALTHCARE

❖ Some will be affected more than others...



Who is in your market?

ACO's?

***Dominant groups
or Health
Systems?***

***What is their
strategic plan
and ability?***

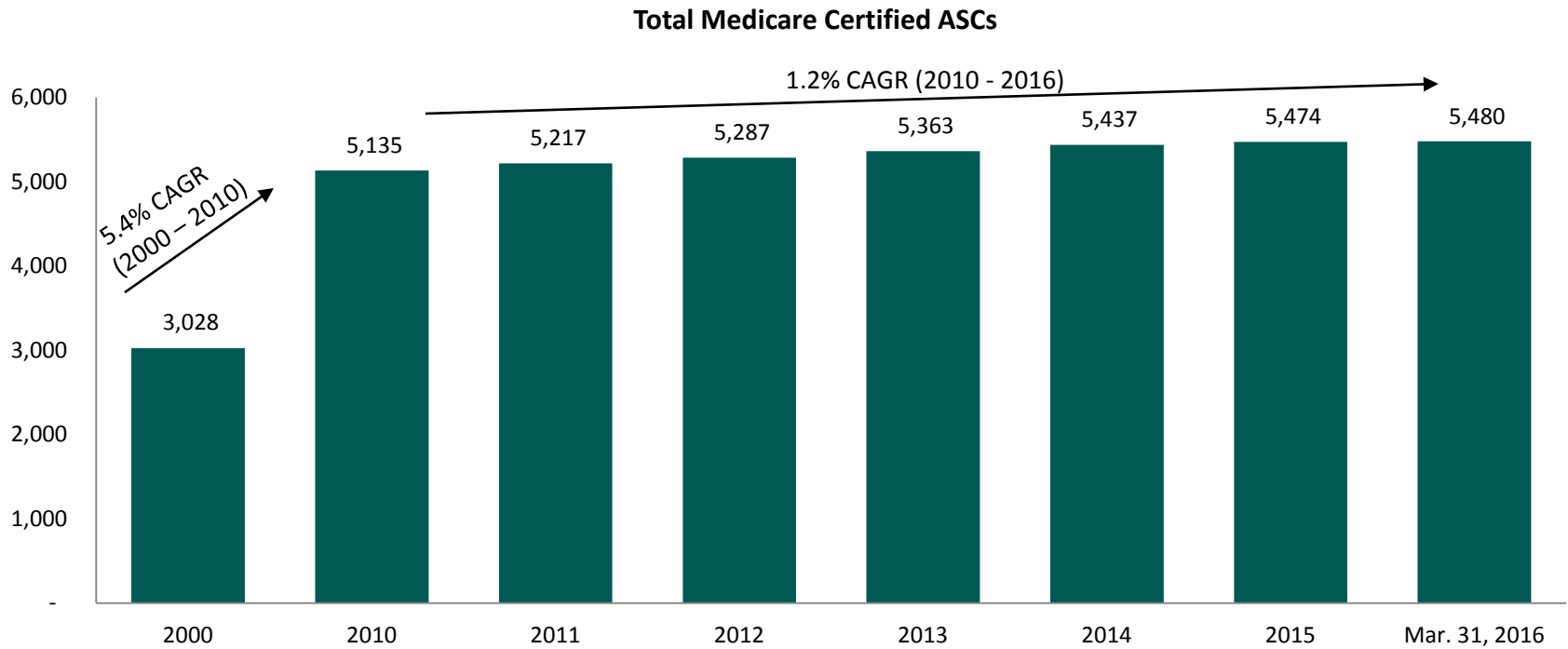
***Narrow
networks?***

Bundling?

APM's

HEADWINDS

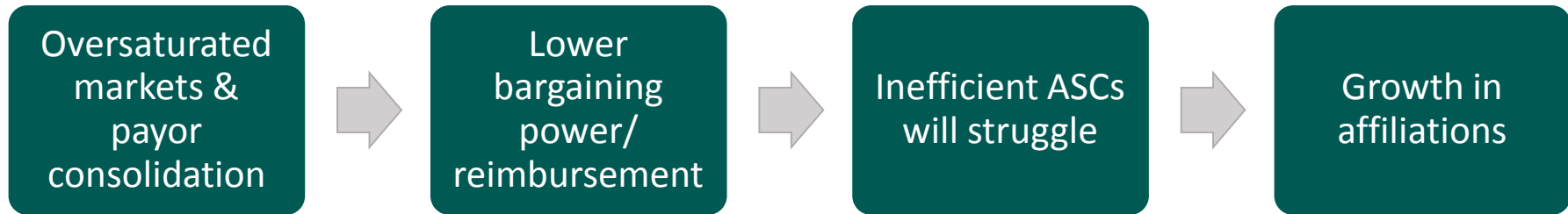
MARKET SATURATION/INCREASED COMPETITION



Source: CMS

HEADWINDS

MARKET SATURATION/INCREASED COMPETITION

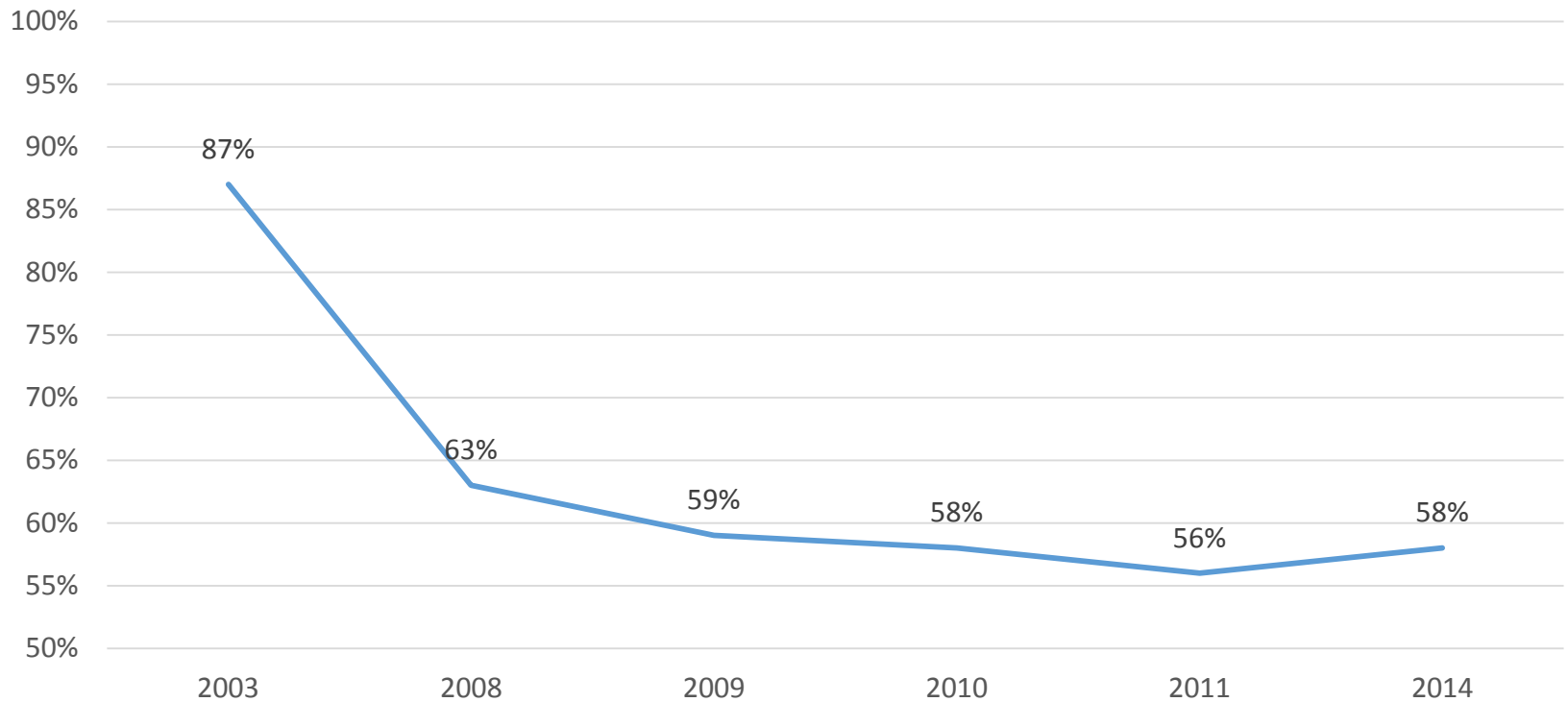


***Does this apply?
Are you
prepared?***

HEADWINDS

PAYMENT DIFFERENTIALS

ASC Reimbursement as a Percentage of HOPD Reimbursement

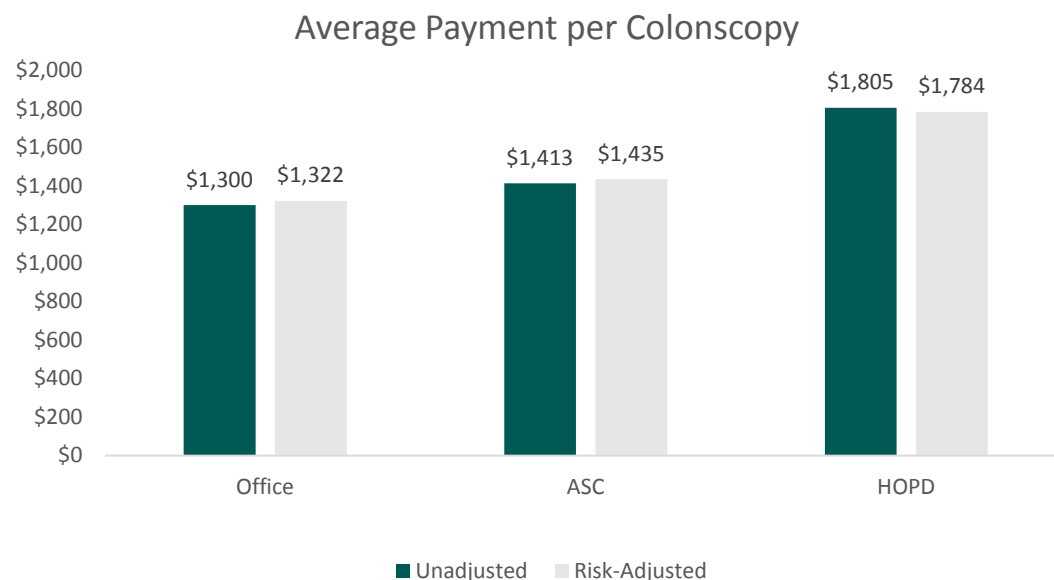


Source: Ambulatory Surgery Center Association

HEADWINDS

SITE OF SERVICE COMPETITION

- ❖ Health plans embarking on programs to pay physicians for additional costs related to in-house procedures
- ❖ Lower cost, increased convenience for members, and greater rates of colon cancer screening being done
- ❖ Markets will react differently - CON states, referral patterns, physician supply, etc.



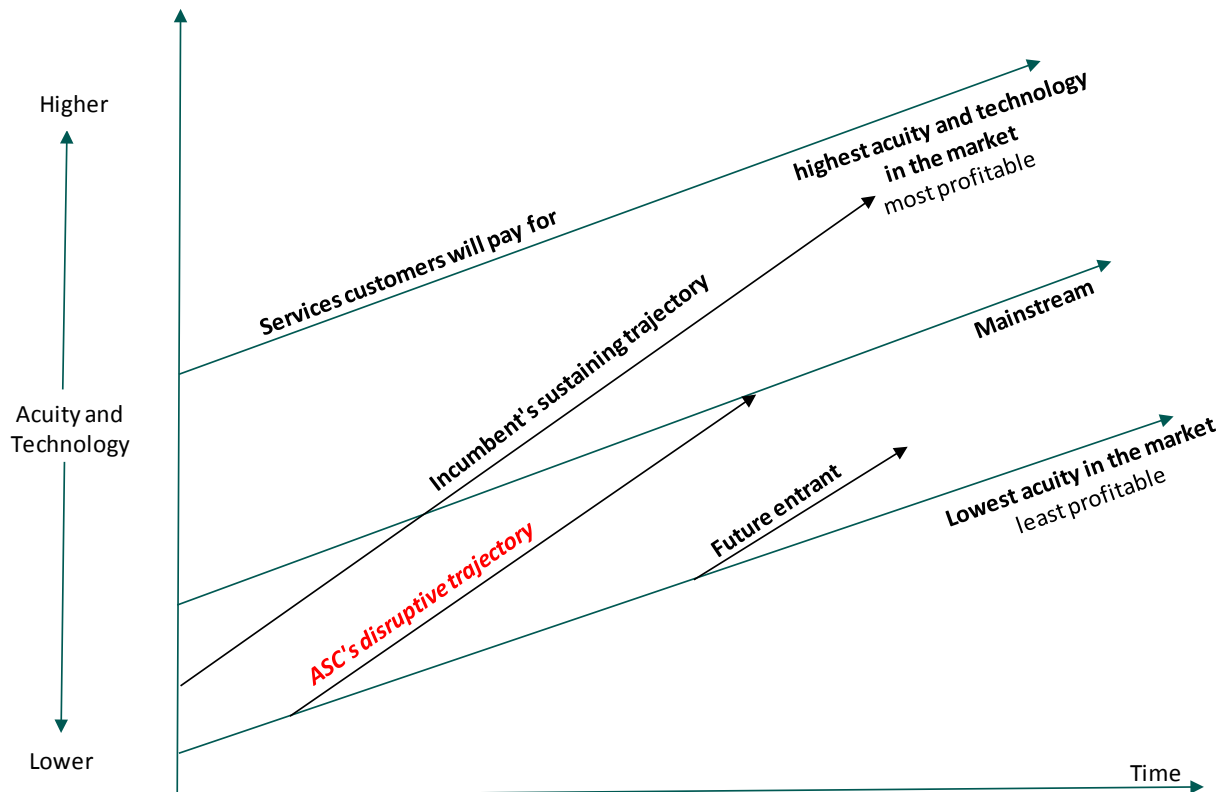
Source: Physician Advocacy Institute

TAILWINDS

TAILWINDS

INNOVATION CURVE

- ❖ Per the Harvard Business Review, “Disruption describes a process whereby a smaller company with fewer resources is able to successfully challenge established incumbent businesses. Entrants that prove disruptive begin by successfully targeting those overlooked segments, gaining a foothold by delivering more-suitable functionality—frequently at a lower price.”



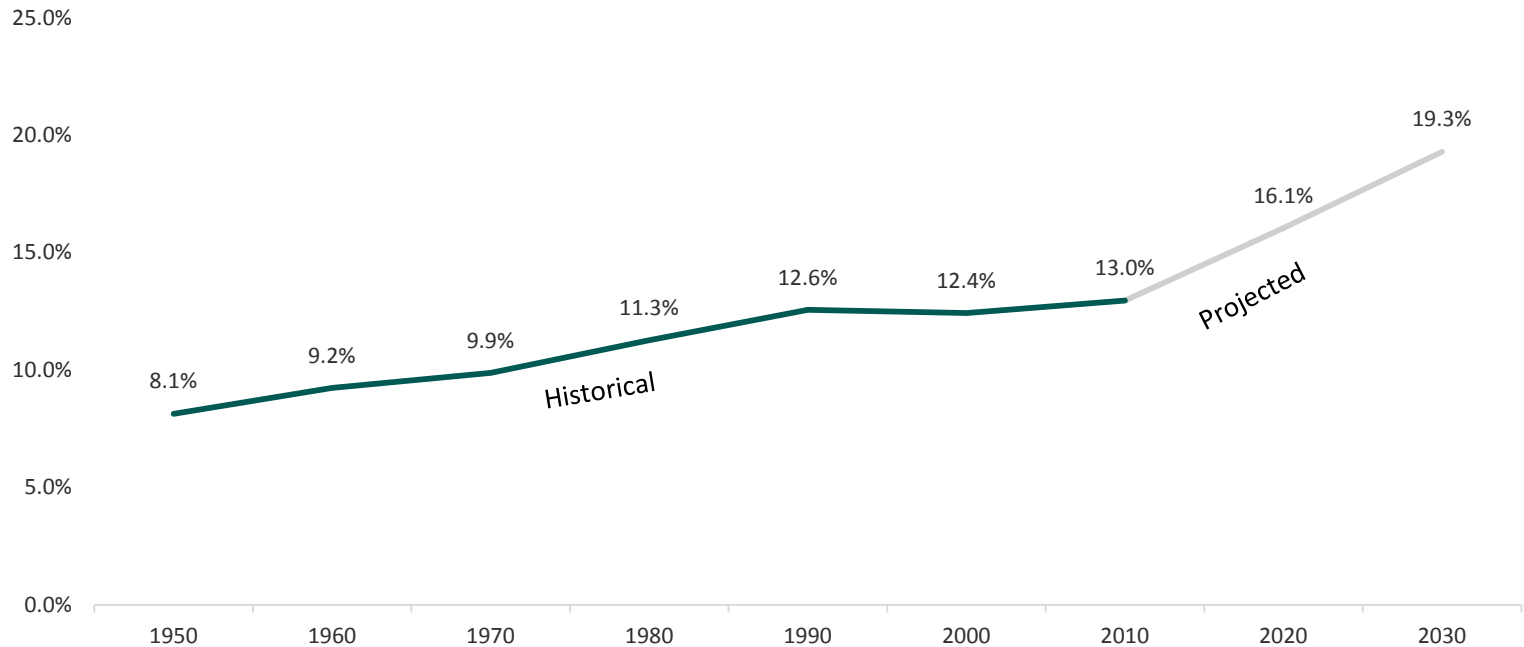
Source: Clayton M. Christensen, Michael Raynor, and Rory McDonald, Harvard Business Review; adapted by VMG Health

TAILWINDS

AGING DEMOGRAPHIC

- ❖ America's 65+ population is projected to grow by 41% from 2014 to 2025
- ❖ Increased demand for numerous age related procedures

Percent of Total US Population 65 and Older



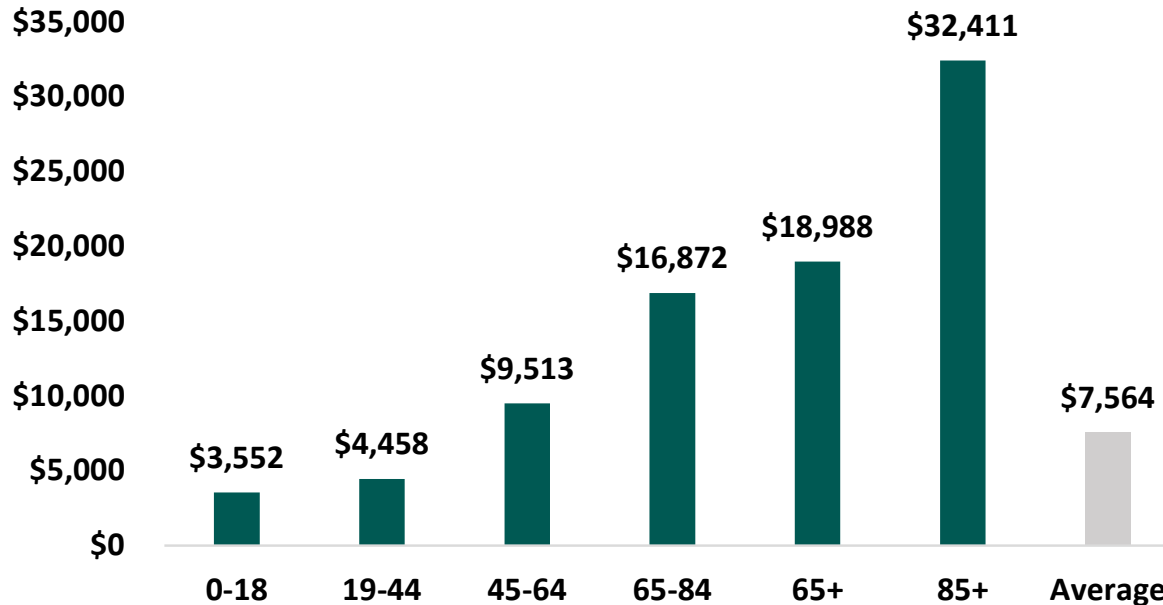
Source: US Census Bureau

TAILWINDS

AGING DEMOGRAPHIC CONTINUED

- ❖ Per person personal health care spending for the 65 and older population was \$18,988, over 5 times higher than spending per child (\$3,552) and approximately 3 times the spending per working-age person (\$6,632);
- ❖ As the population ages, Medicare will need to lower expenses by treating patients in lower cost settings

Per Capita Healthcare Spending by Age Group

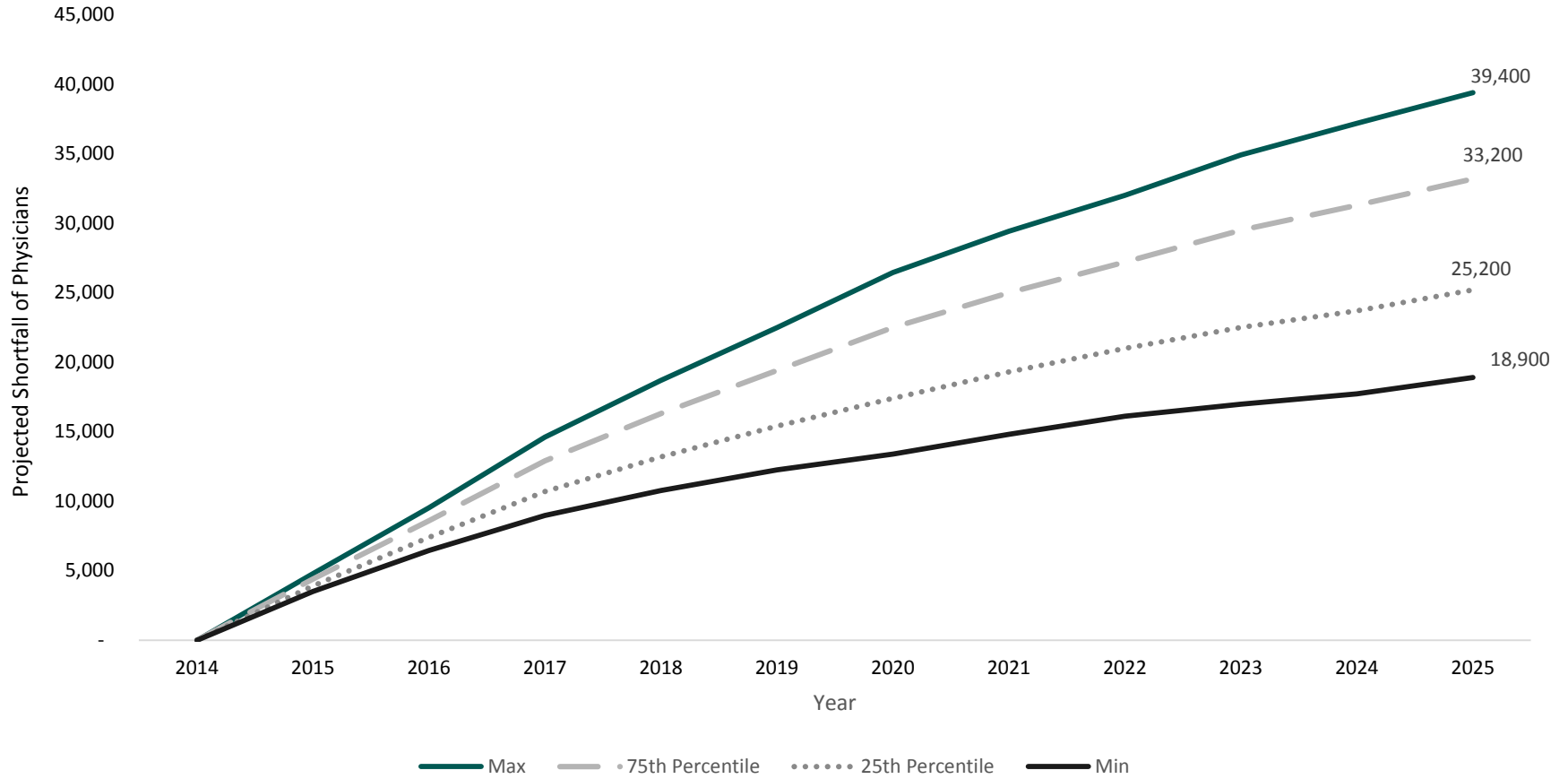


Source: Centers for Medicare and Medicaid Services, office of the Actuary, National Health Statistics Group

TAILWINDS

PHYSICIAN SHORTAGE?

Projected Surgical Physician Shortfall

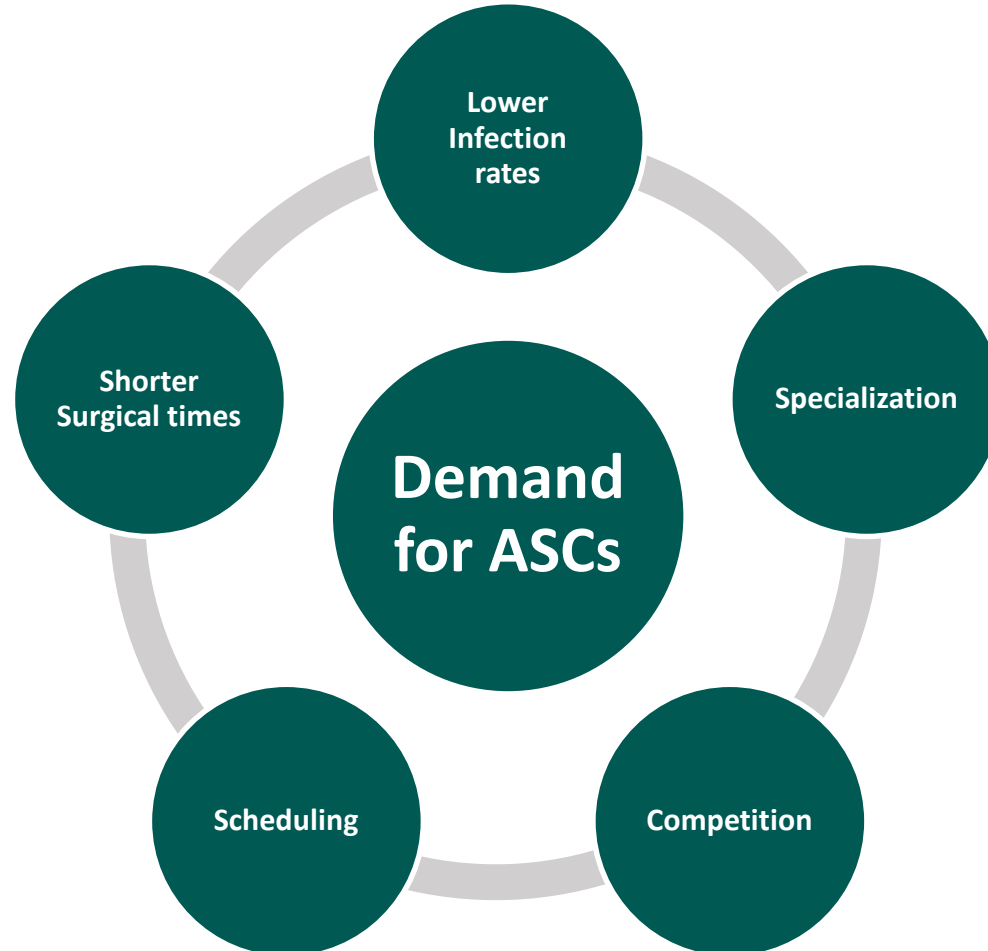


Source: Association of American Medical Colleges

TAILWINDS

PHYSICIAN SHORTAGE CONTINUED

- ❖ Physician shortage could lead to increased demand for ASCs



TAILWINDS

PAYOR & PATIENT COST SAVINGS

- ❖ Negotiating leverage of hospitals allows them to demand higher reimbursement for the same procedures
- ❖ Private insurance companies tend to save similarly, resulting in employers and insurers exploring lower cost alternatives
- ❖ Patient preference for lower cost settings

Top Ten ASC Procedures by CPT Code			
CPT Code	Description	ASC Rate	HOPD Rate
66984	Cataract surg w/iol, 1 stage	\$976	\$1,849
45380	Colonoscopy and biopsy	\$421	\$884
43239	Upper GI endoscopy, biopsy	\$417	\$838
45385	Lesion removal colonoscopy	\$421	\$913
66982	Cataract surgery, complex	\$976	\$2,129
64483	Inj foramen epidural 1/s	\$327	\$652
62311	Inject spine 1/s (cd)	\$327	\$610
45378	Diagnostic colonoscopy	\$421	\$710
66821	After cataract laser surgery	\$246	\$424

Source: cms.gov

TAILWINDS

PAYOR & PATIENT COST SAVINGS CONTINUED

- ❖ Per the Healthcare Bluebook:
 - ASC's reduce the cost of OP surgery by more than \$38 billion dollars per year by providing a lower cost site of care compared to HOPD's
 - Only 48% of procedures commonly performed in ASCs are actually performed in ASC's. If the remaining 52% were performed at ASC's, \$41 billion in health-care costs could be saved annually.
- ❖ Potential savings can grow if ASCs can perform more complex procedures
- ❖ \$3.2 billion could be saved by moving total hip and knee replacements to ASCs
- ❖ Patients must be educated and incentivized to choose ASCs
 - Most patients are still unaware of the lower costs that ASCs offer
- ❖ If an additional 5 percent of current HOPD cases were moved to ASCs annually, \$113.8 billion could be saved over the next decade

\$2,129

\$652

\$610

\$710

Source: Healthcare Blue Book

TAILWINDS

PRICE TRANSPARENCY

- ❖ Price transparency is going to help ASCs be in a great position to benefit
- ❖ In a consumer-driven market, patients will search for transparency and consumerism will drive more patients to lower cost settings
- ❖ Surgery Center of Oklahoma website:

Arthroscopy See All		
Procedure/Surgery	Cost	Contact
Ankle ⁱ	\$3,740.00*	REQUEST A SPECIALIST
Bilateral Knee Arthroscopy ⁱ	\$5,300*	REQUEST A SPECIALIST
Distal Clavicle Excision ⁱ	\$6,160.00*	REQUEST A SPECIALIST
Elbow ⁱ	\$3,740.00*	REQUEST A SPECIALIST
Extensive Debridement, Shoulder ⁱ	\$6,160.00*	REQUEST A SPECIALIST
Hip Arthroscopy, Simple ⁱ	\$5,575*	REQUEST A SPECIALIST

TAILWINDS

VOLUME LEAKAGE

- ❖ Higher acuity volume shifting from in-patient to out-patient setting (spine, total joint, interventional cardiology, etc.)
- ❖ A sizeable number of healthy, younger Medicare patients can move cases to a surgery center
- ❖ Commercial payors sometimes follow Medicare. As Medicare approves higher acuity cases, this opens the door for more commercial payors to shift to ASCs as well
- ❖ ASCs must make sure implant costs are under control

Newly Approved Medicare Spinal CPT Codes					
2014		2015		2016	
0334T	Perq stablj sacroiliac joint	22551	Neck spine fuse&remov bel c2	0171T	Lumbar spine process distrac
0335T	Extraosseous joint stblztion	22554	Neck spine fusion	0172T (0172T)	Lumbar spine process add
		22612	Lumbar spine fusion	63046	Remove spine lamina 1 thr
		63020	Neck spine disk surgery	63055	Decompress spinal cord thc
		63030	Low back disk surgery		
		63042	Laminotomy single lumbar		
		63045	Removal of spinal lamina		
		63047	Removal of spinal lamina		
		63056	Decompress spinal cord		
			Not Seperately Payable		
		22614	Spine fusion extra segment		
		63044	Laminotomy, additional lumbar		

IMPACT TO VALUATIONS

IMPACT TO VALUATION

QUESTIONS TO ASK

- ❖ Who is in your market, what are they up to?
 - Sell, affiliate, align, network, etc.

- ❖ Can you take advantage of new procedures being approved and technological advancements?
 - Physician engagement and leadership crucial

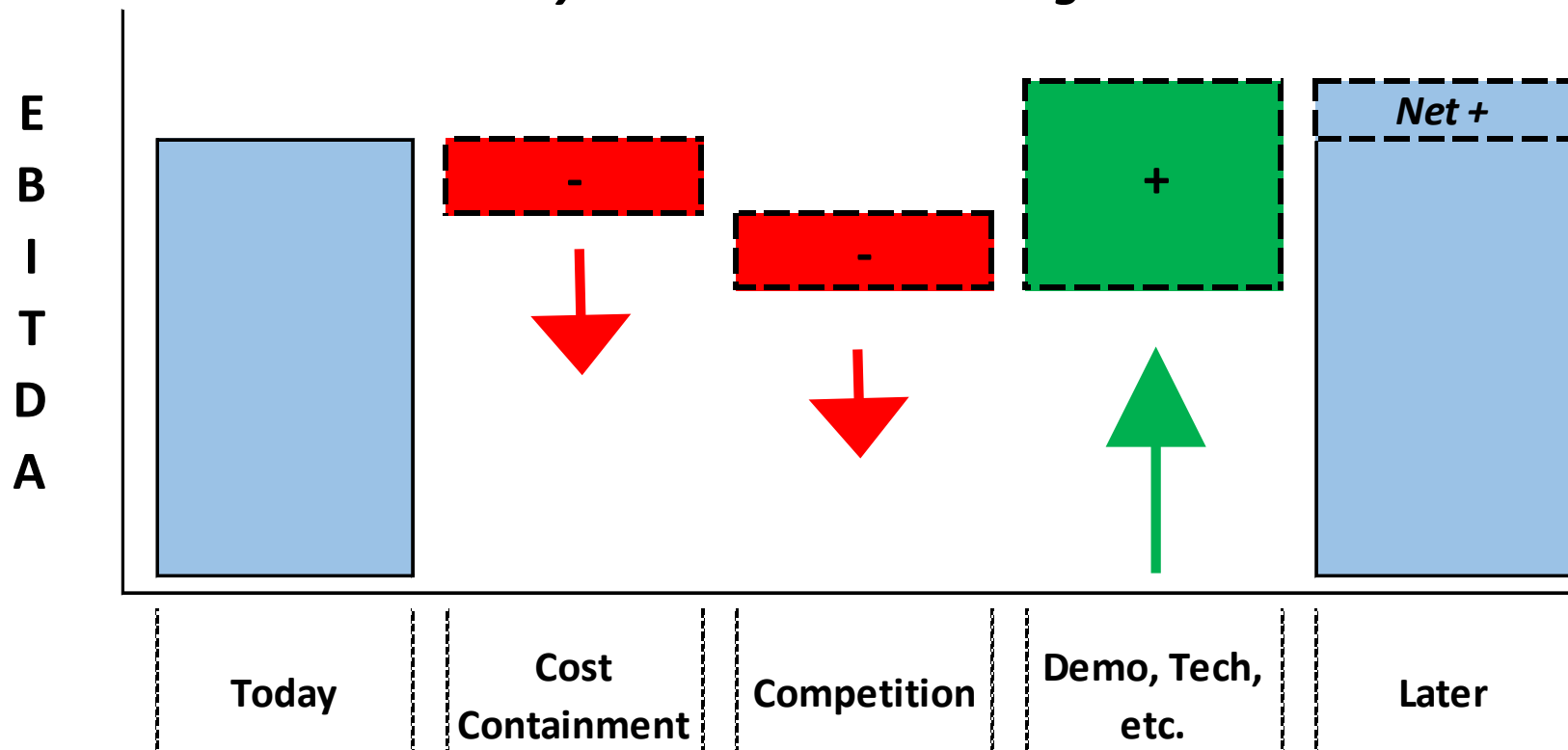
- ❖ Others?

IMPACT TO VALUATION

EBITDA / VALUE BRIDGE

❖ $EBITDA \times \text{Multiple} = \text{Value}$

Industry Trends - EBITDA Bridge



QUESTION & ANSWER

BIOGRAPHIES



Aaron Murski is a managing director at VMG Health and is based in the Dallas office. His focus has been on developing client relationships and providing valuation, transaction advisory, and operational consulting services in the healthcare services industry. Specifically, he has significant experience with the acute care and specialty hospital, physician practice, inpatient rehabilitation, cancer treatment, ambulatory surgery center, and diagnostic imaging segments. In addition to the extensive valuation experience for transaction planning and financial reporting purposes, he has consulted on numerous development, feasibility, and recapitalization analyses for joint venture, restructuring, and denovo business development purposes.

Mr. Murski received a Bachelor of Business Administration in Finance from the Mays Business School at Texas A&M University, is designated as a Certified Valuation Analyst (CVA), and pursuing the Chartered Financial Analyst designation from the CFA Institute. He is also a member of the Healthcare Financial Management Association (HFMA) Lone Star Chapter and the Physician Hospitals of America (PHA).

Email: aaron.murski@vmghealth.com

BIOGRAPHIES



Colin Park is a director at VMG Health in the Dallas office. He specializes in providing financial, valuation, and transaction advisory services to the firm's healthcare clients. His clients include health systems, ambulatory surgery centers, surgical hospitals, oncology centers, diagnostic imaging centers, dialysis centers, physicians groups, and numerous other ancillary healthcare service businesses.

Prior to joining VMG Health, Mr. Park worked as a senior associate in the Planning and Financial Group at Greystone Communities, Inc. and as an analyst in the Tangible Asset Group in Financial Advisory Services at Houlihan Lokey.

Mr. Park received a Bachelor of Business Administration in Accounting, a Certificate in International Business and a Masters of Real Estate Finance from the Mays Business School at Texas A&M University. Additionally, Mr. Park is a licensed Certified Public Accountant (CPA) in the state of Texas.

Email: colin.park@vmghealth.com