

ASC Industry Review

Key Stats for 2018

Number of Businesses

4,710

Industry Revenue

\$29.5 billion

Industry Profit

\$7.0 billion

Historical Revenue Growth
(2013-2018)

4.1%

Projected Revenue Growth
(2018-2023)

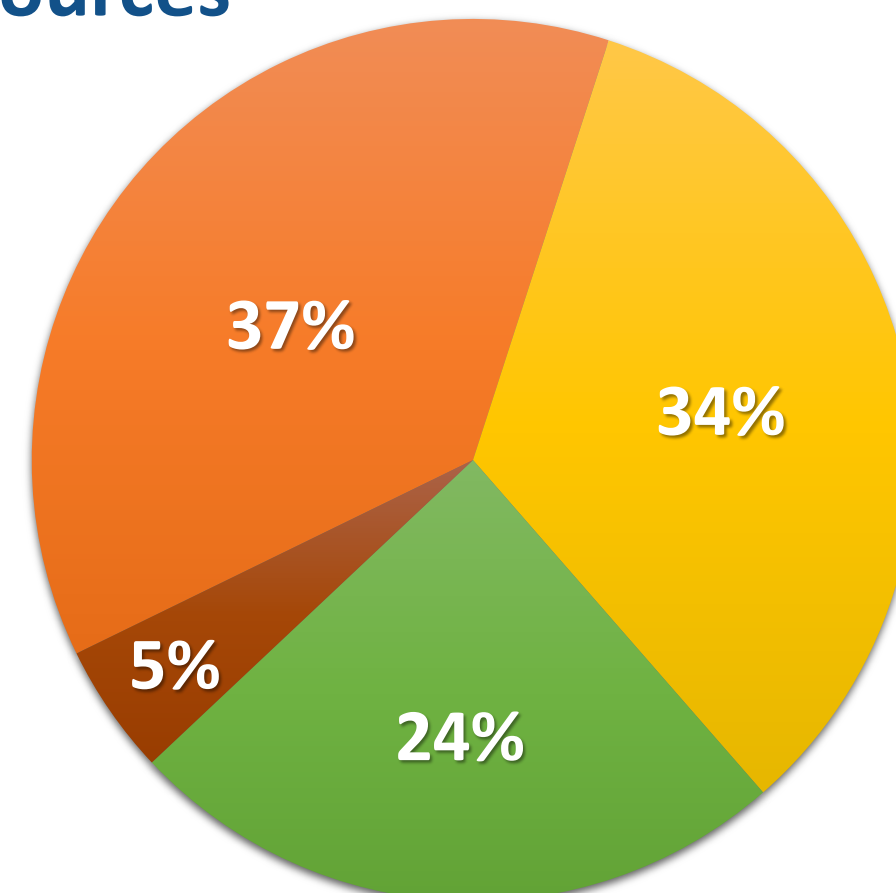
2.7%

Observed Sale Prices

7x – 10x EBITDA

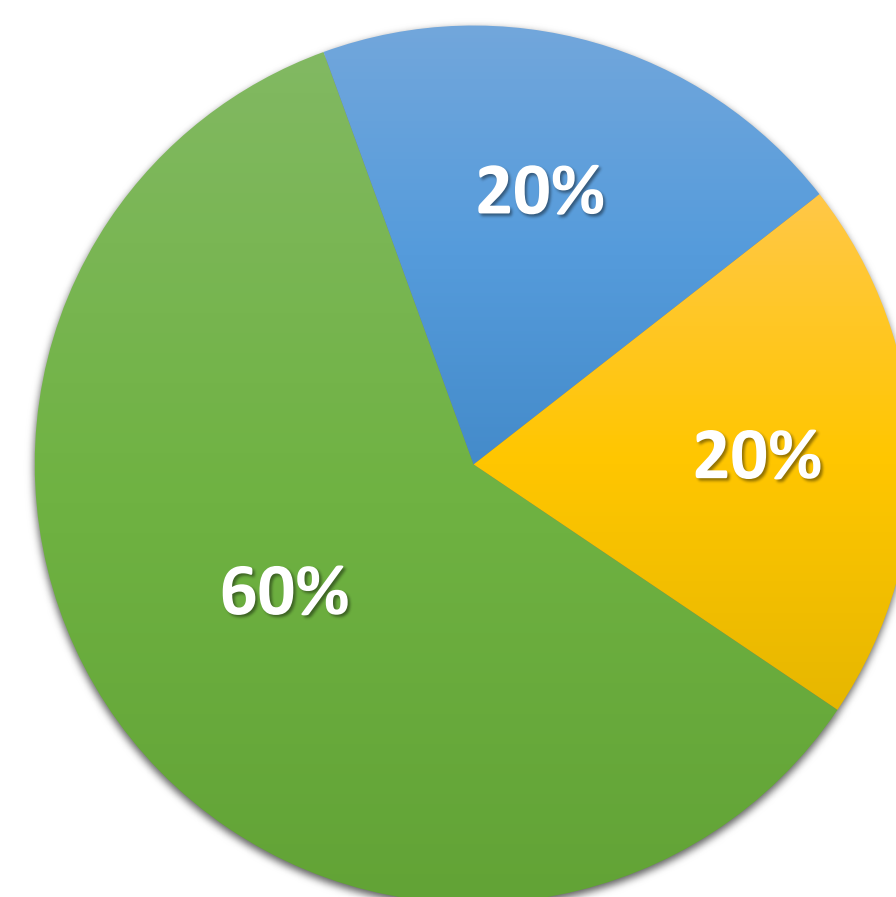
ASC Revenue Sources

- Private & Commercial Payors
- Government Payors
- Not Patient Care Related
- Out-of-Pocket



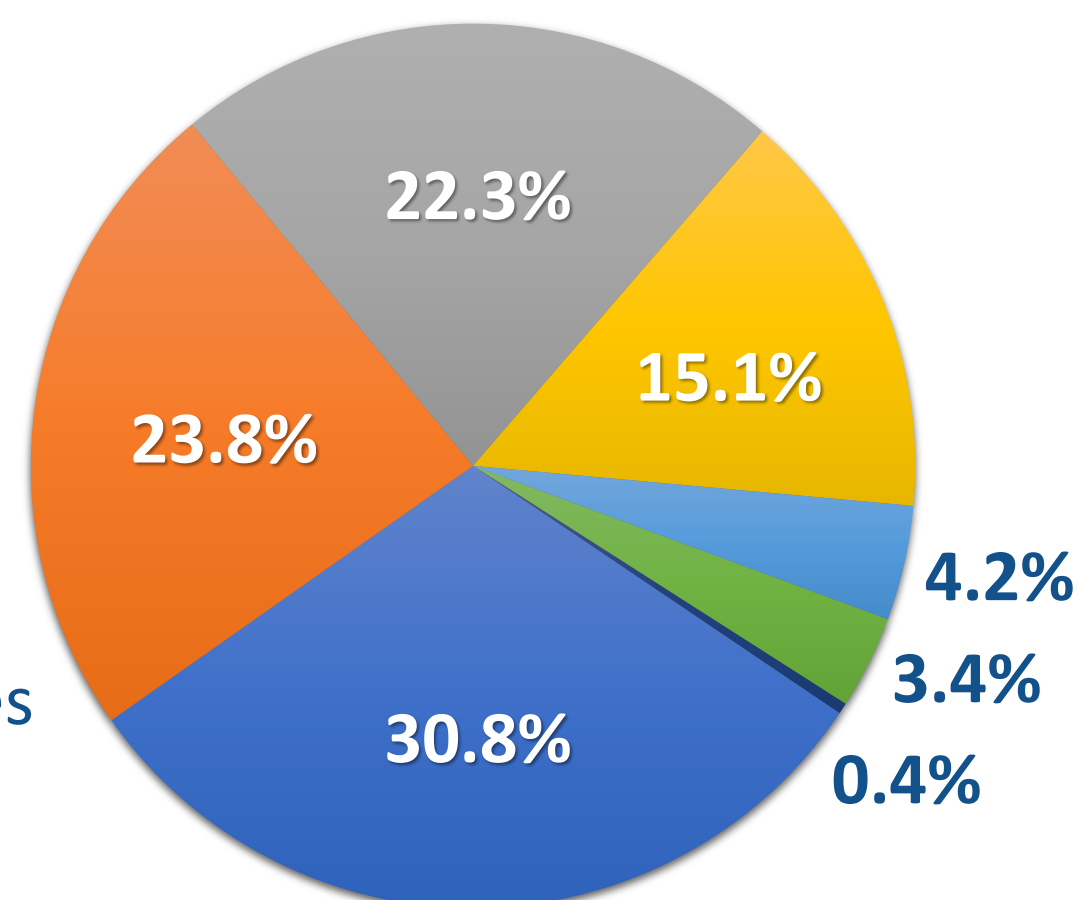
ASC Ownership Structure

- Independent Physicians
- Hospital Ownership
- Management Company Ownership



ASC Revenue Components

- Wages
- EBIT
- Other Operating Costs
- Drugs & Supplies
- Rent & Utilities
- Depreciation
- Marketing



ASC Transaction Trends

- **Revenue & EBITDA multiples will increase in the near term**
 - Post-transaction earnings growth: 3% – 9% per year
 - Tax rate changes under the Tax Cuts & Jobs Act will drive earnings up
- **Attractive debt markets will increase use of debt financing**
- **Trend towards industry consolidation will continue**
 - Minimizes risks of reimbursement, regulation, & competition
- **Hospitals will continue to seek partnerships with ASCs**
 - Enables hospitals to diversify service lines & increase market share
 - ASCs can provide hospitals lower-cost outpatient settings
 - Hospitals can provide the large infrastructure needs of ASCs
 - Both Hospitals & ASCs benefit from shared resources
- **Co-ownership with management companies will increase**
 - Management fees average 5–6% of net revenue with \$100k minimum
 - Billing & collection fees average 3–4% of net revenue

ASC Reimbursement Trends

- **ASC rates will increase 2% on average in 2019**
- **HOPD rates will increase 1.25% on average in 2019**
- **Shift from fee-for-service to alternative payment models:**
 - Bundled Payments – Capitation
 - Clinical Integration – Shared Savings
- **Revenue sources for specialties approved by CMS in 2017:**
 - Cardiology – Invasive Nephrology
 - Vascular Cases

External Factors Promoting Growth

- Increased population of adults aged 65 and older
- Changing consumer demands
- Technology advancements
- Heightened price sensitivity
- Physician shortages
- Shift to value-based care

External Factors Limiting Growth

- Out-of-pocket costs
- Shift to physician offices for low-acuity procedures
- Federal healthcare policy reforms

Current Range of EBITDA Multiples

