



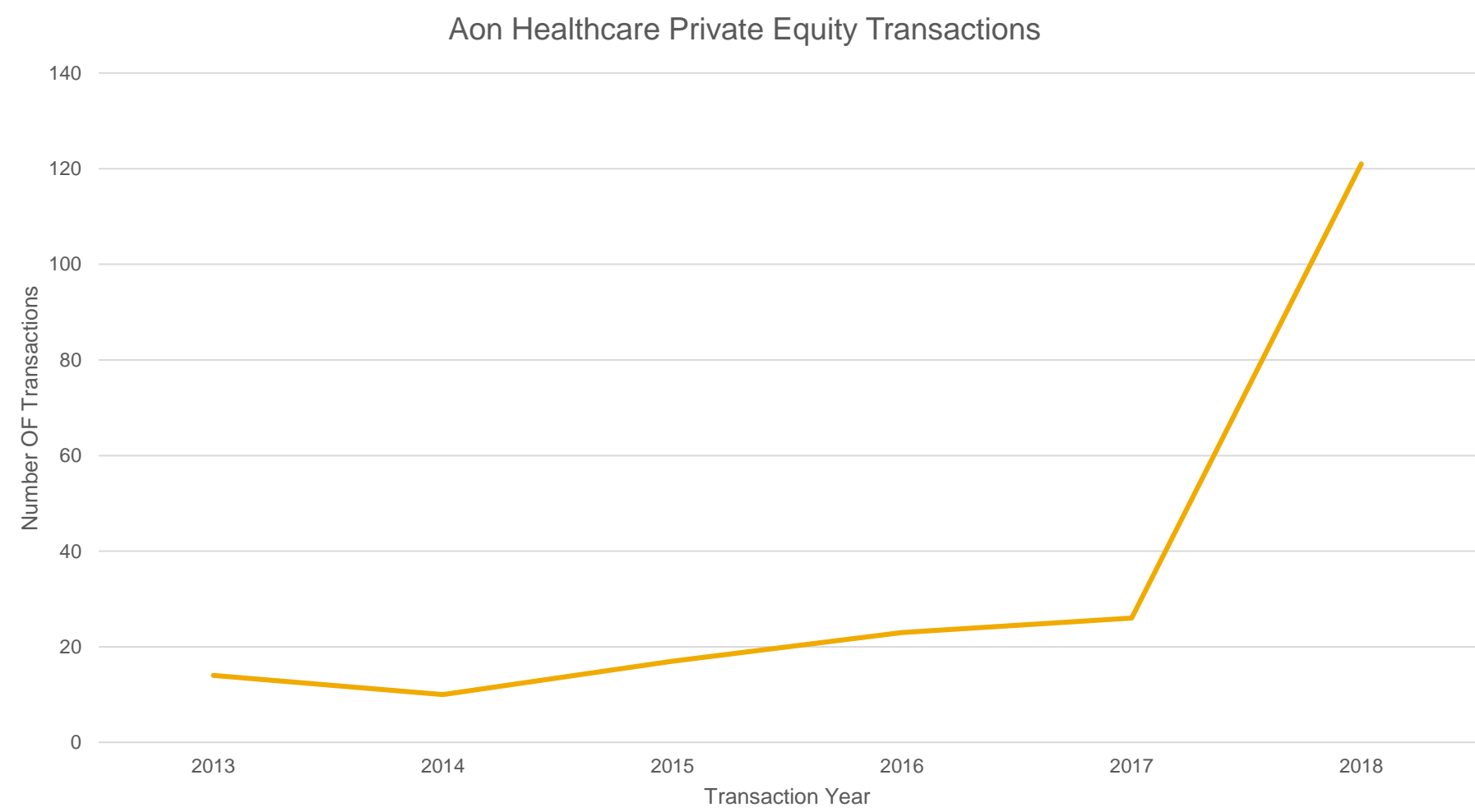
Private Equity And The Single Specialty Super Group Trend

The Leadership Institute | February 13, 2019



CAPITAL FLOWS TO INEFFICIENT MARKETS...

Healthcare Has Seen Explosive Growth In Transaction Volume



Growth In Healthcare Investment – Perceived Inefficiency Of Current Healthcare System

Hospitals

- High structural costs
 - Inpatient focused
 - General service model
 - Slow move to ambulatory
- Limited profitable service lines
 - Heads, hearts, bones cancer, skin
- Comparatively untouched by innovation and technology
- Reimbursement driving site of service decisions

Patients

- Seeking convenience – want to select site of service
- High deductible plans driving more educated consumers
 - Lower cost
 - Better outcomes
 - Better service
- Affluent/well insured patients drive significant profit margin

Doctors

- Physician ultimately control site of service decisions
- Physician are free agents
 - Non compete agreements difficult to enforce
 - Minimal business liabilities
- Increasing physician burnout
- Lack of financial security
 - Highly regulated cash compensation
 - Inadequate welfare benefits and wealth accumulation

Top Healthcare Investment Target For 2019: Physician Practice Management / Single Specialty Rollups

WHY – Physicians in primary role to direct profitable services and maximize return on capital investments into alternative sites of service

WHO – Primary focus on Ophthalmology, Dermatology, Oncology, Orthopedics, Neurosurgery, Gastroenterology, General Surgery. Primary care a secondary focus, tied to urgent care or telemedicine models.

HOW – Acquire shared interest in physician professional practice through either direct investment or investment in jointly owned management services structure. Physicians agree to reduced compensation to drive upfront equity payment and fund investment in ancillary/technical services

EXIT – 5 year average hold. Sale to either national roll up or to local healthcare system

Transaction Values At All Time High

Fewer Proprietary Transactions

- Multiple bidders
- More sophisticated sellers
- Banking representation

Market Based Valuations

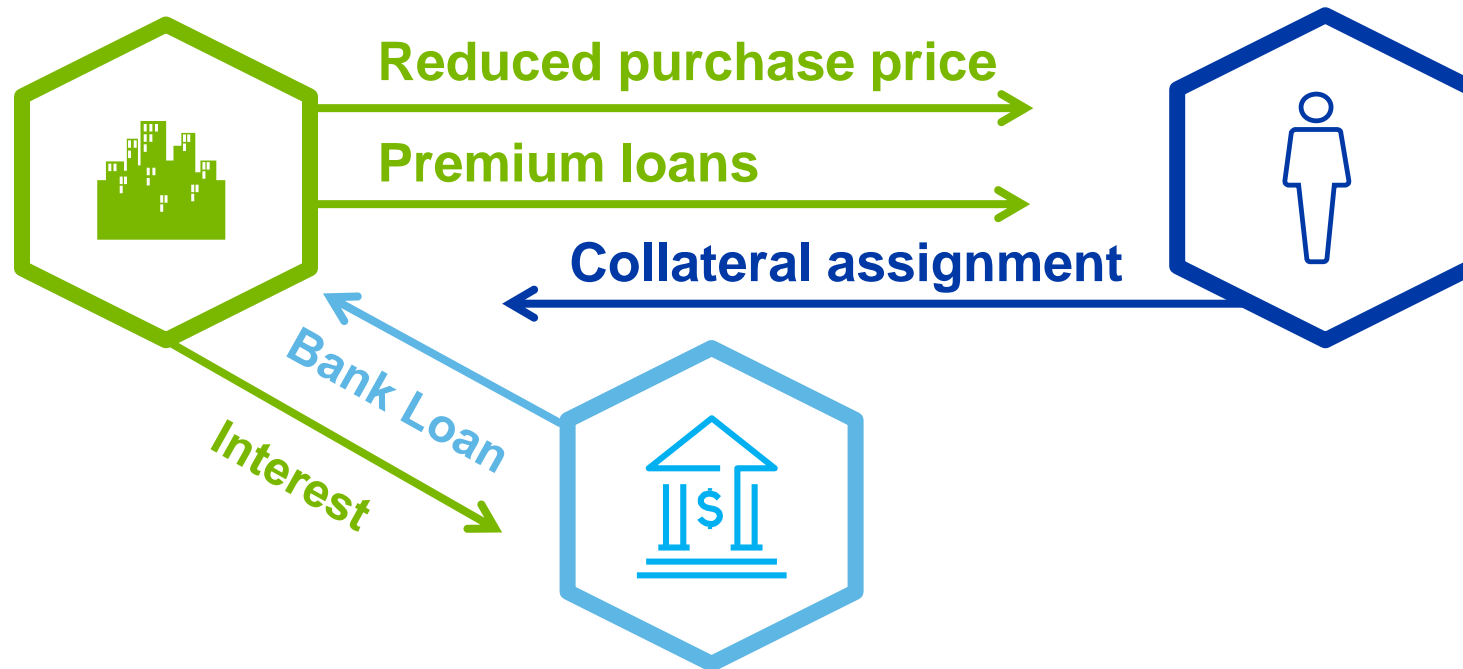
- More aggressive EBITDA projections
- Greater diligence
 - Expenses
 - Quality of earnings
- Higher Multiples

VALUE GAP

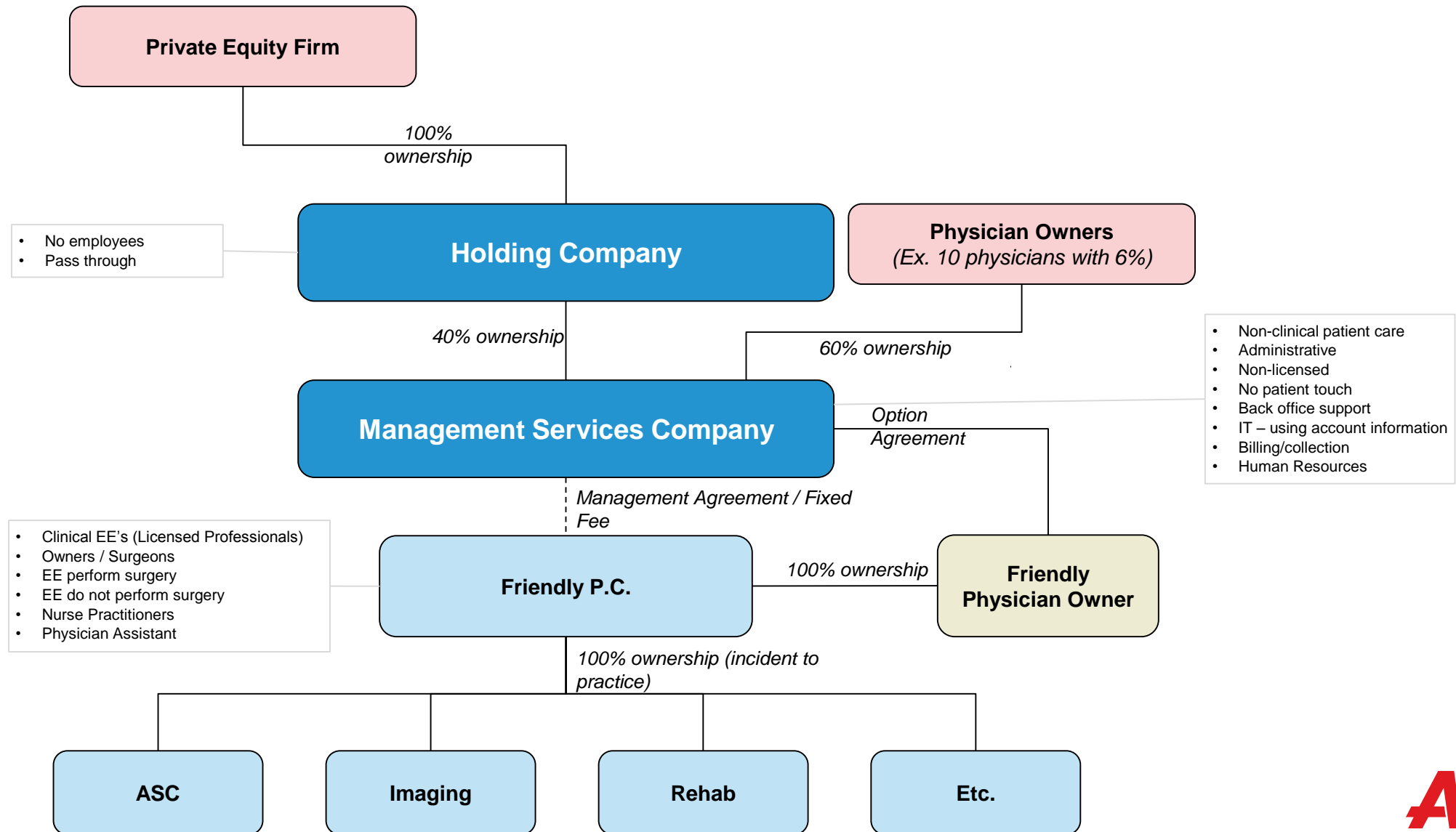
- Walk Away
- Pay Higher Cash
- Seller Notes
- Earnouts
- Leveraged Split Dollar Life Insurance

Leveraged Insurance Solutions Bridge Gap In Transaction Valuations With Tax Deferred Cash Accumulation

- Replace a portion of sale proceeds with loan to Seller to purchase a split dollar life insurance policy
 - Loan proceeds from buyer fund the premiums of a jointly owned life insurance contract
 - Portfolio Company retains asset on balance sheet equal to their interest in the insurance contract
 - Portfolio Company can finance premium through participating bank using policy interest as collateral
 - PE firm recovers its cost at sale of portfolio company
 - Seller accesses cash value through income tax free policy distributions following 15 year hold



Common PE Structures Are Vehicles To Share Ownership Of All Practice Assets: Sample MSO Structure



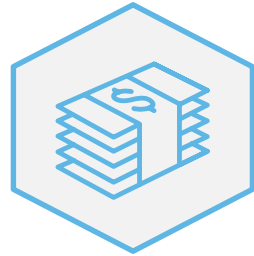
Your Physicians Are at Risk – Physician Burnout And Dissatisfaction Is Driving Receptivity To PE Alternatives



43%
of physicians
report
suffering from
significant
burnout

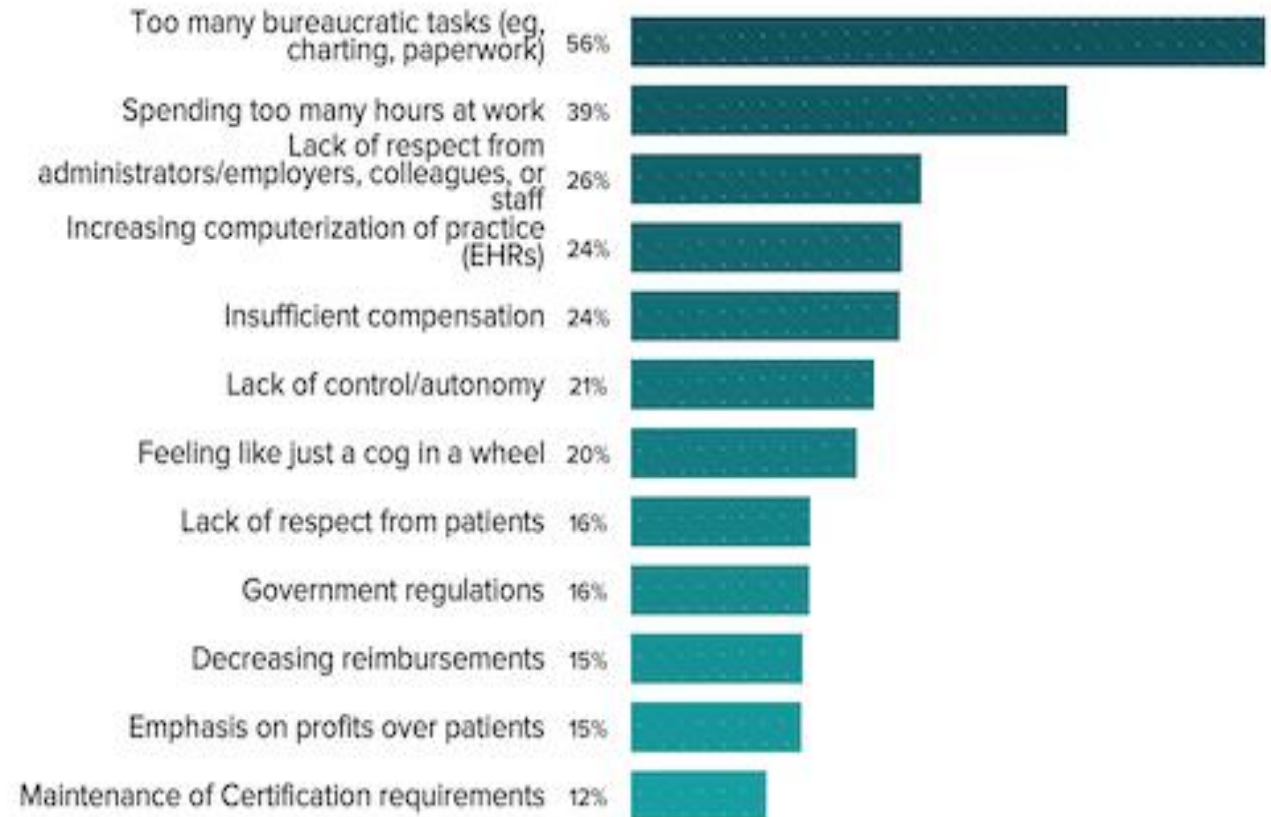


AGES
45–54
highest
burnout
reported



35%
of respondents'
number one
suggested cure is
additional
compensation to
ease financial stress

What Contributes to Physicians' Burnout?



Best Defensive Strategy – Change Your Accounting To Change Your Narrative

Worst Three Words In Integrated Healthcare?

SUBSIDY PER PHYSICIAN



Hospital

- Corporate Allocations
- EMR Costs
- Increased staff benefit costs
- Higher Mal Practice Costs

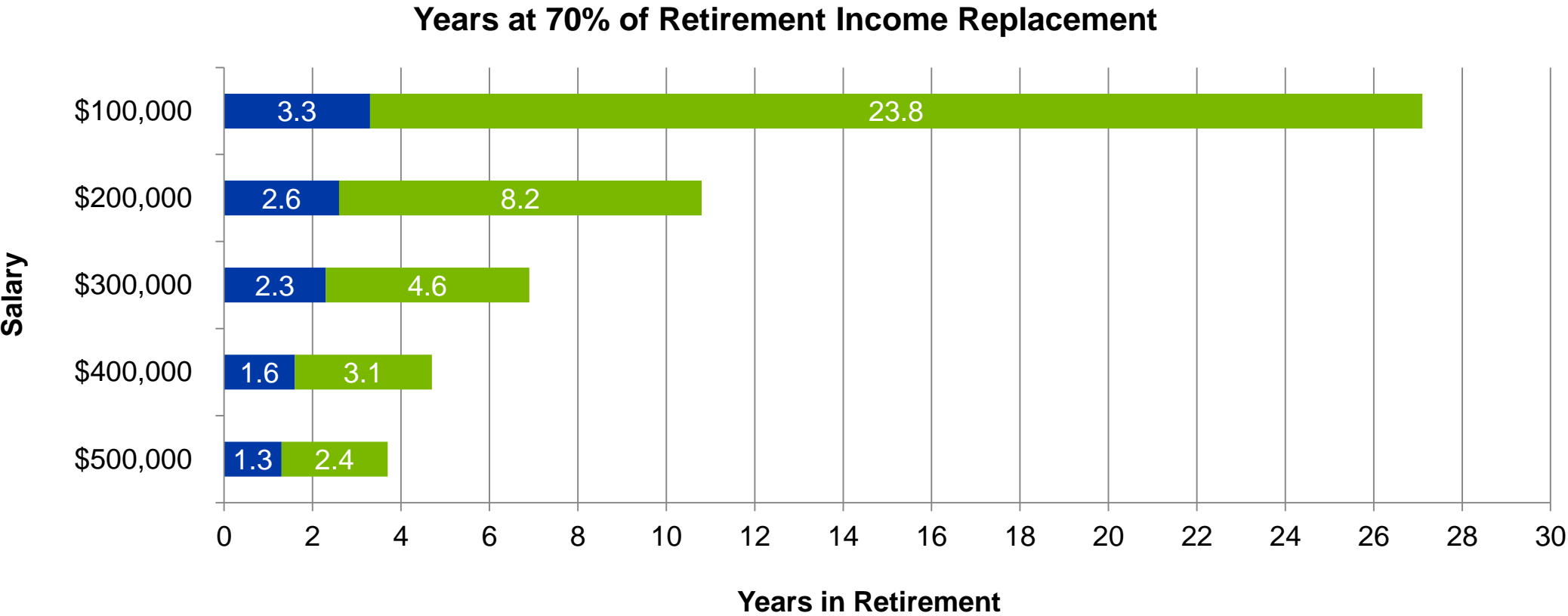


- Ancillary Revenue
- Technical Revenue
- Ambulatory Services



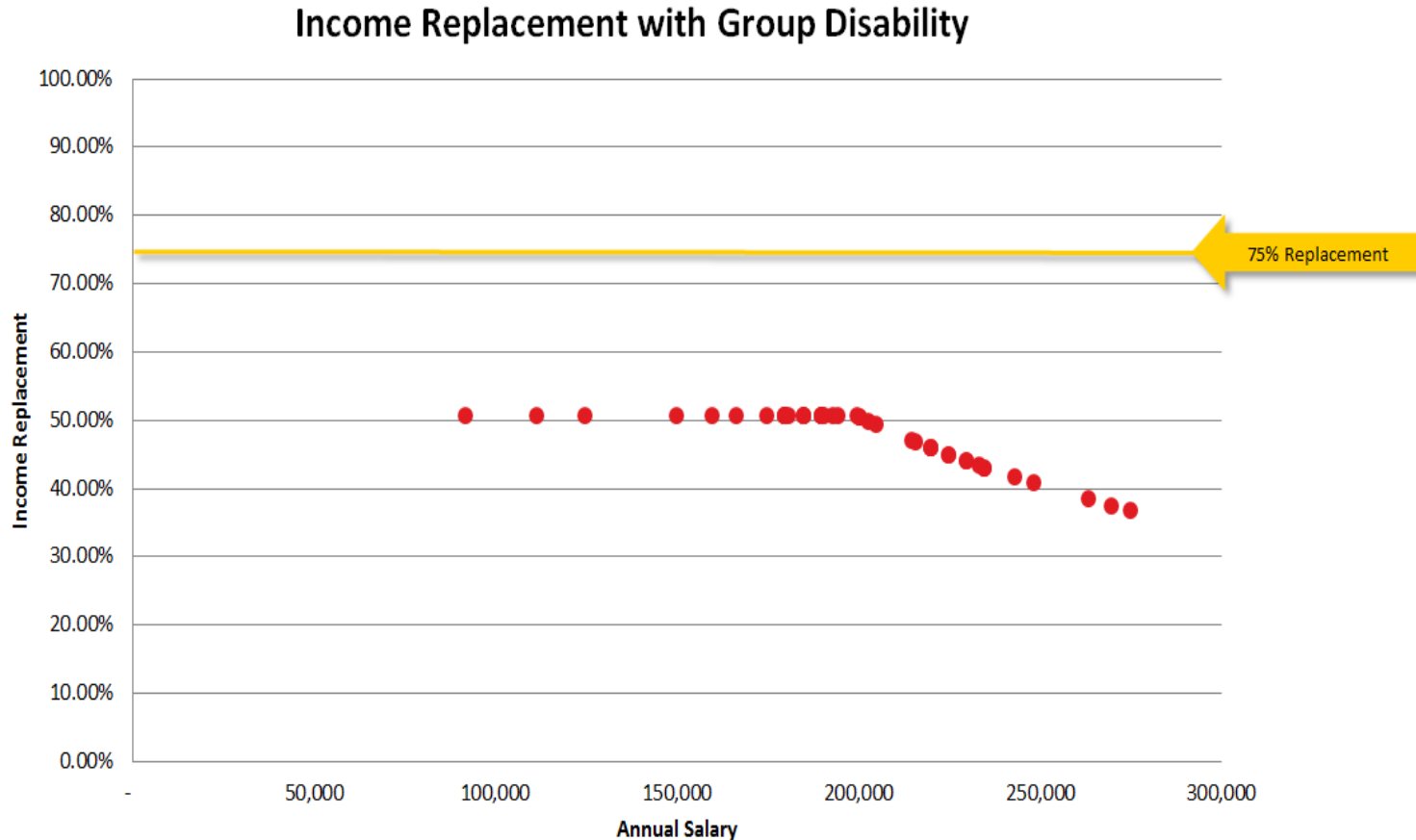
Physician

Your Physicians Are at Risk – Qualified Retirement Plans Inadequate For Highly Compensated Physicians



Age 40, retiring at age 65; 4% employer 403(b) contributions; 15% of salary employee contributions up to legislative limits; 3% salary increases; 30% tax rate; 5.50% rate of return; Social Security offset over all years in retirement.

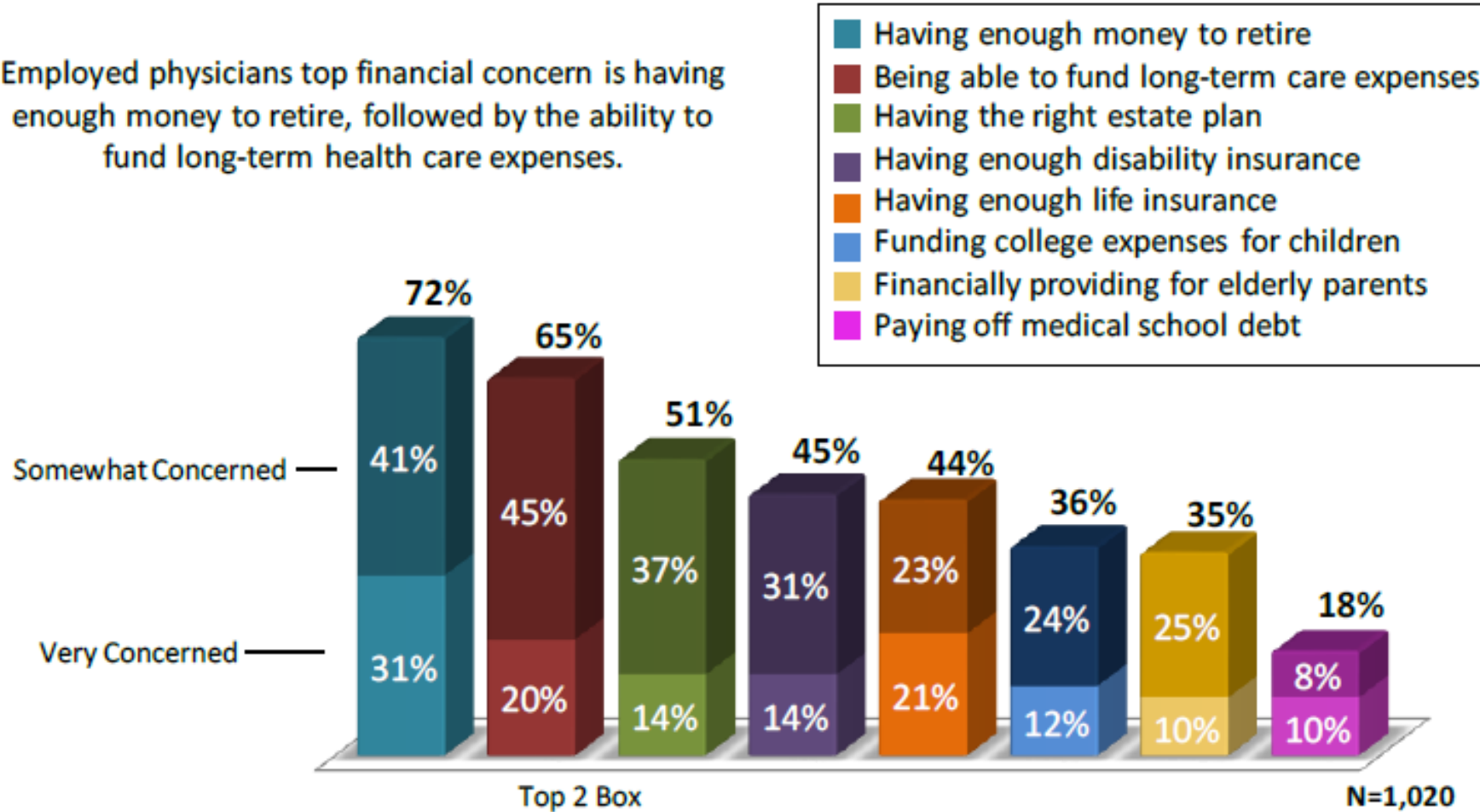
Your Physicians Are At Risk – Group LTD Plans Do Not Address Physicians Income Risk



- Market offers coverage of 75% of total income (salary, bonus, benefit expenditure)
- Typical group plans cover salary only
- 60% to \$10,000 per month max benefit
- Regular Occupation versus own specialty
- Not Portable

Best Defensive Strategy – Address Your Physicians Financial Concerns

Employed physicians top financial concern is having enough money to retire, followed by the ability to fund long-term health care expenses.



Source: Adapted from AMA Insurance "Employed Physicians' Financial Preparedness Report"



Thank You

DISCUSSION

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