

Prairie Cardiovascular  
 HSHS

## Hospital / Health System Employment

### NEGOTIATIONS

Illinois Cardiology  
 Practice Management Symposium  
 Chicago, Illinois  
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### Setting the Stage

- Agree on Key Goals for Negotiation
- Prepare Presentation on Group's Value
- Identify Added Value
- Perform Own Valuation

### Negotiation – First Goal

- Value of Transaction
  - Future Compensation – Now #1
  - Upfront Payment
- Stable Compensation
  - Evaluate New Delivery Models
  - Neutralize as a Distraction
  - Meet Access to Care Demands

### Negotiation – Second Goal

- Strengthen Relationship
  - Governance & Management – Build Trust
  - Seek Out Differences to Create Value
- Demonstrate Leadership
  - Physician Group
  - Hospital Product Line
  - Partnership Value Exceeds Independence

### Presentation on Group's Value

- Presented to Hospital & Valuation Consultants
- Power Point & Written Document
- Resources for Information to Include
  - MedAxiom & MGMA Surveys
  - Valuation Report Components
  - Due Diligence Topic Areas

### Identify Added Value

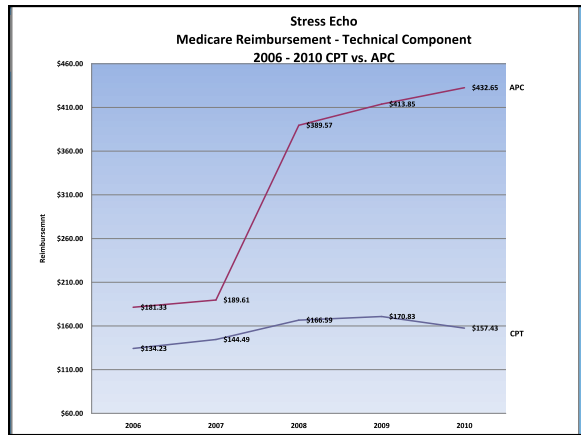
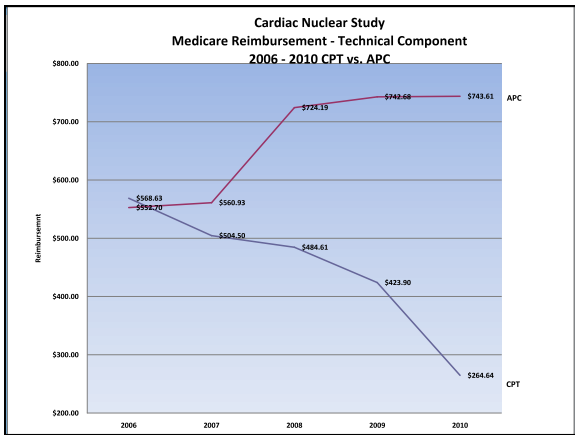
- Provider – Based Billing
- Co-Management Agreement
  - Physician Leadership - Hospital
  - Administrative Leadership
- Accountable Care Organization
- Ambulatory Focus
- Quality Program
- Care Integration with Primary Care

## Physician Compensation

- Professional Services**
  - Based on Work RVUs – Gross or Net
  - No Ancillary Technical Component
  - Included in Conversion Factor
- Leadership**
  - Co-Management Agreement
  - Quality & Care Integration
  - New Source of Revenue

## Provider-Based Billing

- Operated as a Department of Hospital**
  - Administration & Supervision
  - Requirements Greater if Off – Campus
- Services May Include**
  - Ancillaries
  - E&M
  - Additional Costs for Patients



## Provider-Based Billing

- Future Physician Compensation**
  - Justification for Projecting Revenue Increases
  - Compensation Rate Guarantees Possible
  - Satisfies Fair Market Value Requirement
  - Co-Management of Service by Physicians
- Business Enterprise Value**
  - Consultants Excluding – Private Inurement
  - Impacts Discount Factor

## Co-Management Agreement

- Strengthens Relationship**
  - Used With/Without Affiliation Models
  - Hospital Product Line Management
  - Specific Services
  - Entire Programs Across System
  - Joint Venture Option to Share Income
  - Physician Rates if Greater Than 50% Commitment
  - Compensation for Care Integration
  - Compensation for Quality Improvement

## Valuation Methodologies

- I. Income Valuation Approach
- II. Market Valuation Approach
- III. Asset-Based Valuation Approach

**Business Enterprise Value**  
Based on All Three Approaches

**Physician Compensation**  
Based on Same Income Valuation

## Income Valuation Approach

Revenues & Expenses – Inflation & Growth Adjusted  
Net Cash Flows – R.O.I. & Risk Discounts

### Key Points

- Value of R.O.I.
- Recovery of Upfront Investment
- Discount Estimated Compensation
- Inflation & Growth Factors
- Projections Based on Volumes & Revenues
- Actual Results – Volume & Price Variances

## Market Valuation Approach

### How to Compare Deals

#### Upfront Cash

- Exclude Tangible Assets & Liabilities
- Exclude Required Net Working Capital
- Compare Intangible Value Only
- Include Any Hold Back

#### Compensation

- Add Back R.O.I. for Intangible Assets
- Add Value of Retention Bonus
- add Value of Quality / Efficiency Incentives

#### Quick Calculation

- Annual Compensation Plus
- 20% Total Upfront Cash & Hold Back

## Asset Based Valuation Approach

### Tangible Assets & Liabilities

- Land, Buildings, Equipment, Furnishings
- Accounts Receivable
- Cath Lab & Sleep Lab
- Compensation & Benefits Payable
- Accounts Payable & Debt

### Intangible Assets

- Work-Force in Place
- Group Name
- EHR / Medical Records

## Business Enterprise Valuation

### Key Issues

#### Contingent Liabilities

- Coding, Malpractice & Employment
- Retain Risks Prior to Closing

#### Non-Compete for Business Enterprise

- Differs From Professional Services
- Lengthy Term Desirable
- R.O.I. Amortization Linkage
- Discount (Risk) Factor Impact

## Business Enterprise Valuation

- Valuations are Declining
- Enterprise Values in Tight Range
- Expectations Gap – Not Equal Annual Earnings
- Asset Purchases Most Common
- Focus on Value of Future Compensation
- Large Range
- Avoids Dividend (Double) Taxation
- Carve Out Assets if Necessary

## Leasing Model

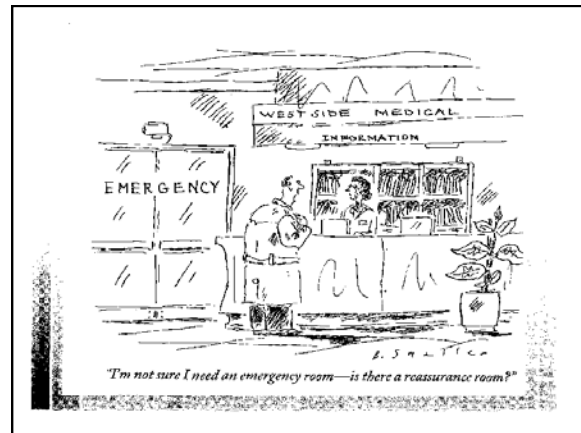
- Courtship Before Marriage Option
- Professional Services Agreements
- Stabilizes Compensation
- Up to Three Year Term
- No Enterprise Value
- Co-Management Agreement Option
- Ancillary Leasing Option

## Common Questions & Concerns

- What happens to compensation after guarantee?
- I'm not paying for staff – can I have more?
- How do we unwind deal?
- I thought lengthy non-compete was illegal?
- I don't want to assume contingent liabilities?
- Why is upfront payment taken back as a R.O.I.?
- Will things change?

## What's Different – 2010 vs. 1990

- CMS & Government Reimbursement Controls
- Care Integration Mandate
- Physician Leadership Role
- Ambulatory Care Access Points
- Value of Existing Workforce
- Recruiting Costs & Physician Shortages
- Desire to Reacquire Delivery of Care Responsibilities



Prairie Cardiovascular  
The Doctors of Prairie



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