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**BECKER'S
HEALTHCARE**

Strategic Transactions for Spine, Orthopedic & Pain Management Groups

Private Equity & Mergers / Acquisitions in Healthcare

June 15-17 2023

20TH ANNUAL SPINE, ORTHOPEDIC + PAIN MANAGEMENT-DRIVEN ASC

Presenters



Gary Herschman

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Gary Herschman is a national leader in health care M&A transactions. He has 30 years of experience negotiating and closing deals in over 20 states throughout the country on behalf of major physician groups, ASCs, home health agencies, hospitals and other providers.

His last 15 years of practice has focused primarily on advising a wide array of physician groups – including **Orthopedics, Spine Surgery, Neurosurgery & Pain** -- on major strategic transactions with private equity investors, hospitals, mega-groups, and national healthcare companies.

Gary is sought-after by many national health care publications such as *Bloomberg Health*, *Crain's*, *Becker's*, *Journal of Orthopaedic Experience & Innovation*, *Orthopedics Today*, *Pitchbook*, *MergerMarket*, *Modern Healthcare*, *Fierce Healthcare*, *Healio*, *ACG*, and *MGMA*.

He is a frequent speaker at national health care industry conferences and podcasts, including recently for ICJR, IOEN, OSET/Ortho Summit, AAHKS, JOEI, Becker's Spine, Orthopedic, Pain & ASC Conference, Southern Orthopedic Association, and MGMA.

Presenters



Dana Jacoby

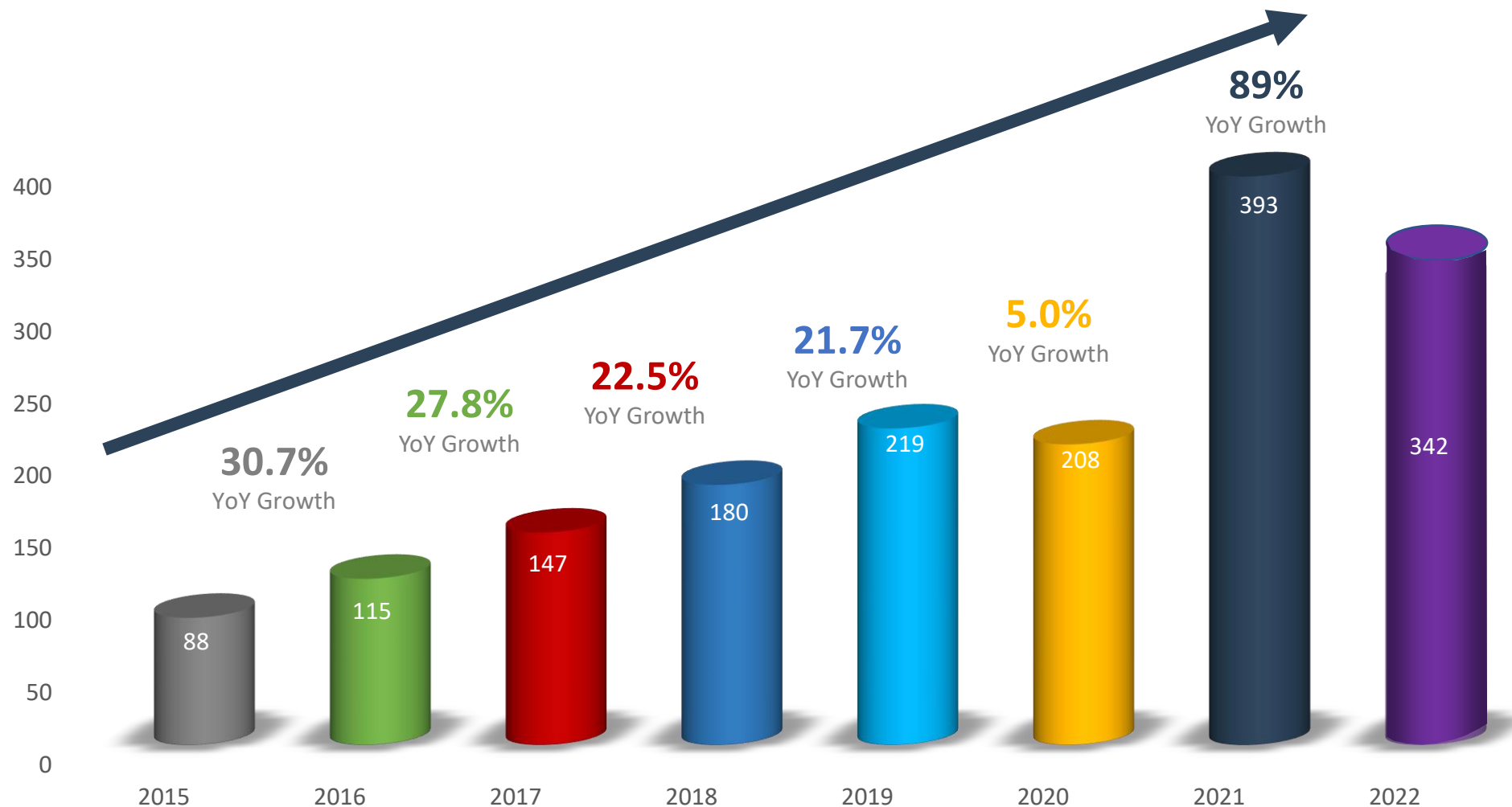
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Dana Jacoby is recognized as a difference maker and trusted advisor to health system executives, medical practices, vendors, and other stakeholders in optimizing patient care while also elevating financial and operational performance.

Dana's passion for operational excellence has driven a distinguished record of achievement at the intersection of market data, measurement and analytics, strategy design and implementation, and technology innovation.

She is a published author and engages audiences as a keynote speaker, educator, and subject matter expert at medical forums, summits, and conferences. Dana has played a pivotal role in leading transformation throughout the highly regulated and value-centric health care industry.

Soaring Rates of Reported Physician Practice Transactions



Select PE Platform Investments in Orthopedic Surgical Specialty Groups

Select Orthopedic M&A Platforms

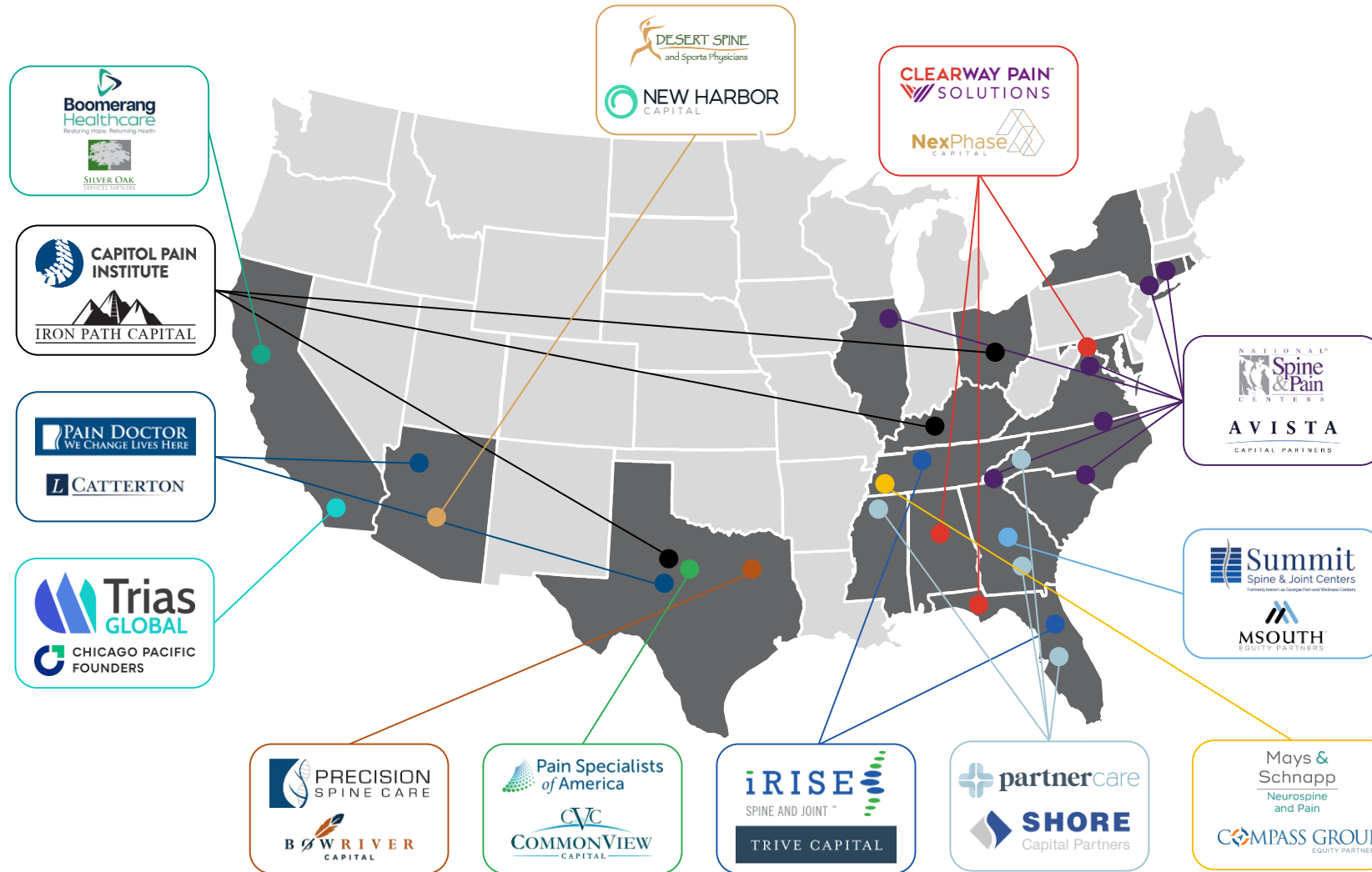
Major Affiliated Groups	Platform	PE Investor(s)	Initial Platform Date
			September 2022
    			December 2021
    		STONE POINT CAPITAL	June 2021
  			June 2021
 			January 2021
 			October 2020
     			October 2020

Select PE Platform Investments in Orthopedic Surgical Specialty Groups

Select Orthopedic M&A Platforms

Major Affiliated Groups	Platform	PE Investor(s)	Initial Platform Date
			<p>July 2019</p>
			<p>July 2019</p>
			<p>September 2018</p>
			<p>June 2021</p>
			<p>November 2017</p>
			<p>August 2017</p>

Representative Interventional Pain Focused Platforms



What Physicians Should Ask About Exploring a Strategic Partnership

Transact or Stay the Course

- A potential strategic partnership may be beneficial
 - ***But it's not right for every physician***
 - Some physicians will decide staying independent is best

First Test the Market

- Before making the decision to “stay the course” forward-thinking physicians should at a minimum explore strategic alternatives
 - “Testing the market” to see options and terms
 - Ultimately assess the pros and cons of each

Make a Fully-Informed Decision

- Fully-informed decisions if a strategic transaction positions you for long-term success; or alternatively, that remaining independent is best

8 Key Considerations Facing Independent Medical Groups

1

Market Consolidation



Consolidation is resulting in larger and more well-capitalized competitors

2

Reimbursement & Regulations



Uncertain reimbursement environment and future regulatory changes

3

Power Players Acquiring Referral Sources



Primary care referral sources are being gobbled up

4

Value-Based Payment



Shift from fee-for-service to value- / risk-based payment structures

8 Key Considerations Facing Independent Medical Groups (continued)

5

Direct Contracting



Expertise in direct contracting with self-insured employers grows

6

Capital for Healthcare IT & Ancillary Expansion



Capital to invest in IT, advanced analytics, EMR, virtual care, and new / expanded ancillary services and offices

7

Focus on Outpatient Setting



Setting of care shifting to ambulatory / outpatient setting

8

New Normal Post Pandemic



Uncertainty for “new normal” following pandemic

Top 3 Reasons Groups Decide to Transact/Partner

Benefits of Larger Corporate Infrastructure for Growth & Success

1

Greater Access to
Capital to Fund New
Ancillaries, ASCs, and
Physician Recruitment

Experienced /
Sophisticated
Corporate Executive
Stewardship

Investment in Latest
IT / EMR / Data
Analytics

Cost Savings Through
Consolidated Back-
Office Functions

Lower Operating
Costs Via Group
Purchasing

Top 3 Reasons Groups Decide to Transact/Partner

Future Risks & Uncertainties in Medical Practice

2

Changes in Reimbursement Impacting Medicare and Commercial Payors

Heightened Competition From Hospitals and Health Systems

Acquisitions of Independent PCP Referral Sources

Slow, but Continuous Shift to Value-based Payment Risk Contracts

Continuing Growth of Direct Contracting With Self-Insured Employers

Top 3 Reasons Groups Decide to Transact/Partner

Monetizing “True Value” of a Medical Practice

3

Resilient Market With
High Valuations

Good Time to
“Monetize” at Tax-
Advantaged Rate

Take Chips Off The
Table

More Cash Upon
“Exit” of Investor
 (“Second Bite”)

Much Higher Buyout
of Rollover Equity
upon Disability,
Death, Retirement,
etc.

Private Equity as a Potential Partner

AS A PLATFORM, PROVIDERS WOULD SET THE STANDARD FOR AUTONOMY AND CLINICAL OPERATIONS.

Private equity firms attain a controlling interest by “acquiring” a majority of the practice.

Physician owners continue to own a minority interest via “roll-over equity” in the partnership investment platform.

Physician owners share along with the private equity investor in upside value appreciation post-transaction.



How Private Equity Can Benefit All Partners

PRIVATE EQUITY INVESTMENT CAN PROVIDE VARIOUS BENEFITS TO ALL PARTNER COHORTS

	Newer Partners & Mid-Career	Late Career
Rollover Equity	<ul style="list-style-type: none"> Retain higher equity percentage Participate in multiple transactions Buyout at fair market value upon disability, bona fide retirement (age 65+), death, etc. 	<ul style="list-style-type: none"> Retain equity / continue career (usually requires 5-year commitment) Second liquidity event (if still practicing, else buyout at Fair Market Value)
Cash at Closing	<ul style="list-style-type: none"> Retire any medical school or other debt Invest closing cash as each sees fit (e.g., stocks, retirement, college, 2nd house) 	<ul style="list-style-type: none"> Diversify wealth before retirement
Post-Closing Comp.	<ul style="list-style-type: none"> Productivity-based / market rate (but for longer runway) 	<ul style="list-style-type: none"> Productivity-based / market based
Lifestyle Benefits	<ul style="list-style-type: none"> Focus on practicing medicine Less stress and risk as an owner 	<ul style="list-style-type: none"> Focus on practicing medicine Less stress and risk as an owner

Can I Participate in a Lucrative Private Equity Partnership If My Group Is in a Hospital Professional Services Agreement (PSA) or If I Am Employed by a Hospital?

THE ANSWER IS POSSIBLY YES – BUT IT DEPENDS ON THE TERMS OF YOUR EXISTING PSA OR EMPLOYMENT AGREEMENT WITH THE HOSPITAL

Two Key Threshold Considerations:

(1) When does the current term of the PSA or Employment Agreement end?

- Is 12 months' (or other) advance notice needed to avoid auto-renewal?
- Is there a right to terminate at any time with 12 months' (or other) notice?

(2) What are the terms of any binding post-termination non-compete?

- Some only restrict “deals” with competing hospitals & allow private practice.
- Others don't allow private practice within a certain region (e.g., a mile radius), in which case you can either:
 - If feasible, establish a practice (in partnership with a PE platform) outside of the covered region; or
 - Explore if the hospital would waive the noncompete and enter an agreement for ongoing clinical services (e.g., call coverage, directorships, etc.)

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Other Considerations:

- Is there a post-termination “transition” provision that allows you to buy back any practice assets sold to the hospital and take over office leases?
- Are all of your “partner physicians” aligned in transitioning to a private medical practice via a partnership with a PE Platform?
- What EMR will you use? Will the hospital allow you to “lease” its EMR on reasonable terms, or will you use the PE platform’s existing EMR?
- Commercial Payor Agreements? If you are not joining an established PE platform, the new PE partner will need to establish key commercial payor agreements with the practice to “go live” on the date of the termination of the PSA or employment.
- Strict Confidentiality and Carefully Choreographing each step is Crucial!

Is A Private Equity Backed Group Right for My Future?

4 KEY QUESTIONS FOR CONSIDERATION

1

Fit of Potential Partner

The overall cultural fit, track record, and specialty expertise of the potential private equity partner organization

2

Infrastructure and Growth

The need for working capital to invest and support practice infrastructure and growth (including the addition of more physicians, office locations, ancillary services, EMR, virtual care, etc.)

3

Risks, Reimbursement and Regulations

Local and regional market risks impacting the practice within the context of the changing reimbursement and regulatory programs, and increasing uncertainty in the post-COVID-19 healthcare industry environment

4

Monetizing Ownership

The importance of “monetizing” the value of historical physician ownership relative to forgoing non-clinical business and/or operational autonomy

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QUESTIONS & ANSWERS

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