



GARFUNKEL WILD, P.C.
ATTORNEYS AT LAW



CURRENT STATE OF HEALTHCARE TRANSACTIONS

ASC & HEALTHCARE MANAGEMENT SYMPOSIUM

OCTOBER 25, 2022

Matthew Searles, MBA, Partner, Merritt Healthcare

Robert C. Goettling, Principal, The Bloom Organization

Moderated by Kimberly Kempton-Serra, Partner, Garfunkel Wild, P.C.

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ABOUT KIMBERLY KEMPTON-SERRA



Kim Kempton-Serra's practice includes corporate transactions, regulatory and tax analysis, leases, and employment agreements for hospitals, physicians, managed care companies and other health industry clients. She also has substantial experience in connection with the establishment and operation of ambulatory surgery centers, as well as joint ventures among health care facilities, physicians and other business entities.

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ABOUT MATT SEARLES, MBA



Matt Searles, MBA

Merritt Healthcare

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Matt Searles has served as a partner with Merritt Healthcare since 2001. In that time, he has developed, managed and advised a variety of healthcare facilities across the country. Merritt is currently one of the largest privately held surgery center companies in the U.S.

In his role as managing partner of Merritt's investment banking business, Matt has acted as a sell-side advisor on over \$3B in transactions involving surgery centers, surgical hospitals and physician practices. He has represented hospital systems acquiring outpatient facilities, as well.

Matt also proudly serves on the board of directors of both Latino U College Access and The Guidance Center of Westchester (TGCW). Latino U's mission is to increase college enrollment and completion among Latino youth who are first in their family to attend college by providing guidance and access to opportunity through education, advocacy and collaboration. TGCW offers essential and lasting support to those challenged by mental illness, substance abuse, poverty and homelessness.

Matt holds an MBA from Duke University and a bachelor's degree in economics from the University of Virginia, where he was a member of a varsity athletic team. He now lives with his wife and five children in Westchester County, N.Y. He also is a registered investment banking agent with Series 79 and 63 licenses.

ABOUT ROBERT C. GOETTLING, ESQ



Robert C. Goettling

The Bloom Organization

Principal

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Bob Goettling has thirty years of experience in the healthcare industry. He primarily focuses on the transactional aspects of physician practices, ambulatory surgery centers (ASCs), physician joint venture projects with health systems, private equity firms, and strategic buyers throughout the United States. Since 2007, Mr. Goettling has led The Bloom Organization's transaction services team. He is a licensed investment banker and securities principal. Mr. Goettling has been instrumental to The Bloom Organization's mergers and acquisitions advisory group, which has become the leading physicians sell-side advisory firm closing over \$3 billion in transactions.

Before joining The Bloom Organization, Mr. Goettling co-founded NovaMed, Inc. (Nasdaq: NOVA), one of the original practice management firms in the 1990s, where he held a variety of senior-level executive positions during his twelve years with the company, including senior vice president of corporate development. Mr. Goettling had operational and development responsibilities and conducted numerous acquisitions, divestitures, and mergers while heading NovaMed's development team for over ten years. Mr. Goettling also had operational responsibilities for ASCs and physician practices during his years with NovaMed. After joining Henry Bloom, as the two pioneers of sell-side physician representation, they represented HIG Capital and its ASC company, Surgery Partners (Nasdaq: SGRY), which acquired NovaMed in 2011.

- 1. Today's Economy and Healthcare Transactions**
- 2. Attractive Specialties**
- 3. Transaction Considerations**
- 4. Market Consolidations**
- 5. New Players in Healthcare**

TODAY'S ECONOMY AND HEALTHCARE TRANSACTIONS

- **Valuations**
- **Inflation / Increased expenses / Higher interest rates**
- **Level of interested buyers**
- **Variation among specialties**



SAMPLE VALUE ILLUSTRATION

Assumptions	
# of Partners	10
Average Comp	\$ 700,000
Scrape	30%
Rollover Equity	30%
2nd Bite Multiple	3x

	<i>10x Multiple Example</i>		<i>12x Multiple Example</i>	
	Group Total	Average Partner	Group Total	Average Partner
Partner Earnings	\$ 7,000,000	\$ 700,000	\$ 7,000,000	\$ 700,000
% "Scrape"	30%	30%	30%	30%
"Scrape" \$	\$ (2,100,000)	\$ (210,000)	\$ (2,100,000)	\$ (210,000)
Pro Forma Earnings (Go-Forward)	\$ 4,900,000	\$ 490,000	\$ 4,900,000	\$ 490,000
EBITDA (= "The Scrape")	\$ 2,100,000	\$ 210,000	\$ 2,100,000	\$ 210,000
Multiple	10.0 x	10.0 x	12.0 x	12.0 x
Purchase Price	\$ 21,000,000	\$ 2,100,000	\$ 25,200,000	\$ 2,520,000
Cash Consideration (70%)	\$ 14,700,000	\$ 1,470,000	\$ 17,600,000	\$ 1,760,000
Equity Consideration (30%)	\$ 6,300,000	\$ 630,000	\$ 7,600,000	\$ 760,000
"Second Bite" Multiple	3.0 x	3.0 x	3.0 x	3.0 x
Second Bite (Return On Equity)	\$ 18,900,000	\$ 1,890,000	\$ 22,800,000	\$ 2,280,000
Total Cash, 1st and 2nd Bite ¹	\$ 33,600,000	\$ 3,360,000	\$ 40,400,000	\$ 4,040,000

¹ Not reflective of present-value of money, compounded investment returns, etc.

TRANSACTION CONSIDERATIONS



REASONS TO CONSIDER A TRANSACTION

Equity in your practice is part of your personal financial portfolio. And like other assets, you should continually analyze opportunities to increase return and reduce risk.

MAXIMIZE RETURN

- Capitalize on premium market-valuations
- Convert equity in your practice into cash, receiving benefit of present-value dollars
- Convert distributions taxed at ordinary income into cash subject to long-term capital gains tax
- Roll and leverage equity through debt-financed, growing organization
- Partner with finance professionals and operating executives with expertise in scaling businesses, increasing the value of your equity for a **“2nd bite” transaction**

REDUCE RISK

- **Reduce your equity exposure** to the evolving healthcare delivery landscape
- Reduce exposure to **cuts in reimbursement**
- **Share the cost of significant capital investment** needed to stay on the cutting edge and to create growth with a financial partner

WHAT IS PRIVATE EQUITY? (“PE”)

Private Equity firms raise capital from institutional investors and invest that money in buying and selling companies that are not publicly traded.

- A PE fund’s lifespan is typically 5-7 years, when investors in the fund will then receive a return on initial capital invested
- Provide sophisticated executive resources with expertise in scaling businesses to drive incrementally greater value
- Lower middle-market (\$10-\$50M), middle-market (\$50-\$500M), upper-middle market (\$500M-\$1B), large cap buyers (\$1B+)
- Leveraged buyouts – deals involve some combination of buyer cash and bank debt

PHYSICIAN GROUP M&A MARKET TRENDS

The emergence of investment interest from new buyers such as vertically integrated payors/strategic buyers and private equity firms/financial sponsors have expanded the strategic options available to healthcare providers

Hospitals/Health Systems



Pros:

- Referral network
- Guaranteed compensation
- Stronger clinical operational knowledge and capabilities
- Geographic congruency

Cons:

- Least favorable financial considerations
- Potential lack of value-based arrangements
- Lack of equity ownership opportunity

Payors/Strategic Players



Pros:

- Increased access to strategic data and technology infrastructure
- Greater access to population health capabilities
- Risk and shared savings arrangement expertise
- Attractive financial considerations

Cons:

- Decreased clinical and operational autonomy, compensation guarantee
- Potential lack of cultural alignment

Private Equity



Pros:

- Performance incentives
- Entrepreneurial growth-driven model
- Up-front cash consideration and potential “second bite at the apple”

Cons:

- Potential lack of operational and/or specialty-specific experience
- Potential decreases to guaranteed compensation in lieu of up-front cash consideration and future equity appreciation opportunities

MARKET CONSOLIDATIONS

Current Trends

Benefits

Pitfalls



NEW PLAYERS IN HEALTHCARE



THANK YOU!