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Today's topic

Shopping for docs and finding the right fit — A look at the buying process of medical practices and how they are then integrated into the system



Dr. James Dan
President,
Advocate Medical Group



Dr. T. Clifford Deveny
Senior vice president of
physician practice
management,
Catholic Health Initiatives



Dr. Stephen Houff
CEO,
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Dr. James Dan
President,
Advocate Medical Group





Why an Upsurge?

- Reimbursement decline
- Increased expense structure
- Regulatory burden
- New physicians seek groups
- Recognition of faults of fragmentation
- Hospitals' need for aligned physicians

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What Result for AMG?

Year	Physician Growth
2012	1,015 (projected)
2011	823 (year-to-date)
2010	748
2009	695
2008	581
2007	515

Current APNs/PAs = 80



What are the Building Blocks?

- System: Dedicated capital and operation expense
- System: Articulated strategy for PCP and specialty
- Hospital: Synergy of administration teams
- AMG: Dedicated recruitment and acquisition team
- AMG: Attractive governance, practice environment and competitive compensation models

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What are the Acquisition Steps?

- Initial presentation focused on Advocate MVP, vision of AMG, decision making and value proposition
- Letter of Confidentiality and data request
- Compensation modeling
- Arms length valuation of business
- Letter of Intent
- Final agreements: Employment and purchase
- Dedicated integration team



AMG Current State

- Challenged by rapid growth
- Bedrock of clinical integration for system
- Pipeline of physician leadership for system
- Developing culture of service
- Top quartile physician satisfaction
- Leading service lines
- Secure stable practice environment

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Dr. Stephen Houff
CEO,
Cogent HMG



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Industry leaders and pioneers in Hospital Medicine

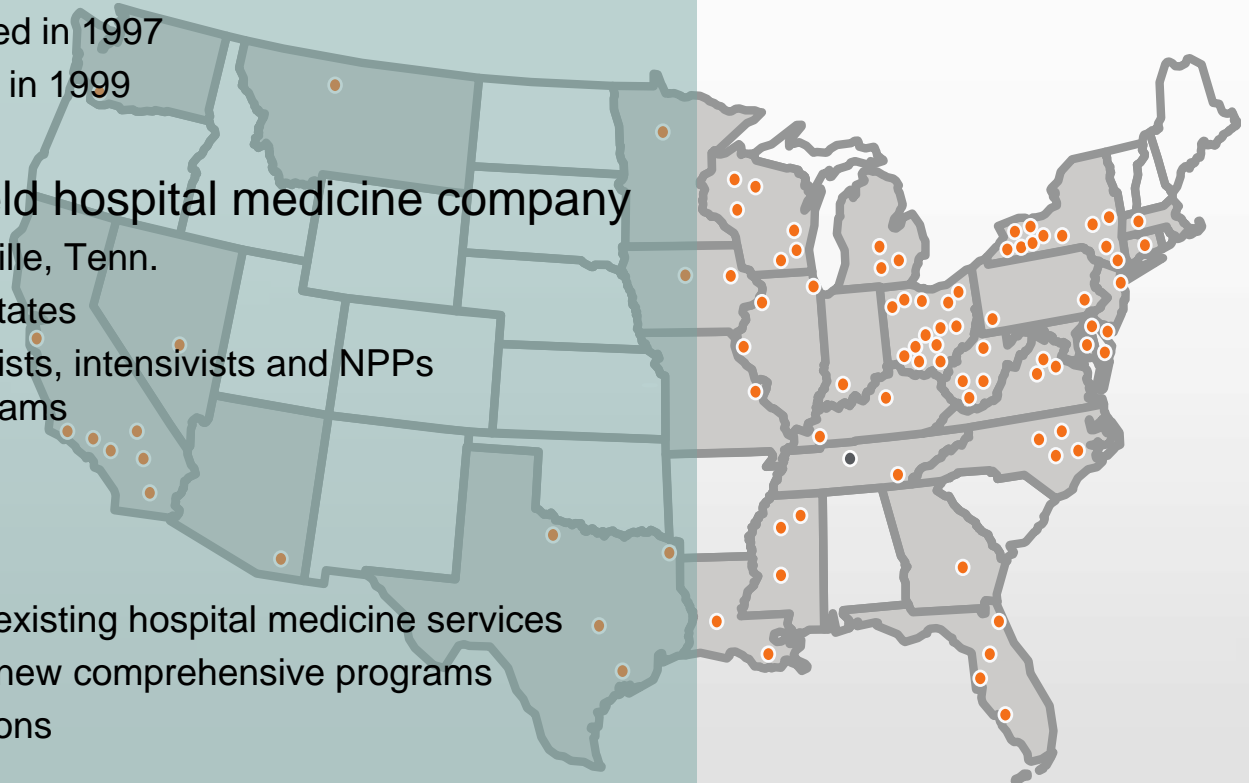
- Cogent – Founded in 1997
- HMG – Founded in 1999

Largest, privately-held hospital medicine company

- Headquartered in Nashville, Tenn.
- Hospital partners in 29 states
- 1,000+ affiliated hospitalists, intensivists and NPPs practicing in 100 programs

Solutions

- Consulting
- Management of existing hospital medicine services
- Development of new comprehensive programs
- Intensivist Solutions

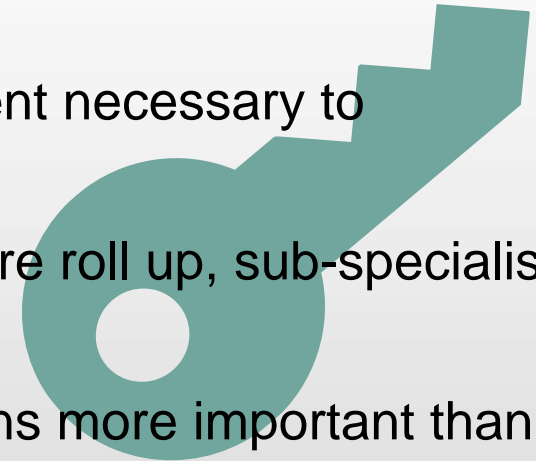


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KEY INDUSTRY ASSUMPTIONS

- Reimbursement transitioning from fee-for-service to population health management
- Risk shifting from payers to providers
- Technology and communications investment necessary to profitably manage risk
- Health system capital tied up in primary care roll up, sub-specialist rescue
- Alignment between hospitals and physicians more important than ever to meet cost and quality imperatives



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HOSPITALIST SPACE

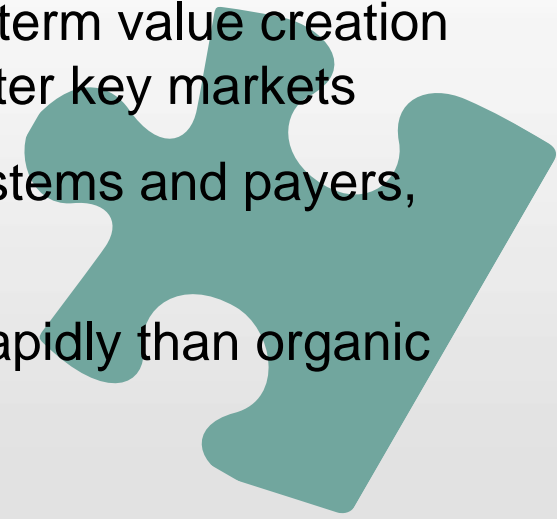
- 10B and growing (15% annually), highly fragmented market
- Largest public company + largest private company each represent less than 4% market share
- Majority of the outsourced market via regional and local groups lacking MSO infrastructure and data or capital to partner with payers or providers to accept population risk
- Huge supply/demand mismatch in physician workforce

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ACQUISITIONS – COGENT HMG'S VIEW

- **Strategic rationale** – evaluate the business case, cultural fit, and quality of physician asset
- **Market** – focus is on markets that align long-term value creation over short term contribution, mechanism to enter key markets
- **Relationships** – partnerships with health systems and payers, current state and future view
- **Velocity** – acquisitions provide scale more rapidly than organic growth



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NOTABLE COGENT HMG ACQUISITIONS

- **The Intensivist Group** – Critical care expertise provided service line expansion highly complementary to hospital medicine



THE INTENSIVIST GROUP
LEADERSHIP IN CRITICAL CARE

- Largest dedicated critical-care management company

- **Endion Hospitalist Systems** – Leveraged existing deep market relationships and quality physicians with added infrastructure

Endion
Hospitalist
SYSTEMS

- Leading service provider in western New York

COGENT **HMG**
hospitalist management group

www.cogenthmg.com

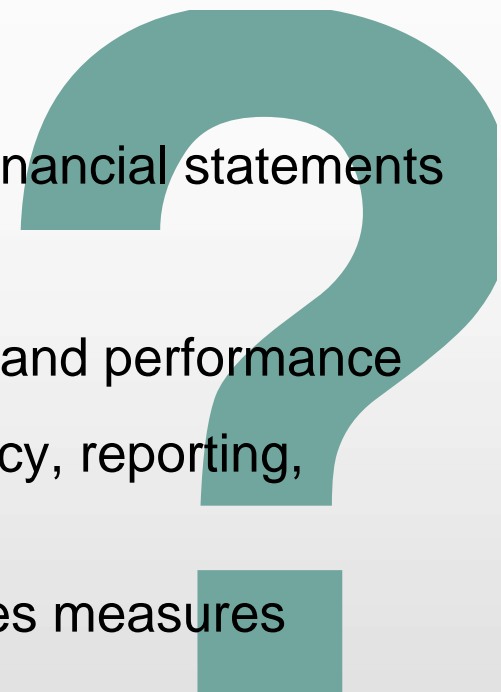
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CHALLENGES OF HOSPITALIST ACQUISITIONS

- Diligence of Hospital and Payer contracts
- Getting comfortable with unaudited practice financial statements
- Physician retention - owners vs. employees
- Maintaining productivity, revenue projections and performance
- Quantifying improvements to practice efficiency, reporting, recruitment
- Implementation of best practices, IT, outcomes measures



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ACQUISITION ALTERNATIVES

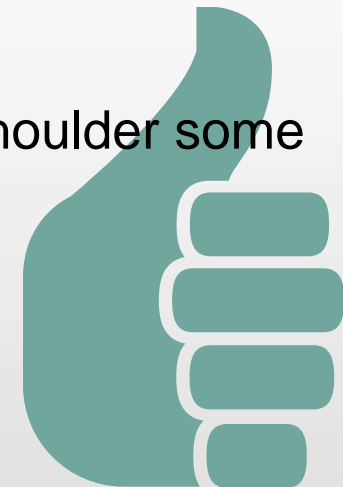
- Acquisitions require **capital** and often involve **greater risk** than other options to meet physician resource, so a key strategic element to consider is what other options are available
- Complex and unique alignment challenges in Hospital Medicine – steep learning curve
- In-market Hospitalist resources inadequate, unaligned or uninterested in partnership
- Partnerships/outsourcing – turn-key contractual relationships may be best alternative

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NON-EMPLOYED PHYSICIAN PARTNERSHIP BENEFITS

- Clear alignment from the outset, along with expertise, infrastructure and execution required for program success
- National knowledge sharing and informatics
- Outsource risk – the right partner will be willing to shoulder some of the risk
- Faster achievement of ROI

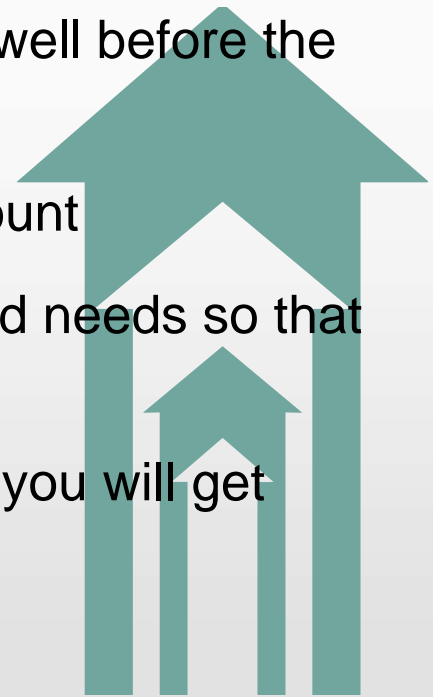


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INTEGRATION CONSIDERATIONS

- Foundation of successful integration takes place well before the deal closes
- Ensuring alignment of cultures & vision is paramount
- The business strategy must balance strengths and needs so that each party is fortified by the acquisition
- Take great care in creating incentives, in the end you will get exactly what you incentivize



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CLINICAL INTEGRATION

- Quality physicians are leveraged with infrastructure & technology
- The system must be in place to meet today's needs yet flexible to adapt to the changes we know are coming
- Expertise and ability to execute
- Leadership, training and accountability are keys
- Reasonable pace and scope of transition – set priorities and establish **TRUST**
- Viewed properly as a path to improved collaboration AND physician retention



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BENCHMARKING PERFORMANCE

- Diligence on the front end – set expectations, align goals, explore potential scenarios, establish milestones and key drivers
- Avoid the blame game – jointly decide pre-close each party's responsibilities and uncontrollable factors that can impact both parties
- Leverage technology to monitor progress closely on a real-time basis
- Establish framework for accountability and feedback





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Physician Acquisition – Reactive to Proactive

- The new era of health reform – what’s different now
 - Physician-acquisition strategy at Catholic Health Initiatives – the nation’s third-largest faith-based health system, with 73 hospitals and other facilities in 19 states (Annual revenue: \$9 billion)
- Key factors for consideration – and success: Transparency; accountability; performance metrics; culture; effective “on boarding”
 - What kinds of physicians? And why?



Shopping with Care, Confidence

- Risks, concerns about the move to employed physicians
 - How do changes in demographics, technology and lifestyle play into the equation for women, “millenniums” and others?
- Employment versus other models – i.e., joint ventures, independent practice associations and clinical co-management arrangements
 - Due diligence – a crucial factor
- Information Technology – a game-changer?

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Live and Learn -- Lessons from the Past

- What's different now from the last two waves of physician acquisitions? Is this another cycle – or an entirely new paradigm?
 - How do you properly judge a practice – or a physician's – true value?
- Buy? Lease? Prenuptials? Who owns that land?

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 **Webcast**

Q&A

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Andis Robeznieks
Reporter,
Modern Healthcare





Thank you...

... for attending today's editorial webcast on purchasing medical practices. We also thank our panelists, Dr. James Dan of Advocate Medical Group, Dr. T. Clifford Deveny of Catholic Health Initiatives, and Dr. Stephen Houff of Cogent HMG.

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