Executing an Ambulatory Strategy

Meet Our Speakers

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Our Discussion Today

- Reform, Changing Care Patterns & the Evolving Definition of Ambulatory
- Current M&A Trends
- Physician Practice of the Future
- Real Estate Implications & Strategies
- Case Study

What We Know About Reform

<table>
<thead>
<tr>
<th>What We Know</th>
<th>Actions We Should Take</th>
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<tbody>
<tr>
<td>We will be paid less</td>
<td>Develop low-cost, high-quality care sites</td>
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<td>There will be more focus on quality and outcomes</td>
<td>Develop vehicles to integrate care and provide early intervention and follow-up</td>
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<td>Inpatient utilization will go down (eventually)</td>
<td>Diversify beyond inpatient and develop new ways of doing business</td>
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<td>Changes in payment methodologies will force integration</td>
<td>Diversify and lead the process</td>
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<td>More focus on wellness</td>
<td>Develop or partner for entire continuum</td>
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<td>Contracting is going to be more selective, even for Medicare</td>
<td>Develop geographic coverage and high quality to ensure relevance</td>
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Changing Care Patterns

Growth likely to come through diversification away from acute care

Accountable Care Organization

Inpatient volume is largely stagnant and increasingly medical. Outpatient care is the fastest growing component of the U.S. healthcare system. Outmigration of care is both a threat and the greatest opportunity to grow profitable services.

Future Drivers for Success

Access
- Care Entry Points
- Convenience

Integration
- Balanced Capacity
- Manage Referrals / Utilization

Quality
- Measures & Reporting
- EMR

Economics
- Manage Cost Structure
- Planned Capital Investments
Evolving Definition of Ambulatory

**NON-INSTITUTIONAL SERVICES**

- Enhance care access points
- Facilitate better integration of care & improved quality
- Lower cost care delivery

Creating Balanced Capacity

- Define Priority Geographies
- Population Management Targets
- Physician Strategy
- Integrated Ancillary Services
Constellation Service Deployment

Executing an Ambulatory Strategy

Key Elements:
- Understanding the organizational structure
- Creating the best practice care environment
- Physician onboarding
- Operational prototyping
- Branding
Organizational Change

The number / types of organizational and governance models occurring today is unprecedented

- Acquisitions
- Healthcare system mergers
- Partnerships
- Contract affiliations
- Joint ventures
- Non-profits working with for-profits

Organizational Change

- Hospital Acquisitions/Mergers/Affiliations
  On Record Pace (3-5 Year)
  - Trinity Health/CHE Affiliation ($19 Billion)
  - CHI/St. Luke’s Episcopal
  - Tenet/Vanguard Acquisition
  - Scottsdale Health Care/John C. Lincoln ($1.8 Billion)
  - Edward Health Systems/Elmhurst Memorial Health Care ($1.8 Billion)
  - University Hospitals Cleveland/Parma and Elyria
Organizational Change Drivers

- Need to be “relevant” to payers and physicians
- Lack of access to capital for IT build out, physician alignment and ambulatory strategies
- Concern that when the music stops, there will be no chairs left

Organizational Change

- For-Profit/Not-for-Profit Partnerships
  - Duke-Lifepoint
  - Cleveland Clinic-Community Health Systems
  - United Surgical Partners-Baylor
- Drivers:
  - Academic affiliations bring increased clinical expertise and enhanced reputational value
  - For profit partners in better position to provide capital
Physician Practice of the Future

- The physician practice model is experiencing some of the greatest changes in the market
- Rising costs, shrinking reimbursement, medical specialty shortages, and increased regulatory and compliance requirements

Multiple types of structures will be utilized to support the medical practice of the future

- Group practice governance
- Hospital operated structures
- Independent model
- Management contracts
- Regional group model
- Contracted service relationships
- Academic models
Physician Practice of the Future

- Structures driven both by legal and local dynamics

  - Corporate Practice: Foundation/501(a) Models
  - Synthetic Employment: Professional Services Arrangements
  - Non-Corporate Practice: Direct Employment
  - Strong Independent: Management Services

Physician Practice of the Future

- Practice Acquisition Trends

  - Synthetic Employment/PSA
    - Benefits of employment
    - Meets Stark Law exceptions
    - Need to structure to meet AKS
    - Consider sales of ancillaries
    - Consider provider based rules

- Ancillary Carve Out Transactions

- Managed Care Plays
Best Practice Care Environment

- Review present state & determine practice benchmarks
- Redefine flow and practice expectations
- Prototype
- Establish a transition plan
- Determine and execute changes within the practice: cost control measures, registration, supply procurement and use of system support

Physician Onboarding

- Providing a collection of tools and skills to maximize the transition and integration of an individual practice or group to a new partnership and enhancing the physician engagement.
Maximizing the Process

- Develop
- Analyze
- Transition
- Credential
- Create
- Teach
- Onboard
- Integrate
- Monitor

Physician Onboarding: Lessons Learned

- On-site, day-to-day support
- Coordination
- Improved communication
- Higher level of satisfaction
- Increased compliance
- Improved production
Operational Prototyping

- Optimizes the care delivery model to attain new benchmarks
- Develops flexibility
- Provides options that are modular and scalable
- Increases patient satisfaction
- Recognizes the need for effective communication among staff members
- Acknowledges the role of IT in the care model

Branding

- Prototyping - scaleable spaces
- Common building images
- Color coordination
- Consistent signage
- Standard use of building materials
- Easy wayfinding
- Maximizes patients’ expectations
Real Estate Components

- Site evaluation
- Prototyping
- Transaction structure
- Cost of occupancy analysis

Site Evaluation

- Retail mindset
  - Visibility and brand identity
  - Access and parking

- Peer group comparison
  - Achieve minimum par relative to competitor facilities

- Adaptive re-use vs. ground-up development
Prototyping

Beyond operational benefits:
- Reduced A/E & construction costs
- Increased cost predictability
- Speed-to-market
- Consistent brand standard

Prototype cost saving potential:
- Elimination of user group driven design fees and change orders
- Reduced project contingencies
- A/E fee reduction by 10-20% and 5-10% construction cost savings
- Shortened project schedules by up to 30%
Transaction Structure

- Traditional hospital preference for ownership may not be appropriate or viable for ambulatory expansion programs:
  - Ambulatory expansion typically occurs in mature/built-out markets
  - Leasing offers increased speed-to-market and heightened network flexibility
  - Leasing programs require lower initial capital outlays
Cost of Occupancy

- Project Budgeting:
  - I-Occupancy vs B-Occupancy

- Term length:
  - Balancing the need for reduced out-of-pocket costs with long-term network flexibility

- Lease vs. own analysis:
  - Use of WACC vs. debt service comparison

Case Study:
Aurora Health Care
A Kit of Modules Approach

- Can be applied to:
  - Physician practice settings
  - Diagnostics / Imaging
  - Urgent Care
  - Physical therapy
  - Dialysis
  - Other

Aurora Health Care

- Integrated healthcare system serving over 90 communities
  - Largest system in Wisconsin
  - 15 hospitals & 159 clinics
  - 1,500+ employed physicians
Framework for Ambulatory Care Prototype Development

Scalable, standard, well-thought out practice models that accommodate most needs & provide for speed-to-market

Driving Operational Standardization

It starts with an understanding of the preferred standard clinical practice setting and includes a thorough study of the individual clinical practice components:
Modified Clinical Pods

Prototype A

- 9,300 SF
- 4-5 Physicians
- Exam Rooms (12)
- Procedure Room (1)
Prototype B

- 12,500 SF
- 6-7 Physicians
- Exam Rooms (18)
- Procedure Room (1)

Prototype C

- 38,600 SF
- 15-18 Physicians
- Exam Rooms (31)
- Procedure Rooms (6)
Prototype D

- 85,000 SF
- 32-40 Physicians
- Exam Rooms (72)
- Procedure Rooms

Prototype E

- 225,000 SF
- 90-100 Physicians
Leased Space Prototyping

Leased Space Application 1
Leased Space Prototyping 2

Leased Space Application 2
Benefits of Ambulatory Prototypes

- Lower cost facility model = less required capital = improved ROI
- Integrate best practices across the system
- LEAN approach to achieve efficiency and productivity gains
- Speed-to-market
- Cost predictability
- Brand consistency