CCBD GROUP
CANCER CENTER BUSINESS DEVELOPMENT

Strategic Partnering Options
What's My Practice Value?

Ronald Barkley, MS, JD

February 24, 2017

Disclosures

- I **do not intend** to discuss an off-label use of a product during this presentation
- I **have not had** any relevant financial relations during the past 12 months to disclose

What's My Practice Value?

Practice "value" is relative to who's doing the buying

What's My Practice Value?

Practice "value" is relative to who's doing the buying

1. Value in a practice acquisition/merger
2. Value in a practice-hospital consolidation
3. Value to a practice management company
4. Value to a Payor with narrow network strategy

1. Value in a practice acquisition/merger

- Practice sells “hard” assets and maybe some “soft assets” (workforce in place, IP)
- Transfers patients and payor relationships
- Post-acquisition/merger, often operates relatively independently as its own “division” of the consolidated practice
- Advantage is scale: larger geographic footprint, market leverage, buying power, opportunities for centralized administrative cost efficiencies = sustainable physician compensation pool

2. Value in a practice-hospital consolidation

- Practice sells “hard” assets and maybe some “soft assets” (workforce in place, intellectual property)
- Transfers patients and payor relationships to hospital (hospital is the provider)

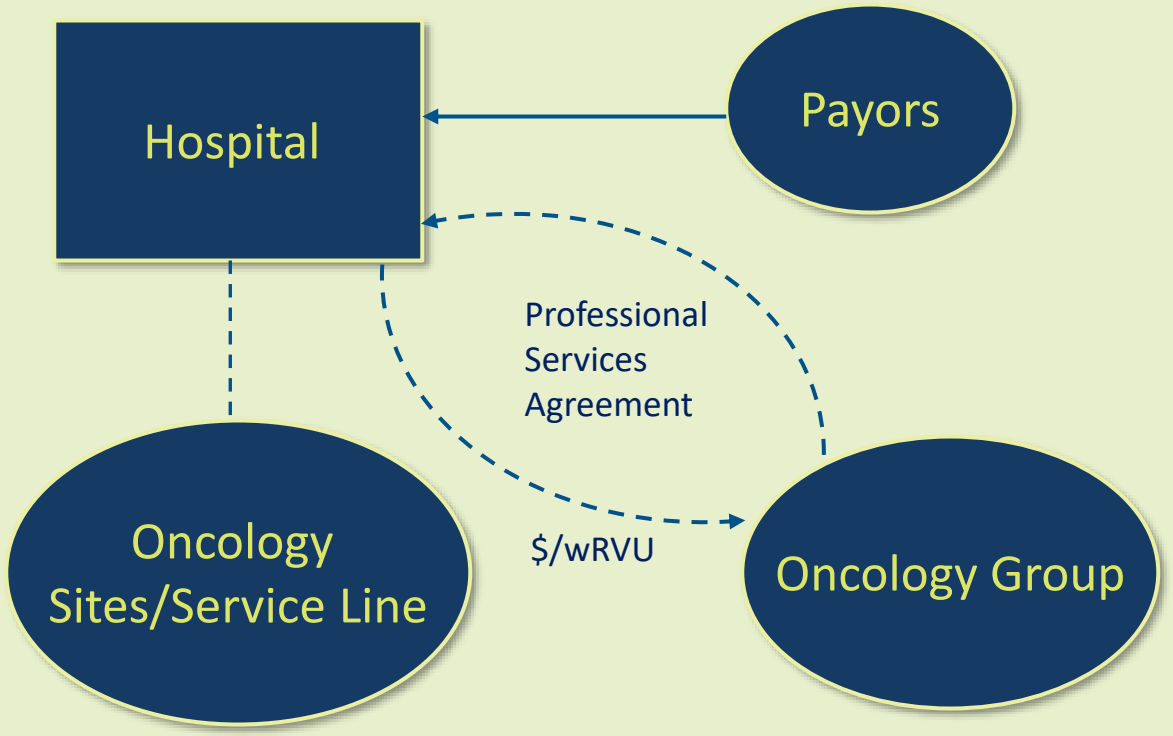
- Practice enters into professional services agreement (PSA) to provide medical services to hospital patients
- PSA compensation typically based on $ per E&M wRVU [**caution:** wRVU rate to factor in drug admin RVUs formerly generated in private practice]

2. Value in a hospital-practice consolidation

- Where applicable, hospital 340B drug pricing to reduce drug costs by about 25% (example, small practice annual drug buy of $20M = $5M “new found” bottom line)
- Advantage is a sustainable practice environment which shifts operating expenses and risk of collections to hospital
- However, PSA length typically only 3 years.
  [**Caution:** PSA renewal and exit terms?]

Professional Services Agreement

Hospital provides:
- License
- Provider-based status
- 340B pricing



Group provides:
- Physician/NP/PA staffing

Foley & Lardner, LLP. 2017

Provide Management Services?

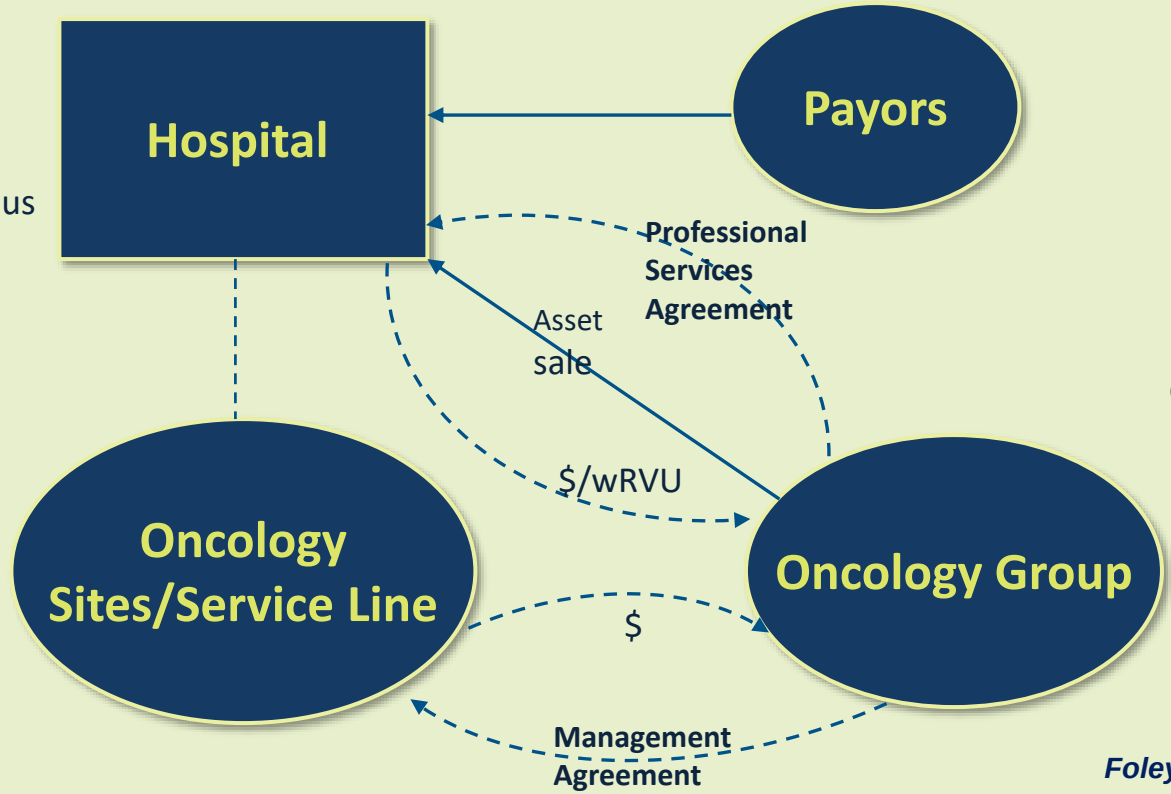
- In addition to being paid for providing professional services, what else can the practice do to generate income?
- What about being paid for providing service line clinical management and administrative services? [sometimes referred to as “co-management”]

What Kind of Management Services?

- Medical directorship
- Executive management
- Clinical program development (genetic counseling, survivorship)
- Pathways/protocol development, compliance management
- Payor contracting and payor strategies (including value-based oncology initiatives)
- Revenue cycle (coding and claims administration)
- Drug management (acquisition, inventory management, safety, clinical oversight)
- Specialized staff recruitment, training, retention
- Develop and deploy data analytics, metrics, data dashboards

Professional Services Agreement with Management Services

Hospital provides:
- License
- Provider-based status
- 340B pricing
- Space/equipment
- Nurses/techs (off-campus)



Group provides:
- Physicians/NPs/PAs
- Non-clinical staff
- Nurses/techs (on-campus)
- Administrative services?

Foley & Lardner, LLP. 2017

Notes:
- **FMV for assets and Group retains cash and A/R**
- **PSA on fair market wRVU or fixed compensation basis**
- **MSA on a cost plus fair market mark-up or fixed fee basis**
- **Billing services at fair market percentage of collections or fixed fee per claim?**

Practice Capacity to Provide Management Services

- What is the practice's current capacity to provide service line management services?
- Areas of strength? Areas to upgrade?
- Capital and operating costs to upgrade capabilities?
- What is the practice's "appetite" for assuming responsibility for service line management v. focusing on providing professional medical services?

3. Value to a practice management company

Example: McKesson/US Oncology Network (USON)

- USON manages practices. USON does not "employ" oncologists
- Like other options, USON acquires practice hard assets, assumes obligations, but also "purchases" accounts receivable – which are then applied on an accrual move forward basis to fund practice operations
- USON management fee is typically 20% of funds remaining after deducting operating expense, including USON allocated expenses (20% of the pre-distribution pool ['PDP'])

4. Value to a Payor with narrow network

- What is a commercial Payor willing to reimburse providers in a exclusive/preferred narrow network?
- Alternative “value-based” payment, typically designed to incentivize physicians to reduce the Payor’s overall cancer “spend”
- For example, oncology medical home/oncology care model (OCM) shared savings. Can cut “cancer spend” by 12%, mostly from avoidable ER/hospitalization costs
- Is it better to just “hold out” with expectation of continued fee-for-service? (Hint: MACRA – MIPS)

Example: Value of Practice in a Practice-Hospital Consolidation

8-oncologist practice sells assets and enters into PSA/co-management agreement with hospital.

Description	Amount
Sale price: hard assets (furniture, equip, drug inventory)	$600,000
Sale price: soft assets (work force in place, IP)	$250,000
Total up-front sales price	**$850,000**
PSA physician comp (wRVU x $120 negotiated rate)	$4,500,000
Co-management services comp (medical direction, exec management, revenue cycle, value-based strategy)	$1,200,000
Total annual PSA + co-management comp to practice	**$5,700,000**

Strategic Partnering Options
What's My Practice Value?

Comments? Questions?

Ronald Barkley, MS, JD

February 13, 2017

rbarkley@ccbdgroup.com