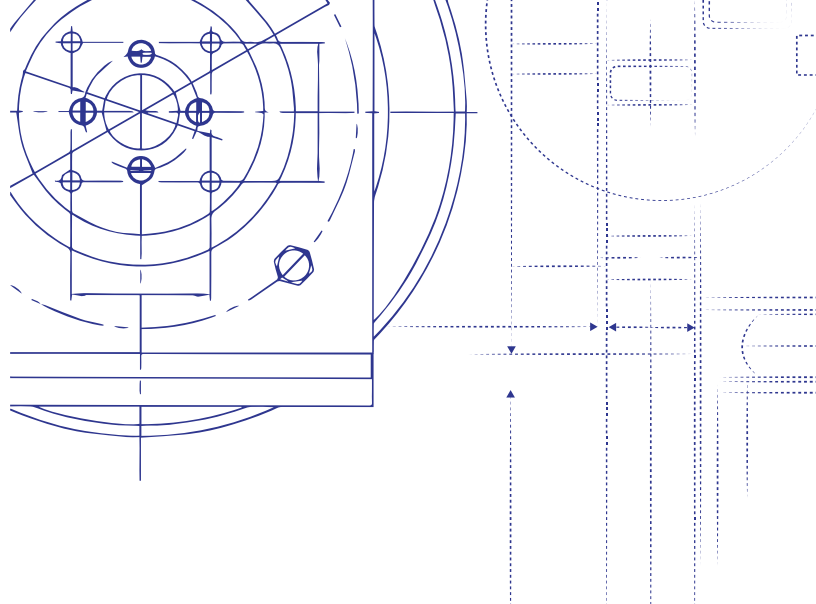




MSO Operations

April 15, 2021

	Improving practice operations – key focus areas	SCALE Advisor
Practice Strategy, Executive Oversight & Execution Project Management	- Continued desire to consolidate practices, whether driven independently by physicians or PE-based, creating a need for increased project management and deep domain expertise of nuanced processes - Many growing platforms seeking guidance and clarity regarding how to best structure and scale MSOs, align key stakeholders (e.g., MD retention) and deal with other issues such as cross-state platforms and implications of TIN integration. Platforms are working through the many layers of what integration can, should and should not mean across cultural and core functional domains - Practices failing to keep pace with market changes are facing steep indirect costs via missed value opportunities and gradually being outcompeted - need for strong, coordinated management leadership across key functions as well as sufficient investment in foundational reporting & analytics, technology solutions and branding & marketing - Continued growth in practices seeking to expand their ancillary and care coordination services and looking for ways capture revenue from multiple downstream services, not just E&M and procedures	SCALE Platform Development
RCM	- Creating and utilizing dynamic business analytics & dashboard reporting to monitor and improve quality, performance results and productivity efficiency - The AMA, with CMS' support, updated coding guidelines for outpatient visits in 2021 - Code based on Time or Medical Decision Making - Reduced documentation requirements – “appropriate” history and exam - Telemedicine expansion, ensuring compliant coding and documentation - Many multisite practices lag behind in centralized functions such as eligibility checks resulting in more expensive workflows - Growing emphasis on best practice protocols for patient balance collections - Improved contracted fee schedule rate management	 Bobby Trenczer

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Finance	• Adoption of enterprise resource planning ("ERP") systems across a broader portion of the market for more actionable data reporting and improved multi-dimensional reporting of performance (financial KPI reporting by location, clinical division, service line, etc.) • Accounts payable automation for improved process and cost efficiency, as well as improved financial controls • Tightening of revenue recognition policies and conversion of cash-based financial reporting to accrual reporting • Improved month end close timelines – a number of practices continue to operate in the dark and / or off of stale data due to lagging reporting • As a greater portion of revenue moves to at-risk reimbursement models, practices will require additional financial analytics • Tracking of fee-for-service equivalency for capitated payments • Population health claims analysis • New, robust reconciliation processes	 Rich Veltre
IT / Data	• Practice consolidation activity is driving questions around IT systems integration strategy – historical lack of in-house IT expertise across a broad portion of the market is creating confusion and reactive approaches to complex IT systems integration execution processes • Platforms of scale are gradually incorporating more strategic IT business plans into their scaling & investment strategies – process automation, advanced data analytics, claims analysis, etc. • Improved system and service integration through API capabilities of cloud systems (e.g., two-way texting, phone services, single sign on) • As coverage emerges, improved 5G cellular throughput for mobility outside of practice location and provisioned as network provider • Data mining and reporting for clinical outcomes management and value-based care participation • Continue increased tele-communication capabilities for provider to patient encounters, as well as support for remote practice workforce • Enhanced security roll-out through multi-factor authentication techniques (SMS, Phone applications) • Use of extraction and digitization methods for legacy medical records archiving on Cloud-based storage. • Use of robotic process automation to reduce labor costs associated with routine work processes.	 David Kovel

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Marketing	- With technology and social media platforms focusing resources to help thwart misinformation, there is a need for health authorities to share their expertise - Invest in / or engage providers to be more involved in the digital experience - Produce unique health video content in engaging and digestible formats - Partner with patient communities, industry publications and brands with engaged followings - With the emergence of scaled and more sophisticated players in the practice market, branding & marketing will become an increasing area of execution focus - Direct, patient referral, and “web” patient volume will grow as a percentage of total referrals - Analytics will be key – which marketing channels & strategies are driving ROI? - The definition of best-practice marketing programs will expand: IT integration, front-end / scheduling operations integration, patient engagement / satisfaction - MSO brands that have remained “behind the scenes” at sole prioritization of local market practice branding may face competitive disadvantages. Balance is needed between preservation of local practice brand connection to patients and development of a unified MSO brand. A well-calibrated marketing & branding strategy offers potential value in: - New market entry - Payer discussions - Presenting the MSO as a value-add management partner vs. a quasi-shell company - Willingness for patients to travel, especially in specialty categories - Marketing & branding needs will continue to be applied to direct patient acquisition strategies, but also to an expanded range of use cases with growing sophistication. Marketing strategies will need to be integrated into broader business and corporate development programs - Corporate M&A target sourcing - Physician recruitment - Strategic partnership development - Payer relationships - Hospital relationships	 Laurel Sutherland  Jason Manke

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Payer Contracting	• Payment methodologies, systems and structures are rapidly evolving wherein traditional fee-for-service methodologies are shifting to value-based payment systems rewarding outcomes and population health management. Provider based organizations should conduct periodic strategic assessments to determine readiness for value based contracting and if applicable have a roadmap for evolving with the industry. • Regardless of the dynamic conditions in the industry, payer contracts require periodic review, analysis, and management oversight to ensure payment methodologies, reimbursements, terms, and conditions are structured to optimize financial performance and that actual performance is materializing as expected. • Terms and conditions of payer contracts should also be supportive of patient volume expansion and network platform optimization. • Payer contract assessment and a strategic SWOT analysis should address opportunities for payer negotiations based on these considerations as well as current rates benchmarked to market rates, market position, competition and unique value add proposition.	 Joe Keane
Human Resources	• With patient experience/service being a key driver of returns and referrals, ensuring the staff is providing outstanding “customer” service is becoming increasingly critical • Regular training, feedback loops and updates need to be available • Those providing outstanding service to patients/clients should be rewarded and recognized • Performance management assessment tools that measure important metrics are important to making “people” decisions. Under performing employees need to be moved up or moved out and the process needs to be perceived as fair. Managers need to be trained on those tools and encouraged to use them regularly. • Culture is a key to integration. How newly hired/acquired employees are welcomed into the organization and what desirable elements are part of the overall employee value proposition will determine whether you can maintain current staff. Are desired HR policies, such as remote work and time off, up-to-date? • Talented employees are not easy to find, nor are they easily retained (because the best employees can always find something else). A competitive salary and benefits program (and knowing what that means), along with a desirable culture, will help with managing and maintaining top talent. • Communication and opportunity for growth are important element of employee engagement. Do employees know what and how the organization is doing? Are there opportunities for training and development, both “soft skills’ and technical, even if that might involve releasing staff for training, to safeguard long-term retention?	 Glenn Courounis

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Restructuring	- Between March 1, 2020 and June 30, 2020 hospitals lost an estimated \$202.6 billion. The nursing home industry with increased costs and reduced revenues is further negatively impacted by the tight lease terms entered into with real estate investment trusts, these terms will limit the ability to restructure these businesses. - An increase in healthcare organization failures, mergers and bankruptcy filings are expected in 2021 - Troubled for-profit hospitals will more likely reorganize through a chapter 11 bankruptcy filing, while distressed non-profit healthcare businesses will largely be sold through a Chapter 11 liquidation process rather than be reorganized - It is expected financially distressed skilled nursing facilities and assisted living facilities will elect receivership rather than the costly bankruptcy alternative - Beginning in the March 2020 with the on-set of the pandemic, the rating agencies took a very anticipatory view on ratings and outlooks across industries, and in particular healthcare related medically “non-essential” services. We expect this trend to continue as “non-essential” healthcare organizations recover from the pandemic lows, and the pent-up demand in delayed procedures create improved financial results. - More recently, the rating agencies have begun to either affirm or increase the ratings of healthcare organizations previously downgraded in the spring - As an example, a Dental Services organization first lien debt was upgraded in January by Moody’s, with the rating agency citing improved dental patient volumes and enhanced liquidity with cash from the CARES act. Importantly, the agency cited patient visits have recovered to “near pre-coronavirus levels.” - An orthopedic device manufacturer rating was affirmed recently from a previous downgrade, with a negative outlook changed to stable. Again, the rating agency acknowledged that while the business was initially impacted by the pandemic, it noted the company expanded EBITDA margins and preserved cash as its business increased with the rise in “non-essential” medical services in the Fall. - It is expected that highly leveraged/overleveraged healthcare entities will encounter tightened pressures from their creditors and potential distressed investors.	 Frank Turner

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Practice Valuations	• Pre-COVID, hospitals and health systems were actively acquiring medical practices that were strategic for maintaining their inpatient census, fulfilling primary care and specialty needs in their medical staff, and supporting ancillary services (i.e., laboratory, radiology, etc.) • During-COVID, independent practice valuation needs will certainly continue for hospitals and health systems for all of the above stated reasons, and will be further accelerated by medical practices within their geographic footprint that are continuing to struggle financially and operationally. • Hospitals and health systems may significantly change their thought process and overall approach to acquiring medical practices. • Financial performance and patient volume disruptions in medical practices caused by COVID has rendered the Income Valuation Approach (DCF Model) often difficult and sometimes impossible. • Some hospitals and health systems have pivoted to considering only the Replacement Cost Valuation Approach (hard assets, inventory, workforce-in-place and medical records) which most often yields a lower value for more mature medical practices. • In some situations, hospitals and health systems will only be interested in acquiring hard assets and/or patient medical records. • Expect to see physician compensation models and/or formulas become more “creative” and less driven by patient volume (i.e., Work RVUs).	 Michael Bradley