HORNE

Practice Characteristics	Notes	
Number of Partners		5
Total Partner Compensation	(1)	$ 1,750,000
Fixed Asset Value	(2)	150,000
Workforce Value	(2)	300,000
Supplies Value	(2)	50,000
A/R Value	(2)	250,000

Private Equity Transaction	Notes	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Total Partner Compensation			$ 1,750,000	$ 1,750,000	$ 1,750,000	$ 1,750,000	$ 1,750,000
MSO Fee	(3)		20%	20%	20%	20%	20%
Reduction in Compensation			$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)
Transaction Multiple	(4)	10					
Implied Enterprise Value	(5)	$ 3,500,000					
Cash	(6)	2,450,000					
Rollover Equity	(7)	1,050,000					2,100,000
Capital Gains Tax	(8)	(490,000)					(420,000)
Income Taxes	(8)		105,000	105,000	105,000	105,000	105,000
Total Taxes		(490,000)	105,000	105,000	105,000	105,000	(315,000)
			$ (245,000)	$ (245,000)	$ (245,000)	$ (245,000)	$ 1,435,000
After-Tax Impact	(9)	**$ 2,415,000**					

Hospital Transaction	Notes	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed Asset Value	(2)	$ 150,000					
Workforce Value	(2)	300,000					
Supplies Value	(2)	50,000					
A/R Value	(2)	250,000					
Total Physician Compensation	(10)		2,275,000	2,275,000	2,275,000	2,275,000	2,275,000
Increase in Compensation	(10)		525,000	525,000	525,000	525,000	525,000
Capital Gains Tax	(8)	(100,000)	-	-	-	-	-
Income Taxes	(8)	(75,000)	(157,500)	(157,500)	(157,500)	(157,500)	(157,500)
Total Taxes	(11)	(175,000)	(157,500)	(157,500)	(157,500)	(157,500)	(157,500)
			$ 367,500	$ 367,500	$ 367,500	$ 367,500	$ 367,500
After-Tax Impact	(12)	**$ 2,412,500**					

Notes

(1) Assumes average compensation of $350,000 per partner.

(2) Illustrative values based loosely on recent transaction experience. For simplicity we assume other current assets are offset by current liabilities which would be resolved out of closing funds in a typical hospital transaction.

(3) This reduction in compensation has different names but the function is the same: a reduction in gross compensation for partner physicians.

(4) Illustration of how a typical private equity valuation is structured - as a function of the annual reduction in compensation (which becomes cash flow to the acquirer) and a multiple.

(5) Equal to product of the annual decrease in compensation (-$350,000) and the multiplier (10).

(6) Private equity transactions are typically structured with a portion of the proceeds being cash (in this case 70%) with the remainder being "rollover equity" which represents shares in the acquiring company. We highly recommend the valuation of these rollover securities is also evaluated for reasonableness within the context of the overall transaction.

(7) In this example we assume that 30% of total transaction proceeds are structured as rollover equity which is not paid at closing but is instead "rolled into" the acquiring company. For illustration purposes, we project the value of this rollover equity to appreciate 100% by the end of the period, at which point a liquidity event is assumed to occur, causing the owners to pay capital gains tax on the entire amount of the rollover equity, since this amount was not taxed at the initial transaction date. This appreciation of rollover equity is a key assumption in the comparison of a hospital transaction versus a private equity transaction.

(8) Assumed capital gains tax rate of 20% and income tax rate of 30%

(9) Sum of initial after-tax cash proceeds, after-tax decrease in compensation, and after-tax rollover equity proceeds at the end of the period.

(10) We assume, for illustration purposes, an aggregate increase in partner compensation of 30% under a hospital transaction.

(11) We assume, for illustration purposes, that accounts receivable will be taxed at ordinary income tax rates.

(12) Sum of initial after-tax cash proceeds for assets and after-tax increase in compensation through the end of the period.