

AMSURG

Buy Presentation

REHG

Andrew Kim, Shruti Patel, Jason Newsted, and Kevin Xo

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WESTERN INVESTMENT CLUB

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Buy AmSurg

- Business Overview
- Investment Thesis
- Internal Analysis
- External Analysis
- Valuation
- Risks and Catalysts
- Recommendation

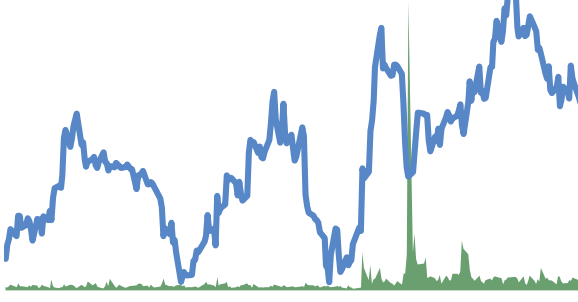


Business Overview

AMSURG

AmSurg is the largest owner and operator of Ambulatory Service Centers (ASCs) in the United States with over 240 locations

| AmSurg Corp. | | 1-Year Price/Volume (MM) | |
|-----------------------|--------------|--------------------------|------|
| Ticker | NASDAQ: AMSG | 55 | 10.0 |
| Stock Price (\$) | 48.83 | 52 | |
| Market Cap (\$) | 2,506 MM | 49 | |
| Enterprise Value (\$) | 3,594 MM | 46 | |
| P/E (NTM) | 22.1x | 43 | |
| EV/EBITDA (NTM) | 9.7x | 40 | |



Ambulatory Service Centers

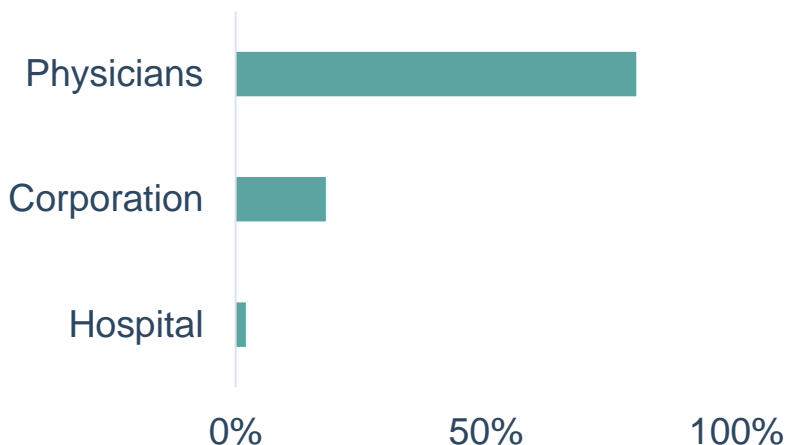
- AmSurg acquires, develops, and operates ASCs
- Serve as an alternative to hospital outpatient departments (HOPD); over 22 million surgeries performed in ASCs annually within *all* of the US's 50 states
- ASCs surgeries are low-risk procedures and do not require overnight stays
 - Cataract Removal
 - Colonoscopy

Ambulatory Service Centers are a low-cost and timely alternative to conventional medical services offered in hospitals

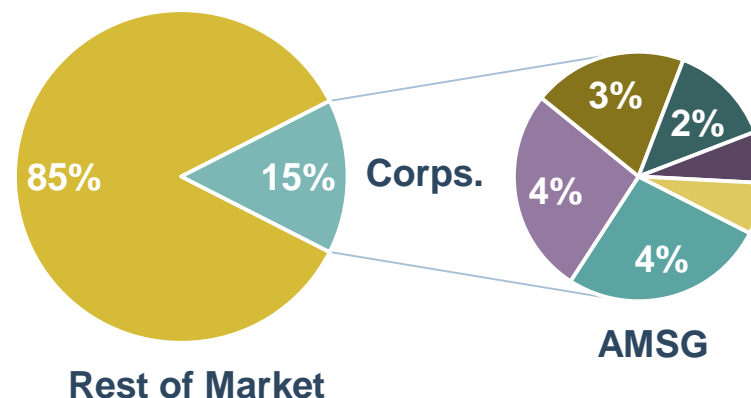
Low-cost alternatives to hospitals for outpatient surgery

- ASCs are medical centers that specialize in outpatient (same-day) surgery
- ASC surgeries are relatively non-invasive procedures that do not require overnight stays
- Serve as an alternative to hospital outpatient departments (HOPD); over 22 million surgeries performed in ASCs annually within *all* of the US's 50 states
- Founded by physicians and acquired by corporations; only 15% of ASCs are corporation-owned

ASC Ownership Breakdown



Fragmented Market



AmSurg works in cooperation with patients, ASCs, and hospitals across the United States to deliver the most value for its shareholders

Why AmSurg?

AMSURG

Patients

Interaction with AMMSG

- Offer low-cost, high quality day operations

Stakeholder Benefits

- Reduced surgical fees driven by lower overhead costs incurred by ASCs compared to Hospitals
- Improved service time due to ASC ability to focus on few, specific operations

ASCs

Interaction with AMMSG

- Offer a 51% stake in business to AMMSG

Stakeholder Benefits

- Improved operational efficiency attributed to higher focus on medical operations of ASC
- Business-related activities handled by AmSurg who has extensive management expertise

Hospitals

Interaction with AMMSG

- Offer additional business to AMMSG ASCs

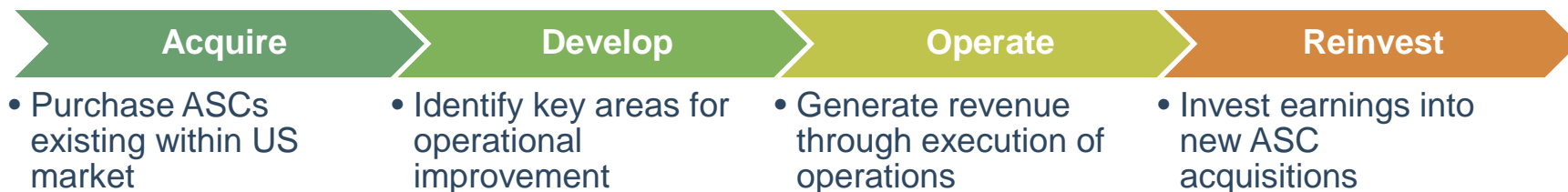
Stakeholder Benefits

- Lower wait times for extremely busy hospitals who can outsource operations to ASCs through joint ventures
- ASCs benefit through higher surgical fees charged by hospitals



AmSurg's business model focuses on acquiring ASCs and increasing operational efficiency within them to augment profitability

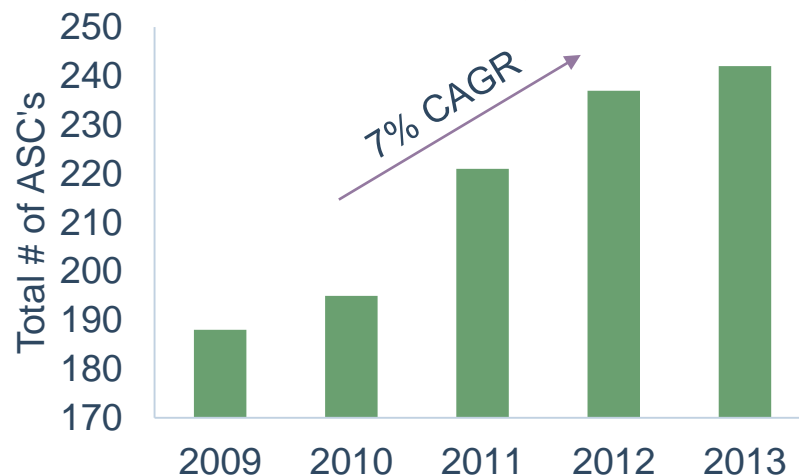
ASC Integration Process



Balancing Organic and Inorganic Growth

- **Organic Growth**
 - 2% same-center growth
- **Inorganic growth:**
 - 2011: 26 ASCs
 - 2012: 16 ASCs
 - Opportunities for vertical expansion; Sheridan acquisition provided exposure into costly anesthesia procedures

ASCs Owned by AMSG



As one of the dominant players within a fragmented market, AmSurg is well-positioned for future growth

Fragmented ASC industry allows AMSG to continue strong acquisitive growth

- One of the largest players in ASC-operator market; largest of pure-play corporations
- Management has a strong track record of successful acquisition and integrations

Strategic acquisition of Sheridan Healthcare in July 2014

- Acquisition provides opportunity for vertical expansion within anesthesia and neonatology
- Synergies of \$30-\$50MM expected in the next 2-3 years

Affordable Care Act to drive volume growth for AMSG

- ASC operations are more affordable and accessible for U.S. patients
- Low reimbursement rates pushing business from hospitals to ASCs
- Healthcare reforms expanding coverage to the previously uninsured



Internal Analysis

Amsurg has a management team with a considerable amount of experience in the health care industry, as well as a proven track record of success with acquisitions

Strong Senior Management

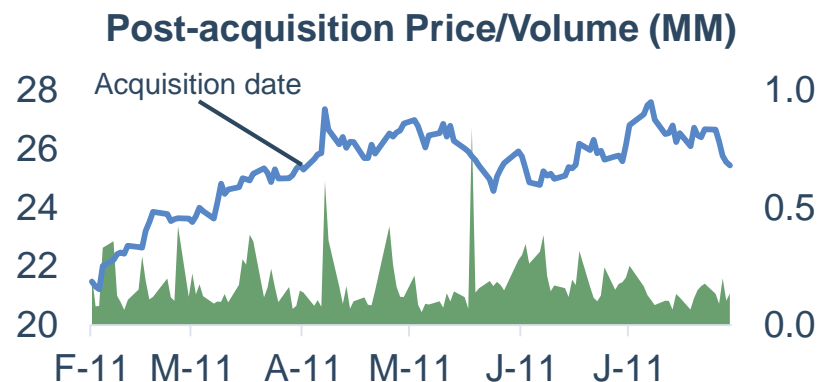
- President, CEO, and Director Christopher A. Holden is a health care veteran with more than 28 years of experience
- Other executives, including the COO have had over two decades of experience in the health care industry

Notable Senior Executives

| | |
|-------------------|-----------------|
| Phillip Clendenin | EVP, Operations |
| Claire Gulmi | CFO |
| David Manning | CDO |
| Kevin Eastridge | CAO |
| Shawn Strash | CCO |

History of Successful Acquisitions

- Successful integration of acquired companies in the past provides confidence that future endeavors will be successful
 - Example: Acquisition of National Surgical Care for \$135 million in 2011 resulted in accretion for shareholders

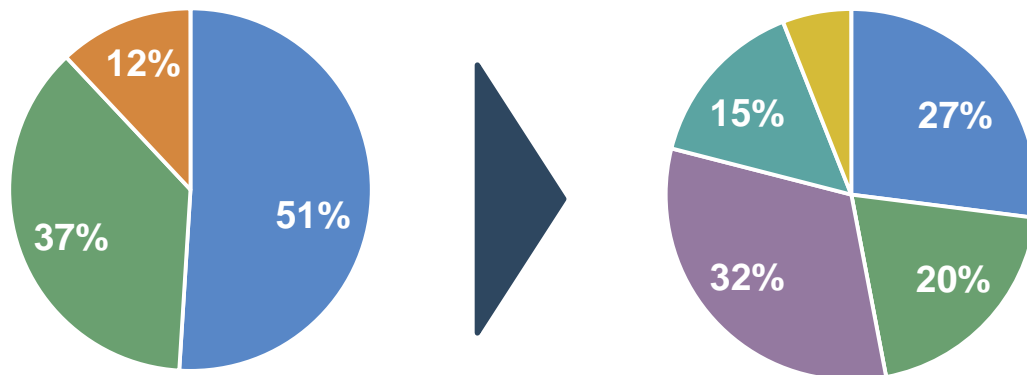


AmSurg's acquisition of Sheridan adds substantial value through increased geographical coverage, cost-cutting opportunities, and further vertical integration

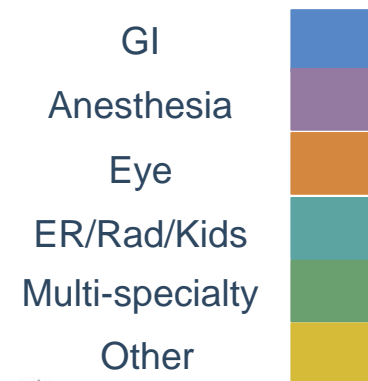
Transformative Sheridan Acquisition

- **Sheridan Healthcare, a physician manager, was acquired for \$2.3B in July 2014**
 - Emphasis on anesthesia and neonatology; AmSurg spends \$250MM on anesthesia yearly
 - Sheridan adds significant revenues and diversity to AmSurg's current business
- **Strong long-term potential; opportunities for vertical integration and location expansion**
 - New anesthesia partnerships within portfolio leading to \$10MM in cost savings
 - Estimated \$30-40MM in synergies driven by strong pool of physicians and contracts

Pre and Post-merger Revenue Breakdown



Legend

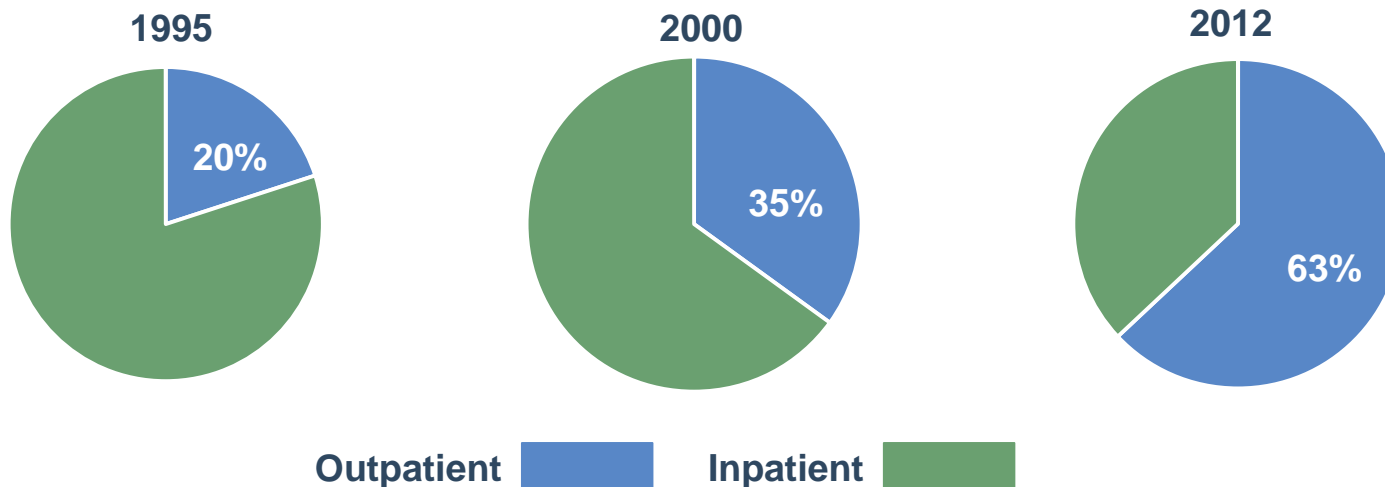


Secular shift in outpatient settings has driven growth in the past few decades; more growth to come in future times

Shift Towards ASCs

- Shift driven primarily by improvements within both technology and anesthesia
- During the four-year period from 2008 to 2011, ASCs saved the Medicare program and its beneficiaries \$7.5 billion
- Hospitals now joining in joint ventures with ASCs to offset lack of physicians and surge of demand

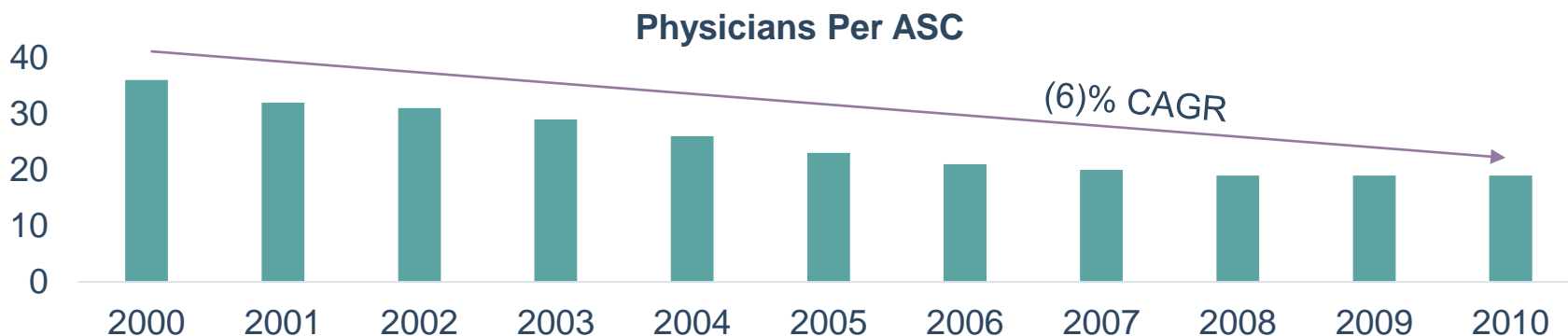
Change in Outpatient and Inpatient Care (% of U.S. Surgeries)



There currently exists a supply – demand mismatch in the market for ASC services which ensures stable demand for AmSurg’s offerings

Lack of physicians in hospitals is driving demand for ASCs

- **Hospitals unable to accommodate growing demand**
 - Supply of hospital doctors has decreased by 20% over the past 20 years
 - ASCs benefit from hospital spillover; JVs allow for increased reimbursement rates
- **Demand for ASCs is very high; driven primarily by a large growing senior citizen population**
 - ASCs are located within areas with high concentrations of senior citizen population
 - Exposure to senior population is 50bps higher than the national average
 - Industry is cyclical; may be on its way to a cyclical upturn with the recovery in real DPI



The Affordable Care Act (ACA) is bringing the attention of patients and payers to the cost-benefits of ASCs

ASCs are the low-cost alternatives for outpatient surgery

- **3rd-party payers (insurance companies) driving demand for ASCs**
 - Insurance companies offer compensation to physicians that refer their patients to ASCs
 - ASC procedures are more likely to be covered by insurance plans than hospital procedures
- **ACA-driven increased insured patients will increase demand for procedures**
 - 8.02 million individual healthcare plan enrolments since ACA implementation
 - Improved procedure coverage for the 50 million seniors under Medicare
 - Future ACA tenets such as the 2015 Employer Mandate will continue to increase # of insured

ASC Price Comparison Table

| Surgery Type | Patient Co-pay | | | Cost to Payer | | |
|--------------|----------------|-------|---------|---------------|---------|---------|
| | ASC | HOPD | % saved | ASC | HOPD | % saved |
| Cataract | \$193 | \$490 | 39.4% | \$964 | \$1,670 | 57.7% |
| GI Endoscopy | \$68 | \$139 | 49.0% | \$341 | \$591 | 57.7% |
| Colonoscopy | \$76 | \$185 | 41.1% | \$378 | \$655 | 57.7% |



Valuation

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AmSurg's acquisition strategy allows for strong revenue growth

Revenue Model

| (\$ in USD Millions) | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| AmSurg Operating Model | | | | | | | | | | | |
| # of ASCs | 250 | 260 | 272 | 289 | 308 | 328 | 344 | 357 | 367 | 376 | 382 |
| YoY Growth | 3.1% | 4.0% | 5.0% | 6.1% | 6.4% | 6.6% | 4.9% | 3.8% | 2.9% | 2.3% | 1.8% |
| ASCs Acquired Each Year | 8 | 10 | 13 | 17 | 18 | 20 | 16 | 13 | 10 | 8 | 7 |
| Average Procedures/ASC | 6,943 | 7,082 | 7,224 | 7,368 | 7,516 | 7,666 | 7,819 | 7,976 | 8,135 | 8,298 | 8,464 |
| Same-centre procedure growth | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Procedures | 1,733,218 | 1,838,052 | 1,967,858 | 2,130,593 | 2,311,634 | 2,513,185 | 2,690,188 | 2,847,411 | 2,988,750 | 3,117,387 | 3,235,927 |
| Average Price/Procedure | \$695 | \$731 | \$763 | \$790 | \$812 | \$829 | \$839 | \$842 | \$842 | \$842 | \$842 |
| | 6.0% | 5.2% | 4.4% | 3.6% | 2.8% | 2.0% | 1.2% | 0.4% | 0.0% | 0.0% | 0.0% |
| Revenue (AMSG) | \$1,204 | \$1,343 | \$1,501 | \$1,684 | \$1,878 | \$2,082 | \$2,256 | \$2,397 | \$2,516 | \$2,625 | \$2,724 |
| Sheridan Operating Model | | | | | | | | | | | |
| Revenue | \$1,082 | \$1,277 | \$1,430 | \$1,573 | \$1,699 | \$1,784 | \$1,855 | \$1,892 | \$1,930 | \$1,969 | \$2,008 |
| Revenue Growth | 16.0% | 18.0% | 12.0% | 10.0% | 8.0% | 5.0% | 4.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Total Revenue | \$2,286 | \$2,620 | \$2,931 | \$3,257 | \$3,577 | \$3,866 | \$4,111 | \$4,289 | \$4,446 | \$4,593 | \$4,732 |

- Management guidance is used to project the increase in number of centers
- Historical same-center procedure growth and the average procedure revenue is used to forecast revenue
- Sheridan's revenue growth is based on management guidance as well as forecasted revenue synergies



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Valuation

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An extensive discounted cash flow analysis concludes that AmSurg is currently undervalued and is an excellent investment opportunity offering ~32% upside

Discounted Cash Flow Analysis

| (\$ in USD Millions) | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| EBIAT | \$349 | \$414 | \$463 | \$517 | \$571 | \$623 | \$668 | \$702 | \$732 | \$760 | \$786 |
| Depreciation | \$39 | \$43 | \$48 | \$54 | \$60 | \$67 | \$73 | \$77 | \$81 | \$85 | \$88 |
| Capex (Maintenance) | \$33 | \$36 | \$41 | \$45 | \$51 | \$56 | \$61 | \$65 | \$68 | \$71 | \$74 |
| Capex (ASC Acquisition) | \$91 | \$118 | \$154 | \$200 | \$220 | \$242 | \$193 | \$155 | \$124 | \$99 | \$79 |
| Distribution to Physicians | \$205 | \$228 | \$255 | \$286 | \$319 | \$354 | \$383 | \$408 | \$428 | \$446 | \$463 |
| Unlevered Free Cash Flow | \$60 | \$74 | \$62 | \$40 | \$42 | \$39 | \$103 | \$153 | \$194 | \$229 | \$258 |
| Discount Factor | 0.97 | 0.90 | 0.84 | 0.79 | 0.73 | 0.69 | 0.64 | 0.60 | 0.56 | 0.52 | 0.49 |
| Discounted FCF | \$58 | \$67 | \$53 | \$31 | \$31 | \$27 | \$66 | \$91 | \$108 | \$119 | \$126 |

WACC 7.11%

2024E EBITDA \$1,398
Exit Multiple 7.7x
Terminal Value \$10,767

PV of Terminal Value \$5,057

Total Equity Value \$3,094

Fair Value per Share \$64.30

Current Share Price \$48.83
Implied Upside 32%

Implied Upside

| WACC | Exit Multiple | | | | |
|------|---------------|-------|--------------|-------|-------|
| | 7.1x | 7.4x | 7.7x | 8.0x | 8.3x |
| 6.1% | 38.6% | 47.9% | 57.2% | 66.5% | 75.8% |
| 6.6% | 26.5% | 35.3% | 44.1% | 53.0% | 61.8% |
| 7.1% | 14.9% | 23.3% | 31.7% | 40.1% | 48.5% |
| 7.6% | 4.0% | 12.0% | 20.0% | 27.9% | 35.9% |
| 8.1% | (6.3%) | 1.3% | 8.8% | 16.4% | 24.0% |

Commentary

- An exit multiple of 7.7x was assumed; this is in line with analyst predictions for AmSurg

Valuation

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A sum of parts valuation was used to factor in the difference in growth potential of Sheridan Healthcare's operations

Sum of Parts

AmSurg Core Business

| Type | Metric | Multiple | ASC EV |
|-----------------|--------|----------|--------|
| 2014E EV/EBITDA | 424 | 9.9x | 4,181 |
| 2015E EV/EBITDA | 500 | 7.7x | 3,850 |
| 2014E EV/Sales | 1,204 | 3.2x | 3,864 |
| 2015E EV/Sales | 1,343 | 2.6x | 3,518 |

Sheridan Healthcare

| Type | Metric | Multiple | SH EV |
|-----------------|--------|----------|-------|
| 2014E EV/EBITDA | 193 | 12.6x | 2,438 |
| 2015E EV/EBITDA | 230 | 10.9x | 2,494 |
| 2014E EV/Sales | 1,082 | 1.7x | 1,887 |
| 2015E EV/Sales | 1,277 | 1.6x | 1,979 |

Integrated AmSurg

| Type | AMSG EV | Implied Equity | Implied Upside |
|-----------------|---------|----------------|----------------|
| 2014E EV/EBITDA | 6,618 | 3,544 | 50.9% |
| 2015E EV/EBITDA | 6,344 | 3,269 | 39.2% |
| 2014E EV/Sales | 5,751 | 2,677 | 14.0% |
| 2015E EV/Sales | 5,497 | 2,423 | 3.2% |



Valuation

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AmSurg is undervalued relative to its peers when examining key valuation multiples

Comparables Analysis

| Company Name | Market Capital (MM) | Enterprise Value (MM) | P/E | | EV/EBIT | | EV/EBITDA | |
|----------------------------------|------------------------|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | 2014E | 2015E | 2014E | 2015E | 2014E | 2015E |
| Acute Care Hospitals | | | | | | | | |
| Community Health Systems Inc. | 6,010 | 23,340 | 17.0x | 13.1x | 14.6x | 12.6x | 8.2x | 7.3x |
| HCA Holdings Inc. | 28,840 | 58,580 | 15.8x | 14.0x | 11.0x | 10.3x | 8.2x | 7.8x |
| Lifepoint Hospitals Inc. | 3,010 | 4,990 | 21.6x | 18.7x | 13.8x | 12.6x | 8.1x | 7.4x |
| Tenet Healthcare Corp | 5,370 | 16,960 | 38.5x | 19.2x | 15.8x | 13.0x | 8.9x | 7.8x |
| Universal Health Services | 10,210 | 13,630 | 17.9x | 16.1x | 12.0x | 10.9x | 9.2x | 8.5x |
| Mean | | | 22.2x | 16.2x | 13.4x | 11.9x | 8.5x | 7.8x |
| Median | | | 17.9x | 16.1x | 13.8x | 12.6x | 8.2x | 7.8x |
| Physician Management | | | | | | | | |
| Envision Healthcare Holdings | 6,050 | 7,940 | 28.1x | 22.2x | 19.7x | 15.9x | 14.3x | 12.0x |
| IPC The Hospitalist Co. | 772 | 831 | 18.6x | 16.8x | 12.1x | 10.9x | 10.9x | 9.8x |
| Mednax Inc. | 5,160 | 5,460 | 16.4x | 15.1x | 10.9x | 10.0x | 9.9x | 9.0x |
| Team Health Holdings Inc. | 3,960 | 4,360 | 24.4x | 21.6x | 19.9x | 16.6x | 14.7x | 12.9x |
| Mean | | | 21.9x | 18.9x | 15.7x | 13.3x | 12.5x | 10.9x |
| Median | | | 21.9x | 18.9x | 15.9x | 13.4x | 12.5x | 10.9x |
| Other Providers | | | | | | | | |
| Adeptus Health Inc. | 513 | 628 | - | 69.4x | 181.6x | 24.9x | 22.2x | 12.4x |
| Bright Horizons Family Solutions | 2,750 | 3,400 | 28.7x | 24.2x | 22.9x | 19.2x | 14.3x | 12.7x |
| Brookdale Senior Living Inc. | 5,670 | 8,260 | - | 130.4x | 39.6x | 17.2x | 13.2x | 8.7x |
| Davita Healthcare Partners | 15,830 | 24,070 | 20.1x | 18.3x | 13.1x | 12.2x | 10.0x | 9.5x |
| Examworks Group Inc. | 1,470 | 1,910 | 170.6x | 73.6x | 32.7x | 22.7x | 16.5x | 13.7x |
| Surgical Care Affiliates Inc. | 1,100 | 1,970 | 20.8x | 16.3x | 10.5x | 8.7x | 12.8x | 11.2x |
| Mean | | | 60.1x | 55.4x | 50.1x | 17.5x | 14.8x | 11.4x |
| Median | | | 24.7x | 46.8x | 27.8x | 18.2x | 13.8x | 11.8x |
| AmSurg Corporation | 2,506 | 3,594 | 18.6x | 14.8x | 8.4x | 7.2x | 9.8x | 6.6x |
| Overall Mean | | | 28.1x | 28.7x | 28.7x | 14.5x | 11.7x | 10.1x |
| Overall Median | | | 22.0x | 18.9x | 14.6x | 12.6x | 12.5x | 10.9x |



Valuation

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Surgical Care Affiliates, Inc. is the only other pure-play American ASC operator competing directly with AmSurg

SCA Comparison

AMSURG

SCA

Surgical Care Affiliates

Key Metrics

| | |
|------------------|----------|
| Market Cap. | 2,506 MM |
| Enterprise Value | 3,594 MM |
| ASCs | 235 |

Key Metrics

| | |
|------------------|----------|
| Market Cap. | 1,110 MM |
| Enterprise Value | 1,948 MM |
| ASCs | 185 |

Valuation Multiples

| | |
|-----------------|-------|
| P/E 2014E | 18.6x |
| P/E 2015E | 14.8x |
| EV/EBITDA 2014E | 9.8x |
| EV/EBITDA 2015E | 6.6x |

Valuation Multiples

| | |
|-----------------|-------|
| P/E 2014E | 20.8x |
| P/E 2015E | 16.3x |
| EV/EBITDA 2014E | 12.8x |
| EV/EBITDA 2015E | 11.2x |

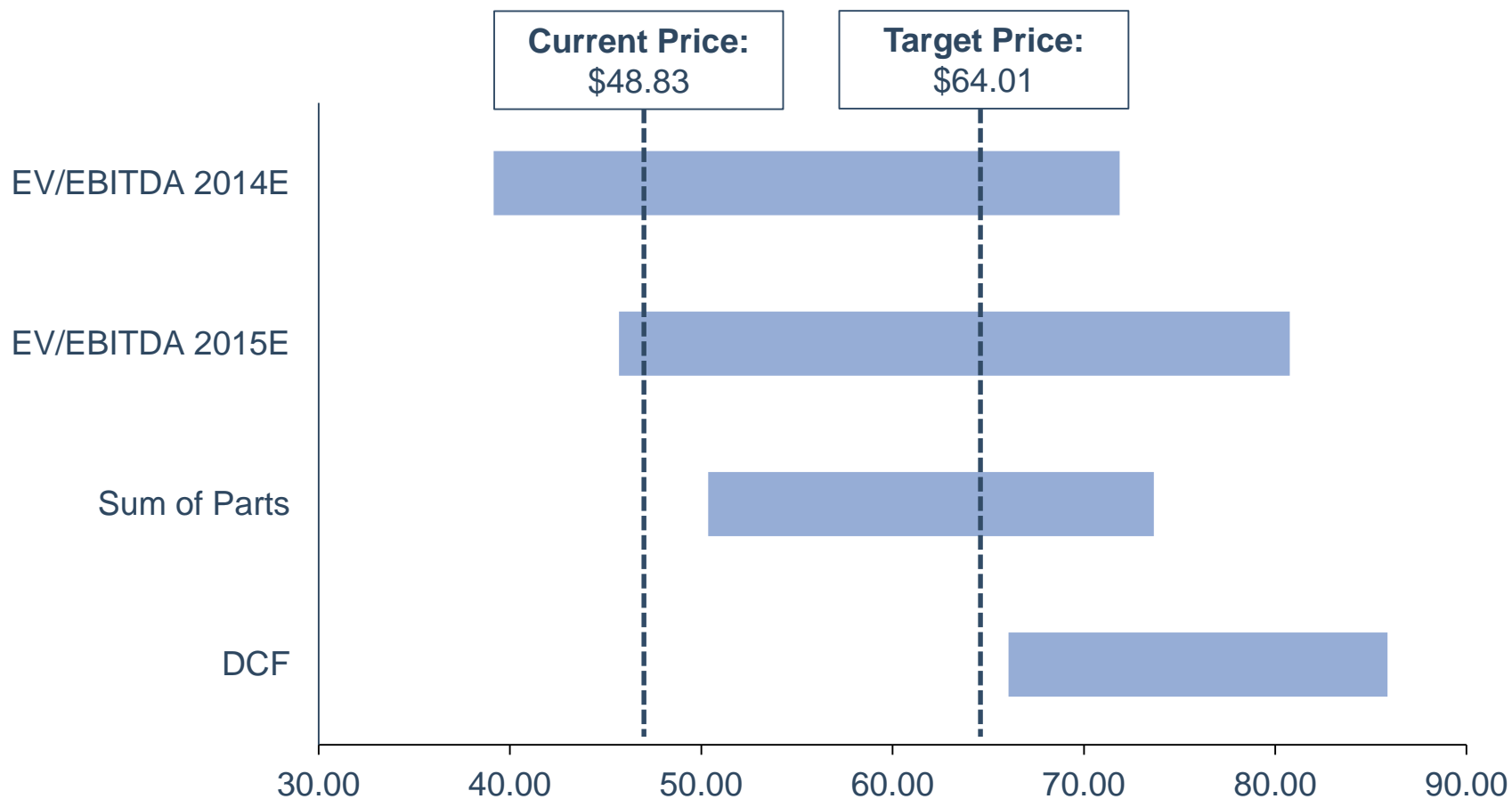


Valuation

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Based on our combined valuation analysis, the target price for AmSurg is \$64.01, which implies an upside of 31.1% from its current trading price of \$48.83

Valuation Summary



Moving forward, AmSurg has the ability to mitigate its key risks, while capitalizing on key catalyzing opportunities

Risks

- **Unpredictable Medicare government reimbursement rates**
 - AMSG is shifting its surgery mix towards lower reimbursed procedures
- **High levels of debt**
 - Currently levered up to 6.4x EBITDA; management has stated that they plan on bringing this down to 4.0x within the next 2-3 years horizon
- **Integration risk of Sheridan Healthcare**
 - Strong potential for both cost and revenue synergies; risk of higher-than-expected integration cost

Catalysts

- **Healthcare Cost Cuts**
 - Further pressures on reimbursed procedures will driving procedures to hospitals
- **Expansion of Insurance Coverage**
 - Population of insured people in the US will be increasing with future reforms, further growing AMSGs market
- **Sheridan Acquisition**
 - Although cost synergies are expected, geographical expansion allows for additional synergies



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