

# Corporate Presentation

January 2019

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## **Forward-Looking Statements**

Statements contained in this presentation, including the question and answer portion of the presentation, other than statements of historical fact, are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “potential,” or the negative of those terms, and similar expressions and comparable terminology intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements regarding the future financial position of Surgery Partners, Inc. and its subsidiaries (the “Company”), including financial and growth targets, business strategy, plans and objectives for future operations and future operating results and cash flows. These statements are subject to risks and uncertainties, including, without limitation: the impact of natural disasters, reductions in payments from, or inability to contract with, government healthcare programs managed care organizations and private third-party payors, changes in the regulatory, economic and other conditions of the states where our surgical facilities are located, the timing of the Company’s strategic portfolio activity, including acquisitions and dispositions and the conclusion of the Company’s review of strategic alternatives for its Optical business, our ability to consummate acquisitions in the pipeline on commercially reasonable terms, or at all, and to realize the anticipated benefits, as well as other factors set forth under “Risk Factors” in the Company’s Annual Report on Form 10-K for fiscal year 2017 (“10-K”) filed with the Securities and Exchange Commission (the “SEC”) and other information we file with the SEC, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ending September 30, 2018. You should read the Company’s annual and quarterly reports, when available, and any and all other filings with the SEC, available at [www.sec.gov](http://www.sec.gov), for a discussion of these and other risks and uncertainties. The forward-looking statements contained in this presentation speak only as of the date of the presentation, and the Company undertakes no obligation to update or revise any forward-looking statements for any reason, except as required by law. The business of the Company is subject to substantial risks and uncertainties, including those referenced above. Investors, potential investors, and others should give careful consideration to these risks and uncertainties and should not place considerable reliance on the forward-looking statements contained in this presentation.

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## **Non-GAAP Financial Measures**

This presentation contains certain non-GAAP financial measures, including EBITDA and Adjusted EBITDA. A “non-GAAP financial measure” is defined as a numerical measure of a company’s financial performance that excludes or includes amounts so as to be different than the most directly comparable measure calculated and presented in accordance with GAAP in the statements of income, balance sheets or statements of cash flow of the company. We present non-GAAP financial measures when we believe that the additional information is useful and meaningful to investors. Non-GAAP financial measures do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other companies. The presentation of non-GAAP financial measures is not intended to be a substitute for, and should not be considered in isolation from, the financial measures reported in accordance with GAAP. For additional information about our non-GAAP financial measures, and a reconciliation of certain non-GAAP financial measures to the comparable GAAP measures, see slide 14 of this presentation, the Company’s 10-K, Quarterly Reports on Form 10-Q and other information the Company files with the SEC.

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# Leading Independent Surgical Facility Operator

**\$230-\$235 million**  
ADJUSTED EBITDA  
GUIDANCE FOR FY'18



**32** States



**109** ASCs



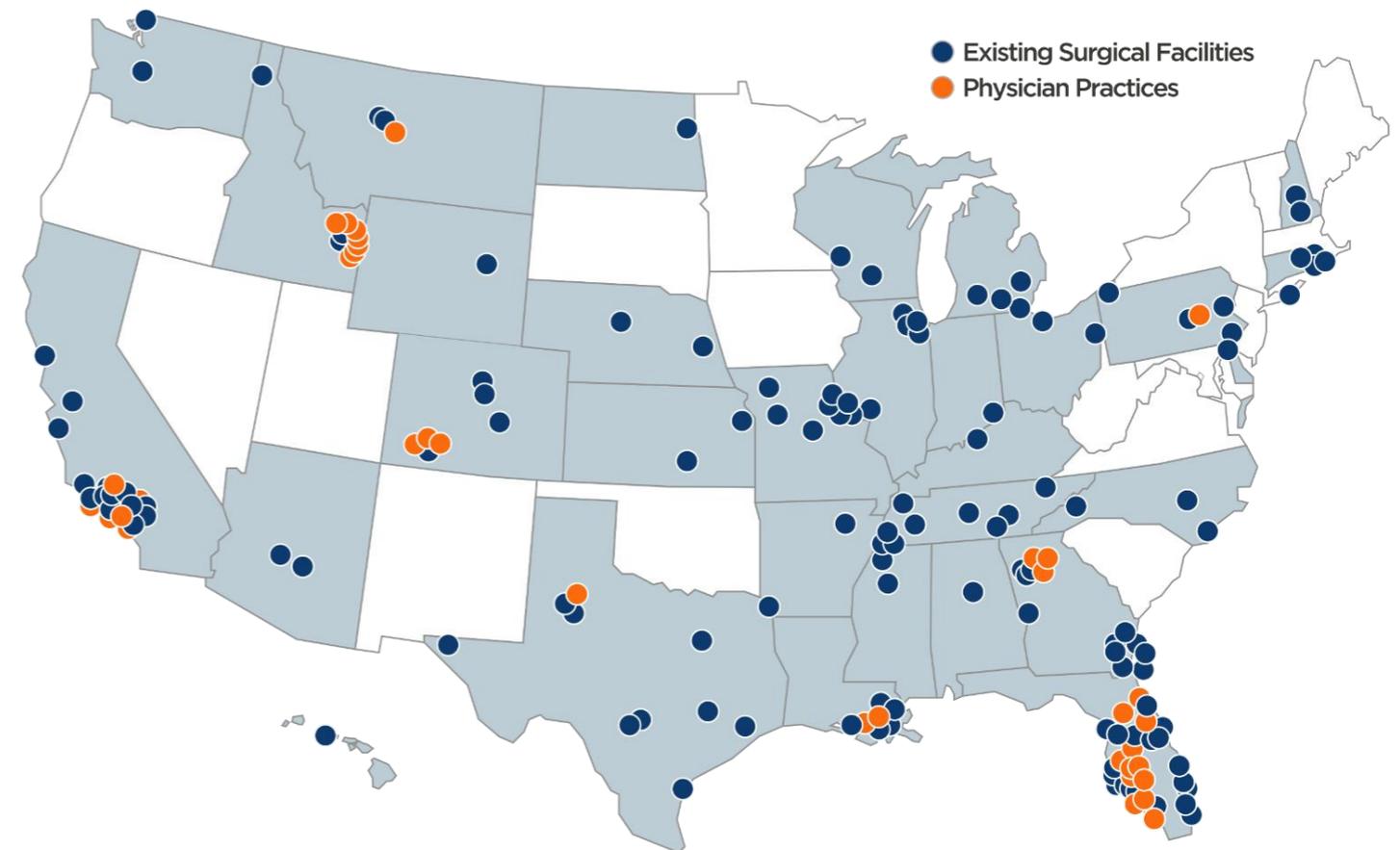
**18** Surgical  
Hospitals



**4,000**  
Affiliated  
Physicians



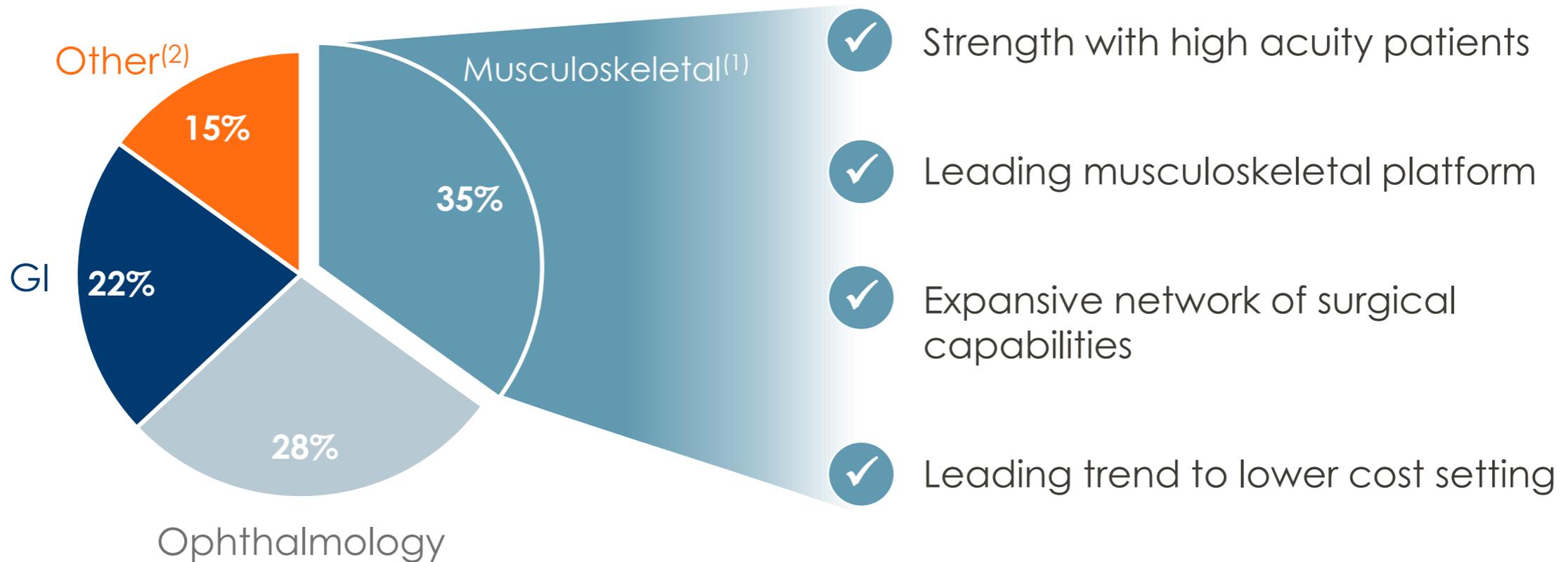
**600,000+**  
Annual Patients





# Diversified Mix, Focused on High Value-Add Specialties, Supported by an Aging Population

## Surgery Partners Case Mix



# + Leading Musculoskeletal Platform is Key to Future Growth



**2x**

Increase in hip revision procedures projected by 2026



**\$7 billion**

Annual Medicare spend on total joint procedures<sup>(1)</sup>



**100 million**

Adults in the U.S. with chronic pain<sup>(2)</sup>

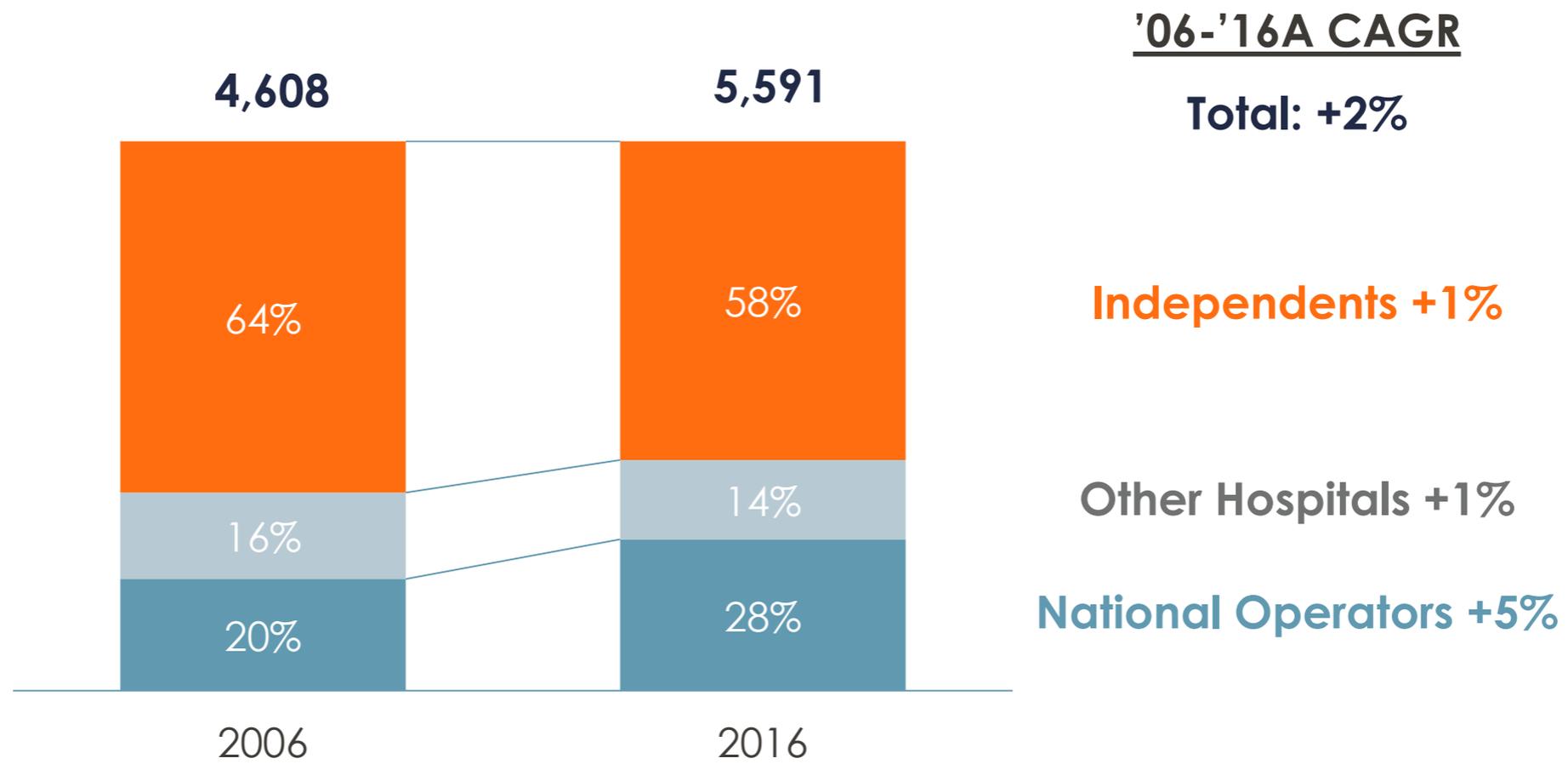
- ✓ Leading national musculoskeletal surgical facilities operator
- ✓ Reduced Costs for payors and patients over acute care settings
- ✓ Expanded network of total joint, orthopedic and spine capabilities
- ✓ Front-end of industry trend toward moving high acuity cases to lower cost settings





# Well Positioned to Capture Incremental Share in a Fragmented Market

## Number of ASCs in the U.S.





# Strong, Vertically Integrated Management Team...



**Carollee Brinkman**  
*National Group President*  
22 Years Healthcare Experience  
13 Years with Surgery Partners



**George Goodwin**  
*American Group President*  
31 Years Healthcare Experience  
20 Years with Surgery Partners



**Tony Taparo**  
*Eastern Group President*  
30 Years Healthcare Experience  
22 Years with Surgery Partners



**Brandon Lingle**  
*Ancillary Group President*  
10 Years Healthcare Experience  
6 Years with Surgery Partners



**Wayne DeVeydt**  
*Chief Executive Officer*  
25 Years Healthcare Experience  
1 Year with Surgery Partners



**Jennifer Baldock**  
*EVP & Chief Legal Officer*  
22 Years Healthcare Experience  
9 Years with Surgery Partners



**Tom Cowhey**  
*EVP & Chief Financial Officer*  
17 Years Healthcare Experience  
1 Year with Surgery Partners



**Angela Justice, PhD**  
*EVP & Chief Human Resources Officer*  
16 Years Healthcare Experience  
1 Year with Surgery Partners



**David Kretschmer**  
*EVP & Chief Strategy and Transformation Officer*  
25 Years Healthcare Experience  
1 Year with Surgery Partners



**Donna Giles**  
*SVP & Chief Clinical Officer*  
30 Years Healthcare Experience  
5 Years with Surgery Partners



**Ben Jacobs**  
*SVP & Chief Development Officer*  
13 Years Healthcare Experience  
4 Years with Surgery Partners

**Veteran management team, averaging over 20+ years of experience**



# ... That has Built a Solid Foundation to Capture Growth

## Where We Were

Solid, but un-pruned assets

Great platform, but fragmented

Lack of strategic clarity

**FROM:** *A collection of great assets, but under-managed...*

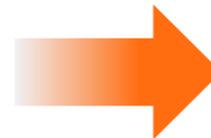
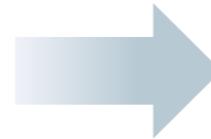
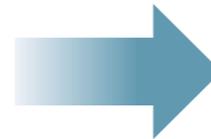
## Where We Are

Streamlined, surgical facility assets

Holistic infrastructure

Focused management and vision

**TO:** *... A scalable Platform with clear strategic direction and purpose*





# Three Primary Initiatives to Drive Profitability and Scale

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## Pruning the Asset Base

- Data-driven strategic assessment of opportunities and challenges across portfolio
  - Divested or shut-down underperforming sites
  - Instilled a purpose-driven culture based on transparency, execution, and accountability
- 



## Consolidating the Platform

- Initiated enterprise-wide system consolidation
  - Consolidated enterprise functions in shared services and commenced realignment of key functions
  - Data-driven assessment of value creation related to market development, payor strategy, cost management and revenue cycle management
- 



## Investing in the Business

- Strengthened senior management
- Innovative development of long-term partnerships with providers, health systems and payors
- Rebuilt de novo, in-market and M&A pipelines



# Financial Update



# Q3 2018 Performance Review

## Q3 Financial Performance & Trends

- Q3 2018 total net revenues of \$443.9 million increased 44.9% from \$306.3 million for the third quarter of 2017
- Surgical cases increased 13.9% from Q3 2017 to 127,199 cases
- Same-facility revenues increased 11.4% from the same period last year
  - Same-facility cases increased 0.9%
  - Same-facility net revenue per case increased 10.5%
- Q3 2018 Adjusted EBITDA<sup>(1)</sup> of \$59.0 million compared to third quarter of 2017 Adjusted EBITDA of \$23.2 million

## YTD 3Q18 Financial Performance & Trends

- Total revenues through Q3 2018 increased 48.3% to \$1,306.1 million from \$880.9 million for the same period last year
- Same-facility revenues increased 4.6% year to date
  - Same-facility cases decreased 1.5%
  - Same-facility net revenue per case increased 6.2%

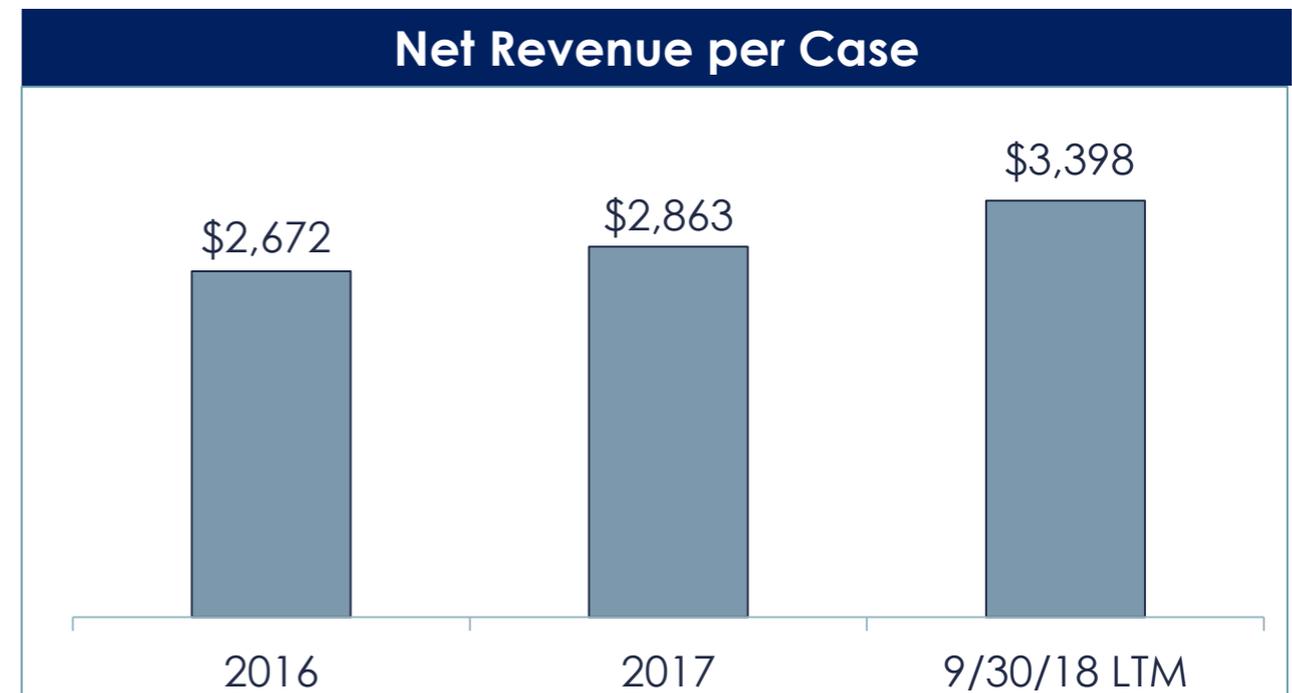
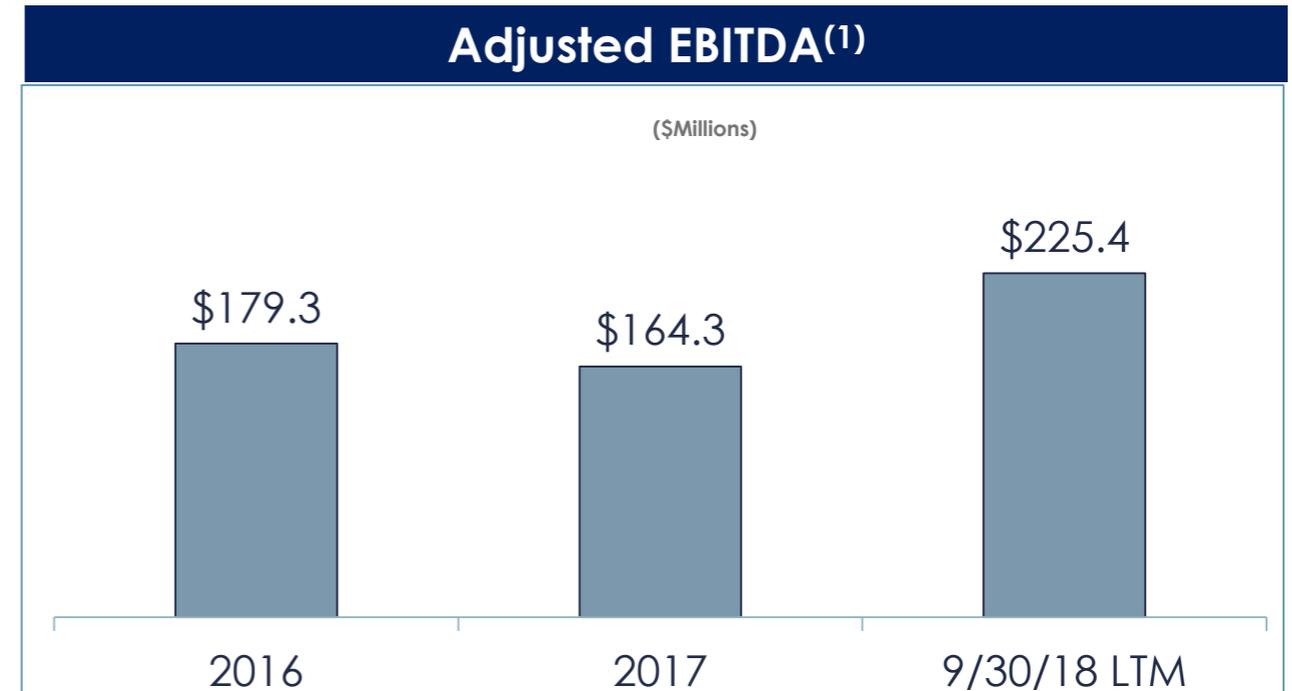
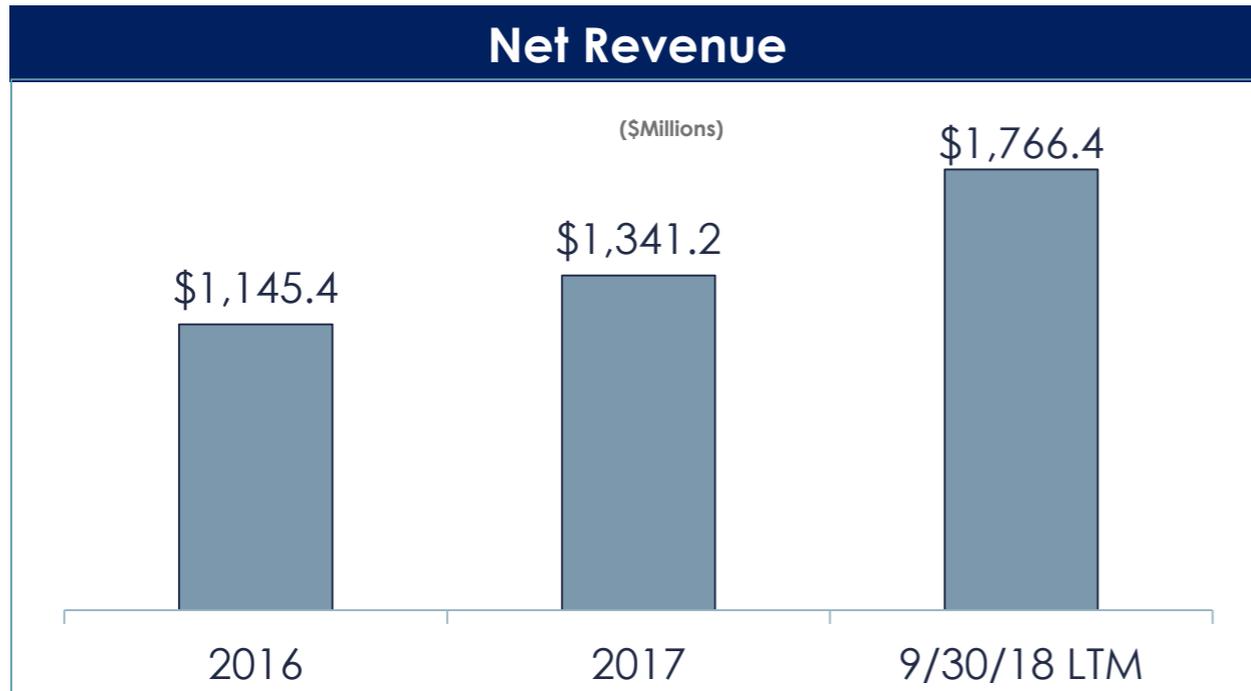
## 2018 Guidance

- Revenue of \$1.75 - \$1.8 billion
- Adjusted EBITDA of \$230 - \$235 million
- Capital deployed of at least \$100 million for acquisitions

(1) For a reconciliation to Adjusted EBITDA, refer to slide 14 of this presentation



# Attractive Financial Profile



(1) For a reconciliation Adjusted EBITDA, refer to slide 14 of this presentation

# + Three Pillars of Profit Growth

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## Organic

2% to 3% Volume  
2% to 3% Rate  
Revenue Cycle  
Management

**4-6% CAGR**

## Fit For Growth

Corporate and  
organizational  
synergies to drive  
margin  
improvement

**3-5% CAGR**

## M&A

Seeking to  
execute in high-  
growth specialties  
at attractive  
values

**3-5% CAGR**

**+10-16% CAGR**  
**Long Term Growth Target**



# Reconciliation to Adjusted EBITDA

	2016	2017	3Q 2017	3Q 2018	LTM 9/30/18
<b>Income (Loss) Before Income Taxes</b>	<b>\$ 92.2</b>	<b>\$ 82.3</b>	<b>\$ (19.2)</b>	<b>\$ 7.8</b>	<b>\$ 95.2</b>
Minus: Net Income Attributable to Non-Controlling Interests	75.6	81.7	15.3	23.0	102.5
Plus:					
Depreciation and amortization	39.5	51.9	10.9	17.0	67.7
Interest expense, net	100.6	117.7	34.0	37.2	140.3
<b>EBITDA</b>	<b>156.7</b>	<b>170.2</b>	<b>10.4</b>	<b>39.0</b>	<b>200.7</b>
Plus:					
Transaction, Integration & Practice Acquisition Costs	11.6	17.0	6.4	7.5	31.3
Non-cash Stock Compensation Expense	2.0	5.6	3.3	1.5	6.5
Loss on Debt Extinguishment	11.9	18.2	18.2	-	-
Contingent Acquisition Compensation Expense	5.1	7.0	1.8	0.5	2.8
Gain on Litigation Settlement	(14.1)	(12.5)	-	-	(8.7)
Loss on Disposals and Deconsolidations, net	2.4	1.7	0.5	12.6	15.6
Tax Receivable Agreement (TRA) Expense (Benefit)	3.7	(25.3)	-	-	(25.3)
Gain on Amendment to Tax Receivable Agreement	-	(16.4)	(16.4)	-	-
Gain on Acquisition Escrow Release	-	(1.2)	(1.0)	-	(0.2)
Reserve Adjustments <sup>(1)</sup>	-	-	-	(2.1)	2.7
<b>Adjusted EBITDA</b>	<b>\$ 179.3</b>	<b>\$ 164.3</b>	<b>\$ 23.2</b>	<b>\$ 59.0</b>	<b>\$ 225.4</b>

(1) This amount represents adjustments to revenue in connection with applying consistent policies across the combined company as a result of the integration of Surgery Partners and NSH.

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