Future Outlook

FOR SELLING YOUR AMBULATORY SURGERY CENTER

BY JONATHAN C. VIC

• How much is my center worth?
• What are my potential exit strategies?
• What can I do to increase the value of my center?
• Should I sell to an Ambulatory surgery center (ASC) management company or to the local hospital, or both?

These are questions you should be asking yourself, if you are looking to sell your ASC. If you haven’t yet sold your center to an ASC management company or to a hospital, this could very well be a potential event for you. In this article we will answer these questions.

In spite of declining reimbursements for some GI procedures, there is currently an excellent market for physician-owned ASCs and GI centers. With over 30 ASC management companies and a growing number of local hospitals interested in buying physician-owned centers, there is a competitive market for selling an interest in your center. Your options and the outlook for selling your center depend on actions that you take now to position yourself to achieve your goals.

First, determine your goals. In addition to the presumed goal of continuing to run a profitable, efficient and economical center, other goals may include improving your contracts, expanding the center, adding more partners and/or specialties, and increasing distributions. As many centers currently have partners who are approaching retirement age, another goal should be a planned exit strategy for individual partners through a buy-out formula in your operating agreement or the sale of a portion of the center that would benefit and provide a future exit strategy for all partners. Here you have a number of choices such as:

• Sell a minority interest to gain management expertise
• Sell a majority interest to maximize total return and to gain management expertise
• Sell to an ASC management company, a hospital, or both, to maximize total return, improve contracts, and generate increased distributions

Each choice results in a different outcome in terms of immediate cash received, future sale of residual interests, ongoing distributions, management of
the center, payer contracts, and control of the center, etc.

**How much is my center worth?** The answer depends on several factors:
- What are the historic and potential earnings of your center?
- What credentials does your center have?
- How large is your center, what is its utilization, and can it be expanded?
- Are there any pending lawsuits?
- What are the ages of the partners?
- Are any partners nearing retirement?
- Are there potential new partners who could be recruited?
- What growth opportunities does the center have?
- How much of the revenue is out-of-network?
- And of key importance, do the partners want to sell a majority or minority interest?

If you sell a majority interest, you will realize the maximum immediate financial value (currently a multiple of 6-7 times EBITDA*, less long-term debt). In some cases you can obtain stock options, and gain professional management with the expertise to increase profits and distributions, but you will relinquish some control. If you sell a minority interest, you will retain control and gain professional management expertise, but the sale will generate a multiple of an average of only 4 times EBITDA, less debt. However, when you sell a minority interest you should see your profits and distributions increase and [with some corporate partners] you would have another opportunity down the road to sell a majority interest at a higher multiple when your center is worth more.

**A word of caution:** Don’t wait until you want to retire to sell your center. No one wants to buy a center where the main producers are about to disappear. Start seeking a sale at least five years before the key partners want to retire so the buyer will be able to count on several years of productivity from these physicians. Waiting until less than five years before you want to retire is a formula for disappointment – you will not get top value for your center.

**What are my potential exit strategies?** Exit strategies come in many forms and are linked to your goals. Among the possibilities are these seven scenarios:
- Sell 51% to maximize immediate cash return, gain professional management, but lose majority control
- Sell 51% to maximize total return (cash, plus distributions, plus stock)
- Sell to an ASC management company to achieve highest value
- Sell to a hospital to access hospital contracts and potentially higher reimbursements
- Sell to both an ASC company and hospital in a three-way deal
- Sell a minority interest to retain control and gain professional management
- Sell a minority interest to a company that will build value by adding partners, increase profits, then sell majority interest at a much higher value

**What can I do to increase the value of my center?** The five most important ways to increase a surgery or endoscopy center’s value in today’s market include the following:

1. Reduce the out-of-network (OON) component of your revenues by adding more in-network business. Corporate buyers now consider OON revenues to be increasingly risky and unsustainable and are substantially discounting the ASC value for OON revenues.

2. Identify high quality, busy surgeons who can be recruited by the buyer to be partners; new partners represent increased volume and buyers will pay more if there is an opportunity to recruit more partners.

3. Identify new procedures (i.e., pain, urology, etc.) to increase volume and revenues; buyers are looking for potential growth opportunities.

4. Solicit a partnership proposal from your local hospital; hospitals are anxious to acquire ASCs to achieve the hospital’s strategic objectives.

5. Solicit partnership proposals from at least three leading ASC management companies that have good track records of managing GI centers and that are seeking centers like yours; ASC companies almost always value ASCs higher than hospitals and competitive leverage will increase the value of your ASC.

**Should I sell to an ASC management company or the local hospital, or both?** Selling to both an ASC management company and a hospital can provide your center with the best of both worlds: top value for the center offered by the ASC management company, physician-friendly management, an ASC that continues to be operated efficiently and economically, and a hospital partner with valuable referral networks and contracting clout. Several of the leading ASC management companies are moving to a 3-way model.

Typically the physicians retain a 49% or 50% interest while the management company and hospital split the other half about equally. Hospital partnerships can be very beneficial for ASCs. This model works best if the ASC first

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*Earnings before interest, taxes, depreciation and amortization
partners with a management company. After the physician/management company partnership is formed, the company negotiates with and recruits a hospital partner. The physician-partners continue to enjoy the economies and efficiencies of being a surgery center and also have access to hospital contracts and relationships. The difference is all about culture: ASC management companies are managed by people who have worked in the ASC industry for a long time and understand the importance of efficiencies and economies to generate high levels of profits for the partnership.

Summary: The benefits of having a corporate partner and an on-going relationship with a local hospital are significant. The market trend is for physician-owned endoscopy centers and ASCs to partner with an ASC management company and/or their local hospital. The key to success is for the physician-partners to first form a partnership with a management company that will bring in a hospital as a minority partner. The physicians should obtain several competitive partnership proposals from ASC management companies as this will give them negotiating power so that they can achieve their goals and improve their outlook for the future.

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