

Hospital Acquisitions of ASCs



Ambulatory Surgical Centers of America
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Why Hospitals are Buying ASCs

- Investment.
- Planning for efficient future.
- Alignment with independent physicians.
- Plant capacity constraints.
- Growth strategy.



Three Value Adding Models

- 100% purchase.
- 51% purchase.
- 26% purchase with double company structure. (51%x51%)
 - Hospital forms JV with ASC management company (51% hospital owned).
 - JV owns 51% of the Surgery Center



What ASC Sellers Want

- Price / liquidity event.
- Improved reimbursement.
- Referrals.
- Co-management.



What Physicians Fear

- Loss of control.
 - Clinical.
 - Quality – staff, equipment, supplies.
 - Efficiency – turnovers and schedule.
 - Financial.
- Hospital will close the center.
- Hospital conflicts will hurt them.



Hospital Concerns

- The surgery center will cannibalize the HOPD volume.
- After paying a good price physicians defect to competition.
- Disrupting referrals from physicians or entities that view the ASC as competition.
- Why pay significant sums for that which was ours originally?



Why Good Investment

- Commonly can double reimbursement as a HOPD.
- As a JV majority owner possible to increase commercial reimbursement 20+%.
- Minority investment with control and/or clinical integration also can drive improved reimbursement.



Pro Forma of Acquisition

	Current	JV	100%
Revenue	4,494,726	4,944,199	10,103,105
Cash Operating Expenses	<u>2,719,766</u>	<u>2,719,766</u>	<u>2,573,066</u>
EBITDA	1,774,960	2,224,433	7,530,039
% Profit Improvement		25%	324%
Center Value	12,424,720		
Pro Forma Multiple	7.0	5.6	1.7

Consider costs on path to better reimbursement.



Reaching Agreement on Price

- Negotiate with sellers first, with caveat that it must be supported by 3rd party valuation.
- Buyers and sellers jointly retain valuation firm.
- Share market insights to support valuation.
- Handle adjustments transparently.



Referral Enhancement

- Steer cases to the center to free hospital ORs up for inpatient cases.
- Patients where hospital is at risk for cost.
- Cases that don't pay the hospital enough to make money.
- Hospital employed physicians that would benefit from the productivity boost.



Co-Management of ASC

- Helps keep physicians utilizing the center.
- Maintains the feeling it is their center.
- Helps perpetuate the positive and efficient practices of the center.
- Must be fair market value for services rendered.
- Sellers don't put much confidence in revenue stream.



THINK AGAIN

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