



Performance, Efficiency, Achievement, Knowledge

Should You Sell Your ASC?
Assessing Your Value and the Pros and Cons

Should You Sell Your ASC - Topics to Cover

The ASC Life Cycle

Factors Affecting Valuation

Should You Sell Your ASC?

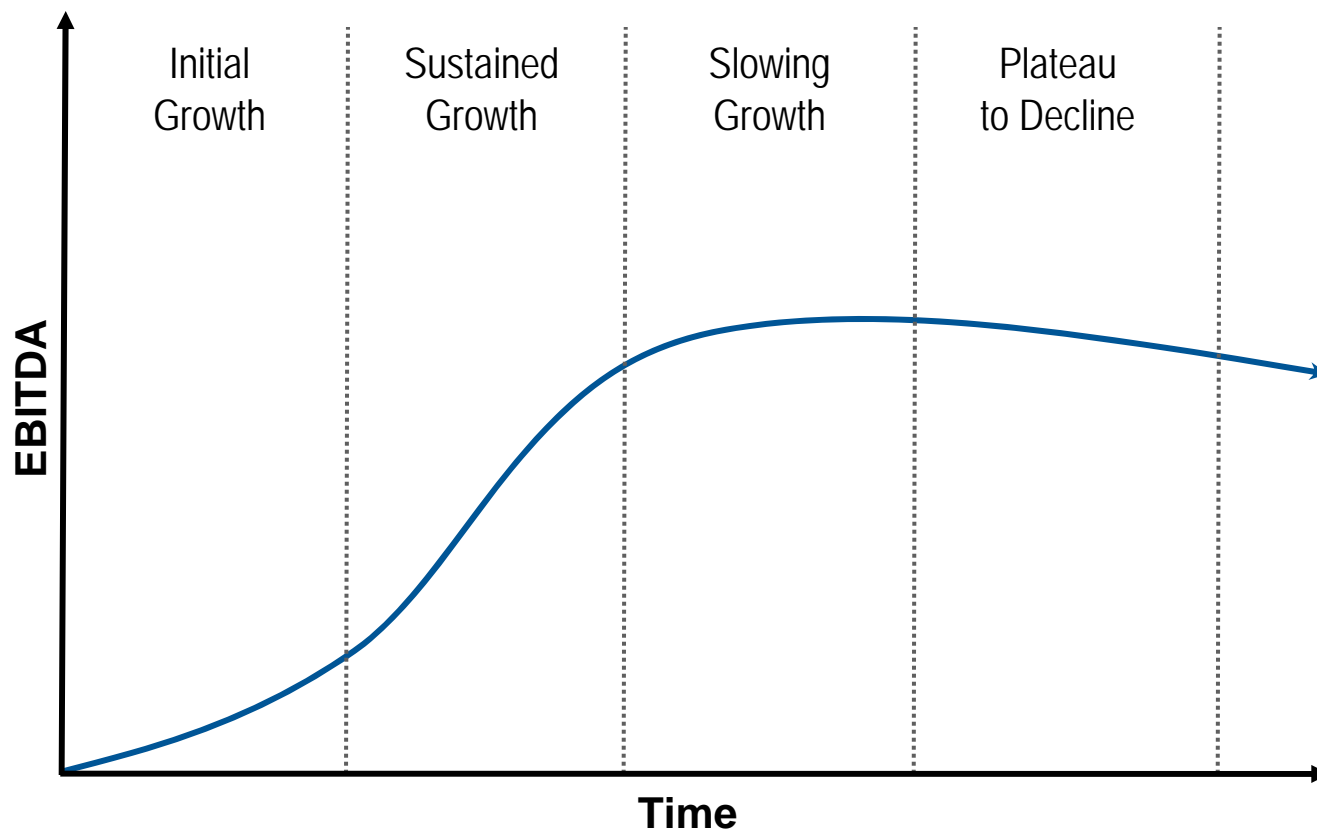


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The ASC Life Cycle

The ASC Life Cycle

A typical surgery center will experience a life cycle that is characterized by periods of growth followed by gradual decline.

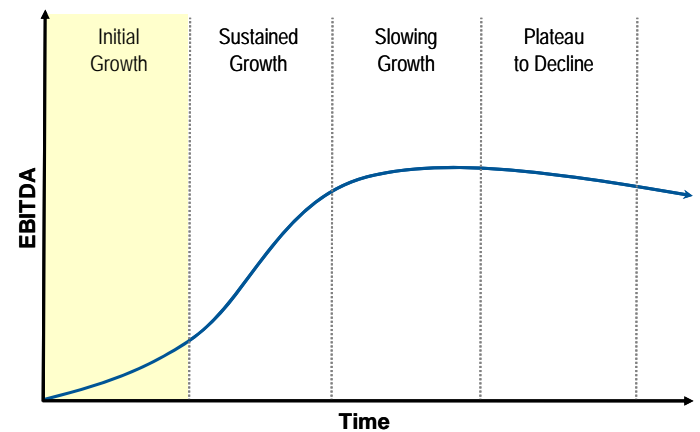


Initial Growth

A newly opened or re-syndicated ASC will experience initial growth as partners begin performing cases at the center

Stage Characteristics

- Normally short in duration but critical to future growth
- Physician partners first impression of operations
 - ❖ Can determine how aggressively partners will begin to shift cases from hospital
- EBITDA growth lags volume growth due to fixed costs that must be absorbed
- Lays foundation for future growth
- Partnership focus on business aspects and cost containment as the facility approaches break-even

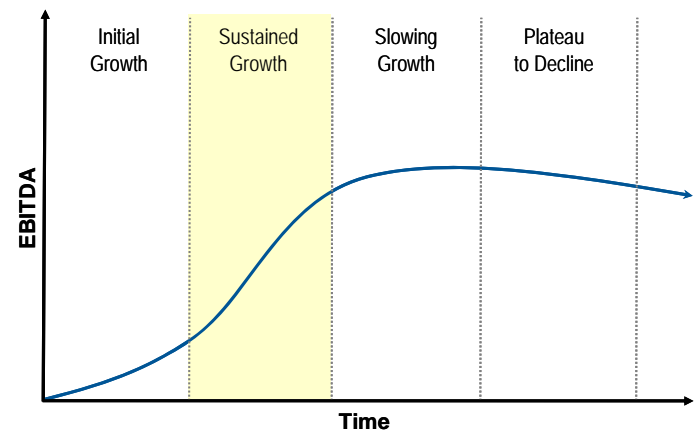


Sustained Growth

Sustained growth occurs as partners increase utilization and case volume

Stage Characteristics

- Physician partners continue to shift cases from hospital to ASC
 - ❖ Gain confidence in staff and facility operations
 - ❖ Schedulers begin scheduling more cases at ASC
- Increasing profitability and distributions
 - ❖ Fixed costs are covered
 - ❖ EBITDA margins expand with incremental volume increases
- Growth is driven by existing partners
 - ❖ Growth in physician practices
 - ❖ Center level marketing efforts

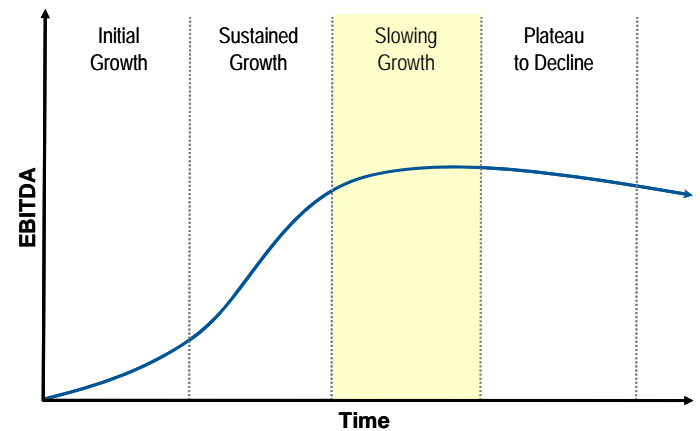


Slowing Growth

Growth slows as physician practices mature

Stage Characteristics

- Partnership matures
 - ❖ Growth from partners slows
 - ❖ Older partners begin to decrease volume
- Business aspects of the partnership are overlooked
 - ❖ Payor contracts may be out of date and need renegotiating
 - ❖ Efforts to control costs are neglected
- Difficulty recruiting new partners
 - ❖ Valuation challenges
 - ❖ Partnership dynamics
 - ❖ Ownership distribution v. Contribution

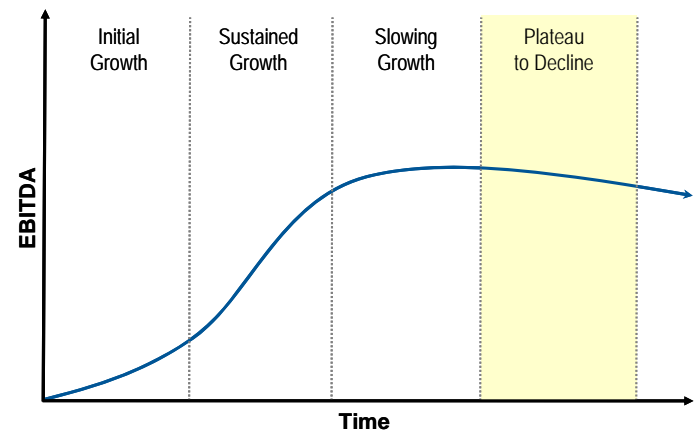


Plateau to Decline

Growth stalls as volume declines and margins are compressed

Stage Characteristics

- Older partners begin to retire
 - ❖ Partnership may not be able to repurchase shares (Operating Agreement)
- Partnership fractures
 - ❖ Ownership no longer reflects contribution
- Efforts to control costs are ineffective
 - ❖ Difficult to change culture established during growth periods
 - ❖ Often over-staffed
 - ❖ Increasing capital expenditures (Facility / Equipment)





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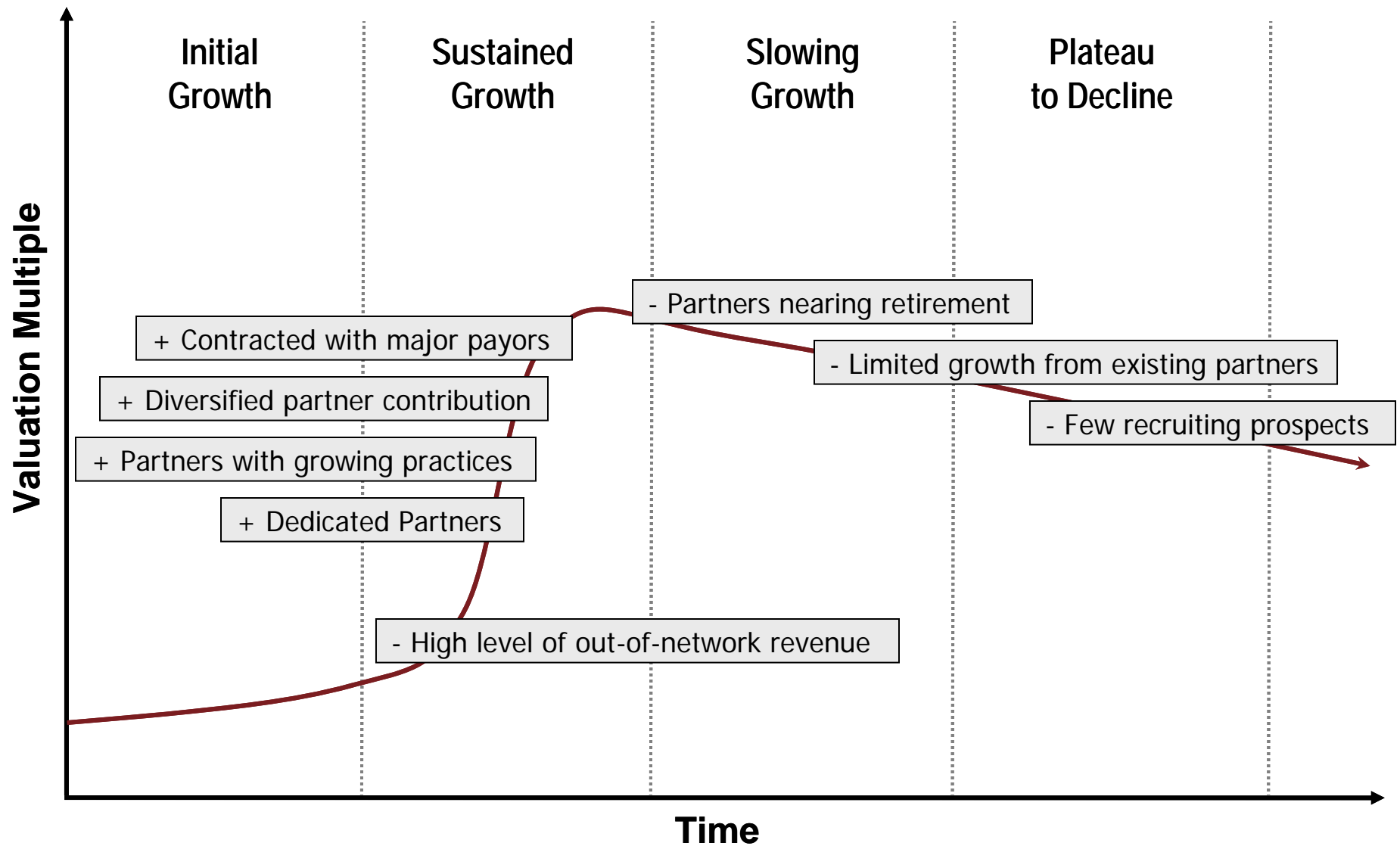
Factors Affecting Valuation

Pricing Criteria

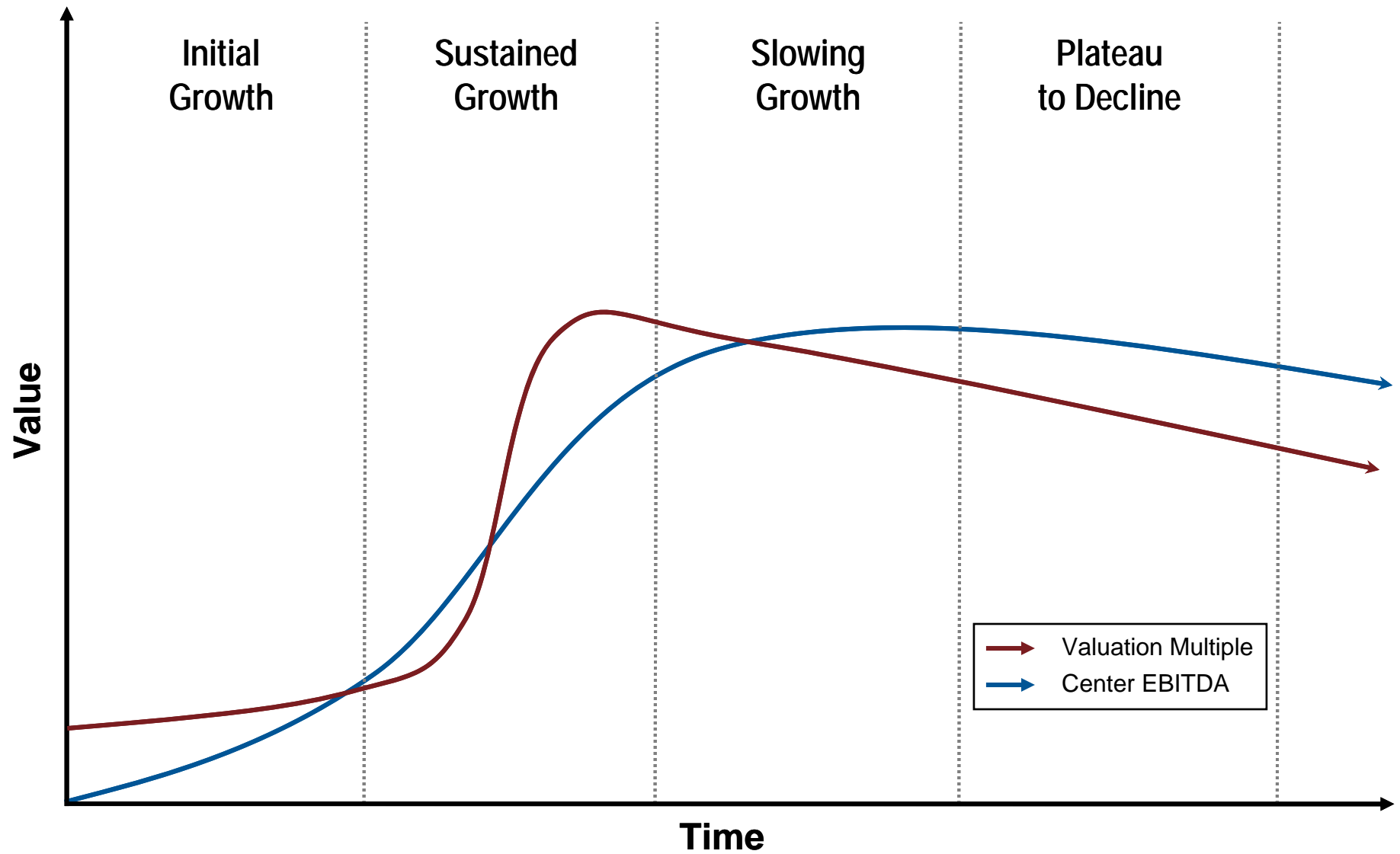
*Valuation multiples are determined by the outlook for future performance and therefore are extremely sensitive to **growth** prospects and **risk** factors*

	Decrease Multiple	Increase Multiple
Competition / Barriers to Entry	<ul style="list-style-type: none"> ◆ Limited barriers to entry ◆ Several competing partnerships ◆ Ownership in multiple facilities 	<ul style="list-style-type: none"> ◆ Significant barriers to entry – CON ◆ Few competing partnerships ◆ No external ownership
Reimbursement Risk	<ul style="list-style-type: none"> ◆ High level of out-of-network revenue ◆ Specialty concentration – MC changes ◆ Other exposure (work comp reform) 	<ul style="list-style-type: none"> ◆ Contracted with major payors ◆ Positive MC changes (Ortho / ENT etc) ◆ No other exposure
Partnership Profile	<ul style="list-style-type: none"> ◆ Partners nearing retirement ◆ Partner concentration (>20% revenue) ◆ Facility – Location / Design 	<ul style="list-style-type: none"> ◆ Dedicated Partners ◆ Diversified partner contribution ◆ Proximity to facility – RE Ownership
Growth Prospects	<ul style="list-style-type: none"> ◆ Limited growth from existing partners ◆ Few recruiting prospects ◆ Capacity concerns 	<ul style="list-style-type: none"> ◆ Partners with growing practices ◆ Excellent recruiting prospects ◆ Excess capacity

Valuation Multiples



Valuation and The ASC Life Cycle



When to Sell

Sell when an outside investor can add the most value to the partnership

- This can occur at different stages for different partnerships
- Must assess the current and future needs for the partnership
- Seek a corporate partner than can best meet these needs
- Buyers exist at all stages

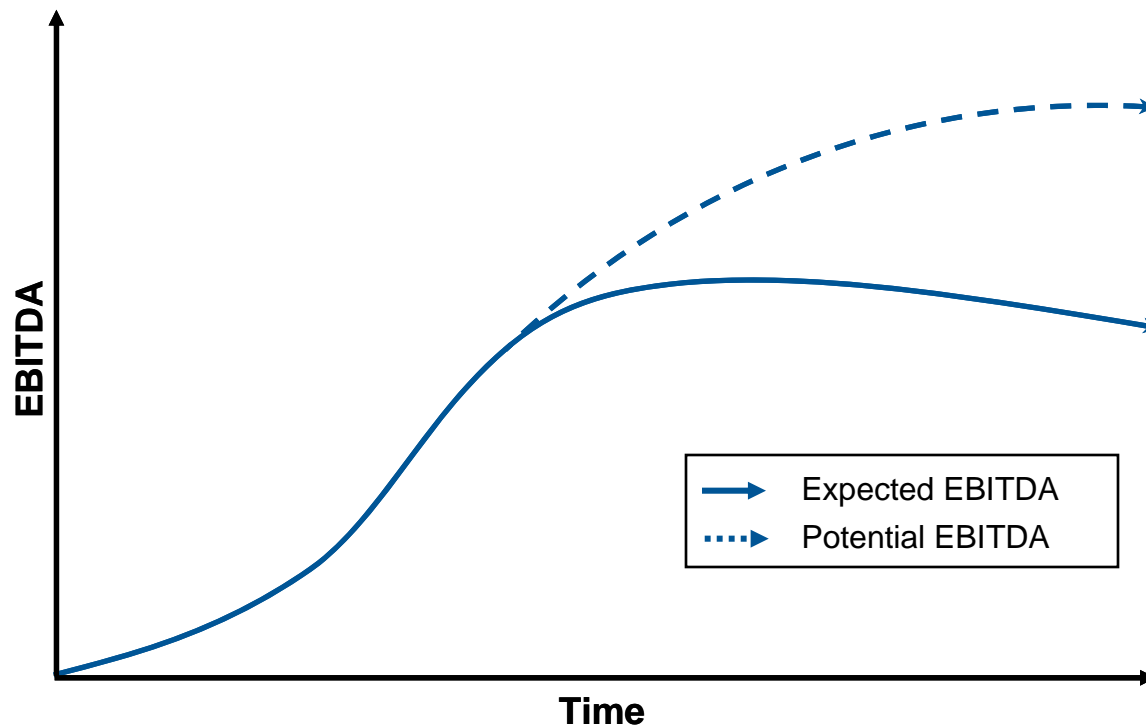
Difficult to anticipate a future decline in the business

- Must make an honest assessment of where the partnership is and where it is headed
- This assessment will help create realistic valuation expectations
- Valuation is not determined by past results but rather by the expectations of future performance

When to Sell

It is better to accept a slightly lower valuation from a company that can create future value than a higher valuation from one that can not

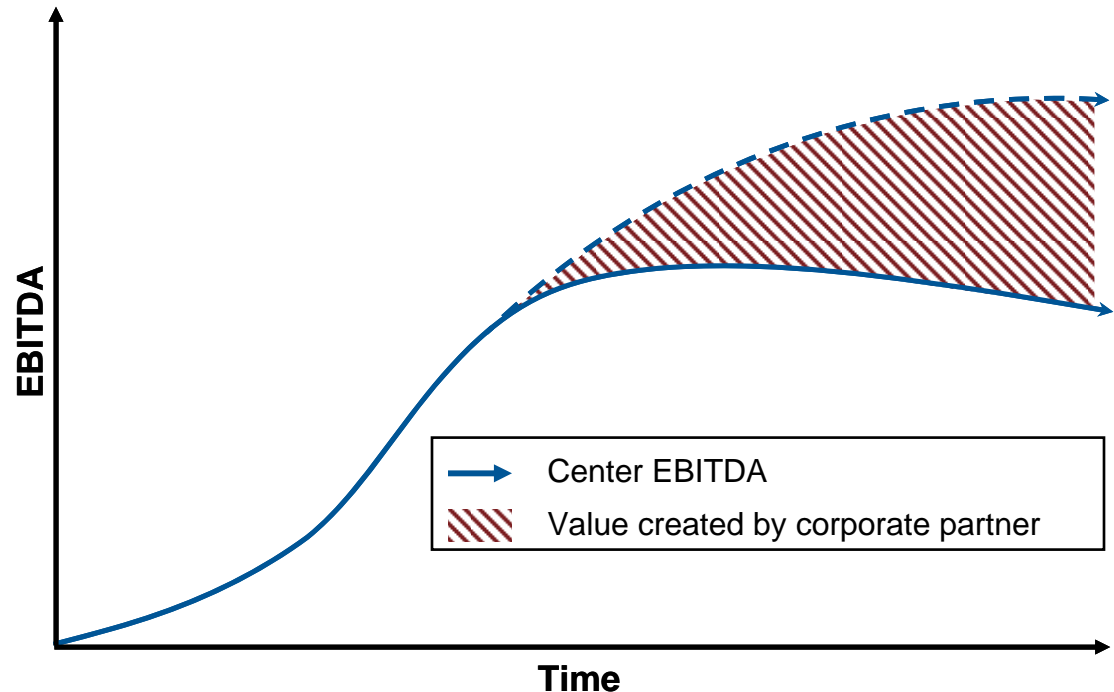
- Consider the following when comparing offers from potential buyers:
 - ❖ Amount a buyer is willing to pay
 - ❖ Ability of buyer to affect future increase in center performance
 - ❖ Remember that the buyer becomes a business partner



When to Sell

Incremental Value can be generated from a corporate partner focused on growing the business and extending the life cycle

- Maximize volume from existing partners
 - ❖ Practice analysis
 - ❖ Continuation planning
 - ❖ Center level marketing
- Recruiting new physician partners
 - ❖ Extend growth stages
- Renegotiating payor contracts
 - ❖ Improve revenue per case
- Expense management
 - ❖ Expand EBITDA margins





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Why Sell to a Corporate Partner?

Reasons physician partners sell to outside investors

- Liquidity event
 - ❖ Realize a return on investment
 - ❖ Upfront cash in exchange for future distributions
- Re-syndication
 - ❖ Re-allocate ownership
 - ❖ Redeem non-participating partners
- Improve management
 - ❖ Physician fatigue and recognition of limitations
 - ❖ Corporate partner focused on business aspects
 - ❖ Allow physicians to be physicians
- Growth initiative
 - ❖ Focus on enhancing future growth
 - ❖ Bring in new physician partners

Why Sell to a Corporate Partner?

Other benefits of sale to outside investors

- Proceeds vs. Distributions
 - ❖ Sale proceeds are taxed as capital gains
 - ❖ Distributions are taxed as ordinary income
- Present value and Future value
 - ❖ Able to use cash today instead of over time
- Decrease Liability
 - ❖ May be able to remove partners from debt guarantees
- Decrease Risk
 - ❖ Decrease exposure to potential legislative changes that could affect the value of the business

Why Sell to a Corporate Partner?

Consequences of a sale to outside investors

- Less ownership
 - ❖ Distributions will be reduced
 - ❖ Voting influence will be diminished
- Governance changes
 - ❖ May have to give up control of business decisions
 - ❖ More restrictive covenants (non-compete)
- Loss of autonomy
 - ❖ Degree depends on corporate partner
 - ❖ Some more “centralized” than others

Questions?

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