

# ASC FOCUS

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OHIO ASC HOSTS VIRTUAL  
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A photograph of the Lincoln Memorial in Washington, D.C., illuminated at night. The building's white marble columns and steps are brightly lit, and the interior statue of Abraham Lincoln is visible through the central opening. The sky is a deep blue, and city lights are visible in the background. The entire scene is reflected in a pool of water in the foreground.

## ADVOCACY WORKS

*Over years, ASCA and its members  
have reduced burdens on ASCs*

**ASCA** Ambulatory Surgery  
Center Association



## How Much Is Your ASC Worth?

*Learning your surgery center's value can help with short- and long-term planning*

**BY ROBERT KURTZ**

After ASC owners engage ASCs Inc. in Valley Center, California, to help facilitate a sale, the process they follow involves collecting significant due diligence material and developing a confidential information memorandum (CIM), says Jonathan Vick, the company's founder and managing partner. This document shares financial and operational information about the ASC that is critically important to prospective buyers. It also helps interested buyers determine what they will offer for the center.

A CIM can reach 50 or more pages, Vick says. This, he says, is indicative of the complexity of determining the value of an ASC. "There are many different factors that affect value upward or downward. This includes specifics about the ASC, who the buyer is and

how much of the ASC is being sold. There is no simple formula."

Matthew Muller, director for HealthCare Appraisers in Denver, Colorado, cites several instances when an ASC appraisal is valuable. First, he suggests obtaining one to determine the value of your ASC when deciding whether to engage in a transaction. Second, he recommends having one in hand when transacting an ownership interest in the ASC with a health system, management company or other investors and during transactions between shareholders, including physician buy-ins and redemptions.

"In addition, if a physician-owner is undergoing a marital dissolution, they will usually need to learn the value of their ownership interest for purposes of equitably splitting the marital balance sheet," Muller says.

"If a physician is contributing an ASC ownership interest to a trust, an appraisal may be needed for Internal Revenue Service reporting."

### Current Factors Influencing Value

To begin gaining a general understanding of your ASC's worth and whether it is likely to command a price toward the higher or lower end of your market, look at your ASC's defining details, including number of physicians and specialties.

In these cases, more tends to be better, Muller says. "The number of physicians performing cases at the center is a determinate of value as having more physicians can help alleviate risk of a material downturn in case volume should a physician leave. Having more specialties performed at an ASC can also help alleviate the risk a single-specialty ASC may face, such as procedures from that specialty moving to an office-based setting."

The types of specialties performed in your ASC also can have a significant influence on value, Vick says. "Orthopedics, spine and cardiology are currently considered high-value specialties, whereas urology, podiatry and plastics are considered lower-value specialties. Specialty value is influenced by factors including revenue, profitability and volume."

Having many physicians performing cases in valuable specialties, however, is not necessarily a recipe for high valuation. "You also want a historical financial performance that shows stable or consistent growth as that may demonstrate an ASC has successfully executed its management strategy."

Quality of earnings is another area worth examining, Vick says. Quality here refers to whether revenue is generated by in-network or out-of-network payer contracts. Out-of-network earnings are considered significantly less valuable than in-network earnings. "The reason is that out-of-net-



work earnings are not considered to be sustainable into the future whereas in-network earnings are more likely to be sustainable for the long term,” he says.

### Future Factors Influencing Value

As important as it is to consider current operations and performance, your ASC's value may also be influenced by future projections and opportunities, as Lindsey Kroenke, RN, administrator for St. Joseph Center for Outpatient Surgery in St. Joseph, Missouri, found out when her ASC received a valuation in preparation for possibly taking on a hospital partner.

“For us, some huge factors driving up our value were a projected increase in total joint volume, increases built into our payer contracts that were coming up and contract auto-renewals we had built in for years to come,” Kroenke says.

Most ASCs have growth opportunities like those that will influence what the center is worth, Vick says. Growth opportunities that increase value include adding specialties, renegotiating contracts, securing contracts that carve out high-priced implants and filling open operating room time.

When valuing an ASC, an appraiser also will consider factors that can support or threaten an ASC's long-term viability. “Certain barriers to entry in a market can have an impact on value,” Muller says. For instance, an ASC in a certificate of need (CON) state might benefit if competitors have a difficult time entering the market because of the challenges in procuring a CON, he says. “An ASC with an established brand built over the years can also positively impact value.”

As another example, Vick highlights the importance of developing a succession plan. “If the physician partners are approaching retirement age and an ASC lacks such a plan, that can have a significant, negative impact on the value or make the ASC unsaleable. On the other hand, if a



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—Jonathan Vick, ASCs Inc.

few of the doctors are nearing retirement and they have recruited new physician partners to come on board, that will add to the value.”

### Maximizing Value

Even if you are not ready to pursue a transaction, learning what your ASC is worth can provide insight that helps with short- and long-term planning, Kroenke says. “A valuation will help you understand where your facility is at right now and project how your ASC will likely be affected by possible changes, such as bringing on service lines or renegotiating contracts.”

Receiving an appraisal also can identify where ASCs might want to target improvement efforts. Increasing sustainable cash flow is often the most significant factor that can increase an

ASC's value, Muller says. “There are a variety of ways to accomplish this: increase case complexity, increase case volume by adding new procedures or new physicians, achieve an increase in payer reimbursement, find ways to cut expenses or limit annual expense increases.”

These efforts also can add diversity to an ASC's revenue sources by increasing the number of physicians, types of cases performed and payer contracts. “Greater diversity lowers the risk profile of an ASC. This increases value,” Muller says.

Kroenke's advice to new ASC administrators: If there is a center valuation available, look at it. “There should be a lot of information about your center's current performance and prospects.”

If you decide to pursue a sale of your ASC, understand that the multiple of earnings that determines the value is going to be higher if you sell a controlling interest rather than a minority interest, Vick says. In addition, be prepared for buyers to take different approaches to calculating your center's value. Management companies and private equity firms, he says, tend to use a “market approach” to valuation, which leans more heavily on multiples of earnings and growth opportunities. Hospitals, on the other hand, typically use an income or discounted cash flow valuation approach, which discounts future cash flow. Thus, ASC management companies and private equity firms almost always value an ASC higher than hospitals.

This highlights the importance, Vick says, of securing multiple bids for your ASC. “Getting bids can have the biggest impact on what your ASC is ultimately worth in a sale. Even if the hospital is your preferred partner for a transaction, you can use higher bids from other potential buyers to show the hospital your ASC's fair market value. The hospital will usually up its offer as a result.” ◀