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INSIDE »

KEY COMPONENTS OF A SUCCESSFUL
ASC TRANSACTION

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Key Components of a Successful ASC Transaction

Build a strong team, do your due diligence and have patience

BY ROBERT KURTZ

Considering selling a minority or majority of your ASC? This might be a good time. “If you think it is a good time to bring in an investment partner, you are likely going to have options,” says Carole Guinane, RN, executive director of ASC operations for Cedars-Sinai in Los Angeles, California. “If you can find the right partner, it can do wonders for a surgery center, its owners and the community it serves.” Guinane’s views are also based on her past experience working for health systems with ASC joint ventures and a large orthopedic group with several ASCs.

Well-run ASCs are in high demand these days, says Colin Luke, partner at Waller Lansden Dortch and Davis

in the firm’s Birmingham, Alabama, office. A growing number of hospitals and health systems are looking to acquire surgery centers so they can partner with physicians and maintain a piece of the outpatient surgery “pie” that is increasingly migrating to ASCs, he says. Meanwhile, management companies continue to pursue ASC investments to expand their existing surgery center portfolios.

Beth Vessel, partner at Waller Lansden Dortch and Davis in the firm’s Nashville, Tennessee, office, has seen a recent rise in another transaction structure: three-way joint ventures between an ASC, hospital/health system and management company. “Hospitals are

recognizing the value in bringing in that third-party expertise to help make their ASC joint ventures more successful,” she says.

How to Achieve Your Transaction Goals

Understanding the components of a successful transaction can help ensure a decision to sell pays off over the short and long term.

Supporting team. If you decide it is time to pursue a transaction, one of your first steps should be to build a team of professionals to support your ASC and its interests, says Nicholas Janiga, partner at HealthCare Appraisers in Denver, Colorado. This team will likely include legal counsel, an accountant and a valuation firm that can determine a fair market value for your center.

Janiga advises ASCs to find professionals with healthcare experience and, preferably, experience with ASCs. “We had a recent transaction where a non-healthcare attorney bungled a number of key documents. Suffice it to say, this caused the seller a lot of angst and problems.”

Guinane recommends surgery centers consider another member for their support team: a strategic adviser. “An adviser can bring the expertise and checklists to help keep you on track and make sure your ASC’s interests are always being well-represented.”

Prioritize pre-diligence. Any transaction is going to place the ASC’s operations under regulatory scrutiny. A surprising regulatory discovery during the transaction process can significantly stall or derail a transaction. Vessel advises ASCs to work with their legal counsel to perform “pre-diligence” (i.e., preliminary due diligence) and identify potential obstacles to a transaction. Areas to focus on during pre-diligence can include referral source arrangements, such as anesthesia and/

or pathology, tax structure, and certificate of need rules.

“If there are compliance problems, you want to limit how many come to the surface during diligence,” Vessel says. “Find and resolve these before they can be a concern for a potential buyer of your ASC.”

Pre-diligence also should help you come to the negotiating table better prepared, Janiga says. “Providing the records you assemble will help a buyer get more comfortable with pursuing a deal.”

Clarity on the process. An ASC transaction is typically a lengthy process. Luke says surgery centers should take the time to determine what the process is going to look like, leaning on the supporting team for guidance. “If you do not understand the process, it can become very frustrating very quickly and may leave you feeling like you have no control.”

Physician owners should know the level of involvement that will be expected of them, Vessel says. “They are going to need to answer some diligence questions and deal with some hassle because any company thinking about buying their ASC will want to know what they are buying an interest in.”

Expect a significant portion of the transaction process to revolve around securing regulatory approvals, Vessel says. “Work with your legal counsel to create an outline of the approvals that will be required and a timeline for completion. Moving through the transaction process thoughtfully is going to produce a much better outcome.”

Aligned expectations. An essential component to success is ensuring all parties are on the same page concerning the expectations of the transaction. “You should carefully spell out what each party is expected to provide post transaction,” Janiga says. This can include everything from efforts around physician recruitment and volume



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—Beth Vessel,
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growth to the provision of management services, revenue cycle management and staffing.

“The post-transaction plan should not only spell out short-term expectations but also identify what the parties hope to achieve over the long term and how they envision meeting those goals,” Guinane adds.

Staffing plans. An important facet of your post-transaction plan should speak to the staffing of your center. ASCs must be clear on what their transaction partner(s) is envisioning for the center going forward.

“Many times, an ASC has a beloved administrator or team,” Luke says. “It may be important to you to keep these individuals in place. A hospital system or third-party manager may have different thoughts—not necessarily about replacing your people but the degree of

autonomy these individuals will have following the transaction.”

A transaction might also affect aspects of your operations like human resources and billing. “If your ASC is acquired or merged into a national company or health system, your new partner might want to consolidate some of your departments,” Luke says. “If you are going to be pursuing a transaction, you need to be considering the importance of such structural issues.”

Cultural fit. The parties involved in the transaction should be clear on what they envision as the culture and strategic vision for the ASC, Guinane advises. “These do not have to match perfectly, but they should be close enough that it is easy to see how the cultures and visions can be meshed.”

Patience Usually Pays Off

Once you decide to pursue a transaction, you may be eager to get a deal to the finish line, but Guinane recommends ASC owners take whatever time and steps are needed to find the right partner and create a strong partnership. “When you do things the right way, it is like making magic happen,” she says. “You end up with a highly functioning system. The right people are in the right place and doing the right work. There is great communication between all the parties because you have set up and structured the partnership the appropriate way.”

Approach a transaction the wrong way? “Expect friction and probably a lot of it,” Guinane says. “Conflicts may frequently occur, and there will not be the level of transparency needed for success. You may not have people putting in the work they said they were going to do. All of this can happen pretty quickly after a transaction is completed, and sometimes it is very difficult to correct.” ◀