Don't Put Dollars Before Sense

How to evaluate a potential ASC sale

By Maureen Waddle, principal and senior consultant, BSM Consulting

A well-run ASC can be a great investment for ophthalmologists. However, running an ASC can involve a great deal of work, and, at some point, many owners might find themselves considering selling all or part of the surgery center. In today's market, it is highly likely that a successful ASC would attract the attention of a number of potential buyers — for example, a local hospital, a privately or publicly held surgery center company, an accountable care organization (ACO), a private-equity firm, or other surgeons in the area.

While an in-depth financial impact analysis is an important and essential step when deciding whether to sell all or a portion of an ASC, there are several other strategic questions to consider first. Therefore, before embarking on the selling process, it is important that a clear strategy is in place and all shareholders agree on the reasons for the sale.

Strategic Reasons for Selling

Through the years, surgery centers have been some of the best-performing investments in doctors' portfolios. As such, there must be compelling reasons to give up that asset. Below are some of the most common reasons a surgery center owner might consider a complete sale or adding an investing partner:

- Shareholder surgeons are planning to retire in the next 5 to10 years and would like someone else to manage the exit strategy.
- The current facility is underutilized (and, therefore, not as profitable as it could be) and physician owners want/need outside expertise to bring in additional providers.
- ACOs or hospitals in the community have captured patient groups and are limiting patient access. A sale of all or a portion of the ASC to an entity (usually a hospital) will help physicians and the facility maintain access to patients.
- The owners feel that a professional management organization could improve buying power and operating efficiency, allowing for more efficient operations that will yield about the same in owner returns despite giving up a percentage of earnings, and the management headaches will shift to the professional managers.

Only after the reason(s) for selling are defined is it possible to identify the best potential partners/buyers. In addition, sellers will be able to

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Current Market Multiples

Situation	Range of multiples being applied
Single-specialty ASC, buyer is purchasing a controlling interest (51% or more)	6 – 7.9 multiple (73% of respondents) 4 – 5.9 multiple (27% of respondents)
Single-specialty ASC, buyer is purchasing a minority interest (49% or less)	3 – 3.9 multiple (50% of respondents) 4 – 6.9 multiple (50% of respondents)
Multi-specialty ASC, buyer is purchasing a controlling interest (51% or more)	7 – 8+ (78% of respondents) 4 – 6.9 (22% of respondents)
Multi-specialty ASC, buyer is purchasing a minority interest (49% or less)	4 – 5.9 multiple (65% of respondents) 3 – 3.9 multiple (29% of respondents) 6 – 6.9 multiple (6% of respondents)

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ask the appropriate questions to make an informed final decision.

Considerations for Shareholder Discussions

In talking with fellow shareholders, it is important to understand which answers might be "deal breakers" for the group. Therefore, a thorough discussion of all aspects of the sale and any potential buyers/investors must take place to ensure a common goal. The table on page 15 provides a framework for this discussion, including a number of questions to ask, as well as some reasons why shareholders might be interested in the answers. (Note: These questions should be asked before starting the cumbersome process of sharing financial information and negotiating the deal.)

Valuing an ASC: What can I expect from my ASC sale?

If the strategy makes sense and all shareholders are on board, it's time to talk dollars. Although there are various ways to value an ASC, the most common method is based on projected earnings. Examining historic profit and loss statements and balance sheets will be helpful to understand two key components of valuations: 1) The balance sheet will reveal any interest-bearing debt; 2) the profit and loss statements show the EBITDA, or earnings before interest, taxes, depreciation, and amortization. An average of EBITDA across three time periods is preferred. Typically, this might be the last two complete fiscal years plus a trailing 12-month calculation. A multiple is then applied to determine the value of future cash flows. Downward adjustments to the EBITDA and/or the multiple may be made if there is outstanding debt or there is not enough working capital in the business.

The chart above ("Current Market Multiples") outlines the market multiples currently being used based on the 2016 ASC Valuation Survey conducted by HealthCare Appraisers.[1] Keep in mind, these multiples are usually related to institutional or corporations known as "passive investors." A local ophthalmologist who brings cases to the center, and, thus, adds much more value than a passive investor, will rarely pay a multiple at the same high level as a passive investor.

More Than Money

Money is certainly important in the decision-making process. However, I've seen far too many ophthalmologists who have failed to enter the relationship with the right expectations because they focused only on the financial impact and didn't consider the strategic impact of the decision. This could result in years of frustration and negative financial impact if such a partnership dissolves. Remember, as with most business decisions, if strategy comes first, the dollars will follow. ■

Reference

1. HealthCare Appraisers Incorporated. 2016 ASC Valuation Survey. Available at: healthcareappraisers.com/ASC_Survey.html

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