

Step by Step How to Sell Your ASC

Ambulatory Surgical Centers of America
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Background

- ASCOA has sold 26 surgery centers over the past 8 years and bought 21.
- We are currently selling centers.
- The majority of my time is dedicated to selling our centers.



What are the Steps?

- Build consensus amongst the owners.
- Enter into confidentiality agreements with potential buyers. (2 weeks)
- Create and distribute facility information book. (3 - 4 weeks)
- Collect and analyze proposals. (3 - 6 weeks)
- Meet with strongest suitors. (3 - 4 weeks)



What are the Steps? (Cont.)

- Negotiate and sign a “letter of intent.” (1- 3 weeks)
- Buyer performs in-depth due diligence and works on assignment of contracts. (1 – 2 months)
- Negotiate purchase, management, and operating agreements. (1 month)
- Collect and exchange signatures. (1-2 days)
- Fund! (1 day).
- Total time typically 5 – 8 months.



Building Consensus

– Pros to selling your center:

- Turn future income into cash at advantageous tax rates - capital gains today rather than income over time at higher tax rates.
- Diversify your assets.
- Reduce exposure to debt guarantees.
- Buyer may aid in getting better contracts.
- Buyer may aid physician recruitment.



Building Consensus (cont.)

– Cons to selling:

- Sellers no longer control center.
- Perpetual management fees common.
- New partner may not benefit you long-term.
- Limited participation in future center performance.
- Seller indemnifications.



Building Consensus (cont.)

- Pricing is typically a key factor.
 - Out-of-network billing.
 - Growth prospects.
 - Threats: hospital employment, proximity of other centers, and payer mix.



Marketing & Confidentiality

- Make list of potential buyers.
 - Local hospitals.
 - Industry buyers – Amsurg, SCA, Meridian, Quorum, SMP, Tenet, and USPI are active.
 - Turnaround buyers.
- Create a standard confidentiality agreement (CA).
- Call and describe your center generally; if parties are interested send CA.



Create & Distribute Info Book:

- Executive summary.
- Description – size, ORs, lease, structure, equipment, and anesthesia.
- History of financial performance – IS & BS
- Case volume history by surgeon, specialty, and payer.
- Revenue by surgeon, specialty, and payer



Create & Distribute Info Book (cont.):

- Payer environment and contracts.
- Competitive environment.
- Ownership breakdown.
- Debt terms.
- Owner profiles.
- Description of risks and challenges the center faces.



Request Proposals

- Specify what you want in buyer proposals:
 - Buying how much and from whom.
 - Due date. (2 – 3 wk min.)
 - Treatment of existing management contract.



Analyze Proposals & Choose

- Put proposals into a comparison grid to make apples-to-apples comparisons on key deal points: pricing, percentage to buy, physician proceeds, governance, management fee etc...
- Select top 2 or 3 to come see the center and present themselves to the partners.
- Choose one to negotiate with for an LOI.



Negotiating an LOI

- Form an owner sale committee.
- ID the 2 or 3 points you care most about and tell the buyer what you want.
- If your counter is rejected consider your second choice.
- Competition and negotiation is what gets you a good deal.
- It is hard to anticipate at the outset which buyer will be most hungry to invest.



Negotiating an LOI (Cont.)

- Retain one experienced attorney/firm to represent all sellers.
- Once you've agreed to terms take them to your attorney to incorporate in an LOI.
- Beware of attorneys that want to negotiate every point to death – it stymies the process.



Due Diligence

- Notify center staff of plans.
- Buyers need to have full access to center info.
- Center administrator should expect to work a week on assembling the information.
- Buyer will do on-site inspections, staff and physician interviews, chart audits, and financial testing.
- Call partners of buyer for references.



Negotiate Agreements

- Buyer typically creates the purchase, management, and operating agreements. Buyer works assignment of center contracts.
- Sale committee will do several conference calls or meetings with the attorney as these agreements are negotiated.
- Many buyers are limited in what they can negotiate.



Items Worth Negotiating

- Who dilutes when bringing in new partners.
- Retirement provisions. (Two sides to this.)
- Reps and warranties qualified.
- Working capital adjustment and calculation.
- Caps on pass-through expenses.
- Indemnification basket, caps, and limits.
- Physician approval before selling to local hospital.
- Cash required at closing.
- Tail insurance.
- Non-compete terms.
- Staff privileges and key employees.



Collect Signatures & Fund

- With large physician groups, be sure to collect signed signature pages to be held in escrow ahead of intended closing date.
- Finalize calculations of proceeds net of accounting and attorney fees, cash reserve, and administrator bonus.
- Provide wire instructions ahead of time.



Post Closing Items

- Net working capital true-up and holdback disbursement.
- Partial year tax return.
- Buyer and seller accountants reach agreement on asset values.
- Dissolve old legal entities and disburse final funds.



Keys to Success

- Build consensus.
- Sale committee.
- Create competition for your center.
- Work with an experienced attorney that keeps your goals in mind.
- Be completely forthcoming and honest with your buyer.



THINK AGAIN

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