Maximizing EC Value

Jon Vick
President, ASCs Inc.

The Environment

"ASCs are seeing more uncertainty than at any time in the last decade".

Scott Becker, Becker's ASC Review
September/October, 2011

Maximizing EC Value

- Taking steps to prepare an endoscopy center for sale
- How to maximize the value of your transaction

Why sell?

- Take $ off table
- Recruit new partners
- Retirement exit strategy
- Acquire contracting expertise
- Safety net: reimbursement & legislation
- Add multi-specialty procedures
- Increase volume, revenues and profit

Typical EC Seller's Goals

- Sell 30% to 60%
- Multiple of EBITDA: 6-7 or better
- Improve efficiencies & operations
- Implement growth opportunities
- Increase profits and distributions
- Retain control
- Strategic relationship with local hospital

Who are Potential Partners

Choices

- 30+ ASC management companies
- Local hospital
- 3-way deal: Drs, Hospital, Mgt. Company

Sell to Hospital?

Pros:

- Better contracts (not guaranteed)
- HOPD rates = double ASC rates

Cons:

- Focused on own goals, cultural differences, less efficient, less economical
- Hospital has to own 100% to get best rates
- Income approach to valuation

Sell to Hospital and ASC Co.

- ASC company = higher valuations
- ASC company will keep EC operating efficiently, economically, profitably
- Hospital may generate referrals, have contracts & higher reimbursements
- 3-way deal: “Best of both worlds: have ASC mgt. company negotiate with hospital
- Models: 1/3rd each; or 49%/25%/26%

6 Sales Models for ECs

1. Sell 51% to hospital for cash
2. Sell 51% to ASCs Co. for cash
3. Sell 51% in a 3-way deal
4. Sell 51% to ASC Co. for cash & stock*
5. Sell 30% to ASC Co.
6. Sell 30% to ASC Co. w/ 2nd sale*

*Total return is highest

ASC Co. Preferred Ownership

- 30% prefer minority ownership; generally these are smaller companies
- 50% prefer majority ownership; larger companies that want to go public
- 20% prefer ownership shared with hospital

Valuation of ECs

Minority interest
- 3 - 5 times TTM EBITDA, less debt

Majority interest:
- 5 - 7+ times TTM EBITDA, less debt

Valuation example (51% sale):

6.5 times $1M EBITDA = $6.5M - $500K in debt = valuation of $6M x 51% = $3.1M distributed to owners who retain 49% interest

Valuation Multiples:

Valuation multiples we have seen offered for a 51% interest in ECs in 2011:

- 5.5 times EBITDA*
- 6.25 times EBITDA*
- 7.5 times EBITDA*
- 8 times EBITDA*

*Less long-term debt

What makes the difference

- Age of Drs
- Percent out-of-network (OON)
- Recruitment pool
- Ability to expand center
- Availability of hospital partner
- Resale/stock option opportunities

Maximizing Value of Your EC

To increase the value of your EC…

- Recruit young GI Drs
- Identify recruitment pool of users
- Reduce % of OON
- Identify growth opportunities
- Identify EC expansion opportunity
- Prepare compelling sales prospectus

The Right Time to Sell is…

When…

- take $ off table
- you need an exit strategy
- there are competitive buyers
- center needs new physicians
- capital gains taxes are 15%
- you need better contracts
- you need a strategic advantage

Sell Minority or Majority?

Minority:

- lower multiple, less cash
- more control, more cash flow, more risk
- Second sale opportunity

Majority:

- Higher multiple, more cash
- Less control, less cash flow, less risk
- Strategic (3-way) sale opportunity

Negotiating the Highest Price

What drives EC values higher

- Growth opportunities
- Recruitment plan: Drs & cases
- Contracting/hospital opportunity
- Market knowledge: multiples
- Sales prospectus: defines the opportunity
- Competition: 3 or more bids

Questions & Answers

Jon Vick, President

760-751-0250

www.ascs-inc.com