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## Maximizing EC Value



Jon Vick  
President, ASCs Inc.

Corporate Partners for ASCs

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## The Environment

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

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

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## Maximizing EC Value

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

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## 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

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## 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

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## Who are Potential Partners

### Choices

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

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## Sell to Hospital?

### Pros:

- Better contracts
- 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

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## 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%

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## 6 Sales Models for ECs

1. Sell 51% to hospital for cash
2. Sell 51% to ASC 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/ 2<sup>nd</sup> sale\*

\*Total return is highest

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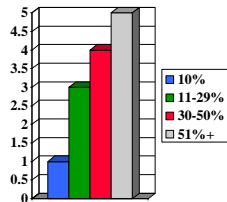
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## ASC Co. Preferred Ownership

- Of 17 ASC companies surveyed\*:
- 62% preferred minority interests
- 38% preferred majority interests



\* 2010 ASC Valuation Survey  
HealthCare Appraisers Inc.

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## 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

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## Valuation Multiples:

Valuation multiples we have seen offered for a 51% interest in ECs in the past 12 months:

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

\*Less long-term debt

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## 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

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## 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

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## The Right Time to Sell is...

When...

- your profit margin is less than 40%
- you need an exit strategy
- there are competitive buyers
- there is no restriction on Dr. ownership
- capital gains taxes are 15%
- you need better contracts
- you need a strategic relationship

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## 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
- Second sale opportunity

Corporate Patterns for ASCS • • • • • • • •

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## 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

Corporate Patterns for ASCS • • • • • • • •

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## Questions & Answers

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**[www.ascs-inc.com](http://www.ascs-inc.com)**

Corporate Patterns for ASCS • • • • • • • •

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