Valuate Your Underperforming ASC and 2 Concepts to Improve Value

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VALUATE ASC

Objective: Understand asset valuation, yet maximize value of your ASC by improving profitability.

- Do what you do best (Phelps)
  - 9 underperforming acquisitions in 4 years
  - Find "experienced" consultant to aid you in valuation before exploring partners

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2 Methods for Acquiring ASC's

1. Asset Valuation
2. Cash Flow Valuation

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1. Asset Valuation

Assets – Liabilities = Asset Valuation

- Hard Assets = Cash, Equipment, AR, Leasehold Improvements, Real Estate, CON, [No Goodwill], etc.
- Liabilities = Accounts Payable, Long Term Debt, Lease Guarantees, Promissory Notes, Line of Credit

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Asset Valuation (Continued)

- Characteristics Increasing Value
  - CON (100k – 500k in value)
  - Condition of Facilities
  - Location
  - Competition
  - Available Surgeons
  - Ownership Group
    (1 MD vs. 15 MD owners)

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Asset Valuation (Continued)

Hard Assets – Liabilities = Asset Valuation

- Acquisition Examples
  - Acquired 98% of ASC for $1 with 400k investment in working capital (negative Asset Valuation)
  - Acquired 45% of ASC (1 million valuation) for 100k and invested 350k in working capital… original owners made no working capital investment

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Asset Valuation (Continued)

Hard Assets – Liabilities = Asset Valuation

- Acquisition Examples
  - Original owners removed 560k debt personally, allowing syndicate to acquire 50% for $1 with 400k investment in working capital

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2 Methods for Acquiring ASC's

2.Cash Flow Valuation

6 x's EBITDA* – Debt = Cash Flow Valuation

- 3x's – 5x's EBITDA* multiple for Minority Interest
- 3x's – 8x's EBITDA* multiple for Majority Interest

* = Earnings Before Interest, Taxes, Depreciation, Amortization

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2 Strategies for Immediately Increasing Value

1.Compress Schedule – Close 1 day per week!!

- Lowers staffing costs and improves cash flow

2.Recruit Inside & Outside

- Audit partners' practices to identify cases missed
- Invite new surgeons to use optimal block time

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Objective: "Sell on 1st or 2nd attempt thru cash flow multiple"

1st attempt = Asset Valuation with minority development partner and/or a group of MDs

2nd attempt = cash flow of 6x's or better to majority buyer

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"To be simple is to be great."
Ralph Waldo Emerson

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