

7 Factors Affecting Your ASC's Value

By Todd J. Mello, principal and co-founder of HealthCare Appraisers, describes seven factors affecting the value of your ASC.

1. Physician ownership. Mr. Mello says a well-valued ASC will have a good mix of physician owners who bring cases to the center. "If you're dependent on one person and they get sick or something happens to them, that presents a major risk," he says. "From an ownership standpoint, I'd probably want to see at least 3-10 doctors for a single-specialty center and from 10-20 for a multi-specialty center."

In addition, he says a center's physician owners should hold a meaningful investment in the facility. "Generally, I don't want to see 50 physicians who each have a two percent interest, as no one physician has a significant enough stake in the business to warrant the ownership mentality which typically drives the success of a center," he says. "If that's the case, the doctors typically are less concerned where they do their cases, particularly if the center is not as conveniently located to their practice or the hospital."

2. Physician demographics. Ideally, an ASC should present a diverse group of physicians by age, including a good percentage of younger physicians who are excited about growing the center, Mr. Mello says. "I'd rather have my physicians be in the early to middle phases of their career," he says. "That way, they're hungry, and they're at the point of their life that they're trying to accumulate assets and support a family. They may be more concerned about doing cases and making sure things run well." Physicians nearing retirement are by no means a deal-breaker, but Mr. Mello says a center is a more risky investment if the majority of its physicians are of retirement age. "You want to continually bring in new talent," he says. "If everybody is near retirement and those physicians leave without having adequately planned over time to extend the life cycle of the center by syndicating to new physicians, the earnings of the center will basically drop off a cliff."

3. Diversity of payor mix. Mr. Mello says a diverse payor mix is also important for a good ASC valuation. He says out-of-network ASCs can cause concern because of the uncertainty of future OON reimbursement. "In valuation, you're predicting future cash flows and the risk of achieving those cash flows," he says. "The concern with OON is that you don't know when payors might force you to go in-network, in which case your earnings will drop significantly." He says most buyers shy away from OON centers for this reason or alternatively, value them as if they were in network and don't pay the OON "premium."

Mr. Mello adds that payor mix should ideally include a variety of payors, as significant reliance on any one payor can also indicate a high level of risk. "I'd rather not have 80 percent of my business from BlueCross, for example, because if they make a significant change to the contract, that will significantly impact my business," he says.

4. Physical capacity to expand. Because future case volume and growth in volume is a significant determinant in ASC valuation, Mr. Mello says a valuable ASC will have the physical capacity to grow case volume over time. "If a center is running at 90 percent capacity and they're planning to grow case volume by 30 percent over the next few years, I say, 'Where are you going to put it?'" he says. "There's only so much OR, pre-op and recovery space."

5. Plans to grow volume. According to Mr. Mello, an ASC that wants to be valued at a higher multiple has to have a strategic plan in place to grow volume — whether that means bringing in more physicians, marketing directly to consumers or other strategies. He says these plans usually require an experienced, qualified administrator or ASC physician leader who understands the ASC industry and brings sound business acumen to the table. "If you have a strong leader or management team, it lends to the ability of the business to be able to survive over time," says Mr. Mello.

6. Presence of non-competes. If an ASC's physicians have signed non-competes with the center, it will lend greater value to the center because the physicians are unable to invest in other facilities, Mr. Mello says. "You can't prevent a physician from doing cases at another center or in the hospital, but you can prevent them from having a financial interest in another center," he says. He says centers without non-competes have significantly more risk associated with achieving cash flow over time. Ideally, ASC physicians should sign non-competes that prohibit competition both while they hold an ownership interest in the center as well as two years following their departure, Mr. Mello says.

7. Certificate of need states. Mr. Mello says that the fact that an ASC may be located in a state requiring a certificate of need for new facilities may enhance its value because the CON tends to keep physicians tied to the center. While non-CON states may experience development of other centers, a CON state will likely be protected from too much competition from new, neighboring facilities. He says this status can go a long way toward maintaining the ASC's stability in the market. ■