Is it time to sell your ASC?

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It depends!

Session Objectives

1. Address key questions one should consider.
2. Review market dynamics impacting ophthalmology ASCs.
3. Provide suggestions on how to make your ASC more attractive to potential suitors.
Questions to Consider

- What are the goals of the facility owners?
- What are the work timelines for the owners?
- Is there a succession plan for the practice and surgery center?

Market Dynamics

The population is aging:
- 78 million people surging into retirement years.
- 10,000 people per day turning age 65.
- In 2025, 4.3M people will turn age 65.

There is more wealth and a willingness to spend to support a more active lifestyle:
- People are living longer.
- They have a desire to look and feel good.
- They are willing to invest out-of-pocket for greater "ROI" on their health.

Impact of Aging Population on Cataract Surgery

* Estimated based on a utilization rate of 3.5 per 1,000 for the population under age 65 and a utilization rate of 61 per 1,000 for the population age 65 and older.


Impact on Your Business

Surgeons may offer surgical “lifestyle” options sooner.

Surgeons must feel new technology options will offer a reasonable value proposition.

Patients more likely willing to pay out-of-pocket if they can see perceived value.

Flattening of Demand for Premium Lenses

* Q4 '13 premium IOL share of US IOL procedures is est. at 11.4% based on survey data.

Femtosecond Laser Technology Trends

Femtosecond laser cataract surgery continues to evolve; representing 5.4% of all IOL surgeries in Q4-2013 compared to 2.1% in Q2-2013.

Femtosecond Platforms:
- Alcon Inc. / LenSx
- LensAR, Inc.
- Abbott Medical Optics
- Ziemer Ophthalmic Systems AG
- Bausch & Lomb and Technolas Perfect Vision

Source: Data per Market Scope, "Ophthalmic Market Perspectives."

What do environmental changes mean to your business?

The ASC industry is well positioned to compete within the context of evolving market trends.

ASC owners must effectively promote their value proposition.

ASCs need to be prepared to collaborate with payers.

Demographic trends will likely continue to attract investors to the space.

What steps should I/we take to make our ASC more attractive to the market?
Think Like a Buyer

The following key factors are commonly considered when purchasing an ASC:

- Business concentration risk
- Barriers to entry
- Diversification of service lines
- Capacity to grow
- Facility infrastructure
- Contractual considerations
- Succession planning or key surgeons
- Sustainability of cash flow

Business Concentration Risk

The degree to which a business is dependent on a smaller number of customers.

For ASCs, risk could be reflected in dependence on:

1. A small number of surgeons
   - Facility with 1 surgeon poses transition risks and is less attractive to investors unless a succession or expansion plan is in place.
   - A single-specialty center with 20 surgeons, where no single surgeon performs more than 10% of total cases, poses less business concentration risk.

2. A small number of specialties
   - A single-specialty center may be attractive, as efficiencies and high-quality care can be gained from performing one type of cases.
   - Don’t assume that multi-specialty centers will be more attractive. Many never achieve productivity and efficiency gains because of:
     - Diverse staffing and equipment requirements.
     - The need to accommodate a diverse and often large group of surgeons.
Barriers to Entry

- Certificate of Need (CON) requirements or a state-based moratorium on new facility development.
- Competitive activity from hospitals, other community surgeons, and existing centers.
- Payer restrictions on ASC panel participation.
- New facility development costs.
- Availability of land or space for build out.
- Access to capital.

Diversification of Service Lines

More is not always better.

Whether multiple service lines are preferable to a single-specialty center will be decided by:

- Community-based and center-specific issues.
- The specialty in question.
- Production and efficiency of the facility surgeons.

Capacity to Grow the Business

Is an important factor when considering center value.

Buyers need to be confident they can implement a business plan to achieve a reasonable rate of growth.

Does not necessarily make a center more attractive.

Develop a conservative business plan to grow surgical volume in preferred specialties by adding new surgeons, new service lines, or both.
Facility Infrastructure

**Infrastructure includes:**
- The Physical Plant
- Medical Equipment
- Staff
- IT Systems
- Patient Management Systems

- Buyers will focus on whether existing staff have the temperament and skills necessary to adapt to the new ownership group.
- Facility lease terms are also important. Seller may own the land and building. Buyer needs to have flexibility to maintain the current space in terms consistent with historical facility costs.

May represent an opportunity or an incremental cost.

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- The Physical Plant
- Medical Equipment
- Staff
- IT Systems
- Patient Management Systems

Contractual Considerations

Prospective buyer will review provisions in facility operating or shareholder’s agreement for the following considerations:

- Non-competition provisions or other restrictions on surgeons who may wish to leave the facility.
- Redemption provisions for existing owners.
- Facility governance provisions:
  - Adequate safeguards to ensure handling of new capital purchases in a disciplined fashion within budgetary guidelines.
  - Guidelines for center decision making.
  - Make-up of the center’s management committee.

Succession Planning Considerations

- Sustainability of an ASC is predicated on stability in the surgeon ranks.
- Many owner-surgeons simply have not developed well-thought out plans to succeed or transition their professional practice.
- It is essential to have a sensible plan that brings other practice associates into the ownership structure of the center.
Sustainability of Cash Flows

- All factors discussed have a direct bearing on the ability to ensure sustainability of cash flows.
- Owners need to adopt a business plan that minimizes future risks and optimizes key areas of opportunity.

The best way to maximize the center’s value:
Demonstrate that the center’s cash flow is stable and there is a rational business plan to increase cash flows in the future.

Summary

Even if a decision is made not to sell shares for a longer time frame, these factors remain essential to ensure the facility runs in an efficient manner that enhances the experience of surgeons and patients.