



2014

# ASC Valuation Survey

*How do the ASC  
companies assess value?*

  
HealthCare Appraisers  
INCORPORATED

## Executive Summary

We are pleased to announce the results of HealthCare Appraisers' 2014 ASC Valuation Survey. Since 2003, HealthCare Appraisers, Inc. has surveyed the ambulatory surgery center (ASC) industry to determine trends in the value and characteristics of ASC ownership interests and management fees charged to ASCs. Twenty five respondents, representing well over 500 surgery centers throughout the country, responded to this year's survey. The following summarizes highlights of the 2014 ASC Valuation Survey.

## Transaction Activity

During 2013, our respondents were actively searching for potential acquisitions. 52% of respondents performed due diligence on one to 10 ASCs, and 44% of respondents performed due diligence on 11 or more acquisition opportunities.

Respondents indicated significant levels of acquisition activity in the ASC space, with 52% reporting the acquisition of between one and five centers, 4% reporting the acquisition of between six and 10 centers, and 4% reporting the acquisition

of over 16 centers in 2013. 40% of respondents did not acquire an ASC in 2013.

For 2014, acquisition activity is expected to remain high, as 68% of our respondents plan to purchase between one and five ASCs, 16% plan to purchase between six and 10 ASCs, and 4% plan to purchase 16 or more ASCs. 12% of respondents are not planning to purchase over the next 12 months.

## Valuation Multiples and Methodologies

When purchasing a **minority** interest in a **single-specialty** ASC, 47% of the respondents reported prevailing valuation multiples of 3.0 to 3.9 times EBITDA, while 42% reported higher valuation multiples ranging from 4.0 to 6.9 times EBITDA.

When purchasing a **controlling** interest in a **single-specialty** ASC, 70% of the respondents reported prevailing valuation multiples of 6.0 to 7.9 times EBITDA, while 30% reported lower valuation multiples ranging from 4.0 to 5.9 times EBITDA.

**This is comparatively higher than the previous survey, in which 57% of respondents reported valuation multiples of 6.0 to 7.9 times EBITDA for controlling interests in single-specialty ASCs, while 43% reported lower valuation multiples ranging from 3.0 to 5.9 times EBITDA.**

When purchasing a **minority** interest in a **multi-specialty** ASC, 57% of the respondents reported prevailing valuation multiples of 4.0 to 5.9 times EBITDA, while 10% reported higher valuation multiples ranging from 6.0 to 7.9 times EBITDA, and 33% reported lower valuation multiples ranging from 2.0 to 3.9 times EBITDA.

When purchasing a **controlling** interest in a **multi-specialty** ASC, 78% of the respondents reported prevailing valuation

multiples of 6.0 to +8.0 times EBITDA, while 22% reported lower valuation multiples ranging from 4.0 to 5.9 times EBITDA.

**The current survey indicates that multiples are comparatively higher than the previous survey. According to the current survey, 57% of respondents reported multiples of 7.0 to +8.0 times EBITDA for controlling interests in multi-specialty ASCs, versus 50% in the prior survey.**

A majority of respondents are willing to pay a premium for an ASC with a certificate of need (CON). 61% of respondents would pay a premium of 0.26 to 0.75 to the typical multiple.

For 60% of respondents, out-of-network revenue at 20% of the ASC's total revenue would exceed the risk tolerance as a viable investment. However, we note that 20% of respondents do not have a risk threshold with respect to out-of-network ASCs. In valuing out-of-network ASCs, 65% of respondents would reduce the typical multiple by greater than 2.0. 64% of respondents report they utilize an adjusted pricing model by converting revenue to reflect in-network rates and then modeling the ASC's adjusted EBITDA.



## ASC Characteristics

Respondents indicated that annual inflation is evident, particularly for commercial payor rates, medical supplies and implantable device costs, ASC staff raises, and all other ASC expenses.

79% of respondents prefer between six and 15 physician owners for a **single-specialty** ASC. 63% of respondents prefer between 11 and 20 physician owners for a **multi-specialty** ASC.

From an equity standpoint, our respondents' preferred ownership varied, with 12% of respondents reporting they prefer less than 10% ownership, 56% of respondents reporting they preferred between 11% and 50% ownership, and 32% of respondents reporting they preferred greater than 50% ownership.

When determining purchase price for minority interest transactions with new or existing physician investors,

50% of respondents use a formula, and 25% of respondents obtain an independent FMV appraisal to determine value.

When selling a minority interest to new physician investors, 48% of respondents reported an average period of three to six months to consummate a sale. When selling a controlling interest in an ASC, 72% of respondents reported an average period of six months to one year to consummate a sale. 46% of respondents report they have sold a controlling ASC interest to a hospital/health system or one or more third parties.

56% of respondents expect 3.1% to 6.0% earnings growth per year during the first several years post transaction, while 32% of respondents expect greater than 9% earnings growth per year post acquisition.

## Management Fees

78% of respondents report that their typical management fees range from 5% to 6% of net revenue, while 4% report typical management fees of 7% of net revenue.

**This is comparatively lower than the previous survey. While the 70% of respondents to the previous survey reported typical fees from 5% to 6% of net revenue, the distribution has changed so that more respondents now report management fees of 5% rather than 6%. Similarly, the proportion of respondents reporting typical management fees of 7% of net revenue has decreased from 6% to 4%.**

29% of respondents indicate their typical minimum management fee ranges from \$100,000 to \$199,999 per year. Furthermore, 48% of respondents have arrangements whereby the management fee rate varies based on the revenue generated by the ASC.

20% of respondents indicated they have management fee arrangements wherein part of their fee is at risk for performance metrics, while 80% of respondents indicated they have no at-risk management fee arrangements.

64% of respondents maintain an equity interest in all of the ASCs they manage.

54% of respondents who manage, or plan to manage, centers in which they do not have ownership, report charging relatively higher management fee rates to those clients.

Respondents indicated that management duties commonly provided as part of the management contract include: access to GPO, accounting services, financial and operational benchmarking, coding, business development services, legal support, human resources, access to revenue cycle and supply chain executive(s), managed care contracting, data warehouses, mock accreditation surveys, and oversight from a regional vice president.

65% of respondents observe typical fees for ASC billing and collection services ranging from 3.0% to 4.9% of collections. 52% of respondents offer centralized billing services to ASC clients.

1. How many ASCs do you have under ownership?

ASCs Under Ownership	% Respondents
10 or fewer	52%
11 to 20	4%
21 to 30	16%
31 to 40	8%
41 to 50	12%
51+	8%

2. How many ASCs do you have under management?

ASCs Under Management	% Respondents
10 or fewer	44%
11 to 20	12%
21 to 30	24%
31 to 40	4%
41 to 50	8%
51+	8%

3. How many ASCs (or ASC interests) did you purchase during the last 12 months?

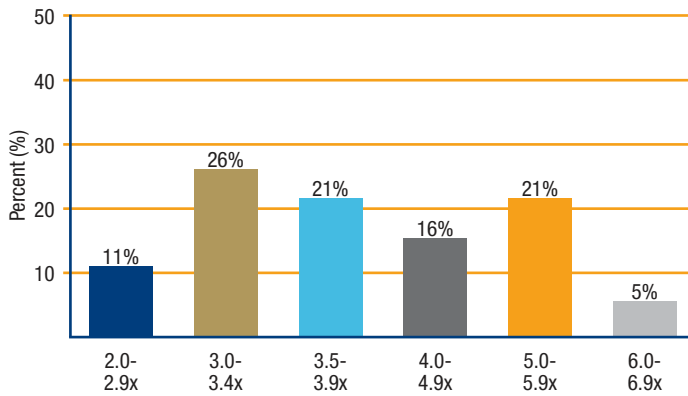
Number of ASCs Purchased	% Respondents
None	40%
1 to 5	52%
6 to 10	4%
11 to 15	0%
16+	4%

4. How many ASCs (or ASC interests) do you plan to purchase over the next 12 months?

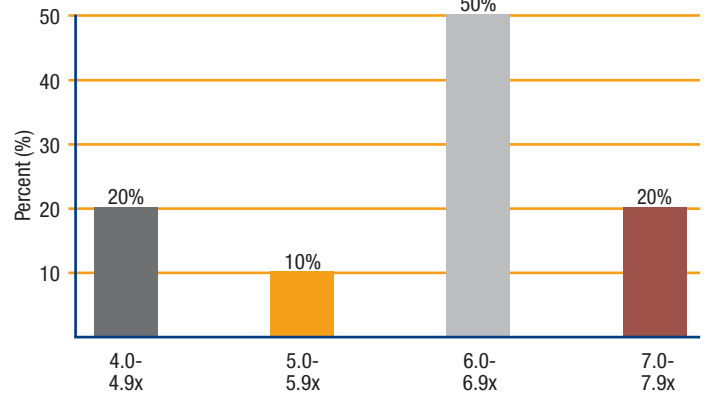
Number of ASCs Planned for Purchase	% Respondents
None	12%
1 to 5	68%
6 to 10	16%
11 to 15	0%
16+	4%

5. What valuation multiples have you most typically observed in the marketplace during the past 12 months for predominantly in-network centers?

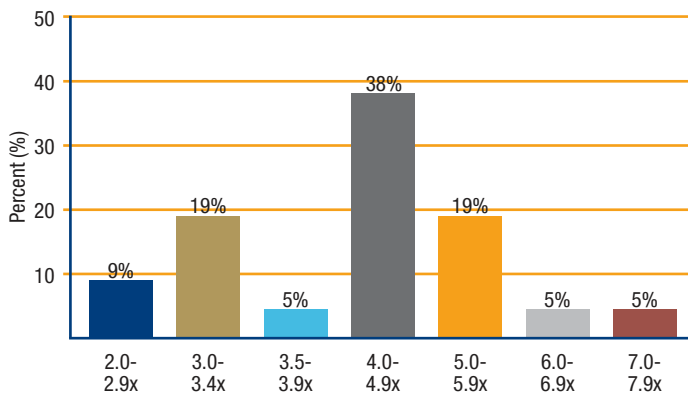
Minority Interest  
Single-Specialty



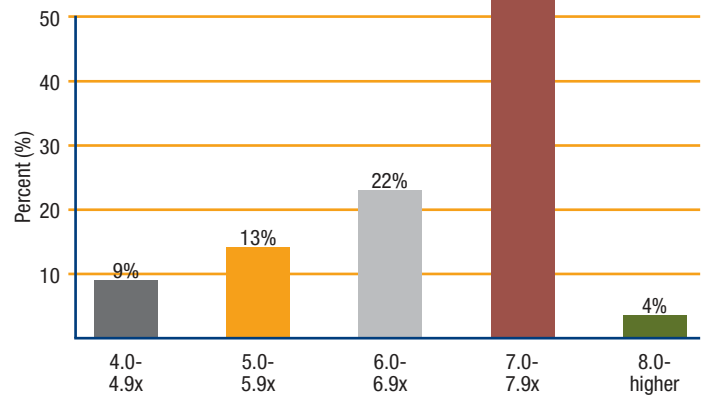
Majority Interest  
Single-Specialty



Multi-Specialty

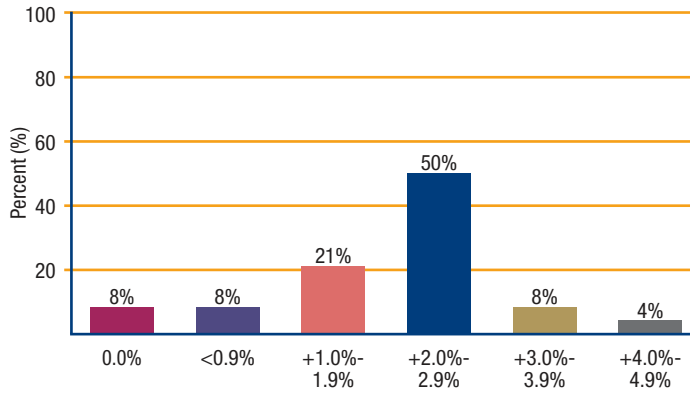


Multi-Specialty



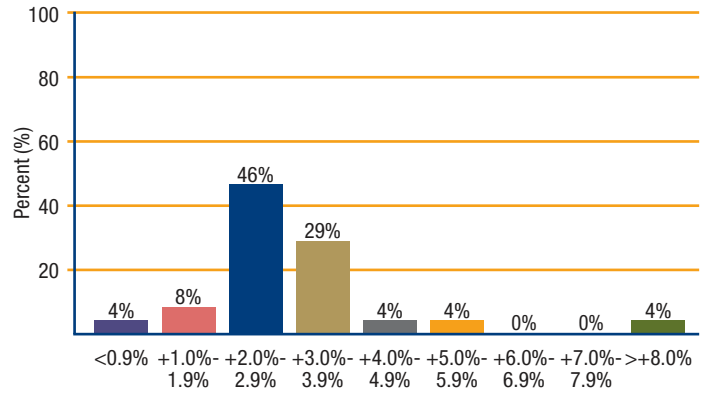
6. What is the typical annual change you observe in the ASC market for each of the following items?

**Commercial Payor Rates**



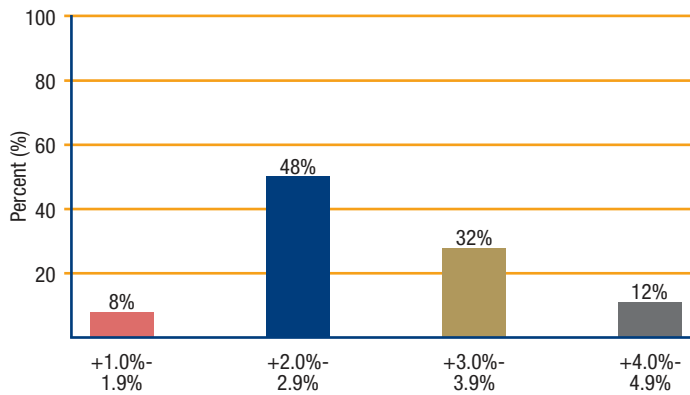
\* does not total 100% due to rounding

**Medical Supplies and Implantable Device Costs**

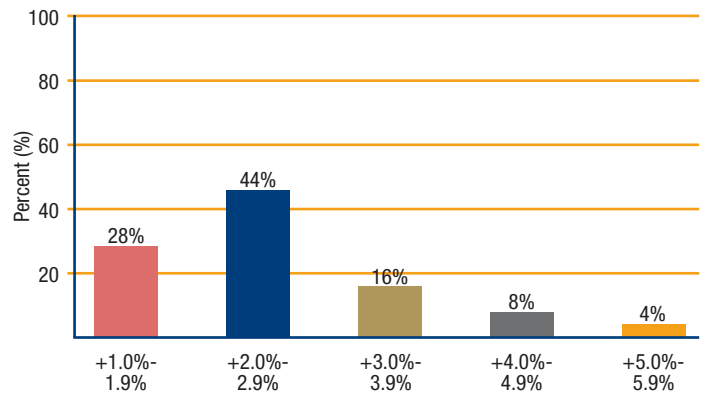


\* does not total 100% due to rounding

**ASC Staff Raises**

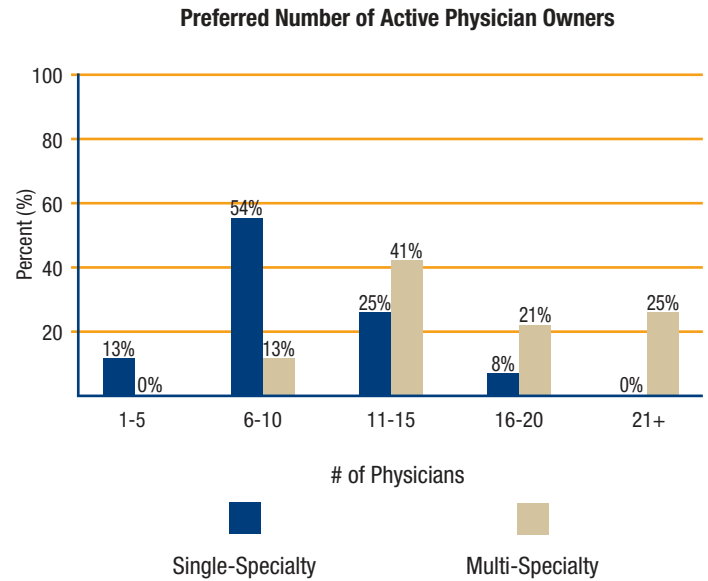


**All Other ASC Expenses**

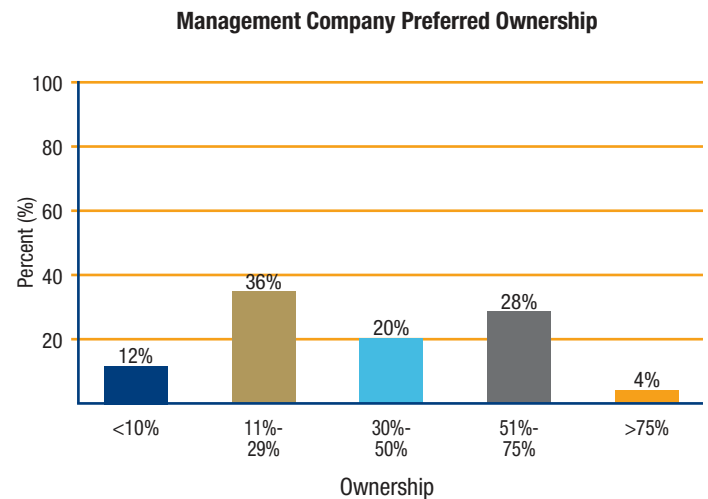




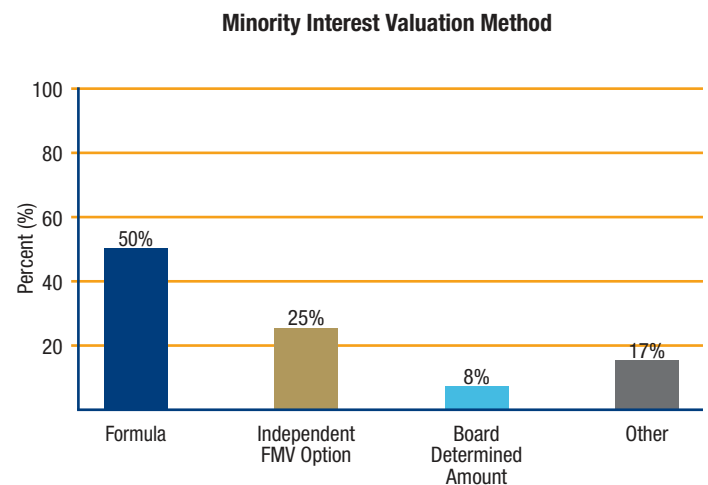
7. How many active physician owners does your company generally prefer?



8. From an equity standpoint, your company's preferred ownership is:



9. How do you determine purchase price for minority interest transactions (e.g., new or existing physician investors)?



10a. When selling minority interests to new physician investors, on average, how long does it take to identify the buyer and consummate the sale?

Time to Sell	% Respondents
Less than 3 months	24%
3 to 6 months	48%
6 months to 1 year	28%
Greater than 1 year	0%

10b. If you have sold a CONTROLLING interest in a center during the last year, approximately how long did it take to identify a buyer and consummate the sale?

Time to Sell	% Respondents
Less than 3 months	9%
3 to 6 months	18%
6 months to 1 year	73%
Greater than 1 year	0%

10c. If you have sold a CONTROLLING interest, was the buyer of your interest?

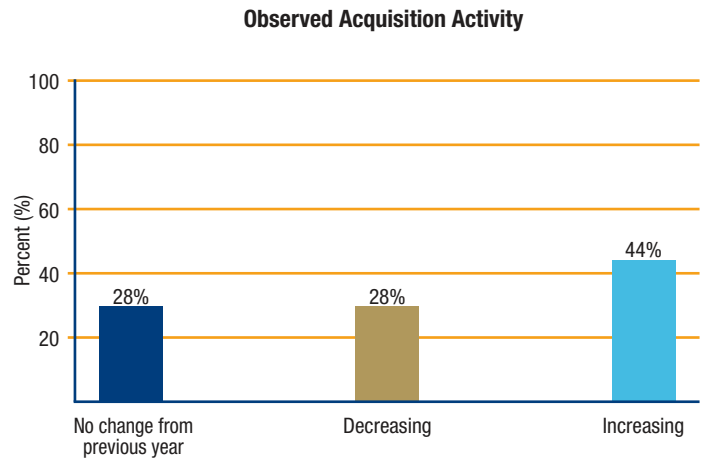
Buyer	% Respondents
A single outside 3rd party	27%
A single existing owner	9%
Multiple outside parties	18%
Multiple existing owners	0%
A hospital or health system	46%

11. In the past year, what best describes the multiples paid (or considered) by your company?

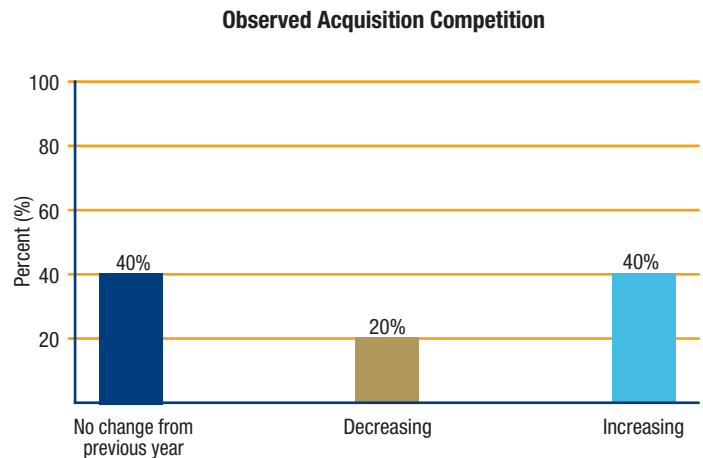
Multiple Trends	% Respondents
No change from previous year	48%
Decreasing (i.e., less competition)	8%
Increasing (i.e., more competition)	44%



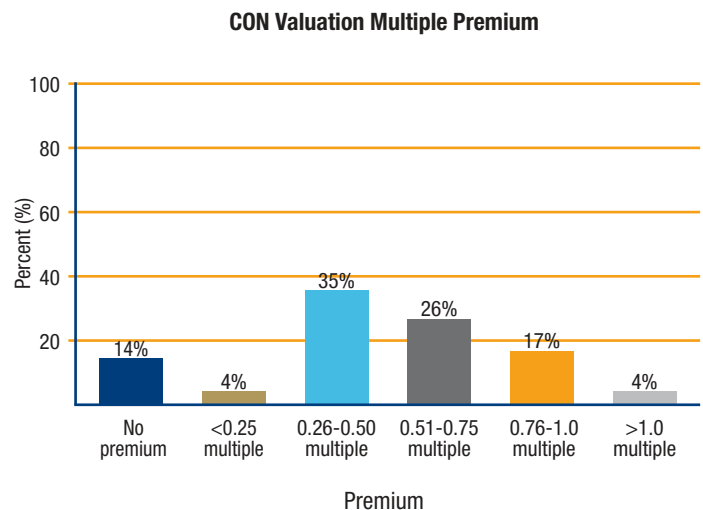
12. In the past year, what best describes your observations in the ASC marketplace related to acquisition activity?



13. In the past year, what best describes your observations related to competition for acquisitions?

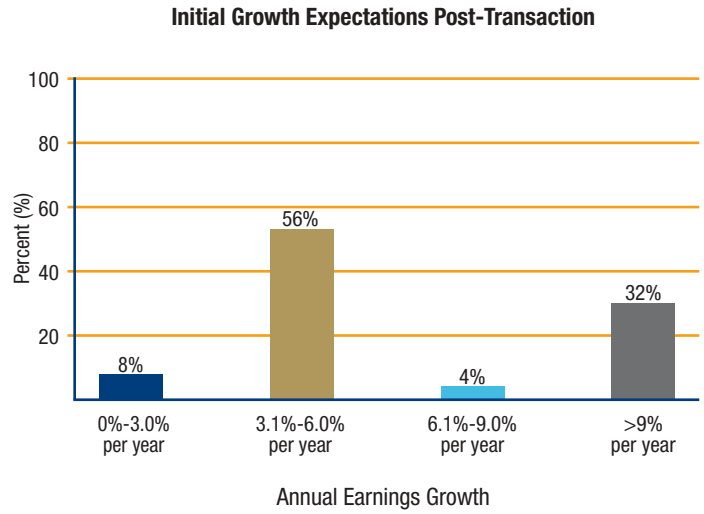


14. What is the magnitude of the premium paid by your company for a surgery center with a CON?

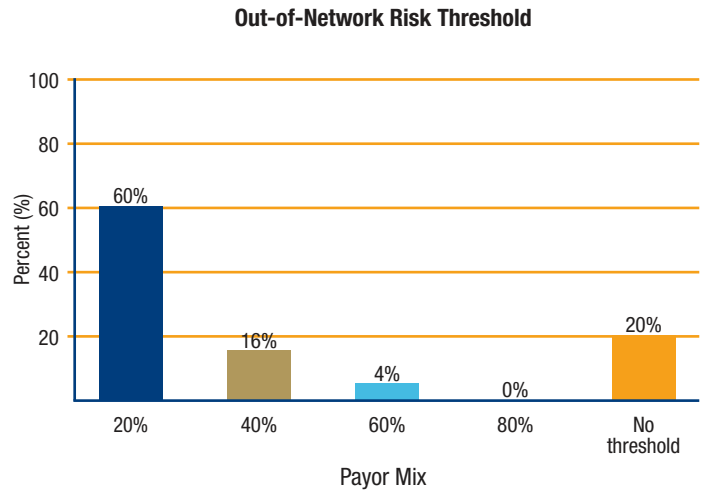


\* Does not total 100% due to rounding

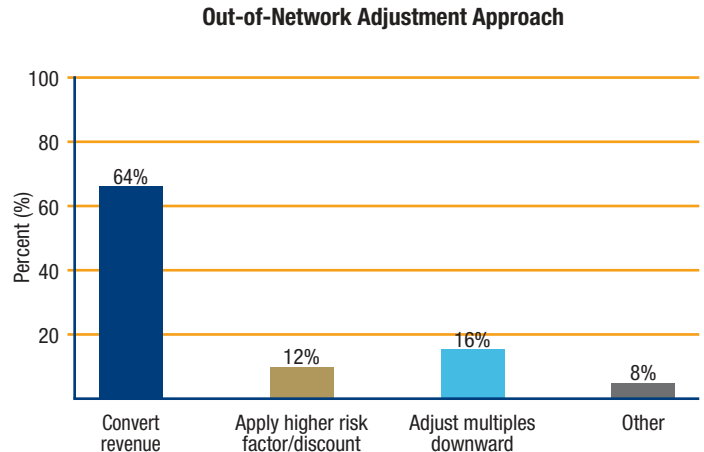
15. When evaluating an acquisition target, what level of earnings growth is typically expected in the first several years post acquisition?



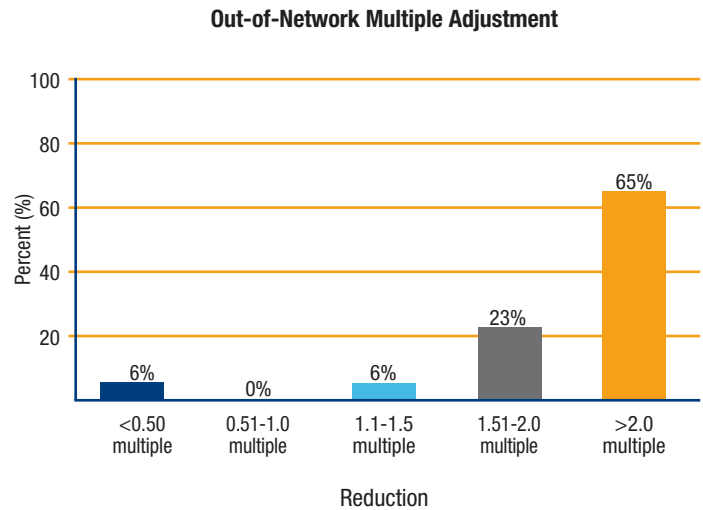
16. At what percentage of total revenue does out-of-network volume exceed your risk tolerance?



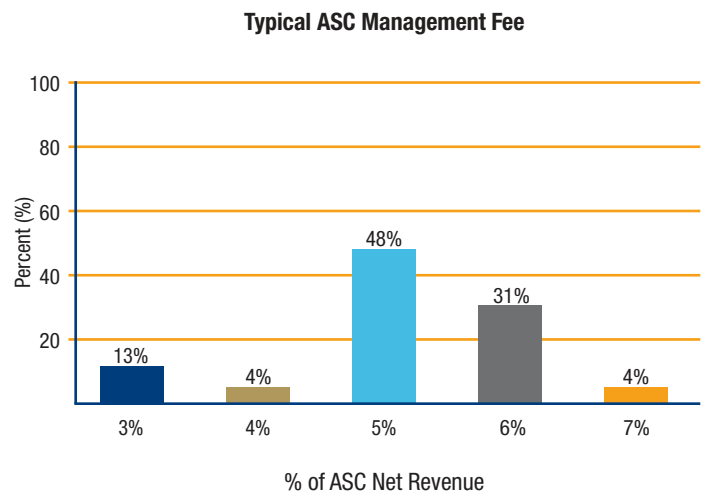
17. How does your company adjust valuation models/pricing for out-of-network centers?



18. If applicable, what is the magnitude of the reduction to the multiple for a center with an out-of-network strategy (i.e., the center generally is not contracted with any payors)?



19a. What is the typical management fee rate your company charges for ASCs (% of net revenue)?



19b. Do you have a minimum annual management fee?

Minimum Fee	% Respondents
Yes	36%
No	64%

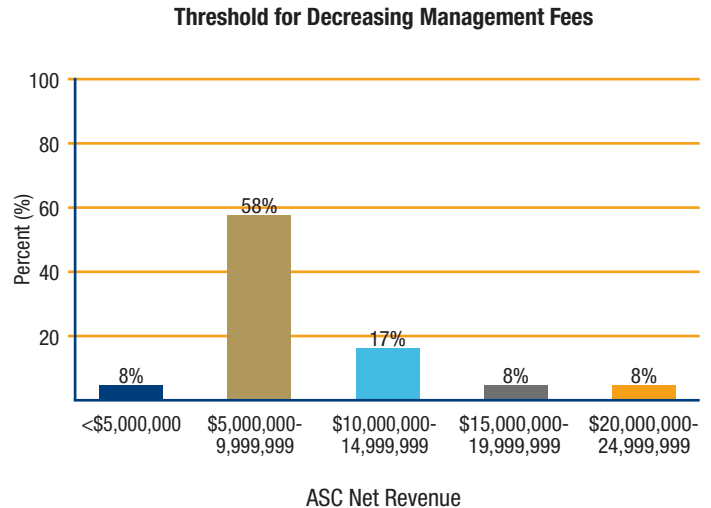
19c. If yes, what is the typical annual minimum management fee you charge?

Minimum Fee	% Respondents
<\$100,000	10%
\$100,000 to \$199,999	60%
\$200,000 to \$299,999	20%
>\$300,000	10%
Varies to market and size and scope of center	0%
Other	0%

20a. Do you have any ASC management arrangements wherein the management fee charges vary based on revenue levels of the surgery center (i.e., do you use a sliding scale)?

Sliding Scale	% Respondents
Yes	48%
No	52%

20b. If you responded yes to 20a, at what threshold for annual ASC net revenues do management fees typically decrease?



\* Does not total 100% due to rounding

21. Do you have any ASC management fee arrangements wherein part of your fee is at risk? (choose all that apply)

Part of Management Fee at Risk	% Respondents
No	80%
Yes, we identify these as incentive payments, in addition to our base management fee	8%
Yes, we identify these as at-risk payments, that are part of our base management fee	0%
Yes, operational metric incentive/at-risk payments (e.g., satisfaction surveys, on-time starts, turnover times, etc.)	8%
Yes, revenue-related incentive/at-risk payments (e.g., lump sum when revenue exceeds \$10 million)	0%
Yes, growth-related incentive/at-risk payments (e.g., lump sum if EBITDA grows 10% over previous period)	0%
Yes, profit-related incentive/at-risk payments (e.g., lump sum when EBITDA exceeds \$3 million)	8%

\* Responses do not total 100%. 80% of respondents have no at-risk arrangements. 20% of respondents have at-risk arrangements of various types.

22. Does the management fee charged vary based on the level of services provided?

% Respondents	
Yes	48%
No	52%

23. What is the typical management fee rate your company charges for surgical and specialty hospitals?

Management Fee % Net Revenue	% Respondents
0.00% to 0.99%	0%
1.00% to 1.99%	0%
2.00% to 2.99%	9%
3.00% to 3.99%	18%
4.00% to 4.99%	27%
5.00% to 5.99%	46%
>6.00%	0%

24. Do you maintain an equity ownership in all freestanding entities that you manage?

Management Equity	% Respondents
Yes	64%
No	36%

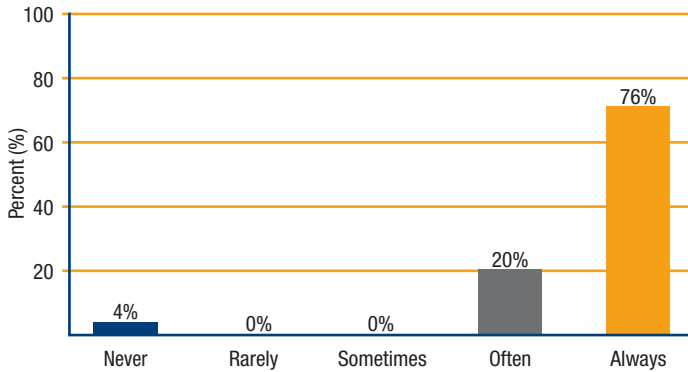
25. If you do, or plan to, manage centers in which you do not maintain an equity interest, what is the effect on the overall management fee as a % of net revenue?

% Net Revenue	% Respondents
Decrease 3% or greater	0%
Decrease 2%	0%
Decrease 1%	0%
No Effect	24%
Increase 1%	12%
Increase 2%	4%
Increase 3% or greater	12%
Not Applicable; we maintain equity interests in all centers which we manage	48%

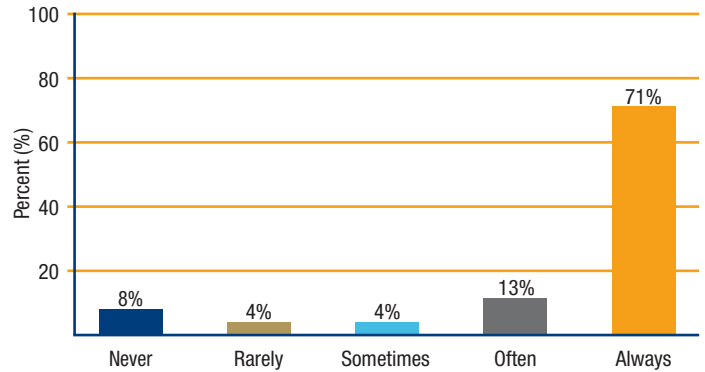
26. Which management services do you typically provide as part of your management agreement?

Management Duties (costs not passed through)

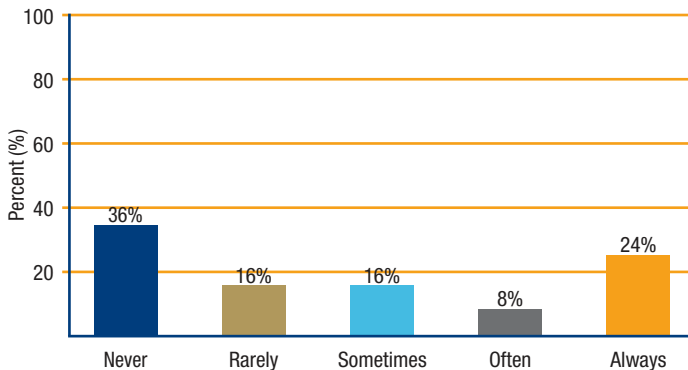
Access to GPO



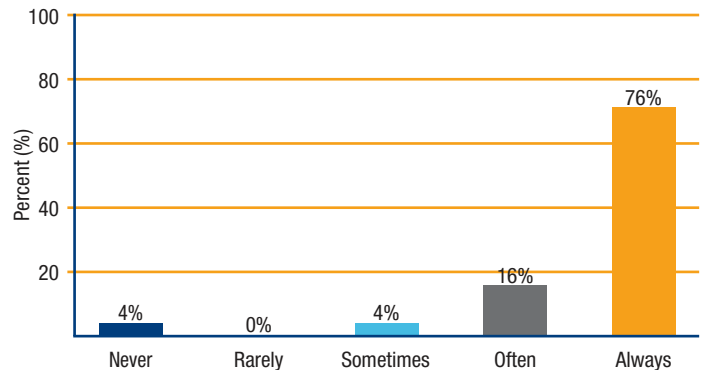
Accounting



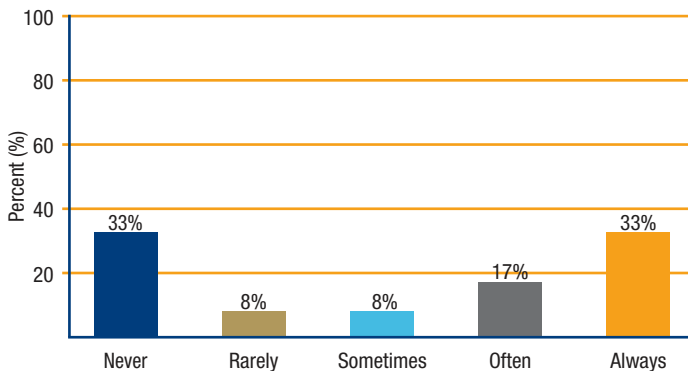
Architecture and Design



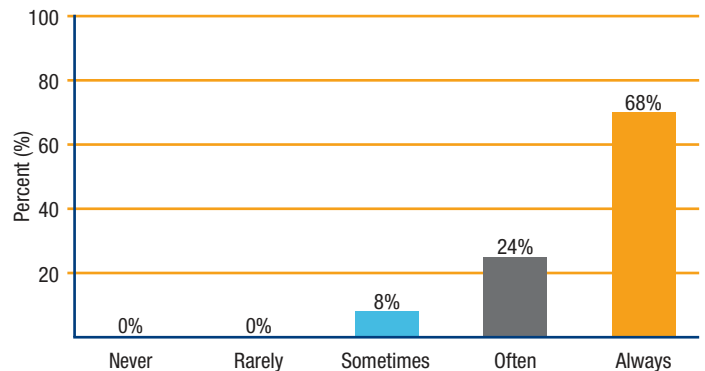
Benchmarking Based on Other Equity Owned Centers



Coding



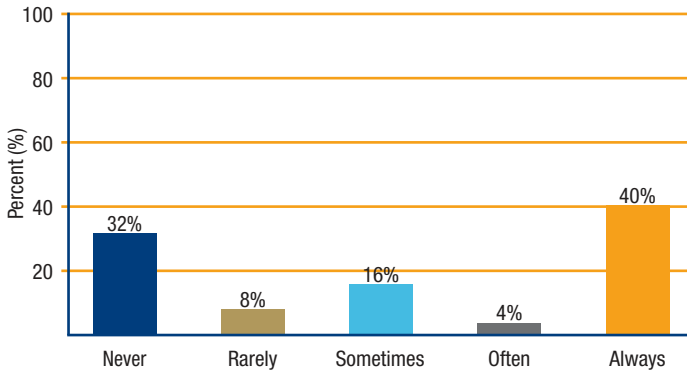
Corporate Business Development Executive or Staff



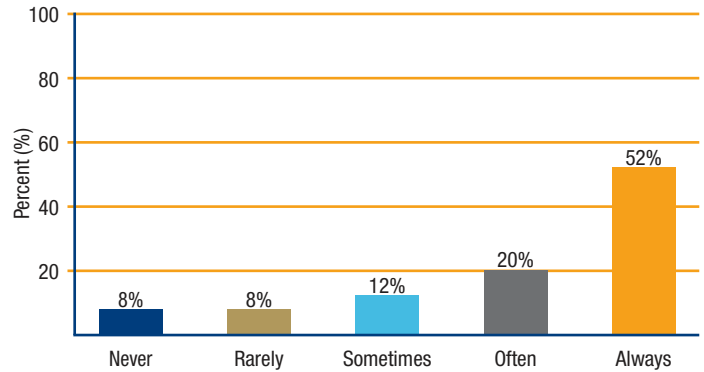
\* Does not total 100% due to rounding

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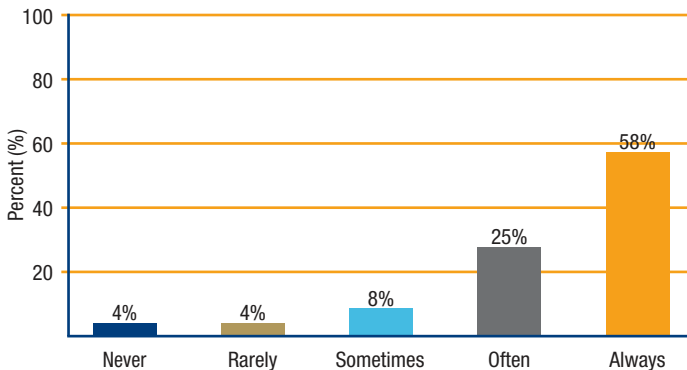
**Corporate Counsel or Legal Support**



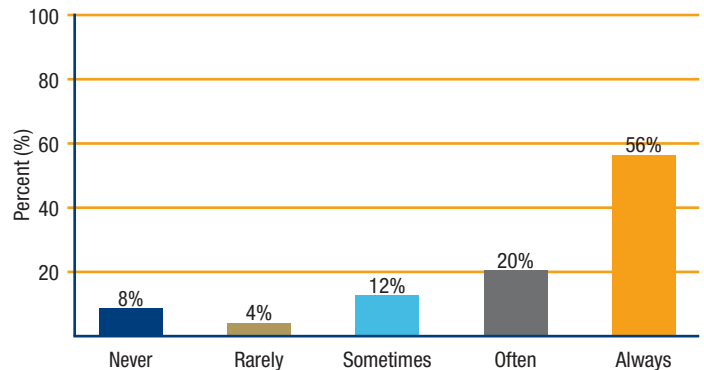
**Corporate Human Resources Executive or Staff**



**Corporate Revenue Cycle Executive or Staff**

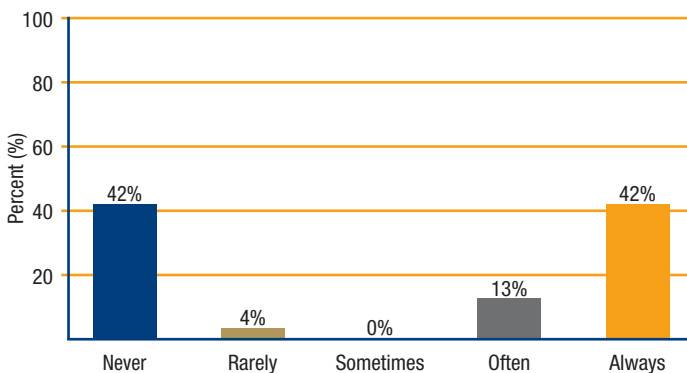


**Corporate Supply Chain Executive or Staff**

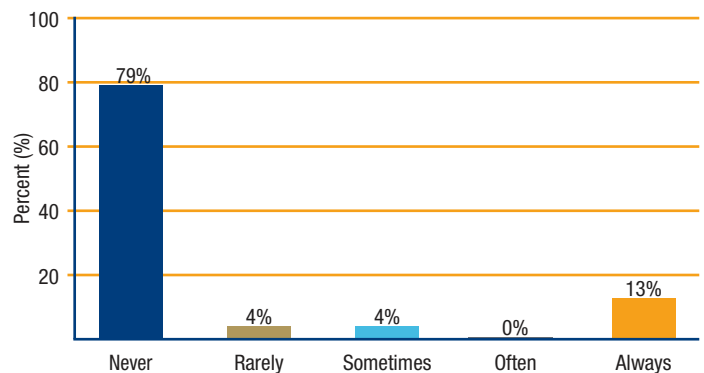


\* does not total 100% due to rounding

**Data Warehouse**



**Dictation**

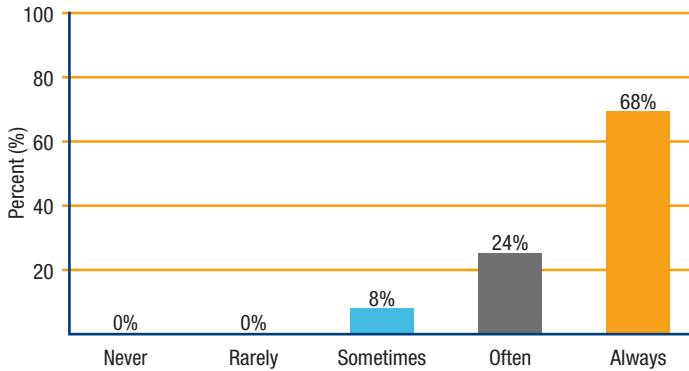


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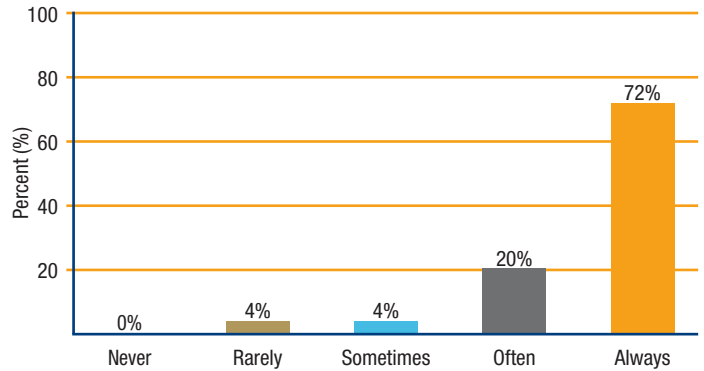


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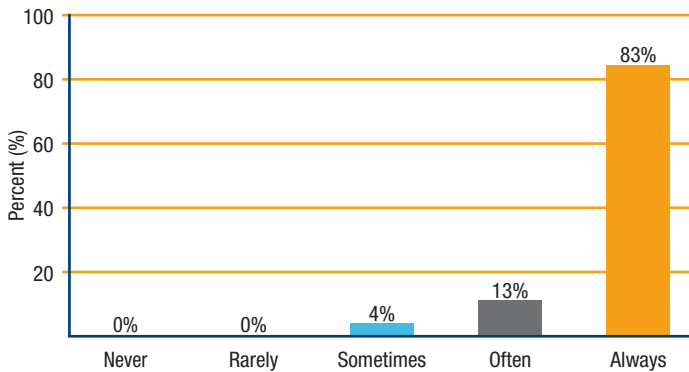
**Managed Care Contracting**



**Mock Accreditation Surveys**

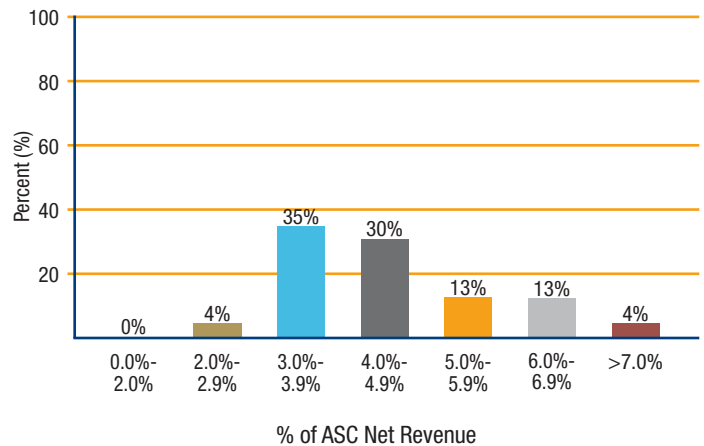


**Oversight by Regional Vice-President of Operations**



27. What are the typical fees you have observed in the market for surgery center billing and collections services provided by third parties? (as a % of net revenues)

**ASC Billing Fees**



\* Does not total 100% due to rounding

28. Do you observe that market ASC billing fee rates fluctuate based on the specialties involved? For example, do billing rates for ASCs with low reimbursement specialties (i.e., gastroenterology) vary from ASCs with high reimbursement specialties (i.e., orthopedics)?

Market Observation	% Respondents
Yes, billing rate percentages are higher for ASCs with low reimbursement specialties like gastroenterology	39%
No, billing rate percentages are the same among ASCs with different specialty mixes	52%
No, billing rate percentages are actually lower for ASCs with low reimbursement specialties like gastroenterology	9%
Other	0%

29a. Does your company offer centralized billing services to ASCs?

Centralized Billing	% Respondents
Yes	52%
No	48%

29b. If you responded yes to 29a, how often do your management clients also contract for centralized billing services?

% of Clients	% Respondents
0%	8%
<20%	23%
20% to 39%	15%
40% to 59%	0%
60% to 79%	23%
80% to 99%	23%
100%	8%

### Participants

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- Arise Healthcare
- ASCOA
- ASCs Inc.
- ASD Management
- Avanza Healthcare Strategies
- The Bloom Organization, LLC
- Compass Surgical Partners
- Constitution Surgery Centers
- Covenant Surgical Partners, Inc.
- KentuckyOne Health
- LifePoint
- Meridian Surgical Partners
- Merritt Healthcare
- Michael Guarino
- National Surgical Hospitals
- Nueterra
- Partners Medical Consulting
- Physicians Endoscopy
- Quorum Health Resources
- Regent Surgical Health
- Surgery Partners
- Surgical Care Affiliates
- Surgical Management Professionals
- Sutter Health
- United Surgical Partners International



### Disclaimer

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The intent of this survey is to provide a summary of industry respondents' views regarding valuation, acquisition activity, ownership preferences and other trends regarding ASCs. Though our survey includes statistics regarding valuation multiples, this information should be used as general information only and should not be considered as providing any value guidance for any specific ASC interest. Business valuation is a complex process involving consideration and analysis of both financial and non-financial factors. The determination of fair market value should always be made by a qualified business appraiser with specific knowledge of the subject healthcare industry.



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