MERIDIAN
SURGICAL PARTNERS

Performance, Efficiency, Achievement, Knowledge

CREATING A VISION

How an ophthalmology-driven surgery center was transformed into a new destination for high-acuity orthopedic and spine procedures.

A surgery center operations turnaround case study.

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BACKGROUND

Coral Gables Surgery Center, located in Miami, FL, opened in 2003 as a multi-specialty ambulatory surgery center. The Center operates in 9,000 square feet inside a medical office building. In 2006, Meridian Surgical Partners, LLC acquired an interest in the Center, making it one of the first physician-owned ASCs in the start-up Company's portfolio.

At the time of acquisition, the partnership consisted of seven physician partners and approximately 15 other credentialed physicians who performed cases at the center.

Ophthalmology cases comprised 72 percent of the Center's revenue. The remaining 28 percent of revenue came from a combination of cases performed by physicians in specialties that included orthopedics, plastic, pain management, general surgery, and urology.

The center resides in Miami Dade County, the most populated county in the State of Florida (2.8M population, and the third largest in land area covering 1,946 square miles). Miami Dade County is home to 50 ambulatory surgery centers, 27 hospital-based and 23 free-standing facilities. Within a 10-mile radius of Coral Gables Surgery Center, there are approximately 20 ASCs providing similar services and specialty offerings.

CHALLENGES

For several years following the partnership with Meridian Surgical Partners, Coral Gables Surgery Center operated successfully, primarily positioned as an ophthalmology center with contributions from other specialties. However, in late 2013, market dynamics, physician relationships, and referral sources shifted in a way that threatened the Center's profitability.

The following factors resulted in a drastic decline in revenue:

- Loss of ophthalmology case volume, representing almost 30 percent of revenue, from the Center's largest referral source
- Retirement of three long-time and high-performing physician partners
- Market attrition based on unforeseen issues

Due to an unbalanced case mix, with a lion's share of revenue being supported by ophthalmology cases, and the gradual decrease in volume for physicians nearing retirement, it became almost impossible for the remaining specialties to mitigate the loss.

The first stopgap measure was the cessation of partner distributions in late 2013. The consistent and rapid decline in revenue led to diminished profitability and resulted in a capital call in early 2014.

Without a defined strategy to turn around operations, Coral Gables Surgery Center was at risk of closing their doors.

STRATEGY & EXECUTION

- Replace lost ophthalmology revenue and establish a more diversified case mix by redefining offerings to incorporate additional specialties/service lines.
- Attract higher-acuity procedures by recruiting orthopedic surgeons and neurosurgeons.
- Position the facility as a preferred alternative for lower-cost, high-quality outpatient surgical care.

EXECUTION

In early 2014, a new market-focused administrator was hired to identify and pursue revenue opportunities. By leveraging their healthcare experience and deep knowledge of the market and culture, the newly-hired administrator was able to quickly identify physician recruitment opportunities. Emphasis was placed on higher-acuity procedures with goals of expanding orthopedics offerings and establishing a new spine program. Another top priority was to reclaim lost ophthalmology volume.

Initially, the administrator faced awareness issues in the very saturated market. Many of the physicians contacted, even within a close radius to the established facility, were not familiar with its location or offerings. A focus was placed on developing materials and messaging that would resonate with physician targets and consistently educate them about opportunities, such as multi-specialty capacity, block time availability, clinical environment, and investment.

Knowing the center could support procedures in a variety of specialties, the administrator seized the opportunity to expand offerings, target physicians, and market to nearby practices/clinics to form and foster long-term relationships that were mutually beneficial for physicians and patients.

Within a few months, the consistent efforts began paying off, as several physicians were credentialed and started performing procedures at the center. As the momentum continued throughout 2014 and into 2015, existing credentialed physicians also became re-engaged and increased their case volume as a result.

RESULTS/OUTCOME

PHYSICIAN RECRUITMENT:

- Three physician partners
- Two Orthopedic surgeons and one Ophthalmologist
- Eight physician utilizers
- Four Podiatrists, leading to the development of a Podiatry Residency program with local facility
- Two General surgeons creating a hernia service niche*
- Two Neurosurgeons and the re-engagement of two existing Neurosurgeons, leading to the development of a spine program
- Year-end 2015 – 37 percent of active, credentialed physicians were new within the past two years

CLINICS/PRACTICES

- Established relationships with five local medical practices/clinics

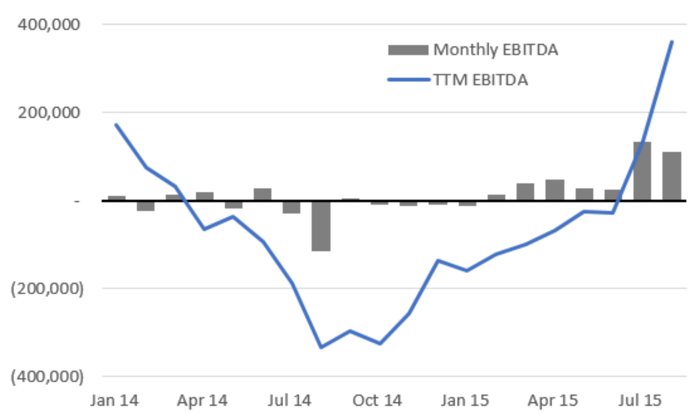
OPERATIONS

- Re-engineered operations to better accommodate the shift in case mix
- Cost savings realized through the addition of a new materials manager who streamlined this function with stricter inventory controls to support high-acuity cases
- Negotiation of profitable payor contracts to accommodate new procedures and physicians

FINANCIAL MILESTONES

- September 2013 – Partner distributions cease
- December 31, 2013 Year-end – $4.1M / $431K EBITDA
- April 2014 – Partner capital call
- December 31, 2014 – $3.3M / Break-even EBITDA
- February 2015 – Center regains profitability
- September 2015 – Profits distributed to partners (first time in two years)
- December 31, 2015 Year-end – $4.8 M / $662K EBITDA (90 percent increase over 2014)

The chart illustrates the impact of the initial decrease in EBITDA and results of the efforts deployed to turn around operations.



** An additional General Surgeon became a partner in Q1 2016.*

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Meridian Surgical Partners specializes in acquisition, development, and management of ambulatory surgery centers (ASCs). Meridian acquires interests of established physician-owned surgical facilities as well as partners with physicians seeking to grow their businesses locally through the development of new surgical facilities.

To learn more about our company, services, and approach to ASC partnerships,
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