

Hospital Acquires ASC from Physician Group and Management & Development Company

“*ASC Strategies’ knowledge of the surgery center industry provided a wonderful complement to our own due diligence efforts. They were responsive and insightful. An excellent partner.*”

SITUATION

The operating rooms at a large community hospital in the Midwest were at capacity, and the hospital was exploring two options: build a new operating space on its campus or acquire an ambulatory surgery center off campus and convert it to a department of the hospital as a CMS designated provider-based entity. Building a new space had a number of drawbacks, including high cost and a projected two-year timeframe. In addition, the new structure would take up valuable real estate and potentially alienate physicians at the ASC. Acquiring the surgery center looked like the better deal. It would eliminate construction costs and provide the hospital with the operating rooms it needed immediately. In addition, acquiring the ASC would forge a partnership between the hospital and physicians.

A physician group and a management and development company jointly owned the ASC. It was about 10 years old and included four operating rooms. The ASC was operating profitably, and several of its high-volume physicians were employed by the hospital. The management and development company was the majority owner of the facility and also owned the real estate.

The hospital expressed interest in acquiring the facility, and the current owners were open to a buyout. Preliminary terms for the acquisition—terms that included management services provided by the management and development company and did not include purchase of the real estate—were negotiated between the hospital’s CEO and the management and development company. The preliminary terms had the hospital acquiring the ASC, while paying the management and development company for management services and leasing the building, for \$13 million.

Hospital Acquires ASC from Physician Group and Management & Development Company (continued)

ENGAGEMENT

Avanza Healthcare Strategies (formerly ASC Strategies) was engaged by the hospital to serve on its due diligence team and help determine whether the terms of the acquisition were appropriate for all parties.

HOW WE HELPED:

- **Identified that the proposed management agreement was unnecessary** since the hospital was converting the facility to a provider-based entity and the various hospital departments would take over billing, accounting, purchasing and other services.
- **Recommended the hospital purchase the real estate outright** rather than lease with an option to buy later.
- **Handled the delicate renegotiations** with the management and development company and the physicians to ensure the deal would not be brought to a competing entity.

OUTCOME

Within a few months of engaging Avanza's services, the hospital acquired the ASC and its real estate. Based on Avanza's recommendations, the deal did not include management services, which would have cost the hospital no less than \$2.5 million over five years. In addition, outright acquisition of the real estate eliminated the possibility of a competing entity purchasing the ASC and gaining foothold in the market, while also removing the lease expense from the terms.

By removing the management services and lease arrangement from the terms and purchasing the real estate, the hospital paid \$8.5 million to acquire the ASC and real estate, saving \$4.5 million.

EPILOGUE

The partnership between the hospital and Avanza was so successful that the hospital contracted with Avanza to develop and oversee a transition plan that would properly and effectively convert the ASC from a freestanding facility to a provider-based entity.

