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HEALTHCARE INSIGHTS

# ASCs and Office-Based Laboratories— Valuation Distinctions and Considerations Part II: Considerations

By Todd A. Zigrang, MBA, MHA, FACHE, CVA, ASA and Jessica L. Bailey-Wheaton, Esq.

**A**s discussed in the first of this two-part series, the shift to outpatient care has resulted in the advent of a growing number of diverse outpatient office-based facilities tailored to meet the accelerated growth in demand for healthcare services, leading to the establishment of, among other enterprises, ambulatory surgery centers (ASCs), and, more recently, office-based laboratories (OBLs).

Part I<sup>1</sup> defined ASCs and OBLs and discussed their distinctions (regulatory and otherwise). Part II identifies valuation considerations (i.e., value drivers and investment risk factors) emanating from those distinctions.

### VALUE DRIVERS—ASCs

The value drivers identified for ASCs are similar to those of other healthcare outpatient enterprises. However, there are several specific dynamics related to ASCs that should be taken into consideration during the appraisal process.

### Scope of Services

The scope of services provided by a particular freestanding outpatient enterprise is a key element impacting the overall indication of value attributed to that enterprise. For example, multi-specialty ASCs allow for diversification of risks if one specialty receives a reduction in reimbursement.<sup>2</sup> Additionally, simply offering more than one specialty may create more

volume and revenue for all the providers involved.<sup>3</sup>

Advancements in technology and clinical practice have expanded the provision of surgical procedures in ambulatory settings.<sup>4</sup> The specialization of ASCs that billed to Medicare in 2017 are shown in Table 1.

**TABLE 1: ASC SPECIALIZATIONS, 2017<sup>5</sup>**

	A	B	C
	Type of ASC	Number of ASCs	Share of All ASCs
1	Single Specialty	2,890	61%
2	Gastroenterology	1,019	21%
3	Ophthalmology	1,022	21%
4	Pain management	368	8%
5	Dermatology	179	4%
6	Urology	125	3%
7	Podiatry	88	2%
8	Orthopedics/ musculoskeletal	29	1%
9	Respiratory	24	1%
10	OB/GYN	11	<1%
11	Cardiology	18	<1%
12	Neurology	6	<1%
13	Other	1	<1%
14	Multispecialty	1,878	40%
15	Total	4,768	100%

1 Todd A. Zigrang, MBA, MHA, FACHE, CVA, ASA and Jessica L. Bailey-Wheaton, Esq., “ASCs and Office-Based Laboratories: Valuation Distinctions and Considerations, Part I: Distinctions,” *The Value Examiner* (September/October 2019): 35–42.

2 Megan Wood, “ASC single specialty vs. multispecialty—Which is best?” *Becker’s ASC Review* (September 2, 2015), <https://www.beckersasc.com/news-analysis/asc-single-specialty-vs-multispecialty-which-is-best.html> (accessed 10/16/19).

3 Ibid.

4 Medicare Payment Advisory Commission, “Ambulatory Surgical Center Services,” chap. 5 in “Report to Congress: Medicare Payment Policy” (March 2019): 134.

5 Ibid.

## Capacity

Capacity is another key element that impacts the value attributable to ASCs. One measure of capacity for ASCs is the amount of physical space utilized in the provision of services. For example, for an ASC, the number of ORs available, as well as average turnover rate, can be used as measures of capacity. These metrics can be compared to normative industry benchmark survey data related to comparable enterprises and ASCs.

## Revenue Stream

ASCs have a low to moderate level of revenue volatility.<sup>6</sup> This is due in large part to the indispensable nature of medical procedures, wherein demand for surgeries is not subject to revenue fluctuation based on economic climate.<sup>7</sup> Moreover, as healthcare costs continue to rise, many insurers and patients will view ASCs as a cost-effective, yet high-quality, option.<sup>8</sup> As a result of these factors, it is reasonable to assume that the ASC industry will exhibit a slight uptick in revenue, driven in large part by the elderly population rapidly demanding ASC services.<sup>9</sup> However, due to the increase in demand, there will be an increase in revenue volatility, which can negatively affect long-term strategic decisions, such as the timeframe for capital investment.<sup>10</sup> If a firm makes poor investment decisions, it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.<sup>11</sup>

Since 2010, ASC growth has slowed, due in large part to revenue issues such as the proliferation of high-deductible health plans.<sup>12</sup> The cost-shifting mechanism has contributed to patients behaving far more cost-conscious of their healthcare purchases. However, because patients are taking an increasingly active role in their healthcare, ASCs may benefit from offering a more economical option to patients that is also high quality, as ASCs have long led the way in cost-effective and quality care.

Additional considerations may include the implementation

of a bundled payments system, which currently exists under the Ambulatory Surgical Center Fee Schedule (ASCFS), whereby the integral services and items utilized within the primary service being provided are reimbursed by a single payment. Bundled payments may be implemented through the various measures of productivity; for example, the Outpatient Prospective Payment System (OPPS) bundles items and services within a single Ambulatory Payment Classification (APC).<sup>13</sup> On the surface, bundled payments may seem to depress revenue for ASCs, but the payment model may actually benefit ASCs the most in the increasingly competitive value-based environment.<sup>14</sup> ASCs are well positioned to participate in bundled payment models because they provide similar procedures as hospitals at a lower cost, while also tracking expenses more easily than hospitals.<sup>15</sup> Further, bundled payments encourage patients to choose ASCs for surgeries and encourage payors to move patients to ASCs, thereby potentially increasing an ASC's volume.<sup>16</sup>

Other considerations regarding reimbursement yield that are likely to impact the revenue streams of ASCs include:

1. Quality reporting programs
2. Method and frequency of rate updates
3. Stability of payment rates; for example, reductions in reimbursement to curb utilization and spending are applied more often to certain billing codes
4. Referring physician utilization trends; for example, increased scrutiny of physician referrals under fraud and abuse laws may impact patient volumes
5. Dependence on payor mix

For ASCs, where reimbursement yield for certain services (e.g., surgical procedures) is subject to continuously changing payment rates, the projection of revenue streams by individual modality, instead of for the enterprise as a whole, may be more appropriate.

6 Dmitry Diment, "IBISWorld Industry Report 0D5971: Ambulatory Surgery Centers in the US," IBISWorld (August 2019): 29.

7 Ibid.

8 Ibid.

9 Ibid.

10 Ibid.

11 Ibid.

12 Ambulatory Surgery Center Association, "Ambulatory Surgery Centers: A Positive Trend in Healthcare," <https://higherlogicdownload.s3.amazonaws.com/ASCACONNECT/fd1693e2-e4a8-43d3-816d-17ecfc7d55c1/UploadedImages/About%20Us/ASCs%20-%20A%20Positive%20Trend%20in%20Health%20Care.pdf> (accessed 10/21/19).

13 Centers for Medicare and Medicaid Services, "Fact Sheets: Final 2009 Policy, Payment Changes for Hospital Outpatient Departments and Ambulatory Surgery Centers" (October 30, 2008), <https://www.cms.gov/newsroom/fact-sheets/final-2009-policy-payment-changes-hospital-outpatient-departments-and-ambulatory-surgical-centers> (accessed 10/21/19).

14 Angie Stewart, "Here's what ASCs need to know about bundled payments—6 takeaways," *Becker's ASC Review* (September 4, 2018), <https://www.beckersasc.com/asc-coding-billing-and-collections/here-s-what-asc-s-need-to-know-about-bundled-payments-6-takeaways.html> (accessed 10/15/19).

15 Ibid.

16 Ibid.

The Centers for Medicare and Medicaid Services (CMS) Medicare reimbursement rate increase for ASCs per procedure may signal a trend of payors incentivizing the more cost-effective approach of ASC utilization over hospitals.<sup>17</sup> Moreover, CMS raised the rate of device reimbursement to be above hospital outpatient departments (HOPDs), further spurring revenue growth.<sup>18</sup> The CMS expansion of the surgery definition to include procedures that are “surgery-like” will also likely introduce additional reimbursement avenues for ASCs in the future.<sup>19</sup>

### Payor Mix

The typical payor mix in 2019 for ASCs, as reported by *IBISWorld*, included the distribution of payors (by total revenue) as set forth in Table 2.

**TABLE 2: TYPICAL ASC PAYOR MIX<sup>20</sup>**

	<b>A</b>	<b>B</b>
	<b>Payor</b>	<b>% of Total Revenue</b>
<b>1</b>	Commercial	40.3%
<b>2</b>	Government (Medicare, Medicaid, Worker’s Compensation, etc.)	33.4%
<b>3</b>	Other	17.5%
<b>4</b>	Out-of-Pocket Payments	8.8%

Note that the reimbursement yield of a given ASC is significantly impacted by whether the particular facility bills on an in-network or out-of-network (OON) basis for a particular insurance plan. Under certain insurance coverage plans, patients are given financial incentives—e.g., lower deductibles and co-insurance payments—to see providers that are considered to be “in-network,” referring to a contractual relationship entered into by the provider with the payor to offer services at a discounted rate.<sup>21</sup> In an effort to mitigate higher reimbursement rates for OON services, certain payors have instituted internal fee schedules that cap the allowable charge that these payors will reimburse providers for OON services.<sup>22</sup>

Further, many states (as well as the federal government) recently have been attempting to pass, or have passed, bills on the ability of providers to “balance bill” and have set forth caps on the pay for OON care at a regional insurer’s typical negotiated rate.<sup>23</sup> These trends related to capping OON charges may result in a decreased reimbursement yield for those ASCs that rely on an OON strategy.

17 Mnet, “Trends Impacting the ASC Landscape: 5 Things to Know,” *Mnet Health News* (September 26, 2019), <https://mnetnews.com/index.php> (accessed 10/15/19).

18 Ibid.

19 Ibid.

20 Diment, “IBISWorld Industry Report,” 15–16 (see n. 6).

21 Louis C. Gapsenski, *Healthcare Finance: An Introduction to Accounting and Financial Management*, 3rd ed. (Chicago: Health Administration Press, 2005), 38; Stephen J. Williams and Paul R. Torrens, eds., *Introduction to Health Services*, 7th ed. (Clifton Park, NY: Thomson Delmar Learning, 2008), 124.

22 Gary Scott Davis, Kriste Goad, and Naya Kehayes, “ASC and Payor Negotiations,” 2012 ASC Symposium (McDermott Will & Emery, 2012), <https://docplayer.net/22112323-Asc-and-payor-negotiations.html> (accessed 10/16/19); and Joseph Burns, “Health Plans Seek Leverage When Physicians Submit Extremely High Bills,” *Managed Care* (August 2011), <http://www.managedcaremag.com/archives/1108/1108.gouging.html> (accessed 10/16/19).

23 Susannah Luthi, “Senate health bill includes pay cap for surprise bill disputes,” *Modern Healthcare* (June 19, 2019), <https://www.modernhealthcare.com/politics-policy/senate-health-bill-includes-pay-cap-surprise-bill-disputes> (Accessed 10/16/19).

## Operating Expenses

Due to the fragmented nature of the ASC industry, the cost structure of these outpatient enterprises can differ greatly from industry averages depending on the size and nature of the operations.<sup>24</sup> There are few large, publicly traded companies that can realize cost savings due to their scale.<sup>25</sup> ASCs generally have a much higher share of expenses for medical supplies and drugs than hospitals and physician practices.<sup>26</sup> Similar to other industries in the healthcare sector, wages represent one of the largest expenses,<sup>27</sup> although they comprise a much smaller share of expenses than an average hospital.<sup>28</sup> Rent and capital costs also comprise a smaller share of ASCs' expenses than those costs would be for a physician office.<sup>29</sup> As the industry grows, operators will likely begin to rely more on nurses and administrative workers.<sup>30</sup> However, the shortage of these workers will likely result in growing wage costs for ASCs in the near future.<sup>31</sup> Moreover, the cost of medical supplies and pharmaceuticals is poised to rise for ASCs, which will ultimately be passed on to the patient.<sup>32</sup>

Additional considerations regarding the operating expenses incurred by an ASC include:

1. The size of the facility; e.g., the number of ORs and the number of cases
2. The ability of the ASC to manage supply costs
3. Whether the management of an ASC is performed by a third party
4. Whether the ASC employs a medical director

In addition to the types of operating expenses incurred by an ASC, the amount of fixed and variable expense should be considered when performing an appraisal, as each type of expense is projected differently.

## Capital Structure

ASCs incur significant expenditures for depreciable assets, including highly advanced surgical tools and equipment.<sup>33</sup> Various regulations require ASCs to keep electronic records, have tools for disposal, and comply with costly building regulations.<sup>34</sup> As a result of these factors, access to capital is a significant concern for ASC operators. Due to anticipated rapid changes in medical technology, ASC operators will likely need to continue to invest in advanced medical technology to keep long-term costs down and to compete with other ASCs and hospitals.<sup>35</sup> Overall, capital investments have cancelled out wage growth in the ASC industry.<sup>36</sup>

The implications of the capital structure decision for freestanding outpatient enterprises, including ASCs, are similar to those of physician professional practices:

1. The mix of debt and equity financing affects the risk-adjusted required rate of return for investment in the subject enterprise.
2. Debt financing is typically cheaper than equity financing.
3. Financing costs reflect the risks associated with each type of capital provided. For example:
  - a. Debt financing typically considers the four C's of the obligor: credit risk (default risk) of the borrower, capacity of the borrower to make timely repayments of both principal and interest (short term liquidity and interest coverage), collateral to cover the lender in case of borrower default, and an analysis of the covenants included in the indenture agreement.<sup>37</sup>
  - b. Equity financing considers the risks associated with an investment in the residual ownership interest (subordinate to any debt holders) of the subject enterprise.

24 Diment, "IBISWorld Industry Report," 19 (see n. 6).

25 Ibid.

26 Medicare Payment Advisory Commission, "Ambulatory Surgical Center Services," 145 (see n. 4).

27 Diment, "IBISWorld Industry Report," 19.

28 Medicare Payment Advisory Commission, "Ambulatory Surgical Center Services," 145.

29 Ibid.

30 Ibid., 145–146.

31 Ibid.

32 Ibid., 146.

33 Diment, "IBISWorld Industry Report," 27 (see n. 6).

34 Ibid.

35 Ibid., 27–28.

36 Ibid., 28.

37 Frank Fabozzi, PhD, CFA, *Fixed Income Analysis for the Chartered Financial Analyst Program*, 2<sup>nd</sup> ed. (New Hope, PA: Frank J. Fabozzi Associates, 2005), 572.

Note that the amount of debt utilized by a specific freestanding outpatient enterprise will likely be impacted by: (1) the age of equipment and other technology utilized by the enterprise, and (2) the enterprise's dependence on technology; for example, an ASC will have higher capital needs related to obtaining and maintaining surgical equipment.

Data and information pertaining to the most probable capital structure of an ASC can be derived from normative industry benchmark survey data, as well as comparable publicly traded company data (for those ASCs that have comparable publicly traded companies). Additionally, the capital structure can be determined through techniques such as the iterative method. For the purpose of establishing the fair market value of an ASC, it is important to utilize formulas based on market values of equity and debt, rather than book values.<sup>38</sup>

Overall, it appears that ASCs currently have adequate access to capital because the number of ASCs has continued to increase (change in the number of ASCs is the best available indicator of their ability to obtain capital),<sup>39</sup> and hospital systems and other providers have significantly incorporated ASCs into their business strategies.<sup>40</sup> Further, the industry's continued growth indicates that capital is not difficult to obtain for such ventures.<sup>41</sup> A series of ASC acquisitions in recent years suggests that ASCs are a highly valued asset for hospital systems, private equity firms, and insurers.<sup>42</sup> In general, hospital systems are turning their attention away from inpatient settings and investing in ASCs and other outpatient settings.<sup>43</sup> Hospital systems are predicted to continue their acquisitions of ASCs as they attempt to better acclimate to value-based care and seek to provide procedures in lower cost settings.<sup>44</sup>

The apparent successful and profitable business model of ASCs has attracted significant capital investment from investors, including hospitals, other physicians, and non-healthcare industry parties; e.g., venture capital and private equity.<sup>45</sup> Interest from these parties stems largely from the

shift from inpatient to outpatient services and the potential profitability of ASCs.<sup>46</sup> Capital investment in the industry is expected to remain stable in the future even as industry profit, measured as earnings before interest and taxes, is expected to decrease slightly in the future from its current place at 22.5 percent due to pressured reimbursement rates.<sup>47</sup>

### Suppliers

Suppliers in healthcare can include: physicians, commercial landlords, healthcare systems, medical supply companies, pharmaceutical companies, and billing and insurance companies.<sup>48</sup> In general, enterprises such as ASCs achieve a significant amount of their bargaining power from their size, since larger enterprises, with greater patient populations, represent a larger portion of business for vendors, and therefore, have more negotiating power than smaller enterprises. In addition, those larger ASCs that are able to reap the benefits of this increased market leverage may be able to lower operating costs by negotiating lower supply prices, thereby improving profit margins, which may increase the indication of value of the enterprise.

### Subject-Entity-Specific/Non-Systematic Risk

While investors in a particular ASC would have additional investment opportunities available to them—e.g., government bonds, equity indexes—the discount rate utilized to present-value all the expected future net economic benefits should consider these opportunity costs as well as any idiosyncratic risk associated with an investment in the specific subject enterprise. This subject-entity-specific/non-systematic (idiosyncratic) risk for freestanding outpatient enterprises would include the various risk factors that are inherent and specific to the enterprise being valued, as well as the enterprise's operational performance compared to the most probable performance of similar enterprises as reported in normative industry benchmark survey data. Subject-entity-specific/non-systematic risk factors for most ASCs include, but are not necessarily limited to:

1. The uncertainty related to the continuity of the projected revenue stream based on the probability

38 Shannon P. Pratt and Roger J. Grabowski, *Cost of Capital: Applications and Examples*, 3<sup>rd</sup> ed. (Hoboken, NJ: John Wiley & Sons, Inc., 2008), 276–277.

39 Medicare Payment Advisory Commission, "Ambulatory Surgical Center Services," 142 (see n. 4).

40 *Ibid.*, 146–147.

41 *Ibid.*, 142.

42 *Ibid.*

43 *Ibid.*

44 *Ibid.*, 143.

45 Diment, "IBISWorld Industry Report," 20 (see n. 6).

46 See, e.g., Pennsylvania Health Care Cost Containment Council, "Financial Analysis 2018: Ambulatory Surgery Centers, Volume Two" (October 2019); 3, [http://www.phc4.org/reports/fin/18/docs/fin2018report\\_volumetwo.pdf](http://www.phc4.org/reports/fin/18/docs/fin2018report_volumetwo.pdf) (accessed 10/18/19).

47 Diment, "IBISWorld Industry Report," 20.

48 *Ibid.*, 13.

of achieving the projected productivity volume and the efficacy of the projected reimbursement yield utilized in the analysis;

2. The risk related to the probability of achieving industry indicated operational and financial benchmarks utilized in the analysis;
3. The competitive marketplace within which the ASC operates; and
4. The historical operations of the ASC in comparison to the industry benchmarks.

Examples of subject-entity-specific/non-systematic risk considerations related to the valuation of an ASC include, but are not necessarily limited to:

1. The diversity of specialties and services offered at the enterprise being valued
2. The percentage of OON patient volumes
3. Capital needs related to the facility and equipment
4. Operating performance
5. The stability and relative size of current and future reimbursement revenues
6. Relationships with independent surgeons/referring physicians in the market service area of the subject enterprise

### VALUE DRIVERS—OBLs

While the value drivers identified for OBLs are similar to those of ASCs, there are specific dynamics related to OBLs that should be taken into consideration during the appraisal process.

#### Scope of Services and Capacity

Potentially, almost all outpatient endovascular cases may be performed in the office-based intervention lab setting. Services provided in OBLs include: cardiovascular, endovascular, venous, and non-vascular services; cardiac procedures, such as diagnostic coronary angiograms, coronary stenting, and electrophysiology services; device implants, including pacemakers, defibrillators, loop recorders, and biventricular pacers; lower extremity endovascular revascularizations, such as chronic total occlusion and complex limb salvage

procedures; renal and mesenteric revascularizations; and subclavian stenting.<sup>49</sup>

Conversion from the hospital and ASC setting to the office-based setting may require a transition period, from both a clinical and logistical capacity. Other considerations include payor requirements and contractual/legal requirements (such as licensing and accreditation requirements, as well as noncompete agreements). Determination of the service mix of procedures offered in each OBL requires consideration of the volume required to make the service offering safe and profitable.

#### Revenue Stream

The primary drivers of the movement of these performed services from a hospital setting to an outpatient office setting include more convenient locations, shorter appointment wait times, better outcomes for patients, greater control of technology and staffing, improved reimbursement for physician owners, and cost savings for payors (quite possibly in reverse order of influence). Historically, physicians performing these procedures in a hospital setting only received the professional component; i.e., the “facility” fee rate by the Medicare physician fee schedule (MPFS).<sup>50</sup> Medicare and many private insurance payors reimburse for procedures performed in the OBL setting at the “non-facility” or “global” fee rate; consequently, the physician practice payment includes both professional and technical components.<sup>51</sup>

As noted above, the MPFS differentiates between two distinct revenue streams for medical services; i.e., a professional services component and an ancillary services and technical component. Within the professional services component, procedures may have different rates depending on whether they were provided in a facility or non-facility setting, as determined by the place of service.<sup>52</sup> The “non-facility” fee

49 Jeffrey G. Carr, “Office-Based Labs: An Evolving Healthcare Model,” *Cath Lab Digest* 25, no. 11 (November 2017), <https://www.cathlabdigest.com/article/Office-Based-Labs-Evolving-Healthcare-Model> (accessed 9/17/19).

50 *U.S. Office-Based Labs (OBLs) Market Estimates & Trend Analysis from 2015 to 2026* (San Francisco: Grand View Research, 2019), 41.

51 *Ibid.*

52 Centers for Medicare & Medicaid Services, “Details for title: 0108 - Facility vs. Non-Facility Reimbursement,” <https://www.cms.gov/Research-Statistics-Data-and-Systems/Monitoring-Programs/Medicare-FFS-Compliance-Programs/Recovery-Audit-Program/Approved-RAC-Topics-Items/0108-Facility-vs-Non-Facility-Reimbursement.html> (accessed 10/21/19).

is typically much higher than the facility fee, from two times the facility fee.<sup>53</sup> Since the physician practice incurs all the expenses from the procedures performed in the physician office, the higher fee is to reimburse the physicians for the technical component of the service provided by the physician office, such as supplies, staff costs, equipment, and other office overhead expenses.<sup>54</sup>

### Payor Mix

As in most vascular practices, the patients of OBLs are mostly Medicare beneficiaries. This payor mix has the same impact on OBLs as it may have on ASCs. While many commercial insurance plans may reimburse OBLs at a higher non-facility rate, there are still some major commercial insurance payors, as well as some health maintenance organizations (HMOs) and local independent practice associations, that do not.

### Operating Expenses

For OBLs, like ASCs, supplies—such as catheters, balloons, guidewires, stents, laser fibers, pharmaceuticals, and disposables—are a significant expense in performing procedures. The cost of supplies depends greatly on an OBL's case mix. It is very easy to tie up a substantial amount of capital resources in supply inventory for endovascular procedures because so many different devices are used. Therefore, an OBL's inventory management and pricing can have a significant impact on the bottom line.

Staff costs also comprise a significant portion of an OBL's operating cost. Staffing at an OBL typically includes registered nurses, scrub technicians, radiology technicians, medical assistants, and administrative/clerical personnel. The experience and training of the staff to the unique requirements of an OBL, as compared to a hospital setting, has a substantial impact on its operations. Compliance with governmental regulations and accrediting organizations, such as the American Association for Accreditation of Ambulatory Surgery Facilities (AAAASF), Accreditation Association for Ambulatory Health Care (AAAHC), and

The Joint Commission, as well as billing and coding to ensure prompt payment, are also imperative to the success of an OBL.

### Capital Structure

The startup of an OBL may require significant office build-out and equipment purchases. Capitalization, for the purposes of this discussion, is the acquisition of assets for the operation of the OBL. Capitalization needs for a start-up venture may include build-out, equipment, supplies, and working capital, and such requirements may exceed \$1 million.<sup>55</sup> Also, considering the revenue and collection cycle of startup OBLs, the practice will require working capital to fund operations until the collection cycle catches up. Further, as described above, the cost to maintain supply inventory may be considerable.

Due to the substantial startup costs, many OBLs are owned by multiple parties (in the case of a joint venture). Funding may come in the form of cash, assets, or services. Examples of assets contributed include use of office space, equipment, and intangible assets, such as the use of a trade name or intellectual property. Examples of services contributed include the use of personnel staff and management services. If capital contributions are in a form other than cash, a determination of the fair market value of those contributions are required to comply with a number of applicable Anti-Kickback Statute (AKS) safe harbors, as discussed in Part I.

### Suppliers

Similar to all businesses, bargaining power with suppliers can have a direct impact on the profitability of the OBL. To date, group purchasing organizations (GPOs) have not really provided much benefit to OBLs in terms of pricing for endovascular devices. However, another type of supplier, management companies that partner with the physicians for development, management, and operations, are prevalent in the OBL market. These companies, such as National Cardiovascular Partners (NCP), a division of Fresenius Medical Care North America (FMCNA), and Envision Healthcare and Surgery Partners, allow physicians to mitigate some of the financial risk and assist with navigating regulations

53 Centers for Medicare & Medicaid Services, "Revised and Clarified Place of Service (POS) Coding Instructions," *MLN Matters* no. 7631 (April 1, 2013), <https://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNMattersArticles/downloads/MM7631.pdf> (accessed 10/21/19); see, e.g., *U.S. Office-Based Labs (OBLs) Market Estimates & Trend Analysis from 2015 to 2026* (San Francisco: Grand View Research, 2019), 30.

54 Betsy Nicoletti, "Facility versus Non-Facility in the Physician Fee Schedule," *CodingIntel* (January 29, 2018), <https://www.codingintel.com/facility-non-facility-physician-fee-schedule/> (Accessed 10/21/19).

55 Hwa Kho, PhD, MBA, and Sam Ahn, MD, FACS, MBA, "Financial Considerations for Office-Based Intervention Labs," *Endovascular Today* (January 2014), <https://evtoday.com/2014/01/financial-considerations-for-office-based-intervention-labs/> (accessed 10/21/19).

and supply purchasing.<sup>56</sup> In addition, key manufacturers, such as Philips Healthcare and Siemens Healthineers, have been entering into partnerships with physicians to set up OBLs, equipping laboratories with required instruments and providing complete solutions from start to end, which is expected to further propel the OBL market.

### Subject-Entity-Specific/Non-Systematic Risk

The subject-entity-specific/non-systematic (idiosyncratic) risk factors may be similar to those for ASCs (at different levels). Additional risk factors related to the value of OBLs for consideration include:

1. Procedure mix may move to more complex procedures best suited for the ASC setting (e.g., hemodialysis thrombectomy, pacemakers). Is build-out up to ASC specifications in the event of conversion to an ASC or OBL/ASC hybrid?
2. Payor acceptance of the higher non-facility fee rate reimbursed by Medicare and many commercial payors.

### CONCLUSION

ASCs and OBLs are increasingly performing a wide array of complex procedures and ancillary services, which present important revenue opportunities for industry operators. Changes in federal requirements with respect to reimbursement and admission rates for specific offerings can prove detrimental to operators focused on these segments. Talent and specialized physicians are required and largely determine the amount of payor and consumer demand for the provision of these services in the outpatient setting.

While ASCs offer a broader scope of services, OBLs are traditionally easier and less expensive to open and operate. The combination of the two sites of service into one facility (i.e., an OBL/ASC hybrid facility) is gaining attractiveness to providers who seek to increase service offerings while also mitigating the risk that payors may decrease rates in one setting over another.

Revenue for ASCs and OBLs is likely to be driven by cost-conscious patients seeking to have procedures performed at a lower cost.<sup>57</sup> ASCs and OBLs will likely continue to form joint ventures with hospitals and other healthcare systems to retain high-quality physicians and ensure the capacity required to meet high patient volumes.<sup>58</sup> As more insurers prefer the use of outpatient settings for procedures, ASCs and OBLs will likely see sustained growth and valuation prospects going forward.<sup>59</sup> **VE**



*Todd A. Zigrang, MBA, MHA, FACHE, CVA, ASA, is president of Health Capital Consultants, where he focuses on the areas of valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician-integration and financial analysis experience and has participated in the development of a physician owned, multispecialty management service organization and networks involving a wide range of specialties, physician owned hospitals, as well as several limited liability companies for acquiring acute care and specialty hospitals, ASCs, and other ancillary facilities. E-mail: tzigrang@healthcapital.com*



*Jessica L. Bailey-Wheaton, Esq., serves as Vice President and General Counsel of Health Capital Consultants, where she conducts project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions, and provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. E-mail: jbailey@healthcapital.com*

<sup>56</sup> U.S. Office-Based Labs (OBLs) Market Estimates & Trend Analysis from 2015 to 2026 (San Francisco: Grand View Research, 2019), 23.

<sup>57</sup> Diment, "IBISWorld Industry Report," 6 (see n. 6).

<sup>58</sup> Ibid.

<sup>59</sup> Ibid.