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Valuation of ASCs and OBLs
Part I: Distinctions

Introduction

Until approximately 40 years ago, virtually all surgeries were performed in hospitals.[1] Since the 1970s, however, the outpatient services industry has grown at a steady pace, precipitated in part by the *American Medical Association's* (AMA's) 1971 adoption of a resolution endorsing the concept of outpatient surgery under general and local anesthesia for selected procedures and patients.[2]

This resulting 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). Currently, there are nearly 6,000 ASCs[3] and nearly 700 OBLs[4] in the U.S.

At the same time, this rapid increase has resulted in increased regulatory scrutiny of the formation, ownership, alignment, and transactions related to these outpatient entities. Consequently, it is important for those involved in any prospective transaction (or formation) to understand the differences between these two types of outpatient facilities, and the implications thereof.

This article is the first in a four-part series and will focus on the characteristics of and general trends related to ASCs and OBLs.

Defining ASCs

ASCs are distinct, Medicare-certified outpatient healthcare facilities that provide services to patients who do not require inpatient hospital admission and a stay lasting more than 24 hours.[5] ASCs may be classified as *single specialty* or *multi-specialty*, and may be owned by hospitals, physicians, or other healthcare enterprises. These enterprises are reimbursed by Medicare under their own separate prospective payment system.[6]

Since their inception more than four decades ago, ASCs have played an increasingly crucial role in the medical community.[7] Physicians are attracted to ASCs due to the ability to set and maintain their own schedule, customize their surgical environments, and use specialized staff, which minimizes turnaround time and maximizes the number of procedures that can be efficiently and conveniently performed.[8] In short, physicians typically find greater professional autonomy over their work environment and the quality of care provided in ASCs.[9]

As noted above, ASCs have increased in number over recent years, due in part to the potential for higher quality of care and greater efficiencies provided at these facilities, derived from technological and surgical procedure innovations.[10] In particular, improved anesthesia and utilization of safe, minimally invasive techniques has driven this migration toward ASCs.[11] Patients report preference for ASCs due to their lower copays, convenient locations, short wait times, and ease of scheduling.[12] This growth, however, has slowed in recent years. From 2000 to 2006, the number of ASCs grew from about 3,000 to nearly 4,700, over a 50% increase.[13] By contrast, there was only about a 20% growth in the number of ASCs between 2006 and 2018.[14] The ASC industry was estimated to produce $29.5 billion in revenue in 2020, including $5.8 billion in profits.[15] In 2020, the global ASC market was valued at $84.4 billion, with nearly half of the ASC market share in North America.[16] From 2019 to 2029, this industry is expected to grow at a *compound annual growth rate* (CAGR) of approximately 6%.[17]

Concentration in the ASC industry is low, with the four largest ASCs expected to generate less than 15% of total revenue.[18] However, experts expect industry consolidation to increase over the next five years as the number of partnerships, including those with hospitals, and ASC acquisitions continue to rise.[19] Most hospitals, in fact, now provide outpatient services (96% as of 2019) and outpatient surgery (93% as of 2019).[20] The prevalence of these outpatient procedures provided by hospitals has increased over the past ten years, with outpatient surgery seeing especially high surges.[21]

Defining OBLs

OBLs, also known as office-based endovascular centers, access centers, or office interventional suites, are physician offices wherein a number of services are offered. Similar to ASCs, OBLs can be *single specialty* or *multi-specialty* and can have a number of ownership structures. However, unlike ASCs, OBL procedures (because they are located in a physician office) are reimbursed under the Medicare Physician Fee Schedule.[22]

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OBLs are typically operated and utilized by vascular surgeons, interventional radiologists, cardiologists, or other specialists, and services provided include: cardiovascular, endovascular, venous, and non-vascular services; cardiac procedures, such as diagnostic coronary angiograms, coronary stenting, 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.[23] Of these procedures, peripheral vascular intervention, cardiac services, and interventional radiology made up the majority of the OBL market share in 2019.[24]

While slower to materialize than ASCs, OBLs have increased rapidly over the past few years, for reasons similar to ASCs, e.g., opportunities for physician ownership, the "*expedient patient experience*"[25] and "*favorable outpatient procedural reimbursement*."[26]

In 2020, the global OBL market was valued at $9 billion.[27] Similar to ASCs, an increasing focus on outpatient procedures (due to their cost-saving potential) will also likely lead to an increase in OBLs. From 2020 to 2027, this industry is expected to grow by a CAGR of approximately 7%.[28]

Conclusion

The number of healthcare services provided at ASCs and OBLs continues to increase due in part to the rapidly evolving technological advances that allow many services and procedures to be performed in a safe, high quality, and, often, less costly environment than at many inpatient providers. The healthcare industry's increasing emphasis on value-based reimbursement (VBR) will likely only lead to greater investment and growth in these two industries in the future.

The next three parts of this series will focus on various issues related to the valuation of ASCs and OBLs. The second installment discuss the regulatory environment in which these enterprises operate, while the third and fourth installments will focus on the value drivers for ASCs and OBLs, respectively.

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