

Valuation of ASCs and OBLs

Part IV: OBL Value Drivers

Introduction

This article is the fourth and final installment of the four-part series discussion valuation considerations and distinctions between ambulatory surgery centers (ASCs) and office-based laboratories (OBLs). Part three of this series covered value driver considerations related to ASCs, and this article will cover those considerations for 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

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.¹

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 under the Medicare Physician Fee Schedule (MPFS).² 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.³

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 (ASTC). 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.⁴ The “non-facility” fee is typically much higher than the facility fee, from two times the facility fee.⁵ 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.⁶

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 proper 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.⁷ Additionally, 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 (or through 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 Two of this series.⁸

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 provided much benefit to OBLs in terms of pricing for endovascular devices. However, another type of supplier,

management companies that partner with the physicians and their practices for development, management, and operations, are prevalent in the OBL market. These companies, such as National Cardiovascular Partners (NCP), Envision Healthcare, and Surgery Partners, assist with navigating regulations and supply purchasing and allow physicians to mitigate some of their financial risk.⁹ Key manufacturers, such as Philips Healthcare and Siemens Healthineers, have also 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.¹⁰

Subject-Entity-Specific/Non-Systematic Risk

The subject-entity-specific/nonsystematic (idiosyncratic) risk factors for OBLs 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 the build-out of the OBL 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

Like ASCs, OBLs are increasingly performing a wide array of complex procedures and ancillary services, which present important revenue opportunities. Available talent, changes in federal reimbursement requirements, admission rates, and consumer demand largely influence the provision of these services offered by OBLs in the outpatient setting. Growth in the number OBLs, like for ASCs, is driven by a desire to lower costs for patients and the healthcare system, and joint ventures formed with other healthcare entities are likely to increase in coming years.

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. All of these factors and more are important to take into account when conducting a valuation of an OBL.

- 1 “Office-Based Labs: An Evolving Healthcare Model” By Jeffrey G. Carr, Cath Lab Digest, Vol. 25, No. 11 (November 2017), <https://www.cathlabdigest.com/article/Office-Based-Labs-Evolving-Healthcare-Model> (Accessed 2/5/21).
- 2 “Financial Considerations for Office-Based Intervention Labs” By Hwa Kho and Sam Ahn, Endovascular Today, https://evtoday.com/pdfs/et0114_F4_Ahn.pdf (Accessed 2/5/21), p. 55.
- 3 *Ibid.*
- 4 “Details for title: 0108 - Facility vs. Non-Facility Reimbursement” Centers for Medicare & Medicaid Services, <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 2/5/21).
- 5 “Revised and Clarified Place of Service (POS) Coding Instructions” MLN Matters No. 7631, Centers for Medicare & Medicaid Services, (April 1, 2013), <https://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNMattersArticles/downloads/MM7631.pdf> (Accessed 2/5/21).
- 6 “Facility versus Non-Facility in the Physician Fee Schedule” By Betsy Nicoletti, CodingIntel, January 29, 2018, <https://www.codingintel.com/facility-non-facility-physician-fee-schedule/> (Accessed 2/5/21).
- 7 “Financial Considerations for Office-Based Intervention Labs” By Hwa Kho and Sam Ahn, Endovascular Today, https://evtoday.com/pdfs/et0114_F4_Ahn.pdf (Accessed 2/5/21), p. 57.
- 8 “Valuation of ASCs and OBLs Part II: Regulatory Environment” Health Capital Topics, Vol. 14, Issue 3 (March 2021), https://www.healthcapital.com/hcc/newsletter/03_21/HTML/ASC/convert_considerations-of-ascs-obls_part_two_3.25.21.php (Accessed 5/19/21).
- 9 “U.S. Office-based Labs Market Size, Share & Trends Analysis Report By Modality (Single Specialty Labs, Hybrid Labs), By Service, By Specialist, And Segment Forecasts, 2020 – 2027” Grand View Research, December 2020, <https://www.grandviewresearch.com/industry-analysis/office-based-labs-obl-market> (Accessed 2/4/21).
- 10 *Ibid.*

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