



CASE STUDY

California Specialty Surgery Center

A Success Story for an Out-Of-Network Center that went In-Network

CHALLENGE

CSSC, an orthopedic spine-focused surgery center in Mission Viejo, CA, has a reputation for high-quality care that has driven strong performance over the years. When Merritt* engaged with CSSC, the ambulatory surgery center's (ASC) patients were primarily out-of-network (OON). With a growing number of insurers encouraging patients to stay in-network (INN) by requiring more claim documentation and balking at OON payments, many providers have seen OON reimbursements shrink. While California Specialty was once a very profitable center, its number dwindled to less than half.

To compete against large physician groups and health systems in the Orange County area for favorable managed care contracts, CSSC's owners knew they needed to sell the ASC to a strategic buyer. The center's management company, Physician Surgery Centers, interviewed several healthcare mergers and acquisitions companies and ultimately recommended Merritt. As the only healthcare M&A advisor with active ASC business and clinical operations expertise, Merritt offers an unmatched ability in optimizing ASC valuations, identifying strategic buyers, and leading successful transactions.

*Principals of Merritt Healthcare ("Merritt") acted in their capacity as registered representatives of Burch & Company, Inc. ("BCI"), member FINRA. Merritt principals are licensed investment banking agents of BCI. All services requiring a securities license are performed through BCI. BCI & Merritt are unaffiliated entities.

MerrittHealthcare
Advisors
Mergers & Acquisitions

Merritt Healthcare Advisors (Merritt) secured a strong sale price despite enacted recommendation that California Specialty Surgery Center (CSSC) switch from a very profitable out-of-network center to one that is predominately in-network.

SOLUTION

- **Showing hidden potential:** To maximize California Specialty's value in a sale, Merritt first needed to demonstrate the center's untapped earning potential. Merritt reviewed case volume over the last 12 months and modeled the facility's valuation on INN contracts for similar cases. Since California Specialty was pursuing hospital buyers, Merritt reasoned that a new owner would have the leverage and contracts to negotiate attractive commercial payer contracts. By applying those values to current procedures, they were able to demonstrate significantly higher net revenues for the client.
- **Identifying the right buyers:** After modeling the valuation, Merritt turned to its extensive network of industry contacts to identify potential buyers for California Specialty. The right buyer needed enough market presence to secure the insurer contracts key to the ASC's future success.
- **Compelling the buyers:** During the sales process, Merritt used its negotiating expertise to present CSSC in a captivating way to potential buyers. Since the valuation was based on the ASC's potential earnings, rather than current revenue, Merritt focused on helping buyers see how they could use their resources to unlock the investment's potential.

RESULTS

After extensive preparation and marketing of the ASC, Merritt found the right Buyer. Based on the strength of the modeled valuation and Merritt's negotiations, a major hospital system placed a formidable offer for CSSC. This impressive offer represented 15 times current earnings and far exceeded the ASC's expectations.

The deal also benefited the hospital system, which established profitable payer contracts for California Specialty and significantly boosted the center's earnings. After receiving the offer, Merritt successfully led the due diligence documentation process and closed the transaction.

Whether ASCs are preparing for a sale now or in the distant future, an experienced advisor can identify value and help Buyers understand the investment's true potential. By applying its clinical and financial expertise, Merritt optimized valuation for California Specialty and facilitated a smooth transaction.