

## ASC Financing: Sound Strategies & Proven Tactics

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The Blue Chip team has developed highly profitable, clinically distinguished ambulatory surgery centers (ASCs) around the country. Effective financing strategies have been a critical ingredient of success in all of our projects. While every ASC business differs in terms of specific capital requirements, Blue Chip's approach to financing is always based on transparency in sharing projections and numbers with partners and lenders, a firm commitment to financial discipline, rigorous negotiation with financing sources, and creativity in structuring contracts. These same principles guide our approach to day-to-day management, and help us build trust with partners – another critical element of successful ASCs.

This article will highlight best practices, proven techniques and lessons learned from our long track record in developing ASC businesses that achieve profitability quickly and sustain it over the long term.

### The Basics

Our joint-venture ASC partnerships are structured as limited liability corporations (LLCs), largely owned by local physicians. Blue Chip and, in some cases, hospitals or health systems take on minority stakes. We believe all partners should invest start-up and working capital, which typically amounts to 20% of the total capitalization required. Hence, 80% of capital will be financed, usually over five to 10 years.

Some surgeons attempt to start ASCs without investing their own money; we believe having “skin in the game” is a strong motivator for individual partners, as it fosters physician leadership and promotes clinical excellence. In other words, this financing model directly correlates to long-term success.

### Understanding the Options

There are many options when it comes to financing – including banks and other financial institutions, and lenders specializing in healthcare. It's important to understand the pros and cons of working with each type – their requirements for collateral and personal guarantees, for example. To find the best deal for the unique needs and goals of each partnership, Blue Chip always seeks out competitive proposals from multiple financing sources, including both local and national lenders. Further, we encourage our partners to recommend potential sources of financing; often, the ideal source of capital is a local one our surgeons already know.

Wherever possible, we strive to identify financing sources that provide the maximum amount of non-recourse financing. If recourse financing is required, we expect that the recourse requirement will be limited to the shortest amount of time.

There is no “silver bullet” or perfect “one-size-fits-all” financing plan. Many variables – including local market conditions, regional differences in real estate costs, varying regulations, the number of surgeon-partners, projected volume and mix of cases – must all be factored into the equation. The risk tolerance of investors should also be clearly understood; that's especially important for establishing an optimal risk-reward profile. For these reasons, financing is a central consideration during the business planning process.

In some cases, physician-partners may have friends or acquaintances in the local banking community. In such instances, the strength of the local relationships, coupled with the professional management of Blue Chip, permits attractive terms and lower interest rates. In other instances, national healthcare lenders will be most competitive and Blue Chip's track record of successful projects will lead to favorable terms and attractive interest rates.

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## ASC Financing: Sound Strategies & Proven Tactics *continued*

### Defining the Plan

Because effective financing is essential to the overall health of ASC businesses, financing issues must be tackled during the business planning process, not afterward. The business plan should very carefully specify and assess all viable financing options, opportunities, and risks. It's also important to recognize that a sound business plan is a valuable tool for securing capital. Desirable lenders want to see realistic financial projections, clear-eyed competitive assessments and accurate estimates of required working capital. Demonstrated experience in the ASC industry is a plus, too, of course.

During the business planning process, Blue Chip creates a detailed matrix clearly illustrating the various costs, key terms and requirements of each lender's proposal. To minimize unpleasant surprises down the road – the kind which sink far too many ASCs – we match the financing models to the overall business plan, especially in terms of estimated case volume.

All assumptions, implications and dependencies are carefully quantified in scenario models and the financial obligations of all partners clearly spelled out. Again, such transparency leads to trust, better decision making and a strong foundation on which to build the business.

### Making Decisions

Once sufficient information has been gathered and all viable options evaluated, partnerships reach the “go/no-go” point. The partners will collectively make the final decision as to financing, though Blue Chip provides recommendations based on our track record and the expertise of our financing experts. Arranging financing quickly is a top priority. Therefore, as soon as operating and management agreements are signed, Blue Chip moves immediately and aggressively to obtain it.

### Equipment Financing

Equipment financing is an important consideration when launching new surgical centers. Blue Chip generally bundles financing for the facility “build-out” or “tenant improvements” with the financing of equipment. In some instances, facility “build-out” will be handled as recourse financing and the equipment as non-recourse. The Blue Chip business model encourages surgeons to select the “best” equipment and then our team negotiates the best possible acquisition price to reduce the financial burden.

Once the ASC opens its doors, equipment should be purchased with cash from operating income. In some cases, that may delay profit distribution checks for the partners. If equipment financing is absolutely necessary and justifiable, we evaluate all financing sources, not just financing or leasing provided by the manufacturer or sales broker.

The evaluation and procurement of capital equipment or technology (e.g., new instrumentation) is a Board-level decision, supported by thorough cost-benefit analysis that seeks to quantify the number of new or additional cases the new equipment will bring and the impact on reimbursement rates, quality of care and patient satisfaction. After analysis and evaluation documents have been reviewed, the Board renders final determination on capital equipment purchases. We believe this level of discipline and rigor is critical to the long-term success of the ASC business.

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## ASC Financing: Sound Strategies & Proven Tactics *continued*

### Ongoing Financial Oversight

Once financing is secured and the business is up and running, Blue Chip serves as managing partner. Our people provide services and support to ensure the business operates efficiently, cost-effectively and in line with the projected financial model. In fact, we monitor operational performance daily, keeping a close eye on case volume, quality measures, cash flow, processed claims and accounts receivable and payable. By staying on top of these operational matters and promoting financial discipline from day one, we essentially eliminate the risk of having to re-finance our centers.

We're very proud of the fact that our centers hit (and almost always exceed) their financial targets sooner than expected, even in an environment where a substantial percentage of ASC businesses continue to fail or perform sub-optimally.

Our holistic business model views financing issues and strategies as closely related to other essential disciplines and processes, like case costing, contracting, billing and claims management. Collectively, these activities add up to effective financial and operational management. Put another way, they are important steps on the journey to profitability, and are, therefore, best managed in an integrated way, as reflected in our business model and approach.

### The Bottom Line: Reducing Risk, Enhancing Reward

For individual physicians, the initial investments required to develop ASCs are substantial – \$30,000 to \$100,000 depending on the exact nature, structure and scope of the project. Blue Chip also invests significant money (up to \$250,000) for our minority ownership stake. Our expectation is that initial partner distributions are, in fact, a return of the initial capital investment. Historically, our model, driven by a proven financing model and rigorous approach to operational management, has delivered annual ROI of 50-100%. The point is, while required investments are large, so is the opportunity and the likelihood of success.

*For more business best practices, please visit [www.bluechipsurgical.com/insights](http://www.bluechipsurgical.com/insights)*



*Blue Chip Partners creates and manages highly profitable, physician-led ambulatory surgery centers. Our businesses help physicians gain more control of their practice and their life in environments where they can do their best work.*

*Find out more about our people, passion and many successful partnerships. Contact us today 513.561.8900 or [info@bluechipsurgical.com](mailto:info@bluechipsurgical.com)*