

Case study: MHA increases valuation of New York endoscopy center by 50%, finding the ideal strategic partner for the Facility.

Situation

Kips Bay Endoscopy Center, LLC, (“KBEC”) is a State Licensed, Medicare Certified, endoscopy center located in Manhattan, New York. KBEC’s 15 endoscopists and 3 anesthesiologists perform more than 10,000 cases per year in the first Manhattan-based ASC, which will be designated a Center of Excellence by The American Society for Gastrointestinal Endoscopy.

Following previous unsuccessful attempts to find a strategic partner, KBEC sought to bring in an investment banking firm to help navigate the fast-changing healthcare market, secure a higher valuation for the business ahead of a sale, and achieve the best possible governance and purchase terms in that transaction — all while maintaining full compliance in New York State’s challenging regulatory landscape.

In order to best evaluate their options, KBEC partnered with Merritt Healthcare Advisors (“MHA”), the industry’s leading healthcare advisory firm focused exclusively on representing owners of healthcare businesses, surgical facilities, and practices that are considering a strategic transaction. Whether it’s selling an interest in a surgical facility or physician practice, growing a healthcare business through acquisition or recapitalizing through a sale to an outside, nonphysician investor, MHA specializes in helping facility and practice owners identify and execute the best possible strategy available. Leveraging its investment banking background and experience as an owner and operator of surgery centers, MHA is uniquely qualified to offer its clients the best insights in the industry.

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Solution

After careful evaluation of the regulatory and competitive landscape, MHA recommended an innovative strategy that accomplished the goals of the KBEC members. The structure involved an administrative service organization, which owned all of the ASC's nonclinical assets and provided certain services. The endoscopy center itself remained under the ownership and control of the physician partners. This approach had the effect of expanding the pool of potential purchasers significantly by creating a separate business that could be owned by nonphysician investors, as required under New York State law.

To execute this complex strategy, MHA conducted its due diligence and comprehensive data gathering process. MHA's analysts then reviewed and adjusted the facility's financial statements to accurately reflect an enhanced value to potential investors.

MHA developed a confidential memorandum and other marketing materials to inform investors about the opportunity, including outlining its key personnel, operations, growth factors, and financial performance. MHA then created a list of prospective investors derived from prior purchasers with whom its Principals have experience, as well as conducted research on firms that have invested in a similar industry or opportunity.

MHA engaged with potential investors after conducting initial outreach, answered questions about the endoscopy center, shared supporting financial documentation about the opportunity, and identified a pool of interested parties.

Results

Based on MHA's recommendations, KBEC selected a strategic investor in 2018, finalizing the transaction in 2019 following the completion of the requisite legal

work. Leveraging its investment banking experience in executing similar deals involving private equity firms and other third-party investors, MHA secured the following on behalf of its client:

- **Higher valuation:** MHA's sales strategy increased KBEC's market valuation by 50 percent over the previous offer.
- **Favorable corporate governance terms:** KBEC's physician partners received equal board representation as the new investors and significant super majority rights over key decisions.
- **Complete Physician control over all clinical matters**
- **Significant recapitalization:** KBEC's physician partners were able to reinvest in the business and recoup their original investment, as well as subsequent profits, in the ASC.

"I am the medical director of the Kips Bay Endoscopy Center in New York City, a single-specialty gastroenterology center that has been in existence since 2004. We recently worked with Merritt Healthcare Advisors in helping us sell our endoscopy center. Their help and guidance, in going through a complex transaction, was invaluable. Being operators in the ASC world, as well as investment bankers, their insights into our needs was superb. The final outcome was much higher than we expected. In addition, the group they helped us select have been great partners. I can recommend MHA without any reservation."

**CHARLIE FRIEDLANDER, M.D., MEDICAL DIRECTOR,
KIPS BAY ENDOSCOPY CENTER**
