

Case study: Value Creation through the Merger and Sale of West Coast Surgery Centers

“Merritt took the time to understand our objectives and to analyze our individual surgery center organizations before making the recommendation to merge and seek a strategic partner. The end result added great value to our organizations, and we are very pleased with the outcome.”

DR. MICHAEL BEHRMAN

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Background

Santa Barbara ASC Holdings (“SBASC”) was created in 2018 as a result of the merger, and subsequent sale, of two ASCs in the Santa Barbara area, De La Vina SurgiCenter (“DLV”) and Center for Specialized Surgery (“CSS”). The combined entity is now a multi-specialty ambulatory surgery center (“ASC”) serving Central California. For more than 15 years, its physician members have provided the local community with personalized, low-cost, high-quality care that is compassionate, dignified and respectful.

Prior to the creation of the new entity, the ownership structure of the individual ASCs was complex, primarily due to common physician ownership. Some of the key members owned shares of both facilities, while others owned stakes in only one of the two locations.

In 2016, the ASCs’ owners began considering the sale of the two facilities, independent of one another. The cross-ownership structure of De La Vina SurgiCenter and Center for Specialized Surgery, however, made separate, individual deals potentially less attractive to purchasers. At the time, physician owners and the management company of CSS, Physicians Surgery Centers, considered a variety of options in order to deal with the following complicating factors of a sale:

- Cross-ownership
- Relative Valuation of ASCs
- Related Parties in the Real Estate
- New Physicians Buy-in
- Exiting Physician and Management Company
- Multiple Legal Representations

In order to best evaluate their options, the ownership group 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.

Solution

Whether it's selling an interest in a surgery center or physician practice, or growing a healthcare business through acquisition, Merritt Healthcare Advisors 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, Merritt Healthcare Advisors is uniquely qualified to offer its clients the best insights in the industry.

After careful evaluation, MHA recommended marketing the sale of De La Vina SurgiCenter and Center for Specialized Surgery as a single entity that would formally combine concurrent with the sale of a majority interest in the Facility to a strategic purchaser. This approach would provide attractive economies of scale for a potential buyer and, ultimately, a higher sale price for the current owners. To execute this complex strategy, Merritt Healthcare Advisors first conducted its due diligence and comprehensive data gathering process. Once the relevant data was collected, Merritt Healthcare Advisors' analysts then reviewed and adjusted the facilities' financial statements to accurately reflect the combined value of both facilities to potential investors.

Second, Merritt 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 conducting research on firms that have invested in a similar industry or opportunity.

Merritt then engaged with potential buyers, conducting initial outreach, answering questions about the centers and the combined entity, sharing supporting financial documentation about the opportunity, and identifying a pool of possible buyers. These potential investors were each then invited to present their terms and strategies for growth to the sellers, who then reviewed the potential offers and began identifying who would be the best long-term partner for the new combined entity.

"Ultimately, the strategy in Santa Barbara created the most competitive environment for a sale and the best possible financial and strategic outcome for our Clients both short and long term."

**MATT SEARLES, PARTNER,
MERRITT HEALTHCARE ADVISORS**

Results

Surgery Partners, a leading operator of surgical facilities and ancillary services with more than 180 locations nationwide, signed a letter of intent to acquire the combined entity in Q2 2018. After the development of an integration plan, Merritt Healthcare Advisors facilitated the completion of the diligence process with Surgery Partners, including working with key third parties such as attorneys, accounting firms, insurance companies and benefits firms.

Following completion of the diligence and legal review steps, Surgery Partners closed on the deal in November 2018, acquiring 55 percent of the new Santa Barbara ASC Holdings in a combined sale.