



Partnering for Success:

Converting HOPDs to ASCs with Physicians

HFMA Texas State Conference
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Corey Palasota, CFA

Partner, Health Care Valuation Services

corey.palasota@weaver.com | 210-471-9825

- 15+ years national experience
- 1,000+ health care valuations
- University of Texas Austin
- Baseball coach!

- **National CPA & Advisory Firm**
- Established in 1950
- 21 Offices Coast to Coast
- 190 Partners
- 1800+ Employees
- Dedicated Healthcare Team



Contents

SECTION

1 ASC Addressable Market

2 Key Market Participants & Trends

3 Planning and Top Decisions

4 Case Study

Cost Efficiencies

Comparison of CMS Payment Rates for Hospital-Based vs. ASC Surgical Procedures

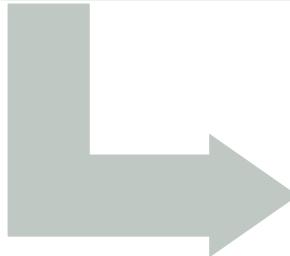
HCPCS Code	Short Descriptor	Hospital-Based Payment CY2023	ASC Payment CY2023	Variance (ASC-OPPS)	% Difference
29827	Arthroscop rotator cuff repr	\$6,615	\$3,138	(\$3,477)	53%
29880	Knee arthroscopy/surgery	\$2,977	\$1,415	(\$1,562)	52%
42820	Remove tonsils and adenoids	\$5,340	\$2,549	(\$2,790)	52%
42830	Removal of adenoids	\$2,845	\$1,149	(\$1,696)	60%
43235	Egd diagnostic brush wash	\$826	\$430	(\$396)	48%
43239	Egd biopsy single/multiple	\$826	\$430	(\$396)	48%
43248	Egd guide wire insertion	\$826	\$430	(\$396)	48%
43249	Esoph egd dilation <30 mm	\$1,742	\$752	(\$989)	57%
45378	Diagnostic colonoscopy	\$831	\$433	(\$398)	48%
45380	Colonoscopy and biopsy	\$1,083	\$564	(\$519)	48%
45384	Colonoscopy w/lesion removal	\$1,083	\$564	(\$519)	48%
62322	Njx interlaminar Imbr/sac	\$852	\$444	(\$409)	48%
64483	Inj foramen epidural l/s	\$852	\$444	(\$409)	48%
64721	Carpal tunnel surgery	\$1,798	\$854	(\$944)	52%
66821	After cataract laser surgery	\$531	\$276	(\$254)	48%
66982	Cataract surgery complex	\$2,159	\$1,101	(\$1,058)	49%
66984	Cataract surg w/iol 1 stage	\$2,159	\$1,101	(\$1,058)	49%
69436	Create eardrum opening	\$1,388	\$591	(\$797)	57%

Source: CMS April 2023 OPPS Fee Schedule Addendum B.-Final OPPS Payment by HCPCS Code for CY 2023, April 2023 ASC Fee Schedule Addendum AA -- Final ASC Covered Surgical Procedures for CY 2023

Site of Service – Anticipated Shifts

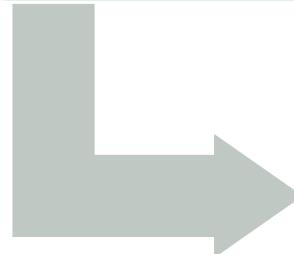
Inpatient Surgery

- Today: \$230 B
- **Decline:** **\$60 B (25%) to HOPD**
- Tomorrow: \$170 B



HOPD Surgery

- Today: \$55 B
- **Increase:** **\$30 B from inpatient**
- **Decline:** **\$40 B to ASCs**
- Tomorrow: \$45 B



ASC Surgery

- Today: \$35 B
- **Increase:** **\$20 B (60%) from HOPD**
- Tomorrow: \$55 B

Net Impact of Site of Service Anticipated Shifts

Total Surgeries (all settings)

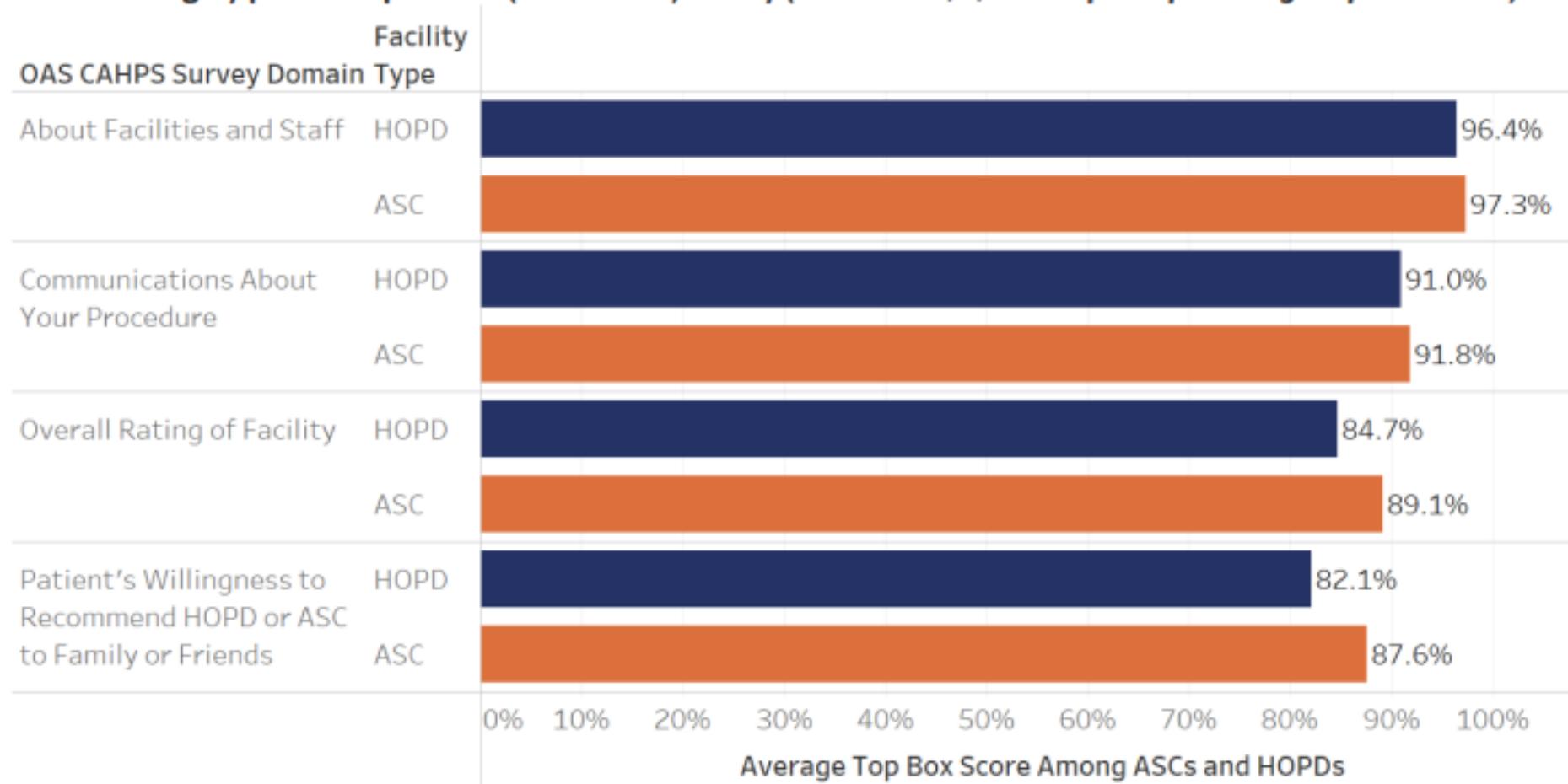
Today: \$320 billion

Tomorrow: \$270 billion

Decline: **\$50 billion or ~15%**

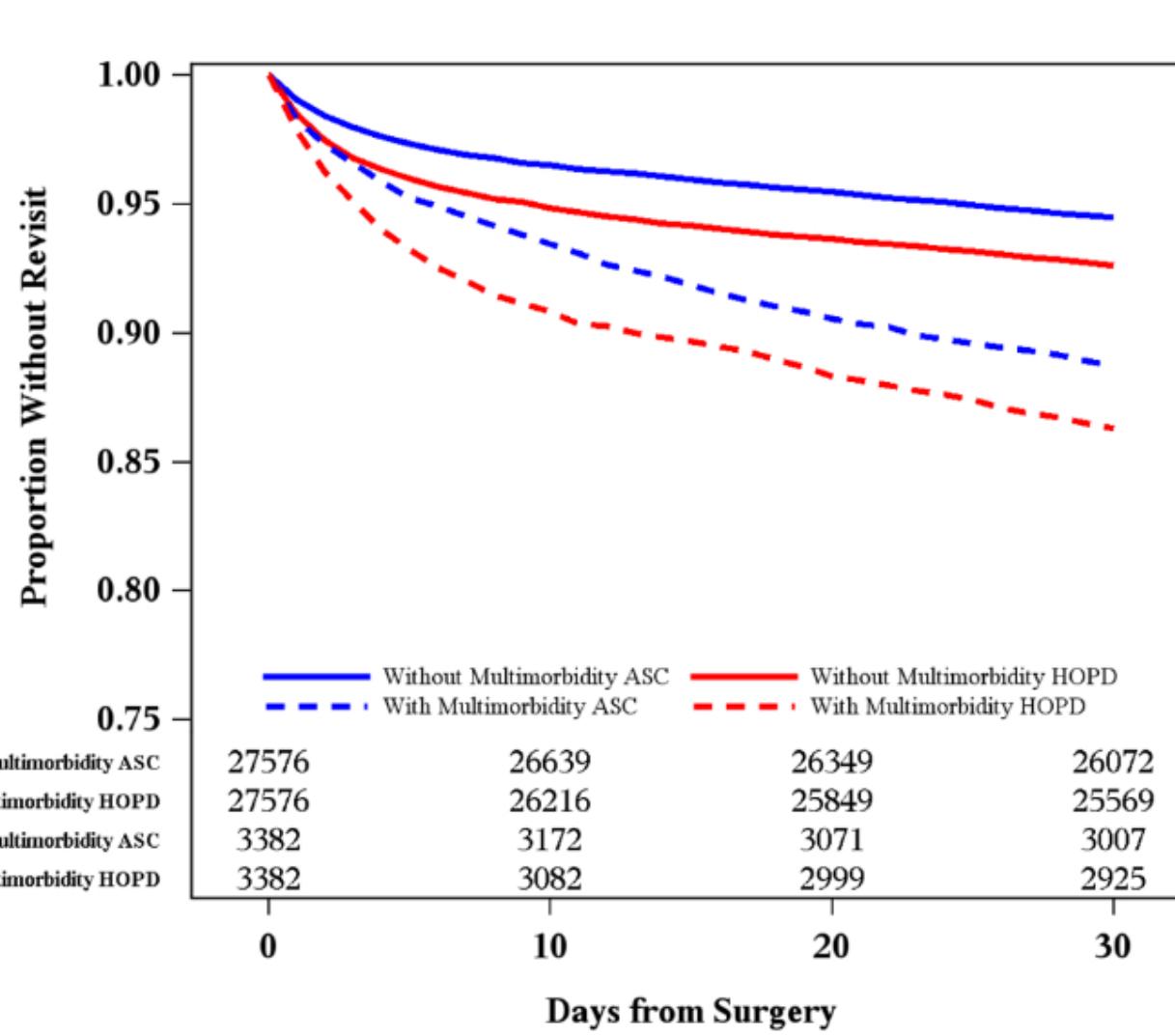
Patient Preference

Figure 3: Average Top Box Score (percent of patients who gave the most favorable response) on the same-day surgery patient experience (OAS CAHPS) Survey (n=363 ASCs, 1,252 hospitals providing outpatient care)



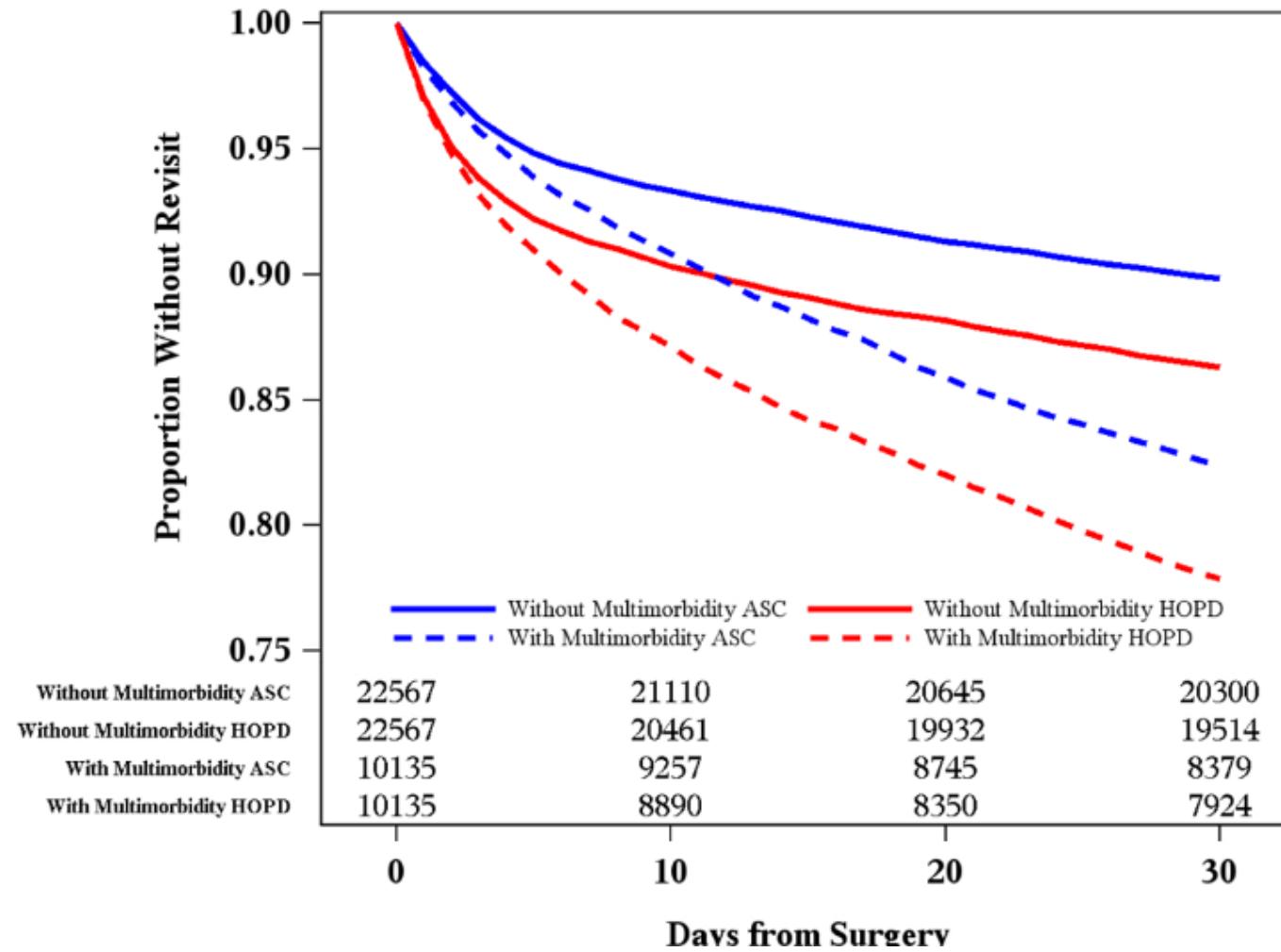
Source: 2020 Leapfrog Hospital Survey, 2020 Leapfrog ASC Survey, Centers for Medicare and Medicaid Services

Outcomes – Low Risk Surgeries



Source: *Med Care*. 2023 May 1;61(5):328-337. doi. 10.1097/MLR.1836. Epub 2023 Mar 17

Outcomes – Higher-Risk Surgeries



Source: Med Care. 2023 May 1;61(5):328-337. doi. 10.1097/MLR.1836. Epub 2023 Mar 17

Limitations

- Surgeon alignment – recruitment and retention
- Anesthesia coverage
- Staffing

Contents

SECTION

1 ASC Addressable Market

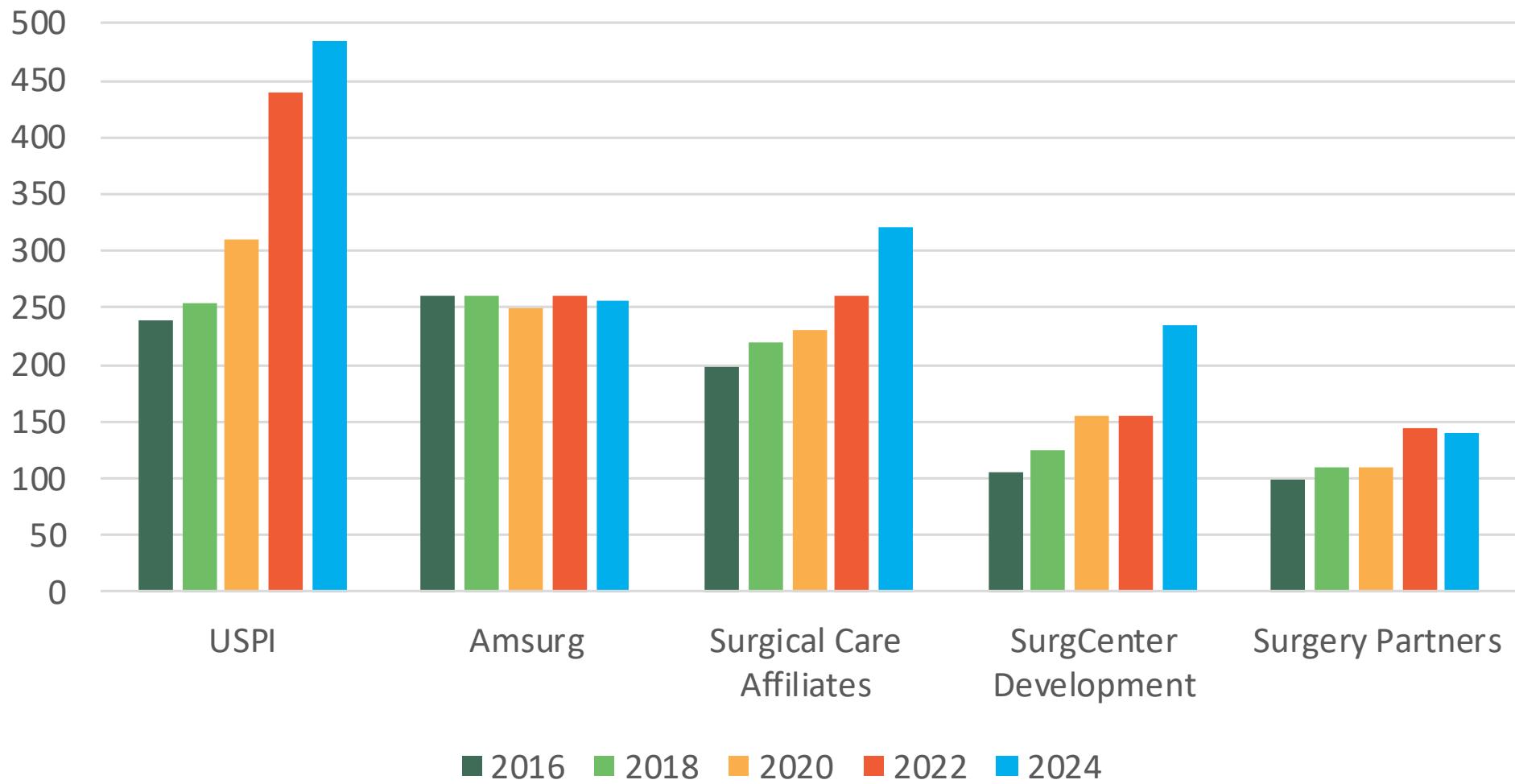
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3 Planning and Top Decisions

4 Case Study

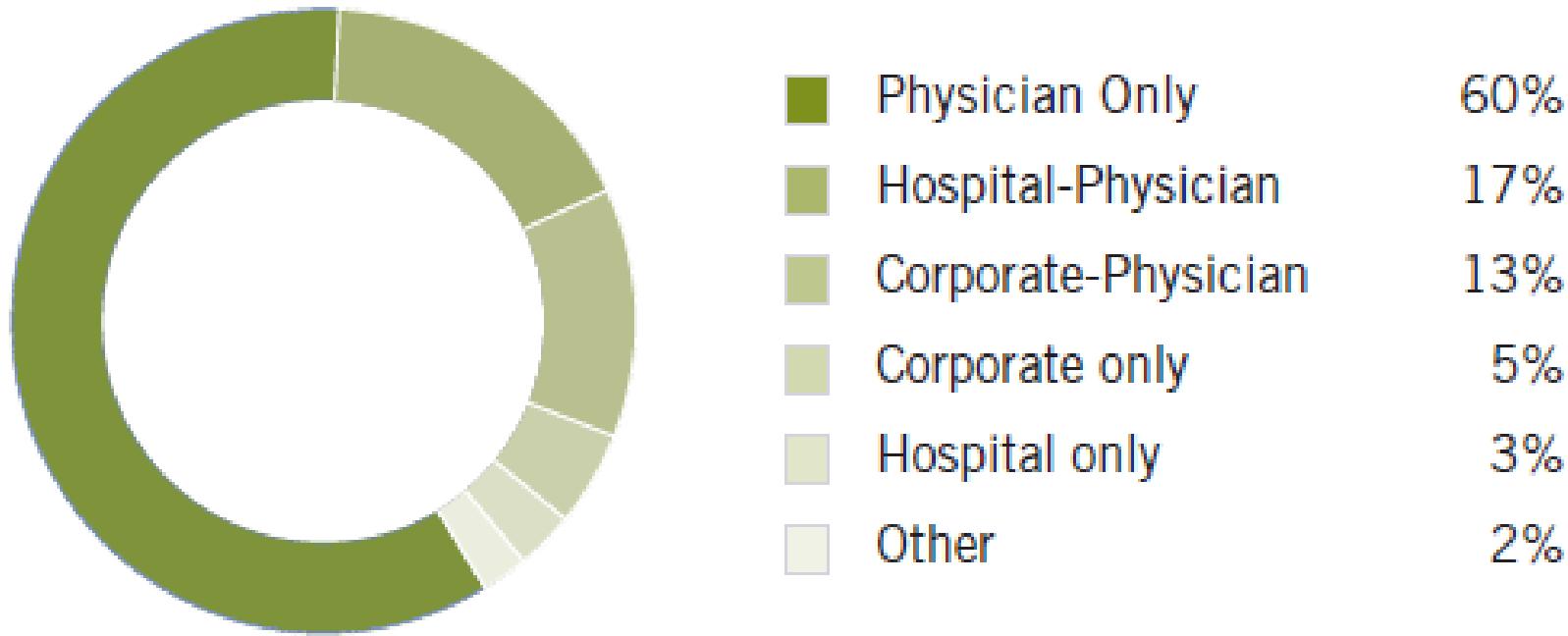
Top Operators

ASC Operators (2011-2024)



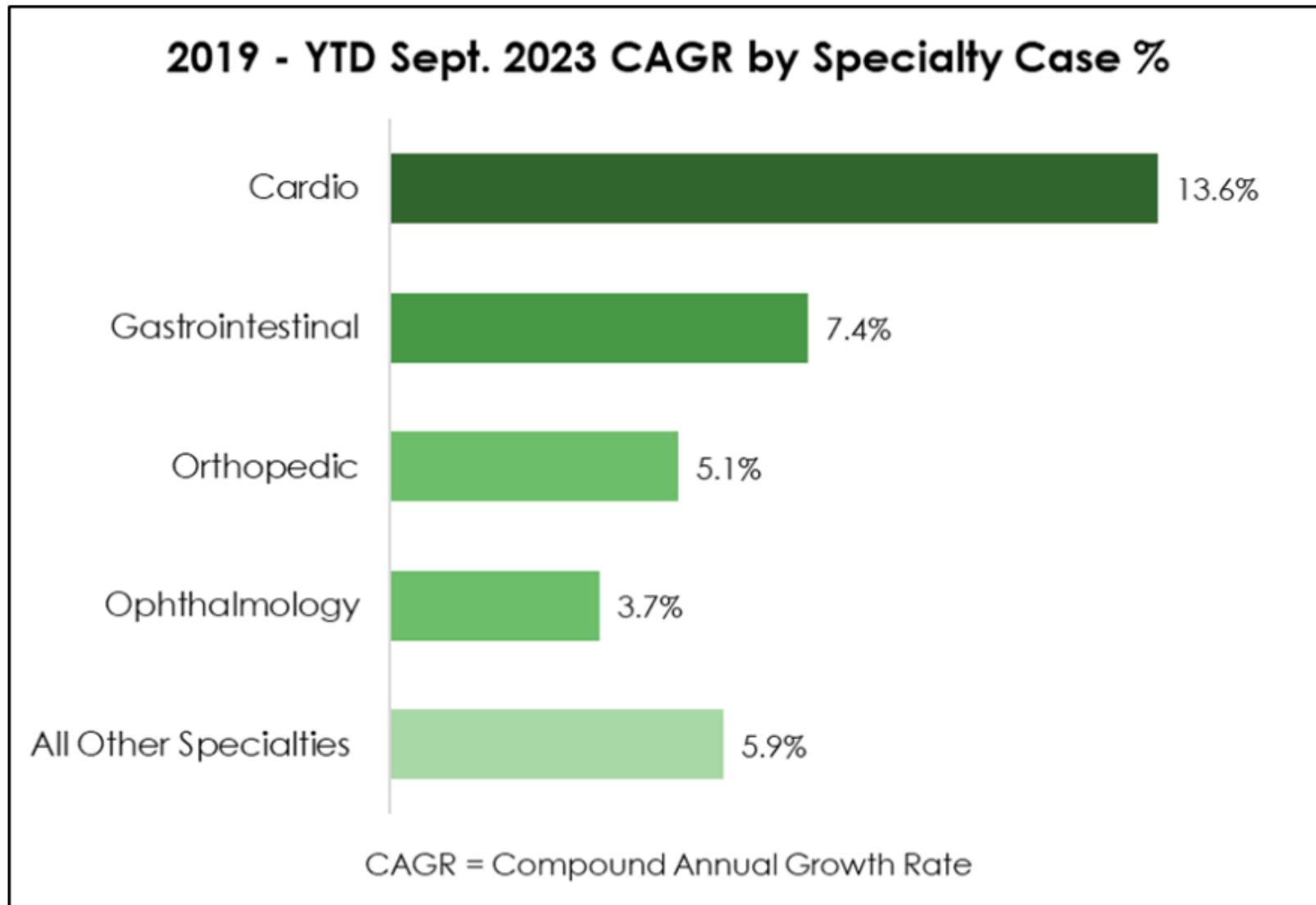
Financial Arrangements

OWNERSHIP STRUCTURE



Source: Avanza Healthcare Strategies

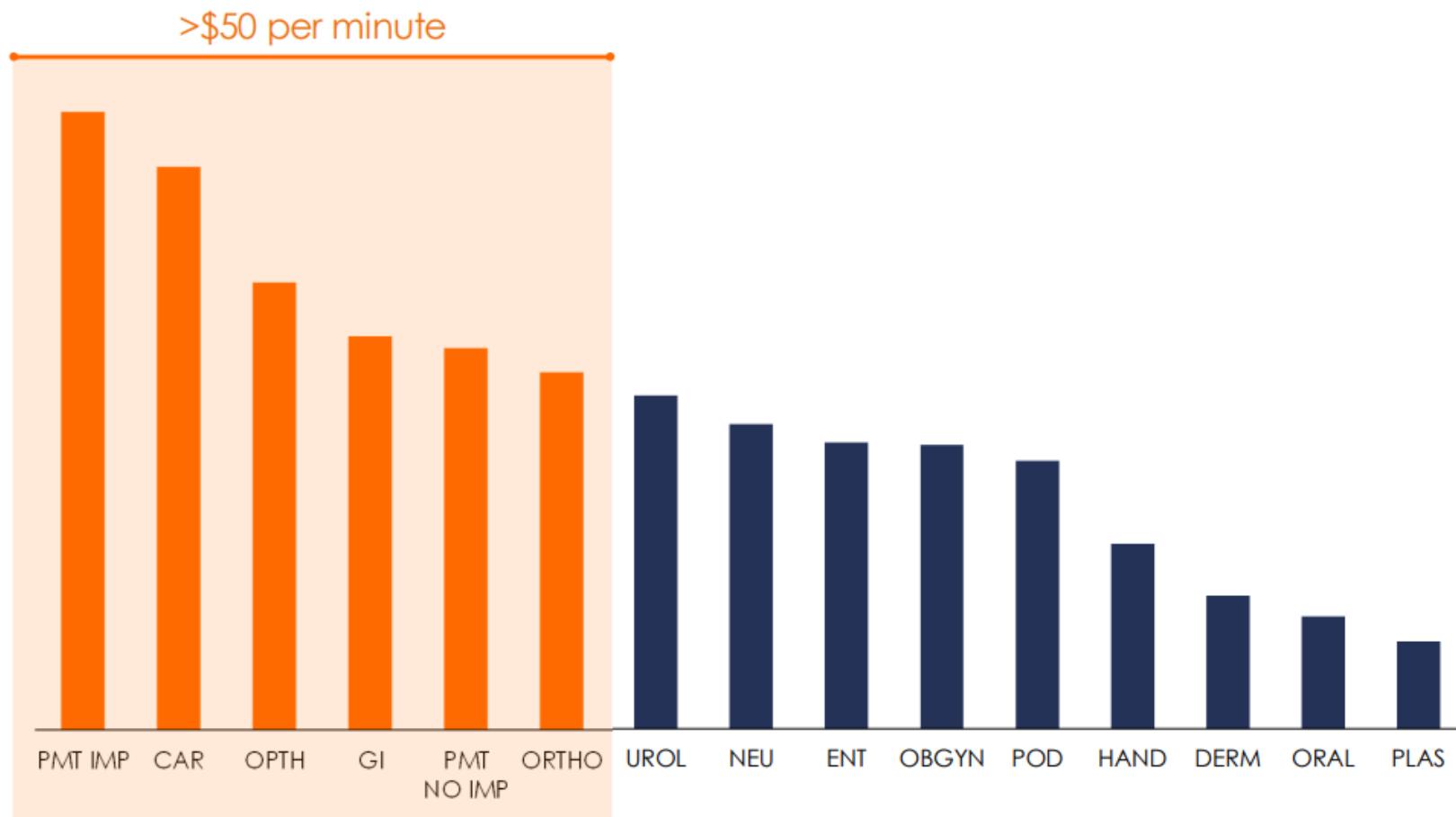
Specialties of Interest



Source: *Surgery Partners 42nd Annual J.P. Morgan Healthcare Conference Presentation*

ASC Direct Contribution Margin by Specialty

ASC Direct Contribution \$ Margin Per Minute of Operating Room Time⁽¹⁾



Source: Surgery Partners

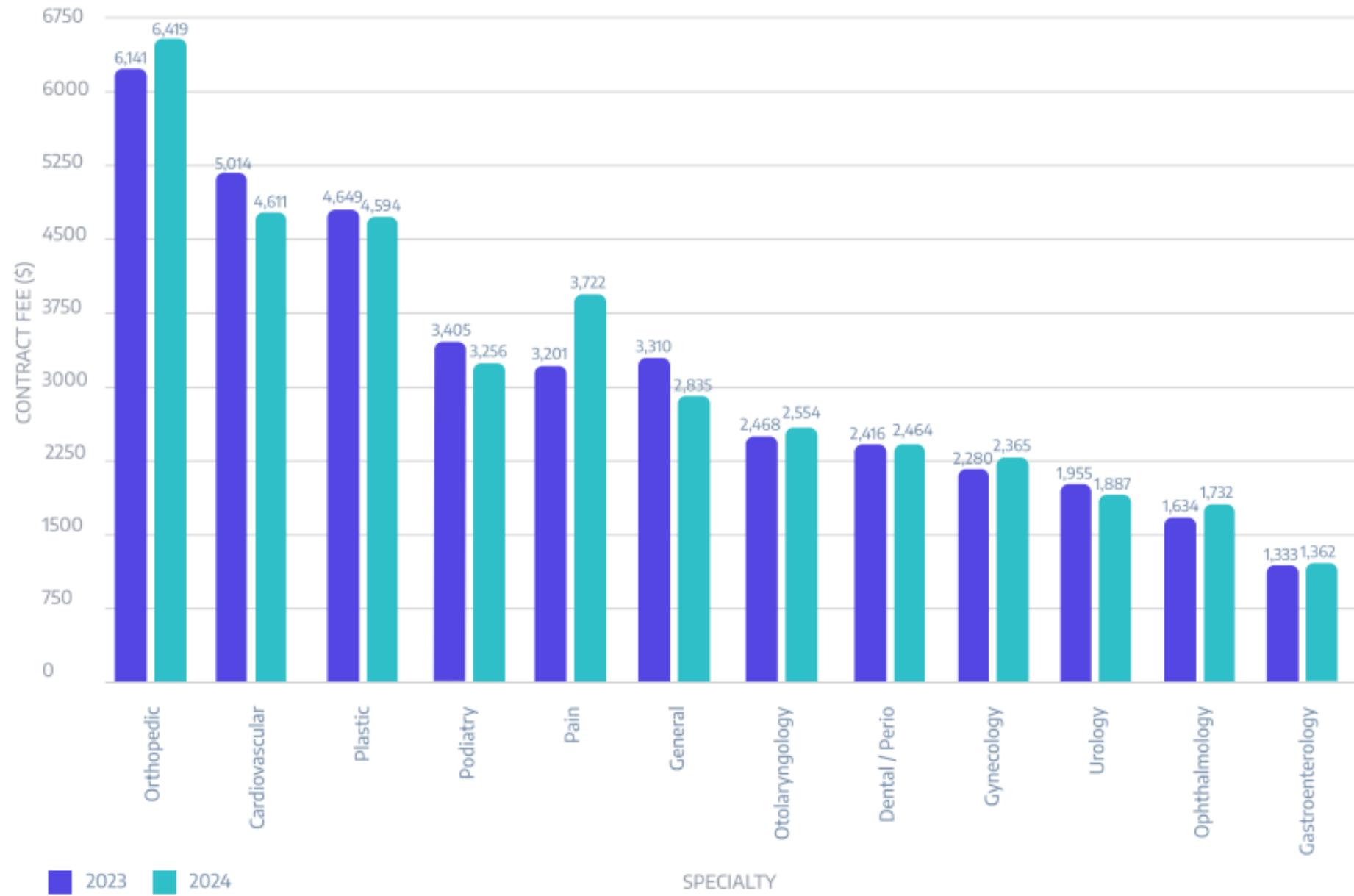
Notable Current Trends

According to HST Pathways, between 2023 and 2024:

- **Cardiology** – Average revenue per OR minute surged ~30%
- **Orthopedics** achieved a 4.5% growth in net revenue per case
- **ASCs with 2 ORs** grew case volume 22%
- **Claim denial rates** dropped from 8% to 4%

Source: HST Pathways, State of the Industry Report: Best Practices & Industry Benchmarks for Optimizing ASC Operations, September 2024

2023 vs. 2024 Average Net Revenue Per Case



Source: HST Pathways

Contents

SECTION

1 ASC Addressable Market

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3 Planning and Top Decisions

4 Case Study

Equity Ownership Models

Control JV Model:

- 50%+ Control
 - Health System **or**
 - Operator
- 49% Physicians

Super JV Model:

- 50%+ Control
 - Health System **and**
 - Operator
- 49% Physicians

Minority Model:

- Less than 50%
 - Health System **or**
 - Operator
- Majority Physicians

Exclusive

- Physician Only
- Hospital Only
- Corporate Only

Legal and Regulatory Considerations

- Physician Self-Referral Law
- Anti-Kickback Statute
- Private inurement or benefit laws for nonprofits
- Certificate-of-Need (CON) requirements

Planning Considerations

- Equity ownership
- Real estate
- Management
- Equipment leases (if any)
- Capital Structure
- Branding
- Operational matters (staffing, supply chain, reimbursement, etc.)

Factors for Success

- **Surgeons, surgeons, surgeons**
 - Right specialties (or mix of specialties) and payor mix
 - High number of surgeons and low concentration risk
 - Age and practice life cycle
 - Clinical alignment and proximity to ASC
 - Financial alignment
- Other
 - Reimbursement rates
 - Anesthesia coverage
 - Blocking and tackling

Contents

SECTION

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The “Situation”

Full owner of decreasing HOPD cash flows

or

Partial owner of increasing ASC cash flows

Blueprint

Equity Ownership Model

- 51% Health System
- 49% Physicians

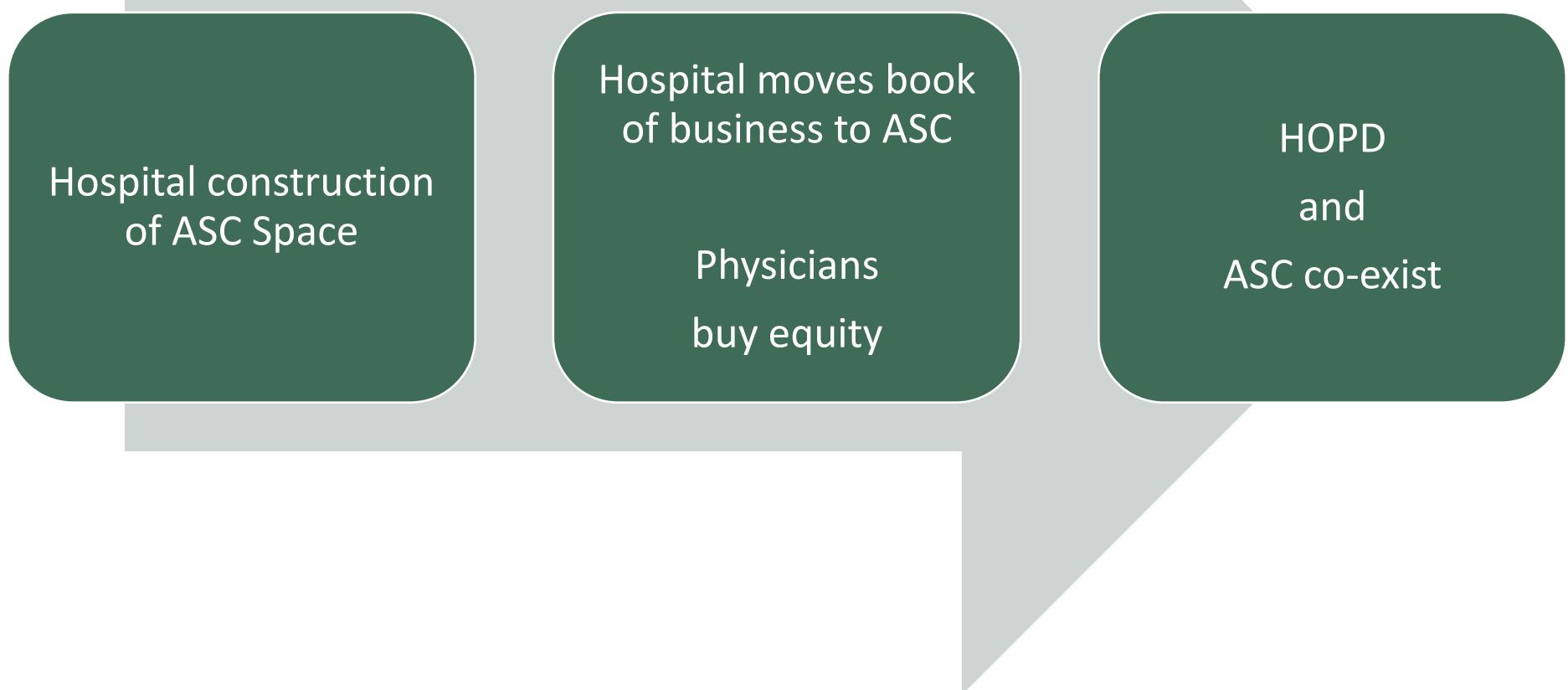
Development and Management

- Hired consultant to develop ASC
 - Fixed fee
- Hired ASC manager
 - Variable fee

Real Estate

- Hospital converts space in nearby MOB to an ASC
- Entity will lease from Hospital

Timeline



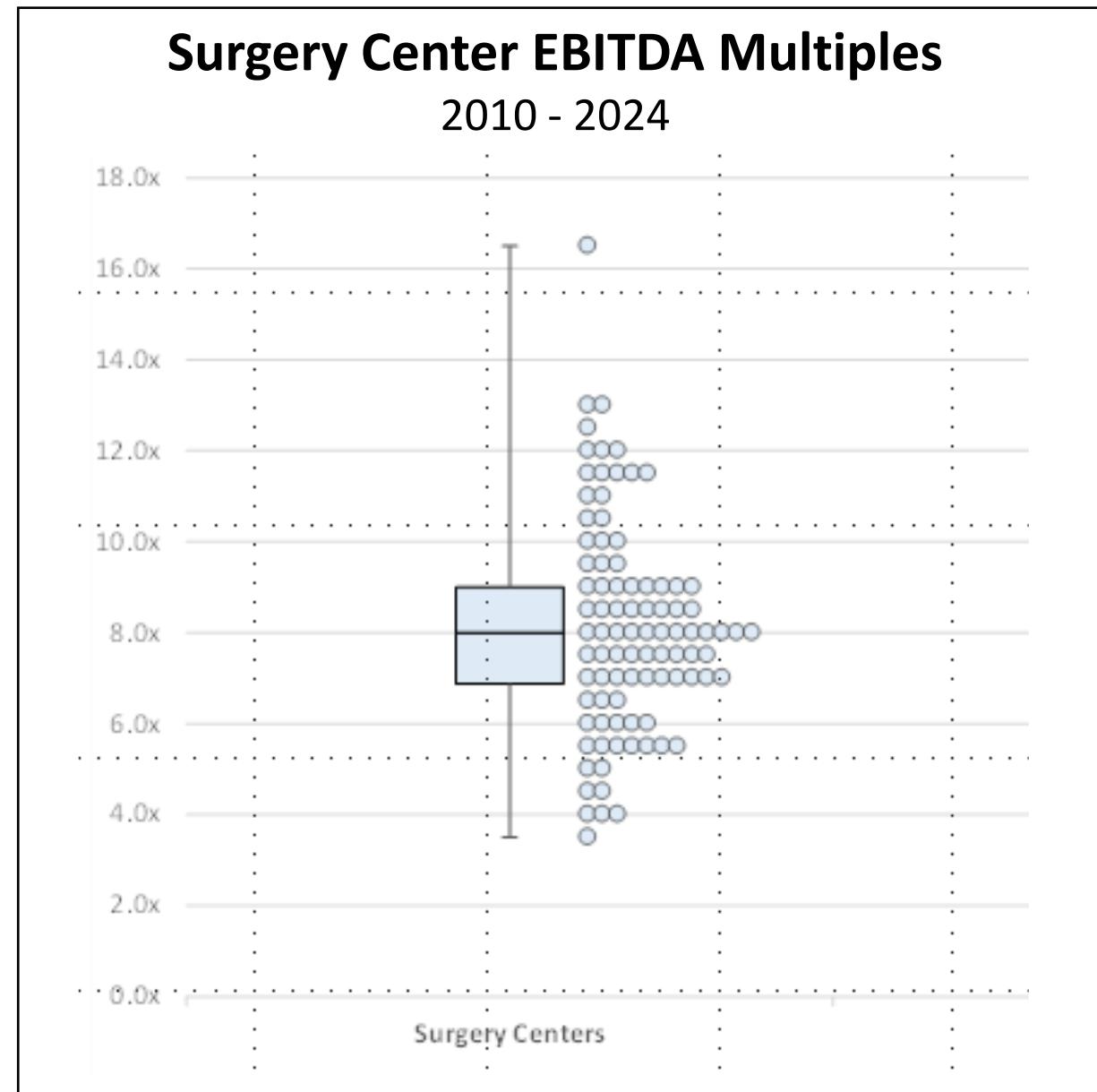
HOPD Conversion – Impact on Financials

HOPD EBITDA	\$ 5,000,000
ASC EBITDA (as converted)	\$ 2,000,000

Common Financial Adjustments

- Case volume
- Reimbursement rates
- Facility lease
- Management / corporate overhead

Valuation Control Multiples



Valuation

ASC EBITDA (as converted) \$ 2,000,000

Multiple (minority) 4.0

Valuation	\$ 8,000,000
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Less: Equipment Value \$ (2,000,000)

Less: Working Capital Value \$ (1,000,000)

Total Intangible Value	\$ 5,000,000
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Buy-In	Ownership	Amount
Physicians	49.0%	\$ 2,450,000

New Entity Sources and Uses

	Sources	Uses
Debt	\$ 5,000,000	
Equipment		\$ 3,000,000
Working Capital		\$ 2,000,000
Total	\$ 5,000,000	\$ 5,000,000
Interest Rate		10.0%
Interest Cost	\$ 500,000	

No Competition or Future HOPD Risk

Cash Flow Impact to the Health System

	Year 1	Year 2	Year 3	Year 4	Year 5
ASC Cash Flow (after interest)	\$ 1,500,000	\$ 2,000,000	\$ 2,500,000	\$ 3,000,000	\$ 3,500,000
Health System Cash Flow					
ASC Distributions (51% Owner)	770,000	1,020,000	1,280,000	1,530,000	1,790,000
Plus: ASC Lease Payments (100% Owner)	600,000	618,000	636,540	655,636	675,305
Total	1,370,000	1,638,000	1,916,540	2,185,636	2,465,305
Less: HOPD - No Conversion	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
Difference	(3,630,000)	(3,362,000)	(3,083,460)	(2,814,364)	(2,534,695)
Plus: Proceeds from Equity Sale	2,450,000	-	-	-	-
Total Cash Flow Impact to Convert	\$ (1,180,000)	\$ (3,362,000)	\$ (3,083,460)	\$ (2,814,364)	\$ (2,534,695)

Competition or Future HOPD Risk

Cash Flow Impact to the Health System

	Year 1	Year 2	Year 3	Year 4	Year 5
ASC Cash Flow (after interest)	\$ 1,500,000	\$ 2,000,000	\$ 2,500,000	\$ 3,000,000	\$ 3,500,000
<u>Health System Cash Flow</u>					
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Plus: ASC Lease Payments (100% Owner)	600,000	618,000	636,540	655,636	675,305
Total	1,370,000	1,638,000	1,916,540	2,185,636	2,465,305
Less: HOPD - No Conversion	(5,000,000)	(3,000,000)	(2,250,000)	(1,500,000)	(1,500,000)
Difference	(3,630,000)	(1,362,000)	(333,460)	685,636	965,305
Plus: Proceeds from Equity Sale	2,450,000	-	-	-	-
Cash Flow Impact to Convert	\$ (1,180,000)	\$ (1,362,000)	\$ (333,460)	\$ 685,636	\$ 965,305

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