

Joint Ventures with Hospitals Prove *"Timing is Everything"*

Like any business, an ambulatory surgery center has a higher financial valuation when it is fully operational and generating income. During the planning and development phase, its valuation is based only on the amount of financing required to launch the venture. Later, when the center's income potential is actually being realized, it has become much more valuable to its shareholders.

Unfortunately, physicians usually enter into an agreement with a hospital to jointly own a surgery center when it is being planned, not when after is generating income. As a result, the hospital is buying its share of the center at a bargain price. For example, if a hospital owns 51% of a center that required a \$100,000 payment on a \$3 million development loan, it paid \$51,000 for its share of the center. Later, when the center is fully operational, the hospital's share could be worth \$5 million versus the \$51,000 paid. **Legally, a hospital cannot pay a higher value for its share based on a center's *projected or potential* income.** The hospital cannot – and will not – offer its physician partners a sweetheart deal.

The **best** time for physicians to sell shares in an ambulatory surgery center to a hospital is **after** the center is generating income, **not** when it is being developed. Two years after the center is open and producing a consistent revenue stream, its value has increased dramatically. Then the physicians might want to consider selling a majority ownership position to a hospital. At that time they will receive full value for their efforts.

One way for physicians to ensure that they negotiate the most favorable deal with a hospital is to join forces with Surgery Center Partners to plan, develop, and manage their own center. Each physician will be a shareholder in the center. Collectively, the physicians will own the majority of shares. If, once the center is producing a consistent income, the physicians want to sell some or all of their holdings to a hospital, Surgery Center Partners can help negotiate an agreement that is most beneficial for the physicians.

Ownership in an ambulatory surgery center should be sold to a hospital only **after** the center's full revenue-generating potential is realized. That's when the physician owners will receive the highest valuation for their shares.