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What the Biggest ASC Transactions in 2014 Mean for 2015

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The year 2014 has been an interesting year for the ASC market. In particular, two major deals — AmSurg-Sheridan and Surgery Partners- Symbion — have set the tone for the future of ASC management and development company growth strategies.

For several years now the ambulatory surgery center market has been in transition. While the early 2000s saw new ASC growth rates near 7 percent, growth rates in the latter half of the decade were slightly under 2 percent. With the changing healthcare landscape and an ever-dwindling pool of independent, recruitable physicians, courtesy of hospital employment or retirement, ASC growth continues to stagnate.

However, this year has been a bellwether for ASC company growth strategies looking toward the future. In 2014, two major deals — AmSurg-Sheridan and Surgery Partners- Symbion — have set the tone for the future of ASC growth strategies. With a decline in resources available for organic growth, the two deals are representative of the broad options available to centers and ASC companies looking to grow where "traditional" opportunities are thin on the ground.

AmSurg-Sheridan: A $2.35 billion transaction

Nashville, Tenn.-based ASC management and development company AmSurg agreed to acquire Sunrise, Fla.-based physician service outsourcing company Sheridan Healthcare in late May for a cash and stock transaction of $2.35 billion. The combined company has an addressable market of about $70 billion and spans nearly 4,600 physician relationships in 38 states.

"[The deal] is a way for AmSurg to diversify in a higher growth sector," says Greg Hagood, senior managing director at SOLIC Capital Advisors. "There are also synergies. Sheridan is 70 percent anesthesia services, and it gets the benefit of efficiency at surgery centers. Anesthesiology services accelerate what AmSurg surgeons do well," says Mr. Hagood of the diversification's particular synergies.

Surgery Partners-Symbion: Creating a competitive edge

In June, Chicago-based Surgery Partners agreed to purchase Green Hills, Tenn.-based Symbion for $792 million in cash. The company was originally put up for sale for $800 million by Crestview Partners in November 2013.

The former competitors created a united company based in their consolidation deal, which set the stage for them to become serious competitors in the same markets as other management and development companies, like SCA and USPI. "If [Surgery Partners and Symbion] want to compete with the larger market players, they need both expanded access to capital and to create greater operating efficiencies through economies of scale. The deal positions them to achieve," says Mr. Hagood.

Long-term outlooks

While very different, both deals are viable growth strategies with similar risks in the stagnated ASC market; in each case, the key to the deal's strategy is to create a viable alternative to recruiting independent physicians through tapping into larger sources of physician recruitment — AmSurg through physician outsourcing companies and Surgery Partners through acquisition of a resource-rich competitor. In both cases, the partnerships better position these new companies to compete for joint venture agreements with large health systems, a market currently dominated by companies such as USPI and SCA.

There are, of course, a number of smaller ASCs and ASC management and development companies in the market that are doing well. However, growth opportunities without a reliable source of recruitable, independent physicians may be limited.

The fragmented nature of the physician staffing company market as opposed to the more consolidated surgery center market means plenty of opportunity for enterprising surgery center companies willing to create creative partnerships, according to Mr. Hagood. "How much private equity have you seen going into surgery centers in the past few years? Not much," he says. "There's a lot of opportunity in physician staffing companies … Physicians want to be employed, so they're less likely to be independent, which is exactly what we've been seeing in the market."

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