

Solving a High Class Problem

Your Facility Is Too Small to Accommodate Your Case Load

12th Annual

Ambulatory Surgery Center Conference and Exhibits

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Chairman and CEO
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Examples of High Class Problems

- Trying to decide whether to drive the Mercedes or the Jaguar
- Negotiating a contract to play with the Yankees
- Trying to reduce your alternative minimum tax

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Not a High Class Problem

- 20,000 square feet, 5 O.R.s, and 30 employees
- \$5 million in capital costs
- 150 average monthly cases

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Too Many Cases

- “A good problem”
 - Doing everything ASC was supposed to do
 - Now ASC can do more!
- But the center is “at capacity”
- So how can the ASC capture new opportunity?

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What does “at capacity” mean?

Capacity *in theory*

vs.

Capacity *in application*

- Theory: “Given specialties and physicians, each O.R. should do X procedures in Y time”
- Application: What the operating history tells you

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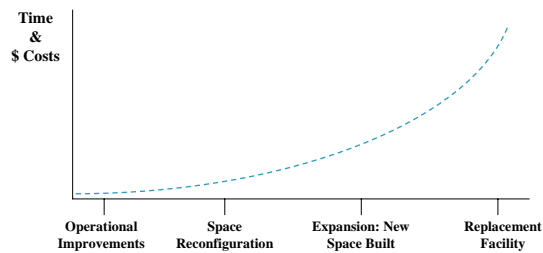
Test the “Capacity” Assumption

- Be ready to re-examine the ASC’s operations
- This may be either solve the “high class” problem or give you more time to fix it
- An improvement in operations is its own reward!

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Solving the Problem



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Operational Improvements

- Before calling an architect or a realtor
- Look at the “usual suspects”
 - Scheduling
 - Stall factors in PACU and O.R.s

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Scheduling

- Are block times fully utilized?
- Are surgeries starting on time?
- What is the case selection?
 - Turn-down analysis / opportunity cost
- Extending hours / opening Saturdays
 - May not be a realistic option

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Stall Factors

- O.R.s: Improving efficiency
 - Not enough equipment
 - Turnover
- PACU:
 - Anesthesia
 - Complimentary cases
 - Step-down

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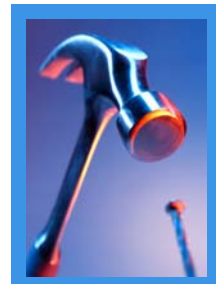
Capacity (revisited)

- An ASC is at capacity if:
 - Block times are fully used
 - Physicians compete for block times
 - A turn-down analysis proves lost opportunities
 - You love your current case mix
 - There is no margin for error on the schedule

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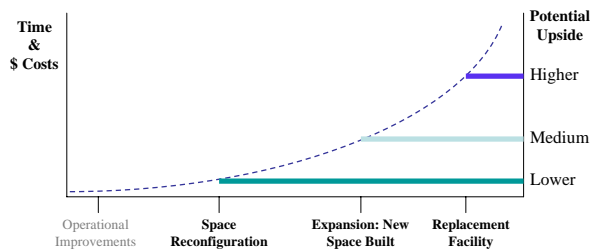
Construction Time!



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Solving the Problem



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Project Cost & Time Ranges

	Capital	Project Time
Reconfiguration	\$ 500k <	1 - 4 months
Expansion	\$ 500k - \$2 million	4 - 12 months
Replacement	\$ 2 million +	12 - 18 months

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Moving Forward

- Reach a consensus among the partners
- Identify external resources
- Regulatory considerations
- Create a business plan

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Business Plan

- Purpose:
 - Feasibility testing / identifying sensitivities
 - Estimating capital costs
 - Additional operating costs identified
 - Provides a timeline, critical projects, and action items

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Financial Estimates

- *Pro forma* financials provide an expected case for the future
- Academic note:
 - Projected income statements, balance sheets, and statements of cash flow
 - Necessary for financing
- Caution: A model is only as good as its assumptions

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Matching Need with Scale

- Critical question: Will the project result in a positive contribution to the center's cash flow?
- Three critical areas to explore:
 - Additional cases and net revenue/case
 - Additional operating costs
 - Additional fixed costs

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'Go' vs. 'No Go' Decision

- Basic approach: Consider cash flow rather than the accounting profit (or loss)
- Move forward if you are confident that:
 - There will be positive effect on cash flow of at least 10-25%
 - The timeline can be accomplished
 - Opportunity cost (i.e., down time in the facility) will be minimal

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Note: "exceeding current cash flow"

- Additional % is a margin for error
- Also a useful way to govern risk depending on the project's magnitude:
 - 10-15% for space reconfigurations
 - 15-20% for expansions
 - 20-25% for replacement facilities

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Example: Expanding Space

ASC adds another 2,000 square feet and adds an O.R. suite. In doing this, the ASC makes the following estimate of additional cash flow:

Case	Net Revenue / Case	Supply Cost / Case	Personnel Cost / Case	Expected Volume	Additional Cash Flow
Type A	\$ 1,700	\$ 425	\$ 500	250	\$ 193,750
Type B	\$ 1,200	\$ 250	\$ 350	300	\$ 180,000
Type C	\$ 800	\$ 200	\$ 300	400	\$ 120,000

Total Add'l Cash Flow **\$ 493,750**



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Example: Expanding Space

Less additional operating costs, the expansion results in a 15% increase over the ASC's current cash flow:

Project is financed 100% Over 5 Years		Additional Operating Costs:	
Construction Cost	\$ 315,000	Financing	\$ 120,000
Architectural fees	\$ 15,000	Additional Rent + Occupancy Costs	\$ 94,000
New Equipment	\$ 160,000	Additional Overhead Cost	\$ 50,000
Total Capital Cost	\$ 490,000	Other additional costs	\$ 14,813
		Total Add'l Operational Costs	\$ 278,813
		Net Cash Contribution	\$ 214,938
		Center's Current Cash Flow	\$1,400,000
		Project's Addition to Cash Flow (%)	15%



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Real Life Example

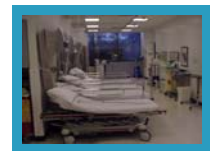
- NSC recently relocated one of its multi-specialty facilities



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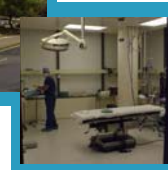
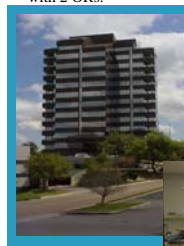
Background:

Center occupies 6,600 sq. ft. in a multi-story medical office building with 2 ORs.



Case:

Multi-specialty surgery center grew from nine to twenty partners within a six year period and experienced an increased caseload from 200 to 475 cases per month.



Solution:

With the center at capacity with no options to expand, NSC worked to relocate the center

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Result:

A 17,500 sq. ft. building was purchased to house the new 13,300 sq. ft. freestanding surgery center. Operating room capacity has been doubled and the new building allows for future expansion.



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Final Thoughts

- Plan for expansion during a facility's development
- However, being under-built is better than being over-built
- Try making operational improvements before you call the architect

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