

The Physician's Guide to M&A (Selling a Medical Practice)



SCHIER CAPITAL GROUP, LLC

Healthcare Investment
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PURPOSE / CONTENT

In today's healthcare market, independent physician practices are frequently presented with a merger or acquisition opportunity and have therefore considered the 'M&A' issue to some extent. Is there any compelling reason to sell? Is the timing right? What are the risks? How does the process work? Or, is the status quo maintainable? Myriad questions abound. This crib sheet provides physician practices with the key questions to be contemplated when considering a sale or affiliation.

Why consider selling?

What are we worth?

Who are the buyers?

Should we hire a broker/advisor?

How can we drive value?

What obstacles may crop up?

What happens after the sale?

Any reasons not to sell?

WHY CONSIDER SELLING?

- **Timing** – Is now a good time to sell? Are valuations higher than normal? Is our specialty in favor? Are we facing future reimbursement uncertainty? Is our market growing? Is our group growing? Are we coming off a high profit year?
- **Operations** – Are contracting negotiations becoming more difficult? Would more purchasing power help the bottom line? Are we facing retirements in the C-suite in the next few years?
- **Capital needs** – Do we need capital for: recruiting, locational expansion, EMR conversion, equipment, ancillaries, value-based care initiatives, etc.?
- **Recruiting** – Are competitors beating us at the recruiting game? Do competitors have deeper pockets?
- **Support** – Do all partners support a sale? Are there group dynamics at play that will make agreement to a sale difficult to achieve? Are all partners equally incentivized to pursue a transaction?



WHAT ARE WE WORTH?

- **Location** – Is the geographic market attractive? Are we in a primary, secondary, or tertiary market? Are we on a hospital campus or nearby? Is the submarket a medical destination?
- **Physician profile** – Are we in a hot specialty? Are we a large or small practice? Are we the dominant group in our specialty in our market? Are we one of the few remaining unaffiliated groups? What is the average age of our physician base?
- **Practice profitability profile** – Is profitability high or low for our specialty? Are there expense savings opportunities? Is the C-suite solid?



WHO ARE THE BUYERS?

- **Private equity (PE)** – Is the PE universe seeking platform investments in our specialty? Are there existing PE-sponsored platforms in our specialty acquiring practices? Are those platforms already invested in our geography?

WHO ARE THE BUYERS? (cont.)

- **Payors/Value-based care (VBC)** – Are payors actively acquiring in our geography/specialty? Are payors just seeking to mitigate health system acquisitions? Are we a fit with VBC entities partnering with or acquiring physician practices?
- **Health systems** – Are health systems a viable option?
- **Other groups** – Is a local/regional physician practice a strong fit? Is an exit down the road as a stronger combined entity likely?
- **Chemistry** – Do we get along with the buyers? Do we know who we will be interacting with after the sale? Is there an opportunity for a second bite at the apple? Is the compensation model acceptable?



SHOULD WE HIRE A BROKER/ADVISOR?

- **Evaluating the offer** - Have we been approached by interested/credible buyers? Do we know enough to negotiate ourselves? Can pricing be meaningfully improved? Do we understand the structure and are there other options?

SHOULD WE HIRE A BROKER/ADVISOR? (cont.)

- **Finding the right advisor** – Is the broker/advisor licensed to provide the needed services? Does the advisor understand healthcare, our particular value proposition, and can he/she articulate that to prospective partners? Can the advisor understand and mediate diverse opinions in the group?



HOW CAN WE DRIVE VALUE?

- **Market terms** – Are managed care contracts, facility leases, and vendor contracts at market terms?
- **Revenue and expense metrics** – Are productivity metrics high? Is coding optimized? Is staffing streamlined? Are supply costs controlled? Are nonrecurring/extraordinary expenses easily explained? Can we make changes in any of the above items in the short term to improve profitability?



HOW CAN WE DRIVE VALUE? (cont'd)

- **Structure** – Will ‘rolling’ or retaining equity result in a higher valuation? Is the compensation model flexible?



WHAT OBSTACLES MAY CROP UP?

- **Contracts** – Are payor, vendor, and other contracts assignable to the new partner? Are any major payors out-of-network?
- **Records quality** – Is adequate documentation available to respond to comprehensive due diligence requests? Are projected financial statements available?
- **Group discord** – Are any partners vocally unsupportive of the transaction? Has a methodology for division of proceeds been agreed upon?
- **Unexpected events** – Are near-term financials at risk of weakening? Is it possible the buyer/partner itself may get sold pre-closing? Might the cost of debt financing rise precipitously? Does the practice face reimbursement exposure?



WHAT HAPPENS AFTER THE SALE?

- **Transition/integration** – Who will lead the integration and transition efforts from both the practice’s side and the partner’s/buyer’s side? Will benefits change? Is a new EMR implementation expected? Will referral patterns be impacted? Are staffing changes expected?
- **Governance/control** – Will the group continue to self-govern or will the partner have governance input or control? To whom will physicians report?
- **Performance** – What happens if things don’t go as planned? Is a ‘divorce’ or buyback planned into the documents? Can the practice be re-sold without our permission? What if we are not happy with how operations are executed?



ANY REASONS NOT TO SELL?

- **Instability** – Is the group experiencing disharmony which may repel interested partners? Are there compliance issues or legal issues that may meaningfully impact the value of the practice? Are partners planning to leave which will impair value? Do group dynamics make a sale difficult/unlikely?
- **Stability** – Are we the strongest group in the market in a specialty that has plenty of capital, no trouble recruiting, and little reimbursement risk?
- **Options** – Are none of the prospective partners palatable to the practice? Is the proposed transaction structure itself unattractive or likely to divide and weaken the group? Is the status quo acceptable for the time being?



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