



How to Buy or Sell a Private Practice

Texas Speech–Language–Hearing Association
March 4th, 2011
1:30 – 3:30 Session
David Greene, Speaker



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Your Speaker

David Greene

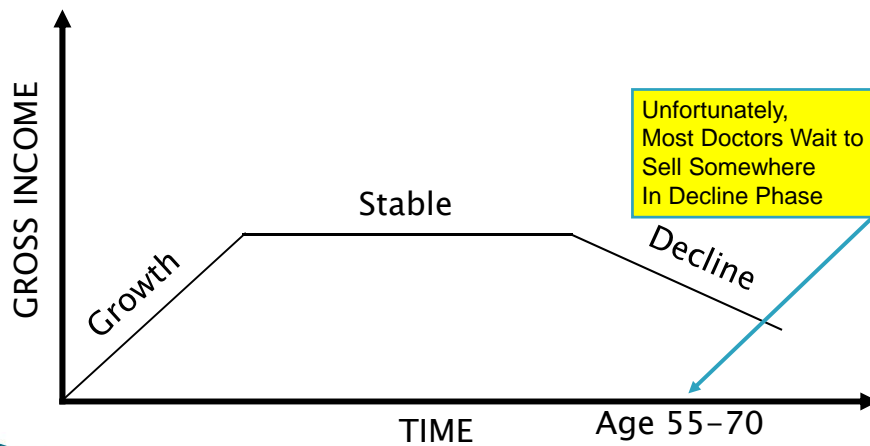
- ▶ President, Medical Practice Brokers, Inc.
 - Specializing in Sales & Valuations of healthcare related professional practices
- ▶ 14 years as a business broker
- ▶ Certified Business Intermediary
- ▶ Member Institute of Business Appraisers
- ▶ Licensed real estate broker (CO & TX)

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Practice Transition Life Cycle

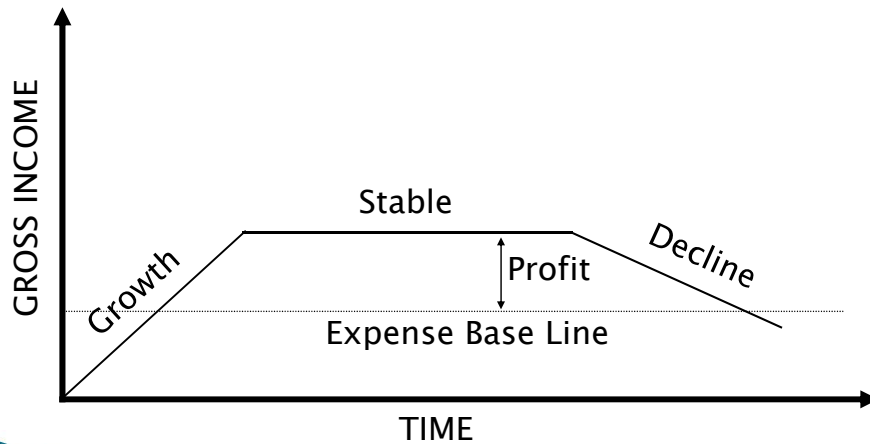
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When to Sell? Practice Life Cycle



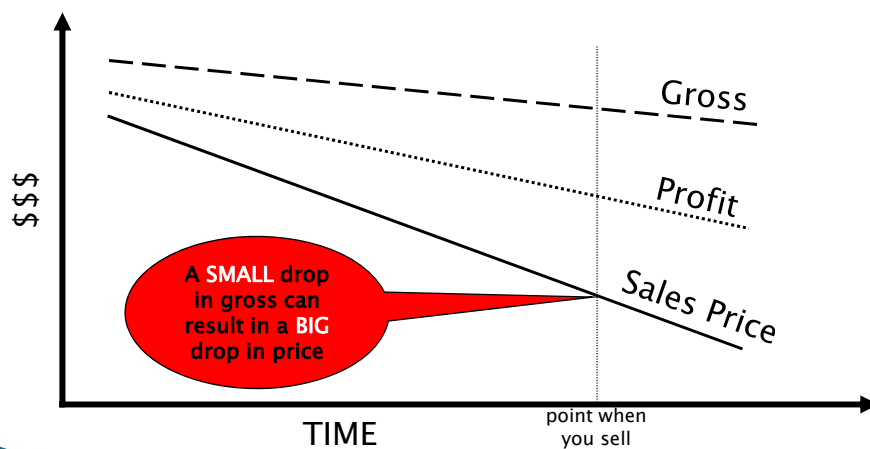
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Beware of Profit Squeeze



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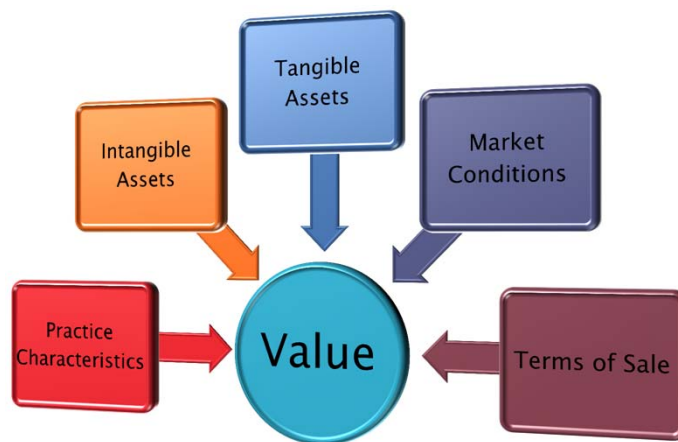
So what does this mean to you?



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Practice Value

Elements of Value



Factors that Influence Value

- ▶ PX Type
- ▶ Location
- ▶ Facility
- ▶ Demographics
- ▶ Competition
- ▶ Practice Stability
- ▶ Income Growth
- ▶ Hours worked
- ▶ Profitability
- ▶ Variety Services Provided
- ▶ Staff Quality
- ▶ Goodwill transferability
- ▶ Non-compete
- ▶ Equipment
- ▶ Management Systems
- ▶ Taxes – asset allocation
- ▶ Financing
- ▶ Terms of Sale

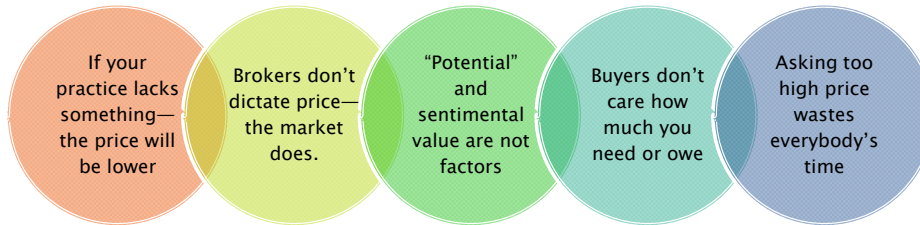
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Maximizing Value



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Hard Realities about Sales Price



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The Seller's Perspective

Are YOU Ready to Sell?

Why are you selling?

Personal Financial Planning

- What will you do after the sale?
- What will I do with the money?
- How much money will I get? Will it be enough?

Can I get more money by waiting?

Is your spouse/family onboard?

Are you ready for the emotional & time commitment?

Declining Phase Options

If you *CAN'T* wait

- Sell sooner – rather than continuing a downward trend

If you *CAN* wait

- Bring in an associate or partner
- Hire a practice management consultant to boost profits and reestablish growth/profitability trend

Preparing for the Sale

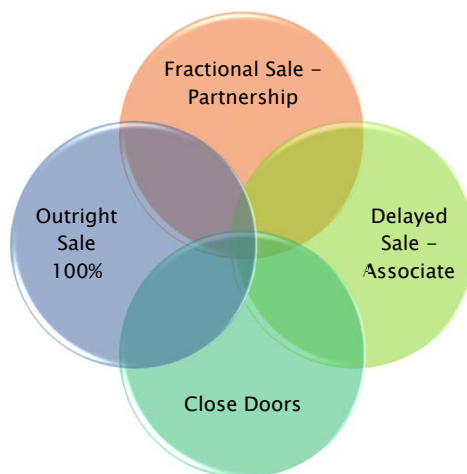
Start 2-3 years in advance

Get advice:

- Talk with your CPA / tax planner
- Talk with your attorney
- Talk with a practice broker
- Talk with spouse / family
- Talk to yourself?



Transition Options



Transition Options

Fractional Sale – Partnership

- Single or multiple specialty
- Long term relationship – complex relative to outright sale
- Income could be higher or lower
- Personality fit problems
- Greater flexibility for time off, professional interests
- Production/compensation disparity
- Cashing out can be difficult

Close Doors

- Least desirable option
- Minimum sales price
- Custody of patient records

Transition Options

Outright Sale 100%

- Fast
- Relatively Easy
- Buyer Types
- Good if can't keep working in practice

Delayed Sale – Bring on Associate

- Requires practice that can support or multiple providers
- Long term relationship – complex relative to outright sale
- Associateship issues
- Time line when to sell
- Buyer may get cold feet
- Seller may get cold feet
- Upfront down payment or sweat equity
- Good if seller wants to keep working

How long does it take to Sell?

6 months – 3 years

Primary Factors:

Cash flow

Referral
Base

Location

Appearance

Equipment

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Common Seller Mistakes

Valuation formulas with no basis in reality

Waiting until you are burned out or in poor health.

Not keeping up (maintenance, equipment, fees, current protocols)

Not getting it in writing

Not using a team professionals to help you (broker, attorney, CPA)

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Common Seller Mistakes (cont'd)

Not having an exit strategy when buying a practice

Waiting until the highest and best use of real estate is for something else

Thinking buyers (or banks) will pay you for “potential” and their hard work.

Spouse working “for free”

Forgetting about the tax man

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How to Ruin Practice Value

- ▶ DEATH! (immediately lose 40%–70% of value)
- ▶ Bad/no associate non-competes
- ▶ Declining practice location
- ▶ Outdated equipment and décor
- ▶ The “hurried” sale
- ▶ Can't document income and expenses



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How to Ruin Practice Value

Not reporting all
income on tax
returns

Work practice part-
time (declining
hours)

Not keeping fees
competitive/current

Not collecting for
services provided

Commingling
financial statements

Making BIG changes
1-2 years before
sale

Profit Squeeze
(declining income)



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The Buyer's Perspective

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One Path

Non-Owner

- Associate
- Independent Contractor
- Locum Tenen
- Employee - Educational
- Employee - Research
- Military

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Practice Ownership

Advantages

- Autonomy
- Higher Income Potential
- Tax Advantages
- Job Security
- Location Preference
- Build towards Retirement

Disadvantages

- Administrative / Management Time
- Risk potential
- Decreased ability to Relocate

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Buy? Buy-in? Startup?



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Buy Existing Practice



Advantages

- Less Risk: ongoing established biz, patients, operations, staff
- Know \$ will make
- Less mgmt skill needed
- Immediate Income stream, patient base
- Captain own ship
- Typically earn more than associate
- No long term entanglements with seller



Disadvantages

- Must be available to buy
- May not be in preferred location
- Must qualify for financing
- Potential to overpay
- May have old equipment, facility
- Can inherit problems:
 - > Clinical
 - > Patient relations
 - > Reputation
 - > Legal

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Practice Buy-In / Partnership



Advantages

- Good for people who don't yet have 'moxie' to be owner
- Ongoing, established biz, patients, operations, staff
- Way to maintain comfort level in a know practice
- Typically a Partner earns more than an Associate



Disadvantages

- High risk, more to go wrong over time – like a marriage
- Numerous delayed sale issues
- Must be comfortable with minority owner status
- Hard to back out.
- Minority ownership interest has little value to other buyers
- Only 1st mate & not Captain
- Potential to overpay

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Start a Practice



Advantages

- No baggage to inherit
- Don't have to wait for practice to come on market
- Can pick exact location
- Captain of own ship
- Have it your way



Disadvantages

- More risk & stress
- NO income on day 1
- \$\$\$ How much? How soon?
- Greater business & management skills needed
- Boredom
- Often requires more money than one might think
- Need favorable demographics

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Common Buyer Mistakes

Paying too much

Using advisors who “negotiate to death” and kill even the good deals

Waiting for the perfect practice

Not using a broker

Not getting it in writing

Using the wrong lending institutions for financing

Forgetting about the tax man

Getting advice from the wrong people (other clinicians, professors, CPAs)

Analysis paralysis

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Finding the Perfect Practice



Doesn't exist—don't waste your time trying to find it.

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MUST HAVE's (Max 3!)

Type of practice

Location

Income

Out of pocket up front \$ for purchase

Other

- Own the building
- Near a ski slope/lake/ocean

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NICE HAVE's (4-6 items)

Services Provided

Equipment

Look & feel

Staffing

Decor

Fees

Commute time / distance

Community - client demographics

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Buyer Expectations

WRONG Question
How much does it
cost?

RIGHT Question
How much will I be
making while I pay off
the practice?

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Easing the Transition for Staff & Patients

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Transition Tips

Introduce staff to buyer ASAP

- As soon as practical after “done deal”
- Meet staff both in group & individual setting
- Reassure staff that jobs & salary & benefits are secure
- Buyer will keep existing staff on board post sale

Buyer should work to earn staff loyalty

- Acknowledge staff as important contributors
- Learn names of staff and their spouses
- Praise frequently for hard work
- Acknowledge that transition is stressful for staff
- Tell staff that you are “open to suggestions” for handling patients better, or making the practice more efficient

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Transition Tips

Ensure professional respect for new owner

- Staff should address by title (Dr., Mr., Mrs., Ms., Miss.): especially in front of patients
- In multi-provider or group practices, have staff refer as “new partner”
- Change office signs, stationary, & business cards ASAP
- Answer phone using both doctor names

Give up control to new owner

- Senior partner should transfer some administrative duties
- Involve junior partner in community activities

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Transition Tips

Refer immediate need patients to new owner

- Tell patients with immediate needs that the new provider/partner is available sooner
- Patients will generally be pleased to get in quicker, and will accept future appointments with new buyer/partner

Create consistency for patients

- Dress and operate in same manner as the established doctor
- Seller should personally introduce new partner to patients during routine exams with established provider

Introducing new owner/partner

- Consider announcement in newspaper
- Add photograph and brief bio of buyer in reception area on an easel

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Transition Tips

Don't make staff guess what to do or say

- Prepare scripts on cue cards stating a new owner/partner has "joined the practice" or "taken over the practice"
- Incorporate reason for transition, if appropriate. Personal reasons leading up to transition are good to use (e.g., retirement, health issues, spend more time with family, accommodate practice growth)

Don't rock the boat

- New owners should wait a few months before making changes to the practice
- Less stressful for staff, and will encounter less resistance if you wait
- Be sensitive that even seemingly minor or trivial changes may upset staff
- Waiting gives new owner time to understand ramifications to changes

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Transition Tips

Transition letter to patient/referral base

- From seller to patient (or referral source)
- Introduce new doctor/provider name, background, school, professional history & interests, family,
- Explain reasons for transition, selling, bringing on new partner
- Introduce any new services, expanded hours, or other changes as appropriate
- Explicitly say that new owner has seller's confidence & trust that the new owner is the "right doctor" to take over/join practice.

Answering telephone

- Ask: "Did you receive our letter about our new doctor?"
- Answer phone "Dr. Senior & Dr. Junior's office" plus trade name
- Reception staff should have scripts to reiterate key points in conversational manner that were discussed in patient letter

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Transition Tips

Scheduling Patients

- Schedule new patients with new owner/partner
- Treatment in Progress: have seller/established provider complete treatment if possible

Set new owner expectations for staff

- Explain treatment philosophy, and explain differences in seller's philosophy
- Sit down with assistants, or mid-levels, and explain philosophy, procedure steps, instruments preferred, protocols, pre/post treatment steps, etc.

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