



# Exit Strategies for a Medical Practice

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# Introduction

**John D. Colucci**, a director at McLane Middleton, Professional Association, has a dual background as both an attorney and CPA. This unique skill set gives John a differentiating perspective and depth of understanding of the legal issues necessary for protecting a growing business, as well as the financial drivers of operating and sustaining a successful company.

**Jonathan P. Gorski**, a partner at Edelstein & Company, LLP, assists physician practices, privately-owned businesses and other healthcare organizations find financial and accounting solutions that will assist them in achieving their personal and business goals. Clients look to Jonathan as an invaluable member of their team and their “on-call” CFO. Jonathan handles everyday needs as well as long-term, strategic issues.

# Reasons to Consider a Transaction

- Reimbursement Changes
- HealthCare Reform
  - Regulatory Changes
  - Technology Changes
- Economic pressures
- Increasing Overhead
- Complexities of Solo Practitioner
- Succession Planning

# Reasons to Consider a Transaction *cont.*

- Other Reasons
  - Increase in outpatient services
  - Expand geographically
  - Increase ability to recruit
  - Fear factor (being “left out”)

# Positioning the Medical Practice for Sale

- Understand earnings before interest, taxes, depreciation, and amortization (EBITDA)
  - Personal expenses
  - Understanding of provider and practice fluctuations
- Is compliance in order?
- Physician & Employee benefits gained/lost
- Consider all tax filings

## Positioning the Medical Practice for Sale *cont.*

- Maintain accurate accounting and operation data
- Start considering practice valuation
- Consider other financial factors
  - Perform your own due diligence
  - Patient refunds
  - Accrued vacation payout/consider policy change
  - Final year retirement contribution

# Positioning the Medical Practice for Sale *cont.*

## SETTING THE GROUND RULES

- Establish open dialogue
- Appoint spokesperson(s) for group
- Keep all partners informed
- Decide how employed physicians and ancillary providers will fit into plan
- Decide what to tell staff and when
- Discuss where each physician wants to be professionally and personally
- Outline practice short-term and long-term objectives
- Collaborate and formulate a plan
- Keep train moving, but pace appropriately
- Agree to “non-negotiables”
- Engage advisors sooner than later

# Types of Transactions

- Partner or Associate purchase
- Affiliation with a Hospital System
  - Hospital systems buy medical practices to strengthen their provider networks
- Sell the Practice to a Private Equity Firm
  - Private equity firms look to invest in medical offices and groups
- Merger of equals (and un-equals)



# Partner or Associate Purchase

- Determining price?
- Fair market value?
  - Regulatory concerns
- Review internal agreements
  - What is the buy-in?
  - What are the payment terms?
  - Interest rate?
  - Multiple buyout issues?

# Affiliation with a Hospital System

- Various models and structures
- Physicians become employees of hospital
  - Employment Agreement
    - Fair Market Value compensation
  - Lose sense of autonomy
- Staff become employees of hospital
- Physicians are merged into existing medical group or “NEWCO” is created

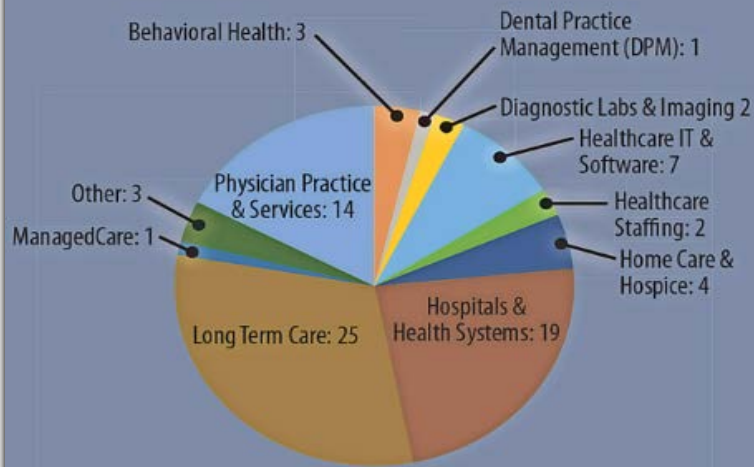
# Affiliation with a Hospital System *cont.*

- Detailed analysis of revenue and expenses
- Fair market value purchase price issue still exists
- Purchase Price
  - Technical revenue
  - Fixed assets
  - Professional revenue-compensation agreement
  - Benefits
  - Goodwill

# Selling the Practice to a Private Equity Firm

# Private Equity Transaction Distribution

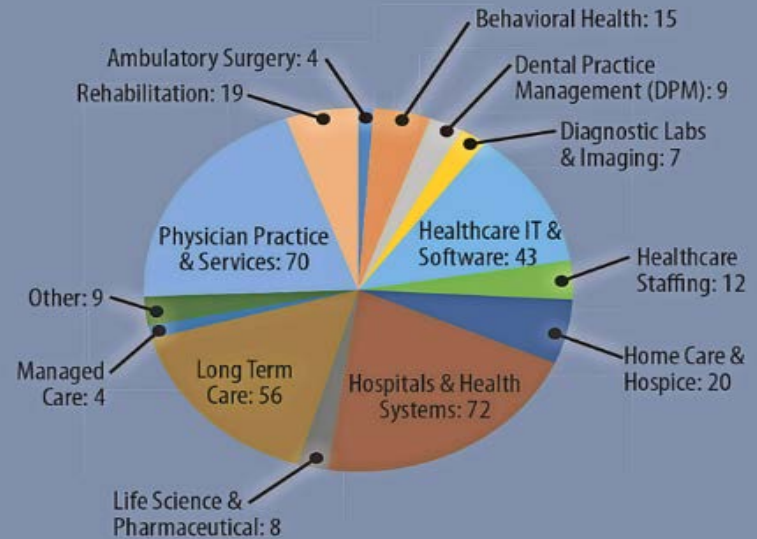
## Transaction Distribution — April



Source: Bloomberg Law Health-care Advisory Panel

**Bloomberg Law**

## Transaction Distribution — YTD

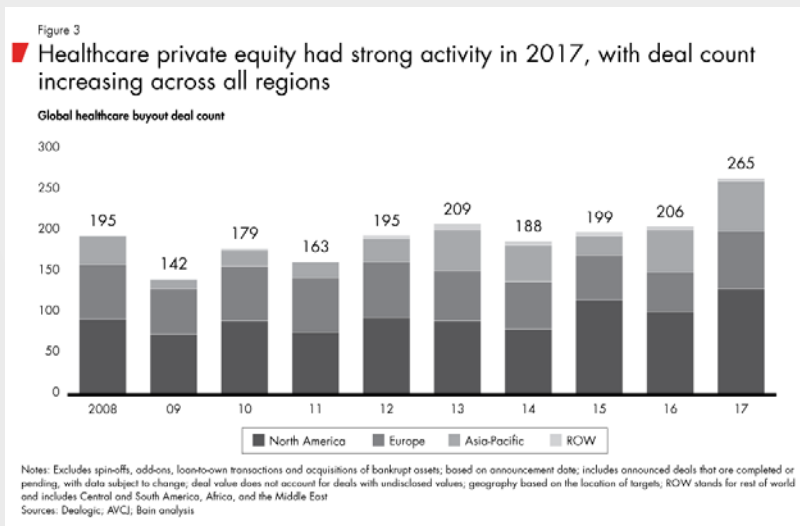


Source: Bloomberg Law Health-care Advisory Panel

**Bloomberg Law**

# Private Equity Buyout Targets

- The provider sector saw 139 of the 265 healthcare private equity buyouts worldwide
- Provider sector buyouts have increased 27% to \$18.9 billion from \$14.9 billion in 2016
- North America has the highest provider sector buyouts globally
- The largest buyout in 2017, was Humana and two private equity firms acquisition of Kindred Healthcare for \$4.1 billion



# Private Equity Sales

- The first quarter of 2018 showed record M&A transactions worth over \$156 billion
- Gastroenterology, Orthopedics, and Women's health are the top three sectors

Gastroenterology					
Month	Acquirer	Target	Target – Number of:		
			Physicians	Locations	States
January	CMH Regional Health System	Southwest Ohio Gastroenterology	2	1	OH
January	Texas Digestive Consultants	Greater Houston Gastroenterology	15	18	TX
January	Evangelical Community Hospital	Central Penn Gastroenterology Associates	2	1	PA
Multispecialty and Primary Care					
Month	Acquirer	Target	Target – Number of:		
			Physicians	Locations	States
February	Centene (NYSE: CNC)	Community Medical Group	N/A	15	FL
Women's Health					
Month	Acquirer	Target	Target – Number of:		
			Physicians	Locations	States
March	Advantia Health	Two Leading OB/GYN Practices	11	6	VA
Radiology					
Month	Acquirer	Target	Target – Number of:		
			Physicians	Locations	States
January	Radiology Partners	Renaissance Imaging Medical Associates	99	N/A	CA
March	Radiology Partners	Access Radiology	40	N/A	LA

Provident Healthcare Partners

Sources: SEC Filings, Company Press Releases, and Reports; IBWorld; Capital IQ; PitchBook; PJP Estimates and Research. This document has been compiled with publicly available information. Provident Healthcare Partners, LLC makes no guarantee of its accuracy or completeness. No data or statement should be construed to be a recommendation for the purchase, sale, or retention of any security.

# Private Equity Sale

- HOT TOPIC!
- Earnings before interest, taxes, depreciation and amortization (EBITDA) multiple
- Rolled equity
- Second sale opportunity
- Minority ownership
- Operational opportunities enhanced
- Competition among buyers
- Not sure how long these opportunities will last



# Items Common For All Strategies

## Due Diligence

- Usually for a specified period following a letter of intent. During this period, the buyer has access to your financial and other records to investigate prior to the deal. Most buyers will present the seller with due diligence requests.
- Doing diligence on yourself - see your business through the eyes of a buyer.
  - Avoid delays and future expense
  - Never try to hide anything. Smart buyers usually will find the warts.

# Items Common For All Strategies *cont.*

## Due Diligence

- Practice Valuation
- Evaluation
  - Coding and documentation review
  - Workflow analysis
  - Staffing Review
- Financial Review
- Understand the culture

# Items Common For All Strategies *cont.*

## **STOCK SALE**

- Less common in medical practice sales
- Typically the legal liabilities follow with the ownership of the stock
- If a stock transaction is chosen, there is normally an indemnification agreement added to the contract
- There are no corporate deductions for the buyer
- The seller receives long-term capital gains
- The entity will live on, but ownership will change
- Providers will be on an employment agreement

# Items Common For All Strategies *cont.*

## ASSET SALE

- Most common in medical practice sales
- Both parties agree to the purchase of either all assets or a portion of them and also whether any liabilities will be assumed by the buyer
- Allocation of purchase price
- Different asset classes result in different tax classes for both parties
- The agreement must specify the purchase price to individual assets because this is used to determine the tax class (Form 8594)
- The seller will want an allocation that gives long-term capital gain
- Depreciation recapture is a negotiable point
- Providers will be on an employment agreement

# Items Common For All Strategies *cont.*

## TRANSITION

- Compensation
- Term of Employment
- Benefits & Expenses
- Sign on Bonus
- Income Guarantee
- Tail coverage ( who pays on the way in and on the way out!)
- wRUV stabilization
- wRUV Payment
- Recruitment of new physician(s)
- Co-management of practice
- Restrictive Covenants & Non-solicitation
- Outside income
- Real Estate
- Medical Directorships
- Incentive Parameters
- Income Guarantees (over x years)

# Items Common For All Strategies *cont.*

## TRANSITION

- Timing to transition may be several months
- Decisions regarding old A/R, facility move, staffing
- Dedicated transition team should include:
  - Project Manager
  - Billing Manager
  - Human Resources
  - Technology
  - Marketing

# Items Common For All Strategies *cont.*

## TRANSITION

- Staff communication
- Schedule of communication
- Expectation setting
- Transparency
- Recurring, consistent, & timely
- Solicit feedback, concerns
- Firm HR policies
- Maintain culture!

# Items Common For All Strategies *cont.*

## TRANSITION

- Client communication
- Retain clients
- Plan –
  - who?
  - when?
  - how?
- Expectation setting
- Recurring, consistent, & timely
- Solicit feedback, concerns
- Earn out base upon client retention



# Items Common For All Strategies *cont.*

## TRANSITION

- Other
  - Vendor communication
  - PR communication
  - Social media communication
    - ✓ include website
  - Transfer client files

# Items Common For All Strategies *cont.*

## Typical Agreements & Contracts

- Employment Agreement
- Purchase and Sale Agreement
- Asset Purchase Agreement
- Master Agreement
- Professional Services Agreement

*Those with whom you negotiate today may be gone tomorrow.*

# Items Common For All Strategies *cont.*

## De-Merger

- What if this does not work?

# Conclusion and Questions

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