Exit strategies for practice owners: You built a successful practice, now consider cash out alternatives

By John M. Collard

When the reality that "you are the practice" sets in, you face a dilemma when you want to pack it in and leave. Who will pay for a practice when the chief revenue producer is leaving? Not many. What is your exit strategy? How do you maximize your retirement position

There are alternatives for you to reap the spoils of your life's work and investment. You can sell your single-shingle practice, build a formidable going concern through merger/acquisition to attract attention from private equity or special interest buyers or expand into developing a medical facility to leverage a real estate investment.

Build a formidable practice

You must build the practice so that it can run without you, utilizing revenue producers (physicians, surgeons) after you leave. This can mean growing the practice into a bankable, scalable, sustainable business before you sell. Smaller practices usually get attention from a clinical buyer, hospital or large medical practice at a much lower price point because value is in the patient base. However, the real money is in selling a going concern — a company that delivers professional medical services for fees and achieves profit and cash flows — at a much higher price point. The focus now shifts from making a living to return on investment for investors. It is critical to have well documented policies and procedures in place for each business process.

You have built the practice by delivering what patients want and need. Now it is time to shape that practice to emulate what buyers and investors want and demand.

Combine-to-grow

One strategy that can produce an excellent payday in exchange for your equity ownership position is a combine-to-grow methodology. Simply pursue combining several practices through merger or acquisition, then sell the larger entity for top dollar. The private equity community is very active in this space where there is a strategic presence in a geographic area, central back-office and reporting systems, but it must be of substance. Consolidation and roll-up is being driven by the complexity, turmoil and risk of practicing medicine today. The new combined practice provides management, compliance, facility, human resources and financial infrastructure so that their physicians can practice medicine.

Partnerships can often be merged in no-cash transactions, where there is a combining of equity interests. The new entity then defines which partners your will move on when a selling event occurs, and which new physicians will run operations and move up within the organization. You can take advantage of multiple locations to grow the geographic footprint. The more transactions assimilated, the more that value grows.

Buyers / Investors look for:	**Shown by:**
Business that creates value	Consistency, position, economy of scale
High probability of future cash flows	Performance history, patient base growth
Market-oriented management team	Focus on revenue production, growth
Ability to sell, produce, thrive and grow	Track record of patient growth, acquisition
Fair entry valuation	Realistic return potential
Exit options	ROI multiples

Develop a medical facility

A different approach: Invest in and develop a medical facility or clinic to create a physical infrastructure. This strategy involves bringing together several doctors as partners who all invest equity to form a limited partnership, which will own and manage the facility. It also calls for building a new facility or refurbish an existing building, then lease out the space to the partners' practices and similar professionals, and raising capital to finance the development and build-out. This approach can form an annuity for the future, or the entity can be sold at a capital gain with a 20 percent to 30 percent ROI.

You are now leveraging a fully leased real estate investment that provides medical services. Whether the facility is located in proximity to a hospital system to augment services or in a standalone location, you bring multiple medical services to the population in need.

Build up a board of advisors

To make these strategies work there must be a working knowledge about these complicated processes. A respected third party, like an outside director or a consultant specialist, can serve as a helpful guide. These professionals have gone through this process before. The very fact that you hire an expert can establish credibility with potential merger partners, lenders and investors. Often, a bank or creditor will work with a third party expert when they may hesitate to work with a physician alone on these matters.

Advisors bring a working knowledge of growing new businesses. They also bring an independent perspective, strategic thinking, objectivity, contacts, capital infusion and transactions. Don't hesitate to utilize this new found expertise as you launch on a new endeavor — growing a multi-office practice or building a new facility. They can be a resource while you are still tending to patients.

Raising capital/solicit buyer interest

Whether you raise financing or solicit potential buyers for the new business, the approach can be the same. There is a three step method to get results, money and buyers:

1. Send a *personalized* transaction overview [term sheet] to many prospective lenders, investors, or buyers to solicit interest. The email merge function works well for this task.
2. Respond to those who express interest with an executive summary, which provides greater detail on the deal.
3. For those with continued interest, present them with an operating plan with assumptions and financial forecasts. Be prepared for their detailed investigations.

Most advisors will have a list of lenders, investors and buyers who are looking for deals; some have longer and more quality lists than others. These specialists can help the process of preparing solicitation documents, perform the email merge to locate investors and buyers and negotiate a transaction.

Compensation for raising money and/or selling a company varies by advisor, but there will be fees for preparing the process and a success fee upon completion of a transaction. Many advisors use a Modified Lehman Formula geared to the size of the deal. Expect a percentage fee to be higher for smaller deals because there is a similar amount of work to financing or selling small deals as there is for larger ones.

It is not hard to raise money or sell a practice if you put the right tools in place and the deal is "investable." Be the "good deal" and you will raise capital or sell your practice.

Remember: Your piece of a larger entity can be much more than if stand-alone.

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About the Author

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Alternative Exit Strategies

	Single shingle practice	Formidable going concern	Medical facility
Cash investment	Already there	Small/ No-cash deals	Yes. ROI is high
Value is in:	Patient base	Many patients. Infrastructure.	Real Estate. Lease Revenues.
Sell at:	Book value	4-6 times cash flow + book value	6 times cash flow plus R/E equity
Annuity	Could be: Small	Could be: Medium	Could be: Large
Buyers	New physician, large practice	Private equity, hospital	R/E investor, healthcare provider
Future involvement	Usually no, some transition	Management	Run real estate venture