Selling Your Medical Practice? You'll Need an Exit Strategy

By John M. Collard

Physician Leadership Journal

Looking to pursue other ventures or retire? There are alternatives for you to reap the spoils of your life's work and investment.

When reality sets in that you *are* your practice, you'll have to decide when to pack it in and leave. Who will pay for a medical 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. Or build a formidable going concern through merger/acquisition to attract 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 runs without you, utilizing revenue producers (doctors and surgeons) after you leave. This can mean growing the practice into a bankable, scalable, sustainable business before you sell. While small practices are sold, they usually get attention from clinical buyers, hospitals or large medical practices at a low price point, because value is in the patient base.

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. Your focus 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.

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 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 doctors can practice medicine.

Partnerships often can be merged in no-cash transactions, where there is a combination of equity interests. The new entity then defines which partners [you] will move on when a selling event occurs, and which new doctors 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. Bring together several doctors as partners who all invest equity to form limited partnership, which will own and manage the facility. Build a new facility or refurbish an existing one, then lease out the space to the partners' practices and similar professionals. Raise 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 return on investment.

You are now leveraging a fully leased real estate investment that provides medical services. Whether the facility is near a hospital system to augment services or in a standalone location, you bring multiple medical services to the population in need. Market analysis also shows a growing market for facilities to provide such services for 20 years into the future.

Board of Advisers

To make these strategies work there must be a working knowledge about these complicated processes. Bring in a respected third party, like an outside director(s) or a consultant specialist, to guide you. These professionals have gone through this process before. Hiring 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 might hesitate to work with you alone.

Advisers 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 use this newfound expertise as you start a new endeavor — growing a multi-office practice or building a new facility. Advisers can be a resource while you tend 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/or buyers:

1. Send a *personalized* transaction overview (term sheet) to thousands of lenders, investors, and buyers to solicit their interest. Your email merge function works well for this task.
2. Send an executive summary, which details the deal, to those who express interest.
3. For those with continued interest, present them with an operating plan with assumptions and financial forecasts. Be prepared for their detailed investigations.

Most advisers 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 function to locate investors and buyers, and negotiate a transaction.

Compensation for raising money and/or selling a company varies by adviser, but there will be fees for preparing the process and a "success fee" upon completion of a transaction. Many advisers 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 you stand alone.

American Association for PHYSICIAN LEADERSHIP®
Inspiring Change. Together.

About the Author

***John M. Collard** is chairman of Annapolis, Md-based Strategic Management Partners, Inc. a turnaround management firm specializing in investing in and rebuilding underperforming companies, asset and investment recovery, outside director governance, and raising capital. He is a Certified Turnaround Professional, Certified International Turnaround Manager, past chairman of Turnaround Management Association, past chairman of Association of Interim Executives, senior fellow at Turnaround Management Society, and serves on public and private boards of directors. He is an adviser to company owners, investors, and private equity investors, and has participated in over 45 transactions worth $1.2B. He has been inducted into the Turnaround Management, Restructuring, Distressed Investing Industry Hall of Fame. He received the Interim Management Lifetime Achievement Award from the Association of Interim Executives, SmartCEO Distinguished Leadership Award, Prince Georges Business Leader of the Year, and Most Admired CEO Award from the Maryland Daily Record. He can be reached at (410) 263-9100, or www.StrategicMgtPartners.com*

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 plus book value	6 times cash flow plus real estate equity
Annuity could be ...	Small	Medium	Large
Buyers	New doctor. Large practice	Private equity. Hospital	Real Estate investor. Healthcare provider.
Future involvement	Usually none, after some transition.	Management.	Run real estate venture.

Reprinted with permission, Physician Leadership Journal | © Copyright 2018 American Association for Physician Leadership and Strategic Management Partners, Inc.