



WHITE PAPER

Planning Your Pre-acquisition Strategy

When you think of a physician practice acquisition, what come so mind? Physicians often think of medical practice acquisitions as being messy like when big corporate entities are involved in such transactions. Consequently, physicians are frequently unsure about how to proceed with the purchase or sale of a medical practice, and who can help them through the process. Even if you think these transactions are more of a “corporate issue”, it is actually something physician practices should prepare for as well. Tremendous opportunities may exist in your area for such a transaction leading to growth and/or staving off a competitive threat. It may also be a means of an exit strategy or succession planning for yourself. As a result, you should be educated on mergers and acquisitions, even if selling or buying (or merging) isn’t on your near-term horizon. So how do you begin to think about these transactions? Here are some preliminary basics.

Evaluate Fit. Just as with hiring personnel, fit is key. If the two practices have goals that are incompatible, merging them can be counter-productive. A thorough analysis of the compatibility of financial structures, patient base, referring physician patterns, and culture is extremely important. Do not rush this part.

Assess Culture. Just because culture is an intangible factor, it doesn’t mean this aspect is any less important. Medical practices are like any other business, in that they have internal dynamics that can either help or hinder an acquisition. This is why it is important to speak with the staff (not just the physician) at the other practice. While you may not be able to discuss a potential transaction with staff members, you can certainly gauge how open to change they are and how easy, in general, they are to work with.

Pricing Strategy. You need to ensure to start with a proper perspective, no matter which side of the table you are sitting at. Oftentimes (but not always!) a valuation is done on the target practice and a lot goes into those valuations, as I have written about several times before. Just remember that emotions are high on this subject: sellers always feel the price is too low and buyers always feel the price is too high; sellers want a high dollar amount attributed to goodwill and buyers want to limit that amount. These emotions and misaligned perspectives are actually why many transactions fall apart during the negotiations.

Ask the right questions. Of course, a seller and a buyer are looking to accomplish different goals and have their own set of agenda items. That being said, here are just a few questions to ponder depending on which side of the table you sit at:

Sellers may consider:

- Which type of sale (asset or stock) is most beneficial to me?
- What price can I realistically get for my practice?
- Is there any buy-out to my other partners that must be contemplated?
- Are there any obligations I have to employed physicians regarding sale of the practice and/or partnership path?
- Is the buyer seeking financing for the acquisition?
- What professionals do I have/need to assist me with the transaction?

Buyers may consider:

- Which type of sale (asset or stock) is most beneficial to me?
- What is a realistic price to pay for the practice?
- What risks am I taking on?
- How do I get the current staff of the target practice to remain on board?
- How do I minimize loss of patients and disruptions with physician referrals?
- What does a new financial pro forma (of the newly combined entity) look like?
- What contracts need to be renegotiated (vendor and staff)?
- What all needs to be accomplished immediately post-transaction (also known as the 100-day plan)?
- What professionals do I have/need to assist me with the transaction?

Where is the cavalry? Do you run a practice all by yourself? Do you routinely do medical procedures without the assistance of any other clinical staff? Of course not. So why would you attempt to go through a business transaction without some cavalry on your side? Whether it is a merger, acquisition, or joint venture, professional advice is key. Acquisitions are complex and risky and so it is important to seek out a transactional consultant from the first stages when you are beginning to strategize and “kick the tires”. Much later in the process, you will also need to engage an attorney and consult with your accountant. Just make sure that your consultant and attorney have experience with transactions; this is not the time to engage those that work in the field of practice management.

Final Thoughts

With the ever-changing healthcare landscape and the increasing competitiveness among physician practices and hospitals, many physicians are looking at acquiring other practices and bringing them into the fold. Unfortunately, we have often seen physicians who would like to jump to valuations or due diligence of a medical practice without having first established their own strategy as it relates to potential acquisitions.

Medical practice acquisitions are complex and nuanced, and mergers are some of the most difficult maneuvers to accomplish. As a physician practice owner, it is imperative that you are meticulous with your contemplations about a potential transaction from the very start. These are very daunting tasks, which when pulled off correctly amount to great success, but done haphazardly or without diligent forethought and preparation can spell disaster.

Physician group acquisitions must take place for strategic reasons, such as to improve competitive capabilities, expand footprints, achieve economies of scale, increase patient base, test new geographies, enhance brand equity, rather than superficial reasons like tax benefits or to save oneself from market risks. Physician owners must have a clear rationale for a transaction or truly understand a deal's impact on their practice's long-term financial future. The transaction must be considered as a means to fulfill far greater strategic outcomes rather than a mere end in themselves. The challenge is to stay true to your strategic direction, not allowing yourself to be distracted by acquisitions that don't keep you on the intended path.

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