



WHITE PAPER

Timing your Exit from your Medical Practice

Regarding succession planning, I have been approached by physicians looking to exit their practice anywhere from three months to seven years. I cannot stress enough the importance of planning ahead, especially if you are a solo medical practice; anything short of twelve months and you will almost always find yourself on the losing side of the transaction. This article is aimed at any physician contemplating exiting their practice at some point. Perhaps you are finally at the point in life where you are considering retirement; with all the work you have put into your practice, retirement is a welcome sign and you are contemplating selling. Most physicians are caught on the “entrepreneur merry-go-round”, dealing with business issues, family, staff, banks and so on, and find it difficult even to plan this year’s strategy, let alone figure out whether it’s time to sell.

Initial questions to ponder

As you begin to contemplate selling, ask yourself why are you wanting to do so, because most buyers will ask you this exact question. It is fine if you are retiring or looking for a new challenge, etc., just be honest with yourself. Along those lines, consider why someone should buy your practice. Do you have new equipment, a strong referral base, large patient volume, solid financials, etc.? Remember that a new owner is primarily interested in how much cash the practice will generate.

The need to start planning early for an exit

If your passion has waned and you’re finding it more difficult to get excited about growing your practice, then now might be the time to consider selling. After all, if you’re not building your practice and continually thinking about next steps, it could start declining, making it more difficult to sell. It is much easier to sell a medical practice that’s on an upward trajectory.

If the business is going to collapse without you there, that will become apparent during the due diligence phase. If your practice has several physicians but you do not have proper succession in place, you’ll need to work on moving other physicians into the roles to replace you eventually. You should seriously consider calling a transaction consultant who can help you through the process. Ideally, you want to contact an experienced consultant at least two to three years before selling, to gather from him or her what housekeeping needs to be done in your medical practice to get it ready for market. Unfortunately, many physicians are so caught up in the day-to-day running of a practice that they put all of this off until they are less than a year from wanting to

retire.

Major steps in selling your practice

When exiting your practice, you will certainly want to consider who your potential buyers are, and it may not be as easy as you think. Selling a medical practice is more than a tour of the office, a handshake and exchanging a check. It can be complicated, often messy and intense. It will take several months of data gathering, negotiations, analysis and various emotions before it's over. In its simplest form, here are four of the major steps in proceeding with the sale of your practice:

- 1. Nondisclosure agreement.** The first step is giving the potential buyer just enough information to help determine a price. It's important that you don't give a potential buyer any information until they have signed a nondisclosure agreement. This will protect your information and ensure the buyer is only using it to formulate an offer.
- 2. Due diligence.** After preliminary due diligence using the information you have supplied them with, as well as other research, the buyer will typically give a range of value for your practice, which may or may not be in line with your asking price. If discussions are going well, then the potential buyer will likely want to examine more items as part of their due diligence, including tax returns, key contracts and agreements, etc.
- 3. Letter of intent.** Once the buyer has a cohesive picture of your practice, they can hone in on a more precise value. This is laid out in a letter of intent, which covers the purchase price, the structure of the deal, whether it is an asset or stock sale, the escrow parameters, the working capital allowance, and other details. While this is a very intentional document, it is non-binding.
- 4. Purchase agreement.** After negotiation, review of legal terms and final due diligence, a purchase agreement is created. This is the legally binding agreement which is agreed upon by both parties and will be a road map for how things play out once the deal is closed.

You may opt to stay on

While you might be thinking of selling your practice and retiring, you might instead wish to stay on in a consultancy role, part time. In fact, practice owners may be asked to stay on temporarily after a sale has been executed, even if only in a part-time role. This arrangement is somewhat common for many medical practices to ensure continuity because perhaps the biggest source of concern for prospective buyers is that existing patients will disappear when ownership changes. Any reductions would diminish the value of a buyer's newly acquired asset. There are a few considerations though that you might want to think about. For example, as a seller you may anticipate less money up-front as this will be offset by a "salary" to help in continuity with patients and referring physicians.

Final thoughts

Selling your medical practice can be financially rewarding as well as give you the personal satisfaction that what you created will continue after you. Your patients will be happy, and the jobs your practice provides will continue. Also, you will give another physician a chance to be a

small business owner. While each medical practice owner chases success in his or her own unique way, there are some things nearly all physician practice owners have in common: hard work, determination, a vision of what could be, and the will to make it happen. But there is also another common factor that binds together all physician practice owners: the need to someday transition your practice to its next owner.

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