



PRACTICE ACQUISITION

A BUYER'S PERSPECTIVE





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It's hard to deny that it is becoming increasingly challenging to be an independent practice. Increasing regulations and decreasing reimbursements are putting a financial strain on independent practices. While the current climate of practice mergers and acquisitions might be shaking up the vein and vascular space, it could also represent an opportunity for you and your practice. Before saying yes, there are a few questions you should ask yourself.

- 1. What are your goals?** Do you want to retain control of your practice? Do you want to simplify your life? Selling to a larger competitor might simplify the clinical and business aspects of practice, but it also comes with less control. Some transactions will give you more flexibility but come with more administrative burden. There's also the option, of course, of continuing to remain independent. It all comes down to what your exit strategy is.
- 2. How in demand is your specialty?** The more in demand your specialty is, and the vein and vascular space is currently a targeted market, the more likely you are to be an attractive target for investors and practices looking to acquire competitors.
- 3. Do you fully understand the risks and rewards of the transaction?** Selling your practice can come with risks of compliance issues, loss of patient satisfaction, revenue cycle management issues, restrictive covenants that limit your options if you are unhappy post-transaction, and even personal financial risks if you do not hit revenue projections in the future. The importance of fully understanding and doing what you can to mitigate these risks cannot be understated.

IS IT TIME TO SELL?

Depending on how your practice is trending, it may or may not be the right time to begin this process, provided you have a choice.

- ▶ *It is generally a favorable time to sell a practice when you have a strong history of profitability, your cash flow is strong, your staffing plan is stable, and your practice has brand recognition in the communities you serve.*
- ▶ *It is more challenging to sell your practice when you are experiencing cashflow problems or suffering from declining patient visits.*

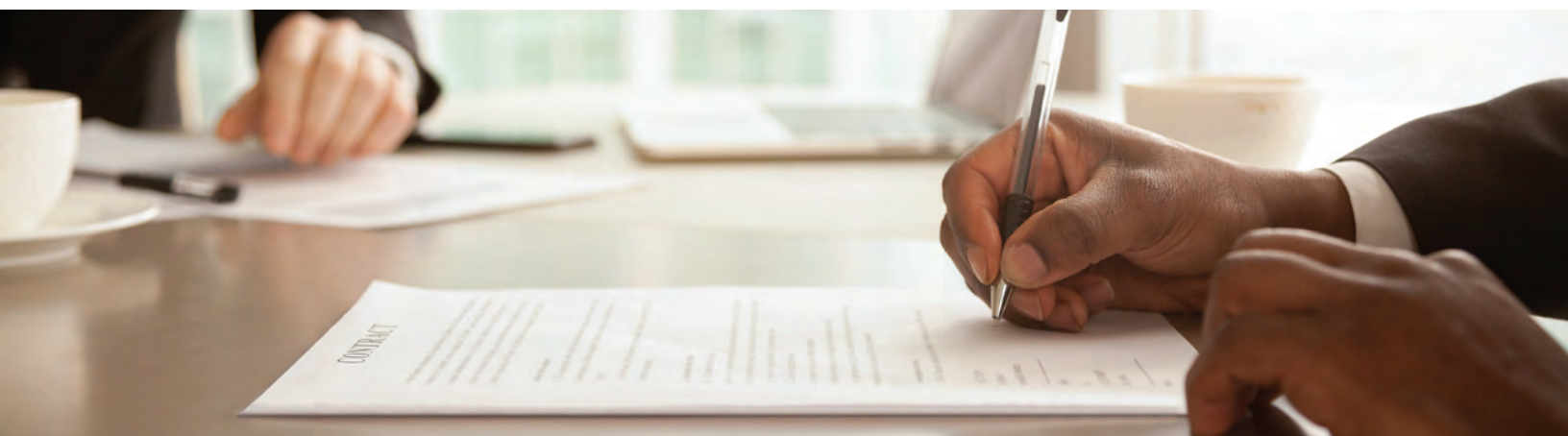
What Determines Acquisition Multiples?

ABC Acquisitions is looking to enter a market that has (2) established vascular practices, with identical annual revenue and EBITDA. ABC offers practice #1 a multiple of 2.5x EBITDA and Practice #2 a multiple of 5.0x EBITDA. What is involved in ABC's due diligence that arrives at vastly different valuations?

It is quite common for doctors to perceive the value of their medical practice in terms of market multiples, based upon historical acquisitions of their colleague's practices. This can be misleading because they will not be privy to information that positively or negatively impacted the acquisition price. A buyer will look at growth potential, geographic competition, scalability, physician training and age, existing personnel, historical revenue cycle trends, PCP referral patterns, etc.

Buyers will have developed an operational and clinical strategic plan for growth before they begin to entertain practice acquisitions. How well your practice fits with their strategic plan will influence the multiples they are willing to pay. If a buyer can easily absorb your practice into their network, it should translate into a higher multiple.

Look at your practice from the buyer's perspective, not the seller. You may be too emotionally invested in your practice to objectively identify the strengths and weaknesses of a practice that you have spent your entire career building. Identifying practice weaknesses and turning them into strengths, PRIOR to selling, is the key to higher multiples.



AREAS OF IMPORTANCE TO A BUYER

Projected Growth

Buyers are willing to pay more for companies with high growth potential than companies perceived as having low growth potential. The buyer will be looking for a practice that can articulate who their competition is, the strengths and weaknesses of each competitor, and a strategic action plan to be implemented to take market share away from their competition. What opportunities are being missed? These discussions will signal to the buyer as to whether your practice is positioned for future growth or difficult times ahead.

Scalability

Buyers are willing to pay more for practices that are scalable at a relatively low cost. Practices that have not planned for the future and have spent very little on strategic planning are usually capital-intensive and often face space limitations that prohibit growth / expansion / additional services.

Stability of Personnel

Buyers are looking for practices that have strong leadership, self-govern, and have depth of talent to support practice growth

Practice Profile

Buyers are looking for practices that have...

- A brand identity with consumers and referral physicians
- Low employee turnover
- A payor mix that is representative of plans preferred by consumers and referral sources in the geographic and demographic areas the practice targets
- A culture of continuous learning
- A cost-effective, patient centered, focus

Historical Performance

Is the practice trending up or down? Are the analytics above, below or the same as prior metrics? What story do the key performance indicators tell?

1. What is your practice's financial performance during the trailing 12, 24 and 36 months?
2. What is the 3-year trend for Charges and Receipts?
3. Are consults and procedures up or down?
4. Is the average revenue per patient trending up or down?
5. Is the practice's patient acquisition cost trending up or down?

When it comes to selling your practice, you must be prepared to present your best to a buyer ... explain why you stand apart from your competition, how you have been profitable and will continue to be post-acquisition, and why your practice is poised for additional growth. Given the challenges of medical practice these days, seller interest in their practice being acquired is understandable.

Buyers are looking to maximize profitability through achieving administrative efficiencies and bringing together multiple practices in a service area for leverage, the development of new income streams, and a reduction in overhead. Many medical practices fail to invest in appropriate management infrastructure, and, as a result, miss out on growth opportunities, revenue enhancement, and cost savings initiatives, as physicians are oftentimes too busy to focus on these areas. Prepare for retirement 5 to 7 years in advance. Keep in mind that many buyers will want you to stay with the practice for 2-5 years post-acquisition.

BUILD A FORMIDABLE PRACTICE

You must build the practice into a bankable, scalable, sustainable business before you sell. While small practices are sold, they usually get attention from medical practices or hospitals at a low price point because value is in the patient base or referral physicians, not market dominance. You maximize your value by selling a practice that delivers clinical excellence in a cost-effective manner. Your focus shifts from making a living to demonstrating a return on investment for a buyer. 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 a tremendous financial upside is a combine-to-grow strategic model. Simply pursue a strategy that combines several practices through merger or acquisition, then sell the larger entity for a premium price. Consolidation is driven by the complexity, turmoil and risk of practicing medicine today. The new combined practice provides management, billing / collections, EMR, group purchasing, accounts payable and HR functions so that their providers can grow the clinical side of the practice. Take advantage of multiple locations to grow revenue and your geographic footprint. The more profitable locations you have, the more that value grows.

DEVELOP AN OBL

As practice reimbursement continues to remain stagnant or decline, many vascular practices are considering their options to increase revenues. The growth of Office-Based Labs (OBLs) seems to be a logical transition for outpatient endovascular care. While many surgical procedures were once performed solely in a hospital outpatient facility or ambulatory surgical center setting, advances in equipment and endovascular techniques have made it possible to perform complex procedures in the office setting, safely and cost-effectively.

Office-based surgery is any surgical procedure performed by a licensed physician in the office setting. Place of service code 11 ("non-facility") is used and global billing applies, which means higher reimbursement because payment is combined for professional and technical components of procedures. Since almost all peripheral diagnostic and interventional procedures involving angioplasty, stent, atherectomy, and thrombectomy can now be performed in an office-based facility, this could be an attractive option to capture more revenue. Additionally, office procedures offer improved convenience, comfort and access to patients.

TAKE A LOOK AT YOUR FINANCIALS

Begin to maximize value at least a year in advance. There may be loans on the books, departments that are overstaffed or other unnecessary expenses that impair profitability. Since purchase prices are based on a multiple of earnings, sellers need to make adjustments 12 to 18 months in advance to increase profitability.

ABOUT VSA

176

Practice Start Ups
Since 2002

582

Client Engagements
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\$15

Avg. Client ROI Per \$1
Since 2002

98%

Client Satisfaction
Since 2002

Vein Specialists of America is a phlebology-specific practice management, marketing & revenue cycle management advisory & consulting firm. We focus on implementation management & results-oriented consulting, which enables us to help our clients realize the true strategic & operational potential of the medical practices they own and operate.

With a team effort offering business intelligence and 100s of years of experience, our clients have experienced increased revenues, decreased expenses, & greater profitability without the daily concerns of office operations management. We look forward to doing the same for you!

“In any successful consulting relationship, there are three synchronous elements that must be delivered: experience, integrity and a commitment to achieving measurable results. A noticeable deficit in any one of these elements will compromise the overall outcome of an engagement and the prospects for a long – term business relationship.”

-David P. Schmiede, President & CEO

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