Tips on Selling Your Practice

Whether you’re ready to sell your medical practice today, or just beginning to think about it, here are some things you can do before talking to a potential acquirer.

Most buyers typically focus on the same key pieces of information when evaluating acquisition opportunities. A little preparation can go a long way toward facilitating the analysis and due diligence processes for both the buyer and the seller in a transaction.

Following are some helpful hints you may want to consider before engaging in transaction discussions.

1. Be prepared with accurate financial information and practice metrics
   a) Collect three years of financial statements and an “LTM” – Sellers must produce for buyers financial statements which present an accurate picture of the practice’s financial performance. Typically, buyers prefer to review three years of orderly tax returns, profit-and-loss statements, and balance sheets (otherwise known as statements of assets and liabilities). Very often, buyers also request a profit-and-loss statement for the last twelve months, or “LTM” period (also referred to as trailing twelve months, or “TTM” period). The more line-item detail on financial statements, the better. If your practice consists of multiple locations, buyers will likely request all information be broken down by clinic location.

   b) Use a good accountant – Having a good accountant is always recommended. Not only will strong accountants help ensure accurate numbers on paper, but they may be able to identify adjustments to your financial statements which can make your practice more valuable in a potential sale.

   c) Identify expense “add-backs” – When working toward a sale of your practice, you should identify any personal, non-operating, or discretionary expenses that may have been counted as business expenses either for tax purposes or for other reasons. Any such expenses that would not be incurred by a buyer after a transaction may be “added back” to the bottom line, thus making the practice more profitable, and more valuable to a buyer. Examples of these discretionary expenses include club memberships, car payments, and entertainment expenses, to name a few. This concept of adding back expenses also holds true for “one-time,” or “non-recurring” expenses, such as costs associated with an EMR roll-out, or one-time legal fees.

   d) Know your patients – All buyers will be interested in the patient flow of your practice and how you track it. Be prepared to discuss annual, monthly, and daily patient volumes, visit and procedures counts, and operating metrics. As with other information, if your business includes multiple clinics, you should present this data by location, if possible.

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2. Identify and understand all your important contracts and agreements

a) Compile all of your contracts and identify those to be assigned – Most buyers will want to structure your transaction as a purchase of assets, as opposed to a purchase of stock. In an asset transaction, you, the seller, after closing will remain obligated under all of your existing contracts unless you either terminate them or assign them to the buyer. Therefore, you and the buyer must review each of the practice’s contracts in order to agree upon which the buyer will assume, and which you will be responsible for continuing or terminating. By collecting all of your contracts early in the process, you will be able to deliver to the buyer a complete package of information for evaluation. This will help prevent the need to introduce new elements into the negotiation at the last minute because you suddenly remember a material contract late in the process.

b) Pay particular attention to your property leases – Property leases are among the most important contracts requiring assignment in any sale, because the buyer cannot operate the business without the proper right to occupy the space. Transactions can be delayed by landlord negotiations, particularly if there are tricky real estate issues to address, because landlords often have little or no incentive to cooperate with the buyer. To mitigate the likelihood that a lease assignment may impact the timing of your transaction, you should begin discussing the transition with your landlord as early in the process as possible.

c) Consider your liabilities – In asset purchase transactions, most buyers will not assume major liabilities of the businesses they are acquiring. Such liabilities include bank loans, credit lines, and equipment leases. When estimating your net proceeds from a potential sale, you should consider carefully all of your outstanding liabilities and how much it will cost to pay them off at closing.

3. Be smart about planning and process

a) Keep your eye on the most important ball, your business – With the distractions created by information requests, meetings, and negotiations, it is easy to lose focus on the business while engaged in a sale process. However, there is no more important time to keep the business strong and to drive toward increased productivity and profitability than when you have a potential buyer on the hook. A trend of increasing revenue and profits, no matter how modest, makes a business more appealing to any buyer.

b) Identify any potential issues early – Most issues can be overcome if a buyer and seller are willing to work together to find a win-win for all parties involved. If there are any skeletons in the closet or other matters which may complicate the transaction, it is best to identify them early in the process so that you and the buyer may have as much time as possible to sort them out. Eleventh hour surprises are never good for a transaction.

c) Let’s tell it like it is: Many of us aren’t fond of lawyers, but... – Having a good lawyer, and avoiding a bad one, will be crucial to a successful transaction. Don’t hire a general practitioner when you need a specialist. Retain an attorney who has expertise in transaction law and in mergers and acquisitions negotiations. Working with a seasoned transaction attorney is the best way to ensure that all of your bases are covered and that your interests remain at the forefront of the negotiations. We recognize that good attorneys will cost money. However, keep in mind that a seller’s legal fees are often more than offset by improved deal terms and the benefits of an expeditious process.

d) Don’t plan to retire immediately after the sale – Buyers tend to be most interested, and willing to pay top dollar, in transactions in which the selling physician intends to remain with the practice after the sale is completed. By staying with the practice post-close, you can help ensure continuity of care, maintain valuable patient and client relationships, and transition your staff the new owner. When sellers plan to walk away from the practice immediately, buyers are left with increased execution and integration risk, which can be reflected in a reduced purchase price. In order to maximize your sales price and to effect a smooth transition, you should plan to remain with the clinic for at least one year after the transaction is completed.