

Critical Issues to Consider When Exploring the Sale of Your Physician Practice

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Given the continued interest in physician practice acquisitions and the mounting challenges of remaining independent, physician shareholders must consider the question: **should we sell our practice?**

Why Sell?

Building a successful private practice didn't just happen overnight. You and your partners have taken on incredible risk and worked hard for many years. After all of that effort and sacrifice, why would you consider selling your practice?

- Transition Planning
- Shareholder Diversification
- Bargaining Power
- Partnership Benefits
- Strategic Options

Transition Planning

Over the years you have cultivated relationships with healthcare providers that have grown and increased the economic value of your practice.

As growth-oriented private equity and interested groups enthusiastically and aggressively look to enter your specialty by offering high-growth multiples to early moving practices, you have a unique opportunity and ability to capitalize on the strong market and maximize the value of your practice. However, buyers consolidate, multiples contract and market conditions change over time, and this opportunity to monetize your practice may not be as lucrative or available in the future. **Waiting is rarely to shareholders' benefit.**

Shareholder Diversification

Taking chips off the table at favorable valuations and reinvesting them in a market portfolio provides liquidity and risk diversification to the Shareholders and their families. We all know increasing costs and decreasing reimbursement rates are putting pressure on physician earnings. Whether you are nearing retirement or in your prime, there are options available to **maximize the return of your practicing years.**

Bargaining Power

The industry is at a point in its life cycle when size matters, and many of the large buyers are bundling different physician and multispecialty services to gain critical mass and achieve greater bargaining power for contracts and resources. With the regulatory environment becoming increasingly tumultuous, **size helps practices remain compliant and competitive.**

Partnership Benefits

The classic rationale for selling your practice: quality of life. After a sale, physicians can focus on clinical responsibilities rather than practice management.

Partnering with a larger organization also takes the economic burden off the shareholders. In addition to this peace of mind, your group will have access to **greater resources and infrastructure to address future challenges and opportunities.**

Strategic Options

Market forces threaten the ability of many practice models to continue independently. Regardless of any immediate plans or desire to undergo the transaction process, independent physician groups should prepare for the ever-changing future.

Furthermore, group leadership should evaluate and keep apprised of the strategic options available, so that when the necessity arises, familiarity exists with the process and educated decisions can be made.

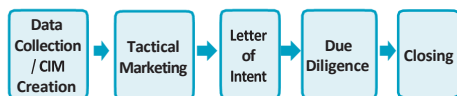
Large "**strategic buyers**" may be interested in acquiring your physician practice—in order to establish their presence in a new market or strengthen their position in an established one. These buyers seek the acquisition of 100 percent of the practice and intend to hold the practice forever.

Private equity firms (referred to as "**financial buyers**") may be looking to invest in your practice via purchasing a controlling stake in the practice—up to 80 percent of the practice. Their strategy is not to hold forever—they focus on a growth strategy and hope to exit the investment in 3-5 years, resulting in a cash-out of remaining ownership interest held by the shareholders at a substantially higher valuation.

What Do Investment Bankers Provide?

Healthcare Investment Bankers run the transaction process for their physician group clients. The six-to-

twelve-month process is simplified in the following flow chart:



Data Collection/CIM Creation— investment bankers work closely with practice management to gather key financial and operational information about the practice. This information is used to build a Confidential Information Memorandum (CIM). The CIM will be used to market your practice and serve as an introduction to prospective buyers on your group.

Tactical Marketing— your banker will orchestrate a thoughtfully planned and coordinated campaign to reach all qualified partners able and interested in acquiring your practice. A qualified investment banker will solicit interest from these prospects on your behalf, coordinate meetings with these suitors and strategize subsequent steps with your group to obtain all viable options.

Letter-of-Intent (LOI)—once the most suitable partners have been evaluated, investment bankers aid in the negotiation and comparison of various offers to arrive at favorable terms for the selling practice. Preliminary terms of sale drawn up in the form of a LOI and entered into between the parties.

Due Diligence—A comprehensive audit of the practice will be performed by the buyer to confirm the assumptions upon which the buyer based its purchase price valuation. A qualified investment banker will prepare the practice and its management to efficiently complete the process and assume the bulk of the responsibilities in order to limit the impact on everyday business operations.

Closing—The #1 reason to hire an investment banker: doing so greatly increases the odds of closing a transaction. The parties execute a Definitive Purchase Agreement and the Shareholders realize their liquidity event.

Selection Of Advisor

Before heading down the route of selling the practice, it is important for leadership to understand that hiring the right advisor is crucial for executing a successful transaction.

The ideal investment bankers will understand it is not only about selling your practice; it is also about understanding your practice, your partners and your unique value—in order to find both the optimal economics and the “the right fit and best partner” for your group.

Qualified investment bankers will have extensive experience specific to the healthcare sector in order to advise you on a successful transaction. They will have completed numerous transactions with other independently-owned physician practices and have worked previously with many of the prospective buyers.

Your investment bankers will be experts in handling communication among all of the interested parties within the transaction, including:

- **Executive Committee**
- **Shareholders**
- **Associate Physicians**
- **Other Employees**
- **Customers**

The benefits of hiring the most suitable investment bankers when your group is exploring a transaction opportunity by far outweigh any cost savings thought to have been realized when considering anything less. You will only sell your practice once. You and your partners deserve to have the best professionals on your side of the negotiation table.



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