

7 Questions to Ask When Buying or Selling a Healthcare Practice



Tables Of Contents

PART 1: Buying A Healthcare Practice

# 1	How do I know if the purchase price is fair?	2
# 2	How much can I grow this practice?	3
# 3	What legacy issues exist?	4

PART 2: Selling A Healthcare Practice

# 4	What factors are most important to consider in an offer?	5
# 5	What will life look like post-transition?	6
# 6	What happens to the practice legacy and culture left behind?	7
# 7	Is now the right time to sell?	8

PART 3: The Practice Transition Plan Framework

Value-Based Pricing	9
Getting Started	11

INTRODUCTION

When buying or selling a healthcare practice, you want comfort knowing you are making the right choice at each stage of the process. Through years of experience and having helped hundreds of providers reach their professional goals, we have consistently been asked seven primary questions from buyers and sellers. In this e-book, we answer those questions and deconstruct elements of the practice transition process.

However, we don't stop there. At Marti Law Group, we go further than run-of-the-mill advisors who lack practical experience. Having successfully scaled and exited a fifty million dollar dental group, Justin and his partners learned firsthand the difficulties of navigating a transaction when you lack visibility as a client. With attorneys too busy to call them back, frustration ensued, followed by massive surprise legal bills. It is for this reason that he endeavored to create the Practice Transition Plan; a custom framework that guides providers step-by-step through one of the biggest decisions of their lives.

Following the seven questions below, we discuss our Value-Based Pricing model and how, in conjunction with the Practice Transition Plan, we offer you an unfair advantage in the transition process...no surprise fees, a handbook to help you understand what is happening at any given moment, and accessibility to attorneys throughout the process. Cheers to your future success and thanks for reading!

PART 1 - BUYING A HEALTHCARE PRACTICE

1

How do I know if the purchase price is fair?

Practice valuation is a subjective topic. Generally, annual revenue and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) are the starting points during any buyer's diligence process. However, myriad factors come into play after that, and what is essential to one buyer may be less critical to the purchasing decision of another. Factors to consider include the consistency of revenue and patient visits year over year, payer mix, collection rate, size of the physical space, and strength of operating systems (how well does the machine run), just to name a few. These elements all play a role in driving up the value of a practice, and thus, what you should be willing to pay for it.

Akin to an appraisal in a real estate deal, a practice valuation report should be able to provide "comps" of similar practices that have sold in your area. As discussed in this e-book, you must assemble a team of advisors before shopping for a practice to ensure you are paying the right price for the target practice.

2

How much can I grow this practice?



If you want to scale the practice to new heights, you must consider if there is room to accommodate an increase in patient flow. Does the practice have room to add operatories? How hard will it be to recruit additional providers and support staff? If you are located in a rural community, you may find it more challenging to recruit top talent than those in a metropolitan area. Other buyers may want to consider adding specialties or new high-end procedures. The concerns here are generally the same...does the practice have the bandwidth, and can you get the right people in the right seats to make it all happen?

Additionally, you should take a close look at the operating systems that are in place. Does the owner have a well-oiled machine, complete with a robust operations manual where every employee can go to find training and get their questions answered? Or conversely, does the seller maintain all the processes and procedures in their head, and thus, people are lost without the owner on site to give direction? This is an often under-appreciated but critical element of any practice. The smoother the operation runs without immediate oversight, the better chance you have to scale quickly.

3

What legacy issues exist?

We advise clients to conduct a thorough lien and litigation search after signing a non-binding Letter of Intent (LOI). This search is conducted by a third-party and involves a deep dive into court records to identify if there are any past or pending legal matters of which a buyer should be concerned. Perhaps the practice owner is involved in a complicated malpractice suit. This may affect the practice's reputation, and thus, if a buyer should even pursue it.

The search also involves researching UCC filings, which show what liens exist on the business's assets. Perhaps the seller financed a piece of equipment but did not disclose that a loan exists. This would be a costly discovery for a buyer who may inadvertently inherit that debt. Even if the seller agrees to keep paying the debt after closing, a lien would still exist, meaning that the buyer may have an issue getting additional financing using the practice as collateral. The lien and litigation search will ensure that all liabilities are identified.

When representing a buyer, we present the lien and litigation search results to the seller, and much like a mortgage on a home, we require that the debt(s) be paid (and liens released) before closing on the practice. This ensures that a buyer gets the practice “free and clear” of encumbrances.

4

What factors are most important to consider in an offer

There are several factors to consider when selling, but most folks focus only on the total sale price. As discussed in this article, a number of other items must be considered. First and foremost, the large number that a buyer hangs in front of a seller may not be attainable. It likely will include some combination of (i) cash at closing, (ii) an earnout, and (iii) equity. In this scenario, the only thing guaranteed is the cash at closing. The earnout component is contingent upon hitting predetermined benchmarks that may or may not be realistic. Further, if the buyer is issuing equity in their organization, that equity will only be converted into actual cash when the company sells or recapitalizes. It is imperative that a seller review LOIs with a trusted team of advisors to get deep into the substance of an offer, rather than rushing to sign on the dotted line because a massive purchase price is dangled in front of them.



5

What will life look like post-transition?

Imagine what it will feel like to walk out on Friday as the practice owner and return Monday as an employee. Is this something you can stomach? Yes, you should be compensated well for selling your practice, but as discussed previously, there is more to this process than the dollar amount. Buyers generally want the seller to stick around as an associate for some time after the transaction. In a “doctor-to-doctor” deal, this may be a matter of a couple of months up to one or two years. In a Management Services Organization (MSO) deal, the buyer will likely want a minimum of two to three years of employment, with upwards of five years becoming commonplace. Additionally, the MSO will tie the earnout component (discussed above) to this employment term. Thus, if you leave early, you will also be leaving money on the table.



6

What happens to the practice legacy and culture left behind?



Providers may spend decades building a practice before exiting. This likely includes years of cultivating a strong internal culture amongst the team, as well as brand awareness and a reputation for excellent patient service in the community. But what happens when the seller hands over the keys to the new owner? Will that buyer eliminate key employees? Will their pay structure change? New name on the door? The list of concerns goes on and on. Generally, the seller has worked with the same core team members for years and has built strong relationships. The last thing a seller wants is to see a buyer come in and make drastic changes or watch their five-star Google rating take a nosedive.

While it is absolutely in a buyer's best interest to make as few changes as possible immediately after a purchase and to retain the goodwill that the seller has created, it can be expected that at some point changes will occur. A seller must ensure they can accept the fact that they are no longer making key decisions for how the practice is run. Even if they stick around as an employee, they may not have a voice in key management decisions. These can be tough pills to swallow, and thus, a seller must ensure they are mentally and emotionally prepared for such a transition.



Is now the right time to sell?



Often, a seller has not taken the proper time to think through what giving up control of their business means. As mentioned above, some of our gut-check questions include: What would a successful exit look like to you? How will you feel when you leave on a Friday as the boss and return Monday as an employee? Are you currently living beyond your means? Have you put a proper financial plan in place for when the day comes that you put down the drill?

Conversely, we remind our providers that valuations are sky-high, and this may be the absolute best time for them to exit. Any provider who has sold can attest – be it to an MSO or individual buyer – the factors to consider go beyond the initial payday. That said, if you want to maximize your financial return, you should pay attention to what is happening in the marketplace. Significant life implications must be considered, and the price is just one of them. Having a financial plan will prove critical to making an informed decision.



PART 3 - The Practice Transition Plan

**It starts with
value-based pricing**



In medicine, Value-Based Care (“VBC”) is a payment model that aims to take a renewed and holistic approach to the antiquated means of billing by procedure code. Though ethics guidelines require otherwise, the sheer nature of the “old way” of billing encourages healthcare providers to bill as many procedure codes as possible to maximize revenue. In this alternative approach to care, VBC incentivizes providers based on positive patient health outcomes; in other words, it focuses on the quality of treatment instead of quantity.

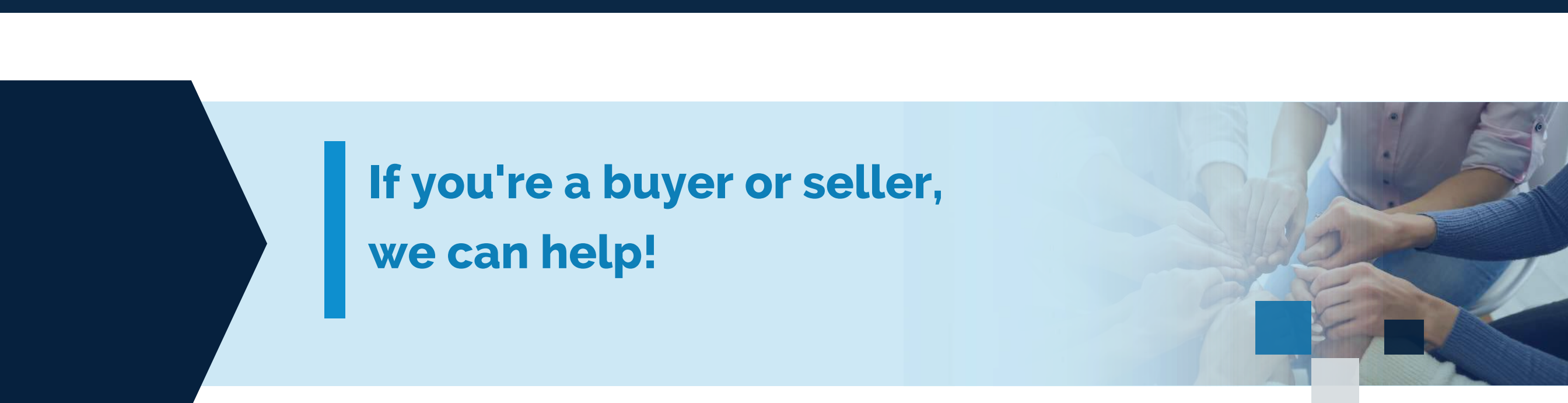
In addition, a patient's providers may take a holistic approach to treatment to help promote those better outcomes. Rather than the patient seeing his or her primary care provider, then any subsequent specialists (all of whom are billing the third-party payer and/or patient separately), there is an incentive for the practitioners to engage in robust dialogue and, in some instances, a single – and thus, more efficient – billing method is applied. The objective is a worthy endeavor: a healthier population, well-paid providers, and less systematic waste.

The emergence of Value-Based Pricing (“VBP”) takes a page from the VBC book. While Value-Based Pricing in law is not a novel concept,

it has remained chiefly just that...conceptual. The legal industry is accustomed to hourly billing, and just like medicine, by its very nature, it encourages inefficiency. The legal practitioner is incentivized to bill every phone call, email, and text, not to mention draw out the hours of negotiation and drafting. Most law firms require a minimum number of billable hours for each attorney. With a model based on attorneys needing to bleed the clock so firms can justify fees, it's no wonder people don't trust lawyers!

Working on a VBP/flat-fee basis results in increased efficiency, as the attorneys don't have the luxury of billing unnecessary work hours. Value-Based Pricing requires a firm to carefully analyze the scope of work and assess how they can most efficiently get the job done. There is no room to pad the deal, as every minute counts (literally). Rather than finding yourself frustrated at the end of a transaction with massive surprise bills, VBP allows you to find comfort in knowing that, no matter what happens, your best interests are always at hand, and your attorneys are working expeditiously to help you realize your goal of practice ownership or exit.





**If you're a buyer or seller,
we can help!**

We understand that buying and selling a healthcare practice can be overwhelming, so we created the Practice Transition Plan. Built to set expectations and drive predictable outcomes, it has helped hundreds of healthcare practitioners like you to achieve their goal of successfully buying and selling practices.

The Practice Transition Plan ensures you are confident at each stage of the process. We have reinvented professional services within the healthcare industry through fixed-rate pricing. There's no unpredictable and inefficient hourly billing.

Here is how you get started:

- **First, book a free 15-minute consultation.**
- **Next, we do the heavy lifting, drafting a custom-tailored Practice Transition Plan.**
- **We guide you every step of the way to reach your goals!**

We make the buying and selling process easy, comfortable, and affordable. Just see what these clients have said:

"I have worked with many big-named law firms over the years, and I understand that what matters most is how well your attorney is willing to advocate for you. This is a group that is on top of their game. For any legal needs, I will always reach out to Marti Law Group and so should you."

Dr. Kaveeta Channamsetty

"Never had a better experience with an attorney! Marti Law Group is incredibly helpful with your issues and genuinely cares for your needs. They helped me with my practice transition and I just have to say "THANK YOU" to them! I would strongly recommend this group."

Dr. James Lee

"Marti Law Group was recommended to me for the sale of my practice. The buyer wanted to close the deal very quickly and MLG made it happen. They were wonderful to work with and very thorough with all the contracts. The transaction felt overwhelming, but Marti Law Group made it easier. I am glad they were on my team!"

Dr. Daniel Tseng

LET'S GET STARTED!

Get started with Marti Law Group by booking your free consultation.

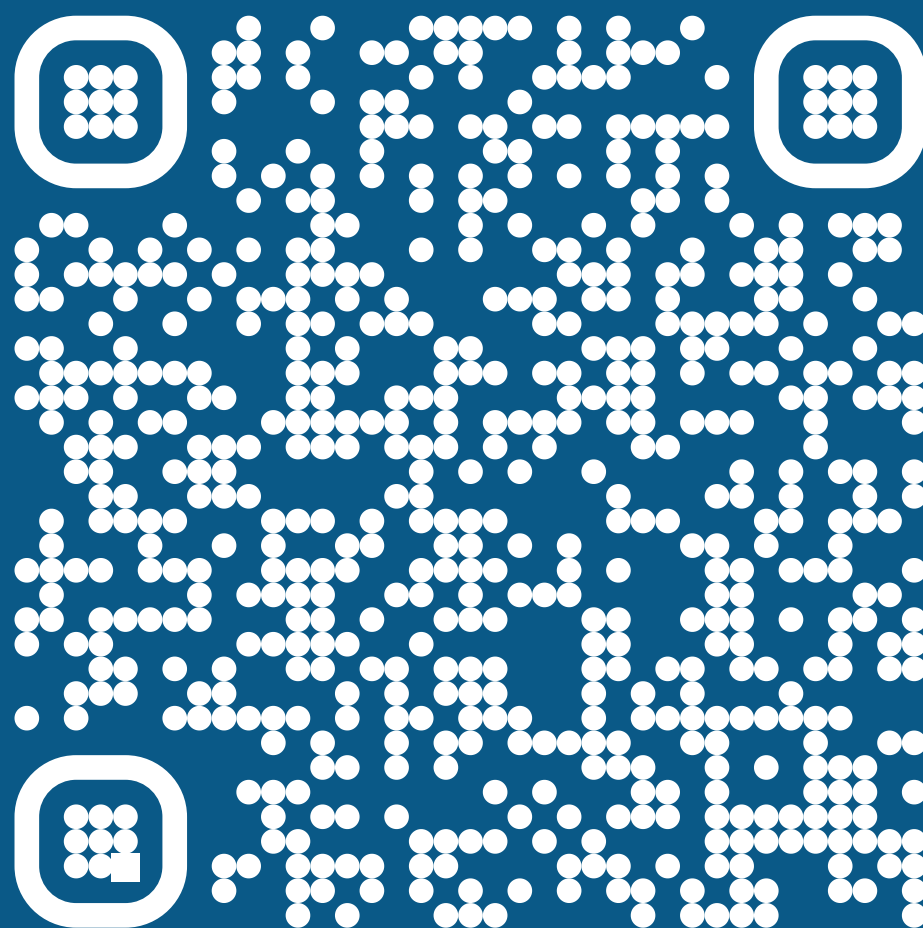
Stop feeling anxious about an exciting transition. Instead, feel confident and optimistic about your next big step in life!

When you create a Practice Transition Plan, you will be confident knowing you are working with a firm that understands healthcare providers and MSOs and can customize the buying and selling approach to your needs.

We ensure buyers and sellers control their destinies and will be well-positioned for future success. Our Practice Transition Plan positions sellers to be well-compensated and buyers to find the practice that checks all the boxes. Our healthcare clients are always comfortable knowing they have an accessible legal partner to assist them throughout the transition. Get started today!

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