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MEDICAL PRACTICE EXIT STRATEGIES:
A Primer on Valuation & Sale

Introduction...

Most physicians are informed as to the value of their homes and vehicles, but few have any reliable data as to the value of their medical practice. And for most physicians, the equity built into their medical practice, through years of work and good will, is likely to be a significant asset. Unfortunately, this asset is often overlooked by both physicians and their financial advisors during the creation of otherwise meticulous retirement plans and career exit strategies.

After nearly forty years in healthcare management consulting, we have heard repeatedly that “no one buys medical practices anymore” from skeptical physicians. This could not be farther from the truth. Over the past thirty years, our senior staff have brokered the sale, acquisition, and/or merger of 900+ medical practices across dozens of states. We have also performed professional valuations on thousands of medical practices for the purposes of sale, estate planning, divorce, buy-in & buy-out, and non-matrimonial litigation.

Routinely updated and reliable valuations are crucial for all physicians in solo and small group practice to ensure that their hard-earned equity can be efficiently converted into more easily diversified cash assets in the case of unexpected illness or disability. For physicians in their mid to late fifties, a valuation and sale is likely to provide the most effective means by which to convert their practice equity while also providing the physician with contractually secured income. This contracted income, the terms and duration of which are wholly dictated by the physician’s goals and interests, allows for continued practice and profit without the liability and exposures of ownership, administration, federal regulatory compliance, and staff.

A Professional Practice Valuation will...

- ❖ **ESTABLISH VALUE**—while establishing the basis of value in a practice, effectively brokered practices may sell for substantially more;
- ❖ **ANSWER THE BUYER’S QUESTIONS**—an effective valuation will address nearly all the questions routinely asked by potential buyers and their advisors (accountants, attorneys, etc.) during their due diligence. This also allows the seller to address any issues that may affect market value before they negatively affect negotiations with a potential buyer;
- ❖ **JUSTIFY THE ASKING PRICE**—a properly executed valuation will detail the various components of value including:
 - *Tangible values* for real estate, leasehold, leasehold improvements, furniture, medical equipment, non-medical equipment, supplies, disposables and accounts receivable; and,
 - *Intangible values* for goodwill, trained staff-in-place, charts & records, on-going contract value, start-up convenience, market entrance factors, and branding / trade names.

Crucial Fundamentals in the Early Phases of Practice Sale are...

- ❖ **MAINTAIN STRICT CONFIDENTIALITY**—physicians should obtain an experienced medical practice broker or consultant, and allow that broker/consultant to develop the documents and valuation prior to informing colleagues, staff, accountants, attorneys or friends. A portion of the sale value is derived from the sale process itself, which entails approaching all potential buyers contemporaneously and developing competitive tension. Competitive tension is harder to foment if potential buyers have the impression that the selling physician has been “out on the market” for some time;
- ❖ **ALLOW FOR ADEQUATE TIME**—the best time to sell is when you do not need to. Performing a competent valuation, identifying all potential buyers, and positioning the sale all require time and effort;
- ❖ **OBTAIN CONSENSUS ON VALUE AND ACTION FROM ALL PARTNERS**—a false start, or taking the practice off the market during negotiations for any reason can poison future attempts at sale in a local / regional market; and,
- ❖ **MAINTAIN DISCIPLINE DURING THE SALE PROCESS**—all stakeholders must adhere to the sale method once in progress; for example, all information and negotiation should be handled by the same person or firm. Allowing potential buyer to enter negotiations through a “back door” can derail the process and erode the development of competitive tension.

Optimal value is obtained by...

- ❖ **KNOWING THE REGIONAL MARKET**—all practice sales are local / regional. Strategic concerns, regulatory issues, and business-politics will play into the purchase incentives for all potential buyers. Knowing the market is also necessary to effectively identify all potential buyers;
- ❖ **HAVING COMPLETE DOCUMENTATION & FULL DISCLOSURE**—a professional valuation provides the critical accounting of the practice’s assets and operational/financial performance. Without this, a potential sale may fall apart. Timing is critical once negotiations begin, and delays can be fatal;
- ❖ **CREATING A COMPETITIVE TENSION**—between potential buyers based on strategic value in the local / regional market; and,
- ❖ **USING THE SERVICES OF AN EXPERT**—who has expertise in medical practice valuation and sale / brokerage. The same way you would likely ask your surgeon how many times he has performed an operation, ask any expert how many medical practices they have not only valued, but also successfully brokered. FSBOs (for-sale-by-owner) generally obtain far lower values than professionally brokered sales.

In Conclusion...

- ❖ **WHEN TO BEGIN CONSIDERING SALE AS AN EXIT STRATEGY**—optimally between the ages of fifty-five and sixty, before practice value may potentially decrease due to reducing hours and/or electing to limit practice services (e.g. hospital privileges, surgeries, nursing home rounds, etc.);
- ❖ **HOW TO BEGIN THE PROCESS**—confidentially communicate with an experienced broker or consultant to obtain a valuation and strategic analysis of your practice’s marketability;
- ❖ **HOW LONG TO COMPLETE THE PROCESS**—depending on the size of the practice and the availability of the records, valuation can take from one to three months, and the sale / brokerage process can take anywhere from six months to two years;
- ❖ **HOW WILL THIS AFFECT MY PATIENTS AND PRACTICE**—since the selling physician almost always stays on for a period of time, effectively orchestrated sales can be accomplished with patients, staff, vendors, and the public hardly noticing any change;
- ❖ **HOW MUCH WILL THIS COST**—valuations are flat fee assignments that vary from \$2,500 to \$10,000+ depending on the size, assets, and complexity of the medical practice. Intermediary services contracts (brokerage / sale) are structured as a combination of reduced-rate hourly fees billed monthly, along with a percentage of the total sale value paid at closing; and,
- ❖ **CONSULTATIONS WITH CYNERGY STAFF**—we are always available to share our expertise and confidentially discuss medical practice valuation, sale, and / or exit strategies. All initial consultations are free of charge.