



The 5 Most Important Issues to Consider During the Sale of your Practice *Michael T. Finch, CPA*



There is a national and growing trend toward practice integration with hospitals, and the transition from private practice to hospital employed physicians. This is likely to be the most stressful and trying periods in the careers of all involved. Of the many important decision-points and considerations, the five below are universal to all integrations, and addressing them early and with critical attention to detail will improve the process.

1. Negotiate for post-integration seat at the table

It is a difficult transition from partner to employee. While hospitals are in the business of managing a hospital, they are not primarily in the business of managing practices. There will be unforeseen issues that you will not manage to get into your employment agreement, and a joint operating committee with both hospital and physician representation is crucial.

2. Pricing

Depending on many factors, you should target 6 to 8 times practice cash flow. Calculate the total compensation package to the partners of your most recent fiscal year. Then calculate the total asset purchase price plus compensation to the same physicians over the term of the agreement, not including a renewal period. Assuming no mitigating factors, this compensation package should equal 6 to 8 times your compensation in the most recent fiscal year.

3. Get the best legal representation

Your CEO and CFO may be excellent negotiators, but they are insiders and will be perceived as such by both sides of the negotiations. The temptation will exist even among the physicians that their perception is skewed one way or another, and this will surface at the tough negotiation choke-points. There are firms that have integrated dozens of practices, even in your specific specialty, whose perspective of market expectations will be incredibly valuable to the physicians, and will be respected by the hospital.

4. Keep your employees as updated as possible

Clearly, certain confidentiality will apply, and your employees should not be privy to the challenges along the way. However, your best employees will immediately begin looking for other jobs as soon as they recognize that their future is uncertain. You will need them before and after integration. There will be few secrets, as hard as you try. Rumors will be considered Gospel truth in the vacuum of official communication from the management of the practice.





5. Be patient

Negotiation and closing is likely to take at least a year. There will still be months of credentialing and other detailed steps that need to be completed even after you have an agreement in principle or even signed agreements. Good financial planning is necessary to survive the period during negotiation. It is very likely that the practice will take its eye off the ball, and productivity may slow. Keeping the practice in good financial condition during negotiations will be critical to avoid panic, or weakened negotiating tactics or positions.

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