file: Pinto/Word: OM.991

Grooming Your Practice For a Sale

© J. Pinto & Associates, Inc All Rights Reserved

There is an increasing interest in divestiture options. Whether you intend to take the traditional route of divesting to junior partners or to an established local colleague…or the more recent options of sale to a hospital, multi-specialty clinic, or PE firm…the price and terms you get will depend on several factors. Here are eight salient pearls to help groom your practice for a future sale.

1. Know the price you need to get and when you’ll need that price by. Review your retirement plan with professional advisors to know how far from your economic finish line you really are. If you need to net another $500,000 and place it into passive investments to retire comfortably, your selling situation is much different than if you already have the resources to walk away from active practice. A review of your situation vis-à-vis the realistic market value of your practice may indicate that you will be compelled to work for several more years before selling out. Another important dimension: do you want to (or need to) work in the practice after the sale? Your answer will influence the value of the practice.
2. Remember that the *terms* are often more important than the *price*. As you calculate the price you think the practice is worth, be willing to soften you demands in exchange for a clean deal (high down payment, short payout, or even all-cash). Whether the new owner of your practice is a PPMC or a junior doctor, you will likely only get paid if the buyer remains solvent and runs your practice well.
3. Build a history of large and increasing profits. Your practice’s intangible value, in any brokerage event, is going to depend more on profitability than on any other single factor. You can’t do much to improve profits if you are selling out without advance planning in the next three months. But if you plan to sell in three to five years, my experience is that even the most troubled practice in the most competitive environment can boost or at the very least stabilize profits.
4. Lock in the stability of the key people. After the surgeon, the greatest value in your practice is the other key support staff. Because they may be nervous about their careers, and may disrupt the practice if they leave, do whatever is necessary to have your administrator and core technical and business staff be anchored to the practice through golden parachutes or similar, quite ordinary rewards for tenure in any business during times of transition. Obviously, don’t create any post-sale obligations to weak staff that would actually devalue the practice in the buyer’s eyes.
5. Build up the practice’s key operations strengths and attack and eliminate the practice’s key weaknesses. These strengths and weaknesses underlie your practice’s profit gaps, which will in turn directly influence the practice’s appraised value, especially to a PE firm
6. “Manualize” the practice. Once you’ve examined the practice’s operational strengths and weaknesses, commit the day-to-day details to writing a comprehensive operations manual for the practice. Like showing a file of maintenance receipts to the prospective buyer of your sports car, this documentation will demonstrate to buyers that your operation is well-run
7. In most cases, keep your sale plans as private as possible. Once word is out in the community that your practice is for sale, patients may drift away (not understanding that there will be successor doctors). If you are the glue holding your key staff together, they, too, may defect…leading to a lower value. However, this rule about privacy has a corollary—as soon word gets out, be sure to communicate clearly, openly and often to all affected parties about your plans.
8. Hire a broker or other professional intermediary to handle the brokerage process. Probably the most powerful single factor in optimizing the value you will get for your practice, and minimizing the hassle factor and emotional drain, will be hiring a trusted advisor. This can be a traditional practice broker who only gets paid a percentage of the sale price, or a fee-only attorney, accountant or consultant.