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Exit Strategy: How to Treat Your Practice Like an Investment

Presented by:

Craig A. Castelli
CEO and Managing Director of Caber Hill Advisors

Moderated by:

Carolyn Smaka, Au.D., Editor-in-Chief, AudiologyOnline

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Exit Strategy:
How to treat your practice
like an investment
Craig A. Castelli
Mobile: (312) 371-6920
Email: craig@caberhill.com
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ADVISORS


Almost every business owner dreams of
selling their company for a fortune
And moving comfortably into retirement
or their next investment
Yet, 80% of U.S. business owners fail
when trying to sell their company

Key takeaways for today

It’s Never T
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Think
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How to Treat Your Practice like an Investment

Und
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Sell

Is Your Practice an Investment?

Investment	**Career**
n. An asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price. Generates annual income and a long-term gain	n. An occupation or profession, especially one requiring special training, followed as one’s lifework Generates annual income only

You retire from a career, but you exit an investment

Key takeaways for today

It's Never Too Early for an Exit Strategy

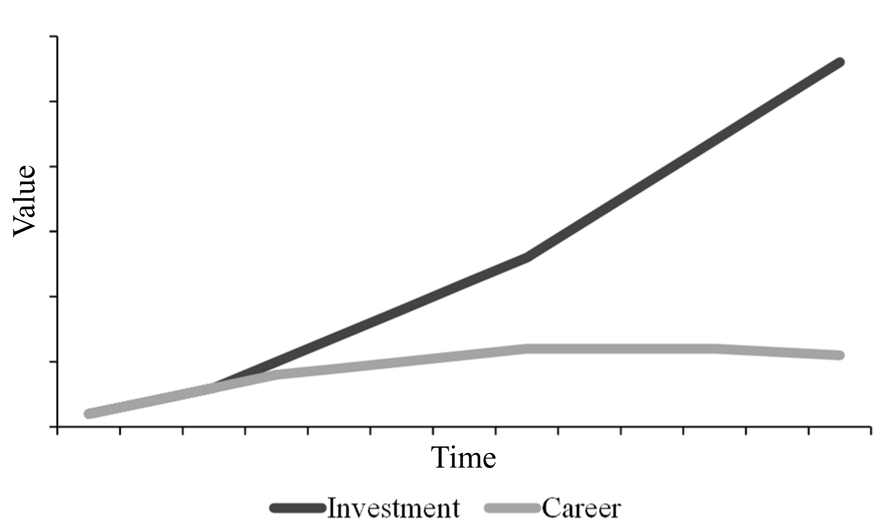
Think Objectively about Your Practice

Understand Risk & Turnkey Practices

Determine the Right Time to Sell

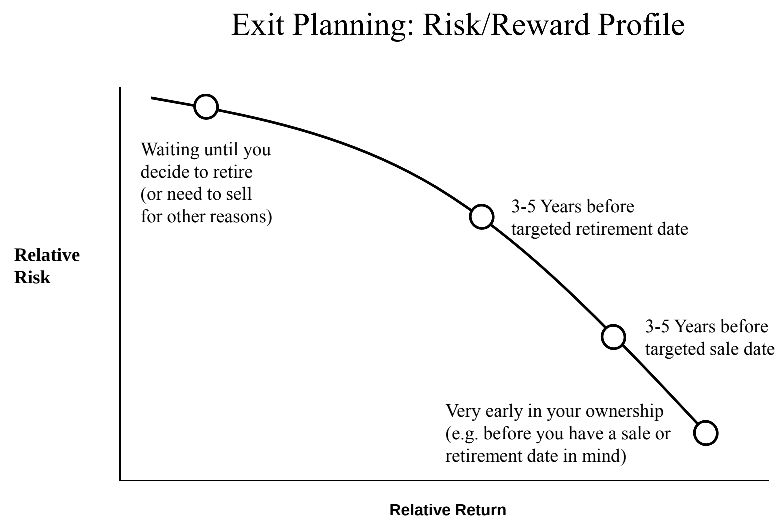
Growth & Exit – Investment v. Career

It's Never Too Early for an Exit Strategy



When to start thinking about exit strategy

It's Never Too Early for an Exit Strategy



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Self-Serving Bias

Think Objectively about Your Practice

SELF-SERVING BIAS

n.
People's tendency to attribute positive events to their own character but attribute negative events to external factors. It's a common type of cognitive bias that has been extensively studied in social psychology.

Examples of Self-Serving Bias

Think Objectively about Your Practice

Most men rank themselves in the top half of male athletic ability.

When my business grows, it's because I am such a great business owner, but when it declines it must be due to the economy!

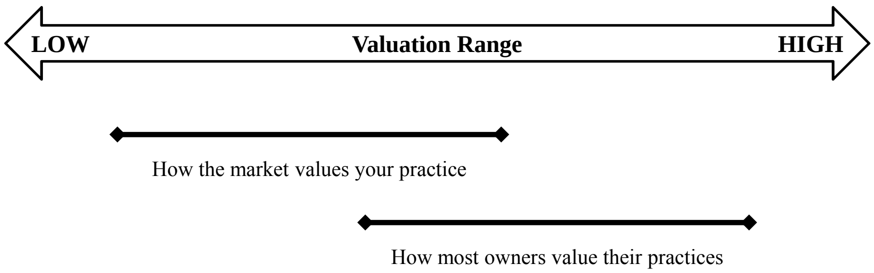
You get an A on a test and attribute it to your own awesomeness!

You get a C on a test and you attribute it to your professor not having explained what they wanted well enough.

Ask a married couple to each write down their individual contributions to household work, and the total almost always exceeds 100%.

Perceived Value – Seller v. Market

Think Objectively about Your Practice

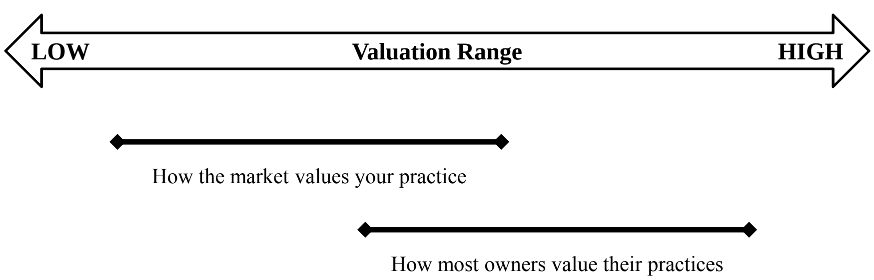


The #1 reason companies don't sell:

Seller's Unrealistic Expectations

Perceived Value – Seller v. Market

Think Objectively about Your Practice



INVESTMENT

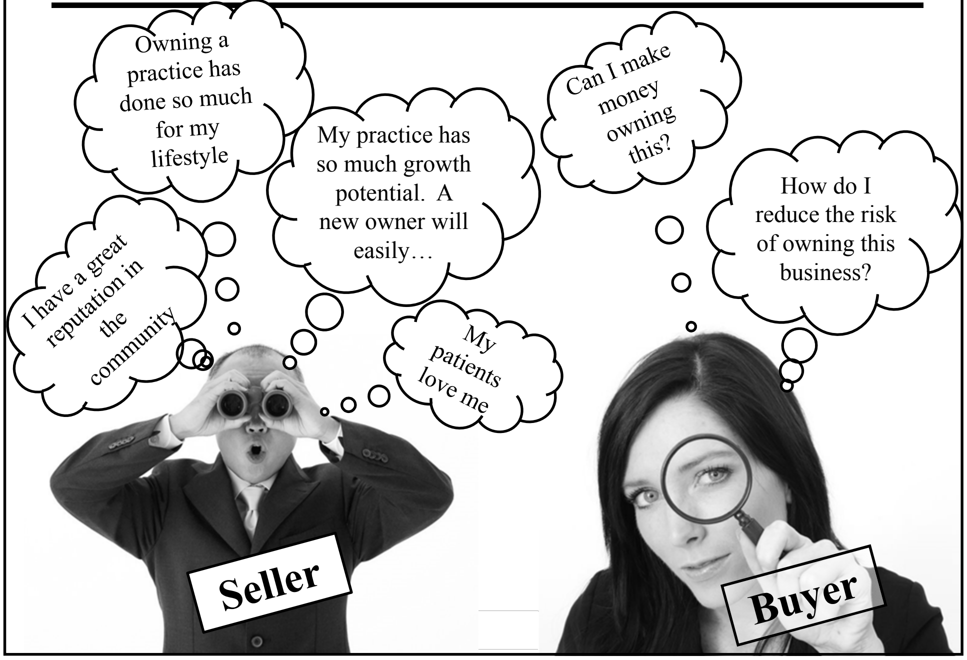
Owner takes steps to better understand company value so that expectations are aligned with reality and business priced properly for sale

CAREER

Owner does not understand company's value and bases valuation expectations on rumors, blue sky scenarios, or just wild guesses

Seller v. Buyer Perspectives

Think Objectively about Your Practice



Take a buyer's perspective

Think Objectively about Your Practice

If you were expanding, your concerns would be…

Cash Flow & ROI	▪ Is the business profitable? ▪ What kind of loan can the cash flow cover? ▪ Are revenue and cash flow growing?
Staffing	▪ Is the owner a major revenue producer – if so, how do you replace them when they retire? ▪ Is staff in place and willing to stay post-acquisition?
Ease of Operations	▪ Is marketing well-planned and easy to replicate? ▪ Are policies and procedures documented? ▪ How stable are employees?
Risk	▪ What happens with the owner leaves? ▪ Is the business reliant on dominant payors? ▪ Is the business reliant on referral sources?

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INVESTMENT

Owner understands buyer perspective and balances personal goals with buyer objectives (e.g. win-win scenario)

CAREER

Owner ignores buyer perspective and focuses only on personal goals

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Primary risks of ownership

Understand Risk & Turnkey Practices

Employee Risk

Owner Risk

Financial Risk

Legal Risk

Payor Risk

Economic Risk

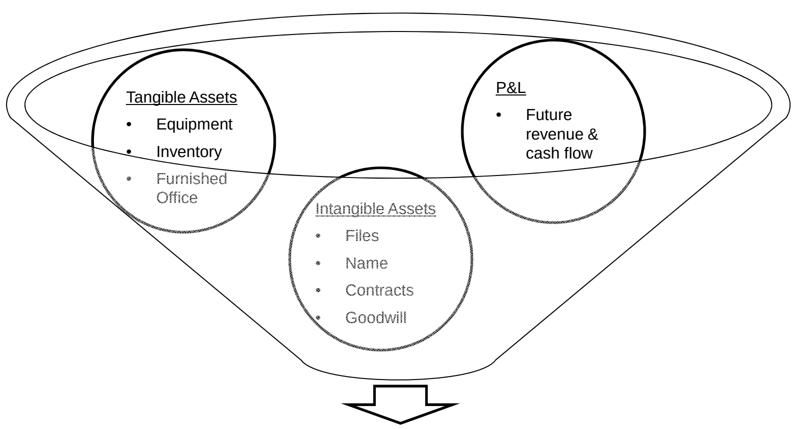
Risk of Disruption

Referral Risk

Owner Risk

Understand Risk & Turnkey Practices

What are you selling?



Does any of it have value without you?

Owner Risk

Understand Risk & Turnkey Practices

Owner Risk:

- Occurs when owner is key contributor to practice (i.e. patient care and revenue generation)
- Risk of losing patients/revenue when owner retires
- Two primary ways to reduce owner risk:

1

Owner moves out of a direct patient care role prior to selling and therefore generates a very small percentage of total revenue

OR

2

Owner agrees to a very long transition period and/or a multi-year employment agreement to work for the buyer

No Owner Risk

Owner Risk significantly reduced

Payor Risk

Understand Risk & Turnkey Practices

Payor Risk:

- Occurs when company is overly-reliant on third-party business
- Risk assessment includes both type of payor and payor concentration

Risk

Type of Payor	Payor Concentration
Medicaid	100% Third-Party
Other Government Agency	One Third-Party that generates more than 25% of revenue (on its own)
Private Insurance	Accepts private insurance but no Medicaid and individual payor > 5% of sales
Private Pay	100% Private Pay

Referral Risk

Understand Risk & Turnkey Practices

Referral Risk:

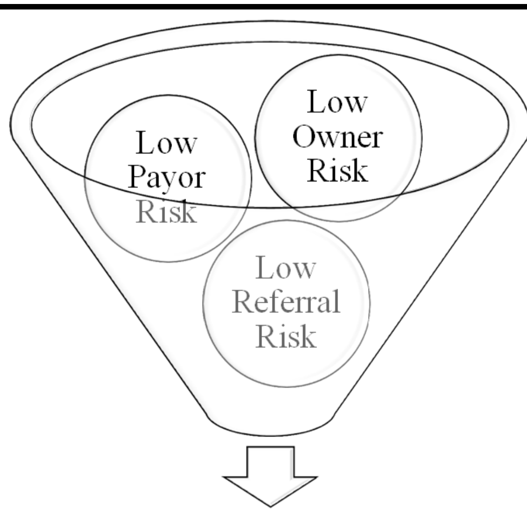
- Occurs when company is overly-reliant on referral sources or has a referral relationship that is non-compliant or difficult to continue after transaction

Type of Risk	Explanation
RELIANCE ON REFERRAL SOURCE	▪ Any referral source that makes up 20% of more of your revenue presents substantial risk to a buyer.
CONTRACT	▪ Do you have a contract in place or is there just a handshake agreement? ▪ Can contract be assigned to new owner if your business is sold?

COMPLIANCE	▪ Is contract/relationship compliant with federal and state laws?
	  ▪ Anti-kickback Statute
	  ▪ Stark

Turnkey Practice

Understand Risk & Turnkey Practices



Attractive Investment

Turnkey Practice

Understand Risk & Turnkey Practices

Once you reduce risk, focus on building a turnkey practice

What they are	▪ New owner can begin operating on day one – only needs to "turn the key" in order to be up and running ▪ Strategies and processes in place
How to build one	▪ Accounting System ▪ Practice Management System ▪ HR Systems ▪ Business profitable and growing

Think "Franchise"

INVESTMENT

Owner takes measures to make practice turnkey and understands both short-term and long-term benefits

CAREER

Owner is most likely aware they he/she should implement turnkey elements but is in denial of value and keeps putting them off

Key takeaways for today

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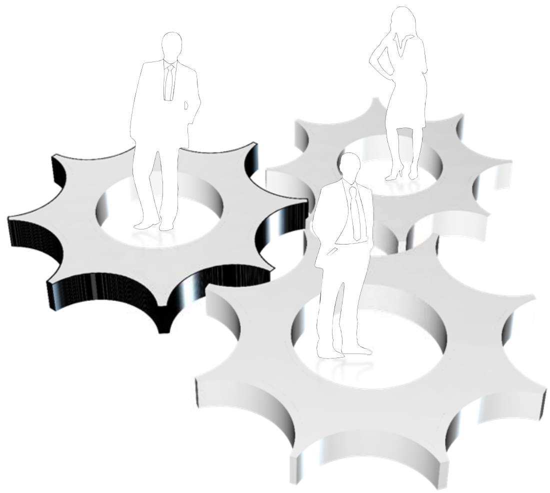
Timing the Sale of Your Practice

Why People Buy & Sell Practices

Personal Timing

Most people target a sale date based on Personal Timing. It is the ***LEAST*** important factor in deciding when to sell.



Company Timing

- Is your company growing and profitable?
- Risk Management
- Turnkey

Market Timing

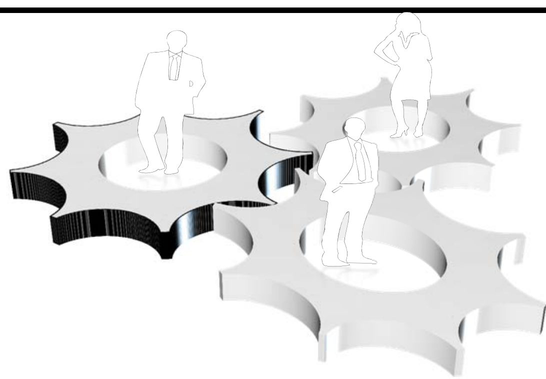
- Hot Industry
- Presence of Buyers
- Tax Rates
- Interest Rates

Company Timing and Market Timing drive company value.

Timing the Sale of Your Practice

Why People Buy & Sell Practices

Personal Timing



Company Timing

Market Timing

INVESTMENT

Focus on Company & Market Timing

CAREER

Primary focus on Personal Timing

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THANK YOU

How to contact me

Craig A. Castelli
Caber Hill Advisors
craig@caberhill.com
http://www.caberhill.com