Exit Strategy: How to Treat Your Practice Like an Investment

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Expert e-Seminar

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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 Too Early for an Exit Strategy

Think Objectively about Your Practice

Understand Risk & Turnkey Practices

Determine the Right Time to Sell

How to Treat Your Practice like an Investment

Is Your Practice an Investment?

Investment

- 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

Career

- 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
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Growth & Exit – Investment v. Career

It’s Never Too Early for an Exit Strategy

Value

Time

Investment

Career
When to start thinking about exit strategy

Exit Planning: Risk/Reward Profile

- Waiting until you decide to retire (or need to sell for other reasons)
- 3-5 Years before targeted retirement date
- 3-5 Years before targeted sale date
- Very early in your ownership (e.g. before you have a sale or retirement date in mind)

Relative Risk

Relative Return

Key takeaways for today

- It’s Never Too Early for an Exit Strategy
- Think Objectively about Your Practice
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- Determine the Right Time to Sell
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

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

<table>
<thead>
<tr>
<th>LOW</th>
<th>Valuation Range</th>
<th>HIGH</th>
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How the market values your practice

How most owners value their practices

The #1 reason companies don’t sell:
Seller’s Unrealistic Expectations

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

<table>
<thead>
<tr>
<th>Seller</th>
<th>Buyer</th>
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<tbody>
<tr>
<td>Owning a practice has done so much for my lifestyle.</td>
<td>Can I make money owning this?</td>
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<td>My practice has so much growth potential. A new owner will easily…</td>
<td>How do I reduce the risk of owning this business?</td>
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<tr>
<td>I have a great reputation in the community.</td>
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<td>My patients love me.</td>
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### Take a buyer’s perspective

If you were expanding, your concerns would be…

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<th>Ease of Operations</th>
<th>Risk</th>
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<td>- Is the business profitable?</td>
<td>- Is the owner a major revenue producer – if so, how do you replace them when they retire?</td>
<td>- Is marketing well-planned and easy to replicate?</td>
<td>- What happens with the owner leaves?</td>
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<td>- What kind of loan can the cash flow cover?</td>
<td>- Is staff in place and willing to stay post-acquisition?</td>
<td>- Are policies and procedures documented?</td>
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<td>- How stable are employees?</td>
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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

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
Primary risks of ownership

Employee Risk
Owner Risk
Financial Risk
Legal Risk
Payor Risk
Economic Risk
Risk of Disruption
Referral Risk

Owner Risk

What are you selling?

Tangible Assets
- Equipment
- Inventory
- Furnished Office

Intangible Assets
- Files
- Name
- Contracts
- Goodwill

P&L
- Future revenue & cash flow

Does any of it have value without you?
**Owner Risk**

**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

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

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**Payor Risk**

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

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<th>Type of Payor</th>
<th>Payor Concentration</th>
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<td>Medicaid</td>
<td>100% Third-Party</td>
</tr>
<tr>
<td>Other Government Agency</td>
<td>One Third-Party that generates more than 25% of revenue (on its own)</td>
</tr>
<tr>
<td>Private Insurance</td>
<td>Accepts private insurance but no Medicaid and individual payor &gt; 5% of sales</td>
</tr>
<tr>
<td>Private Pay</td>
<td>100% Private Pay</td>
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### Referral Risk

**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.

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<th>Explanation</th>
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<td>RELIANCE ON REFERRAL SOURCE</td>
<td>- Any referral source that makes up 20% of more of your revenue presents substantial risk to a buyer.</td>
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<td>- Do you have a contract in place or is there just a handshake agreement?</td>
</tr>
<tr>
<td></td>
<td>- Can contract be assigned to new owner if your business is sold?</td>
</tr>
<tr>
<td>CONTRACT</td>
<td></td>
</tr>
<tr>
<td>COMPLIANCE</td>
<td>- Is contract/relationship compliant with federal and state laws?</td>
</tr>
<tr>
<td></td>
<td>- Anti-kickback Statute</td>
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<td>- Stark</td>
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### Turnkey Practice

Attractive Investment
**Turnkey Practice**

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

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**Key takeaways for today**

1. It’s Never Too Early for an Exit Strategy  
2. Think Objectively about Your Practice  
3. Understand Risk & Turnkey Practices  
4. Determine the Right Time to Sell
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

Company Timing

Market Timing

INVESTMENT
Focus on Company & Market Timing

CAREER
Primary focus on Personal Timing
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THANK YOU
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