

Buying Ophthalmology Practices: Current Opportunities

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Who We Are

• Business and legal advisors to ophthalmologists and other physicians
• Publishers of the Goodwill Registry, used in medical practice valuation
• Handle and advise re: buy-ins, sales, valuations

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Why Buy?

• Sellers are “motivated”
  • ACOs create uncertainty
  • Desire to avoid EMR expense
  • Other specialists (although not ophthalmologists) are selling to hospitals
  • Worries that values will fall
  • Fear is contagious, even if not warranted

Why Buy?
Considerations for Solo Buyers

• Control
• Satisfaction of owning your own shop
• No non-compete to sign
• No future buy-in surprises
• Often times solo practices are outliers in terms of volume and profitability
  • If buyer can keep things going, buyer will do very well

Why Buy?
Considerations for Group Practice

• Geographic expansion
  • Costs and time of developing a new office, new patient base
  • Expand volume to cover existing costs
    • Keep an associate busy
    • Make all physicians busier
  • Acquire surgery
  • Acquire leverage with payors
Do We Really Need to Do This?

- Why not wait the solo out?
  - His patients will migrate to us anyway....
- Maybe.... unless someone else buys the solo
- Even if there are no other buyers, a purchase makes for a better transition
  - Seller is cooperative
  - Timetable is controlled
  - Joint notice to patients

Types of Sellers

- Retiring Doctors
  - Want cash out, care for patients, home for charts, jobs for staff
- Pre-retirement doctors: 3-5 years left
  - "Pre-sell" practice
  - Relief from management
  - More time off
  - Relief from debt and leases

Types of Sellers (continued)

- Younger solos seeking shelter and support
  - Relief from capital expense (e.g. EMR) and debt
  - Relief from management, someone to share overhead
  - Access to ancillaries
  - Access to more patients
  - Collegiality
Selecting a Target

- Depends on who you (buyer) are, and what you are seeking
  - Newly trained or relocating physician can be geographically flexible
  - Seeks a well run practice in desirable area, priced reasonably

- Established group is more opportunistic
  - It may not be looking to buy
  - But a practice becomes available

- For newly trained resident or relocating doctor, a key issue is continuity
  - Are you (buyer) a good substitute for seller?
  - Will patients accept you in place of seller?
  - Can you replicate seller's work effort and volume?
  - Will the staff stay when seller retires?
Selecting a Target

- For established groups, the question is a strategic one
  - Is it available at a reasonable price?
  - Can you handle the volume?
  - Is seller cooperative or difficult?

Structure

- Typically an asset sale, rather than stock sale
  - Buyer avoids seller’s liabilities
  - Buyer can pick and choose equipment
  - Buyer gets enhanced tax basis
  - Cash or notes in exchange for assets

The First Hurdle: The Sales Price

- Components of Practice Value
  - “Hard Assets”
    - Equipment, improvements, supplies, software
  - Accounts Receivable
  - Goodwill-going concern value:
    - Includes charts, phone number, staff, endorsement
Hard Asset Valuation

- Book value
- Appraisal
- Modified book value
  - Recompute depreciation: Straight line instead of accelerated
  - 8 -12 year estimated average useful life
  - Floor value: 20% of original cost

Valuation: Accounts Receivable

- Face value (exclude deadwood) X times collection ratio
- Typically AR is excluded entirely from transaction
  - Let seller collect and keep it, rather than sell it

Valuation: Goodwill

- Goodwill: What is it?
- Any kind of intangible value
  - Likelihood of patient return
  - Practice name, location, phone number
  - Reputation in marketplace
  - Value as going concern
Comparable Sales Method

- Same idea as pricing a house
- Benchmark value, based on neighborhood comparables
- Adjust for individual features
  - Good: high profit, nice location, lifestyle, modern facilities, moderate competition, good payor mix
  - Bad: low earnings, undesirable location, closed panels

Comparable Sales Method

- HCG Goodwill Registry
  - Guidelines for ophthalmology
- YOURS MAY BE HIGHER OR LOWER!

Tax Issues

- Stock versus assets
  - Assets always a better deal for buyer
  - Stock provides no tax deduction
Tax Allocation in Asset Sale

- Needs to be negotiated as part of the documentation
  - What's good for seller is often bad for buyer, and vice versa
- Good for buyer
  - Equipment: 5-7 year write-off
  - Supplies: immediate write-off
  - Consulting pay to seller: immediate write-off
- Bad for buyer
  - Goodwill or Non-Compete: 15 year write-off

Financing

- Cash or notes
- Often a concern for newly trained doctors
- But banks can generally be found
- Avoid paying all cash to seller
  - Delayed payment helps incent seller to cooperate with transition in first year

Post Sale Employment of Seller

- Recommend brief (1 year or less) transition period when solo buys solo
  - Who’s practice is it anyway?
- Longer term employment arrangements are feasible when solo joins group
  - Group is clearly in control
  - But always avoid long term “no cut” contracts
The Negotiation Process

- Seller goes first on price
- Then buyer responds
- Use a letter of intent and term sheet to flesh out key terms
  - Price can be affected by other issues
    - Stock versus assets
    - Whether AR are included in price
    - Tax allocation
    - Seller’s desired post sale compensation package

Documentation: Asset Purchase Agreement

- Price, payment terms
- Non-compete clause – 3-5 years, with good broad radius
- Transitional issues: e.g., letter to patients
  - Text should be pre-agreed
  - Who pays for the postage?
  - Who physically prepares the mailing?

Documentation: Seller Employment Agreement

- Term and termination
- Hours and time away
- Compensation
- Patient transition obligations
Ancillary Transactions

- Buyer needs to lease the office space
  - Is selling physician the landlord?
  - Can buyer have right of first refusal on future sale of property?
- Can buyer acquire seller's equity in local ASC?
Questions & Answers

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