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**Practice Acquisitions**  
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## Practice Acquisitions

By Niels Andersen, President & CEO, KAMedData.com, Inc  
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In this two part series we will provide an overview of the steps typically involved in practice acquisitions from the buyer's perspective. If your organization is considering commencing these activities, the following information can serve as a step-by-step overview to the process. You can use this algorithm as your foundation on which to build and create your own process. Not included are the technical tools, such as spreadsheets, evaluation forms, contracts, and other critical analysis and implementation tools. This article is intended to provide you with an overview of a process. In Part II we will discuss the two primary types of acquisitions, advantages and disadvantages of acquisitions, and a few alternatives for you to consider. THOUGH PRACTICE ACQUISITION is indeed one of the alternatives organizations explore, it is generally an expensive, labor intensive, and time consuming endeavor. Though some suggest it costs less to acquire an existing practitioner than to recruit someone new if you factor in all start-up costs. The buyer should thoroughly analyze the cost/benefit of either route and compare them. Many organizations around the country are actively engaged in the purchase of existing practices. Reasons include:

- Their competition is doing it
- To gain competitive advantage
- Assist in securing payor contracts
- Strategic positioning

The buyer should be clear on what they want to achieve, the purpose of this specific alternative, and investment of capital and resources required. They must also determine if the same or better results can be gained via other methods at the same or lower overall price (hard dollars and/or political price). As providers you can conceivably increase your practice value by banning together in the form of an IPA, MSO, or becoming a legitimate group, verses remaining solo practitioners. If you become strong enough, political leverage can keep the buyer out of your service area all together if that becomes your objective. Their probability of success will greatly depend on the strength and conviction of your strategic business plan which provides a broad overview of your organizations situation and it's alternatives. A solid medical staff development plan must also be in place. Your group should have a medical staff plan of your own in place and have a solid understanding of what their plan states.

### The Acquisition Process

Once they have decided to move forward on this track and they have put their acquisition team together, the overall process generally includes the following phases:

- Reaffirm and/or establish the acquisition objectives and goals
- Identify potential target community practice candidates
- Screen and target the candidate list to narrow their focus
- Establish initial contact with decision makers of target practices to determine receptivity and gather initial information
- Consider having a "getting to know you" dinner or lunch meeting with key representatives (physicians & management) from both parties
- Secure a Nondisclosure agreement (they should keep all their discussions with candidates confidential, this is of benefit to both parties)

- Provide candidates with an overview of their process, their organizational structure (including corporate culture) and operations, and realistic expectations of both parties; financially, time-line, and the new relationship
- Make a realistic prognosis of the feasibility of the acquisition
- Secure financial statements from the previous three years, list of current payors, any lease contracts on equipment and buildings, and other details regarding:
  - Equipment
  - Staff
  - Economics
  - Transition
  - Opportunity Analysis
- Reaffirm the sources of acquisition funds, sources of financing should be established before they embarked on the acquisition venture
- Initial negotiations; establish the offer price with terms, conditions, and method of payment (cash, equity in their organization, signing bonus...), and if employed, define the financial package and benefits
- Issue a letter of intent, nonbinding agreement, or letter of understanding outlining and recapping their understanding of their proposal; pricing, conditions, payment method...
- Complete due diligence analysis of the practice, tangible assets and non-tangible assets
- Establish and agree upon a transition process of staff and operations between their organization and the physician's practice
- Prepare and sign Asset Purchase, Lease, and Employment/Work Agreements/ contracts
- Closing
- Commence and complete transition process, staff training...

The process described above is continuous via various methods of communications (formal and informal meetings, telephone contact, over a reasonable time-line).

### **Consolidation or Asset Acquisition**

Generally there are the two types of acquisitions seen in today's healthcare industry, consolidation and asset acquisition. In a consolidation a third, new corporation, is formed and acquires both the assets and liabilities of the previous organizations. In contrast, in an asset acquisition, only the liabilities stipulated and negotiated into the contract are assumed by the buyer and the acquired company is generally liquidated, or absorbed into the buyer's organization. In this type of acquisition it is important to determine if compliance with Bulk Sales Laws apply in order to avoid liability to creditors of the seller. It is the buyer's responsibility to notify any creditors at least ten days prior to the sale in order for creditors to make arrangements with the seller. If they have the option of buying assets vs. stock acquisition keep in mind that there may be some advantages of buying the stock (particularly as it relates to some leases and existing contracts). Favorable contracts, leases, or interest rates may not be made available or transferable to the organization if they buy the assets. Of course not all practices are incorporated so buying assets may be the only option. If you do have favorable leases, don't forget to include that increased value in your asking price.

## **Advantages and Disadvantages of Acquisitions**

### **Advantages:**

- Sometimes faster than internal development, recruiting from the outside and practice ramp-up (remember if they are recruiting to satisfy community demand, acquiring existing community providers won't help them)
- Internal development may be impossible. Market entry barriers erected by their competition.
- May be less risky, they are able to thoroughly evaluate past performance, reputation, and can better forecast future performance
- Potential consolidation of billing, collections, and other operational and labor resources thus reducing costs and minimizing duplication
- The seller may have a very attractive debt/equity ratio allowing the buyer the opportunity increase their debt load
- Buyer may gain from obtaining the seller's more efficient and effective operational methodologies, seller may have a state of the art computer system for patient scheduling, accounts receivable/payable, ...
- Acquiring a prominent and respected group in your community can also enhance the buyers reputation, providing them with a competitive advantage
- From a time-line and entrenchment perspective, the acquisition alternative may be the fastest and most productive way to secure their market place from local competition and outside intruders

### **Disadvantages:**

- They can overpay, particularly if this work is done by inexperienced people
- It is not always easy to meld the two personalities or organizational cultures
- Incompatibility between personnel and operating styles
- Their organization will usually never have as much information as they would like
- Antitrust; the law states they should have no more than 20% of the market, today many organizations are approaching or exceeding 30% market share and thus fare without governmental repercussions. Their legal counsel should be accountable for organization's compliance in this area
- Determine how loyal the physician/ group is and has been to their organization and the community before they close on the deal

Time-line, can take 3-18 months to complete the deal. This can be an advantage or a disadvantage; it may be faster than recruiting from the outside, target candidates could also be trying to buy time in order to get a better deal with your competition. It is very important to have a clear understanding of "drop dead dates," if a candidate is not ready within an agreed upon time-frame, they may move on to the next candidate. The window of opportunity is very narrow in today's very competitive environment.

### **Alternative Strategies**

There are two primary alternatives seen today, contracting with community providers and joint ventures in one form or another. Joint ventures could include assisting community providers in establishing or joining various Independent Practitioner Associations, Management Services Organizations, Physician Hospital Organizations... they can provide these types of services no matter what type or structure their organization may be (HMO, hospital, integrated system, or large group) When evaluating alternatives

they should also determine why they are doing this in the first place. If their organization is trying to gain market share or obtain new business or both. Now the issue of Return on Investment (ROI) comes up. In most industries outside of medicine, companies seek a ROI of 25-50% on each deal/ acquisition. Clearly this is not probable or even possible given the empirical data we have gained from other acquisitions in the industry. They have to expect to have a very low ROI with a very long repayment timeline. If this is indeed the case, the most logical reason to acquire practices is for security and entrenchment purposes.

### **Summary**

As you can see, being the seller or the competition it is important to learn and become adroit at negotiations as well. There are many important components involved in the acquisition process from both the buyers and sellers perspective. Clearly there are many technical components such as financial and strategic analysis to be completed during the outlined process discussed previously.