



CPAs & BUSINESS ADVISORS

PRIVATE EQUITY AND THE MEDICAL PRACTICE

What it is, what it isn't and how to survive it

PRESENTER



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PE ROLL UP / PE MERGER / PAYOR BUY OUT -- OPTUM



MEDICAL PRACTICE PRIVATE EQUITY

ROLL UPS

- How does it work?
- Why are PE firms doing this?
- Pros and cons
- How do I evaluate the deal?
- What can I do to prepare for / guard against a PE event?



CURRENT MEDICAL PRACTICE STRUCTURE

- Clinical services
- Xray
- Lab
- Reception and Scheduling
- Medical Billing
- Patient Accounts & Collections
- Coding
- Bookkeeping
- Payroll
- HR
- IT
- Administrative Management
- Nursing Management
- Revenue Cycle Management



PE / MSO ROLL UP PRACTICE STRUCTURE

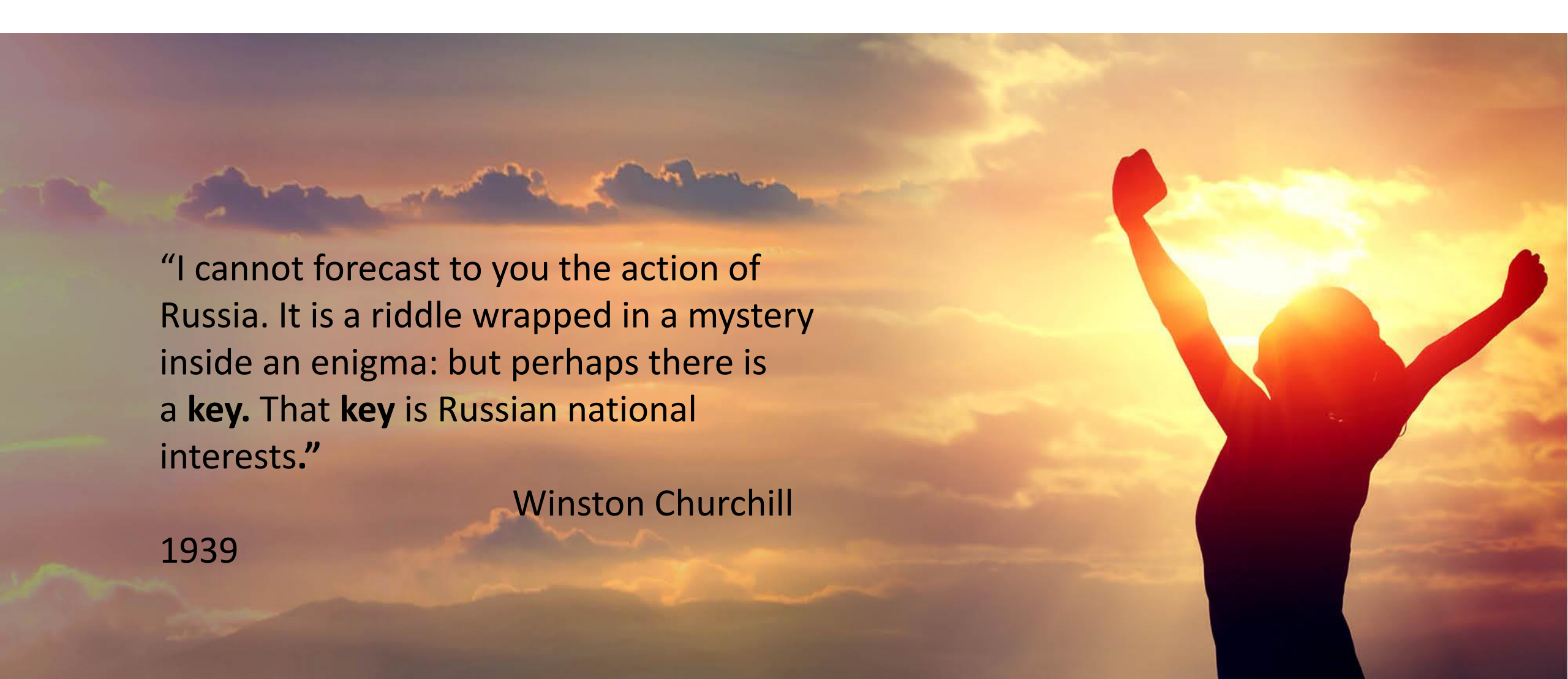
CLINICAL

- Licensed Clinical Services
 - Medical Decision Making

BUSINESS AND ADMINISTRATION

ACROSS MULTIPLE CLINICS

- Administrative Management – CEO & CFO
- Nursing Management
- Revenue Cycle Management
- Ancillary, ancillary, ancillary
- Reception and Scheduling
- Medical Billing
- Patient Accounts & Collections
- Coding
- Bookkeeping
- Payroll
- HR
- IT



“I cannot forecast to you the action of Russia. It is a riddle wrapped in a mystery inside an enigma: but perhaps there is a **key**. That **key** is Russian national interests.”

Winston Churchill

1939

WHY?

What is Private Equity's Key?

PE ROLL UP

THEIR OFFER

- Big money up front
- Share of MSO with big promises of future value (The Flip)
- Lots of sales and financial jargon
- Lots of promises
- Valuation at multiple of EBITDA = **so make it good**



BUY YOURSELF OUT WITH YOUR OWN MONEY!

- 25% - 30% haircut
On future comp
= up front money
- 5 – 7 yr non-compete
- They carefully control the definition of EBITDA
- Middle men get their cut
 - Broker, Legal
Accounting



**PE'S GOAL IS VALUATION INCREASE
THROUGH AGGREGATION**

1. Peel off admin and business part of your practice then create MSO
2. Grow the MSO through aggregating other practices and ancillaries
3. Flip the MSO to an even bigger investor – type at a higher multiple of EBIDTA
3. Sometimes better resources for practice but often just left alone



PROS AND CONS

PROS

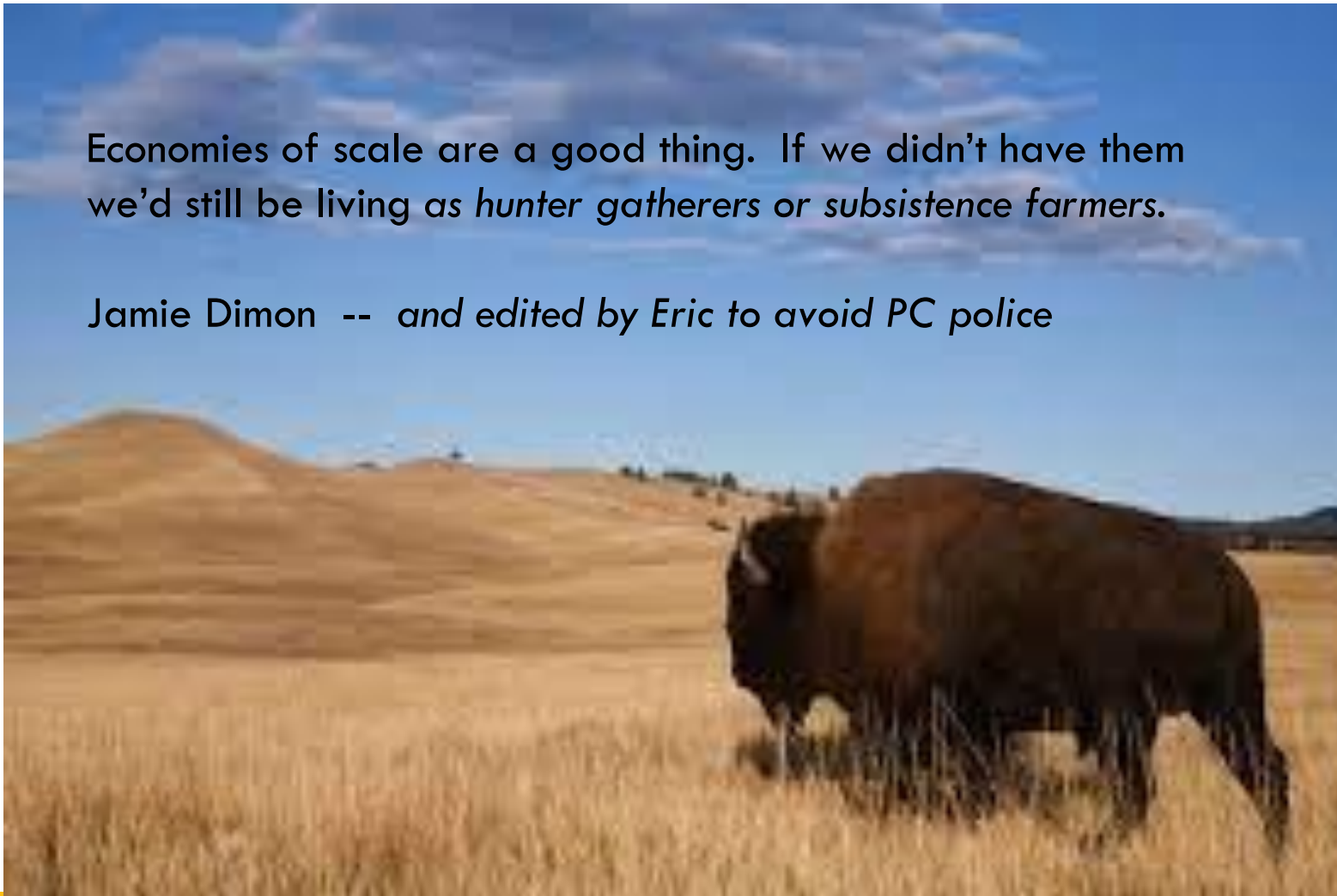
- Big, up front money
 - Bird in the hand ...
- Turn business management over to business people
- May be getting upskilled admin and business office
- Big buy out money up front for older docs
 - However PE often look for succession not a rescue
- Still lots of autonomy

CONS

- Buying yourself out with your own future earnings
- Older docs getting a benefit at the cost of the younger docs working longer under the haircut
- Upskilled management not always as promised
- Deal momentum often means you can't evaluate who will be running your business
- PE puts lots of value into future flip of MSO
 - I consider this to be very unproven at this point

Economies of scale are a good thing. If we didn't have them we'd still be living *as hunter gatherers or subsistence farmers.*

Jamie Dimon -- *and edited by Eric to avoid PC police*



PE FUNDED MERGER / CONSOLIDATION

DEAL OVERVIEW

- Good money up front for percent of practice
- More of a buy in and hold
- Share of MSO with big promises of future value
- Lots of sales and financial jargon
- Valuation at multiple of EBITDA



- More about build economies of scale and synergies
- Better utilize ancillaries
- Expanded Services = Capture more of the patient revenue

PROS AND CONS

PROS

- Good up front money
 - Monetize equity
- Comp haircut more of an MSO fee
 - Turn over admin
- Perhaps backfill comp haircut with expanded ancillary income
- Upside through better utilization and APC's
- Turn business management over to business people
- Still lots of autonomy
- Valuation at multiple of EBITDA = **so make it good**

CONS

- Upskilled management not always as promised
- Deal momentum often means you can't evaluate who will be running your business

Basically start running the practice like a real business but using PE money instead of doc's

But lots of upside goes to PE



EVALUATING A PRIVATE EQUITY DEAL

- Calculate the breakeven of buyout with current production income
- Age matters – Economics of older docs vs younger docs
- Watch costs of PE buyout – future comp haircut, commissions, legal, acctg
- What happens with your real estate?
- Tax is a consideration – capital gain vs ordinary
- Could be an easier way out but usually a terrible long-term play

OPTUM'S OFFERING

- Get a foothold in a market
- Big up front money
- Current pay guaranteed for three years
- Add ancillaries and specialists
 - Optum keeps the profits not you
- Push Medicare Advantage patients
- All other clinics go out of network with 40% cut
- Docs are now employees of huge corporation
- Motivation = add MA lives and add ancillaries



PSA OR SELL TO HOSPITAL

- Offload practice management
- Usually some sort of bait and switch
 - Cannot pay for equity so offer bigger salary – 2 yrs
 - PSA use hospital contracts BUT hospital billing & RVU's
- Doc become a large cost center – not revenue generator
- Hospital gets all ancillary
- Again – motivations do not align
- Can make government bureaucracy look good



GET ENTREPRENEURIAL OR GET READY TO JOIN THEM



GET SERIOUS ABOUT THE BUSINESS OF A MEDICAL PRACTICE

1 INVEST IN YOUR PRACTICE

- Fix profit leaks now = Revenue cycle improvement
- What ancillaries or sales can you offer

2 REMOVE FRICTION

- What is hard about doing business with you?
- What can you do to make it easier?

3 BUILD YOUR OWN MSO

- Add specialists and ancillaries for convenience and profit

4 GET REAL ABOUT MARKETING

- Social media has won this race – get over it



LEVEL UP

1 FOCUS ON A NICHE

- Must be supported by entire clinic not just one doc's hobby

2 LEVERAGE

- Think bigger than just Dr's and nurses

3 BYPASS INSURANCE - ABN

- Create a service offering off insurance
- Subscription

4 MARKET DIRECT TO CONSUMER

- Social media
- Easiest and cheapest marketing is to current customer



PREPARE FOR AGEIST VOTING

Older owners tend to benefit from PE event much more than younger owners due to shorter time horizon.

Increase super majority for
PE sale authorization



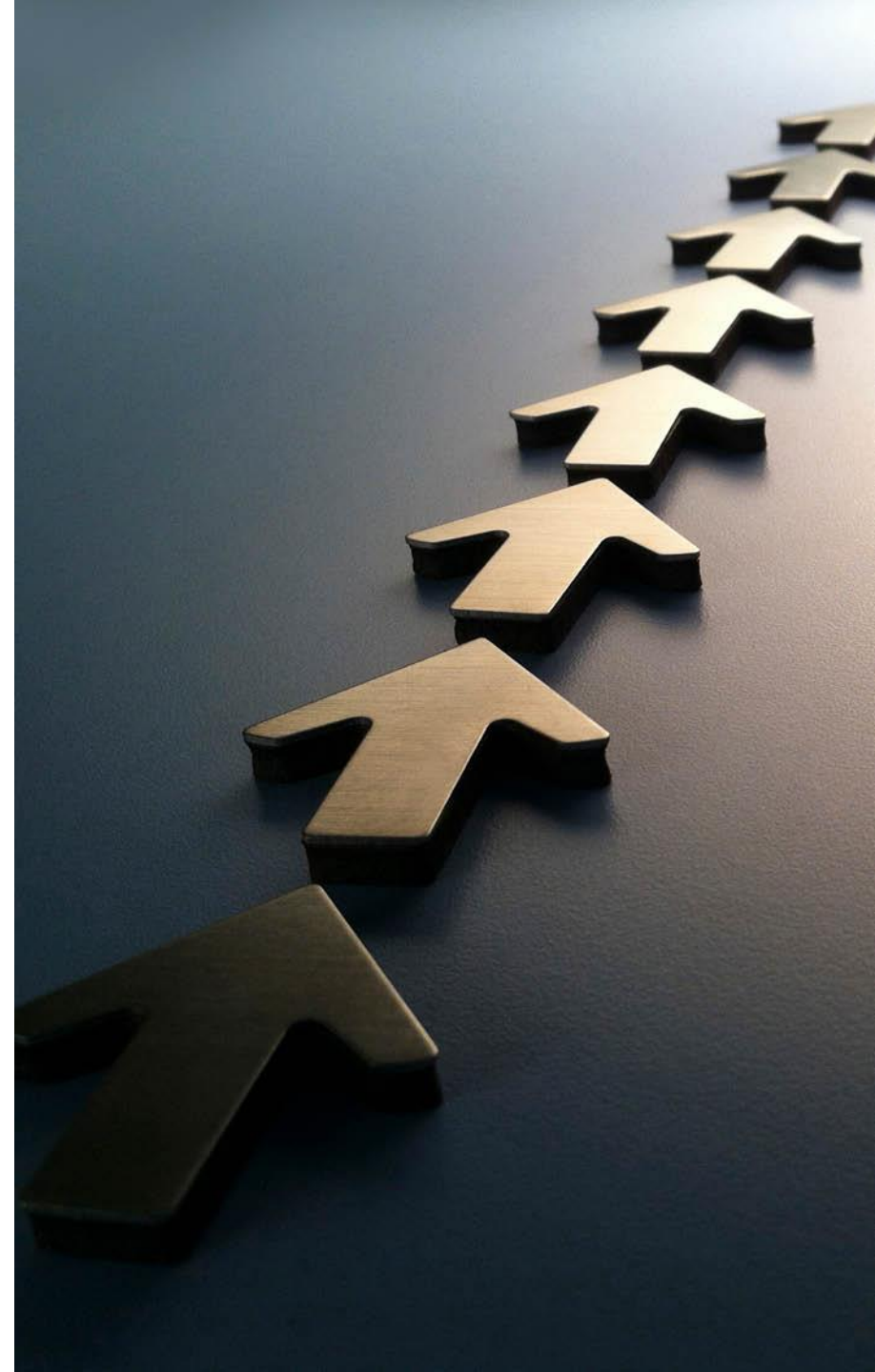
COMMON THEME

Medical practices need to get serious about tuning up their business!

- Avoid PE transaction by beating them at their game

OR

- Higher EBITDA for PE transaction



THANK YOU!

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