



How to Enhance Practice Value in the Eyes of a Buyer

Here are seven things valuation experts suggest.

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According to Cindy Edkins Collier, MHA, chief executive officer of Healthcare Valuation Solutions, “There are a lot of big differences between today’s consolidation opportunities and the 1990s when physicians were moving toward hospital employment” (personal communication, September 17, 2019). Collier has been conducting practice valuations for more than 30 years. Today, she says, “Technologies are different. Referral patterns are different. And there are a lot more marketing data, practice data, and industry benchmarks available to evaluate how physicians compare to peers and competitors.”

According to Colin McDermott, CFA, managing director at VMG Health, “Practices that have a solid operational infrastructure, a quality management team, and are sized for growth and scalability are the ones that are interesting buyers most” (personal communication, September 27, 2019).

So if you and your partners are thinking about acquisition, capital infusion, or other partnership strategies, here are seven things that Collier and McDermott say can increase your value with private equity firms and health system buyers.

1. Know Your Numbers

“We like to see a practice with some sophistication behind the operations and management,” says McDermott. In particular, “buyers are attracted to these attributes because they provide a good base to work from.”

According to McDermott, the quality of the financial and operational data received during due diligence is essential. Be prepared for detailed data requests for financial reports such as income statements, balance sheets, and production re-

says. “Other practices have no idea how to use their reports at all. I see both extremes, and a lot in the middle.” When Collier asks for financial reports and the practice can’t provide them, she says “it’s a sign they aren’t keeping up with financial information.” But when physicians and managers provide and understand the data and use it to improve, “it improves the overall value of the practice.”

And make sure you keep practice and personal expenses separate. “Buyers like to dig into every financial line

Valuation experts consider how well a practice optimizes its asset investments.

ports at the CPT code level by provider, just to list a few of the typical due diligence items.

If you are gearing up for sale, you should have a firm grasp of the data in these reports, how they compare with industry benchmarks, and whether you have improved them over time. For example, has practice revenue grown over time, and if so, why? Has the procedure mix expanded? Have referral patterns shifted? Did you add ancillaries or physician subspecialists to the group? An ability to answer these questions based on data, not hunches, looks good to potential buyers.

“Some practices really know how to use their management reports for continuous improvement,” Collier

item,” Collier warns. “If you currently include personal items that are not an operating expense or revenue or asset to the practice, remove them.”

2. Code Accurately and Put Quality Improvement Systems in Place

Accurate coding is essential to a favorable valuation, because “if you accurately code every procedure performed, you are going to make more revenue,” Collier says. But she and McDermott both warn that the operative word here is accurately. “A buyer doesn’t want to take on potential liabilities,” Collier adds.

As McDermott explains, “If E/M coding practices lead to higher revenue

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nue, but it turns out that these practices are inappropriate, the buyer will look at the practice from the perspective of following accurate coding practices in the future and re-assess the transaction accordingly.” That could mean less money for you and

and education, Collier says, both of which can be communicated through social media and email campaigns to stimulate referrals and self-referrals.

4. Optimize the Value of Your Assets and Technologies

Valuation experts consider how well a practice optimizes its asset

lot of studies show that development opportunities and an ability to contribute are more important to employees than higher pay. I review employee longevity, whether they are performing appropriate tasks for their role, and whether they are rewarded appropriately.”

7. Articulate Your Growth Story

“The goal is to present your business to a potential buyer in a way that outlines the groups’ opportunities,” McDermott says. “The group should be thoughtful when in discussions with a buyer and clearly articulate the future opportunities for the practice given historical investment by the physicians.”

So be prepared to demonstrate your competitive position in the market, the services and procedures you are known for, and what your group has to “sell.” For instance, what do patients like about their experience with your practice? What are they saying online? Which gaps do you fill in the potential buyer’s portfolio of services that can enable future growth?

Let’s say you just invested in a new physical therapy site. You could explain what offering these services in that geographic area means to patient access and future growth. Or if you have a track record of successful physician recruitment and retention, that’s a plus to articulate. “It’s a metric that shows your group is attractive and able to bring in and keep physicians,” McDermott says.

The bottom line is to demonstrate how acquiring or partnering with your group is a growth opportunity for the buyer. Remember that investors are looking for a return on EBITDA (earnings before interest, taxes, depreciation, and amortization). Craft your story to explain how an investment in your practice could make that happen. **PM**

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your partners. “Coding compliance and quality improvement processes matter because they are risk mitigating factors,” he continues. “When a firm conducts due diligence, it will look for evidence of proactive compliance activity.”

Such compliance activity comes in the form of having an active compliance plan, which demonstrates a commitment to continuous quality improvement. If you don’t have a process for identifying and addressing coding issues, or if you fail to regularly train physicians and staff on coding changes and proper compliance, a potential buyer will not see this as a positive. And the auditors they hire to review your records will likely find evidence of the resulting problems during the due diligence period.

3. Create an Effective Digital and Social Media Strategy

Collier says that an important part of a practice’s value can be intangible value. And one of the ways to improve it is through an effective digital and social media strategy. “In today’s environment, a solid digital strategy is important,” she says. “Especially as we move toward consumer-driven healthcare, social media and effective use of technology, with meaningful patient reviews, can add important intangible value because they drive a lot of business.” Whether the buyer is a health system, another physician group, or a private equity firm, patient acquisition is essential for growth. A good digital strategy can also fill needs such as community outreach

investments. If equipment and technologies are dated, “it can appear you don’t want to invest in improving your practice,” Collier says. “That leads a buyer to wonder if the liability of modernizing the assets could cost more than the value of the practice.”

Collier explains that value is a factor of benefit and risk. “Value equals benefits, discounted by the risk. So, if the practice isn’t maintaining or investing in the value of its assets, a buyer may wonder why—leading them to wonder what else you are not doing and what else could be a potential problem.”

5. Leverage Your Clinical Productivity Using Midlevel Providers

Using midlevel providers allows you to drive higher revenue and handle more patients effectively, Collier says. “Having effective and efficient mid-levels deliver care can improve access and enhance care, which can make patients extremely happy, and adding them to the team is a way to beef up your practice revenue opportunities, which can improve value.”

6. Invest in Staff Development and Training

A happy, effective, well-trained, and appropriately rewarded staff makes a big difference, Collier says. Are you providing opportunities for training and advancement? Are your employees engaged? Do their job responsibilities optimize their skills and certifications? Says Collier, “A



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