Crucial considerations for partnership or sale

Thinking about selling? Learn the key factors first

August 22, 2016
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Beauty is only skin deep.
Those who marry for money, earn it.

Adages abound about the best criteria for choosing a partner. They apply in business, as well as life. In other words, high valuation isn’t everything. This partial list of fundamental criteria will help you ensure that you are choosing wisely when it comes to a partnership for your dermatology practice.

Cultural fit / personal connection

The foremost consideration is the fit between your organization and the one with whom you will be partnering. If you cannot see yourself having a productive working relationship with the buying group, it is likely not to be a successful venture no matter how much they pay for the company.

Industry expertise

Partnering with a group that understands the practice of dermatology and has successfully partnered with specialty physician groups is important, particularly as you collectively define the company’s strategy and make future investment plans. Firms that have operating experts on staff can also be attractive partners, especially when building back-office processes and procedures to support a rapidly growing business.

Desired level of autonomy

The extent to which you would like to continue to maintain control over your schedule and key decisions related to your practice is an important consideration to discuss with potential partners.

Roles for going forward

Understanding how you will fit into the new organization can be a critical point of discussion for you as you negotiate a possible transaction. For example, will you be involved in the governance of the new business? Are there larger national roles that you could take on in the future?

Compensation structure

Many dermatologists pay themselves with the earnings of their practices. In the event of a sale or partnership, it is likely that you will receive a salary and potentially a bonus. This salary may be less than the one you previously paid yourself but, in exchange, you will be receiving value for the portion of your practice that you are selling. When looking at compensation, it is important to take a holistic view.
Deal structure

You should give attention to the proposed structure of the deal and to the classes of equity created and assigned to owners. Different securities give different payout preferences and rights to their respective holders. These securities can play an important role in who controls the company and receives economic benefits. Having a solid understanding of proposed capital structure is critical to any deal. Additionally, many states have explicit rules governing the corporate practice of medicine. The legal structures that allow non-physicians to invest in medical practices can be quite complicated, so it is important to have a working understanding of these structures and how money will flow between them.

Speed and certainty

Not all prospective investors are created equally. Certain investment vehicles already have made platform investments in the industry and have a proven track record of closing deals. Others may have a keen interest in the dermatology space but do not have committed funds at the ready to consummate a transaction in short order. And still others have equity capital committed but will require that a certain portion of their offer be financed with debt that will be subject to the lenders’ due diligence and successful negotiation of debt documents. Thus, financing contingencies, or the lack thereof, can have a tremendous impact on the speed and certainty of a close.

Summary

Dermatology is a fast-growing specialization; the market is expected to increase to $13.1 billion by next year. This growth has helped create a dermatologist shortage that may persist for the foreseeable future, even as the field remains one of the most popular specializations sought by medical students.

Demographics play a large part in this growth. By 2019, there are expected to be 54 million Americans over the age of 65, compared with 46 million-plus today, according to a report by the U.S. Department of Health and Human Services’ Administration on Aging. The incidence of skin cancer, particularly melanoma, is on the rise as well, striking about 3.5 million people annually, according to the American Cancer Society. Then there is the never-ending search for the fountain of youth, better known today as Botox, Restylane, micro-dermabrasion and laser correction.

As has been evident in other medical fields experiencing rapid consolidation, such as anesthesia, dental and optometry, there are significant benefits to becoming a part of a larger platform.

Just as long as you choose wisely.

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