What should dermatologists do when a merger beckons?

Prepare ahead of time for opportunities to gather information

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By Patrick Krause

You have spent years building a successful dermatology practice. In fact, you’ve been so engaged that you never really gave much thought to selling out.

But now investment bankers and other dermatology firms phone you regularly and inquire if you are interested in partnering or talking to someone who wants to acquire your business.

How do you respond?

Take the call. It can be insightful and informative to hear from an interested party. More often than not, these calls can provide a window into the overall market for dermatology practices and a preliminary data point on how your business might be valued.

You should be aware of a few good practices, however, when entertaining initial outside interest in your business.

No pressure

Do not feel pressured to respond to questions, particularly around your desire to sell or valuation: Remember that you are in control of the conversation. It is perfectly acceptable to indicate that you are in the early stages of evaluating options and wanted to learn more about what the prospective buyer / partner can offer. If asked a question that you do not know the answer to, it is always appropriate to say “I’m not sure, let me check after this call and get back to you.” Sometimes buyers will ask difficult questions to see how you react. Strive to maintain an even keel throughout conversations.

Get tough

Feel empowered to ask the tough questions: A potential transaction with an investor will be a pivotal moment in your career. You need all the information you can get to make the best decision for you. You should ask the interested party the questions that are important to you. For example:

What would be my role in the new organization?
What is your approach to quality and patient care?
How does our group fit into the larger company?
What opportunities will there be for my junior staff?
Will we be part of the board in the new company?
What are your plans for continued growth?
Be organized

In anticipation of any conversation, prepare to discuss your business at a high level in terms of its financial performance, payor and procedure mix, etc. Upfront work and ready answers to commonly asked questions will indicate to buyers that you are a well-run group, creating credibility that can carry through the rest of a potential process. Don’t forget to take good notes!

Just between us

Before sharing key data about your business (financial, strategic, etc.), ask that the party you are engaging with signs a confidentiality agreement. This document helps to ensure that communications related to your business stay private.

Ask yourself questions

Importantly, throughout these conversations continue to ask yourself:
Do these options sound appealing?
Is it time for me to sell my practice?
Are the buyers’ goals aligned with ours?
How would I feel about working with these new partners every day?

What comes next?

Let’s say you like what you’ve heard so far and would like to entertain the prospect of selling your business or partnering with a new group.

These considerations can help create the broadest and most attractive set of options and can maximize value for your practice.

Engage experienced advisors

The amount of work associated with the sale of your business or the development of a partnership can be daunting. Often times it feels like transaction professionals are speaking a different language. Strong advisors (financial, legal, tax, etc.) can bridge this gap, creating a buffer between you and prospective buyers and working with you to design the right process by helping you refine your objectives.

Talking points

Discussing the below points, among others, with your advisor will lead to a customized experience that aligns with your goals. Importantly, advisors can do much of the “heavy lifting” associated with a deal including the preparation of materials that describe your business, financial documents, etc., allowing you to focus on delivering outstanding care to your patients. Contrary to a common misconception, most buyers welcome the involvement of financial advisors, as it can lead to a more organized and efficient process.

Do you want to engage in a broad process where many buyers are contacted to maximize value and options?
Have you already identified a buyer that you would like to partner with and need help with negotiations and execution?

Begin preparations early

It can take time to pull together the information that will be requested during a transaction. Start to gather key documents and financial information proactively to save time later in the process. For practices that employ cash-based accounting, consider a pre-deal quality of earnings (Q of E) analysis by a reputable accounting firm. In a Q of E, the accounting firm can restate your financials on an accrual basis (which most buyers will ask for) and clean up any issues ahead of time. This process can dramatically reduce the time to close a deal while protecting the value of the business.

Patrick Krause co-leads MHT MidSpan’s Healthcare Services industry practice and provides advisory and transaction execution services to healthcare service companies, including a wide variety of physician groups. www.mhtmidspan.com