Selling Your Medical Practice

Planning ahead can lead to a smoother and possibly more profitable outcome

By Kimberly T. Boike, Esq., and Ryan A. Haas, Esq.

AS CONSOLIDATION in healthcare continues to make headlines, it is an appropriate time for physicians contemplating a sale of their practice to think about whether selling their practice aligns with their overall professional goals and what the best practices are in pursuing such a sale. Selling a medical practice is often something physicians will do only once in their career, so planning ahead is critical to making an informed decision and implementing a plan to make the transition as smooth as possible.

In thinking about a possible sale, physicians should consider their end goal: is it to maximize value for shareholders or is to provide stability and relief from administrative headaches? The answer to this question will have an impact on categories of buyers a physician will wish to pursue in a sale. For example, if maximizing shareholder value is critical, then a physician may elect to pursue private equity firms as potential buyers. If, however, physicians looking for clinical integration and less administrative burden, may instead choose to sell their practice to a hospital or healthcare system.

Due Diligence

Often in transactions it appears that due diligence is very one-sided, with all the effort focused on the potential purchaser's evaluation of the seller and seller's medical practice. However, it is also a best practice for the seller to do some due diligence regarding the buyer. Such due diligence may include: (1) identifying how many practices similar to the seller's practice the potential purchaser has acquired; (2) discovering the financial viability of the potential purchaser; (3) having a discussion with other physician-employees who have sold their practices to the potential purchaser about the transaction and the post-transaction transition; (4) discussion with other employees of the potential purchaser about their satisfaction with that employer; and (5) reviewing other transactions the potential purchaser has been a part of that did not close successfully and the reasons for such failure to close.

In addition to identifying a group of ideal purchasers, physicians will likely want to engage their own appraiser to do an appraisal of their practice. Often, physicians will rely on the potential purchaser to do an appraisal. However, a potential purchaser's interests are not aligned with the physician's interests in determining an appropriate price for the physician's practice. Accordingly, it is prudent for the physician to have an appraiser either conduct its own appraisal of the medical practice on behalf of the physician or to review the appraisal conducted by the potential purchaser. This is needed to confirm that both parties are in agreement with the assessment of the value of the practice.

Once a potential value is determined for the medical practice, it is critical to review the options for structuring the purchase price with an accounting or legal professional who can advise on how to best structure the transaction to minimize the tax implications to the physicians. There may be opportunities for portions of the purchase price to be allocated to goodwill, which will minimize the tax implications. However, it is essential to work with an accounting or legal professional who has structured these types of transactions in the past to confirm that any allocation of the purchase price to goodwill is compliant with applicable laws.

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Letter of Intent

Letters of intent are an important aspect of having a transaction move quickly with as few issues as possible. The letter of intent allows the seller and the potential purchaser to agree on key provisions of the transaction at the outset, as opposed to having a surprise disagreement on a key issue after the parties have already invested time and money into a potential transaction. The letter of intent allows the parties at the outset of negotiations to work through key deal terms and to identify any potential problems. If any identified problems cannot be resolved, then the seller and potential purchaser can part ways without having expended significant resources on a transaction that will not come to fruition.

Transaction Timeline

Once a letter of intent is signed, all key decision-makers and their respective legal counsel should agree on a timeline by which various milestones will be met in closing the transaction. The parties should agree on the number of drafts of the key purchase documents and agree that there will be a fixed number of meetings in which any open business items will be resolved. By setting expectations at the outset and having both sides agree to a timeline on the purchase documents, the parties will be able to more effectively control their legal fees and make the best use of their legal counsel.

Selling your medical practice may sound like a daunting task, but with appropriate foresight and planning, the process can move smoothly and achieve long-term success.

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