

Three Areas of Succession Planning for Senior Physicians

Panel Presentation By:

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Exit strategy: The succession story

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Key Data Gathering Pieces

- ✦ What is the current age of the physician?
- ✦ Income
- ✦ Philosophy
- ✦ Timeframe expectation

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What is the history of the practice?

- ✦ Income
- ✦ Expense
- ✦ Net Income
- ✦ Owner Compensation

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Strategy for Succession

- ✦ Internally Buy-In/Buy-Out
- ✦ Externally Company or Doctor
- ✦ Combination Any percentage of both
(example 50:50 or 60:40)

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Key Documents Needed

- ✦ Key Documents Needed
 - Cross Purchase/Buy-Sell Agreement
 - Practice Appraisal to determine value
 - Terms and Conditions Agreement
 - Development of a document for a Business Plan

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Documents Needed

- ✦ Practice Valuation
 - Needed for mergers and acquisitions
- ✦ Two Components of Value
 - Physical assets
 - Goodwill and cash flow

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Goodwill Valuation

- ✦ HCG Goodwill Registry
 - Guidelines for Ophthalmology
- ✦ **YOURS MAY BE HIGHER OR LOWER**
- ✦ Adjust for Factors Specific to the Practice
 - Positive Factors: high profit, nice location, lifestyle, modern facilities, moderate competition, good payor mix
 - Negative Factors: low earnings, undesirable location, closed panels

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Optical Shop or other ancillary services impact on the sale

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How to take your optical dispensary to the next level

- ✦ Major indicators of Success
 - Capture rate is near 60% of Rx's written
 - Average complete pair sale is near \$350
 - Sales are near 30% of total practice revenues
 - “No change” Rx's are less than 30%
 - Cost of Goods is near 35%
 - Retail selling payroll is near 18%

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Capture Rate

- ✦ Most important statistic:
 - Will generate sales faster than anything you can do.
 - Change practice culture from medical only to one that sees the patient's eyewear as part of the examination process.

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Capture Rate

- ✦ “Optical sales begin when the telephone rings.” *Arthur DeGennaro*
- ✦ Use scripting to assure that each patient is given the information you want transmitted.
 - Supervision to obtain compliance
- ✦ Script the appointment secretary

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Office: Doctor X's office. This is _____ speaking. How may I help you?

Patient: I would like to make an appointment.

Office: I would be happy to help you with that. Are you currently Dr. X's patient?

Patient: Yes I am.

Office: That's wonderful. Dr. X loves when his patients return to see him. He will be very pleased to see you again. Did you receive a reminder in the mail?

Patient: Yes I did.

Office: (Look up patient's information in the computer. Verify what procedure the patient is due for and that the timeframe is correct. Look at the computer for available appointment slots.) Tell the patient the next available appointment is day/time. Ask if morning or afternoon is better for them. (Book the appointment.)

Continues: Mr./Mrs. _____, Dr. X will see you on the (day) at (time). (Tell the patient that the appointment time is 15 minutes before it is actually scheduled. This will allow them ample time to fill out the Visual Lifestyle Inventory and other intake forms).

Continues: Mr./Mrs. _____, do you wear eyeglasses or contact lenses?

Glasses: Dr. X would like you to bring in all of the pairs of eyeglasses and sunglasses you currently use so that he can analyze them as part of your examination.

Contacts: Please wear your contact lenses to the visit and bring your contact lens case.

Continues: Also, please bring in a list of the medications you are currently taking, the dosages and what conditions you are taking these for. Also, do you have any insurance that covers routine vision or eyewear? If a new patient, ask if they need directions to the office.

Continues: Thank you Mr./Mrs. _____ for calling. I look forward to seeing you on the (day) and (time).

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Sample Message On-Hold

At (Name of Practice) we believe that your eyewear is the important final component to the success of your total eyecare program. To insure you the clear, comfortable vision you expect from (Name). Dr. X invites you to visit our optical department. You'll receive the same personalized care you've come to expect from us and the peace of mind of being cared for by professionals who have been selected and trained by Dr. X, who know you and about your individual eyecare needs.

At the (Name) optical department, your glasses are always a perfect fit right from the start. Whatever your lifestyle, we'll help you make the right choice, so you'll look your very best and get the most out of everything you do from sports and recreation, to working on your computer, reading and hobbies. We'll show you the hottest frame fashions, the newest in thinner and lighter lens materials, as well as the latest lens treatments that can improve your vision while reducing annoying glare.

Our professionals will craft your eyewear using the finest precision technology to standards far above those you'll find anywhere else. And all of this at prices that you'll find surprisingly affordable. That's what makes (Name) optical department your clear choice.

When we come back on the line, be sure to ask our receptionist about our current promotions.

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Average Unit Sale

- ✦ Teach your opticians how to sell
 - Most opticians have never been formally sales trained
 - Patients purchase the benefits of the products you offer not their features
 - The more benefits a product has the greater its value
 - An increase in value decreases sensitivity to price
 - The more benefits the patient gets, the greater the perceived value
 - Your opticians must be “immersed” in product information, especially new products and digital progressives

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Average Unit Sale

- ✦ Vendors and labs are good sources for training;
- ✦ Sponsor your opticians to attend seminars on subjects that you choose;
- ✦ See that opticians read as many “throw-away” journals as possible;
- ✦ Discuss pertinent articles with them.

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“No Change” in Rx

- ✦ “No Change” does not mean “no sale”
- ✦ Learn how patients use their eyes in pursuit of their lifestyle;
 - Visual Lifestyle Inventory forms;
- ✦ Offer task specific eyewear that the patient does not presently own;
- ✦ Most people purchase their second pair on the “off year”;
- ✦ Many 2nd pairs are being purchased on the Internet; convenience.

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A Sample “No Change” Script

“Mr. DeGennaro, your eyes are very healthy. I see no signs of cataracts, macular degeneration or other serious eye disease. In addition, I do not feel you would benefit from a change in your eyeglass prescription at this time. I did notice, however, that you do not own a pair of sunglasses yet you are an avid golfer. A quality pair of prescription sunglasses, made with Polaroid lenses could benefit you greatly. I’m going to recommend that you consider these, so I’m writing you out a prescription for them. If you’ll stop by our dispensary (Name), my optician, will be more than happy to discuss and demonstrate these lenses for you. I’ll look forward to seeing you next year for your regular checkup”.

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No Rx

- ✦ Non-prescription sunglasses;
 - Recent LASIK study by Johnson Publishing
- ✦ Colored contact lenses.

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Cost of Goods Sold

- ✦ Incorrect retail pricing;
- ✦ Poor buying habits;
- ✦ Incorrect merchandise matrix
 - Decreased inventory turns
- ✦ Too much managed care;
- ✦ Exposure to loss from customers and employees.

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Retail Selling Payroll

- ✦ A little bit of extra sales goes a long way
 - Increase in average unit sales decreases payroll percentages
- ✦ What is each optician's 'closing rate'?
 - How many sales presentations are not 'closed'?
 - Higher closing rates lower payroll percentages.
- ✦ What about 2nd pairs?
 - Two pairs are better than one.

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Legal Aspects of Succession Planning

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Options For Leaving Practice

- ✦ For a Sole Practitioner
 - Walking Away – Closing a Practice
 - Buy-In/Pay-Out
 - Outright Sale
 - Merger
- ✦ For a Group Practice Member
 - Pay-Out from a Group Practice

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Leaving a Group Or Closing A Solo Practice

- ✦ Notification to Patients
 - Patient Abandonment Issues
- ✦ Malpractice Insurance Coverage
 - Especially "tail" coverage
- ✦ Maintenance of Medical Records
 - How long?
 - Medical Records Custody Agreement

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Closing A Solo Practice

- ✦ Office Lease of a Sole Practitioner
- ✦ Professional Corporation of a Sole Practitioner

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Winding Up A Professional Corporation

- ✦ Differing Tax Issues / Results
- ✦ Distribute Assets for Stock
- ✦ Sell Assets and Distribute Cash for Corporate Stock
- ✦ Sell Stock
- ✦ Merge with Another Professional Corporation

Buy-In/Pay-Out Arrangements

- ✦ No Promises
- ✦ No Surprises
- ✦ Firm Date

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Buy-In Arrangements

- ✦ Critical Evaluation
- ✦ Values Involved
- ✦ Stock Purchase
- ✦ Income Discounting
- ✦ Restrictive Covenant
- ✦ Senior Partner's Protection
- ✦ Indemnification of New Co-Owner

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Pay-Out Arrangements

- ✦ Valuation upon Departure
- ✦ Stock Repurchase
- ✦ Separation Pay / Deferred Compensation
- ✦ Protections for Ongoing Group
- ✦ Funding a Pay-Out

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Funding A Pay-Out

- ✦ Life Insurance (Maybe)
- ✦ Disability Insurance (Probably Not)
- ✦ Ongoing Practice Earnings
- ✦ Personal Guarantee By Remaining Partner(s)?

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Outright Sale Of Practice

- ✦ Overview
- ✦ Fraud and Abuse / Anti-Kickback Issues
- ✦ Tax Consequences
- ✦ Professional Corporation Issues

Outright Sale Of Practice

- ✦ Importance Of A Complete Contract
- ✦ An Unstated Expectation Can Never Be Met
- ✦ Different Possible Transactions / Common Themes
- ✦ Confidentiality Agreement
- ✦ Possible Letter of Intent

Outright Sale Of Practice

- ✦ What are you selling?
 - Stock vs. the practice and its assets
 - All of it or part of it?
- ✦ What are you not selling?
 - Accounts receivable, personal assets, building, ASC, website, etc.
- ✦ Post-sale Employment of Seller?
- ✦ Sales Price

Outright Sale Of Practice

- ✦ 100% Bank Financing
- ✦ Payment terms if you are the “Bank”
 - Need significant down payment amount
 - Payment over time, interest rate
- ✦ Impact of federal / state legislation on loans between the entity and the seller and on payments made over time

Outright Sale Of Practice

- ✦ Personal Guarantee
 - From Buyer Personally
 - From Buyer’s Spouse?
- ✦ Collateral
 - All assets acquired (equipment / goodwill / etc.)
 - PLUS Buyer’s future accounts receivable
- ✦ Life Insurance on Buyer?
- ✦ Disability Insurance on Buyer?

Outright Sale Of Practice

- ✦ Assume That Until Title Passes to Buyer At Closing, Buyer May Renege
 - Therefore, No Letter to Patients, Announcements, or Other Irrevocable Act Prior to the Actual Closing

Outright Sale Of Practice

- ✦ Due Diligence
- ✦ Check Buyer's References
 - Can Buyer Be Trusted To Take Good Care Of Your Patients?
 - Can Buyer Be Trusted To Pay You?
 - Does Buyer Have Good Business Judgment?
- ✦ Run A Lien / Judgment Check On Buyer
 - Does Buyer Pay His / Her Debts? On Time?

Outright Sale Of Practice

- ✦ Transition
- ✦ Letters To Patients And Referrers
 - Not Sent Prior To Closing
 - Text Of Letter Often Agreed Prior To Sale
 - Who Prepares The Mailing, Physically?
 - Who Pays For The Mailing?

Outright Sale Of Practice

- ✦ Collection Of Seller's Accounts Receivable
 - Does Buyer Get A Fee For Helping With This?
 - How Long Will Buyer Help?
- ✦ Staff
 - What Happens To Accrued Benefits, Vacation, Etc.?

Outright Sale Of Practice

- ✦ Use Of Seller's Name
 - On Door, Advertisements, Brochures, Etc.
 - How Long Does This Continue After Sale?
 - Appropriate Indemnifications To Seller
 - Does Seller Need To Supply Any Indemnifications?

Outright Sale Of Practice

- ✦ Maintenance Of Medical Records
 - How long?
 - Medical Records Custody Agreement
- ✦ Restrictive Covenant on Seller

Merger

- ✦ Many Issues Involved
 - Valuation
 - Income Division
 - Governance
 - Pay-Out Arrangements
 - Many Other Issues / Matters
- ✦ Can take 4-6 months to complete

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Question and Answer Section

Final “Pearls”

- ✦ It’s going to take more than a magic wand to exit from your practice. You need to start planning the “succession story” at least two years ahead.
- ✦ And
- ✦ An unstated expectation can never be met. You need to make sure that any contract you sign is complete and accurately reflects all applicable agreed terms.

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