Given the heightened level of interest in acquisitions of independent anesthesiology groups, physician shareholders are being confronted with a myriad of questions. Many are finding that anesthesiology groups in the local region are being acquired by larger medical groups. What should their practice do? What would be the value of their practice if they sought to be acquired? What does the acquisition process look like and how could maintaining a steady course of non-action not result in the best long-term outcome?

**Your Practice has Equity Value**

Over the years, long-standing relationships have been developed with other healthcare providers and service contracts have been established with medical facilities, securing work for all the practice-employed physicians. A practice will accumulate a substantial amount of sweat equity, which has an equally substantial amount of economic value associated with it. Opportunity currently exists to monetize the value of this equity, and depending on regional market activities and the overall global economy, this opportunity may not always be available or as lucrative as it can be today.

**Uncertainty is Prevalent**

Anesthesiologists are currently enjoying high and steady market compensation rates with incomes that fall in the upper echelons within the healthcare physician provider spectrum.

However, considering the current landscape of the industry these statistics likely won’t maintain their relative position forever—especially in markets that are experiencing consolidation since rates will become more competitive, resulting in downward pressure.

As hospital service contracts come up for renegotiation through the RFP process, practices entrenched in these hospitals may find their subsidies and other benefit offerings thinning. Hospitals are facing increasing pressures to minimize operating costs and are being met with an increasing number of alternative providers as options to obtain necessary services. These alternatives are becoming bigger, more competitive and are offering more benefits to the hospitals, making the market as a service provider that much more competitive.

Additional uncertainty over reimbursement rates and models is increasing. Coordinated care is pressuring reimbursement rates down. The industry is experiencing a shift from fee-for-service to pay-for-performance, increasing burdensome requirements to report and maintain quality metric levels by the practice, resulting in greater operating costs and impacting smaller practices disproportionately to larger ones.

**Bargaining Power**

The industry is at a point in its life cycle when size matters, and many of the large buyers are bundling different physician and multispecialty services to gain critical mass and achieve greater bargaining power for contracts and resources. The regulatory environment is becoming increasingly tumultuous with recent legislated healthcare reforms, such as bundled payments, pay-for-performance, value-based purchasing and accountable care organizations.

Partnering with a larger organization in most cases provides your group access to greater resources, existing infrastructure and established business platforms to help address these challenges today, as well as the unforeseen obstacles that will arise in the future. It gives practices the support they need to negotiate with insurance carriers to improve (or at least maintain) current reimbursement rates. They have people whose full-time jobs are to look at managed care, figure out contracts and manage the collection of quality data that is used to improve outcomes.

Sophisticated, tried and true systems are in place to process billing and insurance claims and manage administrative functions to improve the overall process.

---

Critical Issues to Consider When Exploring the Sale of Your Practice

Bill Britton
Co-Founder and Managing Director of Cross Keys Capital, LLC, Fort Lauderdale, FL

---

Continued on page 16
without having groups solve these problems on their own. Physicians can focus on their clinical responsibilities without the administrative burden or managing the practice; overhead costs can be lowered.

**STATUS QUO**

The evolution of the anesthesiology industry is heading in a direction where the smaller, independent physician practice will encounter difficulties in competing with bigger and more capable competitors in the upcoming future. At the very least, this will result in a decrease in overall profitability. To maintain parity with today’s levels, a group would need to experience an increase in reimbursement rates and/or growth in the practice’s customer base, either via organic or inorganic growth maneuvers (pain clinics, ASCs, etc.) or through vertical integration (multi-specialty practices).

Inevitably, external market forces will threaten the ability of many practice models to continue independently. Regardless of any immediate plans or desire to undergo the transaction process, every independent anesthesiology practice group should begin discussing preparation initiatives that will streamline operations, reduce costs, improve financial transparency and other specific measures to increase their overall enterprise value. Furthermore, the group leadership should evaluate and keep apprised of the options available, so that when the necessity arises, familiarity exists with the process and educated decisions can be made.

**ONE-TIME SALE**

Large strategic buyers with practices spanning regional and national geographies may be interested in acquiring your physician practice—in order to establish their presence in a new market or strengthen their position in an established one. These buyers may seek for the acquisition of up to 100 percent of the practice. Five to seven year employment commitment contracts for the selling physicians at fair market salaries and standard non-compete agreements are typical expectations from the buyer in return for this “cash-out.” In some deals, the buyer will seek to have ancillary transaction consideration tied to performance-based “earn-out” arrangements in order to incentivize post-transaction performance by the service provider group.

**FINANCIAL RECAPITALIZATIONS**

Private equity firms (referred to as “financial buyers”) may be looking to invest in your practice via infusion of financial capital in return for a controlling stake in the practice—a cash-out of up to 80 percent of the equity value in the practice. They back privately-held mergers and acquisitions (M&A) companies generally seeking to create a financial “exit” for themselves, typically through the sale of the company to an even larger company or, less commonly, by attempting to “go public” and selling shares on the stock market. Their strategy is not to hold forever—they focus on a growth strategy where they make their businesses large enough to pull returns from their investments. These buyers are most suitable as partners to a practice where the leadership is interested in an active approach to growth. These firms typically bring financial and operational expertise to the table to undertake a rapid top-line and bottom-line expansion campaign. Once the growth strategy has been executed (in three to five years’ timeframe), the firm will look to sell ownership of the practice to another buyer, resulting in a cash-out of remaining ownership interest held by the original shareholders (commonly referred to as the “second bite of the apple”) at a substantially higher enterprise valuation.

**ALTERNATIVE EMPLOYMENT**

If the opportunity to partner with a strategic or financial acquirer is no longer on the table, the group may continue its regular course or it may seek to be absorbed into employment within another group or with the hospital itself. While this provides opportunity to secure work and income with another group, this means any of the equity value and goodwill that was associated with original practice will be foregone—never to be realized. Physicians will receive fair market value salaries, but employment contracts are likely only to be short-term. This is often the least desirable scenario. With proper consultation and planning with the right M&A advisor—not a single dollar worth of value will be unnecessarily left behind.

**TRANSACTION PROCESS**

A physician group that decides that it wants to move forward with bringing another business partner into the picture should expect a transaction process that will run anywhere from six to twelve months. The stages of the process can be defined according to the following process chart:  

- **Data Collection/CIM Creation**  
- **Tactical Marketing**  
- **Letter of Intent**  
- **Due Diligence**  
- **Closing**
Data Collection/CIM Creation—advisors work closely with key practice management and administration personnel to gather key financial and operational information about the practice to build a Confidential Information Memorandum (CIM), which will be used to market your practice. This will serve as an introduction to prospective buyers on what makes your group attractive and as a means of highlighting strengths of the practice. A qualified M&A advisor will work closely with you to develop this comprehensive brochure in order to expand on various aspects, including:

- General overview—history and background of the group, locations serviced, understanding of the ownership and reporting structure lines
- Management and operation model—key personnel biographies, staffing and service delivery models
- Operational and financial performance—case statistics and analysis of revenues, charges, collections and other accounting trends

Tactical Marketing—a campaign is thoughtfully planned and coordinated to reach the desired group of qualified transaction partners able and interested in merging with your practice. A qualified M&A advisor will solicit interest from these prospects on your behalf, coordinate for meetings with these suitors and strategize subsequent steps with your group in considering all viable options. In this stage, attention is given to differentiating characteristics among the buyers, particularly:

- Strategic vision—prospective acquirer’s business plan alignment with the interests of practice stakeholders
- Synergies/value-adds—business relationships, reporting and information systems, shared resources, negotiation leverage and payer rate arbitrage

Letter-of-Intent (LOI)—once the most suitable partners have been evaluated, the process of narrowing down the potential acquirers takes place. M&A advisors are critical in this stage, as they aid in the negotiation to arrive at favorable terms for the selling practice. Review of key factors, not limited to the cash that is being offered for the ownership, include:

- Consideration offered—ancillary to cash offer and any contingencies tied to future receipts
- Employment and benefits—post-transaction compensation rates, employment conditions and terms, and benefits packages

Preliminary terms of sale and an exclusivity agreement are drawn up in the form of a LOI and entered into between the parties, consummating the due diligence process for the buyer and limiting the ability of the seller to solicit offers from any other suitors.

Due Diligence—the buyer will initiate the comprehensive audit review process of the practice, performing procedures to assess the reliability of any assumptions upon which the buyer based its purchase price valuations. This process requires the business to submit numerous legal and financial records requests to the buyer for their evaluation, involving a significant amount of secondary requests and follow-up inquiries. A qualified M&A advisor will prepare the practice and its management to efficiently complete the process, will assume the bulk of the responsibilities in order to limit the impact on everyday business operations, and will help overcome obstacles encountered along the way.

Closing—upon conclusion of the diligence process, a Definitive Purchase Agreement is drafted according to the final terms agreed upon between the parties. Business continues as usual under the new ownership structure.

Selection Of Advisor

Before heading down the route selling of the practice, it is important for leadership to understand that hiring the right advisor is crucial for executing a successful transaction. The ideal M&A professionals will understand it is not only about selling your practice; it is also about understanding your practice, your partners and your unique value—in addition to finding both the optimal economics, as well as “the right fit and best partner” for your group.

The right M&A professionals will have extensive experience specific to the anesthesiology sector in order to advise you on a successful transaction. They will have completed numerous transactions with other independently-owned physician practices and have worked intimately with all of the prospective buyers of anesthesiology groups. A qualified M&A team
**ANESTHESIA BUSINESS CONSULTANTS**

will have an advisory board of healthcare professionals, including anesthesiologists, who have practiced, sold their groups, worked for large national anesthesiology companies and consulted on mergers and acquisitions of anesthesiology groups.

The right M&A professionals will be experts in handling communication among all of the interested parties within the transaction. They will recognize the importance of appropriate, timely and well-designed, on-point communication to the various internal constituencies.

- **The Executive Committee or Equivalent**—keeping them involved on issues and updated on progress being made, walking them through the offers and differentiate the relative pros and cons

- **Shareholders**—keeping them incrementally informed, educating them about the process, potential structures, employment provisions and other details of the transaction as it impacts life after the deal with their new partner

- **Employees**—leading town hall meetings with all the stakeholders to help introduce the Buyer and explain, amongst other things, how compensation and benefits will work post-closing

- **Customers**—strategizing on when and how best to inform them of the transaction

The benefits of hiring the most suitable M&A advisors when your group is investigating a transaction opportunity by far outweigh any cost savings thought to have been realized when considering anything less. The prime opportunity for the sale of your independent practice will only come around once—this is a consideration that deserves to be taken seriously. Have the best professionals on your side of the negotiation table.  

---

**Bill Britton** is Co-Founder and Managing Director of Cross Keys Capital, LLC, Ft. Lauderdale, FL. He is a Wall Street-trained investment banker with a track record of success in M&A and corporate finance with Morgan Stanley and Fortune 500 companies. He leads the Cross Keys Capital Healthcare Services team working with physician-owned practice groups throughout the country. Mr. Britton has represented over 25 anesthesiology groups nationwide, serving as the sell-side advisor in facilitating transactions with a multitude of strategic and financial buyers. In 2013, Mr. Britton and Cross Keys Capital received the prestigious M&A Advisor Healthcare Deal of the Year Award for the firm’s advisory role in representing Broad Anesthesia Associates, LLC and Mid-Florida Anesthesiology Associates, Inc. in their sale to Goldman Sachs Private Capital Investing, completing the formation of Resolute Anesthesia and Pain Solutions, LLC. He is a graduate of the Wharton School of Business. 

Mr. Britton can be reached at 954-410-1936 or bbritton@ckcap.com.