

EXPAND YOUR PRACTICE BY ACQUIRING ANOTHER ONE

One viable option for growing your practice in the current ophthalmic marketplace.

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The landscape of ophthalmology is changing. The days of solo practice are quickly ending, which leads many physicians to ask, "Should I expand, be acquired, or retire?" For many ophthalmologists in the later part of their careers, the idea of selling out is very attractive until they realize the current valuation structure. Retiring early has been an enviable

position for only a few. That leaves expansion as the only viable option to continue to compete in the current ophthalmic marketplace.

EXPAND THROUGH ACQUISITION

A business can expand through internal growth or outside practice acquisitions. The former requires a gradual buildup of services, staff, equipment, and providers. The recruitment of staff and doctors quickly becomes the rate-limiting step of internal growth. Although it is relatively easy to acquire locations and equipment, it is very time and labor intensive to find quality individuals who will fit into your current practice culture. Then comes the multiyear commitment to increase the volume of patients in order to support your new infrastructure.

If you desire to rapidly expand your practice, acquiring another practice is the pathway to that goal. Before embarking on this road, carefully consider why you want to expand and whether or not expansion truly makes sense.

In the past, ophthalmology was a volume game. This meant, the more cataract surgery you could perform, the more profitable the practice would be. The situation has changed now that the reimbursement for cataract surgery has dropped so precipitously, the overhead of a practice has increased so much, and premium cataract surgery has become popular. It is now possible to be more profitable by having a relatively small practice with a high conversion rate to premium IOLs, which is a very attractive model with low overhead and a high profit margin that can be very successful if managed correctly.

Many practices are already too large to be boutique practices, however, but are too small for the carried overhead of a successful practice. A medium-sized practice requires in-house bookkeeping, billing, marketing, managed care contracting, optical management, and ambulatory surgery



center management. These are the same needs of a large multilocation practice, but in the case of the latter, the expenses are spread over a bigger revenue base. In addition, as services and providers are added, having more locations to feed these entities increases their financial viability.

QUALITIES OF A GOOD ACQUISITION

Location, Location, Location

Once you decide to pursue an acquisition, you need to locate a prospect. The first decision comes down to location. Where do you geographically want your practice to grow? Is it a location with an above average net worth, a high-density area, or an area with weak or limited competition? Being for sale does not make a practice worth buying. Rather, the practice needs to be in a viable location—not just now but also in the future. Freestanding properties on main thoroughfares are more desirable and carry a premium compared to those in a strip mall or a small, leased office location.

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Positive Reputation

The ideal practices to acquire have had a long and successful track record in the market. Usually, the provider has been stable and is well regarded. A good reputation will make the integration easier, because you will not be trying to rehabilitate a practice with a bad reputation. As with anything in life, it is better to pay a little extra for better quality than to pay a lot to fix it yourself.

Clean Transition

Usually, the seller is seeking compensation for three things: goodwill, equipment, and structures. In today's world, goodwill has very little value, because insurance companies dictate where patients go. This does not mean that there is no inherent value to the practice outside of hard assets; it is just not worth what it used to be. Goodwill cannot be depreciated and should therefore be valued as little as possible or rolled into the price of the hard assets. Ideally, acquiring a practice is a pure asset purchase agreement. In this situation, the assets of the practice are purchased, and the acquired practice ceases to exist legally. This allows for a clean transition without straggling arrangements or liability. On many occasions, owner financing is available, or a timed buyout is possible.

Transition Period

The real value of a practice is typically the provider who has built it up. Although many providers wish to sell and run, that will most likely devalue the practice. If possible, it is generally better to negotiate a transition period of 6 months or longer whereby the original provider is involved in a structured handoff of the patients. In many situations, both parties desire this arrangement and wish it to last not just months but years.

CONCLUSION

Through proper planning, negotiation, and fair valuations, practice acquisitions can be a win-win for all parties. ■

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