

# THE CONSOLIDATION CHEAT SHEET



Important questions to consider before deciding to sell your practice.

## DO YOU REALLY WANT TO SELL YOUR PRACTICE?

Have you been approached to sell or considered selling your practice to private equity (PE) or other corporate healthcare related entities? While on the surface it looks like a good opportunity, the devil is in the details and we encourage a hearty amount of due diligence before signing on the dotted line and taking a check. In our experience, these are some of the most important questions to ask.

### 1 THE FINANCIALS

- Who controls the financials in the consolidation model?
- Do I have access to the corporate financials?
- Specifically, what corporate financials do I have access to?
- What corporate financials do I NOT have access to?
- Do you operate your financials using GAAP (Generally Acceptable Accounting Principles) accounting principles, if not how do you handle the financials?

### 2 PRODUCTION REQUIREMENTS

- What are my production requirements?
- If you're requiring production minimums and I fail to meet my obligations, what happens?
- Are we required to produce a certain amount of procedures, cashflow, or profitability? what are they?
- Do I EVER have any weekend requirements? Mandatory work obligations or corporate meetings?

### 3 OWNERSHIP

- How much will the doctors own vs the PE company once the deal is closed, in the PE corporation?
- Are there penalties that the PE firm can impose for breach of contract? What are those?
- Are there penalties that the Doctors can impose on the PE firm for breach of contract?
- What are those? (refer to "Consolidation Promises")

### 4 THE MANAGEMENT

- Do I need to change my software?
- If I do need to change my software, can you explain why?
- Specifically, what management responsibilities are you taking from my practice?
- What is the management percentage you are charging to the practice, if any, on top of your ownership of the practice revenues?

### 5 THE INFRASTRUCTURE

- Who makes decisions for the practice once the deal is closed?
- What is the collective voting power of the doctors vs the private equity company?
- Who is responsible to represent the doctor's interests in our group? Is there a board? Who are they?

## 6 THE INITIAL PAYMENT

- What's my multiplier on EBITDA for my revenue? **Earnings Before Interest, Taxes, Depreciation and Amortization**. If EBITDA is an unfamiliar term, here is a link that explains it: <https://www.investopedia.com/terms/e/ebitda.asp>
- How are you determining my EBITDA? (Let them explain this and then refer to your advisor to confirm.)
- How much of this multiplier is actually cash vs stock? (As an example, if you're being offered a 9x multiplier on your EBITDA, but they are proposing that they pay you 50% of this in cash and the other 50% in stock, they are truly purchasing your practice for 4.5x EBITDA. The stock they issue you is your risk to carry in hopes that it will be worth something in the future.)
- What is the percentage of my practice that you're wanting to pay me for?
- When will I receive this cash payment and how?
- What are my tax liabilities on the cash-pay portion?
- Am I at risk for paying any "Phantom" Taxes?

## 7 THE EXIT

- Is there an "escape hatch" clause in this agreement so if this is not what I was told, I can leave?
- What is my minimum obligation (in either time and/or revenue) in this deal until I can get out?
- What happens to me if I leave early?

## 9 CONSOLIDATION PROMISES

- What are the metrics you are promising to the group? Increase in contracts/reimbursement? Increase in case volume? Decrease in expenses? Performance percentages?
- If the PE firm does not fulfill their "promises," what happens? Is there a penalty imposed on the PE firm?

## 10 THE FINE PRINT

- Are there any differences in this deal between the tenured/voting doctors vs the rest of the non-tenured/non-voting doctors in the practice?
- If you have a CEO in the practice, what does the CEO's agreement and compensation look like if the deal is closed?
- Is everything I am being told put in writing in the legal documents?

## 8 THE STOCK

- What is the classification of my stock?
- What is the classification of the PE's stock?
- Does my stock have voting rights in the company?
- What are my liquidation options?
- What is the assumed value of this stock and why?
- Is there any way to verify the value of this stock?
- Are there any "lock ups" on my stock? What are they?
- If we are sold to a second PE company, am I at risk of having my stock locked-up again?
- Who are the main buyers you are considering to purchase your portfolio?
- What are the historical trends of these buyers when the second sale occurs? Basically, what happens to the doctors once the second sale occurs?
- What happens to the first PE firm once the second sale occurs? Do they stay involved?

## FOOD FOR THOUGHT

A final thought for your consideration is a simple question...

What kind of healthcare system do you want for you or your loved ones as patients?

Many doctors do not consider the long-term effects of how damaging corporate run healthcare can be as they focus on the short-term rewards of cashing in now.

HPA exists to be the "other option" for doctors who want to perpetuate independent healthcare AND gain financial benefits.

If you are not familiar with how HPA works, you should take the time to understand it. Visit [hpamembers.com](http://hpamembers.com) and connect with us to start a conversation or simply click on the link below to fill out a quick "Indication of Interest Form" to have a 30-minute conversation:

[INDICATION OF INTEREST FORM](#)