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Practical Considerations for Buying/Selling Your Urgent Care Practice

Urgent message: As urgent care remains a hotbed of merger, acquisition, and transactional activity, owners and operators may see a prime opportunity to sell their practices at maximum market value. The complexities of selling (or buying) an urgent care practice can make it a daunting undertaking, however, and thus requires careful planning, expert counsel, and due diligence to pull off successfully.

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Urgent care could be said to be in the *maturity* phase of the typical industry life cycle. The healthcare delivery model has gained widespread acceptance, growth has been steady, and transactional activity continues to ramp up. And while the private equity, market consolidators, and health system/payer "buyer classes" remain active in the urgent care space, competitive markets and over-saturation have resulted in a shift in overall investment strategy. That is, rather than open new clinics to fuel expansion, market participants looking to expand their footprint are increasingly relying on acquisitions and consolidations of existing urgent care practices/chains.

A trend we're seeing is hospitals and PE groups approaching urgent care centers to gauge their interest in merging or selling outright. This prolific acquisition/consolidation activity presents the individual urgent care operator a viable exit strategy, and an opportunity to sell their urgent care business to growth-focused buyers likely to place a higher valuation on their practice. Hence, depending on the circumstances of the individual urgent care operator, this may be a perfect time to sell.

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Time to Sell?

Indeed, the existing healthcare landscape has shifted such that it makes it more challenging for independent practices to remain profitable, including:

- Increased pressure from the government, payers, and patients to provide improved services at a reduced cost.
- A shifting reimbursement landscape, and an ever-changing regulatory environment related to finance, billing, collections, EMR, HIPPA, etc.
- The irregularity in patient volumes, extreme sea-

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sonality, and the extended hours necessary to service patients.

And while health concerns and burnout are the most common reasons owner-operators sell, a generation of baby boomer owner/entrepreneurs are headed toward retirement in the coming decade—meaning their businesses will be changing hands sooner rather than later. And as the best time to sell is when ample growth opportunity meets a seller's market, some urgent care operators may opt to strike while the iron is hot. Alternatively, the current climate also makes it an ideal time to buy into urgent care, and not just for PE groups and health systems/payors. With that in mind, the following sections will briefly examine the critical steps necessary to successfully sell your urgent care operation, along with important considerations to make if you're on the buyer's side of the transaction.

Eight Critical Steps to Selling Your Urgent Care Business

As many urgent care operators have built their operations from the ground up, the time, energy, and sweat equity they've invested in their businesses can make the selling process an emotional challenge. Their business has become their personal and professional identity in most cases, which is a hard thing to let go of. As such, owners may struggle to view their practices through an objective lens, leaving them with clouded judgement about its real versus perceived value from the perspective of potential buyers. Being a highly competent clinician, after all, hardly means they're prepared to navigate the complexities of prepping for and selling a medical practice by themselves. Indeed, an urgent care owner who has decided to sell requires a clear roadmap, and an experienced transition team to provide expert counsel along the way. With that in mind, here are eight critical steps* an owner should take, when they've decided to sell their urgent care.

1. **Clarify your end goals.** What outcome are you looking to achieve with the sale of your urgent care? Do you want a clean exit from the business? Do you want to stay on as part of a larger merger, or perhaps take on a short-term advisory role post-sale? Are you looking to sell to a colleague wherein price is not the overriding factor, or are you selling to a PE firm where getting top dollar is paramount? In cases where you're after a maximum return, you should enlist the services of an experienced business valuator—especially one experienced in urgent care valuations. Getting an objective valuation from a business valuator can help mitigate emotional decision-making, create realistic expectations for how involved and detailed the sale process really is, and allow the seller to see the transaction from the end buyer's point of view.
2. **Preparation is key.** Unless the seller is facing a health concern that necessitates an immediate sale, there should be no rush to sell. Instead, begin earnest preparations and expect the full process to last one to two years. This gives you ample prep time to get all of your business documentation in order. In fact, you should proceed as if you're preparing to perform an internal audit: start with year-to-date financial statements, at least three years of tax returns, and billing, payroll, and collections reports. You should also begin preparations to clear out bloated inventory, clean up outstanding debt and expenses, resolve any outstanding litigation, and protect intellectual property. Not to mention performing maintenance, clean up, updating, and repair on the physical plant.
3. **Enlist the services of experienced advisors.** As an urgent care operator involved with the day-to-day operations, you likely lack the time or expertise to delve into the often-complicated financial documents mentioned previously, which is why you need a team of advisors to help you through the transition. Your team might include a healthcare mergers and acquisitions professional, a lawyer, a financial advisor, an accountant, and a business valuator who together can help you get organized, explain in clear terms the financial implications of your particular situation, and provide a steady hand in an often-overwhelming situation featuring plenty of moving parts. Additional legal documents that a team of experienced advisors will help you navigate would include articles of incorporation, employee benefits, risk management, and shareholder agreements. Your team should also help document and catalogue your physical inventory, including medical equipment, computer equipment, and office furniture, electronics, and fixtures.
4. **Market your urgent care with a business broker.** There are numerous effective channels for marketing your urgent care to potential buyers. BizBuySell, for example, is an online business marketplace that lists 45,000 for-sale businesses while doubling as the largest broker directory in North America. And even though word-of-mouth and urgent care industry channels are viable options, adding a business broker to your team gives you the best chance of selling quickly and

at a higher price than you could negotiate on your own. A business broker typically charges a commission of 5%-10% of the sale price and can either perform the business valuation or connect you with an urgent care valuation expert if you don't currently have one. A business broker will also list your urgent care on the appropriate marketplaces, network with a large pool of potential buyers, work to get the highest price possible for your practice, and even help arrange financing sources for potential buyers.

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5. **Prequalify potential buyers.** An often-necessary weeding-out process will take place at this stage, as most potential buyers will not be qualified—either they don't have the funds or can't secure the necessary financing. You can typically weed out the pretenders from the serious buyers with a firm asking price and a request that they produce confidential documents that verify proof of funds or access to financing.
6. **Craft a selling memorandum.** A selling memorandum acts as an advertisement of sorts for a company and should cast the urgent care in a positive light. It should be inspiring yet truthful and should add enough value to the company that it entices potential buyers to take a more in-depth look. An effective selling memorandum might include an executive summary, company history, analysis of strengths and weaknesses, market data, updated financial performance and projections, a rationale for the asking price, top management, and key employees and vendors. The size and scope of the operation will determine the depth and complexity of the selling memorandum, but it's only intended to give a broad overview to qualified buyers.
7. **Letter of intent.** When a buyer presents a letter of intent, it catapults the situation from a keen interest level all the way to serious negotiations. The document takes the urgent care off the market and lends a potential buyer negotiating exclusivity. While the necessary due diligence on both the buyer and seller's side has been performed to a degree, it ramps up at this stage. The prospective buyer will want to know everything about the urgent care operation down to the nuts and bolts, including confidential matters such as intellectual property, current contracts and liabilities, growth and profitability projections, in-house procedures, and staffing. Documents will be more closely examined by the potential buyer's own team of advisors, and an on-site inspection of the physical plant is typical. Noteworthy at this stage is that this is where many deals can collapse due to sellers becoming overwhelmed by sheer volume of requests and inquiries, negotiating sticking points, intensive buyer scrutiny of the fine print, or a perceived lack of transparency on one or both sides. This is also the stage where the seller's role after the sale will be finalized, and the structure of deal (ie, payment structure, financing, stock vs asset sale) is decided.
8. **Final negotiations and closings**. At this stage the sale price is finalized, the terms and conditions are ironed out, and the purchase and sale agreement is completed. The agreement is typically a document of 25-50 pages, and will include exhibits like noncompete covenants, employee agreements, and asset listings. The entire process can last from six months to a year from start to finish. In most cases, the purchase and sale agreement will stipulate that the seller will remain affiliated with the urgent care in some advisory capacity to facilitate the transition, and help maintain relationships with employees, vendors, and patients.

* Adapted from Meyer H. Closing the deal: eight essential steps for selling your business. Available at: http://www.costcoconnection.com/connection/201208?pm=2&pg=25#pg25. Accessed April 2, 2019.

As outlined above, the selling of a medical practice like an urgent care center is a long and involved process. Hence, it is prudent for owner-operators to seek out the help of advisors and expert counsel toward completing the sale successfully and getting a maximum return. Depending on your state and its *corporate practice of medicine* doctrine, you may have to vet your buyer to ensure that they have the legal right (eg, a licensed physician or professional medical corporation) to own a medical practice. Another legal consideration pertaining to the sale of an urgent care is whether it's operating as a hospital outpatient unit or a private medical practice. In the latter case, there must exist a clear separation between the administrative and management function of, say, a managed service organization, and the clinical operation involving the actual practice of medicine.

Considerations for Buying an Urgent Care Operation

Private equity and health systems/payers each have long-term strategies driving their urgent care acquisitions. PE portfolios can sell larger urgent care companies at higher EBITDA multiples, while health systems can increase patient access points. Both leverage the pre-existing platforms to facilitate expansion, benefit from economies of scale and reduce costs.

Individual entrepreneurs may also see opportunities to get involved in an urgent care acquisition. These potential buyers look at clinics that they perceive as having profitability potential—given the right strategy, philosophical approach, and capital investments—and make offers to purchase. They don't go in thinking they need to re-invent the wheel. Rather, they feel that with upgrades in marketing, processes, industry know-how, and branding they can boost performance and turn a for-sale clinic into a profitable endeavor after a change of ownership. To that end, we've put together a brief "acquisition checklist" that a potential buyer could follow to help them navigate through a complex purchasing process:

- ***Creating an Acquisition Roadmap***
  - *Develop a realistic timeline* – An urgent care acquisition is a lengthy process, so expect a minimum six months to a year for the final closing.
  - *Determine acquisition structure* – Will it be an asset sale or a stock sale? In general, sellers prefer stock sales given the lower tax rate on capital gains, whereas buyers prefer asset sales since the liabilities remain with the seller.
  - *Properly value the acquisition target* – Enlist a valuation expert; determine profitability, payer mix, reimbursements, growth potential, staffing costs, patient volumes, location and visibility, etc.
  - *Conduct due diligence* – Request documents to validate all representations and details included in the selling memorandum about the practice. Inspect the facility; cross all I's and dot all T's.
  - *After-closing integration* – In what capacity does the seller stay on? Advisor, mentor, or ambassador?

- ***Considerations for a Potential Urgent Care Purchase***
  - *Assets acquired* – Intellectual property, medical equipment, computer equipment, electronics, furniture, fixtures
  - *Liabilities assumed* – Product liability, employee lawsuits, contract disputes, etc.
  - Existing market footprint – Number of locations, market share
  - Compliance history – HIPPA, notifying patients of change in ownership, clear separation of the clinical practice and any MSO, etc.
  - Valuation issues – Earnings, reimbursements, goodwill, tangible assets, etc.

- ***Things to Request in Due Diligence***
  - Licenses and certifications (physician and practice)
  - Third-party contracts (payers, management, etc.)
  - Medicare billing (CHOW requirements)
  - Healthcare compliance (HIPAA, HITECH act)
  - Insurance compliance
  - Medical malpractice claims
  - Investigations (federal and state)
  - Covenants not to compete
  - Identify antikickback/Stark concerns

- ***Hire Professional Guidance (Tax Expert) for IRS Due Diligence***
  - Timely valuation of assets
  - FMV price/retained goodwill
  - Retained rights
  - Reasonable compensation/incentives
  - Charitable purposes

Similar to the urgent care seller, a potential buyer will want to hire a team of advisors to provide expert guidance and counsel through the buying process. Whereas the buyer requires a high-level picture of the details surrounding the acquisition, the advisors will deal with the minutiae, specifics, and fine print.

Conclusion

There's a lot that goes into selling a medical practice like an urgent care clinic. Aside from the life-changing emotional impact of selling a business you strongly identify with, the sheer number of complexities associated with executing a sale from start to finish can make it a difficult, stressful, and time-consuming undertaking. Many of those same challenges exist from the buyer's perspective, as performing a proper due diligence on a potential acquisition involves a significant time and financial commitment.

Therefore, for an urgent care buy-sell situation to be successful for both parties, experts, advisors, and specialists must be enlisted to facilitate the process and take the reins. Done earnestly with cooperation and transparency, the buyer and seller can both achieve their objectives, and walk away satisfied with the outcome. ■