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Client Profiles

Selling a Medical Practice to a Private Equity Firm

A real-world example of a doctor who sold her practice to a PE firm.

The growing trend of doctors selling their medical practice to private equity (PE) firms has been in the spotlight recently. We've been gathering input from various experts and advising some of our clients about this exit strategy and the compelling reasons to consider it. In the process, we realized that while some resources explain **how and why this is done**, there is very little written information available from the perspective of doctors who have gone through with a sale. So, unless you know someone who has been through the process, you might be curious to gather some "first hand" information. Here, we offer a real-life case study from one of our clients who recently sold her practice to a PE firm.

Profile: Married, Optometrist

Ages: 58

Annual Income: $350,000

Children: 2, ages 28 and 25

Background – Ready to Retire (maybe)

Our client is an optometrist whom we'll call Tracey, not her real name, of course. Tracey is in her late 50's and built her optometry practice with a partner who is a few years younger than her; We'll call him Joe. The practice grew over the years, and by the time Tracey started thinking about exiting the practice, they had two additional, non-partner ODs on board.

Tracey was in a good place financially to consider retiring. In the early years of the practice, she aggressively paid off her optometry school loans. Tracey and her husband consistently saved money in 529 Plans for their two children and were able to pay for their entire college education with those contributions. With our help, Tracey and her husband were diligent about growing her tax-deferred retirement savings for more than 20 years. When their children were in middle school, Joe started working as the office manager for the practice, which enabled them to put more money aside into retirement accounts under his name. By living within their means and staying disciplined, they were even able to help their now-adult children with substantial down payments to buy their own homes. At this point, Tracey and her husband are discussing moving into a new phase of life. Since they are in good health, there are many things they want to do with more free time.

A Traditional Exit Might Not Be the Best Plan

Tracey had informal conversations with a few ODs who sold their practices to their partners or other optometry groups, but she didn't go beyond that. Tracey assumed that, when the time came, she would most likely sell the practice to her current partner, Joe. He was not yet ready to retire, and the non-partner ODs had expressed interest in buying into the practice. Fortunately, she talked to her advisor at Gold Medal Waters (GMW) concerning her thoughts when she first started thinking about selling her practice. We explained that private equity (PE) firms were aggressively looking to acquire optometry and ophthalmology practices, and why it would be worth considering.

When we started talking with Tracey about the PE buyout alternative, she was surprised to learn that the amount PE firms are willing to pay is often significantly higher than what she could realize from **selling to other ODs**. After her GMW advisor connected her with a couple of PE firms just for an exploratory conversation, Tracey found that by selling the practice this way, she could receive 2-3 times what her partner and the younger doctors in her practice could likely offer.

Whenshe told her partner about the potential PE buyout offers, Joe decided that even though he wasn't thinking of selling, the financial impact would allow him to reach his own goals was too compelling to pass up. It was a tough decision personally for both Tracey and her business partner because they wanted to "do right by" the other ODs in the practice.

Time Considerations

An essential piece of advice Tracey's GMW advisor gave her was: "Don't wait until you're ready to walk away. Start the process now. It takes time, and you will have to continue working for a couple of years after the sale." That turned out to be true. Tracey and her husband still both work in the practice as salaried employees – they will have to stay for at least two more years, but her husband may want to continue working because he's not sure he wants to retire yet.

Tracey and Joe still have a small ownership stake (~5% each) in the practice, which is typical with PE buyouts. It gives the doctors who sell their practice some "skin in the game," thereby incentivizing them to keep the practice growing and running smoothly. If the practice continues to do well, this stake could generate an excellent additional return for Tracey and her former partner when the PE firm sells the practice in the future. These sales typically occur 5-7 years after a buyout. Since Tracey and Joe co-own the building where their practice is located, the rent paid by the PE firm is a source of cash flow that affects how much Tracey and her husband will need to draw from their retirement savings accounts to meet their lifestyle goals after they stop working.

Key Takeaways

Here are six key takeaways Joe says he learned from experience that would apply to anyone thinking of selling a private practice to a PE firm:

- **Talk to a financial advisor *long before* agreeing to sell your practice.** Don't wait until after you receive a pile of money from the buyout to ask an advisor, "now what do I do with it?". A qualified advisor can help you to maximize what you receive from a sale after taxes and can assemble the team of experts you need to guide you through various tax and legal issues.

- **Talk with two or three PE firms before signing a Letter of Intent (LOI).** Since Tracey had more than one PE firm interested in his practice, he was able to not only push back on the initial offer but also the counter-offer and increase the sale price significantly. It is essential to know that once a letter of intent is signed, you cannot discuss the terms of the deal with another PE firm. So, engage in discussions with numerous PE firms before signing an LOI.

- **Negotiate employment contracts for any junior doctors in the practice to your satisfaction after you sign the LOI.** You will want to retain those important people who have been contributing to the success of the practice; since they will not be able to become partners, you need other ways to financially motivate them to stay.

- **If charitable giving is one of your goals, discuss this with a tax expert and your financial advisor before you sign an LOI.** You will incur a significant tax liability from the sale that can be reduced by contributing to a donor-advised fund or other strategies. Gold Medal Waters works with charitable consultants to identify the trusts that will optimize the impact of your gifts.

- **It will take longer than you think to close the deal.** PE firms want to move quickly, but you will need to assemble many documents and consult with your tax advisor before signing anything. Expect the closing date to slip for a myriad of reasons.

- **No one wants to walk away from a deal, but if something doesn't match up with the promises that were made, you must be willing to do precisely that.**

Private equity firms' offers to buy medical practices are particularly strong right now, but they might not always be that way – at some point, the music might stop, and there may not be enough chairs. Even if you are starting to think about selling your practice, we're available to help from the earliest stage of the process. If you are not currently a Gold Medal Waters client, there is no charge for an initial consultation.

CONTACT US

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