



**SELL, MERGE OR STAY THE
COURSE?
STRATEGIES/STRUCTURES AND
HOW YOU CAN HELP PHYSICIANS
MAKE THE RIGHT CHOICE**

Jeffrey Kramer, CPA, CGMA - Fort Lauderdale

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.





To Divest or Not to Divest ?

- What has changed?
- What are some challenges?
- Employment trends
- Uncertainty





New Delivery Models

- Accountable Care Organizations (ACO's)
- Bundled Payments
- Medicare Access and CHIP Reauthorization Act of 2015 (MACRA)



Trends



- Physicians leaving smaller groups
 - % of Physicians in small groups (9 physicians or less) decreased from 40% to 35% between 2013 and 2015
 - % of Physicians in larger practices (100 or more physicians) increased from 30% to 35%
- Physician Ownership of Medical Practices
 - % of Physicians owning medical practice decreased from 53% in 2012 to 47% in 2016
- Physicians Employed by Hospitals
 - % of Physicians employed by hospitals remained at 33% from 2014 through 2016 increasing from 29% in 2012
 - In 2016 21% of doctors in hospital-owned practices said their practices had been acquired in the past five years compared to 27% in 2012.

Physician Ownership Trends

Exhibit 1. Distribution of Physicians by Ownership Status and Type of Practice ¹

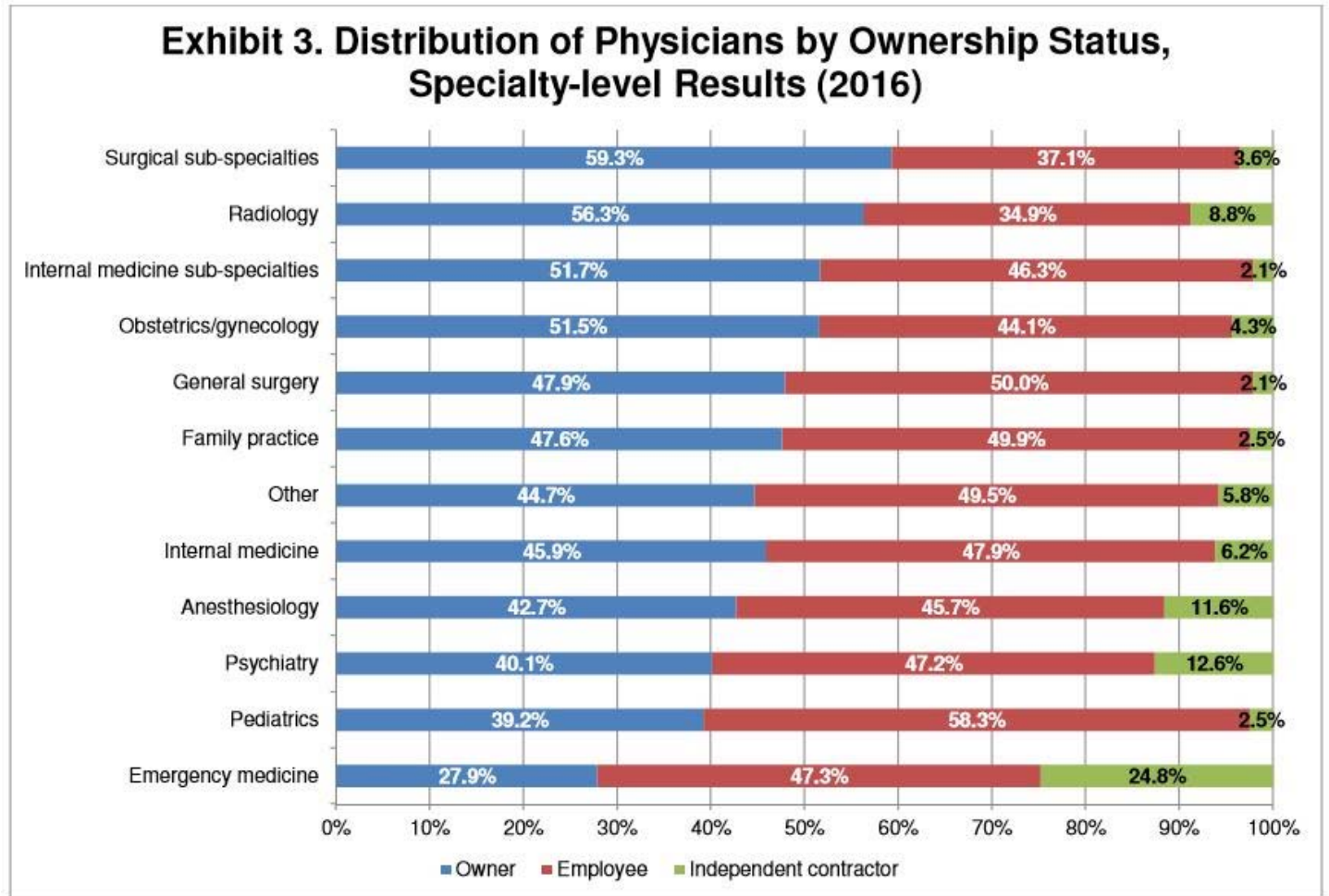
| | 2012 | 2014 | 2016 |
|--------------------------|--------------------|--------------------|--------------------|
| Ownership status | | | |
| Owner | 53.2% ^b | 50.8% ^a | 47.1% ^a |
| Employee | 41.8% | 43.0% ^a | 47.1% ^a |
| Independent contractor | 5.0% ^b | 6.2% | 5.9% |
| | 100% | 100% | 100% |
| Type of practice | | | |
| Solo practice | 18.4% | 17.1% | 16.5% ^b |
| Single specialty group | 45.5% ^a | 42.2% | 42.8% ^b |
| Multi-specialty group | 22.1% ^a | 24.7% | 24.6% ^b |
| Direct hospital employee | 5.6% ^a | 7.2% | 7.4% ^a |
| Faculty practice plan | 2.7% | 2.8% | 3.1% |
| Other ² | 5.7% | 5.9% | 5.7% |
| | 100% | 100% | 100% |
| N | 3466 | 3500 | 3500 |

Source: Author's analysis of AMA 2012, 2014, and 2016 Physician Practice Benchmark Surveys.

Notes: ¹ Significance tests are for year to year changes, within category. 'a' is $p < 0.01$ and 'b' is $p < 0.05$.

Indications in the 2012 column are tests for 2012 and 2014; in the 2014 column for 2014 and 2016; and in the 2016 column for 2012 and 2016. ² Other includes ambulatory surgical center, urgent care facility, HMO/MCO, medical school, and fill-in responses.

Ownership



Source: Author's analysis of AMA 2016 Physician Practice Benchmark Survey.



Transaction Landscape



Four sectors with significant activity

- Facility-based specialties (e.g. anesthesia, radiology, ED, hospitalists)
- Retail medicine (e.g. dental, dermatology, IVF)
- Disease-state specialties (e.g. gastro, orthopedics)
- Primary care strategies





Who are the buyers?

- Private Equity Firms
- Hospitals
- Medical Groups
- Insurance Companies



M&A Flow by Quarter in North America

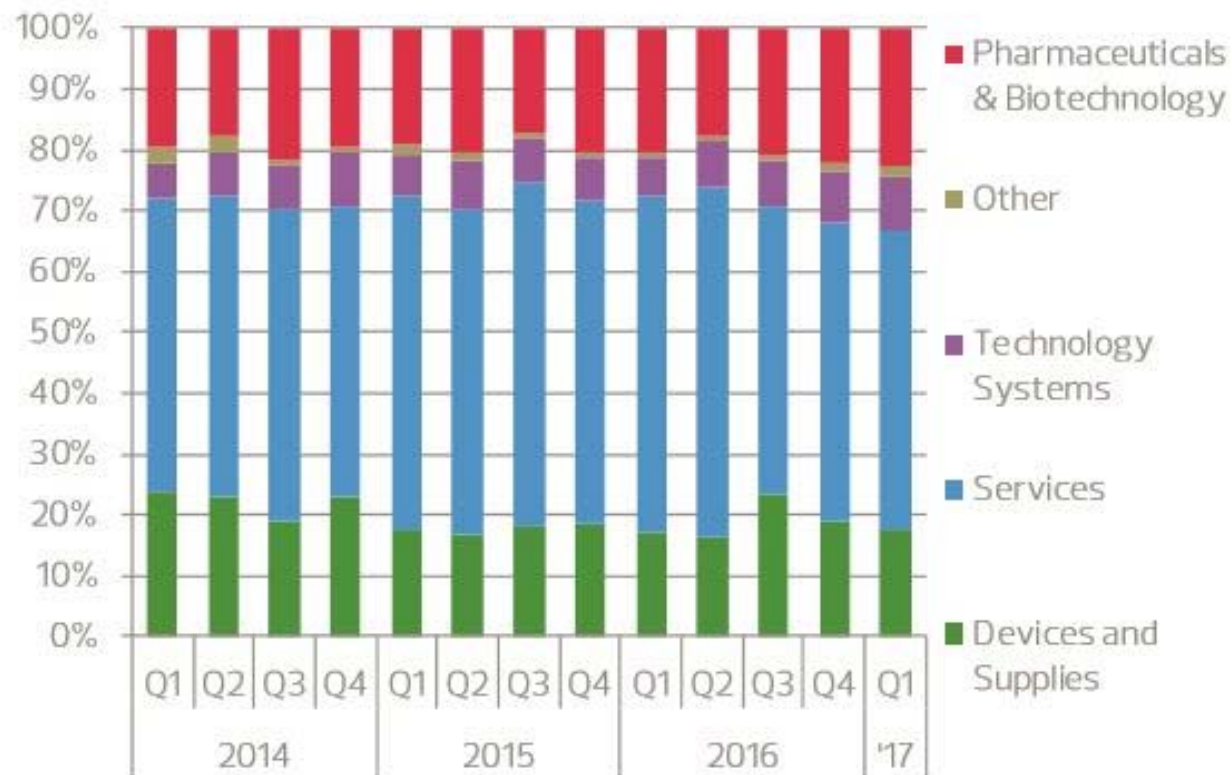
Health care M&A flow by quarter in North America



Source: PitchBook

M&A Transaction Count by Sector

M&A transactions (count) by sector

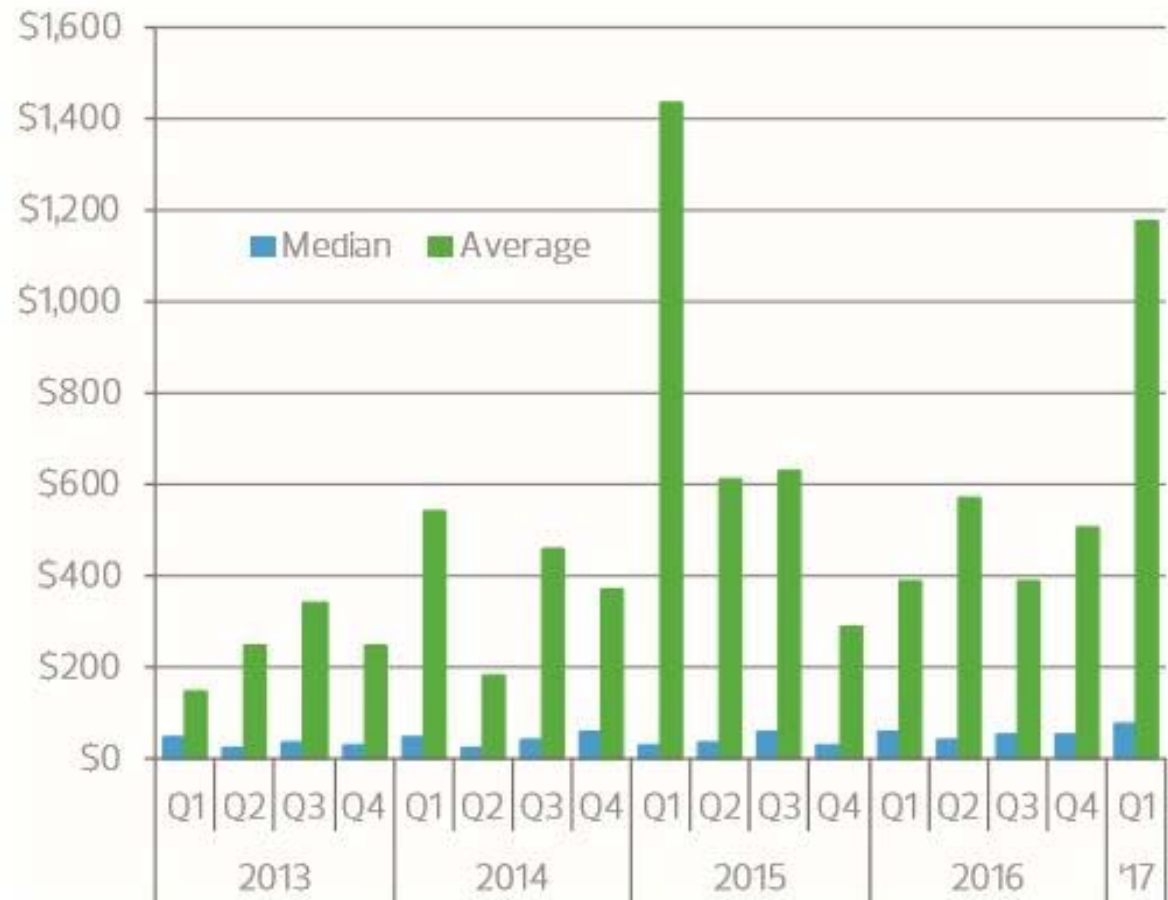


Source: PitchBook



Average and Median Deal Size

Average and median M&A deal size (\$M)



Source: PitchBook



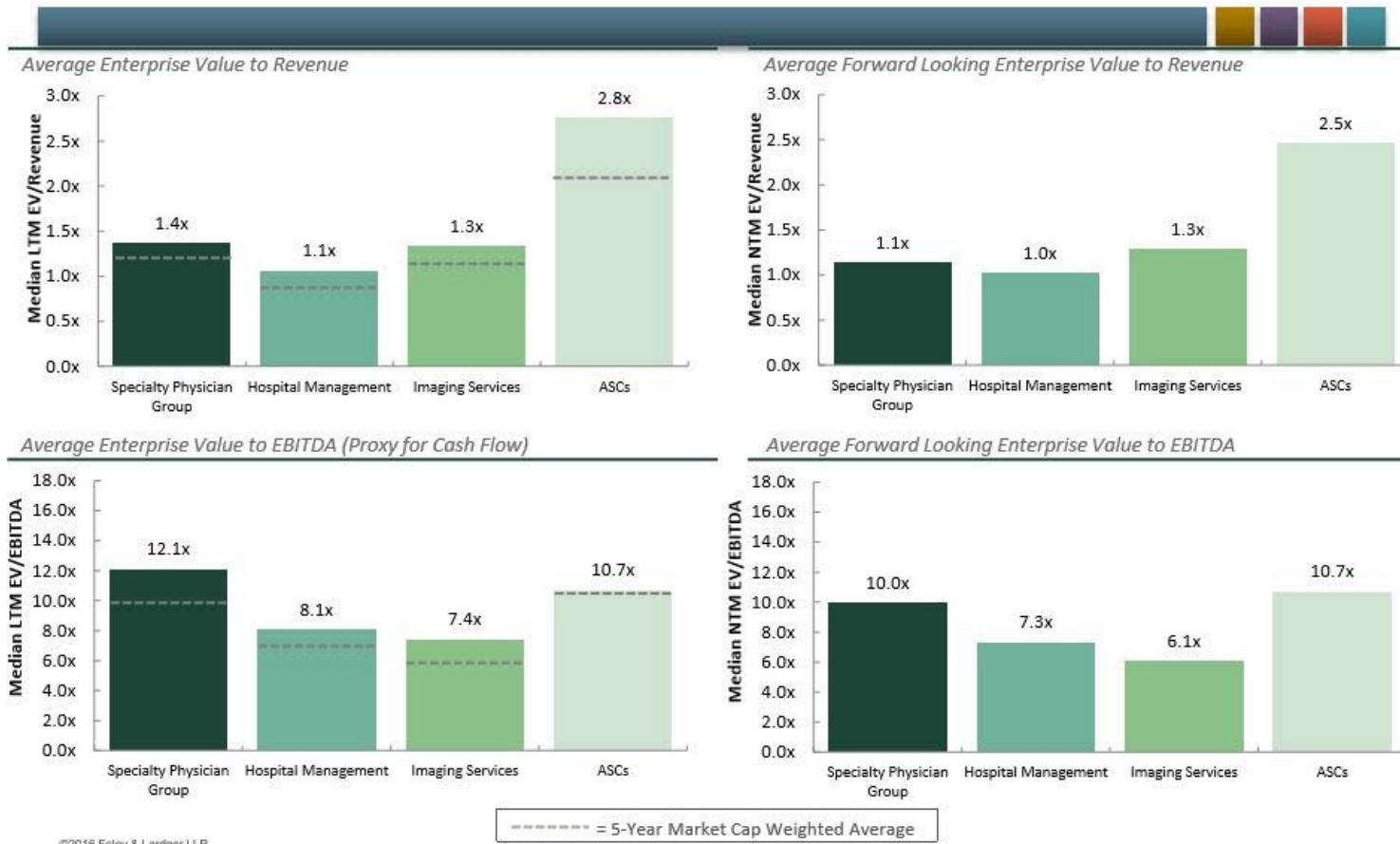
PRIVATE EQUITY EXIT ACTIVITY

Health care private equity exits by quarter



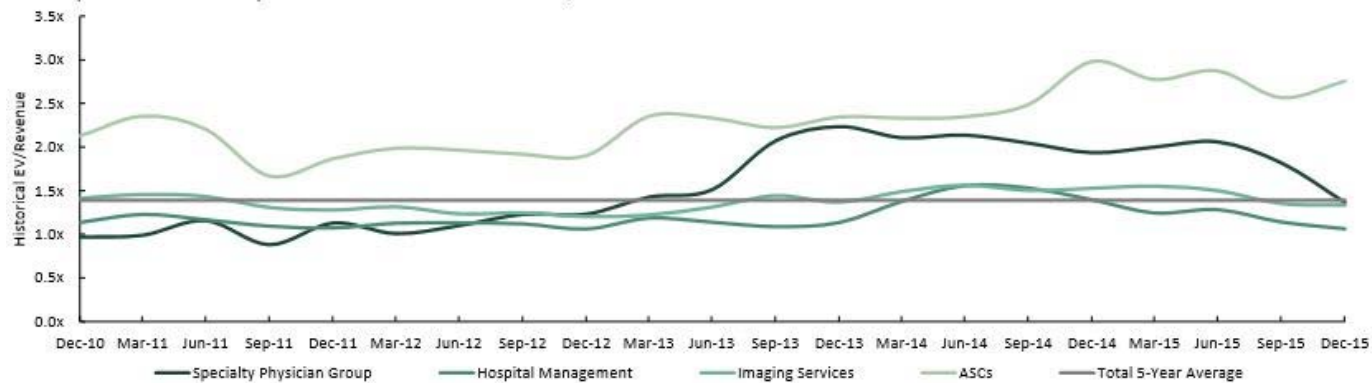
Valuations

Valuations Above 5-Year Average

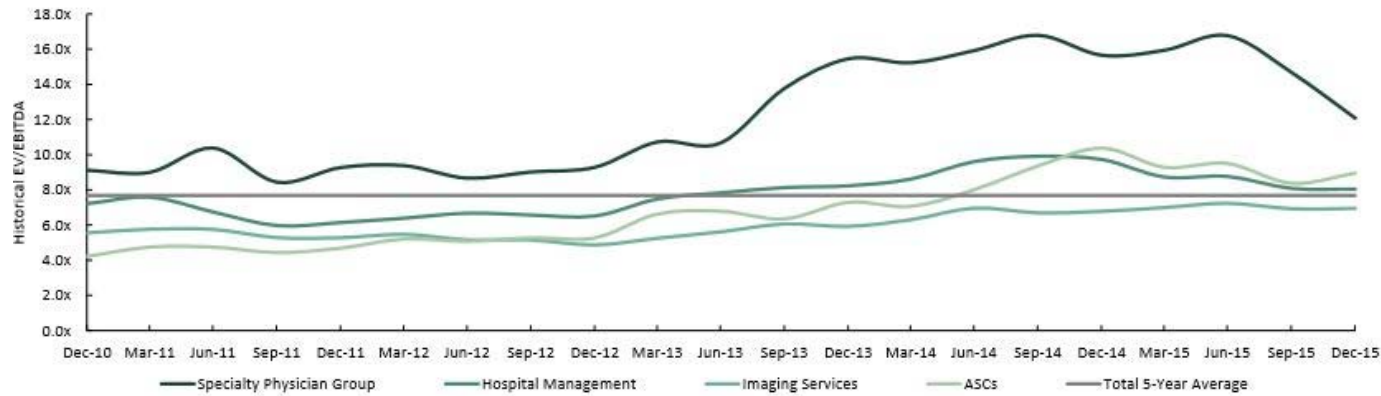


Valuations Above 5-Year Average

Comparable Public Companies Historical Median LTM EV / Revenue

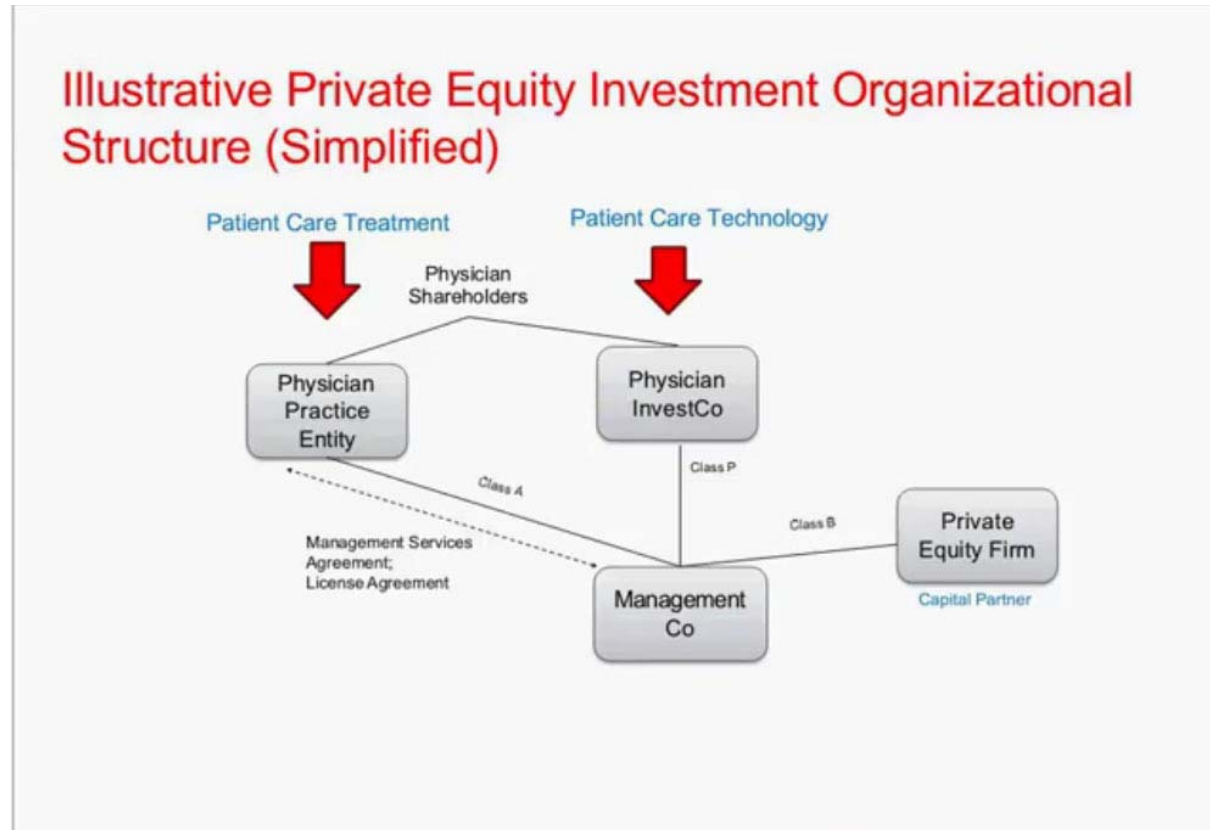


Comparable Public Companies Historical Median LTM EV / EBITDA



©2018 Foley & Lardner LLP

Private Equity Deal Structures



How Can You Help Your Clients

- Make sure groups plan ahead for any sale
- Basic financial records should be available
 - Compiled, reviewed or audited financial statements
 - Payor contracts
 - Accounts receivable aging reports
 - Practice management reports
- Practitioners can aid in due diligence (deals tend to be more successful when sufficient due diligence is performed)
- Recognize that transactions can be complex and seek assistance. Remember most buyers have done many deals and have competent teams of MBA's, Healthcare Attorneys, CPA advisors
- Goal is to get the best possible deal for your client





For assistance, contact:

Jeffrey Kramer, CPA, CGMA
Tax Partner
(954) 626-2921
jkramer@bdo.com
Fort Lauderdale, Florida

