MEDICAL PRACTICE MERGERS

Practical Strategies, Guidelines, and Implementation
CONFUSED
FRUSTRATED
AND BROKE

TMA survey reveals physicians’ concerns
Driving Forces Behind Consolidation

- Reimbursement
- Ability to add Revenue Sources
- Increasing Overhead
- Declining Physician Incomes
- Practice Management
- Recruitment
- Transition (Practice Succession)
Advantages of Group Practices

- Increased Revenues From Same Practice Production
- Reduced Overhead
- Managed Care Contracting
- Technology Upgrade Capability
- New Revenue Streams
- Call Coverage
- Clinical Staff Leverage
- Reduced Competition
Advantages of Group Practices

• Access to Capital
• Real Estate
• Enhance Human Capital
Disadvantages of Group Practices

- Loss of Control
- Personnel Decisions
- Retirement Plan
- Start up Costs
- Possibly More Overhead (GPWW)
- Governance
- Lease and Debt Obligations
- Disruption of Referral Patterns
- Physician Compensation
- Antitrust
Merger Myths

- Billing Will Improve
- Overhead Will Go Down
- Staff Will Be Cut
- Reimbursement Will Increase
- Behavior Will Change
- Higher Priced Management is Better Management
To Succeed........

- Leave Your Ego at the Door
- Be Ready to Compromise
- Make the Hard Decisions Early
Starting the Process

• Forming a Merger Committee
• Hiring Independent Consultant/Facilitator
• Hiring Independent Legal Counsel
• WRITE THE CHECK (Commitment to the Process)
Three Steps to a Successful Merger

• Due Diligence/Feasibility
• Contract Development
• Implementation
• Timeline: At Least Six Months Minimum!
Due Diligence/Feasibility

• Purpose
  – Review and Assess the “Why” of the Merger
  – Identify Issues Needing Resolution Before the Merger Can Take Place
  – Decide Whether the Merger Should Even Take Place
  – Provide a Framework on How the Merger Should Take Place
  – Communicate Benefits of the Merger
Due Diligence/Feasibility

- Steps During This Process
  - Interview Physicians
  - Evaluate Practice Finances
  - Review Fee Schedules
  - Review Coding Patterns
  - Review Retirement Plan Issues
  - Evaluate Personnel/Salaries/Benefits
Due Diligence/Feasibility

• Steps During This Process (Continued)
  – Review Facilities
  – Prepare Cash Flow Projections
    • Determine Common/Shared Overhead
  – Prepare List of Projected Start up Costs
  – Prepare Organizational Chart
  – Decide Legal Entity
  – Evaluate Tax Issues
  – Decide on Contribution of Assets
    • How to Handle Existing Accounts Receivable and Fixed Assets
Due Diligence/Feasibility

• Steps During This Process (Continued)
  – Decide on Preliminary Organizational Structure
  – Decide on Preliminary Physician Compensation Plan
    • Watch for Stark Issues
  – Decide Issuance of Equity Interests
  – Decide on Governance
  – Begin Discussion of Implementation Issues
Entity Formation

Initial Cash Contribution
Accounts Receivable?
One Physician-One Vote

Each Practice a Profit Center/Division
Maintains Existing Fixed Assets
Pays MD Owner Compensation/Debt
Is a “Member Of” the LLC

Practice Collections
Practice Ancillaries
Less: Practice Direct Costs
Less: Allocated Shared Costs
Equals: Practice Profits
A merger is unlawful if it may tend substantially to lessen competition in any relevant market by creating, enhancing, or facilitating the exercise of market power. Market power is generally defined as the power to control prices [or restrict output] or exclude competition.
Antitrust

• Product Market Analysis
  – Analyze Competition for Involved Specialties
  – Can or Do Other Competing Specialties Perform Same Services

• Geographic Market Analysis
  – Patient Origin Data
  – Hospital Admission Data
  – National Survey Data on Patient Travel Preferences
Antitrust

• Ease of Entry Analysis
  – Can Service Area Support Additional Orthopedists
  – Is There a Community Need for Additional Orthopedists

• Risk
  – Less than 40% - risk is not high
  – 40%-60% - risk increases
  – Greater than 60% - significant risk
Watch Out For……

- Continued Resistance
- Inability to Compromise
- Lack of “Group-Think”
- Sacred Cows
- Hidden Agendas
- Clashing Personalities
- Inability to Make Decisions
- Staking out Leaderships Roles too Early
Contract Development

- Drafting of Entity Agreement
  - Equity Interests/Contribution of Assets
  - Buy Out
  - Management
  - Removal of an Owner

- Issue: Should there be a demerger clause?
Contract Development

Drafting of Physician Agreement
- Compensation/Benefits
- Termination
- Covenant not to Compete?
- Stark Compliance (Group Definition/DHS compliance)

• Deciding on a Name for the New Group Practice
Implementation – Major Issues

- Centralization of Billing and Collection
  - Where
  - Who
  - Policies and Procedures
- Obtain New Provider Numbers
- Administration (Human Resources, Accounting, A/P, etc.)
- Computer selection
- Computer training
- Computer conversion
- Notifying third-party payers
- Vendor Selections
- Facilities
Dissolution – Major Issues

• How to roll the practices back out
  – Initial Capital Needed
• Distribution of Joint Assets
• Who Will do the Actual Winding Down
  – Collection of A/R
  – Payment of A/P
  – Final Distributions
Conclusion
(Remember What Dr. Sholin Said)

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