



The Deal Room Podcast

Episode 155 – Medical Practices – it’s more than just the numbers

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Transcript

Joanna:

Hi, it's Joanna Oakey here and welcome back to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal. Now today we have on the show Larry Green from Xclusive Business Sales, to talk all about the sale and acquisitions of medical practices, and why it's about more than just the numbers. In this episode, we talk about a number of different examples of the types of medical practices that Larry has recently organized to be sold. In particular, we look at the case study of a small medical clinic and mid sized practice and a large general practice. And we look at the difference in the sale price that was achieved in each of these different businesses, and why the sale price was different based on more than just the revenue of the practices. And we also dig into ultimately what the value is in a medical practice and how it is for sellers to maximize that value and for buyers to ensure that that value is transferable to them as they take over the new business. So that's a buckle in here we go with Larry Green and looking at medical practices, and why it's more than just the numbers.

Joanna:

Larry, hello, welcome on to the deal room podcast.

Larry:

Thank you for having me.

Joanna:

It's great to have you on Larry and I know you're still as we're recording this. Melbourne is still in stage 4 lockdown. So you're putting on a brave face, you know, not withstanding the uhh...

Larry:

It's groundhog day?

Joanna:

Yeah, I bet it is. All right. So today, we're talking about this topic of medical practices and that it being more than just about the numbers, which, you know, which is, I think, a great way of setting out some of the, perhaps the synopsis of where we're getting to today, but maybe before we kick it off, Larry, can you give us a really quick background of who you are, and why you're talking about medical practices?

Larry:

Okay. Well, I've been a business broker for probably 18 or 19 years now. And I've been sort of focusing on the medical space for the last six or seven years. Because partly, because I found it a very interesting area to get into. My background is in in the health sciences. I'm actually a biochemist, by training. And I spent 15 years in the pharmaceutical industry.

Joanna:

Interesting.

Larry:

So I have a sort of a empathy with with the profession, and I have friends and quenches who are either pharmacy or medical and things like that. So I found it to be challenging and ultimately rewarding as well, our company on the medical and health specialist in Victoria. But I also assist my colleagues in, you know, the states, I've just been helping out with somebody in South Australia who's doing evaluation on a dental practice. I can provide support for those people as well. So I do evaluations on practices. I do evaluations on related businesses like physiotherapy practices and chiropractors.

Joanna:

Right. Okay. And can I ask, it's interesting, as you're talking, I am just reflecting and thinking, Oh, that's interesting and I wonder, why was it that you became a business broker? This might be a little bit off topic, but you know, I'm often quite interested in the story behind that.

Larry:

Yeah, I was working with a colleague of mine, when we taught at RMIT University. And we went out and did small to medium enterprise consulting. And we were working with accountants and helping them develop their businesses. And but in return, we would get clients of theirs to work on to improve their businesses, and over a period of time, and we're starting to get, don't help them, fix the place, you know, they want to sell it, when we can sell it, do that sort of stuff. And that's how we literally, it changed. And we were looking at helping people buy businesses as well. And we get a little bit of work on that. But it was mainly that that change over from they really just want to get out of this business and continue to help them do that. We we started the process before we were probably aware of our legal requirements, but we managed to get a license as you need. We are the estate agents act here in Victoria. And I've had an agents in Melbourne. I've had a license for about 10 years or so. So that's how we work.

Joanna:

That's interesting. What do you like most about business broking? I'm sorry, I'm taking this off topic here. But we'll come back I promise. This is my last off topic question.

Larry:

I mentioned the word challenging before, I think it is challenging sometimes to to somebody just recently, it will be lovely to work in an area where you made something, you know, he's a widget, and you sell it, you get customers, and those stuff, I've always been in sales in one form or the other. And even in pharmaceuticals, you never sold anything to the person you were talking to. It was really just getting them to think about using the product. And challenging that way. So that's part of why I found it interesting to sell in different ways. Like ho you're selling yourself to somebody to get in the business, and get the listing, and then you're selling the business to the marketplace. Then you're selling back to the to the your client, the vendor, the offers that come in. And that's really it's a, it's wearing different hats at different times. It's not a straightforward selling, I think that's a challenging thing for me as well. And it's very flexible, you know, different things in different ways.

Joanna:

It is interesting, because a lot of what you're talking about they I resonate with me, because you know, from a legal perspective, you know, I love this industry, because it lets you deal with lots of different people. But everyone is almost always aligned for the same objective just to get these deals across the line, right, but it's just fabulous, sometimes seeing people come in and have the opportunity to acquire a business and bring this new fresh life into it. And, you know, it can be very rewarding area. But anyway, we that's probably enough of the background, I just always like to understand a bit. So we're talking about medical practices here. What do you think the differences between the sale of medical practices and other types of general businesses, so there are things that you think, you know, make this a bit of a specialist area, well, I think it is a specialist area. But what are your thoughts about that? And why?

Larry:

Yeah, I mean, medical practices are businesses, that's the first thing I think you have to appreciate. Second thing is that, yes, there are some unique aspects of these

businesses that need to be taken into consideration. You're dealing with highly trained professionals, medical practitioners, with varying understanding of business, and some of them are very smart and able to appreciate the business...

Joanna:

And most of them are timed for, you know, that's one of the things that I noticed, you know, in this industry,

Larry:

Yeah, they usually their prime concern is, is their patience. And so they don't have as much time to focus on, on how to run a business or to maximize profits and things like that. In fact, I've just signed up to attend an online forum over the weekend on scaling up businesses and medical practices case. So that's the first thing I think the second thing is that there are overlays, if you have in other businesses, but I think this is more pronounced of government intervention that actually can control how much money people earn through the Medicare rebate, and it's been frozen for a long time. So there's those issues. I think there's technology taking a bigger place in our practices run both from just purely practice software through to integrating software and making things easier, we practitioners can subscribe to things like hot doc and health engine who can generate appointments for them telehealth is changing, you know, the way people approach medicine as well. So there's a lot of things that you need to take into consideration.

Joanna:

And I guess, you know, one of the things that strikes me about the medical, dental, you know, health services type industries is also there's, you know, they can be quite a different approach to how they staff the the approach of staffing, you know, rather than just you know, many businesses and more the traditional employment relationships, so they have employees, obviously, in this industry, there's lots of different approaches to that. So I guess that's another factor that you need to consider.

Larry:

Yeah, there's I mean, doctors can be employed in inverted commas either as subcontractors, working on a percentage of the income that they generate for new for new practices and for, you know, doctors coming into a practice, sometimes they can be on on an hourly rate for a period until their earnings to balance out that that percentage basis. You've got people allied health can work within a practice. Physios, Dieticians, Podiatrist or whatever it might be, they can either make room from that doctor, or they can act to subcontractors as well, which is, you know, whatever they earn, the doctor gets a percentage of that. There are differences is usually nurse practitioners that work within the practice, and they can be full time, part time and have different roles. And then an administrative staff which most of the time there's a practice manager. Not necessarily the wife of the owner or the doctors, you know, those things, but can be a professional practice manager. And then there's a whole range of administrative staff, receptionists and people like that. And a lot of people within those practices don't work full time. So you've got to sort of manage the flow stuff coming in and out.

Joanna:

Yeah, I think absolutely. Right. So I think that that makes, you know, the industry

quite different. And you know, the reason I'm talking about this is because I think it's important for people to understand selling and medical practice isn't necessarily just a standard thing, just like selling any other business. There nuances in the industries. Okay, all right. And before we get stuck into talking about some case studies, let's just quickly talk about buyer profile. So what is the most likely what are the different buyer profiles who are the right buyers of medical practices, and around about where is that sitting when broken down into you know, rough percentages? At the moment.

Larry:

I don't know that I can be accurate in percentages, but we'll work our way through this as we do, but there are a lot of overseas trained doctors who are now calling Australia home, who've gone through the process of having their qualifications recognised by the federal government and now have gone through being only allowed to work in country areas, regional areas, so they end up being what we call vocationally registered, which means that they can work anywhere, they become fellows of the College of general practitioners and then they are looking to buy practices because like if they've done their apprenticeship in Australia, they've often wanted to come back and live in the major cities, for family reasons.

Kids going to school University, and joining back into communities, and some might have very successful lives in those regional areas. So that's one group. The second is people who already own the practice, or two or three, or whatever it might be, you're looking to expand their business, you know, size, and so they probably very well experienced in what it takes to run a practice and probably understand the buying process as well. And then you've got the big corporates and medium corporates, you know, he might have up 30 or 40 practices IPN was primary now helius, which has never been sold, but they've got you know, 50, maybe 100 odd practices, whatever it is, across Australia, within very large one, then you've got it can be doctors or non doctors, so you could have non doctor investors who and I've got some of those who buy practices from me who see medicine as a both a profitable but also a worthwhile business to be involved with.

I have to sometimes tell them that you know, the buying a small practice is not going to be a betterman. But to buy a much larger practice helps them because they're not getting ready generating their own income, generating money through what that comes into the practice from that percentage that goes to the practice that doesn't go to the doctors. So there's a range. Now, it's been said for a number of years that Australian graduates are not buying practices. And that's probably still true. And we don't know whether it's a generational thing or you know, the Gen X Gen Y type of situation.

Or it's it's more cultural, that they prefer to work for a few years, in a practice, build up a bit of, you know, experience, and maybe buy into that practice or leave and buy their own practice that they're impressed with. The other thing is that there's also 60 to 70% of all graduates in through the medical schools in Australia are female, so they're not going to buy practices to the same extent as males. And there's probably another major reason why Australians..

Joanna:

That's an interesting point. What why what makes you say that?

Larry:

It can be categoric, but, and I noticed this from my work in your pharmacy, as well that a lot of women see some of these professions as being very flexible in terms of hours. So if you want to have a family, then you can have time to work in the hours when your kids are at school and you can work those hours, you don't have to do weekend work, you can only do evening work. And so you can make it, you know, suits you. And therefore, it's less likely that you want to buy a practice. Now that I can probably point you in one of my examples today was a female doctor owner. That's happened, but to the to, I think, in terms of proportion, there are more male owners than female owners.

Joanna:

So and you think that that comes from the fact that through ownership becomes, you know, essentially less flexibility?

Larry:

Absolutely, more responsibility, less flexibility

Joanna:

Creates difficulty, you know, from a family perspective. Okay. All right. Well, that's an interesting one. I hadn't thought about that. So let's look here, then at some examples between the difference between selling a small medical clinic and a large medical clinic and, you know, maybe one in the middle.

Larry:

Okay, those obviously start with the smaller one, and the one I've chosen is one that's clearly fresh. It's about 12 months ago, now, I think that we sold this one. This was in supply Canada's small shopping center in in Melbourne Southeast. And not that far from Port Phillip Bay, it was a relatively small physically, it had two consulting rooms, plus a pathology room, plus a treatment room procedure room. And it was owned by a female doctor of Indian background. And she had one female part time doctor who supported her as a part time nurse. So it's not a particularly big practice, we sold it for \$100,000, plus some small amount of stock, which is consumable items, medicines, just general consumable items.

And then the owners put in a retention clause into this, that they would pay another \$26,000 after 12 months, if the doctor continued to work in the practice that agreed hours. So this is something I wanted to highlight because this will happen in all of the practices except maybe one or two, where the owners are required to stay with the practice. And the main reason is that we want to try and protect the goodwill. If the practice owner leaves a practice in a short period of time, then you're probably going to see quite a drift away, leaking out whatever term you want to use of patience. And when when somebody buys a practice, what they're buying is they're buying the doctor, but they're really buying the patient.

So if you don't have that continuity, then you don't get your value. Now, we originally priced this considerably higher, over \$300,000, which in some respects, the figures could cope with that if you like. But really what happens is that the people say, we

can't scale this practice up to any great extent we, we physically when we don't have the space, and we possibly could increase the hours and have slightly more doctors coming through the practice. But we can only have had two or three doctors there at any one time. And that's the problem with with some of these smaller practices. And it has to go to a doctor who can work in the practice. Just this issue of if I'm not working on generating my own income, I'm never going to make enough money just as an investor. So that's the small one, a very attractive little practice, not to say it wasn't and it had a very feminine feel about it because the female doctors were working there, which was not in any way a criticism but it it had a very gentle family feeling about it. But it was it was small.

The midsize practice is one that settled, literally at the end of the financial year just passed. And so we've gone now from barely one and a half full time equivalent doctors to now about four to five doctors in this practice, I think was probably correct for in the northern suburbs of Melbourne, northeast suburbs. The owner was over 80 of Chinese Singaporean background, his wife joined the practices, the practice manager also have a similar age. It was a building that they owned. And they combine in fact two buildings to make a much bigger practice quite a few years ago, and they're turning, you know, obviously now turning over a lot more money because there's more adopters, and this is comes to how they report income because they can report what we would call absolute gross income, or the income that you've got that comes into the business at the door. Get the share of this. So that's another thing to look out for profit was quite reasonable, but it was really the owners profit. So it was, we've caught up a PBITA, rather than EBITA figure here.

And in fact, we had, we had two offers on this. And we accepted the first one. And they started the due diligence, and they were people I knew who were not practicing medicals at medical people, but they were investors. But the numbers just didn't work. When you looked at that they're gonna keep paying the other doctors and there's no money being generated by them. Yeah, we found a second doctor who was an owner operator. And he worked in the practice for a short while before settlement. And I met him after he moved in and thrilled to bits that the the old owner said that they've never seen the practice so busy, because new patients in and he said to me, it's the best decision he's ever made.

Now, that practice we, we actually got our verse, we got our asking price, because the benefit to that purchaser was very high. There's a great number of things that work for him. It was close to home, relatively use only 10 minutes drive from home. And he knew the area, his wife was also a doctor, but worked at the Epping northern hospital, which is only a short distance away. It was everything came together. So he was happy to pay. I think we've got about 550. And we value it too much less than that we put on the market for a little bit more, but we we valued it at around about 530, something like that.

Joanna:

So it's an interesting sort of business, isn't it? So we said we've got a revenue of around about a million profit, including the owners wages of about 290. But if we took out what would be the owners wage, you know, expectation in this type of business, probably around the 200?

Larry:

Could be a little bit more because it depends on the practitioner and how many hours they're working. But you know, if for some if an owner is working, what I would call your 38 hour, 40 hour week, an owner of a practice can generate, I've seen it, I've got one at the moment where they can generate six or \$700,000 worth of fees. If you looked at let's call it 650 and you multiply that by point 7, 70 percent. So they wage could be \$455,000.

Joanna:

Hmm. But I guess I'm going off though well, so it's got a million revenue in 290. In in profit, that includes the owners wage, but say we take 200 out of it like we just sitting, if you're looking at an investor, you saying Well, here's a business that's making 90 k profit. So a sale price 550 K is consider pretty good, right? So it's interesting. So that's why, you know, I guess it's an example of if you're using figures like that, why this is more attractive to, you know, to people who are in the profession rather than a pure investor.

Larry:

In this case, the owner, as I said during COVID, due to his age wasn't really working in the practice much at all right, but mainly telehealth. So his arrangement post settlement is that he will probably continue to do that rather than come and sit in the practice really grabbed me.

Joanna:

Interesting.

Larry:

And it's interesting, because when I think about this is this is a larger practice, but we actually sold it for less and I'll explain why. When this this had six or seven doctors in it, maybe up to eight at certain times. But the owner was not present. The owner was actually living in the UK. She returned she lived in the area for some time, move the practice from one and this is a regional practice as a rental, the outer fringe of Melbourne in the Yarra Valley and so she moved the practice from Healesville to Tiara Glen. And, and she was had to go back to the UK for family reasons and didn't return. And so this was you know, run by a practice manager.

It was terrific. And the doctors enjoyed working there. And it was a it was a very large building an ex childcare center, I think and so it had been built, you know, modified accordingly and had nine consulting rooms, treatment rooms pathology they had heaps of visiting allied health practitioners didn't generate as much income as you thought it was probably around about 750,000 and the profit was about 100,000 and that didn't include the owner's wage. Because she just wasn't there, she just took drawings out of the business. We sold it for 320,000 plus stock. But we don't evaluate it at 258. So why don't we get another \$65,000, when we got that, because the buyers were very keen to buy a regional practice, that was their focus, they now own six practices, I think all of them are in very similar areas, they're not in the middle of cities, they're sort of added at a suburban ish areas, very regional, and it suited them and they, they saw from the capacity that they had, they could put more doctors in there and make it work.

And of course, because they're investors, they needed to have a full complement of doctors working there. But their model was such that they already had economies of

scale in administration, and all that sort of stuff. So they can actually probably turn a bit of profit over time, then single practice would have, and they didn't have to worry about the doctor staying on because she wasn't there. And that's a pretty good example, I have one larger, the largest practice of assault was eight doctors in the southeast suburbs, or eastern suburbs of Melbourne. And we've got nearly 850,000, for that practice. But the new owners were one was adopted, and the one he and his wife had been the practice manager, the two principal doctors were going to stay on for three years, because they were not that are all they were in the early 60s, late 50s. That should have been to do that. And the numbers write a hell of a lot of sense on that one. very profitable, very stable practice.

Joanna:

I'm fascinated by this difference in the sale price between the midsize practice in the large practice, in general, you know, a silent business perspective, we say that, you know, businesses that are able to run on without the prior owners, you know, without much of a handover generally have a higher value than businesses where the, you know, prior owners are more integrated into the business.

And certainly, in a business like medical practice, where, you know, you've got this client relationship that is at risk, you know, whenever we've got a transition and need to add more doctors in. And so it's, I find it very interesting, then, on the basis of that the larger practice, that ticked that box more than the smaller, the medium sized practice ended up with a far lower sale price. So it had higher income, probably, ultimately, a similar amount of profit. At the end of the day, once you sort of factor in owners wage for the amount of work that was being done. The larger practice seemed more set up for a bit of transition. So So tell us what was the secret? And maybe Is there something in this that vendors might think about as they prepare for sale? That was the magic secret between the difference? The reason why the mid size practice? Outperformed the larger practice in this instance, at sale?

Larry:

As I sort of indicated earlier that it really is what the purchaser wants. Okay. That's the first thing. So as we know, value is in the eye of the beholder. Yes, we can show numbers, but those numbers have to make sense to that particular person based on and that mid size practice. It was the location, size, and, and the doctors who were already there, and just, it fitted that person's lifestyle as much as anything else. Okay, but you're willing to, to pay a little bit more now.

He obviously had somebody do the due diligence on on the figures. And the accountant said to me, Look, if without the owner's wage, this breaks, even when I said, Yep, we selling it on that basis, but with the owner, working in that practice, it's very attractive, financially, very attractive financially, and, and the owners of that practice over the years, and they've obviously had for a long time, showing their age in the 80s that they were able to live a fantastic lifestyle, you know, and invest heavily and that sort of stuff. So that's the first thing.

The smaller practices tend to be. You have to work harder to keep the money going. That's the other thing that there are ways to Use the system, which is Medicare in this case. And if you're willing to do that, then you can generate money. But you've got to, you know, it's about billing a belt billing practices good as a privately billing practice? It can be wise that it does make sense. Other times, you know, you've got to see six

patients an hour rather than four.

Joanna:

Yeah, So let's see if we can bring this down then to some action tips, Larry. What is it that you suggest for vendors who are planning ahead for sale?

Larry:

Firstly, you mentioned the word already is planning. Don't leave this to the last minute, think as long ahead as you can, maybe five years to make sure you get everything ready your mindset as much as anything else. Secondly, agree, understand that you will have to do something post sale, you'll have to stay with the practice 1,2,3 years, whatever it is up to you and your purchaser, you'll have to do that. Get your financials in order. Okay, make sure that they are complete, accurate, timely, all that sort of stuff. Make sure that the physical presence is stated. It's It's plain, it's tidy, it's modern. People welcomed it, you know, it feels comfortable. Make sure that any agreements you have with anybody in the in your employee or subcontractor, but those are up to up to date, and complete as well.

Joanna:

And compliant?

Larry:

Absolutely, from a legal point of view. Understanding what could happen to the stuff, entitlements, and you leave long service late, that's just stuff, I get one practice, which I'm still discussing with them. COVID slowed everything down. That had something like 200 odd thousand dollars worth of entitlements. You know, just ridiculous

Joanna:

just because they hadn't managed that over time. It has to be managed.

Larry:

The accountant in that case, to me, is negligent in that. Accreditation, make sure your accreditation is up to date. And you're working towards the next accreditation. Accreditation is a three year period. So you get you work towards getting it and then you've got three years and then in the end of the second, he is already starting to think of that re accreditation, make sure that's done. If the building is owned by the owners of the practice, but in a different entity, just make sure that there is a lease is the rent, commercial and all that sort of stuff, just now just to make sure that you understand what it's doing to you, are you going to sell the building or not sell the building?

Joanna:

Yeah, and when is the right time to sell the building because you know, an offer, often a sale, and in this sort of industries for people who are headed into retirement, and they can be all sorts of timings for when the sale the business, well, not just the business, but the premises themselves can be more advantageous and less advantageous from a tax perspective. So, you know, there's lots of things to understand in the future. Because there are tricky, there are ways that we can get around this to still allow, you know, leasing for a period of time, and then you know,

an option to sell or those sorts of things. But you know, if you're not thinking about that until you've already signed the deal, you may not realize the tax liability that you're incurring.

Larry:

If we forget text for the moment, the other thing is that that a lot of buyers are looking for investments as well. Yeah, so they I've had practices which I haven't been able to sell as quickly as I thought, because there was no property to sell. Isn't that fascinating? It is, and you get other ones? This? People say no, I don't want to buy the carpets don't buy buy property.

That's make sense today. And the final thing that I put down here is that if you want to think to stop thinking about selling, then have your practice valued. Find out why we come up with a figure that we do. You can think about what can I do and how you could can guide them a little bit, but there are professionals also managing practices and helping people do that. But if the practice has little value, it's because of some of the things we've discussed.

It's too small, there's no scaling up. And that's the problem. So that's never going to change but if you had a practice where you were it's in that gray area that it could be scaled out and we could put more doctors and we could have another couple of rooms or whatever Might be all you have to might have to move to new location, then having that value and knowing what that value really means could be priceless, really for the vendors because they can start thinking, Well, I'm going to get this much out of it, that I can start planning my future out of that. So that's the most important for me, is really don't go into this thinking that the practice is worth a million dollars. It's never going to be worth a quarter of that. But yeahnd, and you would know that there are unreasonable vendors, and medical practitioners are no different.

Joanna:

Yeah, yeah. And look, you know, it's the it's this age old issue of disappointment leading into sale because of lack of education along the way and thinking that income equals value at sale, as well, you know, is is another trap. So, which is you know, so expertly demonstrated with some of your different case studies and see,

Larry:

For most practitioners owner up operators, this is still that classic buying a job. Yeah. But it's got to be that at the end of the day that there is sufficient money. That is what we would call that the prophet to make this an attractive. Yeah, business. That's the most important thing.

Joanna:

Brilliant. Well, the glory I just want to say a massive thank you for coming on the dealroom podcast today. If our listeners have a medical practice and they would like a bit of assistance with an either in terms of understanding the value in advance so they can do some of these turning the dial or because they're almost ready to hit the market. How did they contact you?

Larry:

Well, they can contact me through the Xclusive website www.xclusive.com.au. I can certainly make my personal phone number available to them. My email address is larry@xclusive.com.au and I am more than happy to chat. There's no obligation and more than happy to help.

Joanna:

Absolutely brilliant. Thank you so much, Larry and look as always, if you are running along the beach or on your commute to where the hell would you be commuting to you might be commuting somewhere I guess if you're somewhere in New South Wales.

Joanna:

We'll put those links in the show notes anyway, just in case we're out of lockdown by the time you're listening to this and you're actually doing something away from a notepad. Wonderful. Okay, Larry, thank you so much. We've loved having you on the show.

Larry:

Thank you very much indeed. Appreciate it enjoyed it immensely.

Joanna:

Well, that's it for this episode of the deal room podcast. If you'd like more information about this topic, head over to our website at www.dotdealroompodcast.com where you'll be able to download a transcript of this podcast episode if you'd like to read it in more detail there you'll also be able to find details of how to contact Larry green at exclusive business sales.

And there you will also find details of how to contact our lawyers at Aspect Legal If you or your clients would like to discuss any legal aspects of sales or acquisitions. We've got a number of great services that assist businesses both on the buy side and the sell side. So don't hesitate to book an appointment if you'd like to find out how we might be able to assist. Well that's it. Once again. Thank you so much for listening in. You've been listening to Joanna Oakey and The Deal Room podcast. See you next time.