



EPISODE
171

THE DEAL ROOM

Evaluating and Maximising Acquisitions in the
Medical, Dental, and Allied Health Practices Part 1

The Deal Room Podcast

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Transcript

Joanna: Hi, this is Joanna Oakey, and you're listening to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal. Now today we have onboard the absolutely amazing Ami Assigal from Practice Partners and Ami and I are talking all about feasibility studies for medical, dental and allied health practices for acquisition. So we're talking about due diligence on acquisition, how to evaluate a practice, and building a business plan for how to maximize value after acquisition. So this is a two part series because Ami and I just had so much to talk about in this topic. So buckle in here for part one of our two part series and make sure you come back next week for the second part of our two part series, talking all about acquisitions for medical, dental and allied health practices. Well, here we go with our fabulous discussion with Ami.

Joanna: Ami, thank you so much for joining us on The Deal Room Podcast today.

Ami: Thank you for having me. I'm very excited.

Joanna: It's me who is excited. I mean, every time we talk, we just run through so many things. We have got so much that I want to talk about today. Why don't we kick it off by you giving us a little quick background on who you are, who you work and why you do what you do.

Ami: Yeah, fantastic. I've got two businesses, one called practice partners, a healthcare consultancy firm, and we help GP specialists allied and dental how to run their practices, grow their practices, start up a new practice, and pave the way, I think for the healthcare business. So that's anything from coaching and mentoring to teach them how the Medical Center runs as a business, finding a site and diving in and doing the due diligence, acquiring a sight and doing the due diligence. So we like to say putting the narrative behind the facts, which are the figures, and then also running the practice. So anything from HR, marketing, policies and procedures, accreditation, we recruit staff and doctors into practices. And we also look at room utilisation. So it's a bit of a full sweep.

Joanna: Oh, my goodness, I mean, anything in that you don't do? Well, I'm not hearing the legals at the moment. And that's lucky. You're doing a lot.

Ami: We've got a great team of practice partners and just bought this for a reason. Why do we start it up? It's because we recognise many businesses out there, GPS go through clinical training, and they get into a business. Whether they are a sole trader and a contractor in a practice, or they physically are employees and own the practice, they are business owners and giving them a bit of a rundown whether they're promoting their brand within a business in a practice or trying to get themselves off the ground and have other contractors with them, it's essential to understand the foundations of all of that what each step means so that they can make informed decisions along the way. So we have little practice partners in it; you work in your business while we work on your business because that is something that doctors like to be clinical; that's what they trained in. So let us do the rest of it and keep you abreast of what's happening, but also educate and train you along the way too. So that's kind of why I started practice partners with passionate doing that. And then I have started my own medical centre group called Eye Health Group. So very exciting. We've had a couple of sites now and we've got another four in the pipeline. So it is quite busy. I think I am on quite a journey. But look, to be honest, in the last 12 months, as you probably know, with COVID and everything else that has happened, you could pretty much roll in a bowl, everything you've ever known. And just chuck it out the window and go right let's just throw it in and go for the ride. So there has been a great journey for all the clients out there new and existing clients and also myself in my own medical centre group.

Joanna: I guess the point is, you're talking here from the perspective not just as an advisor, but you're sitting in the seat of actually running it and seeing the impact of the decisions that you're making, from a practical sense on a day to day basis as an owner yourself. So I just think that's so powerful.

Ami: Yeah, look, it's quite cool because if we've got something new, we want to try or something that's lacking in our own practice, we'll go and execute a plan, get our staff involved, we'll put policies and procedures together, we'll actually follow it on a financial forecast to say what it actually means financially for practice. And then we take that and go back to our clients and go, Hey, this actually works. Let me show you how. So that's been really cool. So it has been a bit of a trial Bunny, but I must admit the sites

have I just absolutely soaring and doing an amazing job so and my staff that they will come along for the journey, so they know that I come in there. And I've always got a bright new idea to throw at them. But I must admit, they're a great team. And they've been bearing with me for the last 12 months.

Joanna: Love it. Okay. All right. So let's then round back to I guess, where we're going today, which is talking about this, this side of due diligence on acquisitions, and how to evaluate a practice and this core concept of feasibility studies. So where are you positioned here, Ami? I think we've been having some discussions in the past. And I know you have a feeling that feasibility studies maybe happen a little bit too late in the process. And I think to talk us through your perspective on that.

Ami: Absolutely. So um, two kinds of scenarios here. So for starting up a Greenfield and we're doing a feasibility on a site itself. So where is your practice going to be positioned, and then due diligence if you're going to acquire an existing practice? And so we will forget that acquisition due diligence is really important. And we'll touch on that separately. But I think first of all, let's look at that site. You know, I get clients coming in with signed leases, or they've, you know, put deposits down on houses, and they're about to settle in a week's time. And they'll say, I've got this great site for Medical Center, and I cross my fingers and hope for the best. And the reason I do that is that I'll ask them things like where is your business plan? And do you know who your competitors are? And do you know if there's any other medical centers in the area that are planned and permitted? And the answer in most cases is no. And that scares me. It's not even my site. So I take a step back. And I like to see my clients the stage of their thinking of starting practice where they might have looked at a site and they're thinking it's a great site for them. But prior to signing a lease, or prior to putting down a deposit for purchase, we want to have a look at the demographics, the council planning, we want to have a look what your competitors are doing. Really, it's who's who in the zoo. And where do you fit? It's been a few scenarios. More recently.

Joanna: All right. So Ami, I'd love is to hear some examples here. Do you have any examples? Where there's something that you've found that perhaps the buyers just had no idea was sitting there to really devalue their purchase?

Ami: Absolutely. And unfortunately, this has happens, you know, more than I would have liked, but we can they can range from things like we can't have we can't be permitted because there's not enough parking space. It could be there's a heritage listed arcaded on the house that is, meaning that we can't do the renovations that was first envisaged It might be that there's completely wrong zoning and then going back to Council and change of use is going to mean a huge council process. It there's a various amount of reasons as to why not doing this process can mean a huge amount for the practice. Now. I'd like to touch on this particular practice, he had purchased this block of land with a plan over the top from a local builder. So he had gone out to a local builder and said, can I make this into a medical center? And then overlaid it, he said, Look, he said, I can do it. And I said, okay, but have we gone through the process? You know, is there enough room for you? Is there growth potential there for you, you know, when you're looking back at going back to the bank and asking for money, they're gonna say, right, where's your growth potential? Yes, there's you and another GP going in here. But you've only got two rooms, no room for a path and a treatment room with one bed in it? Where do you think you're going to make the money there? There is no financial forecast attached to that. So he's gone. Oh, okay. I've purchased that in way

Joanna: Wow. And that's it. He has it completed. He's got the practice now. And then that dawning must be in the first instance, horrific for the poor guy. But what did he do then? Like, what was the next day? What did he do from this information?

Ami: Yeah, so for our next step, what we did manage to do is actually pull things together, we did a full needs analysis and had a look and actually created some supporting documentation for the council as to why we're doing the things that we're doing. So there's a process is putting that together wasn't smooth sailing, put into council get it permitted for a medical centre and Bob's your uncle, you're on your way. There was a lot of, you know, parking dispensation, there was a lot of moving trying to move that heritage, as much as we can work with that as much as we can. Do we go up at the back, you know, what's that going to mean with all of our admin upstairs, because you can't take any patients going up upstairs to see the doctor, if you don't have a list, and so forth. There are quite a few things around, and we managed to get him an extra two rooms by building on the back. And we had a lot of dispensation for our parking. So we managed to get around. But it wasn't an easy process and it was something that he thought would run very smoothly and customers small amount ended up costing him a large amount of money to get the result that he was after. And I think then touching on well, now that you do have those extra two rooms, what are we going to do with space, it means that there's a whole lot difference amount in feed out costs, you know, it's gone from being a small number of feed costs to an extra two rooms, a larger amount, not a huge, more, but a larger amount for equipment. Parking then is an issue, and he had to pay for permits for parking to come into play as well. So the cost of not doing that feasibility was not only time but also money as well. And it was, you know, it's the difference between doing feasibility prior to then not doing and so I think for him, he wouldn't have changed his mind, he would still purchase, but at least he would have had knowledge of what the steps ahead would have been.

Joanna: Yeah, yeah. And ultimately, the more information you have for an acquisition, the better because it helps you evaluate the price, like it's a price, right, it helps you evaluate how the price will be paid, and whether there are some things that, you know, you might need the assistance of the seller with, you know, in order to make the most out of the growth potential of the practice. And it might also indicate that perhaps you need to evaluate something else around. So I guess there are all of those reasons. And I guess, maybe, maybe if you can run us through some examples, or at least one example of a practice that you've worked with, where you've come in at the right time, and what that looks like?

Ami: Absolutely. And I think just touching on as well, the bank, it's never nice to have to go back to the bank after a purchase of a property and say, by the way, actually, I thought this would be a great Medical Center, but I need now more money because of the feasibility wasn't done in the first place. So no one likes to go knocking back for more, and for something that you didn't look at. So that was an interesting one for that first case, as well. But yeah, look, we've we do get clients to come through and say, Look at this site, or I've got this block of land, and I own the land, for instance, and I'd like to put a medical centre on it. And that's great because we can then go back and have a look at, you know, capital plans. We can look at demographics, growth zones of the area, you know, who's who in the zoo, and what are they all doing? Where do you see Is there lacking allied health? You said no radiology close buys, and no pharmacy

close by can it get PVS approval. So there's, we can go right into depth to say, well, conceptually, this was what would be the best fit for this site. And that means that person who whether he's going to actually on the site himself, and in this case, he wasn't going to he was going to lease it out. We can then put the best terms on that site. So we can say, right, we know that there's a need for these areas, and we can produce this documentation 20, future, I guess, interest in the lease and they can go into it knowing that it's going to be a viable Medical Center. And it's going to so when we did something like that, on this particular site, we had a look around, we noticed that there was eight other medical centres within 10 kilometres that were already planned and permitted. Yeah, in a huge growth zone. So that's obviously everyone had the same idea as he did. Now what that meant was, we could then make the decision of where we sat in that market. How big were the other ones? What their point of differences, how far away? Were they? And would we be going for the same tenants or subleases, you know, you won't have a pathology provider that's going to take on all eight of those, or radiology, that's going to take on all eight of those. And if you're looking at leasing that to another dentist, or GP, whatever it may be, or pharmacists when you're looking at that, they'll go, right? Well, I know that there are eight others here, so I can battle you up against everyone else, and I'm going to get the cheapest rent. So they need to be aware that you're not going to get the returns, perhaps that you were first after. So in order for us to make that I guess the point of difference in the site means that we are different from the rest. So you're going to stand outside of that bubble of the rest of those eight. Or you can make the decision at that point to say, hey, once these all come in, it's going to be important, and we actually don't need another Medical Center here. Maybe we change focus and make it an allied health hub, or we make it you know, a large scale healthcare business in another sense. So we can then change focus then rather than when it's built.

Joanna: Yeah, and when you're assisting your clients in evaluating an acquisition of an existing business, and existing practice, what is this spread? In terms of importance, you place on the performance of the existing business versus the growth potential of the business? How do you work that out in your forecasting? What approaches do you use?

Ami: Yes, but growth potential for me is everything. Acquiring practice, I mean, everyone sells for a reason. But to work out what that reason is, you can have a look at the figures and yes, it might have to do newell, for the last couple of years. Everyone had a well in the last 12 months. Some people do really well. You want to have a look at those are the facts. That's what's happened. We can't change that. That's, that's done. We want to have a look at the narrative behind what suddenly certain players, what's the room utilization, the doctor utilization, the nurse utilization, where can I grow that practice? Day one, I can jump in and I can go I can see movement here, here, here and here. That's what you buy off. You do buy a practice, it's got 10 rooms that are all full. And it's sitting at this amount of profit right now, where are your small wins, we need to have a look at how you're going to make you're paying for all of that you're paying for full potential right now, there are you going to grow that in order for you to break even on your purchase, or even grow even further. So we need to have a look at those areas. And that's really important for me, I mean, we can have a look at the contracts of the doctors, we can have a look at the principal GPL, the owner, is he staying? Is he going? Does he bring to the practice? How much does he take home on average? And if he's going to stay put him on a percentage, what does that mean for that bottom line, you can do a financial forecast in every single scenario that you can

think of, and then add your growth strategies on top of that, and you can start to see well, in the first 12 months, I can save like the key base, this is what I'm going to end up with. That's what you should be purchasing on not purchasing on the fact that it's a practice that has 10 GPS and 10 rooms. And that's all it's gonna, gonna take.

Joanna: But I think, you know, I completely agree with you. I my perception is that while the idea of growth is quite often in the mind of buyers, the reality is the way they tend to evaluate businesses is on today, rather than the growth potential, you know, to obviously, growth is considered but I think maybe to a far lesser extent than you're talking about at the moment. Is that the feeling that you get?

Ami: Absolutely. I have a look at a lot of IMs that come through broker Some are really extensive and fantastic. Others are really short, sweet. When you look at it, they say, Oh, we can see that in 2018-2019-2020. We're in a growth phase because we're working our way up. But where are we now? And what is the narrative behind those figures? You know, is it now at two has to be like, what capacity? Isn't that right now? And what room do we have to move? What is the new buyer going to bring to that practice? It's not shown in the figures for the last four years, I can tell you that much actually needs to be a strategy put forward. And I think that's when we do get some. I use GPS and any investors that owned medical centres, they say, I purchased it last year was a great purchase. But now we're seeing that we're dropping, or we don't know where to go next. Yeah. And why did you purchase that? Oh, yeah, the EBITDA is really good. So we need to have a look at just more, I think, opening up everyone's mind. So due diligence is not just about the financials, everyone loves to throw the word goodwill, of the patient.

Joanna: Yes, I know right.

Ami: Patients are transient, and they don't wake up one day and go, gonna, you know, I'm going to go to that practice, they are, they will move to what's convenient for them. And you've seen a massive change in the industry about people going closer to home now, especially Melbourne, we don't move far. You know, everything's quite close, I now go to the local supermarket and the local butcher. Because you know what? I was used to that for nearly 12 months. Yeah. Um, so people have changed the way they want to do things. It's quite easy. One practice is now offering online bookings and a script and telehealth and all of those things. And my practice doesn't offer one of those services. I'm going to move to. It would be more convenient for me, so Transient patient base and goodwill, I tend to do a little bit of BS when I hear goodwill. And that's why I purchased a practice at that price.

Joanna: Well, I mean that's the point of what we're talking about today, how we dig deeper than just first layer, because that is first layer, isn't it? You know, when we're here, we're talking about let's get dig deeper. Because from a legal perspective, you know, we're all about to dig deeper into not just the risks that might be there, but also the opportunity from a legal perspective. And I love this discussion that we're having about, you know, that just have a more business reflection, I guess, and where the growth can be. I guess what we when you're talking about it here, because whilst I say growth isn't necessarily the main thing that is looked at, certainly growth is in the mind of buyers, but quite often, it's not necessarily growth that is founded in reality, in core provable, you know, figures, bat plans, right. You know, they're more assumptions about what will happen when the new magic owners who know everything, you know,

to do, right. What I mean, don't think that happens. I love this number base What are we talking about? Because it's really about what are all of these factors that in reality, will drive growth? So maybe even if we can reflect perhaps on what has been some of the strategies? And can you think of an example where you've seen the buyers implement a strategy that has been really effective for quick growth? Have they been any of those, you know, one of those lowest hanging fruit that has revealed themselves into something real, you know, remarkable that have created great results?

Ami: Yeah, absolutely. I think operationally, you can make some really quick wins, you know, if you're purchasing practices got a 20-year-old patient base, and you can jump in there and see that recalls aren't happening and reminders and nurse utilization is really low jumping in there and you know, sending a tweet or text messages for health assessments or making sure the care plan reviews are up to date, and you've got patients coming back in. I always like to do that a change of ownership text message to all the patient base and then follow that up with regular ones saying hey, we care about your health, we've noticed you have come in for your free health assessment, they'll go Oh, I can see the difference in these new owners already. And that's where you can make some really quick wins. You know, bringing on that nursing utilization is really important. We all know that the most profitable or any medical centre is that treatment room so not utilizing it to its full potential can mean you know the difference between profitability and not being profitable at all. And I think that coming in and talking to that nursing team setting it up correctly, making sure the systems that it integration just being I mean, that's a whole new topic altogether, but I tend to gration can definitely help in both the due diligence and actually making some quick wins as well. I like to use hot dog, hot dog you can really push out a patient base quite quickly what you're buying them This is probably where sometimes we get that blurred the goodwill. That is only if you use it. Yeah. So, you know, coming back to had a lot of clients through code, and the ones that succeeded really leveraged off their patient base, and the ones that weren't doing so well, we're just not really engaging in that patient base. So you've got a patient base there that is all juice for health assessments or all they do for care plan reviews, touch base with them, you know, you've got that you don't need to go look for new patients, you've got 20 years worth sitting there, and all their data, and all their contacts, and all of their past healthcare history. So I think that looking at that, and seeing it as a commodity of itself, is where you can make a huge, huge win in the first couple of months.

Joanna: Brilliant. I absolutely love it.

Joanna: Well, that's it for the first part of our two part series all about acquisitions for medical, dental and allied health practices. Now, don't forget to come back next week for the second part of our two part series, where we talk about building a business plan around maximizing value after acquisition. We talk about KP-Eyes, but not the usual kind of KPIs and what they can do for your business. We talked about working with practices that have multiple sites, we talked about this whole concept of Greenfield investment versus acquisitions and which is better, we'll answer that next week. And finally, we go through some questions that are often asked. And if you'd like more information about this topic that we covered today, in part one of our two part series, then just head over to our website at the dealroompodcast.com, where you'll be able to download a transcript of this podcast episode if you're the kind of person who just loves to read this stuff in greater detail, although I'll give you a warning. Well, transcripts are automatically transcribed. So whilst not WordPerfect, they certainly can

provide that extra detail if you're the kind of person who likes it. In that website as well. You'll also of course, be able to find details of how to contact Ami Assigal at practice partners. And you will also be able to find details of how to contact our legal Eagles 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 to guide businesses who are both small and large through acquisitions or sales. So don't hesitate to book an appointment if you'd like to find out how we might be able to assist. And finally, if you enjoyed what you heard today, then please make sure you pop over to your favorite podcast player and leave a review and don't forget to hit subscribe so that we can be delivered to you every week. Well that's it, thanks again for listening in. You've been listening to Joanna Oakey and The Deal Room Podcast a podcast proudly brought to you by our commercial legal practice Aspect Legal. See you next time.