



The Deal Room Podcast

Episode 210 – Buying or selling a Medical Practice: What accountants want you to know? (Part 2)

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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 are back with part two of our two-part series, all about buying and selling medical practices with Brendan Campbell, a director of Prosperity Advisers Group. We, in the last episode, talked all about selling a medical practice. So of course, in this episode, part two of our two-part series, we're going to be talking all about buying a medical practice. Now, if you are interested in the legal aspects of buying or selling a medical practice, make sure you're listening all the way to the end of this podcast, because we'll talk about a couple of webinars that we have available for you on-demand if you're interested in finding out the finer details from a legal perspective of buying or selling a business, like a medical practice. But in this episode right now with Brendan, we're going to be drilling into the accounting and financial perspectives of buying a medical practice. So here we go with Brendan

Brendan, welcome back to The Deal Room Podcast. So good to have you back on the show.

Brendan:

Great to be back. Great to be here again.

Joanna:

Wonderful. So in the last episode, we talked all about selling a medical practice. And now we're going to be talking about the accounting and financial issues in buying a medical practice. So Brendan, why don't you give us a bit of an overview, what are the top things from your perspective, that prospective purchasers of medical practices should be thinking about?

Brendan:

Thanks, Jo. Yeah, it's a bit about the shoe is on the other foot. So often, if you're selling a medical practice, you'll have your advisor team in the background telling you what to do and what to say and how to present it. And then if you're buying it, you've hopefully also got your advisor team on the other side saying, Well, I see what they're doing there. And this is what they're trying to present. So you're the vendor, we will be offering you some documents to look at, you would have had initial discussions, it'll be a bit about, this is what I think my practice is worth. Probably the first thing I'd be careful about is don't just agree to a price straight away with them. That's obviously a no, no, you really want to make sure you're getting advice and talking to lawyers and accountants first, to make sure you know what you're buying and exactly what you're getting into. It's not like buying Telstra shares, where you can see the market value, you can have a good look at the history of yields, and you can understand it, this is a business that you're likely gonna have to get in and run yourself, you'll likely have a doctor or partner of a doctor, or maybe your nurse or a practice manager who wants to run it, but you're likely going to be involved in the business there unless it's a significantly sized business that you're buying to add to your other businesses, in which case you're all over it, I'm sure you don't need my help on that specific part of it. But if you're looking to buy a practice, then you're probably going to be involved with it and working in a business. So you really, really need to know what you're buying, and that you are paying the right price for it. Probably importantly, is just making sure you're not doing sort of heads of agreement that commit to a price straightaway and that everything you're doing is really subject to due diligence and subject to find it, some of the key things talker, and then seeing what you can what information is available to you to assess it to make the best decision and be talking your advisors about how to make that decision.

Joanna:

Yeah, I completely agree. And, look, buying and selling any business is a bit of an emotional process. But one of the things I think that is super important to remember when you're buying a business is there will always be another one around the corner. You know, it's just about this, I find often buyers get so emotionally connected to the possibility of owning a particular practice that they have this sort of often emotional pool to not want to slow it down by going through the finer details. And I just think making sure you're dotting your eyes, crossing your T's. Properly looking at it from a legal perspective, property properly looking at it from a financial accounting perspective, is just so important to make sure this business this practice is going to work the way that you think it will. Because there are a lot of considerations, aren't they? From a legal perspective, you want to feel confident that the staff are going to come on board and that the value that you're looking for is going to be retained, and that the risks in the there aren't resting the practice that you're not aware of all that will transfer to you from a financial perspective. Brendan, you talked about. You talked about assessing it from my fun financial perspective. So how do we do that as a buyer, how do we assess if a practice is a good deal or not financially in our last podcast on the sell side, you talked about benchmarks and just be really interested in how that applies. From, you know, a financial accounting perspective, on the buy-side,

Brendan:

You should get if you're new to buying a business or a practice, you'll end up typically medical practices sold on an EBIT multiple. So how that plays out is you'd like a profit and loss statement with some add backs on it, which gives you a bit of a future maintainable earnings number a number that if someone buying it should be able to get this going forward, we'll get that amount going forward. And if you're not a doctor in there, you know it'll have ad backs with anxiety, there's an owner doctor or the someone working in the business, if they're not there, you have to sort of in their, their wages part of the profit, you've really got to back that out to make sure that what you're looking at is the true profit, that if you had staff doing the roles that what would be the profit you're making. And then you apply multiple to that and you know, just a rough

guide, I guess you're looking three, four or five times you five years where the profit. So if it's making \$200,000 a year you might be paying anywhere from 600,000 to a million dollars. to buy that practice, and these are obviously it's not, not advice on how much you should pay, there's just a bit of a rough guide for you. And if you yeah, that's, I guess a pretty good return because you need three years where the profits are five usable the profits. Yeah, that's it, that's a 20% return on five years, that's better than you're gonna get on the share market where you might be getting six, seven or 8% return. If you're getting a 20% return, well, that's, that's a great investment. Let's just throw all the cash in and go for it. But obviously, there are a lot bigger risks involved with that. That's why you're getting a better return. Because it doesn't just take a lot to do that you've got to run the business and make sure does that make sure it returns and there is risk in running a business and there's risks with a lot of things when staff with the doctors, there's a lot of risks involved. So it's important to understand and I guess you'll get a profit loss statement was an add-backs in it, how much its future maintainable earnings are? How many years were the profit they're talking about? And then you can assess something well, okay, well, if I take over this business, can I run it to do that? Or will I get any experience in doing that? Don't know, the business? Do I know the risks? Am I if you're working in the practice, and you're an existing doctor, and the owners approached you and said, you know, you want to be good billers Are you keen, I want to get out you want to get in, that can work really well, you already know the business you have, you will know that the staff, you will know the other doctors, you will know who's happy, who's not happy. But if you're buying from Interstate, all of a sudden, you're somewhere we don't know the practice in any way at all. You're trying to buy a practice looking at a set of numbers, but you don't feel or know the practice. So it's very hard to judge sometimes what those other factors are. So it's important to, you know, don't definitely a too high if you don't know the practice well enough, or you don't feel it's going to be able to do that. So there are a lot of those things to consider. And then I guess, you know, the financial data, is it running well? sometimes you want to buy a practice that, isn't running fantastically, but there's a lot of upside to it. It's like you know the adage of a coach, do you want the player who's already perfect? And you can't do much with it? Or do you want a guy who has a natural ability, and you could change them in so many ways and get so much better? Sometimes you want that when you're buying it because you think oh, they're not doing this. They're not doing that there's no pathology in here. There's no clip in here. They're not accredited yet. We're going to all have this

Joanna:

Opportunity for growth, so much opportunity. Yeah.

Brendan:

Sometimes you want that sort of practice that you can buy any of the benchmarks you mentioned, would you run a benchmark report and look at it well, top my head, how much are they paying for rent, what's the rent is up to five 6% in Billings is probably a standard for most GP practices. The staff wages can be significantly different, you know, anywhere from 4% for nurse and admin costs as a percentage of Billings, up to 20 to 23%. And that, obviously, you'd rather be paying 12%. But sometimes it's a higher number because you might have nurses who are actually doing a lot of the follow the care plans, and they're doing a lot of the work and then you're getting increased billings because your nurses are doing a lot of care plan work and a lot, a lot of billing work is part of it. So, therefore, it's okay to pay more for wages. But what are the numbers? And what's, what's the billing mix of a bulk bill, private practice? How many doctors are there? What are the full-time equivalent doctors? Is there? Are there five rooms and there are only three full-time equivalent doctors' rooms for growth? Are they flat out and squeezing someone in at lunch in between the rooms and no room for growth? And then I think we mentioned in the selling one as well, we talked about you know, is there a lease in place not to buy this place. And then six months later go the letter go your lease is expired. We're not renewing it. What do we do now, that's a bit of a

Joanna:

and because quite often from medical practice, a lot of the value is tied up in, in that in patients just you know, coming back to the same place year after year, you know, so the premises do actually hold can in some instances hold a lot of value, not to mention, you know, the need to

then pay for new fit-outs and those sorts of things if you're required to move. And of course from the buyer side, and we talked about this in the sell side, from a buyer side, you have to be really careful with things like tenure of security of tenure in your leases, or if you're purchasing the premises, that's fine. But if you're leasing the premises, you might have difficulty getting financed if there's not a significant period that you have secured the lease for so that's absolutely something that you should be aware of both from a legal and a financial and accounting perspective on buy-side for medical practices,

Brendan:

and obviously, there are the other account non-accounting non-legal things, but you know, maybe you'd want to have a bit of a look at the area and make sure that competition in the area if you're if it's a bulk billing practice you're paying for and there's a new bulk billing super clinic opened up two doors down or maybe you should know about that and have a bit of a look into that. beforehand, but it's not really an accounting aspect of it. But it's an important thing to consider that, you know, what is the competition in the area? And how do they bail? What's the demographics of the area, all those sorts of things.

Kerry:

And I guess the last thing to talk about that that is mostly legal but does involve an amount of financial and perhaps accounting input is, is how you're going to structure the deal. So quite often, you'll structure a deal with an upfront payment, and then a deferred payment for the balance or an urn out. So now being contingent on something happening within the business over a period of time, is there anything that we should be thinking about from, you know, checking in with our accountants, as we structure the deal to make sure we're not creating any traps along the way?

Brendan:

Yeah, there are often little traps. But yeah, often that urn out cause if there's an owner clause in there it is what it is. And essentially, it's going to be the seller is probably going to have more of an impact on how their tax is affected by it. If you're buying the practice, if you can get an earn-out clause in there, that's often good, because it gives you some maturity. So rather than paying the previous example, rather than paying a million dollars for the practice, they might get 600, upfront, and then another 200, after a year and another 200 after the next year, if there is you know, 910 to the patient to maintain the doctors stay there, whatever the clauses are within that, as long as the seller is happy to commit to that, or maybe the sellers who've got to stay on as well for a couple of years and do billing and help transition the business over and those sort of things. And that you know, in some ways is kind of handy, because you don't have to come up with a million dollars a new one, but the banks want to make sure you haven't been, you have the ability to get a million dollars and get a new one. But from a point of view of purchasing, it's probably less of a concern than it is for the seller when they're selling.

Joanna:

Yeah, and I guess the last thing, though, to think about, you know, quite often we end up spending quite a bit of time negotiating these earn-out clauses and there can be some sticky, you know, some sticky areas in relation to controls, that a seller will want to ensure they're in relation to what you do as a buyer with the business during the period of the earn-out, or even the deferred payment, or what you're going to provide security along the way or how the annat accounts are going to be prepared, which might then reflect back to the way a seller has normalized the accounts heading into a sale. So I guess it's just all of these sorts of things to think about earnouts can be a bit complicated, but obviously hold many potential benefits for a buyer, but going with your eyes, eyes wide open, it might require a bit of negotiation, and enforce foresight to be able to work out, you know how you deal with some of the issues that might come up if you're trying to spread and share your risk through approaches like deferred payments or earn-out causes?

Brendan:

Yeah, 100% Yeah, it is it's advantageous for the buyer if there's an owner call there. But as you said that the devils in the detail a little bit, who's preparing those accounts and showing that the

hidden, you've got very specific targets that are measurable. So you can actually know what you want to hit as to whether you pay that extra money or not. And maybe you don't want to become a well that's open to interpretation. And I think exactly, you don't want that so that can

Joanna:

be sent. Absolutely, absolutely. Well, look fabulous. Okay, any last parting comments for you Brendan for our potential buyers out there have medical practices for what they should be thinking about from your perspective,

Brendan:

I would say engage your advisors early to make sure that you're talking to them and you're not don't lead off with I want to buy your practise it's great it's exactly what I wanted to let's talk you are paying top dollar if you're doing that and that may be happy to pay top dollar but don't lead off with that conversation. Be interested get some information I'll talk to my advisors and come back to you to have a look at their information make sure you're both clear on exactly what it is and as we talked about last what are you buying is it shares is it a business is jazz in the business? What do you actually go to buy what is this specific thing you're buying not shares in a company or is it actually in the business that the company saying owns so knowing that knowing what you want and finding the practice you want don't buy it because it's there are other ones that come available but if it's a practice you work in you know it well you want to be part of it, I get it that's when you want to buy then maybe you pay a bit more because you're familiar with it you know that unless due diligence because you know all the doctors, you know, the staff, and you know it's gonna go great for the next 20 years. So that's, that's great. Happy to get involved more with those ones at the higher price because you're comfortable with it. And I fully understand that but just make sure you get advice early and don't commit to anything due diligence and finance needs to be on every contract. Yeah, It really important to do

Joanna:

brilliant. Well, Brendan, huge thank you for coming on for our two-part series all about how to sell and how to buy and medical practice if you have listened to this acquisition episode because you're thinking about buying a business, medical practice in the future, then make sure you also listened to the exit one that we did as part one because it's super important that you also begin with the end in mind, I think. But if, if our listeners want to contact you, Brendan, to assist them with buying or growing or exiting a medical practice, how did they go about doing that?

Brendan:

Just jump online@prosperity.com That au or became like prosperity.com that or you jump online or the Edit notes. I'm sure we'll have it in your podcast here but contact us we've got offices in Sydney, Newcastle and Brisbane and we deal quite a bit with many hosts and absolutely can help. Brilliant, wonderful.

Joanna:

Thank you once again, Brendan, for coming on to The Deal Room podcast.

Brendan:

Thanks

Joanna:

Well, that's it for the second part of our two-part series. In this episode, obviously, we talked all about buying a medical practice. And if you're interested in hearing about the episode on the accounting and financial perspectives of exiting a medical practice, then head over to our last podcast episode before this one, and you will find Brendan and me talking all about those relevant issues for an exit. Now if you'd like more information about this topic, then head to our show notes or over to our website at thedealroompodcast.com, where you'll be able to download a transcript of this episode if you'd like to read it in more detail. Or if you would like to find details of how to contact Brendan Campbell at Prosperity Advisers Group if you would like assistance from an accounting or financial perspective with the acquisition of medical practice. Now, if you are after assistance from a legal perspective with the acquisition, or the sale of medical practice,

then head over to our show notes and our website as well. Because there you can contact our lawyers at Aspect Legal and line up a time to speak to one of our Legal Eagles there. If you would like to discuss any aspects of sales or acquisitions of medical practice. We also have a number of on-demand webinars for you if you would like to drill into the legal aspects of the sale or acquisition of a business in greater detail. We have a buy-side webinar, where we talk about the legal aspects of buying businesses. And we have a sell-side webinar where we talk all about the legal aspects of selling and preparing for the sale of a business. So head over to our show notes or over to our website for the episode page for this podcast episode. And you'll be able to link straight through to our on-demand webinars if you would like some further information about what you need to be thinking about from a legal perspective as you head into either an acquisition or an exit of medical practice. Well that's it I really hope you enjoyed what you heard today. If you did please pop over to Apple Podcasts and leave us a review. Well that's it thanks again for listening in. You have 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.