Partnering with Private Equity:
A view from the Desk of the Practice Administrator

CASCADE PARTNERS

Acquisitions | Divestitures | Financings | Restructurings

Confidential

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Rajesh Kothari is the founder and Managing Director of Cascade Partners an investment banking firm.

Advised numerous healthcare companies, including physician practices in specialties such as ophthalmology, emergency medicine, electrophysiology and gastroenterology, in mergers and acquisitions.

Co-lead Seneca Health Partners and InvestCare Partners, healthcare private equity funds

Chartered Financial Analyst, with Bachelors of Arts and a Masters of Business Administration from the University of Michigan.

He currently holds the Series 7, 79, 24, and 28 licenses from FINRA.

Isabelle Bibet-Kalinyak is an experienced and creative healthcare and M&A attorney. She is Vice Chair of the Brach Eichler Healthcare Practice Group and counsels physicians, healthcare providers, hospitals, associations, Boards and management teams on the legal and strategic matters.

She draws on both legal and business experience to advise on complex business transactions including private equity deals, hospitals and ambulatory surgery centers acquisitions and joint ventures, MSO structuring, strategic partnerships and compliance.

Her legal, business and operational acumen is keenly aligned with her role as legal counsel to six medical societies, including the NJ Academy of Ophthalmology (NJAO).

Isabelle earned a Bachelor's Degree in Finance from CEFAM, France and Temple University in Philadelphia, an MBA from Kent State University, and a JD from the University of Akron School of Law.

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FINANCIAL DISCLOSURES

Mr. Ben Seals, Ms. Stephanie Collins, Ms. Isabelle Bibet-Kalinyak have no financial disclosures to be made.

Ms. Bibet-Kalinyak is legal counsel for the New Jersey Association of Ophthalmology (NJAO) and the New Jersey Association of Ambulatory Surgery Centers (NJAASC) however, she is not representing the NJAO or the NJAASC for purposes of this instruction course and is here solely in her capacity as Partner at the law firm of Brach Eichler L.L.C.

LEARNING OBJECTIVES

1) Understand key steps of a transaction process and your role
2) Understand what you can negotiate upfront
3) Time management strategies and scope of responsibilities/actions

What is the catalyst for change?

- Aging practice owners
- Working harder/making less
- Increased costs and complexity
- Crisis

- Someone called us
- Understand what all the talk is about
- The Money!

You Have Options

1 MAINTAIN STATUS QUO

- Continue operating and managing as currently constituted.
- Take a path of slower growth through tuck-ins with minimal cash or conservative leverage.

2 INDEPENDENT GROWTH

- Continue + increased efforts on growth.
- Raise debt or similar capital to fuel expanded growth strategy.
- Realign share ownership.

3 PHYSICIAN-LED CONSOLIDATION

- Integrate into "supergroup".
- Find practice(s) similar in scale and culture in current or adjacent markets.

4 INVESTOR-LED GROWTH

- Identify an institutional investor as a partner.
- Provide immediate liquidity and future growth capital in a majority or minority transaction.

Get educated with facts, not hearsay

Alignment

- Focus on institution, not individuals
- Who needs to be aligned?
- Are all practice owners onboard?
- Shared understanding of the outcome?
- Be honest with each other
- Incentivizing your team

Get organized

- Books and records, including governance documents
- Financials and operating data
- Leadership plans
- Strategy for growth
- Business needs to accelerate growth
- Tax planning
- Succession planning
- Estate planning

Prepare mentally

- How do we really want to work with others?
- What happens when they change what we have done, because we know better?
- Are we ready for change?
- Are we okay not being in charge of everything?
- No, they are not going to tell you how to practice medicine

Do you really want to be the first patient your doctor has ever operated on?

CEO/ Administrator
- The Counselor

Investment Banker
- Deal Quarterback

Healthcare M&A Attorney
- The Scribe

Accountant
- The Validator

Tax Planner
- The Schemer

Preparing the Story

- Tell the story of your practice
- Clinical, operating and financial story
- Built on data, not opinion
- Build an understanding of practice ethos, philosophy and strategy
- Define roles and responsibilities

Going to Market

- Identify potential partners that fit the ethos of the practice
- Tell the story
- Evaluate interest and credibility of partners
- Continue to educate shareholders and management

The Negotiation

- Frame up principals of a potential transaction
- Tell the story
- Evaluate interest and credibility of partners
- Continue to educate shareholders and management

"We have a goal wrapped in a plan, and served on a bed of success."

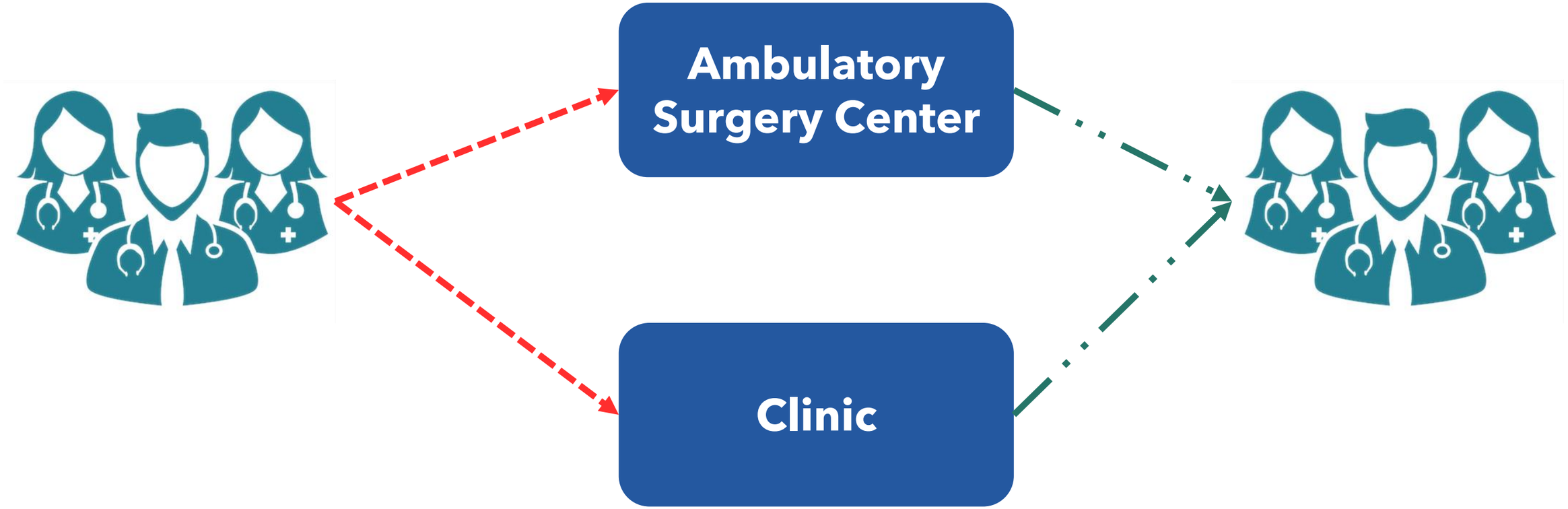
Value is in the Eyes of Beholder

Negotiations are often tough on relationships

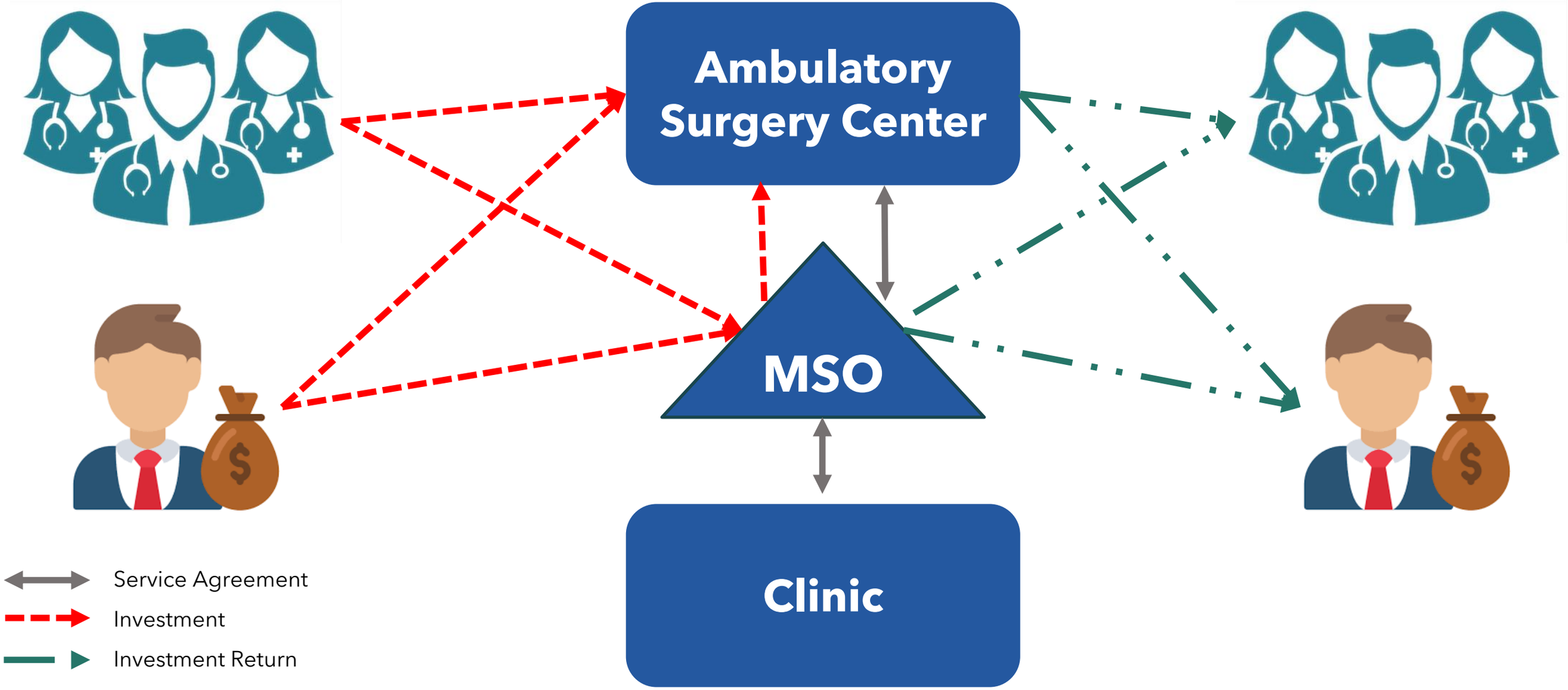
Your advisors are the bad guys. They wear the black hats.

You must be the knight in shining armor

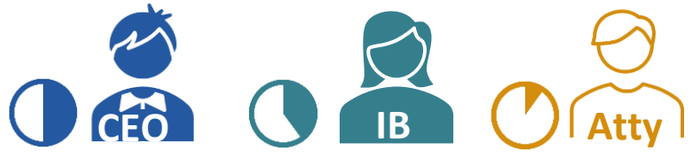
What does it look like, before?



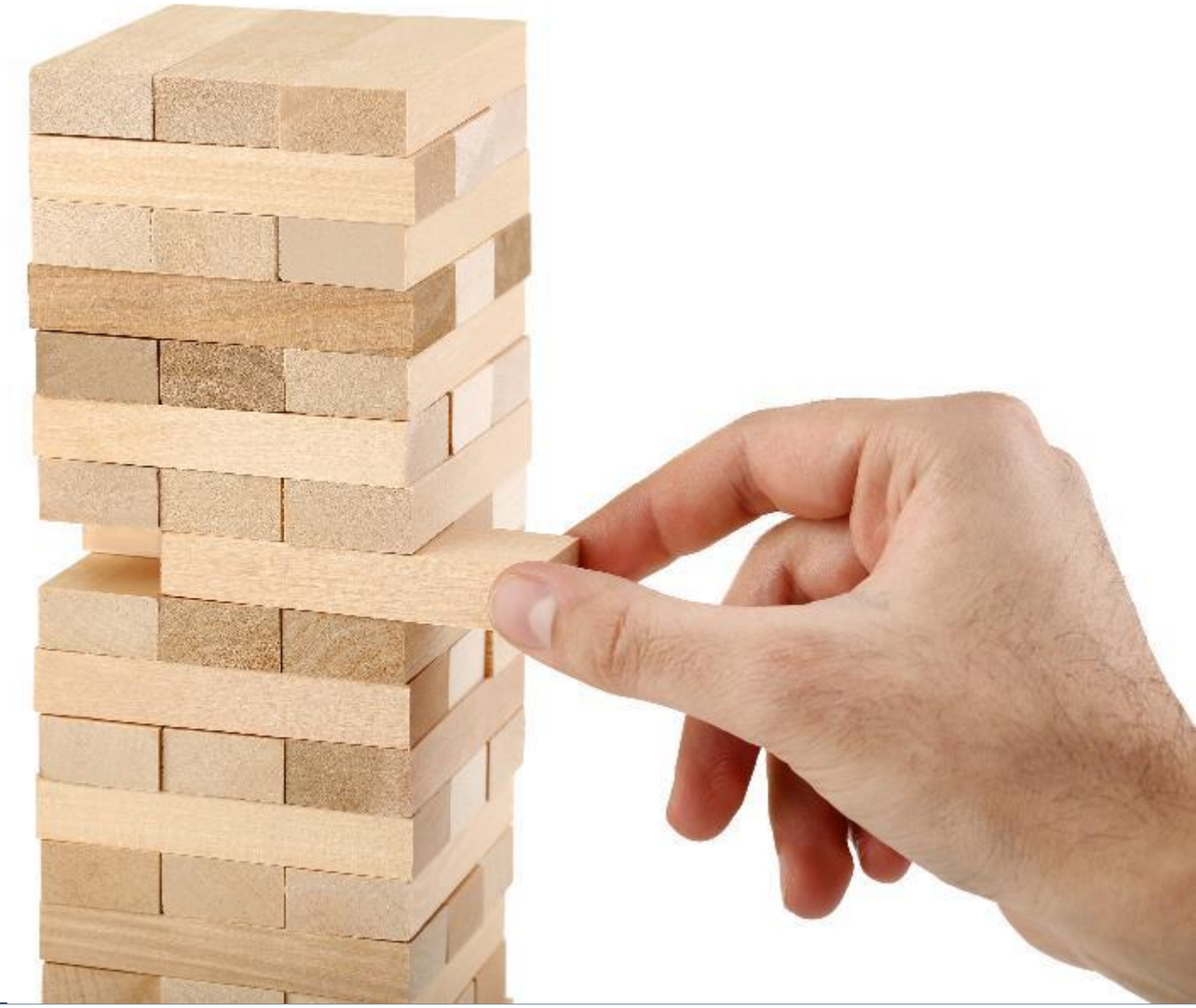
What does it look like, after?



Picking a partner

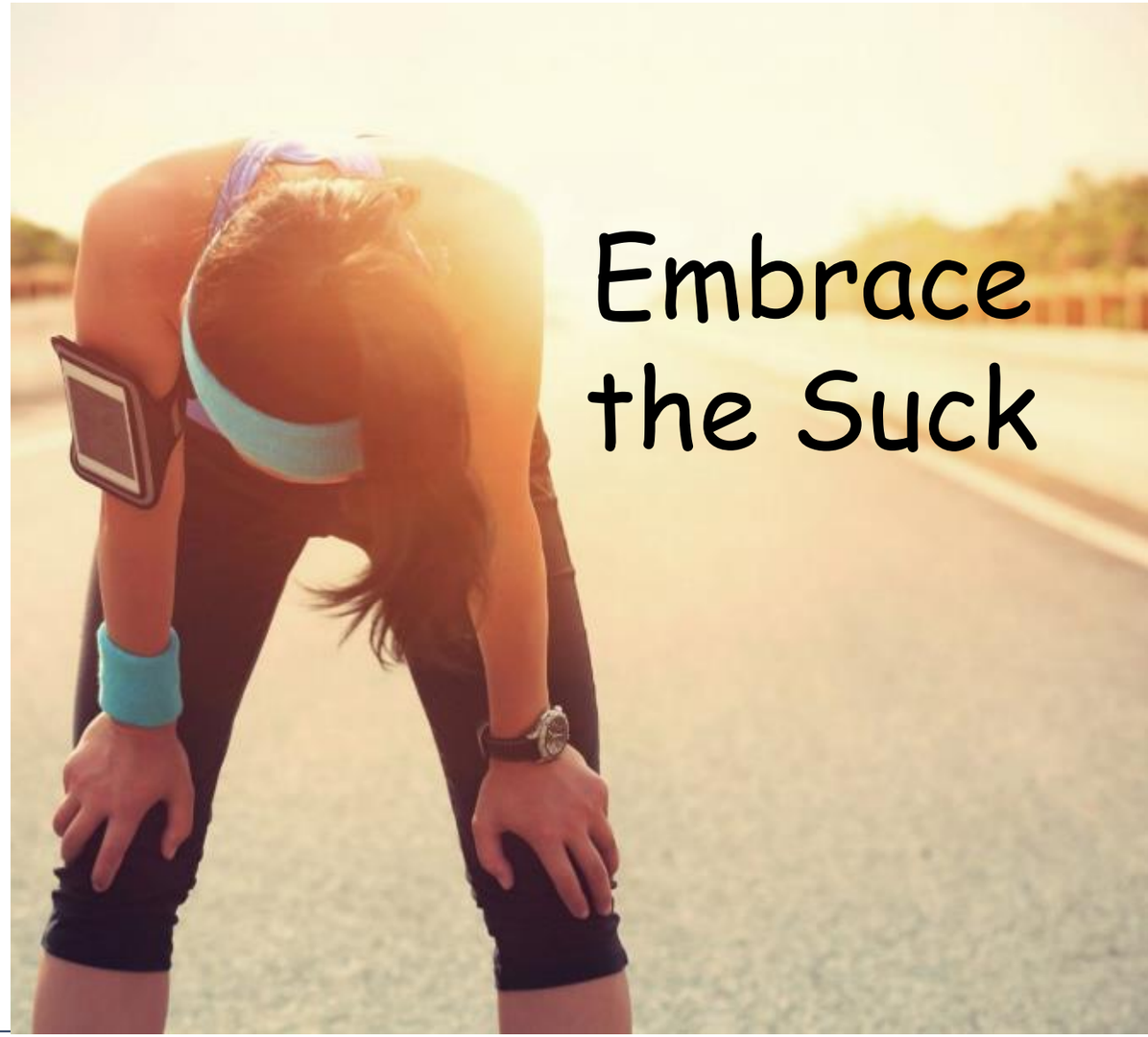


- Focusing on qualitative issues, not economics
- Ensuring culture meets with words
- Confirming go forward approach meets the practice's needs
- Validating ability and success helping physician practices grow



Due diligence

- Validate the strength of the practice with real data
- Confirm financial results in GAAP terms
- Confirming go forward approach meets the practice's needs
- Validating ability and success helping physician practices grow



Due diligence

- ✓ Organization and governance
- ✓ Financials
- ✓ Billing and coding audits
- ✓ Quality of earnings analysis
- ✓ Provider compensation and contracts
- ✓ Provider licensure
- ✓ Medical malpractice exposure
- ✓ Other insurance matters
- ✓ Non-compete, non-solicitation, non-interference, confidentiality
- ✓ Change of ownership analysis
- ✓ Operations
- ✓ Policies and procedures
- ✓ Real Estate
- ✓ Tangible and intangible property
- ✓ Contractual relationships
- ✓ Compliance audit
- ✓ Sales and marketing practices
- ✓ HIPAA, privacy, compliance, and IT infrastructure security
- ✓ Litigation history
- ✓ Seller interviews
- ✓ Employees, contractor, and human resource matters
- ✓ Employee benefits and equity plans
- ✓ Tax matters
- ✓ Information systems, including EMR
- ✓ Clinical Research
- ✓ Environmental matters

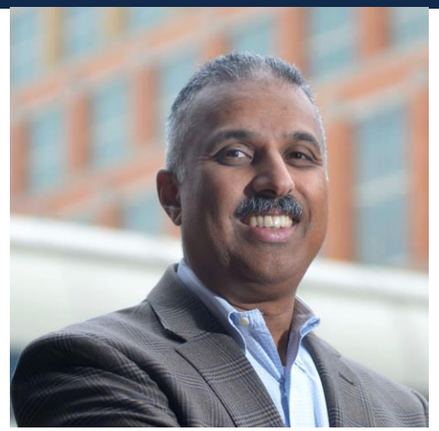
Closing

- Putting all the data together
- Ensuring the documentation matches the deal
- Addressing last minute issues that always arise
- Planning the integration/onboarding process
- Anticlimactic
- Wire transfer(s) - Beware of fraud

Life Post Closing

- First 6 to 12 months are stressful
- There will be lots of change
- Takes open, constructive and regular communication
- Don’t let issues fester
- Work to understand overall approach
- Don’t forget the paperwork
- Close out legal points

ANY
QUESTIONS?



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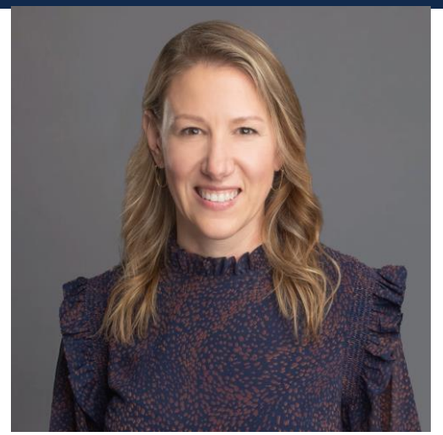

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The communication plan

- Who do you tell and when?
- Manage anxiety and concerns
- Ensure you have answers to critical questions
- Fit the strategy to your culture