

# WHAT'S YOUR ANESTHESIA GROUP WORTH? AND WHY IT MIGHT NOT MAKE ANY DIFFERENCE.

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"What's our anesthesia group worth?"

I hear that question on a frequent basis. In fact, you're probably thinking it right now.

There are a lot of people out there who are happy to fool you with their answer. They might say something like, "well, your practice is worth X times pro forma earnings before income tax depreciation and amortization, otherwise known as 'EBITDA.'" Or, they might even have a super-complicated formula, sort of like the ones economists use to make you think that they are scientists.

But that's all BS.

The real answer is that your practice is worth exactly what an actual buyer will actually pay you to acquire your practice. So, if buyer A will actually pay you \$30,000,000 and buyer B will actually pay you \$40,000,000, then the practice is worth \$40,000,000. That's the case even if buyer B is a fool. Forty million dollars is the exact answer. It is not off by even one penny.

On the other hand, if no buyer is interested in your practice, then any notion of its value is simply academic. Or, it's zero; your choice.

Although you can look to the greater market for trends, such as the fact that anesthesia practices have been selling like hotcakes, to obtain some cold comfort that there is a potential buyer in the wings, the only way of actually knowing whether



one or, preferably, multiple interested buyers are there for you, and discovering what they will pay, is to engage in the process of looking for them.

As to the pace of the market, while no one has a crystal ball and there will always be exceptions, there are likely two years or so left in the merges and acquisitions (M&A) binge. By then, the large buyers will have acquired the groups they find most desirable. Certainly there will be some room for smaller, add-on acquisitions, but most large groups will shift to growing "organically;" in other words, they'll respond to RFPs and otherwise try to wrest control over contracts. The fact of the matter is that there will be little need to buy a group if they can simply take away its facility contract.

In this period of rapid change, anesthesia practices react differently to the resulting uncertainty.

Many anesthesia groups are interested in seeking shelter from uncertainty through a sale to a large regional or national group or to a private equity backed venture. Yet others are forging new routes, alone or in alliance with other practitioners and creating their own futures.

Which route is best for you?

## ACQUISITIONS

It's important to understand the basic economic structure of an anesthesia group acquisition.

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As opposed to the sale of, for example, a manufacturing business that includes inventory, machinery, raw materials and real estate, all of which can be valued and sold, the only thing that most anesthesia groups have to sell is their future cash flow.

Accordingly, the usual anesthesia practice acquisition is essentially a valuation, at a multiple, of the group's reconstructed earnings; reconstructed because most groups don't have significant, or any, earnings in the technical sense due to the fact that they annually distribute all of their available cash to their physician owners.

To illustrate, if the group is normally distributing \$100x to the physicians when the amount of compensation required to recruit and retain is a lesser \$70x, then a purchaser would, conceivably, value the group based on a multiple of the difference, that is, on a multiple of \$30x.

As a part of the sale, the group's physician owners would receive an employment contract for, in our

simplified example, \$70x per year, often for a guaranteed number of years.

The astute reader might realize that, all things being equal, the group has financed the purchase price by forgoing the collection of the additional \$30x. That's correct.

However, those physicians nearing the end of their active careers may be more than happy to obtain four, or five, or six or more times that \$30x up front because they have no intention of working for more than one or two additional years.

Even those physicians who foresee many years of continued practice sometimes favor an acquisition because it results in a shifting of risks. For example, consider the risk that the hospital contract might be terminated, or that collections will plummet one year into the term of a multiple year employment guaranty.

While certain risks can be shifted, sellers do assume other risks, such as the fact that continued practice, without a sale, might be more remunerative or that the lump sum purchase price received

might not actually deliver a higher return than would a continued investment in their own careers.

### *Alternatives*

Just because the acquisition market is hot doesn't mean that you should be interested in a sale. Again, unlike the calculus used by the owner of a manufacturing business, no one is likely to pull enough cash out of a sale to head off and buy a villa on Lake Como or even a nice second home in Aspen.

And, for the many who seek to control their own future, no sale can deliver that ability.

There are multiple alternatives to a sale. Let's explore some of them in four easy steps:

### *1. Step Up Your Game*

Immediately begin taking steps to cement your relationship with the facilities at which your group currently provides services and intensify your efforts on securing additional services contracts.



At the same time, tighten up your group's internal operations. Get your governance structure in order to enable your group to make quick decisions. Review your compensation plan to make certain that it creates the proper incentives and motivators. And begin to bank capital to enable the group to expand on multiple fronts.

## 2. Create A Profit Stream From Your Internal Business Function

If your group has an internal business operation with a dedicated practice manager, consider expanding that function into a separate spun-off business entity that provides MSO type services to other groups as well as to your own.

For example, you can sell your manager's, and your group's leaders', business expertise, you can repackage billing services, and you can operate a locum's service with your own group's physicians or with third parties.

Importantly, your MSO structure can be a vehicle to create initial relationships that might later be expanded to make the client a merger or acquisition target.

## 3. Do Your Own Mergers and Acquisitions

Instead of simply thinking of M&A from the perspective of a target, consider that your group can become an acquirer.

Although you might actually consider buying another local group, that is, engaging in a true acquisition, there's no reason why you need to restrain your thinking to paying cash.

Your group can combine with other groups through merger to form your own larger entity. Although size itself doesn't necessarily secure success, it can enable your group to establish a wider geographic presence, achieve economies of scale and potentially create stronger payment rate contracting power. It also serves to create leverage in connection with facility contract negotiations.



There is a plethora of ways to structure mergers, from those in which your group essentially makes itself larger by subsuming other groups into its fold, to structures in which your group and another create a new entity.

## 4. Non-Traditional Models

Within bounds permitted between competitors (although the truly entrepreneurial reader will realize that there's no need to deal only with competitors), there's really no limit on the types of non-traditional or hybrid ventures that can be constructed.

Consider, for example, the use of co-operative (commonly referred to as "co-op") ventures, limited scope joint ventures and alliance models.

## CONCLUSION

There are always more options than you've considered to date. There are always alternative structures to a sale and alternative strategies for the success of your practice.

Even if you're committed to seeking a buyer, you can't stop or even slow your efforts to develop your business while you're searching. There might not be a

buyer. If there is, you may not like the price. You might realize that you don't want to sell. You might actually want to buy.

In closing, remember that the best strategy formulation is not a straight-line process. It's not an on-off, sell or don't sell, merger or don't merge situation. Rather, it's a fluid, circular process, keeping options open even as you explore a primary one, continuing to build as you, for example, continue to search for the right deal, that is, the right deal for *you*. 

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