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ARE YOU CONSIDERING SELLING YOUR LABORATORY OR PATHOLOGY PRACTICE?

13 CONSIDERATIONS IN PRACTICE PLANNING AND ASSESSING WHETHER OR NOT TO SELL

1

You do not need to sell. Independence autonomy are legitimate reasons not to sell. Do not overreact to buyer commentary that the market interest in a purchase will disappear. There will always be an opportunity to sell a well-run, thriving entity.

2

You can grow your practice or laboratory organically or through consolidation with other organizations that may have other market, operational, and clinical advantages. Increasing your organization's size through consolidation often allows you to sell at a higher multiple due to the entity's larger size (if you decide to sell later).

3

You do not need to sell now – you can sell at a later date. The market for your organization will not disappear. However, valuations may fluctuate over time. The right time to approach the market is when you are ready.

4

Be congizant of valuation drivers. Size, reputation, client networks, service offerings, and clinical systems/processes integration are all key drivers of valuation. Notably, there are also variations in valuation attributable to the nature of the sale, e.g. "platform" vs. "add-on."

5

Get your organization ready to sell. An effective sale requires pre-planning and preparation. This includes tax planning, potentially estate planning, review of organizational compliance, licensure and regulatory matters, financial recordkeeping and reporting and other focus areas. You want to go to market with your organization in the best shape as possible.

6

In most instances, you should not sell to the first buyer that comes along. The exception is if the offer is clearly market competitive in terms of purchase price and post-sale compensation and benefits, and the buyer is a good cultural fit. You are generally better off seeking offers from multiple buyers as this may enhance the purchase price and other financial terms (salary, bonus, etc.), as well as exposing you to alternative cultures and organizational models and keeping buyers honest throughout a transaction.

7

Avoid buyers who pressure you to not engage with other buyers and try to lock you into an exclusive dealing agreement before you are comfortable in soliciting them as your first choice; to move forward with a transaction before you are ready or at a pace that is ureasonable; or to not engage an investment banker or lawyer.

8

Do not test the market unless you have a consensus by the owners that you want to sell. Trying to complete a successful deal without a consensus is likely to result in a very long process, if a sale is completed at all. Do not play out internal disagreements or issues in front of buyers. Also, if you pull out of a market process in a way that potential buyers feel indicates that you were not engaged in a serious process, you may damage your ability to engage with those buyers at a later date.

9 **Make sure you are aware of the complexity of due diligence and the types of data, information, and materials potential buyers will want to see.** These should be in good order, ideally, before going to market to avoid delays in the process. Lack of timely and organized responses to due diligence requests can have a negative impact on outcome.

10 **Try to identify and correct any material issues or deficiencies prior to going to market.** It is always better for you to detect (and, hopefully correct) problem areas than having potential buyer detect them. Surprise issues can negatively impact purchase price or deal competition.

11 **Carefully consider when and how you will disclose the transaction process to non-owners and the financial incentives, if any, that you intend to offer them to remain with the organization after the transaction.** There can be a disconnect and diverging interests between owner and valuable non-owner employees that need to be accounted for to mitigate deal disruption and conflict between owners and non-owners.

12 **Do your own due diligence on the buyers.** This can take a variety of forms and would intensify as the possibility of a deal becomes more certain. If possible, talking to other organizations that have sold to the buyer is incredibly useful.

13 **Do not sign a letter of intent without having it reviewed by counsel and, if applicable, the investment banker.** Though not legally binding, it does set the stage for primary deal terms, so you want it to be complete and accurate. Also, most letters of intent contain exclusive dealing restrictions of 90-120 days which would end your ability to negotiate with other potential buyers during that period.

Our healthcare transactions team is here to help.

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McDonald Hopkins has a national healthcare transaction practice. We have executed hundreds of significant transactions for many types of healthcare facilities, providers, and other healthcare enterprises. Transactions include, but are not limited to, acquisitions and sales, mergers, joint ventures, recapitalizations, and reorganizations. Transaction size has ranged from $2 million to close to $400 million in deal value.

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