

Exit Strategies for Physician Groups

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Whether you're a physician with a small or large group, you're likely concerned about the future of your practice. You've dedicated a great deal of time and energy to building your practice and taking care of patients. Perhaps your clinic is thinking of combining forces with a hospital to better cope with the wealth-shrinking impact of last year's financial meltdown or to deal with the anticipated consequences of health care reform or to help with long-range planning issues surrounding recruiting, retention, and succession. Or perhaps it was your plan all along to retire in

the next few years. By whatever path you took to get here, you're now approaching a crossroads: a milestone that affects your practice, your family, your wealth, and your future.

The crossroads is the transition of your practice. When the time comes for transition—whatever your reason—you want to make sure your practice and your patients will be left in good hands. In a perfect world you'd find someone who'll pay you precisely what you believe your practice is worth and at the same time provide the same level of care to your patients that you did.

Any final ownership transition plan needs to take into consideration your retirement goals and your needs. It must contain a price and terms to provide sufficient cash flow to fund your retirement and maintain your lifestyle while being economically feasible for the new owners to sustain the practice. But successful ownership transition really begins with identifying potential successors, which may include new physicians, other clinics, or hospitals.

Physicians must evaluate many factors before transitioning their practice. A few of the key areas of focus that are integral to a successful transition plan are:

- Entity structure. Business entities structured years ago may not have been designed with succession in mind and may create adverse tax consequences to the seller or purchaser. The original entity structure must be evaluated to determine whether any further restructuring is needed to facilitate any potential future transaction. Entity structuring is a key area to address well in advance of any potential business transition in order to ensure that the physician group is positioned to maximize its return.
- Assessing your ownership transition choices. Who are your buyers? There are different issues associated with each of your options. If you're transitioning to younger physicians, your ability to attract quality candidates will be critical, since younger physicians are often not interested in their own practice but rather attracted to the stability of a hospital. If you're looking at selling to a larger clinic or a hospital, then you have many issues to consider, ranging from outright sale of the practice to a joint venture. Regardless of your transition strategy, the changing economic and regulatory environment requires even

greater cooperation between physicians and hospitals, and any transition plan must take this into consideration.

- Managing the tax impact. Tax is always a major component of any transaction, and appropriate steps must be taken to manage this cost when planning, negotiating, and structuring a deal. However, federal income tax, both corporate and personal, isn't the only component to be thinking about. State and local sales tax, use tax, business tax, and any personal property or real estate excise taxes must also be factored into the transaction, since these costs are often overlooked until the end—creating an unpleasant surprise.

Ownership transition is the process by which you transfer ownership to both maximize value and fulfill your financial goals. It provides an orderly exit for you while enhancing your practice's value. Once you've established your personal and financial needs, determined the value of your practice, developed cash flow models, and identified potential management succession issues, you can evaluate the various options for transferring ownership and choose the most advantageous one.

It's important to remember that your situation is unique. Every physician and every practice has a different financial scenario, personal circumstances, operations, management, knowledge and education, motivations, and hopes. A meaningful ownership transition plan will lead to increases in cash flow, greater transferable value, long-term practice continuity and success, and continuous high-quality

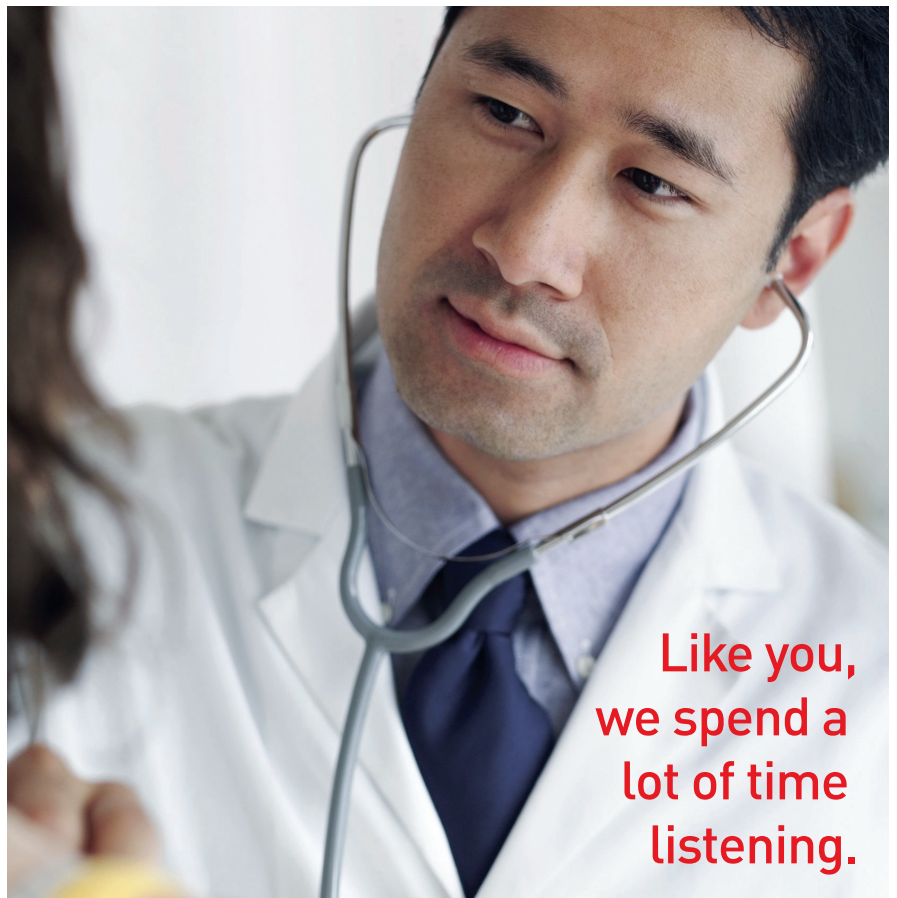
care for your patients.

This is a very difficult and demanding time to be a physician running a practice. Because of all of the challenges facing you today, from the changing regulatory environment to capital constraints to recruiting and retention of top talent to the economy, now is a great time to evaluate your options.

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