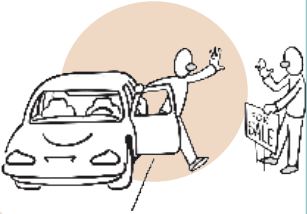
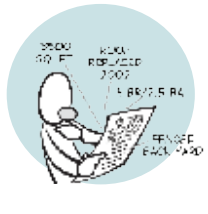
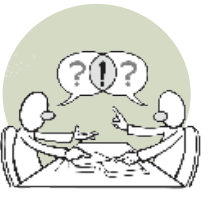
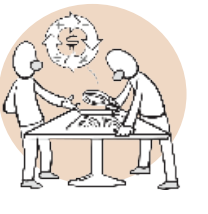







# PMI Roadmap For Selling/Buying A Pediatric Practice (It's Much Like Buying A House)

PHASE I: DETERMINE FEASIBILITY & FIT			PHASE II: CLARIFY TERMS & DECIDE TO MOVE FORWARD			PHASE III: FINALIZE TERMS & COMPLETE TRANSACTION	
Facilitated by a trusted advisor or consultant - PMI is here to help! ( <a href="http://www.PediatricSupport.com">www.PediatricSupport.com</a> )			Facilitated by a competent legal advisor			Facilitated by a competent legal advisor	
STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8
 <p><b>Have an Initial Conversation</b></p> <ul style="list-style-type: none"> <li>A potential buyer reaches out to the practice or vice versa</li> <li>Potential buyer and seller have a preliminary discussion focused on information gathering</li> </ul>	 <p><b>Review Preliminary Financials</b></p> <ul style="list-style-type: none"> <li>An NDA is executed</li> <li>Basic financials and KPI's are shared with the buyer</li> <li>A ballpark sale price is determined and shared with the buyer</li> </ul>	 <p><b>Align Goals</b></p> <ul style="list-style-type: none"> <li>Buyer and seller have a deeper discussion to determine how the goals of the buyer and seller are aligned</li> </ul>	 <p><b>Review Letter of Intent (LoI) or Term Sheet (TS)</b></p> <ul style="list-style-type: none"> <li>Buyer provides a LoI or TS to the seller</li> <li>LoI includes the broad terms related to practice valuation</li> <li>Seller reviews the terms and if comfortable, signs the LoI</li> </ul> <p><i>FYI: An actual purchase price may or may not be included in the LoI or TS</i></p>	 <p><b>Complete Due Diligence</b></p> <ul style="list-style-type: none"> <li>Buyer and seller complete an exhaustive review of all operational and financial considerations</li> <li>A final price is influenced by:                             <ol style="list-style-type: none"> <li>Multiple of Earnings</li> <li>Vaccine Inventory On Hand</li> <li>Accounts Receivable</li> <li>Equipment and Furniture</li> <li>Existing Liabilities</li> </ol> </li> </ul>	 <p><b>Negotiate Final Agreement</b></p> <ul style="list-style-type: none"> <li>Final sale terms are drafted and negotiated</li> </ul> <p><i>FYI: Negotiation can be an expensive and risky process</i></p>	 <p><b>Complete Transaction</b></p> <ul style="list-style-type: none"> <li>Buyer and seller sign paperwork</li> <li>Funds are exchanged</li> </ul>	 <p><b>Move Forward</b></p> <ul style="list-style-type: none"> <li>Make operational and workflow adjustments as needed</li> <li>Decide whether to retain or recreate the brand</li> </ul>
<b>TOUCHPOINTS</b>		<b>BACKGROUND</b>		<b>ALIGNMENT</b>		<b>FINANCIAL</b>	
Share background information between the initial conversation and financial review steps		Determine how well-aligned the buyer's and seller's goals are		How to reduce and prevent risks in the "Due Diligence" step		 <p><b>PEDIATRIC MANAGEMENT INSTITUTE</b> HELPING PEDIATRICIANS SUCCEED</p>	
<b>CONSIDERATIONS</b>		<b>LOGISTICS</b>					
		Seller & Buyer determine whether to move forward between Phase 1 and Phase 2					

**DISCLAIMERS:**

- There is no recommended time guidance as the timing is dependent on unique variables of the practice and the individuals involved.
- Both the Seller and Buyer should be advised by competent legal/business advisors every step of the way.

**TAKE THE NEXT STEP:**

- Pediatric Management Institute acts as a trusted advisor in the process of selling your practice. We will help you ask the right questions and gather the resources you need to negotiate a deal that aligns with your vision and interests.
- Set up a consultation at [www.PediatricSupport.com](http://www.PediatricSupport.com)

# Questions for Consideration

## BACKGROUND

Considerations to gather background information between the initial conversation and financial review steps.

### Top Question: What is the buyer's overall financial position & how can it be verified?

#### Other Questions:

- What is the source of the buyer's funds, and how will the buyer validate their financial position?
- What are the buyer's plans for paying their debt?
- What experience does the buyer have in pediatrics, and what improvements would they make to this practice?
- Does the buyer support charitable giving?
- Will the buyer support community organizations that contribute to the well-being of children and families?
- How long does the buyer typically hold the practice before selling it?
- What is the buyer's history of returns on investment with similar deals?
- If the buyer is PE-based, what is their expected roll-up schedule and to whom do they expect to sell? (investment firms only)
- Has the buyer invested in other healthcare services or primary care businesses before?
- What have you learned from prior acquisitions that might help you now?

#### **Seller Self-Reflection:**

- What would make you walk away from the buyer?

## ALIGNMENT

Considerations to determine how well-aligned the buyer's and seller's goals are.

### Top Question: What does success look like for the future of this practice?

#### Other Questions:

- What makes this practice valuable and attractive to the seller?
- How will the buyer add value to the practice?
- How will the buyer accelerate the growth of the practice?
  - Additional service lines
  - Geographic expansion
  - Vertical and horizontal expansion plans
- Does the buyer plan to acquire other practices?
- From the buyer's perspective, what are threats to pediatric practice, and how does their strategy address them?
- What feedback does the buyer have for the seller?

#### **Seller Self-Reflection:**

- Why choose this partner over other partners, new lines of business or other opportunities?



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## FINANCIAL

Considerations to reduce and prevent risks/delays in the "due diligence" step.

### Top Question: How was the value of the practice determined by the buyer?

#### Other Questions:

- When sharing the seller's financial data...
  - What types of data is required?
  - How should the seller share data?
  - How many years of data is required?
- What revenue improvement(s) does the buyer expect? How?
- When it comes to multiple earnings...
  - How many times the buyer's annual profit is the seller willing to pay up front (cash versus equity)?
- When it comes to vaccine inventory...
  - What is the value owned versus amount due in vaccines?
- When it comes to accounts receivable...
  - Will the buyer purchase the accounts receivables?
  - If not, what happens to revenue from Date of Service prior to acquisition?
  - How will the buyer and seller determine the value?
  - How will the practice handle refund requests and recoupment from before and after the sale?
  - If there is a credit sitting on the books, who will pay for it?
- When it comes to equipment and furniture...
  - What is the book value versus salvage value?
- When it comes to existing liabilities...
  - How will the practice handle employee liabilities prior to the close (PTO, retirement, etc.)?
  - Who is responsible for the billing activity prior to close?
  - If the practice finds that someone is fraudulently billing, who is responsible for paying back?
  - Who is responsible if the government requests recoupment of stimulus dollars?
- Typically, how long is the process from signing the Letter of Intent to closing?

# Questions for Consideration

## LOGISTICS

Considerations to help the seller determine whether to move forward between phase 1 and phase 2.

### Human Resources

- How does the buyer plan to recruit in the future?
- What HR resources does the buyer provide?
- **When it comes to benefits for all staff...**
  - What will the benefit package look like?
  - What will happen to the existing benefits?
  - How will employee tenure be accounted for?
  - What professional growth opportunities are there?
- **When it comes to benefits for providers...**
  - Will the seller be included in the determination of compensation packages?
  - How will the buyer determine retained providers' salaries?
  - What type of medical liability insurance will the buyer provide?
  - What will a base salary schedule and benefits look like (CME benefits, professional development, dues coverage)?
  - If salaries to recruit new providers increase, how will the buyer adjust the salaries for retained providers?
- **When it comes to hiring and firing decisions...**
  - When will the buyer determine which employee(s) to keep?
  - What will happen to displaced staff?
  - Will the seller have a say?
  - When should the seller expect to lose billing staff?
- If the buyer is new to the area and doesn't have the critical mass to negotiate reimbursements with local insurance companies, how might they pay competitive salaries?

### Seller Self-Reflection

- How well do the buyer's bonus incentives align with seller's values?

### Providers

- Will providers at this practice be expected to rotate/work at other locations acquired by the buyer?
- Will providers have a say in...
  - Completion of this deal (provide contracts, restrictive covenants, pay structures-current and future, etc.)?
  - Decisions to move or merge the practice to a new location or merge it with another practice?
  - Capital improvements?
  - (in the event of buyer insolvency) First dibs on purchase of the practice or a say in choice of new owner?
- If providers decide to leave post-acquisition...
  - What limitations will they face (i.e. non-compete agreement(s), etc.)?
  - For a "claim made" on a malpractice insurance policy, who's responsible for tail coverage?
  - How will the buyer release medical records back to providers?
- Is the buyer willing to escrow/pre-pay medical liability insurance tail premium for all providers in the event that the practice is unable to achieve its financial goals?
- What monthly/quarterly/annual reports will be available?
- Will the buyer buy the provider's facilities?

### Technology

- What tools will be used to run the practice (near term and long term "technical stack")?
  - What EHR will the practice use?
  - What will the data conversion look like?
  - How will the practice be trained?
- Who will manage the IT infrastructure?
- Who has access to the practice data?

### Transitioning the Business

- What physical changes will the buyer make to the office?
- Does the buyer plan to shift marketing strategy?
- When it comes to making a smooth transition...
  - How will the buyer support providers and staff?
  - How will managers be supported?
- When it comes to operations...
  - What access will the seller have to productivity reports?
  - How will the seller's purchasing change?
  - Who will control workflow configurations (EHR protocols, defaults, auto-notes, etc.)?
  - What other major workflow changes does the buyer anticipate?
- If there is dissatisfaction in the next 2-3 years...
  - What is the extraction plan?
  - Is there a time-limited buyback option?
- When it comes to buyer/seller divorcing...
  - How much warning will the buyer need to give?
  - Is the seller able to maintain operations (location, communication, hiring)?
- When it comes to practice owners...
  - How will the buyer incentivize meeting targets?
  - In the past, how long have former practice owners stayed after selling?
  - Are current owners able to "roll" equity and become shareholders/partners in the future practice entity?



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## Billing Data

- Exported data from the billing system (CPT, Modifier, DoS, Site of Service, Rendering provider, primary payor/insurance, charges, payments, adjustments)
- Patient panel list of active patients (Under the age of 21 seen in the past three years- Patient ID, DoB, Zip Code, Date Last Seen, Primary Insurance Payor)
- Exported data from clearinghouse (details vary by vendor)
- A/R Aging Report as of current date, three months ago, and twelve months ago (By Payor)
- Total visits, charges, payments, and adjustments by payor for each of the last three years
- Copy of Patient Financial Policy
- List of every provider NPI number used by practice in the past five years

## Clinical Information

- Laboratory/X-Ray menu
- Copy of New Patient Welcome packet
- Copy of patient and employee vaccination policies
- Narrative related to clinical services provided in addition to usual pediatric services (lactation, behavioral health providers, etc.)

## COVID Relief

- Narrative & supporting documentation related to any SBA EIDL loans
- Narrative & supporting documentation Employee Retention Credit and documentation specifically related to practice qualification
- Copy of each report submitted report for HRSA grant (and supporting documentation)
- Copy of Paycheck Protection Plan forgiveness confirmation and supporting documentation
- Narrative and supporting documentation related to any state-funded COVID relief funding received by the practice

## Facilities

- List of each practice location
- Copy of lease for each practice location
- Floorplan for each practice location
- Narrative of details related to ownership if any of the practice locations are owned by any of the physicians in the practice
- Narrative related to improvements needed for current practice location(s)
- Narrative related to future relocation or new location(s)
- Narrative about anticipated future equipment/furniture needs

## Financials

- Monthly Profit & Loss Report for last three years plus YTD (Each column should show the monthly total)
- Profit & Loss Report for each of the last three years
- Balance Sheet as of the last day of each of the last three years plus the most recent month available
- Monthly bank statements for the past two years
- Monthly bank statements on any loans for the past year
- Monthly credit card statements for the past two years
- Copy of last three years of tax returns for practice
- Copy of W2 and K1 (if applicable) for each partner/shareholder for each of the last three years
- An abbreviated summary of each provider's compensation for the prior year (Base salary, bonus, benefits costs, and retirement plan contributions)
- Statement of Cash Flows for each of the last three years
- List and narrative related to any officer/employee/provider loans outstanding (not needed for retirement plan loans)
- Narrative related to any off-balance sheet liabilities
- Current line of credit information and list of personal guarantees
- Depreciation schedule as of the last tax filing
- List of equipment and furniture with estimated replacement cost and expected remaining life

*Special thanks to Chip Hart from PCC, Dr. Patrick Pulliam from Covenant Care Pediatrics, and David Barnett, CPA from Center City Pediatrics for their contributions towards this list of due diligence items.*

## Human Resources

- All employment contracts (providers and administrative team)
- Employee Roster with name, position, base wage, previous year's earnings, length of service at the practice, and bonus programs
- Employee 3-year wage history (payroll register export from payroll system)
- Copy of employee handbook
- Copy of employee benefits summary and rate sheets for the current year
- List of employee terminations and related documentation for the past year
- Copies of all employee Performance Improvement Plan(s) and copy of related documentation for the past two years
- List of any familial relationships within the practice (employees/providers who are related)
- Narrative describing any contract/1099 employees
- Copy of each employee's last performance review
- CV for any non-provider salaried employee(s)
- Copy of any PEO contract(s) for the current year, if applicable
- Copy of practice IRS 940 forms filed for the last five years
- Copy of practice IRS 941 forms filed for the last five years
- Narrative related to how the practice currently recruits for open non-provider positions
- Narrative related to how the practice currently recruits for open

## Insurance

- Claims history from medical malpractice carrier
- Claims history from property/general liability carrier
- Claims history from unemployment dept



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## Information Systems

- Current EMR/Practice Management software contract
- Current contract(s) for practice website and reputation or social media management
- IT questionnaire (EMR, billing system, network design, etc.)
- Copy of last HIPAA compliance audit results
- Copy/results of last PCI-compliance audit
- Practice website domain registrar and current expiry date
- Narrative describing any practice-provided email for employees and providers
- Narrative describing the use and volume of telemedicine utilized by the practice
- Details about any HIPAA-related data breach(es) for the past ten years
- Copies of all Business Associate Agreements currently in effect (Vendors, contract employees, etc.)

## Market

- List of hospitals where providers have admitting privileges
- Narrative related to who the practice views as competition

## Payor Relations

- Narrative and documentation for any payor contracting entities the practice is a part of
- Narrative and documentation for any value-based contracts the practice is a part of
- Narrative and documentation for any capitated contracts the practice is a part of (Payor name, number of lives, monthly rate, carve outs, etc.)
- Copies of all existing payor contracts
- Listing of all know provider relations representatives (Name, phone, email, etc.)
- Copy of any payor audit notifications and determinations for the past three years

## Retirement Plan

- Copy of signatory designee(s) for practice's retirement plan
- Copy of most recent year retirement plan testing/fund results
- Copy of current Fidelity bond for retirement plan
- Most recent IRS Form 5500 for practice's retirement plan

## Legals

- Copy of existing partnership/shareholder agreement and details around ownership percentage
- List, by partner/shareholder, showing all other businesses they own, etc.
- Copy of current partnership / shareholder agreement (and any amendments)
- Certificate of Good Standing from Secretary of State
- Articles of Incorporation and any amendments
- Outside billing service agreement (if any)
- Copies of all current service agreements
- Copies of any equipment lease agreements (copiers, lab equipment, etc.)
- Copies of all NDA's still in effect
- Copies of any power of attorney agreements
- Copy of signatory designee(s) for any financial institutions holding practice assets & liabilities
- List of harassment, wrongful termination and discrimination disputes within the past three years
- List of all known and pending legal actions against the practice (general liability, employment, medical malpractice, etc.)
- Description of any labor disputes, arbitration or grievances, settled or outstanding over the past three years
- A list of any officers or shareholder/owners in criminal or civil litigation
- Confidentiality, non-competes or similar agreements for current employees and for those currently in effect
- Copy of any IRS notification received in the past five years
- All pending lawsuits against the practice in the past 10 years (please provide copy of filing and narrative related to current status of the case)
- All pending lawsuits initiated by the practice in the past 10 years (please provide copy of filing and narrative related to current status of the case)
- Copy of any trademark or patent filings owned by the practice or any employees
- Narrative related to any expected protections around Intellectual Property to be retained by any employee(s) or provider post acquisition
- Copy of agreements for any consultants hired by the practice during the last five years

## Providers

- Copy of any calculations to determine partner/shareholder earnings for each of the last three years
- CV for each provider
- Copy of DEA certificate and State Medical License(s) for each provider
- List of all providers previously employed by the practice for the past five years
- Narrative related to any medical board review disciplinary hearings in the past 10 years
- Copy of each provider scheduling template

## Miscellaneous

- List of all vendors providing services to the practice (Company name, services provided, account number, primary contact, etc.)
- Copies of the last three VFC audits submitted
- Copy of most recent Vaccine Buying Group contract
- Copies of any joint venture agreements with the practice
- Narrative related to hospital services provided and after-hours call service
- Narrative related to any status of paper charts (still in use, all in storage, etc.)
- Narrative related to the practice phone system (type, who manages it, etc.)
- Copy of phone system maintenance/lease contract, etc.
- Copy of current business license for each location
- Copy of last six months of vaccine invoices
- Address of all previous practice location(s)
- Copy of last private vaccine inventory count
- Copy of Proof Of Coverage for current general liability insurance
- Narrative and documentation related to any insurance claims and coverage denial for the past ten years (general liability, cyber insurance, etc.)
- Copy of vaccine relocation plan in event of extended power outage
- Detailed listing of any automobiles leased/owned by the practice

