THN Exit Strategy

Exiting a business is a stressful and time consuming process and for small to medium size healthcare operators it can have even greater challenges.

Typically when an owner is preparing to sell a practice or group of practices, the process should start at least two years before a desired retirement date. Key areas for consideration are:

1. How do you dress the business for sale - taking a tough line on costs, push revenue, minimise holidays in the last two years, as an owner take dividends and not a large salary, ensure that your accountant is going to be trusted as an auditor, demonstrate that your productivity (if a practicing doctor) can be sustained after your departure and make sure that debtor days are kept to a minimum.
2. Demonstrate that you have a unique position in the market - this can be geographic positioning, a growing patient base, differentiated clinical services, key corporate clients that you look after, key partnership with insurers (especially if under capitation arrangements), loyal and committed Doctors with reasons as to why they will stay after you have left.
3. Fix areas that will impact you negatively during due diligence - if you have allowed the practice to run on unlicensed software, if you are not keeping good books which demonstrate by Doctor and by department profitability, if you do not have up to date contracts of employment, ensure that Doctor incentive schemes are ethical, is your HIS system fit for purpose, can you show your commitment to Quality, are you keeping accurate patient feedback statistics with at least 10% of all patient indicting their views, are debtor days and claim rejections under control.

A Normal Sale Process

If a clinic owner has prepared the above carefully and can show USP's and a trend of growing revenue, patient numbers and importantly, profitability, then it can be presented to the market for consideration. In addition to legal advisors, It would be normal to use an specialised sales advisor or agent for this process and depending on the sophistication of who you use and the process that you run, there would normally be a monthly fee and success fee in the range of 2-5% of the deal size.

It is helpful if there is some form of vendor due diligence where you can make available all of the required information and if possible, with the added credibility of a reputable advisory firm confirming their own audit of the data. As a minimum, a data room would need to be put together with the following type of information (not an exhaustive list):

- All leases, commercial contracts, insurance agreements, equipment finance details, IT licences, Doctor and all staff contracts
- Last three years audited accounts and up to date monthly management accounts
- Business plan for where the clinic needs to go in the next few years
- Details of any litigation, historic or current claims on the business, staff disputes or tribunals, any reprimands or quality concerns from regulators
- Any evidence of why you believe that salaries and contract terms for Doctors and Nurses and all administration staff are at market rates and why you believe attrition is not going to be a concern.
- The key area to demonstrate is how your own commercial contribution is going to be replaced as both a Doctor generating revenue as well as the leadership and management of the business.

Email: contact@thn.ae
www.thn.ae

It would be normal to produce a teaser document with key business highlights and that initially on an anonymous basis, this would be circulated to a limited number of potential buyers. If they show interest they would complete a non disclosure agreement and then have increasing access to management and data before having to commit to a non binding offer.

The process would then follow:

- A move into exclusivity
- Full due diligence
- A sale and purchase agreement
- Agreement on warranties and phased payments
- Agreement on what handover period and is the deal subject to future profit hurdles

The UAE Market 2018

At the present time we have a perfect storm with insurers losing money and refusing to license new clinics or put rates up for existing clinics, there is an oversupply of clinics and hospitals (especially at the higher end of the market), there is some population decline and we are seeing a steady increase in regulations and reporting requirements which makes running a small clinic increasingly difficult.

This is leading to market consolidation with the large operators getting bigger and insurers losing interest in hundreds of small independents and of course many smaller operators are also seeing up to 15% claims rejections.

THN

We believe by initially creating a Network where clinics can come together under one umbrella and start to streamline their businesses in readiness to become one integrated Group is sensible. Initially the THN team will ensure that each partner works at its own speed to prepare for sale and this is both administrative and financial preparedness to maximise value. By helping in insurer negotiations, claims management, procurement and general business efficiency we believe we will get each partner to the highest level of profitability by the time of exit. With our managed care program we will also ensure growing patient numbers and a strong relationship with employers and insurers.

Because THN is unifying many independent clinics, the sale process is less about the individual entities and more about the unified profitability.

Any buyer of THN will see a committed and experienced senior management team and will be less concerned about succession planning at the clinic level. The ability for THN to show a unified approach to Finance, HR and Procurement as well as differentiated Managed Care models will add a premium to the price.

Because of the advanced work done by the THN team the due diligence process will be much lighter for the incoming investors and we believe that a premium of between 25 and 50% on the value of individual clinics will be added.

Example of typical clinic sale

- 5 man practice with stated EBITDA of 2m
- Buyer deducts 20% against loss of the owner and cost of hiring a new GM
- Value positioned at 5x1.6m = 8m
- THN sells 50 clinics at unified EBIDA of 100m
- (This should be higher with the cost reductions and revenue growth but left as neutral for this example)
- Buyer sees continuity of THN management and their past track record. Buyer also knows that THN preparation work means that Group can go straight to IPO within eighteen months.
- Valuation of at least 8x is expected without deduction for management change.
- Value 8x100 = 800m
- Individual clinic valuation is 16m + (after THN’s 10% = 14.4m)

As our aim would be to add 10% to the profitability to our partners before the sale and to achieve 10x plus on the multiple, the upside valuation could be - 2.2 x 10 = 22m (-10% for THN) leaves 19.8m.

Email: contact@thn.ae
www.thn.ae