SELLING TO PRIVATE EQUITY

Realistic expectations and strategic planning are essential.

BY TONY STERRETT

The health care landscape is continually evolving. A recent trend capturing the attention of ophthalmologists and the broader medical community is the acquisition of practices by private equity (PE) firms. This article discusses the pros and cons of these transactions for ophthalmology practice owners based on my experience supervising two rounds of due diligence with different PE firms and the experiences of several of my longtime associates in the field. As with ophthalmic surgery, it is important for physician owners to have realistic expectations before selling their practices to a PE firm.

THE POSITIVES

A financial windfall. Perhaps the most appealing aspect of selling an ophthalmology practice to a PE firm is the substantial financial windfall it can bring. PE firms are often willing to pay a premium for established practices that have a strong patient base and revenue stream. The influx of capital can provide the practice owner with the financial security to retire comfortably or explore new opportunities—especially beneficial for those lacking a suitable exit strategy.

Peer pressure can come into play in these decisions. Practice owners hear their counterparts are making lucrative PE deals and do not want to be left behind.

Modernization and expansion. PE firms often have the resources and expertise to modernize and expand ophthalmology practices. Investments in cutting-edge technology, infrastructure upgrades, and new service offerings that were previously out of reach for the practice owner may become feasible. A practice joining a larger company may benefit from bulk purchasing discounts, increased operating efficiency, and greater competitiveness in the market.

Reduced administrative burden. Selling the practice to a PE firm shifts many administrative responsibilities to the new owner, which allows the ophthalmologist to focus on patient care. The change can reduce the physician's stress, improve their work-life balance, and make it easier for them to take time off.

Access to expertise. PE firms often have a team of experts in various fields, including health care management, finance, and marketing. These experts can provide valuable guidance and support to the practice that helps it thrive in an increasingly competitive health care environment.

THE NEGATIVES

A loss of autonomy. One of the most significant downsides of selling a medical practice to a PE firm is a loss of autonomy. PE firms take over the management of the practice, which can lead to conflicts. Ophthalmologists may become frustrated as they find themselves with less control. Decisions, moreover, must pass through multiple levels of authority,

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slowing the process and potentially irritating the ophthalmologist.

A focus on profitability. PE firms are profit-driven entities. Their primary goal is to maximize returns on their investment. They have a fiduciary responsibility to their investors, so they will make difficult decisions that the original owner might have avoided.

Ophthalmologists may feel pressured to prioritize profitability over what they believe is best for their patients. For example, they may be asked to use specific medications or surgical equipment that differs from their preferences. Constant tracking and reporting may compound the problem and result in hard feelings.

Changes in patient care. As noted earlier, changes in patient care may include alterations in treatment protocols and pricing structures. Patients and referral networks may view the practice differently under new ownership, which could affect their trust and loyalty. A certain amount of attrition from the practice's referral networks should be expected. Some referring doctors prefer to share patient care with individual practices rather than a corporate entity. Some patients will be lost as well.

Potential layoffs. After the sale, the PE firm will evaluate staffing levels. Staff layoffs to cut costs and increase efficiency are common. These decisions may be driven by redundancies in management, payroll, human resources, and billing.

The employees who remain may develop job insecurity and anxiety, which can create a tense working environment and negatively affect both staff morale and patient care. Ophthalmologists may face ethical dilemmas when decisions are made that negatively affect their staff.

NAVIGATING THE TRANSITION

Navigating the transition from a private to PE-owned ophthalmology practice requires careful consideration and strategic planning.

No. 1: Defined priorities. Ophthalmologists should define their professional and personal priorities before entering into negotiations with a PE firm. Is the primary concern financial security or preserving the practice's legacy and a patient-centric approach? Identifying their values and goals can help guide a practice owner's decisions throughout the transition.

No. 2: Legal and financial advice. A consultation with legal and financial advisors who specialize in health care transactions is crucial. These professionals can explain the terms of the deal, negotiate on the owner's behalf, protect the owner's interests, and assess the financial implications of the sale, including tax considerations. The guidance can result in a higher purchase price and minimize hard feelings, penalties, and clawbacks after the sale.

No. 3: A commitment to patient care. Whatever the changes brought about by the transition in practice ownership, a commitment to providing high-quality patient care must be maintained. It is important to communicate changes to the practice's patients and referral network and reassure them that their well-being remains a top priority. PE deals usually require the practice owner to remain on staff for a predetermined amount of time. Patients should understand that their provider is not leaving.

No. 4: Collaboration with the new owners. Open and transparent communication can find common ground on issues related to patient care, practice management, and strategic goals.

CONCLUSION

Selling an ophthalmology practice to a PE firm brings positives and negatives. The financial rewards and potential for practice growth are enticing, but the loss of autonomy and focus on profitability can be disconcerting.

Ophthalmologists contemplating a sale must weigh the pros and cons carefully and seek guidance from trusted advisors. Does the decision align with the physician owner's values and priorities and maintain a commitment to providing the best possible patient care? Finding a balance between the positive and negative aspects of partnering with PE is key to the practice's continued success and its patients' well-being. ■

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