

How to Prepare the Sale of a Healthcare Business

The decision to sell your home health agency, hospice, clinical laboratory, medical practice, or other healthcare service business is both, financially and emotionally critical. A multitude of questions must be considered by the seller. You may ask yourself:

- Is there a strong justification for the sale?
- What type of buyer is best?
- What will the future hold for the seller, the staff, and the patients?

Among these important issues related to the seller in an acquisition, perhaps the most impactful is timing. Allowing adequate time to prepare for the sale of an agency or practice provides the opportunity to address all issues. Occasionally, however, adequate time is not available and a decision to sell must be made quickly.

WHAT TO DO

Organizing Your Business in Case of a Sale

It is essential that home health and hospice agency owners, clinical laboratory owners, and physicians take necessary steps to organize their businesses in case a sale becomes the best course. Fleetridge Pacific often assists such entrepreneurs prepare for healthcare business divestitures, even if this exit will likely be in the distant future. Below, we present ten steps that all owners should take to make their businesses salable, whenever the sale may be.

STEP ONE: Keep Monthly Statements

Keep current monthly (or at least quarterly) accrual financial statements. This is the first introduction a buyer will have to your healthcare business. The buyer most often determines what he is willing to pay for the business based on the financial statements. Income and expense line items should be easy to understand and explain. Statements should be clear and concise. Many home health and hospice business owners produce financial statements only once a year and often on a cash basis. This works well for filing state and federal taxes. However, it is not very helpful in understanding trends and seasonality and the overall current profitability of the company.

STEP TWO: Review Minutes and Records

Review corporate minutes and records. Make sure all required filings and corporate minutes are up to date. Talk with your healthcare accountant about the corporate structure of your business and the tax implications in a sale.

STEP THREE: Review Contracts with Customer, Suppliers and Third Parties

Consider the transferability of desirable contracts. When entering in to new contracts, analyze their value to a potential buyer.

STEP FOUR: Review Employment Contracts

There are often advantages of having non-compete agreements with key employees. Most healthcare buyers will think it extremely important that key employees stay on after the sale. Since the enforceability of non-compete agreements varies from state to state, discuss this issue with an attorney first.

STEP FIVE: Review Real Estate and Equipment Leases

Can the leases be transferred? A buyer may or may not want to stay at the same location so it's normally best not to enter in to a long-term lease just prior to selling your home health, hospice, or other healthcare business.

STEP SIX: Review Your Insurance Coverage

Liability insurance can be "occurrence based" or "claims made" with the latter providing more limited exposure for the insurance company and thus a lower premium. If your policy is "claims made", the buyer may require you to purchase "tail insurance" for a period time after the sale or hold back a portion of the selling price to cover any potential healthcare liability.

STEP SEVEN: Update Policies and Procedures

Update policies and procedures. Codify procedures that are unwritten rules.

STEP EIGHT: Clean Up All Your Accounts

Clean up your accounts receivable by collecting or writing off old balances.

STEP NINE: Clean Out Storage

Keep medical and other records only as long as you must. If you don't already have a plan to remove and destroy old records, put one in place.

STEP TEN: Keep it a Secret

In most situations, it is best to keep this information from employees, patients, referral sources, and clients until the sale is imminent. Leaking this information too soon can damage the business and directly affect its value and profitability.

When the time comes to sell your healthcare business, consult with a trusted advisor before making any major changes or purchases that could directly affect the value and desirability of the company. In general, continue to run your home health or hospice agency, or other healthcare business, as usual. Remember that having the affairs of the business in order, as described above, will result in a smooth transition for both buyer and seller.

If you are interested in learning more about how Fleetridge Pacific can help you prepare to sell your healthcare business, [contact us](#) today at **(619) 523-0303** and we will help you through the process.