Should You Sell Your Practice to a Private Equity Firm or Permanent Capital Investor?

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It's hard to deny that running your own ophthalmology or optometric practice is becoming more and more challenging on many fronts. Increasing regulation, rising costs, decreasing reimbursements and the day-to-day aspects of running a business are likely taking their toll. Your ability to pursue things such as mentoring, speaking engagements, product development and research are probably limited. Considering all these factors, perhaps you've been giving your future more and more thought.

And then, you get a phone call or correspondence about the possibility of selling your practice—or at least a significant portion of it. If you're like most doctors, this inquiry triggers a lot of feelings and, perhaps, even more questions.

The Wild-west 90s

First, a little background. Private equity as well as hospital systems began acquiring ophthalmology practices in a short-lived boom in the 90s. Patient satisfaction was not a primary focus and incentives between the private equity firms and doctors were never aligned. This business model was flawed and underfunded—causing managed practices to scramble after their investors failed. After that initial frenzy, the economic downturn of the late 2000s kept acquisition activity to a minimum.

Fast forward to post-2010. Interest in investing in healthcare practices—including ophthalmology—resurfaced. But not all investors are the same. Today, it appears a battle is brewing between private equity investors and permanent capital investors.

The Private Equity Landscape Today

The simplest definition of private equity is that it is equity – that is, shares representing ownership of or an interest in an entity – that is not publicly listed or traded. A source of investment capital, private equity actually comes from firms that purchase shares of private companies. Most of the private equity industry is made up of large institutional investors, such as pension funds, and large private equity firms funded by a group of accredited investors.

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The primary motivation for private equity firms is to realize ROI over the course of 3-5 years, often through selling the healthcare organization/practice group. Before the sale, reorganization/restructuring, cost-cutting and consolidations are commonplace. In addition, private equity firms very often have diverse portfolios that don't focus singularly on healthcare. That can lead to decisions that might not always be in the best interest of patients, doctors and staff.

Enter Permanent Capital Investors (PCI)

Another business model gaining traction is firms that secure permanent capital vehicles and join forces with entrepreneurial organizations who are committed to more than just the bottom line. Zenyth Partners is doing just that as the funding partner of ReFocus.

By securing permanent capital, Zenyth will be able to establish lasting partnerships centered around building sustainable healthcare organizations and ensure success for all stakeholders: patients, clinicians and administrative staff. And since Zenyth is focused on healthcare, there is an understanding of core issues and opportunities from the start.

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Bottom line, permanent capital investors have a long-term view. Physicians have various options outside of liquidation and are compensated more fairly post-deal. Alignment occurs so that PCI and doctors work together to grow practices, smartly. Because of the common objectives and long-term perspective, flexibility and collaboration are the norm.

How Deals Work

As for the specific terms, amount of cash vs. stock and payment schedule, it varies. It's best to find an investor who listens to your needs and does everything possible to work within your parameters. The right partner will do just that—especially as compared to a healthcare system. After the sale, you will most likely receive a reduced salary that can become a non-issue as an experienced partner grows your business more than you could on your own.

Do Your Homework

When you are contacted by either a private equity or permanent capital investor, your initial response might be trepidation coupled with the sense that "losing control" just isn't something you're willing to do. After those feelings pass, if your interest has been piqued, keep an open mind. No one can force you to do something that isn't right for you. The first step is to listen and ask plenty of questions. Read all the information provided to you. Then, do a gut-check to about the kind of people you're dealing with. Ask yourself:

- Do your partners-to-be have deep expertise in healthcare? In other words, do they bring more to the table than money?
- How long of a commitment are they making?
- Will there be opportunities for growth for physicians and staff?
- Do their vision, mission and values align with your own?

What About Your Patients?

Happy doctors make for happy patients. If you're tired, stressed and maybe even lagging in terms of technology, gaining the right outside perspective and guidance can do wonders. In addition, you could gain access to sub-specialists you might not have had before and the ability to confer/refer within your own practice network.

On the other hand, there is plenty of anecdotal evidence about a diminished quality of care from doctors who have sold to a healthcare system. So, ask around. Chances are good you'll learn the bottom-line, profit-first mentality of today's healthcare systems will detract from the level of care you deliver and your patients receive.

What About You?

Talk with your investors about what their management expertise can mean for you in terms of your professional advancement. Listen between the lines to see if their motivation is merely revenue growth or to reshape the healthcare industry for the better. Also, will they be telling you what you can't do or will they help you unleash your potential as a leader in your field?

The Future

All indications point to increased buyouts and merged practice networks. The March, 2017, edition of Consumer Report's On Health notes that only one third of doctors in the U.S. were in private practice at the end of 2016, and the trend of consolidation will continue. Data suggest that doctors over 50 are the most likely to take the plunge.

So, if the thought of selling has crossed your mind, just make sure to know your priorities and which business model best aligns with your personal, professional and patient-care objectives. It's a big move, but one that can be very rewarding at this juncture in your career.