



Positioning Your Practice For Investment: Joseph LaPorta

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About the Speaker

© Joseph LaPorta

- Current President & CEO of Persante Health Care (sleep & balance)
- Former President & CEO of Flexeon Rehabilitation (sold to ATI PT)
- Healthcare Administration /products & services – 24 Years
- Adjunct Professor, National-Louis University, College of Management & Business
- Advisory Board Member, WebPT, Clinicbook as well as private equity
- Involvement in merger/acquisition/integration transactions in excess of \$200M
- M.S. Business MGT, National-Louis University, Certificate, Execution Leadership, Cornell University, Lean-Six Sigma Black Belt

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Flexeon Story

- Multi-Site, Multi-state leader in outpatient physical therapy and sports medicine.
- Founded by physical therapist in 2001 and acquired by private equity investors in 2012.



- Strengths: Strong brand & reputation in core markets for quality of Care via a hands on approach to therapy.
- Challenges: Scale and grow in ultra-competitive marketplace.
- Outcome: Private equity sponsorship implemented new management which drove turn-around actions, growth plan and exit sale to ATI Physical Therapy 4/2015

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Flexeon Story

- **Restructured operations**
 - Recruited new management
 - Standardized policy /procedures
 - Implemented new EMR (WebPT)
 - Implemented new billing system
 - Implemented time in /time out soft ware
 - Implemented patient reminder system
 - Implemented new copier/scanner technology
 - Implemented new phone system
 - Extended business hours of operation
 - Developed new incentive plan and reporting mechanisms
 - Automated purchasing process
 - Implemented new HR system
- **Organic growth:**
 - Re-launched new website with online scheduling
 - Implemented news letter technology for referral sources (Erehab)
 - Re-launched social media strategy
 - Launched patient 2patient referral program
 - Launched attorney referral program
 - Implemented physician relationship building program
- **In-organic growth**
 - Added 3 new practices via acquisition
 - Added 3 new practices via D'novo
 - Added new business sports medicine contracts that break even and are referral friendly

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Rehabilitation Market Overview

“The Physical Therapy Market is large and growing. Merger and Acquisition activity continues to be on the radar for our nation’s largest rehabilitation providers”

- 28 billion market and growing at a rate of 6.8 percent a year
- Recession resistant & non-cyclical industry
- Cost effective way to expedite recovery from injury/low cost alternative to surgery
- Increasing aging population that prefers out-patient therapy services
- Fragmented landscape of providers (baby boomers) looking for an exit.

♦(1) IBIS World Report – March 2013, “Physical Therapist in the US”

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Rehabilitation Market Overview

- Private equity involvement (6/10 of National providers)
- Market consolidating rapidly
- Valuations at 30 year high
- Creative partnership & Deals
- Health systems now in the game

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What's your Plan

◎ **Common reasons business owners seek investment/partner/exit**

- The business needs to grow to sustain or compete
- The business does not excite them anymore
- The owner has personal/health issue
- The owner is ready to take chips off the table and pursue other interests
- The owner recognizes that preparing a business for sale is a long-term process and they want to be proactive to have the most options to exit

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What Are Your Options

◎ **Typical paths of investment in your practice**

- Traditional fund raising activities
- Sell or partner with insider
- Sell or merge with another independent practice owner
- Sell or partner with private equity group
- Sell or partner with strategic group

What's your plan

© Questions and concerns when seeking investment/partner/exit

- What are my personal and professional goals in a transaction
- The terms, risk involved, interest rate, personal guarantee, ownership control, full or partial exit, asset or stock sale and the valuation of my business
- The legacy of the business and the reputation of the brand
- The after tax proceeds, value and security of the payments
- Impact of the sale to current employees and family members working in the business
- Disclosure of trade secrets before the transaction closes
- The length of time the owner will have to stay on after the sale

Key Actions

© Steps in preparing your plan

- Defining your Exit Goals and assembling your advisor team
- Preparing Yourself and Your Business for Exit
- Preparing for Sale to a strategic investor
- Preparing for Sale to a financial investor
- Preparing for an insider investor
- Contingency Planning



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Key Thoughts

- © **To get maximum value: Three areas need to line up.**

OWNER READY	BUSINESS READY	MARKET READY
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Key Actions

- © **Preparation Steps**

OWNER Preparation	BUSINESS Preparation	MARKET Preparation
Acceptance: personal & professional	Improve the financial records	Ride the wave
Reduce business dependence on the owner	More and better systems: Infrastructure, Policy, process	Stay connected to market dynamics in PT Industry
Get estate in order	Clean up the place	Do your homework

Key Actions

◎ Assembling your advisor team

Title	Role	Goal
Business owner	Direction and final decisions	Increase sales and company value
Exit coach	Team manager	Create roadmap and strategy playbook, Coordinate the team, Monitor the implementation process
M&A company or investment banker	Advice about potential buyers	Find the best buyer
Attorney	Legal	Legal documentation and advice (NDA)
Tax specialists	Tax planning	Tax advice and planning To minimize taxes
Appraiser	Appraise the company	Business valuation and primary methods of valuation
Insurance advisor	Insurance advice	Advice on current and future risks
Banker and auditors	Lending advice and auditing	Assist with lending activities and examine financial statements
Wealth manager	Money management advice	Presale advice and post sale wealth management
Key employees	Support	Information in transition

Key Thoughts

◎ Eight key valuation drivers to increase your business' "Sell ability"

Value driver	Why important
Financial performance	Understand how business buyers think (Historic EBITDA) or (TTM)
Growth potential	Important to have a solid plan for growth
Well Diversified & Unburdened	Make your business independent of specific referral sources, suppliers and key employees
Master the Metrics	New Patients, Visits per NP, Canc Rates, Payer Mix
Infra-structure	Policy & Procedures, efficient processes, Automated operating systems – EMR, Billing, Auto-Ordering, Reporting
The monopoly control	Number of clinics in key locations (Overlap not good)
Customer satisfaction	Measure and document your customer satisfaction
Team	Stable, secure and can take the business forward

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Key Actions

© Preparing for Selling to an Outsider (Financial & Strategic).

- Know Your Target – What do they Value? How will they Value you?
- Have proper NDA in place
- Present a well run, organized operation
- Offer your company information in a progressive process
- Prepare your answers for the questions they will ask before they are asked
- Prepare due diligence info in electronic files (Data)
- Utilize your advisory team for negotiations



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Key Thoughts

© Selling to an Outsider

- Financial Buyer – EBITDA Driven x Multiple most likely will keep Leadership in place with some form of equity to stay on. Could be family office or private equity firm.
- Strategic Buyer – EBITDA, Add-Backs, Integration ability Driven x Multiple may keep in place with some equity for a period of time (a second bite at the apple)
- Combo – Private equity owned strategic player (6 out of 10 of nations largest are combo)
- Roll up - Negotiated premium based on building scale

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Key Thoughts

© Insider sales to key employees or managers - where is their funding going to come from?

- Key employees very rarely have money for acquisitions
- Typically their source of cash is from the business payroll
- If the business will be financing the transaction it's very important to minimize the impact on cash flow
- Focus is on methods to get dollars directly from the business to the owner
- Examples include: deferred compensation, consulting fees, licensing fees and royalties, building rents and qualified retirement plans

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What to Know

© Contingency Planning

- Meet with qualified estate planner
- How to make sure your family doesn't inherit the business' problems if you die
- Keeping the wolves and competitors at bay if you aren't around to shoo them away
- Treating children "fairly" and "equally" so they have Happy Thanksgivings
- The Key Employee Reward, Retention and Family Protection plan
- Business Continuity Instructions – more than just a piece of paper



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What to Know

◎ Due Diligence checklists you will need to have prepared

- Financials (P&Ls 1-3 years)
- Metrics reporting 1-3 years
- Management and employee files
- Product and services lines
- Referral data
- Key vendors and service providers
- Intellectual property and intangible assets
- Technology software and hardware
- Marketing branding and public relations contracts
- Related parties and minority owners
- Insurance info
- External financial statements
- Contracts/leases/insurance
- Litigation claims
- Taxes
- Quality/regulatory system & claims



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Tips

- ◎ DO – Start to Prepare Early (5 years in advance at a minimum if possible)
- ◎ DO – Develop an experienced Advisory Team – Rehab Space
- ◎ DO – Keep an open mind and be realistic about your sale Target (eg, are Insiders capable)
- ◎ DO – Consider all of the Value Drivers that will increase your business' attractiveness to a Buyer
- ◎ DO - Create a competitive bidding scenario
- ◎ DO- Have a plan to secure key employees with incentives
- ◎ DON'T – Take your eye off the ball – keep running your business
- ◎ DON'T – Let the cat out of the bag – rumors will fly
- ◎ DON'T – Avoid planning for what if scenarios positive and negative
- ◎ DON'T – Hand everything over too soon especially key competitive info

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Contact the Speaker

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