Why and How to Acquire Your Own Audiology Clinic

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Presentation Outline

- Introduction
- The reason behind the awkward title
- Reasons why you may acquire an audiology practice
- Steps taken in an acquisition
- The impacts of your “Why”
- Case studies

Scott Myatt

- Disclosure- I am the managing director over audiology at Caber Hill Advisors
- I have been in the industry for 12 years, primarily acquiring clinics for manufacturers
  - I started and led the acquisitions for 3 different manufacturers- Sonic Innovation, WDH (Oticon) and AMG (Widex)
  - I managed ~50 clinics and over 100 people for a while, and learned that is not what I enjoy and excel at
  - I have an MBA from Colorado State and an MIM from Thunderbird. Additionally, I have over 90 hours of post graduate valuation education

Reasons for Acquiring an Audiology Practice

What are some reasons for acquiring a clinic?

No universal answer- everyone's reason is different

- Owner is retiring
- Want to be your own boss
- Want to "buy a job"
- To grow and sell
- To flip
- To increase your footprint
- To hold and eventually pass to family or employees

General Steps Taken in Acquiring a Clinic

1. Find a clinic
2. Value the clinic- the only value of a clinic that matters is what you will be willing to pay, and what the seller would be willing to accept
3. Make an offer (letter of intent, LOI, other names)
4. Due Diligence
5. Purchase agreement
6. Close

The Reason for Acquiring Impacts What You Look for

Some things to consider:

- Will you be working there day in and day out?
- What can be changed and what cannot?
- Will it facilitate any growth you expect over the next 5-10 years?
- Does the clinic facilitate the type of practice you want to own (i.e. sound both, balance testing, etc.)?
- Is the reputation, ethics, sales techniques, etc. inline with yours?

The Reason for Acquiring Impacts How you Value the Clinic

- How much would you pay for an investment that pays you $50,000 a year?
- How much would you pay to get a job that pays $50,000 per year, before taxes, health insurance, and other expenses (like debit service) are taken out?
- Many people forget to take out their own pay when valuing a company. Unless you do not have any other opportunities, you must consider this.
- Do not pay double for the growth you plan on (once in the purchase price, then again when you pay to grow it)

There is some intrinsic value in owning your own business, but only you can determine that.

The Reason for Acquiring Impacts Your Offer

- If doing an employee buy out over time, you may not have an offer letter at all
- If you are buying as an investment, you may need to owner to stay on for a period of time, until you can find a replacement
  - This can be reflected in the offer, both in terms of an employment arrangement, but also in the deal structure (paying over time, earn out, etc.)
- If you are buying it to be an owner-operator, you may want to get the owner out as soon as possible
  - With this situation, earn-outs are not appropriate

The Reason for Acquiring Impacts Your Due Diligence

- If you are buying in as an employee over time, there is not a traditional due diligence period
- Even if you are long-term employee, but buying it outright, do the due diligence to see things from a new-owners perspective, rather than what may have been your limited perspective.
    - Do you know what the true cash flow looks like?
    - Do you know how they have serviced any debt, and how you will service the debt?

The Reason for Acquiring Impacts Your Purchase Agreement

- The purchase agreement is based on the offer, and fills in many of the details
  - Terms for employment
  - Payment terms including earn outs or deferred payments
  - Employment agreements with sellers
- May not be used when purchasing shares or interests over time as an employee

Case Study #1

Audiologist in the west who wanted to grow quickly, not see patients and sell the business

- Bought one large clinic she would call home
  - Needed a working office for her to manage from
- Bought small locations to use as satellites
  - Paid very little for these ($25k)
  - Strategic locations to spread footprint
  - Often dispenser based
- Typically did not keep owners, but replaced them with AuDs.
- Changed name, feel, look, etc. right away

Case Study #2

Buying out owner over time

- Employee did not look for clinic
- Had a professional valuation done before buying in, to establish a baseline and have consistency in valuation
- Little to no due diligence (employee had been working there for a number of years)
- No offer letter, no standard purchase agreement, but operating agreement and share purchase
- Will likely have put and call options for remainder of shares over time

Questions?