David Mandell:

Hello. Welcome to the program. I'm your host, David Mandell, And I think you're going to enjoy today's episode. We've got two great guests, and out topic is very timely because of all of the consolidation and mergers and acquisitions going on in the medical space, which has been going on for a number of years.

We've gotten more and more questions from clients or potential clients, "I'm thinking about selling my practice. What should I be doing?," et cetera, and many of our clients have ended up going down the road of a transaction. So I think this is very relevant. There are a number of key success factors that physicians should be aware of, and these two guys are going to let us know about that. So let me give you their backgrounds and then we'll jump in.

So we've got two people, Clint Bundy and Stewart Carlin. I'll go through each of their quick bios here. And of course, these will be in the show notes as well.

Clint Bundy is managing director with the Bundy Group's Charlotte office and co-leads coverage in healthcare and physician practice management for the firm. Clint has over 17 years of investment banking experience and has advised business owners and physicians on numerous transaction across multiple sub-sectors of healthcare. Clint is a frequent contributor to key industry publications and is a regular speaker at conferences. Clint's past experience includes time with Wachovia's Mergers and Acquisitions Group, where he advised on numerous public and private company transactions, as well as experience at Accenture. Clint attended the Wake Forest University MBA program, and his undergraduate degree is from the University of Virginia.

Stewart Carlin is managing director with the Bundy Group's New York office and co-leads coverage in healthcare and physician practice management for the firm. Stewart has over a decade of experience in investment banking and corporate finance, and has advised business owners and physicians on a range of transactions or costs to healthcare and life sciences sectors. Over the course of his career, Stewart has fulfilled key strategy roles for growth companies and Fortune 500 companies alike, with corporate finance experience at Johnson & Johnson, Innovation and Coty, as well as investment banking experience with Houlihan Lokey's mergers and acquisitions group in New York. Stewart received his undergraduate degree from the University of Notre Dame and is a CFA charter holder.

So, with that, Clint and Stewart, welcome to the program.

Stewart Carlin:

Thank you, David.

Clint Bundy:

Thanks for having us.

David Mandell:

So you guys are in New York and Charlotte today, is that right?

Stewart Carlin:

That is correct.

David Mandell:

Excellent. So we have clients and listeners to this all over the country, and I think what you're going to be talking about, is if there is any kind of regional or state issue, bring that up. But I think most of this is probably pretty uniform across the country. So why don't either one of you tell us what is the Bundy Group, and in specifics, and then in general, because I know a lot of physicians hear this term, but may not really understand what it means. What is an investment banker? What does an investment banker do?

Stewart Carlin:

Thanks David. I'll take first stab at that. So, to answer the first part of the question, Bundy Group is a 32-year-old boutique investment bank, and we specialize in advising business owners and physician practices on mergers and acquisitions transactions. So the sales or the process of raising capital for growth or acquisitions, what have you. What we're really doing is we're ultimately helping our clients maximize value and really find the best fit to accomplish the goals of their team and the way we do that is through running a structured process where we define with those clients, potential suitors for accomplishing their goals. We talk about different opportunities or ways or mechanisms, which we'll probably get into on the success factors topic, about how to best position themselves, or prepare themselves, for that type of transaction and process.

David Mandell:

Thank you for that. And would you say that it’s a typical definition of what investment bankers do, or give us sort of a broader scope when someone hears the term or they meet somebody at a cocktail party, "I'm an investment banker." Is it always mergers and acquisitions? Is there something bigger than that? Give us a little background.

Stewart Carlin:

I would say that most often, and Clint is free to chime in as well, I would say most often that that definition is going to be fairly consistent in terms of the role we play in advising clients really through those two processes. Where things differ is in the approach and how they structure a process or the depth of services that they're providing. So there are certain groups that they're going to do a little bit less of the kind of digging in and the upfront work and the preparation. And it's going to be a little bit more of, I'll say a marketing-oriented process where, "Hey, we agree on a set of materials and we're just going to shoot it out to the world and see what kind of traction we get." Where I think we differentiate a little bit is we're very targeted in our approach. We're not only working with our clients in the preparation phase, but we're also making sure that we're focused on quality as well as quantity, but we like to have a little bit about of both in terms of running a process.

Clint Bundy:

Let me just add to what Stewart said. Usually when a client's coming to us, they want usually one of two needs. One is either A, well we'll call it an exit solution or a sales solution. So they're looking for some kind of, how do I unwind into my business, either full liquidity sale or a majority liquidity sale, and help me find the best fit and the best value. That's kind of one sort of area, or the other we're most

commonly working with is when a client needs growth capital. "Hey, I need to find a way to take myself from a two location dermatology practice," as an example. "I think I've got the ability to scale up to eight or 10. But I can't do that using my own personal balance sheet. I need a partner to help me with that." So to also answer your question, David, those are the two scenarios, practice sales and capital raises, are two of our kind of bread and butter service lines.

David Mandell:

Makes sense. So you mentioned a dermatologist there, and obviously this podcast is for physicians. So how did you become involved in working with physicians? Is that something that reflects the marketplace, as there's been a lot more interest in transactions over the last five years? Tell us about kind of your experience there.

Clint Bundy:

Yeah, good question. Well, healthcare has been a core vertical of Bundy Group's really for almost our entire 32 year existence. So we have known the healthcare space in general very well. Stewart and I both, and I'll speak on his behalf if that's okay, as well as mine, we've had the good fortune of also before we came to Bundy Group, spending a lot of time working in healthcare, both on the investment banking side, as well as on the operational side for us. And then physician practice management, including dermatology, which is one of several kind of what we would call therapeutic areas that Bundy Group works in on the physician practice management side. We came into the physician practice management side just kind of as a natural outgrowth of our continuing work in the healthcare space.

I'll make the note that a major reason that we like healthcare in general and then physician practice management, including dermatology, is because there's just a lot of interesting trends going on in terms of consolidation, investment activity, M&A activity. And we also, just frankly, enjoy working with the clients in that space and those sectors.

David Mandell:

Excellent. And how many you'd say, whatever timeframe you want to go, three years, five years, how many transactions have you done, or are you typically involved with, involving physician practices on an annual basis, either cumulative or annually, or however you want to chop it up?

Clint Bundy:

Sure. Well, what I would say is that is our firm as a boutique investment bank, we are certainly on any given year working on closing, let's call it a range of four to 10 deals a year as an investment bank, but as you could see, that's a wide range on any given year. We are, and our track record over the past few years proves this, that the majority of those are going to be healthcare related, which will include physician practice management. So both our past couple years, and we can talk about specific deals like Dermatology Associates in Montgomery, or Catawba Research, or MedShift are transactions we've worked on recently that show our kind of key focus on the healthcare space. Our plan is by the end of this year, we'll be talking about three or four more new physician practice management deals.

David Mandell:

So, as a wealth manager and an attorney with a very large physician base, I've certainly seen the transactions from the physician point of view, medical practice approached to become acquired really take off over the last 10 years. I think in my experience, and again, this isn't necessarily reflective of what actually went on the market, but our experience, it was pain management first. We have a bunch of docs who our pain management practices acquired. In fact, there's a client of ours who was the CEO of the practice that became the roll-up, that became the engine of that with banking partners. And then you mentioned dermatology. We certainly have seen it there. We see it also in ophthalmology, pretty actively. We've had a number of clients go through it over the last year or two.

We've seen it in orthopedics, some consolidation as well. We have a lot of orthopedic clients, and my guess is, gastro is another one. We have some clients just did that. So, listeners -it could be coming to your practice. there's some that probably don't make sense because it's not recurring, maybe a plastics or something that may or may not, you may tell me.

One of the things I really want people to hear as they may be approached, or their partner thinks about it, or they read about it in one of their journals and they start to think, "Well, maybe I should consider this. Maybe this does make sense for me." What are some success factors? What are the things that physicians should be considering if they're going to go down that road?

Stewart Carlin:

Let me give the typical, I'll say banker caveat of depending on, and all those therapeutic areas you mentioned are all areas that we see a lot of activity in and carry a lot of conversations with. So with that, I mean, the profile of an ortho practice is going to be different and the success factors are going to be a bit different for that than they would for a dermatology practice or an ophthalmology practice. But I think through the conversations that we have with the active parties that are seeking investments in those space, there are some commonalities across all physician practice deals that groups are looking for. One of them, and probably the first is going to be kind of the diversification of revenue streams or services that they're providing.

So, if it's a dermatology practice that could be, "Well, what portion of your procedures are going to be more medical focused versus aesthetic derm?" And I do have to put the plug in there, there is a lot of buzz around plastics and potential kind of roll up investment there. So that's I'll say in the early innings, but still opportunities there. But you have different types of diversification of revenue streams across the different physician practice types. That's going to be one.

A second one is going to be, what does the profile of the practice look like in terms of your physicians, your doctors, your mid-levels, and that distribution? Depending on the therapeutic area, there's typically some metrics that we would assign to that, but, broadly speaking, just making sure that there's good, kind of healthy distribution that's not dependent on just one person, if you're talking about being that platform.

Now, if you're thinking, "Hey, I've got a two doc or a three doc practice or a one doc practice, and I'd like to sell," we can then get into conversations again, it comes back to the, "Well, we advise differently based on the situation," and there are absolutely opportunities out there for those smaller practices as well, it's just a different approach, and I think a different set of success factors. Clint, anything else you want to add at a high level on the success factors piece?

Clint Bundy:

I think you did a good job, Stewart, covering it. I do think from, and again, to sound like a little bit of a banker here, but I guess all politics are local, which means everything is situational. And this is where we do think it's good for a practice owner or a healthcare services owner to have good advisors throughout the life of their company helping them look at sort of all the ins and outs and the goods and the bads that go with it to help them ultimately. What we always like to see as an owner, who's thinking constantly about ways to build value in their company, whether or not they ever sell, we'd still like them to think that way.

David Mandell:

So, a couple of follow-ups. Those things make sense to me, the diversification and the provider profile. One thing you didn't mention yet, but I think it's important is EBITDA, right? This is a term that you guys obviously know well, and from my business school days, I know, and for some physicians, they may have never even heard that term before. Now, they will learn it if they go down this road. And so why don't we just, just define what that is and what you'd be looking at if you were advising a practice and you said, "I'm interested, there's a lot of activity in my field," let's just call it ophthalmology. "I'd be interested to see what's out there," and you come in and is that one of the things you're looking at in trying to help them increase, and is that a key thing that the acquirers, whether it be the investment firms themselves or the platform backed by them, they want to see? So why don't we define first, what does EBITDA mean, and how do you help clients kind of prepare that as they may go down that road?

Stewart Carlin:

Yeah, it's a good question, David. I knew that was going to be a follow-up. I intentionally left that out of, I'll say the success factors piece, because EBITDA to me is more of a definition of scale rather than necessarily success. So the core is really, EBITDA, earnings before interest, taxes, depreciation, and amortization, over the past 12 months, you can add and COVID in there, because there is in our industry, what they refer to as the COVID adjustment. I'm sure there's a lot of listeners that were shut down during 2020, and they couldn't see patients. That doesn't necessarily mean that deals aren't happening because of that, it's just a different approach to looking at EBITDA. So really EBITDA gets down to I'll say, define the scale of the practice at a normalized level.

So it strips out some of the, I'll say more accounting pieces of the profit table or P&L statement, if you will, to try and set the landscape or the sector on a level playing field. And one of the conversations we always have, whether it's early on in conversations with physicians who are thinking about a process, or we're getting started and preparing for a process is, it's going to be a two-fold conversation. One, obviously what we're looking for is to understand what their reported EBITDA is, but there are also, it's common in the physician practice world for maybe we'll call non-business related expenses that also run through the practice and what have you. So it's EBITDA, but then it's adjusted EBITDA and the adjusted EBITDA is really designed to take into you account, what does the business look like, I'll say kind of post transaction, if you will, or in a more normalized set?

And that adjusted EBITDA then becomes the foundation for conversations of value and valuation and to keep it at a high level. EBITDA profile, if you're at a higher end, you stand to be more of a candidate to become a platform. So David, you had kind of alluded to that a bit with one of your examples, but when

we say platform, we're referring to as, "Hey, this is a financial group that would acquire your practice and that would serve as the foundation to go acquire other practices and build a geographic focus and/or a national focus. Now, if you're smaller, it doesn't mean that an M&A opportunity is out of the realm for you, it just means that you're going to sit in a different level of the spectrum if you will, or a level on the pyramid.

And again, I think most robust conversations you end up asking, or one of your likely followup questions is, "Well, where evaluations sit in terms of that?" And that's going to be highly subjective based on what therapeutic area you're in, a lot of those success factors and where you are. But kind of bringing it full circle to a comment that Clint had made, having a good set of advisors and making sure you start the planning process early, is important because there's a lot of, I'll say low-hanging fruit or work that you can do in a run-up to a process that can really help you best position for that process, and to maximize value. And going back to what is Bundy Group and what do we do? It's again, it's focused on finding a good fit and also maximizing value for physicians and business owners during those processes.

David Mandell:

I wanted people to hear what EBITDA was, first from just a definition, but also how it ties in here. And I wasn't going to ask you about specific multiples, because I do know that that is very dependent on the type of practice and maybe that year or where the market is, and also whether you're going to be a platform or kind of a roll-up and its not there's anything negative about a roll-up, we certainly have seen clients do very well with that in terms of being one of the smaller practices, this is not a good or bad, it's just a different scenario. I do have another question, but I'm going to wait on it, depending on what you guys talk about when we do the other side of the coin, which is, what mistakes do you see physicians making? Maybe clients that come to you that either you have to disabuse them of something that's in their mind, that they come into something and you have to say, "No, that's not really how it works."

Or, maybe even transactions you're not part of, but you see, "God, that's too bad. They just didn't do what they should've done. They could've done better," or they're not happy at the end because of it just in sort of industry knowledge, those docs aren't happy now, even though they got paid, something just didn't work out the way they wanted it to. So take that answer wherever you want to go with either clients that come to you or transactions, you know about, et cetera. So Clint, why don't you take that?

Clint Bundy:

Yeah, I think it's a great question. This is another one of these that we could probably spend an hour alone on this topic, and I'm not going to do that to you, David. But, I think the major one I'd start with is a lack of pre-planning by a physician owner. And pre-planning, that can mean a lot of different things. I mean, that could mean pre-planning in terms of conversations with their wealth advisor about, "Well, when I do sell and retire, what are my financial needs?" So that's critical that they start pre-planning on that front. Pre-planning in terms of, well, good books and records. Do I need to have my accountant get more involved with my practice in the two or three years run up to a sale to make sure that I've got good financials, good analytics? Do I need to hire an outside controller to come in and help me do a better job of that? Because to be honest, a lot of deals are make or break based off the quality of the financial and operating data.

And then the third one I would say is kind of what I would call, building value from an operating performance point of view. Are they creating an enterprise that frankly could live beyond the physician, right? As you know, there are a lot of physician groups out there that are dependent heavily on one provider or one or two providers. And it goes back to things Stewart talked about earlier about success factors. We'd like to see a physician build a real organization and infrastructure where if, God forbid that physician gets hit by the bus, that ideally that that practice still retains most, if not all, at least a good chunk of its value and can be sold or can be whether it be to an external partner or an internal partner, but it goes back to lack of pre-planning.

And unfortunately, and I think its human nature, but there are plenty of business owners out there, is they just deal with what's five feet in front of their face, and our view is we spend a lot of time to an educational presentations, and what have you, to encourage the physicians don't think about just what's right in front of your face, but you got to think what's a mile down the road.

David Mandell:

Great stuff. And I want to jump in with a couple of comments and then I got to get to two more questions before we finish, because we're almost done. So I've spoken on this, and I lecture not only to physicians, but I do speak to a couple of CEO groups. And one of the things you're talking about in terms of pre-planning is this enterprise value, which is creating processes. And when I think about it for my own business and systems that go beyond the person, right? And physicians aren't really trained to think that way. I mean, it's a very MBA type thought, I'd mentioned this in another podcast, the E-Myth, the Entrepreneur Myth, a great book out there, and I'll put it in the show notes, which is, it shouldn't all rest on the owners, right?

Because if you are going to sell to somebody else and you want value, they want to see a process that even if you step back from being an owner, maybe you're still seeing patients, and then maybe you even scale back from there, that the company can still move on and they don't have to change everything. Now maybe they may want to change it to their kind of model that they're doing in their platform. But the more you've thought through things, I speak at a conference with another really smart guy, Harvard MBA, who advises clients, he's not a banker, but he is a consultant. He says, "There should be a process for everything. There should be a twenty-five point written process for cleaning the bathroom, not to mention how you talk to the patients on the way out, for dermatologist or ophthalmologists." So that's building an enterprise value. It's not tied to one person. And I want people to hear that loud and clear.

The other thing about pre-planning is, and we've touched on it a bit is having that right team involved and the right advisors. And that's where, a little plug for OJM comes in – as we certainly have clients come to us and they say, "Hey, we're thinking about selling." And we say, "Well, keep us posted if you're really going to go down that road." It's not that we are the ones, their practice administrator or CPA or anything, helping them improve their books or processes. What we do is for the individual owners to say, "Let's take a look at what this is going to look like afterwards." And we've had clients where their income goes from X to 1/3 X, right? They're used to making a million bucks and now they're going to making 400,000. Well, what does that look like? Now sure, they're going to get a check upfront. They're going to get some participation in the backend as a liquidity event-- hopefully they make their numbers, and a lot of them have.

But it's a different mindset getting a couple of chunks of dollars or one definite and one probable, and having a very high income to that income being less than half, your lifestyle doesn't go from less than half. So what is that going to look like individually for the physician? Are they going to just spend all that in the first three years? They're not going to be too happy about that, because now they're not an owner anymore and they've spent their windfall and they have a lower income, that leads to unhappiness on the backend. So, to just kind of, put some color around your point, Clint, about getting what their partners and adviser, it's one thing if it's like, "I'm selling out and it's just retirement planning."

We can model how this chunk of the money comes in. But for a lot of these docs, they're not retiring. They're just selling and becoming employees, right? They're taking that piece off the table and it's got to make sense for them. And they have to have, and this sort of leads to another factor that you and I have talked about, and I've put it in a webinar that I did, which is the mindset. Why are you doing this, right? Go into it with the right mindset as a principal, as a physician, and think through these things with your individual financial advisor, like OGM, with your investment banker. So you can understand what it looks like at the other side. And then you can be happy about it, rather than just focusing on that say, first check and then not really thinking through what that's going to look like on the other side of the transaction.

Obviously, you guys play a crucial role in helping clients prepare, bringing new buyers and having competitive situation where they may get more for what their practice was than if they just did it on their own. And I want people to hear that, but there's a key role for firms like us to play to for the individual physician to make sure that this is fitting their personal financial life, right? Because this is a big transaction and in a big part of what they're doing. So I want to just comment on those two things and make sure people hear it.

We've just got a couple of minutes left. Maybe you can each take this and kind of limit your answer to about a minute or so. And then we'll do the last question, which is kind of the one thing you would say. So is there a particular way that physicians, if they want to work with an investment banker, I guess the first question would be, how do they find them? How do they vet them? And then my second question, you can each take one of them, would be, is there a good way to engage with that person, with that firm, that's kind of a win-win? So first of all, how would they find and how would they vet? Who wants to take that one? Okay, Clint, why don't you do that?

Clint Bundy:

Yeah, good question about finding and vetting. And I think the one word I would start with is experience. The threshold of physician needs to have is first, are they experienced? Do they understand my space? Do they understand the trends? Am I used to seeing these guys at conferences or articles they've written? Do they have transaction experience? Do they understand who the private equity and strategic buyers are? You know, I think that's a really good starting point for not only finding, because finding, I think, between we're in the information age, so you can certainly use the means of the internet or reading articles and trade magazines to hopefully get a feel for that. And then beyond that, then you get into other critical factors like chemistry and level of service. So that's sort of how I would look at the finding and vetting at a high level.

David Mandell:

Excellent. And Stewart, why don't you take this one in terms of, is there a particular structure that a physician or physician group should look to use when working with an investment banker, and when you answer that, kind of tie it to the idea that you guys might be able to bring values up by making a competitive environment and why someone would be better off using you guys than not.

Stewart Carlin:

Sure. At a macro level, our investment bankers are ultimately compensated based on success. So it's the success fee that you're ultimately talking about in terms of structuring it. Now, there are going to be different structures and different ways to do that. But ultimately, you want to make sure in tying this into the finding, vetting, that sort of thing. Ultimately, you want to make sure that the structure of that success fee is aligning the incentive of the investment banker and the client fairly. So everybody is rowing in the boat, in the same direction, ultimately trying to deliver highest and maximum value for the client, for the physician practice in the end.

David Mandell:

Perfect. And that's exactly what I wanted people to hear. So we're down to our last question here, which I ask every guest, but it's a little bit different based on what the topic is, which is the “one thing.” So why don't you each take this… what's the one thing you would tell a physician who is thinking of selling their practice, or is approached by a potential buyer? And Clint, why don't we start with you and then Stewart, we can end with you.

Clint Bundy:

Great question. One thing, --always plan as if you're going to sell the practice next year. Whether or not you actually do is a different question, but always plan, so you're building value so that if and when that day comes, you actually do want to consider either selling a hundred percent or a majority equity percentage, you have built value and your advisors and you can go out and realize that value.

Stewart Carlin:

So I'll take a different angle or different side of that question, but tie it into a conversation we had before. I think if you're approached by a buyer, I agree with Clint 100%, you got to plan ahead. But if you're approached by a buyer, I mean, my biggest piece of advice would be start talking to your advisors before you get too far down a path, or before you spend too much time engaged in conversations, have conversations with your wealth advisors, with your accounting folks or what have you, and ultimately, look for resources, whether it's podcasts like this, articles, publications, or potential investment bankers. I mean, one of the things that we do is really do a lot of education early on. So ask questions, don't walk up too much time, right off the bat and make sure you feel educated and have a good team supporting you, when you start marching down the road of having those kinds of conversations.

David Mandell:

Those are great answers, and they really tie in with some themes that have come out of all the podcasts we do. One is leveraging advisors, right? We can only be experts in so many things. Our clients are experts in their field of medicine, but they have to have good advisors around them, especially for a kind of once in a lifetime transaction, it's not like you're selling your practice every quarter. So if you're going to think about this, this is worth putting that time. And Clint, to your point, I think it's all about systematizing to some degree and adding a practice that has value, whether you end up selling it or not, by going down that process, is probably more profitable, by putting those resources into it, meaning time and energy, and thinking like the CEO of the practice, not just the physician inside of it. And that's a theme we've heard from a number of guests.

David Mandell:

So with that, Clint and Stewart, thank you so much for being on. It went quickly as we knew it would, but there was a lot here for physicians who are thinking about this, who may be thinking about in the future or who are maybe even approached on these kinds of transactions. So thanks again, guys.

Stewart Carlin:

Thank you, David.

Clint Bundy:

My pleasure, I really appreciate it.