Future of Private Practice in Nephrology

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Future of Private Practice in Nephrology

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• No disclosures.
The problems facing nephrology practices differ significantly based on the size of the practice.

Let’s look at the data on the size of current nephrology practices from 2013 RPA Benchmarking Survey.
For purposes of this presentation, we will use the following definitions for group size:

Small – three and under physicians.
Small (but with large characteristics) – between four to seven physicians.
Medium – over eight and under twenty physicians.
Large – over twenty and under twenty-nine physicians.
Mega – over thirty physicians.

75% of nephrology practices, reporting in 2011 and 2013, have over four nephrologists as part of their physician personnel.
The data, and my experience, suggests that larger groups tend to adjust physician hiring faster than a small group.

The large group can attract nephrologists at a faster pace and, many times, with a more attractive base salary and benefit plan.

Here is an example of how a large group can respond to physician recruitment better due to the realities of both the graduating physician and the group.
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“Nephrology is like the scum of the scum of all the specialties as of now.”

“IF nephrology has to be competitive
   - Regain control of dialysis units
   - Regain control of renal imaging/procedures
   - Get better pay for dialysis visits
   - Bring back consult codes.

None of these r going to happen – for me I will accept it as I can’t do anything other than nephro – hubrus of a specialist”

Nephroexp, 08.11.14

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If the candidate sitting in front of you is Nephroexp, are they more likely to be attracted to:

Small Group – generally shorter partnership track, smaller overall benefit package, and longer commutes and hours.

or

Large Group – generally longer partnership track, larger benefit package, and shorter commutes.
The bigger the group, many times, the faster it is to dominate business opportunities within their local market.

The large group must have their ear to the ground and deliver on their commitments.

Conversely, if you have both a large and small group in the market, the large group can lose significant market share quickly due to the small group waiting for "loss to follow-up" from the large group.
While we can talk a great deal about the differences between a group of three versus a group of thirty, and how number of physicians in your group fits into the future of private practice, the real size that matters is the size of your practice in relation to your individual market.

The true indication of your size, and thus your ability to leverage your position to affect the future sale of your private practice, is “market share.”
Market Issue
The market has expanded towards one geographical side in the last two years with expansive growth in new home sales with a median price of $325,000.

<table>
<thead>
<tr>
<th>Small Group</th>
<th>Large Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Recognizes the growth.</td>
<td>*Recognizes the growth.</td>
</tr>
<tr>
<td>*Busy on one side of city.</td>
<td>*Sends one physician on a part-time basis to start practice.</td>
</tr>
<tr>
<td>*Decides to hire new physician.</td>
<td></td>
</tr>
<tr>
<td>*Takes 12 months to source, hire, credential, and place new doctor.</td>
<td>*Turns over a practice with patients on Day One of new doctor starting.</td>
</tr>
</tbody>
</table>

Market Issue
Local hospital needs a Medical Director for new program that they are starting within the hospital. Hospital Administrator runs report on the number of physicians from each group that are credentialed.

<table>
<thead>
<tr>
<th>Small Group</th>
<th>Large Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Not contacted for opportunity due to only having one doctor credentialed for that facility.</td>
<td>*Contacted for opportunity due to six doctors being credentialed at the facility although only one serves that hospital at any one time.</td>
</tr>
</tbody>
</table>
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**Market Issue**

Market has one large group, and one small group.

New patient is looking for a nephrologist close to their home.

<table>
<thead>
<tr>
<th>Small Group</th>
<th>Large Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Referral received by Office Manager/Front Desk/Biller.</em></td>
<td><em>Referral received in EMR fax inbox.</em></td>
</tr>
<tr>
<td><em>Patient contacted same day and placed within same week’s schedule.</em></td>
<td><em>New Intake Coordinator is out for two days.</em></td>
</tr>
<tr>
<td>and</td>
<td><em>Patient is contacted on the third day of referral, placed on schedule three weeks from today.</em></td>
</tr>
</tbody>
</table>

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- Nephrology practices, like many specialty practices, are struggling with the demands placed upon us by various stakeholders including:
  - ACO’s - MU Audits
  - PHO’s - Random recoupments
  - Exchange Insurance - LDO/SDO reporting
  - RAC Audits - Hospitalist referrals
  - MU - Hospital Administrators
  - PQRS
For small practices, growth is demanded by stakeholders or by market demands.

All the stakeholders that we just discussed exert pressure on nephrology practices to grow as large as possible in order to provide them the results they are trying to achieve for their organization.

Everyone is looking for a larger numerator and a larger denominator.
Business demands placed on small practices are the same as large practices.

Many times the way to continue to be relevant in your market is to grow your practice, up to and including, professional management.

The prevailing question, in considering a sale of your nephrology practice, then becomes one of effort and leverage.

“How much effort do I, and my partners, need to expend to leverage the local market to MY practice’s needs?”
As you start to think about future effort and leverage required to keep up with your market, and about the possibility of selling your practice, you must also look at the nephrology practice sales market and how that has been shaped in the last five years.

Although it is discussed more, nephrology practices are less likely to be targeted for acquisition than other specialties such as cardiology, gastroenterology, and dermatology.
Overall, LDO’s and hospitals are doing less nephrology whole practice acquisitions and acting as mediators to encourage local practice mergers and acquisitions.

They have the data, and the partnerships, to encourage M&A activity.

There is a significant difference between practice acquisitions of today, and the robust market that developed in the 1990’s.

You can’t readily retire on the purchase price that is arrived at today, and your negotiated employment agreement becomes critical to you realizing the full value of selling your practice.
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Sale of a Nephrology Practice

PROS
- Set schedule that is less likely to change from day-to-day.
- No overhead worries.
- Stability (risk is borne by the purchaser).
- Access to capital.
- Access to integrated networks.
- Administrative burden is lifted, although not eliminated.
- Work/Life balance can be more in tune.
- Increased access to low cost benefits for physicians and employees.

CONS
- Profit philosophy.
- Loss of control.
- More bureaucracy.
- Additional layers of oversight.
- Not easy to unwind the relationship.
- Decisions slow way down.
- Highly likely, that you will need to learn a new EMR.
- Marketing philosophy and expectations.
Sale of a Nephrology Practice

• Given your local market and circumstances, you may find that selling your nephrology practice is the best route for you to take.
• You move through your practice’s governance process to approve approaching potential purchasers.
• A small committee from your practice is formed that includes physician leadership, administrative leadership, attorney, and CPA.
• This small committee should hire a third party company to complete an independent valuation of the practice so that a realistic price can be negotiated with potential purchasers.

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Items that need to be reconciled prior to considering a sale:

1) What does the past five years look like for your practice? LEVERAGE
2) What does the past two years look like for your practice? LEVERAGE
3) What do your production numbers look like for the same time periods? LEVERAGE
4) What do your market conditions look like? EFFORT/LEVERAGE
5) Where do you want your practice to be in two and five years? EFFORT
6) What kind of growth and revenue rates do I need to support what I want my practice to be in two and five years? EFFORT
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Items that need to be reconciled prior to considering a sale:

1) What does the past five years look like for your practice?
   - Financials – While cash flow is extremely important, any potential buyers want to see consistency throughout your financials as well as growth in encounters and revenues.
   - The more progressive nephrology practices have diversified revenue streams that allow for the financials to be bolstered from different sides.
   - A potential buyer will many times ask for five years of financials, but spend the majority of their time within the last two years worth of financial statements and performance.

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Items that need to be reconciled prior to considering a sale:

1) What does the past two years look like for your practice?
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Items that need to be reconciled prior to considering a sale:

1) What do your production numbers look like for the same time periods?
   ◆ The purchaser is looking to see if you had an increase in encounters hopefully leading to an increase in revenues.
   ◆ The purchaser uses this most recent encounter data, along with your insurance contracts, to see if your practice is well positioned in its revenue cycle operations. If you are doing it well, a purchaser always assumes they can do it better.
   ◆ You should see a progressive upward trend in all modalities.

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Items that need to be reconciled prior to considering a sale:

1) What do your market conditions look like?
   ◆ Are you a large group or small group?
   ◆ Do you dominate your local market?
   ◆ Does the purchaser have other alternatives besides your group?
   ◆ Does your practice materially affect the other organization’s business interests?
   ◆ What is the expected growth in your market?
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Items that need to be reconciled prior to considering a sale:

1) Where do you want your practice to be in two and five years?
   ◆ If in two and five years, you project needing to add three physicians – do you have the financial ability to do so?
   ◆ Do you have availability to professional staff to help you manage your growth and practice?
   ◆ Stay away from platitudes, and do the homework behind the numbers.

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Items that need to be reconciled prior to considering a sale:

1) What kind of growth and revenue rates do I need to support what I want my practice to be in two and five years?
   ◆ If you believe that a goal of where you want to be in five years, is to increase your hospitalist referrals by 600%, how realistic is that number and are you committed to hiring the physicians and staff needed to support that particular goal?
   ◆ If you find that your insurance contracted rates are below market, are you ready to open negotiations with those companies in order to increase your average per encounter revenue?
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- A properly performed valuation will cover a lot of these areas, but it is important for you and your staff to start compiling the information and ensuring that it is as accurate as possible.
- Give yourself time. Twelve to eighteen months is not outside normal, and can give all parties the time necessary to contemplate the transaction.
- Do not slow down prior to the sale. Every dollar less that you bring in compared to your historical averages has an impact on your sales price.
- Pretty up your practice. Especially, your outpatient office areas.
- Be discreet, and sign non-disclosure and confidentiality agreements that bind both parties.

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You may find that after the consideration of selling, or even after a protracted negotiation that does not work out, you decide that the best option for you is to remain a small practice.

What strategies can you incorporate to ensure a better chance of your small practice surviving?
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Strategies for Maintaining a Strong Small Practice

• Recognize that being small affords the ability to be nimble and make quick decisions, but it may artificially limit your future opportunities in your market.

• Staying small necessitates you building alliances with other groups/players in your market to share as many expenses as possible. For example, sub-lease an office from a different specialty group so as to avoid signing a long-term fully loaded lease.

• There is no alliance that a small group should not thoroughly consider.

• If the geography is large, the goal should be to dominate one quadrant completely as opposed to attempting to cover the whole market. Better to get 100 referrals within one quadrant, than 120 referrals in four quadrants.

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Strategies for Maintaining a Strong Small Practice

• The smaller the practice, the more it should look to outsourcing for administrative functions including billing/collections and governmental reporting.
  – $50,000 in monthly revenue at 5% of net collections equals $2,500 monthly collections bill. You cannot, typically, hire a strong biller/collections for $30,000 per year.
  – A small practice should only hire the percentage of time it needs from all associated professionals such as accounting and human resources.

• Although the goal may be to stay small, when presented with an opportunity to grow, or market data shows a significant pivot, the analysis should be completed to ensure that you are not artificially leaving growth on the table.

• Leverage the relationships you already have with potential buyers such as hospitals or LDO’s. As an example, you can request an income guarantee analysis to help you offset the initial cost of a physician.
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Strategies for Maintaining a Strong Small Practice

• A small practice has to be more responsive to the needs of the partners within it as any changes in their practice patterns will have an immediate impact on revenue.

• Ultimately, a small practice should combine the needs of its partners with the needs of their local market to arrive at their “natural state.”

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Conclusions

• Market forces, such as accountable care organizations, are forcing nephrology groups to get larger to account for population growth as well as needed patient counts to leverage relationships.

• The sale of nephrology practices is not as robust as other specialties at this time, but it is being considered as an option in more situations.

• The decision to sell is one that lessens autonomy, but should increase security. Ensure that you are comfortable with the ratio that you will create for you and your partners after the sale.

\[
\text{Autonomy (defined as control)} \quad \frac{\text{Autonomy}}{\text{Security}} = \text{Work/Life Balance}
\]

Security (defined as pocket money)
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Questions