



De-Merging: Learn To Recognize Opportunities And Risks

Hospital-owned systems and physician practice management companies (PPMCs) have been willing purchasers of physician practices for a decade now. And, physicians have willingly gone along, merging and integrating their practices to find relief from management duties and protection in the complex managed care environment.

Now there's evidence that the pendulum is, indeed, swinging in the opposite direction. In increasing numbers, hospitals and PPMCs are selling off physician practices. The practices are also breaking away, searching for new partners or dissolving groups into an array of solo physicians.

If you're part of this de-merging process, it's important to know and understand the opportunities and risks it presents.

Promise vs. Reality

Acquisitions flourished through the 1990s, as increasing numbers of physicians sought to secure their future. Selling a practice brought capital to pursue growth opportunities, along with such benefits as income guarantees or the alleviation of management responsibilities.

Now, we see physicians complaining that hospitals or PPMCs didn't deliver as promised. PPMCs are divesting practices as they struggle to survive financially, and hospital leaders are reexamining ownership of physician practices and looking for other ways to partner with physicians.

De-Merging

If you are considering a de-merger, what sort of impact will it have on your reputation in your market? Will you and your partners be seen as team players? Or, will de-merging add fuel to those who believe that your group harbors malcontents?

It's likely that your contract has "exit obligations" in the termination provisions. Often the contract provides nothing for those leaving – most notably, no cash. Retaining contact with patients is sometimes jeopardized, thus placing at risk future earnings. This is particularly true if the contract contains a non-compete clause that prevents you from practicing in the same market.

Exiting the partner relationship has a personal price tag, too. You and your physician partners may be expected to offer personal guarantees when seeking loans to finance a break-away. Are you willing to put your financial future on the line?

Hospital-owned practices retain some opportunity to seek funding through the hospital, since it's likely that hospital leaders will want to continue an amicable working relationship.

Post De-Merge

Assuming retirement is not the reason for leaving, you will be left with the unenviable task of rebuilding a practice, and a multitude of decisions about how best to do that. Solo? Perhaps a small circle of specialists? Another merger?

Despite the spate of group break-ups, integration is likely to continue as a move to improve healthcare services. Be wary of accepting a plan for debt assumption from another investor or hospital. Many practices regret leaving one arrangement when faced with the realities of a new relationship forged out of desperation.

We are skilled at evaluating the practical and legal implications of the de-merging process. We can help you decide if you need to break away or look for better opportunities.