

Due Diligence – The Most Important Part of the Physician Merger Process

You and another or a group of physicians are considering a merger with each other. In any medical practice merger, the most important part of the merger process is conducting your due diligence. The initial funding for this due diligence process should first be estimated and funded. The treasurer responsibilities should be assigned for reporting of these premerger costs. The merger committee next establishes its methodology for communications and sets a meeting schedule for the committee as well as the merging entities. Individual physician members during the due diligence process should be interviewed or surveyed in reference to the benefits they hope to derive from the merger as well as any issues which are of concern for them.

The merger facilitator should then compile this information and communicate it to the merger committee, which is utilizing this information to not only assess the viability of continuing with the merger but hopefully to develop its vision or mission statement. The committee should draft and have executed a letter of intent in reference to the merger, which outlines the basic responsibilities for everyone. Data gathering requests for information are sent to each merging entity during this process with instructions and timelines for submission. Due diligence also includes an assessment of all legal issues in reference to the merger in addition to the review and development of possible organizational structure options. As information begins to be assembled, the merger committee will prioritize the common deal killers that need to be addressed early on in the due diligence process.

The issues incident to a merger are for the most part very similar, regardless of the number of physicians or merging groups. However, the greater the number of entities that are party to a merger, the more difficult, costly, political and lengthy the merger process will be. When more parties are involved, it requires getting resolution on more issues by more decision-makers.

The merger committee must take this into consideration during the due diligence process. For example, it might appear to be very beneficial and even seem practical to merge six practices at one time. However, close scrutiny should be made as to what this will do to the complexity of the merger, the reasonableness of doing this all at once and the significant change in culture that will occur. It may be more advisable to take the two or three medical practices which share the most common culture and important attributes to be the first entities merged with the other medical practices being merged in at an agreed upon later date. The merger model established with the initial practices helps facilitate the latter mergers, which can be more difficult if there are more significant differences between the groups. This is an option, which the merger committee must always consider. Sometimes it can be too daunting of a task for management and the merger team to facilitate a merger of numerous groups all at once. Another option that is available to the merger committee in these types of situations is the ability to negotiate and execute the merger for a large number of groups; however, the actual implementation and consolidation of operations occurs over an extended period of time.

The merger of your practices may be very practical and offer some extremely attractive benefits; however, this is a very complex process and the critical issue of completing a thorough due diligence process rests solely upon the merger committee's shoulders and the facilitator. If you, as a participant in a potential merger, are not truly prepared to invest the time, money and effort

into this very critical due diligence process, your chances of seeing a successful merger are very, very slim. Never discount the importance of keeping the merger process on track and focused toward the benefits that started the process initially.

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