
MERTZ TAGGART

HEALTHCARE MERGERS & ACQUISITIONS

VALUE INSIGHTS SERIES, ISSUE 1

‘TRUST’ AND THE SALE OF YOUR TREATMENT CENTER

There has been much talk lately about M&A activity in the addiction treatment industry, prompting questions from many practitioners about the process of valuing and selling a treatment center. The purpose of our “Value Insights” series is to address these questions and more.

Before considering a sale, owners should be aware of the numerous factors that can make or break a transaction. In this article, we will focus on the most important issue of all: **Trust**.

SELLER BEWARE

In any transaction, it is paramount that the two parties trust each other. Without some level of trust, it will be difficult to move a transaction forward to closing. But what do we mean by **trust**? And why is it important? Certainly, we can’t expect the parties of a transaction to trust each other as they would a family member or close friend. However, when selling your treatment center, there are a number of critical questions you should ask:

Does my company fit into the buyer’s strategic plan? This may be the most fundamental question of all. If you can’t understand **why** someone wants to buy your facility or program, you will likely find each step in the process to be more difficult to take than the last. Don’t be afraid to ask these questions directly to the buyer:

- Have you acquired similar treatment providers in the past?
- What is your plan to integrate my facility into your business?
- How does my company fit into your overall plan?

Is the buyer working in good faith to close the transaction in a timely manner? Or do they seem more interested in learning the details of my company?

Does the buyer have the wherewithal to close on the transaction?

- Do they have a fund established, a credit facility, or cash in the bank?
- Can they secure the necessary funding if they plan to use a combination of debt and equity?
- Do they have a track record of closing transactions in a timely manner?

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ABOUT THE AUTHOR

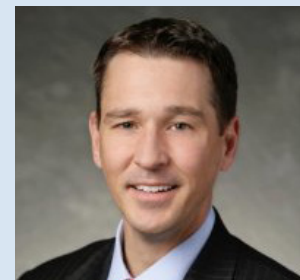


CORY MERTZ - Managing Partner
Cory has a track record of successful transactions within the rapidly changing healthcare industry. He has helped many healthcare entrepreneurs realize their exit planning goals closing over 50 healthcare transactions nationally.

CONTRIBUTING EDITORS



KEVIN TAGGART - Managing Partner
As a former home care company owner with many employees, Kevin understands all aspects of a healthcare company and the concerns facing the industry today. The sale of his company to a large publicly traded company uniquely qualifies him to represent you.



MIKE WELDON - Managing Director
As Director of Marketing for Lord Abbett, an asset management firm, Mike was a key contributor in the company’s sales growth from \$5 to 30 billion. He holds the CIMA designation, FINRA Series 7, 24, 63, and 65.

Will my legacy be carried on? For many owners, their facility represents a labor of love - they started not only to build a business, but to help others. If leaving something behind is important to you, make sure this question is answered to your satisfaction.

Will my employees be treated well after the sale? Many small businesses have a family atmosphere where employees have been present through good times and bad; you will want to make sure they are taken care of. Ask this question specifically to the buyer. Valuable employees should be viewed as valuable assets to a future owner. Make sure this is the case.

WALK A MILE IN THE BUYER'S SHOES

Remember, there are two parties to the transaction. What will the buyer need from you in order to feel comfortable with the transaction? The buyer will have three main concerns:

Have I been given information that is 100% complete and accurate? Buying a treatment center is a big decision for a buyer, and a lot of money is involved. Buyers need to feel comfortable that they have placed the appropriate value on your business. Complete and **accurate** financials are critical in this respect as they serve as the basis for calculating **value**. Most credible buyers will want confidence that the value they're placing on your treatment center will hold up under the scrutiny (and expense) of due diligence.

Will the seller continue to focus their energy on the business while the transaction is proceeding? Naturally, this process is time consuming and distracting. But if business falls off during the transaction, the buyer could come back and ask for a lower valuation, which would not be in the seller's best interest. Maintain your focus on running the business to ensure a positive outcome for all parties.

Are there any issues lurking in the shadows that could affect the value of the business?

- Potential litigation?
- Payor disputes?
- Compliance or labor issues?

A TWO-WAY STREET

The further you go into a transaction, the more important the issue of trust becomes. If either party feels uncomfortable, the transaction is in jeopardy and significant time and money has gone to waste. Communication is critical. Proceed cautiously - get all of your questions answered, and remember to see things from the buyer's point of view. You have poured your heart and soul into building your treatment center. Make sure you walk away with more than just a big payday.

ABOUT MERTZ TAGGART

Mertz Taggart is a healthcare merger & acquisition firm that specializes in addiction treatment. Since 2006, our principals have closed more than 60 healthcare transactions, including our own healthcare company.

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11555 Medlock Bridge Road, Suite 100, Johns Creek, GA 30097
(770) 888-1171 mertztaggart.com cory@mertztaggart.com