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RCM & HCIT Intel

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Five Steps for Success in Selling an RCM or HCIT Firm

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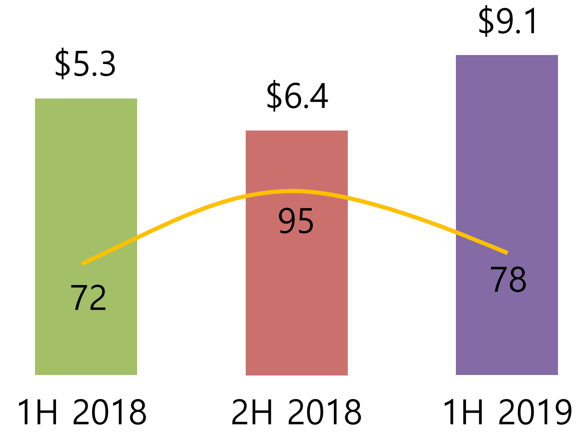
Five Steps for Success in Selling an RCM or HCIT Firm

$9.1 billion in investments in RCM and HCIT companies in the first half of 2019 didn't happen by accident. It required informed decision making and thoughtful planning.

On a daily basis, we speak with owners and investors seeking information and access. Some want perspective on the market and to learn where the best opportunities are in healthcare services and technology, while others seek access to our clients.

DEAL VALUE AND VOLUME[1]
($ in billions)



This symbiotic relationship also fuels our insight into the M&A plans of the world's sharpest investors and business owners. It informs the advice we provide to our clients, as we gain a better view of the future of the market.

So what are five things RCM and HCIT firms can do to optimize their chances for a successful transaction at maximum value?

1 Continuously evaluate your operations

Managing by the numbers in RCM and HCIT

Knowing what metrics matter will help you considerably and will also indicate to a buyer (when that day comes) that you've developed a well-organized approach to management.

i. Do you run a data analytics company, for example? If so, a key metric you may want to track is the growth in the number of patients or encounters in your system. If you run a denials management company, tracking the revenue recovered for your provider clients, or the root cause denial trends, may be among the most important measurements. The metrics that you could track are endless, so be sure that you're focusing on the ones that mean the most to your company.

[1] *Source: All statistics and market data in this document are from GA's proprietary M&A database. May contain estimates.*

ii. Consider how buyers view the value of your company and track those metrics. Generally speaking, two such metrics include Annual Recurring Revenue (“ARR”), often used in assessing healthcare technology firms, and Earnings Before Interest, Taxes, Depreciation, and Amortization (“EBITDA”), used to assess healthcare (and RCM) service businesses. Neither exists in a vacuum - many other factors play a role in valuation - but these are a start.

iii. Assess profitability by client. Your biggest client may not be your best client. If your biggest client isn’t generating the margins you seek, or if the resources required to retain that client are becoming an obstacle to growth, consider proposing new terms or ending the relationship. Ask yourself, is it better to have that large health system as a client despite lower overall margins or to have less revenue but higher margins?

Automation opportunities

New technology continues to revolutionize the healthcare market. Are you aware of what’s out there? Go to a conference. Talk to experienced people. Stay current to keep improving your operations and remain competitive.

Sales infrastructure

Are sales lagging or flat? Mediocre growth doesn’t excite most buyers, except for those that want to pay a mediocre price! Invest into your sales infrastructure and create future value for the business. Remember, sales cycles in healthcare can feel like an eternity so you’ll want to factor that into your forecasts.

Staff turnover

Excessive turnover will weigh down your margins and could be indicative of a larger issue. Are you asking too much and paying too little? Do you have a grouchy mid-level manager that no one wants to work for? Resolve the issue in the near-term to optimize your resources and margins.

2 Build a team, not just a revenue stream

There’s no mistaking a cohesive, capable senior- and mid-level management team. For companies that have one, it shows in everything they do. Its leaders are ready to “take the wheel and drive” and the company’s performance reflects this. Nearly every buyer wants to acquire management talent.

If you're not ready to hire a full cadre of senior- and mid-level managers, you could focus on just one smart hire with capabilities that complement any shareholder weaknesses. This way, you're simultaneously strengthening the company and the team while reducing dependency on any one individual.

3 Establish a niche

Specialists are in high demand in today's M&A market in HCIT and RCM. They often garner more interest and elevated pricing from investors. A few years ago, we represented a growing, technology-enabled RCM firm; one of the largest businesses within its offering, with an impenetrable lock on its geographic market. On their own, each of these attributes would constitute an attractive niche. Together, however, they were a knock-out punch for maximizing value. With a better mousetrap or a one-of-a-kind mousetrap, you will be in a great position to maximize value. And while a commoditized offering is certainly saleable, it won't bring top dollar unless it is among the largest in its market. Consider what you want your company to be and ensure that your actions contribute to this vision. If you're not sure how to differentiate your company based on your experience, seek advice from people who can help you see the bigger picture.

36%

… of sellers in 1H 2019 were specialists, servicing only one or two client segments, with ASC specialization leading the way.

4 Invest in your financials

Though doing so may initially reduce your bottom line, it should pay off big-time down the road.

It doesn't pay to under-invest

By hiring a respected national or regional accounting firm, and perhaps even completing an audit or a pre-sale Quality of Earnings ("QoE") analysis, you'll uncover most of the financial issues that might arise during your efforts to sell.

To illustrate this, we often tell the story of a former client whose accountant had consistently prepared inaccurate documents, which led to many unnecessary hurdles and delays in the process of selling the company. In a process where many things are beyond your control, hiring competent vendors should be a no-brainer.

Get ahead of any financial irregularities

This should be done sooner rather than later. Most privately-held, founder-owned businesses in RCM and HCIT are run differently than publicly-owned companies. Volatility in the financial performance? That's not a deal killer, but you need to be prepared to explain the underlying reasons and show what you've done to prevent it from reoccurring. The only way to do this is to critically review your financials on a regular basis. Not only will this make you more informed for conversations with buyers, but it might help you identify and correct a trend that could impact the company valuation.

5 Minimize risks to the buyer

Buyer interest, valuations, and deal structures are based on the perception of risk. The lower the perceived risk, the better the terms for the seller. More specifically, lowering perceived risk generally correlates to greater cash at closing, and when in conjunction with demonstrated growth potential, it should lead to a significantly higher enterprise value. The risks that we most often see weaken valuation and transaction structure pertain to the client base. A few things you can do to minimize these client risks:

Improve your contracts

i. Assignability of a contract (to the buyer) is one of those things that can delay or even derail a closing. Some contracts require "notification" of assignment. In the context of an M&A transaction, the seller only needs to notify their client that the contract is being assigned to the buyer. Alternatively, contracts can require "consent," which stipulates that the client has to approve the assignment of the contract. Assigning a contract that requires client consent is not an insurmountable hurdle, but it can slow the closing process and create a measure of uncertainty. If given the option, notification is the preferred requirement, as it presents a much lower risk profile.

ii. Operating requirements are another area to consider. While you may not be interested in offshoring any work now, for example, you may want that option later if you change your mind, so having more flexible requirements is preferable.

iii. The longer the term of the contract, the better. That gives buyers considerably more confidence that the clients will remain.

iv. Cancellation clauses are not all the same. Longer lead-times, right-to-cure clauses, and related terms can substantially improve the way buyers view and value a business.

Reduce the *RISK* of losing a client

i. Who has the relationships with your firm's most critical clients? Do any non-shareholders have relationships with revenue cycle directors and hospital CFOs? They should. If the shareholder(s) hold all of the relationships, that usually necessitates a deal structure protecting the buyer further, given the greater risk that the shareholder(s) will "cash out," physically and mentally, post-transaction.

ii. The most secure vendors will have solutions that integrate so deeply into client operations that terminating them would be disruptive to the client's cash flow.

iii. Turnover among decision makers in provider organizations remains an issue for RCM and HCIT vendors. If the new person in charge doesn't know the vendor, they might hire a vendor they know instead. Striving to develop relationships with staff at various levels within the hospital and / or health system will minimize risk and create a more stable relationship.

Reduce the *IMPACT* of losing a client

i. A client concentration, where one or more clients comprise a major portion of the firm's revenue or profitability, will have a direct impact on the structure of the deal, and possibly the price as well. Easier said than done, but adding new business and thereby minimizing any reliance on one or a few clients, is the absolute best solution.

In closing…

There are many ways to maximize a transaction but it will always come down to the specific circumstances of the company, the goals of the shareholder(s), and the mood in the market. The points discussed above offer a "tip of the iceberg" perspective, which should serve as a starting point for consideration. Further analysis and planning should be done as far in advance as possible.

ABOUT GREENBERG ADVISORS

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Greenberg Advisors, LLC is one of the only firms to specialize in the Revenue Cycle Management (RCM) and Healthcare IT (HCIT) sectors. The firm's professionals have provided trusted M&A and strategic advice to executives and investors for nearly 25 years, resulting in the completion of over 130 merger & acquisition (M&A), capital raising, valuation, and strategic advisory engagements. Greenberg Advisors celebrates its 10-year anniversary in 2019.

GA's RCM and HCIT expertise spans nearly all care delivery methods and specialties across the following IT and service offerings, as well as many others.

- Analytics
- CDI
- Contract Management
- Consulting
- Credentialing
- Utilization Review

- Eligibility
- mHealth
- Patient Communication
- Patient Finance
- Patient Scheduling
- Prior Authorization

- Billing / Coding
- Denials Management
- Payor Reimbursement
- Revenue Integrity
- Self-Pay Receivables
- Transcription

- API's / Interoperability
- Artificial Intelligence
- Blockchain
- EHR / EMR
- Population Health
- Practice Management