

How to sell your ABA Practice / Pediatric Therapy Company (OT, PT, ST)



Spring 2022

We have been assisting several owners of pediatric therapy companies (including ABA practices) to sell their companies. In this article we talk about several aspects that potential sellers should take into consideration before they start the sale process.

Is it a good time to sell my practice?

The market for sale of pediatric practices is very active. Buyers are interested in acquiring practices that have solid profit margins and preferably presenting growth in revenues and net operating profits. Buyers look for brand recognition in the communities where they operate, strong clinical structures and outcomes, and solid information systems.

What are my plans after the sale?

You should have clarity about those plans. Typically, buyers would like to see the seller to stay in the Company after the closing of the sale and assist in business development (assisting the buyer to grow in the region where the practice operates) or assist on the clinical side of the business.

The Seller should know her/his strengths and skills. Most of the time, sellers know the growth potential of the practice, where to open new clinics, and so on. If you have skills and interest on this side of the business, you should clearly articulate this to your M&A (mergers and acquisitions) advisor and to the buyer. If your strength is on the clinic side and that is where you really feel comfortable, then you should plan to do it and clearly articulate it to the buyers as well. Sellers should stay and work where they can bring value added to the buyer after the closing of the sale.

What if I would like to cash out?

If a cash out (sell, take your cash, and leave the business) is the alternative you have in mind, be aware that most buyers will demand a non-compete clause in the purchase agreement. That means that you would not be able to work for a competitor or establish a similar business within certain radius or within the state(s) where you operate. Thus, you should think about retiring or changing your occupation within the state where you live or move out of the state if you plan to continue working in the industry.

Should I do a valuation/appraisal of my business?

If you are thinking about selling your practice, you need to do a valuation of your business. The purpose of a valuation is to have a range of prices for your business (see article "EBITDA multiples for autism practices and pediatric therapy businesses (OT, PT, and ST)" in our website – [click here](#)).

Firm Overview

Mergium Advisors specializes in selling behavioral practices. We also do capital raising, and related advisory services (including business valuations) in healthcare services and other sectors.

Focus

- Behavioral Health Companies - Applied Behavioral Analysis practices
- Physical Therapy, Occupational Therapy, and Speech Therapy practices
- Others



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With this price range you can request your tax advisor to calculate the taxes you would have to pay after closing of the transaction. You should ask your tax advisor about the tax consequences of selling stock/membership interests versus selling the assets of the company. Depending on your type of business organization / structure, the sale of assets or stock might have separate tax consequences.

If you own real estate and use it as an office or clinic and that real estate would be part of the transaction, you should appraise that real estate. That appraisal could be used to establish the lease terms for the buyer.

What type of advisors do I need to sell my business?

You should hire an M&A advisor/M&A broker to assist you in the sale of the business. Please see below the benefits of it. You will also need an attorney to advise you in drafting/reviewing all the contracts and documents of the process, including letters of intent, purchase agreement, and others. Your attorney will also work with the buyer's attorney in the closing process.

What is the role of the M&A advisor in selling my practice?

The role of your M&A advisor is to manage the deal for you. The M&A advisor should work on the following phases and activities: (1) Planning/Preparation: Formulate the strategy for the sale, prepare marketing documents, value your business, and select buyers to contact; (2) Marketing: Contact buyers, distribute marketing documents, and evaluate offers; (3) Negotiation / Due Diligence: Assist in negotiations, create and administer the data room, and coordinate due diligence; (4) Negotiation / Contracts: Negotiation of final terms and conditions; and (5) Closing of the Transaction: Work with your attorney to facilitate final documents and closing.

Is it worth to have an M&A advisor assisting in the process?

The value added of hiring a M&A Advisor is that you can focus on running your business, save yourself the stress of the process, and bring on board a knowledgeable person or team that does this type of work on a day-to-day basis. In hiring a M&A advisor you should check the advisor's experience, deal sizes closed, experience in closing transactions, working relationship with buyers, and the advisor's licenses to work on sale of companies.

If the M&A advisor is based out of your state: (i) she/he must be a registered representative of a broker dealer, member FINRA/SIPC with license to operate in your state; or (ii) that advisor must meet your state requirements to sell businesses (e.g., in some states, the advisor must have a real estate brokerage license). Be careful if your advisor does not have any of these licenses. Even if your sale transaction has closed, it can run into legal problems.

What will be the net proceeds of the sale of my business?

Typically, your net proceeds are the consideration you receive from the buyer minus the taxes you will pay the government and the fees you pay to your M&A advisor and your attorney.

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What information should I have before I start the sale process?

You should have basic information about your business. This information will be needed to elaborate marketing documentation to present to potential buyers, and for the data room. The data room is the location (physical or virtual) where company documents are reviewed and audited by the buyer deal team. Make sure you have at least the following information available:

- Financial information: Last five years of financial statements (profit & loss and balance sheet), monthly financial statements for the last three years, last five years of federal, state, and local tax returns, Information about federal tax examinations (completed or currently pending), payroll information, and bank statements and reconciliations.
- Operational information: Client census, employee census, list of suppliers, billable hours per type of service, organizational chart, list of audits in progress (scheduled and completed).
- Insurance information: copies of policies, historical loss data, and worker's compensation.
- Benefits: Information about benefit plans, employees' manuals / policies, employment agreements, summaries of employee contributions, and 401k documents.
- Legal: Organizational documents, copies of all contracts, and licenses and permits.

Additional information will be requested by buyers during the due diligence process.

What is a due diligence?

Due diligence is a process of investigation of the company been sold by the buyer to confirm relevant facts. In this process, the buyer verifies what has been presented by the seller and identifies potential problems and risks in acquiring the company. The due diligence starts since the buyer is contacted. Typically, a more detailed due diligence starts after a letter of intent is signed by seller and buyer. The due diligence usually covers several areas: financial, tax, legal, commercial, operations, insurance, labor, among others. The due diligence should take no more than 4-6 weeks. At the end of it, the buyer and seller should be ready to sign a purchase agreement.

Mergium specializes in the sale of autism treatment practices and pediatric therapy practices in general to large national and regional practices, strategic buyers, and platform companies of private equity forms.