

## Coronavirus Impact on Practice Values; *Important Tips and Buyer Update*

---

In our bulletin on Sunday March 8, we pointed out that declines in practice revenue and EBITDA could have lasting effects on practice values. Fortunately, in speaking with multiple IDSOs this week, they have confirmed that they will consider post-closing earn-out partnership structures to enable doctors to recapture practice valuation drops caused by the Coronavirus.

This is an important element for doctors now considering hiring Large Practice Sales to represent them in a monetization transaction. While your trailing 12-month (TTM) performance prior to a transaction may have been impacted by an EBITDA decline due to Coronavirus, IDSOs will structure transactions to allow a new partner to recapture the value lost. Practices that resume their collections and EBITDA levels in the 12 months AFTER a transaction will be able to re-price their transactions at long term capital gains rates then.

### **Tax Rates are Driving New Client Acquisition**

The Coronavirus is actually driving up our business as doctors understand the future recession potential and the attendant value decrease possibility in 2021 and later. Last week we signed up \$19,000,000 of new clients bringing the last 30 days to over \$30,000,000. We expect more than that in the next 30 days as doctors want to complete transactions while the 2020 federal tax rates of 20% apply. If a Democrat gains the White House, the leading candidates have all proposed 40% and higher tax rates on gains from a business sale.

### **What the Smart Doctors are Doing to GROW Collections in the Next 30 Days**

We talk to dozens of doctors every day from Honolulu to Boston. This week, each doctor was asked: What is the status of appointment cancellations and what their plans are for the next 30 days? Reactions varied wildly from closing their office to expecting 20% year over year growth.

- Large OMFS Practice: *“We are contacting all of our patients scheduled for summer wisdom tooth extractions and with school out, urging them to come in earlier. This will increase our spring revenues and reduce the summer stress.”*
- Two Doctor Ortho: *“We are contacting our future set consults to invite them to come in NOW since school is suspended. Email makes it easy and it is working.”*
- Three Doctor GP: *“We have had cancellations, but also have a waiting list for complex procedures. We are enticing those patients with the new schedule openings to get the most profitable cases to come in now. Our collections will go up unless it gets a lot worse.”*
- One Doctor Ortho: *“We are using any openings to offer completed case patients to come in for a scan to join our **Retainers for Life** program; the most profitable service we offer. We have not had the time in the past to invite them to our office again.”*

Clearly, LPS has brilliant clients and this is part of why we achieve great values for them!

### **Buyer Update; Mixed, but OK!**

One of the most powerful tools in achieving the highest values (besides LPS not getting paid by buyers like all the other guys) is to create a bidding contest from multiple buyers for our clients. Without eager buyers for larger practices, we have no business.

Our discussions with buyers this week were mixed. Our first calls were of course to buyers in the \$200,000,000 of client transactions in the closing process for March and April. Each of these reaffirmed their commitment to closing on schedule. One suggested that he will be asking for a larger escrow on a \$28,000,000 deal.

Another group with which we have no transactions pending, but to which we have sold 20+ practices in the last three years, was informed by one of their money sources that all acquisitions were on hold.