Succession Planning for Your Practice:
A Panel Discussion with Multiple Perspectives

Rob Worth  Sean McEnroe
Kevin Hulsey  Kelly Sanders

Succession Plans

• Internal succession strategy transitioning ownership to current therapists in the practice

• Practice sale to a larger PT corporation

• Transition from a PT owned practice to an employee owned practice (ESOP)
Internal Sale
Rob Worth

Succession Planning
.......the Next Generation


- Currently:
  - 10 clinics in Wisconsin (12 by year end)
  - 41 therapists
  - On-site PT/injury prevention/wellness at 12 companies
  - On-site screens and PT at 5 YMCA's
  - Several high school & university athletic training contracts
  - Two performing arts contracts – university and professional
  - Interdisciplinary Cancer Center clinic w/ oncology group
  - Orthopedic SNF operation
Okay, we have been more successful than the 1,000 square foot clinic that we thought we would always be in – What next?

**Objectives**

- Share our blessings with the team that has contributed to our collective success
- Mentor future leaders in our practice and in our profession
- Have a legacy practice that will continue on to the next generation

**Phase 1** – Phantom Stock Program (gifted to all staff that has been with our company > 1 year with the goal to share $ and provide a sense of ownership)

**Phase 2** – Real stock equity ownership for therapists and mentorship for the next generation of leaders in our practice
Started with 1% ownership buy-in

- Therapists must meet certain criteria
- Sold at a discounted share price relative to open market value
- Majority owner financed at a low interest rate if therapist did not purchase the 1% ownership outright
- Intent of majority owner was to minimize initial barriers to ownership

What does 1% ownership mean?

- 1% of profits
- Receive monthly management reports on all clinic operations and metrics with mentoring in how to interpret
What does 1% ownership mean? (cont)

Monthly meetings for mentoring in private practice ownership, learning from each other, and collaborative discussion of ideas/opportunities/challenges with periodic guest speakers on topics of management, leadership, finance, etc.

What does 1% ownership mean? (cont)

Tax advantages – Can have any non-reimbursed professional expense taken out of paycheck/end of year bonus in order to reduce your overall taxable income
What does 1% ownership mean? (cont)

Stepping stone for potential future ownership (based on performance, skill set/personality/culture fit, timing and clinic circumstances, and company growth)

Every January, eligible therapists with 3+ years continuous employment at APTSM will have the initial 1% buy-in opportunity (pending majority vote that criteria have been met)
Additional shares buy-in beyond 1% predicated upon

- Meeting criteria and parameters developed for additional buy-in along with majority vote approval by owners
- Must be a director of a clinic or significant service line (i.e. on-site industrial services)
- Future development of senior partnership tract and roles

Where our practice is at now:

- Nine 1% owners
- Two 2% owners
- A 15% owner (brought in as minority owner 15 years ago)
- A 72% owner (company CEO/Founder)
- As part of succession plan, the two largest majority owners above are gradually selling off their shares internally to therapists who have met criteria
Future plans

• Assuming an 8-10 year transition plan, an average of 3.75% is available for sale each year
• This would allow for retirement of one partner and “tipping point” of other owner to drop below 50% ownership triggering accelerated progression of stock sale to leadership team and other eligible therapists

Other Possibilities – Lots!

• State network of PT private practices – Co-founded KinexCare in 2013
• MSO
• Merger opportunities with other like-minded private practices (regional or national)
• ESOP
• External sale

Intent continues to be a legacy practice which is passed on to the next generation of our therapists
Thank You!

Selling to a Larger Company

Kevin Hulsey PT, DPT, CEO
• RehabAuthority was founded in 1999.
• Partnership model
• Many iterations over the years
• We like to have a local equity partner in each clinic.

• We like the local owner to own at least 10% of the clinic and up to 49%.
• The local owner must come in with cash.
• January 1\textsuperscript{st} 2014 – RehabAuthority (RA) sold controlling interest and 51% equity to Physical Rehabilitation Network (PRN).

• How Much?
• Trailing twelve months EBITDA x 7.2
• Cash and assumption of debt.
• WHY????
• Promise of growth.
• PUTs
• Money
• Elimination of debt

• PRN – about 100 clinics in 9 states.
• PRN is 87% capital equity owned.
• Currently that owner is Silver Oak based out of Chicago.
• New Company!
• Idaho Rehab Partners
• Idaho Rehab Partners (IRP) is co-owned by PRN and RA.
• Each clinic is co-owned by (IRP) and a local owner.
• Now RA Partners have PUTs
• Now local PTs have real equity with contracts that define exits.

Selling to a Larger Company
Sean McEnroe
Joining a Larger Team

**Situation**
- Founded in 1995
- 5 Owners
- 35 Clinics
- 4 States
- 200+ employees

**Goals**
- Founder Exit
- Cultural Fit
- Employee Advancement
- Growth Partner
- Financial Opportunity

---

Transaction Choices

- **Private Equity**
  - Medium Valuation
  - Maintain 20-49% company stock
  - Board Level Help
  - Management Team Upgrade

- **Strategic Partner**
  - Strong Valuation
  - Roll 20-50% into parent stock
  - Infrastructure
  - Experience
  - Join a Team
The Right Partner

• Cultural Fit
• World Class Infrastructure
• Growth Opportunity
  • Focus on what I do best
  • Leverage top talent and resources
  • My people get opportunity

• The Deal

Something Different

• Largest Single-Branded IPI company
  Over 650 fully equipped treatment facilities
  in 25 states

  Serving over 500,000 patients annually
  Providing over 9,000,000 treatments annually

  Fully integrated IT infrastructure with real-time visibility to operational & quality metrics

  Actively engaged in Value Based Care, Bundled Payments, and Care Navigation
Cultural Fit

Net Promoter Score

- Marriott
- Trader Joe's
- Apple - iPad
- Southwest Airlines
- Amazon
- Apple - iPhone
- Apple - Laptops
- ATI

ATI Research and Development - Achieving Excellence through Evidence-Based Medicine...
- Evidence-Based Medicine - Treatment protocols are embedded into our EMR.
- Most Published Physical Therapy Company – 33 Articles since 2009; including American Journal of Sports Medicine, Modern Healthcare, PT in Motion, amongst others.
- Currently working on 126 internal and collaborative projects.

URAC Accreditation
- Recognized and validated for our commitment to quality and accountability.
People Opportunity

Recruit

Retain

Develop

Motivate

Retention rates for Clinicians that are better than industry norms.

On pace to onboard over 3,000 employees in 2016.

Performance Management & line of sight to where we’re going.

400+ employees assumed new positions in the last 18 months; with 100+ being promoted into Leadership.

World Class Infrastructure

The Industry's Most Efficient PT Delivery System
Turning Data into Results

Research Collaborations and Publications
- ATI Patient Registry
- Approved by ClinicalTrials.gov and RoPR
- Co-Authored Papers
- Augmented Treatment Guidelines
- Evaluative Consultations

Clinical Outcomes Data
- Nationally Recognized Outcomes Tools
- One Million Unique Patients
- Industry-Leading Patient Satisfaction of 97%
- Net Promoter Score of 80%

Growth Opportunity

Clinic Development Process

Local Knowledge + Execution
Exciting Vision

Employee Stock Ownership Plan (ESOP)

Kelly Sanders
Our History

• 1999...
  – 1 clinic purchased in San Luis Obispo, CA by Jim Glinn Jr.
  – Vision for a legacy practice
    • Risk sharing clinic directors
    • Organic, sustainable growth

Today

• Ownership: 51% ESOP / 49% owned by 12 PTs
Succession Planning – Take 1

- Promote an ownership culture with aligned incentives
- Legacy practice managed by those practicing within it
Succession Planning – Take 2

• Promote an ownership culture with aligned incentives *throughout* team

• Legacy practice managed by those *working and* practicing within it

• Succession plan financed without hindering team growth

• People 1*st*
What Is an ESOP?

- Defined contribution retirement plan like Profit-Sharing or 401(k) with two significant differences:
  - Required to invest primarily in the stock of the sponsoring company
  - May borrow money backed by the credit of the Company in order to do so (leveraged ESOP)

Basic ESOP Structure

1. Company contributes cash (or new issue shares) to ESOP
2. ESOP trustee applies cash to purchase shares at current FMV
3. Employees build equity over time through allocations

Shareholders

Company

ESOP Trust

Shareholders
ESOP Pros/Cons

• Pros
  – Ownership Culture
  – Market for Share Sale
  – Tax Free Earnings (S-Corp)
  – Sellers’ Ability to Defer Tax on Gain on Sales to ESOP (C-Corp)
  – Tax Deductible Financing (both principal and interest)

• Cons
  – Administration
    • Increased compliance measures
  – State laws / professional corporation hurdles

Benefit of ESOPs for S-Corporations

Fully Tax-free earnings...