Merritt Healthcare Advisors
Unique Focus. Proven Results.

# Smaller Practice, Bigger Payday!

## *How Co-Marketing Smaller Practices Can Double Multiples*

# Why the Valuation Gap?

## *Smaller physician practices typically sell for 3–6x earnings, while larger groups often achieve 8–10x.*

### What drives the valuation gap?

**For smaller practices, the lower multiple often reflects:**

- Heavy reliance on key physicians.
- Limited scalability and growth potential.
- Lower profit margins (limited economies of scale).
- Weaker payor negotiating power.
- Higher operational and management risk.

**Conversely, larger practices garner higher valuations due:**

- Diversified revenue and patient base.
- Scalable infrastructure for growth.
- Stronger profit margins.
- Greater leverage with payors.
- Robust management teams and systems.
- Strategic value to buyers (market presence).

**Want to maximize your practice's value?**

- Unlocking higher valuations starts with understanding and addressing these key drivers.

# Want to Maximize Your Practice's Value?

Understanding these drivers is the **first step**.

By strategically addressing areas like **operational efficiency**, **revenue diversification**, **growth initiatives**, and **provider stability**, you can position your practice for a **higher valuation** when the time comes.

It takes many years to scale a practice.

If your practice has less than $2.0M in Earnings (EBITDA) and you want to maximize your valuation, the answer may be in **Co-Marketing.**

# What is Co-Marketing?

When two or more smaller practices go to market together, the impact can be significant. For example, two practices each generating $1.0M in earnings can combine to form a $2.0M earnings profile, often resulting in a **50–100% higher valuation** compared to going it alone.

The goal: **1 + 1 = 3**

By joining forces, you create a more attractive investment opportunity with scale, diversification, and enhanced buyer appeal.

The next few pages will describe this in greater detail.

# Key Qualities Buyers Are Willing to Pay a Premium For

**Geographic Proximity:**

The various practices are strategically positioned within the same or a closely concentrated geographic area.

**Referral Strength:**

The involved practices share the same specialty or possess strong patient referral networks.

**Financial Strength:**

The collective saleable EBITDA of the involved practices is >$2.0M.

**Management Stability:**

The involved practices have high-quality management teams committed to remaining in place after the transaction.

**System Compatibility:**

The involved practices utilize the same or largely similar EMR and billing systems.

**Physician Alignment:**

The physicians form a cohesive, stable group committed to the success of the practice.

**Operational Efficiency and Scalability:**

Low risk. High margins. Strong, repeatable operational performance with scalable infrastructure.

**Revenue Diversification:**

More services. More payors. More resilient and predictable earnings.

**Growth Potential:**

Credible, actionable growth strategies already in motion showing a path to increasing earnings.

# Types of Co-Marketing Campaigns Explained

**Standalone:**

- A single small physician practice is marketed independently, typically less than $2.0M in EBITDA.
- Without the size, scale, or strategic leverage of a larger group, standalone practices typically command lower valuation multiples.
- **Typical multiples: 3–6x Earnings** (sometimes lower if there are risk factors or limited buyer interest).
- Harder to attract strategic buyers or private equity at premium platform pricing without additional value drivers.

**Co-Marketed Deals:**

- Instead of marketing a practice alone, **multiple practices** are bundled together into a "platform opportunity" to appear more attractive to buyers, which can **dramatically lift valuation multiples**.
- The strength of the combined group determines whether it's classified as **Strong**, **Good**, or **Weak**:

### Strong Co-Marketing Case (Highest Multiples)

- **All or Most "Key Qualities" Are Present:**
  - Concentrated geographic region.
  - Same specialty or strong referral synergies.
  - Combined earnings $2.0M EBITDA or higher.
  - Strong management teams willing to stay post-transaction.
- **Buyers' Interest :** High interest across multiple buyers; likely bidding competition.
- **Valuation Outcome :** Highest multiples (similar to true platform deals).

### Good Co-Marketing Case (Moderate to High Multiples)

- **Most of the "Key Qualities" Are Present:**
- Maybe slightly weaker geography overlap, or some variation in management quality, but the practices still have strong synergy.
- **Buyers' Interest:** Good level of buyer interest; multiple offers likely but with more diligence.
- **Valuation Outcome :** High multiples, though slightly below Type I.

### Weak Co-Marketing Case (Low to Moderate Multiples)

- **Few "Key Qualities" Are Present:**
- Practices might be geographically spread out, different specialties, weak management continuity, or low combined EBITDA.
- Often looks like a random grouping rather than a scalable platform which could potentially degrade value, instead of add it.
- **Buyers' Interest :** Modest to moderate interest, with buyers being cautious or skeptical.
- **Valuation Outcome:** Mid-range multiples, can be higher or lower than a standalone in some cases.

# Types of Co-Marketing Campaigns Explained:

## *More attributes from page 5 usually translates to better multiples*

| Case Type | Earnings (EBITDA) | Key Qualities Present | Buyer Interest | Typical Multiples |
|---|---|---|---|---|
| **Standalone** | Approximately $2.0M or less | TBD | Low to Moderate | 3-6x |
| **Weak Co-Marketing** | Approximately $2.0M or less (per practice) | Few | Low to Moderate | 5-7x |
| **Good Co-Marketing** | Approximately $2.0M or less (per practice) | Most | Moderate to High | 7-9x |
| **Strong Co-Marketing** | Approximately $2.0M or less (per practice) | All or Most | Very High | 8-10x |

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**Observations:**

Co-marketing of different practices into a single platform, rather than running independent processes, can significantly increase the purchase price multiple for each practice.

Note:

1. Groups do not need to fully integrate prior to a transaction in order to achieve a higher valuation.

# Types of Co-Marketing Campaigns Explained:

*More attributes from page 5 usually translates to better multiples*

| | Geographically Concentrated | Shared Specialty or Patient Referral Crossover | Combined Saleable Earnings >$2.0M & Additional Growth Potential | Integration Risk Moderate to Low |
|---|---|---|---|---|
| **Strong Case** | ✓ | ✓ | ✓ | ✓ |
| **Good Case** | ✓ | ✓ | ✓ | ✗ |
| | ✓ | ✓ | ✗ | ✓ |
| | ✓ | ✗ | ✓ | ✓ |
| | ✗ | ✓ | ✓ | ✓ |
| **Weak Case** | ✓ | ✗ | ✗ | ✗ |
| | ✗ | ✓ | ✗ | ✗ |
| | ✗ | ✗ | ✓ | ✗ |
| | ✗ | ✗ | ✗ | ✓ |
| | ✗ | ✗ | ✗ | ✗ |

# Inside the Numbers: What Our Case Studies Reveal

## *Data-Backed Results Across 25+ MHA Clients*

*All figures in $Thousands*

| Case Type | PF EBITDA per Company | PF EBITDA per Syndicate | Practices per Syndicate | EV/EBITDA | PF EV/EBITDA | Co-Market/ Standalone |
|---|---|---|---|---|---|---|
| ***Strong Co-Marketing*** | $450-$1,250 | $2,800-$4,150 | 2-4 | **20.6x** | **13.8x** | **2.4x** |
| ***Good Co-Marketing*** | $250-$4,150 | $6,700-$11,400 | 2-7 | **15.1x** | **9.3x** | **1.8x** |
| ***Standalone*** | $500-$2,000 | N/A | 1 | **7.7x** | **6.5x** | **N/A** |

Notes:
1. Sample set includes 25+ co-marketing eligible healthcare companies that engaged Merritt Advisory between 2021 and 2025.
2. The sample set has an aggregate transaction value that exceeds $500M.
3. EBITDA figures are rounded to the nearest $50K.
4. Each co-marketing syndicate in the sample comprises between 2 and 7 distinct companies.

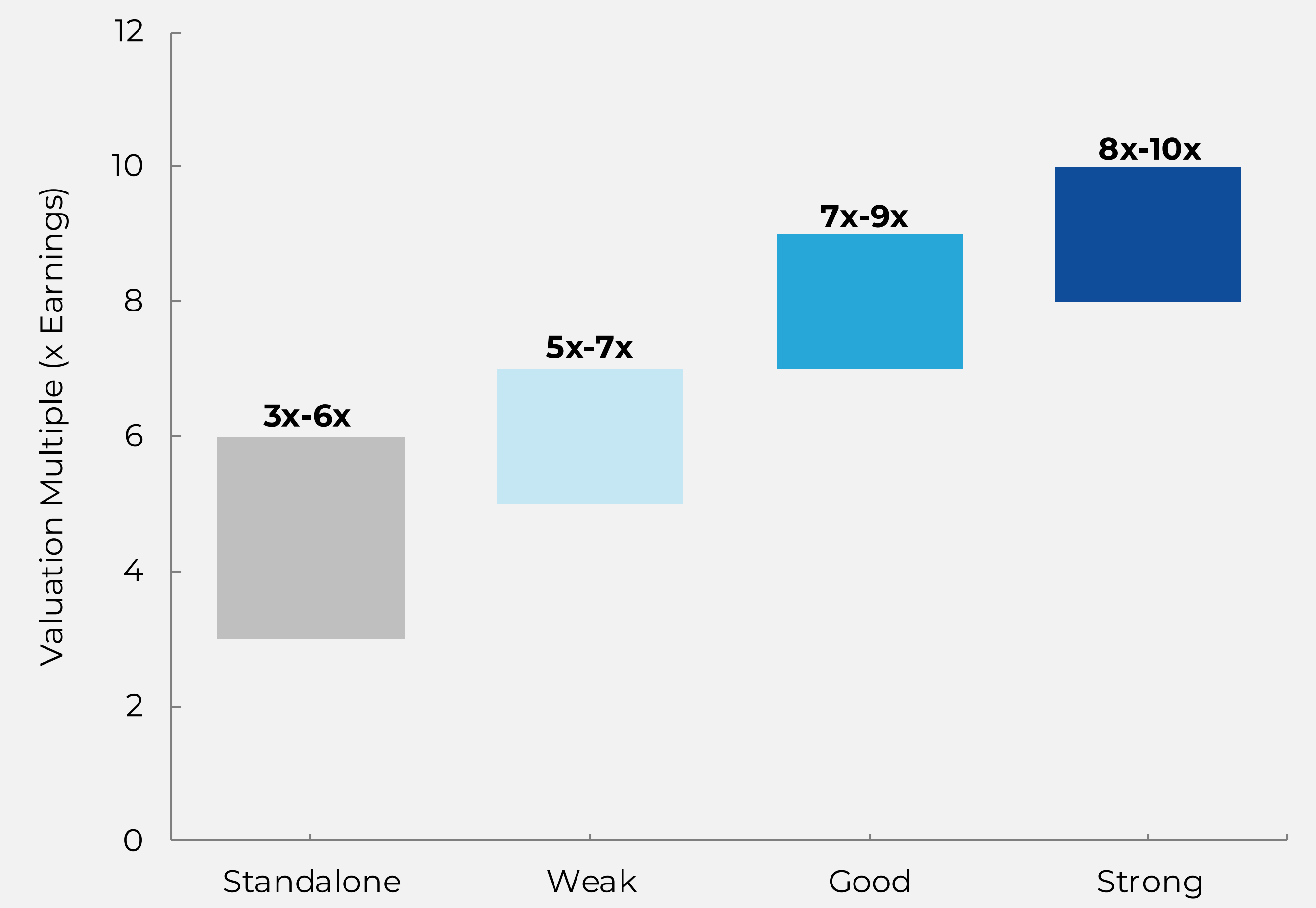
# The Bottom Line: Co-Marketing = Higher Value

On average, properly co-marketed practices with ~$2.0M or less in EBITDA on an individual company basis, achieved valuation multiples that were 50–100% higher than comparable standalone deals.

**Standalone** = Lower multiples.

**Co-Marketing** = Higher multiples, BUT the quality of the grouping (Strong, Good, or Weak) determines how high.

**Valuation Impact by Co-Marketing Case Type**



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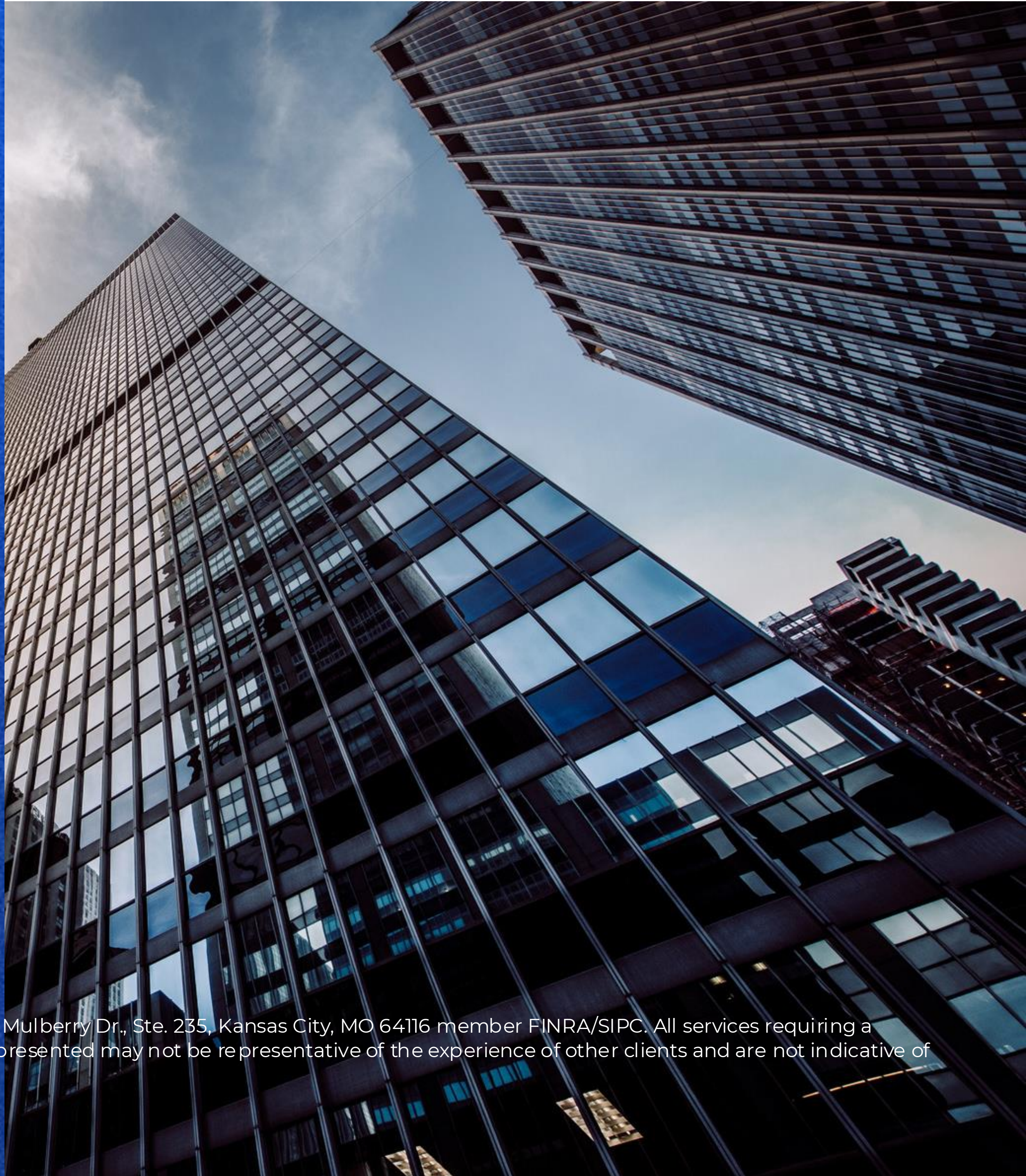

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