

Prosidio White Paper

Don't Sign the LOI

How Pre-Deal Procurement Diligence
Unlocks Value and Prevents Hidden Costs
in ENT Acquisitions

*An Expert Analysis from Prosidio (Jonathan Simmonds, MD, and Ardil Orcen).
Featuring an exclusive consultation with Roger Lay, Purchasing Consultant
for ENT Physicians.*

Table of Content

Executive Summary	3
The Six-Figure Surprise That Derails a Deal	4
Beyond the Balance Sheet: Uncovering the True Cost of an Acquisition	5
Shifting the Timeline: Why Procurement Must Influence the LOI	7
From Firefighting to Value Creation: Building a Strategic Procurement Function	9
A New Mandate for Leadership: Make Procurement Your Strategic Advantage	11
References	12

Executive Summary

For private equity firms and the leadership of Medical Service Organizations (MSOs), the rapid consolidation of specialty practices like ENT presents a significant growth opportunity.

However, our analysis reveals a critical flaw in the typical M&A process: the failure to engage procurement experts before a Letter of Intent (LOI) is signed. This oversight exposes buyers to millions in hidden costs, erodes deal value, and can turn a promising acquisition into a financial liability.

This white paper, informed by an expert consultation with Roger Lay of failure (such as CT scanners), **margin-crushing vendor contracts with “evergreen” auto-renewal clauses, and onerous equipment leases. Financial models and standard due diligence checklists frequently miss these landmines**, leading buyers to unknowingly overpay for practices and face immediate, unbudgeted capital outlays post-close.

“Procurement must have a seat at the M&A table from the very beginning.”

— Roger Lay, Purchasing Consultant for ENT Physicians

The core recommendation is to shift procurement diligence upstream, making it a prerequisite for setting deal terms. By performing a thorough review of equipment, inventory, and contracts before the LOI, an MSO gains the leverage to adjust the purchase price, demand pre-close remediation, or walk away from an overvalued asset. The insights from Elevate ENT Partners validate this approach, demonstrating how early involvement flags major costs, such as a \$100k-\$300k CT scanner replacement^{[1][3]}, while there is still time to negotiate.

Ultimately, this paper provides a strategic framework for transforming procurement from a back-office function into a powerful value-creation engine. For any decision-maker in specialty practice roll-ups, the message is clear: treating procurement diligence with the same gravity as financial and legal reviews is essential to protecting investment value and accelerating returns.

The Six-Figure Surprise That Derails a Deal

The CEO of a rapidly growing ENT MSO closes a deal on a well-regarded clinic, confident in the pro forma's projected profits. Thirty days post-close, the phone rings. The clinic's sole CT scanner—essential for high-margin sinus imaging—has failed. **The surprise replacement cost is over \$150,000**, wiping out a significant portion of the anticipated first-year profit^[1].

This scenario, far from hypothetical, represents one of the most common and costly mistakes in healthcare M&A. Acquisition teams, laser-focused on financial metrics and patient volume, often address operational realities like supply chains and asset conditions late in the due diligence process, if at all. By then, the price is set and the negotiating leverage is gone.

The core argument of this white paper is that this sequence is fundamentally broken. To de-risk acquisitions and make smarter investments, **procurement must have a seat at the M&A table from the very beginning.**

"If we wait until after the LOI to involve procurement, we're already behind – and we've learned that the hard way," advises Roger Lay, Purchasing Consultant specializing in ENT physician practices. *"Procurement must be at the table from day one."*

"In capital-intensive specialties like ENT, if you treat operational due diligence as an afterthought, you're asking for trouble," says Roger Lay, Purchasing Consultant for ENT Physicians. *"It has to happen before the deal, or the investment isn't truly sound."*

"The clinic's sole CT scanner—essential for high-margin sinus imaging—has failed. The surprise replacement cost is over \$150,000, wiping out a significant portion of the anticipated first-year profit."

Beyond the Balance Sheet: Uncovering the True Cost of an Acquisition

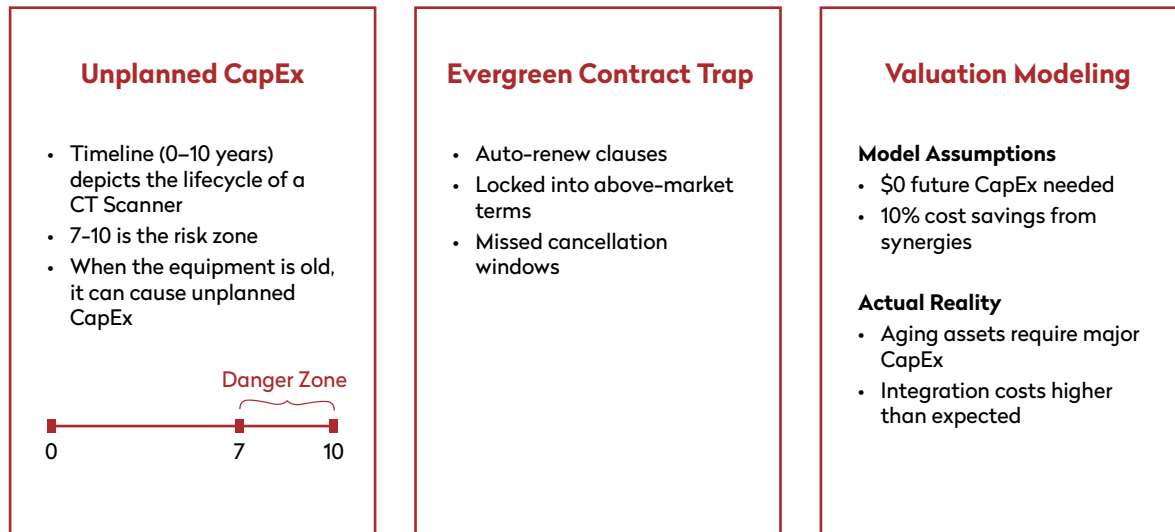
The source of these post-deal surprises lies in a due diligence process that focuses on financial statements while ignoring the physical and contractual liabilities of the practice. Our analysis, validated by expert consultation, reveals three categories of hidden costs that routinely undermine the value of acquisitions.

First is the unplanned capital expenditure bomb. ENT practices are capital-intensive, but independent clinics often defer expensive upgrades to preserve cash. The result is an inherited portfolio of aging assets on the verge of failure. As one legal advisor warns, acquirers must avoid *"inheriting outdated or faulty assets that require expensive replacements"*^[2]. The consequences are immediate: an MSO acquiring a practice with a 10-year-old CT scanner, which has a recommended life of only 7-8 years^[3], has effectively taken on a six-figure liability not

reflected on the balance sheet. *"We're buying these new...acquisitions, [and] they're going to have chairs that should have been in an ENT museum,"* Lay states, highlighting how pervasive this issue is.

Second are the margin-killing vendor contracts. Independent physicians are highly susceptible to signing agreements with unfavorable terms, particularly *"evergreen"* clauses that automatically renew contracts at above-market rates. These liabilities can derail an MSO's entire synergy strategy. A plan to consolidate hearing aid purchasing is worthless if an acquired clinic is trapped in a high-cost contract for another three years. The financial bleed can be tens of thousands annually per clinic. A real-world example from an ENT practice involved a testing unit for allergy reactions. *"They signed a contract, and it was going to cost us a six-figure early termination fee,"* Lay recalls. A standard review of financials would never uncover such a specific, costly obligation.

Hidden Costs

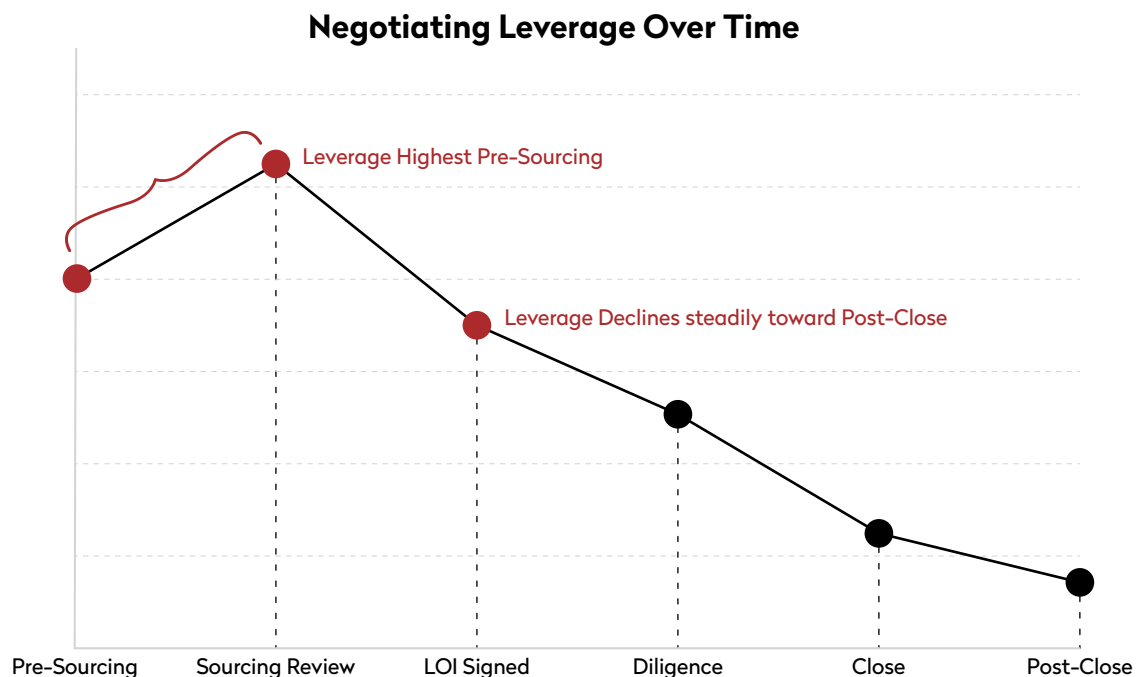


Finally, these hidden costs lead to a fundamentally flawed valuation. A pro forma might optimistically project a “10% savings on medical supplies” from group purchasing, ignoring the reality of locked-in contracts. It may assume zero near-term CapEx, creating a fantasy model that does not reflect the front-loaded investment required to modernize the clinic. The MSO pays a premium based on these flawed assumptions, only to invest more capital post-close, driving down the real return on investment.

Shifting the Timeline: Why Procurement Must Influence the LOI

Understanding these hidden liabilities is one thing; preventing their impact is another. The entire paradigm of M&A sequencing must be re-evaluated. By shifting procurement diligence to the pre-LOI stage, an MSO arms itself with the data needed to shape the deal structure from a position of strength.

This proactive stance preserves maximum negotiating leverage. **Once an LOI is signed, renegotiating the price is difficult.** A pre-LOI procurement assessment, however, provides objective evidence to bake remedies directly into the initial offer. This could be a lower purchase price, an escrow holdback for specific capital projects, or a requirement for the seller to terminate unfavorable contracts. As Lay emphasizes, *"Now we never sign an LOI without a procurement review. It's about heading off issues while we still have leverage."*



This approach also ensures that synergies are modeled realistically. A key justification for consolidation is achieving cost savings through scale, but a Harvard Business Review analysis found that synergy estimates are often dangerously over-ambitious^[4]. Pre-LOI diligence provides a crucial reality check, mapping the target's vendor contracts against the MSO's to determine if savings are immediate or delayed. This prevents the buyer from overpaying for synergies that may take years to materialize.

Ultimately, early involvement is about de-risking the investment and preventing *"deal regret."* Procurement professionals scrutinize every operational cost, from medical waste fees to equipment service agreements. This grounds the valuation process in reality and serves as a vital guard against *"deal fever"*—the tendency to ignore problems in an eagerness to close a transaction.

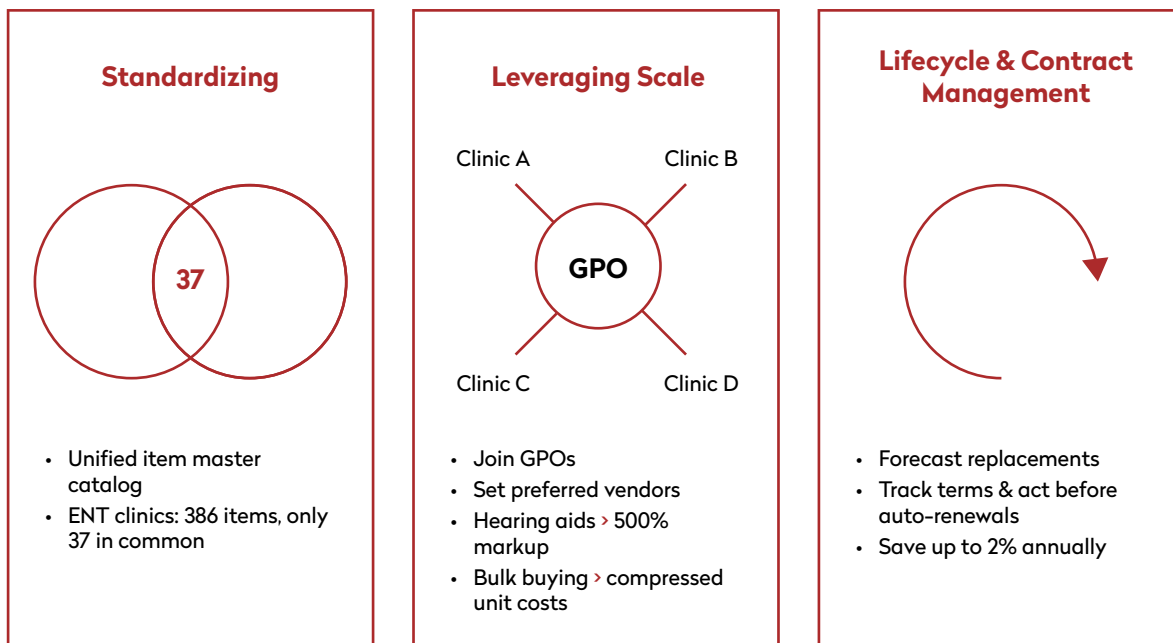
"Now we never sign an LOI without a procurement review. It's about heading off issues while we still have leverage."

— Roger Lay, Purchasing Consultant for ENT Physicians

From Firefighting to Value Creation: Building a Strategic Procurement Function

Avoiding pitfalls in a single deal is a defensive victory. The real opportunity for an MSO lies in building a proactive procurement strategy that creates sustainable value across the entire portfolio. This moves the function from a cost center to a profit engine, built on three strategic pillars.

Pillars of Strategic Procurement



The first is aggressive standardization. In a typical roll-up, purchasing is fragmented; in one stark case, two ENT clinics within the same group bought 386 unique items from one vendor, with only 37 in common^[5]. A strategic procurement function implements a unified item master catalog, standardizing functionally equivalent products to concentrate purchasing power.

The second is leveraging scale. Once spend is consolidated, an MSO can join a Group Purchasing Organization (GPO) for immediate discounts^[6] or negotiate its own preferred vendor agreements for high-cost categories. Hearing aids—often a dominant revenue line

in audiology—deserve special focus, as they can account for 70–90% of an audiology practice's sales mix^[7]. Centralized, expert negotiation in such categories typically unlocks savings individual clinics cannot access on their own.

The third pillar is proactive lifecycle and contract management. Instead of reacting to broken equipment, a strategic team uses an asset-lifecycle plan to forecast and budget for replacements, timing bulk purchases to secure discounts. This is complemented by a centralized contract-management system that tracks all agreements and provides alerts for renewals, preventing the costly “evergreen” trap. By eliminating such lapses, organizations can save up to 2% of total annual costs^[8].

Taken together, these pillars shift procurement from last-minute firefighting to disciplined value creation—tightening unit economics, de-risking integrations, and reinforcing clinician satisfaction with reliable, standardized tools and supplies. As Roger Lay puts it, *“An experienced procurement professional can negotiate substantial savings”*—the kind of value only centralized expertise can achieve.

“An experienced procurement professional can negotiate substantial savings.”

— Roger Lay, Purchasing Consultant for ENT Physicians

A New Mandate for Leadership: Make Procurement Your Strategic Advantage

The evidence is clear: for any MSO engaged in specialty practice acquisitions, procurement cannot be an afterthought. It is a strategic pillar of a successful growth strategy. Pre-LOI diligence protects buyers from overpaying. A disciplined, centralized function is the engine that captures the economies of scale that justify consolidation, potentially driving cost savings of 5-15% on supplies and equipment^[9].

“Understand the assets and the contracts before you sign anything.”

— Roger Lay, Purchasing Consultant for ENT Physicians

Looking forward, the MSOs that thrive will be those that master operations. This requires investing in procurement talent and technology early in the growth curve. As our consultation with Roger Lay confirms, a single piece of advice stands out for any acquisition team: understand the assets and the contracts before you sign anything. By doing so, MSOs will inoculate themselves against hidden costs and lay the foundation for scalable, efficient, and profitable growth.

The statements and perspectives shared in this white paper are those of Roger Lay and are not intended to represent or reflect the official policies or positions of ENT MSO, LLC dba Elevate ENT Partners.

References

1. Block Imaging (2025). 2025 CT Scanner Price Guide.
2. Steszewski Law (2025). Common Issues in Dental, Medical, and Veterinary Practice Acquisition.
3. HealthTech Hotspot (2021). Extending the Life of a CT Scanner.
4. Kenny, G. (2020). Don't Make This Common M&A Mistake. Harvard Business Review.
5. MedProcure (2021). White Paper: Managing Procurement Across Multiple Offices.
6. DoctorsManagement (n.d.). Tips for Financial Planning, Budgeting, and Cost- Effective Strategies for ENT Practices.
7. Auditdata (2023). 5 Key Financial Metrics to Boost Hearing Aid Sales & Clinic Profitability.
8. Becker's Hospital Review (2012). Contract Management Best Practices: Avoiding the Common Mistakes that Cost Hospitals Millions of Dollars Annually.
9. 9. Accenture (2016). Capturing Synergies in Health System M&A.

PROSIdIO
prosidio.com