

HOW MUCH IS MY PRACTICE WORTH?





Picture this: you have your practice that you have worked on for years. Business is excellent; your patients are constantly growing, and the happy reviews keep coming. However, you haven't seriously considered any factors to selling your practice.

It's easy to overlook the details of selling your practice, especially when things are going well. Regardless, building the factors of selling your practice into daily, monthly, and annual procedures is vital. That way, when the time comes to sell, you're more than prepared.

Many doctors that own their practice fail to have a deep understanding of how practices are valued and risk losing value that could easily be captured with minor tweaks. It is critical to be aware of how industry experts (like accountants, practice brokers, and potential buyers) value practices for purchase.

Preparing to sell at any given time in the near or distant future will be your best friend when the time comes. Trusting that a buyer will come to you with the best price and intentions would be nice, but it's better to be 100% sure of it.



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1 Practice Valuation



The valuation of your practice is one of the most important steps you will take when you are ready to sell. Understanding the value of your practice today will help you determine what steps may need to be taken to get the most for your practice in the future.

So, what is a practice valuation?

A practice valuation estimates its worth and helps set a selling price or determines how much a buyer will pay for a practice. A valuation considers factors such as:

- Location of the practice
- Size of the patient base
- Type of services offered
- The condition of the equipment and facilities
- Income of the practice

The valuation can also consider the goodwill of the practice, which is the value of its reputation and name recognition built up over time.

There are various concepts of value to consider when determining the value of practice.

Here are a few:

Fair Market Value

Fair market value means the price a buyer would pay to a seller when both parties are knowledgeable about the transaction and neither is under any pressure to buy or sell. (Think of fair market value as the utopian valuation for a practice.)

Fair market value is the most commonly used concept to value a practice for the purpose of selling.

Investment Value

The investment value is the price paid by a buyer looking for a specific rate of return on their investment. Banks and other lenders look at the investment value when loaning money to buy a practice.

Replacement Cost Value

The replacement cost value is the cost to replace the practice with one of a similar age, size, condition, and location. Insurance companies often use it when determining how much to insure for a practice.

The valuation of a practice can be a complex process. There are many factors to consider, and the value can depend on the buyer's or seller's perspective. It is essential to consult with a professional practice broker or accountant for an accurate valuation.

Sale of an Entire Practice

Before a practice owner puts their firm on the market, they should acquire an appraiser who can perform a proper valuation. Having an appraisal before putting the practice on the market allows you to set a sale price that isn't too high or too low. A price that is too low will lead to losses, and a price that is set too high will lead to difficulty in selling.

When selling the entire practice, a practice valuation will help ensure financial solvency for the seller if they are financing a portion. Sellers who assume a financed portion do not want the sale to go wrong for themselves or the buyer.

Sale of Portions of a Practice

Selling only portions of practice can be an alternate choice for doctors who want to phase down without pulling out of the practice entirely. A sales price and working relationship agreement should be agreed upon before the transaction is consummated and the buy-in is completed, this will help avoid disagreements between the buyers and sellers.

2 Important Issues to Consider About Valuation



Completing an accurate valuation is a complex process. Without expert guidance, a miscalculated valuation can result in unnecessary delays and cumbersome regulations.

Valuation issues

Issues often arise during the sales and purchase of practices. The most common problems that can occur are:

- When the parties cannot agree on a value and/or the methods used to determine the value of the practice.
- One party feels that the other not disclosing all information about the practice.
- There is a lack of reliable, comparable sales data.
- The practice is not profitable, and the parties cannot agree on how to value the practice.

Valuation assumptions and limiting conditions

Valuation assumptions and limiting conditions are the parameters that a valuation expert will use to value a practice. These parameters can include:

- The age of the practice
- The location of the practice
- The size of the practice
- The type of practice
- The condition of the practice
- The profitability of the practice
- The goodwill of the practice
- The value of the practice's assets
- The amount of the practice's liabilities

Information required to perform a valuation

To properly value a practice, your practice broker will need certain information. This information can include:

- Financial statements
- Tax returns
- Account receivables and payables
- Inventory
- Equipment list
- Lease agreement
- Comparable sales data



3 How is Valuation Calculated



Now that you know when a valuation should be completed based on specific situations, let's go over how it should be done.

False assumptions concerning practice valuation

When it comes to practice valuations, there are often misconceptions. One of these misconceptions is that the value of a practice is what the seller wants or what the market will pay. However, this is not always the case. The value of a practice is based on a wide array of factors that do not directly relate to the seller or the market.

Different valuation methods can be used to value a practice. Each one of these valuation methods uses different factors to arrive at a value.



Consider the valuation method that is right for you

With your practice broker, the first step is to consider what valuation methods are available and which one would be the best fit for you. We will share several popular valuation methods below. Let's start with the most popular:

Market-based / transaction approach

The market approach is used when there are comparable closed sales of practices. This method is universally viewed by sellers, buyers, and lenders alike. The market-based transactions method is a valuation method that looks at the prices paid for comparable practices and applies those exact price multiples of income to the subject practice. This approach is also referred to as an earnings multiplier.

Capitalized earnings method

The capitalized earnings method is perhaps the most popular valuation method used today. This valuation method looks at a practice's historical earnings and projects those earnings into the future. The capitalized earnings method is best used when a practice is profitable and has a consistent history of profitability.

Discounted cash flow (DCF) method

The discounted cash flow method is similar to the capitalized earnings method in that it projects a practice's future cash flows. However, the discounted cash flow method discounts those cash flows to account for the time value of money. This method is preferred by many investors to judge whether they will receive a return on their investment.

Net asset method

The net asset method is a valuation method that simply looks at the value of a practice's assets and subtracts out the value of its liabilities. This valuation method is best used when a practice is not profitable and is not expected to be profitable in the future.

Guideline company method

The guideline company method is a valuation method that values a practice based on the multiples of income paid for comparable practices/businesses in the past. This valuation method is used when there is a lack of comparable sales data.

This method is still reliable as it takes into consideration multiples of income across the US from available data.



4 Factors that Complicate the Valuation Process



A valuation process can be easy, but like most things, some factors complicate the process.

Associate Buy-outs and Buy-Ins

An associate buy-out is when an associate purchases the interest of the practice owner. This can complicate the valuation process because the value of the practice is often based on the historical earnings of the practice. When an associate buys into the practice, those earnings are split between two parties, making it difficult to determine the value of the practice.

The other complication arising from an associate buy-out is that the practice owner may want to stay on for some time after the sale. This is known as an earn-out. An earn-out can complicate the valuation process because it is difficult to determine the value of the practice if the owner will be paid based on the practice's future earnings.

Valuing a Portion of a Practice

Another complication can arise when a practice owner wants to sell a portion of their interest in the practice. This can be difficult to value because the valuation is often based on the historical earnings of the practice. If a portion of the practice is being sold, those earnings will be split between the two parties, making it difficult to determine the value of the practice. In addition, the amount of involvement by the seller can "muddy the waters" to determine the value.

Inadequate Financial and Clinical Records

If a practice does not have adequate financial and clinical records, it can be challenging to value the practice. This is because the valuation is often based on the historical earnings of the practice. If a practice does not have adequate financial records, it is difficult to determine the value of the practice.

Participation in Managed Care Programs

Another factor that can complicate the valuation process is participation in managed care programs. This is because managed care programs often have different reimbursement rates for different procedures. This can make it challenging to value a practice if it participates in a managed care program.

Employment of Family Members

Valuation is often based on the historical earnings of the practice. If a practice employs family members, adjustments will need to be made to the income. This is because the family members may not be paid at market rates, which can skew the valuation of the practice. Your practice broker will ask questions about family rates of pay to help provide a more accurate financial snapshot of the practice.

Practitioner-owned Real Estate

If a practice owns the real estate where it is located, this can complicate the valuation process. This is because the value of the real estate must be separated from the value of the practice. This can be accomplished by having a real estate appraisal conducted on the real property. While this is sometimes viewed as a complication many experienced practice brokers and buyers see the ownership of the property as a positive.

Practices with Multiple Office Locations

Multiple office locations can complicate the valuation process because each office must be valued separately. This can be challenging if the offices do not have individual financial statements. However, this challenge can be overcome by a single buyer purchasing all practice locations.

5 Starting From Scratch or Buying an Existing Practice



A big question that is often asked by buyers is if it's better to start a practice from scratch or to buy an existing practice. Both options have advantages and disadvantages, so at the end of the day, it depends on what is better the buyer.

Advantages and Disadvantages of Buying a Practice

A significant advantage of purchasing an existing practice would be inheriting the large patient base. This can save a buyer time and money that would be put into bringing in new patients. Not to mention, a buyer would have a large audience of people who already know about the practice who can eventually become patients based upon the already existing reputation.

In addition, not only does a buyer get most of the current patients, but also can take advantage of being able to start working with the experienced staff that is already working at the practice. This means that the buyer will save time and money when hiring new receptionists, nurses, and anyone else that would be needed to successfully run the practice. The buyer has an additional advantage of having a team that already has chemistry and efficiency. A team that works well together is an advantage in itself.

With an existing team comes an existing billing and payroll system. That will also save a buyer time and hassle.

Lastly, but most importantly, purchasing an existing practice allows the buyer to take a look at the profit and loss sheets before buying. This allows the buyer to see just how well the practice is doing and even where the practice might be failing. Seeing these analytics can provide a buyer with the opportunity to see a profit within their first year.

Although there are a bunch of advantages, there are some disadvantages too. These disadvantages include buying into a doctor's reputation. This can be great if their reputation is a good one. However, a buyer may need to work on fixing a problem if the practice has a poor reputation.

Also, there are times when a doctor may not fit in perfectly with the existing staff that comes with the practice, resulting in some hardships. This can be difficult when it comes to interacting with staff and working with them daily.

Lastly, there is a possibility that a buyer might not get what you expected from the practice. Maybe the issues are financial, maybe it's just with the staff but there are unfortunate situations where a buyer may have expected one thing and gotten something else.



What a Seller Should Know

When selling your practice, getting an accurate valuation is critical. This will ensure that you receive the total value of your business. There are a few different ways to value a practice, so working with a professional who can help you determine the most accurate value is essential.

Once you have an accurate valuation, you'll need to find the right buyer. There are many factors to consider when choosing a buyer, such as their financial stability and their plans for the practice. It's important to find a buyer who you feel confident will be able to take over the practice and maintain its success.

Finally, you'll need to negotiate the sale price and terms. This is where having an accurate valuation and a professional practice broker team in your corner will be necessary. You'll want to ensure that you're getting the total value of your business and a smooth transition.

What a Buyer Should Know

First, buyers should ensure that they understand the financials of the practice. Buyers want to make sure they are buying into a practice that will make money, not lose it. They will want to check things like location and patient base. Buyers are looking to make a profit, they need to evaluate the success that can come from owning the practice, and that success comes from being in a good location and having a good patient base. Lastly, buyers need some expert assistance to help navigate their way through the buying process. Most practice brokers surround themselves with a successful team of professionals. Both the buyer and seller can utilize these professionals for smooth due diligence, contract negotiations, closing, and transition processes.

6 Using Advisors to Prepare for the Sale



Marketing the Practice

Your professional practice broker will help in many ways. They will likely begin with an in-depth interview and full valuation. Often your professional broker will engage the assistance of a practice lender to confirm financing options for buyers which will allow you as the seller to cash out of the practice. Once a listing price has been agreed to, the practice broker will confidentially market your practice for sale by listing your practice on broker-only networking websites and to their existing database of buyers. The practice broker assistance continues by fielding buyer inquiries and sorting through the masses to create a short list of qualified buyers. They will subsequently negotiate an acceptable price and facilitate the closing and transition.

Let's look at each step of the process more closely. The main goal of your practice broker is to help you successfully sell your practice confidentiality while allowing you to focus on the operation of your practice during this critical time.

Finding a Buyer

There are a few key ways in which your advisor can help to find a buyer for your practice. First, they can talk to their network of other advisors and brokers to see if anyone has any qualified buyers that might be interested in your practice. Additionally, they can list your practice on various brokerages and marketplaces, which will help to increase its visibility and reach a wider pool of potential buyers. Finally, they can work with you to develop an attractive marketing package that highlights the key selling points of your practice to attract interested buyers.

Showing the Practice

Practice brokers can help show off the practice in several ways. They can highlight the features of the practice that make it unique and appealing to potential buyers.

Additionally, advisors can provide insight into the day-to-day operations of the practice and the financials, which can be helpful in demonstrating the profitability and opportunity of the practice.

Buyer Qualifications

One of the critical ways that your professional practice broker's healthcare advisory team can assist is by assisting with the due diligence process. This includes helping to identify and assess potential risks and liabilities associated with the practice and providing guidance on how to best negotiate any terms and conditions that may be present in the sale agreement. This is for the protection of both the buyer and seller.

The healthcare advisory team can also help ensure that all applicable state and federal laws are being followed throughout the process, which can help protect both the seller and the buyer from potential legal implications.



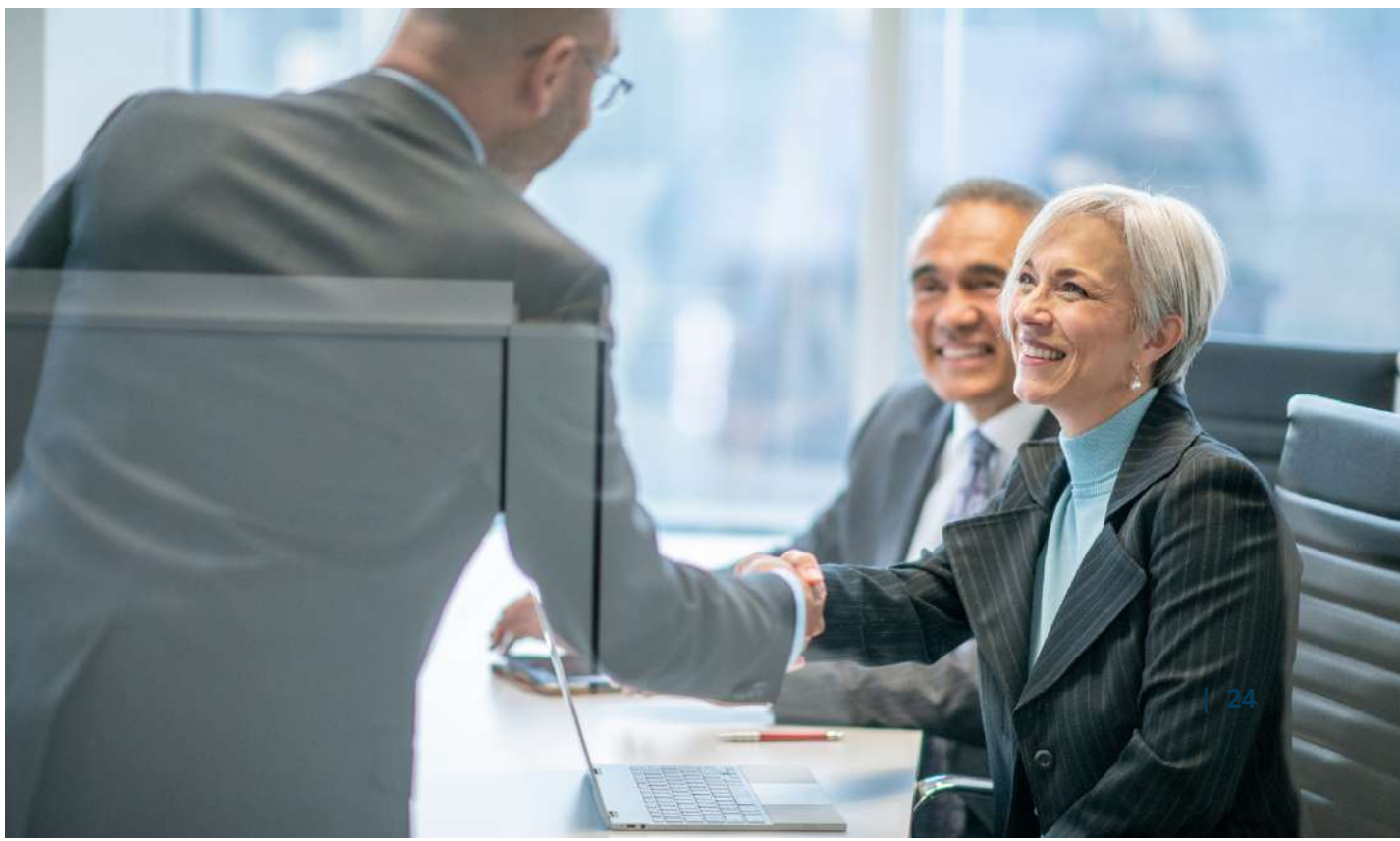
Negotiations

There are several critical ways that a practice broker can help with negotiations in the sale of your practice. They can help identify the key stakeholders on both sides, they can help to assess what each party's interests and objectives are, and they can help to facilitate communication between the parties.

Additionally, the practice broker can provide expert advice on valuing the practice and structuring the deal to maximize value for all parties involved. Ultimately, a practice broker's role is to ensure that the negotiation process is fair and efficient and that all parties involved can reach an agreement that is in their best interests.

HIPAA Implications

If you're selling your practice, you must know the HIPAA implications. Your professional practice broker's healthcare advisory team can help you with this by ensuring that all of your patient's records are properly transferred, and their privacy is protected. They can also help you navigate the often confusing world of insurance reimbursement rates and ensure you get the most for your practice.



7 Tax and Legal Issues



When you're selling your practice, there are a few key tax and legal issues that you need to be aware of. Your healthcare advisory team will likely include legal counsel and/or a practice CPA who can help you navigate these complicated waters and ensure that you comply with all applicable laws.

Legal Documents

One of the critical items that your advisory team can do is help you to prepare all of the necessary legal documents for the sale of your practice. This includes the purchase agreement, the transfer of ownership documents, and other relevant contracts.

Tax Implications

Additionally, your advisory team can help you understand the sale's tax implications and ensure that you're taking advantage of any available tax breaks.



Sales Contract Provisions

Your practice broker and your advisory team's legal counsel can negotiate the terms of the sales contract and confirm that all of the provisions are in your best interests.

Installment Sales (Seller Carry Financing)

An installment sale is a type of purchase arrangement in which the seller agrees to receive payments over time rather than the total purchase price upfront. This arrangement can benefit both the seller and the buyer, as it allows the seller to receive a stream of income over time (including interest) and can provide the buyer with some flexibility in how they finance the purchase.

If you're considering an installment sale, your advisory team can help you to negotiate the terms and ensure that the contract is fair and favorable for all parties involved.



Conclusion

When you're selling your practice, it's essential to have a qualified practice broker and their specialized healthcare advisory team by your side to help you through the process. The entire team will work together to provide you with expert guidance, from due diligence and negotiation to tax and legal issues. Ultimately, their goal is to help you get the most value for your practice and to ensure that the sale goes as smoothly as possible.

First Choice Business Brokers is a full-service business brokerage firm specializing in buying and selling practices. We have a team of experienced certified practice brokers and healthcare advisory team ready to help you through every step of the process. Contact us today to learn more about how we can help you!





FIRST CHOICE BUSINESS BROKERS WESTCHESTER NORTH

📍 169 Mamaroneck Avenue Suite 63, White Plains, New York - 10601

📞 (914) 295-2203

🌐 <https://westchesternorth.fcbb.com/>

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