



CHIROPRACTIC (GENERAL)

Buying or Selling a Practice: Plan Ahead or Roll the Dice

H. William Wolfson, DC, FICC, MS

The purchase or sale of a practice may rank as one of the most difficult decisions someone will endure and face. But does it have to be difficult, stressful and emotional? The answer may lie in the preparation of the inevitable event or lack thereof, and the ensuing journey down a smooth road or one paved with potholes.

Once a decision is made to sell or buy a practice, realistic valuations will help determine a fair price. A checklist of actions to be taken and obstacles to avoid make the process manageable. The proceeds received when a sale results should be prudently managed to ensure the work of a lifetime is preserved and afford you the retirement you have always dreamed of and more.



The sale or purchase of a practice allows a practitioner to plan, organize and achieve finality and profitability. Individuals have a greater chance of becoming disabled versus dying. Practitioners know this, yet many of us fail to plan an exit strategy from practice.

Meet Dr. Retirement

Dr. Retirement has been in practice more than 30 years. Dr. Retirement is the trusted source for patients and answers questions relating to many health concerns. Dr. Retirement has planned and implemented necessary action steps including caring for his own health concerns, financial planning, short- and long-term goals, caring for the family, etc.

Dr. Retirement knows the day of exiting practice is soon approaching. Procedures to ensure a smooth and profitable transition have been discussed with competent and trusted professionals. The decision to bring an associate into the practice with the intent of working alongside Dr. Retirement proves to be a good decision. All legal matters were clearly defined and both individuals agreed to the terms of the contract.

After a period of time, the Dr. Associate became a partial owner of the practice and eventually the owner. Dr. Retirement was able to leave practice, receive fair compensation and know the practice, patients and staff will be well cared for.

In working with Dr. Retirement, Dr. Associate was able to gain a tremendous amount of business and clinical knowledge. The transition allowed Dr. Associate to obtain a practice that affords the ability to pay Dr. Retirement and cover office and personal expenses, as well as plan long-term financial goals. They both win, as did patients, staff and business associates.

Meet Dr. Disabled

As practitioners, we know the chances of developing a disability due to sickness or an accident are

potentially greater than dying. "At no age is the risk of death greater than the risk of becoming disabled." Remarkably, a large cross-section of our populace is under the misconception their likelihood of succumbing to a long-term disability is remote.

As a matter of fact, "Should you suffer a long term disability that lasts 90 days or more, odds are that you will be disabled for more than 3 years." Despite knowing these facts, many practitioners fail to plan for the possibility of a disabling event. If the likelihood of becoming unable to practice becomes a reality, the difficulty of selling a practice becomes all too real.

The lack of any preparation may well translate into a loss of opportunity for the seller and a buying opportunity for the buyer.

Each practice should be analyzed on its own merit for value, profitability, opportunity and continued growth potential. One of the worst scenarios is the death of a practitioner and the family left scrambling to find a suitable buyer. The longer it takes, the greater the value loss to the family.

Planning in either scenario is necessary and can be instituted by the practitioners while still in practice. Consultation with accounting, legal and financial professionals for assistance and guidance is proactive and strongly recommended.

The Process Begins

The decision to sell may include retirement, disability (accident or illness), leaving the practice for personal reasons, death or to pursue other opportunities.

Conversely, the decision to buy may include: a new practitioner wants to avoid the trials and tribulations of beginning a practice from scratch and desires a turnkey operation; an established provider wants to expand practice or open a satellite office; a third-party corporate entity asks the seller to leave or becomes employee/manager of the facility; or perhaps a medical physician wishes to offer similar professional services within their practice with an immediate patient base and indirect benefit to their medical practice with new patients/conditions.

Getting the Word Out

Either party can place "Buy" or "Sell" ads through state and national professional associations, professional college websites, word of mouth, etc. Buyers can mail letters of inquiry to established providers in desired practice areas of their interest and ask if they are contemplating retiring in the near future or willing to offer a buy-in with transition period.

A buyer or seller may enlist (hire) a broker or agent. Working with professionals who are intimately aware and possess experience in the purchase/sale of practices is a smart decision. They may render total or specific predetermined services, and the client should request a non-exclusive agreement that allows for self-purchase or sale of a practice.

Meet & Greet

The prospective buyer must sign both confidentiality and HIPAA business associate agreements. Importantly, effective September 2013, the HIPAA agreement requires expanded responsibilities for signer aligning with facility owner. Discussion and facility inspection should include viewing of equipment noting age, type, condition and whether owned or leased.

Does the office appear dated or updated, clean vs. messy, organized vs. disorganized? Are patient files maintained by computer or manual records? Are procedures and philosophy of patient care

similar or dissimilar? What are patient percentages by type (concentrated or diversified)? What are the sources of new patients via insurance plans, referrals, advertising, family plans, cash plan? (Know your state law.) Significantly, does the buyer participate in the same managed care plans and/ or must they apply for acceptance and inclusion?

[pb]Evaluating Practice Value

The ability for both buyer and seller to remain objective and emotionally detached should not be dismissed or underestimated. There are no set practice valuation formulas, as each transaction is unique, but "rule of thumb" methods may exist, although they are not necessarily accurate.

Accounts receivable is usually included with the sale, but can negotiate inclusion of 90-120 days or less to the buyer. If not working with a broker or agent, contact the Small Business Development Centers or SCORE (both part of SBA) in your area and request to meet with a counselor about this free service.

Obtaining three years of the most recent tax returns and current (at least 2-3 years) personal and business income statements with monthly statistics of new patients, office visits, services rendered and collections is also important.

Staff offers the core stability to an office. What is their longevity? Will they be willing to stay? Overhead analysis includes salaries, rent, payroll taxes, licensing fees, lab fees, utilities, phone, billing service, etc.

Is the seller a corporation or a sole practitioner?

Goodwill and tax ramifications are important to both buyer and seller, as each offers different benefits and should be discussed with a tax professional. Goodwill generally includes but is not limited to:

- Seller contacts with civic or political clubs
- Practitioner presence and office location
- Years in community,
- Engaged and educated patients
- Attorney and other professional contacts
- No Office of Professional Discipline (OPD) or legal difficulties
- Staff longevity
- Anticipated transition time
- Diversified or concentrated patient base
- Office website, trademark and phone number, etc.

Costs

Costs may include the following: analysis of presented business data by an accountant familiar with professional practices, a broker or independent agent skilled and knowledgeable about professional buy and sell agreements, as well as an attorney offering legal representation, who is experienced with professional practices and HIPAA regulations resulting in a contract.

Financing Purchase

A down payment may be financed through a bank, SBA, credit union or pri-vate funds. Will the seller hold the note, and if so, at what percentage rate and for what time period? Will the buyer purchase the practice outright?

Legal Concerns

Is the seller a corporation (C corp., S corp., LLC, LLP, PC, PA, etc.) or individual filer? Will the seller retain debt (i.e., leased equipment) or will it be purchased from the seller? Clearly define restrictive covenant and non-compete terms, i.e., urban, suburban or rural to determine mileage.

In the event of buyer default, what constitutes seller remediation or action steps to protect and regain the practice with minimal patient attrition and value loss?

Sale Imminent & Closing

The buyer should shadow the seller in the office for a week (or even longer) to observe the clinic in full work mode. Inform the staff of the transition at least two to three weeks or more before final sale.

The buyer should meet with staff as a group and individually to discuss concerns. Inform patients of the transition and the buyer should meet patients with the seller present and review each patient's specific needs.

Importance of Planning

The seller can experience a smooth transition and maximize the selling price. The seller should be able to allocate income from the sale and apply it to current expenses, or save and invest long term. The buyer receives maximum value for the purchase with an immediate income stream and the opportunity to grow the practice and add additional revenue sources with expanded or added services.

The opportunity to practice is both an earned right (license) and a privilege (ability to perform services). As practitioners become profitable in practice, realizing goals may be met with prudent and fiduciary financial planning.

The necessity of this valuable service becomes evident and increasingly important. No one knows for sure what is in store for any of us. This unknown should be dealt with proactively and with objective evaluations to ensure success. This is one important action step providers should consider and implement.

Resources

1. www.affordableinsuranceprotection.com/death_vs_disability
2. Council for Disability Awareness, Disability Divide Consumer Disability Awareness Study, 2010.
3. www.about-disability-insurance.com/facts.html.
4. www.disabilitycanhappen.org/chances_disability/disability_stats.asp.
5. www.disabilitycanhappen.org/research/CDA_LTD_Claims_Survey_2013.asp.
6. Due Diligence - A Must-Do Process When Buying a Business
<http://blog.certifiedbb.com/2010/01/performing-due-diligence-when-buying.html>.
7. The 2008 prevalence of chiropractic use in the US adult population. Zodet MW, Stevans JM. J Manipulative Physiol Ther. 2012 Oct;35(8):580-8. doi:10.1016/j.jmpt.2012.10.001.
www.ncbi.nlm.nih.gov/pubmed/23158463.
8. Chiropractic Care in the US to Reach US\$12.53 Billion by 2015, According to New Report by Global Industry Analysts, Inc.
www.prweb.com/releases/chiropractic_care/chiropractors/prweb4209314.htm.
9. Exit Strategy www.acatoday.org/content_css.cfm?CID=3949.
10. Small Business Development Centers (SBDC)

www.sba.gov/content/small-business-development-centers-sbdcs.

11. SCORE www.sba.gov/content/score.
12. Selling Your Business??? Business Goodwill/Personal Goodwill
www.thebusinesslawyers.com/BBL_News_Articles/BUSINESS%20GOODWILL.pdf.
13. Buying a Business - What is the Value of Goodwill for a Buyer?
<http://blog.certifiedbb.com/2011/01/buying-business-what-is-value-of.html>.