Exit strategies and planning for the future

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What a different world today. No one could have ever expected these conditions in 2021, and your thoughts about how you want to conclude your professional career has more relevance than ever. You have many options to choose from, but how do you choose the right one for you?

Several options are:

- Bring on an associate to sell to in the future.
- Outright sale to another doctor.
- Merge into another practice.
- Sell to a venture capital group.
- Outright retire.

During your time in practice, you have acquired many patients and assets and spent countless hundreds of thousands, if not millions, of dollars. This all has value, but how do you determine that value?

That's the million-dollar question because it may not be worth what you think. You must be prepared to have a proper evaluation and valuation of your practice. So, what's the difference?

Evaluation vs. valuation

Evaluation is the process of evaluating the entire practice's policies, procedures and protocols, analytics, human resources, practice objectives as well as current and future business plans.

Valuation is the financial worth contingent on the past and current earnings, capital equipment/assets, tangible assets, real estate and multiples of gross or net. This also can be determined on multiples of EBITA – the financial term defined as earnings before interest, taxes and depreciation.

First, remember you have a business to sell and everything that goes along with it. While you are thinking about all your options, you must consider estate planning so all your assets will be protected before your retirement – or worse, a physical or mental disability – or even worse, your premature demise. Hopefully, your asset protection is in order or close to it, and the next steps are to plan for your practice's future.

Why are you considering selling your practice?

- It's just time to retire.
- You're physically unable to continue to practice (disability).
- It's no longer in your best financial interest.
- You're tired of running your own business.

continued on next page

- You want to relocate to another area and spend time with your children or grandchildren.
- You want to spend more time on leisure activities.

If you plan to close your practice, planning is minimal. Seven basic steps for this scenario are:

- Formally institute estate plans.
- Set a date to formally close your practice.
- Ensure all your current and future contractual and financial obligations are met.
- Plan for storage or custody of your patients' charts.
- Give your patients formal notification.
- Find another practitioner willing to treat your patients.
- Resign from any hospitals you have privileges with.

A presentation by Nicholas Newsad, Managing Partner of Healthcare Transaction Advisors, and sponsored by The Law Offices of Jeff Cohen, PA (Florida Healthcare Law Firm), advised of three basic requirements of a transaction:

- **Rule 1** – To have a transaction, you must have a willing and able buyer and a willing and able seller.
- **Rule 2** – To have a transaction, you must agree on a price.
- **Rule 3** – Be brutally honest upfront because everything will be revealed during the due diligence stage.

Structuring the deal

One step at a time – do you have a prospective buyer? Remember, risks revolve around how you make your decision public because you don't want to alarm your staff into looking for another job before you have a new buyer. Do you have a plan for how to possibly recruit the new buyer?

When you have decided to make your intentions formally known, it might be best to involve a transactional broker, practice management consultant and even your tax advisors and attorneys. Ensure these advisors are knowledgeable in the sale of medical and dental practices. Some states require a transactional broker be licensed as an appraiser because the sale constitutes "real tangible property" and may include real estate property. One of the most important parts of the equation is who may purchase a practice in your state.

Corporate practice of medicine laws require corporations created to employ doctors in an outpatient clinic to be incorporated under the state's professional service corporate laws. The laws also require all providers of medical and dental services to be licensed.

Other states allow for institutional or corporate venture capital investors to be allowed to purchase a dental or medical practice. Workarounds to these rules include having a management service organization govern the sale of the assets.

Many legal processes along the way include transactional agreements, tax consequences due to how the transaction is broken up and the termination of some existing contractual agreements, which may involve financial penalties. Remember, most of you were working "in" your practice all these years and may not have been involved with working "on" your practice.

Practice or assets

Now you have to decide if you are going to sell your practice or just its assets. What's the difference? One is a "stock sale," which is everything in the practice, including the name, assets and liabilities. The practice may have potential liabilities associated with it, and a purchaser may not want to assume current or potential legal ramifications.

Next, for an asset purchase, you are selling only the tangible and intangible assets for a defined price. You have tax advantages to sell the assets because you can take advantage of capital gains vs. ordinary income. What you paid is usually higher than what you sold for, so this minimizes the profit and may possibly reduce your tax consequences.

If your intent is to possibly sell your practice to a junior partner or associate, Cohen explained two typical ways to pay for a practice: 1) on a pre-tax basis or 2) on a post-tax basis.

Employed doctors who become owners of an OMS practice are often familiar with pre-tax purchases because they have a portion of their salaries or bonuses applied to the purchase price instead of obtaining the income, paying tax on it and then writing the seller a check. Sellers usually favor being paid with the buyer's after-tax dollars but often compromise and agree to accept at least a portion of the purchase price on a pre-tax basis via a sort of compensation offset.

If you are planning to sell your practice, determine the real value before attempting to sell it. Many doctors have the mindset the value of their practice is higher than it actually is. You need to determine what creates value because you will no longer be the one your patients know, love and trust. Your name, skills and reputation have created the most value over the years and now will be gone. If you personally generated the revenue, once you are gone, the value of your practice is greatly diminished.

Your practice's true value

Several years ago, you could place a value between a multiple of 1-3 times gross revenue. That may no longer be the case, as averages have generated between 0.75-1.5 times gross revenue.

What has value? Take a look from a buyer's eyes for purchasing a practice because that's what matters. Value is only a perception of what someone is willing to pay. Current tangible assets, real estate, along with current and future revenue/profit potential, are key ingredients to the sale process. Sometimes, the profit your practice has generated is lumped into the doctor's salary and classified as an expense, thereby diminishing the real value.

It is extremely important your financial statements reflect the true accounting of your practice. More often in a family business, expenses do not reflect the true net. If your spouse has a cellphone, a company vehicle or home-related expenses, these need to be accounted for in a proper manner. While you are still practicing, it may not matter. However, it matters most when a third party as a prospective buyer sees the balance sheet.

These are the five most important assets and create the most value to a prospective buyer:

- **Capital equipment** – These are your physical assets, which have diminishing value the longer you hold onto them. You have probably depreciated them to the fullest. However, they still hold value to a buyer because they can possibly generate revenue.
- **Website (current and optimized)** – Your website, when properly optimized, has quite a bit of value because it can be a continuous means of generating patient prospects. Ensure you continue search engine optimization (SEO) until the very end.
- **Domain name (URL)** – This electronic address will direct new patient prospects to the new buyer. A catch name and website address serve as your brand recognition. Do not let your URL expire because the cost of renewal can be expensive.
- **Electronic Medical Records/Practice Management System (EMRs/PM)** – Your EMRs/PM is a main source of electronic transmission of data and patient information inclusive of all patient medical history and financial

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records. This is an extremely valuable asset. Do not let ongoing technical support expire because it can ultimately render the value worthless.

- **Real estate property** – Location, location, location. Of course, this is valuable in any business, and healthcare is no different.

What to do next

- **Trim variable expenses** – Wherever possible, reduce unnecessary expenses. Review all ongoing charges that may have been overlooked. Minimize ordering of office supplies and keep them to minimum-par levels to balance your inventory. Sell whatever capital equipment that is no longer generating revenue.
- **Renegotiate contracts wherever possible** – If you have ongoing pre-negotiated contractual agreements, see if your vendor will renegotiate an early payout, reduce your interest expenses or even find a buyer for your equipment if you are not generating substantial revenue to support your investment of monthly payments.
- **Minimize accounts receivable** – Try to offer discounts to patients who have high balances. You might consider selling your receivables to a broker for percentages of the dollar to increase your cash flow. You must reduce your aging balances.
- **Reduce payroll** – When employees are no longer performing to their maximum potential, it becomes time to trim your human resources. It costs more than their hourly wages – the added costs of employer taxes and benefits decrease your profitability.

In conclusion, each scenario is quite different. Each specialty has its own perceived values, and all the mentioned factors will certainly play a role in your final decision-making process. Remember, do not be afraid to seek outside assistance from colleagues, business consultants, attorneys and tax advisors. ■

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This is number 179 in a series of articles on practice management and marketing for oral and maxillofacial surgeons developed under the auspices of the Committee on Practice Management and Professional Staff Development and AAOMS staff. Practice Management Notes from 2002 to present are available online at AAOMS.org.