How much is your Clinic Worth?

Business acquisition and merger specialists say it take two years to prepare a business for a sale. If you plan on retiring and getting top dollar for your years of sweat equity then do not leave this to the last minute. Even if you do not plan to sell your company in the immediate future, you should run your business by working to make it “attractive” financially to ensure sustainability and fiscal responsibility.

Values
There are three ways of valuing a business:
1. Book Value: Value based on financial statements
2. Market Value: What a buyer will pay to take over the clinic as is.
3. Strategic Value: What a motivated buyer will pay. This buyer will likely have a plan and a means to significantly increase profit beyond its current profits.

Positioning your business for sale means that you are trying to maximize the strategic value for a buyer.

Valuation Formulas
There are many formulas that can be used to value a clinic. The reality is that a clinic is really only worth what a buyer will pay for it. It is standard to expect to pay off a business purchase with business profit in three to five years. Physiotherapy practices have assets such as equipment, accounts receivable, and leaseholds but most of the value is in the form of Goodwill or intangible assets. This can also be viewed as the value placed on the likelihood of the business continuing on as a going concern as it has in the past. For example if the prediction is that the caseload will drop following a sale then the goodwill value decreases. It is very difficult sometimes to put a value on goodwill so having a formula as a starting point is helpful. Below are just three suggestions.
1. Multiple of EBITDA: 3-5 times earnings before interest, tax, depreciation, and amortization
2. 6 months gross billing plus assets minus liabilities
3. 12 month net take home for the owner (includes professional income, management income, and profit) plus assets minus liabilities

Factors that may increase the value of the business and the goodwill:
1. Many years left on the lease with no pending price increase
2. Many revenue streams. A practice with a primary income from Physiotherapy services with additional income from products, orthotics, massage therapy and other health disciplines.
3. Many referral sources. Clinics with many physician referrals are at lower risk if the doctor may decide to move, retire, or change referral patterns.
4. Multiple locations. Businesses that have multiple locations tend to have more stability due to increase revenue, economies of scale, flexibility with HR, etc.
5. Experienced management. The longer the seller stays on providing management services past the transition the higher the likelihood of the business maintain its current targets.

6. New equipment. Physiotherapy equipment is expensive to purchase and repair. Practices with new equipment do not need anticipate this additional expense.

Normalizing Financial Statements
It is important to normalize your financial statements to be able to be very transparent to the buyer so they can see the true value of the company. This means that there are no hidden shareholder expenses put through the company and that they can be taken at face value with little interpretation. This could include:

1. Notes about any expense that were high or low for the daily operations of a clinic. Examples would be legal expenses for lease review or acquisitions or one time expense such as equipment purchase

2. Profit is typically kept low by ensuring that management provided by the shareholders/directors is paid out to what is maximally reasonable. Therefore when assessing the profit of the business for valuation purposes management salary should be separated out as an expense as it may be income for the new owner. A discussion about how management is paid and what responsibilities are included is important to determine the cost of delegating this job to an employee.

3. A consideration must be made to the replacement value of the leasehold improvements and the equipment as these fixed assets are amortized quickly off of the financial statements and their book value does not reflect their replacement value.

The above information is only from my personal experience buying and selling several Physiotherapy practices in Alberta. For additional information I have found the newsletter at www.martinacq.com very useful. In addition, the Private Practice Section of the American Physical Therapy Association at www.ppsapta.org sells a book called “The Valuation of Physical Therapy Practice”. Beyond the scope of the above article but useful to understand is “positioning your practice for sale” and “the acquisition process”. Both of the above resources contain information on these topics.

- Submitted by Wendy Neidhardt, Chair, Private Practice Division, CPA

This article was reproduced with permission from the Private Practice Division Newsletter, which is produced by the Canadian Physiotherapy Association. The goal of this division is to act as a forum for discussion and a resource on business management topics relevant to private practice physiotherapy. To join the Private Practice Division, go to the CPA website (www.Physiotherapy.ca) and follow the links to Divisions.