What Is My Practice Worth; How Should It Be Valued?

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One of the most common questions that doctors ask is: what is my practice worth?

This is an understandable question; but, unfortunately, the answer is rarely a good one. The market is fraught with misinformation. The most common "urban myth" is that your practice is worth 60% or 70% of revenue. This is commonly known as a "revenue multiple" approach. Allow me to demonstrate the fallacy of this, so-called, method of valuation.

Let's say that we have two practices. Each is producing $1,000,000 of revenue. Each has the same size facility, nicely furnished and equipped. Each has a great team and patient base. Each is valued at 60%, or $600,000.

Now, let me introduce a couple of new facts: one practice has overhead of 60% and the other has overhead of 80%. In other words, one practice is 40% profitable and the other is 20% profitable.

Which practice would you rather purchase?

Obviously, you would buy the practice that is 40% profitable.

And yet, this is how most practices are valued. Why?

The reason is that most practices are valued by *brokers*; who use this shorthand approach to "valuation". Often the revenue multiple will be as high as 70-80%. This is understandable; since the broker's commission is 10% of the sale price; which, of course, is based on the "valuation".

Needless to say, one of the major reasons why brokered deals fail, is that the buying doctor is suspicious of the valuation (and rightly so).

The only proper way to value a practice is objectively and by the standards of a qualified Accredited Senior Appraiser (ASA). These valuation specialists are governed by the American Society of Appraisers and use guidelines of the Uniform Standards of Professional Appraisal Practice (USPAP). An ASA is prohibited from producing a valuation for a deal in which their compensation is based on that value (or purchase price). They must, by definition, be objective.

This is the only way that we do practice valuations. It fits with our mission of representing the *deal* and not any one doctor.

We also perform an analysis, called a Purchase Feasibility Analysis (PFA). This analysis shows the purchasing doctor, in a clear and conservative way, whether he/she will be able to finance and afford the transaction. It also shows the selling doctor how the sale (especially in the case of a partnership buy-in) will affect the selling doctor's income.