

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. Allow me to demonstrate the fallacy of this, so-called, valuation method.

Let’s say that we have two practices. Each is producing \$1,000,000 of revenue. Each has the same size facility. Each is 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 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, both practices are valued at \$600,000.

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 natural; since the sales commission is usually calculated as 10% of the sale price.

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

We see practices whose valuations end up at 40% and 90% of revenue. The determining factor is not some random “rule of thumb” approach as described above. Value is driven by a number of factors; but most importantly: profit and revenue.

The only proper way to value a practice is by the standards of a qualified valuation specialist, such as a Certified Mergers & Acquisitions Analyst (CM&AA), Accredited Senior Appraiser (ASA), or a Chartered Financial Analyst (CFA)). These valuation specialists use the Uniform Standards of Professional Appraisal Practice (USPAP). These professionals are prohibited from basing their compensation (e.g. commission), in any way, on the valuation conclusion. They must, by definition, be objective.

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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.