

On behalf of Vision Expo, we sincerely thank you for being with us this year.

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We have eliminated all paper session evaluation forms. Please be sure to complete your electronic session evaluations online when you login to request your CE Letter for each course you attended! Your feedback is important to us as our Education Planning Committee considers content and speakers for future meetings to provide you with the best education possible.



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A Tale of Three Practices

and how different buyers would value them

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Learning Objectives



1. Understand the "basic theory" of practice valuation
2. Know the landmines to look for when evaluating a practice for purchase
3. Have a checklist for preparing a practice for sale

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Practice #1



- Small, solo doc practice
- 2-3 staff members
- Open 3-4 days per week
- <\$500,000 collected revenues
- Older technology
- Small patient base

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Practice #2



- Single owner practice
- Medium, multi-doctor practice
- Open 6-9 doctor days per week
- >\$1,500,000 collected revenues
- Some specialized patient care
- Spouse is office manager

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Practice #3



- Multi-owner practice
- Large, multi-doctor practice
- Open 15+ doctor days per week
- >\$3,000,000 collected revenues
- Multi-specialty patient care
- Owns practice real estate

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Practice Valuation Theory



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What is a practice worth?

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What is a practice worth?



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Common Valuation Methodologies

1. Benefit Stream Model (Adjusted EBITDA)

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Common Valuation Methodologies

1. Benefit Stream Model (Adjusted EBITDA)
2. Discounted Cash Flows

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Common Valuation Methodologies

1. Benefit Stream Model (Adjusted EBITDA)
2. Discounted Cash Flows
3. Market Transaction Method

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Common Valuation Methodologies

1. Benefit Stream Model (Adjusted EBITDA)
2. Discounted Cash Flows
3. Market Transaction Method
4. Asset Approach

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Common Valuation Methodologies

1. Benefit Stream Model (Adjusted EBITDA)
2. Discounted Cash Flows
3. Market Transaction Method (% of Collected Revenues)
4. Asset Approach
5. Debt Service Model

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Benefit Stream Model

1. Calculate owner benefit
2. Make appropriate adjustments
3. Apply a multiplier



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Owner Benefit (EBITDA)

Owner W2 Income
 + Family Salaries
 + Net Income of Practice
 - Depreciation & Amortization
 - Interest Expense
 = EBITDA

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Adjustments to EBITDA

Common Adjustments
 Replacement wage for owner patient care
 Adjustments to rent
 EMR fees if paper charts
 Cell phone charges
 Travel & Entertainment
 Fair market wages for staff

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Adjustments to EBITDA

- | | |
|---|---|
| Common Adjustments | Advanced Adjustments |
| <ul style="list-style-type: none"> Replacement wage for owner patient care Adjustments to rent EMR fees if paper charts Cell phone charges Travel & Entertainment Fair market wages for staff | <ul style="list-style-type: none"> Staff reduction Lab fees Specialty services Virtual help Additional doctor capacity |

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Applying a multiplier



- 3 - 5x Adjusted EBITDA for private practices
- 5 - 7x Adjusted EBITDA for corporate buyers

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Discounted Cash Flows

	Year 1	Year 2	Year 3	Year 4	Year 5	Capitalized Income
EBITDA	\$202,664	\$216,387	\$247,444	\$285,759	\$387,877	
Increase in Working Capital	\$12,975	\$14,921	\$16,712	\$18,849	\$18,951	
Principal Payments	\$43,538	\$76,264	\$64,670	\$50,849	\$46,513	
Pre-tax Cash Flow	\$146,021	\$145,044	\$197,476	\$252,761	\$359,314	\$412,927
Capitalization Rate						0.2500
Capitalized Future Earnings						\$1,912,387
Discount Rate	0.8805	0.6825	0.5291	0.4101	0.3179	0.1872
Present Value	\$127,175	\$100,074	\$104,580	\$104,304	\$115,967	\$36,722
Present Value in Perpetuity						\$36,722
Present Value of the first 5 years						\$899,300
FAIR MARKET VALUE						\$1,115,812

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Market Transaction Method

Collected revenues
 x .55% to 75% multiple
 = Value of practice

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Debt Service Model

Owner Benefit (Adjusted EBITDA)
 - Debt Servicing
 = **Is this worth the risk and expected benefit?**

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Case Studies



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Practice #1- small solo doc

Key Facts
 3 days of patient care / week
 2 staff members
 Booked out ~1.5 weeks
 Older equipment
 Last refresh 2003

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Practice #1- % of revenues

Collected revenues
 x .55% to 75% multiple
 = Value of practice

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Practice #1- % of revenues

Collected revenues
 x .55% to 75% multiple
 = Value of practice

CALENDAR YEAR		2021	2022	2023
Collected Revenues		\$376,950	\$380,585	\$405,310
Low End Range	55%	\$207,323	\$208,322	\$222,921
Middle Range	65%	\$245,018	\$247,380	\$263,452
Upper Range	75%	\$282,713	\$285,439	\$303,083
Estimated Value	55%	\$207,323	\$209,322	\$222,921

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Practice #1- adjusted EBITDA

Owner W2 Income
 + Family Salaries
 + Net Income of Practice
 - Depreciation & Amortization
 - Interest Expense
 - +/- Other Adjustments
 = Adjusted EBITDA

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Practice #1- adjusted EBITDA

CALENDAR YEAR		2022
Owner's Production		\$380,585
Net Income		\$21,950
Doctor's Salary		\$38,600
Replacement Care	(16%)	-\$60,894
Addback Owner Expenses		\$59,992
Addback Depreciation/Amortization		\$22,350
Addback Interest Expense		
Adjusted EBITDA		\$81,998
3x times EBITDA		\$245,995

Owner W2 Income
 + Family Salaries
 + Net Income of Practice
 - Depreciation & Amortization
 - Interest Expense
 - +/- Other Adjustments
 = Adjusted EBITDA

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Practice #1- debt service model

Adjusted EBITDA
 - Debt Servicing
 = Worth It?

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Practice #1- debt service model

Enter Values

Loan amount	\$277,658.48
Annual interest rate	6.00%
Loan period in years	5.0
Number of payments per year	12
Start date of loan	9/5/2023

Loan Summary

Scheduled payment	\$7,527.48
Scheduled number of payments	120
Actual number of payments	11
Total early payments	\$0.00
Total Interest	\$11,046.15

Annual Payment **\$80,930**

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Practice #1- debt service model

Adjusted EBITDA
- Debt Servicing ___
= Worth It?

Purchase Price of \$277,000	
Consideration	Amount
Owner Benefit (Adjusted EBITDA)	\$81,998
Note Payment	\$36,991
Remaining Owner Benefit	\$45,007

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Practice #1- small solo doc

Key Facts

- 3 days of patient care / week
- 2 staff members
- Booked out ~1.5 weeks
- Older equipment
- Last refresh 2003

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Practice #1

SALES	EBITDA	DEBT
\$210K	\$245K	\$45K
✓	✓	✗

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Practice #2- medium multi-doc

Key Facts

- 8 days of patient care / week
- Owner wants to retire
- 2 locations | owner owned | rent over FMV
- Larger patient base
- Rural-ish locations

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Practice #2- % of revenues

CALENDAR YEAR	2019	2020	2021	2022
Collected Revenues	\$915,000	\$518,191	\$1,020,000	\$1,030,000
Low End Range	55%	\$503,250	\$285,005	\$561,000
Middle Range	65%	\$594,750	\$336,824	\$669,500
Upper Range	75%	\$686,250	\$388,643	\$772,500
Estimated Value	65%	\$594,750	\$285,005	\$561,000

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Practice #2- adjusted EBITDA

CALENDAR YEAR	2022
Owner's Production	\$515,000
Net Income	\$6,150
Owner Pay	\$57,800
Replacement Care (16%)	-\$82,400
Addback Owner Expenses	\$76,560
Addback Excess Rent	\$31,500
Addback Depreciation/Amortization	\$30,800
Addback Interest Expense	\$9,146
Adjusted EBITDA	\$129,556
4x times EBITDA	\$518,224

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Practice #2- adjusted EBITDA

CALENDAR YEAR	2022
Owner's Production	\$515,000
Net Income	\$6,150
Owner Pay	\$57,800
Replacement Care (16%)	-\$82,400
Addback Owner Expenses	\$76,560
Addback Excess Rent	\$31,500
Addback Depreciation/Amortization	\$30,800
Addback Interest Expense	\$9,146
Adjusted EBITDA	\$129,556
4x times EBITDA	\$518,224

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CALENDAR YEAR	2022
Subtract Extra Doctor Pay 2%	-\$10,300
Addback Lab Scale	\$4,300
Addback Medical Billing	\$28,000
Addback Office Rent	\$32,000
Adjusted EBITDA	\$183,556
4x times EBITDA	\$734,224

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Practice #2- debt service model

Enter Values		Loan Summary	
Loan amount	\$630,000.00	Scheduled payment	\$6,994.29
Annual interest rate	6.00%	Scheduled number of payments	120
Loan period in years	10	Actual number of payments	11
Number of payments per year	12	Total early payments	\$0.00
Start date of loan	9/5/2023	Total interest	\$30,623.60

Annual Payment **\$83,911**

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Practice #2- debt service model

Purchase Price of \$630,000	
Consideration	Amount
Owner Benefits (Adjusted EBITDA)	\$183,556
Note Payment	\$83,911
Remaining Owner Benefits	\$99,625

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Practice #2

SALES	EBITDA	DEBT
\$566K	\$630K	\$100K
✓	✓	✓

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Practice #3- large practice

Key Facts
3 full time, 1 part time doctor
Owner is part time
1 location ; 7 lanes
Husband is office manager
Kids are on payroll

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Practice #3- % of revenues

CALENDAR YEAR		2021	2022
Collected Revenues		\$3,100,000	\$3,450,000
Low End Range	55%	\$1,705,000	\$1,897,500
Middle Range	65%	\$2,015,000	\$2,242,500
Upper Range	75%	\$2,325,000	\$2,587,500
Estimated Value	75%	\$1,705,000	\$1,897,500

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Practice #3- adjusted EBITDA

CALENDAR YEAR	2022
Owner's Production	\$860,000
Net Income	\$420,415
Owner Pay	\$105,404
Replacement Care (16%)	-\$137,600
Addback Family Income	\$44,500
Subtract Office Manager Replacement	\$55,000
Addback Owner Expenses	\$29,855
Addback Depreciation(Amortization)	\$63,000
Addback Interest Expense	\$15,460
Adjusted EBITDA	\$482,034
4x Times EBITDA	\$2,410,170

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Practice #3- debt service model

Enter Values

Loan amount	\$2,400,000.00
Annual interest rate	6.00%
Loan period in years	10
Number of payments per year	12
Start date of loan	9/5/2023

Loan Summary

Scheduled payment	\$26,644.92
Scheduled number of payments	120
Actual number of payments	11
Total early payments	\$0.00
Total interest	\$186,660.57

Annual Payment **\$819,739**

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Practice #3- debt service model

Purchase Price of \$2,400,000	
Consideration	Amount
Owner Benefit (Adjusted EBITDA)	\$482,000
Note Payment	-\$320,000
Remaining Owner Benefit	\$162,000

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Practice #3

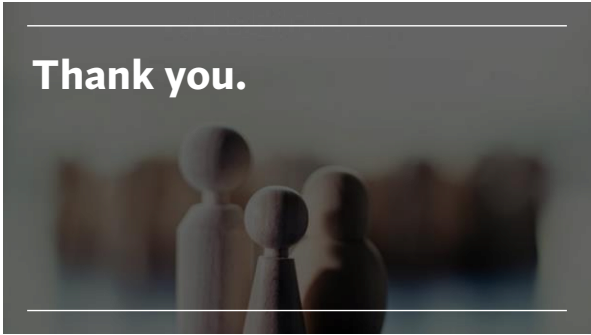
SALES	EBITDA	DEBT
\$1.9m	\$2.4m	\$163K
✓	✓	✓

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Due Diligence

- P&L and Balance Sheet (3 Years)
- Tax Returns (3 Years)
- Lease Agreement (rate, months)
- Employee Demographics (role, tenure)
- Exam Counts (3 Years)
- FF&E (age, value)
- Inventory (frames, contact lenses)
- Fee Schedule
- Job Descriptions, SOPs
- Special Arrangements

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