Retiring, Buying, or Selling a Medical Practice

AAO
June 23, 2022

Presented By:
Debra Phairas
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Today's Webinar Presenter

Debra Phairas
President
Practice & Liability Consultants, LLC
Financial Disclosures

I have no disclosures to report
A Few Housekeeping Items…

• Questions will be answered after the presentation has concluded.
• Enter your questions into the Q&A feature and not the chat.
• Use the upvote feature in the Q&A if your question has already been asked.
• The webinar recording and slide deck will be available here within the next few days: https://www.aao.org/practice-management/resources/videos
33% of medical practices had physicians retire early or leave due to burnout in 2021.
29 physician specialties ranked by 2021 burnout rates - Medscape

<table>
<thead>
<tr>
<th>Rank</th>
<th>Specialty</th>
<th>Burnout Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Emergency medicine</td>
<td>60 percent</td>
</tr>
<tr>
<td>2</td>
<td>Critical care</td>
<td>56 percent</td>
</tr>
<tr>
<td>3</td>
<td>Obstetrics and gynecology</td>
<td>44 percent</td>
</tr>
<tr>
<td>4</td>
<td>Infectious diseases</td>
<td>51 percent</td>
</tr>
<tr>
<td>5</td>
<td>Family medicine</td>
<td>51 percent</td>
</tr>
<tr>
<td>6</td>
<td>Physical medicine and Rehabilitation</td>
<td>50 percent</td>
</tr>
<tr>
<td>7</td>
<td>Diabetes and endocrinology</td>
<td>50 percent</td>
</tr>
<tr>
<td>8</td>
<td>Radiology</td>
<td>49 percent</td>
</tr>
<tr>
<td>9</td>
<td>Pediatrics</td>
<td>49 percent</td>
</tr>
<tr>
<td>10</td>
<td>Pulmonary medicine</td>
<td>48 percent</td>
</tr>
<tr>
<td>11</td>
<td>Gastroenterology</td>
<td>48 percent</td>
</tr>
<tr>
<td>12</td>
<td>Internal medicine</td>
<td>48 percent</td>
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<tr>
<td>13</td>
<td>Urology</td>
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<tr>
<td>14</td>
<td>Anesthesiology</td>
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<tr>
<td>15</td>
<td>Rheumatology</td>
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<tr>
<td>16</td>
<td>Neurology</td>
<td>46 percent</td>
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<tr>
<td>17</td>
<td>General surgery</td>
<td>44 percent</td>
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<tr>
<td>18</td>
<td>Cardiology</td>
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<tr>
<td>19</td>
<td>Allergy and immunology</td>
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<td>37 percent</td>
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<tr>
<td>25</td>
<td>Orthopedics</td>
<td>37 percent</td>
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<tr>
<td>26</td>
<td>Oncology</td>
<td>36 percent</td>
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<tr>
<td>27</td>
<td>Pathology</td>
<td>35 percent</td>
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<tr>
<td>28</td>
<td>Dermatology</td>
<td>33 percent</td>
</tr>
<tr>
<td>29</td>
<td>Public health and preventive medicine</td>
<td>26 percent</td>
</tr>
</tbody>
</table>
Feeling like this?
EXPERT FINANCIAL ADVICE
INVESTMENTS TO AVOID
$1.00
Planning now will avoid this scenario:

- You have devoted long years to a practice
- You are physically ready to retire
- You want to retire, but you cannot afford to.
The Senior Physician

Why slow down when you are having fun???????
"I'd like him checked for an earning disability."
DO YOU KNOW WHEN IT’S TIME TO GO?

Baby boomer business owners are now reaching retirement age. But will they go? Wealth management execs like Susan Dickson say for their clients, it’s a decision that involves a lot more than money.

MARK CALVEY, PAGES 4-5

BAY AREA GRAY AREA:

When it’s time to leave it all behind

Baby boomer founders and owners of professional firms are moving to— or beyond— retirement age. Some are not prepared to go quietly.

San Francisco Business Times
March 16, 2018
CLAIMS Rx
CLINICAL & RISK MANAGEMENT PERSPECTIVES

INSIDE
LATE-CAREER PHYSICIANS: ETHICAL CONSIDERATIONS AND PATIENT SAFETY STRATEGIES
Physician retirement
• “Physicians spend all day talking to patients,” Good says. “My friends who have retired do report loneliness and isolation and those considering [retirement] note it is a concern.”

• In the study, 51% of respondents said that still working occasionally or part-time is part of their ideal retirement plans.
The Maven Project

Laurie Green keeps retired doctors working with health clinics for needy
SF Chronicle  By Erin Allday  February 17, 2018 Updated: February 17, 2018 1:32pm

Connects volunteer physicians, most of them retired or nearly so, with health clinics that serve patients who may not have access to expert specialty care. Green describes it as "Match.com meets the Peace Corps."
The best (and worst) places for doctors to retire
Top five retirement locations for affordability

5) Memphis, TN
4) Knoxville, TN
3) Mobile, AL
2) Montgomery, AL
1) Fort Smith, AR
Top five retirement locations for activities

5) Honolulu, HI
4) San Francisco, CA
3) Cincinnati, OH
2) Minneapolis, MN
1) Washington, DC
Top five retirement locations for quality of life

5) Glendale, CA
4) Madison, WI
3) Honolulu, HI
2) Scottsdale, AZ
1) Fremont, CA
Top five retirement locations for health care

5) Columbia, MD
4) Juneau, AK
3) Sioux Falls, SD
2) Burlington, VT
1) South Burlington, VT
Ten worst places to retire (ranked by overall score)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Location</th>
<th>Score</th>
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<tr>
<td>173)</td>
<td>Arlington, TX</td>
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<td>174)</td>
<td>Jersey City, NJ</td>
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<td>175)</td>
<td>Detroit, MI</td>
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<tr>
<td>176)</td>
<td>Vancouver, WA</td>
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<tr>
<td>177)</td>
<td>Wichita, KS</td>
<td>40.56</td>
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Ten worst places to retire, cont’d

<table>
<thead>
<tr>
<th>Rank</th>
<th>City and State</th>
<th>Score</th>
</tr>
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<tbody>
<tr>
<td>178)</td>
<td>Rancho Cucamonga, CA</td>
<td>40.54</td>
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<tr>
<td>179)</td>
<td>Spokane, WA</td>
<td>40.23</td>
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<tr>
<td>180)</td>
<td>Bridgeport, CT</td>
<td>39.34</td>
</tr>
<tr>
<td>181)</td>
<td>Newark, NJ</td>
<td>38.53</td>
</tr>
<tr>
<td>182)</td>
<td>San Bernardino, CA</td>
<td>37.55</td>
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</table>
Ten best places to retire, ranked by overall score

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>10)</td>
<td>Atlanta, CA</td>
<td>58.04</td>
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<td>9)</td>
<td>Miami, FL</td>
<td>58.05</td>
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<td>8)</td>
<td>Fort Lauderdale, FL</td>
<td>58.37</td>
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<tr>
<td>7)</td>
<td>Cincinnati, OH</td>
<td>58.37</td>
</tr>
<tr>
<td>6)</td>
<td>Denver, CO</td>
<td>59.45</td>
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Ten best places to retire, cont’d

<table>
<thead>
<tr>
<th>Rank</th>
<th>City and State</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>5)</td>
<td>Minneapolis, MN</td>
<td>59.98</td>
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<td>4)</td>
<td>Tampa, FL</td>
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<td>3)</td>
<td>Scottsdale, AZ</td>
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<td>2)</td>
<td>Charleston, SC</td>
<td>61.97</td>
</tr>
<tr>
<td>1)</td>
<td>Orlando, FL</td>
<td>62.14</td>
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</table>
Semi Retirement

- Prepare Revenue/Expense Projections
- If solo, value of practice is tied to Revenue
- Overhead expense share – Minimum $
- Income Share based on Productivity will adjust
- What is dropping call worth? Can estimate hourly wage and deduct from income or group pays doctors to take call
Why Choose Locum Tenens?
Making the choice of becoming a locum tenens provider can prove to be a rewarding career path. At HealthCare Partners, we want to partner with you while you are on this journey.

Reasons for Becoming a Locum Tenens Provider
- Just beginning your career and want to explore different settings
- Earn extra income
- Gain different clinical experiences
- Enjoy traveling and visiting different areas of the country
- Wanting to slow down before fully retiring
- Temporarily change locations while waiting for your non-compete clause to expire

Benefits of Locum Tenens
- Excellent compensation
- Free medical malpractice insurance
- In most cases travel and housing expenses are included
- Credentialing assistance
- You choose the length of your assignment. Whether you want a couple of shifts a month or a long-term contract

Contact Us:
1735 North Brown Road
Suite 100
Lawrenceville, GA 30043
Toll-free: 1-888-995-9206
Local: (678) 218-4040
Fax: (678) 218-4041
E-mail: contact@hcpmed.com

Find The Job that is Right for You at www.hcpstaffing.com

Locum Tenens & Physician Staffing
Partnership Elements

- Recommend 6-12 months notice of termination – Partners/Groups need this time to recruit/find another doctor

- Less notice, forfeit % of A/R, e.g.,
  - 1 month = 20% of A/R
  - 2 months = 40% etc.
Death & Disability

• Surviving spouse should call the local medical society for support

• Hire a locum tenens immediately if partners are unable to absorb practice load

• See Sources of Information for Surviving Spouses
Spouses and Offices Manager need to be able to locate:

- Bank accounts
- Safe Deposit Boxes
- Credit Cards
- Will
Spouses and Offices Manager need to be able to locate:

- Income tax records
- 3 Years of Profit/Loss and Balance Sheets
- Lease agreements for practice and equipment
- Life, disability and health insurance policies
Spouses and Offices Manager need to be able to locate:

- Malpractice, Key man and Overhead insurance policies
- Supply and equipment inventory
- Staff wages and positions
Who will be impacted by your retirement?

- You
- Your spouse / children
- Your staff
- Your patients
Closing Your Practice

- Professional liability coverage
- “Tail” coverage
- Retain policies
Avoid Abandonment Claims

• AMA ethics

• Notify patients via letter
Letter to Patients

• Date of Closing/transfer

• Opportunity to select new physicians and transfer records to him/her.

• Where records will be stored

• Note of thanks to your patients
Letter to Patients

• Authorization to transfer records form which patients can sign and send in

• List of other physicians who are willing to accept your patients
Who Should Receive Letter:

- All “active” patients, seen within past 1-2 years
- Chronic illness patients who need follow-up
- No letter is needed for a patient who has been discharged from care with a “Withdrawal from Care” letter
October 20, 2021

Dear Patient,

After long and deliberate consideration, I have decided to retire from the practice of Internal Medicine in Napa. The reasons for this are many but the major factor in my decision is to be able to spend more time with family. My final day of practice will be December 31, 2021.

It has been a privilege to work alongside Jacque and Lesley in providing for your healthcare needs. And, for some of you, I was involved in the care of your parents as well. I am humbled by the blessing of practicing in such a wonderful community and by the trust that you have placed in me.

Many of you already know that Red Bike Medicine was sold over one year ago to Discover Health Medical Group. A priority of that transition was that a replacement physician would be identified to assume the care of my patients. As a professional and responsible health care organization with goals that align with mine, Discover Health is diligently interviewing physicians before selecting my replacement.

Know that we are not going away, the office will remain open with an emphasis on service in taking care of your healthcare needs. We will keep you abreast of new developments as the selection process for a new physician continues. Once a new doctor is chosen, arrangements will be made to allow you an opportunity to meet.

In Gratitude,

Paul Sweigert, MD FACP
Date

Dear Patients:

As of ___________ (date) I have decided to retire. After forty years in ___________, (specialty) my own health issues and the changes in the practice of medicine have helped me make this decision.

It is important that you continue with appropriate medical care; therefore I highly encourage you to contact your health insurance provider, local hospital or your local medical society as soon as possible to obtain the name of a physician for you to consider for your ongoing health needs.

Your medical records are confidential, and a copy can be transferred to another doctor or released to you or another person you designate only through your permission. Please complete and sign the enclosed authorization form and return it to my office as soon as possible. Upon receipt of the signed form, this office will forward a copy of your medical records to you or to the physician you designate.

I have greatly valued my years as a physician and I would like to sincerely thank all of you who have trusted me to deliver the highest quality medical care. I wish you good health and all the best in the coming years.

Sincerely,

MD Signature
September 29, 2003

To my patients, colleagues, and friends:

"The time has come," the Walrus said, "to talk of many things: of shoes... of ships... and sealing wax... of cabbages... and kings, etc." and indeed this is appropriate for my situation here in Orinda, where I have been in practice since 1968. Life is change and change is inevitable even for me.

I have some exciting news in reference to my dermatology practice. I am very pleased to announce that Dr. Kristin K. Walker has assumed the ownership of my Orinda dermatology practice as of September 15, 2003. Dr. Walker is a young, vibrant dermatologist with ample experience. She was in private dermatology practice in Southern California for over five years, and most recently spent two years in private practice in Marin County. Dr. Walker is a California native, receiving her Bachelor of Science degree at Davis, California, and her M.D. degree from the University of Southern California, and had her dermatology residency at USC. Dr. Walker is a board certified dermatologist who specializes in adult and pediatric general dermatology as well as skin cancer and cosmetic surgery.

I personally endorse Dr. Walker as a highly trained, capable dermatologist, yet a person who is affable and caring in her role as a physician. Already she has endeared herself to my entire office staff who will continue working for her. Dr. Walker brings with her the latest techniques of diagnosis and treatment of dermatological problems, and she also offers a variety of newer cosmetic services, such as Laser, chemical peels, collagen, spider vein treatments and Botox injections.

I am truly thrilled that I can pass the baton to such a person as Dr. Walker, who I have all the confidence in her serving your dermatology needs. I feel gratified that she will continue the overriding principle of my office—treating patients with what is best for them.

Words cannot adequately express my deep heartfelt thanks to all my loyal patients, some of which have been with me since the onset of my practice in 1968. Most of you that know me well can appreciate that I have enjoyed my work with you and with my excellent staff here in Orinda.

I will pursue other ventures in life, including fishing, hunting, tennis, reading, writing and traveling. Getting to spend time with my two little grandchildren is another activity eagerly anticipated. Again, I say thank you for your loyalty and patronage to my practice. In the future I will continue working for Dr. Walker in the office on a limited schedule.

Sincerely,

Jerral S. Seibert, M.D.
Dear Friends:

I have been privileged to care for four generations of Napans since I began my medical practice thirty-six years ago. It is now time for me to consider retirement.

Beginning May 1, 2007, I plan on teaching at UC Davis, and I will no longer work at the Eye Care Center.

The practice will remain in the hands of Richard Bell, M.D., who trained at Stanford and my alma Mater UC San Francisco, and Erin Jacobson, M.D., who joined our group a year and a half ago after completing his ophthalmology training at Loma Linda University. Our staff includes Patrick Casey, O.D., graduate of UC Berkeley School of Optometry, whose optometric care has added additional breadth to the services available in the practice, and newly hired Joelle Zarzana, O.D., also a graduate of UC Optometry.

The Eye Care Center of Napa Valley will continue to serve you at our main office in Napa, as well as the satellite offices in American Canyon and St. Helena.

Thank you for the opportunity to serve you. Your confidence in allowing me to care for your medical and surgical ophthalmic needs over these years has meant a great deal to me. I will always treasure the trust you placed in me.

Best wishes, and again, thank you.

Sincerely,

[Signature]

Robert E. Nassar, M.D.

895 Trancas Street
Napa, CA 94558
Tel. 707.252.2020
Fax. 707.252.0329

3417 Broadway, Ste. J3
American Canyon, CA 94503
Tel. 707.553.6020
Fax. 707.643.2024

#6 Woodland Rd., Ste. 101
St. Helena, CA 94574
Tel. 707.963.5236
Fax. 707.963.1492
Dear Patients and Friends:

I have been privileged to care for you for many years. It was time for me to retire and the office was closed on March 10, 2016.

Your original medical records are at Springhill Medical Group under the care of Siamak Elyasi, MD who specializes in Family Practice/Primary Care. Their phone is (925) 432-3318. Please contact them regarding a copy of your records if you choose to establish care with another physician.

Thank you for the opportunity to serve you these many years. Your confidence in allowing me to care for you was so important to me. I will always treasure the trust that you placed in me.

Best Wishes!

Sincerely,

John W. Copeland, MD  
1111 "A" St., Antioch, CA 94509
Disposition of Medical Records

- Check laws regarding record retention

- Transfer of Medical Records

- You can send a photocopy to a new physician and keep original
If you release the Original Records to a New Physician:

• They must assure you that they will retain the original record

• They will make it available to you if you are involved in a lawsuit

• If they dispose of the record, they should notify you

• You should keep copies
Medical Records

• Records retention

• Assure availability

• Sale of records – Custodian of Records charts only

• Records belonging to the estate- Estate has same responsibility
Disposal of Drugs

- Restocking with fee from Medical Supplier
- Hazardous Waste Disposal Carrier
- Controlled Drugs – 3 CA resources
  - EXP Pharmaceutical Services
  - Far West Returns
  - Outdate Rx, LLC
Disposal of Drugs

• National Drug Take Back Day

• April and October each year – Free Disposal at local participating police departments


• Walgreens rolls out drug disposal kiosks at 500 stores
National Prescription Drug Take Back Day

DEA will hold our National Prescription Drug Take Back (NTBI 21) on Saturday, October 23, 2021 - 10AM to 2PM

The National Prescription Drug Take Back Day aims to provide a safe, convenient, and responsible means of disposing of prescription drugs, while also educating the general public about the potential for abuse of medications.

Please check back after October 1, 2021 to locate collection sites near you.

Law Enforcement Agencies Only:

For law enforcement agencies that wish to host a collection site, please call the POC in your area.

Search for Year Round Pharmaceutical Disposal Locations

DEA Authorized Collectors provide year round drop off locations to the public to dispose of unwanted pharmaceuticals.

Home Disposal Methods

E-Cigarette & Vaping Devices Disposal Information

DEA Registrant Drug Disposal & Drug Disposal Rulemaking
Scheduled Drug and Pharmaceutical Waste Destruction

Far West Returns is your trusted and reliable provider of pharmaceutical waste and scheduled drug destruction. We are a family business, committed to quality and integrity.

How The Process Works

NEW DEA GUIDELINES REGARDING CONTROLLED DRUG DESTRUCTION (21 CFR 1317)

ANY DEA REGISTERED PRACTITIONER IN LAWFUL POSSESSION OF A CONTROLLED SUBSTANCE IN ITS INVENTORY THAT DESIRES TO DISPOSE OF THAT SUBSTANCE CAN DO SO BY SENDING TO A REVERSE DISTRIBUTOR. (21 CFR 1317.05)

"A word from one of our customers. I like to use Far West Returns because they come to your pharmacy site and package up all your expired drugs and drugs for destruction on site all for a competitive fee.

- RX Dave at Humboldt General Hospital"
Need to deactivate your DEA

- You must send letter to DEA

- **AFTER** you have safely disposed of drugs

- Contact DEA office in your state
Notification of IPAs/Payors

- Check contracts may need to give 3 months for retirement

- Medicare/Medi-Cal - Deactivate NPI
Notify State Medical Board

- If death, permanent disability or retirement

- If you intend to practice at all, don’t deactivate
Accounts Receivable

- Clean up accounts
- Hire collection agencies
- Selling accounts receivable
Providing for Staff

- Pension plans engender loyalty
- Inform staff of plans
- Offer references
- Staff as negotiation tool
Who can Represent You in a Practice Sale?

- Yourself
- A real estate broker / agent
- An attorney
Joint Venture Debra Phairas & Broker: David Greene and Norman Pearce

- http://www.medicalpracticesusa.com
MedicalPracticesUSA.com provides practice brokerage services to the medical community throughout the United States. We assist sellers of practices and buyers seeking practices. In addition to practice brokerage, we provide a full range of appraisal and practice management consulting services. You may have a question about practice financial improvement, bringing in an associate or partner, developing an exit plan for yourself, determining the market value of the practice (including for divorce cases), or just some uncertainty about how your practice operates.

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Fill Out Our Confidentiality Agreement

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Fx. 415.764.4802
debra@MedicalPracticesUSA.com
Reasons to List Your Practice for Sale:

- Locate and screen potential buyers
- Avoid hassle of details of sale
- Avoid “giving away the shop”
- Buffer by having a third person negotiate on your behalf
Evaluate Agent / Broker / Consultant:

• Check credentials, interview previous clients

  – Where promises kept?
  – Was Service prompt and professional?
  – Did he/she negotiate effectively?
  – Would they use him/her again?
Selling to a Colleague or Associate:

• There is still a good reason to involve a third party
Why a Practice Has Value:

- Has a track record
- Is probably making some money
- No start-up costs
- The price is less than it would cost to duplicate assets
HHS: The liability crisis is hurting patients

Americans’ access to high quality care is threatened by the excesses of the civil justice system, according to an HHS report. Faced with higher costs for defending claims, and bigger judgments and settlements, insurers are raising premiums—and patients are paying the price in reduced access to care, government researchers say.

The AMA has issued a similar warning. Last summer, the association identified 12 states as areas where the current liability climate is adversely affecting patient care. Its most recent analysis found six more US hotspots.
Why doctors leave for greener pastures

Nearly four out of five physicians responding to a poll said they were happy in their present jobs. Nevertheless, half the respondents indicated that they anticipated changing jobs within the next two years. Pinnacle Health Group, an Atlanta-based recruiting firm, asked 2,500 physicians in 10 specialties what influenced their decisions to seek other positions. Here are the reasons respondents cited most frequently:

1. Desire for higher salary
2. High malpractice premiums
3. Underutilized medical skills/desire for upward advancement/hours too long/high call schedule
4. No autonomy (lack of control)/lack of appreciation
5. Changes to practice structure
6. To be closer to family
7. Bad relations with hospital administration
8. Desires another climate
9. Family isn’t comfortable in community

Source: Pinnacle Health Group, “Why physicians change jobs,” second annual survey
Which of the following do you consider to be the most useful sources for learning about practice opportunities?

<table>
<thead>
<tr>
<th></th>
<th>VERY USEFUL</th>
<th>SOMEBHAT USEFUL</th>
<th>NOT USEFUL</th>
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<td></td>
<td>2017</td>
<td>2014</td>
<td>2017</td>
</tr>
<tr>
<td>Personal networking</td>
<td>66%</td>
<td>67%</td>
<td>30%</td>
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<tr>
<td>Residency program</td>
<td>38%</td>
<td>34%</td>
<td>46%</td>
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<tr>
<td>Online job boards</td>
<td>23%</td>
<td>25%</td>
<td>52%</td>
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<tr>
<td>Physician recruiters</td>
<td>18%</td>
<td>17%</td>
<td>51%</td>
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<tr>
<td>Specialty societies</td>
<td>25%</td>
<td>23%</td>
<td>54%</td>
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<tr>
<td>Medical journals</td>
<td>8%</td>
<td>11%</td>
<td>44%</td>
</tr>
</tbody>
</table>
What questions should you avoid when interviewing physicians?

• How much did you make at your last job? *Instead ask:* Does the rate/salary we’re offering align with what you were hoping to make?
• Do you have any disabilities? *Instead ask:* Are you able to carry out the essential duties of this role?
• Have you ever been treated for a drug or alcohol addiction? *Instead ask:* Do you or have you ever used illegal drugs?
• How old are you? *Instead ask:* Are you able to use an EMR for record-keeping?
• Do you have kids? Who watches your kids during the day? *Instead ask:* Would you be able to work the hours of 9 a.m. to 5 pm and later if necessary?

Avoid these entirely:

• Do you have [insert disease/condition here]?
• What would you do if you got pregnant?
• What is your heritage?
• What religious holidays do you observe?
• How much longer do you plan to work before retirement?
• What is your financial status? Are you in debt? Do you receive social security benefits?
Young doctors eager to own practice, join small groups a nonprofit independent physician advocacy group.

• If given the opportunity 42% of young (40 years old or younger) PCPs said they would opt to be sole owners or partners in a group, whereas 35% said they would prefer employment in a group of 12 or fewer doctors.

• Only 12% of physicians who are currently employees of large hospital-owned groups said they would stay in their current position. In addition, the young hospital-based physicians represented in the survey anticipated staying in their current positions 2 years or less.

• A majority of the physicians surveyed, however, indicated that they expect to stay in their practices for 8 years or more, including PCPs and medical/surgical office-based doctors.
Quality of life more important to today's physicians

Medical Economics  Publish date: Sep 26, 2012  
By: Rachael Zimlich  Jackson Coker

**Females** - They prefer suburban or urban locations in the Northeast and only relocated once or twice. This group most often specializes in dermatology, gynecology, infectious disease, or physical medicine and rehabilitation, according to the report.

**Males** - They either prefer rural locations or have no location preferences, according to the study. They had relocated three to six times over the course of their careers, which more often were specialized in neurology, psychiatry, or surgery.
Medical residents are receiving fewer recruitment offers, most likely due to COVID-19.

Only 62% of final-year medical residents surveyed said they had received 26 or more job solicitations during their training, compared to 82% in 2019.

Geographic location is the most important factor residents consider when examining a job opportunity, followed by adequate personal time and lifestyle considerations.

More medical residents (45%) would prefer hospital employment as their first practice setting than any other type of setting.

None of the medical residents surveyed would prefer to live in a community of 10,000 people or less, a bad sign for rural communities.

Only 3% would prefer to live in a community of 25,000 people or fewer.

Only 30% of final-year medical residents said they received 100 or more job solicitations during their training, compared to 45% in 2019.

Nevertheless, 86% of final-year residents received 11 or more recruitment offers during their training, suggesting job opportunities are still available for most medical residents.

Relatively few medical residents are concerned about COVID-19 health risks as they enter their first practice.

45% said COVID-19 health risks are very or somewhat concerning, compared to 93% who said the ability to earn a good income was very or somewhat concerning and 89% who said lack of free time was very or somewhat concerning.

Only 1% of medical residents would prefer a solo setting in their first practice, signaling the further decline of traditional private practice.

About one-third of medical residents (32%) said they are very unprepared to deal with the business side of medicine. Only 10% said they are very prepared.
Female residents receive more job solicitations than male residents. 70% of female residents said they received 26 or more job solicitations during their training compared to only 54% of male residents.

Nevertheless, female medical residents expect to earn less than males in their first practice.

COVID-19 has not caused most residents to rethink their choice of a career. Only 3% strongly agreed that COVID-19 had caused them to rethink their choice of a career.

76% of male medical residents expect to earn $251,000 or more in their first practice, compared to only 38% of females.

58% of medical residents said they sometimes, often or always experienced feelings of burnout during their training.

21% of medical residents said they would not choose medicine again if they had their education and training to do over.

while 49% strongly disagreed.
7.

Which of the following practice settings would you be most open to?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Employee</td>
<td>45%</td>
<td>45%</td>
<td>41%</td>
<td>36%</td>
<td>32%</td>
</tr>
<tr>
<td>Partner With Another Physician</td>
<td>10%</td>
<td>7%</td>
<td>8%</td>
<td>20%</td>
<td>28%</td>
</tr>
<tr>
<td>Single Specialty Group Employee</td>
<td>18%</td>
<td>20%</td>
<td>18%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Multi-Specialty Group Employee</td>
<td>12%</td>
<td>16%</td>
<td>16%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>Locum Tenens</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Solo</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Association</td>
<td>N/A</td>
<td>N/A%</td>
<td>N/A</td>
<td>2%</td>
<td>&gt;1%</td>
</tr>
<tr>
<td>HMO</td>
<td>N/A</td>
<td>N/A%</td>
<td>2%</td>
<td>1%</td>
<td>&gt;1%</td>
</tr>
<tr>
<td>Urgent Care Center</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Community Health Center (CHC)</td>
<td>2%</td>
<td>3%</td>
<td>5%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Unsure</td>
<td>10%</td>
<td>4%</td>
<td>5%</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>Other (Student Health, Corporate, etc.)</td>
<td>N/A</td>
<td>N/A</td>
<td>2%</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>
12. What causes you the most concern as you enter your first professional practice?

<table>
<thead>
<tr>
<th></th>
<th>VERY CONCERNING</th>
<th>SOMEWHAT CONCERNING</th>
<th>NOT CONCERNING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of free time</td>
<td>32%</td>
<td>33%</td>
<td>57%</td>
</tr>
<tr>
<td>Dealing with payers (Medicare, etc.)</td>
<td>16%</td>
<td>20%</td>
<td>50%</td>
</tr>
<tr>
<td>Earning a good income</td>
<td>49%</td>
<td>43%</td>
<td>44%</td>
</tr>
<tr>
<td>Malpractice</td>
<td>23%</td>
<td>18%</td>
<td>56%</td>
</tr>
<tr>
<td>COVID-19 related health risks</td>
<td>11%</td>
<td>N/A</td>
<td>34%</td>
</tr>
<tr>
<td>Educational debt</td>
<td>34%</td>
<td>38%</td>
<td>39%</td>
</tr>
<tr>
<td>Ability to find a practice</td>
<td>31%</td>
<td>16%</td>
<td>33%</td>
</tr>
<tr>
<td>Insufficient practice management knowledge</td>
<td>20%</td>
<td>23%</td>
<td>51%</td>
</tr>
<tr>
<td>Insufficient medical knowledge</td>
<td>5%</td>
<td>12%</td>
<td>40%</td>
</tr>
</tbody>
</table>
Practice Appraisal

- An estimate of value as of a specific date.
Why are Valuations Needed?

- Selling practice assets to a hospital, or medical group
- Retirement
- Practice Merger
- Buy-out
- Buy-in
- Private Equity
- Divorce / Estate Planning
Items needed for an Appraisal

- Three years of income tax returns
- Three years of income and expense reports and balance sheets
- Actual charges and contractual adjustments total for previous year
- Aging spread and total accounts receivable
Items needed for an Appraisal

• Fee schedule

• List of assets purchased by date and cost at purchase, or depreciation schedule

• Lease terms of office space

• List of staff by position and hourly wage
Items needed for an Appraisal

• The practice payor mix
• Number of “active” charts or patients
• Referral patterns
• Unique services or aspects of the practice
Items needed for an Appraisal

- IPA memberships
- CV, practice brochure, mission statement, strategic plans
On-Site Appraisal

- Verification of assets and condition
- Location
- Staff
On-Site Appraisal

- Ambiance and patient relations
- Marketing and promotion efforts
- Practice systems and operations
- Referral patterns
On-Site Appraisal

- Medical Records/ EMR
- Unique characteristics of practice
- Competition
- Economic and demographic conditions
Quality of Appraisal

- Appraisal should assign a value to the assets to be included in the sale.

- An appraisal is only as good as the skill of the appraiser, and the information upon which the appraisal is based.

- The sales price is determined by what a buyer is willing to pay, and what the seller will accept.
Methods to Value a Practice

- Rule of Thumb
- Comparable Sales Method – Market Approach
- Income Method
- Discounted Cash flow or Excess Earnings
Cold Iron Truth

Well, I figured it out ... I owe my soul to the company store

Publish date: November 17, 2017

By Brett M. Coldiron, MD
Private Equity

- **Excellent strategy** – <3 years left in practice
- **Medium strategy** – 3-10 years left
- **Think carefully** > 10 years in practice
## Analysis of PE Deal vs. Staying Solo for 4 Years and Selling the Practice

<table>
<thead>
<tr>
<th>Price</th>
<th>$2,850,000</th>
<th>$1,710,000</th>
<th>Capital gains tax</th>
<th>$2,109,000</th>
<th>Amount Sale after capital gains</th>
<th>$3,389,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Their Multiple</td>
<td>6</td>
<td>741,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Their EBITDA</td>
<td>475,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solo Practice income and sale</td>
<td>$3,300,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated increase with PE deal vs. staying solo if at 700K per year</td>
<td>$89,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr. estimated productivity</td>
<td>$650,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimate loss with PE deal vs staying solo if you take out 800K from the practice</td>
<td>$(311,000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40% will receive</td>
<td>$260,000</td>
<td></td>
<td></td>
<td></td>
<td>PA productivity</td>
<td></td>
</tr>
<tr>
<td>50% Product sales</td>
<td>$30,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3% PA</td>
<td>$30,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Estimated Salary</td>
<td>$1,280,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per year</td>
<td>4 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>800,000 2019 approximate Net and benefits</strong></td>
<td>If remain in practice</td>
<td><strong>$700,000</strong></td>
<td><strong>Per year net income and benefits minimum</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>4 years</strong></td>
<td><strong>4 years</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>480,000 Difference</strong></td>
<td><strong>$1,920,000</strong></td>
<td><strong>$2,800,000</strong></td>
<td><strong>4 years net income benefits</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>in wage solo vs. PE</strong></td>
<td><strong>Difference 4 years</strong></td>
<td><strong>$500,000</strong></td>
<td><strong>Sell the practice minimum sale</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>per year</strong></td>
<td><strong>930,000.00</strong></td>
<td><strong>3,300,000</strong></td>
<td><strong>TOTAL income plus sale of practice</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Per year net income and benefits from the $800,000 practice</strong></td>
<td><strong>4</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>4 years net income</strong></td>
<td><strong>$3,200,000 benefits</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>$500,000 Sell the practice minimum sale</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>$3,700,000 Total income and sale of practice</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Serious Considerations

• **Do you like to be in control?**

  – If you answer yes, think very long and hard about how you will adjust to being an employee

  – Larger organizations take longer to make decisions with more layers of bureaucracy

  – You may still need to get involved with administration/personnel/etc, but may have no power to change anything
Serious Considerations

- Ask other physicians who are in the entity
  - What is the culture?
  - How happy are they?
  - Do you know your present office visit/hospital/surgery/procedure volume and how will this translate to WRVU compensation?
  - Will you be able to help choose/direct or fire staff that work with you? Will your office manager be eliminated?
  - What reporting of your productivity will you able to obtain and your rights to audit?
  - What if you were doing procedures now that add to your net income and these will be taken away to another specialty?
Serious Considerations

- Will you have to see Charity and Medi-Cal patients?
- Perform research?
- Is the compensation formula vague or very specific?
- Will you be forced to be in group with former competitors that you did not get along with?
- What is the composition of board that makes decisions?
  - Weighted toward physicians or hospital/foundation/University?
- Can you negotiate a 3-5 year guaranteed salary?
Hard Assets

- **Equipment**
  - Straight-line Depreciation
  - Used Market Value
  - Replacement Cost

- **Exclude personal assets**
https://www.medshare.org/
Donations of Medical Equipment

Improving the Quality of Life of People & Our Planet

LEARN MORE
YOUR IMPACT
DISASTER RELIEF
Supplies

- Inventoried
- Estimate supplies at 1-2 months of usual inventory costs
Frames

- Wholesale Value, not Retail value
Accounts Receivable

- Age of accounts
- Factor the accounts by age
- Subtract the contractual allowances from each aging
Valuing Intangibles including Goodwill

- IRS ruling 59 - 60 and accounting standards define goodwill as:
  
  “The expectation of future profits under the ownership of someone other than the present owner.”
Elements of Intangible Assets include:

- Location
- Type of practice
- Referral patterns
- Staff in place
Elements of Intangible Assets include:

- Systems in place and operational
- Financial performance - collection ratios, gross and net revenue
- Non-compete clause
Elements of Intangible Assets include:

- Transition assistance
- Trade name
- Contracting opportunities
Methods to Value Intangible Assets

- The Goodwill Registry
  - (610) 828-3658  25.88% goodwill to revenues
  - Ophthalmology 2022 report

- Market Approach – Revenue method or Accumulation of Assets

- Income Methods

- Discounted Cash Flow or Excess Earnings
### Weighted Average Collections

<table>
<thead>
<tr>
<th>Year</th>
<th>Collections</th>
<th>Weighted by year</th>
<th>Weighted Collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$764,680</td>
<td>x 1 =</td>
<td>$764,680</td>
</tr>
<tr>
<td>2020</td>
<td>$625,679</td>
<td>x 2 =</td>
<td>$1,251,358</td>
</tr>
<tr>
<td>2021</td>
<td>$627,434</td>
<td>x 3 =</td>
<td>$1,882,302</td>
</tr>
</tbody>
</table>

= 6

= 6

divided by 6 = $649,723

25.88% = $168,148
ACCUMULATION OF ASSETS METHOD TOTAL VALUE

The total value of this practice has been assessed as follows:

<table>
<thead>
<tr>
<th>TOTAL VALUE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible Asset - Goodwill</td>
<td>$168,148</td>
</tr>
<tr>
<td>Furniture, Equipment, Instruments, Leasehold</td>
<td>$200,000</td>
</tr>
<tr>
<td>Improvements</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$92,355</td>
</tr>
<tr>
<td>Supplies</td>
<td>$5,985</td>
</tr>
<tr>
<td>TOTAL with A/R</td>
<td>466,488</td>
</tr>
<tr>
<td>TOTAL without A/R</td>
<td>$374,133</td>
</tr>
</tbody>
</table>
Medical Practice Revenue and Net Earnings

- Bizcomps 2021
- www.bizcomps.com
- Medical Practice .26-228 Price per Sellers discretionary earnings (specialty specific)
- Price per Gross Revenue = .23-.46
# Capitalization of Earnings

<table>
<thead>
<tr>
<th>Year</th>
<th>Net earnings</th>
<th>Weighted Net Earnings</th>
<th>Weighted Average Net Earnings With Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$280,000</td>
<td>x 1 (\times) $280,000</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>$207,000</td>
<td>x 2 (\times) $414,000</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>$257,000</td>
<td>x 3 (\times) $771,000</td>
<td>$1,465,000 (/6 = )$244,167</td>
</tr>
</tbody>
</table>

Multiply by Capitalization Rate: \(\times\) 2.15

\[\text{Value} \times 2.15 = \$524,959\]
<table>
<thead>
<tr>
<th>Rating Scale</th>
<th>Category</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Rating (20%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuity of income at risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steady income likely</td>
<td>X</td>
<td>15</td>
</tr>
<tr>
<td>Growing income assured</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Competitive Rating (15%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly Competitive and/or unstable market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normal competitive conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Little competition in the market due to high cost of competition entry</td>
<td>X</td>
<td>7</td>
</tr>
<tr>
<td><strong>Specialty Rating (20%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialty practice, all physician referral</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialty practice w/ high level of patient referral</td>
<td>X</td>
<td>15</td>
</tr>
<tr>
<td>Primary care, no physician referral</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business Rating (20%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recent Start-up, not established</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Well established in satisfactory environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long record of sound operation w/ outstanding reputation</td>
<td>X</td>
<td>18</td>
</tr>
<tr>
<td><strong>Business Growth Rating (15%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business has been declining</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steady Growth, higher than inflation</td>
<td>X</td>
<td>10</td>
</tr>
<tr>
<td>Dynamic Growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Desirability Rating (10%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No status, rural area, declining population</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfactory environment, population growth, surplus physician patient</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Challenging environment, metropolitan or high growth area, high physician/patient ratio</td>
<td>X</td>
<td>5</td>
</tr>
</tbody>
</table>

100% 70%
<table>
<thead>
<tr>
<th>Year</th>
<th>Collections</th>
<th>Weight</th>
<th>Extension</th>
</tr>
</thead>
<tbody>
<tr>
<td>344,6752019</td>
<td>$764,680</td>
<td>x1 =</td>
<td>$764,680</td>
</tr>
<tr>
<td>2020</td>
<td>$625,679</td>
<td>x2 =</td>
<td>$1,251,358</td>
</tr>
<tr>
<td>2021</td>
<td>$672,434</td>
<td>x3 =</td>
<td>$1,882,302</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>= 6</td>
<td>$3,898,340</td>
</tr>
</tbody>
</table>

**Weighted Average** divided by 6 = $649,723

Less average Practice Expense

Weighted Average Earnings

Rating Scale

**TOTAL INTANGIBLE VALUE**

Plus Fair Market Inventory Method **TANGIBLE ASSETS**

**TOTAL WEIGHTED AVERAGE VALUE** = $344,675
## Discounted Cash Flow Value

### Base Year 2021

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Collections</strong></td>
<td>672,434</td>
<td>692,607</td>
<td>713,385</td>
<td>734,787</td>
<td>756,830</td>
</tr>
<tr>
<td><strong>Overhead Ratio</strong></td>
<td>62%</td>
<td>62.1%</td>
<td>61%</td>
<td>60%</td>
<td>59%</td>
</tr>
<tr>
<td><strong>Operations Expense</strong></td>
<td>417,754</td>
<td>430,109</td>
<td>435,165</td>
<td>440,872</td>
<td>446,530</td>
</tr>
<tr>
<td><strong>Net Available for Distribution</strong></td>
<td>254,680</td>
<td>262,498</td>
<td>278,220</td>
<td>293,915</td>
<td>310,300</td>
</tr>
<tr>
<td><strong>Physician Compensation</strong></td>
<td>254,680</td>
<td>200,000</td>
<td>225,000</td>
<td>245,000</td>
<td>260,000</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>54,680</td>
<td>37,498</td>
<td>33,220</td>
<td>33,915</td>
<td>35,300</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>2,779</td>
<td>2,879</td>
<td>2,979</td>
<td>3,079</td>
<td>3,179</td>
</tr>
<tr>
<td><strong>Operating Cash Flows</strong></td>
<td>57,459</td>
<td>40,377</td>
<td>36,199</td>
<td>36,994</td>
<td>38,479</td>
</tr>
<tr>
<td><strong>Tax Rate</strong></td>
<td>38%</td>
<td>38%</td>
<td>38%</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td><strong>Taxes on operating income</strong></td>
<td>21,834</td>
<td>15,343</td>
<td>13,756</td>
<td>14,058</td>
<td>14,622</td>
</tr>
<tr>
<td><strong>Capital Expenditures</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Free Cash Flow</strong></td>
<td>35,625</td>
<td>25,034</td>
<td>22,444</td>
<td>22,936</td>
<td>23,857</td>
</tr>
<tr>
<td><strong>Cost of Capital @ 16%</strong></td>
<td>0.8621</td>
<td>0.7432</td>
<td>0.6407</td>
<td>0.5523</td>
<td>0.4761</td>
</tr>
<tr>
<td><strong>Present Value of Free cash flows</strong></td>
<td>21,582</td>
<td>16,680</td>
<td>14,695</td>
<td>13,176</td>
<td>12,009</td>
</tr>
<tr>
<td><strong>Residual Cash flow 16%-1%=15%</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>168,160</td>
</tr>
<tr>
<td><strong>Total of all present value/free cash flow</strong></td>
<td>66,133</td>
<td>78,142</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Present Value of Residual Value</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>80,061</td>
</tr>
<tr>
<td><strong>TOTAL PRACTICE VALUE</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Overhead percentage decreases as revenues decrease

* Could start a new physician at $200,000 per year and still have operating cash flows to pay MD, debt and not impair operations
## Recommendation for Total Value

<table>
<thead>
<tr>
<th>METHOD</th>
<th>WEIGHT</th>
<th>ASSESSED VALUE/ STRAIGHT AVERAGE</th>
<th>WEIGHTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulation of assets</td>
<td>40%</td>
<td>$374,173</td>
<td>$149,669</td>
</tr>
<tr>
<td>Capitalization of Earnings</td>
<td>20%</td>
<td>$524,959</td>
<td>$104,991</td>
</tr>
<tr>
<td>Weighted Average of Earnings</td>
<td>30%</td>
<td>$334,675</td>
<td>$100,402</td>
</tr>
<tr>
<td>Discounted Cash Flow</td>
<td>10%</td>
<td>$158,203</td>
<td>$15,820</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100%</td>
<td><strong>$350,502</strong></td>
<td><strong>$370,882</strong></td>
</tr>
</tbody>
</table>
Appraisals: An Art and a Science

• Knowledge of the medical specialty

• Knowledge of the marketplace

• Estimating likelihood of the revenue stream continuing
Caveats about Pricing

- **Price realistically**
- **Terms may be more than price**
Readying Your Practice for Sale

- Maintain an active patient flow
- Assure that IPA membership and managed care contracts are assumable
- Reduce overhead or control expenses
- Assure personnel policies and cash safeguards are in place
Finding a Buyer

• Hospital recruiting

• State and local medical associations

• Specialty Societies

• Broker

• Internet Recruiting Sites
Finding a Buyer

- Medical Meetings - AAO
- University and Residency Programs
- Equipment and supply vendors
- Physicians in your community
What should you advertise?

- Specialty
- Size or gross income
- Geographical area
Information the Buyer will want to know – Due Diligence

- Practice tax returns and Profit Loss Statements
- Appraisal
- Copies of leases and assignability
Information the Buyer will want to know – Due Diligence

- Copies of maintenance agreements
- Time to review charts/EMR in your office
- Accounts Receivable, Aging spread
Information the Buyer will want to know – Due Diligence

- Staff wages, hours, pension, etc.
- Any lawsuits, liens, liabilities pending or threatened
- IPA membership information and HMO, PPO contracts
Negotiating Sale Terms

• Using a professional will bring:
  – Higher sales price
  – Better terms negotiated
  – Loopholes closed
  – Less hassle to seller
Two Types of Buyers:

• Those who love to bargain

• Those who hate to bargain

• Evaluate your buyer’s personality
Other Terms to Negotiate:

- **Purchase of Assets, Stock, or Partnership Interests**
- **Ernest money deposit -- refundable or not**
- **Down payment**
- **Terms of any seller carry-back financing**
Other Terms to Negotiate:

- Allocation of purchase price
- Equipment and supplies to be included
- Covenant not to compete
- Introductory services
Other Terms to Negotiate:

• Who will pay closing costs

• Pro-rations such as employee benefits, expenses, etc.

• Whether accounts receivable will be part of the transaction

• Provisions for records retention
Other Terms to Negotiate:

• Life insurance on new buyer

• Conduct until close of sale

• Contract contingencies which must be removed prior to close of escrow
Other Terms to Negotiate:

- Indemnification for prior acts
- Protections against breach of agreement
Writing the Agreement

- Details of the agreement must be in writing.
- A copy of the signed agreement should be used by the escrow officer.
Help your Buyer Finance the Practice

• Check with your bank for assistance

• Bank of America (MD division)

• Banks through the SBA

• Check with your hospital
Personal Introduction

- Offer to introduce new physician to patients and referring physicians
- A powerful negotiating strategy
How to Save Taxes on the Practice Sale

• Tax advice should be obtained from a professional

• Review your position in advance with accountant
Recommendations for Bringing in a New Associate:

• Write an employment offer spelling out conditions and expectations

• State all AR, charts, lists, etc. are employers property

• Have approximate cost decided before the interview process begins
Practice Link
Recommendations for Bringing in a New Associate:

- Create an incentive program

- After incentive is reached, additional money generated should be given as bonus, or put in escrow for buy-in
Discuss Salary and Benefits

- Market comparable salary?
- How is it paid?
- Incentive bonus?
- Malpractice and Tail?
- Benefits, life, health, disability? Pension and profit sharing?
- Auto?
Example

- 300,000 MD Salary +
- 25,000 Benefits
- 325,000 Physician Cost +
- 150,000 Additional Overhead Cost =
- 475,000 Breakeven Point  MD needs to generate revenue
Incentive Bonus

- After Employee reaches breakeven point, additional revenue goes to overhead, Employer return on investment and Employee bonus
  - 10,000
  - 5,000 Overhead (50%)
  - 2,500 Employer (25%)
  - 2,500 Employee (25%)
Buy - In

- Can you review the partnership agreement?
- What is the methodology for buy-in?
- Can intangible asset value be established at point of entry?
- Can the buy-in be spread over several years?
Mergers

- Merging with another MD or group can provide the transition
- Removes records issues
- Provides buy-out
Professional Assistance Needed:

• Appraiser / Consultant
• Broker
• Attorney
• CPA
ZDOGGMD  Video

- https://www.youtube.com/watch?v=jV9RyXQyQ7Q
Thank you for attending!

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