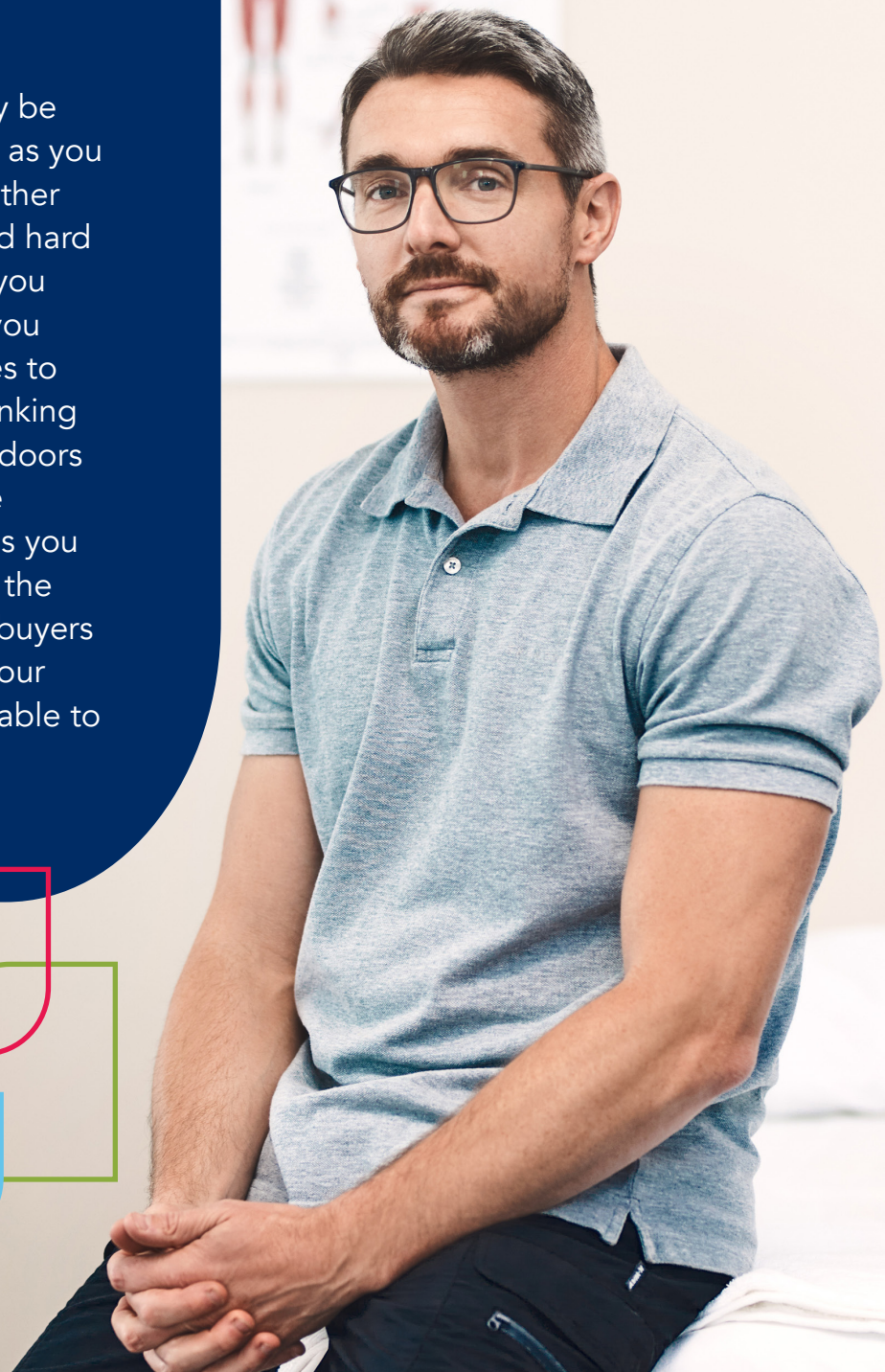


BEFORE YOU SELL YOUR PT PRACTICE

A COMPREHENSIVE GUIDE ON
PREPARING FOR A WEALTHY
EXIT FROM PHYSICAL THERAPY
PRIVATE PRACTICE.



As an established physical therapist and private practice owner, you may be considering what the next steps are as you move toward retirement or into another business endeavor. You have worked hard to build your practice, so naturally, you want to know what is going to get you the most value when the time comes to sell. Most practice owners aren't thinking about selling when they open their doors to help patients, which is why we've created this guide. After reading this you will understand how you determine the timeline to sell, who your potential buyers are, how to maximize the value of your practice, and what options are available to help you achieve these goals.



SET YOUR GOALS AND ESTABLISH A TIMELINE

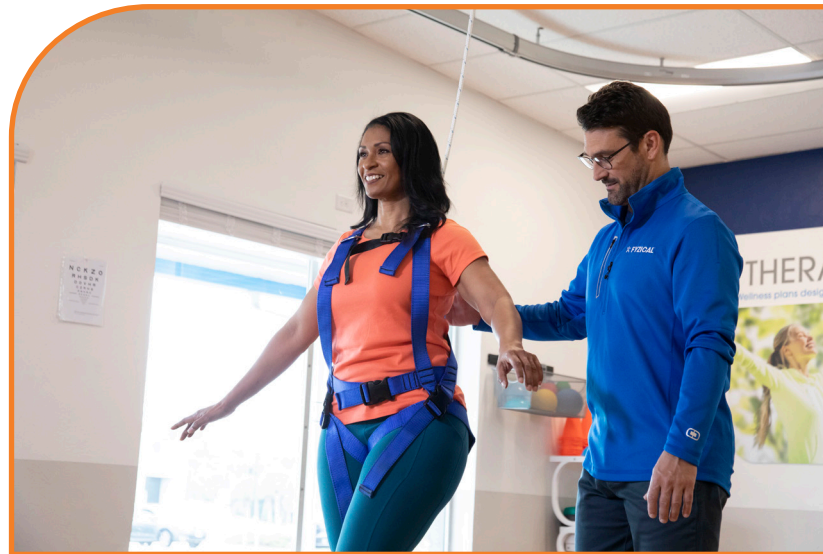
The first step in this process is to establish what your exit goals are. There are two options;

1. Establish a legacy business, or a business that you manage distantly but provides an ongoing passive income source.
2. Sell the business outright to the best candidate.

Fortunately, the path to achieve these outcomes are the same. In either case, you will need to take the time to prepare your business today so that you can step away from the day-to-day operations tomorrow. Selling is a process that takes time, especially if you're looking to maximize your asking price. The market to sell is very strong for PT practices, but your practice must be enticing to garner the interest of a potential buyer.

When evaluating your business, you'll also need to think like a buyer. This means your practice must have an established business foundation that includes a healthy cash flow, a strong client base, a well-designed space, and resolved debt. We find that most practices need work in many, if not all of these areas. If you are one of these owners, expect the process of preparing to sell to take

approximately 2-5 years. This gives you time to get your systems in place and demonstrate long-term sustainable growth to prospective buyers.



UNDERSTAND WHO YOUR BUYERS ARE

There are many different types of buyers. Large clinics with multiple locations can often generate interest from private equity firms, but for smaller practices and single locations options may include:

- Selling to a current employee
- Selling to another PT in your area
- Merger or Acquisition by a larger local clinic
- Hospital Acquisition
- Corporate Acquisition

Understand what role you want to take in the practice moving forward, if at all, so you can determine what buyer makes most sense to you. Take the time to speak with several different types of buyers to establish the best fit for your exit goals.



PRO-TIP Work with a Broker or Advisor

Regardless of who you sell to, it will benefit you to work with an advisor or broker throughout the process. Be sure to look for a firm that is well versed in outpatient physical therapy. An advisor can offer you valuable insight from their experience working with other practices that have sold. They will also help you lay the foundation for an optimal deal structure based on the goals you have. Their experience in business analysis is invaluable, naturally you want to see the greatest return from the business you have worked hard to build. The primary goal of an advisor is to seek out a capable buyer that is a good fit for the kind of exit you're seeking.

KNOW WHAT BUYERS LOOK FOR

Buyers look for an established practice that provides good patient care, has a reliable staff in place, and an owner that is available throughout the transaction, and sometimes beyond. A buyer seeks certainty in their investment, which includes diversified referral sources and payer mix, a history of business growth, and the potential to continue on a positive growth trajectory. The following section addresses the preparations you will need to make if you want to maximize the value of your practice before you sell.

Systems and Process

The most important factor when selling a practice is you, the owner. An owner who is ready to exit must demonstrate that their practice is capable of continued growth without their direct, daily involvement. As an owner, your goal should be to implement systems within your practice that your staff can be trained on and will allow you to step away from the business. Business systems can be purchased or created, what is most important is

consistency. Develop a standard for each process so that every member of the team understands their role

and how to perform it. These systems also allow for tracking which help those looking to buy compare your practice financially to others. There are three key areas in a practice that need systems and processes:

1

CLINICAL CARE

2

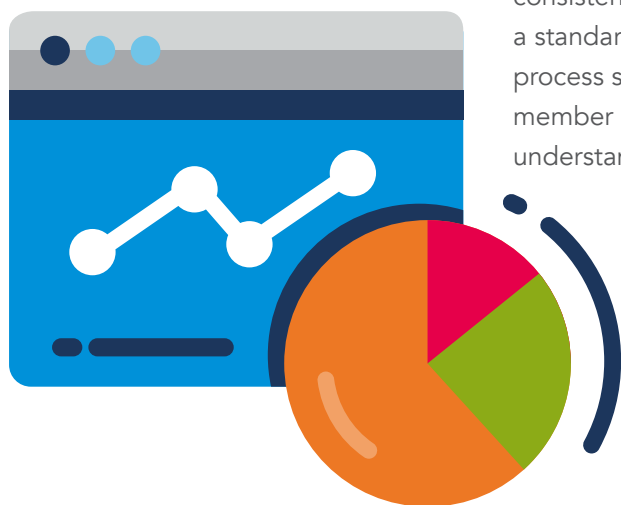
TRAINING

3

REPORTING

Systems for clinical care and training are important because they are the foundation of your practice. They lay the groundwork for patient care in your clinic and how future members of the team will be onboarded, especially in your absence. These systems provide security to a buyer because the practice can continue to run on established systems, rather than having to adapt staff to new processes.

Systems for reporting are critical because you will need to prove the financial health of your business and that begins with consistent reporting within your practice. When your staff can report on key metrics within a common system, the information they provide can be used to easily evaluate the overall fiscal health of the business. At minimum, staff should report on the clinical performance metrics such as labor and productivity, patient conversions that come from physician referrals and marketing efforts, practice financials like clinical



STEP 3

expenses, salaries, retail sales etc., and compliance with HIPAA and Medicare. Performance indicators provide key insights into your practice performance and demonstrate to prospective buyers that your practice is capable of functioning without your direct involvement.

Financial Statements

To understand if purchasing your practice is a sound financial investment, a buyer will want to understand your business from the inside out. Be prepared with the following documents:

- **Incorporation Documents and Corporate Structure**
- **3 years of Tax Returns**
- **3 Years of Income Statements (Profit & Loss Statements)**
- **3 Year of Balance Sheets**
- **A comprehensive list of business assets**
- **Documentation of the number of annual patient visits, evaluations, and units (broken down by month).**
- **List of in-network insurance plans your practice currently accepts**

Chart of Accounts

Your chart of accounts (COA) is an index of all the financial accounts in the general ledger of your company broken down into different subcategories. An interested buyer will want to examine this report to gain insight into the financial health of your practice. The COA separates expenditures, revenue, assets, and liabilities and ensures that financial statements comply with reporting standards. In other words, this is a key document for buyers to review so you'll want to make sure yours is accurate and available.

Show Controlled Growth

Buyers are not interested in floundering, stagnant, or failing practices. This is why proving controlled growth is critically important to selling a practice. Opening new locations or hiring new PTs, investing in marketing and recruiting, and showing that you have established marketing systems in place that are helping you grow your practice over time are great ways to demonstrate controlled growth.



DETERMINE WHAT YOUR PRACTICE IS WORTH

The purchase price that your practice can bring is determined by your business' earnings before interest, taxes, depreciation, and amortization, in other words this is the profit of your practice. Those who are savvy in the financial industry use the term EBITDA. Any buyer you encounter is purchasing your practice's earnings - so this will be the primary focus when putting together an offer. The offer you will receive when selling your practice will be based on a multiple of your EBITDA.

The Multiple

Transaction multiples are used to value a company. Currently for smaller groups, a multiple of 4-7x EBITDA is average, while a group with a greater number of clinics could fetch a multiple in the teens. Leading M&A (merger and acquisition) experts in the PT space estimate the following ranges based on EBITDA:

- **Less than \$500k EBITDA can yield a multiple of 3-5**
- **\$500k-\$1M EBITDA can yield a multiple of 5-7**
- **\$1M+ EBITDA can bring a multiple of 7+**



Many factors will affect the multiple, including:

- **Number of locations**
- **Location(s) Desirability**
- **Diversification of Referral Sources**
- **Proven Business Model**
- **Payer Mix**
- **Revenue/Profit Trends (Growth)**
- **Reputation**
- **Staff Turnover**
- **High Accounts Receivable**
- **# of Years in Business**

BUYERS' PREFERRED PRACTICE PROFILE

- \$750k - \$1M+ EBITDA
- Multiple locations
- No compliance issues
- Net rate per visit will allow for profit
- The location allows for growth within the geographic area
- Historical business trends are positive
- Automated business processes
- Seller willing to stay involved to ease the transition
- Established branding and marketing

BUILD A BETTER FUTURE - MAXIMIZE YOUR PRACTICE GROWTH

Healthcare is a mega-industry and if trends continue, high growth and profits are predicted to continue in the coming years. Today is the best time to start preparing your practice to maximize its value. To do this consider the following strategies to increase value so it brings the largest multiple when you are ready to sell.

Offer Complementary Services

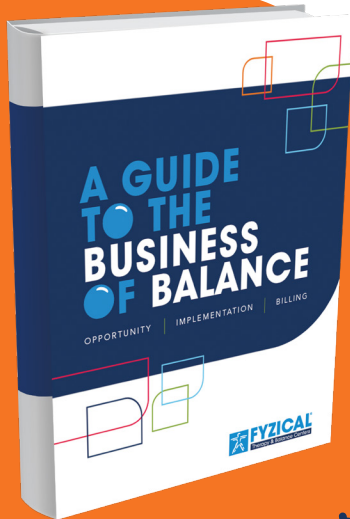
You're no stranger to offering cash-based products and services to boost your revenues, but offering complementary services can boost your bottom line and help your patients achieve better outcomes. Consider the addition of massage or laser therapy, aquatic PT, health-based fitness, and orthotics. By offering these additional services, you're allowing your practice to treat a more diverse group of patients. Why is this important? For starters, you're expanding your market size. Expanding your market size looks great to buyers because it opens up more potential sources to generate new patients and grow revenues. Most importantly though, you have more treatment options for your patients which can lead to better patient outcomes. It's a win-win for your business and your patients!

**CLICK HERE TO
READ THE GUIDE
FOR REFERRAL
TRACKING AND
MANAGEMENT**



Referrals

A savvy buyer will want to know what the sources of your revenue are and if that mix is sustainable. If you aren't tracking your referrals, start now. For a healthy and thriving practice, **no more than 5% of referrals should come from any one individual, and no more than 15% of referrals should come from any one group.** If you rely more heavily on certain referral sources, your business could be at unnecessary risk and remember risk = lower value to potential buyers! Take the opportunity now to diversify your referral sources by developing new relationships and nurturing existing ones that represent a lower percentage of your current referrals. Having a strong referral network in place shows potential buyers that your business is stable and profitable, thus decreasing their risk.



**CLICK HERE TO
DOWNLOAD THE GUIDE
ON INCORPORATING
BALANCE THERAPY IN
YOUR CLINIC.**



Specialty Therapies

Differentiating yourself from your competitors is key to thriving in any industry, but especially in a field like physical therapy. Do you specialize in a service such as women’s (pelvic) health, pediatrics, or balance therapy? Specializations make you stand out within the PT community and increase the value of your practice because you can tailor services to a niche group. In addition, staff who hold specialty certifications are of considerable value to prospective buyers. By offering differentiating products and services in your market, you allow your practice to reach more patients which can lead to additional sources of revenue and billings, an attractive feature to potential buyers.

Established Branding

Did you know associating your clinic with your name can hurt your business valuation? Strong branding and community awareness is a key selling point for prospective buyers. However, if your name is what drives patients to your clinic, what could happen to your book of business when you step away from the practice? Consider establishing a name that appeals to your clinic’s specialty services, this results in a lesser risk of lost business to the buyer when you exit.



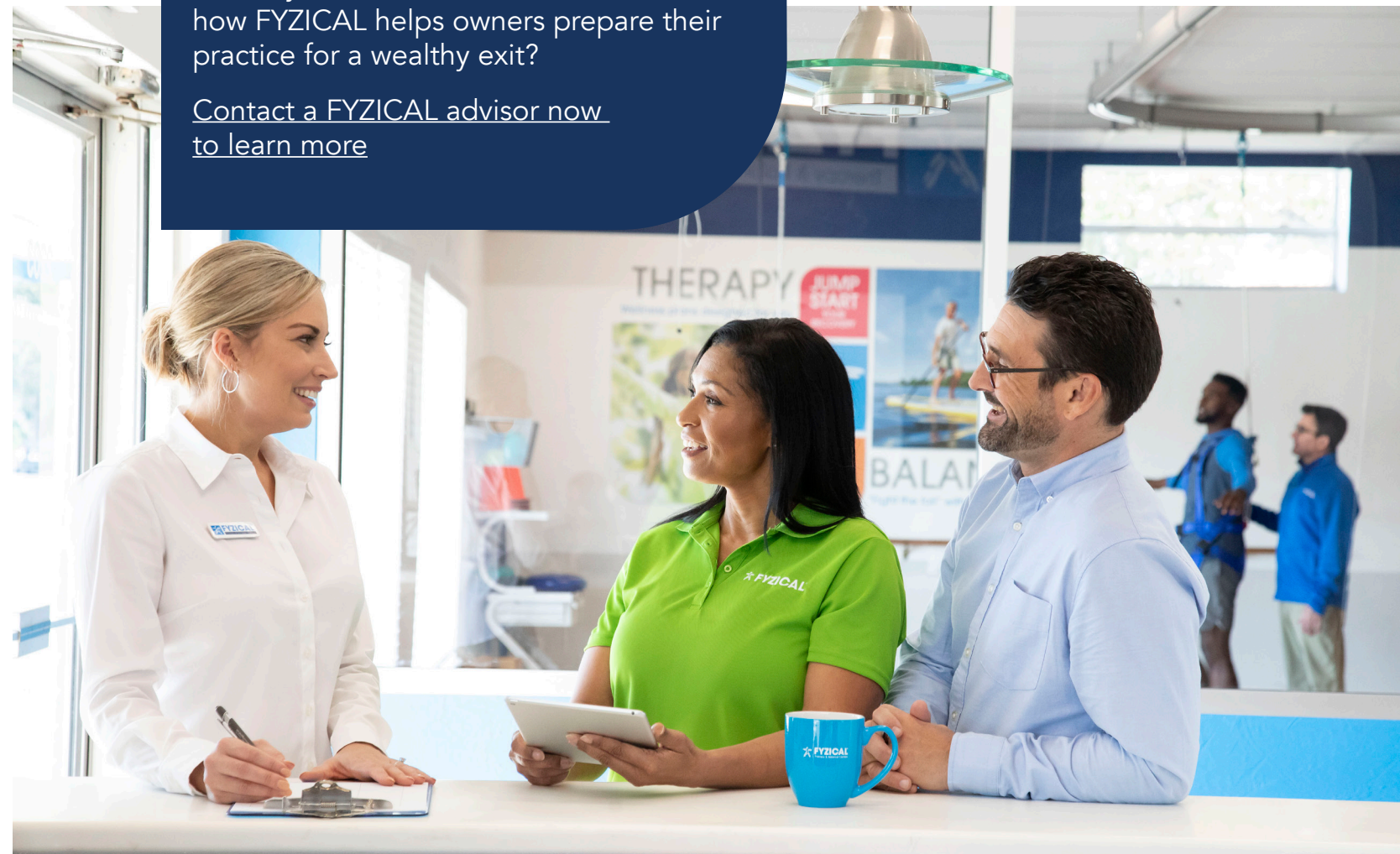
IS THERE A RESOURCE THAT HELPS ME DO ALL OF THESE THINGS AND MORE?

At FYZICAL, we've helped more than 400 practice owners maximize the value of their businesses while keeping an exit strategy at the forefront of their planning. Face it, we all want to retire, and you deserve it! Which is why having the right systems and processes in place to allow your practice to experience continued growth is key to obtaining the highest multiple on your practice when you do decide to exit. Successful selling comes down to one thing, building the right systems into your practice, and we can show you how.

We all know there were no business classes in PT school – but FYZICAL gives you the tools and training you need to successfully implement business systems and processes that lead to maximum growth and efficiency – the key to a wealthy exit. We are where passionate private practice owners and business experts team up to achieve the ultimate success! Let us help you learn the business of physical therapy so you can grow strategically and achieve your financial goals.

Would you like more information on how FYZICAL helps owners prepare their practice for a wealthy exit?

[Contact a FYZICAL advisor now to learn more](#)





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