WHAT IS YOUR PRACTICE WORTH?

7 THINGS YOU NEED TO KNOW BEFORE YOU SELL YOUR PHYSICAL THERAPY PRACTICE

FYZICAL®
Therapy & Balance Centers

Am I Actually Ready to Sell my Physical Therapy Practice?

If you're ready to sell your practice now, or just getting in the mindset to strategize for retirement in the next decade, you've come to the right place.

As a PT private practice owner, you've spent years building the practice that you have today, and beyond the sweat equity you've invested, you may be wondering exactly what a fair price for the business you've created would be.

Of course we know every practice and every situation is different, which is why we'll focus on the seven things you really need to know about selling your practice on the following pages.

1 GROWTH MATTERS

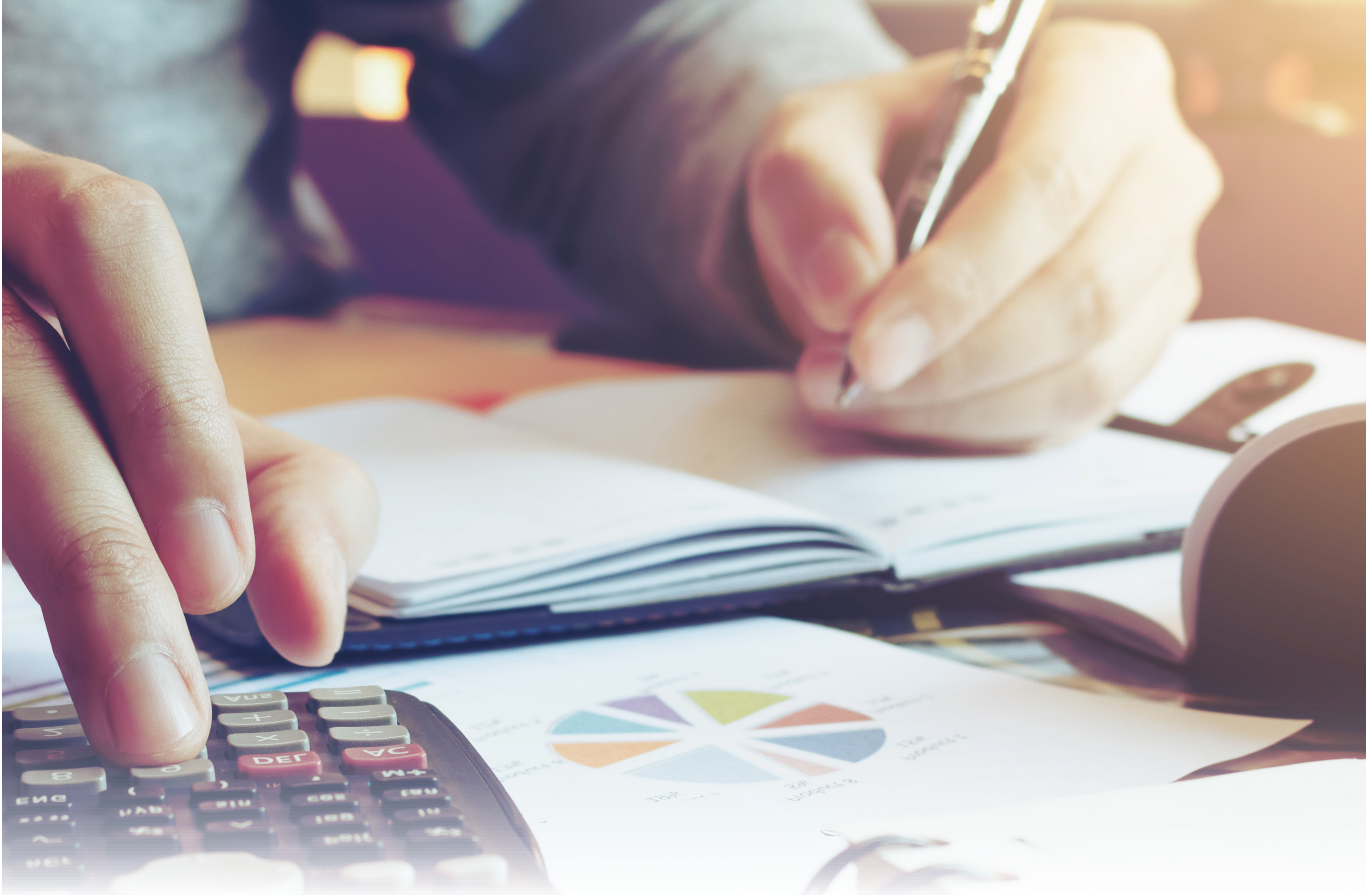
The first attribute of a strong private practice is growth. Growth is achieved when a private practice has repeatable processes and systems in place that allow for a clear measure of success, while also clearly identifying opportunities for improvement. Once your practice is able to duplicate your systems, you can grow almost limitlessly. When selling, a buyer is seeking opportunity for growth in their investment.

2 LOCATION MATTERS

Location. Location. Location (Not just an overused phrase on HGTV). Your location is crucial to the buyer. Are you in a market where the buyer can operationally take over responsibilities? Will it be a complement? What does the market look like (today and a few years from now)? Most acquirers are looking to either complement their current business or are looking to enter a new market with a hub and spoke concept for growth.

3 PHYSICIAN DIVERSITY MATTERS

If your referrals are still primarily coming from physicians, the diversity of your patient mix is an important factor. A practice with a broad referral base will be viewed as a less risky acquisition. As a rule of thumb, no more than 5% of your referrals should be coming from a single physician, and no more than 15% should be from a single group.



4 PAYER DIVERSITY MATTERS

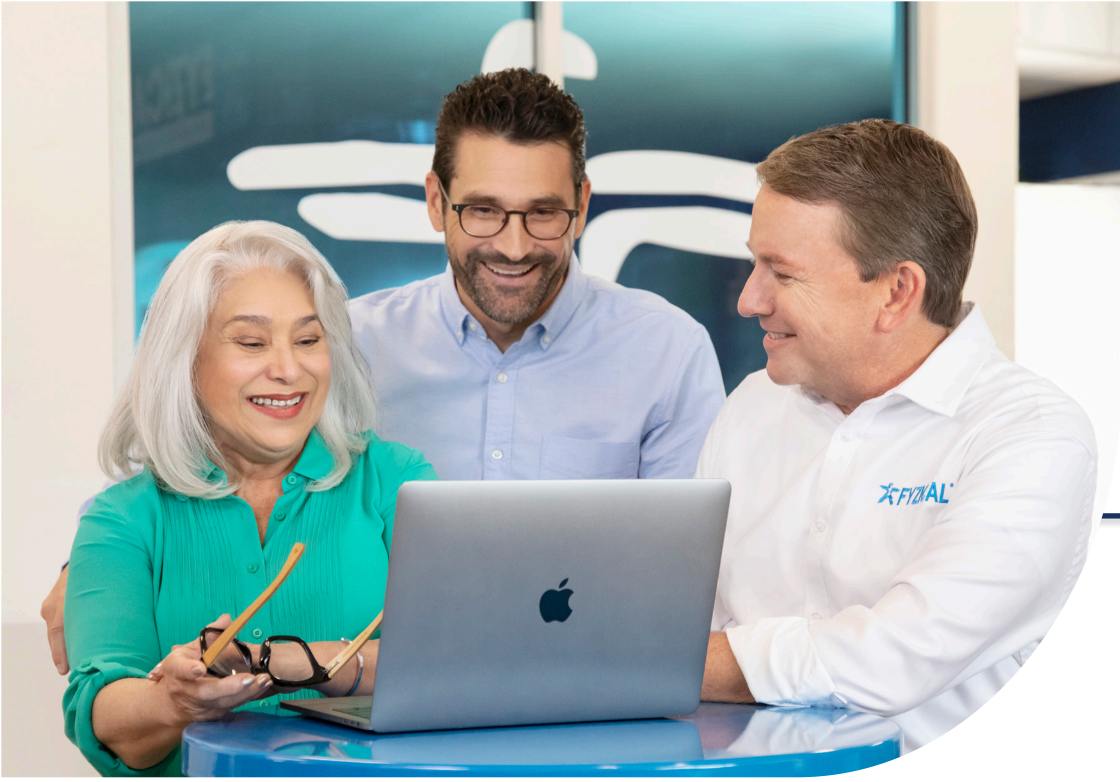
A potential buyer considers two important factors:

Reimbursement amounts per average visit. A high-average-dollar per visit reimbursement is preferred and indicates a healthy practice. A low-average-dollar per visit reimbursement is undesirable and may indicate difficulty for new owners to generate the type of ROI necessary to justify the acquisition.

Total revenue from one payer source. A payer base with any one payer source representing greater than 25% of your total revenue may be considered a risky acquisition.

5 OWNER DRIVEN PRACTICE MAY DECREASE VALUE

The more dependent a practice is on the owner, the less a buyer is usually willing to pay. An owner who is treating patients is oftentimes the most productive clinician in the practice. They have the highest visits per average and are the top revenue generating clinician. This creates a risky proposition for a potential buyer. At the time of acquisition, if the owner intends to retire then performance is going to drop immediately when they are replaced. A more desirable acquisition is one where the owner is seldom relied upon for day-to-day activities.



6 PROFIT IS KING. SALARY IS NOT PROFIT.

Another factor (often times the #1 factor) that will determine how much you are paid for your practice is your profitability. A buyer wants to acquire a profitable practice so they can determine a reasonable ROI and have expectations on when they will get their money back. A common misconception practice owners make is to believe salary equates to profits.

For example, an owner taking home $110,000 on a $700,000 annual revenue practice will often state they are operating at 15% profitability ($110,000 divided by $700,000 = 15%).

However, upon closer look we discover that $80K was income and $30K was dividend distribution. If the business were acquired, the new owner would logically have to pay an employee an $80K salary to do the job functions the previous owner was performing. Therefore, the profitability was not $110,000 it was $30,000. A huge difference when 'The Multiple' (explained on the next page) is factored into the equation.

Pro-Tip

Complementary Services bring in cash flow outside of insurance reimbursements.

Savvy buyers want to see a practice that has diversified revenue streams. These services can boost profit margins in your practice. Some options for ancillary cash-based services for PTs include:

- Massage
- Laser Therapy
- Aquatic PT
- Health-based fitness
- Orthotics fittings/gait analysis
- Retail products
- Cupping and dry needling
- Assisted Stretching
- Acupuncture
- Wellness Services

7 Understanding Valuation Factors

When trying to determine the fair value of your practice, you'll want to have a clear understanding of what your valuation factors are. Let's establish some basic terms and definitions you're sure to come across in this process. .

Asset Sale: A sale of all assets owned by a business entity. With this type of sale, the acquiring entity does not take ownership of the selling entity's name, tax ID, etc.

Corporate/Equity Sale: A sale that includes all corporate assets as well as the corporation itself, including its name, tax id, etc.

Profits: Money remaining after all salaries (including owner's) and expenses have been paid.

EBITDA: A seller will often classify your profits as your EBITDA. This is your Earnings BEFORE Interest, Taxes, Depreciation and Amortization.

The Multiple: Viewed simply, it is a number that will be multiplied times the profit amount to derive the dollar amount a buyer is willing to pay to acquire your practice. In today's world, the multiple used for acquiring typical PT practices ranges from two to four times. (*Larger businesses can be well north of 4x).

Assets: This number is the fair market value someone would pay you if you were forced today to liquidate your assets, such as treadmills, ultra-sounds, tables, etc. Usually this is 10-20 cents on the dollar of what you originally paid.

Cash on hand: The amount of money that exists in the operating account at the time of sale.

Accounts Payable: The amount of money due on short term obligations.

Liabilities: Monies owed to satisfy debt and any other monetary obligations.

So, What is My Practice Worth?

There are numerous factors (including those on the previous page) involved in determining the final value you will be offered for your practice. It is a complex transaction and negotiation involving the wants and needs of both the seller and buyer. As such, the final transaction may take on any number of shapes and forms. However, in simplest terms, the formula a potential buyer will use to determine your practice's value is:

EBITDA X MULTIPLE = OFFER

An $800,000 annual revenue company generating $125,000 of profit times a multiple of 3 would be valued at $375,000 ($125,000 x 3 Multiple). For example, if this practice improved its pre-tax profits to $200,000, then this times a multiple of three ($200,000 x 3 multiple) would equal a $600,000 asking price. By enhancing your profit, you would drastically increase the amount you could sell your practice for to a buyer.

KNOW YOUR BUSINESS TO GROW YOUR BUSINESS

There were no business classes in PT school - but FYZICAL empowers you through tools and training to successfully implement business systems and processes that lead to maximum growth and efficiency in your practice -- the *key* to a wealthy exit strategy!

DO YOU NEED HELP MASTERING THE BUSINESS OF PHYSICAL THERAPY?

FYZICAL is where passionate private practice owners and business experts team up! We help you master the business of PT so you can grow strategically and achieve your financial goals. Find out what you can do today to plan for a better tomorrow.

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