



WHITE PAPER

What Is My Medical Practice Worth?

The purchase or sale of a practice will be one of the largest and most complex transactions a physician will ever undertake. Understanding the factors that go into pricing a medical practice can help ease the process, and ensure that both buyers and sellers feel they receive a fair deal. Estimates of value may differ significantly, depending on the purpose of the appraisal, the acumen of the appraiser, etc. To help determine the value, there are some important questions to consider. What is the value of the practice for purchase or sale? What is the value of a practice for merger? What is the value of practice assets for joint venture with a corporate partner? What is the value to establish buy-in or buy-out arrangements for partners? What is the value of practice assets for purchase or sale, apart from ongoing operations?

Needless-to-say, there are many, many considerations that go into a medical practice valuation. In short, however, a medical practice's tangible and intangible assets can be grouped into two broad categories: physical assets and non-physical assets. Examples of physical assets include real estate, medical records, leaseholds, medical equipment and furnishings, and accounts receivable (A/R). Examples of non-physical assets include goodwill, restrictive covenants, buy/sell agreements, managed care contracts, and an assembled workforce.

For most practices, the value of the furniture, equipment and other assets is small and may not amount to very much. On the other hand, supplies inventory may have significant value and is usually valued at the historic cost of each item. Other tangible assets include prepaid expenses such as malpractice insurance (which may be quite significant). Additionally, if the physicians own their office building, it will need to have a current (within two years) appraisal. Any mortgage balance will be subtracted from the building's fair market value in order to determine the equity interest of the physician owners.

Accounts receivable is often one of the largest assets of a medical practice. Since physicians never collect 100% of what there are owed, an adjustment is taken into account when valuing practices. A common method to deal with this discrepancy is to use a historical collections rate and apply it to outstanding accounts receivable. This also becomes a point of negotiation because a buyer's collections success may differ from the seller's collections success.

Intangible assets are by far the most subjective elements of a medical practice valuation. What is the value of restrictive covenants? What is the value of the existing medical practice staff? Valuation considerations here should also take into account the payor mix, patient demographics, level of competition, and the geographical location of the practice. And as disheartening as this may be for practice owners to hear, goodwill may be zero in some instances. That is, it may have very little value depending on whom the practice is being sold to.

ABOUT ABISA

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