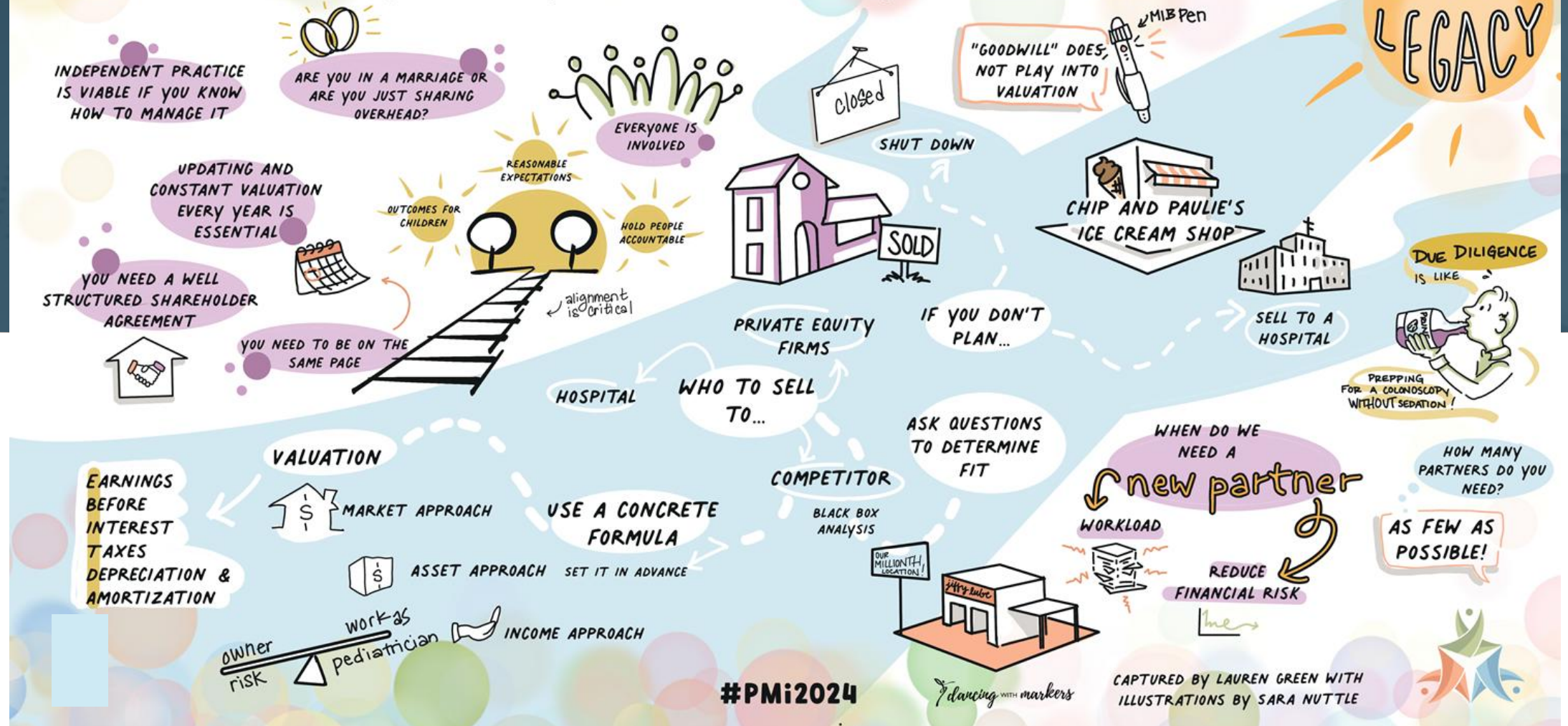


# SUCCESSION PLANNING & VALUATIONS

PMi CONFERENCE 2024 | HOUSTON | PAUL VANCHIERE, MBA | FEBRUARY 2, 2024





# Paul D. Vanchiere, MBA

Pediatric  
Management Institute  
- *Principal Consultant*

Greenwood Pediatrics  
- *CFO*

# Today is not a substitute for Legal or Accounting Advice

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PMI does not offer legal or accounting services. As such, all information shared should be reviewed with your attorney to ensure compliance with applicable state and federal laws.



Today's presentation focuses on the operational aspects of practice valuations, mergers and/or acquisitions as a guide to educate you on issues involved.





# PEDIATRIC MANAGEMENT

A DOWDEN PUBLICATION

OCTOBER 1993

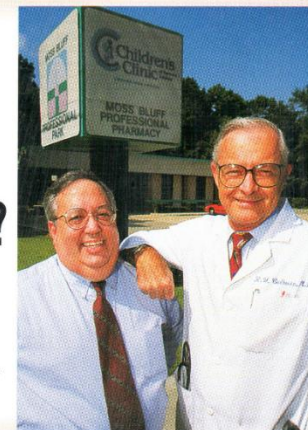
**Effective  
Sexuality  
Counseling**  
*10 Key Tips*

**The 'Raleigh  
Response' To  
Managed Care**

**How Parents  
Select Their  
Pediatrician**

## WHAT MAKES THIS PRACTICE SO SUCCESSFUL?

*Drs. Charles 'Buzzy' Vanchiere,  
Dick Calboun and their  
colleagues at the Children's Clinic  
of Southwest Louisiana share the steps  
that have turned their practice into  
a \$4.2-million powerhouse*





# Agenda

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Succession Planning 101



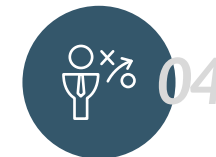
Review some valuations



Walk through an example



Things to consider



# Strong Headwinds For Independent Pediatric Practices



## Declining Margins

Flat Payments  
Increasing Costs  
Shrinking Margins



## Competing With Hospitals

Higher salaries with RVU incentives

Debt forgiveness programs






## Reduced Supply Of Pediatricians

Reduced interest in pediatrics versus other specialties





The future  
is still very  
bright....



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## Want more pay? Work for a private practice

January 23, 2024  
Todd Shryock


[News](#) [Article](#)



*Survey shows that on average, physicians in private practice made more money than those working for hospitals*

Software Advice's [2023 Physician Compensation Survey](#) examined the prevailing trends in physician salaries, and private practices are the place to be if you want a better salary.

Private practices continue to offer the highest [salaries](#), with physicians witnessing an 8.4% median salary increase from \$253,731 in 2022 to \$275,072 in 2023. In contrast, hospitals present a mixed picture, showing an average increase of 3.3% but a decrease in median salaries from \$252,011 in 2022 to \$244,373 in 2023.



*Private practice pays better:*  
©Pixelrobot - stock.adobe.com



## Practice Culture



## Shareholder / Partnership Agreement



## Practice Valuation



## Compensation

*Base Pay*

*Split The Pot*



# What Is Your Practice Culture?

- Eat What You Kill or Socialist Model?
- Financial Rewards & Incentives Drive Productivity & Actions
- Only So Much Money Left Over (Profits)
- What Is The Strategic Vision Of The Practice
- Avoid Creating Dis-Incentives / Unintended Consequences
- Cost Sharing or True Partnership?

# Alignment

What do you want from the practice of medicine?

What is the roadmap to get there?



## Process

1. Partners/Owners discuss
2. Associates discuss
3. Create unified vision
4. Identify gaps and cost to fill
5. Then move to financial issues, etc.



# Attributes Of Successful Practices

Provide the  
best possible  
medical for  
children



Set  
reasonable  
expectations



Hold people  
accountable



# Does Your Strategic Plan Set Reasonable Expectations...

## For everyone involved?

Financially



Operationally





## Your Family

- Goal Articulation
- Family Information and Communication
- Estate and Gift Planning
- Life Insurance Analysis
- Investment Advisory Services

Everyone  
Is  
Involved

## Your Partners

- Business Strategy Assessment
- Management Talent Assessment
- Corporate Structuring
- Current Business Valuation
- Succession Planning

## Your Practice

- Shareholder/Partnership Agreement
- Disability Planning
- Compensation Planning
- Stock Transfer / Equity Transfers

# Plan For The Future



01



Have you defined your **personal goals and a vision** for the transfer of ownership and management of the practice?

02



Do you have an **identified successor** in place?

03



If applicable, have you resolved the **family issues** that often accompany leadership and ownership decisions?

04



Does your plan include a strategy to **reduce estate taxes**?

05



Will there be sufficient **liquidity** to avoid the forced sale of the business?

# Partner/Owner Compensation

## Base Salary

- Based on days per week seeing patients
- Be mindful of Social Security Wage Base
- Approximately 10-20% higher than employed providers
- *Must examine margin on each to ensure appropriate*

## Vaccine Margin

- Split based
  - Equity Position
  - Volume (wRVU's, Visits, etc.)



## Productivity Bonus

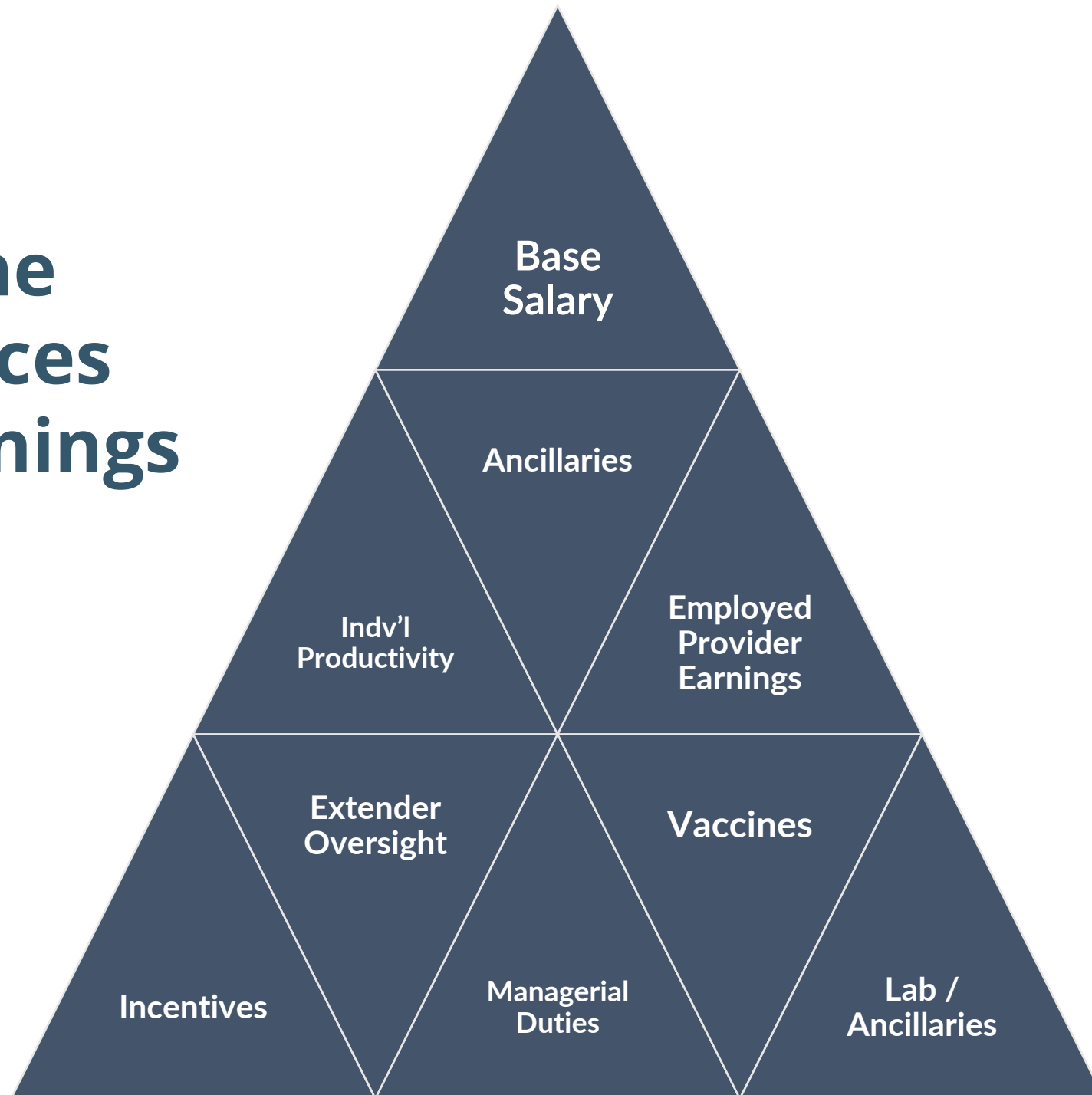
- Standard Revenue Generated Model
- wRVU

## Employed Provider Margin

- Split based on equity position or supervision responsibilities



# Nine Sources Of Earnings



# Succession Planning 101:

## When You May Need A Partner

Share the workload

Too much for partners/owners

Share / Mitigate Individual Risk

One (or both) is hesitant to go “all in” on the investment

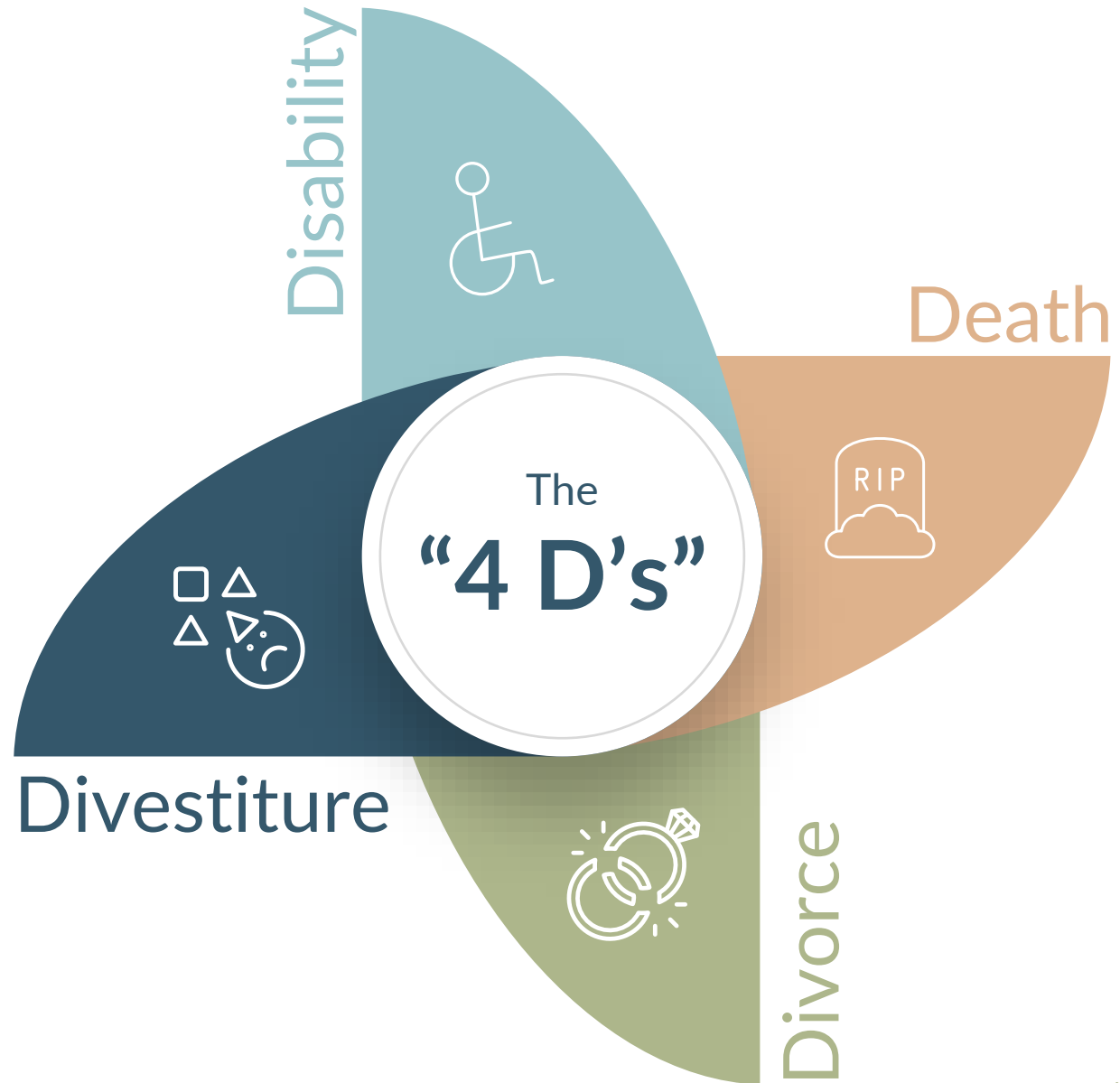
Need capital for expansion

Neither have the capital to add new locations or expand the practice

Equity redemption

One of them want to move on to fulfill their passion in other areas / retire

# Plan for the Future





## Succession Plans... the worst options...



# Tough Marketplace...



Limited qualified buyers

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Limited interest

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No two practices are similar enough to estimate a “fair” price

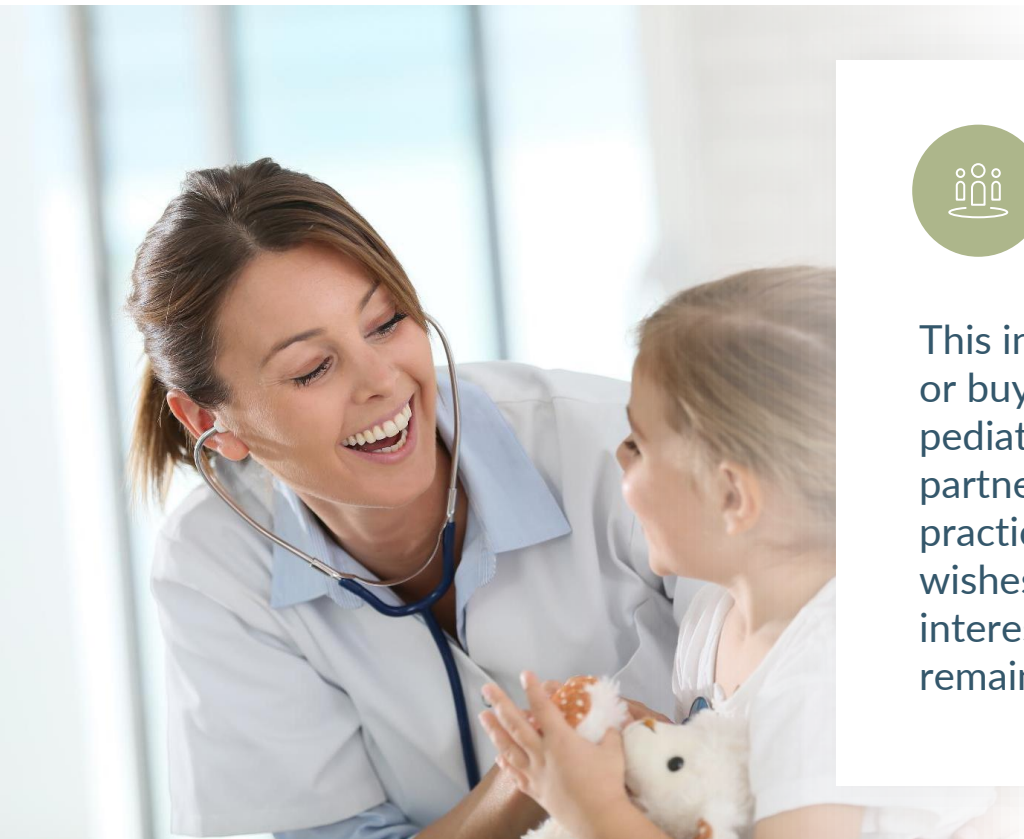
- › Medicaid/Private pay percentage
  - › Lack of standards
- 



Very different from the housing market to find comparable

# Exit Strategy Options

## Internal Options



This involves an "internal" buy-in or buy-out scenario where a pediatrician becomes a new partner/shareholder in the practice or an existing pediatrician wishes to retire and sell their interest in the practice to the remaining partners/shareholders.



Valuations in such cases generally tend to be lower compared to those offered by private equity-backed investments. Various factors come into play, including the practice's cultural expectations regarding profits and their distribution of profits.

# Reality



Mid-career pediatricians with:

1. Medical School Debt
2. Recent Home Purchase
3. Long Term Expenses For Children



# Traditional Valuation Methods



## Income Approach

Determining the value of the practice by converting future economic benefits into a single present amount



## Asset Approach

Determining the practice's value based on the assets net of liabilities.



## Market Approach

Comparable Sales- comparing the practice to similar businesses, business ownership interests, securities or intangible assets.



## Discounted Cash Flow (DCF) Analysis

- Estimates future cash flows and discounts them back to the present using a required rate of return.
- *A business is projected to generate \$1 million in free cash flows over the next 5 years. Discounted at a 10% rate, the present value of those cash flows is \$750,000.*

## Multiple of Earnings

- Applies a multiple to a business's earnings to derive a value. Common earnings multiples include P/E, EV/EBITDA.
- *A business has EBITDA of \$2 million. An 8x multiple yields a valuation of \$16 million (\$2 million x 8).*

## Asset-Based Approach

- Totals the net value of a business's tangible assets to determine an asset-based value.
- *A business has \$5 million in assets and \$2 million in liabilities. Its asset-based value is \$3 million (\$5 million - \$2 million).*

## Market Comparison

- Compares the subject company to similar publicly traded companies or previous transactions.
- A business is valued by comparing EV/EBITDA multiples to 5 similar public companies. The average multiple of those companies is used.

## Rule-of-Thumb Benchmark

- Applies an industry-specific rule-of-thumb multiple to a business metric.
- A SaaS company is valued at 5x recurring revenue. If recurring revenue is \$10 million, value is \$50 million.



# Valuation Objective



**Establish a fair and mutually agreed upon price to facilitate the transfer of ownership in the practice.**



**Establish a concrete formula that can be referenced or updated as the need arises.**



## **Eliminate Uncertainty**

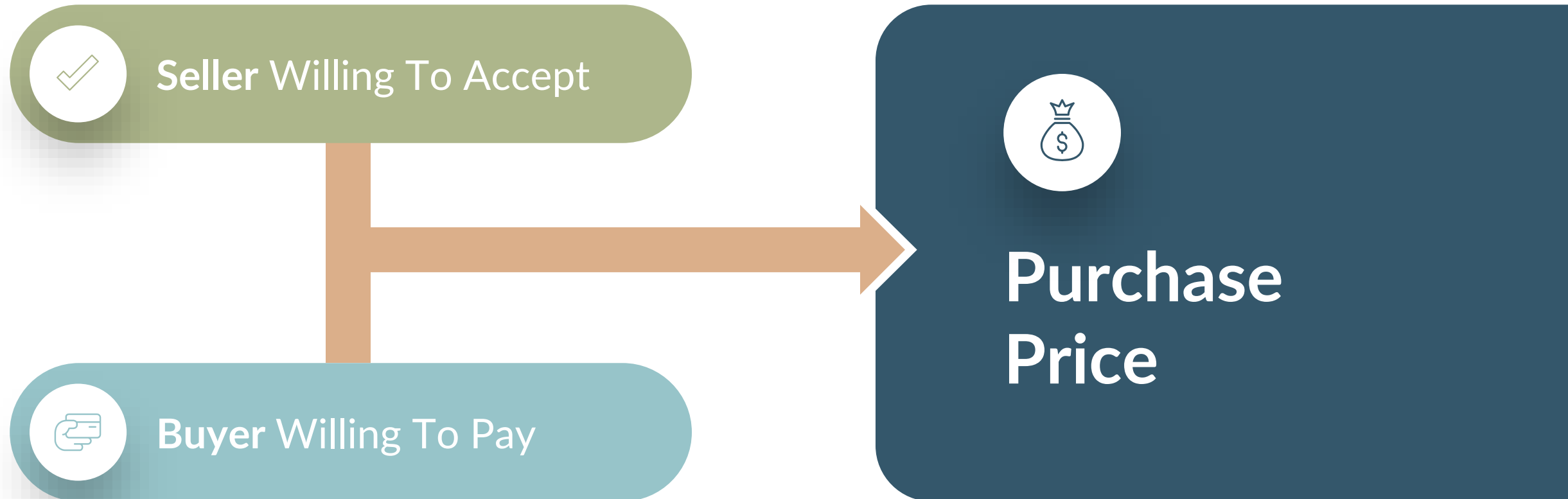
Set the expectation in advance of the need.

---

If you wait until stressful time to establish a value, emotions get in the way of a fair deal for both sides.



# What Is A “Fair” Price?





# Practice Valuation Summary

## Acme Pediatrics

As of December 31, 202X

### Practice Valuation Summary

Acme Pediatrics

As Of December 31, XXXX

|   | 12/31/XXX    | Formula  | Notes   |
|---|--------------|----------|---|
| <b>Part A- Earnings</b>                     |              |          |   |
| A Total Revenue                             | \$ 4,500,000 |          | 12-Month Total                                      |
| B Total Expenses                            | \$ 4,400,000 |          | 12-Month Total                                      |
| C Net Ordinary Income                       | \$ 100,000   | A - B    |   |
| D Total Partner Salaries                    | \$ 400,000   |          | As reported on provider earning summary             |
| E Total Partner Reimbursed Expenses         | \$ 20,000    |          | As reported on provider earning summary             |
| F Total Partner Retirement                  | \$ 40,000    |          | As reported on provider earning summary             |
| G Net Income                                | \$ 100,000   | C        |   |
| H 12-Month Estimated Total Partner Earnings | \$ 560,000   | Sum D:G  |   |
| I Employed Provider Salary                  | \$ 165,000   |          | As reported on provider earning summary             |
| J Employed Provider Bonus & Retirement      | \$ 12,500    |          | Average of Employed Providers                       |
| K Employed Provider Total Comp              | \$ 177,500   | I + J    | Salary + Bonus                                      |
| L Number of Partners                        | 2.00         |          | Listed number of Partners/Owners of Practice        |
| M Per Partner Earnings                      | \$ 280,000   | H / L    | Average Partner/Owner Earnings                      |
| N Variance                                  | \$ 102,500   | M - K    | Benefit of owning practice as described in article. |
| O Multiple                                  | 1.10         |          | Multiple Of Earnings Estimated                      |
| P Part A Total                              | \$ 112,750   | N * O    | Per Partner/Owner Part A Value                      |
| Q Part a Total For Practice                 | \$ 225,500   | L * P    | Total Part A Value For Practice                     |
| <b>Part B- Assets &amp; Liabilities</b>     |              |          |   |
| R Cash on Hand                              | \$ 275,000   | Increase | As reported on Balance Sheet                        |
| S Equipment & Furnishings                   | \$ 40,000    | Increase | As reported on Balance Sheet X 20% Salvage Value    |
| T Vaccine/Med Supply Inventory              | \$ 10,000    | Increase | Estimated without inventory count                   |
| U Other Current Liabilities                 | \$ (30,000)  | Decrease | As reported on Balance Sheet                        |
| V Estimated Accounts Receivable             | \$ 185,000   | Increase | Calculated per based on 11/18/2020 report           |
| W Part B Total                              | \$ 480,000   | Sum R:V  | Total Asset Value                                   |
| X Total Value (Part A + Part B)             | \$ 705,500   | Q + X    | Total Earnings Value + Total Asset Value            |
| Y Estimated Per Owner Value                 | \$ 352,750   | X / L    |   |

# Exit Strategy Options

## *External Options*

## Hospitals



01

Decreasing in popularity but getting very creative!

02

Hospitals are no longer as willing to pay substantial amounts to acquire practices due to concerns regarding the costs outweighing the revenue from referrals.

03

Except for innovative joint-venture arrangements, hospitals are limited by Federal Stark laws, which restrict the amount they can pay to avoid any appearance of inducing referrals to the hospital's services.

04

Similar to private equity-backed investments or purchases, any pediatrician approached by a hospital for partnership or acquisition should review PMI's guide to ensure they ask the right questions and assess whether the opportunity aligns with their needs, the needs of their practice, and the well-being of their patients.

# Sell to Hospital

## Private Inurement

Applies to tax exempt hospitals – section 501 (c) (3)



Defined: No part of a hospital's net earnings may inure to the benefit of any private individual

- › *Just because a transaction may be “fair market value” does not necessarily make it “commercially reasonable”*

## Medicaid Fraud and Abuse

Known as the "anti-kickback law"



Prohibits payments, offers, or inducements of any remuneration for referrals

- › *Issue: If acquisition price exceeds fair market value, transaction may be considered a inducement for referrals “Commercially Reasonable”*

# Sell to Hospital

Usually Combination Offer



## Purchase of Current Practice

01

- Asset Driven



## Future Compensation Package

02

- Base Salary
- Benefits
- Production (wRVU Incentives)
- Limited by “Fair Market Value”



## Office Building Lease

03



# Excellent Reading...

## Compliance in Physician Employment and Hospital- Physician Integration

<https://assets.hcca-info.org/Portals/0/PDFs/...>



**File Size:** 620KB

**Page Count:** 63

- **Physicians** often concerned about **hospital's** ability to collect revenue • Payor mix/charity care may be a concern • Collection cycle will impact the **physician's** income and any bonus in the first year • Impact of ... +

[https://www.hcca-info.org/Portals/0/PDFs/Resources/Conference\\_Handouts/Regional\\_Conference/2010/Denver/YossesHalverhoutcolor.pdf](https://www.hcca-info.org/Portals/0/PDFs/Resources/Conference_Handouts/Regional_Conference/2010/Denver/YossesHalverhoutcolor.pdf)

# Sell to Network of Large Competitor

## Offers Access to Better Paying Contracts

Net effect is higher compensation for Pediatricians



01



Buyer has payment rates far greater than smaller practice can obtain

02



After allocating operating expenses, could see net increase in “take home pay” & benefits

03



Usually burdened with higher employee benefit costs

04



Loss of autonomy (not as bad as selling to hospital)

05



Less headache for seller in the future (HR issues, payroll, etc.)

# Managed Service Organizations (MSO's)

01

Popular in various regions

02

Usually has multiple specialties

03

“Strength in numbers” to leverage best locality for payments

04

Black box analysis to determine “added margin” stemming from increased payment rates and reduction of administrative costs

05

Normally no cash/equity when transaction occurs

06

Usually some involvement of private equity lurking in the background

# MSO Strategy



Access to higher  
payment rates



Give up equity in  
existing practice



*Stakeholders should compare the expected annual increase versus the lost equity to determine how many years to “break even”*

# Private Equity- Backed Firms

01

Relatively new to pediatrics

02

These organizations have actively pursued opportunities to acquire pediatric practices in recent years.

03

Private equity-backed firms have their own set of advantages and disadvantages, and careful evaluation on a case-by-case basis is crucial to ensure compatibility with the practice's culture and expected future financial performance.

04

Valuations in these situations focus on Earnings Before Interest, Taxes, & Amortization (EBITA), often resulting in higher pediatric practice valuations thanks to commonly accepted financial models.

If a practice's estimated EBITA is \$200,000, a private equity-backed firm may be willing to pay several multiples of that amount, potentially ranging from 4 to 6 times EBITDA, or even higher in rare cases.

05

Additional complexities arise with private equity-backed investments, such as long-term plans, future employment contracts, non-compete covenants, and operational issues. PMI's published "Roadmap For Buying/Selling A Pediatric Practice" is recommended as a resource to help practices navigate such opportunities effectively.



# There is a role in healthcare for PE-backed organizations... ...but not for everyone


 HealthLeaders Media

## Why One Rural Hospital CEO Advocates for Local Ownership Over Private Equity

In the United States, at least 386 hospitals have been acquired by private equity firms, with 34% of all private equity-owned hospitals...

2 days ago



 Washington Post

## Opinion | Private equity firms are gnawing away at U.S. health care

American health care already has a cost and quality problem. Private equity is making it worse.

2 weeks ago



 Bain & Company

## Healthcare Private Equity Market 2023: Year in Review and Outlook

Private equity investors continue to pursue healthcare IT deals, with rising competition from tech specialists and corporate investors.

3 weeks ago




 The New York Times

## Serious Medical Errors Rose After Private Equity Firms Bought Hospitals

The rate of serious medical complications increased in hospitals after they were purchased by private equity investment firms, according to...

1 month ago



 Harvard Medical School

## What Happens When Private Equity Takes Over a Hospital

At a glance: National study of quality of care in hospitals acquired by private equity shows worsening of fall and infection risk....



# Concerns versus Opportunities



## Fixation On Profits

They will ultimately flip

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Sacrifice care for profits?

Pediatricians can prevent this.



## Bring Deep Pockets

Expand Services?

New Services To Community


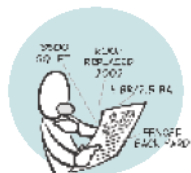







What To Do If No Internal  
Buyer?

Often Last Resort

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Practices have to ask the right  
questions, build a relationship,  
and hold them accountable

# PMI Roadmap For Selling/Buying A Pediatric Practice (It's Much Like Buying A House)

| PHASE I: DETERMINE FEASIBILITY & FIT   |   |  | PHASE II: CLARIFY TERMS & DECIDE TO MOVE FORWARD   |   |   | PHASE III: FINALIZE TERMS & COMPLETE TRANSACTION   |   |
|--|---|--|--|---|---|--|---|
| Facilitated by a trusted advisor or consultant - PMI is here to help! ( <a href="http://www.PediatricSupport.com">www.PediatricSupport.com</a> )   |   |  | Facilitated by a competent legal advisor   |   |   | Facilitated by a competent legal advisor   |   |
| STEP 1   | STEP 2  | STEP 3   | STEP 4   | STEP 5  | STEP 6  | STEP 7   | STEP 8  |
| <div></div> <div><b>Have an Initial Conversation</b></div> <div><ul style="list-style-type: none"><li>• A potential buyer reaches out to the practice or vice versa</li><li>• Potential buyer and seller have a preliminary discussion focused on information gathering</li></ul></div> | <div></div> <div><b>Review Preliminary Financials</b></div> <div><ul style="list-style-type: none"><li>• An NDA is executed</li><li>• Basic financials and KPI's are shared with the buyer</li><li>• A ballpark sale price is determined and shared with the buyer</li></ul></div> | <div></div> <div><b>Align Goals</b></div> <div><ul style="list-style-type: none"><li>• Buyer and seller have a deeper discussion to determine how the goals of the buyer and seller are aligned</li></ul></div> | <div></div> <div><b>Review Letter of Intent (LoI) or Term Sheet (TS)</b></div> <div><ul style="list-style-type: none"><li>• Buyer provides a LoI or TS to the seller</li><li>• LoI includes the broad terms related to practice valuation</li><li>• Seller reviews the terms and if comfortable, signs the LoI</li></ul><p><i>FYI: An actual purchase price may or may not be included in the LoI or TS</i></p></div> | <div></div> <div><b>Complete Due Diligence</b></div> <div><ul style="list-style-type: none"><li>• Buyer and seller complete an exhaustive review of all operational and financial considerations</li><li>• A final price is influenced by:<ol style="list-style-type: none"><li>1. Multiple of Earnings</li><li>2. Vaccine Inventory On Hand</li><li>3. Accounts Receivable</li><li>4. Equipment and Furniture</li><li>5. Existing Liabilities</li></ol></li></ul></div> | <div></div> <div><b>Negotiate Final Agreement</b></div> <div><ul style="list-style-type: none"><li>• Final sale terms are drafted and negotiated</li></ul><p><i>FYI: Negotiation can be an expensive and risky process</i></p></div> | <div></div> <div><b>Complete Transaction</b></div> <div><ul style="list-style-type: none"><li>• Buyer and seller sign paperwork</li><li>• Funds are exchanged</li></ul></div> | <div></div> <div><b>Move Forward</b></div> <div><ul style="list-style-type: none"><li>• Make operational and workflow adjustments as needed</li><li>• Decide whether to retain or recreate the brand</li></ul></div> |
| <div><b>BACKGROUND</b></div> <div>Share background information between the initial conversation and financial review steps</div>   |   | <div><b>ALIGNMENT</b></div> <div>Determine how well-aligned the buyer's and seller's goals are</div>   |  | <div><b>FINANCIAL</b></div> <div>How to reduce and prevent risks in the "Due Diligence" step</div>  |   | <div></div> <div><b>PEDIATRIC MANAGEMENT INSTITUTE</b><br/>HELPING PEDIATRICIANS SUCCEED</div>  |   |
|  |   | <div><b>LOGISTICS</b></div> <div>• Seller &amp; Buyer determine whether to move forward between Phase 1 and Phase 2</div>  |  |   |   |  |   |

## DISCLAIMERS:

- There is no recommended time guidance as the timing is dependent on unique variables of the practice and the individuals involved.
- Both the Seller and Buyer should be advised by competent legal/business advisors every step of the way.

## TAKE THE NEXT STEP:

- Pediatric Management Institute acts as a trusted advisor in the process of selling your practice. We will help you ask the right questions and gather the resources you need to negotiate a deal that aligns with your vision and interests.
- Set up a consultation at [www.PediatricSupport.com](http://www.PediatricSupport.com)

# Questions for Consideration

## BACKGROUND

*Considerations to gather background information between the initial conversation and financial review steps.*

**Top Question: What is the buyer's overall financial position & how can it be verified?**

Other Questions:

- What is the source of the buyer's funds, and how will the buyer validate their financial position?
- What are the buyer's plans for paying their debt?
- What experience does the buyer have in pediatrics, and what improvements would they make to this practice?
- Does the buyer support charitable giving?
- Will the buyer support community organizations that contribute to the well-being of children and families?
- How long does the buyer typically hold the practice before selling it?
- What is the buyer's history of returns on investment with similar deals?
- If the buyer is PE-based, what is their expected roll-up schedule and to whom do they expect to sell? (investment firms only)
- Has the buyer invested in other healthcare services or primary care businesses before?
- What have you learned from prior acquisitions that might help you now?

***Seller Self-Reflection:***

- What would make you walk away from the buyer?

## ALIGNMENT

*Considerations to determine how well-aligned the buyer's and seller's goals are.*

**Top Question: What does success look like for the future of this practice?**

Other Questions:

- What makes this practice valuable and attractive to the seller?
- How will the buyer add value to the practice?
- How will the buyer accelerate the growth of the practice?
  - Additional service lines
  - Geographic expansion
  - Vertical and horizontal expansion plans
- Does the buyer plan to acquire other practices?
- From the buyer's perspective, what are threats to pediatric practice, and how does their strategy address them?
- What feedback does the buyer have for the seller?

***Seller Self-Reflection:***

- Why choose this partner over other partners, new lines of business or other opportunities?



**PEDIATRIC  
MANAGEMENT  
INSTITUTE**

HELPING PEDIATRICIANS SUCCEED

## FINANCIAL

*Considerations to reduce and prevent risks/delays in the "due diligence" step.*

**Top Question: How was the value of the practice determined by the buyer?**

Other Questions:

- When sharing the seller's financial data...
  - What types of data is required?
  - How should the seller share data?
  - How many years of data is required?
- What revenue improvement(s) does the buyer expect? How?
- When it comes to multiple earnings...
  - How many times the buyer's annual profit is the seller willing to pay up front (cash versus equity)?
- When it comes to vaccine inventory...
  - What is the value owned versus amount due in vaccines?
- When it comes to accounts receivable...
  - Will the buyer purchase the accounts receivables?
  - If not, what happens to revenue from Date of Service prior to acquisition?
  - How will the buyer and seller determine the value?
  - How will the practice handle refund requests and recoupment from before and after the sale?
  - If there is a credit sitting on the books, who will pay for it?
- When it comes to equipment and furniture...
  - What is the book value versus salvage value?
- When it comes to existing liabilities...
  - How will the practice handle employee liabilities prior to the close (PTO, retirement, etc.)?
  - Who is responsible for the billing activity prior to close?
  - If the practice finds that someone is fraudulently billing, who is responsible for paying back?
  - Who is responsible if the government requests recoupment of stimulus dollars?
- Typically, how long is the process from signing the Letter of Intent to closing?

## LOGISTICS

Considerations to help the seller determine whether to move forward between phase 1 and phase 2.

### Human Resources

- How does the buyer plan to recruit in the future?
- What HR resources does the buyer provide?
- **When it comes to benefits for all staff...**
  - What will the benefit package look like?
  - What will happen to the existing benefits?
  - How will employee tenure be accounted for?
  - What professional growth opportunities are there?
- **When it comes to benefits for providers...**
  - Will the seller be included in the determination of compensation packages?
  - How will the buyer determine retained providers' salaries?
  - What type of medical liability insurance will the buyer provide?
  - What will a base salary schedule and benefits look like (CME benefits, professional development, dues coverage)?
  - If salaries to recruit new providers increase, how will the buyer adjust the salaries for retained providers?
- **When it comes to hiring and firing decisions...**
  - When will the buyer determine which employee(s) to keep?
  - What will happen to displaced staff?
  - Will the seller have a say?
  - When should the seller expect to lose billing staff?
- If the buyer is new to the area and doesn't have the critical mass to negotiate reimbursements with local insurance companies, how might they pay competitive salaries?

### **Seller Self-Reflection**

- How well do the buyer's bonus incentives align with seller's values?

### Providers

- Will providers at this practice be expected to rotate/work at other locations acquired by the buyer?
- Will providers have a say in...
  - Completion of this deal (provide contracts, restrictive covenants, pay structures-current and future, etc.)?
  - Decisions to move or merge the practice to a new location or merge it with another practice?
  - Capital improvements?
  - (in the event of buyer insolvency) First dibs on purchase of the practice or a say in choice of new owner?
- If providers decide to leave post-acquisition...
  - What limitations will they face (i.e. non-compete agreement(s), etc.)?
  - For a "claim made" on a malpractice insurance policy, who's responsible for tail coverage?
  - How will the buyer release medical records back to providers?
- Is the buyer willing to escrow/pre-pay medical liability insurance tail premium for all providers in the event that the practice is unable to achieve its financial goals?
- What monthly/quarterly/annual reports will be available?
- Will the buyer buy the provider's facilities?

### Technology

- What tools will be used to run the practice (near term and long term "technical stack")?
  - What EHR will the practice use?
  - What will the data conversion look like?
  - How will the practice be trained?
- Who will manage the IT infrastructure?
- Who has access to the practice data?

### Transitioning the Business

- What physical changes will the buyer make to the office?
- Does the buyer plan to shift marketing strategy?
- When it comes to making a smooth transition...
  - How will the buyer support providers and staff?
  - How will managers be supported?
- When it comes to operations...
  - What access will the seller have to productivity reports?
  - How will the seller's purchasing change?
  - Who will control workflow configurations (EHR protocols, defaults, auto-notes, etc.)?
  - What other major workflow changes does the buyer anticipate?
- If there is dissatisfaction in the next 2-3 years...
  - What is the extraction plan?
  - Is there a time-limited buyback option?
- When it comes to buyer/seller divorcing...
  - How much warning will the buyer need to give?
  - Is the seller able to maintain operations (location, communication, hiring)?
- When it comes to practice owners...
  - How will the buyer incentivize meeting targets?
  - In the past, how long have former practice owners stayed after selling?
  - Are current owners able to "roll" equity and become shareholders/partners in the future practice entity?



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## Billing Data

- Exported data from the billing system (CPT, Modifier, DoS, Site of Service, Rendering provider, primary payor/insurance, charges, payments, adjustments)
- Patient panel list of active patients (Under the age of 21 seen in the past three years- Patient ID, DoB, Zip Code, Date Last Seen, Primary Insurance Payor)
- Exported data from clearinghouse (details vary by vendor)
- A/R Aging Report as of current date, three months ago, and twelve months ago (By Payor)
- Total visits, charges, payments, and adjustments by payor for each of the last three years
- Copy of Patient Financial Policy
- List of every provider NPI number used by practice in the past five years

## Clinical Information

- Laboratory/X-Ray menu
- Copy of New Patient Welcome packet
- Copy of patient and employee vaccination policies
- Narrative related to clinical services provided in addition to usual pediatric services (lactation, behavioral health providers, etc.)

## COVID Relief

- Narrative & supporting documentation related to any SBA EIDL loans
- Narrative & supporting documentation Employee Retention Credit and documentation specifically related to practice qualification
- Copy of each report submitted report for HRSA grant (and supporting documentation)
- Copy of Paycheck Protection Plan forgiveness confirmation and supporting documentation
- Narrative and supporting documentation related to any state-funded COVID relief funding received by the practice

## Facilities

- List of each practice location
- Copy of lease for each practice location
- Floorplan for each practice location
- Narrative of details related to ownership if any of the practice locations are owned by any of the physicians in the practice
- Narrative related to improvements needed for current practice location(s)
- Narrative related to future relocation or new location(s)
- Narrative about anticipated future equipment/furniture needs

## Financials

- Monthly Profit & Loss Report for last three years plus YTD (Each column should show the monthly total)
- Profit & Loss Report for each of the last three years
- Balance Sheet as of the last day of each of the last three years plus the most recent month available
- Monthly bank statements for the past two years
- Monthly bank statements on any loans for the past year
- Monthly credit card statements for the past two years
- Copy of last three years of tax returns for practice
- Copy of W2 and K1 (if applicable) for each partner/shareholder for each of the last three years
- An abbreviated summary of each provider's compensation for the prior year (Base salary, bonus, benefits costs, and retirement plan contributions)
- Statement of Cash Flows for each of the last three years
- List and narrative related to any officer/employee/provider loans outstanding (not needed for retirement plan loans)
- Narrative related to any off-balance sheet liabilities
- Current line of credit information and list of personal guarantees
- Depreciation schedule as of the last tax filing
- List of equipment and furniture with estimated replacement cost and expected remaining life

*Special thanks to Chip Hart from PCC, Dr. Patrick Pulliam from Covenant Care Pediatrics, and David Bannett, CPA from Center City Pediatrics for their contributions towards this list of due diligence items.*

## Human Resources

- All employment contracts (providers and administrative team)
- Employee Roster with name, position, base wage, previous year's earnings, length of service at the practice, and bonus programs
- Employee 3-year wage history (payroll register export from payroll system)
- Copy of employee handbook
- Copy of employee benefits summary and rate sheets for the current year
- List of employee terminations and related documentation for the past year
- Copies of all employee Performance Improvement Plan(s) and copy of related documentation for the past two years
- List of any familial relationships within the practice (employees/providers who are related)
- Narrative describing any contract/1099 employees
- Copy of each employee's last performance review
- CV for any non-provider salaried employee(s)
- Copy of any PEO contract(s) for the current year, if applicable
- Copy of practice IRS 940 forms filed for the last five years
- Copy of practice IRS 941 forms filed for the last five years
- Narrative related to how the practice currently recruits for open non-provider positions
- Narrative related to how the practice currently recruits for open

## Insurance

- Claims history from medical malpractice carrier
- Claims history from property/general liability carrier
- Claims history from unemployment dept



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## Information Systems

- Current EMR/Practice Management software contract
- Current contract(s) for practice website and reputation or social media management
- IT questionnaire (EMR, billing system, network design, etc.)
- Copy of last HIPAA compliance audit results
- Copy/results of last PCI-compliance audit
- Practice website domain registrar and current expiry date
- Narrative describing any practice-provided email for employees and providers
- Narrative describing the use and volume of telemedicine utilized by the practice
- Details about any HIPAA-related data breach(es) for the past ten years
- Copies of all Business Associate Agreements currently in effect (Vendors, contract employees, etc.)

## Market

- List of hospitals where providers have admitting privileges
- Narrative related to who the practice views as competition

## Payor Relations

- Narrative and documentation for any payor contracting entities the practice is a part of
- Narrative and documentation for any value-based contracts the practice is a part of
- Narrative and documentation for any capitated contracts the practice is a part of (Payor name, number of lives, monthly rate, carve outs, etc.)
- Copies of all existing payor contracts
- Listing of all know provider relations representatives (Name, phone, email, etc.)
- Copy of any payor audit notifications and determinations for the past three years

## Retirement Plan

- Copy of signatory designee(s) for practice's retirement plan
- Copy of most recent year retirement plan testing/fund results
- Copy of current Fidelity bond for retirement plan
- Most recent IRS Form 5500 for practice's retirement plan

## Legals

- Copy of existing partnership/shareholder agreement and details around ownership percentage
- List, by partner/shareholder, showing all other businesses they own, etc.
- Copy of current partnership / shareholder agreement (and any amendments)
- Certificate of Good Standing from Secretary of State
- Articles of Incorporation and any amendments
- Outside billing service agreement (if any)
- Copies of all current service agreements
- Copies of any equipment lease agreements (copiers, lab equipment, etc.)
- Copies of all NDA's still in effect
- Copies of any power of attorney agreements
- Copy of signatory designee(s) for any financial institutions holding practice assets & liabilities
- List of harassment, wrongful termination and discrimination disputes within the past three years
- List of all known and pending legal actions against the practice (general liability, employment, medical malpractice, etc.)
- Description of any labor disputes, arbitration or grievances, settled or outstanding over the past three years
- A list of any officers or shareholder/owners in criminal or civil litigation
- Confidentiality, non-compete or similar agreements for current employees and for those currently in effect
- Copy of any IRS notification received in the past five years
- All pending lawsuits against the practice in the past 10 years (please provide copy of filing and narrative related to current status of the case)
- All pending lawsuits initiated by the practice in the past 10 years (please provide copy of filing and narrative related to current status of the case)
- Copy of any trademark or patent filings owned by the practice or any employees
- Narrative related to any expected protections around Intellectual Property to be retained by any employee(s) or provider post acquisition
- Copy of agreements for any consultants hired by the practice during the last five years

## Providers

- Copy of any calculations to determine partner/shareholder earnings for each of the last three years
- CV for each provider
- Copy of DEA certificate and State Medical License(s) for each provider
- List of all providers previously employed by the practice for the past five years
- Narrative related to any medical board review disciplinary hearings in the past 10 years
- Copy of each provider scheduling template

## Miscellaneous

- List of all vendors providing services to the practice (Company name, services provided, account number, primary contact, etc.)
- Copies of the last three VFC audits submitted
- Copy of most recent Vaccine Buying Group contract
- Copies of any joint venture agreements with the practice
- Narrative related to hospital services provided and after-hours call service
- Narrative related to any status of paper charts (still in use, all in storage, etc.)
- Narrative related to the practice phone system (type, who manages it, etc.)
- Copy of phone system maintenance/lease contract, etc.
- Copy of current business license for each location
- Copy of last six months of vaccine invoices
- Address of all previous practice location(s)
- Copy of last private vaccine inventory count
- Copy of Proof Of Coverage for current general liability insurance
- Narrative and documentation related to any insurance claims and coverage denial for the past ten years (general liability, cyber insurance, etc.)
- Copy of vaccine relocation plan in event of extended power outage
- Detailed listing of any automobiles leased/owned by the practice



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# How PE-Backed Firms Deliver Profits



## Horizontal Strategies

### Practice Acquisitions

---

Expanded Services / Location  
/ Market share / Provider  
Counts



## Vertical Strategies

### At Risk Capitated Contracts with state Medicaid programs

---

- Approximately 50% of all US children receive care through Medicaid and/or the Children's Health Insurance Program (CHIP).

---

Big money in it...for the states  
and those who organize such  
efforts...

# Earnings Before Interest Taxes Depreciation & Amortization

By considering depreciation and amortization as well as taxes and debt payment costs, EBITDA attempts to represent the cash profit generated by the practice

# Brandon & Paulie's Ice Cream Shop

## Simpleton EBITDA Review:

After all the bills are paid and each paid a salary of \$50,000, there was \$75,000 left over.

$$\$75,000 \times 5 = \$375,000$$

*\$187,500 each before considering assets  
& liabilities*



# How PE-Backed Firms Deliver Profits

- Buy practice(s) for X multiple of EBITA/EBITDA
- Sell in 3-5 years for HIGHER multiple with HIGHER EBITA/EBITDA.



# How PE-Backed Firms Determine The Value

**EBITA**



**MULTIPLE**

- **Multiple Determined Whether “Anchor” Practice**
  - Provider Count, Locations, & Revenue Range
- **Vaccine Inventory**
  - X Week Supply
  - Seller Pays Outstanding Invoices
- **Cash on Hand**
  - Balance Accumulated Taxable Income to Seller with Working Capital need to keep practice



**EBITA**



**MULTIPLE**



**Purchase Price**



**Cash Up  
Front**

**60 – 100%**



**Equity In  
Future Entity**

**0 – 40%**

# How Much At Closing?



Negotiated Upfront Payment



Provider Retention



Negotiated Roll Into Equity  
May be worth more/less in the future



Due Diligence Offsets



Some offers may have very high  
multiple with higher percentage  
going towards equity

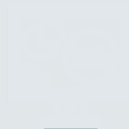
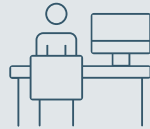


Asset versus Stock Sale  
Tax implications are HUGE



Earn out provisions

# CPA vs Lawyer



You need to understand  
the tax implications



Asset vs. Stock Sale





|                                  | Asset purchase   | Stock purchase  |
|----------------------------------|--|---|
| Asset & liabilities purchase     | Buyer picks & chooses  | Buyer gets everything   |
| Valuation of asset & liabilities | Every single asset/liability must be valued separately   | Book values used, but modified for any step ups or step downs |
| Goodwill & Other Intangibles     | Amortization is tax-deductible; amortized over 15 years for tax purposes                           | Not amortized for tax purposes & not tax-deductible           |
| Tax basis for buyer              | Buyer receives tax step-up for assets/liabilities  | Buyer assumes seller's tax basis for assets/liabilities       |
| Tax paid by seller               | Double taxation—taxes on purchase price minus fair market value as well as on shareholder proceeds | Single taxation—shareholders pay capital gains tax            |
| Complexity                       | Complex & time-consuming— need to value & transfer each asset                                      | Inexpensive & quick to execute                                |
| Preferred by                     | Buyers   | Sellers   |

# PE Purchase Process (Abbreviated)



- 01 Practice Solicitation  
a. Basic Financials & Narrative  
b. Brokers Are Very Helpful
- 02 Firm reviews information
- 03 Firm meets practice
- 04 Firm submits Indication of Interest or Letter of Intent (Non-Binding)
- 05 Lawyers clarify meaning of lol / Lol
- 06 Both parties sign Lol & moves forward (exclusively)
- 07 Practice Undergoes Financial Colonoscopy (without sedation!)
- 08 Accountants structure percentage of stock versus asset sale (tug of war)
- 09 Lawyers negotiate  
a. Sale Price/Structure  
b. Employment contracts
- 10 Both parties review documents and provide feedback to lawyers
- 11 Lawyers Memorialize Each Party's Understanding
- 12 Document signing
- 13 Payment to practice owners/partners
- 14 Follow through with commitments

# Reality Check (Part I)

01



Pediatric practices are very stable/resilient businesses

02



The need will always be there as long as there are children in the world

03



Should be able to generate \$500 - 750k per FTE provider annually (sometimes more)

04



The recurring revenue stream has tremendous financial value

- Worth different things to different people
- Balance between maximizing profits and maximizing an altruistic career

# Goodwill

**Goodwill** is an intangible asset that arises as a result of the acquisition of one **company** by another for a premium value.

The value of a **company's** brand name, solid customer base, good customer relations, good employee relations and any patents or proprietary technology represent **goodwill**.



Hogwash...

**benefits of reputation is what  
drives practice revenue...**

Allocation of “Goodwill”  
is double-dipping



The **essence of mathematics**  
is not to make  
*simple things complicated*, but to  
make complicated  
things simple.

– Stan Gudder  
*Mathematician*



## Goal of Valuation Formula?

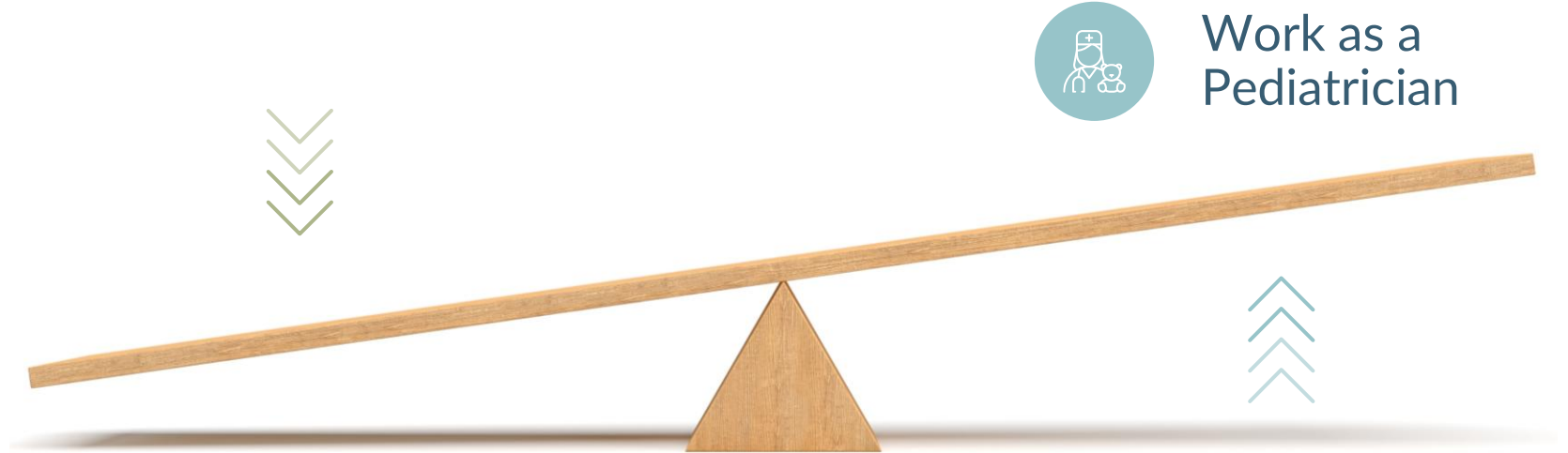


Determine the  
added benefit of  
owning a practice.

---



# Mindset

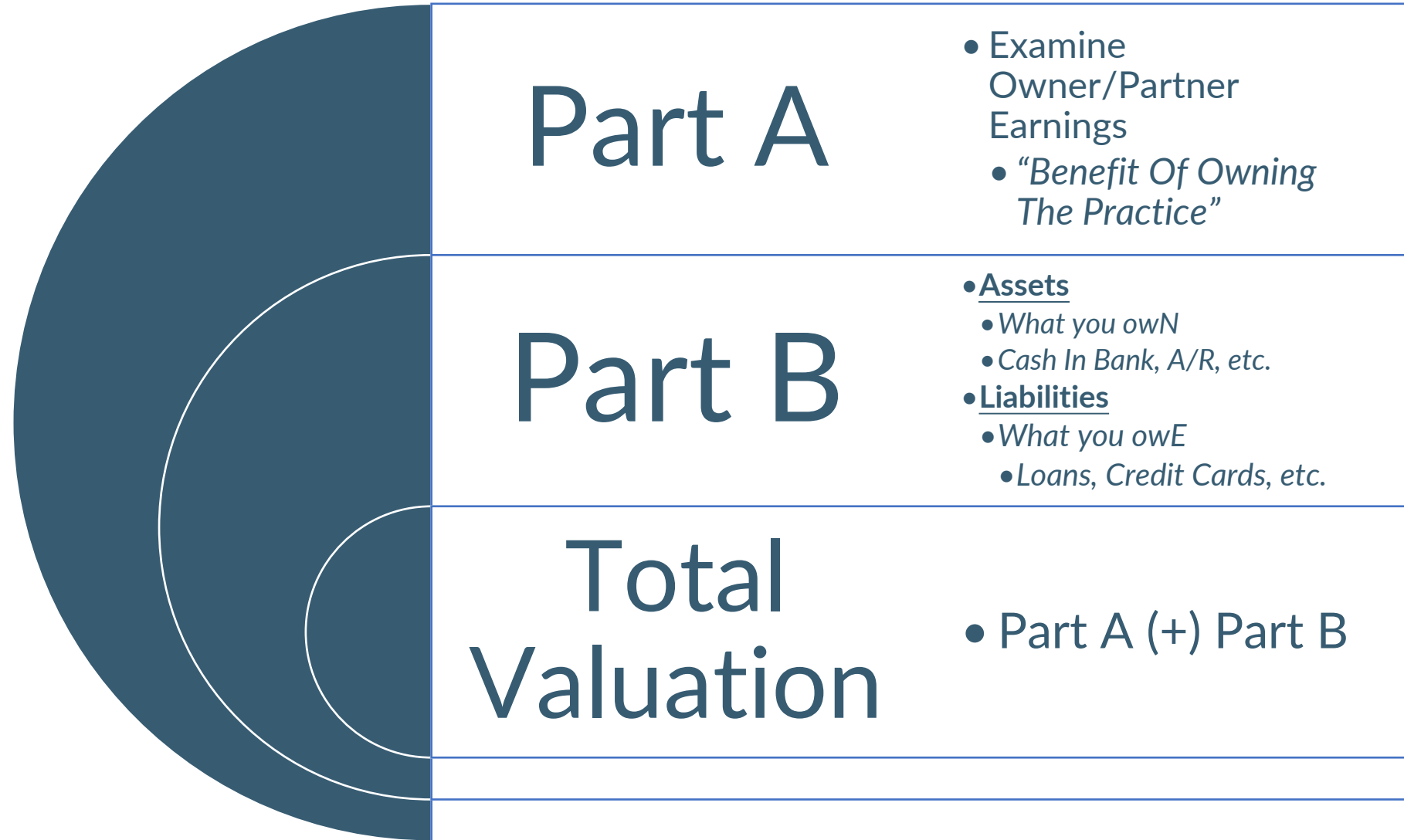


Risk/Reward for  
owning the practice

---

|                                 |                     |
|---------------------------------|---------------------|
| Total Compensation:             | \$ 210,000          |
| "Pediatrician Work":            | <u>\$ (165,000)</u> |
| Benefit Of Owning The Practice: | \$ 45,000           |

# Two Components To For Internal Valuation



# Scenario



01

Two Pediatricians want to retire in 2 years

02

Dr. Johnson is a 45 year old Pediatrician has been there for five years, is good fit, and wants to buy the practice

03

1 NP (Full Time)

04

1 NP (Part Time)

# Practice Valuation Summary

## Acme Pediatrics

As of December 31, 202X

### Practice Valuation Summary

#### Acme Pediatrics

As Of December 31, XXXX

|   | 12/31/XXX    | Formula  | Notes   |
|---|--------------|----------|---|
| <b>Part A- Earnings</b>                     |              |          |   |
| A Total Revenue                             | \$ 4,500,000 |          | 12-Month Total                                      |
| B Total Expenses                            | \$ 4,400,000 |          | 12-Month Total                                      |
| C Net Ordinary Income                       | \$ 100,000   | A - B    |   |
| D Total Partner Salaries                    | \$ 400,000   |          | As reported on provider earning summary             |
| E Total Partner Reimbursed Expenses         | \$ 20,000    |          | As reported on provider earning summary             |
| F Total Partner Retirement                  | \$ 40,000    |          | As reported on provider earning summary             |
| G Net Income                                | \$ 100,000   | C        |   |
| H 12-Month Estimated Total Partner Earnings | \$ 560,000   | Sum D:G  |   |
| I Employed Provider Salary                  | \$ 165,000   |          | As reported on provider earning summary             |
| J Employed Provider Bonus & Retirement      | \$ 12,500    |          | Average of Employed Providers                       |
| K Employed Provider Total Comp              | \$ 177,500   | I + J    | Salary + Bonus                                      |
| L Number of Partners                        | 2.00         |          | Listed number of Partners/Owners of Practice        |
| M Per Partner Earnings                      | \$ 280,000   | H / L    | Average Partner/Owner Earnings                      |
| N Variance                                  | \$ 102,500   | M - K    | Benefit of owning practice as described in article. |
| O Multiple                                  | 1.10         |          | Multiple Of Earnings Estimated                      |
| P Part A Total                              | \$ 112,750   | N * O    | Per Partner/Owner Part A Value                      |
| Q Part a Total For Practice                 | \$ 225,500   | L * P    | Total Part A Value For Practice                     |
| <b>Part B- Assets &amp; Liabilities</b>     |              |          |   |
| R Cash on Hand                              | \$ 275,000   | Increase | As reported on Balance Sheet                        |
| S Equipment & Furnishings                   | \$ 40,000    | Increase | As reported on Balance Sheet X 20% Salvage Value    |
| T Vaccine/Med Supply Inventory              | \$ 10,000    | Increase | Estimated without inventory count                   |
| U Other Current Liabilities                 | \$ (30,000)  | Decrease | As reported on Balance Sheet                        |
| V Estimated Accounts Receivable             | \$ 185,000   | Increase | Calculated per based on 11/18/2020 report           |
| W Part B Total                              | \$ 480,000   | Sum R:V  | Total Asset Value                                   |
| X Total Value (Part A + Part B)             | \$ 705,500   | Q + X    | Total Earnings Value + Total Asset Value            |
| Y Estimated Per Owner Value                 | \$ 352,750   | X / L    |   |

# Practice Valuation Summary *Acme Pediatrics*

As of December 31, 202X

## Part A- Earnings

|   |   |    |           |         |   |
|---|---|----|-----------|---------|---|
| A | Total Revenue                             | \$ | 4,500,000 |         | 12-Month Total                                      |
| B | Total Expenses                            | \$ | 4,400,000 |         | 12-Month Total                                      |
| C | Net Ordinary Income                       | \$ | 100,000   | A - B   |   |
| D | Total Partner Salaries                    | \$ | 400,000   |         | As reported on provider earning summary             |
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| F | Total Partner Retirement                  | \$ | 40,000    |         | As reported on provider earning summary             |
| G | Net Income                                | \$ | 100,000   | C       |   |
| H | 12-Month Estimated Total Partner Earnings | \$ | 560,000   | Sum D:G |   |
| I | Employed Provider Salary                  | \$ | 165,000   |         | As reported on provider earning summary             |
| J | Employed Provider Bonus & Retirement      | \$ | 12,500    |         | Average of Employed Providers                       |
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| M | Per Partner Earnings                      | \$ | 280,000   | H / L   | Average Partner/Owner Earnings                      |
| N | Variance                                  | \$ | 102,500   | M - K   | Benefit of owning practice as described in article. |
| O | Multiple                                  |    | 1.10      |         | Multiple Of Earnings Estimated                      |
| P | Part A Total                              | \$ | 112,750   | N * O   | Per Partner/Owner Part A Value                      |
| Q | Part a Total For Practice                 | \$ | 225,500   | L * P   | Total Part A Value For Practice                     |



# Practice Valuation Summary *Acme Pediatrics*

As of December 31, 202X

## Part B- Assets & Liabilities

|   |   |    |                       |          |  |
|---|---|----|-----------------------|----------|--|
| R | Cash on Hand                            | \$ | 275,000               | Increase | As reported on Balance Sheet                     |
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| V | Estimated Accounts Receivable           | \$ | 185,000               | Increase | Calculated per based on 11/18/2020 report        |
| W | <b>Part B Total</b>                     | \$ | <b>480,000</b>        | Sum R:V  | Total Asset Value                                |
| X | <b>Total Value (Part A + Part B)</b>    | \$ | <b>705,500</b>        | Q + X    | Total Earnings Value + Total Asset Value         |
| Y | <b><u>Estimated Per Owner Value</u></b> | \$ | <b><u>352,750</u></b> | X / L    |  |



## Step 1

### Determination of Gross collection rate

# Estimating The A/R Value

| Month  | Charges      | Payments     | Adjustments  |
|--------|--------------|--------------|--------------|
| Aug-18 | \$ 202,000   | \$ 113,000   | \$ 112,000   |
| Sep-18 | \$ 185,000   | \$ 96,000    | \$ 69,500    |
| Oct-18 | \$ 230,000   | \$ 125,000   | \$ 103,500   |
| Nov-18 | \$ 205,000   | \$ 127,000   | \$ 88,000    |
| Dec-18 | \$ 145,000   | \$ 83,750    | \$ 63,000    |
| Jan-19 | \$ 195,000   | \$ 95,000    | \$ 88,000    |
| Feb-19 | \$ 197,000   | \$ 107,000   | \$ 85,000    |
| Mar-19 | \$ 192,000   | \$ 97,000    | \$ 81,000    |
| Apr-19 | \$ 155,000   | \$ 98,000    | \$ 95,000    |
| May-19 | \$ 228,000   | \$ 115,000   | \$ 86,000    |
| Jun-19 | \$ 180,000   | \$ 87,000    | \$ 72,000    |
| Jul-19 | \$ 152,000   | \$ 104,000   | \$ 75,000    |
|        | \$ 2,266,000 | \$ 1,247,750 | \$ 1,018,000 |

**Gross Collection Rate:**

**55.06%**

# Estimating The A/R Value

## Step 2

### Weighted Collectability Based On Balance Age

#### Insurance

|            |           |        |          |
|------------|-----------|--------|----------|
| <30 days   | \$83,000  | 55.06% | \$45,703 |
| 31-60 days | \$22,000  | 50.06% | \$11,014 |
| 61-90 days | \$13,000  | 45.06% | \$5,858  |
| > 90 days  | \$33,000  | 40.06% | \$13,221 |
| Total      | \$151,000 |        | \$75,797 |

#### Patient Responsibility

|            |          |        |         |
|------------|----------|--------|---------|
| <30 days   | \$2,750  | 40.06% | \$1,102 |
| 31-60 days | \$3,100  | 30.06% | \$932   |
| 61-90 days | \$5,600  | 20.06% | \$1,124 |
| >91 days   | \$8,500  | 10.06% | \$855   |
| Total      | \$19,950 |        | \$4,013 |

#### Totals

|            |           |  |                 |
|------------|-----------|--|-----------------|
| <30 days   | \$85,750  |  | \$46,805        |
| 31-60 days | \$25,100  |  | \$11,946        |
| 61-90 days | \$18,600  |  | \$6,982         |
| >90 days   | \$41,500  |  | \$14,077        |
| Total      | \$170,950 |  | <b>\$79,809</b> |

# Estimating The A/R Value

## Step 2

### Weighted Collectability Based On Balance Age

#### Insurance

|            |           |        |          |
|------------|-----------|--------|----------|
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# Estimating The A/R Value

## Step 2

### Weighted Collectability Based On Balance Age

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| >90 days   | \$41,500  |  | \$14,077               |
| Total      | \$170,950 |  | <b><u>\$79,809</u></b> |

# Practice Valuation Summary *Acme Pediatrics*

As of December 31, 202X

## Part B- Assets & Liabilities

|   |   |    |                       |          |  |
|---|---|----|-----------------------|----------|--|
| R | Cash on Hand                            | \$ | 275,000               | Increase | As reported on Balance Sheet                     |
| S | Equipment & Furnishings                 | \$ | 40,000                | Increase | As reported on Balance Sheet X 20% Salvage Value |
| T | Vaccine/Med Supply Inventory            | \$ | 10,000                | Increase | Estimated without inventory count                |
| U | Other Current Liabilities               | \$ | (30,000)              | Decrease | As reported on Balance Sheet                     |
| V | Estimated Accounts Receivable           | \$ | 185,000               | Increase | Calculated per based on 11/18/2020 report        |
| W | <b>Part B Total</b>                     | \$ | <b>480,000</b>        | Sum R:V  | Total Asset Value                                |
| X | <b>Total Value (Part A + Part B)</b>    | \$ | <b>705,500</b>        | Q + X    | Total Earnings Value + Total Asset Value         |
| Y | <b><u>Estimated Per Owner Value</u></b> | \$ | <b><u>352,750</u></b> | X / L    |  |



# Practice Valuation Summary

## Acme Pediatrics

As of December 31, 202X

## Practice Valuation Summary

### Acme Pediatrics

As Of December 31, XXXX

|   | 12/31/XXX    | Formula  | Notes   |
|---|--------------|----------|---|
| <b>Part A- Earnings</b>                     |              |          |   |
| A Total Revenue                             | \$ 4,500,000 |          | 12-Month Total                                      |
| B Total Expenses                            | \$ 4,400,000 |          | 12-Month Total                                      |
| C Net Ordinary Income                       | \$ 100,000   | A - B    |   |
| D Total Partner Salaries                    | \$ 400,000   |          | As reported on provider earning summary             |
| E Total Partner Reimbursed Expenses         | \$ 20,000    |          | As reported on provider earning summary             |
| F Total Partner Retirement                  | \$ 40,000    |          | As reported on provider earning summary             |
| G Net Income                                | \$ 100,000   | C        |   |
| H 12-Month Estimated Total Partner Earnings | \$ 560,000   | Sum D:G  |   |
| I Employed Provider Salary                  | \$ 165,000   |          | As reported on provider earning summary             |
| J Employed Provider Bonus & Retirement      | \$ 12,500    |          | Average of Employed Providers                       |
| K Employed Provider Total Comp              | \$ 177,500   | I + J    | Salary + Bonus                                      |
| L Number of Partners                        | 2.00         |          | Listed number of Partners/Owners of Practice        |
| M Per Partner Earnings                      | \$ 280,000   | H / L    | Average Partner/Owner Earnings                      |
| N Variance                                  | \$ 102,500   | M - K    | Benefit of owning practice as described in article. |
| O Multiple                                  | 1.10         |          | Multiple Of Earnings Estimated                      |
| P Part A Total                              | \$ 112,750   | N * O    | Per Partner/Owner Part A Value                      |
| Q Part a Total For Practice                 | \$ 225,500   | L * P    | Total Part A Value For Practice                     |
| <b>Part B- Assets &amp; Liabilities</b>     |              |          |   |
| R Cash on Hand                              | \$ 275,000   | Increase | As reported on Balance Sheet                        |
| S Equipment & Furnishings                   | \$ 40,000    | Increase | As reported on Balance Sheet X 20% Salvage Value    |
| T Vaccine/Med Supply Inventory              | \$ 10,000    | Increase | Estimated without inventory count                   |
| U Other Current Liabilities                 | \$ (30,000)  | Decrease | As reported on Balance Sheet                        |
| V Estimated Accounts Receivable             | \$ 185,000   | Increase | Calculated per based on 11/18/2020 report           |
| W Part B Total                              | \$ 480,000   | Sum R:V  | Total Asset Value                                   |
| X Total Value (Part A + Part B)             | \$ 705,500   | Q + X    | Total Earnings Value + Total Asset Value            |
| Y Estimated Per Owner Value                 | \$ 352,750   | X / L    |   |



# Practice Valuation Summary

*Acme Pediatrics*

As of December 31, 202X

## Valuation Drivers:

|                         |    |         |        |   |
|-------------------------|----|---------|--------|---|
| AA Earnings             | \$ | 225,500 | 31.96% | Q |
| BB Cash On Hand         | \$ | 275,000 | 38.98% | R |
| CC Accounts Receivables | \$ | 185,000 | 26.22% | V |

## Cash Withdrawal Impact

|                           |           |                |               |
|---------------------------|-----------|----------------|---------------|
| DD Current Value          | \$        | 705,500        | X             |
| EE Cash On Hand           | \$        | 275,000        | R             |
| FF Revised Value          | \$        | 430,500        | DD - EE       |
| <b>Per Partner Amount</b> | <b>\$</b> | <b>215,250</b> | <b>FF / L</b> |

# External Valuation Calculation

## Step 1: EBITDA/Free Cash Flow Determination

### PART A - Current EBITDA

|   |                              |    |             |          |   |
|---|------------------------------|----|-------------|----------|---|
| A | Total Revenue                | \$ | 4,500,000   | Increase |   |
| B | Total Expenses               | \$ | (4,400,000) | Decrease |   |
| C | Net Other Income/Expense     | \$ | -           | Increase |   |
| D | Net Income                   | \$ | 100,000     | Increase | Sum A:C   |
| E | Addback Interest Expense     | \$ | 1,500       | Increase | As Reported on P&L.   |
| F | Addback:Income Tax Expense   | \$ | -           | Increase | As Reported on P&L.   |
| G | Addback:Depreciation Expense | \$ | 6,500       | Increase | As Reported on P&L.   |
| H | Addback:Amortization Expense | \$ | -           | Increase | As Reported on P&L.   |
| I | Est. Current EBITDA          | \$ | 108,000     | Sum D:H  | Current EBITDA Based On Most Recent Financials Provided By The Practice |

### Part B - Extraordinary Items

|   |                           |    |        |          |   |
|---|---------------------------|----|--------|----------|---|
| J | Remove One Time Revenues  | \$ | -      | Decrease | Examples are PPP Forgiveness or one time government grants. |
| K | Addback One Time Expenses | \$ | 20,000 | Increase | Examples are litigation expenses or disaster expenses.      |
| L | Total Extraordinary Items | \$ | 20,000 | J + K    |   |

### Part C - Owner/Partner Compensation

|   |  |    |           |          |   |
|---|--|----|-----------|----------|---|
| M | Addback Current Owner/Partner Salary             | \$ | 400,000   | Increase | As Reported on P&L.   |
| N | Addback Current Owner/Partner Personal Expenses  | \$ | 20,000    | Increase |   |
| O | Addback Current Owner/Partner Retirement Match   | \$ | 40,000    | Increase | As Reported on Compensation Summary                               |
| P | Remove Go-Forward Owner/Partner Salary           | \$ | (400,000) | Decrease | Assumption of \$200k per FTE owner/partner per year future salary |
| Q | Remove Go-Forward Owner/Partner Retirement Match | \$ | (30,000)  | Decrease | Remove how much you expect your future retirement match would be. |
| R | Total Owner/Partner Compensation Change          | \$ | 30,000    | Sum M:Q  |   |

### Part D - Anticipated Future Changes

|   |   |      |          |   |
|---|---|------|----------|---|
| S | Future Anticipated Expense Increases        | \$ - | Decrease | Example: Rent increase in 3 months.   |
| T | Future Anticipated Expense Decreases        | \$ - | Increase | Example: Purchase of a formerly leased equipment. I.e. lease expense goes away.             |
| U | Future Anticipated Revenue/Income Increases | \$ - | Increase | Example: Increase in payments from major MCO contract change                                |
| V | Future Anticipated Revenue/Income Decreases | \$ - | Decrease | Example: Provider is expected to leave and not be replaced.                                 |
| W | Total Anticipated Future Changes            | \$ - | Sum S:V  | These changes should be pretty certain, as the Buyer and Seller will have to agree on them. |

|   |                   |    |         |               |
|---|-------------------|----|---------|---------------|
| X | Calculated EBITDA | \$ | 158,000 | I + L + R + W |
|---|-------------------|----|---------|---------------|

## Step 2: Apply EBITDA To Multiple

|    |                         |      |           |   |
|----|-------------------------|------|-----------|---|
| AA | Multiple                | 6.00 | Estimated | Range of sale of "Anchor" PEDIATRIC practice to third party is 3 - 8 times EBITDA |
| BB | Est. Practice Valuation | \$   | 948,000   | X x AA  |

## Step 1: EBITDA/Free Cash Flow Determination

### PART A - Current EBITDA

|   |                              |    |                |                |  |
|---|------------------------------|----|----------------|----------------|--|
| A | Total Revenue                | \$ | 4,500,000      | Increase       |  |
| B | Total Expenses               | \$ | (4,400,000)    | Decrease       |  |
| C | Net Other Income/Expense     | \$ | -              | Increase       |  |
| D | Net Income                   | \$ | 100,000        | Increase       | Sum A:C  |
| E | Addback Interest Expense     | \$ | 1,500          | Increase       | As Reported on P&L.  |
| F | Addback:Income Tax Expense   | \$ | -              | Increase       | As Reported on P&L.  |
| G | Addback:Depreciation Expense | \$ | 6,500          | Increase       | As Reported on P&L.  |
| H | Addback:Amortization Expense | \$ | -              | Increase       | As Reported on P&L.  |
| I | <b>Est. Current EBITDA</b>   | \$ | <b>108,000</b> | <b>Sum D:H</b> | <b>Current EBITDA Based On Most Recent Financials Provided By The Practice</b> |

### Part B - Extraordinary Items

|   |                                  |    |               |              |   |
|---|----------------------------------|----|---------------|--------------|---|
| J | Remove One Time Revenues         | \$ | -             | Decrease     | Examples are PPP Forgiveness or one time government grants. |
| K | Addback One Time Expenses        | \$ | 20,000        | Increase     | Examples are litigation expenses or disaster expenses.      |
| L | <b>Total Extraordinary Items</b> | \$ | <b>20,000</b> | <b>J + K</b> |   |

### Part C - Owner/Partner Compensation

|   |  |    |               |                |  |
|---|--|----|---------------|----------------|--|
| M | Addback Current Owner/Partner Salary             | \$ | 400,000       | Increase       | As Reported on P&L.  |
| N | Addback Current Owner/Partner Personal Expenses  | \$ | 20,000        | Increase       |  |
| O | Addback Current Owner/Partner Retirement Match   | \$ | 40,000        | Increase       | As Reported on Compensation Summary                                      |
| P | Remove Go-Forward Owner/Partner Salary           | \$ | (400,000)     | Decrease       | <b>Assumption of \$200k per FTE owner/partner per year future salary</b> |
| Q | Remove Go-Forward Owner/Partner Retirement Match | \$ | (30,000)      | Decrease       | Remove how much you expect your future retirement match would be.        |
| R | <b>Total Owner/Partner Compensation Change</b>   | \$ | <b>30,000</b> | <b>Sum M:Q</b> |  |

### Part D - Anticipated Future Changes

|   |   |      |          |                |  |
|---|---|------|----------|----------------|--|
| S | Future Anticipated Expense Increases        | \$ - |          | Decrease       | Example: Rent increase in 3 months.  |
| T | Future Anticipated Expense Decreases        | \$ - |          | Increase       | Example: Purchase of a formerly leased equipment. I.e. lease expense goes away.                    |
| U | Future Anticipated Revenue/Income Increases | \$ - |          | Increase       | Example: Increase in payments from major MCO contract change                                       |
| V | Future Anticipated Revenue/Income Decreases | \$ - |          | Decrease       | Example: Provider is expected to leave and not be replaced.  |
| W | <b>Total Anticipated Future Changes</b>     | \$   | <b>-</b> | <b>Sum S:V</b> | <b>These changes should be pretty certain, as the Buyer and Seller will have to agree on them.</b> |

|   |                          |    |                |                      |  |
|---|--------------------------|----|----------------|----------------------|--|
| X | <b>Calculated EBITDA</b> | \$ | <b>158,000</b> | <b>I + L + R + W</b> |  |
|---|--------------------------|----|----------------|----------------------|--|

|                            |           |                |                      |
|----------------------------|-----------|----------------|----------------------|
| <b>X Calculated EBITDA</b> | <b>\$</b> | <b>158,000</b> | <i>I + L + R + W</i> |
|----------------------------|-----------|----------------|----------------------|

| Step 2: Apply EBITDA To Multiple  |           |                |               |   |
|-----------------------------------|-----------|----------------|---------------|---|
| AA Multiple                       |           | 6.00           | Estimated     | Range of sale of "Anchor" PEDIATRIC practice to third party is 3 - 8 times EBITDA |
| <b>BB Est. Practice Valuation</b> | <b>\$</b> | <b>948,000</b> | <b>X x AA</b> |   |
| CC Equity Roll                    | \$        | (189,600)      | BB * 20%      | Estimate (Ranges from 15-50%)   |
| DD Earnout Provisions             |           |                |               | Varies By Partner   |
| EE Holdback For Indemnity Claims  |           |                |               | Varies By Partner   |
| FF Est. Cash At Close             | \$        | 758,400        | Sum BB:EE     |   |
|                                   | \$        | <b>189,600</b> | FF / 4        | Per Partner Estimate  |

# External Valuation Calculation

## Step 1: EBITDA/Free Cash Flow Determination

### PART A - Current EBITDA

|   |                              |    |             |          |   |
|---|------------------------------|----|-------------|----------|---|
| A | Total Revenue                | \$ | 4,500,000   | Increase |   |
| B | Total Expenses               | \$ | (4,400,000) | Decrease |   |
| C | Net Other Income/Expense     | \$ | -           | Increase |   |
| D | Net Income                   | \$ | 100,000     | Increase | Sum A:C   |
| E | Addback Interest Expense     | \$ | 1,500       | Increase | As Reported on P&L.   |
| F | Addback:Income Tax Expense   | \$ | -           | Increase | As Reported on P&L.   |
| G | Addback:Depreciation Expense | \$ | 6,500       | Increase | As Reported on P&L.   |
| H | Addback:Amortization Expense | \$ | -           | Increase | As Reported on P&L.   |
| I | Est. Current EBITDA          | \$ | 108,000     | Sum D:H  | Current EBITDA Based On Most Recent Financials Provided By The Practice |

### Part B - Extraordinary Items

|   |                           |    |        |          |   |
|---|---------------------------|----|--------|----------|---|
| J | Remove One Time Revenues  | \$ | -      | Decrease | Examples are PPP Forgiveness or one time government grants. |
| K | Addback One Time Expenses | \$ | 20,000 | Increase | Examples are litigation expenses or disaster expenses.      |
| L | Total Extraordinary Items | \$ | 20,000 | J + K    |   |

### Part C - Owner/Partner Compensation

|   |  |    |           |          |   |
|---|--|----|-----------|----------|---|
| M | Addback Current Owner/Partner Salary             | \$ | 400,000   | Increase | As Reported on P&L.   |
| N | Addback Current Owner/Partner Personal Expenses  | \$ | 20,000    | Increase |   |
| O | Addback Current Owner/Partner Retirement Match   | \$ | 40,000    | Increase | As Reported on Compensation Summary                               |
| P | Remove Go-Forward Owner/Partner Salary           | \$ | (400,000) | Decrease | Assumption of \$200k per FTE owner/partner per year future salary |
| Q | Remove Go-Forward Owner/Partner Retirement Match | \$ | (30,000)  | Decrease | Remove how much you expect your future retirement match would be. |
| R | Total Owner/Partner Compensation Change          | \$ | 30,000    | Sum M:Q  |   |

### Part D - Anticipated Future Changes

|   |   |      |          |   |
|---|---|------|----------|---|
| S | Future Anticipated Expense Increases        | \$ - | Decrease | Example: Rent increase in 3 months.   |
| T | Future Anticipated Expense Decreases        | \$ - | Increase | Example: Purchase of a formerly leased equipment. I.e. lease expense goes away.             |
| U | Future Anticipated Revenue/Income Increases | \$ - | Increase | Example: Increase in payments from major MCO contract change                                |
| V | Future Anticipated Revenue/Income Decreases | \$ - | Decrease | Example: Provider is expected to leave and not be replaced.                                 |
| W | Total Anticipated Future Changes            | \$ - | Sum S:V  | These changes should be pretty certain, as the Buyer and Seller will have to agree on them. |

|   |                   |    |         |               |
|---|-------------------|----|---------|---------------|
| X | Calculated EBITDA | \$ | 158,000 | I + L + R + W |
|---|-------------------|----|---------|---------------|

## Step 2: Apply EBITDA To Multiple

|    |                         |      |           |   |
|----|-------------------------|------|-----------|---|
| AA | Multiple                | 6.00 | Estimated | Range of sale of "Anchor" PEDIATRIC practice to third party is 3 - 8 times EBITDA |
| BB | Est. Practice Valuation | \$   | 948,000   | X x AA  |



# Impact Of “Go Forward Salary”

| Go Forward Salary For Two Current Partners |  | \$   | 150,000   | \$   | 175,000   | \$   | 200,000   | \$   | 225,000   |
|--|--|------|-----------|------|-----------|------|-----------|------|-----------|
| <b>Part C - Owner/Partner Compensation</b> |  |      |           |      |           |      |           |      |           |
| M  | Addback Current Owner/Partner Salary             | \$   | 400,000   | \$   | 400,000   | \$   | 400,000   | \$   | 400,000   |
| N  | Addback Current Owner/Partner Personal Expenses  | \$   | 20,000    | \$   | 20,000    | \$   | 20,000    | \$   | 20,000    |
| O  | Addback Current Owner/Partner Retirement Match   | \$   | 40,000    | \$   | 40,000    | \$   | 40,000    | \$   | 40,000    |
| P  | Remove Go-Forward Owner/Partner Salary           | \$   | (300,000) | \$   | (350,000) | \$   | (400,000) | \$   | (450,000) |
| Q  | Remove Go-Forward Owner/Partner Retirement Match | \$   | (30,000)  | \$   | (30,000)  | \$   | (30,000)  | \$   | (30,000)  |
| R  | <b>Total Owner/Partner Compensation Change</b>   | \$   | 130,000   | \$   | 80,000    | \$   | 30,000    | \$   | (20,000)  |
| <b>Part D - Anticipated Future Changes</b> |  |      |           |      |           |      |           |      |           |
| S  | Future Anticipated Expense Increases             | \$ - |           | \$ - |           | \$ - |           | \$ - |           |
| T  | Future Anticipated Expense Decreases             | \$ - |           | \$ - |           | \$ - |           | \$ - |           |
| U  | Future Anticipated Revenue/Income Increases      | \$ - |           | \$ - |           | \$ - |           | \$ - |           |
| V  | Future Anticipated Revenue/Income Decreases      | \$ - |           | \$ - |           | \$ - |           | \$ - |           |
| W  | <b>Total Anticipated Future Changes</b>          | \$   | -         | \$   | -         | \$   | -         | \$   | -         |
| X  | <b>Calculated EBITDA</b>                         | \$   | 258,000   | \$   | 208,000   | \$   | 158,000   | \$   | 108,000   |
| <b>Step 2: Apply EBITDA To Multiple</b>    |  |      |           |      |           |      |           |      |           |
| AA   | Multiple   |      | 6.00      |      | 6.00      |      | 6.00      |      | 6.00      |
| BB   | <b>Est. Practice Valuation</b>                   | \$   | 1,548,000 | \$   | 1,248,000 | \$   | 948,000   | \$   | 648,000   |



# Internal vs. External Valuation

## Internal Valuation

|                    |                  |
|--------------------|------------------|
| Part A Total       | \$ 225,500       |
| Part B Total       | \$480,000        |
| <b>Total Value</b> | <b>\$705,500</b> |

## External Valuation

\$200k Go-Forward Salary

|                    |                    |
|--------------------|--------------------|
| EBITDA             | \$ 158,000         |
| Multiple           | 6                  |
| Business Value     | \$948,000          |
| Cash On Hand       | \$275,000          |
| <b>Total Value</b> | <b>\$1,223,000</b> |

*\$519,500 variance = 73.63% Increase*

# Reality Check (Part II)

05



More art than science...

06



Internal buyout are at a heavy discount versus the “true” value of the business

07



What is the culture of the practice and how does that influence the final formula/value

08



Partner/owner compensation highly focused on cost allocation or a true “partnership”

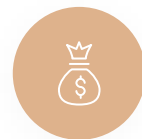
# Key Factors Impacting the Valuation of a Pediatric Practice

|    |  |   |   |
|----|--|---|---|
| 01 | Continuation of Patient Volume                       | 2 visits per day at \$150 per encounter<br>=<br>\$60,000 swing in payments per provider per year<br>(200 days)    |    |
| 02 | Continuation of Current Payment Rates                |   |    |
| 03 | Shift in Payor Mix                                   |   |    |
| 04 | Local Economy  |   |    |
| 05 | Building/Rent Expenses along with future liabilities | <ul style="list-style-type: none"><li>• Need to relocate to better location</li><li>• Interior Updating</li></ul> |  |

# Adjustments



Taking average shareholder salary for previous 2 or 3 years (Rare)



Adjusting Average Shareholder Compensation based on PPE, ERC, HRSA, or Government COVID funds



Adjusting Average Shareholder Compensation based on whether or not the shareholders may have previously taken lower salaries to fund practice projects that are expected to generate additional earnings in the future.



Adjusting for a variety of nuances in the shareholder compensation formula and other Shareholder Concerns

# Considerations

Continued Employment For Retiring Physicians



Internally Financed or Require Cash?



Management Responsibilities



Right of First Refusal to Repurchase Practice In Future



Future Compensation



Include Practice Real Estate

› *Not a good idea to do so*



Do Not Intermingle Buyout and Future Salary

› *Need two separate agreements (Buy/Sell and Employment)*



Is it a fair deal for both sides?







# How Much Is Too Much To Buy Into A Practice?

- Alternative Cost Theory



## Token Payment?

- Access to profits
- Lower buy in/out amount



# What Is The Correct Number Of Partners/Owners?

6 Providers, Two Locations

- A One
- B Two
- C Four
- D Six



# What Is The Best Ratio?

Employed Providers : Owners/Partners

- Each employed provider should spin off \$30 – 70k in additional earnings per provider
  - *Employed Physicians* -> 5-10%
  - *Extenders* -> 10-15%

# Considerations

Ownership position immediate or as paid in?



If financed, should be *immediate since liability created between buyer and seller*



If cash sale, *immediate*



If in lieu of bonus(es)- *maybe deferred*





# Common Question/Request

Should the ownership position be proportional to the amount actually paid towards the purchase price?



If price set in advance and financing terms in place, no.



If agree to reestablish the value each year, acceptable.

Purchase Price: \$ 200,000

|                    |           |         |
|--------------------|-----------|---------|
| Year One Payment   | \$ 50,000 | 25.00%  |
| Year Two Payment   | \$ 50,000 | 50.00%  |
| Year Three Payment | \$ 50,000 | 75.00%  |
| Year Four Payment  | \$ 50,000 | 100.00% |

# Financing Issues & Ownership Interest



**Agree to purchase  
price & terms**

Purchase Agreement

---

Financing Agreement

Cash Payment

Finance With Ford Credit

Bank Loan



**You receive 100%  
ownership of car**

Subject to lien (if any)



# Shareholder/Partnership Considerations

- Personal Responsibility for Coding
- Insurability for Life Insurance
- Spouse Signatures
- Personal Guarantees for Current Debt
- Consecutive Days Out of Office
- Valuation Updated Annually
- Disability- Continue to pay until insurance kicks in
- Failure to Plan Provision- Discounted if no notice
- Pledging of Assets- Prevent Collateralization
- Personal Bankruptcy- Allow practice to purchase before third party becomes owner
- Future Plans/Expansion- Finance expansions with “cheap” loan options

# Dr. Hart wants to buy Dr. Vanchiere's practice



Price: \$400,000

---



Pay \$100k per year for four years

---



Expected to increase total compensation

- \$25k in Years 1 - 4
  - \$125k in years 5-10
- 



Year 11, look to sell to next associate (or third party)





# Buyer return on investment analysis

10 Years

| Year | Salary<br>A<br>Current | Distributions<br>B<br>Estimated | Buy Out<br>Payments<br>C<br>\$400k / 4 Years | Total<br>Earnings<br>D<br>A + B | Net<br>E<br>C + D   | Gain (\$)<br>F<br>E - A | Gain (%)<br>G<br>F / \$400k |
|------|------------------------|---------------------------------|--|---------------------------------|---------------------|-------------------------|-----------------------------|
| 2024 | \$ 160,000             | \$ 125,000                      | \$ (100,000)                                 | \$ 285,000                      | \$ 185,000          | \$ 25,000               | 6.25%                       |
| 2025 | \$ 160,000             | \$ 125,000                      | \$ (100,000)                                 | \$ 285,000                      | \$ 185,000          | \$ 25,000               | 6.25%                       |
| 2026 | \$ 160,000             | \$ 125,000                      | \$ (100,000)                                 | \$ 285,000                      | \$ 185,000          | \$ 25,000               | 6.25%                       |
| 2027 | \$ 160,000             | \$ 125,000                      | \$ (100,000)                                 | \$ 285,000                      | \$ 185,000          | \$ 25,000               | 6.25%                       |
| 2028 | \$ 160,000             | \$ 125,000                      |  | \$ 285,000                      | \$ 285,000          | \$125,000               | 31.25%                      |
| 2029 | \$ 160,000             | \$ 125,000                      |  | \$ 285,000                      | \$ 285,000          | \$125,000               | 31.25%                      |
| 2030 | \$ 160,000             | \$ 125,000                      |  | \$ 285,000                      | \$ 285,000          | \$125,000               | 31.25%                      |
| 2031 | \$ 160,000             | \$ 125,000                      |  | \$ 285,000                      | \$ 285,000          | \$125,000               | 31.25%                      |
| 2032 | \$ 160,000             | \$ 125,000                      |  | \$ 285,000                      | \$ 285,000          | \$125,000               | 31.25%                      |
| 2033 | \$ 160,000             | \$ 125,000                      |  | \$ 285,000                      | \$ 285,000          | \$125,000               | 31.25%                      |
|      | <b>\$ 1,600,000</b>    | <b>\$ 1,250,000</b>             | <b>\$ (400,000)</b>                          | <b>\$ 2,850,000</b>             | <b>\$ 2,450,000</b> | <b>\$850,000</b>        | <b>212.50%</b>              |

|   |              |   |
|---|--------------|---|
| Total Deferred/Paid towards Buy-In      | \$ (400,000) | Total Deferred Bonuses and Buy Out Payments                         |
| 10-Year Net Earnings if Buy In          | \$ 2,450,000 | 10-Year Earnings if Projections Hold True                           |
| 10-Year Salary/Bonus if Remain Employee | \$ 1,900,000 | 10-Year Earnings if Remain Employee with average of \$190k per year |
| Variance                                | \$ 550,000   | Difference between 2 items above                                    |
| ROI                                     | 137.50%      | Total Return on Investment over 10 Years                            |

\*Assumes new owner/partner is able to maintain practice margins

\*Owner still has opportunity to sell practice when he/she retires- dramatically increasing the ROI



# Provider Margin Reviews



| Margin Review Last 12 Months         |                            | Bashful      | Doc          | Dopey        | Grumpy       | Happy        | Sleepy       | Sneezy       |
|--------------------------------------|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                      |                            | Physician    | Physician    | Physician    | Extender     | Extender     | Extender     | Physician    |
| A Total Payments                     | Actual From PM System      | \$ 450,000   | \$ 680,000   | \$ 975,000   | \$ 850,000   | \$ 875,000   | \$ 730,000   | \$ 675,000   |
| B Immunization/Drug Payments         | Actual From PM System      | \$ (125,000) | \$ (185,000) | \$ (280,000) | \$ (225,000) | \$ (240,000) | \$ (220,000) | \$ (215,000) |
| C Lab Payments                       | Actual From PM System      | \$ (33,500)  | \$ (40,000)  | \$ (79,000)  | \$ (55,000)  | \$ (65,000)  | \$ (40,000)  | \$ (37,500)  |
| D Personally Performed Payments      | Sum A-C                    | \$ 291,500   | \$ 455,000   | \$ 616,000   | \$ 570,000   | \$ 570,000   | \$ 470,000   | \$ 422,500   |
| E Assigned Overhead Rate             | Calculated                 | 60.00%       | 60.00%       | 60.00%       | 60.00%       | 60.00%       | 60.00%       | 60.00%       |
| F Assigned Overhead (\$)             | D * E                      | \$ (174,900) | \$ (273,000) | \$ (369,600) | \$ (342,000) | \$ (342,000) | \$ (282,000) | \$ (253,500) |
| G Remaining Margin For Comp & Margin | D + F                      | \$ 116,600   | \$ 182,000   | \$ 246,400   | \$ 228,000   | \$ 228,000   | \$ 188,000   | \$ 169,000   |
| H Total Gross Wages Paid             | Actual from Payroll System | \$ (82,500)  | \$ (125,000) | \$ (170,000) | \$ (105,250) | \$ (100,000) | \$ (96,500)  | \$ (125,000) |
| I Employ(ER) Taxes                   | H * 8.65%                  | \$ (7,136)   | \$ (10,813)  | \$ (14,705)  | \$ (9,104)   | \$ (8,650)   | \$ (8,347)   | \$ (10,813)  |
| J Benefits                           |                            |              |              |              |              | 30)          |              |              |
| K CME                                |                            |              |              |              |              | 30)          |              |              |
| L Practice Margin                    |                            |              |              |              |              | 50)          |              |              |
| M Practice Margin                    |                            |              |              |              |              |              |              |              |

## Online Calculators:

[1. How Much Can You Afford To Pay A Provider](#)

[2. How Much Do You Want To Make?](#)



Download Excel Spreadsheet

Spreadsheet to help pediatric practices analyze their provider margins.



Download Slide Deck

Download the slide deck from the video below related to reviewing provider margins.

## Provider Margin Reviews

Paul D. Vanchiere, MBA  
Paul@PediatricSupport.com



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# Budgeting- Anticipate The Impact

## Step 1: Estimate Revenue

|                      |                 | <u>January</u> | <u>February</u> | <u>March</u> | <u>April</u> | <u>May</u> | <u>June</u> | <u>July</u> | <u>August</u> | <u>September</u> | <u>October</u> | <u>November</u> | <u>December</u> | <u>Total</u> |
|----------------------|-----------------|----------------|-----------------|--------------|--------------|------------|-------------|-------------|---------------|------------------|----------------|-----------------|-----------------|--------------|
| <b>Provider 1</b>    |                 |                |                 |              |              |            |             |             |               |                  |                |                 |                 |              |
| Number of Encounters | <i>Estimate</i> | 351            | 393             | 319          | 239          | 242        | 472         | 212         | 336           | 312              | 296            | 301             | 315             | 3,788        |

## Provider 2

|   |                        |          |           |           |  |  |  |  |  |  |  |  |  |  |  |
|---|------------------------|----------|-----------|-----------|--|--|--|--|--|--|--|--|--|--|--|
| D | Number of Encounters   | Estimate | 286       | 357       |  |  |  |  |  |  |  |  |  |  |  |
| E | Revenue Per Encounter  | Historic | \$ 187.95 | \$ 166.48 |  |  |  |  |  |  |  |  |  |  |  |
| F | Provider 2 FFS Revenue | D X E    | \$ 53,755 | \$ 59,433 |  |  |  |  |  |  |  |  |  |  |  |

## Provider 3

|   |                       |          |           |           |  |  |  |  |  |  |  |  |  |  |  |
|---|-----------------------|----------|-----------|-----------|--|--|--|--|--|--|--|--|--|--|--|
| G | Number of Encounters  | Estimate | 226       | 343       |  |  |  |  |  |  |  |  |  |  |  |
| H | Revenue Per Encounter | Historic | \$ 206.74 | \$ 154.07 |  |  |  |  |  |  |  |  |  |  |  |

## Step 2: Estimate Operating Expenses

|   |  | January   | February  | March     | April     | May       | June      | July      | August    | September | October   | November  | December  | Total      |
|---|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| Salaries-Administration                   |  |           |           |           |           |           |           |           |           |           |           |           |           |            |
|   |  | \$ 6,250  | \$ 6,250  | \$ 6,250  | \$ 6,250  | \$ 6,250  | \$ 6,250  | \$ 6,250  | \$ 6,250  | \$ 6,250  | \$ 6,250  | \$ 6,250  | \$ 6,250  | \$ 75,000  |
| Salaries-Billing                          |  |           |           |           |           |           |           |           |           |           |           |           |           |            |
|   |  | \$ 10,400 | \$ 10,400 | \$ 10,400 | \$ 10,400 | \$ 10,400 | \$ 10,400 | \$ 10,400 | \$ 10,400 | \$ 10,400 | \$ 10,400 | \$ 10,400 | \$ 10,400 | \$ 124,800 |
| Salaries-Clinical Support (Nurses & MA's) |  |           |           |           |           |           |           |           |           |           |           |           |           |            |
|   |  | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ 23,400 | \$ 280,800 |
| Salaries- Receptionists                   |  |           |           |           |           |           |           |           |           |           |           |           |           |            |
|   |  | \$ 5,200  | \$ 5,200  | \$ 5,200  | \$ 5,200  | \$ 5,200  | \$ 5,200  | \$ 5,200  | \$ 5,200  | \$ 5,200  | \$ 5,200  | \$ 5,200  | \$ 5,200  | \$ 62,400  |
| Salaries-Other                            |  |           |           |           |           |           |           |           |           |           |           |           |           |            |
|   |  | \$ 1,000  | \$ 1,000  | \$ 1,000  | \$ 1,000  | \$ 1,000  | \$ 1,000  | \$ 1,000  | \$ 1,000  | \$ 1,000  | \$ 1,000  | \$ 1,000  | \$ 1,000  | \$ 12,000  |
| Support Staff 401K                        |  |           |           |           |           |           |           |           |           |           |           |           |           |            |
|   |  | \$ 1,388  | \$ 1,388  | \$ 1,388  | \$ 1,388  | \$ 1,388  | \$ 1,388  | \$ 1,388  | \$ 1,388  | \$ 1,388  | \$ 1,388  | \$ 1,388  | \$ 1,388  | \$ 16,656  |

## Step 3: Estimate Provider Expenses

|   |   | January  | February | March    | April    | May      | June     | July     | August   | September | October  | November | December | Total     |
|---|---|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|-----------|
| J | Number  |          |          |          |          |          |          |          |          |           |          |          |          |           |
| K | Revenue   |          |          |          |          |          |          |          |          |           |          |          |          |           |
| L | Nurse/ST  |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Salary                           | \$12,500 | \$12,500 | \$12,500 | \$12,500 | \$12,500 | \$12,500 | \$12,500 | \$12,500 | \$12,500  | \$12,500 | \$12,500 | \$12,500 | \$150,000 |
|   | Employed Physician Payroll Taxes                    | \$ 938   | \$ 938   | \$ 938   | \$ 938   | \$ 938   | \$ 938   | \$ 938   | \$ 938   | \$ 938    | \$ 938   | \$ 938   | \$ 938   | \$ 11,250 |
|   | Employed Physician Insurance - Medical              | \$ 875   | \$ 875   | \$ 875   | \$ 875   | \$ 875   | \$ 875   | \$ 875   | \$ 875   | \$ 875    | \$ 875   | \$ 875   | \$ 875   | \$ 10,500 |
|   | Employed Physician Insurance - Dental               |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Insurance - Life & ADD           |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Insurance - STD                  |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Insurance - Long Term Disability |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Insurance - Long Term Care       |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Insurance - Vision               |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician 401K                             |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Professional Development         |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Bonuses                          |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Other benefits                   |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Professional Development- Fees   |          |          |          |          |          |          |          |          |           |          |          |          |           |
|   | Employed Physician Professional Development- Travel |          |          |          |          |          |          |          |          |           |          |          |          |           |

## Step 4: Estimate Capital Expenses

|                              |  | January  | February | March | April | May      | June     | July | August |
|------------------------------|--|----------|----------|-------|-------|----------|----------|------|--------|
| Office Equipment Purchases   |  |          |          |       |       |          |          |      |        |
|                              |  | \$ 2,500 | \$ -     | \$ -  | \$ -  | \$ -     | \$ -     | \$ - | \$ -   |
| Office Furniture Purchases   |  |          |          |       |       |          |          |      |        |
|                              |  | \$ -     | \$ -     | \$ -  | \$ -  | \$ 1,500 | \$ -     | \$ - | \$ -   |
| Information System Equipment |  |          |          |       |       |          |          |      |        |
|                              |  | \$ -     | \$ 1,500 | \$ -  | \$ -  | \$ -     | \$ 1,500 | \$ - | \$ -   |
| Laboratory Equipment         |  |          |          |       |       |          |          |      |        |
|                              |  |          |          |       |       |          |          |      |        |
| Medical Equipment Purchases  |  |          |          |       |       |          |          |      |        |
|                              |  |          |          |       |       |          |          |      |        |

## Step 5: Review Summary

|                              | January   | February  | March       | April       | May         | June      | July      | August    | September  | October    | November   | December  | Total       |
|------------------------------|-----------|-----------|-------------|-------------|-------------|-----------|-----------|-----------|------------|------------|------------|-----------|-------------|
| Total Revenue                | \$183,994 | \$203,012 | \$138,852   | \$139,663   | \$117,550   |           |           |           |            |            |            |           | \$2,186,530 |
| Operating Expenses           | \$124,283 | \$113,883 | \$113,883   | \$106,070   | \$106,170   |           |           |           |            |            |            |           | \$1,499,156 |
| Provider Expenses            | \$ 49,528 | \$ 49,528 | \$ 49,528   | \$ 49,528   | \$ 51,270   |           |           |           |            |            |            |           | \$ 598,580  |
| Non-Deductible Loan Payments | \$ 1,250  | \$ 1,250  | \$ 1,250    | \$ 1,250    | \$ 1,250    |           |           |           |            |            |            |           | \$ 6,250    |
| Other Capital Expenses       | \$ 2,500  | \$ 1,500  | \$ 850      | \$ -        | \$ 1,500    |           |           |           |            |            |            |           | \$ 6,350    |
| Monthly Cash Position        | \$ 6,433  | \$ 36,852 | \$ (26,658) | \$ (17,184) | \$ (42,645) |           |           |           |            |            |            |           | \$ (42,645) |
| Accumulated Cash Position    | \$ 6,433  | \$ 43,285 | \$ 16,627   | \$ (557)    | \$ (43,202) | \$ 60,557 | \$ 71,223 | \$ 86,049 | \$ 100,607 | \$ 115,458 | \$ 105,037 | \$ 56,893 | \$ 56,893   |



# Over 3 Dozen Worksheets PMI Uses Everyday

## PMI Sample Financial Worksheets



[PMI Responsibility Matrix](#)  
[Scheduling Guide](#)  
[Scheduling Reference](#)  
[Sample Provider Compensation Model](#)  
[Sample Provider Margin Review](#)  
[Practice Overhead Calculation](#)  
[Sample Partner/Owner Allocation](#)  
[Provider Compensation Model #2](#)  
[Sample Cash Flow Tracking](#)  
[Sample Chart of Accounts](#)  
[Employee Bonus #1](#)  
[Employee Bonus #2](#)  
[Employee Bonus #3](#)  
[Practice Valuation Calc- Internal Buyer](#)  
[Internal Buyer Rol Analysis](#)  
[Financing Options Schedule](#)  
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*Helpful guide for practices to assign responsibilities to ensure everything is tended to in the practice*  
*Questionnaire for providers to convey to appointment schedulers their scheduling preferences*  
*Easy reference for appointment schedulers to track individual provider scheduling preferences*  
*Simple production incentive calculation for providers based on revenue generated*  
*Sample sheet comparing the profitability of each provider in a practice.*  
*Sample calculation on how to calculate the overhead prior to provider compensation (not including vaccine drugs)*  
*Sample allocation of revenue and expenses for partners/owners in a practice*  
*Useful table to show the impact of seeing more/less patients per day as related to production incentive(s)*

*How to allocate annual employee bonus based on a specified total amount to be paid*  
*How to allocate annual employee bonus based on their hourly rate and specified number of hours of pay*  
*How to allocated annual employee bonus based on practice goals*  
*Calculation sheet to determine the value of your practice*

*Tracking sheet to remember the contracted allowed amount for each CPT code, by payor*  
*Sample comparison of allowed amounts by payor and comparison to Medicare allowed amount*  
*Tracking sheet to compare key contract terms for various MCO contracts*  
*Listing of common Key Performance Indicators along with description and formulas*  
*Simply tracking sheet of billing department postings and KPIs*  
*Monthly tracking sheet of billing department postings and KPIs*  
*Tracking of labor time and cost by functional area within the practice*  
*Sample vaccine tracking form*  
*Sample vaccine allowed amount by MCO*





# Your Homework



If succession will one day require the transfer of assets, have you executed a **“buy-sell” agreement** that details the process (and practice value/formula) ahead of time?

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Is there a **detailed contingency plan** in case the any of the partners die or becomes unable to continue working sooner than anticipated?

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Have you identified and considered **alternative corporate structures** or stock-transfer techniques that might help the company achieve its succession goals?

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Have you determined whether you or anyone else will depend upon the business to meet their **retirement cash flow** needs?

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Have you recently had the **business valued and analyzed** in the same way potential buyers and competitors would?



# PEDIATRIC MANAGEMENT

A DOWDEN PUBLICATION

OCTOBER 1993

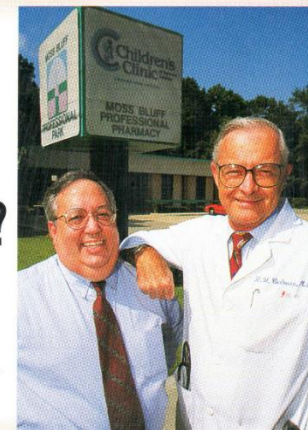
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