PEDIATRIC MANAGEMENT INSTITUTE
HELPING PEDIATRICIANS SUCCEED

GROWING FORWARD

Valuation & Succession Planning

A healthy practice doesn't just run well today — it grows into a future it can sustain. Estimating practice value, thinking strategically about transition, and making decisions now that protect your independence later.

Why This Matters Now

60.1% → 46.7%

Private practice share of U.S. physicians, 2012–2022

53.2% → 44.0%

Physicians holding an ownership stake, 2012–2022

Under 45

Younger physicians are now predominantly employees, by a wide margin

The takeaway: the internal-successor pool is structurally thinner than a generation ago. Internal succession must be built — through compensation, governance, and culture — not assumed to ripen in exam room three.

The 4 D's: Forcing Events

Disability

Death

Divorce

Divestiture

Every forcing event arrives with emotion attached.

First principle: set the valuation formula before the stressful event.
A formula adopted behind the veil of ignorance is fair; the same formula proposed after a retirement announcement is a weapon — whoever proposes it.

Today's Roadmap

1. **What is my practice worth?**
   The PMI ownership-premium method, the multiple, and tangible assets

2. **What makes a practice attractive?**
   Financially attractive, operationally stable, culturally ready

3. **Transition paths & deal structures**
   Internal buy-ins, hospitals, private equity — and how each prices you

4. **The timeline: what to do now**
   The five-year succession clock and the annual habits that protect you

Three Approaches to Value

Income

GOVERNS

Converts expected future economic benefit to present value. The dominant term: post-transaction physician compensation — every dollar paid to physicians is a dollar the buyer does not receive.

Market

RECONCILES

Comparisons to actual transactions — where amateurs drown. Percent-of-revenue rules of thumb are folklore: “the plural of anecdote is not data.” Legitimate use: consolidator multiples show what sophisticated buyers pay.

Asset

FLOORS

Net tangible assets — the floor. A practice is worth at least its properly valued tangibles. Where earnings after fair compensation capitalize to nothing, the floor is the entire value.

Reconciliation rule: when income and market disagree, income wins. One mercy: pediatrics is the least risky, most in-demand specialty.

Step 1: Total Partner Earnings (Part A)

The question Part A answers: what is ownership worth above what you would earn as an employee?

Component	Source
Partner salaries	Provider earning summary
Partner reimbursed expenses	Provider earning summary
Partner retirement contributions	Provider earning summary
+ Net ordinary income	P&L, trailing 12 months
= 12-Month Total Partner Earnings	The full economic benefit flowing to owners

Ground rules

- Trailing 12 months from P&L and earning summary
- Add back everything deducted as partner expense
- Multiple years available? Weight recent years more heavily

Step 2: The Variance

Per-Partner Earnings

Total partner earnings ÷ number of partners

−

Employed Provider Total Comp

Salary + bonus + retirement of an employed pediatrician

=

Ownership Premium

The per-partner economic benefit of owning

The single most important diagnostic: if the variance is near zero or negative, ownership is not generating meaningful benefit beyond employment. That finding drives every recommendation that follows — overhead, compensation structure, or revenue must improve.

Step 3: Apply the Earnings Multiple

0.75× – 1.5×

Typical range for pediatric practices

Pushes the multiple up

- Strong growth trajectory; stable or growing earnings
- Diverse payer mix; young patient panel
- Low overhead; desirable location

Pulls the multiple down

- Declining revenue; aging patient panel
- High overhead; unfavorable payer mix
- Key-person dependency; partnership disputes

Part B: Tangible Assets & Liabilities

Item	Treatment
Cash on hand	Balance sheet, at value
Equipment & furnishings	20% of book value (salvage)
Vaccine / supply inventory	Count if available; estimate if not
Collectible A/R	Discounted by aging bucket
Less: current liabilities	Cards, accruals, payroll liabilities

The A/R waterfall

Anchor at the practice's gross collection rate, then decay by aging bucket. Patient-responsibility buckets discount far more steeply.

~~$170,950~~

→ **$79,309 collectible**

Worked example at a 55% gross collection rate

Part B is the floor. Even a practice with no earnings premium is worth its properly valued net tangibles.

Putting It Together: Total Value & Its Drivers

Part A
Premium × multiple × partners

+

Part B
Net tangible assets

=

Total Value
÷ partners = per-owner value

Drivers analysis

- Cash >35–40% of value → earnings value is thin
- Small Part A → ownership premium is weak; fix overhead, comp, or revenue
- A/R-heavy → value rides on collectibility

Cash-withdrawal analysis

Rerun the value excluding cash on hand. A new partner buying in should never pay for cash the existing partners are about to distribute to themselves. This is the practice's true operating value.

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Valuing Your Practice

Scan to download

The Nitty Gritty Of Valuations

A step-by-step guide to building a defensible valuation of your practice — the earnings basis, add-backs, market multiples, and the numbers that move the result.

Scan the code to get started.

Financially Attractive

A real ownership premium

The variance is the headline. Buyers of every type look past revenue to what remains after market-rate compensation.

Overhead discipline & clean earnings

Multi-year stable earnings, normalized compensation, no one-time monies propping up the number.

Payer mix & panel quality

Diverse payers, a young panel, and steady newborn inflow make the forecast credible.

$40,000

per provider, per year — the value of just 2 patients/day at $100/encounter

Value is only as durable as the panel and schedule behind it

Every valuation output travels with this volume-sensitivity warning.

Operationally Stable: Three Owner Ratios

1 Cash reserves

A months-of-expenses policy. Thin cash reads as risk; run the cash-withdrawal analysis before any buy-in.

2 Debt structure

Maturities matched to the assets financed. A permanently drawn credit line is a warning sign wearing a balance sheet.

3 A/R reconciliation

Billing-system receivable vs. balance-sheet receivable, differences explained. Diligence's first question.

Culturally Ready: The Successor Generation

Provider pipeline

Are employed physicians on a credible partnership track? Watch the partner-to-provider ratio trend.

Governance that transfers

Managing-partner machinery, decision frameworks, and voting rules that outlive any one founder.

Transferable vs. personal value

Systems, brand, workforce, and panel relationships survive a departure; reputation walks out the door. Only transferable value can be sold.

The operational diagnostic: how much value would be lost if the physicians competed? Enforceable noncompetes convert personal value into transferable value — covenant scope is a valuation input, not boilerplate.

The Demand-Side Audit: Your Panel Is Your Forecast

Panel age distribution

A panel heavy with adolescents (14–17) ages out within 4 years. Newborn and new-patient inflow must replace what leaves — or revenue declines on schedule.

Long-term revenue forecast

Project revenue 3–5 years out from panel age distribution, provider FTE trajectory, and historical growth. Model the founder stepping down to part-time.

The Four Exit Paths

Buyer	What is actually priced	Typical structure
Internal partner / associate	The ownership premium	Formula price; practice- or seller-financed; sliding equity
Another physician group	Combined economics — their payer rates on your volume	Merger or asset purchase; equity exchange
Hospital / health system	Tangible assets + contested intangibles, FMV-capped	Asset purchase + wRVU employment agreement + lease
Private equity / consolidator	Scraped EBITDA — earnings after reduced go-forward comp	Multiple of adjusted EBITDA; cash + rollover equity

Each path prices the same practice differently. The practice that understands all four methods can negotiate any of the four conversations.

The Affordability Method

A valuation the buyer cannot finance is a wish. Invert the question:

1 What the practice earns → **2** What the buyer must take home → **3** What operations cost → **4** Residual funds the buy-in → price

Worked example

$50,000/year funds the buy-in note during Years 1–5, at **9% over 5 years**, supporting a purchase price of **≈ $194,483**

Once the buy-in is paid off (Year 6+)
The $50K/year that had serviced the note stops leaving the practice — it stays with the buyer as a permanent **+$50K/year raise in take-home earnings.**

The Buy-In Financing Menu

Bank financing

Seller paid in full; buyer carries personally guaranteed debt. Cleanest for the practice, heaviest for a young pediatrician.

Seller note

Price spread across years at stated interest; aligns seller incentive with transition success. Promissory note, security, offsets — in writing.

Salary differential

Buy-in funded from pre-tax compensation flows (equity in lieu of bonus). Both sides' accountants model the tax character first.

Two rules govern every instrument: (1) when price is fixed in advance, ownership transfers whole at closing; (2) never intermingle the buyout and ongoing compensation — one agreement prices equity, one prices work.

The Book-Value Trap & the Symmetry Repair

The trap

Book-value buy-sell clauses omit the receivables (often), the vaccine inventory (usually), and the entire earnings value (always).

~$720,000

unintended founder-to-associate transfer: three 20% admissions at $62–74K against ~$300K true values — with the same clause waiting to discount the founder's own exit

The repair: symmetry

- Whatever methodology prices the way in must price the way out — chosen deliberately, disclosed with a worked example
- Annual value update, signed by every partner. If partners cannot agree on a new value, the old one stays in force
- Formula review at every admission — a clause drafted for a $600K practice governs a $3M one within a career

EBITDA Forensics: Read the Buyer's Arithmetic

Trap 1 — the compensation scrape

The buyer's return is funded by the sellers' own permanently reduced future compensation, tied contractually to the very forecast that produced the price.

Trap 2 — “adjusted” EBITDA

Consolidators layer a post-close management fee (5–6% of revenue) onto the acquired practice, so the quoted multiple is computed on earnings after a charge the seller never bore. Compute it both ways.

The quoted multiple

“7.2×”

adjusted EBITDA (comp scraped to $205K/partner + 5% management fee)

The true multiple

5.9×

on pre-fee EBITDA

A multiple of what matters more than the multiple.

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Total the Deal, Not the Check

The five-year rule: over 5+ years, compensation typically outweighs sale proceeds. Evaluate price + five years of modeled post-close compensation — including the independent path.

Path	Structure	5-yr total / partner
Hospital	$310K tangible assets (goodwill declined) + $44/wRVU employment + market-rent lease	**≈ $1.34M**
Private equity	7.2× adjusted EBITDA ≈ $1.05M headline; 70% cash / 30% rolled equity; employment at scraped rate	**≈ $2.08M ***
Independent	Status quo — modeled five-year earnings	**≈ $1.66M**

** If the rolled equity returns par. The sponsor's exit is the second transaction the sellers no longer control — the "second bite" is also a second lottery.*

Offers that look transformative as checks routinely look ordinary as totals — the honest denominator for whatever else the sale buys.

The Building: A Succession Instrument

Separate entity, always

The real estate deserves its own entity — a succession tool as much as a liability one. Founder keeps the building as retirement income while selling the practice affordably.

Option for the next transition

Incoming buyer leases capital-light, with a right of first refusal or pre-priced purchase option so the package stays assemblable.

Own vs. lease is arithmetic

If projected IRR on owning exceeds your opportunity-cost rate, buy; if not, lease. Cost segregation can pull $300–400K of first-year depreciation from a $3M building.

Standing deal rule: never bundle the real estate into the practice transaction. Two assets, two entities, two deals.

The Five-Year Succession Timeline

Built backward from the day the founder stops seeing patients. Succession fails on calendars more than on economics.

5 YEARS OUT

Structural

- Valuation formula reconciled to symmetry and signed
- Balance sheet cleaned to the four ratios
- Building separated; entities transferable
- The candid partner conversation; demand-side audit

2–3 YEARS OUT

Human

- Successor identified and tested
- Buy-in executed on the affordability math
- Governance transitioned deliberately
- Founder wind-down schedule written, comp stepping down

FINAL YEAR

Mechanical

- Payer credentialing — 60–150 day clocks
- Patient communication sequenced from the practice
- Records custody and tail coverage executed
- Seller stays 3–6 months minimum post-close

The MSO Option

"It's not that they don't want to be business owners; it's that they don't want to manage the business." The MSO splits the difference: administrative burden moves out; ownership that funds a founder's exit stays in. Market: ~$46B, growing ~13%/year.

Buying groups

10–30% purchasing savings at full autonomy

Management bundles

Billing, technology, human resources

Care management

Organizations that carry risk contracts

The six-point evaluation card

- Quantify the savings before signing
- Contract terms near two years with clean exits
- Pediatric-literate performance reporting
- Flat-fee or line-item pricing, not percent-of-revenue
- Billing stays in your systems, real-time transparency
- Call their clients cold

What to Do Now — Even 15 Years Out

Run your own valuation annually	Know your number before a buyer's banker teaches it to you. The difference is routinely the whole negotiation.
Fix the buy-sell to the symmetry standard	Same methodology in and out; annual signed update; formula review at every admission.
Clean the four ratios	Current ratio, reserves, matched debt, reconciled A/R
Build the successor pipeline deliberately	Compensation, governance, and culture that make partnership worth wanting.
Separate the real estate	Its own entity, its own deal — the founder's retirement asset and the practice's patient capital.

Decisions made now protect your independence later.

It All Lives in One Document

The valuation formula, the buy-sell symmetry, the buy-in financing, the governance that transfers, the answers to all 4 D's — every protection discussed today either lives in your partnership agreement or doesn't exist.

When did you last read it?

Cover to cover — not the one paragraph you needed during an argument. Retired accountants, dead payer contracts, and obsolete non-compete radii hide in old agreements.

Does it name a method?

A valuation formula, a distribution rule, a deadlock tie-breaker. Most disputes are not about value — they are about the absence of a written method.

Would it survive a 4-D event?

Death, disability, divorce, divestiture. Most agreements are inherited accidents, drafted for a smaller practice by an earlier generation.

What follows: 50 provisions worth checking — a conversation starter for your next partner meeting.

Partner Foundations

1	**Why you need an agreement**	A handshake deal is a $400,000 accident waiting to happen — the agreement is the practice's constitution.
2	**Equal vs. proportional ownership**	The load-bearing wall: get structure wrong and compensation, voting, and buyouts sit on a cracked foundation.
3	**The buy-in**	What new partners are actually paying for — A/R, goodwill, equity — and how the purchase gets financed.
4	**Valuation methodology**	Most valuation disputes are about the absence of a method. Define the formula up front, before anyone needs it.
5	**Compensation formulas**	Base salary, RVUs, and productivity math — a traceable formula makes even unequal pay feel fair.

Partner Foundations

6	**Voting rights**	Who really gets a say, and at what dollar threshold — the operating system of the partnership.
7	**The managing partner role**	Authority, term, accountability — and the removal process nobody thinks to write down.
8	**Employment agreements inside**	Owner and employee are two legal characters wearing one white coat; each needs its own contract.
9	**Distribution rules**	When and how profit actually reaches partners — settled before a K-1 surprises anyone.
10	**Financial transparency**	Every owner's right to see the books, stated in writing — no gatekeeping by employee or partner.

Money & Distributions

11	**Capital calls**	Who writes the check when the practice needs cash, on what timeline, with what consequence for whoever can't.
12	**Debt authority**	Who can borrow on the practice's behalf, and up to how much, before a partner vote is required.
13	**Unequal work schedules**	What going part-time means for ownership, compensation, call, and overhead share.
14	**Payout periods & A/R at exit**	How fast buyout money actually arrives — promissory notes, installments, interest, and who collects the A/R.
15	**Overhead allocation**	The hidden source of partner conflict: define the method and the denominator in writing.

Money, Taxes & Disagreement

16	**Salary vs. distributions**	S-corp reasonable-salary rules — the IRS has opinions, and they arrive with interest and penalties attached.
17	**Deadlock**	Tie-breaker clauses, the forced buy-sell, and the escalation ladder that resolves a 50/50 stalemate.
18	**Dispute resolution**	Mandatory mediation first, binding arbitration as backstop — routing around a $250K, 3-year lawsuit.
19	**Admitting new partners**	A written admission vote and eligibility gates — partnership offers don't happen over coffee.
20	**Hiring & firing authority**	Tiered authority over provider, clinical, non-clinical, and executive hires — silence costs real money.

Governance & Strategic Decisions

21	**Payer contracting authority**	Who holds the pen on the contracts that decide what every visit, vaccine, and well check pays.
22	**Board committees**	Quality, finance, and compliance forums — the cure for drift once a group passes a certain size.
23	**Strategic growth**	Who decides, who pays, and who profits when locations, service lines, or affiliations expand.
24	**Sale provisions**	The sale vote, the proceeds split, and autonomy protections — written before any buyer ever calls.
25	**Malpractice insurance**	Claims-made vs. occurrence, and who pays the tail when a physician leaves.

Protecting the Practice

26	**Non-compete clauses**	Radius, duration, enforceability — state law decides whether yours is ironclad or worthless.
27	**Non-solicitation**	Protecting patients and staff when a departing partner starts pulling both toward a new address.
28	**Intellectual property**	The protocols, handouts, brand, and phone number — who owns what the practice creates.
29	**Compliance guardrails**	Stark, anti-kickback, credentialing — guardrails that keep compensation decisions out of regulatory trouble.
30	**Impairment & health programs**	Fitness-for-duty rights, the PHP pathway, and return-to-work provisions drafted before anyone needs them.

New Risks & Life Events

31	**Cybersecurity & AI liability**	Who pays the ransomware demand; who owns the risk of AI-assisted care. Pre-2020 agreements never imagined it.
32	**Confidentiality between partners**	What stays inside the partner meeting, non-disparagement rules, and what happens when someone breaks them.
33	**Disability**	A disability-trigger definition, a salary continuation bridge, and mandatory insurance requirements.
34	**Death of a partner**	A life-insurance-funded buyout, no automatic spousal ownership, and a defined payout timeline.
35	**Divorce**	Spousal consent signatures and a buyout cascade that keep the practice outside any partner's marriage.

Life Events & Culture

36	**Retirement transitions**	Notice requirements, the short-notice discount, and glide paths — runway is a drafting product.
37	**Leave policies**	Parental, sabbatical, and burnout leave — decide the money questions in advance, for everyone equally.
38	**PTO, benefits & retirement plans**	What “you're an owner now” quietly changes — write the rules before the first distribution statement.
39	**Moonlighting & outside income**	Approvals, income allocation, and disclosure — so outside work doesn't curdle into suspicion.
40	**Values misalignment**	Removing a productive partner who is corroding the culture — lawfully, with peer review and remediation first.

Exits & Dissolution

41	**Voluntary exit**	Notice owed, transition duties, chart completion — and what the departing partner is owed in return.
42	**For-cause termination**	Defined cause, automatic triggers (license, DEA, Medicare), expulsion votes, and bad-leaver discounts.
43	**Forced buyouts**	No-fault removal by supermajority — with the premium that should accompany taking someone's equity.
44	**Transfer restrictions**	Keeping ownership with the pediatricians in the building — no surprise spouses, estates, or PE firms.
45	**Dissolution framework**	Wind-down governance, the asset waterfall, and chart custody until the youngest patient turns 21.

Advanced & Specialty Topics

46	**Clawbacks**	Audits and recoupments reach years backward while buyouts settle fast — define who repays.
47	**MSO structures**	Understand the management fee, the control terms, and the exit before anyone signs.
48	**Research, trials & teaching**	Whose stipend is it when practice rooms, staff, and patients support outside work?
49	**Pediatric-specific provisions**	Vaccine inventory risk, VFC accounting, and the other provisions multispecialty templates miss.
50	**The annual agreement audit**	A 10-point yearly review so the agreement ages with the practice instead of against it.

Partnership Agreement Guidance

Scan to download

Complimentary eBook

A practical guide to partnership agreement terms — buy-in structure, governance, compensation, and exit provisions — so you can walk into the conversation prepared.

Scan the code to download your copy.

KEY TAKEAWAYS

- Set the valuation formula before the forcing event — behind the veil of ignorance.
- Income governs. The ownership premium is the single most important diagnostic.
- Attractiveness = financially attractive + operationally stable + culturally ready.
- Total the deal, not the check — price plus five years of post-close compensation.
- Succession fails on calendars more than economics. Start the five-year clock.

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Questions & Discussion