Every Purchase is DIFFEREN

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Adding an optometry or ophthalmology practice to an existing practice requires due diligence.

Growth of a practice can be accomplished in many ways. One way to fast-track the process is by buying or merging with another practice. Multiple considerations enter into such a major decision, but, overall, the most important element for success is that those involved believe the purchase will be a win-win for both parties.

In this article, we explore some of the factors that should guide one's thinking when entering into a purchase agreement with another established practice. As will become clear, this article offers only a basic framework, and much work is needed to ensure that all parties benefit from the transaction.

UNDERSTAND THE SELLER'S GOALS

For the buyer, it is vital to understand the seller's goals. Sometimes it can be as simple as the doctor just wanting to slow down or semi-retire—to have coverage and a place to work without the hassle of running and the expense of maintaining a practice. Other times, it may be that a large practice with multiple providers is looking at market share and seeking synergies to improve the bottom line and patient care. Determining the value of the practice can be very different in each case.

If the seller is a solo practitioner, one element that directly affects the value of the practice is whether he or she wants to continue to practice. As an example, if a doctor wants to retire and sell his or her practice or an estate is selling a deceased practitioner's practice, the active patient charts (patients seen within the past 2 years) in the United States may be worth $3 to $5 per chart. On the other hand, if a practitioner is looking to sell his or her practice to eliminate the burden of running it and wants to continue practicing as an employee or independent contractor, then his or her practice would be worth a multiple of what it has collected and is projected to collect going forward.

From the purchaser's perspective, the value and the return on investment of a purchase depend on several factors other than the additional revenue stream. An important one is the number of patients in the seller's practice who will require ophthalmic subspecialty expertise that your practice can provide. For example, if the seller is a general ophthalmologist who is following a lot of patients for glaucoma or for mild retinal disease, these patients could make their way into the hands of subspecialists within an acquiring practice. Also, if the buyer has an ambulatory surgery center, an important factor is how many additional operative cases the purchase will bring. This type of *spinoff benefit* helps to defer the cost of a purchase and to maximize the value of the patients brought in with the purchase of the practice.

DUE DILIGENCE

Obtaining and analyzing the selling practice's financials, tax returns, and computerized patient reports are essential parts of the due diligence that will help you to understand the factors outlined earlier and to determine the practice's revenue stream.

There is no general rule of thumb to apply, as each case is different and unique based on the parties' individual goals. The best deal for sellers, generally, is one that allows them to earn close to what they were earning previously but with less hassle and turmoil, such as handling staff, payroll, accounts receivable, and accounts payable.

For the purchasing practice, the best way to structure the payout is over a period of time, so that the principal plus interest is amortized at an amount that provides a positive cash flow to the purchaser when the spinoff benefits are calculated in the projected pro forma.

An example of a merger or purchase of a practice in which all parties potentially could benefit from the transaction is outlined in *Case in Point*.

CASE IN POINT

A US practitioner grossing US$500,000 per year with 65% overhead would be earning US$175,000 per year. Assuming US$100,000 of the total was generated by professional fees for cataract surgery, and if he or she were to give that up or perform the services in your ambulatory surgery center, that would generate approximately US$30,000 profit in facility fees at 70% overhead. Additionally, if one patient per day is referred to a subspecialist, that could easily produce US$500 to US$1,000 per week in profits, if not more.

If you were to pay the seller US$500,000 for the practice and it continued collecting the same amount, and if you paid the seller the same salary but spread the buyout over 10 years, that would be roughly a US$55,000 payout per year, which is equivalent to the spinoff money as calculated in the main article. In order to make this arrangement work for the purchaser, some adjustment would be needed. Options would include these:

- Lower the purchase price;
- Lower the overhead;
- Lower the provider's salary;
- Increase reimbursements through better contracts; or
- Apply economies of scale and marginal overhead theory (eg, by using your back office and phone center staff to replace the provider's).

It is easy to see that there are many ways to make it work, and of course both parties need to benefit or there is no reason to do the deal. The seller wants to achieve a better lifestyle with at least the same income, and the purchaser wants to make a profit and hopefully build the practice so that it produces more, both organically and in spinoff profit, going forward.

CONCLUSION

This is just scratching the surface; there are many other factors to consider. Will the practice being purchased merge into one of your existing facilities, or will it be a new satellite? Was the practice already referring to you and you wanted to buy it to make sure you didn't lose the referrals to another practice? These factors and many others determine the value of each transaction. But using the basic outline given here, and calculating the deal so that it means a win-win for both parties, is a formula for success. ■