

SELLING YOUR PRACTICE FOR 5 TO 10 TIMES ITS PROFIT



A how-to guide.

BY ROD SOLAR AND LAURA LIVESEY

As practice owners in the field of refractive and cataract surgery approach their 50s, a critical question often arises: What makes a practice sellable? Interestingly, many of them do not actively address this question until they are in their 60s. The primary reason is that they are deeply involved in day-to-day operations, which leaves little time to work on the business. Such delays in strategic planning, however, can affect the value and sellability of a practice significantly.

Understanding the factors that make your practice sellable is not merely a retirement consideration but a strategic approach to ensuring long-term success and developing a rewarding exit strategy. What contributes to your practice's sellability? The straightforward answer is profitability. With more than 2 decades of experience in this field, however, we understand there is much more to consider. This article dives into what buyers are looking for when evaluating your practice.

FINANCIAL HEALTH: EARNINGS ARE KEY

The core attractiveness of your practice hinges on its financial performance, notably its seller's discretionary earnings (SDE) or earnings before interest, taxes, depreciation, and amortization (EBITDA). Practices with higher profits can command a higher multiple on either SDE or EBITDA,

leading to a greater selling price. Simply put, increased profit translates to reduced risk for the buyer.

DOCUMENTED PROCEDURES: THE BACKBONE OF OPERATIONS

Documenting systems and processes is vital. Practices with well-documented procedures are often the most sought after. Documentation decreases dependence on specific individuals, facilitating easier replication of business functions. It is advisable to identify and map out the key value drivers within your practice—usually patient acquisition and service delivery—and meticulously document the critical steps in each process. This approach enhances the ability to shift reliance from individuals to systems, bolstering operational consistency.

PREDICTABLE REVENUE: THE APPEAL OF STABILITY

In the realm of refractive and cataract surgery, where procedures are generally singular events, possessing a strong referral network is essential. This network fosters a predictable revenue stream, enhancing the attractiveness of your practice to potential buyers. A consistent influx of referrals from optometrists and satisfied patients is highly valued. Such stability serves as an indicator of your practice's effectiveness in delivering the outcomes that patients seek.

A STRONG CUSTOMER BASE: THE BIGGER, THE BETTER

Having a sizable patient base significantly enhances your brand's visibility and decreases the cost of acquiring new patients. This characteristic is highly attractive to potential buyers. A greater number of satisfied patients contributes to increased goodwill in the market, which, in turn, can offset the costs associated with patient acquisition.

DIVERSIFIED INCOME: THE VALUE OF VARIETY

A dependence on a single source of income introduces risk. Practices that boast a variety of revenue streams are inherently more attractive because they are better insulated against financial downturns. It is important to balance diversity and complexity; your revenue streams should be varied enough to avoid reliance on just one type of patient without becoming overly complex.

INTELLECTUAL PROPERTY: DISTINGUISHING YOUR PRACTICE

What differentiates your practice? A buyer's interest diminishes if they find a similar practice at a lower cost. Possessing a strong, defensible brand and offering unique services can significantly enhance your practice's value.

TALENT AND LEADERSHIP: VALUING PEOPLE

The presence of a skilled workforce

and strong leadership is highly appealing to prospective buyers, particularly over the typical 5-year earn-out period following a sale.

CAPITALIZING ON GROWTH

Market trends. Practices situated in expanding markets attract buyers. Being part of a growing sector can enhance your practice's investment appeal.

Anticipated expansion. The potential for expansion is attractive to buyers. A practice that appears to have reached its zenith has less allure. We therefore recommend not delaying the sale until your practice is fully developed.

SYNERGIES: SEEKING COMPATIBILITY

Strategic investors, including competitors and related businesses, evaluate how well your practice integrates with their current

operations. Financial investors, such as private equity firms, focus on growth potential.

A STRATEGIC EXIT PLAN

The optimal approach is to begin planning your exit strategy 3 to 6 years before you intend to leave. This period allows you to do the following:

- Enhance your practice's financial performance;
- Refine and formally record its operational processes;
- Secure and expand its sources of revenue;
- Broaden your client base;
- Improve your practice's branding and leadership presence;
- Position your practice favorably within growing market trends; and
- Gradually reduce your involvement, making the practice less dependent on your direct input.

The aim is to make your practice an exceptionally appealing investment by the time you choose to sell. By starting the process early, when the moment arrives to sell, you will have a practice that is not only profitable but also exceedingly attractive to prospective buyers for myriad reasons. The dedication you invest can yield significant rewards when you decide to sell your practice. ■

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