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A Tale of Three
Practices
and how different buyers would value them

Nathan Hayes
Natalie Schmook, MBA, CFP*, CVA*, CEPA

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Learning Objectives



- 1. Understand the "basic theory" of practice valuation
- 2. Know the landmines to look for when evaluating a practice for purchase
- 3. Have a checklist for preparing a practice for sale

3 4

Practice #1

- Small, solo doc practice
- 2-3 staff members
- Open 3-4 days per week
- <\$500,000 collected revenues
- Older technology
- Small patient base

Practice #2



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- Single owner practice
- Medium, multi-doctor practice
- Open 6-9 doctor days per week
- >\$1,500,000 collected revenues
- Some specialized patient care
- Spouse is office manager

5

Practice #3



- Multi-owner practice
- Large, multi-doctor practice
- Open 15+ doctor days per week
- >\$3,000,000 collected revenues
- Multi-specialty patient care
- Owns practice real estate

Practice Valuation Theory



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What is a practice worth?

What is a practice worth?



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Common Valuation Methodologies

1. Benefit Stream Model (Adjusted EBITDA)

Common Valuation Methodologies

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2. Market Transaction Method

Common Valuation Methodologies

- 1. Benefit Stream Model (Adjusted EBITDA)
- 2. Market Transaction Method
- 3. Asset Approach

Common Valuation Methodologies

- 1. Benefit Stream Model (Adjusted EBITDA)
- 2. Market Transaction Method
- 3. Asset Approach
- 4. Debt Service Model

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Common Valuation Methodologies

- 1. Sales Method (% of Collected Revenues)
- 2. Benefit Stream Model (Adjusted EBITDA)
- 3. Market Transaction Method
- 4. Asset Approach
- 5. Debt Service Approach

Sales Method

Collected revenues

<u>x_55% to 75% multiple</u>

= Value of practice

Benefit Stream Model

- 1. Calculate owner benefit
- 2. Make appropriate adjustments
- 3. Apply a multiplier



Owner Benefit (EBITDA)

- Owner W2 Income
- + Family Salaries
- + Net Income of Practice
- Depreciation & Amortization
- Interest Expense
- = EBITDA

17 18

Adjustments to EBITDA

Common Adjustments
Replacement wage for owner patient care
Adjustments to rent
EMR fees if paper charts
Cell phone charges
Travel & Entertainment
Fair market wages for staff

Adjustments to EBITDA

Replacement wage for owner patient care
Adjustments to rent
EMR fees if paper charts
Cell phone charges
Travel & Entertainment
Fair market wages for staff

Advanced Adjustments
Staff reduction
Lab fees
Specialty services
Virtual help
Additional doctor capacity

Applying a multiplier



- 3 5x Adjusted EBITDA for private practices
- 5 7x Adjusted EBITDA for corporate buyers

Debt Service Model

Owner Benefit (Adjusted EBITDA)

Debt Servicing

= Is this worth the risk and expected

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Case Studies







Practice #1- small solo doc

3 days of patient care / week 2 staff members

> Older equipment Last refresh 2003

23 24

Practice #1- % of revenues

Collected revenues

7. 2270 to 7270 thatty

= Value of practice

Practice #1- % of revenues

Collected revenues
x_55% to 75% multiple
= Value of practice

Collected Revenues		\$376,950	\$380,585	\$405,310
Low End Range	55%	\$207,323	\$209,322	\$222,921
Middle Range	65%	\$245,018	\$247,380	\$263,452
Upper Range	75%	\$282,713	\$285,439	\$303,983
Estimated Value	55%	\$207,323	\$209,322	\$222,921

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Practice #1- adjusted EBITDA

- Owner W2 Incom
- + Family Salaries
- + Net Income of Practice
- Interest Expense
- +/- Other Adjustment
- = Adjusted EBITDA

Practice #1- adjusted EBITDA

CALENDAR YEAR		
Owner's Production		\$380,585
Net Income		\$21,950
Doctors Salary		\$38,600
Replacement Care	(16%)	-\$60,894
Addback Owner Expense	is .	\$59,992
Addback Depreciation/A	mortization	\$22,350
Addback Interest Expens	æ	
Adjusted EBITDA		\$81,998
3x times EBITDA		\$245,995

27 28

Practice #1- debt service model

- Debt Servicing
- Worth It?

Practice #1- debt service model

Enter Values		Loan Summary	Annual Payment \$30,330
Loan amount	\$227,658.48	Scheduled payment	\$2,527.48
Annual interest rate	6.00%	Scheduled number of payments	120
Loan period in years	10	Actual number of payments	11
Number of payments per year	12	Total early payments	\$0.00
Start date of loan	9/5/2023	Total interest	\$11,066.15

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Practice #1- debt service model



Practice #1- small solo doc



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Practice #1

SALES	EBITDA	DEBT
\$210K	\$245K	\$45K
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Practice #2- medium multi-doc

Key Facts

8 days of patient care / week

Owner wants to retire

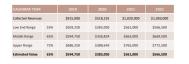
2 locations | owner owned | rent over FMV

Larger patient base

Rural-ish locations

33 34

Practice #2- % of revenues



Practice #2- adjusted EBITDA

CALENCAR YEAR 2022

Own'r Production 5933,600

The fincens 56,110

Own'r Fay

Applicament Car (ESN) 432,460

Addisol Ceres Net

S11,250

\$122,555

\$122,555

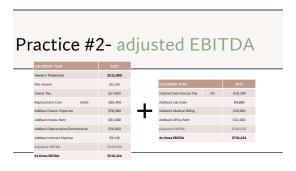
\$122,555

\$122,555

\$122,555

\$122,555

35 36



Practice #2- debt service model

Enter Values		Loan Summary	Annual Payment \$83,931
Loan amount	\$630,000.00	Scheduled payment	\$6,994.29
Annual interest rate	6.00%	Scheduled number of payments	120
Loan period in years	10	Actual number of payments	11
Number of payments per year	12	Total early payments	\$0.00
Start date of loan	9/5/2023	Total interest	\$30,623.40

37 38

Practice #2- debt service model Purchase Price of \$5-30,000 Consideration Amount Consideration Status, 55 Nata Payment Nata Payment

Practice #2

SALES	EBITDA	DEBT
\$566K	\$630K	\$100K
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39 40

Practice #3- large practice

Key Facts
3 full time, 1 part time doctor
Owner is part time
1 location; 7 lanes
Husband is office manager
Kids are on payroll

Practice #3- % of revenues

CALENDAR YEAR		2021	2022
Collected Revenues		\$3,100,000	\$3,450,000
Low End Range	55%	\$1,705,000	\$1,897,500
Middle Range	65%	\$2,015,000	\$2,242,500
Upper Range	75%	\$2,325,000	\$2,587,500
Estimated Value	75%	\$1,705,000	\$1,897,500

41 42

Practice #3- debt service model



43 44

Practice #3- debt service model

Purchase Price of \$2,400,000		
Consideration	Amount	
Owner Benefit (Adjusted EBITDA)	\$482,000	
Note Payment	\$320,000	
Remaining Owner Benefit	\$162,000	

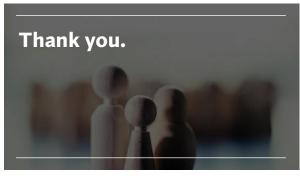
Practice #3

SALES	EBITDA	DEBT
\$1.9m	\$2.4m	\$163K
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Due Diligence

- P&L and Balance Sheet (3 Years)
- Tax Returns (3 Years)
- Lease Agreement (rate, months)
- Employee Demographics (role, tenure)
- Exam Counts (3 Years)
- FF&E (age, value)
- Inventory (frames, contact lenses)
- Fee Schedule
- Job Descriptions, SOPs
- Special Arrangements



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