

Building Your Business For Profit

Learn a simple, easy-to-understand method for reviewing your cash flow to ensure profitability.

With Mick Kling, OD & Jay Binkowitz

VISION EXPO

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Today's Objectives

- 1 The State of the Industry
- 2 Getting a Handle on your Profit and Loss Statement
- 3 What is EBITDA and why does it matter?
- 4 Managing Your Practice for Improvement

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The State of the Industry

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State of the Industry

22,800 ODs in Independent Settings
\$40 billion industry w/ steady growth of 3-4%

Practice Setting	Percentage
Independent Practices	37%
Commercial Retail	24%
Other Medical	5%
MD Practice	8%
Government	5%
Other	1%

Optometrists By Practice Setting
*Source - Horita, Williams & Co 2007

PRACTICE SETTING OPTOMETRISTS

- Independents - 22,800
- Commercial Retail - 9,600
- MD Practice - 3,300
- Other Medical - 2,000
- Government - 1,900
- Other - 400
- **TOTAL - 40,000**

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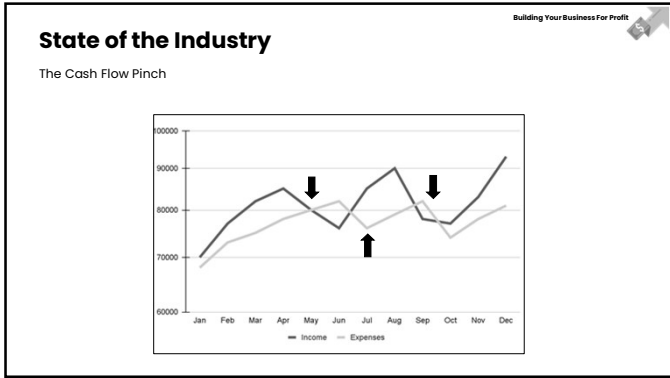
State of the Industry

Cumulative Survival Rates for Establishments by Birth Year

Years in Existence

Source: Bureau of Labor Statistics, Business Employment Dynamics

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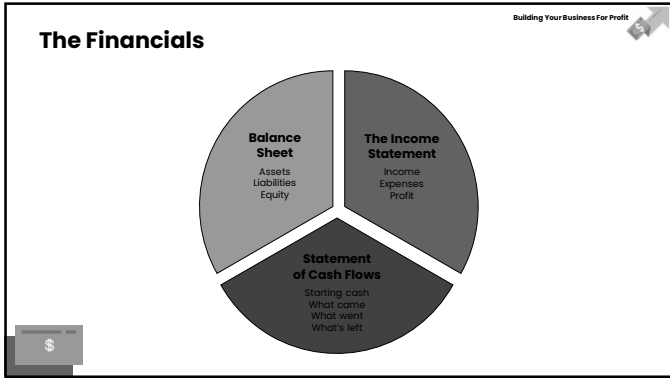
Getting a Handle on Your Profit & Loss Statement

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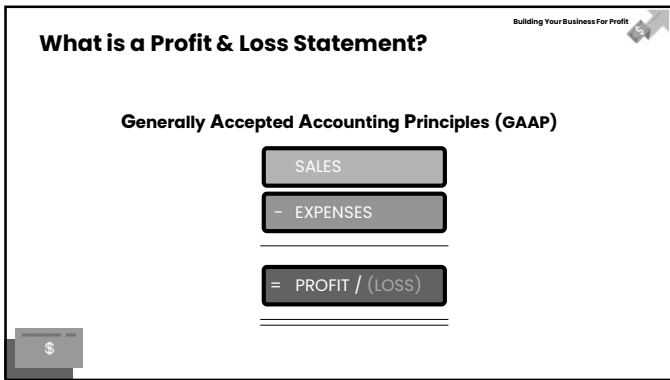
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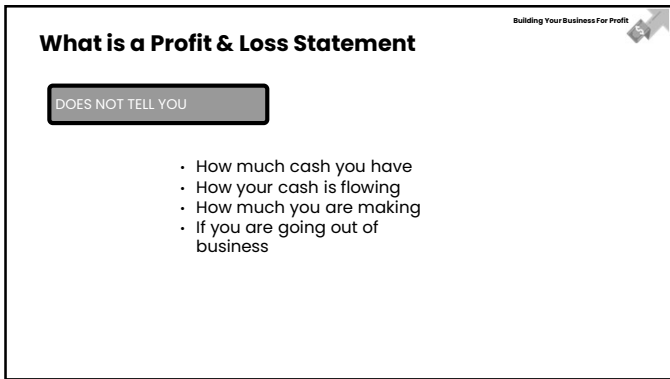
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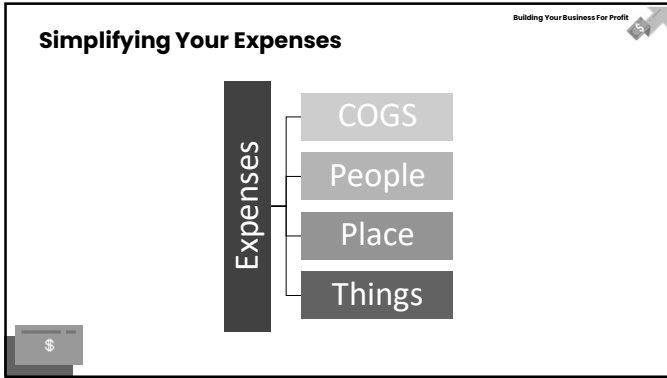
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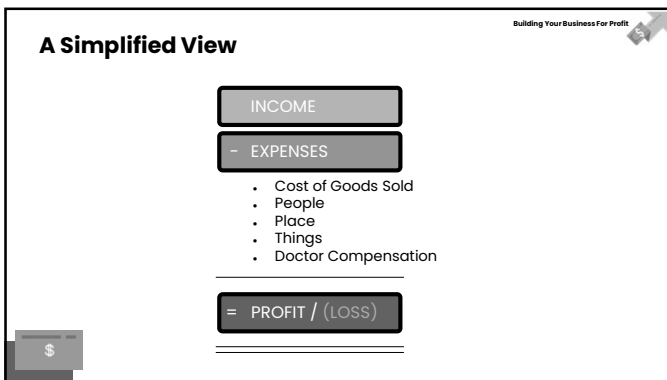
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Profit & Loss Sample

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INCOME		\$1,000,000
- EXPENSES		
Cost of Goods Sold	\$280,000	
GROSS INCOME (Gross Profit)		\$720,000
People	\$250,000	
Place	\$80,000	
Things	\$100,000	
		\$430,000
NET OPERATING INCOME		\$290,000
Doctor Compensation		\$150,000
= PRACTICE NET		\$140,000

← *Optometric Net?*

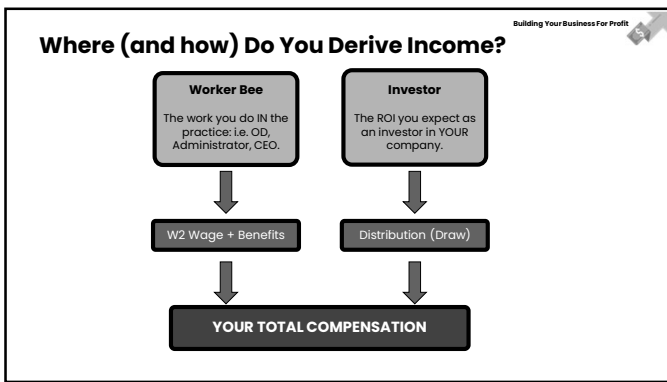
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Profit & Loss Sample (continued)

PRACTICE NET	\$140,000
Interest	\$34,000
Depreciation	\$52,000
Amortization	\$8,000
	<u>\$94,000</u>
NET INCOME (TAXABLE)	\$ 46,000

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Suggested P&L Format

<p>INCOME</p> <ul style="list-style-type: none"> 8000 Revenue 3300 Professional Services 3300 Franchise 3300 Licenses 3400 Contract/Lenses 3500 Other Retail Products 3510 Franchise <p>EXPENSES</p> <p>4000 COST OF MATERIALS</p> <ul style="list-style-type: none"> 4010 Franchise 4010 Lenses 4040 Contract/Lenses 4050 Other Retail Products 4050 Cost of Materials/Retale <p>PEOPLE</p> <p>5000 Non-Owner Employee Payroll</p> <ul style="list-style-type: none"> 5100 Employee Salaries 5105 Employee Profit Sharing 5150 Employee Payroll Taxes 5155 Worker's Compensation 5160 Health & Dental Insurance 5165 Simple IRA/Employee Contribution 5170 Payroll Processing <p>PLACE</p> <p>6000 Real Occupancy</p> <ul style="list-style-type: none"> 6010 Rent 6015 Property Tax - Real Estate 6120 Repairs & Maintenance 6130 Security 6170 Storage 6175 Utilities & Essential Services <p>THINGS</p> <ul style="list-style-type: none"> 7000 Marketing 7200 Printing 7210 Automobile Expense 7240 Automobile Lease 	<p>THINGS Cont.</p> <ul style="list-style-type: none"> 7215 Bank Charges 7300 Credit Card/Debit 7340 Technology Services 7345 IT Network Solutions 7350 Insurance 7400 Dues & Licenses 7440 Seminars & Education 7500 Insurance 7520 Insurance - General Liability 7525 Insurance - Professional Liability 7530 Insurance - Disability 7535 Insurance - Life 7538 Health & Entertainment 7560 Medical Office Supplies 7600 Office Supplies 7640 Outside Services 7660 Postage 7670 Legal & Accounting 7690 Fees 7900 Insurance & Telephone Services 7910 Travel & Lodging 7940 Uniforms 7950 Alliance/Partners/Fees <p>Other Income</p> <ul style="list-style-type: none"> 8000 Interest Income 8020 Dividend Income <p>OWNER'S EQUITY</p> <ul style="list-style-type: none"> 8130 Owner's Payroll (IR-2) 8135 Owner's Salary 8138 Owner's Payroll Taxes 8139 Health & Dental Insurance 8139 Simple IRA/Employee Contribution <p>ASSOCIATE/DOCTOR COMP</p> <ul style="list-style-type: none"> 8200 Associate Owner Payroll 8205 Base Salary 8208 Production/Comp Bonus 8210 Associate Payroll Taxes
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Suggested P&L Format Building Your Business For Profit

<p>INCOME</p> <ul style="list-style-type: none"> 3000 Revenue 3100 Prof Services 3350 Frames 3360 Lenses 3400 Contact Lenses 3500 Other Retail Prod 3600 Refunds 	<p>COST OF GOODS SOLD</p> <ul style="list-style-type: none"> 4000 Cost Of Materials 4031 Prof Services 4032 Frames 4040 Lenses 4050 Contact Lenses 4060 Other Retail Prod 4070 VT & LV Aides 4100 Rebates (?) 	<p>PEOPLE</p> <ul style="list-style-type: none"> 5000 Non-OD Payroll 5100 Salaries 5105 Payroll Taxes 5180 Profit Sharing 5500 Health Benefits 5505 Workers Comp 5520 Simple IRA Contrib 5560 Payroll Processing 	<p>PLACE</p> <ul style="list-style-type: none"> 6000 Occupancy 6680 Rent 6685 Property Taxes 6720 Repair & Maint 6750 Security 6770 Storage 6780 Utilities/Eas. Svcs
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THINGS

<ul style="list-style-type: none"> 7000 Operational Expenses 7200 Marketing 7250 Printing 7260 Automobile Expense 7270 Bank Charges 7330 CC Fees 7340 Technology Services 7345 IT Network Support 7350 Donations 7400 Dues & Licenses 7440 Seminars & Education 7500 Insurance 7510 Insurance Liability 7515 Insurance Disability 7520 Insurance Life 	<ul style="list-style-type: none"> 7550 Meals & Entertainment 7560 Medical / Optical Supplies 7600 Office Supplies 7640 Outside Services 7660 Postage 7670 Legal & Accounting 7810 Taxes 7900 Internet & Phone Services 7910 Travel and Lodging 7940 Uniforms 7950 Alliance Royalty/ Fees
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<p>OWNERS COMPENSATION</p> <ul style="list-style-type: none"> 8100 Owner OD Payroll (w2) 8101 Salary 8110 Payroll Taxes 8115 Health Benefits 8120 Simple IRA Contribution 	<p>ASSOCIATE DOCTOR COMP</p> <ul style="list-style-type: none"> 8200 Associate OD Payroll 8210 Base Salary 8220 Production Bonus 8230 Payroll Taxes 8240 Health Benefits 8250 Simple IRA Contribution
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What is EBITDA?

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What is EBITDA?

EBITDA is a measure of a company's **overall financial performance**

Earnings
Before
Interest
Taxes
Depreciation
Amortization


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Calculating EBITDA: Sample Practice


\$1,000,000	Collections <i>(in the bank)</i>
(-) \$280,000	Cost of Goods
(-) \$590,000	Operating Expenses <i>(including all payroll)</i>
(+) \$50,000	Owner Add Backs*
\$180,000	Base EBITDA

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Add Backs and Adjustments

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- 1 What is an Add Back?
- 2 How much is an Add Back worth?
- 3 Why Add Backs are part of calculating EBITDA
- 4 All Add Backs are not created equal
- 5 Adjustments for salary and FMV (Fair Market Value) rent

Add Backs and Adjustments




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What Are Add Backs?

Expenses that the buyer will not have moving forward



Discretionary Expenses:


- > Family on the payroll that checks in once a year
- > Furniture from Costco in your living room
- > Shrimp platters on Sunday
- > Your boat to evaluate vision in motion
- > etc, etc, etc

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What Are Add Backs?

- Auto expenses
- Donations
- Continuing Education
- Personal cell phone
- One-time repairs
- Travel and meals
- Depreciation/Amortization
- Interest
- Personal Taxes
- Excessive owner compensation
- Adjustment to staff wages
- Certain legal fees
- Non-recurring income and expenses




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How Much is an Add Back Worth?

\$addbacks x multiplier = Value of an addback



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Adjustments for Salary

Your own production	\$1,000,000
Fair Market Compensation Rate (15%)	\$150,000
W2 Salary	<u>\$120,000</u>
IMPACT ON EBITDA (Negative)	(\$30,000)

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Adjustments for FMV Real Estate

You own your building

Your annual rent payment	\$95,000
Fair Market Value	<u>\$80,000</u>
IMPACT ON EBITDA (Positive)	\$15,000

\$

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Putting it All Together

\$180,000	Base EBITDA Calculation
-\$30,000	Salary Adjustment
+\$15,000	FMV Rent Adjustment
<hr/> \$165,000	Final Adjusted EBITDA

National Average Multiple of EBITDA = 6.1

Final Valuation = 6.1 x \$1,006,500

*Average EBITDA nationally from 17% to 21%

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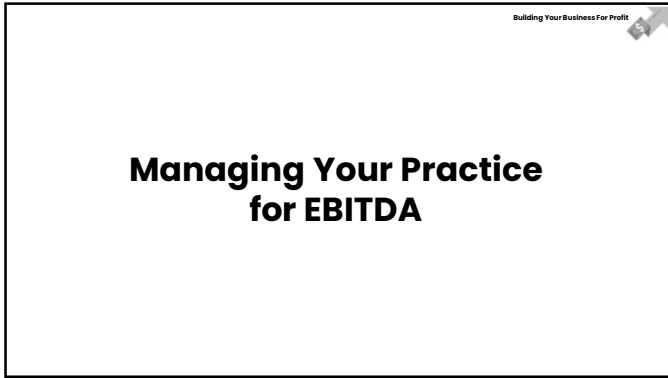
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Why Does the Multiple Matter?

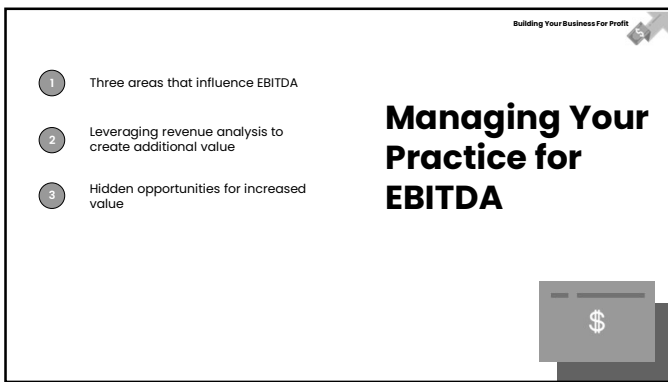
Multiple	Expected ROI	Years to Break Even*
2X	50%	2
3X	33%	3
4X	25%	4
5X	20%	5
6X	16.7%	6
7X	14.3%	7
8X	12.5%	8
9X	11%	9

* Assumes no growth in revenue/profit

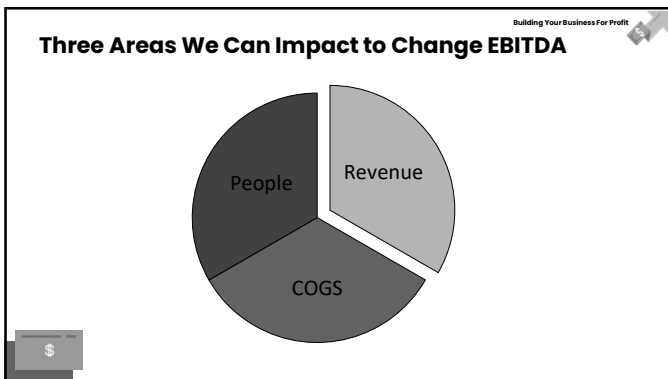
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EBITDA Example

INCOME / COLLECTIONS		\$1,000,000	
- EXPENSES			
Cost of Goods Sold	\$280,000		
GROSS INCOME (Gross Profit)		\$720,000	
People (25%)	\$250,000		
Place (8%)	\$80,000		
Things (14%)	<u>\$140,000</u>		
		<u>\$470,000</u>	
NET OPERATING INCOME		\$250,000	
Doctor Compensation		<u>\$120,000</u>	
= NET INCOME		\$130,000	

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EBITDA Example (continued)

NET INCOME		\$130,000	
Owner Add Backs	+\$50,000		
BASE EBITDA		\$180,000	
Salary + FM Rent Adjustment	-\$15,000		
FINAL ADJUSTED EBITDA		\$165,000	
		<small>x 6.1</small>	
		<u>\$1,006,500</u>	<small>practice value</small>

\$

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		Increase Revenue (10%)	Reduce COGS (25%)	Reduce People (22%)	Do All Three
INCOME/COLLECTIONS	\$1,000,000	\$1,100,000	\$1,000,000	\$1,000,000	\$1,100,000
COGS	\$280,000	\$308,000	\$250,000	\$280,000	\$275,000
People	\$250,000	\$250,000	\$250,000	\$220,000	\$242,000
Place	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
Things	\$140,000	\$140,000	\$140,000	\$140,000	\$140,000
OD Compensation	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000
NET INCOME	\$130,000	\$202,000	\$160,000	\$160,000	\$243,000
Add Backs	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
BASE EBITDA	\$180,000	\$252,000	\$210,000	\$210,000	\$293,000
Salary Adjustment	-\$30,000	-\$30,000	-\$30,000	-\$30,000	-\$30,000
Rent Adjustment	+\$15,000	+\$15,000	+\$15,000	+\$15,000	+\$15,000
FINAL ADJUSTED EBITDA	\$165,000	\$237,000	\$195,000	\$195,000	\$278,000
Multiple	6.1	6.1	6.1	6.1	6.1
VALUE*	\$1,006,500	\$1,445,700	\$1,189,500	\$1,189,500	\$1,695,800

* For illustration purposes only. Practice value based on many factors not considered here.

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