Selling Your Ophthalmology Practice
When You’re Not Ready To Retire

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* Financial Interest

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Who We Are

• Business and legal advisors to physicians
• Publishers of the Goodwill Registry, used in valuation of ophthalmology and other medical practices
• Handle and advise re: practice buy-ins, buy-outs, sales, mergers and valuations
Introduction

- What’s Happening Now
- Pros and Cons of Selling
- Valuation of Your Practice
- Basic Sale Structure and Process
- Possible Continued Practice with Buyer After Sale

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What’s Happening Now

- Lot of uncertainty in the air
  - ACOs
  - Budget pressure/reimbursements
  - EMR costs
  - Transition to ICD-10
  - Baby boom doctors reaching retirement
  - Other specialists (but generally not ophthalmologists) selling to hospitals

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What’s Happening Now (cont’d)

- So there are good reasons to consider selling at this time
- But not to panic... ophthalmology has been surprisingly resilient
  - Per MGMA, median ophthalmologist compensation has increased 21.6% from 2007 to 2012, from $315,982 to $384,245
  - Hospitals do not control referrals to ophthalmologists

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What Are My Alternatives?

Outright Sale
- Cash and promissory note for the practice
  - Stock sale vs. asset sale
- 1-12 month transition period, usually
- Seller usually works short term as employee or contractor
- Seller retires
- But, what if you are not ready to retire?

Close Down
- Low effort, no legal fees, no brokerage costs
- But ….no value for practice
- Will your patients be well cared for?
- Will your staff have jobs?
- What to do with charts?
Bring on Associate for Buy-In

- Can yield the highest value for your practice
- But takes a long time (6-10 years) to realize that value
- Significant hassle, fees, negotiation
- It may not work out

Stand Pat

- The “comfortable” decision
  - You know what your life will look like
  - Could ease workload and stress by dropping surgery

Concerns re: Standing Pat

- You are still exposed to reimbursement cuts, overhead increases
- Cutting back or dropping surgery will hurt the value of your practice
- Your health may preclude further delay
- You still have to deal with EMR and ICD-10
- You may have an interested buyer:
  - “Bird in the hand ….”
**Compare Outright Sale**

- Realize some value for your practice, now
- **But you must be ready to pull the trigger**
  - If I offer you your purchase price today....
  - Are you ready to go?
- However, there now may be more opportunities to sell and continue practicing for some time after the sale

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**Should I Sell My Office Space Too?**

- Be flexible: sell or rent, as buyer wishes
- Simultaneous sale may be hard to achieve
- The value of your practice is perishable
  - Not true of office building or condo

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**What About My ASC?**

- ASC enhances the value of your practice for buyer (ancillary profit)
- If you have partners in the ASC...
  - You will need their permission to sell to buyer
- Keep case volume up
Give Yourself Time

- It always takes longer than you think
- Time pressures negatively affect price
- Time for related transactions:
  - lease or sell office space
  - sell interest in ASC
- Allow 12 months

What’s for Sale?

- The Big Three
  - “Hard Assets”
    - Equipment, leasehold improvements, supplies, software
  - Accounts Receivable
  - Goodwill
    - Includes going concern value, charts, phone number, staff, seller’s endorsement of buyer

Hard Asset Valuation

- Book Value
  - Nearly always too low
  - Assets “expensed” under Section 179
    - These have an immediate book value of zero
    - The rest have a book value of zero in 5 - 7 years
- Specialized Appraisal
  - Not available for all items
  - Needs updating frequently
Modified Book Value Approach

- Eliminate assets no longer in use
- Eliminate personal assets
- Recalculate depreciation
  - 8 - 12 year life (overall)
  - Straight-line depreciation
  - Floor value: 20% of original cost
- Generally reasonable for most items

Supplies

- Optical frames, contact lenses, other medical supplies
- Physical inventory, or
- Estimated value, based on prior year’s expense
  - E.g., prior year expense divided by 12 times 2 (for 2 months’ supply)

What’s Your Practice Worth?

- Accounts Receivable
  - Typically not sold in an asset sale
    - Uncertain collectible value
    - Medicare accounts receivable are not transferable
  - So seller generally collects and keeps the accounts receivable
    - Buyer may agree to collect the seller’s accounts receivable (often for a fee) and pay the accounts receivable over to seller
### What’s Your Practice Worth?

- **Goodwill: What is it?**
  - Any kind of intangible value
    - Likelihood of patient returning to the practice
    - Practice name, location, phone number
    - Reputation in marketplace
    - Value as a going concern

### Goodwill Valuation Methods

- "Income" Approaches
  - Excess Earnings
  - Discounted Cash Flow
  - Capitalized Earnings
- Comparable Sales or "Market"

### Comparable Sales Method

- Same idea as pricing a house
  - Benchmark value, based on neighborhood comparables
  - Adjust for individual features
    - Good: high profit, nice location, lifestyle, modern facilities, moderate competition, good payor mix
    - Bad: low earnings, undesirable location, closed panels
Comparable Sales Method

- 2013 HCG Goodwill Registry
  - Ten year average for ophthalmology is 27.08% of annual practice collections
  - Five year average for ophthalmology is 26.39% of annual practice collections
  - Guidelines for ophthalmology

  THESE ARE (LONG RUN) AVERAGES!
  YOURS MAY BE HIGHER OR LOWER!

Sealing the Deal:
Nuts and Bolts

Stock or Assets

- Sellers want stock sales (all capital gain)
- Buyers want asset sales
  - Better tax treatment for buyer
  - Avoids liabilities
  - Buyer can “cherry pick” assets
    - E.g. no purchase of accounts receivable or outdated equipment, frames, supplies, etc.
Price

- For what?
  - Stock or assets?
  - With or without accounts receivables?
  - With or without liabilities?
- Develop a term sheet or letter of intent

Tax Allocation: ‘S’ Corp or No Corp

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<th>Item</th>
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<th>Buyer Wants:</th>
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Tax Allocation: Seller Has ‘C’ Corp

- Objective: Avoid corporate double tax
  - Funnel sales price outside the corporation directly to doctor
  - Personal goodwill
Tax Allocation – Seller ‘C’ Corp

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Payment Terms

- 100% bank financing is preferable, or
- Significant $$$ upfront down payment (20% - 50%)
  - Buyer has “skin in the game”
  - Seller needs some cash at closing to cover any tax on depreciation recapture for equipment sold

Payment Terms and Security

- Personal guarantee of promissory note
  - From buyer personally
  - From buyer’s spouse
- Collateral: all assets acquired PLUS buyer’s future accounts receivable
- Attorney’s fees, if Seller must sue buyer
- Life insurance on buyer
- Maybe disability insurance on buyer
Target Sale Date

- Leave time for buyer to get licenses, hospital/ASC privileges, and payor credentials
- Assume that until title passes at closing, buyer may renege
  - Therefore no letter to patients or other irrevocable acts prior to closing

Post Sale Employment of Seller

- Generally not more than 1 year
- However, there now may be more opportunities to continue practicing for some time after a practice sale
  - Depends on the buyer
  - Larger group practices (4+ owners) may be able to accommodate seller
  - Solo buyer almost definitely will not be able to
  - Possibly need to drop surgery
  - Maybe 3-5 years of continued practice after sale

Post Sale Employment of Seller

- Typical Pay: % of collections
- Employment Agreement
  - Agree on termination rights of each party
  - Agree on days/hours/locations to be worked
  - Agree on as many specifics of continued practice as possible to avoid surprises/disappointments
- Non compete restriction
  - What about teaching, consulting, lecturing, etc.?
Lease of Space

- When seller is landlord
- Typical term 3-5 years
- Seller should avoid rights of first refusal or options to buy the real estate
  - This diminishes the saleability and value of the real estate

Due Diligence

- Call buyer’s references
  - Can buyer be trusted to take good care of your patients?
  - Does buyer have good business judgment?
- Run a lien and judgment search on buyer
  - Does buyer pay his/her/its debts?

Transition

- Letters to patients and referrers
  - Not sent prior to closing
  - Text of letter often agreed prior to sale
  - Who prepares the mailing, actually?
  - Who pays for the mailing?
Transition

- Collection of seller’s accounts receivable
  - Will buyer help?
  - Does buyer get a fee for helping with this?
  - How long will buyer help?

Transition (cont’d)

- Staff: What happens to staff’s accrued benefits, vacation, etc.?
- Use of seller’s name (door, brochures, etc.)
  - How long does this continue after sale?
  - Appropriate indemnifications to seller
- Custody and maintenance of medical records

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