

Break-Up Value: Can A Practice Be Worth More In Part Than In Whole?

BY TIMOTHY A. BROWN



On occasion, a purchased health care practice must be relocated as a condition of the sale. This can occur when the lease is expiring and the building is being torn down or when the real estate owned by the retiring practitioner is more valuable when vacant than when occupied by a health care professional office with a dentist, an optometrist, veterinarian etc. Something that is common with many older, converted residential home/practice offices in highly desirable neighbourhoods.

The Value of Goodwill

When a health care practice is sold "as is, where is," the purchaser is responsible for the assumption of the rent, the staff, the existing equipment and other practice commitments. When the goodwill of a practice (i.e. charts, patient lists, etc.) is the only item sold, professional appraisers know that for certain practices, the valuation method for goodwill will yield a different result for the owner when compared with the traditional valuation

methods. Central to this valuation is the ease with which the vendor's patients can be relocated within the buyer's practice, partly because of the vendor's recommendation to do so and partly because the buyer's location is close to the vendor's practice location.

In special circumstances, the goodwill practice value may exceed the total practice value if certain conditions are met. For instance, when some key staff members are willing to relocate or when the purchaser's economies of scale can be dramatically enhanced due to the merger. This may simply mean that the purchaser's practice is underutilized at present and the increased patient flow from the vendor's practice may result in increased profitability. The purchaser's staff will also be more fully utilized and more productive.

Purchasers who have a large underutilized facility near that of a selling practitioner are quick to recognize the opportunity. The cost to attract a new patient to a professional office is increasing as advertising and promotion methods become more sophisticated. In short, the purchasers can add hundreds of new patients to their existing health care program, make more efficient use of the existing staff and facility, and obtain a direct endorsement from the selling/retiring professional.

Optimize Your Sale


Prospective health care practice purchasers may be wise to consider the value of having the vendor practitioner (say a veterinarian) make a specific recommendation of the new practitioners to his or her clients/patients. For most sales, the purchaser practitioner's phone number and a letter of introduction are essential to encourage patient transfer. A reception or retirement party is also a nice touch to reinforce the transfer of trust

from one professional to another.

Today's open-market sales of goodwill indicate that purchasers are willing to pay a substantial premium for goodwill if they can relocate the practice into their existing office immediately. We have a record of a sale where the goodwill sale price was well above the annual gross income of the practice and six offers were made by local practitioners. This sale consisted of about 500 active patients, and the final sale price was \$250,000 or \$500 per patient file.

The vendor may be able to donate the old equipment and obtain a tax credit to reduce income taxes; the property, if owned, may actually become more saleable in certain markets, thus yielding potentially higher real estate valuations as well.

The break-up scenario is applicable to those who are thinking of selling but are fully aware that their facility is a detriment to the sale. By timing the sale of your practice to coincide with vacating the premises, it may be possible to maximize the value and get the most out of your practice.

BOTTOM LINE: The author provides tips regarding selling your practice while taking its value in part or in whole into consideration. 



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