



Determining The Value Of A Pediatric Practice

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Today is not a substitute for Legal or Accounting Advice

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PMI does not offer legal or accounting services. As such, all information shared should be reviewed with your attorney to ensure compliance with applicable state and federal laws.



Today's webinar focuses on the operational aspects of practice valuations, mergers and/or acquisitions as a guide to educate you on issues involved.

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Agenda

- Why practice valuations may be needed
- Review some valuations
- Walk through an example
- Things to consider

- Along the way:
 - Complimentary resources on the PMI website
 - Upcoming events
 - Tips, Tools, and Resources available from PMI to help you

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Tough Marketplace...

- Limited qualified buyers

- Limited interest

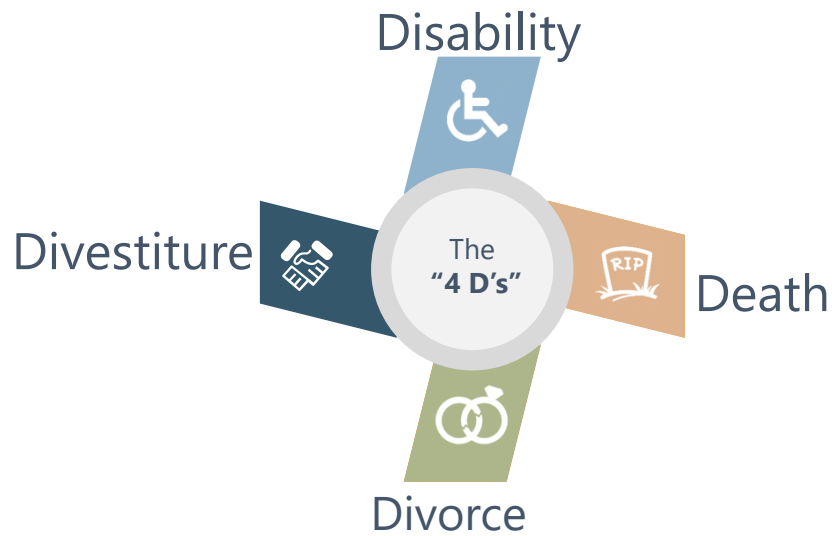
- No two practices are similar enough to estimate a “fair” price
 - Medicaid/Private pay percentage
 - Lack of standards

- Very different from the housing market to find comparables

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Plan for the Future



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Traditional Valuation Methods

Income Approach

Determining the value of the practice by converting future economic benefits into a single present amount

Asset Approach

Determining the practice's value based on the assets net of liabilities.


Market Approach

Comparable Sales-comparing the practice to similar businesses, business ownership interests, securities or intangible assets.


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Valuation Objective



Establish a fair and mutually agreed upon price to facilitate the transfer of ownership in the practice.



Establish a concrete formula that can be referenced or updated as the need arises.



Eliminate Uncertainty

- Set the expectation in advance of the need.
- If you wait until stressful time to establish a value, emotions get in the way of a fair deal for both sides.

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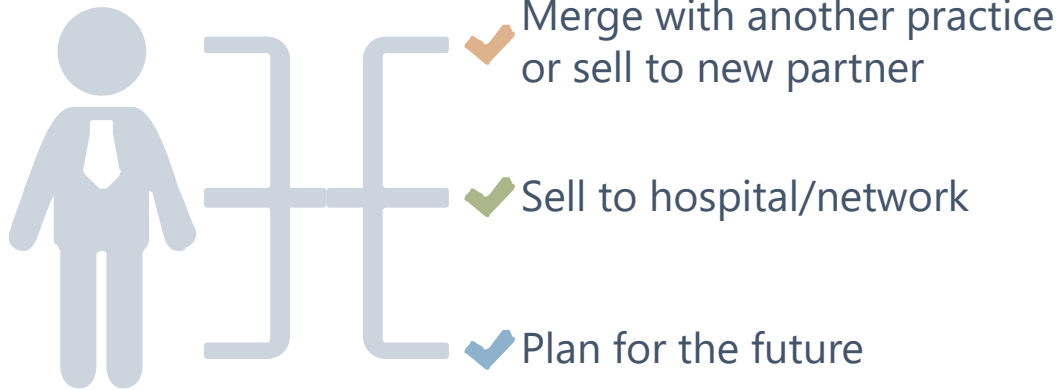


What Is A "Fair" Price?



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Plan for the Future



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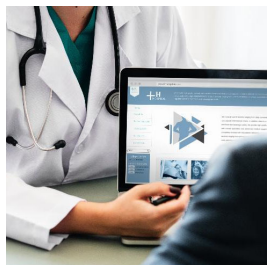


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Sell to Hospital

Private Inurement

- Applies to tax exempt hospitals - section 501 (c) (3)
- Defined: No part of a hospital's net earnings may inure to the benefit of any private individual
- Just because a transaction may be "fair market value" does not necessarily make it "commercially reasonable"



Medicaid Fraud and Abuse

- Known as the "anti-kickback law"
- Prohibits payments, offers, or inducements of any remuneration for referrals
- Issue: If acquisition price exceeds fair market value, transaction may be considered a inducement for referrals "Commercially Reasonable"

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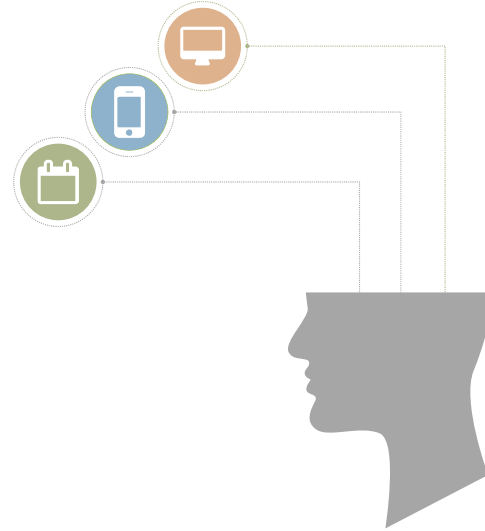
Sell to Hospital

Usually Combination Offer

- ✓ **Purchase of Current Practice**
 - Asset Driven

- ✓ **Future Compensation Package**
 - Base Salary
 - Benefits
 - Production (wRVU Incentives)
 - Limited by "Fair Market Value"

- ✓ **Office Building Lease**








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Sell to Network of Large Competitor

Offers Access to Better Paying Contracts

Net effect is higher compensation for Pediatricians

				
<p>Buyer has payment rates far greater than smaller practice can obtain</p>	<p>After allocating operating expenses, could see net increase in "take home pay" & benefits</p>	<p>Usually burdened with higher employee benefit costs</p>	<p>Loss of autonomy (not as bad if sell to hospital)</p>	<p>Less headache for seller in the future (HR issues, payroll, etc)</p>

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Transition Issues



Issue: Will the current owner(s) be available to assist in the transition to the new owner?

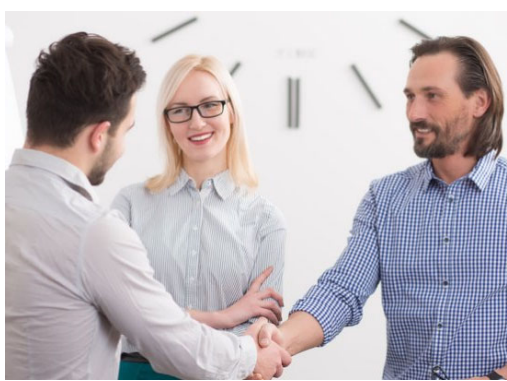
- If yes, can expect to maintain revenues
- If no, anticipate a drop in patient volumes or referrals



Generally want a transition period of 3 – 6 mo. Could be 90 days.

- Legal Issues
- Credentialing
- EMR Conversions / Training

Goodwill



- **Goodwill** is an intangible asset that arises as a result of the acquisition of one **company** by another for a premium value. The value of a **company's** brand name, solid customer base, good customer relations, good employee relations and any patents or proprietary technology represent **goodwill**.
- Hogwash...benefits of reputation is what drives practice revenue...
- Allocation of "Goodwill" is double-dipping

Year End Cash Bonus vs. Equity



- Not unheard of to offer equity in lieu of cash bonus
 - Production incentive converted to equity
 - Usually a premium above cash value
 - o \$15k cash bonus or 20% equity



Be careful of capital gains taxes for both parties

Traditional Valuation Methods

Schedule 1

Fair Market Value - Calculation of Value

<u>Summary of Methods Used</u>	<u>Indicated Value</u>	<u>Weight</u>	<u>Weighted Value</u>
Net Tangible Asset Value (Schedule 10)	\$ 42,000	-	\$ -
Capitalization of Earnings Method (Schedule 13)	-	-	-
Guideline Merged and Acquired Company Method (Schedule 14)	295,000	25.0%	73,750
Goodwill Registry Method (Schedule 23)	170,000	50.0%	85,000
Industry Formula (Schedule 24)	261,000	25.0%	65,250
Totals		100.0%	224,000

Calculation of the Fair Market Value of a 100% equity interest in [Redacted] (Rounded) **\$ 224,000**

Adjusted Balance Sheet - Net Tangible Asset Value

	As Reported	Calculation Adjustments	As Adjusted
ASSETS			
Current Assets			
Cash	\$ 8,221	-	\$ 8,221
Accounts Receivable	-	50,022 [1]	50,022
Inventory	1,043	-	1,043
Receivables from related parties	4,400	(4,400) [2]	-
Total Current Assets	<u>13,664</u>	<u>45,622</u>	<u>59,286</u>
Property, Plant & Equipment			
Medical & Office Equipment	71,143	(67,596) [3]	3,547
Office Furniture & Improvements	-	4,904 [3]	4,904
Property, Plant & Equipment, cost	71,143	(62,692)	8,451
Less: Accumulated Depreciation	(56,321)	56,321 [3]	-
Property, Plant & Equipment, net	<u>14,822</u>	<u>(6,371)</u>	<u>8,451</u>
Other Assets			
Other Assets	3,000	-	3,000
Total Other Assets	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total Assets	<u>31,486</u>	<u>39,251</u>	<u>70,737</u>
LIABILITIES & EQUITY			
Current Liabilities			
Accounts Payable	15,631	-	15,631
Payroll Taxes Payable	5,627	-	5,627
Loans from Shareholder	-	-	-
Current Portion of LT Debt	4,705	-	4,705
Total Current Liabilities	<u>25,963</u>	<u>-</u>	<u>25,963</u>
Long Term Liabilities			
Other LT Liabilities	2,617	-	2,617
Total Long Term Liabilities	<u>2,617</u>	<u>-</u>	<u>2,617</u>
Total Liabilities	<u>28,580</u>	<u>-</u>	<u>28,580</u>
Members Equity			
Capital Stock	1,200	-	1,200
Members Equity	1,706	-	1,706
Valuation Adjustments, Net	-	39,251 [4]	39,251
Total Members Equity	<u>2,906</u>	<u>39,251</u>	<u>42,157</u>
Total Liabilities & Equity	<u>\$ 31,486</u>	<u>\$ 39,251</u>	<u>\$ 70,737</u>
Indicated Equity Value			<u>42,157</u>
Preliminary Equity Value Indication (to Schedule 1)			<u>\$ 42,000</u>



Schedule 13

Preliminary Value Indication - Capitalization of Earnings Method

Valuation Date: [REDACTED]

Historical Adjusted Pre-Debt, After-tax Net Cash Flow (from Schedule 11)	\$ (3,147)
Next Year's Estimated Growth Rate	<u>4.0%</u>
Next Years Estimated Cash Flow	\$ (3,273)
Capitalization rate (Schedule 12)	<u>-</u>
Estimated Value of Operations	\$ -
Interest Bearing Debt	<u>(4,705)</u>
Indicated Equity Value	<u>(4,705)</u>
Preliminary Equity Value Indication (to Schedule 1)	<u>\$ -</u>



Schedule 14

Preliminary Value Indication - Merger & Acquisition Method
Valuation Date: As of [REDACTED]

Source	Count	Company Fundamentals	Selected Multiple	Indicated Value	Asset Sale Adjustments		Interest Bearing Debt	Equity Value
					Assets	Liabilities		
Bizcomps - Asset Sales								
MVIC/Revenues	12	521,863	0.58	302,681	61,243	(23,875)	(4,705)	335,344
MVIC/SDCF	12	135,526	2.1	284,604	61,243	(23,875)	(4,705)	317,267
IBA - Asset Sales								
MVIC/Revenues	141	521,863	0.54	281,806	61,243	(23,875)	(4,705)	314,469
MVIC/SDCF	109	135,526	1.3	176,183	61,243	(23,875)	(4,705)	208,847
Deal Stats - Asset Sales								
MVIC/Revenues	42	521,863	0.62	323,555	61,243	(23,875)	(4,705)	356,218
MVIC/SDCF	17	135,526	1.7	230,394	61,243	(23,875)	(4,705)	263,057
MVIC/EBIT	39	(3,883)	4.4	(17,085)	61,243	(23,875)	(4,705)	15,578
Deal Stats - Stock Sales								
MVIC/Revenues	39	521,863	1.18	615,798			(4,705)	611,093
MVIC/SDCF	4	135,526	2.6	352,367			(4,705)	347,662
MVIC/EBIT	38	(3,883)	5.3	(20,579)			(4,705)	(25,284)
Estimated Value of Operations								294,952
Preliminary Equity Value Indication (To Schedule 1)								295,000



Schedule 23

Preliminary Value Indication - Goodwill Registry
Valuation Date: As of [REDACTED]

Goodwill	
Practice Revenues	521,863
Goodwill Multiplier (1)	0.24
Estimated Value of Goodwill	125,247
Accounts Receivable	
Accounts Receivable (Gross)	50,022
Collections Percent	100.0%
Estimated Accounts Receivable (Net)	50,022
Other Tangible Assets	
Total Assets	70,737
Less: A/R	(50,022)
Adj Tangible Assets	20,715
Less: Liabilities	(25,963)
Net Tangible Assets	(5,248)
Ownership	100.0%
Other Tangible Asset Value	(5,248)
Indicated Value	\$ 170,021
Preliminary Equity Value Indication (To Schedule 1)	\$ 170,000



Schedule 24

Preliminary Value Indication - Industry Formula
Valuation Date: As of [REDACTED]

	Revenues	SDCF
[REDACTED] Fundamentals	\$ 521,863	\$ 135,526
Multiple ⁽¹⁾	0.35	2.00
Value of Operating Assets	182,652	271,051
Add		
Current Assets	59,286	59,286
Other Assets less Goodwill / Intangibles	3,000	3,000
Less		
Total Liabilities	(28,580)	(28,580)
Indicated Equity Value	<u>\$ 216,358</u>	<u>\$ 304,757</u>
Weight	50.0%	50.0%
Weighted Value	108,179	152,379
Sum of Weighted Value Indications		<u>260,558</u>
Preliminary Equity Value Indication (To Schedule 1)		\$ 261,000

Notes
 1) Based on 2008 Business Reference Guide for Medical Practices (Physicians)
 2) Company Fundamentals based on last twelve months. (From Schedule 11)



Traditional Valuation Methods

Schedule 1

Fair Market Value - Calculation of Value

<u>Summary of Methods Used</u>	Indicated Value	Weight	Weighted Value
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Industry Formula (Schedule 24)	261,000	25.0%	65,250
Totals		100.0%	<u>224,000</u>
Calculation of the Fair Market Value of a 100% equity interest in [REDACTED] (Rounded)			\$ 224,000

Net Tangible Asset Value	\$ 42,000
Capitalization of Earnings Method	\$ -
Guideline Merged and Acquired Company Method	\$ 295,000
Goodwill Registry Method	\$ 170,000
Industry Formula	\$ 161,000

Summary of Results

Average: \$ 133,600
 Median: \$ 161,000
 Standard Deviation: \$ 104,274

Summary of Results (Toss Out \$0.00)

Average: \$ 167,000
 Median: \$ 165,500
 Standard Deviation: \$ 89,518



The gross collected income for the [REDACTED] practice for the latest calendar year is \$ [REDACTED]. The computed price using an amortization of excess earnings approach is \$ [REDACTED], which gives a price/gross ratio of 52%.

A review of the practice sale database yields two comparable sales. The comparables compare, contrast, and were sold as follows:

<u>Practice comparable #1</u>		<u>Subject Practice</u>
Gross collected income:	\$670,913	\$646,677
Actual practice sale price:	\$359,000	\$335,000
Price / Gross ratio	54%	52%

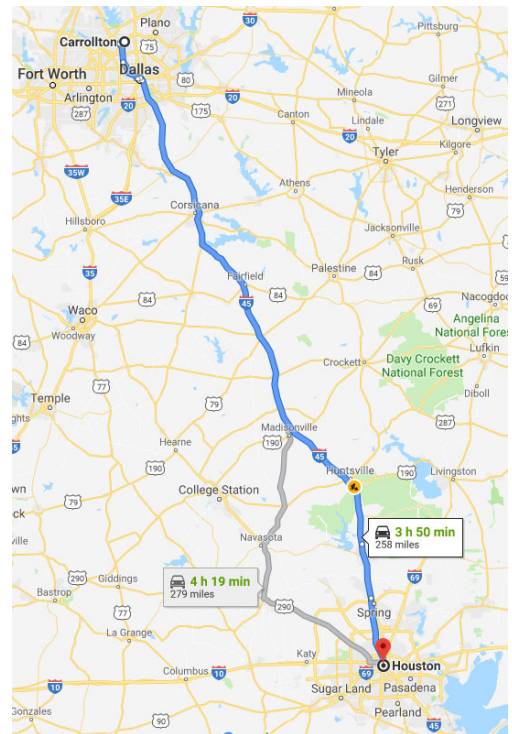
This practice is located in Carrollton, Texas

<u>Practice comparable #2</u>		<u>Subject Practice</u>
Gross collected income:	\$757,073	\$646,677
Actual practice sale price:	\$375,000	\$335,000
Price / Gross ratio	50%	52%

This practice is located in Houston, Texas

The comparable values stated for each of the above practices were the actual sales prices for those practices. The average price/gross ratio for the two comparable practices is determined to be 52%.

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HOW AMORTIZATION OF EXCESS EARNINGS IS USED TO FIND MEDICAL PRACTICE VALUE

STEP ONE

Determine the gross income of the medical practice

For example, assume
\$300,000

STEP TWO

Subtract the amount of pretax income the Buyer would expect to earn after debt service and practice expenses in order for him/her to want to buy the practice.

For example, assume
\$100,000

STEP THREE

Subtract the expenses of the medical practice.

For example, assume
\$150,000

STEP FOUR

Determine the amount of income remaining from the practice gross income after subtracting the Buyer's expected earnings and the practice expenses.

In this case the amount remaining is
\$50,000

STEP FIVE

Using the figure of \$50,000, we are able to calculate what practice price would result in debt payments of \$50,000 each year.

For example, if we say that we will get a loan for five years at an interest rate of 9.00%, yearly payments of \$50,000 a year of interest and principal would enable us to borrow the sum of \$194,483.

Therefore, by knowing:

1. the income of the practice, and
2. the amount a Buyer can expect to earn in the practice, and
3. the amount of operating expenses for the practice,

..... we can determine the remaining amount for debt service.

We can then calculate the amount of debt a Buyer can assume for the practice purchase which, in turn, allows us to determine the amount a Buyer can afford to pay for the practice. To a considerable degree, this also determines the practice worth.

The amount you can afford to pay determines the value of the practice?!!?

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1/22/2019 12:43		INCOME APPROACH METHODOLOGIES	
AMORTIZATION OF EARNINGS APPROACH			
EARNINGS	\$	62,889	
TERM OF LOAN - MONTHS		84	
INTEREST RATE		5.250%	
WORKING CAPITAL	\$	32,000	
PRICE DERIVED FROM AMORTIZED NET INCOME	\$	336,000	
CAPITALIZATION OF EARNINGS APPROACH			
EARNINGS	\$	62,889	
BUILD-UP METHOD FOR CAPITALIZATION RATE			
TWENTY YEAR TREASURY BOND RATE - USED ¹			
AS A PROXY FOR RISK FREE RATE AS OF 6/30/2008		3.05%	
COMMON STOCK EQUITY PREMIUM ²		6.50%	
SIZE RISK PREMIUM (MICRO CAP) ³		3.74%	
PREMIUM RETURN ON MICRO CAP STOCKS OVER 20 YR TREASURY BOND RATE ⁴		10.24%	
EXPECTED TOTAL RATE OF RETURN ON MICRO CAP PUBLIC STOCKS ⁵		13.29%	
PRACTICE SPECIFIC RISK & LIQUIDITY PREMIUM ⁶		11.00%	
EXPECTED REQUIRED RATE OF RETURN FOR SUBJECT COMPANY, INCLUDING INFLATION ⁷		24.29%	
LESS LONG TERM SUSTAINABLE GROWTH RATE ⁸		4.00%	
NET INCOME CAPITALIZATION RATE		20.29%	
PRICE DERIVED FROM CAPITALIZATION RATE ⁹	\$	330,000	
MULTIPLE PERIOD DISCOUNTING METHOD			
EARNINGS IN FUTURE AND PRESENT VALUE		FUTURE	PRESENT
EARNINGS YEAR ONE	1	\$ 57,302	\$ 46,103
EARNINGS YEAR TWO	2	\$ 60,895	\$ 39,419
EARNINGS YEAR THREE	3	\$ 64,683	\$ 33,689
EARNINGS YEAR FOUR	4	\$ 68,675	\$ 28,778
EARNINGS YEAR FIVE	5	\$ 72,879	\$ 24,571
EARNINGS YEAR SIX	6	\$ 77,303	\$ 20,969
CAPITALIZING EARNINGS YR SEVEN FORWARD	7 AND ON	\$ 80,396	\$ 396,233
TOTAL FUTURE AND PRESENT VALUES		\$ 797,971	\$ 301,010
CAPITALIZATION RATE			20.29%
PROJECTED LONG TERM GROWTH RATE			4.00%
DISCOUNT RATE			24.29%
PRICE DERIVED FROM DISCOUNT METHOD			\$ 301,000

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PROFORMA FOR PRACTICE # 0										
DO YOU WISH TO USE APPRAISAL OR MERGER APPRAISAL RESULTS? <input type="checkbox"/> APPRAISAL <input checked="" type="checkbox"/> MERGER APPRAISAL										
PRACTICE SALE TERMS			PRACTICE TERMS			REAL ESTATE TERMS				
PURCHASE PRICE	\$	335,000	AMOUNT	\$367,000	AMOUNT	\$0				
DOWN PAYMENT AMOUNT	\$	335,000	TERM - MOS	84	TERM - MOS					
WORKING CAPITAL	\$	32,000	INTEREST %	5.25%	INTEREST %					
TOTAL INVESTMENT	\$	367,000	MO. PMT.	\$5,230.37	MO. PMT.	\$0.00				
ANNUAL FEE INCREASE %	4%		TOTAL MO. PAYMENTS	\$5,230	EST. PA or NP PROFIT	\$0				
ANNUAL OVERHEAD INCREASE %	4%		TOTAL ANNUAL PAYMENTS	\$62,764	EST. SELLER/ASSOC PROFIT	\$0				
RETENTION PERCENTAGE	100%		TOTAL PA or NP / ASSOCIATE PROFIT	\$0						
PURCHASER TAX RATE	40%					% PRACTICE NET	% PERSONAL NET			
SELLER/ASSOCIATE COMMISSION RATE	40%		1ST YR NET CASH FLOW	\$210,330	31%	31%				
AMOUNT OF ACCOUNTS RECEIVABLE SOLD	\$ -		1ST YR ECONOMIC BENEFIT	\$271,410	41%	41%				
PRICE OF ACCOUNTS RECEIVABLE SOLD	\$ -		PRACTICE GROSS, PRICE AND PERCENT	\$642,619	\$335,000	52%				
PRACTICE PRICE IS DETERMINED BY THE Income Approach, Amortization of Earnings Method and Market Approach, Direct Market Data Method										
UNIVERSAL INDEX 1.40 WITH PERSONAL/SCHOOL DEBT OF \$200,000										
ADJUSTED INCOME FIGURES										
12 MONTH PERIODS BEGINNING	2018	2015	2016	2017	2018	2019	2020	2021	2022	2023
PERCENTAGE CHANGE				#DIV/0!	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
ADJUSTED GROSS INCOME				\$ 642,619	\$ 668,324	\$ 695,057	\$ 722,859	\$ 751,773	\$ 781,844	\$ 813,118
ESTIMATED OTHER COLLECTIONS				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ESTIMATED OTHER %	0%			0%	0%	0%	0%	0%	0%	0%
ESTIMATED DOCTOR COLLECTIONS				\$ 642,619	\$ 668,324	\$ 695,057	\$ 722,859	\$ 751,773	\$ 781,844	\$ 813,118
ESTIMATED DOCTOR %				100%	100%	100%	100%	100%	100%	100%
ESTIMATED SELLER COLLECTIONS				\$ 642,619	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ESTIMATED SELLER %	#DIV/0!			100%	0%	0%	0%	0%	0%	0%
ESTIMATED ASSOCIATE COLLECTIONS				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ESTIMATED ASSOCIATE %				0%	0%	0%	0%	0%	0%	0%
ESTIMATED PURCHASER COLLECTIONS				\$ -	\$ 668,324	\$ 695,057	\$ 722,859	\$ 751,773	\$ 781,844	\$ 813,118
ESTIMATED PURCHASER %					100%	100%	100%	100%	100%	100%

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ANNUAL FEE INCREASE %	4%		TOTAL MO. PAYMENTS	\$5,230	EST. PA or NP PROFIT	\$0				
ANNUAL OVERHEAD INCREASE %	4%		TOTAL ANNUAL PAYMENTS	\$62,764	EST. SELLER/ASSOC PROFIT	\$0				
RETENTION PERCENTAGE	100%		TOTAL PA or NP / ASSOCIATE PROFIT	\$0						
PURCHASER TAX RATE	40%					% PRACTICE NET	% PERSONAL NET			
SELLER/ASSOCIATE COMMISSION RATE	40%		1ST YR NET CASH FLOW	\$210,330	31%	31%				
			1ST YR ECONOMIC BENEFIT	\$271,410	41%	41%				
PRICE OF ACCOUNTS RECEIVABLE SOLD	\$	-	PRACTICE GROSS, PRICE AND PERCENT	\$642,619	\$335,000	52%				
PRACTICE PRICE IS DETERMINED BY THE Income Approach, Amortization of Earnings Method and Market Approach, Direct Market Data Method										
UNIVERSAL INDEX 1.40 WITH PERSONAL/SCHOOL DEBT OF \$200,000										
ADJUSTED INCOME FIGURES										
12 MONTH PERIODS BEGINNING										
	2018	2015	2016	2017	2018	2019	2020	2021	2022	2023
PERCENTAGE CHANGE				#DIV/0!	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
ADJUSTED GROSS INCOME				\$ 642,619	\$ 668,324	\$ 695,057	\$ 722,859	\$ 751,773	\$ 781,844	\$ 813,118
ESTIMATED OTHER COLLECTIONS				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ESTIMATED OTHER %	0%			0%	0%	0%	0%	0%	0%	0%
ESTIMATED DOCTOR COLLECTIONS				\$ 642,619	\$ 668,324	\$ 695,057	\$ 722,859	\$ 751,773	\$ 781,844	\$ 813,118
ESTIMATED DOCTOR %				100%	100%	100%	100%	100%	100%	100%
ESTIMATED SELLER COLLECTIONS				\$ 642,619	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ESTIMATED SELLER %	#DIV/0!			100%	0%	0%	0%	0%	0%	0%
ESTIMATED ASSOCIATE COLLECTIONS				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ESTIMATED ASSOCIATE %				0%	0%	0%	0%	0%	0%	0%
ESTIMATED PURCHASER COLLECTIONS				\$ 668,324	\$ 695,057	\$ 722,859	\$ 751,773	\$ 781,844	\$ 813,118	
ESTIMATED PURCHASER %				100%	100%	100%	100%	100%	100%	100%

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The **essence of mathematics**
is not to make
simple things complicated, but to
**make complicated
things simple.**

– Stan Gudder
Mathematician

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Goal of Valuation Formula?

Determine the added benefit
of owning a practice.



Work For Being
A Pediatrician



Return On
Investment For
Owning The Practice

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Mindset



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Mindset




Total Compensation: \$ 210,000
"Pediatrician Work": \$ (165,000)
 Benefit Of Owning The Practice: \$ 45,000

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Scenario

- 
- 1 Dr. Smith is a 65 year old Pediatrician wants to retire in 2 years
 - 2 Dr. Johnson is a 45 year old Pediatrician has been there for five years, is good fit, and wants to buy the practice
 - 3 1 NP (Full Time)
 - 4 1 NP (Part Time)

Calculation

Acme Pediatrics Practice Valuation As of December 31, 2016

Part A			
Total Revenue	\$ 1,500,000		Actual 2016
Total Expenses	\$ 1,350,000		Actual 2016
Net Ordinary Income	\$ 150,000		Total Revenue - Total Expenses
Dr. Smith's Earnings	\$ 210,000		Actual 2016
Employed Physician Average Salary	\$ 175,000		
Variance	\$ 35,000		Estimated benefit of owning the practice
Multiple	2.00		Generally between 2 & 4 depending on practice outlook
Total Part A Value	\$ 70,000		
Part B			
Item	Amount	Effect	Note
Cash on Hand	\$ 25,000	Increase	Actual cash balance
Liabilities	\$ 15,000	Decrease	As reported on Balance Sheet
Accounts Payable	\$ 10,000	Decrease	Estimated
Vaccine Inventory	\$ 15,000	Increase	2016 Vaccine expense divided by 12 or Physical Count
Equipment Value (Estimate)	\$ 25,000	Increase	Refrigerators, Supply Inventory and other medical equipment
Collectable Accounts Receivable (Estimate)	\$ 125,000	Increase	
Part B Total	\$ 165,000		
Estimated Practice Valuation (Part A plus Part B)	\$ 235,000		

Calculation

Acme Pediatrics Practice Valuation

As of December 31, 2016

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Calculation

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Calculation

Acme Pediatrics Practice Valuation

As of December 31, 2016

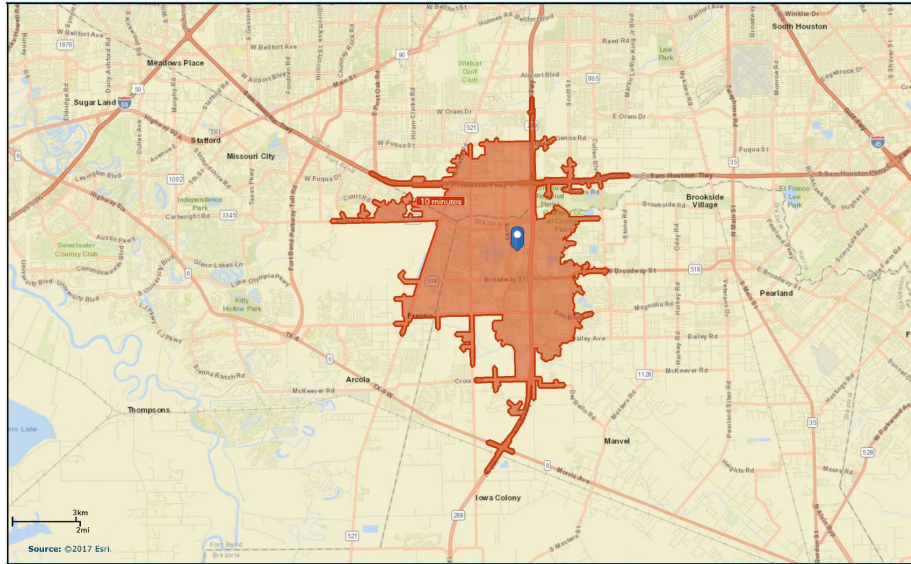
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June 05, 2018

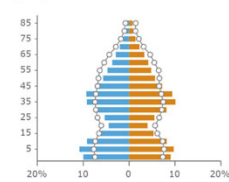
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KEY FACTS



Age Pyramid

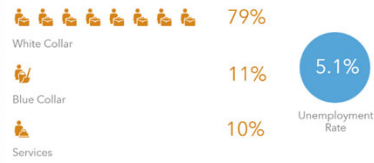


The largest group:
2017 Male Population
Age 5-9 (Esri)

The smallest group:
2017 Male Population
Age 85+ (Esri)

Data show comparison to
Brazoria County

EMPLOYMENT



INCOME



\$102,864

Median Household Income



\$43,254

Per Capita Income



\$255,752

Median Net Worth

Households By Income

The largest group: \$100,000 - \$149,999 (21.4)

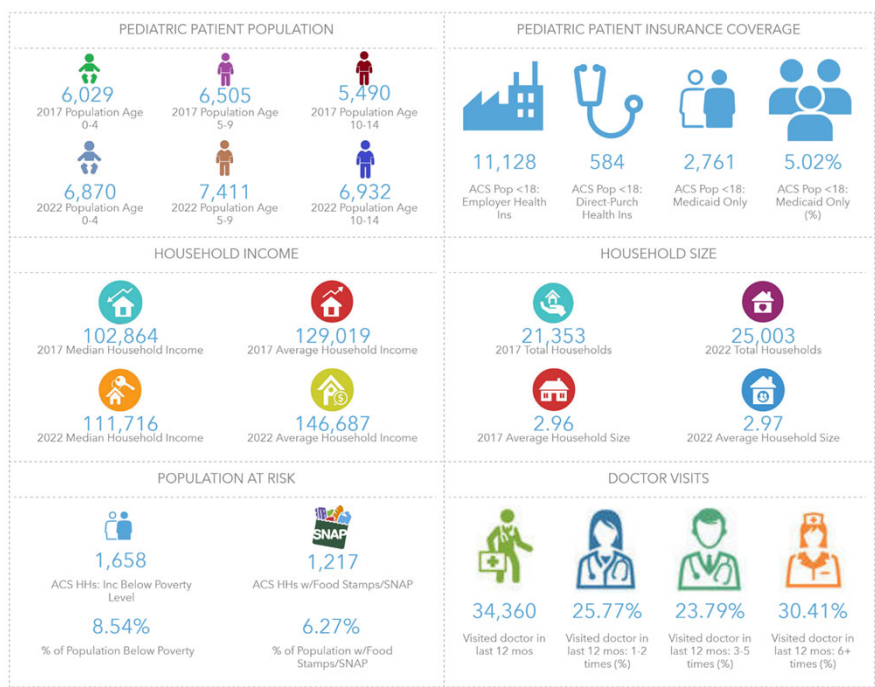
The smallest group: \$15,000 - \$24,999 (3.7)

Indicator	Value	Difference
<\$15,000	4.2	-3.1
\$15,000 - \$24,999	3.7	-3.8
\$25,000 - \$34,999	4.9	-2.5
\$35,000 - \$49,999	9.0	-2.8
\$50,000 - \$74,999	12.5	-5.3
\$75,000 - \$99,999	13.8	+0.5
\$100,000 - \$149,999	21.4	+2.8
\$150,000 - \$199,999	14.0	+5.2
\$200,000+	16.4	+9.1

Bars show deviation from
Brazoria County

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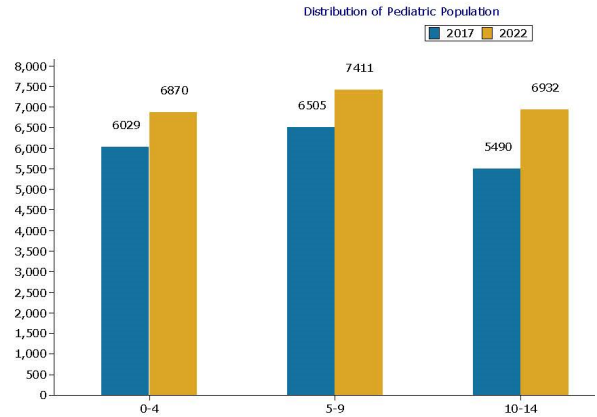
PMI Market Research Data		Latitude: 29.56743	Longitude: -95.39406
Population			
2010 Population	14,740		
2017 Population	46,464		
2022 Population	63,407		
2000-2010 Annual Rate	12.17%		
2010-2017 Annual Rate	4.38%		
2017-2022 Annual Rate	3.25%		
2017 Male Population	48.6%		
2017 Female Population	51.4%		
2017 Median Age	34.1		
In the identified area, the current year population is 63,407. In 2010, the Census count in the area was 46,464. The rate of change since 2010 was 4.38% annually. The five-year projection for the population in the area is 74,413 representing a change of 3.25% annually from 2017 to 2022. Currently, the population is [SCRIPT_MALES_CY_P] male and [SCRIPT_FEMALES_CY_P] female.			
Households			
2000 Households	5,107		
2010 Households	15,773		
2017 Total Households	21,353		
2022 Total Households	25,003		
2000-2010 Annual Rate	11.94%		
2010-2017 Annual Rate	4.27%		
2017-2022 Annual Rate	3.21%		
2017 Average Household Size	2.96		
The household count in this area has changed from 15,773 in 2010 to 21,353 in the current year, a change of 4.27% annually. The five-year projection of households is 25,003, a change of 3.21% annually from the current year total. Average household size is currently 2.96, compared to 2.95 in the year 2010. The number of Families in the current year is 16,547 in the specified area.			
Median Household Income			
2017 Median Household Income	\$102,864		
2022 Median Household Income	\$111,716		
2017-2022 Annual Rate	1.66%		
Average Household Income			
2017 Average Household Income	\$129,019		
2022 Average Household Income	\$146,687		
2017-2022 Annual Rate	2.60%		
Per Capita Income			
2017 Per Capita Income	\$43,254		
2022 Per Capita Income	\$49,056		
2017-2022 Annual Rate	2.55%		
Households by Income			
Current median household income is \$102,864 in the area, compared to \$56,124 for all U.S. households. Median household income is projected to be \$111,716 in five years, compared to \$62,316 for all U.S. households			
Current average household income is \$129,019 in this area, compared to \$80,675 for all U.S. households. Average household income is projected to be \$146,687 in five years, compared to \$91,585 for all U.S. households			
Current per capita income is \$43,254 in the area, compared to the U.S. per capita income of \$30,820. The per capita income is projected to be \$49,056 in five years, compared to \$34,828 for all U.S. households			

Pediatric Population

Total Population by Detailed Age	Census 2010		2017		2022	
	Number	Percent	Number	Percent	Number	Percent
Total	46,464	100.0%	63,410	100.0%	74,413	100.0%
<1	990	2.1%	1,205	1.9%	1,389	1.9%
1	1,048	2.3%	1,276	2.0%	1,461	2.0%
2	1,004	2.2%	1,212	1.9%	1,383	1.9%
3	1,025	2.2%	1,227	1.9%	1,388	1.9%
4	935	2.0%	1,108	1.7%	1,250	1.7%
5	924	2.0%	1,378	2.2%	1,587	2.1%
6	939	2.0%	1,388	2.2%	1,590	2.1%
7	849	1.8%	1,270	2.0%	1,443	1.9%
8	886	1.9%	1,288	2.0%	1,461	2.0%
9	834	1.8%	1,181	1.9%	1,330	1.8%
Total Under Age of 10 Years Old	9,424		12,533		14,282	
10	747	1.6%	1,190	1.9%	1,505	2.0%
11	688	1.5%	1,111	1.8%	1,396	1.9%
12	649	1.4%	1,082	1.7%	1,359	1.8%
13	639	1.4%	1,060	1.7%	1,344	1.8%
14	647	1.4%	1,047	1.7%	1,329	1.8%
15	598	1.3%	947	1.3%	1,163	1.6%
16	569	1.2%	814	1.3%	1,133	1.5%
17	558	1.2%	757	1.2%	1,036	1.4%
18	459	1.0%	645	1.0%	879	1.2%
Total Under Age of 18 Years Old	14,978		21,086		25,426	

Female Population of Child-Bearing Age

Female Population by Detailed Age	Census 2010		2017		2022	
	Number	Percent	Number	Percent	Number	Percent
Total	23,350	100.0%	32,596	100.0%	38,139	100.0%
<18	7,021	29.3%	9,951	30.5%	11,935	31.3%
18+	16,329	70.7%	22,641	69.5%	26,206	68.7%
21+	16,335	68.2%	21,806	66.9%	25,131	65.9%
15	280	1.2%	411	1.3%	570	1.5%
16	279	1.2%	399	1.2%	565	1.5%
17	257	1.1%	347	1.1%	478	1.3%
18	216	0.9%	310	1.0%	426	1.1%
19	190	0.8%	280	0.9%	380	1.0%
20 - 24	993	4.1%	1,308	4.0%	1,394	3.7%
25 - 29	1,866	7.9%	1,804	5.5%	1,883	4.9%
30 - 34	2,434	10.2%	2,657	8.2%	3,036	8.0%



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Key Factors Impacting the Valuation of a Pediatric Practice



- Continuation of Patient Volume
2 Children per day at \$100 per encounter
= \$40,000 swing in payments per provider
- Continuation of Current Payment Rates
- Shift in Payor Mix
- Local Economy
- Building/Rent Expenses along with future liabilities
 - Need to relocate to better location
 - Interior Updating

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Earnings Surveys For Comparison Compensation

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Adjustments

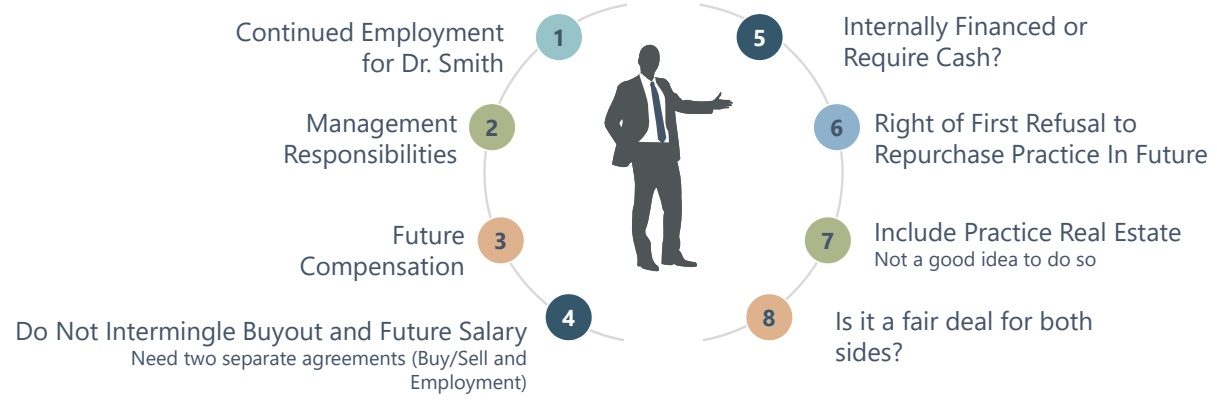
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- 01 Taking average shareholder salary for previous 2 or 3 years.
- 02 Adjusting Average Shareholder Compensation based on whether or not meaningful use monies have already been received/recouped.
- 03 Adjusting Average Shareholder Compensation based on whether or not the shareholders may have previously taken lower salaries to fund practice projects that are expected to generate additional earnings in the future.
- 04 Adjusting for a variety of nuances in the shareholder compensation formula and other Shareholder Concerns



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Considerations



Considerations

Ownership position immediate or as paid in?



- 01 If financed, should be immediate since liability created between buyer and seller
- 02 If cash sale, immediate
- 03 If in lieu of bonus(es)- maybe deferred

Common Question/Request

Should the ownership position be proportional to the amount actually paid towards the purchase price?

Purchase Price: \$ 200,000

Year One Payment	\$ 50,000	25.00%
Year Two Payment	\$ 50,000	50.00%
Year Three Payment	\$ 50,000	75.00%
Year Four Payment	\$ 50,000	100.00%



Common Question/Request

Should the ownership position be proportional to the amount actually paid towards the purchase price?

Purchase Price: \$ 200,000

Year One Payment	\$ 50,000	25.00%
Year Two Payment	\$ 50,000	50.00%
Year Three Payment	\$ 50,000	75.00%
Year Four Payment	\$ 50,000	100.00%

- If price set in advance and financing terms in place, no.
- If agree to reestablish the value each year, acceptable.



Financing Issues & Ownership Interest

- Agree to purchase price & terms
 - Purchase Agreement
 - Financing Agreement
 - Cash Payment
 - Finance With Ford Credit
 - Bank Loan
- You receive 100% ownership of car
 - Subject to lien (if any)



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Internal Finance Options

	2 Year Buyout				
Sale Price	\$ 235,000	\$235,000	\$235,000	\$235,000	\$235,000
Downpayment %age	10.00%	15.00%	20.00%	25.00%	30.00%
Downpayment \$	\$ 23,500	\$ 35,250	\$ 47,000	\$ 58,750	\$ 70,500
Balance to Finance	\$ 211,500	\$199,750	\$188,000	\$176,250	\$164,500
Years to Pay	2	2	2	2	2
WSJ Prime Rate	3.50%	3.50%	3.50%	3.50%	3.50%
Interest Premium	2.25%	2.00%	1.75%	1.50%	1.25%
Total Interest	5.75%	5.50%	5.25%	5.00%	4.75%
Monthly Payment	\$9,350	\$8,808	\$8,269	\$7,732	\$7,198
Annual Amount	\$112,200	\$105,697	\$99,227	\$92,788	\$86,381
	3 Year Buyout				
Sale Price	\$ 235,000	\$235,000	\$235,000	\$235,000	\$235,000
Downpayment %age	10.00%	15.00%	20.00%	25.00%	30.00%
Downpayment \$	\$ 23,500	\$ 35,250	\$ 47,000	\$ 58,750	\$ 70,500
Balance to Finance	\$ 211,500	\$199,750	\$188,000	\$176,250	\$164,500
Years to Pay	3	3	3	3	3
WSJ Prime Rate	3.50%	3.50%	3.50%	3.50%	3.50%
Interest Premium	3.75%	3.50%	3.25%	3.00%	2.75%
Total Interest	7.25%	7.00%	6.75%	6.50%	6.25%
Monthly Payment	\$6,555	\$6,168	\$5,783	\$5,402	\$5,023
Annual Amount	\$78,657	\$74,012	\$69,401	\$64,823	\$60,277
	4 Year Buyout				
Sale Price	\$ 235,000	\$235,000	\$235,000	\$235,000	\$235,000
Downpayment %age	10.00%	15.00%	20.00%	25.00%	30.00%
Downpayment \$	\$ 23,500	\$ 35,250	\$ 47,000	\$ 58,750	\$ 70,500
Balance to Finance	\$ 211,500	\$199,750	\$188,000	\$176,250	\$164,500
Years to Pay	4	4	4	4	4
WSJ Prime Rate	3.50%	3.50%	3.50%	3.50%	3.50%
Interest Premium	4.75%	4.50%	4.25%	4.00%	3.75%
Total Interest	8.25%	8.00%	7.75%	7.50%	7.25%
Monthly Payment	\$5,188	\$4,876	\$4,568	\$4,262	\$3,958
Annual Amount	\$62,258	\$58,518	\$54,811	\$51,138	\$47,499

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Shareholder Agreements

- Personal Responsibility for Coding
- Insurability for Life Insurance
- Spouse Signatures
- Personal Guarantees for Current Debt
- Consecutive Days Out of Office
- Disability- Continue to pay until insurance kicks in
- Failure to Plan Provision- Discounted if no notice
- Pledging of Assets- Prevent Collateralization
- Personal Bankruptcy- Allow practice to purchase before third party becomes owner
- Update Price Annually- If can't agree, old value stays in place
- Future Plans/Expansion- Finance expansions with cheap loan options

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Items Needed To Calculate The Value

1. Practice Cost Information

Normally practices provide us (in Excel format) a report detailing the total amount spent, by month, in each of the expense categories for the past 36 months. Here is a sample of what we are looking to receive:

	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Avg
ABC Pediatrics								
Profit and Loss								
January 1, 2014 - December 31, 2014								
Income								
Fee for Service Income			\$ 25					
Cash Payments	\$ 998	\$ 416	\$ 819	\$ 548	\$ 180	\$ 270	\$ 487	\$
Insurance Payments	\$ 38,749	\$ 54,406	\$ 34,156	\$ 70,149	\$ 44,100	\$ 33,619	\$ 56,500	\$
Total Fee for Service Income	\$ 39,747	\$ 54,822	\$ 35,000	\$ 70,696	\$ 44,280	\$ 33,889	\$ 56,987	\$
Nonmedical Income								
Immunization Study Responses	\$ 1,200		\$ 1,200	\$ 1,200	\$ 0	\$ 1,200	\$ 1,200	\$
Total Nonmedical Income	\$ 1,200	\$ -	\$ 1,200	\$ 1,200	\$ 0	\$ 1,200	\$ 1,200	\$
Tenant Rent and Utilities								

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Items Needed To Calculate The Value

2. Balance Sheet

We will also need a copy of your Balance Sheet from your accounts payable system as of the last day of the most recent month AND as of December 31st of the most recent calendar year.

Usually the practice accountant can get this information quickly and without difficulty. PMI does have a variety web conferencing tools available to assist clients in obtaining this information as needed. Please do not hesitate to let us know if you need assistance.

**Example Company
Balance Sheet
December 31, 2018**

ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	\$ 2,100	Notes payable	\$ 5,000
Petty cash	100	Accounts payable	35,900
Temporary investments	10,000	Wages payable	8,500
Accounts receivable - net	40,500	Interest payable	2,900
Inventory	31,000	Taxes payable	6,100
Supplies	3,800	Warranty liability	1,100
Prepaid insurance	1,500	Unearned revenues	1,500
Total current assets	89,000	Total current liabilities	61,000
Investments	36,000	Long-term liabilities	
Property, plant & equipment		Notes payable	20,000
Land	5,500	Bonds payable	400,000
Land improvements	6,500	Total long-term liabilities	420,000
Buildings	180,000		
Equipment	201,000	Total liabilities	481,000
Less: accum depreciation	(56,000)		
Prop. plant & equip - net	337,000		
Intangible assets		STOCKHOLDERS' EQUITY	
Goodwill	105,000	Common stock	110,000
Trade names	200,000	Retained earnings	220,000
Total intangible assets	305,000	Accum other comprehensive income	9,000
Other assets	3,000	Less: Treasury stock	(50,000)
Total assets	\$ 770,000	Total stockholders' equity	289,000
		Total liabilities & stockholders' equity	\$ 770,000

www.PediatricSupport.com The notes to the sample balance sheet have been omitted.

Items Needed To Calculate The Value

3. Detailed List of Physician Compensation for Previous Year

Physician Name	Base Salary	Total Bonus(es) Paid	Reimbursed Expenses Paid by the Practice (Car, cell phone, etc)	Retirement Match Paid by Practice (Do not include personal contributions made)	Owner in Practice?
Physician 1	\$165,000	\$65,000	\$15,000	\$12,000	Yes
Physician 2	\$175,000	\$0	\$6,000	\$5,000	No
Physician 3	\$150,000	\$20,000	\$6,000	\$5,000	No
Total	\$490,000	\$85,000	\$27,000	\$22,000	

Please provide a summary like the grid above showing total compensation for each provider in the previous calendar year.

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Items Needed To Calculate The Value

4. Accounts Receivable Aging Report by Insurance Carrier

Please provide an Accounts Receivable aging report from your billing system. Below is an abbreviated sample of what we will need for illustration purposes. PMI is accustomed to different layouts depending on the billing system used, so feel free to send whatever your system generates.

Insurance Category	0-30 Days	31-60 Days	61-90 Days	91-120 Days	>120 Days	Total
Personal/No Insurance						
Other	\$4,000	\$4,000	\$1,000	\$0	\$1,000	\$10,000
Medicaid	\$6,000	\$4,000	\$1,000	\$1,000	\$3,000	\$15,000
Aetna	\$48,000	\$5,000	\$1,000	\$1,000	\$2,000	\$57,000
BCBS	\$39,000	\$4,000	\$2,000	\$0	\$12,000	\$57,000
Cigna	\$24,000	\$5,000	\$3,000	\$1,000	\$0	\$33,000
United HealthCare	\$31,000	\$1,000	\$2,000	\$1,000	\$5,000	\$40,000
HMO/Blue	\$3,000	\$1,000	\$1,000	\$0	\$1,000	\$6,000
TriCare	\$23,000	\$1,000	\$1,000	\$0	\$1,000	\$26,000
Humana	\$3,000	\$0	\$0	\$0	\$1,000	\$4,000
Total	\$192,000	\$41,000	\$27,000	\$10,000	\$193,000	\$463,000

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Estimating The A/R Value

Step 1: Determination of Gross Collection Rate

Month	Charges	Payments	Adjustments
Aug-18	\$ 202,000	\$ 113,000	\$ 112,000
Sep-18	\$ 185,000	\$ 96,000	\$ 69,500
Oct-18	\$ 230,000	\$ 125,000	\$ 103,500
Nov-18	\$ 205,000	\$ 127,000	\$ 88,000
Dec-18	\$ 145,000	\$ 83,750	\$ 63,000
Jan-19	\$ 195,000	\$ 95,000	\$ 88,000
Feb-19	\$ 197,000	\$ 107,000	\$ 85,000
Mar-19	\$ 192,000	\$ 97,000	\$ 81,000
Apr-19	\$ 155,000	\$ 98,000	\$ 95,000
May-19	\$ 228,000	\$ 115,000	\$ 86,000
Jun-19	\$ 180,000	\$ 87,000	\$ 72,000
Jul-19	\$ 152,000	\$ 104,000	\$ 75,000
	\$ 2,266,000	\$ 1,247,750	\$ 1,018,000
Gross Collection Rate:		55.06%	

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Estimating The A/R Value

Step 2: Weighted Collectability Based On Balance Age

Insurance

<30 days	\$83,000	55.06%	\$45,703
31-60 days	\$22,000	50.06%	\$11,014
61-90 days	\$13,000	45.06%	\$5,858
> 90 days	\$33,000	40.06%	\$13,221
Total	\$151,000		\$75,797

Patient Responsibility

<30 days	\$2,750	40.06%	\$1,102
31-60 days	\$3,100	30.06%	\$932
61-90 days	\$5,600	20.06%	\$1,124
>91 days	\$8,500	10.06%	\$855
Total	\$19,950		\$4,013

Totals

<30 days	\$85,750		\$46,805
31-60 days	\$25,100		\$11,946
61-90 days	\$18,600		\$6,982
>90 days	\$41,500		\$14,077
Total	\$170,950		\$79,809



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