

### What is your ophthalmic practice worth??

The ION Expo 2008 in Sydney examined the valuation of ophthalmic practices. There was much open discussion during the forum. At the conclusion there was a general consensus that it was difficult to be prescriptive but that a reasonable formula was:

Value = Goodwill + Tangible assets + Intangible assets

This assumes that the practice is sold to another doctor who is planning to continue and take over. There were many variables discussed and many qualifications. After the event there were many requests for the organisers to post the discussion on the ION website for reference. These points are for use by ION members when they negotiate a practice sale. These are guidelines only and individual circumstances will vary.

When looking at a practice purchase:

Q/ How much time and money to *duplicate* the physical environment I want.

Q/ How long will it take to generate my desired income stream *in the shortest time*

Q/ How *long and expensive* will it be to find and train (and retrain) staff ?

Tangible assets – can be given a dollar value by the accountant

- Equipment, fitout quality, potential cashflow

Intangible assets – valuation is subject to individual opinion

- Goodwill
- New patient referrals
- Loyalty of referrer base
- Age of referrer base
- Convenience of practice for new partner
- Style and aesthetics of practice
- Workmates / atmosphere / enjoyment of coming to work
- Staff training and quality
- Branding rights as a new doctor
- Marketing plan active and in place
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Goodwill

- Often valued at 10 to 50% of annual turnover - average probably 20-30%

- Attempts to value the cost in time (years) and money (lost) of sitting in an empty practice with no patients and waiting for the phone to ring when nobody knows your phone number or of your existence.
- Guide: a mature practice takes:
  - 7000 patients
  - 7 years
  - 700 cataracts – it takes a long time to get the first 500 in a start up practice in a metropolitan area amongst competition
- You can sit there and wait for the practice to start up or just buy it and get on with building your name with a running start that didn't waste years of your time !!!

### Goodwill

- Site goodwill – a known practice address and phone number
- Brand goodwill – reputation for excellence attracts patients
- Personal goodwill – loyalty to the senior ophthalmologists

### Goodwill enhanced if:

New partner is introduced and promoted to the referrers as an equal  
 The senior partner stays around during the transition  
 The senior partner passes on work in a public fashion as a vote of confidence  
 Strong brand in the district – seen as a major practice or a high rep practice

### Intangibles

Means different things to different people

Location ie. Like buying a house in a good district

- time to get to work, parking, transport, convenience
- ambience of practice district
- patient type (socioeconomic, ethnicity, english speaking)
- likely health insurance attitudes

Staff quality and training already in place (takes years to train staff )

Practice procedures, paperwork and protocols in place (takes years)

Marketing experience within the practice to help you get busy

Atmosphere of practice

Computer set up – networks, software, remote logon  
Freedom to promote yourself and your own brand identity (letterhead etc)  
Optometry referral base = pathology  
Shared referrers

Organising payment – you can mix and match (A+B+C+D)

A. Lump sum

- easily borrowed, tax deductible loan, just another running cost
- eg 500K = \$3000 per month in interest = 2 cataracts

B. Lease swaps

- put all leases into new partners name (equipment, real estate, staff)

C. Consultancy fees

- banked into superannuation tax free

D. Surgical handover

- partial, complete, percentage per case

Cautions:

Minor shareholding offers where the practice is still owned by a dominant  
- be sure that you cannot be “sold” as apart of a practice and lose autonomy

Day surgery offers where the day surgery is not active and profitable

Failure to spell out your practice accession timetable and plans (“stringing along”)

Other issues:

- Target the annual turnover you might potentially generate
- Surgical versus non surgical workloads
- Facilitation of your income by the elder partner
- Make a written document of the agreement in case of memory issues.