



ACCOUNTING
· PRACTICE SALES ·
THE GLOBAL LEADER IN PRACTICE SALES

.....

**DELIVERING
RESULTS,
ONE PRACTICE
AT A TIME**

.....



PRACTICE VALUATION & BUYER/SELLER CONCERNS:

A Look Into How the Buyers Market Views a Practice's Value and
What Concerns Each Side has During the Sale/Purchase Process

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**GETTING OUT IS NOT A
MATTER OF “IF”.**

IT IS A MATTER OF “WHEN”.





**THE SELLER MAY
DETERMINE THE ASKING
PRICE, BUT THE BUYER
DETERMINES THE VALUE.**





PRACTICE VALUE

PRIMARY FACTORS

- 1. GROSS**
- 2. LOCATION**
- 3. PROFITABILITY**
- 4. CLIENT MIX**
- 5. TERMS**
- 6. DUE DILIGENCE**
- 7. SIZE & AGE OF PRACTICE**
- 8. TRANSITION**
- 9. VARIOUS OTHER NEGATIVE FACTORS**





VALUE FACTORS: GROSS

- **ACCOUNTING PRACTICES SELL ON GROSS**
 - **PREVALENCE OF VIEW**
 - **GUIDELINE, NOT A RULE**

- **IN RECENT YEARS**
 - **HOUSTON OFTEN HAS VALUES ABOVE GROSS**
 - **GENERALLY MULTIPLE BUYERS INTERESTED**





CONFIDENTIALITY

- **SELLER'S THREE WORRIES**
 1. **RISK OF COMPETITORS KNOWING**
 2. **RISK OF CLIENTS KNOWING**
 3. **RISK OF EMPLOYEES KNOWING**
- **CONFIDENTIALITY AGREEMENTS**
- **USE OF THIRD PARTY**





VALUE FACTORS: LOCATION

- **“LOCATION, LOCATION, LOCATION”**
- **ACROSS THE COUNTRY**
- **RURAL/SMALL CITY VS. LARGE CITY**
- **WITHIN A METROPOLITAN AREA**
- **EFFECTS OF OWNING OFFICE BUILDING**
- **WORKING OUT OF THE HOME**





VIRTUAL OR REMOTE PRACTICE

- **IS THE PRACTICE 100% VIRTUAL?**
 1. **NO PERSONAL VISITING OF CLIENTS**
 2. **DOCS SUBMITTED THRU PORTAL, EMAIL, OR MAIL/FAX**
 3. **OWNER & STAFF WORKING REMOTELY**
 4. **CLIENTS CAN BE LOCAL OR LOCATED ALL OVER COUNTRY**
- **BUYER'S POOL EXPANDS INTO MULTIPLE STATES**
- **OFTEN SEEN AS MORE VALUABLE**





VALUE FACTORS: PROFITABILITY

- **CASH FLOW IS A FACTOR, BUT NOT “THE” FACTOR**
 - **NEW OWNER HAS AN IMPACT ON STREAMLINING EXPENSES.**
- **RELATION TO BILLING RATES**
- **THE BIG TWO: LABOR & RENT**
- **FRANCHISE BRAND PRACTICES**





SELLER KEEPING CERTAIN CLIENTS

- **POTENTIAL PROBLEMS**

1. **CHERRY PICKING**
2. **COMPETING WITH THE BUYER**
3. **IS THE OWNER REALLY A SELLER?**
4. **LENDER RULES ON PARTIAL SALES**

- **LEGITIMATE REASONS**

1. **CLIENTS IN OTHER AREAS OR STATES**
2. **BUYER CANNOT OR UNWILLING TO SERVICE CERTAIN CLIENTS**





VALUE FACTORS: CLIENT MIX

- **RECURRENCE OF REVENUES**
- **TAX CONSULTING VS. TAX COMPLIANCE**
- **INVESTMENTS; BUSINESS VALUATIONS**
- **TAX VS. WRITE-UP**
- **SPECIALTY OR INDUSTRY CONCENTRATION**
- **POOL OF BUYERS**





RISK & CLIENT SATISFACTION

- **INHERENT RISK**
- **CLIENTS CAN BE MAINTAINED, BUT IT TAKES BOTH BUYER AND SELLER**
- **BUYER'S EFFORTS TO KEEP CLIENTS**
- **BUYER'S FEAR OF LOSING 50%+**





RISK & CLIENT SATISFACTION

• RISKS

- 1. NORMAL OPERATIONS**
- 2. OWNERSHIP CHANGE**
- 3. EMPLOYEE TAKING CLIENTS**
- 4. NON-COOPERATIVE SELLER**
- 5. INCOMPETENT BUYER**





RISK & CLIENT SATISFACTION

- **MITIGATING RISKS**

- 1. TRUST BETWEEN BUYER & SELLER**
- 2. DUTIES OF SELLER & BUYER ARE CLEAR**
- 3. NON-COMPETES/EMPLOYEE CONTRACTS**
- 4. SOME SELLER FINANCING**
- 5. PAY-OUTS BASED ON COLLECTIONS**
- 6. LOOK BACKS (EARN-OUTS)**





VALUE FACTORS: TERMS

- **FOUR WAYS PRACTICES ARE SOLD**
 - 1. CASH PRICING**
 - 2. COLLECTION PRICING**
 - 3. FIXED SELLER FINANCED PRICING**
 - 4. LOOK-BACK PRICING**





CASH VS. COLLECTION PRICING

• CASH PRICING:

- **100% OF SALES PRICE IS PAID AT CLOSING TO SELLER**

• COLLECTION PRICING:

- **20% DOWN**
- **20% OF COLLECTIONS PAID TO SELLER EACH YEAR OVER 4 YEARS**





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LOOK-BACK PRICING

- **SALES PRICE OFTEN HIGHER THAN GROSS REVENUES**
- **PERIOD OF TIME**
 - **12 MONTHS USED OFTEN**
- **PRICE ADJUSTMENT**
 - **DOLLAR FOR DOLLAR**
 - **SOMETIMES 50 CENTS FOR EACH DOLLAR**
- **MIN/MAX POTENTIAL PRICE**
 - **SOMETIMES NO CHANGE IF LESS THAN 10% INCREASE/DECREASE**





LOOK-BACK PRICING

- **SHARED RISK BETWEEN BUYER AND SELLER**
- **SELLER'S RISK**
 - **SHORTER PERIOD OF TIME GUARANTEEING REVENUES**
 - **GET CLIENTS IN THE DOOR TO GIVE BUYER A CHANCE**
 - **NOT NECESSARILY BASED ON A "BAD" BUYER**
- **BUYER'S RISK**
 - **TAKE CARE OF CLIENT'S NEEDS SO THEY KEEP COMING BACK YEAR AFTER YEAR**





SBA FINANCING TERMS

- **BUYER PUTS DOWN 10% TO 15%**
 - **POSSIBLE FOR BUYERS OF AN EXISTING PRACTICE TO PUT DOWN 0% AT CLOSING WITH SOME LENDERS**
- **FLOATING INTEREST RATE BETWEEN 10% AND 11%**
- **10-YEAR NOTE**
- **TERMS CAN BE EXTENDED UP TO 25 YEARS IF REAL ESTATE IS INVOLVED**





SBA FINANCING TERMS

- **IS A SELLER NOTE REQUIRED?**
 - **IT'S POSSIBLE FOR SOME SELLERS TO RECEIVE 100% OF SALES PRICE AT CLOSING AND NOT HAVE TO FINANCE ANY PORTION!**
 - **IMPORTANT FOR BUYER/SELLER TO HAVE FLEXIBILITY.**
 - **LENDERS MAY ASK SELLER TO FINANCE 10-20% DEPENDING ON THE DEAL.**





CONVENTIONAL FINANCING TERMS

- **BUYER PUTS DOWN 10% TO 20%**
 - **IN SOME CASES NO MONEY DOWN**
- **ALMOST ALL LOAN SIZES**
 - **MIN/MAX AMOUNT: \$25,000 TO \$5,000,000**
 - **INTEREST-ONLY PERIOD UP TO 12 MONTHS**
- **LOWER INTEREST RATES THAN SBA**
 - **FIXED**
- **QUICK APPROVAL & CLOSING TIMES**
- **NO SBA FEES & SOMETIMES NO PREPAYMENT PENALTIES**





CONTRACT, NON-COMPETE COVENANT

- **ALWAYS USE AN ATTORNEY!**
- **MAKE SURE EVERYTHING IS CLEAR**
- **NON-COMPETE FOR RELATED WORK WITH GEOGRAPHY & TIME BOUNDARIES**
- **NON-SOLICITATION FOR SPECIFIC CLIENTS**
- **TAX ALLOCATIONS: GOODWILL, NON-COMPETE**





VALUE FACTORS: DUE DILIGENCE

- **VERIFICATION**
- **STEPS IN THE PROCESS**
- **SELLER CONCERNS**
 1. **IS THE BUYER COMPETENT?**
 2. **IS THE BUYER INTERESTED?**
 3. **CAN THE BUYER PAY?**
- **BUYER CONCERNS**





VALUE FACTORS: SIZE & AGE

- LIMITED NUMBER OF LARGE PRACTICES
- SMALL PRACTICES MAY LACK CASH FLOW
- MANAGEABLE SIZE (INDIVIDUAL VS. FIRM BUYERS)
- AGE OF PRACTICE
- REASON FOR EXITING
- AGE OF CLIENTS





VALUE FACTORS: TRANSITION

- **PROBLEMS WITH EXTENDED TRANSITION**

1. **COMPATIBILITY**
2. **FINANCING**
3. **NO TRANSITION UNTIL SELLER LEAVES**

- **MAIN DUTIES OF SELLER**

1. **CLIENT NOTIFICATION**
2. **BUYER RECOMMENDATION**
3. **AVAILABILITY**





VALUE FACTORS: NEGATIVES

- POOR RECORDS
- LONG-TERM LEASE
- PERSONALITY OF SELLER
- CURB APPEAL
- LARGE CLIENTS
- LEGAL ISSUES
- EMPLOYEE PROBLEMS
- DECLINING GROWTH









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EMPLOYEES

- **CANNOT PROTECT COMPLETELY**
- **EMPLOYMENT CONTRACTS**
- **EMPLOYEE NON-COMPETE**
- **SMALL % OWNER/EMPLOYEE**
- **NOTIFYING EMPLOYEES**





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