



My Practice is Worth What? The Need for Valuation

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Many physicians work their entire careers in private practice and only think of the value created on two occasions: when buying a practice and when selling a practice. These, of course, are the most pressing times to address value, but they are not the only ones. Just as most physicians recommend a yearly physical for their patients, it is recommended that a practice be valued several times during its “life” (at least once every three years). Getting several valuations over the years is a good way for a physician to track his or her progress in building value.

Your practice will most likely be one of your largest assets. If handled correctly and developed over the years, it can be a large source of wealth. If you wait until it is time to sell, there is very little that can be done to change its value, and you may be surprised by the value or lack thereof. The following are the three major reasons a practice should be valued.

TRACKING VALUE

Tracking value is a way of keeping score for all of your hard work. Not only will you be rewarded by your salary, but most likely you are building value in your practice along the way. Although many physicians do not see it as such, your practice is a business. If you owned stock in IBM, you would hopefully check the stock price at least more often than the day you bought it and the day you sold it. You are an entrepreneur and you should understand what you are creating. If you merely wait until it is time to retire, you will not understand the value that you have created. Your name in the community, the ancillary services that you offer, and your staff all help to add to the value of your practice. Tracking value over time will allow you to see what is working and what is not. That way you will have time to improve what is not working and highlight those areas that are working.

THE UNEXPECTED

The unexpected would include death, divorce, and disability. These are not topics the average person likes to discuss. Just as you should know the amount of life insurance you have, you should know the value of your practice. This will help your attorneys/accountants plan properly for your estate. With the constant changes in tax law and estate planning techniques, it is important that your planners have a clear understanding of your assets. Without a valuation of your practice, a key component of any estate plan is missing. If you become disabled and need to sell your practice quickly, you will need a recent valuation as the basis for negotiations. Divorces are a major source of valuations. Courts will have varying views on how the practice should be valued, but most will determine that a valuation should at least be completed by a competent professional. These are difficult situations which could be made slightly easier by knowing what your practice is worth.

THE EXPECTED

The expected includes retirement and buying into a practice. If you are a new physician just starting out in private practice, you will most likely want to eventually be a partner in the practice. A valuation allows partners who are coming on to have an idea of what the practice buy-in will be (if only a range). Many shareholders/members are surprised to find their operating agreement actually references a valuation for retiring or dismissed owners. Many operating agreements say that an owner who is leaving the practice should be compensated per the latest valuation, but the owners have never had a valuation – so then there is a mad scramble to have one completed before the owner leaves. At retirement, you will have the opposite perspective of a new partner. You worked hard your entire adult life and should be compensated for that work. If you are planning to sell your practice

upon retirement, whether it is an outright sale or by bringing in a partner and moving the practice to him or her over time, you should have an idea of what you have built.

This list is not comprehensive but does include the most common reasons a valuation is performed. Whatever the reason, it is important to have a professional valuation performed for an asset you have spent most of your life creating. +

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