



How Much Is Your Practice Worth?

By Gregory M. Kingsbury, DC

The first truism regarding the value of your chiropractic practice is that no national standards exist for appraising the worth of your business. Pricing a chiropractic practice—whether for purposes of sale or purchase—more closely resembles evaluating an important work of art or an antique automobile. As with these items, each practice is unique. There may be something comparable, and there could be likenesses, but no true equivalent exists.

A combination of three factors encompasses the best practice price methods:

1. Intuitive or subjective judgments by honest and ethical experts.
2. Objectively assessed current and future values.
3. Whatever the market may bear.

Appraising to establish fair market value of a practice can be very useful in the following situations:

- For establishing a portion of a doctor’s net worth, which may be required for financial statements to attain a bank loan.
- For doctors either selling or buying a practice.

- For purposes of structuring a partnership or associate buy-in or buy-out.
- For marital dissolution (divorce) whereby an equitable division of assets is required by the court.
- For a doctor’s widow, widower, heir, or estate.

Appraising the chiropractic practice is essentially determining the fair current price for the practice’s future worth. Stated another way, a practice’s fair market value is the current worth of its future benefits.

Of all the factors to take into consideration when placing a value on a practice, goodwill is the most valuable and most difficult to assess. Goodwill is the single most significant salable item in virtually every chiropractic practice. Goodwill and the “covenant not to compete” (the contractual promise reinforcing the value of goodwill) are two valuables every chiropractor can sell.

Goodwill and the “covenant not to compete” comprise the major equity that chiropractors have in their practices, which can be transferred to or purchased by another. The almost mysti-

cal quality of goodwill encompasses a chiropractor's reputation as a healer and business person, the clinic's appearance and location, the doctor's personality and bedside manner, professional image based on advertising or promotion, competency, attitude, and clinical and office management techniques.

To translate the value of goodwill and the restrictive covenant into a dollar amount or fair market value, it is necessary to gather certain data. When appraising a chiropractic practice, the following data are usually required:

- Yearly gross income or collections for at least the three most recent years. These figures should be verified by personal tax forms (i.e., 1040s, schedule Cs, corporate tax returns, 1120s, and profit-and-loss statements professionally prepared).
- Practice statistical data, including the number of new patients and office visits, retention rate or office visit average, collection ratio, and accounts receivable analysis.
- Active patient diversity profile, including the number of current active patients and the percentage in each category (i.e., major medical, personal injury, cash, Medicare, and Medicaid).
- New patient sources, including direct referrals, advertising, lectures, Yellow Pages, social media, website, attorneys, MDs, PTs, and spinal screenings
- HMO/PPO collection report.
- Equipment and furnishing list with the age and original cost.
- Office layout, square footage and location description, and

catchment area demographics.

- Primary and secondary techniques.

Once this information is collected, the laborious task of analysis begins. Some of the most important things an experienced and skilled appraiser will look at are:

- Overhead expenses as a percentage of the gross collections over the most recent three-year period.
- Practice growth or lack thereof in terms of the gross, net income, patient visits, and new patients seen.
- The dollar value of each new patient seen and projected value of new patients yet to come.
- Future growth potential based on past and current trends in all practice statistical categories

When the proper valuation formula is applied to this information, the fair market value of a chiropractic practice can be determined.



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