



In Focus



RETIREMENT PLANNING: HOW TO MAXIMIZE THE VALUE OF YOUR PRACTICE

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One of the most common mistakes private optometric practice owners make in running their businesses is neglecting to formulate a plan for retirement. A retirement plan is larger than just your practice; however your practice is part of the value of your retirement fund. Therefore, it is very important to maximize the value of your practice to facilitate a timely retirement. Your financial planner is your best bet, of course, for in depth retirement planning.

This article will introduce you to a few do's and don'ts you should keep in mind when you consider selling your practice. What can you do to maximize the value of your practice? When is the best time to sell? How can you invest in your practice to help increase value? As a financial institution owned by independent optometry, Vision One Credit Union has observed hundreds of practice sale strategies, many very successful and many with less than desirable outcomes.

One of the most important strategies is to sell when your practice is at its peak value. Unfortunately, we see too many OD's who wait too long to make this decision. By the time they decide to take action, perhaps their health or their motivation has diminished along with the value of their practice. Planning doesn't cost much. Delay can be expensive!

When determining value in today's market, the calculation is based upon a multiple of adjusted net cash flow before owner draw. Values are not based on a percentage of gross. So whatever your plans are, you must keep the practice net cash flow growing to increase value.

Conversely, a plan to reduce your time seeing patients has the effect of reducing revenue, net cash flow and value unless coupled with a strategy to retain and grow your patient base.

So how can you keep your practice value increasing?

Growing net cash flow can be achieved by increasing collected revenue, decreasing expenses or both. Increasing revenue is best achieved either by expanding your patient base through an effective marketing campaign or increasing average patient revenues. The latter could involve such things as adding more medical oriented exams, specialties or an efficient system of billing, collections and electronic records.

Expense reduction doesn't always mean staff reduction, although optimizing job efficiency and duties is important. Cost reduction in many cases can be achieved by joining a buying group to lower cost of goods sold, in office finishing or efficient inventory management. There are only a few reputable consultants that specialize in private optometric practices that can help you determine if these or other strategies are right for your practice.

Often times we are asked if equipment and practice improvements can affect practice value. They do matter, but not in ways you might think. Their value is expressed by the increased net cash flow you achieved through their implementation. Remember, practice value is based on a multiple of net cash flow, not "potential" cash flow. Therefore, practice improvements gains need time to show up in

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the net cash flow. Generally, two years of increased results will give a buyer and appraiser confidence that the increased cash flow is sustainable and warrants an increased practice valuation.

Equipment

Equipment that will allow for a more complete exam and a new revenue source are generally economic. Make sure the additional collected revenue exceeds the cost of providing the service, inclusive of monthly loan debt service used to acquire the equipment.

A practice does not need the latest and greatest equipment to sell at a high valuation. The equipment needs to be in good shape and is expected to be functional for at least five years from the sale date. If the equipment is in poor condition or cannot perform up to today's exam standards, a valuation decrease might be made to allow for equipment replacement. Often times the equipment will be inspected by a knowledgeable equipment vendor as part of the due diligence process.

Practice Improvements / Appearance

A remodeled practice generally brings in additional revenues. We have observed this might range anywhere from 0% to roughly 20% increased revenue growth. Extent, style and functionality of the remodel probably account for the differences. Some of the remodels are minimal, some cosmetic and others add to the capacity to see more patients such as a new lane or an expanded dispensary. There are optometric specialty design firms that can help you if plan on remodeling.

A practice that is nice-looking and up to date generally attracts more patients. This can contribute to increased patient flow, higher net cash flow and greater valuation. Also, an attractive practice catches the eye of buyers. A worn down practice often times suggests to a buyer an additional investment will be required which could lead to a reduced sale price.

Multiple OD Practices

You might wonder how to reduce your time in the practice yet still increase patient volume, net cash flow and practice value. One scenario we have observed involves the use of associates or partners.

For an associate to create value, the revenues less cost of sales generated by the associate must exceed the cost of the associate. The value of a multiple OD practice is that they can achieve higher volumes and with good management, higher net cash flow. Cost of goods sold can be lowered through greater volume discounts on frames, contacts and other inventory items. Lower cost of goods sold increases net cash flow. Other benefits of a multiple OD practice include scheduling flexibility, increased capacity to see more patients, specialties and sharing management responsibilities.

An associate who has worked in the practice is the logical buyer or partner for the practice. They know the patient base and staff. Their patient care should be acceptable, since you trained them. If you want to plan a phased retirement, you might consider selling a portion of the business to your associate. Perhaps you sell 30% now and the rest within a few years at a future valuation. This will allow you to remain in control of your practice while locking in and continuing to mentor your successor. You might have the option of reducing your hours, allowing the new partner to increase theirs, while maintaining or growing the practice.

Vision One Credit Union can provide financing for equipment, practice improvement and even for a partner to buy in. We believe we are the only lender in the market that will provide financing for fractional ownership interests. When we finance the buyer, the seller receives cash for the sale which can be used to put kids through college, medical needs or invested into a retirement plan, etc.

You can read additional articles such as "Buyer Requirements – Affect on Practice Valuations" and "Benefits of Buying Versus Leasing Equipment", plus other articles pertaining to building wealth through your practice on the Vision One website. Click on the Financial Education tab then Articles and Newsletters.



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