Running your practice like a business

Selling your business

Deon Bührs
How to sell a practice

- Practice valuation
- The selling process
Practice valuation

First and foremost, we are looking at the sale of an asset, not of an idea or potential.

The soft issues can be priced, but with greater difficulty.

We need to start our practice with the view of selling one day.

How do I prepare my practice for sale?
What is an Asset?

We often use the word “asset” loosely, referring to things like:

- Houses
- Practices
- Cars as assets
What is an Asset?

The Oxford dictionary definitions an asset as:

- a useful or valuable thing or person
- an item of property owned by a person or company, regarded as having value and available to meet debts, commitments, or legacies
What is an Asset?

Wikipedia explains:
○ In **economics** an asset is any form in which wealth can be held

The International Accounting Standards Board states:
○ An asset is a **resource** controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.
What is an Asset?

Tangible assets are those that have a physical substance and can be touched, such as:

- Currencies
- Buildings
- Real estate
- Vehicles
- Inventory
- Equipment
What is an Asset?

Intangible assets lack physical substance and usually are very hard to evaluate, such as:

- Goodwill
- Copyrights, trademarks and patents
- Computer programs,
- And financial assets, including
- Accounts receivable – your debtors book
What is Goodwill?

Chief Mangosuthu Buthelezi & King Goodwill Zwelithini
South Africa
The term goodwill was originally used in accounting to reflect the fact that an on-going business had some "prudent value" beyond its assets, such as the reputation the firm enjoyed with its clients. Likewise, a buyer may agree to "overpay" because he sees potential synergy with his own business. The accounting sense of goodwill followed as a possible explanation of why a firm sells for more than the value of its current assets.
What is Goodwill?

Always ask the question, “What goodwill is left behind after the owner moves away from the practice?”

This may be in the form of:

- Employment contracts – is this binding though?
- Referral agreements – is this binding though?
- Lease agreements – too short or too long?
- Location – is this not tied into the property valuation though?
- An already established business with all the necessary registrations etc., as a going concern
What is an Asset?

Now we have a list of THINGS that are considered assets, of which I am sure you have some within your practice.

Is this the achievement then of having an asset?
What is a true Asset?

I would like to propose an alternative definition of an asset:

“A business structure or arrangement from which the investors receive an income, which is not directly related to the investor’s level of activity”

Is this true for your business: “When my hands stop working, my income stops flowing” – This sounds like employment.
What is a true Asset?

- Is your business a true asset, or something you merely own?
- Do you own your business, or does it own you?
Building an Asset

How does a practice owner become a business builder?

- Find ways of facilitating a passive income
  - Be sure to pay yourself a salary, and then treat the profits as profits for investment and not just additional money every month
  - Sale of equipment / products
  - Exchange your revenue for a true asset
    - Property
    - Investment
Prepare for the long-term

- Does your practice have a limited life-span?
- In what company structure is it registered?
- Are all your policies and procedures in place, to make selling easier?
- Are you accredited?
- Are you well established?
- What are the threats to your business?
- How are you prepared for healthcare policy and legislative changes?
Building an Asset

Prepare for the long-term
- Embrace good debt, avoid bad debt
- Review your lease agreements
- Build a reserve to support you through the difficult times
- Ensure real-time management reporting structures, especially financials on a monthly basis
- Keep the customer number 1
- Take care of your staff – they are an integral part of your business – good staff will make your business a booming success!
What is the value of my business?

It is imperative that you have a clear and calculated way in which to evaluate your business.

This will help in:
- Evaluating the growth of the business
- Setting growth targets
- Keeping all investors in the business aware of the current valuation, should one party decide to leave the business
- Informing your decisions regarding the purchase price of additional shares / partnership
What is the value of my business?

How do I evaluate my business?

- Decide on your valuation method - future potential, current status, or historical data:
  - Net Asset Value method
  - Price Earnings Yield method
  - 3 months of turnover
  - Others
- If you asked 10 accountants to determine a costs, you will probably get 10 different answers!
- Willing seller, willing buyer principle
What is the value of my business?

Part of an incorporated practice?
- Decide on your valuation method from the start, and revisit this on a regular basis – at least yearly at your financial year-end

Part of a partnership practice?
- Remember that should one partner decide to leave the business, the partnership and thus the business entity dissolves.
What is the value of my business?

Part of a solus practice?

- Remember that this arrangement has no on-going potential after you stop practicing or retire.
- You will not be able to sell the practice in its current form, but rather the assets within the business.
In order to build an asset from your practice, consider:

- Keeping your personal finances separate from your practice finances
- Prepare your business for sale
  - Have well written policies and procedures
  - Have well written operating manuals
  - Have a clear summary of your business, including current operations, future plans (strategic plan), vision etc.
- Establish your services within the surrounding community as an integral part of their healthcare
- Engage with both your colleagues and the public
In order to build an asset from your practice, consider:

- Undergoing an accreditation process with peer review, like the one offered by the SASP
- Explore opportunities from potential threats
  - NHI
  - Certificate of need
  - Public Private Initiatives
  - Health education & diseases of modernisation
- Keep up to date with legislative developments, enabling you to be a part of the process
- Be proactive, rather than reactive
So what should I do from here?

- Have your business’s books up to date
- Evaluate your business’s books and generate some basic reports, like
  - Income and expenditure statement – are you making a profit?
  - Balance sheet – what is your net asset value?
  - Look at some ratio’s, like staff to patients, salaries to overall expenses, and profit ratio / profitability
- Compare your practice to others
- Get expert advice where needed – don’t pay unnecessary “school fees” – learn from others mistakes
The selling process

- This comes down to negotiation
- Your valuation will give both parties a reference price to negotiate around
- Willing buyer willing seller principle
- Look at terms of payment to help clinch the deal
- Consider ongoing involvement of the previous owner in the practice after the sale
- Consider a practice: asset mix to strengthen the sale
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