



# Thinking of Buying or Selling Your Podiatric Practice?

Here's what you need to know.

BY MARK TERRY

The COVID-19 pandemic has been tough on medical practices. A survey by the Physicians Foundation estimated that approximately 8% of U.S. physician practices have closed because of the pandemic, coming to about 16,000. With a slow economic recovery, even with vaccines being rolled out, it's likely that even more will close.

In some cases, physicians may be selling practices while in others, they may be buying. And some entrepreneurial podiatric physicians may decide things are only going to get better and now's the time to open a practice. Here's a look at some of the many considerations.

### Factors to Consider

#### Location & Agreements

Some considerations are very basic. Gary Mellon, DPM, Founder and Owner of the Podiatry Practice Management Institute of America in Dallas, says, "The first thing a physician should consider is if it's a place

that he or she wants to settle down in. And if married, if the spouse wants to settle down in that particular area."

But the geography has other considerations, because it influences the patient mix. John W. Leardi, healthcare attorney with Buttaci Leardi & Werner in Princeton, New Jersey, says, "You need to know what's going in the door. Are you in an area with a significantly elderly population? Then you're going to have a lot of Medicare patients. Are you in an area that has a significant self-funded payer in the market, a factory, or huge corporate headquarters?"

In terms of whether to buy a practice solely or come in as a partner, Mellon adds, "If he or she decides they want to live there and that he or she wants to actually become a partner, then there needs to be stipulations that if certain benchmarks are hit, they're basically on the partnership track. And if the seller decides after three years or however long the initial contract is, that there will be

penalties if either of them changes their minds."

A buyer also needs to determine if there are additional services that (s)he brings to the practice. "The best way of determining that is by spending time in the practice and seeing how the seller treats patients and evaluate certain conditions," Mellon says. "For example, if they come up with the same diagnosis and the same treatment plan, good, but if there's a wide disparity, there may be problems ahead."

#### Goodwill

An important intangible aspect of a practice is goodwill, which falls broadly into corporate goodwill and personal goodwill. Rem Jackson, CEO and Owner of Top Practices, in Las Vegas, Nevada, says, "My thought about goodwill is that I don't know what it is. Does it mean you have a really excellent database of active patients and you're well-respected in your community? But if you think you've just done good

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work all these years and people are going to think you've run a great practice, but you don't maintain that list and don't market to them, then your goodwill might be worthless."

If a hospital, for example, wants to buy a medical practice, it is unlikely to pay for goodwill—it's more interested in acquiring the physician, with his or her experience, expertise, and patient list. But if a younger physician wanted to buy a retiring physician's practice, he or she would not only be seeking the patient list, but also be looking to preserve and build upon the practice's well-established professional reputation and good standing in the community.

Corporate goodwill can easily transfer to a new owner. It's based on practice location, setting, num-



Dr. Mellon

require adjustments based on fair market value.

### **Referring Sources**

A reason for the seller to stay on for some period of time is to provide an opportunity to introduce the new owner to the seller's current referring

it's great to buy a practice that's underperforming either topline or bottom-line revenue. Because you can rehabilitate a practice, right? You're buying a distressed asset. But understanding the patient makeup is particularly important, because that's really what you're buying."

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sources. As buyer, you would want the seller to help you continue the practice's revenue streams. Ask for a report on the top five to 10 referring sources and how active they are.

### **Payer Mix**

This has a direct impact on the revenue stream. If the buyer can't replicate the revenue stream because

### **An Alternate Point of View**

Maybe you shouldn't sell your practice, bring on partners, or merge practices. Jackson notes that "doctors think that the pathway for them, the well-worn and established pathway for success a podiatric businessperson typically takes. One is hiring an associate doctor or doctors who will eventually be the purchasers of the practice. Most of them think that this is the only way for them to go. And I do believe that given the right set of circumstances with the right associate who then becomes the right partner or purchasers, it's very often the case that you'll probably get your maximum amount of money."



Rem Jackson

But...Jackson says, "That often doesn't work because they don't see things the same way. They have generational differences. They have different ways. They look at business and money, even medicine, differently. The number one most difficult relationship that doctors have is with their associate doctors. By the way, associate doctors would say the same thing about their relationship with their employer doctors. I'm not saying the associates are necessarily the problem. I'm saying it's a complicated and difficult relationship."

It's something Mellon agrees

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ber of treatment rooms, etc. Personal goodwill is much more difficult to define and identify—or put a dollar amount on.

### **Revenue Adjustments**

Does the seller offer services that can't be duplicated? Maybe the seller was a residency director or a sub-specialist, and the buyer isn't. The seller might have specialized skills that can't be duplicated by the buyer. These factors need to be taken into consideration before buying a practice.

### **Costs**

Are the costs of the practice comparable to those of similar practices? A consideration of this factor might

he or she lacks the necessary technical skills or isn't part of the current payer mix, this directly impacts the revenue stream. Can you participate with the existing insurance carriers?

### **The Value Scenario**

Leardi offers up this scenario: "Let's just say I'm ready to throw up my own shingle. And I'd like to buy an existing practice from a retiring doctor. And I've got two practices that are in the same place and they both gross a million dollars a year." Which practice is worth buying? This is not enough information.

"As a buyer," Leardi says, "you need to understand what those same data points are and what they need in terms of value. Because sometimes

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with, saying, “You need to make sure that you have the same practice style, that there are no petty jealousies or things like that.”

And in terms of opening satellite offices, with an intention to expand their reach, Jackson notes that

several reputable associations, such as the American Institute of Certified Public Accountants. Typically, there’s a laundry list of items needed to determine the value of a practice, including:

- Last three years’ tax returns,
- Profit/loss (P/L) statements for the previous three years,

the essential question is: What would it cost to create another practice just like this, based on its assets and liabilities?

**2) Market approach.** Similar to a real estate appraisal, the market approach asks, “What will the market bear for this practice?” It will be compared to others in your area.

**3) Income approach.** This approach is the most common. It leverages a method of excess earnings, asking the question: What can I expect my return on investment to be? The key element is to determine the practice’s ability to create profits above and beyond the owner’s fair market salary (excess earnings).

**4) Earnings before Interest Tax and Amortization (EBITA) method.** Not as common, but becoming more popular, EBITA takes the practice’s net income with interest, taxes and amortization added back in. Doing so forms the foundation for how the



John Leardi

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it will generally expand their reach and there are very good reasons to open up satellite offices. “If you’re bursting at the seams and you can’t get anybody in and you absolutely can grow, then a satellite office can be a very positive thing. But if they think that somehow their business is going to magically get bigger, the only thing that magically gets bigger is their expenses.”

Jackson suggests, “You should think about instead building your practice through excellent marketing and superb management, which you can control. You can get good at that. And then if you were to take a look at what value your practice might have, you’ll be able to sell it for an even higher price because it’s an effective, profitable practice.”

He goes on to say, “But if you have a poorly run, not-profitable, not-interesting practice, then you’re not going to get anything for it. But if you turn it into something that can help you fund your retirement, that’s a really good path.”

### Practice Valuation

Whether you’re buying or selling, you’ll want to know what the value of the practice in question is. Keep in mind that a practice valuation should be done by a professional appraiser who’s accredited through any of

- End-of-year balance sheets for the previous three years,
- Depreciation report for anything that has been depreciated over time,
- List of equipment purchased in the past three years and expenses,
- Previous year’s payroll report,
- Production report (by provider if there’s more than one provider, and it should be organized by the provider), and
- List of “discretionary items” to account for any business expenses



Dr. Guiliana

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es that might not transfer to a new owner.

John Guiliana, DPM, Executive Vice President of NEMO Health, says, “The strength of a practice’s income stream and what it produces for owners is what really creates the true value of the medical practice—the strength of the income stream. And the key to a successful valuation is deciding whether or not the practice’s future income is going to mirror its present income.” There are four types of valuation methods that appraisers may use. They are:

**1) Asset approach.** This looks at the assets and liabilities of the prac-

practice is valued based on a multiple of EBITA.

### One Final Point

Buying and selling medical practices have unique issues that physicians need to be aware of, which is one reason an experienced healthcare attorney is important in the process. There are three broad issues:

**Healthcare compliance.** Running a medical practice falls under many federal and state laws and regulations involving business referrals, how bills are submitted to private insurers and public health care programs, and privacy laws such as HIPAA.

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**License requirements.** An attorney needs to review the current medical licensure required for the medical practice and the ongoing status of those licenses.

medical records after the sale and for how long.

There are many more, including managed service organization agreements, open contracts with vendors and third parties, any open litigation, ongoing lease or rental deals, and

want the tax liability or anything like that. You really need to look under the hood in terms of compliance, particularly with respect to billing.”

It can be rewarding, both financially and personally, to own and run a medical practice. And if you’re ready to sell your practice, you want to get a good deal on it—after all, your career has been an investment. But as in all things business-related, let the buyer beware. Do your due diligence and go into it with your eyes wide open. **PM**

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**Patient notification.** How and when patients are notified about the sale fall under many different rules and laws. The patients also should be informed of their right to access and control their medical records after a sale, with a HIPAA-compliant authorization required to transfer medical records. The sale agreement needs to stipulate who owns the

contracts with employees and independent contractors.

Leardi says, “It’s like the old adage: if you’re a seller, you want to sell the equity. You want to sell the actual entity itself, because you want to sell all the baggage. But if you’re the buyer, you only want to buy the assets. You want to pick and choose what assets you’re buying. You don’t



**Mark Terry** is a freelance writer, editor, author and ghostwriter specializing in healthcare, medicine and biotechnology. He has written over 700 magazine and trade journal articles, 20 books, and dozens of white papers, market research reports and other materials. For more information, visit his websites: [www.markterrywriter.com](http://www.markterrywriter.com) and [www.markterrybooks.com](http://www.markterrybooks.com).

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