



PRACTICE SOLUTIONS

A Guide to Selling Your Plastic Surgery Practice

By Amy Anderson, MBA

The COVID-19 pandemic forced most plastic surgeons to close their offices and cease elective procedures for 30–60 days. The unexpected and unfamiliar free time provided surgeon owners the opportunity to reflect on both their professional and personal life circumstances. For some, it became clear now is the right time to start planning to transition.

Deciding to sell a practice that you likely spent decades building is an emotional decision. But once you've arrived at the decision, you need a plan and an experienced team to objectively guide you through the process. This is not a DIY project.

These eight steps walk you through selling your practice to another plastic surgeon.

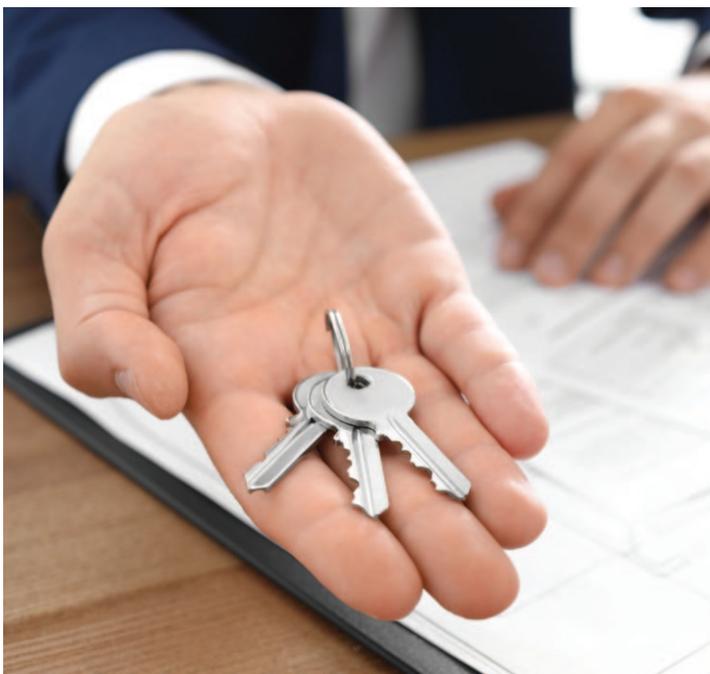
1. OUTLINE YOUR OBJECTIVES AND TRANSITION TIMELINE.

You didn't open your practice without preparation, and you shouldn't list it for sale without first spending time reflecting on what the transition will look like. Include your spouse or significant other in the conversation, as he or she will surely have an opinion.

Determine what your objective is in selling the practice. Are you simply looking to toss the keys to a new surgeon and walk away, or do you intend to overlap and work together for a period of time? What is your timeframe for the overlap and when you do intend to fully transition out?

2. EVALUATE AND FINE TUNE THE PRACTICE.

Get an objective 365-degree assessment of the practice that evaluates financial and management reports, billing processes, staff performance, and clinical flow. The purpose of the evaluation is to identify opportunities to increase revenue and modernize workflows, making the practice more attractive to a potential buyer. Ideally, do this a year or more before you want to market the practice for sale, allowing optimal time to make improvements and maximize the value of your practice.



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3. GET THE BOOKS IN ORDER.

An interested buyer will ask for 3–5 years of financial statements, so if you have been less than detailed in your financial reporting, now is the time to clean it up. A good P&L tells a story at a glance. Ensure revenue is properly categorized. Examples include: surgical revenue, office consults/procedures, lasers/devices, injectables, skin care products, and skin care procedures. (Refer to *Cheyenne Brinson's* article 5 Tips for Analyzing Practice Profitability from the Winter 2019 edition of *Aesthetic Society News*.)

Calculate the operating overhead percentage. Under national benchmarking formulas, operating overhead consists of costs for items such as staff, benefits, payroll taxes, rent, medical and office supplies, and even malpractice insurance. The overhead percentage is computed by comparing those costs to medical revenue.

By comparison, specific costs for the physician, including salary, benefits, payroll taxes, CME, dues and licenses, are excluded from operating overhead and should be categorized separately. If your P&L has physician expenses sprinkled throughout, work with your consultant or CPA to re-organize the chart of accounts. An illustration of a condensed P&L:

Income

Total Income
Cost of Goods Sold

Gross Profit

Expense

Operating Overhead
Physician Expenses

Net Income

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4. HAVE THE REAL ESTATE VALUED BY A HEALTHCARE REALTOR.

If you own the real estate and intend to sell it at the same time as the practice, it will be a separate transaction from the practice sale but can occur simultaneously. Use an experienced healthcare realtor to avoid the mistake of overpricing or undervaluing the real estate.

When reviewing market comparisons (“comps”), Clint Herrema, Director with CARR Healthcare Realty reminds us that all medical office space is not created equally, particularly if you have a turnkey office with an accredited surgery suite. “When reviewing buildings or suites in your market for comparable listings, those that are not turnkey require additional consideration,” says Herrema. “With today’s average ASC build out ranging from \$135–\$150/SF, it is imperative to add an appropriate adjusted estimate cost into those options to arrive at a fair price for both Seller and Buyer.” It is not as simple as hiring an appraiser. There are a myriad of moving parts in a practice sale that require both the science and art aspect to see a deal through across the finish line.

If you don’t own the real estate and are instead in a third-party lease, a healthcare realtor is still an important ally to have on your advisory team. He or she can help you negotiate the best lease terms that are attractive to a buyer (who will take over the lease) and also optimizes cash flow to the practice right now.

5. OBTAIN AN APPRAISAL ON THE PRACTICE AND THE ASSETS.

The value of the practice itself boils down to the physical assets and goodwill. The physical assets include all of the lasers and devices, the furniture and décor, surgical instruments, exam tables, computers, etc. A CPA certified in equipment valuations can provide an estimate of current value.

The topic of goodwill can be misunderstood. It basically comes down to how profitable the practice is. Referring back to step 3, getting the books in order, it’s important to differentiate between the owner’s salary and profit distributions. A valuation specialist will compare a typical non-owner plastic surgeon’s salary with what you paid yourself.

Other factors that go into the practice’s value are a trained and assembled workforce (i.e. your staff), referral sources that are likely to transfer, and existing practice reputation.

If you have a busy med spa with a steady stream of repeat patients, that can significantly increase the value.

6. DESIGN A PROMOTIONAL PACKAGE AND PUT THE WORD OUT.

Similar to a listing sheet when selling a personal residence, create a teaser of what you have available to sell. Include details such as price, annual revenue, location, reason for sale, year established, employees, square footage of office, and number of exam rooms. Advertise the practice sale with your state and national specialty societies, notify peers, and explore online boards.

7. VET AND INTERVIEW INTERESTED BUYERS.

Many surgeons use a consultant or other advisor as the first contact for interested buyers. The consultant will explore the buyer’s interest, assess their financial capabilities, and determine if they are a viable candidate. The interested buyer would then sign a Non-Disclosure Agreement (approved by your attorney) and receive detailed financial and productivity information.

In most cases you will then interview the interested buyer to determine if it’s a good fit. If you intend to continue practicing together for a period of time, it is imperative to have multiple interactions and explore compatibility.

8. ESTABLISH A TRANSITION PLAN AND TIMELINE.

Congratulations, you’ve found the right buyer for your practice, and the deal is on its way to being done. While the buyer engages in due diligence, and the attorneys and bank prepare the paperwork, work on details of a transition plan. Be thoughtful of how you will announce the change in ownership to your staff and patients. Depending on the new surgeon’s experience and proclivity for business, he or she may desire a transition period where you remain involved to coach them in their new business venture. Discuss the timeline with the buyer and set clear dates and milestones.

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It Takes a Team

The process of preparing and selling a plastic surgery practice is complex and can be emotional. Engage a team of advisors to guide and support you. The team includes:

Practice Transition Coordinator:

This is a consultant or friend who will quarterback the entire transitions so that you can focus on continuing to provide patient care and maintaining revenue through the process. The practice transition coordinator will arrange for valuations, work with your accountant to ensure your books are in order, develop a prospectus and advertise the practice for sale, screen and vet interested buyers, and coordinate communication with you, the buyer, the accountants, and the attorneys. They will also help you develop an operational transition plan.

Healthcare Realtor: A realtor experienced in healthcare, like CARR Healthcare Realty, provides valuation on the real estate and advises on strategies for selling or leasing your space.

Attorney: Both buyer and seller need an attorney who specializes in healthcare transition law. Typically your attorney will write up the purchase agreement and ensure the final documentation is all in order to finalize the sale.

Accountant: Your practice CPA will help you prepare your financial statements for presentation to an interested buyer. Depending on the CPA firm, they may also provide asset valuation services or introduce you to a firm who does. They also will provide tax planning advise related to a stock versus asset sale.