What to Consider When Selling or Buying Your Practice

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When consulting an optometry practice, my focus is always on increasing cash flow. Increasing cash flow affords business owners more opportunities in running and expanding their practice and, when practice owners focus on improving their bottom line, they end up providing better service to patients and engaging their staff more deeply. Importantly, the greater a practice’s cash flow, the higher the practice’s sale price when the owner decides to sell.

Dr. Toby Vallance sold two clinics in Calgary in 2013 after he and his family decided to move to Victoria. Instead of winding down his hours or cutting costs on business development and modernization prior to selling, he ramped them up. “The extra time and money that I put into my practice leading up to selling came back to me several times over in the sale price,” Dr. Toby told me.

While important, cash flow is not the only factor that influences sale price. To find out some of the other more subtle factors, I surveyed a number of optometrists who have recently sold their clinics. I also spoke with Timothy A. Brown, President and CEO of ROI Corporation Brokerage.

ROI has provided health professionals with appraisal, brokerage and consulting services since 1974. From his decades of experience in the field, here are five recommendations Tim makes to all of his optometry clients.

As business owners you need to secure premises for long-term use

Approximately 98 per cent of suitable commercial space is only available for lease and not for purchase. This is one of the reasons many optometry practice owners are renting the location of their business. While leasing has its advantages, it can also come with a variety of terms and conditions meant to protect the landlord, not the lessor.

Tim advises business owners – and their lawyer or property professional – to review a lease or lease renewal for clauses related to demolition, sale of property and tenant relocation which could disrupt your business. Depending on the lease, your location may not be part of the business you sell when it comes time to do so, a fact that can severely impair the value of your practice.

Securing your premises can also mean purchasing commercial space. Dr. Alain Desjardins owned the building in which he practised in New Brunswick, and says it was an “ideal scenario” from an investment perspective: “Any money you tie up in renovations or leasehold improvements can put you at high risk of having the owner increase your rent under the assumption that you have no choice but to stay, due to how much you’ve invested,” he explained.

Dr. Alain also added that owning your space gives you the option of selling the practice with or without the building. Other benefits of owning your own space include paying down equity rather than paying rent, and removing landlord hassles. However, depending on where you can find a location to purchase, you may have to consider sacrificing location and moving away from a space that may be convenient to patients.

Ensure all your employees have written contracts

Tim says that a practice for sale with properly written employee contracts will always yield a higher value than one without, because contracts mitigate the purchaser’s risk in the advent of future termination. Without properly written employment contracts, and in the event of a termination, an employment lawyer could argue that a business owner is liable for one to two years of earnings. That’s a big risk for a potential purchaser to take on, and according to Tim, it’s a liability that regularly has purchasers and their advisors concerned.

Employment contracts do not eliminate employees’ rights, but they generally reduce termination costs to within Canadian employment standards guidelines – which are significantly less than one to two years’ salary.
Your associates should have contracts too

Buying a practice that has associates who are not on contract is concerning for purchasers and their lawyers because of the risk of the associate leaving post-sale and soliciting patients and staff. Also, Canadian banks frequently demand proper contracts as a condition of financing because associates and partners on contract reduce loan risk. For these reasons, a practice with proper associate and partnership contracts will sell for more than one without.

As part of the sale contract, you may agree to stay on and provide your optometry services for a certain number of years, post-sale. This can be a great asset to the purchaser and thereby increase the price you are able to negotiate for your practice. If agreeing to such an arrangement, however, Dr. Alain says to be sure that you enter into a contract that outlines your obligations and guarantees your interests moving forward.

Get your corporate structure in order

Making sure your corporate structure is in order is also known as “calling your accountant and business lawyer,” according to Tim. This applies to clarifying your real estate holdings, resolving your responsibilities to your shareholders, having an accurate balance sheet, identifying items that will not be sold with the practice, removing personal assets from the corporation (and the tax implications of doing so), handling redundant assets – assets that generate income but aren’t tied to the fundamental operations of your business – and a variety of other accounting and legal nuances that will come under scrutiny at the time of sale.

When it came time for Dr. Barry Simpson to sell Timmins Family Eyecare, he had professionals review everything. In fact, he said his “lawyer and accountant were invaluable.” Whether for business advisory services, accounting and record-keeping, tax advice or auditing, a call to an accountant and business lawyer you trust is a strong first step, whether you’re considering a sale now, or in the future.

Even if you aren’t ready to sell, be ready to sell

You may not yet be thinking of selling your clinic, but the above recommendations are great practices to adopt so that you are ready to sell when the time is right. The more time you have to prepare for a sale is to your benefit: it is typical for potential buyers to ask for three consecutive years of accountant-prepared financial statements. If a business owner can reduce all of their costs over this fiscal period, these statements will show a higher profit margin, which is attractive to prospective buyers. Finally, should you ever decide to purchase a practice, the advice and recommendations above should provide you with factors to consider when looking at investment opportunities.

References

2. Ibid.