Not All Practices Are Created Equally:

Why Physician Practice Value Varies by Specialty

Summer CPE Symposium, Session #3

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Introductions



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Agenda

1. Orientation and Key Terms
2. Valuation Approaches
   - What approaches can be used to value a physician practice?
3. Valuation Challenges
   - What makes valuing a practice challenging?
4. Why Specialty Matters
   - How does medical specialty impact a practice's valuation?
5. Other Considerations
   - How do specific buyers impact the value of a practice?

Orientation and Key Terms

Key Terms

Value

- A forward-looking economic concept
- Principal of Substitution
- Product of supply and demand

Price

- Actual amount of money (or equivalent) agreed upon in a specific transaction

Fair Market Value

- The price at which the property or service would change hands between a *willing buyer and a willing seller*, neither being under *a compulsion to buy or sell* and both having *reasonable knowledge* of the relevant facts. - *IRS 59-60*

Valuation

- The act or process of determining the value of a business, business ownership interest, security, or intangible asset

Valuation Approaches

Valuation Approaches



Asset (Cost) Approach:

- ***"How much it would cost to build a baseball team?"***
- Based on the anticipated cost to recreate, replace, or replicate the asset.

Income Approach:

- ***"How much profit can I make from owning this team?"***
- Based on the economic benefits anticipated to be derived from the asset.

Market Approach:

- ***"How much would a professional baseball team sell for?"***
- Based on transaction data involving similar assets or services

Valuation Approaches



Asset (Cost) Approach:

- ***"How much it would cost to build this from scratch?"***
- Requires space, equipment, workforce, etc.

Income Approach:

- ***"How much can I make as an owner of the practice?"***
- Considers all expenses necessary to support the practice.



Market Approach:

- ***"What do others pay for similar practices?"***
- Necessary to determine comparability with market data.

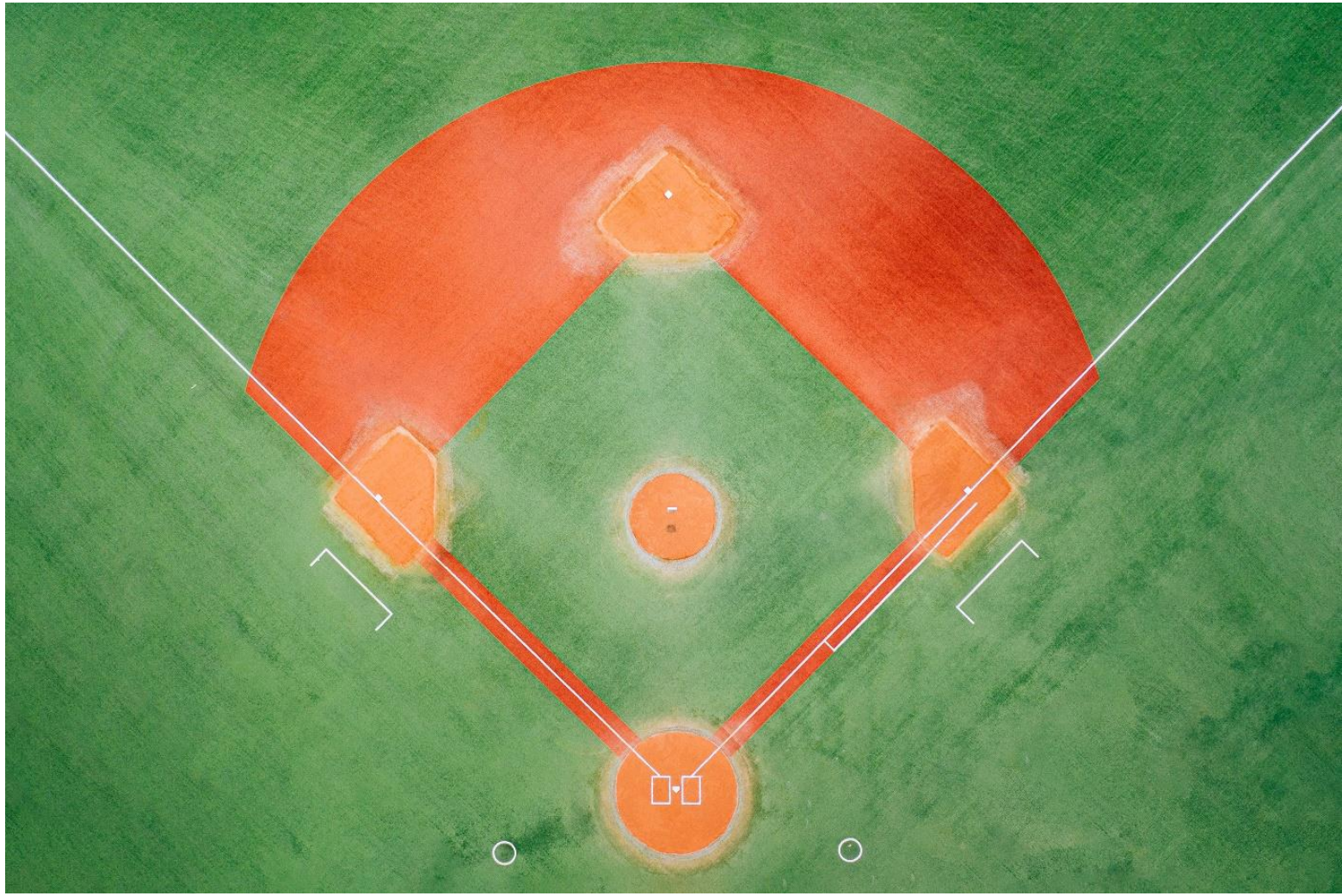


Multiple valuation methodologies can and should be utilized to the extent possible in determining value.

Valuation Challenges

Potential Asset Approach Limitations

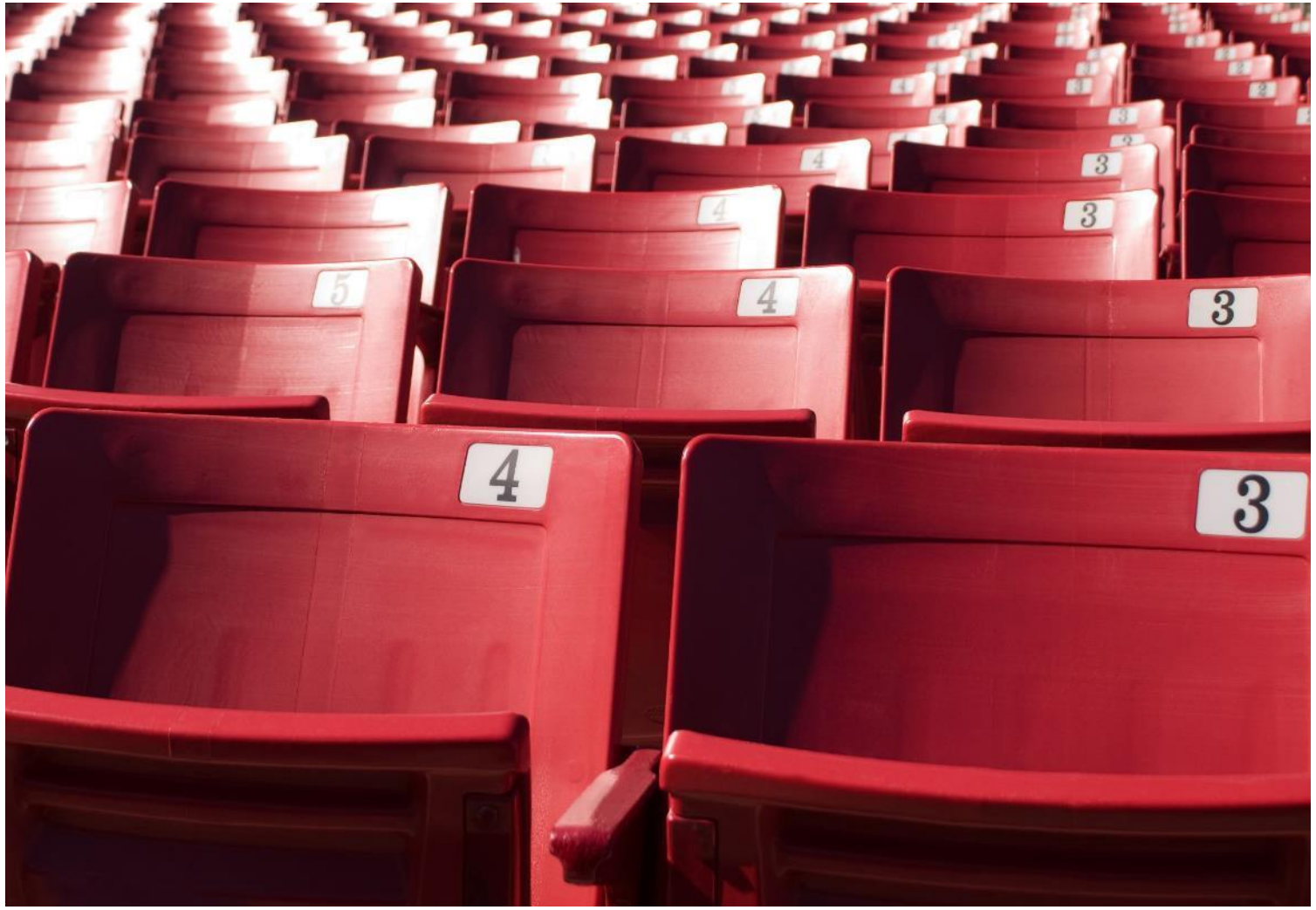
- Often thought of as “hard assets”
- If a practice is operated at a profit*, seller often believes there is substantial goodwill
- Disconnect between revenue generation and profitability



** Is it REALLY profitable?*

Potential Income Approach Limitations

- "Normalized compensation"*
- Consideration of related party transactions
- One-time/non-recurring adjustments
- Efficiencies?



** Again, is it REALLY profitable?*

Potential Market Approach Limitations

- Comparability of market-transaction data
- Lack of detail
- Valuation multiples



Why Specialty Matters

Why Specialty Matters







Market Dynamics

Asset Structure

Ancillary Services

Practice Operations & Financial Performance

Billing Practices

Advanced Practice Providers

Key Considerations – Primary Care

- Does the practice own/provide significant ancillary services?
  - Imaging Equipment
  - Lab Equipment
- Patient panel management
- Value-based care models
- How are APPs utilized?
- Market competition

- **The "Utility Player"**
  - ✓ **Family Medicine**
  - ✓ **Pediatrics**
  - ✓ **Internal Medicine**

Key Considerations – Surgical Specialties

- Where do they perform surgeries?
  - In-office procedures
  - Ambulatory Surgery Center
  - Hospital
- How are APPs utilized?
  - Global billing
  - Ancillary Services Offered
- Rehab/Physical Therapy
  - Patient Monitoring
  - Hearing Aides

- **The "Power Hitter"**
  - ✓ **Ophthalmology**
  - ✓ **Otorhinolaryngology**
  - ✓ **Urology**
  - ✓ **OBGYN**
  - ✓ **Orthopedic Surgery**

Key Considerations – Non-Surgical Specialties

- Unique practice patterns dictate practice value
  - Radiation oncology – Linear Accelerator
  - Dermatology – Cosmetic/MOHs
  - Allergy – Allergy Shots
  - Pulmonology – Sleep medicine
  - Gastroenterology – Scope procedures
- Billing practices
  - Global vs. professional

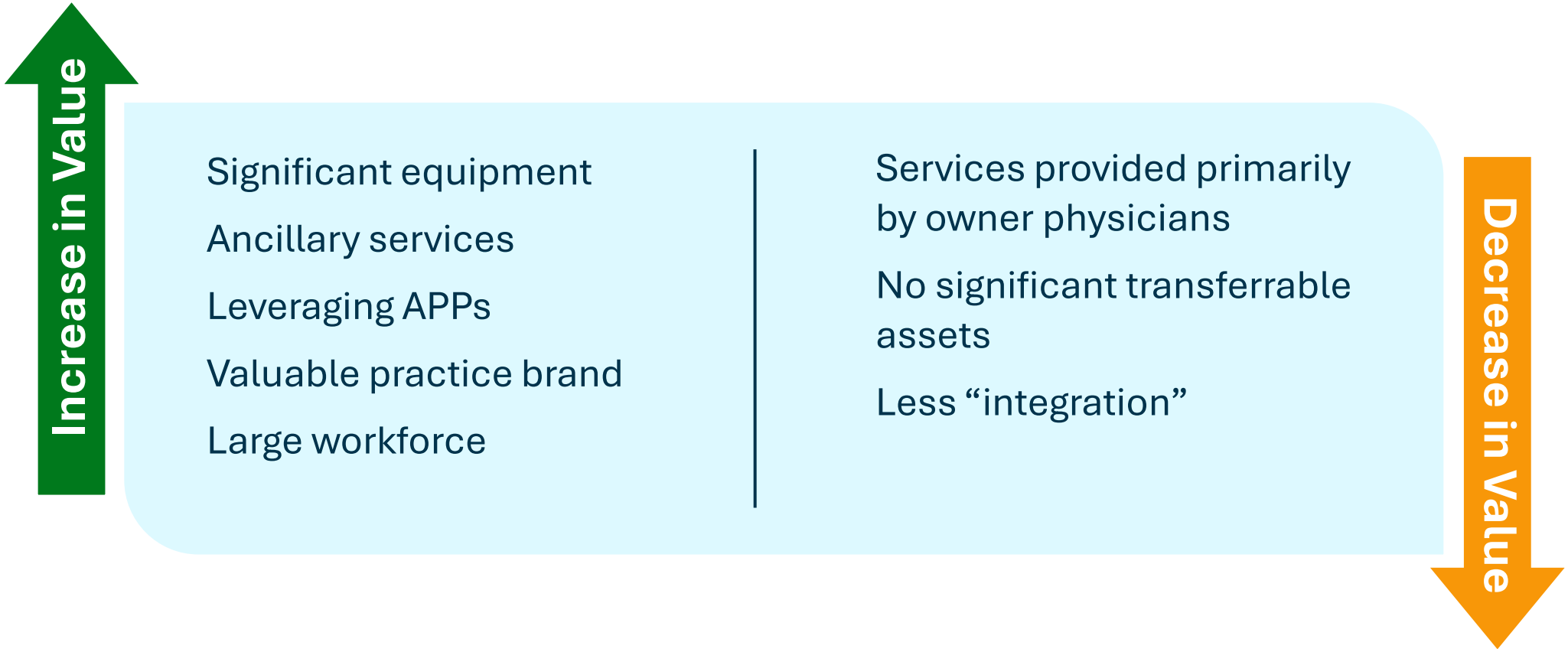
- **The "Marketable Player"**
  - ✓ **Allergy/immunology**
  - ✓ **Dermatology**
  - ✓ **Pulmonary medicine**
  - ✓ **Radiation oncology**
  - ✓ **Gastroenterology**

Key Considerations – Hospital-Based Specialties

- Requires detailed understanding of contractual agreements
  - Agreement term
  - Who provides what service?
  - Restrictive covenants
- Exclusivity rights

- **The "Free Agent"**
  - ✓ **Radiology**
  - ✓ **Anesthesiology**
  - ✓ **Hospitalists**
  - ✓ **Emergency Medicine**

What Drives “Value”?



Other Considerations

Why Physicians Sell

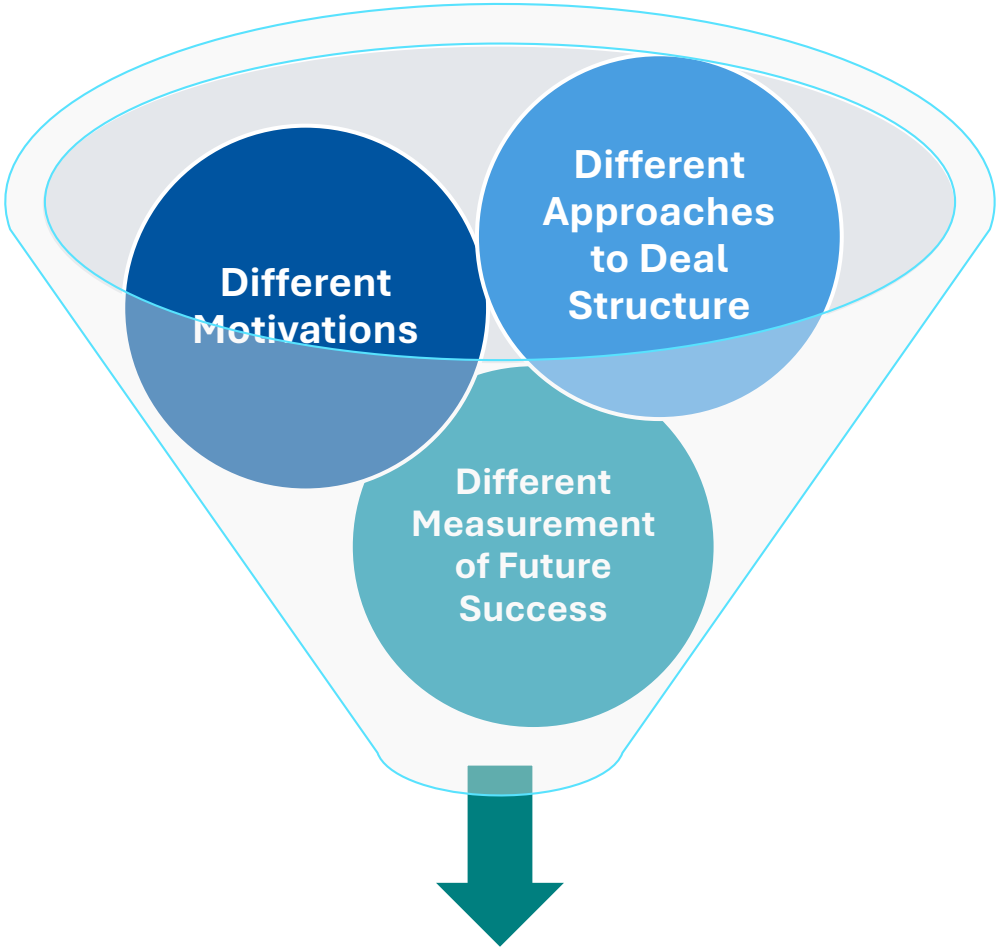
- **Shifting financial risk**
- **Administrative burden**
- **Consistent regulatory burden**
- **Work / life balance**
- **Succession planning and monetizing practice growth**

Why Physicians Sell

Potential Buyers

Buyer:	Health System	Private Equity/ Corporate Consolidator	Payer
Considerations:	Targets largely fill gaps in services for care delivery and clinical integration	Acquire scale and efficiencies through platform and tuck in acquisitions	Care management to drive cost reductions
	Acquire and integrate (no exit plan)	Build for exit/liquidity event through focus on strong financial performance and investment return	Retain achieved savings within health plan rather than sharing with providers
	Less focused on achieving scale and efficiencies	Structured to allow for practice management in accordance with corporate practice of medicine statutes	High focus on financial performance and investment return
	Heightened focus on fraud and abuse laws given referral opportunities		Possible exit in future

Transaction Structure




VALUE vs. PRICE

Final Takeaways

- "There is no "I" in team… but there is a Me"
  - **Every physician practice is different**
- "They're in a League of Their Own"
  - **Valuation is based on specific practice economics**
- "Play Your Own Game"
  - **Transaction structure may impact price, but not value**
- "Bring in the Designated Hitter"
  - **Imperative to engage with an appraiser who understands the nuances of the industry**
- *That's why not all physician practices are created equally*




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accountingTODAY 2025 Top 100 Firms

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