Selling Your Practice

MY FOOTMEDIC

PODIATRY & FOOT INJURY SPECIALISTS

Contents

Introduction

Selling your business is a daunting prospect, made more difficult by having to learn how an entirely new industry works (the industry of buying and selling businesses, known as 'Mergers and Acquisitions'), most typically for a one time transaction. Knowing which of the many options available may be best for you and your business is difficult.

We are very aware that there are many fantastic podiatry practices which have been owned for a number of years, yet have no clear exit route. We also appreciate some practitioners may want to move from an ownership, to employed model, and in some instances MyFootMedic can cater for in-between solutions. Hopefully this guide can aid owners, whichever path they take.

We have clear ambitions for private podiatry in the UK, and where practicable and agreeable would like to work with practice owners to continue to fulfil the potential they have built in their business. At MyFootMedic we want to make the process of selling your business as simple as possible, as we see many great podiatry practices left to slowly wind down, realising little or no sale value for their owner.

Confidentiality is absolutely paramount and is fully respected. We appreciate the sale of a business is a personal endeavour and we have prepared the following slides to prompt understanding of what a sales process looks like, ahead of providing us with the necessary information on your business to receive a free valuation, or to begin a sales process.

What MyFootMedic offer

- Because our team is small and welcoming, queries regarding the fine details of a sale don't need to go through layers of management
- Every practice is different. We will never pressurise you to make a decision
- We promise to be honest and transparent at every stage
- We want to help you maximise the value of the business – we want to buy a good business we understand
- We will invest in the business, safeguarding and training existing staff
- We wish to minimise practice disruption
- We will re-brand and re-market the business
- Reduced financial risk to yourself, with flexibility on involvement and work
- We will take over the day to day administrative burden, allowing clinical freedom, or a full exit
- We want to be flexible in the payment terms offered and your ongoing involvement in the business

Sale options

We try to be flexible as to the type of sale of a business and we foresee three key structures which can work well for both the exiting owners and ourselves:

Structure 1

A full sale and exit of the business.

Structure 2

A full sale, but the owner is retained as an employee of the business.

Structure 3

Sell the practice but becomes a 'partner', receiving a lower sale valuation, but benefitting from a profit share whilst leading some aspects of the business.

Sale process and timeline

The below should help you understand the key steps in a transaction process. We are more than happy to talk you through each of these steps in more detail at any point.

Valuation →	Meeting →	Heads of terms →	Due diligence →	Conditional sale agreement →	Completion
We provide an initial valuation based upon the information you provide to us, detailing the adjusted profit and multiplied value	To better define the bespoke process, agree any adjustments to valuation in principle, and discuss the terms of the sale	Agreement and signing of non-binding commercial terms, including valuation and any ongoing employment terms for business owner	Due diligence will then take place, covering financial, clinical, HR, legal and property.	Solicitors will then be instructed and the legal process will commence. To draft the sale agreement	Finally, legal documents are signed and money is paid to the vendor, completing the process.

This process can be completed in as little as 6 weeks. Our aspiration is to work closely to guide you through this process so that it maintains momentum for a fast completion

Valuation methodology

There is no common-practice or definitive method for valuing a podiatry practice. At MyFootMedic we know this as one of our co-founders built his career helping people buy and sell businesses, and we have researched associated valuation methodologies in great depth.

The most common method of valuation applied to podiatry and similar industries is however to value the business by applying a multiple to the adjusted profit value of the business (defined in the slides below). The difference between the value calculated this way and the value of the assets of the business is defined as 'goodwill'.

Valuation will also be impacted by what is found during due diligence.

Other factors impacting valuation often include:

- Existing infrastructure (quality of equipment and other value)
- Current reputation (reflects goodwill)
- Continuity plan once ownership has changed – how any management responsibilities are passed on

Whilst the valuation multiple is important we appreciate there may be other factors (brand name, customer loyalty, etc) which are intangible and should impact the multiple figure applied. This is something we are happy to discuss should our initial valuation not be reflective of the true value you have built up.

Valuation methodology II

Adjusted Profit or 'EBITDA'

The adjusted profit value is usually similar to the accounting definition of 'EBITDA' (Earnings Before Interest, Tax, Depreciation and Amortisation), to reflect the most cash-like profitability figure of the business. EBITDA is referred to as the true operating profit, reflecting cash generated, irrespective of accounting practices used.
Your accountant will / should know how to help confirm our calculations.

Adjustments are then made in relation to 'one-off' and non-recurring expenses. This might include significant capital outlays, one off legal fees, etc. There may also be additional expenses that you incur from the business in relation to extra payments you have due to the privilege of owning your own business (outside your core working arrangements). There may also be charges incurred upon the transfer of a lease.
Note that we will adjust all financials received for one-off "normalisations", including one-off/non recurring and personal expenses which will not be incurred in the future. We also remove all of the non-cash costs in your accounts such as Depreciation, and also those that a new practice owner would not continue to incur e.g. owner Salaries.

Multiple

In every industry there is a typical value which the EBITDA is multiplied by to indicate the business value. The 'multiple' applied also varies depending on the quality of the business. Our extensive research into podiatry multiples and of multiples for similar industries is considered on the next slide, which suggests a multiple of around 2 to 5 X EBITDA to be most typical.

Adjusted profit × Multiple = Business valuation

We would like to work with you to help evaluate your adjusted profit and are happy to discuss and reconfirm our multiple. We welcome the introduction of your own advisor to help confirm the above.

Valuation research

We have used a variety of sources of information for our preferred route of valuation, however the following are some useful verifiable sources we are happy to share:

1 - Podiatry practices listed for sale online on business brokerages

We have reviewed businesses for sale across Daltons, Knightsbridge, Rightbiz, IOCP, Podiatry Arena and many other websites, and found that many of these do not offer sufficient metrics to work out an EBITDA multiple. The average estimated range of EBITDA multiple we found was 1.5 to 4 X, though the higher multiples for these often small businesses is often due to the 'optimistic' nature of the exiting owner, picking a number they would be happy with rather than what the business is worth, and price reductions and lengthy durations for listings on these website are common (similar to selling a house).

2 - Discussion with business brokers (i.e. if you google 'sell my business', and find specialists of small/medical businesses)

We have contacted business brokers to understand how similar businesses are valued, particularly as so few podiatry businesses are sold. Looking at multiples for Dentistry, Veterinary Care, and Opticians which they thought to be most similar, a range of 1 to 7 X EBITDA was suggested, based on the size of the business and the impact of the exiting owner would have on the business. The higher valuations are typically achieved by larger practices where the impact of the owner leaving is reduced. We are very interested in paying higher multiples for higher quality businesses.

3 - Our personal experience of buying and selling companies

Given the high reliance on a small number of individuals who are so important to the continuity of the revenue of the business, the risk on performance of the business if they were to leave is increased. Companies which achieve a higher profit multiple are less reliant on a small number of individuals. This risk is priced into our suggested 2 to 5 X multiple, which we believe is fair.

Payment types

We see a potential for the use of several options, once a transaction and value is agree by both seller and buyer:

1 – Initial consideration
A simple, upfront payment based on the valuation of the business.

2 – Deferred consideration
Additional payments at later dates, i.e. annually following sale of the business. This allows maximum valuation as cash generated from the business can be used to pay an optimum value. There may also be a tax saving on exit.

3 – Profit share
Restricted to a finite number of years, this may be feasible, though is highly uncommon as the vendor benefits from any investment and changes made by the new owner. This will result in a reduction in initial consideration (above).

4 – Patient retention
The main goodwill value in most private podiatry practices is in its patient base and the podiatrists operating in the business. If we were to offer payments based on retention/returning patients, by the number of returning patients, this would offer an increase in accuracy of the value of the business, though this may be too complex to measure depending on the current and future patient database available. Size of patient database is often used in comparable dentistry valuations, though this is often more dependant on NHS contracts, which reflects stable, recurring revenues (known as 'sticky revenue').

5 – A combination of 1, 2 and 3

Almost all business sales in podiatry and comparable professions are dominated by payment type 1, due to the complexities required by constructing alternative arrangements. We are though happy to pursue these.

Next steps

To allow us to provide an indicative, high-level valuation (subject to due diligence) and payment types, there are a number of key pieces of information we require:

- Last two years of management accounts and tax records, if possible with revenue split by; clinic services, home visits and products and medications
- Current staff listing, hours and pay rates (no need to identify staff by name, just Pod1, Admin1 etc)
- Revenue print out from clinic software (If possible) for the last year showing revenue by practitioner
- Overview of assets of the business (whether rented or owned and financial values for each)
- Understanding of the exiting persons varying roles in the business, and if applicable a continuity plan for said roles

Meeting

The list above provides a substantial basis for the valuation, however we value a practice on its own merits and so we would want to meet with you to get to know each other better before making an offer. This meeting is non-committal, informal and can be held over lunch or coffee, away from the practice. If you wish to proceed with a valuation, once we have received the above information we will see if there is a mutually convenient date to meet. This step is very important in helping us to ensure that we are all on the same page and are in a strong position to proceed.

All conversations and shared information is treated with the strictest confidence and we can put a **confidentiality agreement** in place if required.