



PRACTICE TRANSITION FAQs

PTPN is frequently asked about transitioning a practice. We receive questions from existing members planning to sell their practice and from therapists examining purchase opportunities. We get general questions about exit strategies, and PTPN-specific questions about how to achieve a smooth transition to a new owner. The FAQs below address many of these questions. They are intended to provide general information to get you started and get you thinking. You should always consult your own such experts as attorneys, accountants, valuers and others for specific solutions for your unique situation.

PTPN would like to thank Michael Weinper PT, M.P.H., President/CEO of PTPN, and Charles Felder PT M.B.A., SCS, ATC, President of HCS Consulting, for sharing their expertise in transition issues and exit strategies. PTPN would also like to thank Paul Feuerborn, PT, owner of Pacific Therapy Services, for sharing his experiences in transitioning his practice.

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Planning your transition

When should I start planning for the transition of my practice?

The sooner, the better. Ideally you should never start a business without an exit strategy. If you don't have goals and a plan for executing them, you can't expect to achieve those goals. Even if you aren't planning a transition for many years, put together an outline now. If nothing else, it will help improve your current business. If you haven't started already, you should start preparing for your transition not less than two years, but preferably four to five years, before you want your transition to occur. It will take longer than you think to execute the plan.

Start by considering your own age and when you want to retire. What resources do you have to supplement your income? Do you want to fully or partially retire? What, if any, junior associates do you have in the pipeline capable of assuming ownership? You should definitely discuss transition planning with your partner(s), even if that partner is your spouse. Finally, set aside some time each week to work the plan — even if it's only 15 minutes.

What are the different types of transition plans?

Transition can mean leaving the practice or staying with it. It just means a transition from one state to another. There are four basic types of transitions:

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Sell and Leave	Sell the practice to a buyer and depart from the practice to retire or to pursue other opportunities.
Sell and Stay	Sell the practice to a buyer, but stay with it in some capacity (either as a manager or treating therapist). This is for those who want to stay involved, but don't want the risks or responsibilities associated with ownership.
Don't Sell and Stay	Own the practice, but implement a plan for others to manage and/or treat patients. This will reduce your profitability, but will maintain income from the practice and allow you to treat and/or manage as much or as little as you want.
Don't Sell and Leave	Own the practice, but implement a plan for others to both manage and treat patients. This will reduce your profitability, but will maintain income from the practice.

You can sell the practice to your existing staff or outside parties. If it's your intention to have your staff therapists involved, the planning should begin early within the culture of the practice. Initially, Paul Feuerborn, PT, thought he would simply chip away at his equity on a planned distribution basis over a five-year plan. However, he found that his tax attorney thought this plan was not a good idea. A stock option/stock purchase plan from a stock pool turned out to be a better option.

What are the benefits and drawbacks of each type of plan?

Sell and Leave	The benefits of this plan include eliminating day-to-day involvement and receiving compensation (part or all) from the sale. The drawback, if the terms involve payment over time, is the risk that the new owner won't perform at the same levels you did, thus reducing your chances of receiving full payment for the practice.
Sell and Stay	The benefits here include reducing the risks and stress of ownership and receiving value for your business. The drawback is being placed under the control of another party in the same environment that was once under your control, often a frustrating situation. This plan usually yields higher sales value as your identity remains with the practice.
Don't Sell and Stay	The benefit here is reducing your day-to-day involvement, and possibly stress; however, it increases your operating costs as there are now more parties receiving revenue from the practice. You'll also have to adapt to watching someone else do jobs you previously performed.

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Don't Sell and Leave Again, your involvement day-to-day is reduced, and you can have less stress not having to keep up either clinically or managerially. However, you still have to make decisions as an owner, and you have to replace your functions with someone who may not do your job as well as you. In this scenario you also retain the ownership risk and may have to become active again if the practice begins to flounder.

When you sell to your staff they are more likely to keep running the practice similarly to the way you were running it before (thereby maintaining your legacy). It is an easier sale because you don't have to get bids and deal with strangers examining your practice. You can stay involved to a greater degree than selling to outsiders. However, staff therapists usually don't have money to pay for the practice outright, so you often have to finance the sale internally, and you may have to settle for a lesser sales price than an outsider would pay. You also may face the prospect of having to buy it back if the successors leave or can't make it work.

Outside sales are typically a cleaner deal, often without internal financing, and you can walk away if the terms aren't to your liking. However, the practice can change drastically from your vision, and you may have an "earn out" tied to its future performance that you can't control.

Paul Feuerborn, PT, who has an ongoing plan to transfer ownership to his associate therapists, believes that it is a tremendous benefit for the practice to nurture staff into owners. It gives them a stake in the business and helps them grow as managers. He recommends hiring people who have inclinations toward management and ownership. This increases the viability of the corporation (especially if you are getting paid out after you leave). However, be aware that therapists by and large are not a risk-taking profession (if they haven't already opened a practice on their own). So it's difficult to recruit staff who are eventually willing to take on the risks and obligations of an owner. However, with a good plan you can nurture people into a risk-taking mode.

Timing is also a balancing act. If you keep staff waiting too long, the risk-takers may leave to start their own practice. If you offer ownership too early and too often, and it becomes delayed, your credibility can be compromised, especially if you are an owner who hasn't had a culture of sharing and communication. Always let the employees know what's happening at each stage of the transition.

What are some common pitfalls in transitioning a practice?

- Starting the process too late.
 - Not getting professional advice on the value of the practice, sales structure and tax ramifications.
 - Not having enough data over time to structure the price.
 - Not having a solid buy-sell agreement, including a financing vehicle between equity partners.
 - A lack of qualified individuals to purchase the practice and/or not qualifying the buyers enough (e.g. do they have the money, can they run the business after you leave, their business skills, desire, etc.).
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- Unrealistic expectations of the buyer or seller on the value of the practice.
- Having a lease that has unfavorable terms, such as above market rates, or short expiration dates, or unfavorable options to renew.
- Letting such deposits as rent and utilities, and the transfer of equipment contracts and leases, get lost in the shuffle.
- Failing to communicate with staff about the change.

What are the essentials for a successful transition?

You should plan on timeframes taking twice as long as you think they will (think home remodel). There are always unexpected surprises and/or the environment changes, so a positive attitude and a sense of humor are a must. Communication among all parties is vital, including staff and referral sources. The buyer's business plan for the new practice should be established prior to the sale, and the seller's responsibilities post-sale should be clear. The seller should be flexible in working through the transition period and training the buyer. Parties on both sides should be realistic about the market and opportunities for growth, and the transaction structure should minimize everyone's risk. Clarify who owns the medical records and what will be done with the old ones going forward.

What resources are available to assist me in transition planning?

Start with your accountant. Flawed numbers lead to a flawed process. Sit down with your tax attorney to find ways to minimize your tax exposure. There are lawyers and accountants who specialize or have backgrounds in sales transactions. Use consultants with expertise in the field of valuing practices. Talk to your colleagues. Business brokers are out there, but there is some risk in using them. List your practice, or search for practices for sale, on the [PTPN Practice Exchange](#). [Nolo](#) has several good publications on the topic. The [APTA's Private Practice Section](#) has a book on valuing your practice.

Valuing your practice

What steps can I take to maximize the attractiveness of my practice for sale?

- Make your practice as profitable as possible. Have good statistics over several years with a demonstrated growth of volume and profitability. Get everything organized so it's easy for a buyer to evaluate. The more detail you can show, the more buyers are likely to think positively about the practice, which may lead to a higher price. Disorganization makes buyers think the business is not well run, and makes the data seem dubious.
 - Have strong, efficient operational methods and systems, so the practice doesn't have to be revamped by the buyer. Have a solid separation of personal and corporate expenses; identify owner perks and non-recurring expenses as such for the buyer. Have significant goodwill relationships in the referral community; they should be many and varied. Don't rely on one group for a large piece of referrals. Have profitable contracts.
 - Reduce or eliminate unnecessary expenses, including any overstaffing. Have a stable history of staff retention. Have an accurate inventory of equipment and supplies, including age and condition. The seller should retain the accounts receivable (AR) and make arrangements for
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someone to do the collections for them (buyers will discount AR and AR makes the transaction more difficult and expensive for the buyer). If possible, have a generic name for the practice – not the name of the owner.

What do I need to know in valuing my practice?

There are no good “rules of thumb” in valuing a practice. There are too many variables that are considered by an appraiser when they evaluate a practice. The best way to value a practice is to hire a qualified valuation expert who will examine the business in an objective fashion. However, understand that the true value of a practice is not what a seller, buyer, or valuator think it is, but what a willing buyer and a willing seller can agree upon.

Is your practice worth as much as you think it is? Ask yourself if you would buy it at the price you set. If you think “probably not,” the sale is going to be hard. If you think “in a heartbeat,” then the price is probably too low. You need to find the midpoint.

You need at least three, preferably five years of financial statements, including income statements, balance sheets and cash flow statements, as well as copies of tax returns. Statistics about your practice by year really help: new patients, visits, cancel/no shows, charges, payments, adjustments, referral sources, account types, AR (current and historical), contracts, competition, how business has changed over last three to five years. And some projections couldn't hurt. Therapy companies with multiple locations are typically more valuable than those with single operations with the same amount of business.

What should I know about non-compete clauses?

While non-compete clauses for employees are typically non-enforceable, a non-compete clause in a practice sale is enforceable. It validates the goodwill that was part of the sale price of the practice. Part of the value of the sale can be attributed to limiting the seller's ability to compete within a reasonable distance from the practice. The word “reasonable” is subject to interpretation by a court, therefore sellers and buyers should consult with an attorney when structuring these terms and place a value on the non-compete within the sales agreement. Work with an attorney to come up with a reasonable distance (typically in an urban area a 7- to 15-mile radius or 15- to 30-minute drive time) and timeframe (typically 3 to 5 years). Non-competes may also have implications for the IRS.

Financing options

What are the options for financing the sale?

Leveraged Buyout

Most sales are done with a leveraged buyout methodology, where the seller gets a partial payment from the buyer upfront and the buyer pays the balance of the sale price over time, with interest, from proceeds of operations. A typical sale might be 20% down, and the rest over 3 to 5 years, with interest at market rates (currently 6 to 7%).

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Lump Sum	This is typically a bank-financed sale where the buyer pays the seller the full sales price after securing a loan from a bank or other lender (e.g., an SBA loan).
Transfer Over Time	This is selling interest in the practice over time to associates within the practice. In the case of one practice, the staff put a percentage down, and then instead of taking a dividend each year, that money goes back towards the purchase price of the shares. They are obligated to pay that price each year even if the dividend doesn't cover it.

What are the benefits and drawbacks of each financing option?

Leveraged Buyout	This affords buyers an opportunity to buy when they would not otherwise qualify for a loan, making it easier to sell the practice. It usually results in a higher sales price because of the risk the seller incurs for possible non-payment of the obligation and the interest. There are also tax benefits, if properly structured. The seller gets an income stream over a specified period and is less likely to mispend the money over time than if it's received in one lump sum. Of course, the risk to the seller is that not all payments will be made by the buyer.
Lump Sum	The benefit is that the seller gets all proceeds at the time of the sale and has no risk going forward. The money can be invested in other things, diversifying your assets. However, depending on the structure of the sale, this may result in a high tax liability.
Transfer Over Time	This type of sale allows others to become committed to the practice. It affords buyers an opportunity to buy when they would not otherwise qualify for a loan. It demonstrates the commitment of the seller to divest from the business. It gives the seller the option to do tax planning. There are potential tax benefits through capital gains characterization of payment. The drawbacks here are that the buyer may not be capable of making partial purchases, as loans from traditional lenders are difficult to obtain for this type of arrangement. Buyers may bail out during the process. There is no guarantee that the purchaser will continue with the practice, which may require a buy back of stock.

Explain the difference between a stock sale and an asset sale.

This important concept deals with the characterization of the proceeds and whether they are treated as capital gains or regular income. In a stock sale, sellers can treat everything as capital gains.

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Accordingly, practices that are not incorporated cannot do a stock sale. When you sell your stock, you are selling the corporation, and as such both known and unknown assets and liabilities, which have tax implications for sellers both good and bad (your CPA can advise you). Selling the assets means that the liabilities are not sold along with it. Buyers have some advantages in stock sale, but also take a big risk in unknown liabilities (such as a patient who is going to sue). Again, your attorney and accountant should be consulted. The type of sale needs to be agreed upon as part of the transaction.

PTPN-specific questions

Does the new owner assume the PTPN membership?

If the new owner qualifies for PTPN membership, then yes, PTPN will transfer the membership at the request of the parties. New owners of existing member practices have first call on the membership prior to any practices that may be on the waiting list in that geographic area. This is because the value of the practice includes the PTPN contracts and member services.

How should I value the PTPN membership?

The parties should examine the value of the PTPN contracts to the particular practice and the value of the PTPN member services. PTPN can help you by providing claims data. If dues have been paid for the year, PTPN will transfer the dues credit to the new member (owner). If dues are owed by the practice, the new owner will assume that liability should they wish to continue the membership. If the member is in a state with a tiered dues structure, the practice will be assessed based on the volume for the practice in the preceding year, regardless of who owned the practice at the time.

What should I do to ensure a smooth transition?

Inform PTPN as soon as possible about the transition. We can notify the insurance companies about a new tax ID number for the practice prior to the effective date. This is vital in helping to minimize claims being paid incorrectly as out-of-network. Informing the insurance companies after a tax ID number has changed guarantees claims problems. While there will still be some headaches, the earlier the notification, the fewer the issues.

Also, if there will be new billing staff, be sure to have the current staff train them on how your practice identifies and submits claims to PTPN. If we at PTPN haven't already spoken to them, have the new staff and owners call us for any training needs, and to get informed about PTPN member services and programs.

Assuming the new owner qualifies for PTPN, what do they have to do to transition the membership?

If you are selling to a therapist who is already a credentialed staff member, and there are no other changes to the practice (such as other new therapists or changes in billing staff) the requirements are minimal. The new owner must complete a new Application and Member Agreement. If however, the new owner is an outside party, then they must complete all the PTPN paperwork, pass a credentialing site visit and get Committee approval, and pay the credentialing fee applicable in that state. However, we can notify the insurance companies about the tax ID change prior to the site visit (see above).