Wutchiett Tumblin and Associates

Better Management is Better Medicine℠

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Common Questions; Clear Answers

I'm thinking of having my practice valued, what is the process?

Document request and engagement letter. To begin, we ask clients to sign an engagement letter that states the purpose of the valuation, valuation date, and the cost to complete the work. We also request financial documents and information such as tax returns, financial statements, and computer reports that we need to begin the valuation analysis.

Valuation analysis. Once we receive the documents and information, we start the analysis of value. This part of the process includes two to three conversations with the client to ask questions and discuss practice operations.

Owner input. When we have finalized our analysis and conclusions, we send the client a draft report and schedule a conference to discuss in detail how we arrived at each component of value. This conference provides an opportunity for the owner to ask questions about the valuation, and discuss the next steps in the selling process or in planning for a future sale.

Certified Valuation Report. After the conference, we make any needed changes and send out originals of the certified valuation report for the seller, the buyer and all advisors.

Do I need to have my practice valued now if I'm not planning to sell for two or three years?

Yes. You don't want to find out the month before the planned sale that your practice doesn't have the value you were counting on. You have considerable control over your practice's value but it takes time for changes to be reflected. Three years prior to a sale is not too early to start!

Can a valuator represent both the seller and the buyer?

The opinion of value will be the same whether the valuator is preparing the Report for the buyer or the seller. So, in theory, the valuation could be prepared for both parties as a joint effort. However, because valuators are often asked to serve as an advisor during the purchase/sale process to avoid a potential conflict of interest, I recommend that each party has its own advisor from the start.

If the seller has the practice valued, does the buyer need to obtain a second Certified Valuation Report?

No, provided that the seller's Certified Valuation Report is well documented. The Report should include a brief history and background of the practice; a detailed assessment of each asset, liability and goodwill value with an explanation of how each value was determined; the valuator's assumptions and the report's limiting conditions, the qualifications of the appraiser; the appraiser's certification; and any additional schedules needed to support the valuator's opinions. With a well-documented Report, the buyer's advisor can simply do a Valuation Review and advise the buyer, in writing, of any discrepancies.

If I help build the practice while I'm an associate at the practice, should I be entitled to a discount when I buy in?
If you have been fairly paid during your employment, then no, unless you negotiated a purchase discount as part of your employment agreement or as a condition of hire. Also, if you agreed to receiving below market compensation in return for a below market buy in, then the owner should fulfill his or her part of the bargain.

When are practice valuations mandatory?
They are mandatory when buying or selling a practice; buying or selling a part interest in a practice, writing or updating a buy/sell agreement; updating the amount of insurance funding a buy/sell agreement; planning for financial security; retirement and estate planning; third-party financing; mergers; litigation; and property settlements.

This article is intended to provide the reader with general guidance in practice succession matters. The materials do no constitute, and should not be treated as, appraisal, tax, or legal guidance or technique for use in any particular succession situation. Although every effort has been made to assure the accuracy of these materials, Wutchiett Tumblin and Associates does not assume any responsibility for any individual's reliance on the information presented. Each reader should independently verify all statements made in the material before applying them to a particular fact situation and should independently determine whether the succession technique is appropriate before recommending that technique to a client or implementing such a technique on behalf of a client or for the reader's own behalf. As with all financial advice, check with your professional advisor before adopting any succession strategy or technique or recommending a particular strategy for another individual.

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