Whether you're buying or selling a practice, or heading toward retirement, your career transitions take careful planning.

BY MELANIE PADGETT POWERS
Right
If you fail to plan, you plan to fail.”

That was the advice given to Joe Ellis, O.D., by his father, a financial planner, when Dr. Ellis became a doctor of optometry. Dr. Ellis took it to heart, buying a practice, finding a partner, then expanding the practice, Eye Care Associates of Kentucky, over the years.

Dr. Ellis is an AOA past president who practices in Benton, Kentucky, and is chair of the Board of AOAExcel—which provides select products and services that help doctors achieve business and career success with confidence. Three years ago, his practice of 10 optometrists and one ophthalmologist across five locations sold to a private equity group.

Whether you are hoping to buy a practice, are considering selling your practice or are looking ahead to retirement, planning out your practice transitions is critical so they don’t sneak up on you. It can take at least three to five years of proper planning before you are ready to buy or sell a practice—and maybe even years to save up enough money to be able to retire.
Buying a Practice

Whether you dream of buying a practice quickly after optometry school or want to wait a few years, there are several things to consider before looking for a seller. Here are four things to keep in mind about buying a practice:

1. VALUE OF THE PRACTICE
Buying options include purchasing a solo practice or buying into a group practice. Either way, you need to know the value of the practice to determine if you can pay the practice bills, the loan on the practice, your student loans and yourself. Ask first about the practice’s annual revenue. If a solo practice does not have gross collections of at least $650,000 a year, it can be difficult for a newer doctor to earn enough cash flow, says William Nolan, president of practice transitions and acquisitions at the Williams Group, an optometric business consulting and practice management firm. The Williams Group’s practice transition services are endorsed by AOAExcel.

Value also includes the condition of the equipment and the building. Examine whether the practice is a medical practice with the latest optometric equipment, such as an optical coherence tomography instrument or thermal pulsation machine. This will increase value and reduce the amount of new equipment you need to invest in. Ask whether the practice has a fully integrated electronic medical records (EMR) system. Just because a practice has purchased an EMR system doesn’t mean the doctors have been using it yet, which could leave you dealing with the introduction and staff training.

Take a look around. Does the practice look modern? Will you have to invest in new carpeting, furniture, paint and signage? Those costs add up.

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PAYING FOR A PRACTICE

Because there is so much money available from large banks, it’s typically easy to get financing for a strong practice, Nolan says. Furthermore, many sellers are willing to finance the sale themselves, particularly for the tax advantages. (The installment sale provision of the IRS generally defers the large tax consequences over a period of time.)

But keep in mind major banks generally will not finance loans for doctors of optometry until they are two to three years out of school, Nolan says. It’s also important that doctors have strong credit scores, about 725 or higher. You likely won’t need a cash down payment, but you will need a clean credit history to make the transaction easier. So it’s important to pay all your bills and loans on time in preparation for seeking a larger loan.

When you’re buying a practice, it doesn’t mean you also have to buy the building. That’s a bigger loan and more responsibility. Renting may be the safer option, especially if you haven’t worked in the building already and don’t know its quirks. When Amy DeVries, O.D., bought her practice in 2012 in Fremont, Nebraska, she originally wanted to buy the building too, but it wasn’t for sale. Now she’s glad because she’s putting money aside to build a new building in a few years that she will design exactly how she wants.

TYPE OF PRACTICE

The type of practice goes beyond whether it is a medical practice or not. Does the style of the practice—especially if you’re buying in, not taking over—fit the style you want? For example, do you want a relaxed feel or a fast-paced environment? Do you want a partnership where you have equal decision-making?

“Use some of your early career choices out of optometry school to best judge and experience firsthand and see what the different modalities of optometry are really like,” Nolan advises.

Twenty-one years of experience before she bought into a practice showed Tammy Richert, O.D., a wide variety of practice operations. Dr. Richert knew she wanted a medical practice that felt like a family, and previous stints didn’t feel like the right fit. In February 2018, Dr. Richert bought out one of the doctors of a two-person practice in Omaha, Nebraska. She is now partners with the other doctor. The two are working closely to maintain the strong practice reputation while also offering new services and streamlining processes.
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BUILDING YOUR PRACTICE
Before you buy a practice, start thinking about how you will retain and increase patients and market yourself to the community. When Dr. DeVries bought her practice, the selling doctor wrote a letter to his patients welcoming her as their new doctor. The two doctors also worked together for one year. “Having him not leave immediately helped soften the transition,” Dr. DeVries says. The local newspaper ran an article about the change, complete with a photo of the two doctors. In addition, the local chamber of commerce held a ribbon-cutting ceremony when Dr. DeVries took over.

Since then, she has worked to expand the patient population to include more children. She has advertised that she participates in InfantSEE®, a program of Optometry Cares®—the AOA Foundation, which provides a no-cost, comprehensive eye and vision assessment to infants within the first year of life, regardless of a family’s income or access to insurance coverage.

With the right planning, buying a practice can be rewarding and profitable, Dr. DeVries says. Yes, being your own boss and having all the responsibility on your shoulders can be stressful. “But if you go for it and you take care of your practice and you take care of your patients one by one, it is likely that it is going to work out well,” she says. “The beauty of private practice is freedom. You get to choose how you want to see your patients, what piece of equipment you want to bring in and how you want to structure your workweek. You get to choose everything. And when you do it well, you’ll be financially rewarded as well.”

TO LEARN MORE ABOUT INFANTSEE OR TO BECOME A PROVIDER, VISIT INFANTSEE.ORG.

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SELLING A PRACTICE

KEEP REVENUE CONSTANT

Buyers will look at your revenue, equipment upgrades and overall upkeep of the practice. But the most important aspect is revenue. As you near the later years of your career, you may want to cut back on your hours and relax a little more. However, be careful, because as your revenue drops, so too will the value of your practice. Nolan provides an example: If a practice’s revenue is $1 million a year, but it has been on a 5% downward trajectory for three to five years, to $950,000, then $900,000, appraisers will want to know what is wrong with the practice. They likely won’t consider that the slowdown was the doctor’s choice.

“If you can keep the pedal down so your revenues stay pretty constant—and may even grow a little bit—there’s a chance you’ll put a few extra dollars in your pocket,” Nolan says.

In addition, find a balance between keeping your practice in shape—with an integrated EMR system, for example—while not incurring too much debt. You’ll want to plan ahead to ensure you have no outstanding debt when you’re ready to sell. A buyer doesn’t want your debt plus interest on top of the loan he or she will need to buy your practice.

STAY IN SHAPE

Make sure there’s a fresh coat of paint and a warm, welcoming feel. It’s like staging a home to sell: Even if potential buyers plan to make the practice their own, you want them to feel invited and excited when they see your offices. Replace the worn-out carpet and outdated furniture.

When examining the value of the practice, private equity firms look primarily at EBITDA—earnings before interest, tax, depreciation and amortization—which is a measure of a business’s operating performance before non-operating expenses and non-cash charges are taken into account.
FIND A BUYER

To find a buyer, put the word out to state optometric associations and optometry schools that you're preparing to sell. But again, planning ahead is key. “I think the big error that doctors make is they say, ‘I’m gonna work till I’m 60 and then I’m gonna sell it in a year or two,” Dr. Ellis says. Instead, the transition may take a couple of years. “Each practice transition takes a lot of hand-holding; they take the right fit. You can’t just do it on a dime,” he says.

In 2015, Tommy Crooks, O.D., and his partners sold to a private equity firm after much research and negotiation. Their medical practice, Eye Care Associates, had 33 doctors of optometry across 19 locations in the Birmingham, Alabama, area. They also owned a wholesale optical lab. The doctors had a central business office, which was gradually shut down once the buyer, EyeCare Partners, took over. The doctors appreciated that their buyer had already invested in several optometric practices and that the practice was able to keep its name and branding, maintaining its identity.

“This is a very, very unique time in the profession,” Dr. Crooks says. “This type of consolidation didn’t exist just a few years ago. The train on the consolidation front left a few years ago, and it’s picking up steam.”

When examining the value of the practice, private equity firms look primarily at EBITDA—earnings before interest, tax, depreciation and amortization—which is a measure of a business’s operating performance before non-operating expenses and non-cash charges are taken into account. Dr. Ellis says most doctors of optometry think about value in terms of gross and net income, but that’s not what private equity firms look at.

“EBITDA really is more of a true picture of what the practice is worth because it deals with stuff like depreciation,” he says. “You might have a lot of equipment amortized out, for example.”
DETERMINE AN EXIT STRATEGY

Whether you plan to sell and continue to work or sell and retire, you need to plan ahead. Consider what you want and then do the math. You may want to continue to see patients, which could earn you about $500 a day, Nolan says. However, you need to make sure a potential buyer is on board with that—you’ll be taking away from that doctor’s income. “One of the things a doctor needs to think about is that they are not going to be able, most likely, to stay and work after the sale at either the same amount of time, or at nearly the same compensation, that they were when they owned it,” Nolan says.

Also consider whether you need to keep working primarily for the health insurance or until you qualify for Medicare.

Unfortunately, not all practices find a buyer, and a doctor may be forced to shut down the office. To best prepare for an office shutdown, doctors must make plans for maintaining their patient records, and they must notify patients where to access their records. If doctors do not want the burden of holding onto the records themselves, they should find a custodian for their patient records. A colleague in your community may agree to become custodian in exchange for being able to take on all your patients and market to them.

As you build your optometry career, plan at least three to five years out. Continue to ask yourself: Where do I want to go in my career? And following in the wise words of Dr. Ellis’ dad: Are you planning now so you’ll thrive later?

Melanie Padgett Powers is a freelance health writer in the Washington, D.C., area.

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