An Outline for Audiologists About to Buy Their First Practice
What to Think About and What to Expect

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I. Congratulations! You found a practice for sale… Now what?
    a. Give the seller information about you. The seller needs to feel comfortable with you, understand what your goals are, and know that you are competent to complete the transaction and take care of the business that they've built.
    b. Why is the practice for sale?
        i. Is the owner retiring? Moving?
        ii. Is the practice failing?
        iii. What are the owner's goals before and after leaving the business?
    c. What is their owner's exit strategy?
        i. Does this meet your expectations?
        ii. Does the owner want a straight buy out where there is no transition expected?
        iii. Does the owner want a gradual transition where he/she will decrease presence over a few months or years in order to train and introduce you to the practice?
            1. If it is more than one year, and the seller wants you to work with her/him to ease you into the practice, the seller may not want to share financials with you. You should insist that if the seller is sincere in selling the practice you:
                a. Must have the opportunity to analyze the financials before committing to work there.
                b. Must both sign a letter of intent clearly spelling out the time frame for the transition.
            2. Sometimes sellers want to get out quickly after the sale. It is important that you and the seller agree on an amount of time he/she will be available during the transition. This will be part of the final asset purchase agreement.
        iv. Is it a realistic amount of time for all parties to perform due diligence?
            1. Anything faster than 3 months is unrealistic. It typically takes 3-7 months to get all documents (loans, leases, and agreements) complete.

II. Fact finding/Due diligence

a. What is the asking price?

i. View the profit & loss statements over the past 4 years to determine if the asking price is reasonable

ii. Look at net profit, expenses and gross revenue.

iii. Look at (at a minimum) the last two years of tax returns

iv. Look at (at a minimum) the last two years of financials (profit/loss, balance sheet and cash flow)

v. Look at financial projections for the next year.

vi. Consider how many hours/days the current owner is working.

vii. Can the revenue be increased?

viii. Show documents to your CPA to review.

b. Lease

i. How much per month? What is the % increase every year? (usually around 3%)

ii. Can the lease be assigned to you? Contact the landlord for all details.

iii. The lease is something that you will want your lawyer to look over. You can even have your lawyer negotiate the lease for you.

c. How long has the seller owned the business?

d. How many patients are seen each month?

i. What % Medicare?

ii. What % Medicaid?

iii. What % 3rd party

iv. What % Private pay

e. Does the seller have relationships with any physicians? If so:

i. What is the nature of the relationships?

ii. Any contracts?

iii. How many physicians does he/she have relationships with?

iv. How are these relationships maintained?

f. What is the business structure?

i. LLC

ii. Sole Proprietorship

iii. etc

g. What % of revenue is from:

1. Repairs?
2. Batteries?
3. ALDs?
4. Professional services?
5. Diagnostic services?
6. Other?

h. What is the binaural rate?

i. What is the return rate?

j. What is the close rate?

k. What is the payment policy?
l. What is the average selling price of a hearing aid?
m. How many hearing aids are sold a month?
n. Are there any other expenses being run through the business which are personal and non-recurring like automobile, travel?
o. What equipment does the seller have (own or lease?), the age, and condition?
p. Location
    i. Medical, retail or hybrid
    ii. Proximity to physicians, retirement communities, high net worth older communities
    iii. Parking availability
    iv. Senior accessibility (ramps, elevators, signage)
q. Active patient database
    i. Is it computerized? What database management system is it? If it is not the one that you want to use, can it be easily changed over to your system of choice?
    ii. How many patients are in the database?
    iii. What types of patients in the database? Children, adults, hearing-aid wearers?
r. How many employees are there? (Audiologists, Clerical/Administrative)
    i. How are they compensated?
        1. Salary or hourly
        2. Amount
    ii. Retention rate?
    iii. Will staff stay once ownership changes?

III. Your Projections and Reasonable Expectations:
    i. Ability for growth?
        1. How much is the seller spending on marketing?
        2. What types of marketing are working? What isn't working?
        3. Is the seller tracking where the patients are coming from?
            a. What works? What doesn't?
    ii. Can expenses be minimized?
    iii. How long will it take you to get approved for Medicare and other insurances? This factors into your cash flow. Expect 6-10 months to get approved for Medicare and Blue Cross/ Blue Shield, and get the paperwork going ASAP. You will have to apply to many insurance companies. Collect all the documents and start filling out your applications!
    iv. Remodeling and new equipment costs?
    v. Marketing strategy and budget
        1. What is the seller currently doing?
            a. What works? How does he/she know it works?

            2. What changes are you going to make (if any) and how are you going to pay for it?

IV. Professionals involved for both parties
    a. Certified Public Accountant –not just any accountant…use a CPA.
        i. They should be experienced with audiology practices or some medical profession and also have experience working with buying/selling practices/businesses
        ii. What are their costs?
        iii. Discuss with your accountant how you are going to run the books.
            1. Probably need to get QuickBooks and learn how to use the program.
    b. Lawyer
        i. Should have experience with buying/selling practices/businesses
        ii. Should be located somewhere near you so that closing day is more convenient
        iii. What are their costs? Usually they will ask for a retainer if they have not worked with you before. The retainer can vary in amounts maybe up to $7,000 at the most. Costs are usually $220-$350 per hour.
        iv. It helps if the lawyer has a working relationship with your accountant.
        v. Have lawyer set up your new business entity – LLC, S-corp or C-corp
            1. Obtain Tax ID
            2. Give info to accountant
        vi. Have your lawyer do a lien search.

V. Potential Loan sources for purchase
    a. Bank
        i. What are their terms?
            1. Interest rate?
            2. Penalty for early pay off?
    b. Hearing Instrument Manufacturer
        i. What are their terms for the loan?
            1. % of units sold
            2. What type of loan? How many loans?
            3. Interest rate
            4. How much is expected to be repaid?
        ii. Will they offer other valued benefits?
            1. Marketing
            2. Discounts
            3. Retirement plans
            4. Referrals
    c. Third Party (Audient, AudNet, Mypracticeinc.com, etc)
        i. What are their terms?

ii. Will they offer other valued benefits?
    1. Marketing
    2. Discounts
    3. Retirement plans
    4. Referrals

iii. Are you limited to certain hearing aid manufacturers?

VI. Business Banking

a. Find a bank that you want to work with after the transaction is completed. Interview banks in your area. Look for a banking relationship that you feel comfortable with. You want a bank that will care about your business and want to give you personalized attention.
b. You will need to set up a checking account with that bank before the transaction is completed and have checks made.
c. You may want to link your personal checking account to your business checking account.

VII. Negotiating the price

a. You can have your CPA and your attorney help you negotiate the purchase price; usually this is done in person. This can be intimidating, but that's why you can use your lawyer and accountant for help. It will be worth the money you spend to have them there with you for a face-to-face meeting. Before you begin negotiations, you should determine how you want to allocate the purchase price, and you should have a list of items to negotiate besides price. Most importantly, be friendly, be reasonable, and insist the seller also be reasonable.
b. How did the seller arrive at the purchase price?
    i. You will hear many different ways on how to value a business. In our opinion, the most important factor is how fast can you pay off the loan, assuming you maintain the same average net profit as the seller (minus the monthly loan payment). We don't recommend any more than 7 or 8 years, but it all depends on you and your career goals.
c. How will you allocate the purchase price?
    i. Breakdown of the allocation will include
        1. Equipment/Furniture
        2. Supplies
        3. Consulting
        4. Goodwill
        5. Covenant not to compete
    ii. Allocation will have tax consequences – something to discuss with your CPA

VIII. Final Documents necessary for closing day
   a. Non-compete of seller after purchase – created by your lawyer and signed by seller
   b. Asset purchase agreement
      i. Transfer of trade name
      ii. Allocations
   c. Insurances (Your mal-practice and liability – you may ask your accountant for a referral)
   d. Loan documents from lender
   e. Lease(s)
   f. Bill of Sale