Risk & Reward
The Art & Science of Buying or Selling a Private Practice

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Key takeaways for today

Why do people decide to buy or sell a practice?

Key Valuation Considerations

Optimizing Value

The Act of Selling
Key takeaways for today

Why do people decide to buy or sell a practice?

Key Valuation Considerations

Optimizing Value

The Act of Selling
Why do people decide to sell or buy?

- **Reasons for selling**
  - Retirement
  - Opportunity
  - Necessity

- **Reasons for buying**
  - Opportunity
  - Necessity

**Retirement**
- (Obviously)

**Opportunity**
- Hot Market
- Greater ROI Elsewhere
- Job Opportunity
- Enhance Career
- Grow Existing Business
- ROI

**Necessity**
- Financial Hardship
- Divorce
- Illness
- Save Job
- Block Competitor
Timing the Sale of Your Practice

Why People Buy & Sell Practices

Company Timing
- Is your company growing and profitable?
- Risk Management
- Turnkey

Personal Timing
Most people target a sale date based on Personal Timing. It is the LEAST important factor in deciding when to sell.

Market Timing
- Hot Industry
- Presence of Buyers
- Tax Rates
- Interest Rates

Company Timing and Market Timing drive company value.
Key takeaways for today

Why do people decide to buy or sell a practice?

Key Valuation Considerations

Optimizing Value

The Act of Selling
Why Valuations are Important

Q: What is the percentage of businesses that are listed for sale and never sell?

A: 80%

Q: What is the #1 reason that a business doesn’t sell?

A: Incorrect Price
“It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”

-- Warren Buffett
How do you value an audiology practice?

Rule of thumb multiples:  
1x Sales?  
5x EBITDA?  
$$ per file?  
$$ per hearing aid sold?

Traditional Approaches:  
DCF?  
Income Capitalization?  
Capitalized Excess Earnings?  
Book Value of Assets?

IT DEPENDS!
Key Aspects of a Valuation

**Financial**
- Revenue/Earnings
- Growth
- Quality of Earnings
- Financial factors are the #1 driver of the valuation

**Operational**
- How easy will it be for a new owner to run your practice?
- What employees, policies, procedures, and strategies are in place?

**Market**
- A business is only worth what someone else is willing to pay for it?
- How have similar practices been priced?

**Risk**
- What is the downside?
- How reliant is your practice on you (as owner), third-party payors, and key referral sources?
Key Aspects of a Valuation

Financial
- Revenue Growth
- Earnings Growth
- Quality of Earnings

Financial factors are the #1 driver of the valuation

The most valuable asset of a practice is its future income. Therefore, financial measures drive practice values more than any other factors. Valuations can be based on any of the following financial figures, and are typically expressed as a multiple:

Revenue – Net Sales (total sales less returns & refunds)

EBITDA – Earnings Before Interest, Tax, Depreciation, & Amortization

SDCF – Seller’s Discretionary Cash Flow
Key Aspects of a Valuation

**Financial**
- Revenue Growth
- Earnings Growth
- Quality of Earnings
- Financial factors are the #1 driver of the valuation

**Revenue** – Net Sales (total sales less returns & refunds)

**EBITDA** – Earnings Before Interest, Tax, Depreciation, & Amortization

**SDCF** – Seller’s Discretionary Cash Flow

### Revenue Multiples
- Typically apply only to corporate / strategic buyers
- Multiple varies based on total revenue, cash flow, market, and demand

### SDCF & EBITDA Multiples
- More relevant method for individuals, other small business owners, and financial investors
- “Traditional” way to value a business
EBITDA, SDCF, & Recasted Financials

SDCF =
Net Operating Income (Income before Interest & Taxes, or EBIT) 
+ Depreciation & Amortization 
+ One-time (unusual) expenses 
+ Expenses not directly related to the operation of the practice 
+ Owner’s full salary & wages

EBITDA =
SDCF - Cost to replace owner (e.g. salary of owner during employment term, or cost of replacement Au.D. / Manager)

Calculate SDCF & EBITDA by recasting financial statements to add back certain expenses:

1. Owner’s Salary
2. Personal Auto
3. Personal Cell Phone
4. Non-employee Family Salaries
5. Excessive Rent
6. Excessive Travel
7. Excessive Meals/Entertainment
8. Debt that won’t transfer to new ownership
EBITDA, SDCF, & Recasted Financials

**SDCF =**
Net Operating Income (Income before Interest & Taxes, or EBIT)  
+ Depreciation & Amortization  
+ One-time (unusual) expenses  
+ Expenses not directly related to the operation of the practice  
+ Owner’s full salary & wages

**EBITDA =**
SDCF - Cost to replace owner  
(e.g. salary of owner during employment term, or cost of replacement Au.D. / Manager)

Add backs must be verifiable, and buyers may discount or disregard certain add-backs based on the quality of your earnings.

- Are your add-backs based on line-item expenses, or are they buried within categories?
- Do you have receipts?
- Can a new owner realistically expect to:
  - Pay themselves a reasonable salary
  - Cover loan payments

**Which to use?**
Sellers are better off presenting their practice’s SDCF. Let a buyer create their own expense models based on the total cash flow available. Buyers – always use EBITDA.
EBITDA, SDCF, & Recasted Financials

**SDCF =**
Net Operating Income (Income before Interest & Taxes, or EBIT) + Depreciation & Amortization + One-time (unusual) expenses + Expenses not directly related to the operation of the practice + Owner’s full salary & wages

**EBITDA =**
SDCF - Cost to replace owner (e.g. salary of owner during employment term, or cost of replacement Au.D. / Manager)

Add backs must be verifiable, and buyers may discount or disregard certain add-backs based on the quality of your earnings.

- Are your add-backs based on line-item expenses, or are they buried within categories?
- Do you have receipts?
- Can a new owner realistically expect to:
  - Pay themselves a reasonable salary
  - Cover loan payments

**Advice**
At least one year prior to selling, stop running expenses through your business and disclose all of your business income. Add-backs can be disputed; Net Income cannot.
Example: Dr. Jones provided you with his income statement and the following list of personal expenses. What is SDCF?

Net Operating Income: $67,311
Owner Salary: $120,000
Personal Auto: $23,554
Personal Cell Phone: $3,114
Rent: $36,000

Answer: SDCF = $225,979

SDCF = NOI + Owner Salary + Personal Auto + Personal Cell Phone + Rent Adjustment

Rent Adjustment = Actual Rent – Fair Market Rent ($12,000)

SDCF = ?

How to use this information as a buyer

$225,979 is the total cash flow available to you once your purchase this practice. This is how much money you have to pay yourself, make loan payments, and make any required investments in the business.
Key Aspects of a Valuation

Financial
- Revenue Growth
- Earnings Growth
- Quality of Earnings
- Financial factors are the #1 driver of the valuation

Operational
- How easy will it be for a new owner to run your practice?
- What employees, policies, procedures, and strategies are in place?

Market
- Geographic Market
- Market for practices similar to yours
- A business is only worth what someone else is willing to pay

Risk
- What is the downside?
- How reliant is your practice on you (as owner), third-party payors, and key referral sources?
Key Aspects of a Valuation

Key Valuation Considerations

- How easy will it be for a new owner to run your practice?
- What employees, policies, procedures, and strategies are in place?
Key Aspects of a Valuation

Key Valuation Considerations

- What is the downside?
- How reliant is your practice on you (as owner), third-party payors, and key referral sources?

Relative Return

Relative Risk

30-Year Treasury Note

Large Cap Equity

Small Cap Equity

Owner-operated small business

Small Private Company
Key Aspects of a Valuation

Assume the average house sells for $150/sq ft

<table>
<thead>
<tr>
<th>Location</th>
<th>Bedrooms</th>
<th>Baths</th>
<th>Sq. Footage</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Des Moines, IA</td>
<td>4</td>
<td>2.5</td>
<td>2,525</td>
<td>$378,750</td>
</tr>
<tr>
<td>Malibu, CA</td>
<td>4</td>
<td>3.5</td>
<td>3,300</td>
<td>$495,000</td>
</tr>
</tbody>
</table>

Bedrooms: 4
Baths: 2.5
Sq. Footage: 2,525
2,525 X $150 = $378,750

Bedrooms: 4
Baths: 3.5
Sq. Footage: 3,300
3,300 X $150 = $495,000

Market
- Geographic Market
- Market for practices similar to yours
- A business is only worth what someone else is willing to pay
# Sources for Valuations

<table>
<thead>
<tr>
<th>Source</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hearing Aid Manufacturer or Buying Group</td>
<td>• Free</td>
<td>• Questionable objectivity</td>
</tr>
<tr>
<td></td>
<td>• Industry-specific</td>
<td>• Lack of valuation expertise</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tend to include very basic analysis</td>
</tr>
<tr>
<td>Your CPA</td>
<td>• Knows your business</td>
<td>• Lack of understanding of how audiology</td>
</tr>
<tr>
<td></td>
<td>• Someone you trust</td>
<td>industry values practices and what is</td>
</tr>
<tr>
<td></td>
<td>• Accounting credentials</td>
<td>realistic FMV</td>
</tr>
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<td></td>
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</tr>
<tr>
<td>Free Online Resources</td>
<td>• Free</td>
<td>• Too basic to use for anything other than</td>
</tr>
<tr>
<td></td>
<td>• Fast</td>
<td>satisfying your own curiosity</td>
</tr>
<tr>
<td></td>
<td>• Customizable</td>
<td></td>
</tr>
<tr>
<td>Independent, third-party valuation or M&amp;A</td>
<td>• Valuation &amp; transaction expertise</td>
<td>• Can cost $2,500+</td>
</tr>
<tr>
<td>firm</td>
<td>• Industry expertise (you can find firms with</td>
<td></td>
</tr>
<tr>
<td></td>
<td>hearing industry expertise)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Objective results</td>
<td></td>
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</tbody>
</table>
How I Value Companies

**Key Valuation Considerations**

- Capitalized Excess Earnings
- Income Capitalization
- Discounted Cash Flow
- Multiple of Earnings
- Multiple of Sales
- Multiple of Cash Flow

**Asset Methods**

- Capitalized Excess Earnings

**Income Methods**

- Income Capitalization
- Discounted Cash Flow
- Multiple of Earnings

**Market Methods**

- Multiple of Sales
- Multiple of Cash Flow

**Gut**
Q & A

Key Valuation Considerations
Key takeaways for today

Why do people decide to buy or sell a practice?

Key Valuation Considerations

Optimizing Value

The Act of Selling
What are you selling?

Tangible Assets
- Equipment
- Inventory
- Furnished Office

Intangible Assets
- Files
- Name
- Contracts
- Goodwill

P&L
- Future revenue & cash flow

Does any of it have value without you?
Building value independent of you

Sellability

- Sellability is the measure of a company’s attractiveness to a buyer, and is independent of a company’s value. Every business has a value, but not every business can be sold.
- Key aspects include:
  - Growth
  - Risk
  - Ability to function independent of owner

Recommendations

- Learn to think objectively about your business
- Understand the buyer’s point-of-view
- Reduce key risk factors & make your business turnkey

Stop treating your practice like a career
Start treating it like an investment
Is Your Practice an Investment?

**Investment**

n. An asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price.

Generates annual income and a long-term gain

**Career**

n. An occupation or profession, especially one requiring special training, followed as one’s lifework

Generates annual income only

You retire from a career, but you exit an investment
Growth & Exit – Investment v. Career

Optimizing Value

Value vs. Time

- **Investment**
- **Career**

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Treating your practice as an investment

- Think objectively about your practice
- Understand the buyer’s perspective
- Reduce Risk
- Make it turnkey
SELF-SERVING BIAS

n.

People’s tendency to attribute positive events to their own character but attribute negative events to external factors. It’s a common type of cognitive bias that has been extensively studied in social psychology.
Examples of Self-Serving Bias

Most men rank themselves in the top half of male athletic ability.

When my business grows, it’s because I am such a great business owner, but when it declines it must be due to the economy!

You get a C on a test and you blame your professor – clearly he or she didn’t explain what they wanted well enough.

Ask a married couple to each write down their individual contributions to household work, and the total almost always exceeds 100%.

You get an A on a test and attribute it to your own awesomeness!
Perceived Value – Seller v. Market

How the market values your practice

How most owners value their practices

The #1 reason companies don’t sell:
Seller’s Unrealistic Expectations
Perceived Value – Seller v. Market

Valuation Range

LOW

How the market values your practice

HIGH

How most owners value their practices

INVESTMENT

Owner takes steps to better understand company value so that expectations are aligned with reality and business priced properly for sale

CAREER

Owner does not understand company’s value and bases valuation expectations on rumors, blue sky scenarios, or just wild guesses
Seller v. Buyer Perspectives

Owning a practice has done so much for my lifestyle

My practice has so much growth potential. A new owner will easily…

I have a great reputation in the community

My patients love me

Can I make money owning this?

How do I reduce the risk of owning this business?
Take a buyer’s perspective

If you were expanding, your concerns would be...

| Cash Flow & ROI | ▪ Is the business profitable?  
▪ What kind of loan can the cash flow cover?  
▪ Are revenue and cash flow growing? |
|----------------|----------------------------------------------------------------------------------|
| Staffing       | ▪ Is the owner a major revenue producer – if so, how do you replace them when they retire?  
▪ Is staff in place and willing to stay post-acquisition? |
| Ease of Operations | ▪ Is marketing well-planned and easy to replicate?  
▪ Are policies and procedures documented?  
▪ How stable are employees? |
| Risk           | ▪ What happens with the owner leaves?  
▪ Is the business reliant on dominant payors?  
▪ Is the business reliant on referral sources? |
Take a buyer’s perspective

If you were expanding, your concerns would be…

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<td>Is the business reliant on referral sources?</td>
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</table>

**INVESTMENT**
Owner understands buyer perspective and balances personal goals with buyer objectives (e.g. win-win scenario)

**CAREER**
Owner ignores buyer perspective and focuses only on personal goals
"If you understood a business perfectly and the future of the business, you would need very little in the way of a margin of safety. So, the more vulnerable the business is, assuming you still want to invest in it, the larger margin of safety you'd need. If you're driving a truck across a bridge that says it holds 10,000 pounds and you've got a 9,800 pound vehicle, if the bridge is 6 inches above the crevice it covers, you may feel okay, but if it's over the Grand Canyon, you may feel you want a little larger margin of safety...."

-- Warren Buffett
Primary risks of ownership

Employee Risk

Owner Risk

Financial Risk

Legal Risk

Payor Risk

Economic Risk

Risk of Disruption

Referral Risk
Owner Risk

Owner Risk:
- Occurs when owner is key contributor to practice (i.e. patient care and revenue generation)
- Risk of losing patients/revenue when owner retires
- Two primary ways to reduce owner risk:

1. Owner moves out of a direct patient care role prior to selling and therefore generates a very small percentage of total revenue

2. Owner agrees to a very long transition period and/or a multi-year employment agreement to work for the buyer

OR

No Owner Risk

Owner Risk significantly reduced
Payor Risk

Payor Risk:
- Occurs when company is overly-reliant on third-party business
- Risk assessment includes both type of payor and payor concentration

<table>
<thead>
<tr>
<th>Type of Payor</th>
<th>Payor Concentration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>100% Third-Party</td>
</tr>
<tr>
<td>Other Government Agency</td>
<td>One Third-Party that generates more than 25% of revenue</td>
</tr>
<tr>
<td>Private Insurance</td>
<td>Accepts private insurance but no Medicaid and individual payor &gt; 5% of sales</td>
</tr>
<tr>
<td>Private Pay</td>
<td>100% Private Pay</td>
</tr>
</tbody>
</table>
Referral Risk:
- Occurs when company is overly-reliant on referral sources or has a referral relationship that is non-compliant or difficult to continue after transaction

<table>
<thead>
<tr>
<th>Type of Risk</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>RELIANCE ON REFERRAL SOURCE</td>
<td>Any referral source that makes up 20% of more of your revenue presents substantial risk to a buyer.</td>
</tr>
<tr>
<td>CONTRACT</td>
<td>Do you have a contract in place or is there just a handshake agreement?</td>
</tr>
<tr>
<td></td>
<td>Can contract be assigned to new owner if your business is sold?</td>
</tr>
<tr>
<td>COMPLIANCE</td>
<td>Is contract/relationship compliant with federal and state laws?</td>
</tr>
<tr>
<td></td>
<td>- Anti-kickback Statute</td>
</tr>
<tr>
<td></td>
<td>- Stark</td>
</tr>
</tbody>
</table>
Turnkey Practice

Low Payor Risk

Low Owner Risk

Low Referral Risk

Attractive Investment
Turnkey Practice

Once you reduce risk, focus on building a turnkey practice

**What they are**
- New owner can begin operating on day one – only needs to “turn the key” in order to be up and running
- Strategies and processes in place

**How to build one**
- Accounting System
- Practice Management System
- HR Systems
- Business profitable and growing

INVESTMENT
Owner takes measures to make practice turnkey and understands both short-term and long-term benefits

CAREER
Owner is most likely aware they he/she should implement turnkey elements but is in denial of value and keeps putting them off

Think “Franchise”
Key takeaways for today

Why do people decide to buy or sell a practice?

Key Valuation Considerations

Optimizing Value

The Act of Selling
## The Four “Easy” Steps in the Sale Process

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan for the sale</td>
<td>Initiate Buyer Search</td>
<td>Answer Buyer Questions</td>
<td>Schedule Due Diligence</td>
</tr>
<tr>
<td>Gather Company Data/Review Business</td>
<td>Distribute Teaser</td>
<td>Coordinate Site Visit</td>
<td>Assist in Loan Package Information Needs</td>
</tr>
<tr>
<td>Recast Financial Statements</td>
<td>Screen and Pre-Qualify Potential Buyers</td>
<td>Evaluate Buyer Interest</td>
<td>Review/Negotiate Purchase Agreement</td>
</tr>
<tr>
<td>Prepare Business Valuation Report</td>
<td>Determine Buyer Interest</td>
<td>Discuss Business Valuation and Deal Structure</td>
<td>Assist in Resolving All Issues</td>
</tr>
<tr>
<td>Prepare Company Information Memorandum</td>
<td>Sign Confidentiality Agreement</td>
<td>Review Written LOI</td>
<td>Definitive Purchase Agreement</td>
</tr>
<tr>
<td>Prepare 1-Page Marketing “Teaser”</td>
<td>Distribute Information Memorandum</td>
<td>Negotiate Acceptable LOI/Deal Terms</td>
<td>Review Final Documents</td>
</tr>
</tbody>
</table>

[Close!](#)
## Asset v. Stock Sale

Most industry transactions – and most small business purchases in general – are structured as asset purchases.

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| Asset  | Buyer purchases the assets of the corporation (tangible & intangible), but does not purchase the corporation itself. Buyer establishes a new corporation with which to operate the business, and Seller dissolves existing corporation. | Limitation of Liability  
  - Buyer chooses which liabilities to assume  
  - Shields from risk associated with prior ownership (tax audits, fraud, lawsuits)  
  Ability to select new accounting methods  
  - Overall  
  - Depreciation & Amortization | Double taxation for C Corps  
  - Portion of purchase price taxed as ordinary income (for all other entities)  
  - Difficulty in transferring contracts, licenses, leases, etc. |
| Stock  | Buyer purchases the stock in Seller’s corporation, effectively purchasing the corporation itself in addition to all of the assets. | Ease of transfer of licenses and contracts  
  All purchase price allocated to stock is taxed as capital gains  
  - Most, if not all, of price is typically allocated to stock  
  - Some can be allocated to non-compete, training, or personal goodwill | All liabilities are assumed  
  - No change in asset basis – “tax basis” carries over  
  Old depreciation schedules maintained  
  Cannot amortize price allocated to stock |
I am not a CPA and this does not constitute tax advice. Please consult with your accountant if you have questions about your personal tax obligations.

<table>
<thead>
<tr>
<th>Item</th>
<th>Seller</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Assets (FFE)</td>
<td>Ordinary gain or loss</td>
<td>Capitalize and depreciate (usually over 5-7 years)</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Ordinary gain or loss to the extent allocated value differs from tax basis</td>
<td>Ordinary gain or loss to the extent collection differs from allocated value</td>
</tr>
<tr>
<td>Inventory</td>
<td>Ordinary gain or loss</td>
<td>Capitalize – can impact earnings in first year</td>
</tr>
<tr>
<td>Goodwill</td>
<td>Capital Gain</td>
<td>Capitalize and amortize over 15 years</td>
</tr>
<tr>
<td>Non-Compete Agreement</td>
<td>Ordinary Income</td>
<td>Capitalize and amortize over 15 years</td>
</tr>
<tr>
<td>Consulting / Employment Agreement</td>
<td>Ordinary Income subject to FICA</td>
<td>Current deduction</td>
</tr>
<tr>
<td>Other Intangibles</td>
<td>Capital Gain</td>
<td>Capitalize and amortize over 15 years</td>
</tr>
</tbody>
</table>
# Business Entity Types

<table>
<thead>
<tr>
<th>Definition</th>
<th>Sole Proprietorship</th>
<th>LLC</th>
<th>S Corporation</th>
<th>C Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A business owned by one person for profit.</td>
<td>A business formed by statute, owners have limited liability like a corporation. LLC's do not issue stock or have shareholders, it's owners are called members.</td>
<td>A business formed by statute, owners have limited liability like a corporation. Limit on number of shareholders, and shareholders cannot be foreign persons or entities.</td>
<td>A business formed by statute, owners have limited liability like a corporation. No restrictions on ownership/shareholders, corporation go public.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Personal Liability</th>
<th>Sole proprietor personally liable</th>
<th>No personal liability of members</th>
<th>No personal liability of shareholders</th>
<th>No personal liability of shareholders</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Restrictions on ownership</th>
<th>Only one sole proprietor</th>
<th>One member allowed in all states</th>
<th>Most states allow one-person S Corps. No more than 100 shareholders permitted</th>
<th>Most states allow one-person corps; no maximum number of shareholders</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Taxation of business profits</th>
<th>Individual tax rates of sole proprietor</th>
<th>Individual tax rates of members</th>
<th>Individual tax rates of shareholders</th>
<th>Split up and taxed at corporate rates and individual tax rates of shareholders</th>
</tr>
</thead>
</table>

| Self-employment tax | Assessed on business profit | Depends on how LLC chooses to be taxed | Salary subject to self-employment tax; distributions are not taxed | Salary subject to self-employment tax; distributions taxed as dividends |
Payment Structures

**Seller Note**
Buyer and seller enter into promissory note and seller makes payments to buyer over time.

**All Cash**
Buyer pays full purchase price in cash at closing.

**Earnout**
Part of purchase price has to be earned, based on future business performance.

**Deferred Payment**
Portion of purchase price is deferred to a later date, but not contingent on performance.
**Earnout**

Portion of purchase price is contingent on future performance, such as revenue targets or profit margins.

Recommendations:
- Avoid when possible – risk of dispute is highest when earnouts are involved.
- Make sure target achievement is under seller’s control.
- Align with buyer objectives & seller performance history.

**Deferred Payment**

Portion of purchase price is deferred to a date following closing but is not contingent on business performance. Payment is either “hard” or contingent on employment term.

- Most useful when reliance on owner is high and future results are dependent on seller’s continued involvement.
- Need to carefully define employment terms and termination rights (of both buyer and seller).
Types of Transaction Financing

Cash

Buyer pays cash for the business and there is no financing required. This typically applies to a deal in which 100% of the purchase price is paid in cash at closing.

Seller

Buyer and seller enter into a promissory note through which buyer makes payments to seller over time. Seller earns interest but carries the risk of buyer's default.

Bank

Buyer seeks financing from a third-party lending institution. Most small business transactions receive SBA financing, in which the Small Business Administration of the federal government backs the loan.

Manufacturer (or other Industry)

A hearing aid manufacturer or buying group provides financing to the buyer in exchange for future purchase commitments. This is the most common financing used in the industry and is easiest to obtain.
## Balance Sheet Items

Most transactions involve an accounting cut-off at closing – the seller “owns” all income and liabilities until the closing and the buyer owns everything post-closing. Balance sheet items, however, can occasionally be negotiated.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Salaries Payable</td>
</tr>
<tr>
<td>Inventory</td>
<td>Taxes Payable</td>
</tr>
<tr>
<td>FFE</td>
<td>Debt</td>
</tr>
</tbody>
</table>

- **Cash & A/R**: are typically excluded from the transaction. The seller keeps all of the cash and collects the A/R. Occasionally, some or all of each will be purchased. Cash should be purchased dollar for dollar while A/R may be discounted.

- **Inventory**: may be purchased if it is new and sellable. Depending on deal terms, it may be included in the price or added to it. FFE is almost always included in the price.

- **Liabilities**: are almost always excluded from asset purchases. Sellers should plan to pay off all accounts, salaries, and taxes payable with the current liabilities (cash & A/R) that they are retaining.

- **Debt**: is rarely assumed by buyers. Instead, sellers should plan to use the proceeds from the sale to pay off any debt.
The Deal Team

Selling a business is a team effort, and the team that puts the best players on the field usually wins.

<table>
<thead>
<tr>
<th>Decision to Sell</th>
<th>Prepare Financial Documents</th>
<th>Prepare Marketing Materials</th>
<th>Pricing</th>
<th>Marketing</th>
<th>Due Diligence</th>
<th>Negotiation</th>
<th>Closing</th>
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THANK YOU
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