



# How much is your practice worth?

Valuing any unquoted company is extremely difficult, but it can become very important if you are considering selling your Practice.

Any valuation cannot be 100% exact as a variety of elements need to be included. Figures such as assets, liabilities, historical earnings and cashflow can be easily calculated. However, more difficult to calculate are figures such as projected earnings; expertise; quality of management, and 'goodwill'. It is also important not to forget to include external factors such as current market conditions and reputation.

Three valuation methods that are particularly relevant are outlined below:

## **Net Asset Method**

Effectively this means that if all assets shown on the balance sheet were sold the money realised less the liabilities would equate to the net assets. Usually, a premium is added to this figure in the form of 'goodwill'. 'Goodwill' is again difficult to calculate, but a starting point would be an average years profit after tax.

## **Multiple of Earnings**

The price/earnings ratio (widely used by quoted companies) is the ratio of the price of one share to the earnings (net profit after tax) attributable to that share. This ratio gives an indication of how much investors are prepared to pay to buy the shares. Therefore taking the net profit of your Practice and applying a suitable multiplier can give you the value of the Practice. A good Accountant will be able to work out a realistic multiplier for your Practice.

## **Discounted Cashflow**

Many Practices have excellent long-term cash generating prospects and therefore this method can be ideal: it is certainly the most technical form of valuation. Quite simply, dividends from the Practice (assuming that you have incorporated) are forecast over a period of 15 years or more, and the valuation is based on the sum of these dividends.

The methods of valuation outlined above should be used as a guide only - the true value of your Practice is simply what someone will pay for it.

"We have noticed a sharp increase in clients (mainly Consultant Specialists) requesting us to value their Practice. They are seeking to establish Groups or Chambers via Partnerships and Limited Companies" says Mr Sivagnanam, Chief Executive of QMS Healthcare.

Raising the profile of the brand ultimately raises the marketability of the Practice and coupled with an appropriate exit strategy - these should now be major considerations for Consultants in Private Practice.

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\* Source: Institute of Directors