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VALUATION PROTOCOL FOR DETERMINING THE FAIR MARKET VALUE OF A MEDICAL PRACTICE (for the Purpose of Transfer Assuming a Debt-Free Cash Transaction)

The Fair Market Value of a medical practice equals the sum of the tangible and intangible asset values.
The following is a brief synopsis of common medical practice assets and valuation protocols:

TANGIBLE ASSETS

- ❖ **Cash and Near-Cash Assets** — At Par.
- ❖ **Deposits and Prepaid Expenses** — At Par.
- ❖ **Real Estate** — Fair Market Value (established by Certified Real Estate Appraiser).
- ❖ **Leasehold Value** — Net present value of the differential benefit of the lease for the remaining years.
- ❖ **Leasehold Improvements** — Lower of book value or straight-line remaining usable-life-value.
- ❖ **Furniture, Fixtures & Equipment** — Ongoing Practice Fair Market Value (the average of used replacement cost installed and non-distressed used liquidation value less the cost of liquidation).
- ❖ **Supplies & Disposables** — At Cost.
- ❖ **Receivables** — Net present value of the expected dollar realization, less the cost of collection.

INTANGIBLE ASSETS

Proper valuation protocols utilize multiple valuation methodologies to assess intangible value. The valuator applies his or her experience and knowledge of the subject practice and market environment to represent the final intangible value as a weighted average of the methodologies applied. The following are three of the more common methodologies applied:

- ❖ **Discounted Earnings Method** — the net-present-value at a risk-adjusted discount rate of the expected value of the excess earnings for a period not to exceed seven (7) years.
- ❖ **Comparable Sales Method** — the average Intangible / Goodwill Value from comparable practices sold in the recent past as a percentage of the Practice Revenues calculated from recent practice sales that are the same Medical Specialty, approximately the same size, in a similar environment (e.g. suburban, rural, urban) as the Subject Practice. This Intangible / Goodwill average multiplied by the Subject Practice's Revenue yields the Comparable Sales Goodwill or Intangible Value for the Subject Practice.
- ❖ **Asset Accumulation Method** — the sum of the Intangible asset components of value including:
 - Assembled and trained staff in place value;
 - Start-up and set-up convenience value;
 - Market entrance factor value;
 - Practice Brand value;
 - Ongoing contract value;
 - Asset value of Medical Records; and,
 - Restrictive Covenant / Non-Compete Agreement value.