

Chiropractic Clinic Valuation Formulas

Below are three of the more common 5 minute formulas with a synopsis of how the clinic value is determined. Net income is defined as all the money remaining after expenses but before taxes and before the owner is paid salary and benefits.

WARNING: These 5 minute formulas are often inaccurate.

1. The 70% Rule- This formula is based on averaging the 3 prior years' net income and multiplying that number by 70%.

$$(\text{Avg. of 3 prior yrs. Net Income}) \times (.70) = \text{Clinic Value}$$

2. The Ten Times Rule- This formula averages the monthly net income for the prior year and multiplies that number by 10.

$$(\text{Avg. of 12 prior months Net Income}) \times 10 = \text{Clinic Value}$$

3. The Net Asset Rule- This formula multiplies the net income from the prior year by 60% and adds in the value of the equipment.

$$(\text{Prior yrs. Net Income}) \times (.60) + \text{market value of equipment} = \text{Clinic Value}$$

If you need a professional clinic valuation done, contact Practice Brokers: Jerry Peterson, 952-938-0092, fax: 952-938-3161, jpeterson@practicebrokersinc.com

Clinic Doctor's (www.clinicdr.com) clinic valuation system is the following formula based on an after tax operating cash flow analysis. A spreadsheet (Excel) is required to calculate the value.

(Each anticipated future year's income, based on the slope of the prior 3 years) – (Each anticipated future year's expenses, based on the slope of the prior 3 years) – (Each year's avg. associate income, assuming the buyer will operate the clinic full time) – (each year's taxes, 40%), reduced to present value using a risk % that ranges between 15% and 25% (15% is for a stable clinic, 25% would be for an unstable clinic).

The Clinic Doctor system assumes that the buyer purchases the accounts receivable and there is no realty associated with the clinic.

Example:

YEARS	2001	2002	2003	2004	2005	2006	
NET INCOME	\$97,000	\$99,000	\$101,000				
EXPECTED NET INCOME				\$103,000	\$105,000	\$107,000	etc...
AVG. ASSOCIATE INCOME (3% cola)				(\$51,737)	(\$53,289)	(\$54,888)	etc...
TOTAL				\$51,263	\$51,711	\$ 52,112	etc...
After tax (40%) operating cash flow				\$30,758	\$31,027	\$31,267	subsq. yrs
							cont. value
PRESENT VALUE				\$30,758	\$25,855	\$21,713	\$107,239
TOTAL PRESENT VALUE				\$185,566			